Marketing Feeder Calves

Marketing decisions can make the difference between profit and loss in a beef cattle production enterprise. Many beef cattle producers focus on improving production practices and spend little time marketing their products. Product examples in the beef industry include breeding stock, registered bulls, registered females, semen, embryos, commercial females, feeder cattle, stocker cattle, fed cattle, and beef.

Marketing is the physical movement, transformation, and pricing of goods and services, with numerous buyers and sellers working to move livestock and livestock products from points of production to points of consumption. It involves sales, advertising and promotion, pricing, service, and other factors that fulfill customers' needs. Marketing decisions include what to market (product), where to market (place), when to market, and how to market.

Beef consumer preferences include eating satisfaction, good nutrition and health, convenience, and product consistency. The National Beef Quality Audits provide benchmarks for the beef industry. Consumer preferences for beef impact demand for feeder calf attributes. When planning feeder calf marketing, consider what types of calves can be produced efficiently, what cattle buyers and consumers want, and what marketing options are available.

Feeder Calf Marketing Choices

Producers can choose to market calves at weaning, market bred heifers, or keep calves through stockering and/or finishing phases. About 47.4 percent of small beef cattle operations and 37 percent of large operations surveyed in Mississippi in 1999 retained ownership through a stocker phase. In addition, 5.7 percent of small operations and 22.1 percent of large operations retained ownership through finishing.

Beef cattle producers have a wide variety of options for where and how to market feeder calves. Feeder calf marketing alternatives include the following:

- auction markets
- private treaty sales (direct sales)
- graded and pooled sales (marketing alliances)
- board sales (tele-auctions)
- video auctions (satellite and Internet)

Auction markets were the predominant marketing method Mississippi beef cattle operations selected in 1999. Large operations were more likely to use other marketing alternatives for feeder calves (see Table 1).

Each marketing method has advantages and disadvantages for the seller when compared with other marketing alternatives. Evaluate the advantages and disadvantages of each alternative to make an informed market selection decision. As production and market conditions change, reconsider the best marketing alternative for feeder calves.

Auction Markets

Auction markets are common throughout the southeastern U.S. These "sale barns" provide sellers with competitive bidding and prompt cash payment. They are often local, providing some convenience to sellers, but distance to markets can be a limitation in some areas. Auction markets are open to all sellers and buyers, and many species and types of livestock can be marketed. Bidding is open to the public. These markets are places where cattle prices are determined and known to all. They are regulated, with uniform weighing and selling conditions, bringing a level of fairness to the marketing process.

Use of auction markets requires absolutely no market knowledge by the producer. There is no minimum number of cattle needed to sell at an auction market. However, producers selling through auction markets have very little control over prices. While general market trends may be known, specific prices are uncertain upon delivery of cattle for sale at the market.

This market structure encourages multiple handling of cattle and speculative type trading. There can be a lack of volume and uniformity of animals, depending on the specific market. Grade and price information

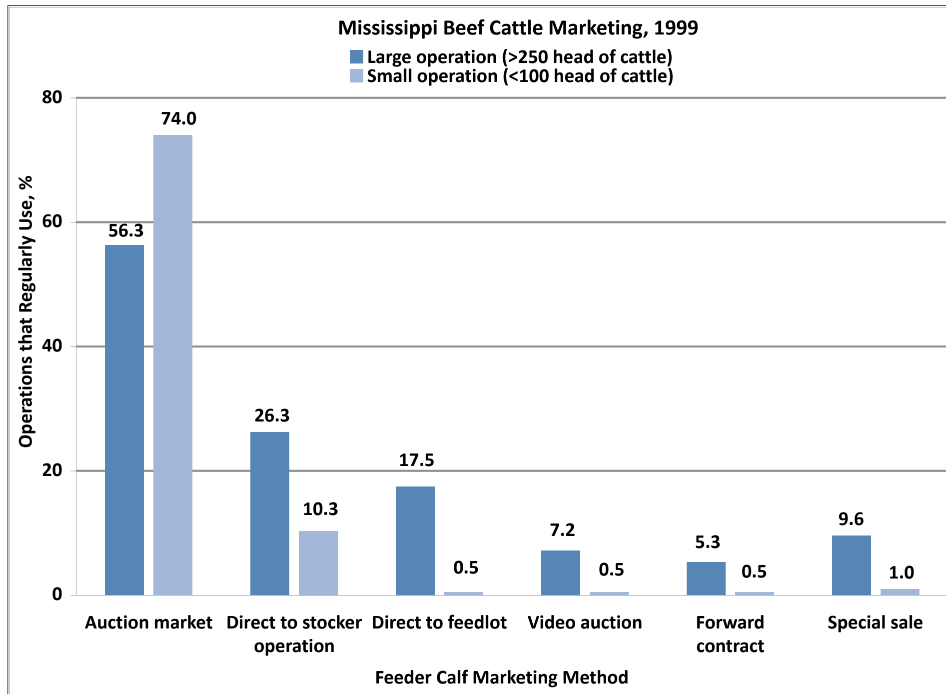

Table 1. *Mississippi feeder calf marketing alternatives by operation size*, 1999. Adapted from Lacy et al. (2003) and Little et al. (2003).

can be difficult to interpret because of low volume of specific animal weights and types or unique local market conditions. In some cases, the number of buyers may be small, reducing bidding competition.

