

Marketing



Beef production in Arkansas is primarily the cow-calf enterprise. The principle products sold are stocker and feeder calves, slaughter cows and slaughter bulls. A growing number of yearling feeder cattle are produced by cow-calf operators. Some operators retain ownership after weaning through a grazing or backgrounding program, whereas others purchase stocker calves and graze them to yearling weights. Also, a growing number of Arkansas cattle producers are shipping yearling feeder cattle to custom feedlots in the major cattle-feeding areas of the United States and retaining ownership until they are finished for slaughter.

Most stocker and feeder cattle produced in Arkansas are shipped to pastures and feedlots outside the state. Heavier feeder calves quite commonly move northward to be grown on silage or corn stalks before going to Corn-Belt feedlots for finishing. Lighter stocker calves often move westward to wheat or native pasture to be grown prior to entering feedlots in the High Plains.

Slaughter cows and bulls are slaughtered primarily by packers in close proximity to the state. Only a small number of steers and heifers are finished for slaughter in Arkansas.

Marketing Alternatives

A good cattle marketing system should be efficient in operation and effective in pricing. The operational efficiency may be judged on how well the system performs the functions of assembling, processing, packaging and distributing cattle to the new owners. Pricing efficiency may be determined by how well the system reflects supply conditions and buyer demand.

Several marketing methods are available to cattle producers in Arkansas. They are (1) the weekly auction markets, (2) direct selling at private treaty and (3) retaining ownership while finishing cattle in a commercial feedlot. Identifiable differences in the marketing costs and prices exist between these market outlets. Each method tends to serve certain types of producers best. Other methods of marketing feeder cattle, such as electronic systems of marketing, could be effective in the state but have not developed.

Weekly Auction Markets

The local weekly livestock auction is the primary method of marketing feeder cattle in Arkansas. There are 32 livestock auctions in the state located in every major cattle-producing area. The weekly auction is a convenient source of cattle for a backgrounding operation and a convenient way to sell cattle at the end of the backgrounding period. Weekly auctions are best suited to the small producer with limited time to spend on marketing. Auctions sell all classes of cattle, and a market price on sale day is virtually assured. However, commission rates to market through weekly auctions are relatively high, and the indirect marketing costs associated with assembly are reflected in prices that may be lower than other marketing methods. This may be especially true at smaller auctions.

Direct Selling at Private Treaty

This method of marketing is best suited to producers who have uniform load-lots of cattle to sell at one time. A small producer may sell direct to an order buyer or dealer who, in turn, sorts and assembles the cattle with others of similar kind for shipment to their destination. Selling direct is usually less convenient than selling through a weekly auction since the backgrounder must stay abreast of market conditions and prices and serve as his/her own marketing agent, locating buyers, negotiating the sale and arranging for shipment. Compared to public markets, such as weekly auctions, selling direct is more efficient, does not place as much physical stress on the cattle and can return a higher price with less marketing cost.

Retaining Ownership

Retaining ownership of backgrounded cattle and finishing them in a commercial feedlot eliminates many marketing costs such as commission charges, hauling, shrink and death loss incurred with other marketing methods. However, substantially more capital investment is necessary.

Other Livestock Auctions

Other livestock auctions are available such as regional auctions, satellite auctions, video auctions, internet auctions, special calf/feeder sales, age and source verification sales, commingled sales, etc. Each of these auction types has advantages, disadvantages, costs and restrictions.

Future Price Outlook

Prices for cattle are determined jointly by supply and demand. Demand for beef is relatively constant, although changes do occur over a long time. Supply is much more apt to change, particularly in the short run, and cause rapid movements in market prices for cattle.

The cattle inventory usually increases when prices are at a profitable level. During a buildup phase in the inventory, females are retained in the herd which reduces the available supply of market cattle and forces prices higher. This, in turn, encourages additional hold-back of breeding stock and growth in inventory. Eventually, however, production increases and prices begin to fall. The declining prices cause producers to liquidate some of their inventory and drive prices even further down.

