

AGRI-FACTS

Practical Information for Alberta's Agriculture Industry

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Value-based Marketing of Cattle: More Than Just Carcass Quality

An increasing number of beef producers want the price they receive for their cattle to reflect their use of above average genetics in their cowherds. This is more commonplace as producers, feedlot operators and meat processors become more aware of the importance of genetics and good management practices.

Genetics not only relate to fertility and performance, but also to carcass qualities and the ability to meet the high to premium specifications for beef, as set by retailers and consumers.

A marketing tool

Value-based marketing (VBM) is a management and marketing tool that rewards or penalizes cattle, based on carcass merits. It provides an opportunity for producers to capture greater economic rewards for using above average genetics. If a producer raises a superior calf that yields a superior carcass, he receives a premium price.

Producers who want to capitalize on premium markets need to evaluate the performance of their cattle, both in the feedlot and on the hook. To do this, producers require more information concerning the entire production process, from conception to consumption.

Producers must know their costs of production to be successful using VBM. Many VBM programs involve leaving cattle on feed longer; sometimes to the point where performance and feed efficiency cost more than what is received from carcass premiums.

To take advantage of the premiums available through VBM programs, cattle must be sorted to fit the particular program. Failing to fit the cattle to the program can result in significant losses in the form of carcass discounts and poor performance.

It is also important that producers assess the strengths and weaknesses of each of the VBM programs available to find the one most suited to their own operation.

For producers who have little or no performance information about their cattle, it is best to ease into VBM. As with any tool, those willing to learn to use VBM may well succeed and receive some substantial premiums. Those who venture in without doing the necessary homework can suffer large economic losses.

Become informed, do your homework and make wise decisions. Don't settle for the price the market is offering on a given day. Determine your costs and then determine what you are willing to market your cattle for. Then, you can determine your own future within the industry. The alternative is to sell for a price that has been determined by the current market trend and based on a daily average.

*Determine your
own future in the
cattle industry*

Available software programs

Most cattle producers understand that if you sell your calf below the cost of production, you won't be in business long. Having an understanding of the costs that effect your operation is essential to making sound business decisions. There are several software programs available to help producers evaluate production costs and returns. These programs include:

- *Comprofits* – Alberta Agriculture, Food and Rural Development
- *Cow Sence* – Midwest Microsystems

The Western Beef Development Center's *Information Management Systems* is another industry software program. The program uses a standard performance assessment (SPA) as a means of consistently measuring the performance in beef cow operation. The program has a number of sections that break down performance measures. Examples of critical points in the production cycle are:

Section 1 – Birth to weaning analysis

Pregnancy %
Calving %
Calf death loss
Weaning % based on exposed females
Weaning % based on calves born
Calving distribution
Length of calving season

Section 2 – Production performance measures

Average age of weaning
Actual weaning weights
Pounds weaned/female exposed
Total pounds weaned

Section 3 – Financial performance measures

Cost of production per cow
Cost of production per pound
Value of production per pound
Profit per pound
Total investment per cow
Return on investment (%)

Identifying your cost of production is the **single most important factor** in determining the success of your beef enterprise. Only when these measures have been established are you ready to decide if VBM is for you.

Meeting the standards

Do your calves meet the standards of the industry for desired carcass traits (consumer driven standards)? In order to answer this question, you need to gather carcass data. Inevitably, this means you need to get involved in some form of alliance or retained ownership program. There are many levels at which beef producers can get involved in these programs. They range from full ownership of cattle to no ownership and sharing of premiums on individually priced, quality carcasses.

In the past, retained ownership has typically meant that you would have to own or finish the calves to slaughter. Many producers have not pursued retained ownership because of the financial constraints that come with owning the calves for at least another 120 days, the risks associated with feeding and marketing calves once a year, and the uncertainty of whether or not the calves will meet industry specifications. However, a growing number of feedlots and packing plants are offering producers the opportunity to capitalize on premiums paid for high quality carcasses.

The opportunities

Western Feedlots

Western Feedlots has one of many alliances and pricing grids in the beef industry. Western Feedlots has an exclusive alliance and price-grid with Cargill Foods at High River. The base for premiums is a Y2/AA carcass, with the highest premium rewarded to a Y1/AAA carcass. The carcass size must fit a range of 600 to 850 lbs. Cargill has a further split in marbling grades to qualify for one of several premium branded products.

