

Marketing Cattle via the Price Grid

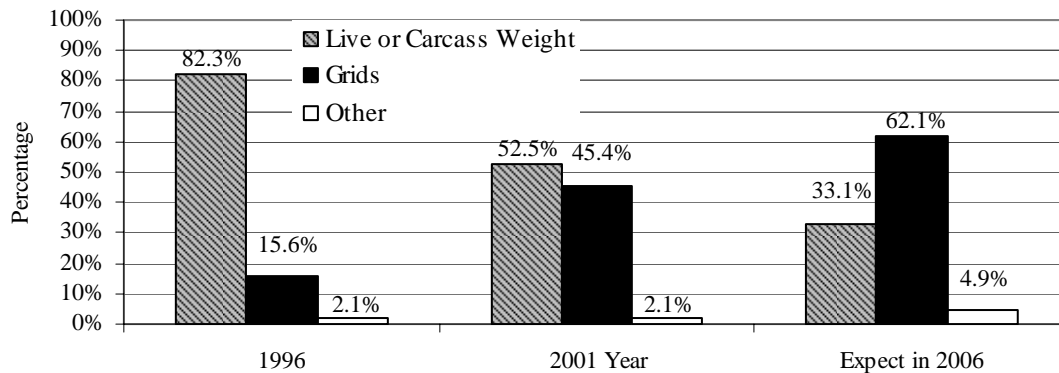
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Introduction

Feedlots have been steadily moving away from marketing cattle in the live market to value-added marketing via the price grid. A recent study indicates that by 2006, grid-based sales are expected to increase to nearly two-thirds of fed cattle sales (Figure 1). In this presentation I will explain the differences in each of the marketing alternatives and explain why the shift is occurring from pricing on the live market to the grid. I will use the U.S. Premium Beef grid to explain how the price for a pen of cattle is calculated on the grid, and then compare grid prices offered by U.S. Premium Beef, National Beef, Tyson, and Excel over a specified time period. I will end the presentation with comments on profitability.

Figure 1. Wiegthed-Average Percentage of Respondent Fed-Cattle Marketed Using Live or Carcass Weight, Grids, and Other Pricing Methods, by Year



Source: Schroeder et al. (2002)

Grading Cattle

The main components of cattle grades are quality and yield grade (YG), and whatever carcasses do not fit the packer's needs, or "out-cattle." A USDA quality grade is a composite evaluation of factors that affect the palatability of meat: tenderness, juiciness, and flavor. These factors include carcass maturity, firmness, texture and color of lean, and the amount of marbling within the lean. Beef carcass quality grading is based primarily on degree of marbling and maturity. Marbling (intramuscular fat) is the intermingling or dispersion of fat within the lean. Maturity refers to the age of the animal with A maturity within 9-30 months, and B maturity 30-42 months. More than 95 percent of cattle coming from feedlots are A maturity. A maturity carcasses qualify for quality scores Prime (abundant, moderately abundant, or slightly abundant marbling), Choice (moderate, modest, and small marbling), and Select (slight marbling). Standard or no roll carcasses have little or no marbling. Another term used in the cattle industry is top Choice which is used to describe carcasses with moderate or modest marbling comprising the upper portion of USDA Choice grade.

Yield grades estimate the amount of boneless, closely-trimmed retail cuts from the high-value parts of the carcass: the round, loin, rib and chuck. They also show differences in total yield of boxed beef cuts. The USDA yield grades are rated numerically and are 1, 2, 3, 4 and 5, which varies between 54.6% for YG 1 and 45.4% for YG 5. Factors driving yield grade up are carcass weight and fat content. Carcasses that have reached advanced maturity (hardbone), carcasses that are dark cutters, and carcasses that are too heavy or too light are considered out-cattle. The term "out-cattle" originates from the fact that these carcasses are normally not fabricated into boxed beef in the

originating packing plant, but instead are sold as carcasses.

