

Effects of



- *grades*

- *weights*

- *buyers*

*on*

Beef Carcass Prices

# *Effects of Grades, Weights, Buyers on Beef Cattle Prices*

Ed Uvacek  
*Livestock Marketing Specialist*  
Texas Agricultural Extension Service

**M**ANY PEOPLE THINK THE HIGHER THE GRADE OF BEEF, the higher the price. Cattlemen know that in most cases the price for "Choice" cattle is higher than the price for "Standard" grade cattle, but quoted price ranges for each grade overlap considerably. This means that some lower grade cattle bring better prices than the next higher grade.

A study of the California market by the U.S. Department of Agriculture points out how the U.S. grades, carcass weights and types of buyers affect the determination of such prices. Although this study refers to only one market, many of the pricing principles are the same in Texas markets. The variations in prices between steers and heifers were not examined in this study, since only a few buyers purchased heifers regularly enough for an analysis.

## *Demands for U. S. Grades*

If one grade of beef is desired more than another, the price bidding for that grade increases. Thus, a U.S. Choice grade carcass brings a higher price than a U.S. Prime carcass in certain markets where Choice grade is preferred.

Whether the demand for certain grade carcasses is strong or weak depends on how many buyers want that particular quality carcass. Since the buyers represent different immediate uses for the carcasses, each, therefore, requires a quality grade suited for his particular business.

Figure 1 illustrates the quality of beef bought by each of the various types of buyers. The "chains" represent chain stores or retailers that operate five or more stores and have a central meat-buying department. "Independent retailers" represent retail stores, both supermarkets and butcher shops, each with their

own meat buyers. The “jobbers” are suppliers for hotels, restaurants and institutions, while “wholesalers” are customarily beef breakers or dealers who buy carcasses from packers and break them into primal cuts for sale to jobbers and retailers.

Each type of buyer has a quality he desires most. Even though the official federal grader does not divide the grades into top, middle and low classifications, the trade normally differentiates carcasses in this manner. For example, about 42 percent of the chain store purchases of beef carcasses in this study were low Choice in grade. Chain stores also bought 9 percent low Good grade carcasses and about 13 percent high Goods. The retailer does not object to the higher quality, but he does object to the additional fat which normally goes with such quality. Independent retailers differ somewhat from chains. Only about 28 percent of their purchases were low Choice, while

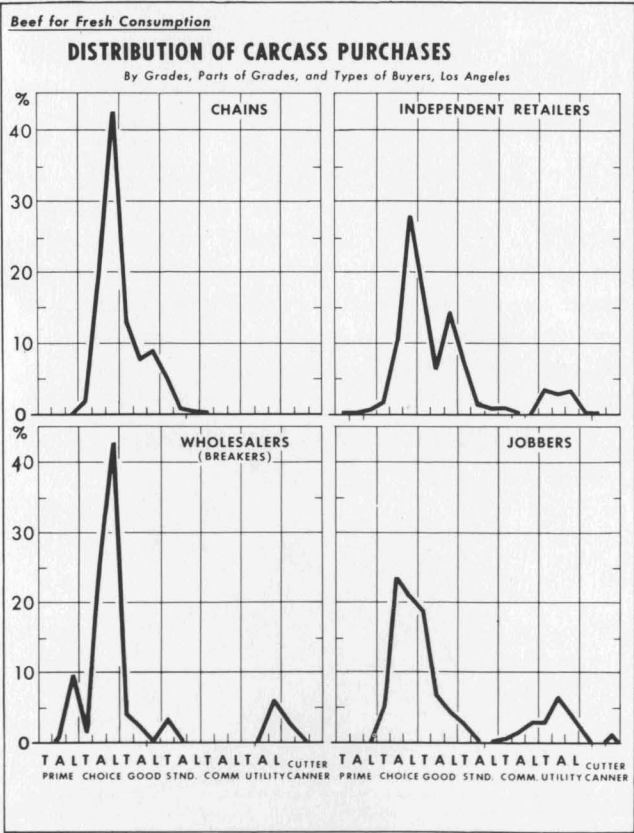


Fig. 1

close to 15 percent were graded low Good. Wholesalers concentrate as heavily on low Choice purchases as do chain stores, but jobbers prefer the average quality Choice grade carcasses.

