

Alternative Marketing Options for Your Calf Crop



Lesson 5

Introduction

Traditionally, cow-calf producers make the decision as to when and where to market their calves based mostly on personal convenience with little thought given to efforts they have made to improve quality of their product, market trends, or impact of their product to the subsequent segments of the industry. As producers improve the quality of their herds and their management, they must evaluate this strategy for marketing the results of their investment and breeding effort. Specifically, producers must evaluate market trends, seasonal trends in prices, and marketing outlets, and decide when and where marketing alternatives lead to better price potential. The following lesson outlines current marketing options for cow-calf producers. Many of these options are current as of this year (2001); thus, producers are encouraged to learn the principles behind each of these options, and seek to update the specific marketing plans outlined herein.

Market Trends and Seasonality

Market trends are determined by consumer choices made at the retail level. Under traditional commodity production conditions, these trends eventually trickle back to producers. However, with the implementation of alliances and introduction of consumer friendly, case-ready beef products, market trends are reaching producers at a faster rate today. Trends today indicate a strong demand for Choice and better quality grade beef at moderate yield grade (YG) 3. However, as more case-ready products are developed, the need to produce carcasses with less fat cover (YG 3 or less) will become a priority. Thus, the target for commodity beef production is for carcasses that grade 60% Choice or better at YG 3 or lower. Some specialty markets (lean beef) demand Select or Choice carcasses that achieve YG 1 and 2. Additionally, there are organic beef markets that demand very specific standards for grading and, more importantly, other pre-harvest conditions such as specific requirements for feed and health products. Producers are encouraged to study each potential end market for their calves based on their breeding objectives, especially when their end market includes niche or specialty markets.

Seasonality in calf prices responds to seasonality in calf supply within each year regardless of the stage of the beef cattle production cycle. Feeder calf supply is heaviest during the fall of the year, as more than 70% of the national cow herd calves in the first quarter of the year. Based on averages for 1997 through 2000, seasonal calf prices appear to be lowest during September and October (Figure 1) coinciding with seasonal calf supplies. Spring calving producers may

consider backgrounding calves for 60 to 90 days, to take advantage of the upswing in calf prices during November and December (Figure 1). However, producers who wish to consider backgrounding must evaluate the costs involved in this effort. Lesson 1 outlined an example of costs of backgrounding cattle for 45 days. It is evident from this example that feed and labor costs, and rate of gain are factors that must be considered and monitored to ensure that backgrounding is a profitable venture.

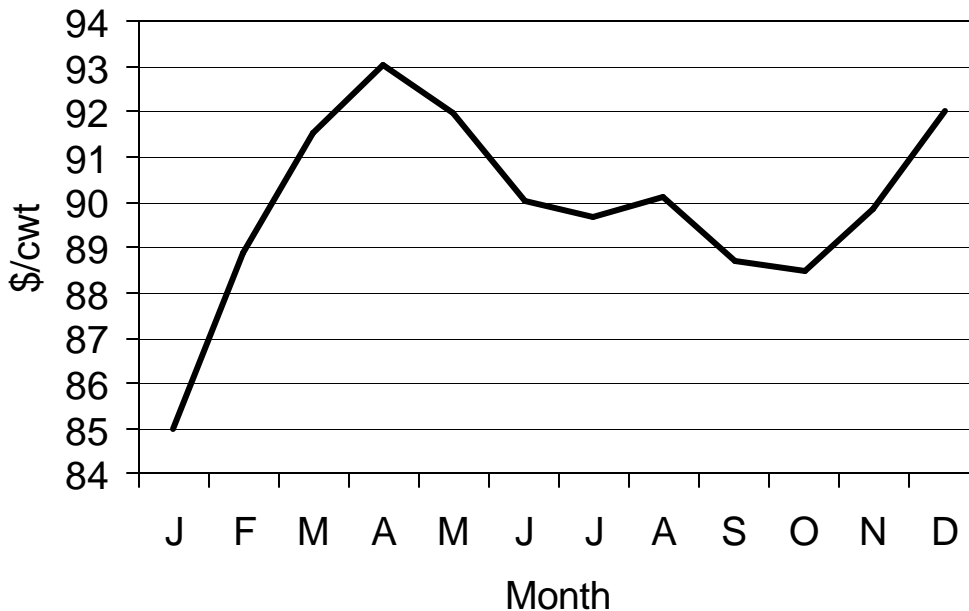


Figure 1. Calf price seasonality for 1997 through 2000.

