



# Making The Marketing Decision

## Lesson 6

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### Introduction

The cow calf enterprise generally results in a small margin of profit. Therefore, producers must evaluate how they market their calves in an effort to improve the price they receive for them. A change of \$0.5/cwt in price of feeder calves is equivalent to a change of \$4/cow cost, or a change of 1% in calf crop or a change of 5 lb. in weaning weight (DiCostanzo et al. 1995). However, producers may be hesitant to attempt a new marketing option because of the lack of sufficient information, or because it is not possible to envision their operation fitting an alternative marketing option. This lesson will outline certain strategies in making the marketing decision. Producers must be aware that these are presented merely as guidelines and are not all encompassing. Producers are encouraged to utilize these as resources to help them think through their operations before they make the marketing decision.

### Identifying the Market for Your Calf Crop

Producers have been quite successful at improving efficiency of production. Over the last 25 years cow output measured as lb. carcass/cow improved 17% (Cattle Fax, 1998). Other surveys indicate that, regardless of herd size, producers continually strive to reduce input costs and improve output. However, because of changes in the beef industry toward value based marketing, and because traditional segmentation of the industry, producers rarely know or recognize the true value (carcass merit) and feedlot performance of their cattle.

As was indicated in Lesson 2 producers must make the decision to breed for a given target market even as they strive to find better marketing options. The following two pictures depict cattle of British (Figure 1) and Continental breeding (Figure 2). Notice the difference in the conformation of the British steer, exhibiting a shorter body length and lighter muscling than the Continental steer. Additionally, observe the greater extent of fat cover throughout the rib and rump; including a fuller brisket than the Continental steer. Figures 3 and 4 display the ribeye sections for each of these steers. Observe the greater fat depth, degree of marbling and smaller ribeye area in the British steer in comparison to the Continental steer. The British steer has a higher probability of grading Choice or higher USDA quality grade while the Continental steer has a greater chance of being a Yield Grade 1 or 2.

While exceptions occur within each breeding system and given bloodlines, these pictures were selected to display typical conformation and carcass traits for steers of these breeding systems to serve as examples for producers to understand the type of cattle they are producing. Producers must realize the type of cattle they are producing and seek a marketing outlet for their calves that best fits the traits their cattle possess.

An important consideration when identifying the market for the type of cattle each producer has involves evaluation of additional requirements for a given market. Table 1 outlines current and alternative market options for calves under either breeding program. Separate groups of options apply to producers with herds with less than or greater than 250 cows. This is mainly due to the fact that the Internet or video auctions options are restricted to load sizes of greater than 42,000 lbs. and up to 50,000 lbs./load. Requirements outlined in Table 1 are listed as a reference source. Specific requirements must be researched and understood for each of the specific options producers may be considering.

Thus, a producer who owns fewer than 250 cows, who currently markets at an auction barn may consider selling the calf crop in a special barn sale auction which may require Beef Quality Assurance (BQA) certification only, or BQA certification, a strict health protocol and record keeping and the producer must agree to permit commingling of cattle to market lots of uniform weight, frame, muscle and color. A program such as this is currently available through the University of Minnesota Extension Service and Central Livestock Association (Appendix 1). Alternatively, in this example, the producer may consider using a breed listing service on the Internet to advertise his/her calf crop that may lead to a private treaty sale. This option may require that the producer provide at least breed certification and a health protocol.

TABLE 1. Guidelines for making the Marketing Decision

Herd Size	Current Option	Alternative Option	Requirements <sup>a</sup>
<250 Cows	Auction Barn	Special Auction Sale	Breed Certification BQA Certification Health Protocol Record Keeping Committed Consignment Grouping Cattle
	Private Treaty	Breed Association Listing Internet Sale Site Listing Supplier Line Listing Alliances	Breed Certification BQA Certification Health Protocol Record Keeping
>250 Cows	Auction Barn	Special Auction Sale Video Auction Internet Auction	Breed Certification BQA Certification Health Protocol Record Keeping Committed Consignment Load Lots of 42,000 to 52,000 lbs.
	Private Treaty	Breed Association Listing Sale Site Listing Supplier Line Listing Alliance	Breed Certification BQA Certification Health Protocol Record Keeping

<sup>a</sup>Not all requirements apply to all options

# Preparing to Market Feeder Cattle

As producers identify market options for their current calf crop, they may consider future alternatives, especially as their breeding and management program improve. Table 2 outlines the steps to consider when preparing to take advantage of value-based marketing.

