

From a Packers Perspective

As the value-based procurement manager for Swift by morning, Tim Schiefelbein is a self-proclaimed "DRP" (dirty, rotten packer). But, by afternoon, the Kimball, Minn., native returns to his other job as a working partner in his family's cow-calf, seedstock and feeding operation.

Before returning to Minnesota and assuming his current positions, Schiefelbein was stationed at Swift's Greeley, Colo., headquarters and worked as its head buyer, purchasing about 5 million head of cattle a year. The other credit Schiefelbein has to his name: he developed the industry's first value-based grids, which revolutionized the way cattle are bought and sold today.

Creating Demand

The broad experience has given him a unique perspective about the kind of cattle that packers and their customers want and that make money for grassroots cattle producers.

If you want to produce something with value to it, the first thing to do is to know who your customer is and produce what that customer wants. Cow-calf producers cannot be satisfied to simply meet the needs of their initial customer, the feeder. They must also be concerned with satisfying the needs of the feeder's customer, the packer, and the packer's customers, retailers and restaurateurs, and, ultimately, the consumer.

There are a lot of customers to worry about, plus you've got to make them calve easy, flesh easily and breed right back every year. The good news is that efficient ranch cattle can be exactly what your customers want, and if you produce what your customer wants, you're going to get more money for your cattle.

While there are different kinds of feeders, all of them want healthy cattle. No one wants to mess around with sick calves, they don't gain well and don't grade well. Feeders also want calves to grow fast and big. After those criteria are met, some feeders, or "commodity feeders," are satisfied with cattle with an adequate carcass. They feel they don't have to be great, just good enough so the packer will buy them. A value-added feeder, on the other hand, wants a premium carcass and will pay more money to get one because he is selling on a value-based grid.

That wasn't always the case. Until the mid-1990s, when the "value-based revolution" began, companies paid the same for good cattle and poor cattle. They were buying all the Select, Yield Grade 1s and paying \$120 and buying all the Choice, Yield Grade 1s and paying \$120. There was no incentive to make your cattle better.

I decided if we paid more money for better cattle, then we might get better cattle and began developing the industry's first value-based grids, which reward cattle with desirable traits, such as high marbling and high yielding carcasses, and discount those with undesirable traits.

The best way to figure out what the packer wants when is to study the historical Choice-Select spread, which shows the difference in value between these two common grades. This is a big driver to me, because when I sell to my customer, the retailer, that's how he is paying me. Typically, in January, packers have all the Choice cattle they need, so the Choice-Select spread is low, and the guy who has all the Choice cattle gets paid more [than if he had Select cattle], but not that much more. The Choice-Select spread tends to widen in April, May and June, when there are typically more Select cattle being slaughtered. Choice beef is in high demand this time of year because it's barbecue season and consumers want to impress their friends with a good steak.

Know Your Cattle and Your Market

Knowing the typical seasonal differences in the Choice-Select spread can help producers decide how much emphasis they need to place on carcass traits when they are making breeding decisions. If you slaughter at a time when Choice cattle are scarce, make sure your cattle grade well to make the most money.

To raise cattle for a value-based market, producers must employ the right genetics. Genetics

play a huge role in carcass quality because they're 40 percent heritable.

Not everyone considers the heritability of traits when they make purchase decisions though. That's also why cattle buyers are leery about buying strings of cattle if they haven't had them before. More than likely, most will grade well or most will grade poor because of the high heritability of carcass traits.

Breed Composition

We all know heterosis occurs. If you have a combination of breeds, you know what kind of blend is needed by asking yourself how you want to market them. When we select the best critters within breeds, that's when we really can make some improvements.

It is also important to stay away from extremes, because you don't want the commodity feeder not to want your cattle. You have a real problem when your cattle don't fit the commodity market. Retained ownership is the best way to capture all the value, but you also capture all the risk.

Basic concepts, like selecting the right bulls, making sure cattle fit your operation first and foremost and keeping them healthy are still critical to a producer's bottomline.

And even those things lose their importance if producers don't stand behind their cattle and develop a relationship with their customers. Relationships are key, you can stand out from others by saying thanks when you sell your calves, part way through the feeding period call and ask if the calves are healthy, and, of course, they are. Make a third call: 'How did the cattle grade?' knowing they are going to do well because of what you've done to make them that way. And also say 'By the way, they are selling again this year at such and such a place and on such and such a day.'

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