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Pricing Options for Fed Cattle

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For many cattlemen in the southeast, pricing fed cattle is not an issue that is considered on a daily basis. For those that retain ownership through the feeding phase, it certainly weighs heavy on their mind. For those that market feeders and stockers, understanding what happens in subsequent steps of the beef industry chain will, at very least, make it easier to understand what feedyards and packers are looking for. There are a few options for pricing fed cattle. The most common are live, dressed weight and carcass grade and yield (grid pricing).

Live Cattle Pricing

Marketing fed cattle on a live weight basis involves negotiating a price between the packer and feedlot. In this method, the packer usually starts with a base Choice carcass value and adds or subtracts premiums or discounts from the expected carcass quality when processed. Then, the adjusted carcass price is multiplied by the expected dressing percentage to obtain a live animal price. One of the most important things to understand about live cattle pricing is that it is done at the pen level. The price is established on the average weight and perceived quality rather than applying a value to each animal.

Live pricing requires skill and years of experience by both the feedlot operator and packer or buyer because the actual value of the end product is unknown at the time of the transaction. Even the most experienced buyers and feeders will lose potential revenue because the projected carcass quality is not always reflected at harvest. High carcass quality cattle are often discounted and low carcass quality cattle often receive premiums.

Dressed Weight Pricing

For dressed weight pricing (often referred to as “in the beef”), the value of the animal is based on the hot carcass weight at harvest. Therefore, the buyer does not have to estimate the dressing percentage. The other aspects of dressed weight pricing are similar to live pricing. The buyer’s estimate begins with a base Choice carcass price and is adjusted for expected quality and yield grades, weight premiums and discounts, slaughter costs and by-product value.

Neither of these methods of pricing reward improved carcass quality and do not give incentive to improve real carcass quality by management or genetic selection.

Grid Pricing

The only major pricing method that truly rewards improving carcass quality is grid pricing. The components of this method are fundamentally the same as the other two.

The difference is that the price is adjusted to Quality and Yield grade at harvest. So, each carcass receives a base price plus or minus premiums and/or discounts. The base price for grids can be set in several different ways with many plants using the USDA's weighted regional carcass price and others using the previous week's plant average. The actual "$0.00" block (no further price correction) on a grid, or true base price, assumes a Choice, Yield Grade 3, 650 to 850-pound steer carcass. The price is corrected for the choice-select spread by subtracting the plant average percent Choice from 100%, multiplying that by the choice-select spread price and adding it to the base.

Once the true base price is determined, premiums and discounts are established for carcasses that fall outside the base grid block. Again, these adjustments are based on marbling and the amount of product in the carcass as determined by Quality Grade and Yield Grade, respectively. The grid is structured so that the most valuable carcass would be a Prime Yield Grade 1 and the least valuable carcass would be a Standard Yield Grade 5. Many plants also offer a premium for carcasses that meet the specifications of a branded program.

Grid Pricing was developed with the goal of improving the overall quality and consistency of beef produced in the United States and ultimately to improve demand for the product. This occurs by rewarding improved quality and by creating a more consistent way to report and collect data at the individual animal level. It is easy to see that the most important factors affecting carcass value through grid pricing are marbling and the indicators of Yield Grade (back fat, hot carcass weight, ribeye area and internal fat). However, changing these characteristics through genetic selection and management require dedication and forward thinking by all parties in the beef production chain.

Some estimates claim that more than half the finished cattle marketed in the United States are valued through a grid pricing structure. These sources also indicate that grid pricing will soon become the dominant marketing channel for fed cattle. More recently, however, economists at South Dakota State University compiled literature and data that would suggest the adoption of grid pricing has been slower than projected and has not yet taken half of the market share. Regardless of the pace of adoption, grid marketing is sure to become the industry norm at some point. So, a working knowledge of how management protocols at the stocker and cow-calf levels change eventual carcass value will be essential regardless of whether ownership of those cattle is retained through feeding.