The University of Georgia College of Agricultural & Environmental Sciences/Cooperative Extension Service

Profitable Cattle Marketing for the Cow-Calf Producer

John C. McKissick, Extension Economist & Dan T. Brown, Extension Animal Scientist

Contents

With cow-calf operations, as with other farm enterprises, making a profit isnt the best thing - it's the *only* thing that will keep you in business. And how much profit you make depends largely on the market price you get for your calves.

Profitable cattle marketing means producing the most profitable calf, selling through the most profitable market outlet and pricing at the most profitable time. Unfortunately, most cow-calf producers simply *sell* their calves. They produce calves which may be the easiest to produce and sell at the most convenient market outlet at whatever the price is at the time.

Marketing means choices on how or what to put on the market, where to market and when to price. The first step in becoming a cattle marketer is to recognize all your alternatives and evaluate each in light of potential cost and returns, selecting the most profitable rather than the most convenient alternative.

Plan for the Market

The old saying goes that if you don't know where you're going, any road will take you there. But if marketing your cattle at a profit is where you want to go, then planning for the market will help get you there. Planning requires information. A good way to start becoming a better cattle marketer is being sure you understand the cattle marketing system and how your cattle prices are determined. Then you need to recognize all the market alternatives available to you. Finally, when you need to make a marketing decision you need to know where to get the information to help you decide.

The Georgia Feeder Cattle Market

In Georgia, as in the Southeast, feeder calves are produced and sold as lightweight feeder calves after weaning. About 70 percent of all Southeastern calves are weaned and sold during the fall. This is the major reason behind the normal seasonal price swing: Prices are normally lower during the fall and higher during the late winter and early spring.

There are around 30,000 cattle producers in Georgia with an average herd size of fewer than 50 head. With so many small producers, it is natural that most Georgia feeder calves are sold through local auction markets.

Calves weighing between 300 and 500 pounds will usually move into some type of forage-based stockering programs, where another 300 to 400 pounds will be added. As heavyweight feeders, between 600 and 800 pounds, they then will typically move into feedlots.

Normally, 70 to 75 percent of all U.S. beef comes from cattle fed in feedlots. Feedlots have become increasingly fewer and larger. The top three feedlot states (Texas, Nebraska and Kansas) now market 60 percent of the cattle fed in the U.S.

Since most of the cattle feedlots are in the Plains States and the Corn Belt States, it follows that most of Georgia's feeder cattle end up in these states.

Large, efficient slaughter plants are in the cattle-feeding areas of the country, providing ready markets. After slaughter, beef moves back into all parts of the country to the ultimate market, the consumer.

The important point in the pricing system is that the consumer eventually calls the shots. The retailer wants a certain type of product because the con- sumer wants it. This is relayed back to the slaught- erer who relays it to the feedlot, who relays it to the feeder cattle producer. The "relay" for all these messages is the price. Unfortunately, because of all the messengers in the market, the signals sometimes get mixed or muted. But usually, if we pay close enough attention, we can see them. By understanding how the beef cattle markets work, you, the feeder cattle producer will be better able to recognize changes that may make you a higher profit.

Feeder cattle prices are derived from their next market. The calves' value is based on what they are expected to be sold for, either out of the feedlot or out of a backgrounding operation, less the cost of gain. As the expected price of finished animals goes up or the cost of putting the finish on the animals goes down, feeder calf prices will increase. The weight to be added is factored in with the expected price of finished cattle. A 1,100-pound finished steer weighs 2.44 times as much as a 450-pound feeder calf and 1.57 times as much as a 700-pound yearling. Therefore, a $1-per-hundredweight increase in the expected selling price of a finished steer would cause a buyer to bid $2.44 per hundredweight more for a 450 lb feeder calf or $1.57 more for a 700-pound steer.

The cost of finishing the calf will also affect the price of the feeder. The cost of putting a pound of gain on a calf depends on feed cost, nonfeed costs such as interest, and the efficiency of the calf itself.