Pricing Fed Cattle

Feedlot managers can market cattle using live cattle pricing, dressed-weight pricing, or grid pricing. Table 1 summarizes various pricing attributes for each of the fed cattle pricing systems.

Table 1. Fed Cattle Pricing Systems and Attributes.

Pricing Attribute	Fed Cattle Pricing System		
	Live	Dressed	Grid
Value based	No	No	Yes
Pricing unit	Pen	Pen	Carcass quality and yield
Price variability among animals	None	None	High
Price variability among packers	Little	Moderate	High
Trucking costs paid by	Buyer	Seller	Seller
Pricing location	Feedlot*	Plant	Plant
Prices reflect meat yield	Estimated	Dressed	Yield grade
Prices reflect quality grade	Estimated	Estimated	Detailed actual
Base price determination	Live	Dressed	Varies
Discounts for "out" cattle	No	Some	Yes
Carcass performance risk burden	Buyer	Buyer	Seller
Need to know carcass quality	No	No	Yes

*Adjusted to a 4% shrink.

Sources: Feuz et al., 1998, Ward et al., 1999, DiCostanzo and Dahlen, 2000.

Live Pricing

The live price often reflects the average value of cattle that the packer is willing to pay for all cattle it purchases. When a feedlot manager takes the live price he/she is getting an average price for all cattle harvested. Packers determine the live price by first determining the week's average percent USDA quality grades, yield grades, and "out-cattle." Then the packer determines what the carcasses are worth and calculates a composite price/cwt. for all carcasses harvested. The final average live price that is offered is calculated by multiplying the composite carcass price times the average dressing percent for the plant. For example, \$102 plant composite carcass price/cwt. x

0.647 average dressing percent = \$66/cwt. live price. From this point the packer considers other important information, such as the current supply of fed cattle and the boxed beef orders they will need to fill in the future.

In the High Plains area, fed cattle marketed live are purchased directly from feedlots by packer buyers. Packer buyers arrive at the feedlot with instructions on quantities desired and the top-offering price for particular pen average weight and quality based on what the packer expects to receive in the wholesale beef market and byproducts market. Packers maintain communication with buyers at the feedlots so that instructions can be changed during the day. The instructions to buyers change as the packer accumulates cattle during the day and with price changes in the wholesale beef market and fed cattle market. Upon arriving at the feedlot the cattle buyer goes to the main office and obtains the show list—a listing of the lots of cattle that are ready for market during the week. After examining the show list, the packer buyer determines which pens of cattle he/she wants to buy and then walks out into the feedlot to examine the pens.

To establish a bid, the buyers start with a base Choice carcass price adjusted for weight premiums and discounts, and quality and yield grade premiums and discounts associated with the quality traits that each pen of cattle is expected to generate when processed. The adjusted carcass price is converted to a live animal price by multiplying it by the expected dressing percentage. To this live price the buyer adds the expected value of byproducts, hides, and the packers' profit margin and deducts estimated slaughter costs, transportation costs, and a 4 percent shrink to establish a bid price. The buyer presents his/her bid to the feedlot manager, who after receiving bids from all of the buyers, decides which bid to accept. After a bid is accepted the packer has 7 days to pick

up the cattle.

Pricing cattle live is appealing to feedlot managers who like to maintain flexibility until the transaction price is established. Feedlot managers are sophisticated, full-time sellers who have at their disposal up-to-the-minute information on the fed cattle market from Cattle-Fax. Cattle-Fax is a member-owned information organization that collects data from feedlot members and then analyzes and distributes the information back to the members so they can make good marketing and business decisions. Cattle-Fax membership currently represents over 53 percent of the cattle in the seven major cattle feeding states. Cattle-Fax analysts can provide feedlot managers with specific fed cattle information including, but not limited to: feedlot conditions, projected marketings, currentness and bargaining positions, show lists for major feeding states, latest prices and trade volumes, and packers' inventories and activities.

