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An Introduction To Beef Cattle Marketing In South Carolina

BC-6002

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Introduction

Few people are formally trained in the study of economics, but everyone makes economic decisions. Any attempt by an individual to earn or spend money involves economic decision making. Earning and spending or buying and selling influence the way our economy functions. It is this economic influence that also makes the cattle market move each day by establishing prices for cattle and putting beef on the consumers' table.

Economics is also thought to be a mathematical science by many people since economists are constantly working with numbers trying to predict the outcome of some economic event. Actually, economics is the study of human behavior. Economists try to relate how people will react to changes in supply and demand, to higher or lower interest rates or to increases in the cost of production.

Beef cattle marketing is also a study of human behavior. Cattle prices are determined by how much beef people choose to buy and sell in the market place. If people want to buy more beef than is available in the marketing channel, then the price of beef is bid up rationing the beef among buyers. If producers need to sell more beef than people are willing to buy, then the price of beef will be forced downward to move the excess supply.

Cattle producers often say that to make money in this industry you must buy low and sell high, but the beef industry is more than just the buying and selling cattle. Beef producers add value to their products at each stage in the marketing channel. Cow-calf producers sell a product called a calf. What they are really selling is not the calf but output from the cow and bull and the grass, grain, labor, management and capital used to produce this product called a "calf". Stocker operators buy 300 to 500 pound calves from the cowcalf segment of the industry and put an additional 300 to 400 pounds on them, hence, increasing their value to the market place. Feedlots buy the stocker cattle, feed grain to fatten and then sell them at about 1100 to 1300 pounds to the packer. The packer slaughters the animal and breaks the carcass into wholesale cuts for the retailer who in turn sells the beef cuts to the final consumer. Each level within the marketing channel takes the product from the preceding level, modifies it, hence, adding value to the product at each subsequent stage.

Marketing is then the cattleman's way of obtaining dollars for the value he adds to the product he produces. After combining the resources he has available to produce the calf, he receives value for the animal by selling it. Failure to successfully market the animal is a waste of his time and the money that he invested in the production phase. Marketing, in essence, becomes the icing on the cake. It can improve the situation or it can ruin it.

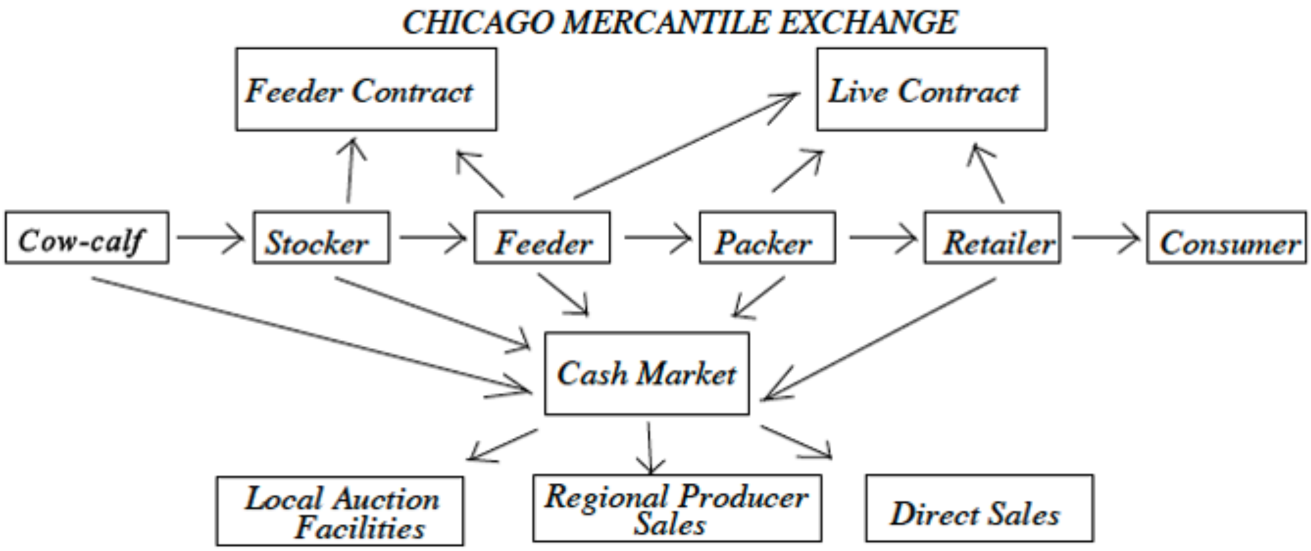
The information contained in this section of the Clemson cow college is designed to help cattle producers market their cattle. There is no guarantee that this course will result in higher prices to the cattle producer, but higher prices are a possible result of studying the beef cattle market.

The objectives of this section are to introduce the cattle producer to basic marketing alternatives, to identify the players in the market, to define the product cattlemen produce, to identify how prices are determined in the marketing place, and to discuss cattle marketing alternatives. The overall objective is to make marketing cattle less frustrating for the producer.

Most producers are good production people, and they dislike the hassle associated with marketing almost as much as keeping records. The fact remains that both record keeping and marketing provide a viable means to increase producer profits. It is often the difficult things in business that make the most money. In beef cattle production, survival depends on a producer being above average in production, marketing, and financial management. This section is an attempt to address the marketing corner of this triangle.

Beef production and the marketing system

The U.S. beef production and marketing system consists of production levels and marketing components (Figure 1). Production levels include the cow-calf, stocker, feeder, slaughter-packer, retailer and final consumer. This is the physical route the calf takes from the producer to the final consumer. The marketing components include the cash and the futures market. This is the economic route the calf takes from producer through the marketing channel to the retail level for final sale.



Each production level buys or invests in additional production inputs adding value to the animal. The animal is then sold to the next level in the production system or ownership is retained, where more value is added. This process is repeated until products are finally sold to the consumer at the retail level. It takes time to learn the beef production system and how the product moves through the various levels. Production inputs include physical items like cows, bulls, stockers, feeders, slaughter cattle, carcasses, etc.

It also takes time to learn the marketing system and how to market beef. Marketing inputs include information and knowledge. Marketing information to the producer comes in the form of cash prices, futures prices, price outlook, and the supply/demand situation. A producer must know what marketing alternatives are available to him, how to use each alternative, and how to interpret market signals.

Within this marketing system there are two separate, but not totally independent, markets. These markets are the cash market and the futures market. Each of these markets will be discussed in the following parts of this section.

