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Photos available at: http://www.certifiedangusbeef.com/press/ac09/photos/GGGenetics_farm.jpg;
<http://www.cabpartners.com/news/photos/JohnLawrence10-08.jpg>; bar graph at end of release

Cost, benefits of beef quality

Producers try to manage cattle and resources based on market incentives, but that's not simple when signals change faster than they can make adjustments.

Sometimes it helps to step back and check the flow.

Iowa State University (ISU) helped do that back in 2002 when it published, "Assessing the Cost of Beef Quality." That study showed it generally pays, depending on the USDA Choice and Select beef price.

In feedlot profitability, marbling turned out to be a key driver, even more important than carcass weight when the Choice/Select spread was at the 1996-99 average of \$8 per hundredweight (cwt.) or higher. Moreover, that study concluded, "The current trend to rewarding higher quality-grading cattle will have the added benefit of reduced cow cost."

Much has changed in the last decade, so what about those cost/value relationships? To find out, Certified Angus Beef LLC (CAB) sponsored a "Revisit" 2009 white paper, with economist ISU John Lawrence again anchoring the research team.

The resulting paper note several changes since 1999: "Value-based marketing is commonplace, the national beef cowherd has shifted toward more Angus influence and carcass weights have increased. Most notably, however, cattle and grain prices have increased."

Iowa fed cattle and corn prices for 1996-99 averaged \$64.13/cwt. and \$2.49/bushel (bu.), respectively, compared to \$88.87 and \$3.04 for 2005-2008. The ISU team looked at the relative importance of cattle performance and carcass characteristics on feedlot profitability, given the new price levels.

Grid marketing's rise was noted in the 2002 paper, which ranked traits affecting profit. Building on that with data from the Tri-County Steer Carcass Futurity (TCSCF) on individual gain, efficiency and carcass measurements, the "Revisit" shows quality is at least as important with higher costs. In fact, no other driver of feedlot profitability was more important than marbling at Choice/Select spreads of \$6/cwt. or more.

The nearly 15,000 fall-placed TCSCF calves were fairly uniform, thanks to the network of feedlots using similar management and marketing protocols, Lawrence says.

The 2009 paper charted all the correlations between traits. Hot carcass weight is highly and positively correlated with ribeye area (REA), daily gain (ADG) and placement weight.

“Faster growing cattle have larger carcasses, which have larger rib eyes,” he explains. “Also, the faster they grow, the less feed it takes to put on that gain.”

That shows up in the strong, inverse correlation between ADG and feed efficiency.

“We calculated total revenue for each animal based on its carcass data, the base price and a representative grid,” Lawrence says.

Input and output prices were standardized over time to find profit differences mainly due to performance, efficiency and carcass traits.

The ISU model explains as much as 78% of the variability in net return, and marbling topped the list of individual traits, accounting for 42%.

A sensitivity analysis looked at how that changes when the Choice/Select spread, base carcass price and feed prices change. The spread baseline of \$8 was examined at \$4, \$12 and \$16. Feed prices were adjusted up and down by 20% and the base carcass price was evaluated up and down \$10/cwt.

“Not surprisingly, the economic importance of marbling is directly related to the Choice/Select spread,” Lawrence says. “Even at \$4/cwt., it is the second-most important variable, just slightly lower than placement weight.”

However, marbling score importance increases with the spread and, as it does, the other variables become relatively less important. One-third of a quality grade is worth \$12.65 per head at a \$4 Choice/Select spread and \$31.30 per head at a \$16 spread.

“Feed to gain, placement weight and hot carcass weight are the most sensitive to changes in feed costs, the latter two being more important with lower costs,” Lawrence says.

Mark McCully, CAB assistant vice president for supply, says the paper concludes, “In spite of 22% higher corn prices and 38% higher cattle prices, this analysis found results similar to the original study.”

In the economic model, relative importance of each variable on net return was less pronounced than in the 2002 study, perhaps because of an overall 13-fold increase in the number of data points analyzed. That could moderate the impact of any one variable, he says.

In both studies, marbling had the largest impact on feedlot net returns when the Choice/Select spread is \$8/cwt or higher. The latest study also notes \$6/cwt as the Choice/Select spread point where the relative importance of marbling score is equal to other factors. Otherwise, nothing changes in the order: carcass weight and feed efficiency are still next after marbling, followed by ribeye area in fourth place.

Over the last 15 years, the Choice/Select spread has averaged lower than \$6/cwt. only once, and that was last year, McCully says. “Marbling is still the most significant performance and carcass trait even as prices shift, so we must learn how to keep feeding cattle to make the most of their marbling potential.”

In every phase of the beef industry from ranch to consumer, “it is increasingly important to understand cost/value relationships,” he says. “In the recent economic turmoil, consumer sales of the *Certified Angus Beef*[®] brand increased because of that understanding. It’s even more important on the ranch, to know what makes more money in the end.”

The complete white paper, “Assessing the Cost of Beef Quality, Revisited,” is available at <http://www.cabpartners.com/news/research/index.php>. To view a video with John Lawrence discussing the paper, go to http://www.youtube.com/watch?v=vr0LXX_5RJk.

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