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January 1982

A.E. Res. 82-3

# **MARKETING ALTERNATIVES FOR NEW YORK FED BEEF PRODUCERS**

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This bulletin is based on Karen Rasmussen's M.S. Thesis which was prepared under the supervision of Bruce Anderson. William Lesser wrote the bulletin. This research was supported by project 364 in cooperation with the NY Department of Agriculture and Markets and the USDA Agricultural Marketing Service.

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## INTRODUCTION

During the early period of the European settlement of North America the continent consisted largely of farmers. In fact in 1930, 49 percent of the people in the United States lived in rural areas (U.S. Dept. Commerce 1975, p. 11). Many of the farms were largely self-sufficient, producing a variety of products for home consumption. When exchanges were made they were typically in small lots sold locally. For beef animals, important because of their ability to utilize roughages directly, slaughter was sometimes scheduled cooperatively so that the meat could be exchanged with neighbors before it spoiled.

The industrial revolution which advanced rapidly at the time of the Civil War produced as a byproduct large urban areas. Such concentrations of consumers dependent on a food distribution system necessitated more specialization in marketing. The livestock sector responded forcefully, culminating in the formation of the Chicago Union Stock Yards in 1865. By 1900 nearly three million cattle a year passed through these Yards (Drovers Journal).

The twentieth century brought on additional major changes in the livestock marketing sector. With the decline of the giant urban packing plants, the stock yards also declined. Packing plants located nearer production areas had an efficiency advantage in procuring supplies directly from producers. As a result less than ten percent of cattle sales were made through terminal markets in 1979. An additional 15 percent were handled by auction markets that year (P&SA, p. 13).

The evolution of the fed beef industry has largely bypassed the Northeast. The region in 1974 had an estimated production-consumption shortfall of almost one billion pounds. The regional deficit is even larger if the analysis is limited to fed beef. The marketing system remains antiquated with 86 percent of steer and heifer sales made through public markets in

1976. This is nearly four times the national average (P&SA, pp. 12-13). The combination of small volumes and reliance on local auctions catering in many cases to surplus dairy animals has meant high marketing costs for regional producers. Conversely, existing packers find assembly costs for local cattle high, discouraging their purchase. This reluctance of many buyers to participate in local markets further compounds the regional marketing problem by reducing competition. The net effect is to leave producers without an effective marketing program.

A partial solution is the identification and implementation of viable marketing alternatives. A viable alternative is one which has the potential of increasing net returns to producers by reducing marketing costs and/or increasing prices by enhancing competition in the fat cattle market. The objectives of this publication are to evaluate which of several marketing alternatives are acceptable to producers and buyers and to report on preliminary efforts by a group of New York producers to implement one of the identified alternatives.

#### Sources of Data

Little secondary data exists on the State's fed beef producers. As a result the data for this study were collected using formal, personal interviews with producers and packers. Sampling producers posed an additional problem in that a complete address list does not exist. In fact Fox estimates there were 8,000 producers of beef animals in New York in 1980. This compares with about 1,600 dairy producers. The list used in this study was provided by Cooperative Extension agents in 12 major New York beef producing counties (St. Lawrence, Madison, Delaware, Jefferson, Allegany, Chenango, Stuben, Albany, Oswego, Dutchess, Erie and Wyoming). Since this list was found to contain many inactive producers a subset of 149 feeders who responded to

a 1978 mail survey was selected (Lesser 1980). Such a sampling procedure probably selects the more interested and involved producers who may not accurately represent the attitudes of all producers. This group, however, is likely to be most responsive to alternative marketing systems so that their opinions may be more relevant than those of the less active producers.

The sample was stratified by the number of fed cattle sold in 1977. Three size groups were established: 1-20 head (small), 21-50 head (medium), and 51+ head (large). From each size group 12 producers were randomly selected. Because a number of the interviewed producers had changed their operations between 1977 and 1980, the actual size distributions of the groups were 13 small, 13 medium and 10 large. The approximate locations of the interviewed feeders are shown in Figure 1.

The survey of packers was targeted toward the larger fed beef packers in the region. A large packer was defined as one with a 3,000 head or greater annual kill. Large packers were selected because many were known to purchase only a small portion of their requirements from the region. As a result they provide a large untapped market. All five large regional packers were interviewed for this study.

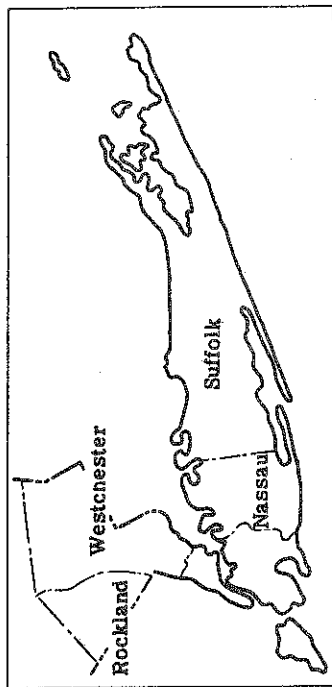
#### ATTITUDES TOWARD MARKETING ALTERNATIVES

Previous analyses of livestock marketing have identified several alternative marketing procedures for fed beef. The principal ones are described briefly as follows (McCoy 1979).