A feeder buying a 450-pound calf and finishing it to 1,100 pounds is putting on 650 pounds of gain or 1.44 times the original weight. Finishers buying 700-pound yearlings and finishing to 1,100 pounds are putting on 0.57 times the original weight. So each $1 change in the cost of gain will raise or lower the price finishers can pay by $1.44, for a 450-pound calf, and $0.57, for a 700-pound feeder. Table 1 shows break-even purchase prices which could be paid for a 450-pound steer given alternative fed-cattle prices and cost of gain. Of course, feeder calves produced in Georgia are likely to be transported to the feedlot states. Thus, a feedlot will also have to discount the feeder price in Georgia by the cost of transporting the calves to the feedlot.

While it is the cost and return from finished cattle which give feeders their value, it is the overall supply and demand for beef which determines fed cattle prices. Figure 1 illustrates the factors which affect fed cattle prices.

The variables are shown by different size squares depicting the relative importance of each. For example, fed steer and heifer slaughter contributes the most to beef supplies, followed by commercial cow slaughter, nonfed steer and heifer slaughter, beef imports and exports, and bull and stag slaughter.

On the demand side, per capita disposable income, total population and competing meats (poultry and pork) are all important factors. Other factors, such as the value of by-products and the cost of slaughter, processing and marketing (farm-to-retail margin), will also affect farm prices.

The most important determinant in the long-term supply of beef is the beef cattle cycle or the periodic increases and decreases in cattle numbers. When cattle production is low and prices high, cow-calf producers add to their herds. In the short run this actually reduces the supply of beef as fewer cows are sent to slaughter and heifers are retained in the herds. Eventually, however, beef supplies are increased after the cattle herd is increased. This results in a period of unprofitable calf prices and producers eventually reducing herds. The herd reduction actually causes a short-term increase in beef supplies, further reducing prices.

The beef cattle cycle really is a profit cycle for cow-calf producers. Stockers and feeders are "margin" operators and their profits are not necessarily tied to high or low price levels. Until 1979, cattle cycles had been rather predictable in their duration. It is believed a general decline in beef demand during the 1980s caused a longer string of unprofitable prices for cow-calf producers and thus a longer and more severe reduction in cattle numbers. The string of profits incurred since the late 1980s suggests the cycle may again return to historical patterns. The important lesson for the Georgia cattle producer is that there will be several years of both profitable and unprofitable prices.

Feeder Calf Marketing Alternatives

Georgia feeder calf producers have three major marketing decisions: what to produce, where to market and when to price their calves. While some or possibly all of these decisions are set for the producer, alternatives most likely exist. The selection of these alternatives will have a dramatic impact on the profitability of the cattle operation.

Table 1. Specifications for each frame size.	
Large Frame (L)	Feeder cattle in this grade are thrifty, have large frames and are tall and long-bodied for their age. Steers would not be expected to produce the amount of external fat opposite the twelfth rib -- usually about .5 inch -- normally associated with the U.S. Choice grade until their live weight exceeds 1,200 pounds. Heifers would not be expected to produce choice carcasses until their live weight exceeds 1,000 pounds.
Medium Frame (M)	Feeder cattle in this grade are thrifty, have slightly large frames, and are slightly tall and long-bodied for their age. Steers would be expected to produce U.S. Choice carcasses (about .5 inch fat at twelfth rib) at live weights of 1,000 to 1,200 pounds. Heifers would be expected to produce choice carcasses at 850 to 1,000 pounds.
Small Frame (S)	Feeder cattle included in this grade are thrifty, have small frames and are shorter-bodied and not as tall as specified as the minimum for the medium grade frame. Steers would be expected to produce U.S. Choice carcasses (about .5 inch fat) at live weights of less than 1,000 pounds. Heifers would be expected to produced Choice carcasses at live weights of less than 850 pounds.

