CPEC/FARMVET TECHNOLOGIES

The Sortin' Stick

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FED CATTLE TRADING AT $80

Cattle had traded earlier in the spring at $80 and most feeders thought they may have lost that market. However, this last week (May 16), prices penetrated the $80 level again. This was a level that some thought would be difficult to sustain when prices dropped back into the $70 level last month. Most people obviously underestimated the light and tight supplies of market-ready cattle. Choice Yield Grade 3 beef prices blew by the psychological $140 barrier and by Thursday of last week, closed at $142.23, an all-time high. No one knows how long beef will remain at these levels, but the key is that the next time beef prices approach the $140 level, the industry knows prices can move higher. Just how high is anyone's guess and it all hinges on just how much the consumer is willing to pay for beef in comparison to other protein sources.

According to Feargal Quinn, chief executive of Superquinn Ireland, the second largest supermarket chain in Ireland as he addressed the 12th Annual World Meat Congress, **"the end product is not meat, the end product is taste…"**

Customers won't pay for food to satisfy their nutritional requirements, neither will they pay for it to conform to their needs on food safety. These matters are paramount issues for them, certainly. But, they are make-or-break issues. If they are satisfied, they will consider buying; where they are not satisfied, they will increasingly refuse to buy at all…On the other hand, people will pay more for greater satisfaction in food….Meat producers who are customer-driven must seek to influence the factors that affect taste, all the way from the field to the table.

So long as you see meat as a commodity, you will be driven by quantity and so long as you do, the overall price trend will inevitably be downward. But if you can get away from the straitjacket of regarding meat as a commodity, you tend to concentrate not on quantity but on how you can best satisfy the needs of the customer. (Quinn 1999)

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FED CATTLE TRADING AT $80

Obviously, producers cannot ignore profitability. So, unless they receive economic signals encouraging improvement of quality and consistency, there will be little change in production/management philosophy and product characteristics will continue to receive secondary emphasis. The question then, is: How can producers' focus be shifted to address those concerns that are of greatest importance to consumers.

The development of beef alliances and branded beef programs from the 1990's, are helping to provide consumer focus and the necessary economic incentives for improving product quality and consistency, but also provides an opportunity for the application of total quality management principles to facilitate the improvement of beef quality.

(Excerpts taken from *The Texas Cattle Feeders newsletter, week of May 16, 2003 and New approaches for improving tenderness, quality, and consistency of beef, J.D. Tatum, G.C. Smith and K.E. Belk, Dept of Animal Science, CSU University, Fort Collins, Colorado)*

AN EXERCISE IN GRID PRICING AND CARCASS GAIN

Grid pricing is derived from a weight-driven system. The importance and influence of weight frequently overrides any premiums or discounts that may be received through grid pricing. It is clear that the premiums and discounts offered by the grid don't always offset the risk of weight related "outs". In fact, some studies have shown that because growth and weight are so important, it may be beneficial for producers to absorb a small percentage of weight-related outs to push the upper limit of weight for the entire lot. In some instances, it was discovered that the top 20% of the lots studied that received the highest gross price per carcass, absorbed 4% out-weight discounts. The same can probably be said for Yield Grade discounts.

Normally, but don't take this as gospel, better yield grading and lower quality grading cattle perform better when the Choice/Select spread is narrow. Higher quality grading cattle perform better when the Choice/Select spread is wide. This better performance occurs because the premiums and discounts for yield grade typically remain relatively constant throughout the year, whereas the spread between Choice and Select fluctuates more dramatically. Such is the case presently.

A recent interview with Dr. Ted McCollum with the Texas A & M Research Center in Amarillo, Texas revealed some important facts one should understand in relation to carcass gain and sorting to a grid.

When calculating carcass gain, the normal figure to use as a beginning carcass weight of a typical feedlot steer with a live weight of 700 pounds is 52 to 54% Dressing Percentage. In this example, we used 52% on a 700 pound animal. The average gain for the last part of the feeding period (last 30 days) was used as 2.5 lbs/hd/day. The finished live weight is 1150 pounds and the finished dressing percentage is calculated at 63.5 %. Feeding cost is $1.65 per head per day.

AN EXERCISE IN GRID PRICING AND CARCASS GAIN CONTINUED

700 Pound Steer X 52% Dressing Percent = 364 carcass pounds

1150 Pound Finished Steer X 63.5% Dressing Percent= 730 carcass pounds

Carcass Gain = 366 pounds — Carcass Gain/Live Weight Gain = 81.33%

Live Weight Gain = 450 pounds — **81.33% of Live Gain is Carcass Gain**

2.5 Avg. Daily Live Gain X 81.33% = 2.03 lb/hd/day Avg. Carcass Gain

- **Three week extended feeding period—Added Value**

Live Cash Marketing—

2.50 lb/hd/day live gain X $.80/lb = $2.00 hd/day added value

Less $1.65/hd/day feeding cost = $.35/hd/day net added value

Carcass Marketing—

2.03 lb/hd/day carcass gain X $1.27/lb = $2.58/hd/day added value

Less $1.65/hd/day feeding cost = $.93/hd/day net added value

Difference Added Live Value vs Added Carcass Value = $.93- $.35 = $.58/hd/day

Added Value 21 Days Extended Feeding Period = $12.18/hd

- **Three week extended feeding period Carcass Gain vs Live Gain—Added Value**

Live Cash Marketing—

2.50 lb/hd/day live gain X 21 days = 52.5 lbs added live weight

52.5 lb X $.80/lb = $ 42.00/hd

Less $34.65/hd feeding cost = $7.35/hd net added live value

Carcass Marketing—

2.03 lb/hd/day carcass gain X 21 days = 42.6 lbs added carcass weight

42.6 lb X $1.27/lb = $54.10/hd

Less $34.65/hd feeding cost = $19.45/hd added carcass value

Difference Added Live Value vs Added Carcass Value = $19.45 - $7.35 = $12.10/hd

The relationships between cost of gain and value of gain can be different when marketing carcasses rather than live cattle.

AN EXERCISE IN GRID PRICING AND CARCASS GAIN CONTINUED

Assume that when the feeding period is extended 21 days, that in addition to increasing carcass weight, possible YG 4 carcasses are increased to 4%. Does this negate the added value?

730 lb carcass + (2.03 lb/day carcass gain X 21 days) = 773 lb carcass

43 lb added carcass weight X $1.27/lb = $54.61/hd added carcass value

Less $34.65/hd feeding cost = $19.96/hd net added value– w/no discounts

4% YG 4 carcasses in 100 hd pen = 4 hd

4 hd @ 773 lbs = 3092 lb YG 4 carcasses

30.92 cwt X $15/cwt YG 4 discount = $463.80 total discounts

$463.80/100 hd pen = $4.64/hd YG 4 discount

$19.96/hd net added value w/no discounts less $4.64 YG 4 discount = $15.32 net added value w/YG 4 discount

Net Added Value of $15.32/hd or $1532.00 for 100 hd pen, w/ 4% YG 4 discounts

Feeding longer may result in some weight or Yield Grade discounts, but the value of the entire pen is increased. Overall profitability of the pen may be increased despite the discounts that may be incurred on a few head. However, there is a point where further discounts are unprofitable—that is why ultrasound is used to sort and manage cattle for their most profitable, optimum outdate.

The value of 81% could be considered just a little high, but we feel that we can almost always count on 2 pounds per day carcass gain in the end phase of the feeding period, i.e. the third sort group. With sorting we control Yield Grade 4 cattle and over weights. An added benefit is the increase in quality grade. When one switches to carcass selling, one feeds 30 days longer. (John Brethour, 2003)

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