Low Choice carcasses, therefore, are demanded heavily on the West Coast. Each buyer has found, through trial and error, that the Choice grade beef carcass offers a minimum amount of quality variation at the least price. They have also discovered that low-quality Choice carcasses have a smaller amount of waste and trim than higher qualities in that grade.

### ***Prices and Buyers***

The method of carcass distribution also has a tremendous effect on the final wholesale price. Will it be sold through a restaurant, chain store or small butcher and how large a buyer is the original purchaser? Unfortunately, it is not known how the beef finally will be sold; however, the type buyer gives a good clue. Each buyer sells the beef differently and through different marketing channels. The chain store, for example, sells directly to consumers in big supermarkets and, because it has many stores, large volumes are bought. Independent retailers also sell directly to consumers, but because they normally do not represent many stores, the volume handled varies considerably between firms. Truck distributors are suppliers for independent retailers and the small butcher shops. Since some truck distributors, therefore, buy only a few carcasses, while others purchase large volumes, considerable variation exists in the bargaining power among this group. Other buyers, showing tremendous variations in volumes handled, are jobbers and wholesalers.

The principle effect of different types of purchasers on price levels is felt by the variations in buying power exerted, which is related to the volume of beef handled. Chain stores, for example, buy a large number of carcasses and, therefore, can demand a lower price level for their larger volume purchases. The bargaining ability varies tremendously among independent retailers and truck distributors. Bigger firms normally pay less for beef, because they require fewer services and the selling costs per unit are reduced on larger volume sales.

## RANGE OF PRICES PAID AND MODAL AVERAGES

By Types of Buyers, Los Angeles

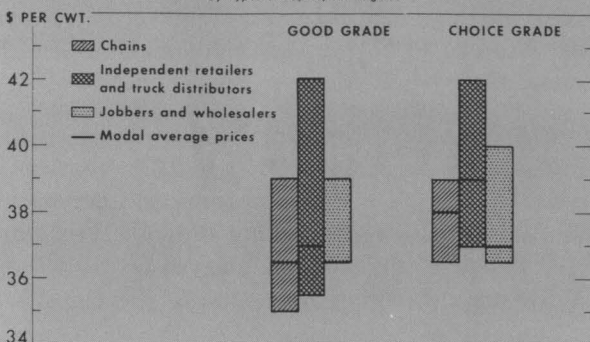


Fig. 2

Note the wide differences in prices received by packers in Los Angeles for the same quality carcasses, Figure 2. The modal average price represents the "most common" price paid during the period studied, while the entire bar shows the range of different prices paid. For example, the chain stores paid between \$36.50 and \$39 per cwt for U.S. Choice beef carcasses, with \$38 the most common purchase price. Since all chain stores are large volume operations with strong buying power, the range in prices was relatively small for this group. In contrast, the prices paid by independent retailers and truck distributors for the same quality carcasses, Choice, ranged from \$37 to \$42, with a modal average of \$39.

Generally as the bargaining ability varies more, the range in prices paid is greater. The volume handled determines the buying power of the firm.

### *Grade Versus Weight*

When all buyers are considered as a group, they are willing to pay a little more for the higher quality beef carcasses. This is true particularly within the lower quality beef grades. In other words, buyers will pay more for top Good carcasses than for average or low Goods.

At the same time, buyers realize the most desirable retail cuts are obtained from the smaller beef carcasses. Consequently, they will pay a higher price for a light-weight Choice carcass than for a heavier carcass. Thus, a buyer generally will pay more for quality and less for the heavier weight carcasses.

In the higher grades such as U.S. Choice, the weight of the carcass is a more important factor than the within grade quality. The lower grade carcasses show quality within grades a much more important factor in pricing than weight.

The weight of beef carcasses generally increases from the Standard grade up through the higher grades, Figure 3. Choice grade carcasses averaged 615 pounds in this study, while U.S. Goods averaged 551 pounds and Standards, 531 pounds. The most common weights (modal) were 600 pounds for Choice, 540 pounds for Good and 480 pounds for Standard. Each of the grade classifications had individual carcasses that ran as high as 850 pounds or more. This distribution was examined on the West Coast, and it is probable that these carcasses are much lighter than those prevalent in the Midwest and Northeastern areas.

