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## Characterization of Alliances

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**Characterization of Alliances**

Mike Miller  
CATTLE FAX  
Denver, Colorado

Pricing Method: Pricing on averages



Message: "All cattle are equal"



Result: Produce cattle of any kind and type

## TODAY'S CATTLE MARKET

Value Differentiation Limited By "Average" Pricing



**Pricing Method: Pricing on value of beef and the by-products produced**



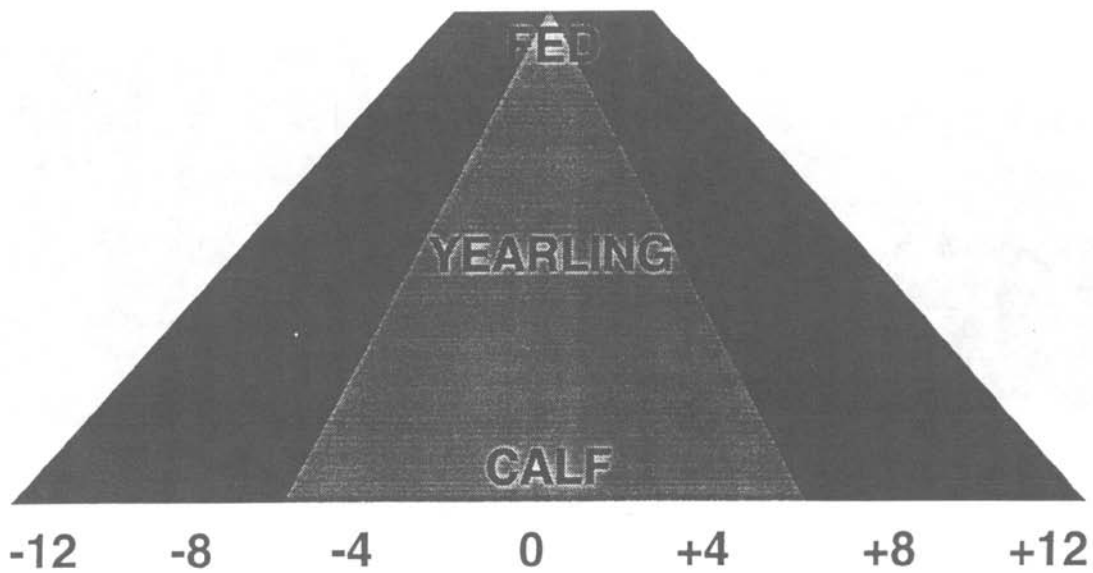
**Message: "Some cattle are better than others"**



**Result: Produce more of the better cattle**

## **FUTURE CATTLE MARKET**

**Increased Value Differentiation At All Levels**



# “Average” Grid

Average Marketing Program Specifications		Quality Grade Premiums and Discounts		Yield Grade Premiums and Discounts	
Live Price*	\$ 72.00	Prime Value	\$ 5.50 over choice	Yield Grade 1	\$ 3.00 premium
Base Carcass Price*	\$ 113.39	Certified Program	\$ 2.50 over choice	Yield Grade 2	\$ 1.81 premium
Dressing Percent*	63.5%	Choice Value	\$ 2.00 premium	Yield Grade 3	\$ .88 discount
Out Discount	\$ 20.00/cwt.	Select Value	\$ 3.00 discount	Yield Grade 4	\$ 13.25 discount
Choice/Select Spread	\$ 5.00	Standard Value	\$ 5.00 discount	Yield Grade 5	\$ 17.75 discount
Grade Base	60% choice				

\* This “average” grid was derived by analyzing over 20 different value-based systems.

## The Target

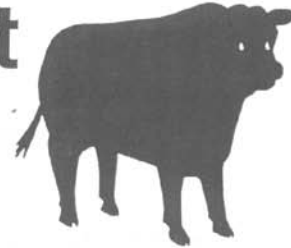
	Yield Grade 1	Yield Grade 2	Yield Grade 3	Yield Grade 4	Yield Grade 5
<b>Prime</b>	\$10.50	\$9.31	\$6.62	\$(5.75)	\$(10.25)
<b>Choice</b>	\$5.00	\$3.81	\$1.12	\$(11.25)	\$(15.75)
<b>Select</b>	\$(0.00)	\$(1.19)	\$(3.88)	\$(16.25)	\$(20.75)
<b>Standard</b>	\$(5.00)	\$(6.19)	\$(8.88)	\$(21.25)	\$(25.75)

600 ← Carcass Weight Range → 900

\*Ch/Sel Spread \$5.00

\*60 % Choice Grade

# “Value” Checklist



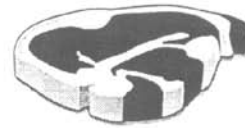
## *Primary Value Determinants*

- Yield Grade--Red Meat Yield
- Quality Grade--Palatability



## *Eliminate the “Outs”*

- Carcass Weight
- Hardbones and Dark Cutters
- Injection Sites, Brands



## **Factors To Consider**

- Program Requirements
  - Breed, Pre-Conditioning, Fees, Feedlot
- Do Your Cattle Fit The Program Targets
- How Do Your Cattle Perform
  - Feedlot – (Conversions, A.D.G.)
  - Processing Floor – (Red Meat Yield, Marbling)

### **Be Realistic**

## **Potential Trade Offs**

- Higher Price Not Necessarily Higher Profit
- Rigid Market Specifications May Be Uneconomical Due To Weather Or Costs During Certain Times
- Opportunity For More Premiums And Also More Discounts

# The Bottom Line

**Does It  
Increase  
Profit**