

Grid Marketing 101

Here are the basics of what a grid is and why it's important to you.

Story & photos by

BECKY MILLS

If you've heard almost any conversation about marketing finished cattle, you've heard the word grid. So what exactly is it?

"A grid is value-based marketing," explains John Lawrence, Iowa Extension livestock economist and director of the Iowa Beef Center. "Each individual carcass is graded by a USDA (U.S. Department of Agriculture) grader, and premiums and discounts are awarded according to quality grade, yield grade (YG) and carcass weight."

"Grids are a system to reward above-average cattle," Macedonia, Iowa, feeder Gary Forristall adds.

Here's how it works: A packer sets a base price for a carcass. Lawrence says that price is usually based on an average low-Choice, YG 3 carcass. The price the buyer pays for that carcass is either negotiated or set by a formula (for example, the Nebraska weighted average price for the previous week).

Then the math really sets in. The buyer adds premiums for carcasses that exceed the established base. On most grids, if a carcass grades upper Choice, dollars are added. Or if the yield grade is leaner than YG 3, say a YG 2, more dollars are added. If it qualifies for Prime, there is an additional premium.

But discounts are where a grid can turn into a four-letter word. What if the carcass slips down into the Select category? That normally means the minus signs come out. Or, if the yield grade hits above a YG 3, there are deductions.

Ditto for carcasses that weigh more or less than the packer specifies in his grid.

"A lightweight carcass can cost you \$150, and a heavyweight carcass can cost you well over \$200," Forristall warns.

"There are also discounts for out cattle," Lawrence adds. "These include dark cutters where the meat is dark, often due to stress before harvest, or hard bones, which indicate an older animal."

Fortunately, Lawrence says out cattle typically run less than 1% of harvest.

Even though grid marketing can be complicated, University of Minnesota animal scientist Alfredo DiCostanzo says it is a skill that producers need to learn. He stresses, "It is critical producers understand what the base price is and what is



Macedonia, Iowa, feeder Gary Forristall says grids are a system to reward above-average cattle.

added or subtracted for premiums and discounts."

He says the trend is for more and more cattle to be marketed on grids. However, he notes, "This is a tough year to use as an example because of the high demand. The number of cattle marketed on grids has slipped a little, down to around 45%. It was around 52%."

Even when grids aren't used officially, Lawrence says they are still on the minds of buyers. "If the cattle are sold live, the buyer is going to

make his own appraisal and place a value on them."

Grid game

Studying individual grids can be a bit overwhelming. DiCostanzo estimates each major packer offers around 10 grids. Most of the time, though, these grids fall into one of three categories: grids that favor quality grade, grids that favor yield grade, or those that offer a balance between the two. Most fall in the first category.

Table 1: Sample grid, premiums and discounts in \$/cwt. of carcass

Base price and Select discount based on Dec. 5, 2003, prices

Quality grade	USDA Yield Grade				
	1	2	3	4	5
Prime	+13.00	+12.00	+10.00	1.00	1.00
Program ^a	+6.00	+5.00	+3.00	-6.00	-6.00
Low-Choice	+3.00	+2.00	\$156.15^b	-9.00	-9.00
Select	-11.00	-12.00	-14.00	-23.00	-23.00
Standard	-22.00	-23.00	-25.00	-25.00	-25.00
	Weight, lb.		Other outs		
Discounts:	500-550	950-1,000	1,000+	Dark cutters	No roll
\$/cwt.	15.00	7.00	20.00	35.00	30.00

Source of sample grid: Alfredo DiCostanzo, Department of Animal Science, University of Minnesota.

^aSpecialty programs, such as Certified Angus Beef® (CAB®) for carcasses grading average- and high-Choice.

^bBase price, reported in dollars per carcass hundredweight (cwt.).

