

Where's *the* Value?

Like the light from a distant star, market-demand signals for higher-quality-grade cattle are just now reaching producers.

BY STEVE SUTHER

It's easier to find value in high-quality cattle today than it was just a few years ago, according to a panel of industry leaders at the Certified Angus Beef (CAB) Program's annual conference, Aug. 26-28 in Minneapolis, Minn.

All segments of the beef industry are now more focused on the end product, with more coordination and communication, and are now based more on individual sales value rather than on averages, said Ray Ramsey, director of livestock marketing for Michigan Livestock Exchange and Southern States Cooperative (MLE/Southern States).

Why the changes? Four years ago some producers aimed for high-quality beef because it was "the right thing to do," said Tim Schiefelbein, value beef procurement manager for Monfort. "Now that packers are saying, 'we'll pay you a lot more for it,' people perk up."

That doesn't mean everyone is on the same page. Ramsey said there are many challenges to overcome among small producers with poorly defined breeding programs. These programs may incorporate bits and pieces from any of more than 80 breeds. "These producers don't rely on farming as their primary income, and to complicate matters, they often get confusing market signals at the feeder level," said Ramsey.

What stands in the way of value discovery that would allow the market to generate more premium-priced high-quality beef? Ramsey summed it up: "First, cow-calf producers' inability or unwillingness to retain ownership; second, the limited return on investment for proper genetics and management in the traditional auction system; and finally, the segmented industry limits information returned to the producer level."

Cattle feeders, generally unable to establish predictable premiums or discounts for "put-together" cattle, have their own problems. Ramsey said discounts on a small percentage of "out" cattle can exceed



Left: "As we look toward more value-discovery opportunities, we expect to see individual marketing on feeders, as well as fed cattle," said Ray Ramsey, director of livestock marketing for Michigan Livestock Exchange and Southern States Cooperative. "We will develop feeder-calf pricing formulas that incorporate health, performance and carcass quality." *Right:* "For years producers only got one number from the packer — the amount of the check," said Tim Schiefelbein, value beef procurement manager for Monfort. "Then information sharing developed. We thought, 'Hey, let's tell them what they are sending us and what it is worth so they can change.'"

premiums on cattle that hit a grid target. Moreover, he said, "The fed-cattle price is poorly correlated to retail price, and the industry lacks an objective carcass measure of cutability and eating quality."

"Producers would like to balance end-product quality with production efficiency," Ramsey said. "But they are concerned about genetic antagonisms between carcass and production traits and the potential for reduced performance and efficiency not being offset by carcass premiums."

One problem is generic terminology.

"Blacks" became popular in the industry during the rise of the CAB Program, as the increasing value of *Certified Angus Beef*[™] product led to significant premiums.

"The industry developed a perception that there is greater value in black cattle, but it is now looking for real genetic

differences," said Sally Dolezal, an industry consultant who, with husband Glen, developed Oklahoma State University's Boxed Beef Calculator.

"Coat color doesn't provide much insurance of real added value today because so many breeds have gone through coat-color changes by adding Angus to their gene pools," Dolezal said.

Confusion is understandable, but producers need to sort out the facts to assure their place in the future of the industry, said Schiefelbein. "High-quality beef is a must for survival."

He showed a typical Monfort grid, with its \$3/hundredweight (cwt.) premium for *Certified Angus Beef* carcasses and \$6/cwt. for Prime, to point out the advantage of aiming for not only high quality, but CAB[®] and Prime. (A month later Monfort raised its *Certified Angus Beef* premium on the

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Angus GeneNet grid to \$4/cwt. from May through December.)

“Producers would like the rewards to be greater, I know,” Schiefelbein said. “But we have to crawl before we walk, before we run.” Monfort had bought 2.2 million of the 5 million total fed cattle to date in 1999 on value grids, which are a relatively new feature of fed-beef marketing.

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The top 25% of Angus-influenced cattle processed at Monfort last year were 90.9% Choice or better, 48.2% Yield Grade (YG) 1 and 2, 29.1% CAB and only 0.11% Standard. That netted an average \$38.61/head premium, Schiefelbein said. Of Monfort’s total volume last year, 10.56% was accepted as *Certified Angus Beef* product.

Data analysis sheds light. Dolezal shared data from a recent analysis of American Angus Association field data that helps dispel producer fears of “genetic antagonisms.” The Dolezal study, drawn from records on 33,350 progeny of 1,087 sires that had carcass data on at least 10 progeny, also demonstrated that it is not enough to upgrade from unknown black cattle to unknown Angus-sired cattle.

“Even cattle that are known to be sired by Angus bulls can have a wide variation,” she said. Comparing values from the Boxed Beef Calculator for the top 10% of these Angus bulls and the bottom 10%, Dolezal reported a full quality-grade difference, and a 1.4 YG difference. That adds up to a \$205.91 difference in value, using a three-year average market price, between the top and bottom 10%. She pointed out that all of the Angus bulls were good enough that the seedstock industry chose to gather data on them.

Dolezal predicted the industry will aim for more and more “specification Angus,” such as *Certified Angus Beef* product. “What has been a focus on coat color will change as we refine our approach, and producers will think in terms of EPDs, sourcing genetics that deliver production efficiency and quality product.”

Look at potential premiums. Ramsey noted several examples that can show producers the advantage of going beyond commodity beef. “What’s commodity lettuce worth? About 99¢ a pound; but chopped up, ready to use, it may be \$5.75 per pound. What’s commodity water worth? About \$0.007 per gallon. But give it a brand name, and it might be worth \$3.20 per gallon.”

Programs available through MLE/Southern States help producers move toward added-value goals. These include producer education, help with design of breeding programs, bull leasing, female development and financing, health and nutritional management campaigns, all tied together with information sharing and interpretation.

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There is increasing seedstock and commercial producer interaction, he said, with small-scale cow-calf producers adhering to a similar management and genetic program, utilizing custom backgrounding lots, then group visits to the finishing yard to exchange ideas with the feeder. One group of unit-managed cows in Virginia consists of 800 head, but some owners have only 25 cows.

The market must pay for what it wants. Schiefelbein said that basic fact will determine the industry’s future course.

Premiums for *Certified Angus Beef* carcasses are continuing to rise. But when those premiums were just getting established, when producers were aiming at that target “because it was the right thing to do,” Monfort was producing close-trim boxed beef for the same reason. “Nobody would pay us for the close trim, so we quit doing that,” he said.

If technology introduces a tenderness measure and producers are able to select for tenderness, that won’t be enough to put it on the value grid. “If people will pay us for tenderness, then it will be on our grid,” Schiefelbein said in response to questions.

Asked why grids don’t allow more premium for YG 1 cattle, especially since the Boxed Beef Calculator figures such carcasses are worth up to \$16.27/cwt. more than YG 3, Schiefelbein said that in the current mix of cattle, encouraging more YG 1 cattle is negatively correlated with quality and leads to more “out” cattle, especially Standard grades. “We want a balance of quality and yield.”

In response to a question about what advice CAB Program-licensed feeders should give their customers, Dolezal said producers should match their cow herds’ marbling abilities with complementary Angus sires.

“It’s a matrix, with cow-type rows and sire-type columns,” she explained. “If you have cows that are 0 to 0.3, put on sires that include a higher marbling EPD, but hit the retail product yield targets by keeping that at breed average or better. If the cows are not Angus-type, use Angus sires that are at least 0.3 for marbling, while maintaining that balance,” she concluded.

