Study: Grid pricing has boosted cattle profits, improved consumer beef

K-State ag economists publish paper on trends, implications of marketing agreements

By Pat Melgares, K-State Research and Extension news service

MANHATTAN, Kan. – Kansas State University agricultural economists have completed a broad analysis of the impact of grid pricing in the cattle industry, concluding – among other findings – that producers and consumers have benefitted from negotiated pricing agreements.

K-State livestock economist Ted Schroeder said grid pricing of fed cattle refers to valuing a lot of cattle based on carcass merit, including premiums or discounts for such traits as quality grade, yield grade, preferred weight, special branded programs and more.

He added that most cattle sold under a grid pricing system use a marketing agreement with packers, including a base price and a schedule of premiums or discounts applied to cattle that are delivered to the packer.

“Marketing agreements and grid pricing have evolved because producers strive to link consumer preferences for high quality beef with farm gate, fed cattle values,” Schroeder said. “The data we’ve reviewed clearly demonstrates that sending clear value signals to producers through premiums for high quality carcasses and discounts for less desired quality has transformed the beef industry.”

Schroeder and K-State agricultural economics graduate student Katy Doumit have identified recent trends in grid pricing, and the implications for the cattle industry. Their paper, Fed Cattle and Beef Premiums and Discounts, is available online through AgManager.info, a website maintained by K-State’s Department of Agricultural Economics.

“Over the last 20 years, as the use of marketing agreements has increased dramatically, producers have responded resoundingly by increasing the percentage of steers and heifers that grade ‘Choice’ and higher, from 55% in the early 2000’s, to consistently over 80% today,” Doumit said.

“Producers have benefitted by having higher prices for fed cattle, and consumers have benefitted by having higher quality beef that they prefer in retail stores.”
Schroeder notes that producers who are considering entering into a marketing agreement should first study the array of alternative grids available and match those with their own cattle procurement, production and marketing strategies.

“The two go hand-in-hand,” he said. “Premiums and discounts that we’ve summarized in our report have considerable variation across grids. Knowing the type of carcass quality traits that a producer can attain relative to cost is critical.”

Schroeder encourages producers to “shop around to find the grid to match the type of carcasses the producer can effectively produce.”

“That will make a big difference between a grid system increasing or reducing profit,” he said. “Launching a grid system is less about chasing targets than it is about knowing the type of cattle one has available and the feeding management system that can match the grid with the cattle.”

More information, including Doumit’s and Schroeder’s full report, is available online.

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FOR PRINT PUBLICATIONS: Links used in this story

AgManager (K-State Department of Agricultural Economics), https://agmanager.info

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