Price for each quality and yield grade combination can be determined by adding the premiums and discounts off the low-Choice row and Yield Grade (YG) 3 column. Thus, a carcass grading high-Choice (+3), YG 2 (+2) should be priced \$5.00 per hundredweight (cwt.) more than the base price of \$156.15, or \$161.15 per cwt. A carcass grading Select (-14), YG 2 (+2) should be priced \$12.00 per cwt. lower than the base price of \$156.15, or \$144.15 per cwt.

Discounts for carcasses falling out of the weight range apply in addition to premiums and discounts for quality and yield grade. Discounts for dark cutters, no roll (B⁵⁰) or lower maturity carcasses grading low-Choice) or other discounts (bullocks, etc.) apply as a single discount [in this example, \$35 per cwt. off the price of a Choice YG 3 carcass].

"I only know of three grids in the country that pay mostly on Yield Grade 1s and 2s," he comments.

The Internet is a good place to comparison shop. The USDA lists a number of beef certification programs at www.ams.usda.gov/lsq/certprog/industry.htm. While specific grids aren't published, the certification programs are described and a contact person is listed. You can get an idea of what breed or breed types are accepted and whether the programs favor quality or yield grade.

Then there is the big-ticket question: Where do your cattle fit? "In many states, the Extension service will have a steer feed-out program," Lawrence says.

"Producers can consign five to 10 head. Even in these situations, if the cattle aren't sold on a grid the producers can apply the carcass data to a grid and play 'What if?'"

"For a producer retaining ownership and marketing the finished cattle for the first time, it might be best to have carcass data collected on a group that is not marketed on a grid," says Diana Bodensteiner, Chariton Valley Beef, Chariton, Iowa. "That will give him a better idea of how his cattle will perform and which grids they may fit."

The Iowa Beef Center's Web site offers two grid calculators so producers can play that "What if?" game. "One can be used if you have the actual carcass data on the cattle, and the other can be used by going with the percentage of the pen," Lawrence says. These can be accessed at www.iowabeefcenter.org.

He cautions, however, "If you use the grid calculators, make sure the grids still exist. They can change day to day."

Take your time

In case you're wondering, the research is well worth your time. "It is amazing how much difference there is between grids," Forristall says. "Look at the data from one pen on four or five different grids."

Bodensteiner agrees. "The Choice YG 3 price can vary by \$2 to \$5 from one grid to another, which can make a difference of over \$1,000 on a potload."

She also says it can make a big difference in the bottom line, depending on whether the grid favors quality or yield grades.

"A group of cattle that go 55% Choice with 65% Yield Grade 1s

(Continued on page 56)

Grid Marketing *(from page 55)*

and 2s, with a handful of carcasses weighing between 950 and 1,000 pounds (lb.), could pay a \$15-per-head premium on one muscle grid versus a \$7-per-head discount on a marbling grid. A group of cattle going 90% Choice with 45% CAB or better, none over 950 pounds and only 30% Yield Grade 1s and 2s might pay a \$30 premium on that same marbling grid but only get a \$12-a-head premium on the muscle grid.

"It could be as much as \$3,000 for a load of cattle that are a very good fit for one grid while not a match for another, if the difference in base price also goes against you," she emphasizes.



The same cattle can bring dramatically different prices with different grids.



Help for the grid-challenged

Chariton Valley Beef (CVB) works with carcass data from producers across Iowa on more than 12 different grids. Its purpose is to help producers evaluate their product and target value-added marketing opportunities.

Data coordinator Diana Bodensteiner works mostly with producers from Iowa, but producers from other states can join CVB to get access to CVB's current grid information to do grid comparisons. However, she says she isn't as familiar with grids in other parts of the country, with the exception of the GeneNet grid, which is available in Swift & Co. plants in other areas.

CVB is a 501c(5) corporation formed by cattle producers in Iowa and is supported by Iowa State University (ISU), the Iowa Beef Center and the Iowa Farm Bureau Federation.

For more information contact Bodensteiner or Joe Sellers, Extension beef specialist, at ISU Extension, Lucas County, 48293 Hy-Vee Rd., Chariton, IA 50049-1900; (641) 774-2016; fax: (641) 774-8588; or www.charitonvalleybeef.com.