Dressed-Weight Pricing

When cattle are marketed on a dressed-weight basis, the price is based upon the actual hot carcass weight. The dressed price offered is similar to the live price bid in that the packer buyer starts with a base Choice, YG 3 carcass price and adjusts it for expected quality and yield grade, weight premiums and discounts, by-products, slaughter costs, and the packer's profit. The feedlot pays the transportation costs on dressed-weight cattle sales. The dressed-weight price will be comparable to a live price adjusted for dressing percentage for the same pen of cattle.

Grid Pricing

Grid or formula pricing is based on the value each individual carcass contributes to the total weight in the transaction. It is for this reason that grid pricing differs greatly

from live or dressed-weight pricing. As such, this pricing system permits buying cattle based on their merit. Under a grid system, packers can pay better prices for carcasses that fit market specifications, and discount carcasses that do not fit market specifications. This is likely the reason all major packers today offer grid marketing as an alternative to live or dressed-weight pricing systems. Most components of the grid are largely determined by genetics of the calf; although, feeding factors such as diet energy and protein content, implant management, and days on feed, among others, further impact carcass characteristics. Therefore, genetic decisions made by cow-calf producers, and management and marketing decisions made by cattle feeders affect the ultimate value of cattle.

Cattle feeders who wish to consider grid pricing as a marketing strategy must first understand the various components that constitute a grid, know how grid pricing works, and evaluate differences between different packer grids. A packer grid is a list of prices that a packer is willing to pay for different types of cattle. There are many considerations when choosing the packer grid on which a feedlot sells cattle. These include the current live price, the base price and base carcass specifications, the amount of quality grade and yield grade discounts and premiums, the carcass weight and out cattle discounts, freight costs, environmental conditions, cattle breed, and the carcass data of prior groups of cattle that the feedlot shipped. To generate a higher price than the live market, a pen of cattle marketed through the grid must excel in dressing percentage, quality grade, and yield grade, and avoid producing out-cattle. Each packer and many of the breed associations have their own unique grid. The source of base live cattle prices, the definition of base carcass, and the premiums and discounts applied to the base carcass

price differ among grids.

U.S. Premium Beef

U.S. Premium Beef (USPB) was formed in 1997 “to increase the quality of beef and long-term profitability of cattle producers by creating a fully integrated producer-owned beef processing system that is a global supplier of high quality value-added beef products in response to consumer desires” (U.S. Premium Beef). Initial membership fees included a lifetime membership fee of \$500.

USPB has developed into a beef marketing company with members from all segments of the beef industry including seedstock breeders, commercial ranchers, backgrounders, and cattle feeders. USPB owns the company that processes and markets its members’ product all the way to retail, and in some cases directly to consumers. Through ownership of its beef packing plants, members are assured that they receive all the value added to the beef that they produce.

USPB operates as a fully integrated beef company in which members own the right and have the obligation to deliver finished cattle. Producers delivering cattle to USPB must be members, they must purchase or lease one share of USPB stock for each animal delivered, and they must market their cattle through the USPB grid. This ensures shareholders that if USPB does well; producers will be able to share in profits. The financial and marketing commitments USPB producers made encourage them to produce better quality beef. Producers receive carcass data on each animal that is delivered. In addition, producers have a pride of ownership in the branded products USPB produces from the beef they deliver.

The USPB Grid

To illustrate the mechanics of a grid, let's assume that a cattle feeder markets 100 head lot of Angus-cross steers averaging 1,200 pounds on November 24, 2003 on the USPB grid illustrated in Table 2. The USPB grid is a non-breed specific grid. However, for cattle to be eligible for the Certified Angus Beef[®] (CAB) and National Black Angus Beef[®] (NAB) program premiums, they must have a predominately black hide which is used as a visual indicator of Angus genetics. Cattle that fit these higher quality grades generate larger premiums through the USPB grid, although there is no discount if the pen of cattle does not produce any.