These cycles are fairly regular in length because of biological factors involved in cattle production, but the extent of buildup and liquidation and subsequent price change may vary greatly as other economic factors influence market conditions.

Seasonal cycles in production and prices exist as feed supplies vary during the year. Prices for both feeder cattle and cows are usually highest during the spring months when smaller supplies are being offered for market and the upcoming summer grazing is near. In contrast, prices are normally lowest in the fall as greater supplies are marketed and the higher cost of winter feeding is coming on.

Valuable data are readily available for producers to use in following changes in supply, demand and prices and in projecting future market conditions. Knowledge of these trends should enable cattlemen to make more profitable decisions in production and marketing.

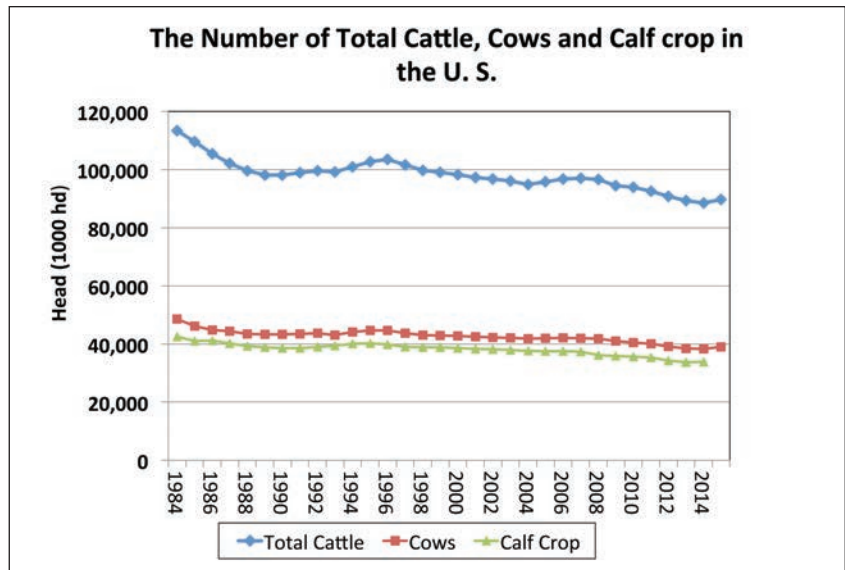


FIGURE 12-1. Number of total cattle, cows and calf crop in the U.S.

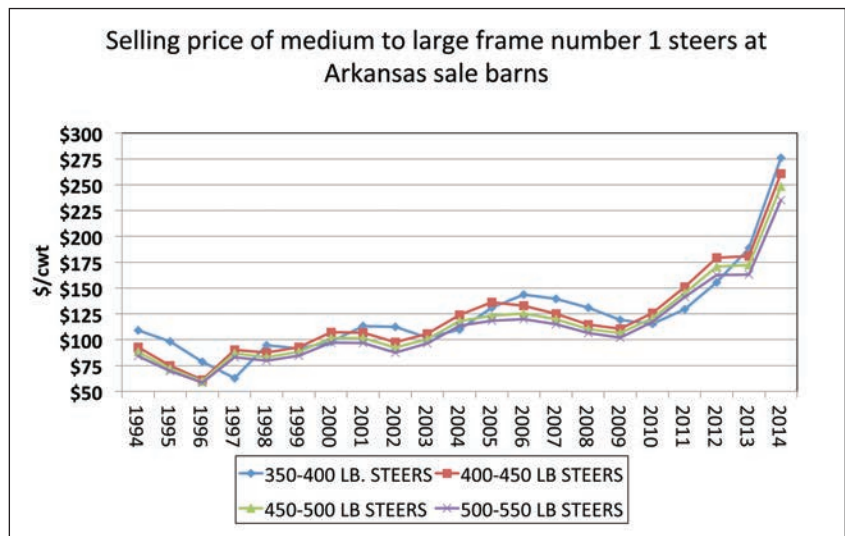


FIGURE 12-2. Arkansas average steer prices.

