Your Link to Certified Angus Beef

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Gold in the straw

Many finished cattle sell on the grid these days, but a lot (probably more) still sell on a cash basis. Why do you suppose they sell one way or the other? It could be the marketers' conviction that cattle do or don't have what it takes to earn grid premiums.

To shed light on the topic, we looked through the 2007 carcass data on 140,000 head from our Certified Angus Beef LLC (CAB)-licensed feedlots. Of that total, 54,000 head were sold for a flat price. In other words, the packer paid one price per pound for the entire pen without any value-based adjustments for carcass quality.

But what would happen if we placed those "flat-priced" cattle on a grid? Would their actual value, based on quality grade, yield grade and other carcass merit factors be better or worse than the cash price received?

To get at the answer, we sorted the data into marketing groups by week to end up with 52 for the year. We had to do that, since several grids change weekly and our source to establish values is the U.S. Department of Agriculture (USDA) weekly weighted report for grid premiums and discounts.

The most notable and dynamic of those categories is the price spread between the USDA Choice and Select quality grades. That number ranged from a high of $15.83 per hundredweight (cwt.) in January to a low of $5.30 per cwt. in August. As well, the producer's share of the Choice-Select spread was adjusted based on region harvested. We had to do that, since the grid threshold for percent Choice varies by packing plant as cattle types change by region, especially from North to South.

Applying the correct premiums and discounts to each weekly group gave us a net positive or negative adjustment to the base price (weekly weighted carcass price) for each load. Next, we ranked each of the 537 loads into one of four groups by value, from high to low. That let us study the differences that added or subtracted from final value (see Table 1 and Fig. 1).

What did we find? After accounting for all premiums for Prime, *Certified Angus Beef®* (CAB®) brand and Choice, and discounts for Select and No-Roll carcasses, the highest net-value quartile group returned a quality grade premium of $5.03 per cwt.

From there, we subtracted the total adjustment for yield grade (-97¢ per cwt.), carcass weight outliers and dark cutters (-20¢ per cwt.) to get a final value of +$3.87 per cwt. over the carcass base price. At the average 804-pound (lb.) carcass weight, that's a potential $31.11 per head that could have been paid to the feedlot or feeding customer.

The bottom end

Rather than point to all that money left on the table, and to maintain a grasp on reality, we also need to consider the bottom end. After all, not every load is going to bring back premiums, especially as we bear in mind that all of these cattle were actually sold for a flat price. There must have been a reason feedlots passed up the value-based market on some of these pens.

Indeed, the bottom 25% would have incurred a larger discount than the premium that was possible on the best 25%. So, all told, the net average grid price adjustment for all 54,000 head would have been -50¢ per cwt.

Now, we begin to think the feedlots did well to sell them for the cash average, and it reflects poorly on these 88% black-hided cattle with a high degree of Angus genetics. They should have more carcass quality than that, right?

Fig. 1: Unrealized carcass values applied to 2007 Feedlot-Licensing Program "flat-priced" cattle

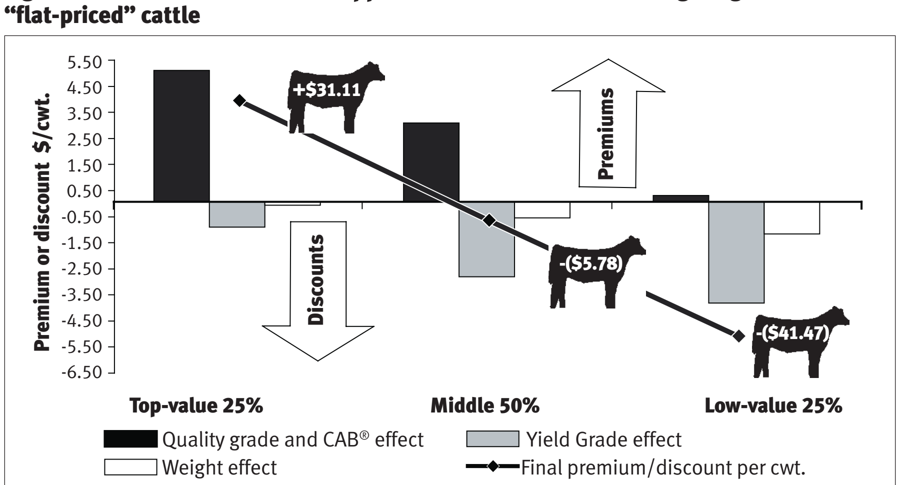

Table 1: Value adjustments to carcass price by category

Cattle shipments ranked by carcass value	Net carcass price adjustment per cwt.	Quality grade	Yield grade	Heavy/ light wt.	Dark cutters
Top quartile	+$3.87	+$5.03	-$0.97	-$0.14	-$0.06
2nd quartile	+$0.17	+$1.88	-$0.85	-$0.23	-$0.10
3rd quartile	-$1.43	-$0.14	-$2.04	-$0.39	-$0.14
Bottom quartile	-$5.16	-$0.27	-$3.88	-$1.25	-$0.27

Let's not throw up our hands in disgust just yet. At the average of 804 lb., that 50¢ loss equates to a drop of only $4.02 per head below the flat-market price. That's almost breaking even. Moreover, since these cattle were not sold on a grid, it's intuitive that many of the pens were managed with no particular emphasis on hitting the carcass merit bullseye.

Sure enough, as we check the table again, the bottom quartile would have received a discount of $1.16 per cwt. for heavy carcasses (discounted at 1,000 lb. and heavier). There would also be a combined discount for Yield Grade (YG) 4s and 5s of $4.38 per cwt.

Too much weight and external fat are the hallmarks of managing for a "pounds only" marketing plan. It's important to put on pounds efficiently, but it's clear these same cattle, if managed for a grid target, would have been shipped before they encountered those large discounts for yield grade and weight.

As a matter of fact, if we could erase only those two discounts, the lowest grid value group would be just short of breakeven on the grid pricing structure by -8¢ per cwt. Backing off the days on feed may have pulled down the quality grade a bit, but it also would have avoided the most expensive gain cost days.

Opportunity knocks

These 54,000 head represent opportunity, and data from the top end is particularly compelling. We found 134 loads that were worth $31 per head more than the price for which they sold. That's a 2.6% increase in their value.

No, that wouldn't ring the bell for cattlemen who select and manage for carcass quality as a rule. Those folks are looking to add $50-$100 per head. But it would be a big deal to pick up the extra return on a quarter or one-third of these 537 loads. A feedlot could pay two full-time employees to do nothing but sort finished cattle and still have three-fourths of that margin left over.

Better yet, this shows there's a great deal of opportunity for the rancher to work closely with a feedlot in a partnership arrangement. Not only would that get the cattle marketed for the highest return, but individual carcass data feedback can seriously improve a cow herd.

Granted, the feedlots likely didn't know the source of origin on many of these cattle, so they had no history of carcass data. That's probably a big reason they sold the cattle for a flat price in the first place. But within those 54,000 head, there were definitely some missed opportunities.

With all the equity required to raise cattle today, it pays to stay current on marketing that final product. Without a doubt, extra value exists for those who look for it.