# Pursuing premiums or dodging discounts

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**Drovers/Certified Angus Beef, LLC BEEF QUALITY CONNECTION**

If you find spirited debate stimulating and entertaining, gather up a bunch of folks who share an interest in merchandising fed cattle through a value-based or grid-marketing system. Start the fun by asking which strategy offers the most profit potential. Is it maximizing the rewards grids pay for superior carcass merit, or is it avoiding the docking of dollars that accompanies negative carcass attributes? Should a cattle feeder be pursuing premiums or dodging discounts?

"For us, it's kind of a no-brainer. We have to pursue the premiums," says Rich Blair. He, his brother Ed, and their families run an integrated cattle operation near Sturgis, South Dakota. The core of the outfit is its cow-calf enterprise, but retained ownership and marketing of finished cattle, through grid-marketing systems, has been practiced for over a decade.

Blair says pricing grids offer pretty clear signals for what packers want. Premiums reward the upper range of Choice and Prime quality grades. Respectable dressing percentages garner rewards, as will above average numbers of Yield Grade 1 and 2 carcasses. However, Blair calls the premiums associated with those yield grades less significant. Nor does selection for cattle with minimal fat cover fit cowherd parameters that he and his brother have set. They need easy-fleshing cows.

Never sacrificing reproductive performance and pushing for improved feedyard performance, genetic selection has focused on marbling and thus, improved quality grade.

"The premium we really want comes from Prime quality grade. Even with the Choice-Select spread as low as $2 or $3 (per hundredweight), cattle making Prime can earn a $12 to $15 per head premium," says Blair.

"I think a lot of people set their sites too low, believing a target of 80 to 90 percent Choice is really good. That's good, but what about a target of 50 to 60 percent CAB (Certified Angus Beef) and 20 to 40 percent Prime? That's better and it is attainable. With the right genetics, you can do that and still avoid grid discounts, for carcasses that are too fat or too heavy, through management."

Management is pretty important. Even cattle genetically programmed for superior carcass merit can be wrecked through mismanagement. Of course, even the best management won't fix inferior genetics, but significant improvement to profitability can be achieved when cattle are managed to avoid discounts.

Timely marketing is a key management factor, as illustrated by University of Illinois feeding trials. A four-year study involved 189 steers representing uniform genetics from a single production herd utilizing an 80-day calving season. Each year, steers were early-weaned (at about 90 days of age) and fed a high-concentrate diet for about 84 days, before entering a finishing period of approximately 250 days. Steers were harvested at an average age of 14 months, with all animals within a given pen sold at the same time.

Priced according to a representative grid system, the cattle were profitable – on average. However, hot carcass weights ranged from 651 pounds to 1,120 pounds, around an average of 895 pounds. Approximately 20 percent of the carcasses were too heavy, exceeding 950 pounds.

Researchers took ultrasound measurements, at 90, 60 and 30 days prior to actual harvest. Measurements for marbling, rib eye area and fat thickness were used to estimate both yield and quality grades for each animal. Carcass weight was estimated from each steer's live weight. Potential individual carcass values were calculated, as though each steer had been marketed at its optimum endpoint, on the same value-based system.

The results showed most of the steers were fed too long. Analysis showed potential profits of $75 per head were lost on steers marketed after their optimum endpoint. The study suggests sorting cattle by weight, using ultrasound to estimate carcass value and harvesting groups by optimum endpoint would have offered a $26 per head advantage, across all steers, over marketing whole pens. Different management would have made a significant difference.

Iowa State University Animal Scientist Dan Loy agrees that, for cattle feeders trying to take advantage of grid-marketing, the two biggest profit robbers are Yield Grade 4 carcasses and those that are too heavy. For most of them, he adds, the greatest benefit to profitability comes from avoiding the associated discounts.

"Those can be managed pretty effectively by sorting cattle into marketing groups," says Loy. "That's also been demonstrated by the Tri-county Steer Futurity, based in southwest Iowa. Just sorting cattle once, near the end of the feeding period, into two groups, can dramatically reduce Yield Grade 4s."

Generally, explains Loy, feeders have to worry more about discounts than premiums when they don't know what to expect from the cattle they feed.

"They may know little if anything about the genetics or previous nutrition – important information if you are targeting grid premiums for quality. Many feeders don't have it," Loy adds. "If you do, you're in a better position to pursue premiums *and* dodge the discounts."