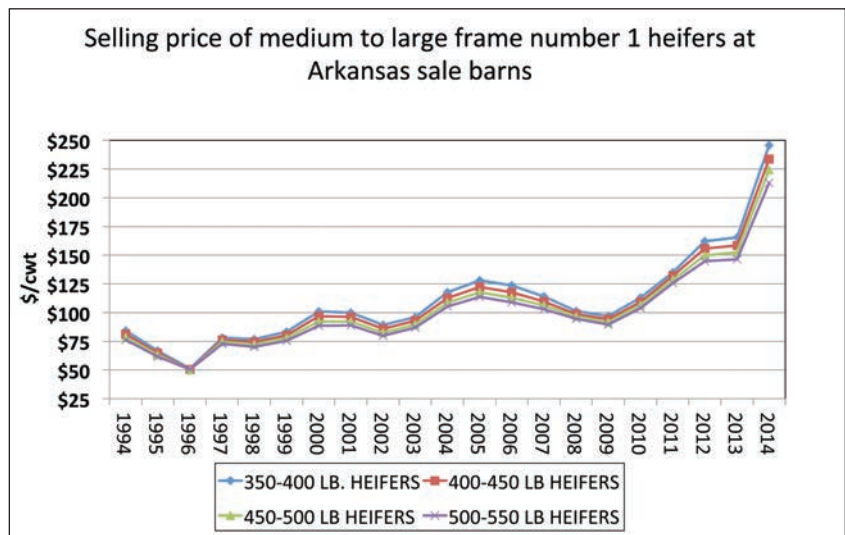


FIGURE 12-3. Arkansas average heifer prices.

Current Market Information

Producers should stay abreast of the current market prices and conditions to make profitable marketing decisions. Much reliable market information on current prices and supply is available.

The Arkansas Federal-State Livestock Market News Service covers 14 auction markets in the state and issues reports to newspapers and radio stations. A statewide summary of auctions is prepared each day for use by radio stations. In addition, daily market reports are available from terminal markets nationwide.

Direct sales of slaughter and feeder cattle are reported. Sales of carcass beef and primal wholesale cuts are reported daily for all major producing and consuming areas nationwide. Other reports on offal value, daily slaughter estimates and total weekly meat production are available.

Market Value

The value of slaughter cattle is dependent upon the quantity and quality of beef produced from the animal. Quality determines the uses that can be made of the beef. Cutability and dressing percentage affect quantity. Stocker and feeder cattle value depends on the potential value of the animal when finished for slaughter and the cost of finishing the animal to a slaughter point.

Several factors that affect the value of cattle in the market are:

Muscle Thickness

Muscle thickness is related to muscle to bone ratio at a given degree of fatness to carcass yield grade. USDA developed a standard muscle scoring system (USDA, 2000). The scoring system is 1, 2, 3 and 4 (Figure 12-4). Muscle score 1 cattle are thrifty and

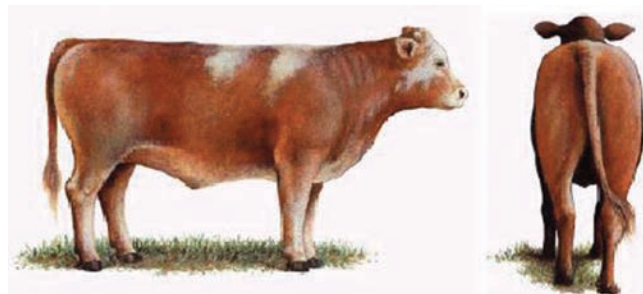
FIGURE 12-4. Examples of the USDA Muscle Scoring System.



