

# Texas Agricultural Extension Service

*People Helping People*

## Beef Cattle Marketing Alternatives

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Some cattlemen tend to overlook marketing until the cattle or calves are ready for market and by then it is usually too late to do anything other than accept the highest bid. Cattlemen have many options to enhance the returns from their cattle: price strategies (forward contracting, futures trading and options trading; marketing strategies (what weight to market, when to liquidate, when to increase herd size, what time of year to market, etc.); or marketing alternatives (electronic marketing, group marketing or integration).

Basically, there are five marketing methods available to cattlemen with some variations within each. These marketing methods include auction markets, direct sales, electronic marketing, integration and group marketing.

### Auction Markets

Auction markets became a popular marketing method in the 1930's and 1940's. Several things had occurred in U.S. history that made auction markets a practical means of selling cattle. These included a vast network of railroads, highways, trucks and trailers, and settling and fencing of much of the rangeland. Cattle could no longer be driven across vast ranges. Who wanted the hardship of long and dangerous trail drives anyway? It was much easier to transport cattle to nearby auction markets, where cattle were sold, assembled in larger groups and shipped out by truck or rail. It is easy to see how local auction markets became the primary means of selling cattle, becoming even more important than the old terminal markets by the 1950's. Today there are some 160 auction markets serving Texas cattlemen. Advantages and disadvantages of auction markets include:

### Advantages

- Convenience. Most cattlemen have an auction market operating weekly within 50 miles of their operation.
- Fast selling. Cattle are sold on the specified sale day. The seller can deliver cattle and pick up his check on the same day.
- Ready market for any animal. No matter what condition the animal is in, it will be sold at some price.
- Weighing and selling. Both are done under regulated and uniform conditions to guarantee fairness to both seller and buyer.
- Cattlemen have complete freedom as to when, where and what to sell.

### Disadvantages

- No seller input in pricing—other than cattle pulled out of the sale and taken back home.
- Selling cost per head may be higher. Sellers must check each auction market. Marketing costs usually vary.
- Encourages multiple handling. Often buyers must go to many sales before putting together a lot or load of similar cattle. Sometimes cattle must be held one or two weeks in the assembly process which may stress or disease the cattle.
- Discourages market innovation on the part of the seller because he has no direct input in the pricing process.

### Direct Sales

Direct selling refers to selling cattle from one ranch to another, or from ranch to feedlot, or from feedlot to packer. Direct selling from the ranch has become

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more important as buyers seek fresh, healthy supplies of cattle with known genetic background and performance traits.

### **Advantages**

- A cattleman can merchandise his own animals. Because he is directly negotiating with buyers, he is in a better position to point out the positive aspects of the cattle.
- A cattleman can exercise his independence to the fullest. He has unlimited negotiation or at least as unlimited as a buyer will tolerate. Also, the cattleman may trade anytime he is ready and can find buyers.
- Encourages innovation in marketing. Through this method a cattleman can develop his reputation over time, can communicate with the buyer and be in a position to better serve the buyer with the type of cattle he wants. Over the long-run, this can lead to price premiums because of the buyer's confidence.
- Lower selling costs (maybe). If the cattleman is abreast of the market, he will know if the price he receives is competitive. If the cattleman is not current with the market, he may accept a lower price. Such possibilities may raise the selling costs above the four percent shrink the seller usually accepts as his selling costs of direct sales.

### **Disadvantages**

- The cattleman has more responsibilities in competitively pricing his cattle. He must keep abreast of the market, properly evaluate the trends of the market and determine the value of the cattle according to their grade, weight, sex, age, flesh and fill condition.
- More haggling. The cattleman must be acceptable or tolerable to offering and counter-offering in the process of ensuring a competitive price for his cattle.
- Less market news available. This is a real disadvantage to cattlemen. Market news or price information is gathered at terminal markets and large auction markets. Most of the cattle sold directly are high quality cattle bought for just that reason. The price of these high quality cattle is not usually reported.
- Wide variation in selling conditions. Even if the price of direct sold cattle is reported, it is possible that it is not enough information. Usually, there are conditions on direct sales such as weighing location and condition, pencil shrink, assembly conditions and delivery location. All of this makes the net sales price difficult to determine.

## **Electronic Marketing**

With today's modern and sophisticated means of communication, more unique methods exist for putting sellers, buyers and cattle together. The telephone has long been used in locating and trading cattle. Already cattle have been sold via video and computer methods. These techniques are still in their infancy but will be more important marketing methods in the future. Cattlemen should be familiar with these techniques and consider them when deciding which marketing method to utilize. Computer marketing on a commercial day-to-day basis offers many advantages and probably will emerge as the leading method of marketing feeder and stocker cattle in the United States. Video marketing is popular, but is too costly to ever be a day-to-day marketing method. It has already been demonstrated by CATTLEX that cattle can be sold efficiently sight unseen. For these reasons, most of the following advantages and disadvantages relate more to computer marketing.

