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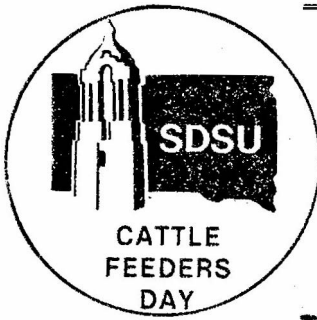
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CATTLE MARKETING ALTERNATIVES

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Summary

In most cases, the time spent on marketing an agricultural producer's product will pay big dividends. Or, time not spent can cause potential profits obtained in the production process to be lost in the marketing process.

Any marketing effort takes time. But, by carefully evaluating which market outlet to use and when to price his product, the producer will receive, in most cases, a higher net price and greater profits.

Introduction

While considerable time is spent on the production of fed cattle, many producers spend little time on marketing their product. Someone once said the successful producer should spend as many days marketing as he does in production, maybe even more. This does not mean he should spend as many hours each day on marketing as on production. Rather, he should start thinking about marketing as soon as, or before, he starts the production process.

The areas will be discussed here--(1) factors to be considered in selecting the type of market to use and (2) factors affecting when to price the product.

Selecting the Type of Market to Use

Several factors affect the decision on whether to market fed cattle through an auction, terminal market, direct to a packer or sale at the feedlot. Most producers think first about gross or total price. While that is important, it is only a starting point. Beating your neighbor in terms of total or gross selling price may give bragging rights at the bar, but it does not guarantee the highest net price or return. While determining the exact gross price obtainable from several market outlets may not always be easy, the producer usually can make realistic estimates by contacting or visiting outlets and/or buyers.

In addition to price, the smart producer will figure marketing charges made to him for selling his cattle, shrinkage charged against the sale weight or lost in movement to market and transportation charges. For example, a \$75.00 selling price is quickly reduced to \$71.00 when a \$1.00 per hundred-weight marketing charge, a three percent shrink and a \$.75 per hundredweight transportation charge are deducted. And, the charges can be much higher than those noted.

How can the producer determine the amount of the above charges? First, marketing charges must be made available to the seller. Usually, they are posted at the market outlet. Since these charges can and do vary, they should be compared. A rough rule of thumb for shrinkage, if not penciled out at the feedlot, is to allow two percent just for loading and unloading and then another one percent for each 100 miles traveled. Transportation charges might be negotiable, but a general charge of \$1.80 to \$2.00 per loaded mile is typical. And, this could go higher as energy costs go up.

Determining When To Price

Two options are available--(1) pricing the product at the time of sale and (2) pricing sometime prior to time of sale, either by contracting or using the futures market.

When pricing at time of sale, the seller may have an option to sell on a live weight or grade and yield basis. Generally, if the producer has a high percentage of higher yielding cattle, say yield grades 1 and 2, he should investigate selling on a grade and yield basis. However, if his cattle are in the yield grade 4 and 5 categories, the live weight pricing method may be most advantageous to him. Checking prices for the various grades and yields at several markets may provide big dividends.

Use of contracting and the futures market will remove most of the risk of an unfavorable price change. Here, it must be remembered that, if the price was acceptable when the "deal was made," it must be acceptable at the delivery. If contracting is used, the time and method of delivery of the product usually is specified. If the futures market is used, delivery against the contract seldom is made. Therefore, traditional market outlets still must be analyzed and evaluated because the product will be marketed that way. Also, use of the futures market is a marketing tool which requires more study and information, not less. If you plan to use it, plan to do some studying first.

The factor which usually decides if pricing is done at the time of marketing or before is the amount of price risk the seller is able and wants to stand. If he wants to absorb all of that price risk, he will wait until time of sale to price his product. If he wants to shift some of that risk to someone else, he will contract or use the futures market.

Of course, other factors, such as the prices he can obtain, price outlook, desires of the financial source and general knowledge of alternatives, also play a role in when and how to price the product.