Since the weight and quality of a carcass are related, it is impossible to separate the price effects. Buyers of the beef carcasses must adjust their price decisions to take both of these factors into consideration simultaneously.

From July 1962 to July 1963 the USDA initiated the use of a dual grading system for beef during a trial period. This grading method in reality separates the quality grades from the carcass weight effects through use of separate quality and yield grades. As the weight of the carcass decreases, the percentage of retail cuts from the carcass increases.

### WEIGHT DISTRIBUTION OF BEEF CARCASSES IN PACKERS' COOLERS

By Grades, Los Angeles

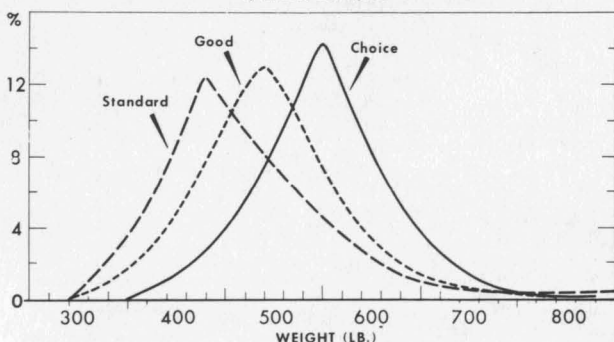


Fig. 3

## Weight and Buyers

The present beef buying specifications of most purchasers commonly use the U.S. Federal grades as indicators of quality, along with other guides for specifying the particular carcasses they desire within a grade. Each buyer tries to purchase the quality and weight carcass that fits his particular needs.

Retailers, both chain and independent, first establish limits of the grade ranges in which they are interested, and then set maximum weight limits. They seem to concentrate mostly on the lightest carcasses that qualify for a designated grade. The retail stores are more concerned with obtaining light-weight carcasses which yield small per unit size retail cuts for the showcase.

In contrast, jobbers and wholesalers are ready markets for the heavier weights of the Choice grade and both the extreme light and heavy weights of the Good grade. Jobbers can break heavier weight carcasses into restaurant size cuts, while wholesalers can

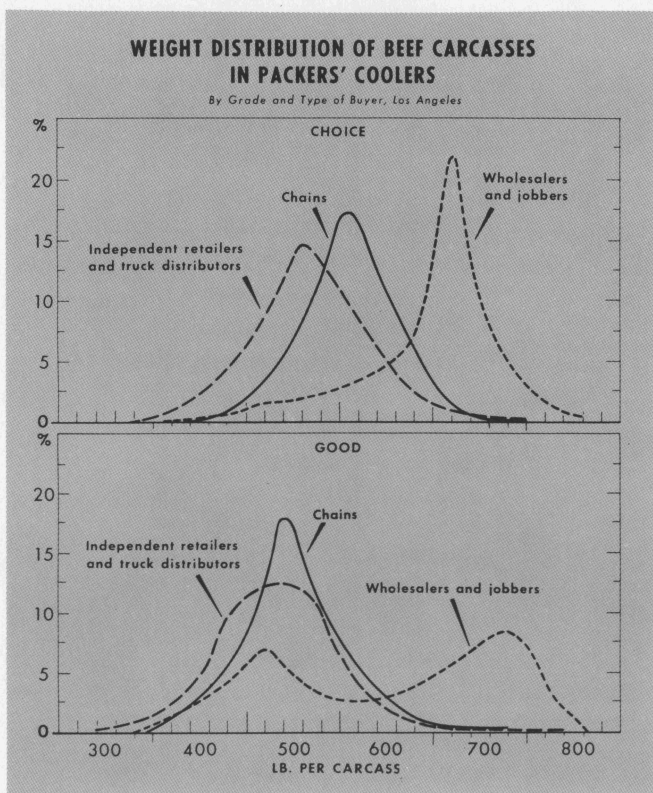


Fig. 4



merchandise their heavier cuts to jobbers and through chain store special sales. Truck distributors, as expected, also purchase relatively light-weight carcasses, since they are supplying the small retail outlets that demand these types.