**Table 2. Steps to implement value-based marketing**

Short Term	Determine breeding goals Attend BQA certification meeting Research marketing options Set up record keeping system
Intermediate Term	Understand and Implement health protocol Understand/implement weaning and/or backgrounding protocol Determine marketing option or plan Cull herd according to breeding goals Select sires according to breeding goals
Long Term	Obtain carcass data <input type="checkbox"/> Cull according to feedlot and carcass performance

## Marketing Scenarios

The following scenarios were developed for participants to test their decision-making skills based on knowledge gathered from lessons in this course. Although many options may be viable, the intent is to motivate participants to critically think beyond their current situation. The following section describes proposed solutions. Participants are encouraged to pick their own alternative and review the solution sheet only after making their own decision.

### Scenario 1

You own 50 continental steers similar to those in Figure 5. They weigh between 500 and 675 lb, with a 600 lb average and are ready for sale after November 15<sup>th</sup>. Your ranch is located in Northern Minnesota. The closest sale barn is 120 miles. However, you have been visited by feeder buyers regularly in the past. You have been collecting carcass data in the Minnesota Carcass Merit program. Steers evaluated have averaged 1375 lbs market weight, 63.2 dressing percentage, 73% choice or better, 70% yield grade 1 and 2. Steers have had viral and bacterial vaccinations 21 days before weaning. Previously, calves have been sold to feeders locally. You have been considering changes in the way you market your calf crop; the following are three options available to you. Consider each option, determining the pros and cons of each.

#### Option 1

You can contract a trucker to deliver your calves to the nearest auction barn for \$2.10/mile (\$5.04/hd); the auction barn charges a 3% commission. Sales are held weekly.

#### Option 2

You can list your cattle on a breed association Internet site for private treaty sale. Trucking is the buyer's responsibility. The listing will include previous carcass performance, present weight, steer description, and health protocol. Cattle are to be sold with a 3% pencil shrink. Delivery date is determined between buyer and seller.

### **Option 3**

Continue to market calves locally through private treaty as has been done in the past.

## **Scenario 2**

You own 120 British steers for sale similar to those in Figure 6. Calves range in weight from 420 to 590 lbs with an average of 520 lb. Calves are available for delivery after October 15<sup>th</sup>. Your operation is located in southwest Minnesota with the closest sales barn 75 miles away. In the past you have weaned your calves on the truck on the way to the sale barn and have not vaccinated. You have been considering changes in the way you market your calf crop; the following are three options available to you. Consider each option, determining the pros and cons of each.

### **Option 1**

The auction barn will hold a BQA calf sale the first week of December. Trucking is \$2.10/mile (\$2.63/head). The auction barn will charge a flat \$15/head commission.

### **Option 2**

You have the option to sell your calves on a satellite video auction. The video auction charges a 3.3% commission. Cattle must be vaccinated according to one of several video auction protocols.

### **Option 3**

Continue to market calves through the sale barn at weaning as has been done in the past.

## **Marketing Scenarios Discussion**

All three options within each scenario are viable options to market calves; however each option has its pros and cons. The following is a discussion of pros and cons of each option in the two scenarios. This discussion does not encompass all of the pros and cons of each option, however it gives examples of issues that need to be thought through before making a marketing decision.

### **Scenario 1 discussion**

#### **Option 1**

When selling calves through Option 1 there is the opportunity for price discovery in an open bidding market. In addition, you have the flexibility to choose a marketing date, assuming the auction market has weekly sales. You are not required to have a load lot of calves (greater than 48,000 lbs) and there is no requirement on lot size, uniformity, quality or management. The marketing process is fairly hassle free, as you are only responsible to get the calves loaded and delivered to the auction barn with the payment for the calves being guaranteed by the auction market. Option 1 also has its limitations. As seller you have no control over the price received and the price received is subject to the local market conditions. You are subject to paying the trucking of the cattle and a commission fee to the auction market, which combined can be in excess of \$20. The opportunity to receive feedback on finishing and carcass performance is very limited.

