

# Grid Pricing of Fed Cattle

➤ Grid prices, or value-based marketing, refers to pricing cattle on an individual animal basis. Prices differ according to the underlying value of the beef and by-products produced from each animal

# Value-based Fed Cattle Pricing Systems

- Formula pricing
- Price grids
- Alliances

# Is Carcass Merit Pricing for You?

- The most critical factors that influence the profitability of carcass merit decisions include:
  - The quality and dressing percent of the cattle you producer
  - The Choice-Select market price spread
  - Production and feeding cost differences associated with targeting your cattle to a particular price grid or packer
  - Your knowledge about the price/quality distribution of your cattle and your (or the feeder's) ability to sort your cattle to meet the criteria for a particular grid or formula.

# Cattle Pricing Methods

- Live
- Dressed weight or “in the beef”
- Carcass grade and yield or grid pricing

# Live Cattle Pricing

- When fed cattle are priced on a live basis, price is generally negotiated between the packer and the feedlot based upon the expected value of the cattle when processed (a 4 percent pencil shrink on the cattle from the feedlot to the packing plant is usually included).
- To establish a buy order, the packer starts with a base Choice carcass price and then adds or subtracts expected quality and yield grade premiums and discounts associated with quality traits the pen of cattle are expected to exhibit when processed. The adjusted carcass price is converted to a live animal price by multiplying it by the expected dressing percentage. This live price is adjusted with by-product and hide values and further adjusted for slaughter costs, transportation costs, and the packer's profit margin to establish an estimated live animal bid price.
- **Advantages of Live Cattle Pricing**
  - Allows cattle feeders the opportunity to maintain complete flexibility in cattle pricing until the transaction price is established.
  - May be preferred if the producer does not know the characteristics of the cattle or expects the dressing percentage, quality grade or yield grade to be below average.

# Dressed Weight Pricing

- When cattle are marketed on a dressed-weight basis, the cattle seller assumes the risk of dressing percentage. Price is based upon the actual hot carcass weight.
- The dressed price offered is similar to the live price bid in that the buyer starts with a base Choice carcass price and adjusts it for expected quality and yield grade, weight premiums and discounts, by-products, slaughter costs (seller generally pays transportation on dressed cattle sales), and the packer's profits.
- In principle, the dressed-weight price will be comparable to a live price adjusted for dressing percentage for the same pen of cattle.
- In practice, the dressed price (after transportation costs) may be higher or lower because there are no errors in estimating dressing percentage.

# Grid Pricing

- Pricing cattle on a grade or yield or grid basis is essentially the same as pricing on a dressed-weight basis, except that in addition to dressing percentage, the seller assumes the risk of the quality and yield grade of each animal in the pen.
- Most packer grids list a base price for a Choice, yield grade 3, 550 to 900-pound steer carcass.
- For many packers' grids, price premiums and discounts are additive. That is, the base price is adjusted in an additive manner for the associated characteristics of the carcass.

Table 1. Example grid, as presented by a packer (\$/dressed cwt.)

Choice YG3 550- to 900-lb	Base Price
Prime-Choice Premium	6.00
CAB-Choice Premium	1.00
Choice-Select Discount	-9.00
Choice-Standard Discount	-18.00
Yield Grade 1 Premium	2.00
Yield Grade 2 Premium	1.00
Yield Grade 4 Discount	-15.00
Yield Grade 5 Discount	-20.00
Light Carcasses (<550 lbs.) Discount	-19.00
Heavy Carcasses (>900 lbs.) Discount	-19.00
Dark Cutters Discount	-25.00
Bullocks/Stags Discount	-25.00

## Table 2. Example of Grid Premiums and Discounts

Quality Grades	Yield Grade				
	1	2	3	4	5
	(\$/cwt carcass)				
Prime			6.00		
CAB			1.00		
Choice	2.00	1.00	<b>Base</b>	-15.00	-20.00
Select			-9.00		
Standard			-18.00		
Carcass Weights					
Less than 550 lbs.					-19.00
More than 900 lbs.					-19.00
Other					
Dark Cutter, etc.					-25.00
Bullock/stags					-25.00

# Table 3. Example Grid Premiums and Discounts

Quality Grades	Yield Grade				
	1	2	3	4	5
	(\$/cwt carcass)				
Prime	8.00	7.00	6.00	-9.00	-14.00
CAB	3.00	2.00	1.00	NA	NA
Choice	2.00	1.00	<b>Base</b>	-15.00	-20.00
Select	-7.00	-8.00	-9.00	-24.00	-29.00
Standard	-16.00	-17.00	-18.00	-33.00	-38.00
Carcass Weights (Base: 550-900 lbs.)					
Less than 550 lbs.	-19.00				
More than 900 lbs.	-19.00				
Other					
Dark Cutter, etc.	-25.00				
Bullock/Stags	-25.00				

# Summary of Pricing Methods

- The key is that as a producer moves from live cattle pricing to dressed-weight to grid pricing, it is increasingly important to understand the type of cattle being marketed and the pricing system being used, and to assess probable net price received.
- Over time, average cattle or cattle with little background information may sell better with live pricing. A somewhat better class of cattle may sell better with

## Table 4. Assessing ways to Sell Fed Cattle

Producer pricing attribute	Cattle Pricing Method		
	Live	Dressed	Grid
Pricing level	Pen level	Pen level	Animal level
Paid for quality	No	No	Yes
Paid for yield	No	No	Yes
Paid for dressing %	No	Yes	Yes
Who pays trucking?	Buyer	Seller	Seller

# Formulas: Importance of Base Price

- When fed cattle are priced on formula, an important consideration, in addition to the premium/discount structure, is the base price.
- Several types of base prices being used:
  - The average price of cattle purchased by the plant where the cattle were to be slaughtered. The average price of cattle was usually for the week prior to, or the week of, slaughter.
  - Specific market reports such as highest reported price for a specific market for the week prior to, or week of, slaughter.
  - Tied to live cattle futures prices.
  - Some base prices were negotiated.
  - Some base prices were on a carcass weight basis.
  - Some base prices were on a live weight basis based upon yields of the cattle slaughtered.

# Importance of Grid Premiums/Discounts

- When selling cattle on price grids, in addition to considering base prices, cattle producers should carefully evaluate the price premium/discount structures of various packers' grids and determine which grid is most advantageous to them.
- Important for cattle producers to know their cattle, sort their cattle carefully for uniformity, and target them for specific packers.