Figure 4 illustrates which weight carcasses most commonly were purchased by the different types of buyers. Wholesalers and jobbers bought the bulk of their Choice carcasses weighing around 720 pounds, while independent retailers and truck distributors heavily concentrated on 560 pound Choice carcasses.

The distribution of Choice carcass weights bought by retail chains, Figure 4, is weighted heavily by one exceptionally large chain which purchased most of its carcasses at weights of 650 to 700 pounds for a special aging program. The majority of the chains, however, refused to accept Choice grade carcasses weighing more than 650 pounds. The 500 to 600 pound range was preferred most by chain stores in this area.

### ***The Final Price***

This study shows how the demand for different grades of beef varies and how the buyers, grades and weights affect the selling prices of carcasses. Each of these factors is considered in the final establishment of the sales price.

A range in price for a particular grade of carcass represents the effects of grouping all these conditions together into one grade without distinguishing the other factors. A price range of \$35 to \$40 for Choice beef indicates that the lower prices could be because of heavy carcasses, low-quality carcasses, or the lower prices could also represent sales made to large volume purchasers such as chain stores. In contrast, the higher prices of the range represent sales of light-weight carcasses, high within grade quality carcasses or small volume sales to independent retailers or truck distributors. In many instances, this wide spread of prices also can cause the overlapping of price ranges of different grades. Figure 5 shows the proportion of carcasses of each grade sold at various price levels.

Choice grade carcasses in this study commonly sold for about \$38.25, while the range of prices ex-



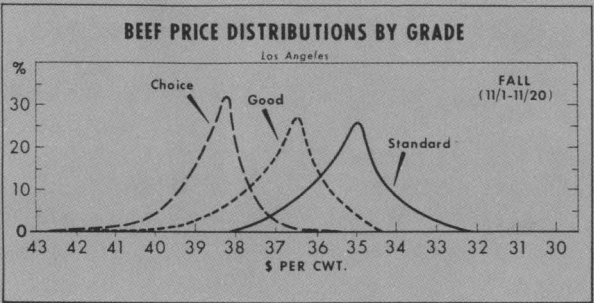


Fig. 5

tended from \$35.25 to \$42.75. Even though the bulk of the Choice carcasses was sold for higher prices than the Goods, about 10 percent brought lower prices than the Good grade beef. In fact, about 4 percent of the Choice carcasses sold for lower prices than some of the Standard grades. A look at the price distribution for Standard grade carcasses shows that almost 12 percent brought a higher price than some of the Good grade carcasses.

When prices paid for different grades are visualized in this manner, the overlapping price range, caused by these other factors, becomes obvious. It is impossible to compare price spreads between grades, unless all factors are considered. Simply comparing the average prices between two grades is somewhat misleading also, since the spread between the averages does not show how many of the carcasses overlap in prices.

The price paid for a live steer depends on the final carcass weight, its grade and the type of purchaser. Each factor, as it influences the price of a beef carcass, also determines the price paid for a slaughter animal. Since neither the cattleman nor the packer knows all of these answers, the live cattle price must reflect average carcass prices by grouping all these factors together. The price for the live steer, therefore, reflects these factors, just as does the price of the beef carcass. Each carcass, and, consequently, each animal, must be evaluated and a price determined through the marketing system.

Unfortunately, cattle are not produced like automobiles, each a perfect copy; they cannot be obtained with only certain specifications. Until the day when

all steers are produced exactly alike, a pricing system which takes so many factors into consideration must be complex. Although the pricing of cattle is difficult to explain, it is only through this system that the meat industry can transmit its desires and requirements.

In the meantime, the cattle producer, the packer and the meat wholesaler must have complete knowledge of all the pricing factors and know how each affects the present price levels. It is only through this system that they can determine if they are supplying what the trade demands.

For the cattleman, obtaining the top price for his steer is not a matter of luck. It requires knowledge, concentration and sound planning in his livestock venture. In turn, the packer-wholesaler must reflect in his purchasing prices the important factors demanded by his customers. The final benefactor in this overall complicated pricing system is the consumer, who is provided with fresh, wholesome, high quality beef at a price as close as possible to its actual value.

*“Knowledge returns in profits”*