

# Corn, Cattle in New Paradigm

*Capture added value, despite high corn prices.*

Story by  
**MIRANDA REIMAN**

When feed prices double, cattle producers think twice as hard about management options. Common responses include cutting expenses, increasing efficiency and finding ways to get paid more for the saleable product, calves or carcasses.

"We've really come into a different paradigm with predictions

of \$4 [per bushel] versus \$2 corn," says Mark McCully of Certified Angus Beef LLC (CAB). "We've also come into a different paradigm when we look to a \$20 Choice-Select spread versus a \$6 spread."

That widening spread refers to the difference in boxed-beef cutout value per hundredweight (cwt.) between USDA Choice and USDA Select grades. The price spread between Choice and *Certified Angus*

*Beef*® (CAB®) brand product also has widened significantly.

McCully, CAB supply development director, says producers need to focus on cattle that better use their resources — yet produce calves that achieve premium quality — to deal with the changing markets.

Duane "Doc" Warden, of Council Bluffs, Iowa, exemplifies that it can be done. He started his Angus seedstock business in 1964 and began testing for feed efficiency 18 years later.

"The thing that costs the most with cattle is feeding them," he says. "If you can improve their feed efficiency, you obviously are going to make more money."

That's only if you stay with the other strengths of the Angus breed, Warden adds.

"Increasing feed efficiency does not affect quality grade," he says. Warden recently fed out 40 steers that didn't make the cut as breeding stock. They graded 98% Choice and 50% CAB, with no Yield Grade (YG) 4s.

"The most efficient bulls weren't always the ones I've kept," he says. "I very consistently keep birth weights down and try to keep everything else in balance on other traits."

For more than 25 years, Warden has been tracking efficiency. He says he's improved it by at least 10% in his herd. His top bull, "4 Point 8 of Ironwood," is named for his 4.8 feed-to-gain (F/G) ratio, finishing first in feed efficiency in the Circle A Sire Alliance during its test year.

"Efficiency is hard to measure," Warden says. "You can't see it. It's

very hard for people to get a handle on what they have."

Missouri Beef Extension Specialist Bob Weaber notes selection is also a challenge.

"There has been an interest in feed efficiency for a long time," he says. "We just don't have many tools to get at it."

Feed efficiency has a heritability of 0.35-0.4, which puts it in the moderate-high range. "That's basically the same as the birth or yearling weight," Weaber says, "which is good because it means there's a lot of opportunity to make progress with selection tools if we had them."

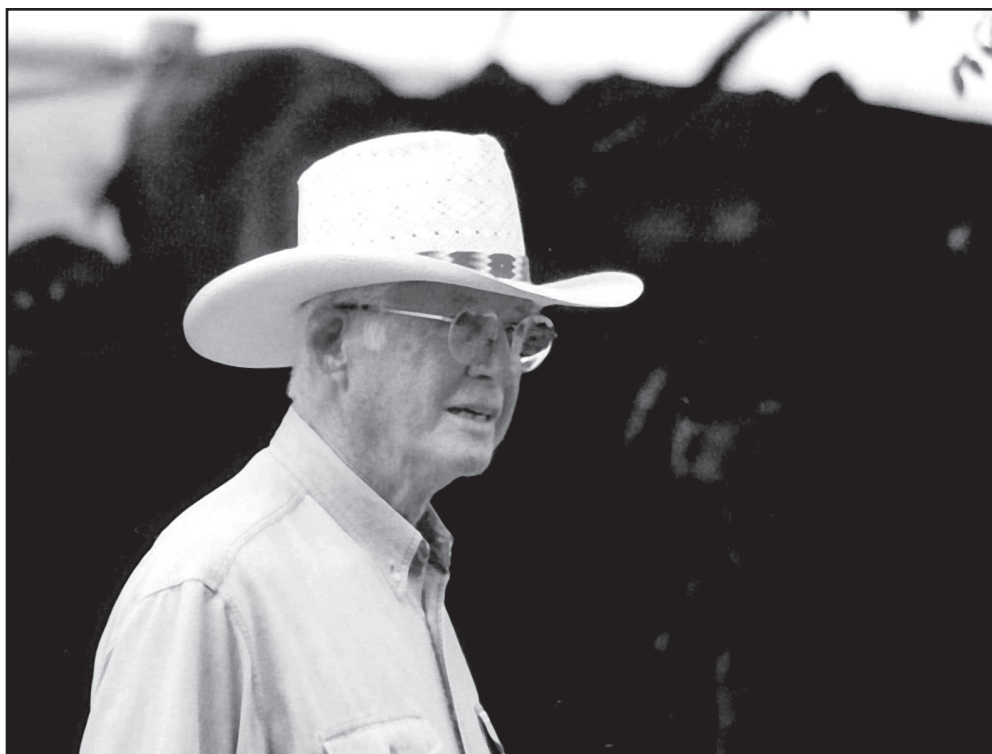
## The efficiency difference

McCully developed a model to look at the effect corn price has on the dollar value of efficiency. His theory sorts calves into two groups, "average" and "best." His numbers are based on a 650-pound (lb.) feeder calf fed for another 650 lb. of gain.

"What kind of impact do these new economic dynamics have on value differentiation of cattle in the feedlot?" McCully asks. "A big difference if you run some numbers."

In this scenario, "average" cattle had an average daily gain (ADG) of 3 lb. per day and a F/G ratio of 6.4 to 1.