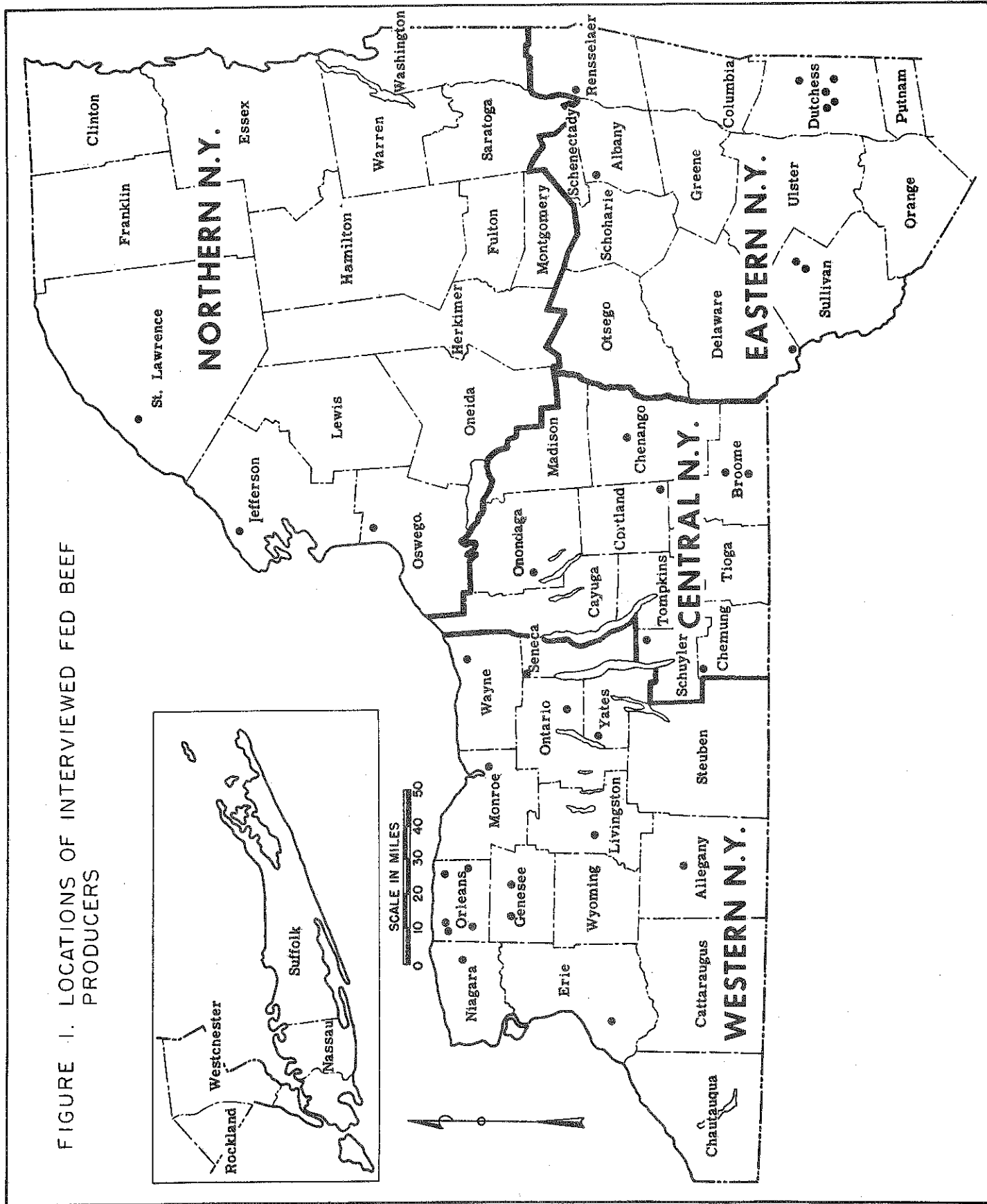
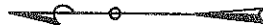
Public (Auction and Terminal) Markets: Animals are delivered to the market and presented to either individual buyers (private treaty) or groups of buyers in an auction arrangement.

Country Selling: Animals are purchased at a buying station operated by a packer.

FIGURE 1. LOCATIONS OF INTERVIEWED FED BEEF PRODUCERS



SCALE IN MILES  
0 10 20 30 40 50



Direct Buying: A packer buyer visits a producer's feed lot and purchases the cattle directly. The sale arrangement may call for shipping within a few days or at a more distant point in the future, referred to as forward selling or forward pricing.

