Cattle Business in Mississippi – February 2005
"Stocker Cents" article

Marketing Cattle from the Stocker Operation

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Over the past few months, "Stocker Cents" readers have received a great deal of valuable information on managing a stocker cattle production system. Important topics related to forage management, receiving programs, and nutritional supplementation have all been explored. Understanding these issues, and many more besides, are certainly crucial to the success of a stocker cattle operation. But a cruel fact of life in the cattle business is that you can do absolutely the best job possible managing the production process and still not make money. Success or failure of the stocker operation may well depend on how the manager comes out in the very last step in the production process – marketing. Unfortunately, prices in the cattle market are beyond the control of the individual producer. That being the case, what can a producer do to make the most of marketing opportunities? This article will discuss a few key concepts.

First, marketing and production are not separate issues – even though they are often discussed as such. Production decisions related to, for example, the management of health and nutrition programs will affect the quality of cattle to be marketed. This, in turn, affects the price that buyers will be willing to pay for the cattle and may even affect which marketing alternatives are available. For example, participation in certified sales or the development of direct marketing agreements may require that a specific vaccination protocol be followed.

The impact of production decision on marketing outcomes can be significant. Research at Kansas State University in the early 1990's documents the price differences observed between high-quality, healthy feeder steers and less desirable feeder steers sold through Kansas auction barns. While the magnitude of price differences may be, to some degree, a function of market conditions at the time this data was collected, these figures do still illustrate the relative importance of specific quality attributes to buyers. Similar results have been documented in Oklahoma and Arkansas as well.

Table 1. Effect of Selected Feeder Steer Quality Attributes on Price

Physical Characteristic	Average Discount $/cwt
Light Muscling	-$15.30
Small Frame	-$8.93
Dead Hair/Mud	-$1.11

Stale	-$5.06
Sick	-$17.95
Bad Eye	-$2.83
Lame	-$14.00

Source: Sartwelle, J.D., F.K. Brazle, J.R. Mintert, T.C. Schroeder, and M.R. Langemeier. *Buying and Selling Feeder Cattle: The Impact of Selected Characteristics on Feeder Cattle Prices*. MF-2162, Kansas State University, January 1996.

Second, for most producers, a number of viable alternative marketing strategies exist. Taking advantage of some of these alternatives may require a little extra effort, but that effort may be worthwhile. Most producers are familiar with selling calves through local auction barns. This is a readily-available market outlet that is both convenient (flexibility regarding sale dates and the number and quality of cattle that can be marketed) and secure (minimal chance of not being paid for cattle). Other alternatives do exist, however, and these may, for some producers, offer the potential to improve returns.

One marketing option that seems to be increasing in popularity is video auctions. While video auctions have been around for many years now, the increased power and availability of internet and satellite technology have made this market outlet much more accessible in recent years. The primary advantage of video auctions is that they typically involve a large number of potential buyers. Such sales also reduce the stress associated with handling and transporting cattle prior to sale. Generally, the seller can "no-sale" the cattle if a satisfactory bid is not obtained (though there is generally a fee associated with doing so). Finally, through a video sale, cattle may be priced for future delivery. Thus, such sales facilitate forward pricing arrangements that may represent an important risk management tool for producers.

Of course, video auctions are not without their disadvantages. One of the primary disadvantages for smaller producers is that it may not be possible to sell less than truckload lots of cattle. At the very least, cattle in lots smaller than a truckload will be discounted significantly. Also, video auctions occur less frequently than local auctions, reducing flexibility in market timing.

A third marketing alternative for stocker operators is direct sales to cattle feeders. Direct sales can reduce transaction costs such as commission, hauling, and stress on cattle. Realizing the full potential of direct marketing will likely involve developing a reputation with potential buyers. If buyers can have some confidence, based on past experience, that the feedlot and/or carcass performance of cattle will be exceptional, they may be willing to pay a premium for them. As with video auctions, selling directly to a feeder will more than likely involve dealing in truckload lots of cattle. Also, with direct sales, there is no exchange to guarantee buyer performance. It is thus very important to deal with established, reputable buyers. Few things hurt the bottom line like failing to receive payment for a load of cattle.

A final marketing alternative is simply to retain ownership of cattle through finishing. This alternative obviously involves additional risks related not only to fed cattle prices but also to the performance of cattle in the feedlot. However, retaining ownership may be a very good way to capture the full value of calves that truly are above average in terms of feedlot or carcass performance. This alternative would thus probably have the most appeal for stocker operators who are stockering their own calves. For any stocker operator, retaining ownership of cattle may present cash flow challenges since it delays the final sale of cattle for another 130 days or so. If operating loan repayment dates are fixed, this option would definitely need to be discussed thoroughly with the lender. Most feedlots do offer financing, returning some percentage (usually around 75%) of the equity to the cattle owner when the cattle are placed on feed. This can help to alleviate cash flow problems, though the impact of interest costs on feeding profitability will need to be considered.

A third major point to consider about marketing is that the time to begin thinking about marketing is not the week before cattle are ready to sell. It is a good idea to have a plan. Also, keep in mind that the goal of the marketing plan is not necessarily to hit every peak in the market. All markets are, to a large degree, unpredictable. The purpose of an effective marketing plan is to deal with the risks inherent in the market. Here, again, the relationship between production decisions and marketing decisions is very important. The producer's ability to manage price risk is limited. Futures and options on feeder cattle can be used to hedge cash feeder cattle prices, but basis risk may still be a significant problem, depending on the type of cattle being marketed and the particular market outlet being used.[1] Forward contracting offers a very effective approach to reducing price risk, but forward contracting may be difficult for producers dealing in smaller lots of cattle or for producers who do not have well-established connections with potential buyers. For these reasons, one of the most important risk management strategies for stocker producers is to keep costs low. Producing quality feeder cattle while keeping costs low is not necessarily easy, but it will certainly minimize the adverse financial impact of price fluctuations.

One final point about marketing is to consider the market environment that you are dealing with. For the past few years, demand for beef products has been strong. At the same time, cattle numbers have been cyclically declining. This has provided much support for calf prices, particularly in the last couple of years. However, risks in the market have been great. Uncertainty related to animal disease impacts on the market (mostly through trade disruptions) has kept markets unsettled. It now appears that imports of Canadian cattle will begin late in the first quarter of this year. Resumption of exports to Japan may also begin this year; however, the process of regaining past market share in that country may well be long and laborious. On the other hand, herd expansion should begin in earnest in 2005, keeping more females off of the market and further restricting an already tight domestic cattle supply. What is most likely result from all of these inter-related factors is somewhat lower cattle prices at every level of the industry. Stocker and feeder prices are also likely to be more volatile than last year as trade-related developments evolve throughout the course of the year. What this means

[1] Basis is the difference between cash and futures prices. Changes in basis will affect how well a futures or options position works in reducing price risk. Basis will be different in different local markets and for different classes of cattle (e.g., steers vs. heifers).

for marketing in 2005 is that opportunities for profitable marketing may be more difficult to come by in 2005 than in 2004 and that risk management (again, considering both production costs and market prices) should be a priority for producers.

For more information about stocker cattle marketing contact your local Extension office. Next month Stocker Cents will address control of digestive problems and parasites in stocker cattle.