When evaluating a grid, it's important to know the current live price that the packer is offering for cattle and the carcass specifications the packer requires for the producer to receive the base carcass price. Grid pricing is based on a pre-determined base live price and base carcass price that reflects industry or plant averages and premiums or discounts for carcasses above and below the threshold specifications. The base live price (\$98.57/cwt.) is the Kansas weighted average price as derived from USDA Mandatory Price Reporting data for the week prior to delivery plus \$0.25 per cwt. The base carcass price (\$155.18) is the base live price divided by the dressing percent threshold. The dressing percent threshold is the lower of the weekly plant average dressing percent for all live cattle purchased in Kansas by National Beef or 63.25%. The hot carcass weight value of the lot of \$118,843.05 is calculated by multiplying the actual dressed weight of the lot (76,584 lbs.) by the base carcass price (\$155.18).

Table 2. Sample USBP Settlement Sheet, November 24, 2003

USDA Kansas Wgtd. Avg.	\$97.94/cwt.	USDA Four Week Averages			
+ Formula Allowance	0.25/cwt.	Choice/Select spread	\$21.56/cwt.		
= Base Live Price	\$98.19/cwt.	Prime	28.09/cwt.		
Plant Dressing Percentage	63.52%	CAB program premium	6.56/cwt.		
Base Carcass Price	\$154.70/cwt.	NAB program premium	\$5.06/cwt.		
Plant:	Dodge City	Carcass Weight of Lot	76,584 lbs.		
Feedyard:	Hoxie	Dressing Percentage of Lot	63.82 %		
	Actual	Threshold	Weight Difference	Premiums/Discounts	Dollar Value
Hot Carcass Value = 76,584 lbs. x \$154.70/cwt. Base Carcass Price					\$118,475.45
Prime	3.30%		2,527 lbs.	\$28.09/cwt.	709.83
CAB	14.00%		10,722 lbs.	6.56/cwt.	703.36
NAB	5.90%		4,518 lbs.	5.06/cwt.	228.61
Choice or higher	64.28%	50.00%	10,936 lbs.	21.56/cwt.	2,357.80
Hardbone	0.85%		651 lbs.	-25.00/cwt.	-162.75
Upgraded	1.90%		1,455 lbs.	-10.00/cwt.	-145.50
Total Quality Grade Premiums/Discounts					3,691.35
YG 1	8.82%	12.05%	-2,474 lbs.	3.00/cwt.	0.00
YG 2	43.01%	41.18%	1,401 lbs.	1.50/cwt.	21.02
YG 3	43.28%	40.31%	2,275 lbs.	0.00	0.00
YG 4	6.00%	5.82%	138 lbs.	-13.00/cwt.	-20.70
YG 5	0.00%	0.64%	-490 lbs.	-20.00/cwt.	0.00
Total Yield Grade Premiums/Discounts					0.32
< 575 lbs	0.75%		573 lbs.	-15.00/cwt.	-85.95
> 1000 lbs	1.31%		1,004 lbs.	-\$15.00/cwt.	-150.60
Total Out Weights Discounts					-236.55
Total Premiums and Discounts					3,455.12
Net Equivalent Carcass Price	\$159.21			121,930.57	
Net Equivalent Live Price	\$101.61			0.00	
+/- Cash Per Head	\$44.03			\$121,930.57	

Source: USBP Internet Web Page at www.uspb.com

Next, let's examine the quality grade premiums and discounts. For quality grade, the most common premium or discount is for Choice or higher quality versus Select quality carcasses. Cattle grading between 40% and 50% Choice receive no premium or discount. Those grading above 50% Choice receive a premium above the 50% threshold and those grading below 40% Choice receive a discount below the 40% threshold. In the example, 64.28% of the cattle graded Choice or higher, thus the lot received a \$2,357.80 premium calculated as 10,936 lbs x \$21.56/cwt. Choice/Select price spread. The Choice premium/discount is calculated based on a four week rolling average of USDA Heavyweight Choice/Select cutout spread. Prime and CAB premiums are calculated similarly and the NAB premium is \$1.50/cwt. lower than CAB premium. Prime, CAB and NAB premiums are relative to the USDA Choice cutout.