Contract Feeding: The buyer, usually a packer, maintains ownership of the cattle, paying the producer for housing and feeding the animals. Frequently payment is made on a per-pound-of-gain basis.

Electronic Marketing: Electronic marketing uses telecommunications equipment to link buyers with sellers. In this way the cost of assembling buyers together is avoided. The sophistication of the systems used ranges from simple telephone conference calls to elaborate video and computer terminal systems.

Joint Ventures: A joint venture involves an arrangement between a packer and a producer or producer group in which one has an ownership interest in the other. The arrangement can go in either direction with the packer investing in a feed lot or a feeder having an investment in a packing plant. Typically these mutual arrangements include a long-term agreement for selling cattle.

Forward Integration: Forward integration by feeders involved the ownership of a packing plant. The size economies and investment requirements of a packing plant generally necessitate cooperative ownership by a large group of producers. Direct ownership of a packing plant assures producers of a market under most circumstances.

The advantages and disadvantages of these and related marketing systems have been analyzed (e.g., Rhodes, et al. 1978).

The adoption of any new system in an area, however, depends critically on the attitudes of producers and packers concerning that system. If either party is not favorably inclined then the system has a limited opportunity for success. The importance of participants' attitudes was apparent with the electronic marketing experiment for slaughter hogs in Ohio (HAMS). The system was unable to generate sufficient volume for economical operation in part because many potential users were satisfied with existing systems and saw no need for the alternative (Baldwin and Henderson 1981). Similarly, experiments with the electronic trading of fresh meats had limited success because of poor participation by major packers (Pearson 1981).



Clearly, a knowledge of potential participants' attitudes toward changes in existing marketing systems is essential for identifying workable alternatives. This section reviews attitudes in New York toward alternative fat slaughter cattle marketing systems. As an aid to better understanding the attitudes described below the current structure and marketing processes of the existing fed beef industry are described.

#### Structure of the New York Fed Beef System

Information on the New York fed beef system is limited. Fox's estimate of 8,000 producers owning the 120,000 beef cow breed herd suggests an average herd size of 15. Lesser, in a 1978 survey, confirmed the small size of producing units. That year 75 percent of producers marketed 25 or fewer head of fed beef (1980, pp. 4-7). Approximately one-third of the state's fed beef is sold directly to consumers as "freezer beef" (Lesser May 1979, p. 1). The remaining two-thirds were sold predominately through public markets, particularly the 31 local auction markets.

Cattle sold through commercial channels appeared to remain in the region. Within New York the smaller federally inspected packers have a weekly kill of over 600 head of good and better grade cattle (Lesser July 1979). Adding the five major regional packers raises this figure to over 500,000 annually, of which 300,000 are imported from the Midwest and Southeast (Lesser 1980, p. 7). Additionally there are over 300 federally inspected packing plants in Pennsylvania, the largest number in the nation (USDA, LS, p. 46).

#### Characteristics of the Interviewed Producers

Knowledge of the local fed beef system is expanded considerably by the results of the 36 interviews made for this study. As expected, the

group shows considerable diversity. The contribution of fed cattle operations to total income ranged from 0 to 100 percent while experience varied from a few years to a lifetime. Of the 35 producers selling fat cattle in 1980, sales ranged from a high of 1,400 head to a low of 5 head. The larger operators typically ran finishing operations using purchased feeder calves. Smaller feeders raised their own calves up to slaughter weights. Beef breeds predominated with only two producers specializing in Holstein steers.

Producers tended to use only a single market outlet. Twelve sold only to the freezer trade, four used only terminal markets, three used auction markets and one a livestock dealer. The remainder used predominately two outlets, typically direct consumer sales and auction markets, although one used four market outlets regularly. Market outlets used by producers stratified by size group are shown in Table 1. This table tends to overstate the importance of sales direct to consumers. Although a total of 29 producers used this channel, six sold only 10 percent or less of their cattle this way. As expected, small and medium sized producers favored direct consumer sales while larger producers relied on terminal market or direct to packer sales.

Table 1. Market Outlets for Fed Cattle Stratified by Number Sold, 34 New York Producers, 1981

	Terminal Market	Auction Market	Cattle Dealer	Direct to Packer	Direct to Consumer
Size Group 1 0-20 head (12 farms)	0	6	1	0	9
Size Group 2 21-50 head (12 farms)	1	5	1	0	12
Size Group 3 over 50 head (10 farms)	8	2	0	6	8
Total	9	13	2	6	29

Producers showed a high sensitivity to price when selecting their market outlets. Price in each case was recorded as the predominant reason for selecting a particular market outlet (Table 2). The real distinction, however, is between returns net of marketing costs. Relatively long distances to the two terminal markets in Buffalo, NY and Lancaster, PA, and small lot sizes made sales at these markets prohibitively expensive for smaller producers. Conversely, the opportunity cost of time limited freezer beef sales by larger producers. Arranging sales, shipments and collecting payments were considered too troublesome and time consuming by larger feeders (Table 3).

