Analyst Says Quality Focus is Increasingly Important

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What is it that pays cattle feeders most? Is it finished weight or carcass merit? It's been hard for most cattle feeders to ignore the call for more pounds of beef. They have responded to market signals by feeding cattle to heavier weights. According to Cattle-Fax Executive Vice President Randy Blach, the industry has seen carcass weights increase by 12 pounds, on average, during each of the last two years.

Speaking to cattle feeders gathered for the recent Feeding Quality Forum, in North Platte, Nebraska, the Denver-based market analyst said weight has been the primary driver of marketing decisions. Quality grade has been a secondary target with yield grade a distant third. But a change is coming.

"The problem lately is we're getting weight but not quality grade," laments Blach, noting that only 52 to 54 percent of carcasses are qualifying for Choice or better. "And while the grid wants more Yield Grade 1 and 2 carcasses, we're getting more 4s and 5s instead."

Blach says higher corn prices are likely to prompt some changes. Climbing corn cost should cause warehousing of feeder cattle in grazing/stocker programs. That will lead to higher placement weights when those cattle eventually go into feedyards. Feeders will shave total days on feed and pounds of gain put on the feedyard will be less, relative to gain during the stocker phase. Finished weights, on average should trend lower.

Blach also looks for a widening spread between the prices paid for Choice versus Select carcasses. Industry pundits say 2006 brought a softening of beef demand. Blach argues, however, that demand for upper-end product has not softened. He cites increased use of higher quality beef by the fast-growing food service industry. Additionally, recovering export markets want more Choice product than before.

"Retailers continue to seek ways to differentiate themselves from the competition. Consequently, former Select markets are shifting to Choice. We see it in Denver supermarkets and it's indicative of major retailers all across the country," Blach offers. "The Choice-Select spread has been averaging just over $14 per hundredweight. In some supermarkets, the spread between branded Choice and (commodity) Choice is over $9. Demand for Select is softening, but demand for upper Choice and Prime is increasing."

Does a $14 spread provide enough incentive for producers to focus more on quality? Blach says it should.

"If we can keep the spread at $10 to $20, cattle feeders should respond to it. If the spread falls lower (than $10), then weight trumps quality," he states.

Blach advises producers to think about what kind of product they are producing – not just how much. Production systems turning out 80 percent Choice and 20 percent Select product might be right on target.

Blach predicts more cattle will be marketed on grids or according to pricing formulas that reward carcass merit. Along with premiums will come harsher discounts for too-fat, yield grade 4 and 5 carcasses. Feeding profit margins for commodity cattle are expected to narrow.

Blach says production of high-quality beef will increase. Ideally, beef demand will increase as well, absorbing additional Choice and Prime product, while beef cutout remains the same. However, insists Blach, the incentive provided by a wide Choice-Select spread cannot be maintained unless producers continue to promote demand. That's not just about convincing consumers to eat more beef. It's about portraying beef's value so consumers are willing to pay more for it.

Returning to the question of weight versus quality, Blach wonders why some producers think they have to choose one over the other.

"We don't have to sacrifice weight when we have a quality focus," he states. "Consumers are telling us they want quality. Satisfying consumers will increase sales and profits."