It can be difficult to establish a reputation for selling quality cattle if producer identities are unknown to, or infrequently seen by, buyers. Overhead cost can be high, and excessive stress and shrinkage of livestock may occur. Commingling of livestock at auction markets makes disease spread more likely than with "farm fresh" cattle not exposed to cattle outside the ranch.

Private Treaty Sales

Private treaty sales are direct sales from the ranch to the buyer. They encourage and reward marketing innovation. The seller controls the marketing process. Selling private treaty requires excellent marketing knowledge on the part of the seller. Less market news is available regarding private treaty sales. Cattle can easily be overvalued or undervalued. More haggling is involved in these sales.

The producer must be an effective communicator and salesperson. Some form of advertising or networking is needed to communicate about the product offering to prospective buyers. Private treaty sales require significant time on the part of the seller. Not all prospective buyer visits result in sales.

The seller can point out and promote positive aspects of livestock. Producers with quality cattle can establish a reputation for quality by developing personal relationships with buyers and providing an accurately described and consistent product. Buyers can see the total ranch program and recognize value-added production practices in place on the ranch. Producers can manage animals to buyer specifications or provide additional requested services. Because animals are farm fresh and unstressed, risk of disease spread is often minimal.

Private treaty sales typically cost less than other marketing methods. Marketing agent commission, transportation to market site, and associated cattle shrink are eliminated with this marketing method. Selling conditions vary widely and buyer competition may be little or none. Sales are generally unregulated and unsupervised, and the producer assumes risk of payment collection. Sellers must also remit the $1 per head beef checkoff for every bovine animal sold. In Mississippi, the Mississippi Beef Council handles beef checkoff collections.

In Mississippi, several feeder calf buying stations purchase cattle through private treaty. Producers transport cattle to the buying stations, where they are weighed and evaluated by a buying agent. The buying agent then offers a price for the cattle. Some stations will not negotiate price once an initial price is offered. The seller then has the option to sell the cattle on site for the offered price or to leave with the cattle without a transaction's taking place.

Graded or Pooled Sales

Graded or pooled sales allow producers to put large, economical lots of livestock together. The associated cost savings for buyers can be passed along to sellers. Large numbers of livestock are needed to attract additional buying competition. While most Mississippi beef cattle producers surveyed in 1999 did not pool cattle for sale, the overwhelming majority agreed that larger, more uniform lots of cattle command higher prices and pooling reduces transportation costs.

Graded sales may develop into reputation sales after years of successful marketing efforts. However, individual producers can lose their identity amongst other consignors in these sales, particularly if promotion of individual operations is minimal. In some instances, it is hard to get large numbers of producers to agree on the terms of a graded sale. A committee of marketing agents and producers is sometimes needed to define the sale rules. Potential consignors then have the option of whether or not to participate in the particular sale.

It is necessary to grade, sort, weigh, and pen cattle before sale. These tasks are time-consuming and expensive. Many marketing facilities are not designed for efficient processing for this system.

Board Sales

The Mississippi Homeplace Producers and Cattlemen's Exchange feeder calf sales are examples of board sales. Board sales are tele-auctions, where cattle are displayed to potential buyers "on a board" as still images or video. Cattle are not physically present at these sales. Bids are taken at the bidding site and via telephone.

Capturing quality image or video clips enhances the sale offering. Poor quality pictures detract from the sale offering. Effective board sales require accurate and dependable descriptions of livestock, because many prospective buyers bid on cattle without first inspecting them.

A large volume of cattle at one sale can attract buyers, increase bidding competition, and provide a competitive marketing advantage. This requires partial or, in most cases, full truckload lots. These lots can be assembled from multiple consignors, eliminating the need for each consignor to provide truckload lots. A board sale requires prior producer commitment. Producers give up marketing flexibility by committing to participate in a sale. Producers who back out of a sale can negatively impact other consignors and the overall sale. Therefore, some board sales retain nomination fees from consignors who back out of a sale and may restrict future participation when commitments are broken.

An advantage of a board sale is that it accommodates a large number of feeder calves that might not all be ready to ship on a certain day. Flexibility is given to arrange for future delivery. Some calves are shipped soon after a sale, while others are shipped at agreed dates, depending on target weights.

Consignors offer cattle in load-lots made up of single or multiple consignments of uniform calves. Consignments are assembled with regard to region and type of cattle. Ensuring that buyers do not leave a board sale with a short-load or are forced to piece lots together to complete a load often attracts more buying competition.

Direct buyer-to-seller transportation reduces stress, shrinkage, and death loss. Reducing shrink before recording a pay-weight can drastically affect returns. Calves can shrink up to 10 percent of their weight overnight and as much as 6 percent over a six-hour period before selling. A set percent "pencil shrink" is agreed to for each sale. This can help capture returns per head that would be lost in many other marketing scenarios. Load-out arrangements are routinely made immediately after a sale. A loading date is agreed upon between the buyer and seller. Sales management assists by identifying sites with certified scales near the origin of each load.