Auction markets may be seen as a default option. Despite widespread dissatisfaction with price, producers see these markets as providing a close, convenient and easily accessible outlet with guaranteed prompt payment. Often the nearest auction market is selected for selling cattle. In fact, only two of the interviewed producers shipped their cattle beyond the nearest market.

Marketing costs are indeed quite high in New York. Costs for using public markets and selling direct to consumers amounted to almost \$20 per head in 1981. Dealer sales and direct packer sales were the lowest cost option. In many cases the producer has no marketing costs for these sales while in others the responsibility for shipping to the plant may remain with the producer (Table 4).

While New York producers tend to dispose of their animals close by, the larger regional packers rely on an extensive supply region. At its greatest extent cattle are shipped in from as far south as Virginia and west to Nebraska. Little of the fat cattle supply comes from New York with four packers reporting less than one percent of their supplies

Table 2. Reasons for Using Selected Market Outlets for Fed Cattle,  
35 Producers, New York, 1981.

Outlet and Justification	Number <sup>1/</sup>	Percent
<u>Terminal Market</u>		
price	8	88.9
dependable	1	11.1
Total users	9	100.0
<u>Auction Market</u>		
convenience	3	25.0
convenience and cash payment	1	8.3
available transportation	1	8.3
when cash is needed	1	8.3
size of operation and fair price	1	8.3
poor cattle only	1	8.3
for cattle not sold through other outlets	4	33.5
Total users	12	100.0
<u>Dealers</u>		
no transportation and cash	1	50.0
no trucking expense and best net return	1	50.0
Total users	2	100.0
<u>Direct to Packer</u>		
price	4	66.6
ready market	1	16.7
good premium	1	16.7
Total users	6	100.0
<u>Direct to Consumer</u>		
price	15	51.8
save commission and trucking	1	3.4
convenience (consumer picks up at farm)	1	3.4
cut out middleman	2	6.9
only alternative to make money	2	6.9
better price, but a lot of trouble	4	13.8
neighbors and friends	4	13.8
Total users	29	100.0

<sup>1/</sup>Multiple responses allowed

Table 3. Reasons for Not Using Market Outlets for Fed Cattle,  
35 Producers, New York, 1981.

Outlet and Rationale	Number <sup>1/</sup>	Percent
<u>Terminal Market</u>		
distance, transportation fee, insufficient numbers for a truck load	15	60.0
price (level)	4	16.0
price (unknown)	1	4.0
enough customers (freezer trade)	1	4.0
not familiar with this outlet	2	8.0
trucker stopped going (Buffalo)	1	4.0
too few buyers (Buffalo)	1	4.0
Total	25	100.0
<u>Auction Market</u>		
not dependable	2	9.5
not a good fat cattle market	5	23.8
price (do not pay worth)	12	57.1
no buyers for fat cattle	1	4.8
too few numbers to attract buyers	1	4.8
Total	21	100.0
<u>Dealers</u>		
price (do not pay worth)	6	19.4
one more middleman	8	25.8
do not trust (buy by the head)	5	16.1
none around for beef cattle	9	29.0
too troublesome to negotiate with them	1	3.2
do not need to (transportation available)	2	6.5
Total	31	100.0
<u>Direct to Packer</u>		
do not trust (they take profit)	4	14.8
no one buying in this area	5	18.6
price	4	14.8
packers not interested (too small operation)	4	14.8
producers do not go that way	1	3.7
distance	1	3.7
not familiar with this outlet	1	3.7
do not know any packers	4	14.8
packers will not buy New York beef	1	3.7
may try in near future (maybe an alternative)	2	7.4
Total	27	100.0
<u>Direct to Consumer</u>		
too much trouble	2	33.3
time consuming and difficult to get money	1	16.7
time consuming (inconvenient for big operations)	2	33.3
afraid of credit problems	1	16.7
Total	6	100.0

<sup>1/</sup>Multiple responses possible

Table 4 Estimated Average Cost of Marketing Fed Cattle Through Selected Market Outlets, 35 Producers, New York, 1981.

Cost Categories	Terminal Market	Auction Market	Cattle Dealer	Direct to Packer	Direct to Consumer
Dollars per Head					
Shipping Cost					
Median	\$12.27	\$9.19	\$0.00	\$5.83	\$8.09
Range	(\$5-\$25)	(\$1.50-\$15)		(\$2-\$10)	(\$1.50-\$20)
Commission and Yardage Fee					
Median	\$8.01	\$9.25			
Range	(\$3-\$10)	(\$7-\$12)			
Slaughtering					
Median					\$12.32
Range					(\$5-\$25)
Cooperative Fee <sup>1/</sup>	(.25)	(.25)			
Insurance <sup>1/</sup>		(.40)			
Total	\$20.28	\$18.44	\$0.00	\$5.83	\$20.41

<sup>1/</sup>Not included in total since only one producer paid insurance and only cooperative members paid membership fees.

originating from this state. Pennsylvania, however, is a major supply center, particularly during the spring, summer and fall. The one interviewed packer procuring fed cattle from New York relies on local public markets for three-fourths of his requirements.