Marketing alternatives for fall-born calves are more flexible than for spring-born calves. Producers who calve between August and October can either wean calves early and feed on the farm before marketing to a feedlot in the spring, they can wean at the conventional age (210 days) and market in the spring, or they can wean (early or conventional) and place on grass during the summer. Either strategy seems to be a profitable alternative as feeder calf prices are at their peak in the spring and early summer (Figure 1).

Marketing Outlets

Auction Barn

The traditional marketing option to most producers is access to a local auction barn. This is the least complex of the marketing options, yet it is one that affords the producer convenience in a setting where price discovery can occur. In this system, producers are responsible for trucking their calves the day before, or the day of the sale. Cattle are unloaded, and typically sorted for sex and size, penned and assigned a sale order. At the sale, the auctioneer or sale manager may indicate what health management calves were subjected to (if the producers is keen to tell them what the health processing was), a short description and sales pitch is made, cattle buyers bid against each other to purchase the lot, the lot is sold, the price, weight and number of head are displayed on the sale barn scale, and the producer receives his/her check for the gross minus

commission, insurance and check-off. Buyers and sale barn managers reserve the right to cull cattle from certain lots for health or other reasons.

Advantages

- Access
 - Convenient*
 - No limit on lot size, color, weight*
 - No limit on crippled, diseased, injured, blind cattle*
 - Available all year; but limited to sale dates and times*
 - Special program sales featuring specific breed or health programs are available*
- Price discovery
 - Buyers participate in open bidding*
- Sale settlement
 - Sale barns are bonded and insured*
 - Check payments are prompt and safe*

Disadvantages

- Market size and reach
 - Limited by local conditions*
 - Quality of cattle (lot size, color, weight) on offer*
 - Number and attitudes of buyers*
 - Distance to feedlot or backgrounding lots*
- Probability of receiving feedback from feedlot or packer
 - Slim to none*
- Trucking
 - Paid by seller to sale site*

Private Treaty Sales

This is an option that seems quite appealing to many cow-calf producers. It is not as simple to access as the sale barn, but it is one that permits the producer the greatest independence, within the limits of his/her marketing skills. In this option, producers are fully responsible for seeking buyers, negotiating price and settling the sale with feeder cattle buyers. In some instances, buyers may be affiliated with a large marketing agency, but in other instances, buyers operate independently (either as agents of feedlots or the feedlot operators themselves). Many local cattlemen's associations conduct summer tours that bring cattle buyers to the area giving association members exposure to direct sale options. Buyers reserve the right to cull cattle out from certain lots for health or other reasons. Price on culls may be negotiated before the sale.

Advantages

- Access
 - Sale conditions determined by agreement between buyer and seller*
 - No specific limit on lot size, color, weight; however, large lots are preferred*
 - Available all year*
- Probability of receiving feedback from feedlot or packer

Moderate to high

- Trucking
Usually paid by buyer from seller's site

Disadvantages

- Access
Crippled, diseased, injured, blind cattle are not accepted
- Price discovery
Buyers are not competing openly for lots
- Market size and reach
Limited by local conditions
 - Quality of cattle (lot size, color, weight) on offer*
 - Number and attitudes of buyers*
 - Distance to feedlot or backgrounding lots*
- Sale settlement
Buyers may or may not be bonded and insured
Payment may not be totally insured

Video Auctions

This option, developed and implemented before the Internet was a reality, is not very different than the local sale barn; however, it presents further restrictions, but affords greater exposure. Specifically, video auctions operate by offering load lots (multiple of 50,000 lb.) of feeder cattle to buyers who view the lots via satellite linkage. Producers wishing to sell load lots through the video auction, contact the auction seller line, a videotape is made of the cattle (usually while they are on the cow in summer pastures), data are obtained with regards to breed composition of herd and sires, health program, backgrounding program (if applicable), and delivery date and location. Lots are featured at specific sale dates throughout the year. Bids are received at the auction site or by phone. The video auction is paid a commission, and serves as the marketing agency much as a local sale barn would; the producer receives his/her check for the gross minus commission, insurance and check-off. Cattle sold through the video auction are subject to federal and state regulations; consignors agree to comply with federal and state health regulations. Additionally, consignors shall provide, at their own expense, brand or standard health certificates by state or federal law. Sorting may be permitted, but most video auctions will only have their own representatives conduct the sorting.