Table 2. Specifications for each thickness score.	
Number 1	Feeder cattle included in this grade usually show a high proportion of beef breeding. They must be thrifty and slightly thick throughout. They are slightly thick and full in the forearm and gasking, showing a rounded appearance through the back and loin with moderate width between the legs, both front and rear. Cattle show this thickness with a slightly thin covering of fat; however, cattle eligible for this grade may carry varying degrees of fat.
Number 2	Feeder cattle which possess minimum qualifications for this grade are thrifty and narrow through the forequarter and the middle part of the rounds. The forearm and gaskin are thin and the back and loin have a sunken appearance. The legs are set close together, both front and rear. Cattle show this narrowness with a slightly thin covering of fat; however, cattle eligible for this grade may carry varying degrees of fat.
Number 3	Feeder cattle included in this grade are thrifty animals which have less thickness than the minimum requirements specified for the No.2 grade.
In addition to nine possible combinations (3 frame size, 3 muscle thickness) of feeder grades for thrifty animals, there is an inferior grade for unthrifty animals. The inferior grade includes feeder cattle that are unthrifty because of mismanagement, disease, parasitism or lack of feed. An animal grading inferior could qualify for a thickness and frame size grade at a later date provided the unthrifty condition was corrected.	

What Cattle to Produce

The cow-calf producer influences the marketability of his cattle the day he selects his breeding stock. While it is true that almost any type of cattle can be sold at a price, the Georgia cattleman should be producing the most profitable cattle.

The United States Department of Agriculture has official grades for feeder cattle based on frame size and muscling. Tables 1 and 2 describe the three frame and muscle classifications. Frame size is related to the weight at which, under normal feeding and management, an animal will produce a carcass of a given grade. Large-frame animals require a longer time in the feedlot to reach a given grade and will weigh more than a small-frame animal would weigh at the same grade. Thickness is the amount of muscling present in proportion to bone and fat. Thicker-muscled animals will have more lean meat. The grades consist of three frame sizes (Large, Medium, and Small) and three thickness or muscling grades (No. 1, No. 2, No. 3).

While few cattle sold in Georgia are officially graded, prices are reported based on estimated grades. The price differences reported on Georgia auctions for various grades provide valuable information into the type of cattle demanded in the market (Table 3). Remember: the grades are based strictly on frame and muscling, not cattle color. Any breed can produce animals in any of the grades.

As the historical price differences point out, the market demands medium- to large-frame feeder calves which are well-muscled. There is little or no price premium for large-frame calves (very-large-frame calves actually draw discounts) and thus no incentive to increase frame size above the medium level. However, the large discounts for small-frame animals suggest that breeding programs to increase frame to the medium score will be profitable even though larger-frame animals will cost more to produce. Current estimates suggest that while small frame animals are fast disappearing from Georgia markets, about 25 percent of marketings are still small frame.

Emphasis on frame size in recent years has tended to overshadow thickness in feeder calves. The percentage of calves sold in Georgia which are less than #1-muscled is estimated at around 30 percent. Breeding programs aimed at improving thickness in calves are likely to be profitable with about $10/cwt. improvements for each muscle-score increase. However, as with many cattle traits, extremes are to be avoided. For example, females with extreme muscling tend to have more calving problems. Try to increase muscling, but not to the point that it causes problems in the cow herd.

Breed can influence prices independent of grade. Crossbred calves normally are in higher demand than straightbred calves, especially straight Hereford, Polled Hereford or Brahman. Calves with a high percentage dairy, Brahman and/or Hereford blood are normally penalized. Hereford and Hereford-cross feeder cattle sold through Georgia tele-auctions from 1983 through 1988 were discounted by $0.92 per hundredweight, Brahman or Brahman-cross feeders were discounted $1.12 per hundredweight and dairy feeders by $12.98 per hundredweight, as compared to other crossbred calves of the same quality. Generally, discounts for these breeds can be minimized if the breed represents no more than 25 percent of the calf.

No matter the type of cattle produced, dehorned, well-managed, clean, healthy-looking calves will always bring top-dollar prices. A Kansas study of more than 140,000 head of feeder calves sold at auctions showed that cattle which were not in good health, had physical impairments or were muddy received large discounts. Muddy calves or calves with dead hair typically were discounted 2 percent, stale animals 7-9 percent and sick animals more than 25 percent. Castrated calves may not bring premiums at auction markets since buyers don't have time to confirm each calf as he comes through the ring, but they will bring premiums through other market methods which allow for seller identification. Specific health practices may also bring premium prices when the market allows for the recognition of such practices. A recent study of prices received through Georgia tele-auctions showed that preconditioned calves (calves vaccinated, weaned and eating from a feeder) brought $1.43/cwt. more than nonpreconditioned calves.