### **Advantages**

- Exposes offering to many buyers. A computer communication network can be linked across the nation with land lines or satellite, enabling buyers from many states to see the listings of cattle and bid on those they wish to buy.
- Provides entry to small markets. Small and remote markets can list cattle over such a system and offer the cattle to buyers not normally available.
- Increases marketing efficiencies. Because delivery schedules can be coordinated over a computer marketing system, transportation can be minimized, lowering transportation costs and reducing stress on cattle. Marketing costs over a computer system also can be lowered because of potential large volumes of cattle that can be sold. Buyers' procurement costs can also be cut because computer access cost is small on a per-head basis.
- Equalizes market power. Through instant and continuous market access via a computer market, both market information and competition are enhanced.
- Improves health conditions of cattle. Fresh country cattle can be located via the computer market, and shipped directly to the next producer, minimizing disease and stress.

### **Disadvantages**

- Buying sight unseen requires accurate and dependable descriptions. Much of this important consideration was overcome with the description criteria developed in the CATTLEX system.

- Listing of small lots is difficult. This is the most difficult disadvantage for a computer marketing system to overcome unless there are numerous small lots of similar cattle in a rather close proximity. The advantage goes to the larger lots at least one-quarter truckload in size.
- Needs organization to coordinate and manage over a large market area.
- Requires a large initial outlay of capital.
- Will displace some existing marketing institutions unless they adopt the new technology.

### **Marketing Integration**

Market integration is carrying a production activity into the next activity of preparation for the market place. There are many possibilities of integration. An example of integration is cattlemen weaning calves and carrying them over into a stocker grazing period. Another example would be creep feeding, weaning at heavier weights and having the calves custom slaughtered for local market sales. Whatever the function, there should be some flexibility in integrated schemes and these should be dictated by current or expected market conditions.

#### **Advantages**

- Eliminates some trading points which can lower procurement, transportation and marketing costs.
- Spreads risk from one production activity to another and from one period of time to another.
- Permits, but does not guarantee, accumulation of profits at each point.

#### **Disadvantages**

- Assumes more market risks. If not properly contracted or misinformed about future market conditions, this could possibly be adding to losses.
- Requires more capital because the process requires additional production steps.
- Delays income.
- Requires more management and decision making.

### **Group Marketing**

Group marketing can be as simple as pooling cattle with a friend or neighbor or as complex as

marketing with a national livestock marketing cooperative. Somewhere in between have been examples of successful group marketing ventures. Currently, the Texas Agricultural Extension Service is conducting a demonstration in group marketing for feeder, stocker and replacement cattle. The demonstration is being conducted in conjunction with the South Central Texas Beef Herd Improvement Program. It will include producer education of cattle grading, feeder-stocker sales, livestock directories and electronic marketing. Anyone can participate in the demonstration and evaluate various marketing alternatives firsthand. Because stocker-feeder sales will be a major part of this demonstration, the following are advantages and disadvantages of such sales.

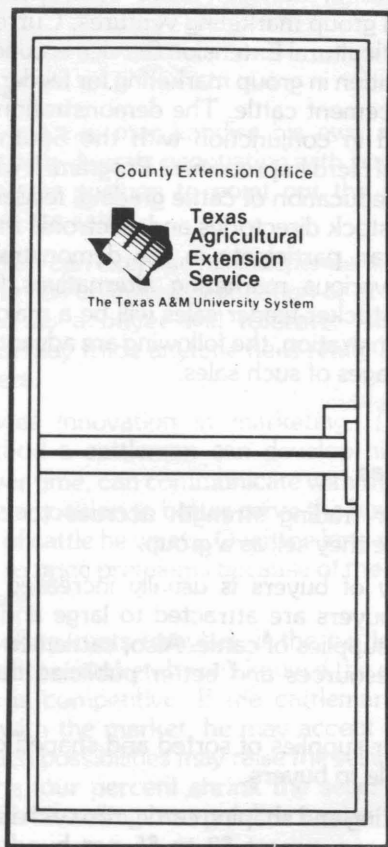
#### **Advantages**

- Greater trading strength accrues to cattlemen because they sell as a group.
- Density of buyers is usually increased because more buyers are attracted to large and concentrated supplies of cattle. Also, cattlemen can pool their resources and better publicize the special sale.
- Greater supplies of sorted and shaped cattle are available to buyers.
- By sorting and shaping cattle, research has shown sellers can expect \$3 to \$5 per hundredweight more for their cattle.

#### **Disadvantages**

- Sellers lose freedom as to when, where and what to sell.
- Sales require coordination and management.
- Sales require grouping of similar cattle by age, weight, sex, quality and breed.
- Successful sales require continuous producer commitment.
- Sales require facilities, clerical staff support and the services of a grader.
- Sales require grouping and mixing of cattle.

No one marketing method can guarantee a profit. Cattlemen must know their alternatives well enough to make a sound marketing decision, given various market situations.



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Issued in furtherance of Cooperative Extension Work in Agriculture and Home Economics, Acts of Congress of May 8, 1914, as amended, and June 30, 1914, in cooperation with the United States Department of Agriculture. Zerle L. Carpenter, Director, Texas Agricultural Extension Service, The Texas A&M University System.

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