Yield grade premiums are calculated based on the rolling average performance of Kansas non-formula cattle at National Beef during the preceding four weeks. YG 1 (\$3.00/cwt.) and YG 2 (\$1.50/cwt.) receive a premium for being above the plant average, but receive no discount for being below the plant average. YG 4 (-\$13.00/cwt.) and YG5 (-\$20.00/cwt.) are discounted for greater than plant average.

Ungraded (Standard and Dark Cutters), Hardbone, and out weight discounts are calculated with no comparison to plant averages. These out carcasses receive some of the largest discounts on the grid. A few of these carcasses with \$10 - \$25/cwt. discounts can negate a greater number of carcasses receiving premiums.

The gross carcass value is calculated by adding the total premiums and discounts (\$3,518.82) to the hot carcass value (\$118,843.05). USPB offers a transportation credit that defers trucking costs to feedlots within 110 miles of the plant. Thus, the net carcass

value for this lot of cattle is \$122,361.87. All cattle sold on USPB grid are issued a cash advance of the day of delivery equal to 85% of weighted average live price for the week prior to delivery. A final check is issued when the final grade, plant averages and settlement grid values are determined.

Matching Cattle to the Grid

Feedlot managers in Kansas can sell cattle on grids available from Excel, Tyson, Farmland National and USPB. Feedlot managers can use Grid-Max, a web-based system that analyzes a pen of cattle using pre-selected grid possibilities and estimated carcass data on quality grade, yield grade, dressing percent, and out cattle. An analysis of the packer grids produced an estimated total payout for each grid as illustrated in Table 3. The payout sheet illustrated a price range from \$19.51 premium per head to \$44.03 per head for the same pen of cattle sold on the same day.

Table 3. Grid-Max Estimated Base Price, Net Carcass Values, and Premiums/Discounts from Cash, November 24, 2003.

Grid	Packer	Location	Base Price	Net Carcass Value	+/- Cash Per Head
USPB					
Quality Grid	US Premium Beef	Dodge City, KS	\$1.547	\$121,930.80	\$44.03
National Grid	National Beef	Dodge City, KS	\$1.545	\$121,587.18	\$40.59
Real Time Grid	Tyson	Finney County, KS	\$1.630	\$120,863.24	\$33.35
Bid the Grid	Excel	Dodge City, KS	\$1.630	\$119,479.27	\$19.51
Cash	Market	On-Site	\$97.94	\$117,528.00	\$0.00

Source: Grid-Max Internet web page at www.Grid-Max.com

Impact of Grid Pricing on Cattle Profits

One complexity in using grids is predicting how the cattle will be priced on each grid. Table 4 illustrates a weekly simulation of an “average” pen of cattle using the Grid-

Max database. Notice how much the premium/discount over the cash price per head differs among the packers and from one week to the next for each packer. These grids are so new that a satisfactory explanation of the data is not readily available. There are two possible explanations. First, grids are not public information. Consequently, there could be errors in reported grid prices especially when the grid price report is not coming directly from the packer or the U.S. Department of Agriculture. Second, most grids are based off plant average Choice and yield grades. It is possible that weekly plant averages could vary substantially depending on the success of the packer buyers in the live market during the previous week as well as variation in feedlot conditions that could change the mix of cattle coming out of the feedlot.

