WHAT ABOUT **GRIDS?**

Ag economist Dillon Feuz suggests considerations when choosing a marketing grid.

BY TROY SMITH

JAMI STUMP PHOTO

Producers need to know how their cattle look with the hide off, says Dillon Feuz, University of Nebraska agricultural economist. Since cattle don't produce equal carcasses, it is necessary to match them to the market for which they are most suited.

Value-based marketing has been heralded as a beacon lighting the way toward improved quality and consistency of beef. Attempting to step into the light are various breed associations, producer groups, feed suppliers and beef packers who promote their respective grids or formulas as value-based pricing methods.

The common feature of these pricing methods is that of establishing a price for each individual animal. All seek to break away from "average pricing" through systems of rewards and penalties. But from that point on, each individual method is lighted by its own torch.

University of Nebraska agricultural economist Dillon Feuz says that pricing cattle according to their "true" value, reducing inconsistency in final beef product, and sending appropriate market signals back to the producer all represent worthy goals. The progression toward value-based marketing means moving away from show-list pricing to pen-by-pen pricing, then to pricing on a per-head basis.

Feuz believes, however, the process is sending mixed signals.

"As we move closer to per-head pricing, pricing accuracy improves, but price variation also increases," explains Feuz. "Cattle aren't created equal. At least they don't produce equal carcasses, so each has a different value. And there are different markets for beef, with different emphases on certain traits. Some grids and formulas target different consumer markets by placing greater premiums on selected traits and greater discounts on others. So the value of a specific animal is dependent upon the target market. To achieve the greatest economic return, it is necessary to match cattle to the market for which they are most suited."

■ Evaluating grids

According to Feuz, one of the first steps in evaluating a pricing grid is to consider the premiums and discounts applied to various traits. Producers whose cattle yield particularly lean carcasses will be most interested in a grid offering significant premiums for Yield Grade (YG) 1 and 2 carcasses.

On the other hand, if a producer's cattle more often produce YG 3 carcasses (and maybe a few 4s), but carcass quality is high, a grid with modest yield-grade discounts and significant quality-grade premiums

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would be a good fit. Generally speaking, it's hard to find a grid that doesn't discount hard for YG 4 and Standard quality.

Over time, premiums for YG 1 and 2 carcasses and premiums for upper-Choice and Prime carcasses have remained relatively stable or fixed on many grids. Likewise, the discount for Standard compared to Select carcasses typically changes little. However, the Choice-Select spread and the YG 4 discount are more variable with many grids and often shift with market conditions.

Feuz says most grid-pricing systems tie carcass quality and yield grade to a base price. How that base price is calculated is just as important as a grid's premiums and discounts.

"You need to know how the base price is set," advises Feuz. "Is it figured from a market reported cash price? If so, is it figured from live or dressed price? Or is the base formulated from plant averages? There is a lot of variation in how the base price is established."

Feuz says base prices for grids in Texas, Oklahoma, Kansas and Colorado often are established using reported live prices for those regions. In Nebraska the base price is usually established using reported dressed price for that state. Other grids may tie the base to the live-cattle futures price.

The majority of grids do use cash price as part of a formula to determine the base price. But the base might be subject to adjustment on a plant-by-plant basis, depending on the type of cattle slaughtered at specific plants. Plant-average dressing percentages are used to adjust live base prices to carcass-equivalent prices. Cattle with dressing percentages above the plant average generally earn a premium, but base prices also may be adjusted for the percentage of cattle grading Choice or better at that plant.

"Be wary of grids based on plant averages," warns Feuz. "When base price is tied to plant averages, the 'true value' of the cattle is now relative to the plant average and not an absolute based on the quality of the pen. That means different signals may be sent to producers that actually are producing similar products. That kind of thing impedes industry efforts to improve quality and consistency."

■ Know your cattle

Once the premiums and discounts are known and an understanding of how the base price formulation is reached, producers have to decide if their cattle naturally fit the grid. Can they be fed to fit? Can they be sorted to fit?

"To answer those questions, producers need to know their cattle," Feuz responds. "They need to know if the cattle are lean enough to fit a grid that rewards leanness. Or do the cattle reach the Choice grade easily and fit a grid that rewards high-marbling carcasses? Producers need to know how their cattle look with the hide off."

And even if producers know their cattle and identify a grid that seems compatible, Feuz advises careful monitoring of market conditions. Just as cash markets change over time, so do grids. Be mindful of influences that change the base price and cause shifts in premiums and discounts.

And remember that even though the concept represents movement toward the goal of pricing animals according to individual merit, grids are not a system by which "true" value-based marketing is achieved. AJ