Reduced cattle handling and commingling before shipping are advantages to board sales. With these sales, a reputation may be established that could foster repeat buyers or increased willingness to pay higher prices for calves from producers whose cattle have performed well in the past. Individual lots of cattle are easily identified with their respective consignors. Lot descriptions sometimes include information on the ranches and families they represent.

The primary marketing agent is typically an auction market. In some instances, consigners can choose another marketing agent, provided they agree to the terms. The marketing agent agrees to host and handle the sale for a commission. Insurance is often required for all consignments. Price slides are used to adjust loads that exceed the agreed pay weight after shrink. This protects buyers as well as the reputation of future sales. For example, if a load sells for $90 per hundredweight (cwt) at an average calf weight of 700 pounds, the price

remains $90 per cwt for any average less than 700 pounds. However, if the load averages 701 pounds per calf at delivery, the price is adjusted to $89.95 per cwt. In the same scenario, if the load averages 720 pounds per calf at load-out, the price is adjusted to $89 per cwt.

Health management and preconditioning are concerns with these types of sales. Depending on the particular sale, specific preconditioning and vaccination protocols may or may not be required. Calves managed similarly are usually grouped in the same load. For example, consigners who vaccinate with the same products and precondition their calves for a similar amount of time may be grouped together and represented as such in a sale.

Video/Satellite/Internet Auctions

Video auctions broadcast over satellite and/or Internet are forms of "electronic marketing." These types of sales can reach a large number of potential buyers and provide entry to small markets. Potential exists for reduction in buyer cost that is then passed along to sellers in higher bid prices.

Sufficient technology infrastructure is needed, and contract services are often required to conduct video auctions. Marketing cost is generally higher for these electronic sales than for tele-auctions. On rare occasions, technical difficulties can cause problems for sales. Access to certain satellite channels is needed to view satellite sales. Sufficient Internet bandwidth is needed to view and participate in Internet auctions. Internet use in Mississippi and throughout the U.S. is increasing, but some potential buyers still do not have Internet access or do not feel comfortable bidding online. This can limit some potential buyers from participating in sales.

Consignors need to provide on-farm truckloads of uniform cattle. Accurate cattle descriptions are essential. The quality of video footage is critical. It may be best to professionally video the cattle ahead of a sale and then edit the video. Some video auctions post photos and video clips online ahead of a sale and produce video to mail out to prospective customers.

The majority of Mississippi beef cattle producers surveyed in 1999 agreed that video auctions make pooling cattle easier and buyers prefer cattle from a single source. Transportation of cattle sold by video auction is direct from seller to buyer. This reduces cattle shrink, stress, and health risk from commingling at a sale site. These farm fresh cattle may command higher prices, particularly if documentation of value-added production practices such as preconditioning is provided. Delivery schedules also tend to be very flexible.

Risk Management

Producers have several alternatives to manage risk (protect price) when marketing feeder calves. Markets with price protection include forward contracts, futures market hedging, and futures market options. Private treaty and auction sales typically do not offer price protection.

Forward contracting is a contractual arrangement between a feeder cattle buyer and seller to exchange feeder cattle for an arranged price at some future date. Forward contracting allows both the buyer and seller some flexibility in defining acceptable terms. Standardization of forward contracts saves time in negotiations.

The Chicago Mercantile Exchange is an example of a futures market. Forward contracts become standardized futures contracts under the exchanges. Livestock futures allow producers to lock in prices, improve business planning, and facilitate financing. A futures contract states the commodity, quantity, quality, delivery point, and cash settlement. These contract specifications change over time as industry standards change.

A long futures position is where a product is in inventory and a futures contract is purchased. A short futures position is where an unsatisfied need for a product exists and a futures contract is sold. A hedge is a means of managing price risk by taking a position in the futures market opposite that held in the cash market. One who owns a commodity and plans to sell it later is long cash. A short hedge balances a long cash position with a short futures position and protects against price decrease. One who needs and plans to purchase a commodity later is short cash. A long hedge balances a short cash position with a long futures position and protects against price increase. By buying back a contract before the delivery date the obligation to deliver on a sold contract or to take delivery on a purchased contract is removed or offset.

A feeder cattle option is a legally binding contract that gives the option buyer the right, but not the obligation, to buy or sell a feeder cattle futures contract under specific conditions in exchange for the payment of a premium. A call option is the right to buy a futures contract at a specified price during the option life. A put option is the right to sell a futures contract at a specified price during the option life. Each option provides the opportunity to take advantage of futures price moves without actually having a futures position.

Market Information Sources

Many reliable Internet sources for market information exist. Current and historical market information can be obtained from these sources. Links to some of these websites are listed below.

- USDA Agricultural Marketing Service Livestock Market News, www.ams.usda.gov
- Livestock Marketing Information Center, lmic.info

Conclusions

Manage production practices based in part on marketing targets. Effective cattle marketing is more than just selling cattle. It involves market analysis, product development, market selection, production promotion, and further market development. To improve operational profitability, build marketing knowledge and maintain marketing flexibility. Contact your local MSU Extension office for more information on feeder calf marketing.

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