Table 4. Grid Comparisons for Selected Packers by Week

Week of	USPB	National	Tyson	Excel
	Plus/Minus Cash per Head			
6/26/2004	22.36	17.36	9.42	8.18
6/19/2004	23.01	17.75	7.75	2.86
6/12/2004	22.16	16.67	6.39	1.50
6/4/2004	21.75	16.16	4.41	(7.78)
5/28/2004	21.93	16.72	15.10	2.90
5/20/2004	22.14	16.73	3.34	6.59
5/12/2004	22.73	17.49	0.55	3.80
5/5/2004	16.94	16.94	16.09	7.97
4/28/2004	22.06	17.33	22.49	14.37
4/21/2004	21.64	16.99	16.95	16.55
4/13/2004	25.19	16.82	24.50	24.10
4/6/2004	0.88	(3.17)	1.81	12.79
3/29/2004	11.98	8.12	17.22	8.68
3/21/2004	22.39	18.67	28.56	12.30
3/14/2004	22.67	19.15	17.38	(14.32)
3/6/2004	20.83	21.63	26.05	21.16
2/28/2004	21.06	17.53	11.68	11.42
2/20/2004	20.50	16.89	12.97	11.73
2/13/2004	18.89	15.36	16.30	7.76
2/6/2004	21.79	18.62	22.94	16.67
1/29/2004	21.93	20.32	10.49	11.72
1/21/2004	22.02	18.23	2.84	(8.97)
1/14/2004	22.83	17.08	27.51	23.56
1/5/2004	21.64	17.43	25.47	24.96

Table 4. Continued

Week of	USPB	National	Tyson	Excel
	Plus/Minus Cash per Head			
12/29/2003	23.30	18.38	88.13	87.62
12/22/2003	24.49	19.42	(8.35)	(12.51)
12/14/2003	25.37	20.11	(2.53)	(12.10)
12/5/2003	56.07	62.07	36.34	23.60
11/30/2003	14.64	20.78	4.22	(3.34)
11/21/2003	26.11	20.17	(10.54)	(8.90)
11/13/2003	27.13	20.81	5.81	(3.51)
11/6/2003	10.90	20.14	31.96	(13.86)
10/29/2003	26.03	19.60	12.52	3.05
10/21/2003	27.57	20.80	28.70	9.57
10/11/2003	23.70	17.27	19.91	(34.27)
10/3/2003	17.54	11.86	13.83	(2.21)
9/27/2003	24.78	19.84	77.41	(47.36)
9/19/2003	(17.41)	19.52	(31.71)	(40.45)
9/11/2003	(8.27)	(12.51)	69.95	(30.47)
9/1/2003	20.72	16.16	2.95	(2.13)
8/30/2003	(18.03)	(22.57)	(0.36)	(7.73)
8/23/2003	15.80	11.34	57.48	28.20
8/15/2003	15.49	11.84	57.16	35.19
8/7/2003	20.55	17.06	36.11	26.42
7/30/2003	26.63	13.58	12.59	9.78
7/22/2003	16.07	8.48	20.02	19.15
7/14/2003	26.64	20.60	3.80	15.85
7/5/2003	22.67	16.16	(7.07)	11.29
6/28/2003	26.37	19.81	6.46	9.29
6/19/2003	21.72	16.87	0.57	6.64
6/11/2003	26.64	20.60	3.80	15.85
6/3/2003	22.67	16.16	(7.07)	11.29
5/27/2003	26.37	19.81	6.46	9.29
5/19/2003	24.84	19.47	(13.15)	(4.51)
5/11/2003	24.18	18.03	10.08	17.24
5/3/2003	24.14	12.24	10.08	17.24
4/26/2003	13.65	9.51	(1.82)	13.44
4/18/2003	17.91	16.35	17.09	5.51
4/10/2003	18.91	6.00	6.75	17.93
4/2/2003	20.19	15.56	21.73	17.79
3/28/2003	19.73	19.16	21.05	18.63
3/20/2003	19.12	14.54	22.72	20.85
3/12/2003	17.77	14.65	23.96	21.93
3/4/2003	20.93	15.84	18.64	12.76
2/28/2003	15.01	11.09	21.88	15.44
2/20/2003	22.05	17.22	10.08	17.24
2/12/2003	17.87	12.08	15.06	4.25
2/4/2003	17.05	15.93	13.64	14.20

Week of	USPB	National	Tyson	Excel
	Plus/Minus Cash per Head			
1/30/2003	14.06	12.64	5.60	(1.24)
1/22/2003	24.14	19.85	10.08	17.24
1/14/2003	53.65	51.91	55.43	73.81
1/13/2003	54.82	52.56	74.24	51.63

Analysis of the Grids

Two observations about the data should be recognized. The first is that these data are time dependent, i.e., selecting a different time period could lead to different results. Unfortunately, other series could not be evaluated because the Grid-Max data series is relatively new. Second, a different pen of cattle could yield different results. Each grid will reward different types of cattle with some grids rewarding quality grades while other grids reward yield grades. A detailed analysis of each grid would be required to determine the reason for the pricing differences.