Advantages

- Market size and reach
Buyers can bid on cattle from any state in the US and Canada
- Price discovery
Buyers participate in open bidding
- Access
Delivery dates and locations may be established by seller or buyer (within a given time frame)
Special program sales featuring specific breed or health programs are available
- Sale settlement

- Video auctions are usually bonded and insured*
- Check payments are prompt and safe*
- Trucking
 - Usually paid by buyer from seller's site*

Disadvantages

- Access
 - Load lots only—Based on multiples of load size lots (42,000 to 50,000 lb.)*
 - Crippled, diseased, injured, blind cattle are not accepted*
- Probability of receiving feedback from feedlot or packer
 - Slim to none*
- Weighing and brand inspection
 - Paid by seller*

Internet Auctions

This option, developed and implemented, as the Internet became a reality, is not very different than the local sale barn or video auction. It has similar restrictions and, in theory, can afford greater exposure. Specifically, most Internet auctions operate by offering load lots (multiples of 42,000 to 50,000 lb.) of feeder cattle to buyers who view the lots via the World Wide Web. Producers wishing to sell load lots through an Internet auction site, contact the auction seller line, a photo is taken of the cattle (usually while they are on the cow in summer pastures), data are obtained with regards to breed composition of herd and sires, health program, backgrounding program (if applicable), and delivery date and location. Lots are featured on specific dates throughout the year. Bids are received by computer hook-up. In most cases, the Internet auction is paid a commission, and serves as the marketing agency much as a local sale barn would; the producer receives his/her check for the gross minus commission, insurance and check-off. There are some Internet auction sites that are only market facilitators; financial responsibility resides on the auction barn or bonded livestock dealer representing the cattle. Cattle sold through the Internet auction are subject to federal and state regulations; consignors agree to comply with federal and state health regulations. Additionally, consignors shall provide, at their own expense, brand or standard health certificates by state or federal law. Sorting may be permitted, but most Internet auctions will only have their own representatives conduct the sorting.

Advantages

- Market size and reach
 - Buyers can bid on cattle from any state in the US and Canada*
- Price discovery
 - Buyers participate in open bidding*
- Access
 - Delivery dates and locations are established by seller or buyer (within a given time frame)*
 - Special program sales featuring specific breed or health programs are available*
- Sale settlement
 - Video auctions are bonded and insured*
 - Check payments are prompt and safe*
- Trucking

Usually paid by buyer from seller's site

Disadvantages

- Access
*Load lots only—Based on multiples of load size lots (42,000 to 50,000 lb.)
Crippled, diseased, injured, blind cattle are not accepted*
- Probability of receiving feedback from feedlot or packer
Slim to none
- Weighing and brand inspection
Paid by seller

Market Alliances and Supply Lines

A growing number of options are now available as more market alliances and feeder supply lines become organized. Marketing alliances or supply lines have very specific requirements for breeding, feeding, growing, and managing health of feeder cattle. In many instances, these requirements include an initial certification process, individual identification, and intensive record keeping for source verification. Bonus programs are used to encourage producers to join these alliances but are strictly tied to requirements of the program being met or exceeded. Additionally, some retained ownership or load size limit may be required to qualify. Therefore, producers are encouraged to study alliance and bonus requirements carefully.

