

BeefTalk 484: You Got to Know When to Hold‘em, Know When to Fold‘em

As cow-calf producers, it is easy to be suspicious of the unknown, but it is a choice some make.

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The deck is not stacked, but the cow-calf producer does hold a good hand. As producers, we have a choice when to “call” the hand and turn the reins over to the next segment of the industry. While some say producers are in the driver's seat, others say the producer of the calf or owner of the cow is at the bottom of the deck and has to take whatever is offered.

A discussion can be made for both positions. One common thread extends through both options, which is the need to better understand the complexities of the entire industry.

As cow-calf producers, it is easy to be suspicious of the unknown, but it is a choice some make. An experienced feedlot procurement specialist (cattle buyer) noted that a system of identifying cattle that will work and be efficient for the producer, feeder and packer requires considerable knowledge. In the end, many of us run out of time to take in all the knowledge needed.

The numbers add up quickly and the relationship between the numbers soon becomes overbearing. Most cow-calf producers turn to doing what they know best, which is producing calves. However, the question from last summer still nags us. How do we know if we are getting our fair share?

A good way to end the discussion relative to determining calf value is to listen to Tim Petry, NDSU Extension Service livestock marketing economist. Tim says the simple answer is supply and demand.

Tim says most packing plants have people whose job it is to sell the meat in the cooler. Demand for certain cuts can be very seasonal and very competitive because cooler space is limited. A new set of cuts will be arriving after the daily harvest.

On a daily basis, sales people will get a printout of what there is to sell and contact potential customers. The desire is to sell for the highest price, but the customer wants to pay the lowest price.

As with everyone involved in the beef industry, we negotiate. Tim goes on to explain that customers negotiate with several plants for the best deal. Large-volume orders may be accepted at a lower price. The large order could be a truckload of IMPS (institutional meat purchase specifications) 180 loin, strip, boneless, 0x1 versus just a box or two.

If sales is having trouble selling a particular IMPS cut (let's say IMPS 120A brisket, point/off, boneless) due to the season of the year or other factors, the sale people may negotiate to sell the customer a high-demand cut, such as an IMPS 112A rib, ribeye or boneless, right near the high end of the market, but then is willing to throw in the brisket near the low end of the market. In many cases, the high or low price is a very low volume trade, such as one box.

At the end of the day, the weighted average is closer to the market where most cuts are sold and the bottom and top of the range are unique trades related more to negotiations on specific orders. Welcome to the world of selling meat.

The bottom line is supply and demand. Sometimes that is hard to swallow. As producers, it seems like there is a lot of jostling in this business.

Eric Berg, NDSU meat scientist, noted that plants offer a bid price based on sale projections (demand) and compete with available supply. The meat plants need to make enough money to keep the lights on in a business that operates on small margins (sometimes pennies) within larger commodities of scale.

The beef business is not an easy business. Cow-calf producers may hold the reins in their hands, but as Kenny Rogers sang, "you got to know when to hold 'em, know when to fold 'em."

May you find all your ear tags.

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