The South Carolina beef industry

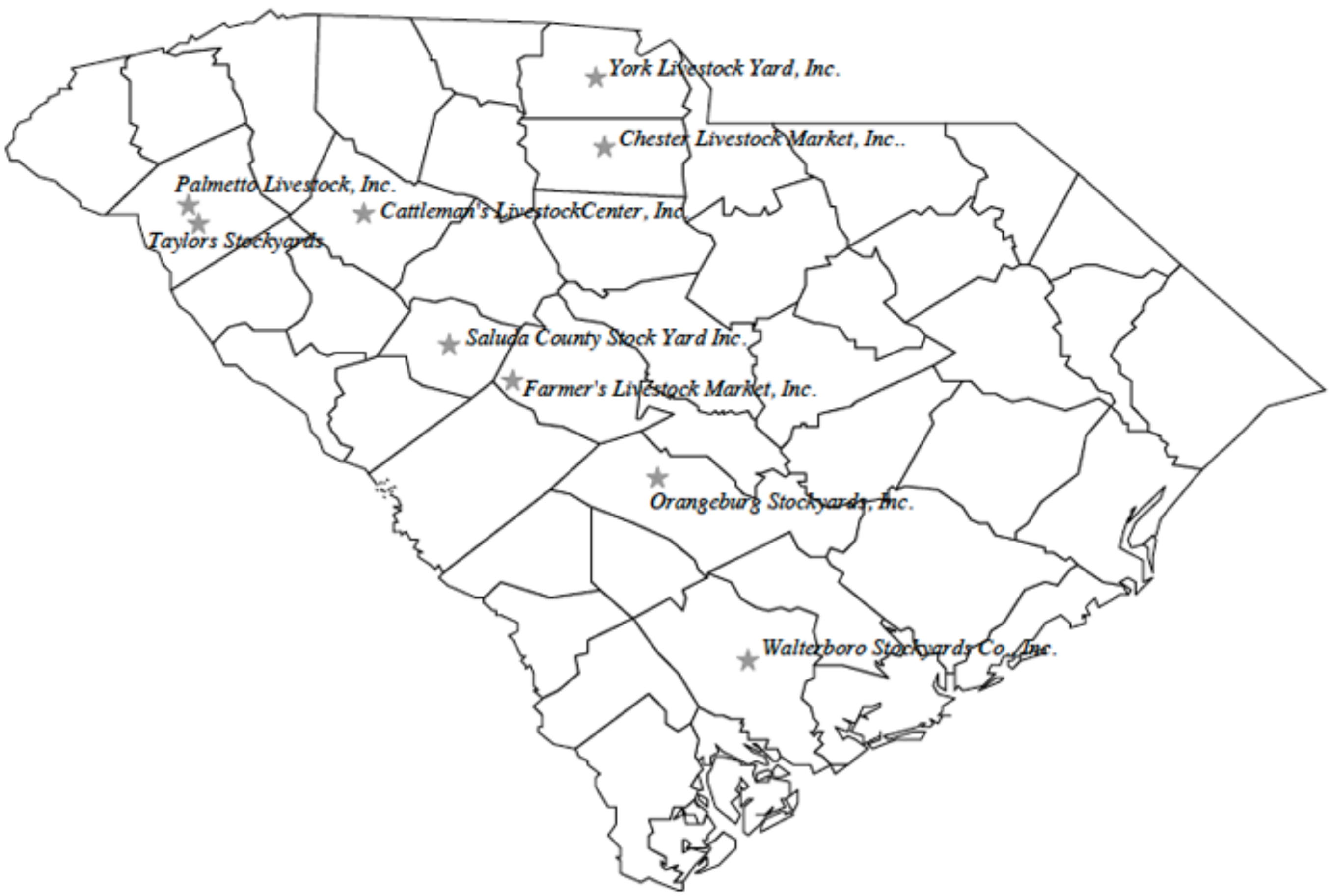
The cow-calf producer is the starting point for the beef production and marketing process. The producer invests in land, animals, feed and other inputs to develop his product--the calf. Typically, the cowcalf producer will wean the calf at a weight near 400 pounds or higher. For the spring calving herd, this weaning period is sometime in the fall of the year.

Some cow-calf producers retain ownership of the calves from birth through the stockering phase of the production process and even some maintain ownership through the feedlot. These producers evaluate the profit potential at each production level before deciding to keep their cattle through the next production phase. When their profit objective is reached they sell the cattle. Retained ownership allows the producer the flexibility to reject the market price today in hope of obtaining a better price at a later date. This market alternative can be successful if the cattleman can minimize the costs of growing the animals during the extended ownership period. Also implied in this retained ownership decision is the cattleman’s hope that the market does not turn against him.

South Carolina is considered a cow/calf producing state. Calves are produced and generally shipped out-of-the state for stockering on winter annuals or backgrounding in a feedlot. The 1996, cattle inventory placed South Carolina cattle numbers at 520,000 head. Beef cow numbers were estimated at 249,000 beef cows that have calved as of January 1, 1996. The 1995 calf crop was placed at 220,000 head. These animals were produced on 14,000 cattle operations within the state of South Carolina.

South Carolina cow-calf producers normally sell their annual calf crop in the cash market. It has been estimated that over 90 percent of the calves sold in South Carolina are through local cash markets. However, cow-calf producers can and do make use of the futures market as an information tool in making marketing decisions without formally entering into a futures contract. The futures market does provide information to the producer about expected market prices and price trends.

The Agricultural Marketing Service (AMS) reports weekly sales volume and average prices for auction facilities located throughout the state of South Carolina (Figure 2). Typically South Carolina's cattle sales range between 2,000 and 6,000 total head in cattle auctions each week. Weekly marketings at these facilities indicate that over 50 percent of the sales volume is devoted to feeder calves weighing less than 600 pounds. About 10 to 20 percent are calves weighing over 600 pounds. These figures vary seasonally as supplies reach their respective highs during the fall.



Slaughter cow volume through these facilities is greatest during the fall and winter of any year. After calves are weaned cow productivity is generally evaluated. Poor performers are generally culled from the herd to avoid the costs of carrying an open cow through the winter. Cows designated for slaughter typically comprise 10 to 20 percent of weekly movement. Five to ten percent of the weekly sales volume is also made up of feeder and stock cows. The availability of pasture and feed sources dictates the level of activity for this category of cattle.

Stocker producers

Stocker cattle can be defined as weaned calves that are placed on small grain pastures or placed in feedyards and backgrounded. Beginning stocker cattle weights are normally between 350 and 500 pounds. Finished stocker cattle normally will weigh between 600 and 800 pounds. Stocker operators provide an interim step in the production process--taking these lightweight calves, growing them on cheap feed correcting for any problems that happen at or before weaning.

The stockering phase in South Carolina is not a large part of the cattle industry--but, it is growing. Inexpensive forages, made available because of rotation requirements with other agronomic crops and byproducts from other livestock enterprises, makes stockering a bright spot for S.C. beef producers. Marketing opportunities available to stocker operations are similar to those at the cow/calf level (Figure 3).

Feedlot producers

The feedlot segment of the beef cattle production system is almost nonexistent in South Carolina. Only a few small feedlots (less than 1,000 head one time capacity) still exist. Producers wishing to finish their cattle are forced to place their animals in Midwestern or Cornbelt feedyards. This segment of the industry is not likely to expand in the state. Several factors are generally used to support this statement. First, South Carolina is a corn deficit state. Sufficient supplies of feed grains necessary to support a feeding program are not readily available. Most of our corn used to support the poultry and swine industries is imported from the Midwest. Use of alternative feedstuffs, i.e., cottonseed, chicken litter, etc. have not been widely used in this phase of the production process.

Another reason is the lack of an adequate supply of heavy weight calves. The state's producers sell their calves as weanling and these calves are shipped out of the region as light weights. Until stockering expands or retained ownership provides a steady supply of these heavier calves our feeding industry will stay small. The final reason is the lack of an adequate processing infrastructure to handle a finishing industry.