Most cow-calf producers sell lightweight calves at weaning. However, keeping calves through stockering or even feeding may be profitable at times. Through what production stage should you own your calves? The only way to know is to compare the potential returns to the cost of adding weight to your calves.

Two general observations can be made: One, owning calves from fall to late winter or early spring is more profitable than selling at other times of the year due to the seasonal price swings. Two, heifer prices will gain on steer prices at heavier weights. Over the past 10 years, heifers sold at heavier weighs during the late winter and early spring have actually averaged more than their lightweight prices during the fall.

Cow-calf producers weaning medium-frame calves less than 500 pounds may want to consider stockering their own calves (especially heifers) through the winter. Calves in the 600-pound range at weaning most likely should go straight into feedlots. Ownership could be maintained by custom feeding the calves in feedlots close to slaughter plants. Some studies have shown complete ownership of calves through the feeding stage to be the most profitable strategy for cow-calf producers. However, returns are highly variable, depending on the stage of the cattle cycle, and risks are high. Maintaining ownership of calves does allow producers of genetically superior cattle to capitalize on more of their genetic investment.

Where to Market

Georgia cattle producers have several market outlets. No one system fits every producer's needs, so there will continue to be many alternatives. The market outlets available to you will depend on the number and uniformity of cattle you have to sell at one time. This generally is the key ingredient in gaining higher prices through different marketing methods. The ability to form truckload lots (around 48,000 pounds) of uniform cattle will generally result in even higher prices and open up marketing methods beyond the single-head auction.

No matter your size herd, you can capture some of these benefits by having a defined, short breeding season so your calves will be uniform in weight. Uniformity in cattle color and grade will be a product of your breeding herd. Lack of uniformity in cattle color can become a problem if not properly planned in the crossbreeding system.

Some of Georgia's cattle-market alternatives, along with their advantages and disadvantages, are discussed in the following text.

Auction Markets

Auctions are the traditional way of selling livestock. Georgia has more than 55 auction markets with most of the state's livestock being sold through them.

Auction Market Advantages:

- The auction market can provide competitive bidding.
- It is convenient.

- It is open to all sellers and buyers.
- There is prompt cash payment.
- All types of livestock can be marketed.
- It provides a place where cattle prices are determined and known to all.
- It is supervised by the federal government.
- It requires absolutely no market knowledge by the producer.
- It requires no minimum number of cattle.

Auction Market Disadvantages:

- The seller has little control of prices.
- It encourages multi-handling, speculative-type trading.
- Overhead cost is high.
- Excessive stress and shrinkage of livestock may occur.
- There is a lack of volume and uniformity of animals at many markets.
- No permanent system exists for identifying livestock and producers after sale.
- Producers find it hard to establish a reputation for selling high-quality, well-performing livestock.
- The grade and price information is hard to interpret.
- Prices are uncertain.
- Disease spread is more likely.
- The number of buyers may be small, reducing competitiveness of bidding.

Even when marketing through auctions, prices for cattle are not uniform. You can have some influence on the price you get by communicating with your auction operator. Find out before you deliver your cattle what the operator expects in buyers and cattle numbers to be sold during various marketing times. Let the operator know ahead of time what you will be bringing to market. If you have a group of uniform calves to sell, ask about the possibility of selling as a group.

Graded and Pooled Sales

Graded and pooled selling is the combination of small lots of livestock into larger, uniform lots of animals. This can be done informally by people "pooling" their animals before selling or through more formal arrangements. For example, area livestock producers may organize to develop a graded and pooled sale. The advantages and disadvantages of such a sale are:

Pooled Sale Advantages:

- Can put large, economical lots of livestock together.
- Cost savings for buyers are passed along to sellers.
- Large numbers of livestock attract more buying competition.