Public markets are also a costly supply source for packers. Procurement costs, including those of a buyer or order buyer, shipping and shrink, total \$17 a head according to one packer (Table 5). This is not much above the cost of direct farm purchases from out-of-state producers. Moreover, purchases through auction markets are viewed in disfavor by packers because of the limited control which can be exercised over the timing of shipment to the plant.

#### Identification of Principal Problems and Needed Changes

Producers identified the principal problems of the current marketing system as low prices. This concern is associated with the limited number of both buyers and the number of uniform, high grade cattle for assembly into large lots (Table 6). Of secondary concern were costs associated with commissions and trucking. Significantly, the availability of trucking services and the adequacy of market information were not considered major problems.

Assembly issues dominated the concerns of packer buyers. Small dispersed markets each providing limited numbers of high quality cattle mean high assembly costs for the buyer (Table 7). The uneven quality of the local cattle is a slightly less important issue, probably because some plants serve a diversified group of users with varied requirements. Hence, for the packers the principal requirement of the marketing system is the assembly of larger numbers of cattle on a regular basis.

Table 5. Estimated Average Cost of Procuring Fed Cattle,  
1 Packer, the Northeast, 1981

Cost Categories	Auction Market	Direct from Producers Within State	Direct from Producers Out of State
		Dollars per Head	
Buyer's salary	\$ 3.00	---	\$ 3.00
Shipping cost	6.00	\$5.00 <sup>1/</sup>	16.00
Shrink	7.00	insignificant	insignificant
Cost before slaughter	1.00	0	0
Total	\$17.00	\$5.00	\$19.00

<sup>1/</sup>Farmers usually pay shipping



Table 6. Problems Associated with Marketing Fed Cattle in New York, 36 Producers, New York, 1981

	Importance <sup>1/</sup> (mean score)	Number Respondents	Number Do not know
<u>Cost</u>			
high transportation costs	3.11	36	0
high commissions at auction markets	2.53	32	4
<u>Inadequacies</u>			
transportation to nearby market	1.00	36	0
transportation to distant market	2.74	31	5
assembly systems - large lots	3.83	30	6
market alternative(s)	3.86	35	1
markets for high grade finished cattle	4.17	35	1
market information	1.86	36	0
<u>Variability</u>			
large seasonal	2.57	23	13
quality of local fed cattle	3.86	28	8
<u>Other</u>			
too few buyers	4.22	32	4
low prices	4.38	32	4

<sup>1/</sup> Importance indicated on a scale of 1-5 (1 = not important, 5 = very important problem).

Table 7. Problems Associated with Procuring Fed Cattle in New York State and the Northeast, 5 Meat Packers, the Northeast, 1981

	Importance <sup>1/</sup> (mean score)	Number Respondents	Number Non-Respondents
<u>Cost</u>			
high transportation	2.2	5	0
high buying costs	2.4	5	0
supply does not justify truck cost	4.8	5	0
<u>Inadequacies</u>			
too few local markets for high grade finished cattle	4.6	5	0
inadequate market information	1.0	5	0
<u>Variability</u>			
insufficient supply from nearby markets	4.4	5	0
large seasonal variation in NE supply of fed cattle	4.0	4	1
Uneven quality, local fed cattle	3.5	4	1
<u>Other</u>			
too many small producers	4.0	4	1
too few large-scale feed lots	4.6	5	0
buyers too competitive	2.0	3	2
high prices	2.7	3	2

<sup>1/</sup> Importance indicated on a scale of 1-5 (1 = not important, 5 = very important problem).

The six most needed improvements in the fat cattle marketing system identified by producers are:

1. a market outlet that will pay a fair price for quality beef,
2. one good central market with a fair grading system,
3. slaughter facilities, perhaps only one large plant,
4. an assembly system for fed cattle,
5. more buyers and packers to increase competition among those purchasing fed cattle, and
6. increased promotion for beef.

Five important suggestions from packers are:

1. a larger supply of choice grade fed cattle,
2. more direct sales from producers of quality cattle,
3. identification of cattle by owner at local auctions,
4. more feedlots with large numbers of uniform cattle, and
5. pooling of fed cattle into large lots.

#### Results of Attitudinal Surveys

A range of possible solutions to identify problems in the existing marketing system was presented to producers and packers and their attitudes recorded. The proposed systems included alternative pricing arrangements, assembly systems and operations which combined both assembly and pricing. Respondents were asked to rank their preferences on a 1 (low) to 5 (high) scale. The alternative systems presented to the respondents included:

1. participating in a cattle pool,
2. producer operated transportation system
3. selling by grade and yield,
4. marketing at regional auction
5. country buying stations,
6. contracting,
7. bargaining,
8. tele-auction system, and
9. owning packing plant cooperatively.