VBM: YIELD + QUALITY = PREMIUM

Value-based marketing (VBM) is a concept that allows quality to be identified and paid for accordingly. Western Feedlots also allows you to retain ownership of the cattle, taking a larger share of both the premiums and discounts on the cattle. The discounts are similar to the BEEF*Works* pricing grid.

INFORMATION = DOLLARS

Western Feedlots has been using grid-pricing since 1996. By partnering with Western Feedlots and retaining ownership, more producers can access the necessary information to make informed marketing decisions. It also helps producers obtain the knowledge needed to make informed decisions about cowherd culling and choosing herd sires.

XL Beef

XL Beef is a division of XL Foods Ltd., a Calgary-based company. XL Foods Ltd. is also affiliated with Edmonton Packers. Nilsson Bros. Inc. owns both XL Foods Ltd. and Edmonton Meat Packers.

XL Beef is the originator of a branded product called *Original Alberta Beef*. XL Beef supplies many local retailers with a premium AAA product that retailers like to market under names that are specific to their own store, rather than using the *Original Alberta Beef* name.

Because of its smaller slaughter facilities, XL Beef can cater to the specific needs of its clientele.

To qualify for the *Original Alberta Beef* and other premium branded product programs, the carcasses have to meet several guidelines. Ideal carcass weights range from 600 to 750 lbs. A five per cent premium is granted when several standards are met. The standards include being a Y1/AAA carcass, with no butt injections and no brands on the hides. A four per cent premium is given to carcasses with a Y2/AAA grade and the same other standards.

XL Beef does not supply carcass information back to the cow-calf producer unless they are **retaining ownership** in the cattle. There is a 550 lb. minimum weight on calves entering a program and there must be at least 50 calves per pen.

Value-based pricing grids (example):

A value-based pricing grid does not guarantee any premiums, but it does price each animal individually. Any premiums are above the base price value of the previous week's kill, as determined and reported by CanFax.

Example discounts on the pricing grid*

Other quality grades		Carcass weight discounts	
Dark cutters	\$35	Less than 550	\$25
B grade	\$35	850 - 899 Wt	\$ 5
Other grades	\$35	900 - 949 Wt	\$20
		950 and over	\$35

For example, a dark cutting carcass weighing 860 pounds would be: \$35 + \$5 = \$40/cwt. Therefore, total discounts are \$40 x 8.6 = \$344

* This example of grid pricing and carcass discounts is a snapshot in time and may not reflect current discounts and differentials. Producers are encouraged to check with individual packers for current pricing.

Examples of different grid & grade scenarios

Number of animals	100
Carcass weight (pounds)	750
Rail price – (\$/cwt)	\$150

Premiums and discounts			
Example grid:			
	YG1	YG2	YG3
AAA	\$11.00	\$8.00	\$3.00
AA	\$3.00	\$ –	\$(10.00)
A	\$(1.00)	\$(4.00)	\$(14.00)

For every carcass that grades AAA and YG1, the carcass is given an \$11/cwt premium above market value.

Average report on January carcasses

January 15th, 2000 Canfax market summary

	YG1	YG2	YG3
AAA	20.0%	18.8%	6.1%
AA	34.7%	13.3%	2.2%
A	3.5%	0.3%	0.0%
	\$24,150.00	\$22,278.00	\$6,999.75
	\$39,818.25	\$14,962.50	\$2,310.00
	\$ 3,911.25	\$ 328.50	\$ –

Value of 100 animals: **\$114,758.25**

Example of a scenario (A) with:

Below average carcasses

	YG1	YG2	YG3
AAA	10.0%	5.0%	3.0%
AA	25.0%	30.0%	7.0%
A	10.0%	10.0%	0.0%
	\$12,075.00	\$ 5,925.00	\$ 3,442.50
	\$28,687.50	\$33,750.00	\$ 7,350.00
	\$11,175.00	\$10,950.00	\$ –

Value of 100 animals: **\$113,355.00**

Example of a scenario (B) with:

