Selecting Stockers for Grid Marketing

Justin Rhinehart – Beef Cattle Specialist; Mississippi State University Extension Service

Retained ownership of cattle has become more popular for cow-calf producers and stockers throughout the southeastern United States. Many of these are sold as fed cattle on the cash market. However, to take retained ownership one step further; many producers are selling their cattle as beef through value-based markets. This trend has continued to grow and now more than half of the fed cattle are marketed through grid or formula pricing.

The major difference between formula pricing and live weight or dressed weight pricing is that it is based on the value that each individual carcass contributes to the total weight in the transaction. This attribute allows both the seller and buyer to trade cattle according to their individual carcass merit. The more information that either party has as to the likely quality of a set of cattle prior to harvest, the better equipped that party will be to decide whether to sell or buy those cattle on a given grid. A stocker operator has some opportunity to know more about the genetics and management of a set of calves they are marketing. Therefore, if used correctly, formula pricing offers potential benefit to the stocker. However, if the decision is made to sell on a grid without knowing the potential carcass merit (or lack thereof) this marketing option can result in substantial loss.

The components of grid pricing are quality grade and yield grade. Quality grade (QG) is determined by age and degree of marbling. If a carcass is determined to be A maturity (9 to 30 months), it can fall into the Prime, Choice, Select or Standard quality grade. A carcass that is determined to be B maturity must have a higher marbling score to qualify for the Choice grade. If a B maturity carcass does not meet the criteria for choice, they skip Select and automatically grade Standard. Yield grade (YG) is simply an estimate of the primal cut yield in relation to total carcass weight. It is graded on a scale of 1 to 5 with YG1 indicating a high percentage of lean product. Factors used to estimate YG include carcass weight, fat, and rib eye area at the 12th rib.

Pricing carcasses on a grid starts from a base price (dollars per cwt.) that is set by plant averages for that period and influenced by other market factors. From this base price, premiums are added to, or discounts deducted from, the base price depending on where the carcass traits fall on the grid. The word "grid" simply describes the arrangement of all the possible QG and YG combinations in a chart. Each of these combinations is assigned a positive or negative dollar value that represents the premiums or discounts, respectively. It is beyond the scope of this article to explain each nuance of formula pricing but producers who are interested in changing their management and breeding or purchasing decisions to fit a specific grid should study the grid they choose before making any changes. This is important because often the price

discounts are more significant than the premiums. That means that, if the cattle don't fit the formula, it can represent a substantial economic loss.

Because there are several variations that put more or less emphasis on YG or QG, the logical first step in changing selection practices to fit grid marketing is to identify the target formula. However, before this decision can be made, the stocker manager must have some knowledge of the carcass traits for cattle they purchase. Some assumptions can be made given the genetic background of the cattle. However, wide variation in how cattle will grade can exist even within a single breed, let alone a breed type. Therefore, there is no real substitute for actual carcass data. Many feedlots will return carcass data to producers who supply cattle to them or retain ownership through their yards. Additionally, many states have programs that help facilitate carcass data collection. Once some background carcass data is compiled, the grid pricing system that best fits the average of those cattle should be chosen.

The next step is to focus on the suppliers whose cattle garner the most money when marketed through the chosen grid. If the stocker business is operated as part of a cow calf operation, then genetic selection can be used to improve carcass merit in deficient areas (carcass weight, yield grade, or marbling). This can be done by selecting bulls and replacements with proven EPDs or actual performance that fit the scenario and by culling cows whose calves are less valuable on that grid. Similarly, if the stocker operator has a working relationship with their supplier, they can suggest management decisions that will improve the calves' performance.

Selection is only one aspect of selling on a grid. Management also plays a strong role in how stocker cattle will perform in the feedlot or at harvest. Culling high stress cattle, average daily gain during backgrounding, and implant choice can all affect the value of cattle sold through certain formulas. It should be noted that, even if the stocker management protocol is structured to optimize carcass value in a given grid, a great deal of the carcass merit is determined in the feedlot. So, picking the right feeder is as important as any other management decision for grid marketing.