Producers ranked all alternative pricing systems higher than they did currently available auction markets. The average score given to the alternatives was 3.4 compared with the 1.9 awarded auction markets. The slightly lower average given to a telephone auction is traceable to producers' lack of familiarity with this system.

To obtain more indepth attitudes concerning new ways of marketing cattle, producers were asked specific questions about assembling, pooling, grade and yield selling, and selling on a contract basis. The results again demonstrate a willingness by producers to consider alternative systems (Table 8). The variance in attitudes among different producers was quite large and much of this variance is related to size of operation. Smaller producers experienced the greatest problems with arranging for transportation at a reasonable cost and preferred a joint transport arrangement. Producers large enough to assemble a truck load have, however, not experienced transportation difficulties and feel little need for a change.

Similarly, small producers were the strongest supporters of commingling. Although most had never commingled their cattle with other producers' cattle, 78 percent expressed a willingness to try it. Larger producers had some misgivings, fearing that the established reputation of their cattle would not be an asset to them if their cattle were mixed with others. In practice concerns among producers about uneven quality have often interfered with pooling several producers' cattle.

While small producers favored joint marketing arrangements it was the larger producers who saw the greatest need for cooperative integration into packing. Concerns about a cooperative packing venture were related to the number of cattle available and to the size of the investment.

The greatest support for any alternative was shown for grade and yield pricing. Almost 70 percent of the interviewed producers were willing to try this alternative. Reservations about grade and yield sales have been expressed elsewhere because of the potential control the packer may exercise in setting the effective price received by the producer. Delays in slaughter or weighing after slaughter or more seriously falsification of weights

Table 8. Producer Attitudes Toward Various Marketing Alternatives in New York State, 36 Producers, New York, 1981

	<u>Mean Score</u>	<u>Frequency Distribution</u>												
Producer transport system	2.76(34)	<table border="1"> <tr><th>Score</th><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><th>Frequency</th><td>11</td><td>6</td><td>4</td><td>6</td><td>7</td></tr> </table>	Score	1	2	3	4	5	Frequency	11	6	4	6	7
Score	1	2	3	4	5									
Frequency	11	6	4	6	7									
Country buying stations (local assembly points)	3.21(33)	<table border="1"> <tr><th>Score</th><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><th>Frequency</th><td>6</td><td>6</td><td>5</td><td>7</td><td>9</td></tr> </table>	Score	1	2	3	4	5	Frequency	6	6	5	7	9
Score	1	2	3	4	5									
Frequency	6	6	5	7	9									
Regional auction market centers (5-10 countries)	3.41(32)	<table border="1"> <tr><th>Score</th><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><th>Frequency</th><td>5</td><td>2</td><td>10</td><td>5</td><td>10</td></tr> </table>	Score	1	2	3	4	5	Frequency	5	2	10	5	10
Score	1	2	3	4	5									
Frequency	5	2	10	5	10									
Contract sale through a cooperative	3.12(33)	<table border="1"> <tr><th>Score</th><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><th>Frequency</th><td>8</td><td>5</td><td>4</td><td>7</td><td>9</td></tr> </table>	Score	1	2	3	4	5	Frequency	8	5	4	7	9
Score	1	2	3	4	5									
Frequency	8	5	4	7	9									
Telephone auction	2.59(17)	<table border="1"> <tr><th>Score</th><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><th>Frequency</th><td>7</td><td>1</td><td>2</td><td>6</td><td>1</td></tr> </table>	Score	1	2	3	4	5	Frequency	7	1	2	6	1
Score	1	2	3	4	5									
Frequency	7	1	2	6	1									
Cooperative slaughter and processing plant	3.27(30)	<table border="1"> <tr><th>Score</th><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><th>Frequency</th><td>8</td><td>1</td><td>5</td><td>7</td><td>9</td></tr> </table>	Score	1	2	3	4	5	Frequency	8	1	5	7	9
Score	1	2	3	4	5									
Frequency	8	1	5	7	9									

Note: Figures in parentheses are the number of respondents to each question.

or carcass identification can all reduce the producer's price. As a result producers become hesitant to use the yield and grade pricing mechanism. This implied lack of trust is demonstrated when almost 95 percent of the interviewed producers supported grade and yield pricing when policed by a producer association.

Overall, no market adjustment was found to be clearly preferred to the others. Each has advantages and disadvantages depending primarily on the size of the producer. Some common interests nonetheless emerged. Producers, at least those interviewed for this study, are willing to consider alternative marketing systems. Those which are most preferred provide the producer more control over price (at least to the extent of knowing the price before shipping cattle) or they relate New York prices to national prices which ostensibly more accurately reflect the national value of local cattle than do local prices. Producers were not as concerned about changes which would improve the physical efficiency of the marketing system. The attitude appears to be that it is the competitive conditions in the markets which need to be corrected, not the actual handling systems.