Processor-packer

Processor-Packers buy finished beef cattle, process them and sell the carcass or boxed beef to retailers. This segment of the beef industry is concentrated in the Midwest among three major packing companies (IBP, CONAGRA, and EXCEL) These packers process over 80 percent of the industry's finished beef. South Carolina and most of the Eastern part of the country's processing needs are serviced by much smaller local packers. These local packers are referred to as specialty firms specializing in certain products or firms that serve local smaller retail customers needs. These local packers prefer to buy cull cows and only utilize a small amount of finished cattle. Producers wishing to finish cattle will need to look to Tennessee or Virginia processors as prospective buyers for their cattle.

It is not likely that South Carolina or the Southeast in general will return to the time when they process many finished cattle. The same factors that influence cattle feeding also affect processor location. First, the supply of finished cattle is in the Midwest. The Southeast is primarily a calf-stocker market. It is cheaper to process the animals near the feeding areas and ship the meat than to ship the live cattle to locations nearer to the final customers. Secondly, the packing industry is very much influenced by the size of the processing facility. Large plants that are capable of killing a thousand head an hour keep the cost of processing at a minimum. Smaller plants that are regional in nature are not able to realize this cost efficiency due to their supply prospects and markets they service.

How the market determines cattle prices

The driving force behind this price discovery process is profit. Every stage of the production marketing channel wants to provide the consumer with a safe, quality product that adds value to the consumer's decision to buy beef. Each segment of the channel adds value to the calf produced to satisfy this consumer need, but each segment also must make a profit.

It is this dichotomy within the industry needing to work together but also each separate segment forced to being profitable that muddies the signals. The poultry industry solved this problem with vertical integration.

Is the market offering a reasonable price? When should cattleman price their cattle? Knowing how prices are determined may help producers, feeders and packers answer these questions and take advantage of the highest possible price.

Most people get frustrated when economists say that "the forces of supply and demand" determine prices, and as you might suspect, these economists are only partially correct. If supply and demand were known, prices would be easily determined. The fact is that supply and demand are not known.

In reality, expected supply and demand determines price. Economists refer to beef demand as the amount of beef that will be bought at various prices during a certain time period. As the price of beef increases, the amount bought normally declines. Or, as the price of beef declines, consumers are willing to buy more meat. Thus demand is made up of various components, including quantity and time. Other factors that may affect price are consumer income levels, number of consumers in the market, and prices of related products such as poultry and pork.

Supply also has the two components of quantity and time. Supply is the quantity supplied at various prices during a certain time period. As price increases, producers are willing to produce more and sell more beef. As the price declines, producers are reluctant to sell more beef and over time, will produce less.

So how are prices really determined? Prices are determined by negotiation. These negotiations take place simultaneously at every level of the marketing channel. Consumers have money to spend and they want to purchase beef. But, consumers only have a limited amount of money to spend and they like other goods and services as well as beef. They decide what amount of beef they buy based upon the amount of money they have to spend, the price of beef and their desire to eat beef compared to other food items available to them.

The retailer at any point in time has a certain amount of meat to sell. The retailer puts a price on the meat. The higher the price, the less meat he sells. The lower the price, the more meat he will sell. A price is basically established over time between the consumer and retailer when the amount of meat bought equals the amount the retailer puts in the meat case.

But, the retailers must also anticipate the amount of meat the consumer wants and attempt to purchase that amount from the packer. The packer who has meat in his cooler must sell it. If the packer sells the meat to the retailer, he must also replace it with meat from the feedlot operator in order to keep his cooler full. The packer and the retailer negotiate a price that they are both willing to pay considering the amount of meat available from the feedlot and expected consumer demand anticipated by the retailer.

How do feedlots price feeder cattle? Feedlots price by first estimating demand at the packer level of the marketing channel. Based on the feedlot's view of expected demand for slaughter cattle, the expected supply of slaughter cattle and the resulting packer quoted price, they determine what profit they can make on fat cattle. The expected fat cattle price is then adjusted for anticipated production costs and a profit margin to determine what price the feedlot can offer the stocker operator.

Stocker producers have a limited production period of 120 to about 210 days. Thus, they also have to anticipate the demand for their feeder cattle at the end of this production period. Based on the expected demand for and supply of feeder cattle, the stocker operator estimates a price for his cattle. After accounting for production costs and a profit margin, the stocker operator bids for stocker cattle.

The beginning of the production cycle is at the cow-calf level. This is also the ending point of the price discovery process. The cow-calf producer's decision is to take or not to take the offered price. He is frequently referred to as the last rung in the marketing channel or the "price taker". Based on current market prices and future price expectations, the only decisions left to the cow-calf producer are to sell his cattle today or wait until a future date.

Market information: USDA market reports

Successful marketing requires the acquisition of information. Marketing cattle requires the producer to search out information not only about market alternatives and price, but, also estimates of the supply and demand for beef. It is critical that cattlemen obtain an understanding of this market information in order to make useful decisions. Periodically, the USDA releases supply and demand reports for beef, and other livestock and grain commodities that affect beef prices. The most important beef reports are the CATTLE ON FEED REPORT and the CATTLE INVENTORY REPORTS.

USDA: Cattle on feed report

The USDA cattle on feed monthly report estimates the number of cattle and calves on feed for the slaughter market for feedlots with 1,000 one time capacity (Table 1). Items estimated on the full report include the number of cattle on feed, cattle placed on feed, fed cattle marketed, and other disappearance each month. Cattle on feed are then separated into "kinds" (steer, heifers and cow) on feed and then by sex and weight. The report normally provides cattle on feed numbers for the last three years. It also reports the percentage change in cattle numbers from the previous two years to the present year. First of the month estimates of number of animals on feed are given, then animals placed, marketed and other disappearances.

For the January 1, 1996, cattle on feed report cattle on feed were estimated to be 8,667 thousand head on January 1, 1996, 8,031 thousand on January 1, 1995 and 8,256 thousand on January 1, 1994. The January 1, 1996 cattle on feed estimate was 108 percent of the 1995 estimate and 105 percent of the 1994 estimate. Another way to interpret this is to say that January 1, 1996, estimated cattle on feed were eight percent more than the 1995 estimates and five percent more than the 1994 numbers.

Table 1. Cattle and Calves: Number by Class and Calf Crop, United States, January 1, 1994-1996 [1]

Class	**1994**	**1995**	**1995**	**1996 as % of 1995**
	1,000 Head			**Percent**
Cattle and Calves	100,988	102,755	103,819	101
Cows and Heifers That Have Calved	44,178	44,643	44,745	100
Beef Cows	34,650	35,156	35,333	99
Milk Cows	9528	9487	9412	99
Heifers 500 Pounds and Over	19577	19891	20068	101
For Beef Cow Replacement	6365	6475	6184	96
For Milk Cow Replacement	4144	4141	4105	99
Other Heifers	9068	9275	9779	105
Steers 500 Pounds and Over	17042	17463	18082	104
Bulls 500 Pounds and Over	2307	2390	2392	100
Calves Under 500 Pounds	17884	18369	18533	101
	1993	1994	1995	1995 as % of 1994
Calf Crop	39448	40059	40251	100

[1]Totals may not add due to rounding.
[2] Revised.
Source: USDA-Cattle Report, February 1996

The table reads like an accounting sheet. The first item is the "on-feed" estimate for the month of January, 1996. Next is the estimate of cattle placed on feed during the month of January, 1996 (1,446,000 head). This is followed by the number of cattle marketed out of the feedlot for slaughter during the month of January 1996; and finally, other disappearances during the month (deaths, moved to other feedlots or back on grass, etc.). The final item in the report is estimate of the number of cattle and calves on feed at the end of the month.