Advantages

- Market Size and Reach
*Pre-determined by the alliance or supply line
Continuously researched and upgraded*
- Price Discovery
*Based on value of product at retail level
Supported by strong branded product advertisement campaigns*
- Access
Delivery dates and locations negotiated (within a given time frame)
- Probability of receiving feedback from feedlot or packer
High
- Sale settlement
*Most programs are bonded and insured
Bonus programs may be an option*
- Trucking
Usually paid by buyer from seller's site

Disadvantages

- Access
*Larger lots are encouraged
Specific breeding, feeding and health programs
Cattle may be disqualified by a natural occurrence (disease)
Crippled, diseased, injured, blind cattle are not accepted*

Internet Listing Services

Many Internet cattle sale sites also offer an alternative to the auction option. However, cow-calf producers must understand an important difference between listing options. Most video and Internet auction sites offer brokerage listing options. In this option, cattle are displayed on their website for a given length of time with an asking price and other pertinent information as described for the Internet auction, bids are received during this period, the seller must accept a bid that matches the asking price. Bids are only accepted during specified trading hours. The Internet site is paid a commission and serves as the marketing agency; the producer receives his/her check for the gross minus commission, insurance and check-off. Advantages and disadvantages are similar to the video auction option. The alternative option that many other sites offer, especially those sponsored by breed associations, is a simple Internet listing that permits buyers and sellers to come together, but no warranties are expressed or implied by the listing service. All agreements and transactions are between buyer and seller, independent of the listing service. This option offers advantages and disadvantages similar to the private treaty option but a wider market reach is afforded.

Retained Ownership

Although this option is a form of deferred marketing, it is one that must be considered, especially as cow-calf producers improve the quality of their herds. In many instances, when the breeding program leads to specialized traits, as may currently be the case with breeding programs that produce calves that have a high propensity to be fast-growing and lean, producers are encouraged to seek a retained ownership program to further capitalize on the value of their calf crop. Although a full description of the multiple arrangements possible under retained ownership and a discussion of their advantages and disadvantages are beyond the scope of the paper, a cow-calf producer wishing to consider retaining ownership of their calves must meet the following criteria:

- ✓ Have a clearly defined market target for his/her breeding program
- ✓ Be willing to learn and improve on the quality of his/her cattle
- ✓ Understand some basic facts about cattle feedlots:
 - Pen capacities range from 70 to 250 head/pen*
 - Mixing sexes within a pen will result in lower than ideal performance*
 - Financial liabilities*
 - Feedyards usually charge a yardage and feed delivery fee*
 - Total feeding costs range between \$.35 to \$.70/lb depending on corn price*
 - Corn and cattle supply and demand affect the outcome of the feeding program*
- ✓ Be willing to communicate with feedlot regularly
- ✓ Be willing to commit to retained ownership for at least two feeding cycles

Cattle Information Sheet

In today's user-conscious environment, producing and using a cattle information sheet for sale time is almost a necessity, especially when the cow-calf producers has invested precious time and resources producing cattle of high quality and value. Most buyers whether present at a sale barn, private treaty, video or Internet auction value information on the cattle they are buying; this

feature adds credibility and value to the cattle. The following is a list of information that cow-calf producers must gather from their record books to bring to the sale site.

- ✓ Number of cattle on offer or consignment
Categorize by sex and breed
- ✓ Approximate weight of cattle
Categorize by sex and breed
- ✓ Estimated weight variation (even or uneven)
- ✓ Frame of cattle (small, medium or large)
- ✓ Fleshing condition of cattle (thin, medium, fleshy)
- ✓ Breed description
Cow herd breed
Sire breed
- ✓ Color (percentage for each)
- ✓ Horns (percentage for presence or lack thereof)
- ✓ Calving date
- ✓ Weaning date
- ✓ Feeding background
- ✓ Health background
Vaccinations, date administered and product
Dewormer, date administered and product
Implanted date administered and product
Castration, date and method
Confirmed open (heifers), date and veterinarian signature

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Lesson 5 –Quiz

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1. True or False Generally feeder calf supply is heaviest during the spring of the year?
2. Based on averages for 1997 through 2000, seasonal calf prices appear to be lowest during what two months?
3. Seven marketing outlets are identified in the lesson. Please list 3 along with an advantage and disadvantage of that type of marketing

1. _____

Advantage

Disadvantage

2. _____

Advantage

Disadvantage

3. _____

Advantage

Disadvantage

4. In today's user-conscious environment, producing and using a cattle information sheet for sale time is almost a necessity. Please list at least 5 things that a cow-calf producer should include in the information sheet.

1. _____
2. _____
3. _____
4. _____
5. _____

Please list any questions you may have that weren't answered in this lesson:

Name _____ Phone _____

Address _____

(Optional) Fax _____ E-mail _____