The interviewed packers demonstrated more similarity of concerns than the producers did. The interest of packers was principally in pooling a greater number of cattle in one location. Hence they rated highest regionalized auction arrangements and direct purchases from larger feeders or lots assembled by a producer group (Table 9). They also ranked grade and yield selling high. Supervision by a producer group was acceptable to most. Indeed, one currently had such an arrangement with the National Farmers' Organization (NFO).

Interestingly, there was widespread support for joint investment in production facilities, and some would consider a contract arrangement.

Table 9. Packer Attitudes Toward Alternative Marketing Arrangements in New York State, 5 Meat Packers, the Northeast, 1981

	Positive	Negative	Mixed
Assembly at specified local auctions	5	0	0
Direct buying from producers or groups	5	0	0
Grade and yield purchases with supervision	5	0	0
Joint venture with feeders in a feed lot	4	0	1
Contracts with individuals or producer groups	3	1	1
Feed cattle pool with commingling	1	1	3
Custom feeding	1	2	2
Tele-auction	1	3	1
Joint slaughtering and processing with feeders	1	3	1
Packer owned country buying stations	0	4	0

Packers do not support commingling several producers' cattle as the identification of the feeder is important to them.

#### Identification of Viable Alternatives

The coincidence of the attitudes of producers and packers combined with a knowledge of existing fat cattle marketing systems in New York emphasized the need for assembling larger numbers of cattle in one location. More significant changes in the system such as a cooperatively operated packing plant appear as more distant objectives, at best. Assembly may be done in either of two ways:

1. at a limited number of existing auction or terminal markets, or
2. at specific points around the State for subsequent pricing and shipment to a packing plant.

The benefit of the first procedure is the pooling of a larger number of cattle at one point to attract more buyers and raise prices. It also involves the smallest commitment by consigners as existing markets are utilized. A limitation is the increased transport distance for many producers. This is costly in terms of both trucking costs and shrink on route.

Pooling for shipping to a plant allows small producers access to larger vehicles at a reduced cost per head. Sales can be facilitated on a grade and yield basis to eliminate the need for a buyer's presence at the assembly point. Producer supervision at the plant is recommended for spot checking. Grade and yield selling has the disadvantage of requiring the producer to accept loss due to blemishes on the carcass or condemnation of the entire animal.

#### EXPERIENCES WITH APPLYING ALTERNATIVE MARKETING SYSTEMS

In the spring of 1981 a group of cattle feeders from Central New York met to explore alternative marketing strategies. Also represented at the



meeting were Cooperative Extension personnel and two Cornell faculty members. The group quickly realized that (1) alternative marketing procedures were necessary if many feeding operations were to remain economically viable, and (2) any alternative would have to involve the assembly of a larger number of cattle than was typically available at many local markets. Even those feeders satisfied with their current direct-to-packer or direct-to-consumer market recognized the importance of having a viable alternative market.

The alternative favored by the group was the establishment of a periodic cattle pool at several auction markets. The pool, patterned after a successful New York hog pool, would involve a special sale of commingled cattle of good or better grades. Lower grade cattle would be refused. A minimum of 150 to 200 cattle per sale would be required for proper sorting and operation of the market.

Problems with this idea emerged. A survey of area feeders revealed that less than fifty head per month were available in the targeted region. Even if this figure underrepresents the actual numbers by a substantial amount, the minimum volume for a pool is simply unavailable for the foreseeable future. Moreover, the monthly market planned would make local supplies very uneven. Smaller local packers could not utilize the large monthly volumes and could not survive the period between sales. Large packers for their part were considered unlikely to be interested in attending a sale with 200 or fewer head.

As an alternative the group decided to participate in a weekly sale at a regularly scheduled market. Two market operators were invited to a follow-up meeting to explain the services provided by their firms. Both proposed private treaty sales arrangements, one at an existing terminal market and the other at a special sale at a livestock auction.

The operators described three advantages for the cattle feeder who followed their suggestion. The principal of these is the use of the market operator or commission agent as a marketing advisor. The agent once familiar with a consigner's cattle could sell them unseen by the buyer. Second, the agent could recommend the proper timing of sales. Finally, the producer could get a good estimate of the market price before shipping.

Limitations of the proposed systems are higher marketing costs; commission fees currently run over \$10 per head. One of the markets proposed would involve a 100-mile haul from Central New York. Trucking and shrink costs would be high. Nevertheless a substantially higher price could lead to an increased net return for the producer.

The importance of notification of the market operator prior to shipping was recognized by the group. Prior notification permits the agent to advise the consigner, plan the sale and, in some instances, pre-sell the cattle prior to receiving. A two-month prior announcement with a follow-up one to two week notification of intent to ship is recommended. The attached sheet (Figure 2) is an example of how the notification can be made. Following the final week notice the consigner should feel morally obligated to ship the cattle except in unusual circumstances. Failure to ship at this point would upset the buying plans of local packers.