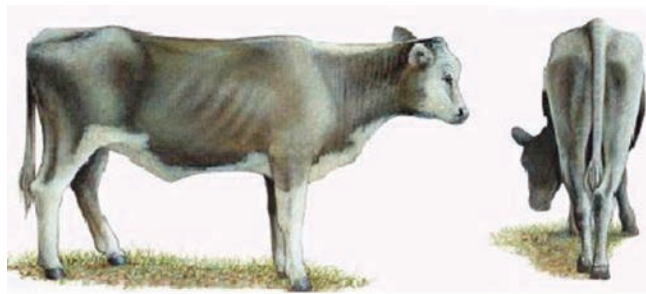
Muscle score 1 cattle are thrifty and moderately thick throughout. They are moderately thick and full in the forearm and gaskin, showing a rounded appearance through the back and loin with moderate width between the legs, both front and rear.



Muscle score 3 cattle express a forearm and gaskin that are thin, and the back and loin have a sunken appearance. The legs are set close together, both front and rear.



Muscle score 2 cattle show a high proportion of beef breeding, are thrifty and tend to be slightly thick and full in the forearm and gaskin, showing rounded appearance through the back and loin with slight width between the legs, both front and rear.



Muscle score 4 cattle are thrifty but have less thickness than the minimum requirements specified for the No. 3 grade.

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The discounts due to lack of muscling are large regardless of feeder calf weight. The discount comparing a No. 2 to No. 1 is approximately \$10 per cwt, or \$50 for a 500-pound feeder calf. The selling discount for a No. 3 compared to a No. 1 usually ranges \$20 to \$25 per cwt, and the discount continues to increase when comparing a No. 4 to No. 1 (\$35 to \$40 per cwt). Culling light-muscled cows and replacing them with moderate-muscled cows is the first step to producing heavier-muscled feeder cattle. Selecting sires with a full forearm and gaskins, showing rounded appearance through the back and loin with moderate width between the legs, is very important.

Frame Score

Frame scores are determined based on the revised U.S. Standards for Grades of Feeder Cattle (USDA, 2000). According to the standards, frame size is related to the weight at which, under normal feeding and management practices, an animal will produce a carcass that will grade USDA Choice. USDA large-framed steers and heifers are expected to weigh over 1,250 and 1,150 pounds, respectively, to grade USDA Choice. USDA medium-framed steers and heifers are expected to weigh 1,100 to 1,250 and 1,000 to 1,150 pounds, respectively, to grade USDA Choice, and USDA small-framed steers and heifers are expected to weigh less than 1,100 and 1,000 pounds, respectively. Large-framed animals require a longer time in the feedlot to reach a given grade and will weigh more than a small-framed animal would weigh at the same grade.

Therefore, USDA Feeder Cattle Grade Medium is equal to hip height frame scores 4 and 5, Small is equal to or less than 3 and Large is equal to or greater than 6. The ideal calf should be between a frame score of 5 to 6. That means at 205 days of age males should be 44.1 to 46.1 inches tall and heifers should be 43.3 to 45.3 inches tall at the hip (see Appendix). It is much

easier to produce frame score 5 to 6 calves from frame score 5 to 6 cows. Therefore, it may be important to frame score the cow herd and bulls and eliminate extremely large- and small-framed cattle.

USDA small-framed feeder cattle experience severe discounts, \$22 or more per cwt, compared to large-framed feeder cattle. Feeder cattle that are small-framed will generally have more backfat at slaughter than large-framed cattle. The excessive backfat negatively affects yield grade and red meat yield. The difference between large- and medium-framed feeder cattle selling price is usually less than \$5 cwt. Oftentimes for feeder cattle weight between 500 to 600 pounds, large- and medium-framed cattle sell for the same price.

Breed Composition

It has often been stated that there is as much variation within a breed as there is across breeds. When designing breeding programs, it becomes very important to truly identify those superior animals within a breed. The results of crossbreeding can have a greater impact when superior purebred animals are used. The major advantage to using superior animals in crossbreeding programs is heterosis, or "hybrid vigor," and breed complementation.

When a calf enters the sale ring, buyers evaluate each feeder calf and determine its breed or breed type based on frame score, muscle thickness, color, breed characteristics and body structure. Therefore, breed or breed combination is based on common industry perception rather than actually knowing the breed composition.

