CPEC/FARMVET TECHNOLOGIES

The Sortin' Stick

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MARKETING DECISIONS

The current high cattle market has resulted in historic prices and profits for cattle feeders. In this price environment, cattle feeders question whether their marketing and production strategies are still appropriate, or do they need new strategies? Two of the possible questions are; 1) how long should I feed them; 2) should I sell them on a live weight basis or on a grid?

A discussion of these two strategies was the subject of a recent article by Dr. Pete Anderson in VetLife's TECHTALK entitled, "WORTH THE WEIGHT!"

Based upon a fed market at $90 versus a market of $60, different scenarios are necessary when comparing cost of gain and feed costs to profitability. According to Dr. Anderson, what this means is that if a set of cattle have a cost of gain of $44.39 (or higher) at the expected time of slaughter they should not be fed additional days if they will be sold live into a $60 market. If the cost of gain is less than $44.39, they should stay on feed. This number jumps to $76.56 for cattle sold as carcass weight in a $90 market. In a $90 market, the only cattle that would not profit from additional days on feed are those with COG above $76.56. Only 1.7% of the lots in the Benchmark database had COG greater than $76.56 in the past three years and they were mostly small oddball lots or a few lots with horrible death loss. Mainstream cattle almost never feed that high and the few lots that do can be easily identified while still on feed.

In a $60 market additional days are profitable with very low feed cost but not with high feed cost whereas with a $90 market profitability increases with almost any feed cost, just at a greater rate if feed is cheap.

Of course these "No longer profitable" feed prices are much higher with $90 cattle than with $60 cattle. These prices are also higher when selling carcass weight than when selling live weight. That is because **at the end of a typical feeding period carcass weight comprises 80-90% of live weight gain.**

Marketing Decisions continued

Table 1. Effect of additional days on feed on interval ADG and proportion of live weight as carcass weight. VetLife research, 771 lb mixed breed heifers.

Days	ADG	Carcass%
0-100	3.69	55.0
100-110	2.95	68.8
110-120	2.81	72.2
120-130	2.68	75.7
130-140	2.55	79.6
140-150	2.41	84.2
150-160	2.28	89.0

This has to be true in order for dressing percentage to increase as cattle are fed longer. If you do not believe the numbers, do some math. A feeder steer will dress approximately 58% at 800 lbs. Add 400 lbs and the 1200 lb steer will dress 64%. Of the 400 lbs of live gain, 304 lbs (76%) was carcass weight. In the last few weeks of a typical feeding period this number is typically 80-90%.

In other words a steer gaining 3 lb per day during the last week of a feeding period will be gaining approximately 2.4 lb of carcass weight. While 3 lb of live weight would be worth $2.70 (at $90/cwt), 2.4 lbs of carcass weight would be worth about $3.40 (at $1.42/cwt). That means that the carcass seller will realize about $0.70 more income per day than the live seller.

This does not mean that everyone should sell carcasses. What it does mean is that **every additional day** is more favorable for a carcass seller than for a live seller. If the market is $60 lessens profitability for live sellers and adds only a few dollars for carcass sellers. On the other hand, **if the market is at $90, every additional day increases profitability** and the rate of increase is approximately twice as fast with carcass weight as with live weight.

By now you should be convinced that more weight will increase profitability in a $90 market. Of course these calculations all assume that the market stays flat...that is why it works! No one assumes the market will stay flat, they all figure that it will go down. This leads us to the next discussion.

Selling Carcass Weight

It is clear that due to increased dressing percentage (increased carcass weight), the carcass seller realizes more value from additional days on feed than the live seller. In addition, carcass premiums can be much greater in a $90 market. The reason for that is that most cattle feeders assume that the market will decline and so they sell cattle to stay current. There would not be a $90 market if supplies were not already short and selling cattle early with lower than typical DOF guarantees that the high market will continue for a while. This exaggerated current ness also guarantees that the Choice: Select spread will be wide. This effect, coupled with the seasonal low in percent Choice that is typically observed in September and October, resulted in the huge Choice:Select spreads of September, 2003.