Pooled Sale Disadvantages:

- Grading, sorting, weighing and penning before sale are time-consuming and expensive.
- Individual producers lose their identity.
- Most marketing facilities are not designed for efficient processing for this system.
- It's hard to get a large number of producers to agree on all terms of sale.

Tele-Auctions

A tele-auction is the use of a telephone conference call to allow separation of livestock, buyers and the auction process. Producers with truckload lots of cattle can be sold directly from the farm. Producers with partial truckloads can be matched with other producers "on paper" and sold together. The tele-auction could also be used with a pooled arrangement for smaller producers.

Georgia producers have a long history of using feeder cattle tele-auctions. Since 1977, three organizations in Georgia have sold more than 170,000 head of feeder cattle through tele-auctions. The cattle sold through the tele-auctions have averaged about $2/cwt. more than similar cattle sold at the closest single-head auction at the time.

Tele-Auction Advantages:

- Potentially increases competition.
- Direct buyer-to-seller transportation reduces stress, shrinkage and death loss.
- Reduces buyer cost.
- Reduces marketing cost.

Tele-Auction Disadvantages:

- Requires prior producer commitment
- Reduces marketing flexibility.
- Requires partial or full truckload lots

Video-Auctions

Video auctions are very similar to tele-auctions except that videos of the cattle are made for advance viewing or for viewing by satellite telecast while the cattle are sold. Video auctions are sponsored by national companies and allow buyers to select from thousands of cattle coming from a wide geographic area.

Video-Auction Advantages

- Largest number of potential buyers of all market methods.
- Potential for reduced buyer cost passed along to seller.
- Direct buyer-to-seller transportation.
- Delivery schedules are very flexible. For instance, cattle can be sold in July for delivery in October.

Video-Auction Disadvantages

- Marketing cost is generally higher than tele-auction.
- Requires producer to have on-farm truckload (and preferably more) of uniform cattle.

Private-Treaty Selling

Private-treaty selling of livestock was widely used in the early 1920s when many country buyers operated throughout the state. As auctions became more prevalent, producers shifted to auction selling.

Private-treaty selling is a closed-sale method; it is a private negotiation between seller and buyer. The price and terms of sale are usually known only by the seller and buyer.

Sellers and producers of breeding stock have used this method for centuries and continue to use it. Producers with large herds often use this method. Private-treaty selling of cattle is increasing because many buyers prefer to have their calves conditioned to their specifications; therefore, they prefer to buy from sellers whose production practices meet their needs and demands.

Private-Treaty Advantages:

- Seller controls the marketing process.
- Costs less than other methods of marketing.
- Producer can establish a reputation.
- Animals are farm fresh with no stress.
- Disease spread is minimal.
- Producer can condition animals to buyer specifications.

Private-Treaty Disadvantages:

- Requires excellent marketing knowledge by seller.
- There is no supervision by the federal government.
- Producer must assume risk of payment collection.
- May be little or no buyer competition.

When to Price

The actual price received by most calf producers for their calves will be determined when they sell their cattle at a specific market. This need not be the case for those producers who have near-truckload lots of cattle to sell at one time. These producers can set a price before they will actually sell their cattle by using the feeder cattle futures market. By using the feeder cattle options market, producers also can set a minimum price they will take for their cattle before the actual sell date.

Both the feeder cattle futures and option contracts are traded on the Chicago Mercantile exchange in Chicago. By trading a 44,000-pound contract, a cattleman in Georgia can set the price for as much as a year in advance of the time he or she actually sells cattle. The mechanics for using these markets is covered in other Extension publications such as *Pricing Georgia Farm Products Through The Futures Market* (Bulletin 900) or *Commodity Options Price Insurance For The Farmer* (Bulletin 921).

Producers who will be selling close to the 44,000-pound contract size at one time may want to investigate these pricing alternatives if they need to reduce the risk of unfavorable price changes. Producers keeping cattle through stockering, and especially those feeding cattle, are encouraged to consider forward pricing alternatives as they are most susceptible to short-term price changes. (Fed-cattle futures and option contracts are available in contract sizes as small as 20,000 pounds.)