Feeder cattle perceived to be Hereford x Charolais, Angus x Hereford, Angus, Charolais x Limousin, Angus x Limousin, Angus x Charolais and Hereford x Brahman x Angus are usually sold for higher-than-average prices in Arkansas livestock auctions than feeder calves of other breeds. In addition, feeder calves of one-quarter Brahman crosses, Simmental, Hereford, Brahman and Longhorn historically sold for lower prices than from other breeds or breed combinations.

Breeds or breed types do affect the selling price of feeder cattle. This is due to the perception by the order buyer as to how different breeds or breed types perform (gain, sick rate, quality grade, etc.). For many years, a perception existed that if cattle were black they had some degree of Angus breeding. Today that may or may not be true. Many beef breeds have animals that are black, such as Limousin, Simmental and Gelbvieh, to name a few. The perceptions regarding certain breeds and subsequent performance may be

right or wrong, but they exist. With a high percentage of feeder cattle sold in livestock auctions weighing less than 550 pounds, the majority of these cattle are purchased for placement in a backgrounding grazing program. Backgrounding programs are forage based (native pasture, wheat, etc.), and buyers are looking for the breeds or breed combinations that perform best under those conditions. Cow-calf producers should be aware that the breeds or breed types that perform best under backgrounding programs might not be the breeds or breed types that make good replacements. Cow-calf producers must be attentive of this and design an appropriate breeding program.

Color

The color of the calf does affect the selling price. Yellow, yellow-white faced, black-white faced and black colored calves have historically sold for a higher price than red, gray, white, red-white faced, gray-white faced and spotted or striped feeder cattle. A uniform set of cows bred to the bull of the same breed can help produce the color of calf that will be advantageous in the marketplace.

Management Factors Affecting Market Price

Castration

Research at the University of Arkansas demonstrated calves castrated shortly after birth and bulls gained at the same rate from birth to weaning. Weaning weights and average daily gains were the same. Therefore, there is no weight gain advantage for keeping male calves as bulls. The main reason for castrating bulls is to control behavior and disposition. If a cow-calf producer sells weaned bull calves, somebody will castrate them.

Historically, steer calves sell for a higher selling price than bull calves regardless of the selling weight group. The price difference between steers and bulls varies but averages approximately \$5 to \$6 per cwt. Therefore, the selling price difference between a 500-pound steer and a 500-pound bull is approximately \$25 to \$30. The selling price of heifers averages \$10 per cwt less than the selling price for steers.

Fill

When compared to the average fill selling price, selling prices for gaunt and shrunk feeder cattle are usually higher (\$2 to \$4 per cwt). The selling prices for feeder cattle classified as full and tanked are

discounted considerably (\$6 to \$14 per cwt). Feed and water can be purchased for less, relative to the selling price of cattle, but those animals exhibiting excessive fill are discounted. Order buyers discount feeder calves that show excessive potential for shrinkage. This affects the cow-calf producer in two ways. The producer not only absorbs the extra feed cost that results in the extra fill, but also the calf is discounted when it is sold.

Body Condition

The only body condition classification that usually sells for a higher price than the average body condition is thin feeder cattle (approximately \$1 to \$3 per cwt). All of the other body condition classifications (very thin, fleshy and fat) usually sell for less than the average body condition (\$2 to \$15 per cwt). Calves that are overconditioned have usually been on a high plane of pre-weaning nutrition (creep feeding, etc.). Subsequent to weaning, the level of nutrition may decrease and the overconditioned feeder cattle may actually lose weight for a period. Order buyers will not pay for that weight and time loss, thus the large discounts seen with fleshy and fat feeder calves.

Horned Cattle

Most of the feeder cattle raised in Arkansas are polled (86 percent). Historically, polled, or dehorned, feeder cattle sell for \$4 per cwt more than horned feeder cattle. Because horns can damage loins, cow-calf producers should change management practices to reduce the presence of horns.