"By moving those numbers to a 3.8-lb. ADG and a 5.9 F/G, 'better' cattle would save \$26 in feed cost per head with \$2 corn," McCully says. "The reality is, corn is not \$2 anymore."



For more than 25 years, Duane "Doc" Warden, Council Bluffs, Iowa, has been tracking efficiency. He says he's improved it by at least 10% in his herd.

The same numbers with \$4.20-per-bushel (bu.) corn show a \$52 cost difference between the average and the best cattle. "This new situation doubles your performance value differential," he says.

Warden says that might push people to pay more attention to efficiency. "The increased price of corn is just a way to bring this to mind a little more," he says. "It's always important."

### **Advantageous at cow-calf level**

Cow-calf producers who don't retain ownership through the feeding phase may not see a direct benefit from this focus, but Weaber says there are advantages in the cow herd.

"If we make the calves more efficient, that will probably make the cows more efficient," he says. In addition, by selecting for smaller mature size and lower milk production, maintenance energy requirements of cows could be improved indirectly.

"In our maximal production economy, it isn't a real popular thing to do. But, if a guy sits down and goes through the worksheet, frequently the smaller, lower-milk cows generate more gross revenue on a fixed forage or nutrient supply base than the high-input cows," Weaber observes, "especially at \$4 corn."

Since all growing cattle eat, gain and, therefore, have F/G numbers, widespread improvement would have an enormous effect on the entire industry. Weaber says if every fed beef animal converted at 6.5 today and improved to 6.1, the feed savings to cattle feeders with a ration priced at \$170 per ton could be more than \$635 million.

### **The spread**

An upward adjustment in percent Choice could also put dollars in a producer's pocket, and it can happen concurrently with performance improvements.

"When you take this same idea and compare a \$6 Choice-Select spread to a \$20 one, you can see that more dollars in the system magnify a modest improvement in quality grade," McCully says.

With a \$6 Choice-Select spread, a pen of cattle achieving 60% Choice and 16% CAB and Prime would receive around \$35 per head in premiums. That's about \$25 per head behind a pen that goes 90% Choice or above with 40% of those qualifying for CAB and Prime.

"The value difference in our market is compressed with a \$6 spread. Higher spreads amplify it," McCully says. Those groups have a \$58-per-head difference when a \$20 Choice-Select spread is applied.

Andy Gottschalk, veteran market consultant with HedgersEdge.com, says that a \$20 spread is not unlikely.

"We've seen a general widening in the Choice-Select spread over time," he says. "Consumers have clearly voted with their dollars. They are willing to pay more for high-quality beef. All other

things being equal, that will tend to drive the Choice-Select spread to even wider levels than we have seen in the past."

Cattlemen who haven't yet found merit in aiming for quality might reconsider now, McCully says.

"We're trying to illustrate to producers that in these times we're entering, an investment in better genetics, managed

*(Continued on page 46)*



**"We've really come into a different paradigm with predictions of \$4 versus \$2 corn," says Mark McCully, CAB supply development director.**

**Corn, cattle in new paradigm** *(from page 45)*

properly, can align their cattle to take advantage of the market," he says.

Gottschalk says there are economic signals that favor Choice beef production.

"As it continues to move, the Choice-Select spread will pay cattlemen for the quality product they produce," he says. "That's what the system should have

been doing all along and for many years, but it didn't do that. I believe that was a contributing factor to a 19-year decline in the demand for beef."

Even when the Choice-Select spread narrows seasonally, as it often does in the summer and late winter months, Gottschalk says it's a worthy goal.

"Over the longer period, we see the consumer's willingness to pay more for high-quality product," he says. "That's what producers need to stay focused on, and not become overly concerned with what is usually shorter-term oversupply."

McCully says the combination of higher corn prices and increasing premiums for quality beef bring bull-buying decisions into full light.

"If you equate all of these value differences between the average cattle and best cattle back to an individual bull, the discrepancy is astounding," McCully says.

If a bull produces 60 calves in his lifetime, there could be a \$6,630 overall difference between those that perform and grade at the above-average level and those that are merely average.

"Theoretically, you could pay at least \$6,000 more for the best bulls than you could for the average bull with these new economics," he says. "Of course, that assumes the cow-calf producer is able to market those value-added genetics."

**Realizing the benefits**

Not all the value of grade and gain will get back to the farmer or rancher, but there are ways to realize benefits. McCully suggests participating in the AngusSource® program and using the marketing documents, or retaining at least partial ownership throughout feeding.

"Feedlot managers understand these value differences, but I'm not sure they have fully adjusted their feeder-calf procurement orders to this new mind-set," he says. "I'd encourage them to pay what the good cattle are worth and further discount the cattle that don't work in the yard or in the packinghouse."

McCully says historically a \$5-per-cwt. premium was considered the top end for the best 600-lb. feeder steer.

"This new paradigm — with top efficiency and grade working on \$4 corn and a \$20 Choice-Select spread — suggests the premium should be three times that," he says. "To make progress, we need to eliminate the idea of letting the superior cattle subsidize the poorer ones. Grid marketing is getting fed cattle on track, but we still need to rethink how we assess value on feeder calves."

The astute producer must evaluate how each area of this fast-paced, ever-changing market affects the bottom line.

"We're putting everything in a pressure cooker right now," McCully says, "and the true value will show itself where performance and quality are concerned."

**Missouri Beef****Extension****Specialist****Bob Weaber****says smaller,  
lower-milk**

**cows frequently generate more gross revenue on a fixed forage or nutrient supply base than high-input cows — especially with \$4 corn.**