Table 4. Effect of Choice:Select spread on Choice premium in a $140 carcass market

	$10 spread	$20 spread	$30 spread
Choice Price, $/cwt	145	150	155
Select Price, $/cwt	135	130	125
Dif, $/800 lb carcass	80	160	240

Prices calculated using 50% Choice base.

A $30 spread means that every 800 lb carcass that grades Choice is worth **$240 more** than one that does not. Under that circumstance a cattle feeder can go to great lengths to increase percent Choice and the relationship between performance and carcass value is shifted somewhat in favor of carcass value.

So what does all of this mean? Do I sell my cattle live or in the carcass market?

The feeder should first ask himself a few questions:

1), Do I sell my cattle on a live basis or in the carcass market. If you are selling cattle live, why? Usually a simple answer!

2), If you are selling cattle in the carcass market, are you having discount problems? If you are having discounts, what are they? Are those discounts manageable? If you are not experiencing discounts, why not? Are you leaving some pounds in the feedyard that should be hanging on the hook in the plant?

3), What would you change in your marketing program to increase profitability?

Selling Carcass Weight
continued

The obvious fact that selling live cattle in today's market is easy, as compared to the risk of selling them in the carcass market, is probably reason one for selling live. The other major reason is some cattle just do not fit a carcass market. Cattle usually should have the ability to grade at least 55% Choice before a feeder will consider selling them in the carcass market. And last but not least, some feeders just will not consider anything but the live market.

If you are selling in the carcass market, carcass weight is the first consideration and the amount of discounts is second. As discussed earlier, the feeder needs as much carcass weight as possible, to generate profitability. So that usually means extra days on feed. However, that also means possible discounts from over feeding cattle that are prone to early YG 4 carcasses or heavy weights. But both of these opportunities are manageable!

If a feeder is not experiencing some discounts, then maybe the cattle are not being fed long enough. Today's grid market allows a feeder to have a few more YG 4 carcasses (usually 4 to 6%) before any discounts begin. Simply because of the added carcass weight from more days on feed and the logic that the longer one is fed, the better chance they have of grading Choice.

In his research, John Brethour, Beef Cattle Research Scientist at the KSU Ag Research Center in Hays, Kansas states that "marbling is about 90% genetics". He notes that a longer feeding period can enhance marbling, it's a slow progression that must begin with a genetically capable animal. But he cautions, "you can't make something out of nothing. There are cattle that won't grade Choice no matter how many days you feed them."

Kelly Bruns, Ph.D., Assistant Professor of Animal Science at South Dakota State University states the key to producing a carcass with minimal external fat and maximum marbling is to match genetics to an optimal slaughter point.

Just remember, the packer may buy cattle live, but they get paid based on a carcass weight, pounds of sellable product from that carcass. So don't leave those pounds in the feedyard...put them on the hook in the plant!

Which brings us to sorting as one of the first solutions for selecting cattle for a carcass market. Sorting cattle by weight at re-implant time is the easiest way to eliminate the heavy weight cattle. Sorting cattle for their most profitable optimum outdate based on their carcass potential using the patented CPEC Ultrasound Sorting System, is another.

Selling Carcass Weight continued

The CPEC system utilizes the ultrasound data taken from the ribeye, between the 12th and 13th rib in combination with weight and economic parameters from feedlot performance and grid specs to determine the most profitable optimum outdate for each animal. Each animal is then placed within a marketing group that best fits their optimum outdate and eventually marketed on that date. All of this is easily performed in the feedlot at approximately 70 to 100 days before harvesting, at the rate of 1.5 to 2 head per minute. This technology is currently being utilized by 65 licensed technicians throughout the United States and Canada, as Independent Sales Consultants. These ISC's are located in 8 universities, 4 research centers, 1 beef association, 20 veterinary clinics, 15 individuals, 1 Coop and 9 feedlots. Since 1994, approximately 900,000 head of cattle have been evaluated using this system.

For more information about the CPEC system and what it can do for your feeding operation, locate it on the web at www.backfat.com or give us a call at 806-457-9581 or 785-672-4945.

We would like to thank Dr. Pete Anderson with VetLife for allowing us to use excerpts from his article "Worth the weight!" in the VetLife TECHTALK newsletter. For more information on VetLife or to ask Dr. Anderson questions, you can access their company website at www.vetlife.com or call him direct at 913-492-6600.

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