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Effect of ¼-inch Trim on Feeders and Cow-calf Producers

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INTRODUCTION

The rapid change to ¼-inch trim by the packing industry has been brought about by producers using their checkoff dollars to show retail meat buyers the way to value the closer trim product. The computer system, CARDS, developed by Texas A&M in cooperation with the National Livestock and Meat Board has allowed retailers to evaluate the closer trim product and use it in their buying programs. This demand by the retail industry has driven packers to offer the product. Today, all three major packers offer a closely trimmed boxed beef product. The growth in acceptance of this product has surprised many watchers in the cattle industry. We are an industry noted for changing slowly over long periods of time. The change to closely trimmed product has happened in months and continues to pick up speed. This rapid change will present a challenge for cattle feeders and cow-calf producers to respond to the new realities of the marketplace.

CATTLE FEEDERS

The cattle feeding industry will need to respond before the need is felt at the cow-calf level. The result of closely trimmed boxed beef is to cause excess fat to remain in the packing house to be dealt with by the packers. This becomes both an economic and logistical challenge for the packers. The packers will deal with the economic challenges by slowly changing the market signals to the cattle feeders. Slowly is the operative word because the packing industry is afraid that sending too strong a signal too rapidly will cause feeders to put so little fat on cattle that they will dramatically lower the percentage of USDA Choice in the slaughter mix. An inadequate supply of Choice would cause a major disruption in buying, marketing, and advertising programs by retailers. Thus the signal to reduce the fat on the fed cattle will be subtle and sent out over an extended period of time.

The first signal will probably be a signal that the penalty for overfeeding is going to be more severe than ever before. Look for Yield Grade 4 discounts to become so severe as to make it economically unsound to allow any cattle in a group to be grade Y.G. 4. This will reduce fat on all cattle as cattle feeders move back from the line that would allow a few Y.G. 4's without a severe penalty. Once this move has taken place, more emphasis will be placed on trying to attract the production of Y.G. 1 and 2 cattle for the packer. Pricing policies will begin to reflect a greater return for groups with a high percentage of high cutability cattle. In the beginning, feeders will respond by feeding the cattle fewer days to target the lower fat endpoints. Eventually, cattle feeders will begin to sort feeder cattle to a greater degree on arrival into feedyards and again as finished cattle to optimize their profit potential. Cattle with a low potential to reach Choice will be fed to the middle of the Select grade to produce a pen with a high percentage of Y.G. 1 and 2 carcasses. Those cattle with a higher potential for the Choice

grade will be fed to a greater degree of finish so as to give them the greatest chance to marble and reach the higher quality grade.

Some of the cattle in feedyards can't be sorted due to logistical problems of retained ownership or pen space. In the case of mixed cattle fed in the same pen, the tradeoff would seem to be to get the pen near an average of .4 inches of backfat. This will allow packers to closely trim without suffering large economic penalties and still have the opportunity for an adequate mix of Choice and Select. This would reduce fat from the national Beef Quality Audit level of .6 inches by $\frac{1}{3}$.

The reduction in fat production by the cattle feeder will have two impacts on his business. First, his cattle conversion values should improve because he will be producing less fat. However, secondly, he will also produce less total pounds per head in the feedyard. This will affect what he can pay for feeder cattle coming into the feedyard. The fewer pounds per head that is created in the feedyard changes the economics on reducing the initial price per pound paid for the feeder calf. Therefore, feeders will be bringing new signals to cow-calf producers.

COW-CALF PRODUCERS

The first signal that should reach cow-calf producers is that there is value associated with background information on your cattle. If you know how your cattle feed and slaughter, the buyer will have a greater opportunity to place your calves into one of the two groups discussed earlier as market targets. If the feeder correctly places a producer's calves in the right category, he will more than likely try to buy them in subsequent years. The feeder will also value uniformity of a calf crop. The fewer times a set of calves needs sorting, the more valuable they will become. These value signals will be subtle and hard to define because of the nature of our marketing system, but they will be present.

The second signal will be to value calves that can reach "normal" market weights without exceeding the .4 inch backfat target. This would produce final weights between 1100 and 1200 pounds. Many calves are marketed in this weight range today but would exceed the .4 inch fat restraint. The pricing system would thus discriminate against early maturing cattle with a small opportunity to reach the Choice grade. Cattle that would have large market weights and still produce large numbers of Standard grade carcasses would also be discriminated against in pricing. The remaining cattle in the middle of the population have to be managed to the appropriate endpoints. This will always be a dynamic system because of changing consumer demand, feed prices, and competition from other meat sources. No one type of calf will always "top" the market, but certain kinds will consistently make money. Others will make a profit once in a while. It will be the job of cow-calf producers to identify those that can thrive in their climate and consistently make profit.