This report provides an estimate of the short run supply and demand picture for beef in the U.S. The difference between the monthly on feed numbers reflects whether or not the supply of finished cattle in feed yards is increasing or decreasing. Over the course of a few months this provides a good estimate of the ability of the economy to absorb beef supplies. Placement numbers also indicate the demand for feeder cattle. Larger placements generally indicate a strong demand for feeder cattle. Marketing numbers suggest the level of demand for beef by packers and retailers.

USDA: Cattle inventory report

The USDA cattle inventory report contains USDA's semi-annual estimate of all cattle and calves, cows and heifers that have calved--beef and milk cows, heifers 500 pounds and over--for beef or milk cow replacement and other, steers 500 pounds and over, bulls 500 pounds and over, calves under 500 pounds and the current year calf crop. The current year's inventory estimated as a percentage of the previous year's estimate is also presented.

On January 1, 1996, cattle and calves were estimated to be 103,819 thousand head (Table 2). This is compared to the estimate of 102,755 thousand head on January 1, 1995 and 100,988 thousand head on January 1. 1994. Cattle and calves are estimated to be one percent more on January 1, 1996 than on January 1, 1995.

Table 2. Cattle on Feed: Number on Feed, Placements, Marketings, and Other Disappearance, 1,000+ Capacity Feedlots, 7 States, February 1, 1994-1996

Item	1994	1995	1995	1996 as of % of 1995	
				1994	1995
	1,000 Head			Percent	
On Feed Jan 1 [1]	8,256	8,031	8,667	105	108
Placed on Feed During Jan	1,416	1,631	1,367	97	104
Fed Cattle Marketed During Jan	1,481	1,484	1,681	114	113
Other Disappearance During Jan [2]	52	59	49	94	83
On Feed Feb 1 [1]	8,139	8,119	8,304	102	102

1 Cattle and calves on feed are animals for slaughter market being fed a ration of grain or other concentrates and are expected to produce a carcass that will grade select or better.

2 Includes death losses, movement from feedlots to pastures and shipments to other feedlots for further feeding.

Source: USDA-Cattle on Feed Report, February 1996

Of the 44,745 thousand cows and heifers that have calved, 35,333 thousand head are beef cows and 9,412 thousand head are dairy cows. Heifers 500 pounds and over may be interpreted in the same manner. Heifers held for beef cow replacement are estimated at 6,184 thousand head. This is four percent below the 1995 estimate. Other heifers (those destined for slaughter) was up by five percent over the 1995 estimate.

The report also indicates that the 1995 calf crop was estimated to be 40,251 thousand head. This was about equal with the 1994 calf crop estimate.

USDA's cattle inventory report helps cattlemen determine beef supply trends. The total cattle and heifers retention numbers indicate the potential level of beef in the market channel over the next few years. They indicate cattlemen's expectations about profitability. Increasing heifer retention signals herd expansion due to producer expectations of increasing beef profits.

A combination of all of the numbers helps determine where the beef industry is in the cattle cycle. This report indicates that cattle numbers are still trending upwards, although moderating; total cattle numbers are still increasing but, at a slowed pace; and heifer retention is declining. This is the first signals that the cattle cycle is probably hitting its bottom. The next inventory report due in July will help to confirm this scenario.

Other information: Seasonality of market price

Understanding the affect that seasonality has on beef prices also helps the cattle producer develop his marketing plan. Most marketing strategies are dependent upon the producer's calving season. This automatically makes the marketing decision time oriented. Spring calves are sold in the fall and fall calves are sold in the spring. Consequently, the producer's calving practice affects the prices that he is able to achieve each year.

Average annual 400-500 pound steer prices for South Carolina are shown in Table 3. In 1995 steer prices averaged $68.98 per cwt. Prices peaked near $84 per cwt in early winter and declined throughout the rest of the year. Prices finished the year in the high fifties.

Table 3. Monthly Average Price for South Carolina 400-500 Steer Calves: 1986-1995

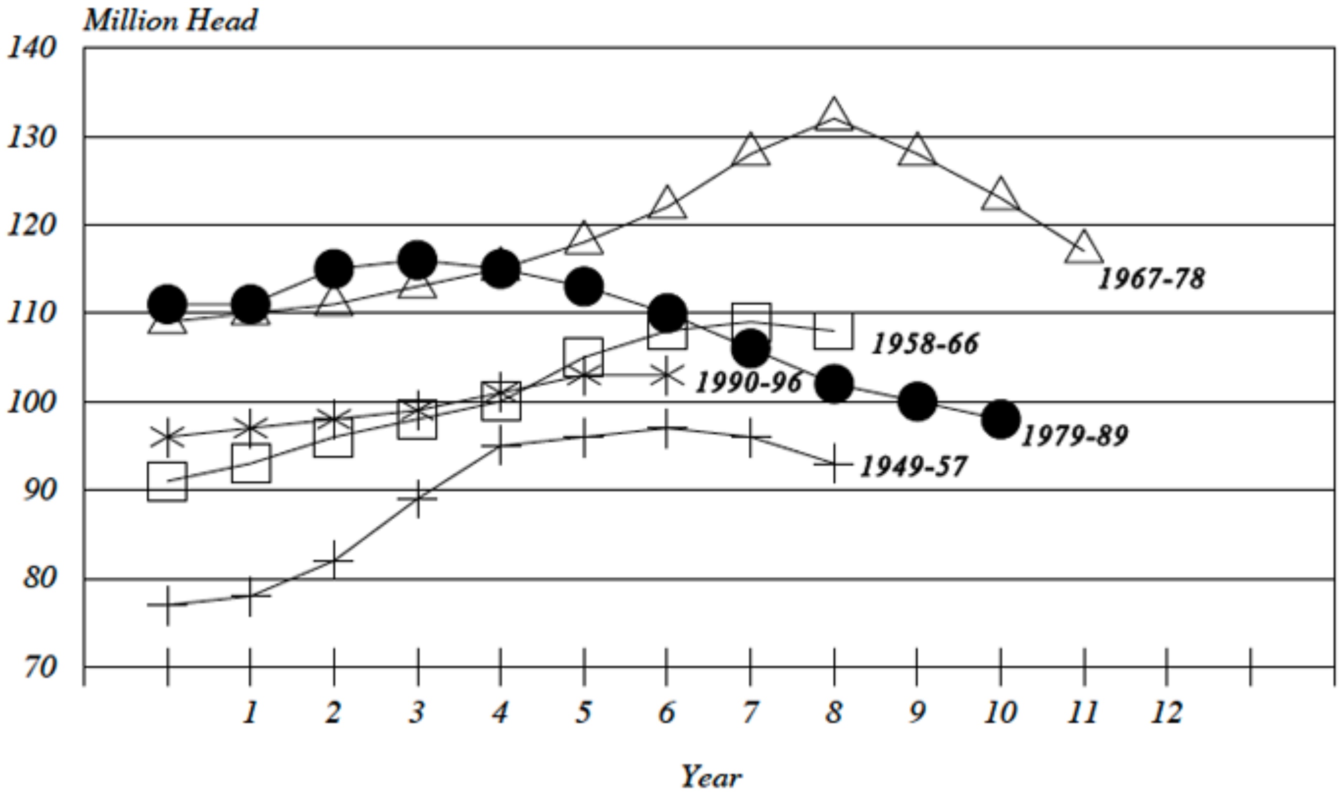
Month	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
January	$61.20	$64.85	$89.13	$90.94	$86.50	$99.69	$87.45	$92.44	$94.13	$84.59
February	64.69	71.50	92.50	94.38	93.31	105.47	93.13	95.94	97.94	84.00
March	62.75	73.38	92.88	97.25	98.85	108.95	93.00	98.75	101.50	79.50
April	60.81	77.06	94.90	89.38	98.75	110.53	93.38	101.45	95.60	74.34
May	57.18	77.35	92.63	89.31	96.75	106.13	88.30	100.38	86.19	70.69
June	57.69	78.00	81.81	92.60	96.75	104.91	87.94	98.31	83.34	71.53
July	59.63	77.80	86.20	93.25	100.00	102.50	88.50	94.73	83.66	64.79
August	63.55	83.25	89.25	95.75	97.10	96.40	90.94	93.44	82.61	63.50
September	63.88	86.50	88.50	90.15	92.75	94.75	88.13	91.50	79.25	60.30
October	60.40	80.10	86.88	87.56	92.75	91.63	85.45	93.65	75.97	58.88
November	61.56	84.25	86.97	84.69	94.40	90.38	87.00	90.08	80.83	57.13
December	60.42	82.83	88.25	84.19	99.33	88.29	86.42	92.17	77.13	58.50
12 Mo Avg	$61.15	$78.07	$89.16	$90.79	$95.60	$99.97	$89.14	$95.49	$92.84	$68.98