Sick or Lamé Cattle

Over 98 percent of the feeder cattle sold in Arkansas are healthy. Healthy feeder cattle sell for a much higher price than any of the unhealthy categories do. Discounts on unhealthy cattle were greatest with lame and sick feeder cattle usually ranging between \$26 to \$30 per cwt. Selling prices of feeder cattle that had dead hair, were stale or had bad eye(s) generally range between \$12 and \$14. Preconditioned calves sold for a \$4 per cwt premium over the average.

Size and Uniformity

Arkansas primarily produces feeder cattle that weigh less than 550 pounds. Most of the feeder cattle are sold individually (75 percent). The selling price for feeder cattle sold in groups of two to five head is usually higher than the selling price of feeder cattle sold as singles. There is a trend in the cattle industry to sell larger, uniform lots of feeder cattle versus selling feeder cattle one head at a time.

Marketing Purebred Cattle

Purebred breeders are producers of seedstock. Primarily, they develop bulls and heifers for use by commercial cattlemen. A few "top-line" bulls and females capable of contributing to breed improvement are sold to other purebred herds. Certain breeders, especially in breeds noted for their mothering ability, have a good outlet for females to commercial herds.

Producing crossbred "F1" females from two complementary pure breeds for commercial replacement heifers has become popular in recent years. This, too, may be considered a form of purebred production.

Many large breeders have an annual "production" auction sale for bulls and females produced in their herds. The "consignment" auction sale will include cattle consigned by several breeders. The consignment sale benefits primarily small breeders who wish to sell at auction but do not have sufficient numbers for an individual production sale. An individual breeder may consign only one or several animals to a consignment sale.

Both large and small breeders can sell successfully by private treaty. Many breeders regularly furnish the breeding stock needs of their neighbors, and such sales are often single animals. Some large breeders may sell to large commercial herds in lots that include ten or more animals.

Purebred cattle are a special-type product requiring certain specialized marketing techniques not altogether common in marketing commercial cattle.

Marketing costs per animal for purebred auction sale are often ten times the per-animal cost of selling commercial cattle at a regular weekly auction. Many purebred breeders advertise regularly in trade magazines and newspapers, especially those breeders who sell predominantly at private treaty. For production and consignment sales, there is the cost of sale catalogues, television, radio and newspaper advertisements, photography, artwork, postage and pre-sale and post-sale entertainment.

Breeders who do have an annual production sale usually construct their own sale facilities and show barns. Most consignment sales and some production sales lease facilities.

Consignment sales are usually sponsored by a producer association that handles all the sale arrangements for a fee paid by the breeder.

The market value of purebred cattle relates to the market for commercial cattle in that the same characteristics which contribute to production efficiency and consumer acceptance are important. However, breeding values are multiplied many times when total offsprings from a bull or female are considered.

Breeder reputation, visual characteristics and performance records largely determine the market value of a purebred animal.

Visual characteristics and performance records influence market value of an animal to the extent that the desirable characteristics are expected to be transmitted to its offsprings.

Market Regulations

The Packers and Stockyards Act, a law passed by Congress in 1921, places the responsibility of regulating the livestock and meat industry on the Secretary of Agriculture. The law was passed to restrict unfair and deceptive practices of people involved in livestock marketing.

The Packers and Stockyards Administration regulates stockyards, auction markets, packers, market agencies and dealers engaged in interstate livestock marketing business. The regulations include requirements dealing with fair trade practices, bonds, records and weighing conditions. All agencies have to maintain sufficient records to disclose the full nature of each transaction. Farmers who buy or sell in their farming or feeding operations are not considered livestock dealers and do not come under the P&S regulations.

Market operators and dealers must carry a bond based on volume of businesses to assure farmers they will receive the net proceeds for their livestock sold through the agency. All scales must be tested at least twice a year. No stockyards, commission firm, auction, livestock dealer or packer is to engage in unfair practices that could injure producers. Each producer selling through a marketing agency must receive full and accurate accounting concerning the sale of livestock. The account of sale shows the buyer, number of head, weight, price, all expenses and the net amount realized from the sale.