### **Option 2**

With Option 2 you have the ability to reach a large and diverse market and set a minimum price for your cattle, although there is no guarantee that you will receive it. Sales costs are very minimal, as listings on breed web sites are generally free of charge. In addition, the buyer generally pays the trucking. The opportunity to receive performance information is fairly high, since you are selling direct to the feedlot. When using a listing service, producers must realize that the service simply 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. You are not guaranteed that your cattle will be sold by a given date or sold at all. In addition, the payment is not guaranteed.

### **Option 3**

This is a familiar process to the producer. Feedback on the calves is likely, as the calves are sold locally and direct to the feeder. Sales and trucking costs are also minimal depending on the method used to reach potential buyers and trucking arrangements once calves are sold. However, with this option, there is very little opportunity for price discovery and the sale process or responsibilities are put on the producer. Similar to Option 2, there is not guarantee cattle will be sold by a given date and neither is the payment guaranteed.

## **Scenario 2 discussion**

### **Option 1**

Selling your cattle through a BQA sale allows you the opportunity to receive a premium for additional management practices (i.e. Quality Assurance, vaccination, backgrounding). Since the cattle are being sold in an open bidding market, there is the opportunity for price discovery and the auction market guarantees payment for the cattle. Limitations to selling through a BQA sale include increased management practices and the possibility of sorting of cattle before the sale. The seller is responsible for the trucking costs and for the \$15/head commission fee. In addition, sellers are not guaranteed a minimum price and are subject to local market conditions and reach. The opportunity to receive performance information is limited, unless the sale facilitator sets up an information feedback system.

### **Option 2**

This option offers the opportunity to reach a large and diverse market. Since a video auction is similar to a traditional auction market, there is the opportunity for price discovery and payment is guaranteed. The buyer is usually responsible for trucking costs and arrangements. When selling on a video auction, there is usually a need for increased management. The seller is required to commit to a given sale date and set of management practices outlined by the auction (i.e. weaning, backgrounding and vaccination protocols). In addition, cattle must be sold in load lots (42,000 to 50,000 lbs), and cattle not meeting specifications must be sold through another avenue. The opportunity to receive performance information is unlikely, unless the auction facilitator provides buyer information. The seller is responsible for providing brand and health inspection.

### **Option 3**

Selling at weaning through the auction market has its advantages in that very little weaning management is needed. There is an opportunity for price discovery and responsibilities of the sale are shifted to the auction market. In addition, you are guaranteed that cattle will be sold on a given date with a guaranteed payment. With this option the producer is limited to local market

reach and conditions without the opportunity to set a minimum price. The producer is responsible for trucking and sales costs with very little opportunity to receive information on finishing and carcass performance.

## Conclusion

Through this lesson and previous lessons of this course, it is apparent that marketing of feeder cattle is becoming an increasingly important and complex process in the cow calf enterprise. The industry is increasingly becoming a value based industry willing to pay a premium for quality, increased management and information, while at the same time increasing its discounts for outlying and unacceptable cattle. Those willing to increase management practices that add quality and value to their product are realizing the benefits at sale time. Producers need to critically analyze their breeding goals, management practices and marketing options available in order to increase profit and sustainability of their operation.

## References

DiCostanzo, A., J.C. Meiske, and B.W. Woodward. 1996. Factors affecting profitability of the cow/calf enterprise. University of Minnesota Beef Cattle Management Update; Issue 36. This report can be found on the University of Minnesota Animal Science web site: <http://www.ansci.umn.edu/beef/beefupdates/beefupdates.htm>

Cattle Fax. 1998. Cattle industry reference guide. Cattle Marketing Information Service, Inc. Cattle Fax web site is <http://www.cattle-fax.com/>

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