Feeder Cattle Market Alternatives Summary

In summary, most Georgia cattle producers have several alternatives for when, where and how they market their cattle. Consider each of these alternatives separately in light of its advantages and disadvantages. No one combination of alternatives can be considered a superior cattle marketing program for all farms. What works for one producer may not necessarily work for another. However, there can be no doubt that proper attention to a marketing program can pay great dividends.

Keeping up with the Market

Successfully implementing a cattle marketing program will require the producer to keep tabs on the market, particularly when a market decision is at hand. The following is a list of price and important supply reports which may be useful.

Price Reports by Phone:

Georgia and national cattle market prices, updated daily, Federal State Market News, Thomasville, Ga. Toll-free 1-800-342-1440.

Georgia and national cattle and grain market prices, Georgia Farm Bureau Farm Line, Toll-free for Georgia Farm Bureau Members, 1-800-456-1192 after 5 p.m. Touch-tone phone required.

Published Price Reports:

Georgia Livestock Market News. Weekly summary of Georgia cattle and hog prices and receipts, Federal State Market News, P.O. Box 86, State Farmers Market, Stall 38, Thomasville, GA 31799. Phone 912-226-1641.

Livestock, Meat and Wool Market News. Weekly summary of national livestock prices, market volume and other information. Agricultural Marketing Service, Livestock & Grain Market News, Room 2623-S, P.O. Box 96456, Washington, DC 20090-6456. $70/year.

Market Watch. Weekly summary of livestock and grain prices, price trends and other market information. University of Georgia Cooperative Extension Service, Available through county Extension office.

Published Supply Reports:

The following reports are important in determining beef cattle supply trends.

Summaries of the reports are available from the Georgia Agricultural Statistics Service, Stephens Federal Bldg., Suite 320, Athens, GA 30613. Phone 404-546-2236.

Actual reports are available from ERS-NASS, P.O. Box 1608, Rockville, MD 20849-1608. Phone toll-free 1-800-999-6779

Cattle Inventory. Numbers and value of all cattle and calves, numbers by classes, expected calf crop, distribution by size groups and states. Released in January and July. $20/yr.

Cattle on Feed. Inventory of cattle on feed by weight and sex. Released monthly for the seven largest cattle feeding states, quarterly for the 13 largest states.

Table 3. Price which could be paid for a 450-pound feeder steer at alternative fed-cattle selling prices and cost of gain:

	Expected Fed Cattle Price, 1,100 lbs.			
Cost of Gain	***$50/cwt***	***$60/cwt***	***$70/cwt***	***$80/cwt***
$/Cwt	**Break-even Purchase Price, 450 lb. Steer, $/cwt.**			
$30/cwt	$78.89	$103.33	$127.78	$152.22
$40/cwt	$64.44	$88.89	$113.33	$137.78
$50/cwt	$50.00	$74.44	$98.89	$123.33
$60/cwt	$35.56	$60.00	$84.44	$108.89

Table 4. Grade Price Differences, Medium-Frame #1 400 to 500-pound Steers, Georgia Auction Markets, 1986-90.

Price Difference From MF # 1,	**Large Frame**	**Medium Frame**	**Small Frame**
	$/cwt.	***$/cwt.***	***$/cwt***
Muscle # 1	0	0	-$8.85
Muscle # 2	-$16.74	-$10.88	-$18.25

Source: *Market News Georgia Livestock*, weekly issues 1986-1990

Bulletin 1078/June, 1992

The University of Georgia and Ft. Valley State College, the U.S. Department of Agriculture and counties of the state cooperating. The Cooperative Extension Service offers educational programs, assistance and materials to all people without regard to race, color, national origin, age, sex or disability.

An Equal Opportunity Employer/Affirmative Action Organization Committed to a Diverse Work Force

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, The University of Georgia College of Agricultural and Environmental Sciences and the U.S. Department of Agriculture cooperating.

Gale A. Buchanan, Dean and Director

Back to Georgia Extension publications.