Another plausible explanation for the differences in the grids is the ownership of the packers. USPB is a new generation cooperative which owns controlling interest in National Beef. Under the cooperative relationship, the members supplying livestock to USPB can receive income either through a higher cattle price or a higher patronage dividend. Obviously it is more efficient for the cooperative to pass profits back to the owner-members in the form of higher cattle prices in lieu of higher patronage refunds.

A statistical analysis of the grids indicates that there is a wide disparity in the grid price offered by the four major packers with a high average of \$20.88 premium per head bid from USPB to a low average of \$9.38 premium per head bid from Excel for the time period (Table 5). USPB and National have premium per head bid standard deviations (a

measure of price variability) approximately half the size of the Tyson and Excel standard deviations for the time period.

Table 5. Grid Comparisons for Selected Packers

	USPB	National	Tyson	Excel
Average	20.88	17.11	16.94	9.38
Standard Deviation	11.05	10.69	21.03	20.30
Correlation Coefficients	USPB	National	Tyson	Excel
USPB	1.00			
National	0.85	1.00		
Tyson	0.26	0.21	1.00	
Excel	0.46	0.34	0.43	1.00

The standard deviations of the premiums over time offer interesting insights into the companies. USPB and National Beef have opted to absorb more of the price risk of marketing on the grid than Tyson and Excel. An explanation would follow the same logic as above relating to the time dependency of the data and the ownership of the packers. However, another explanation could be plausible. Grid marketing is a new and evolving pricing alternative that may not accurately or continuously convey accurate price signals. Current grid premiums and discount schedules have large discrete differences for small changes in carcass attributes. These premiums and discounts are also dependent on each packer’s recent plant averages. Data is not available to determine how much these plant averages change from one week to the next.

The correlation coefficient measures how closely the grid price of one packer is related to the grid price of another packer. A correlation coefficient of 1 indicates that the price series between the two packers is identical while a coefficient of 0 indicates no relationship between the two price series. As would be expected, the correlation coefficient between USPB and National Beef is high (0.85) indicating that the two grids offer similar prices for the cattle from one week to the next. However, notice that the

correlation coefficients between USPB and Tyson (0.26) and USPB and Excel (0.46) are low indicating that there is a weak relationship between the grid prices offered by USPB, Tyson and Excel from one week to the next. The correlation coefficient between Tyson and Excel (0.43) is also low. These results illustrate that there is a big discrepancy among grid prices offered by packers not only on a given day but from one week to the next. Consequently, marketing on the grid not only requires that a cattle feeder matches his/her cattle to a specific grid but also compares grids when marketing cattle to determine the best bid.

Conclusion

Today, matching cattle to a packer grid is most often an art. One complexity involves determining if a pen of cattle optimally fits a particular grid. Prior to marketing to the grid, a feedlot manager would have to visually examine the pen and review the feeding records to determine how well the pen will grade. Matching cattle to the grid is easier if the feedlot manager has some previous history on the cattle.

It is important to remember that profits are still a function of revenue minus costs and that greater revenue from the grid does not necessarily mean greater profits.

McDonald and Schroeder evaluated profitability of fed cattle marketed under two grid price structures. The grid base price had the single largest impact on profit followed by the feeder cattle price. Corn price followed grid and feeder cattle price as the third largest factor affecting profit. Days on feed had a relatively large, negative impact on profit. The impact of quality grade, yield grade and out carcass grid factors individually had a small impact on profit; however, together their impact is greater than the impact of average daily gain or feed efficiency of profits.

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