Cattle Marketing Plan

Oklahoma Cooperative Extension Service • Division of Agricultural Sciences and Natural Resources

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Knowing when to buy and sell cattle may be a producer's most dreaded task. While there may not be anything that will make marketing fun, there are steps a producer can take to make marketing less stressful. This fact sheet provides a simple framework to reduce the pain and dread when making marketing decisions.

Developing a written marketing plan will make marketing decisions easier. A marketing plan specifies marketing objectives, identifies and evaluates marketing alternatives, and details an action plan. A written marketing plan does not have to be something elaborate and sophisticated. The simple form included in this fact sheet will force you to ask essential questions and organize your feelings and information into a logical action plan.

Poor financial outcomes may occur in spite of written marketing plans. While good marketing plans cannot eliminate the stress of financial adversity, they can reduce the stress of assessing a given situation and increase the odds of making the right decision. Increasing your confidence in making marketing decisions will increase the odds of financial success.

Developing a Written Cattle Marketing Plan

Before You Begin

Be sure to enter the date on the marketing plan. Marketing is not something you can do once and forget. Conditions change and plans must be re-evaluated. Having a written plan will provide a good reference for decisions that are made, even if they are subsequently changed. Developing a marketing plan and sticking to it are problems for many producers. Having a written plan is a good way to help you follow through once plans are made.

Question 1. Honestly rate your feelings about marketing. Marketing plans can be quite simple or more complex. You will likely not do very well using marketing plans more sophisticated than what makes you comfortable. There is nothing inherently superior about sophisticated marketing tools. Simple marketing plans and using basic marketing tools can be very effective. Concentrate on the things you do best and enjoy most.

There is an adage that "in business, you don't get what you deserve, you get what you negotiate." Producers who don't enjoy marketing find that some amount of marketing is still necessary. Not only are markets inherently volatile, but you cannot always depend on the market to accurately value your production. For these producers, marketing may be more of a defensive approach—protect yourself against market risk and make sure the market treats you fairly.

There are also producers who enjoy taking on markets. For these producers, marketing is an exciting part of the cattle business. The opportunity to explore new marketing alternatives and trying to "beat the market at its own game" opens up a wide array of marketing opportunities.

Recognizing how you feel about marketing is an important part of developing an effective marketing plan. One approach is not necessarily better than another. Make sure your marketing plan fits you.

Question 2. Know what tools are available to you. Don't try to use marketing tools that you don't understand or make you uncomfortable. Marketing mostly involves matching the right tool to a given set of circumstances. Obviously, lack of understanding limits your set of available tools.

Just because you understand, it is not a reason to use a particular tool. For example, many producers seldom or never have a need to use futures markets. However, understanding how futures markets work and when they are used will help avoid stress and self-doubt about decisions.

Question 3a. Risk is broadly defined here, and you should consider your ability to stand financial risk as well as your psychological attitude towards taking risk. Marketing can help reduce stress if you identify how much risk you can stand and use marketing to manage risk above that level.

Question 3b. How much flexibility do you have in timing the enterprise, and what factors are limiting? The degree of flexibility will influence the set of available marketing alternatives you can realistically use.

Question 4. Enter your production information here. Identify the expected date of marketing and the expected animal weight at that time. If retained ownership is an alternative, you can enter a second set of weights and dates to the side.

Question 5. Primary price objective is a realistic price you desire for these animals. Using an enterprise budget to project cost of production and profit objectives will help you determine your price objective. OSU Extension Facts 779 discusses livestock enterprise budgets. You should consider a least acceptable price as well. If your primary price objective turns out to be unattainable, you need to consider a "plan B" to fall back on. This least acceptable price might be one that covers variable cost only, or maybe recoups borrowed capital.

Question 6. Determine what the market is currently offering. Forward contracting may or may not be an option, depending on your location and the type of animals. Fixed price offers with futures contracts and minimum price offers with options contracts can be figured for any location. (Be sure to use a local basis.) OSU Extension Facts 430 and 487 explain the basics of pricing with futures and option contracts. Feeder cattle basis estimates for Oklahoma City are discussed in OSU Extension Facts 499 and 500.

