

Informed Marketing

Selling cattle on a grid brings more profit

Story by
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Today's prices have made it easier for beef producers to do what they love while making a profit.

Prices will come and go, but Hergert Feeding Co., Mitchell, Neb., has found a way for customers to earn premiums for their high-quality cattle, even when the market fades.

The 10,000-head Certified Angus Beef LLC (CAB)-licensed partner feedlot aims to offer the best service and make the most money for its customers. Manager Wayne Smith, who was 2003 CAB Quality Assurance (QA) Officer of the Year, knows he can do that by sorting cattle and marketing them as they are ready.

"One of the things we rarely do at Hergert Feeding is sell a pen of cattle all at one time on a live basis," Smith says. "It's not that we like to make work for anybody, but since we are a smaller feedlot we can take the time to properly sort, which leads us

to make the most money for our customers."

The key to informed marketing, which leads to higher profit for producers, is sharing between all segments, Smith says, adding that a lack of sharing has been the "big hang-up" in the beef industry. To counter that, he licensed

Hergert Feeding as a CAB partner and began selling a large share of cattle on the GeneNet™ value-based grid.

Smith decided to work with GeneNet because of easy-to-read carcass information and the premiums available for above-average carcasses. "It's the best quality-driven grid for Angus cattle that I have used," he says. "Whether good or bad, you get paid the value of the individual carcass. And with that individual pricing, you can go back and see exactly what each animal returned to you."

Ken Conway, Hays, Kan., started the GeneNet alliance in 1998 with the goal of negotiating a grid market that would "attract the highest-

quality cattle and pay the premiums that producers deserve," he says.

He also saw the grid as a way for seedstock producers to direct genetics to a premium market and get feedback on results. GeneNet, with its grid available at Swift & Co. plants in Grand Island, Neb.; Greeley, Colo.; and Dumas, Texas, soon expanded to reporting data to breed associations. More than 150 feedlots and 1,500 registered cow-calf producers are a part of the marketing alliance today.

Grid vs. live

Producers who raise cattle with known genetics should take advantage of the extra money offered to high-quality cattle through grid marketing, Smith says. "Live is based on the average, so if you have above-average cattle, you need to pick up the extra money from the grid," he says.

When live prices are high, Conway says producers tend to settle for live markets. But history shows they earn more when they choose a grid. "More than 600,000 head of

cattle marketed through GeneNet have averaged \$26.43 per head above what they would have brought if sold live," he says.

Smith points to examples of customers who would have made more by selling on a grid, and others who would have lost money if they had sold live (see Table 1). "Even when live cattle prices are good, more money can be made on the grid if the quality of cattle and feeding history are known," he says. Some customers left \$16-\$40 per head on the table by choosing the live market instead of the grid since Hergert Feeding Co. began working with CAB to run carcass data through a grid analysis.

"When live cattle prices were high in 2003 we sold part of a set of heifers on the cash market and half on the grid. The grid heifers received a premium of \$16.84 per head and made up for more than half of the total profit," Smith says. A pen of California weaned heifers earned \$55.53 per head in premiums on the grid, accounting for 60.5% of the total profit. Similar steers earned a premium of \$36 per head, representing 38.7% of the profit.

Utilizing CAB and GeneNet in tandem to distribute carcass information has been the best way for Smith to tell producers what they have and how to do a better job. "Once they get the information back to me at the feedlot, I can get it back to the cow-calf producer, or the owner, and they can get it back to the seedstock producer. When everyone knows what the final product is, we can do a better job of raising and marketing beef cattle," Smith says.

One of Conway's main objectives is to provide producers with reliable carcass data so they can improve their herds and bottom-line profits. That seems to be working, because 85% of cow-calf producers who sold calves to GeneNet client feedlots retain ownership on their calves the following year, he says.

Conway predicts the beef industry will move to an increasingly value-based market in the next five to 10 years. To prepare for that future, he says, producers will need to participate in today's developing market and use data to raise higher-quality calves that make money for every segment of the industry.



Table 1: Profit comparisons selling on a grid vs. live

Arrival date	8-8-03	7-18-03	10-2-03	10-3-03	10-30-03	11-1-03	11-8-03	12-19-03
Sex	Hfr	Hfr	Hfr	Hfr	Str	Hfr	Mix	Mix
State of origin	NE	CA	WY	CA	NE	MT	MT	WY
No. head in	351	131	209	255	210	315	371	70
Avg. weight in, lb.	932	656	798	622	602	501	586	608
Avg. weight out, lb.	1,263	1,083	1,224	1,106	1,204	1,093	1,182	1,154
Death loss, %	0.28	0.76	0.96	0.39	0.95	2.22	0.81	1.43
Avg. days on feed	97	165	123	168	188	211	196	156
Avg. daily gain, lb.	3.4	2.57	3.43	2.87	3.17	2.75	3.01	3.46
Lb. of feed per lb. of gain	7.89	8.34	8.05	7.82	6.55	7.36	7.17	6.37
Delivery cost per cwt., \$	77.60	83.05	90.59	96.00	106.49	107.84	100.06	103.48
Total cost of gain, \$	60.02	66.66	57.71	57.63	54.15	55.74	54.67	47.32
Total invest. cost, \$	72.86	76.59	79.15	79.28	80.13	79.61	77.19	76.88
Sales, \$	103.94	87.13	82.06	85.64	86.76	87.08	88.69	86.80
Profit (loss) per head, \$	386.28	91.69	35.64	69.22	76.90	80.77	135.17	113.69
Marketing method	Live 291 hd. Oct.-Nov. 03 Grid 60 hd. 12-17 & 12-23	Grid 12-9-03 1-6-04 1-23-04 2-5-04	Live 43 hd. 1-23 & 2-23-04 Grid 164 hd. Jan-Mar 04	Live 127 hd. 3-3-04 Grid 127 hd. Mar-Apr 04	Live 5-7-04 Tyson	Live 5-25-04 Tyson 6-10-04 Swift	Grid 255 hd. May-Jun 04 Live 113 hd. May-Jun 04	Grid 5-17-04 6-2-04
Prime, %	9.00	11.50	13.10	3.15	0.50	7.82	0.58	1.40
CAB® %	31.50	49.20	35.35	23.62	23.70	0.00	5.20	5.80
Choice, %	76.50	81.50	79.30	67.32	69.40	76.22	54.34	46.90
Select & out, %	14.50	6.90	7.60	29.53	30.10	15.96	45.09	53.70
% YG 1 & 2	33.10	33.80	32.80	41.74	54.40	57.98	67.05	62.30
% YG 4 & 5	3.60	4.60	4.00	3.14		2.28	1.16	2.90
Yield, %	60.70	62.60	62.99	63.58	61.92	62.30	64.45	63.50
Profit (loss) grid/head, \$	81.47	55.53	50.69	23.78	40.56	\$39.59	6.71	(\$8.88)
Profit (loss) grid/lot, \$	4,888.20	7,218.90	8,313.60	3,020.06	8,395.92	12,193.72	1,711.05	(\$612.72)
As % of lot profit	17.14	60.56	112.69	17.18	Potential	Potential	3.44	-7.81

Editor's Note: Patterson was the fall 2004 industry information intern for CAB, which supplied this article. She is a senior in animal science and agricultural journalism at Kansas State University.