Note also in Table 3 that the highest monthly average price typically occurs in late winter and early spring. The lowest average monthly price occurs in the fall. This implies that cow-calf producers that calf in the spring and sell their calves in the fall, sell during the lowest prices of the year. Fall calving operations have the opportunity to sell during the highest seasonal prices, but fall calves face the low gains, extra feed costs, and potentially high death loss during the winter months.

Other information: The beef cycle

The size of the U.S. beef herd does not remain constant over time, rather it increases and decreases depending upon the level of profit achieved by cattle producers. If the industry is profitable cattle producers retain heifers, breed them and in time expand the size of the herd. When the supply of beef exceeds demand, prices fall and the cattle producer diminishes the size of his herd by culling cows and by selling heifers. This process continues through time as the industry tries to adjust the size of the herd to reflect the signals it receives from the forces of supply and demand at work in the market. The term used to explain this process is “the cattle cycle”. The cycle is frequently defined as the time between the lowest point in a cattle numbers to the next time that cattle numbers reach a low point.

The length of past cycles has ranged from eight to eleven years (Figure 4). The last complete cycle was 1978-1989, ten years in length. Cattle inventory during this cycle increased the first three years and decreased the remaining seven years. The present cattle cycle began in 1990 and is now in its six year. Inventory numbers have increased for five years and peaked in late 1995 or early 1996. Cattle numbers were below 100 million total head in 1990. They reached a high of 103.8 million in 1995. The largest increase in inventory occurred in 1994 with 2.3 million head added to the inventory.



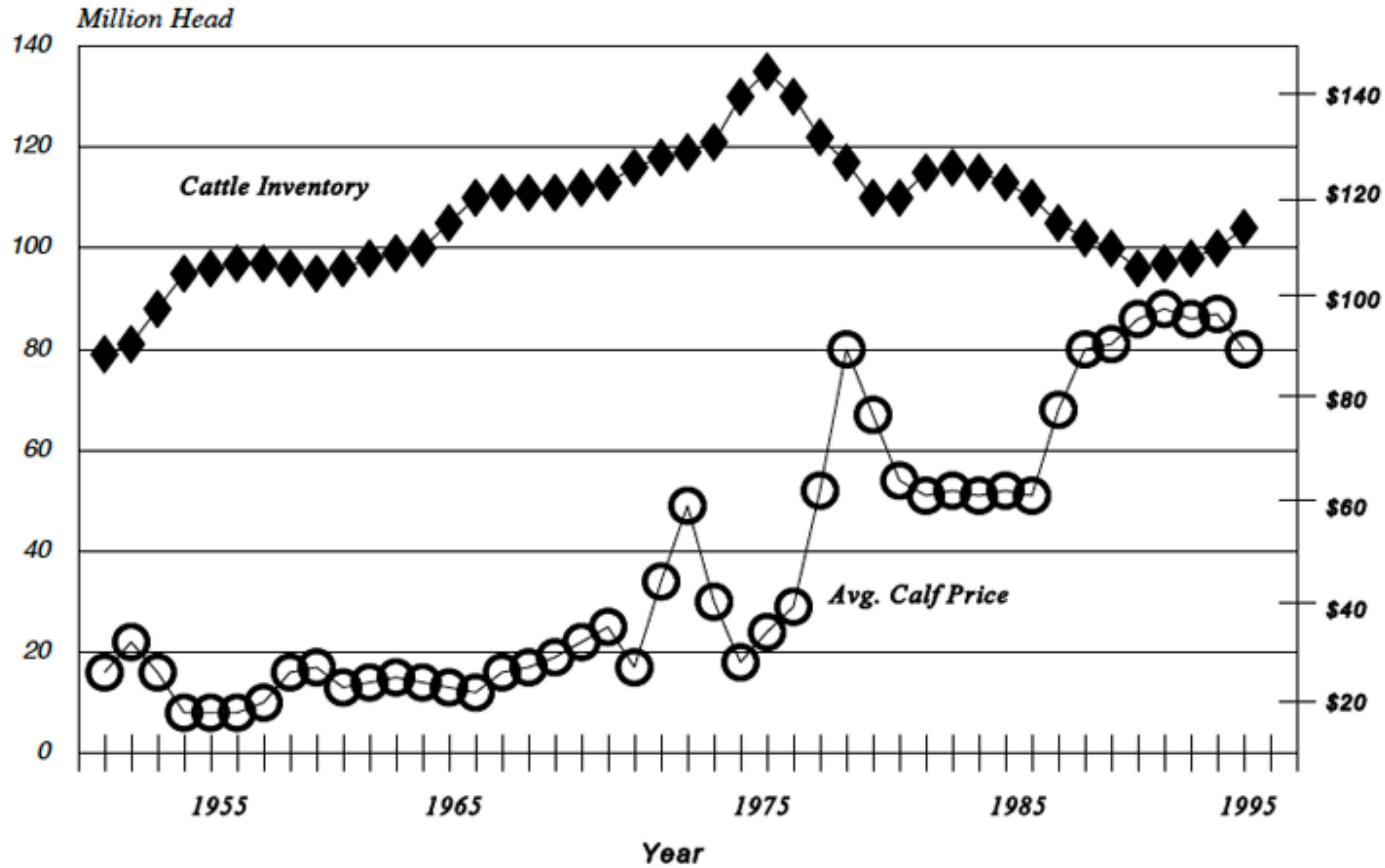
The significance of the "cattle cycle" to the beef industry is that it reflects profit potential to the individual cattle producer. When inventory levels are expanding profits are being made, but at some point in time profit levels will be squeezed out of the market. Prices will fall and adjustments in herd size must be made if the producer is to ready for the next upswing in the "cattle cycle". This is the nature of the beef industry. It will happen again, and producers need to be aware of the cycle and its affect on their profitability.