Question 7. What is your cattle market outlook? Are cattle prices trending up, down, sideways? What is your best guess for prices? Even if you make no formal price projections, your marketing plan will reflect some price expectations. For example, a decision to do nothing, that is to take no price setting action today, is not consistent with a strong conviction that prices will fall.

The range between optimistic and pessimistic prices should be the range that you think prices will be with a high probability. Using a price range will force you to consider not only market direction but also the amount of volatility in the market.

Question 8. If it would bother you greatly to give up the opportunity to participate in an unexpected price increase, a fixed price marketing alternative (e.g. forward contract or futures hedge) may not be a good choice. If you can't stand the risk of a lower price, either emotionally or financially, you need to consider an alternative that sets a minimum price. This question forces you to clearly identify your marketing objectives and to consider tradeoffs between price level and risk management.

Question 9. Combine your marketing alternatives (from question 2) and your price objective (from question 5) and write down what you prefer to do. It is important to write down your justification. Is your desired marketing action consistent with your own feelings about marketing and your ability to stand risk, both financially and emotionally? Is it consistent with your expectations about the market?

The justification is especially important when re-evaluating your marketing plan at a later date. Have market conditions or your objectives changed so that the original justification is no longer valid?

Question 10. Is the market offering your price or better? Do you expect the market to reach your objective?

Question 11. If your price objective is unattainable, what is plan B? Now is the time to decide what you will do under different circumstances. In baseball, you need to know who is on base, how many outs have been made, and decide what you will do if the ball comes to you BEFORE the ball is hit. The same applies to marketing.

Question 12. Determine how often the plan needs to be monitored. Monitor it as needed. Know when you have to make decisions and be prepared to make them. Put it out of your mind the rest of the time.

CATTLE MARKETING PLAN FORM

Date_____

1) Which of the following statements best describes you?
   a) I enjoy the challenge of marketing.
   b) I don't enjoy marketing, but it is a necessary evil.
   c) I hate marketing and do as little as I can get by with. _____

2) Which of the following cattle marketing alternatives would you use or consider using?

	Yes	No
Cash Auction	_____	_____
Direct Cash Sale	_____	_____
Forward Cash Contract	_____	_____
Put Option Contract	_____	_____
Futures Market Contract	_____	_____
Retained Ownership	_____	_____

3) Marketing Flexibility

   a) My ability to stand risk is:
   Low _____ Medium _____ High _____

   b) My marketing flexibility is most limited by:
   Production Factors (e.g. forage availability) _____
   Price/Financial Factors (e.g. loan repayment) _____

4) Cattle Production Information

# of Head		Weight	Marketing Date
_____	Steers	_____	_____
_____	Heifers	_____	_____
_____	Calves	_____	_____

5) Price Objectives

	Primary Price Objective	Least Acceptable Price
Steers	$ _____	$ _____
Heifers	$ _____	$ _____
Calves	$ _____	$ _____

6) What is the market offering?
(Be sure to use the appropriate weight, sex and date from 4.)

Forward Contract	$ _____
Put Option Contract	$ _____
Futures Market Hedge	$ _____
Retained Ownership	$ _____

7) Price Outlook
(Use the appropriate weight, sex and date from question 4.)

I think the cattle market trend is up__ down__ sideways__

Expected Price	$ _____
Optimistic Price	$ _____
Pessimistic Price	$ _____

8) Which concerns you most?

   Giving up the chance for a higher price. _____
   The risk of getting a lower price. _____

9) My desired marketing action is to:

__ Sell direct or at auction for $ _____ .

Why?_____

__ Forward contract for $_____.

Why?_____

__ Futures market hedge with an expected hedge price $_____.

Why?_____

__ Buy a put option with strike price of $____ and an expected minimum price of $_____.

Why?_____

__ Other _____

10) Is the action in question 9 possible given the market offerings in question 6? Yes_____ No_____

11) If no, my action will be to:

__ Wait for my price objective
__ Revise my price objective
__ Take alternative action _____
__ Other _____

12) This plan requires monitoring or evaluation
   ___ daily
   ___ weekly
   ___ on (dates) _____ _____
   _____ _____

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