Above average carcasses

	YG1	YG2	YG3
AAA	40.0%	30.0%	2.0%
AA	25.0%	9.0%	1.0%
A	2.0%	1.0%	0.0%
	\$45,060.00	\$33,792.30	\$2,250.92
	\$28,190.06	\$10,133.98	\$1,125.17
	\$ 2,250.53	\$ 1,125.02	\$ –

Value of 100 animals: **\$123,927.97**

The difference between a below average carcass and an above average carcass on a 100 head was \$10,573 or \$105.71 per head. Although this is just an example, the merits of producing high quality carcasses can result in considerable economic return. The premiums given to AAA, YG1 carcasses may be considerably higher than we demonstrate. Consult with the feedlots that are involved in VBM to partner with them and benefit from these premiums.

Certified Canadian Angus/Canadian Angus Beef program

Canadian Angus Beef has been available in a limited number of restaurants since 1993, and the market is expanding as consumers become aware of the quality of the product. Support for this program has been directed to the Certified Canadian Angus program and a new certification process. Cargill at High River is the exclusive processor. The objective in sponsoring the program is to increase demand for Angus and Angus-cross animals by providing consumers a consistent, quality meat product that is identified as being from black and red angus. To qualify for Certified Canadian Angus, the meat must be identified by Cargill, in accordance with a participant license, as coming from an Angus or Angus-cross animal through phenotypic inspection or with the breed association's Angus, lime green tag. All carcasses must be inspected and graded by a federal meat inspector. They must also have a marbling score of Canada Prime (AAAA) or AAA. Qualifying meat is aged a minimum of 14 to 21 days before retail and must be identified by the federal inspector with a distinct meat stamp.

Highland Feeders

Highland Feeders (Bernie and Mike Kotelko) of Vegreville has launched an initiative called *Highland Premium Alberta Beef Alliance*.

This alliance is developing a high quality, premium product that is fully supported by an information-based, quality control system or value chain. This system is based on collaborative relationships between agri-food producers, processors, distributors and retailers, to the mutual benefit all of the links of the supply chain. Increased co-ordination and discussion among chain members results in increased efficiencies for each partner and a high quality product that can be tracked back to its primary production source. The premise of a value chain is that products are pulled through the chain by consumer demand. This strategy ensures that each member of the product chain (value chain) contributes to the delivery of a final product that meets the needs of the consumer.

The *Highland Premium Alberta Beef Alliance* represents a significant opportunity for the Alberta beef industry to move toward becoming a supplier of high value, branded beef products. Participation offers the benefits of tracing the slaughter yield and quality grade back to the individual animal in the herd.

Participants interested in Highland's value are also offered an option to finance cattle and/or feed costs, with a deposit of \$200 to \$300 per head.

The goal of the chain is to both create value and find lost value that can be reclaimed. The *Highland Premium Alberta Beef Alliance* targets inefficiencies in the production chain and establishes an infrastructure that allows quick response to fast changing market conditions. In addition, there are opportunities for quality carcass premiums to go back to the producer. Highland Feeders is currently welcoming beef producers who would like to be involved in this alliance.

Beef Alliance Inc.

Beef Alliance Inc. is a co-operative project between the Canadian Charolais, Hereford, Limousin and Simmental Associations. Consultation began in the fall of 1998 and has resulted in a comprehensive information system that allows seedstock, cow/calf, feedlot, health and carcass data to flow back to producers for a fee.

Summary

Beef producers must remain competitive in strong protein markets and knowing the costs of production is essential to being competitive. Value-based marketing (VBM) is a tool that allows beef operations to be paid based on the quality of product being produced, rather than a daily price average. Premiums and discounts vary from one packing plant to another and change depending on the time of year. They can even change on a daily basis. Pricing on the grid does not mean you can discard your marketing skills. You still need to be a knowledgeable, efficient and effective marketer of your cattle. Some substantial rewards and losses may occur with the use of grid-pricing. To reduce your risk, know your cattle before you jump into this game.

For more information:

Producers who are considering value-based marketing can access additional information by contacting their local Alberta Agriculture, Food and Rural Development beef specialist. For a current list of internet resources about value-based marketing, please see this factsheet on Alberta Agriculture, Food and Rural Development's web site at: www.agric.gov.ab.ca

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