Other information: Cow slaughter levels and calf prices

Another relationship may also help us understand why prices react as they do to market forces. This is the relationship between cow slaughter numbers and calf prices. As cow slaughter levels increase, calf prices decline. That's right. Low levels of slaughter indicate a healthy cow-calf segment within the beef industry's. Cattle producers are making a profit; consequently, they will retain cows and heifers in an attempt to build the herd and have more animals to sell.

Each of the last three "cattle cycles" have also had well defined peaks in cow slaughter which have closely corresponded to cycle lows in calf prices (figure 5). Cycle low calf prices occurred in 1964, one year before cow slaughter peaked. Both the peak in cow slaughter and the low in calf prices occurred in 1975. In the 1980's cow slaughter peaked in 1984 but calf prices did not reach bottom until 1986 (cycle low calf prices probably would have bee realized but were affected by the federal governments' dairy cow buy out program).

Figure 5. U.S. Cattle Inventory and Average Calf Price



These two indicators, past beef cycles and the cow slaughter-calf price relationship, do not provide a definite answer to what price levels will be or how long they will stay high, but the tend to indicate a change in the wind. Changes in these indicators suggest the direction the industry is moving and provide the cattle producer an idea of the chances of making a profit over a specific time period.

Other information: USDA hog, poultry and crop reports

Other USDA reports are useful in evaluating intermediate and long-run trends in the beef industry. Production reports indicate the progress of grain crops, and the supply and demand estimates of these crops, particularly corn and soybeans. Estimates of hog and poultry numbers also provide the cattleman important information of the volume of competing meats today and in the future.

USDA's crop and livestock reports are also readily available to the cattle producers. Cattle and hog slaughter numbers are released each day and are available over the news wires; also, a few local newspapers. Full service commodity brokers provide this information, or if the local sale barn, grain elevator or cotton gin has access to a news wire, the information may be obtained from them.

The USDA does have a weekly publication called "Livestock Meat and Wool Market News: Weekly Summary and Statistics" that contains weekly cattle and hog slaughter numbers. One problem is that the publication arrives about two weeks after the information has been released.

Feedlot cattle placements and marketings are also available from these market reports. Some farm radio reporters periodically give this information. Also, cattle brokers and merchandisers keep up with how current feedlots are today.

The electronic media is now maintaining up to date information on futures and cash market prices along with some market analysis. This is true for all livestock and grain categories. The "World Wide Web" is another source of these report listings. Commercial services are also readily available today. Two services available to South Carolina cattle producers are DTN and ACRES. The information problem that was a limiting factor in the marketing of beef cattle a few years ago is now really at the finger tips of the cattlemen today.

Marketing cattle in South Carolina

The following section describes marketing options available to South Carolina cattle producers. The alternatives are divided into two main categories the CASH MARKETS and the FUTURES MARKETS.

Most South Carolina cattle producers use the cash market to sell their cattle. The cash market includes local auction barns, regional cooperative sales, on farm sales and retained ownership. Each of these market alternatives provide different opportunities to the cow calf producer. Specifically, the selling at the local auction barn provides immediate revenue to the seller. On farm sales allows cattleman the ability to group his cattle prior to sale, negotiate shrink, and highlight precondition and quality factors. The retained ownership alternative gives the cattleman an opportunity to capture additional weight as he attempts to wait for market price to improve.

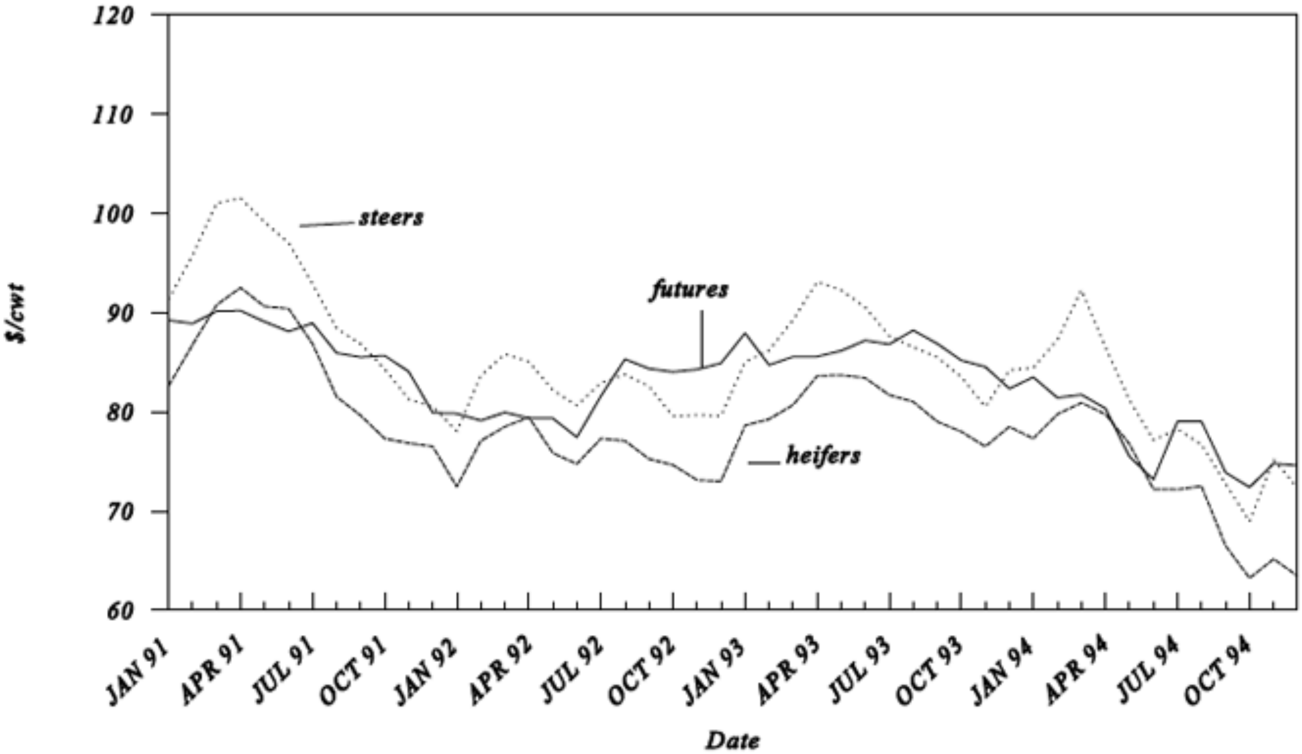
The futures market is an alternative that has not been heavily used by South Carolina producers. It can provide cattlemen an opportunity to lock in a profit on their cattle by shifting the chance of any negative price movement to someone else. It is frequently viewed as a temporary substitute sale of the producer's animals in anticipation of selling the actual animals in a cash sale. The producer sells a futures contract in anticipation of a later sale at the local auction barn. This practice is often times called "hedging". Because of the relationship between cash prices and futures prices, hedging in the futures market can be used as a marketing tool. Both cash and futures prices tend to move in the same direction because the animals may be delivered to fulfill the futures contract.