Two producers have adopted this marketing alternative at the time of writing. One has shipped two loads of cattle, the other a single load. According to the repeat user the experience has been favorable. For the consignment fee he has received significant attention from the commission agent. These services included an inspection of the cattle and a premarketing price estimate which proved to be quite accurate. In addition the packer buyer has been providing carcass performance data to the feeder.

Figure 2. Sample Livestock Market Notification Form  
MARKETING FINISHED GOOD AND CHOICE BEEF CATTLE

Name \_\_\_\_\_ Telephone \_\_\_\_\_

Address \_\_\_\_\_

Location \_\_\_\_\_

Projected sale date \_\_\_\_\_

Feeding Program \_\_\_\_\_

	No. Head	No. Head	No. Head	No. Head
No. Cattle				
Breed				
Age				
Heifer or Steer				
Weight				
Grade (good or choice)				
Yield Grade (1,2,3,4,5)				

R U L E S

1. Call at least two (2) weeks ahead of projected sale date.
2. Cattle must have overnight shrink with no feed or water before weigh-in in the morning. Cattle will be weighed in order of arrival.
3. Delivery arrangements are made with marketing operator.
4. Confirmation of sale will be morally binding to producer under the following conditions:
  - A. Minimum price is met prior to delivery.
  - B. All cancellations must be at least seven (7) days before projected delivery date unless mutually agreed upon or in case of severe weather conditions or extreme market fluctuation.
5. If at time of delivery cattle are not up to grade specified, alternative marketing arrangements will be made.
6. Cattle will be viewed at the discretion of the sales agent. The longer lead time of the sale, the more likely the cattle will be viewed.

This information relaying service is very significant in New York where many feeders are unskilled at judging the quality of live animals (see Lesser 1980 pp. 16-17).

#### CONCLUDING COMMENTS

The marketing of slaughter cattle in New York has been and remains a significant problem. Some of the disadvantages of small, dispersed producers can be overcome through direct sales to consumers (freezer beef). This market is, however, limited to smaller feeders who have the time required for arranging each sale. This market has also the disadvantage of instability and seasonality. The economic difficulties of the 1980s have also limited the funds available for many families to purchase a side of beef.

Dissatisfaction with current marketing systems explains to a large extent the willingness of many producers, as revealed in the surveys reported here, to consider a number of alternative arrangements. Although the circumstances are different, the large regional packers apparently experience the same problems with fat cattle marketing in New York and are also willing to consider a series of alternatives. This problem recognition and stated willingness to experiment are essential bases for change.

The principal opportunities lie in two alternatives: (1) utilizing available New York private treaty sales, and (2) grade and yield sales. The first option is simple as it requires no long-term commitment or coordinating arrangement. The principal change over current systems is making contact with an agent in advance of shipping. This arrangement is highly recommended for whatever market is used; surprise is not advantageous for the consigner. The principal disadvantage is higher shipping costs and weight loss on route. In return the producer can expect a more assured price and greater assistance in marketing.

The second option, grade and yield sales, has the additional advantage of reducing marketing costs at least by the amount of the commission fee at a public market. These fees currently run over \$10 per head. Direct dealing with the packer nevertheless involves more coordination and problems than does working through a public market. Detailed arrangements must be made on price formulas, holding periods before slaughter, timing of the weighing of the carcass, and disposition of below-grade animals. Each of these factors can significantly affect the producers' price. Sales will require greater coordination as lot size is an important factor for packer buyers. Producers will need to coordinate shipment and preselect the cattle so that sizes or grades not required by the cooperating packer are not shipped. If inspection by a producer representative is desired this too must be arranged for.

Grade and yield sales involve more risk for the consigner, who must absorb losses from condemned or bruised meat. In general, producers who are not confident of the quality of their stock should avoid grade and yield sales. Collection of payments has proven to be less assured from packers than from public markets so that there is a greater payment risk from going direct. Finally, grade and yield sales limit the market to plants with federal graders. This excludes most smaller plants in the State.

From the survey and discussion it is clear that pooled grade and yield sales are not imminent. For the time the use of an agent is preferred. Producers not finding this alternative attractive will most likely remain dependent on the freezer trade. Instead of passively waiting for orders many producers are going to have to promote their products more vigorously. (For suggestions see Lesser, May 1979.) Should unfavorable economic conditions continue to erode the market for sides of beef, the producer may (a) arrange for charges to Visa or Master Charge cards or (b) divide the sides into

freezer packs of up to 50 pounds of assorted cuts. Federal law requires that meat sold in a packaged form (e.g., not live) must be slaughtered at a plant inspected by a federal agent. The freezer option has been successful elsewhere and one New York feeder has found preliminary acceptance encouraging.

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