Chicago Mercantile Exchange futures quotes for feeder and live cattle reflect Midwestern conditions. So when you see a futures quote for October feeder cattle at $65.00 per cwt it means $65.00 per cwt paid in the Midwest not South Carolina. To get a South Carolina price that is reflective of the local situation it is necessary to adjust this Midwestern price. This adjustment is called the "basis". The basis reflects the difference in the local cash price paid and the futures price (Figure 6).

In general, cash and futures prices are affected by the same supply and demand factors. Local differences may cause a specific market location to have a supply shortage making prices higher than expected or a surplus causing lower prices. Transportation charges from South Carolina to Midwestern markets are also reflected in the difference between local and futures prices.

Most producers will choose not to use the futures market. However, producers need to realize the impact that futures markets have on local cash markets. The futures market is a powerful source of information the cattle producer can use to position himself in the cash market.

Figure 6. Nearby Feeder Cattle Futures and South Carolina Cash Steer and Heifer (5-6 cwt) Prices, 1991-1994



Sources of futures prices are readily available to cattlemen today. Newspapers and trade magazines have typically carried futures quotes and cattlemen have called brokerage houses. Today, electronic mail, the Internet and commercial agricultural information companies all provide futures price information almost instantaneously and at a reasonable cost to the user. Users of this course are encouraged to read about and study both the cash and futures marketing section of this section. The futures markets may never be used but knowledge of the futures markets will improve your understanding of the cash marketing alternatives.

Marketing alternatives for cattlemen

A cattleman's marketing plan starts with the production of the animal. A solid production program is the basis of the cattle producer's marketing plan. The cattleman must use his knowledge of animal production to produce a product that is acceptable to the market. He must also produce this animal in a timely manner in order to minimize production costs. The cattleman's knowledge, timing and effort are essential in the production of the animal. Knowledge, timing and effort do not guarantee a profit, but they improve the odds. Knowledge, timing and effort are also essential for good marketing.

Marketing, therefore, is a systematic approach toward achieving a reasonable return for the producer's money, labor, management ability and other resources he has invested in the production of his animals. Marketing requires detailed planning and the estimation of costs and prices. Simply put, marketing involves knowing the alternatives, what the alternatives offer, how the alternatives meet the goals of the operation and how best to use each marketing alternative.

The first step in the development of an individual cattle producer's marketing plan is to estimate his cost of producing the calf. This was accomplished in the prior section and will not be repeated here. However, this estimate is the focal point of the marketing plan, it is the MARKET TARGET PRICE . The objective of any plan is to receive a market price that will meet or exceed this cost of production. The producer must keep this market price target in mind when he develops, implements and evaluates his marketing efforts.

First and foremost there is not a single magical alternative that cures all of the producer's marketing problems. There are alternatives that if used wisely under reasonable conditions have served producers will for many years. The question is which of the available alternatives fits your needs. The alternatives available to South Carolina producers include: cash sales, futures contracts, option contracts or a combination of these marketing alternatives. Retained ownership should also be considered a marketing alternative (Table 4).

Table 4. Marketing Alternatives Available to Cattlemen

Producer Level	Sale Barn	Cash on Farm	Retail Ownership	Features Contract	Option Contract
cow-calf	yes	yes	yes	?	?
stocker	yes	yes	yes	yes	yes
feedlot		yes	N/A	yes	yes

What marketing alternatives are available to the cattle producer depends upon the stage of production. Some alternatives are used more often at one production level than another. There are profitable alternatives available at every production level. The cattleman's job is to find each alternative and evaluate its ability to make his operation a profit. For the purposes of this course we will concentrate on alternatives available to the cow-calf and stocker level of the industry.

Producer marketing alternatives

Producers may choose to market their weanling calves through a local or regional sale, sell to an off the farm buyer, or forward contract with a buyer for future delivery. It is also possible to use the futures markets to market weanling or stocker calves.

The objective is to market grass pasture, labor, capital and management by selling calves, cull cows and cull bulls. Most South Carolina producers attempt to satisfy this objective through the local auction barn. They do so for various reasons including closeness to the farm, small number of animals to market, time it takes to evaluate other markets and the fact that the local auction is a form of entertainment.

The local auction is also the most cussed form of marketing in the cattle industry. Many producer's say that they have taken their animal to the local auction barn only to get ripped off. The fact is that the producer frequently does not know the market and is not willing to gain an understanding of the market. With a little knowledge the producer would start to see what he can do to improve his situation. By evaluating market alternatives, including the profitable use of a local auction, he can improve the profit from his beef operation.

Another cash market option available to producers is retained ownership. It can be used for his annual calf crop or stocker operation. It can also be used for the "best" of his heifer and bull calves destined for sale to other producers as replacement animals. The market price target is useful in evaluating whether or not the producer should participate in retained ownership.

Retained ownership decisions compare the sale of the calf today with a future sale at a heavier weight. Several factors come into play in this decision. The producer must know the prices for the light weight calf and the expected price for the heavier calf. In addition he must know the cost of producing the weanling calf and the cost of carrying it the additional days.

A good producer marketing strategy is to establish a reputation for producing above average stockers or breeding stock. Development of a sound production program requires a long-term commitment on the part of the producer. Good breeding stock or the development of a quality stocker program doesn't occur overnight. A good producer should take advantage of his "good name". Surveys of cattle buyers indicate that an important criteria in price determination is the producer's reputation. A good reputation normally brings buyers to the farm eliminating the need to sell at auction.

Having buyers come to the farm to purchase cattle provides a marketing opportunity for both buyer and seller. The seller can reduce shrink and avoid commission costs. The buyer obtains an animal that has a known parentage and production philosophy, and minimal stress. On farm sales are a good opportunity for cow-calf producers to market their animals and build a reputation with buyers.

The producer can also use the futures market to lock in a price or shift the chance of an adverse price change. However, futures contracts are not readily adapted to lightweight calves. The difference between the futures price and the local price for these lightweight calves can be quite large. This wide difference makes if difficult to accurately fix a price.

Choosing the right market to meet your objective can be difficult. This is where the development of a market target price becomes important. The producer has some bench mark to evaluate local market prices against what it costs him to produce the calf. Two things have been accomplished: first, the producer is capable of evaluating the price the local market is paying for calves similar to his and, secondly he is able to really understand if this marketing alternative can successfully play a role in his overall beef objectives.

Putting it all together

We have considered may factors that are integral components in developing a successful marketing plan for South Carolina cattle producers. It is now time to put these factors into a plan of action and show how a marketing plan is actually developed. The marketing plan does not need to be elaborate or complex but, it does need to be well thought out and adapted to meet the needs of your cattle operation. Clearly, the plan should suggest what you want out of your involvement in the cattle business and how you intend to get there. There are many ways to classify a market plan but, here is a useful and simple approach. We will focus on six steps:

1. Know what you have to market,
2. Develop your cost of production and market target price,
3. Analyze the market environment,
4. Review available market alternatives,
5. Compare market alternatives against your operation's goals; and,
6. Make your decision and market your cattle

Know what you have to market

In order to understand where you want to go in your business you must first determine where you are today. Inventory your herd. Decide what classes of cattle , i.e., steers, heifers, bulls, cows, etc., you are going to sell this year. Next determine the sale time. Compare sale opportunities with feed needs and production costs as well as expected prices.

Inventorying your herd will force you to look at your cattle in detail. Table 6 lists some characteristics to consider when you review your cattle herd. This process allows you to consider how your herd compares with the average cattle sold in your area. Separate and count your cattle. Determine the number of good ones and "bottom enders". The buyers are doing this whether you sell on farm or go through the local auction. Once you have made this inventory list you are ready to compare your animals with the market. You now know the number of head by color, sex, weight, frame size and their faults. Most producers say they don't know the how and why behind the price they get for their cattle. It is easy. They are right in front of you all you have to do is classify and know what characteristics receive premiums and which ones are discounted.

Table 5: Animal Characteristics and Their Relative Price Discounts

Animal Characteristics	**Discount (per cwt)**
Muddy hair coat	$1-2
Lameness	$10-15
Stale cattle	$4-6
Sick cattle	$10-20
Bad eyes	$5-8
Horns	$1-5
Bulls	$3-10

Overly Fleshy Cattle	$1-3
Excessive Fill	$2-4
Breed composition	$1-10
Frame size:	
Small	$5-10
Lower third of medium	$1-2.50
Upper third of large	$1-2.50

Price discounts can be quite variable. They frequently depend upon market location and prevailing market conditions. Generally speaking, cattle are discounted for poor nutrition, sickness, horns, sex and lameness. Breed composition also leads to discounts in some markets. Straight bred cattle of all breeds are discounted as compared to good crossbreds. High percentage ear breeds are discounted as much as $5.00 to $10.00 per cwt, and in some markets spotted or light color cattle are also discounted.

Some characteristics are always discounted: sick cattle, horns, bulls, etc. These discounts are the market's way of signaling the need for change. Producers need to realize that discounting implies that the market considers a particular trait unacceptable today. The market's feeling about this trait may also change over time. A once discounted trait may become acceptable at some point in time. Conversely, a trait once considered acceptable may receive a discount in the future. The market uses this discounting procedure to reflect it's feelings about the cattle being produced and their value to the industry today.

The inventorying effort can point out to the producer the best and the worst in his cattle. It might even keep him from continually fooling himself. Producers seldom talk about what they were paid for their bottom end cattle, instead they like to talk about the one that brought the highest sale price. Unfortunately, not all of their cattle brought this high price, but it took the same dollars to raise the bottom calf as it did the top one.

Develop your cost of production and market target price

We have talked at length about estimating your cost of production and developing a market target price. It can not be emphasized enough that after knowing what you have to sell, knowing the amount of dollars that you have in the calf is the next step in any marketing effort. You can't make any decision without knowing the cost of producing the calf.

Analyze the market environment

Analyzing the market environment is a fancy way of saying that you need to understand the forces of supply and demand and how they influence cattle prices. You must be aware of how the cattle cycle, cattle inventory numbers, hog and poultry numbers and the price of corn influences cattle prices. In short, this is knowledge of the market forces that you are facing at the time of sale. It changes each year. Cattle producers must become involved in the market and develop an expectation of price levels. Don't be like one producer who called me and asked what was going on in cattle. He had taken some calves to the sale barn this year and received $30 per cwt lower than last year. He had not asked about prices from a neighbor or even looked in the newspaper. His last exposure to the cattle market was the year before when he took his calves to market.

Review available market alternatives

Many factors influence whether or not a market is acceptable. As you evaluate market alternatives ask yourself some of the following questions. What type of cattle will this specific market take? You need to sell a certain number of animals of a particular weight, color, frame size, sex, health and management status. Will your cattle sell well at this market or are they going to be discounted because of one or more reasons. Do you have the ability to influence the way your animals are presented to the buyer? Auctions generally sell single lots--can you group your calves? On farm sales and some regional sales automatically grade, sort and group calves by sex, weight and color. Do you have enough cattle to sort by class?

What about the buyers? Who are their customers? Are they buying for only a few customers, i.e., a packer, or are they servicing a broad customer base that can take wide range of weights, ages, and frame sizes? Take the time to meet and talk with these buyers. Find out what they normally buy and what they want to see in a calf. Match his needs against your cattle inventory.

Remember you also sell cull cows and bulls. This market is quite different than your calf market. Buyers are different and the main price determining factors are health and weight. Cow grades are based primarily on carcass yield potential. Bigger carcasses that yield a high amount of meat are paid a premium over smaller carcasses.

There are also other considerations you need to evaluate. These factors may not directly affect the price you receive for your cattle but they can indirectly influence the number of dollars that you finally put into your pocket. What about the handling facilities? Will they let you work your cattle in an easy manner or will your cattle be stressed in the unloading or loading process? Stressed cattle can show signs of sickness and frequently lose weight. Can you feed and water your cattle if they are penned for any length of time prior to their sale? What about the records that are kept on your cattle as they go through the sale? Are they accurate? How soon after the sale are you paid? And how is the amount of shrink determined?

Review your marketing alternatives. Take some time to see if there are other market outlets that you can use. If there are, evaluate them critically, not just if they can provide you with a better price than your current market. The time to review these options is not the day before you plan to take your calves to the sale but, sometime earlier so you can have time to thoroughly review and understand these options.

Compare market alternatives against your operation’s goals

Once you have analyzed the marketing alternatives available to you, compare their potential to your stated business objectives. Will they fit your operation? Are they physically possible or do you have to significantly change the way you do business to utilize an alternative?

Make your decision and market your cattle

Finally, make a decision and market your calves. Don’t try to second guess your decision. If you do well keep this alternative for next year. If it did not pan out then scratch this alternative and go on. You learn from your mistakes and every year is different in the cattle business. Marketing is a planned event that is reviewed every year, changed if necessary, but constantly improved.

Last, but not least, what about retained ownership? It is a marketing alternative. Would it be profitable for you to keep these calves until next spring? They will weigh more. The information required to analyze a retained ownership decision is the same as that used to evaluate any other market. First, estimate the cost of gain. Then compare what you can get for the calves today against a spring sale. The futures market and knowledge of the basis will help develop a spring price estimate.

Summary

Most producers are good production people and they dislike the hassle associated with marketing. But, in beef cattle production survival depends on a producer being above average in production, marketing and financial management.

A successful beef marketing effort includes at least six steps: knowing what you have to market, knowing the costs of production, knowing the market environment, reviewing alternative marketing actions, comparing alternatives against management goals, and making a decision and staying with the decision.

These steps allow cattle producer to inventory his herd and review it’s strengths and weaknesses. Reviewing the market environment also provides information about basic supply and demand factors that influence prices. Comparison of market alternatives allow the opportunity to match the operation’s strengths against what the market is offering this year. Finally, a marketing decision must be made. This stepwise procedure allows the cattleman to make an informed decision and not one from “the seat of his pants”.

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