INFO SHEET

Veterinary Services

United States Department of Agriculture

Animal and Plant Health Inspection Service

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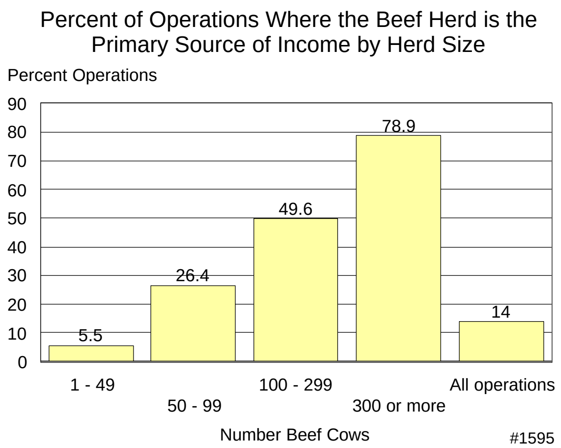
Marketing Practices in Beef Cow-Calf Operations

Many producers' main source of income is determined by the number and weight of calves sold and the price received (Figure 1).

Figure 1

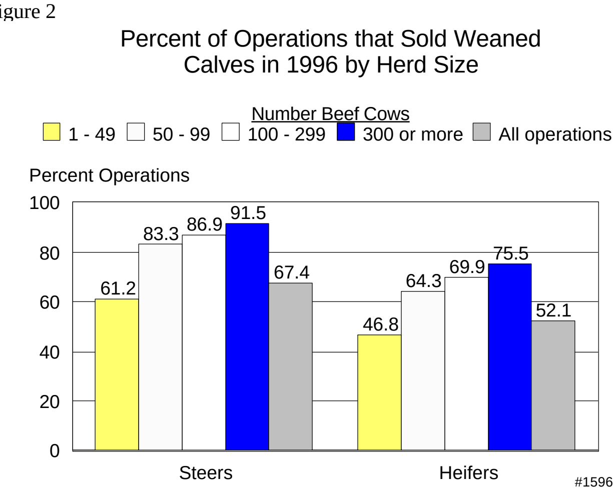


Producers can use various management tools to modify the weaning percentage and weaning weight of calves. However, the price that the operator receives is determined by market fluctuations that cannot be controlled by the individual producer. Different marketing strategies may decrease the price risk for the operation.

The USDA's National Animal Health Monitoring System (NAHMS) collected data on marketing practices of beef cow-calf producers. The NAHMS Beef '97 Study included 2,713 producers from 23 of the leading cow-calf states[1]. This study represented 85.7 percent of all U.S. beef cows on January 1, 1997, and 77.6 percent of all U.S. operations with beef cows.

Two out of three operations (67.4 percent) sold steer calves while one out of two operations (52.1 percent) sold heifers intended for slaughter in the year preceding the study. Larger operations were more likely to sell calves in the preceding year than smaller operations (Figure 2). This difference is probably because larger operations are dependent on the cow herd to generate cash flow, and most (78.9 percent) of these larger operations rely on the beef herd as the primary source of income. Smaller operations with outside income may be able to defer sales for another year during poor markets.

Figure 2



When producers sold steers, the auction was the most common method used (84.9 percent of operations, Figure 3 on next page). Private treaty was the second most popular marketing method for producers (10.4 percent). Other forms of marketing were rarely used.

The percentage of steers sold at auctions was lower than the percentage of operations selling steers through this method, indicating that smaller producers were more likely to utilize auctions (Figure 4, on next page). Larger operations were more likely to use strategies such as video, forward contracts, or sale on a carcass basis (not shown).

A similar trend was seen with heifers intended for slaughter. Smaller operations tended to use auctions as the primary marketing method, while larger operations used a wider variety of methods.

[1]Alabama, Arkansas, California, Colorado, Florida, Georgia, Illinois, Iowa, Kansas, Kentucky, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Virginia, and Wyoming.

Figure 3

Percent of Operations by Marketing Method for Weaned Steers in 1996

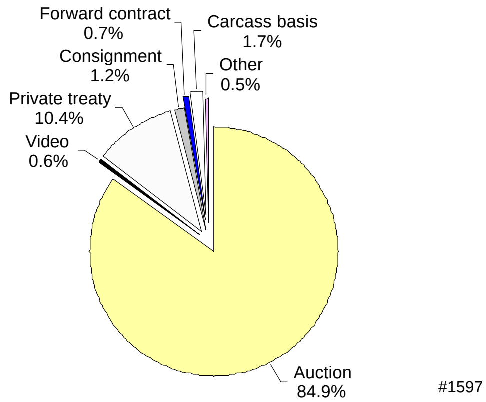
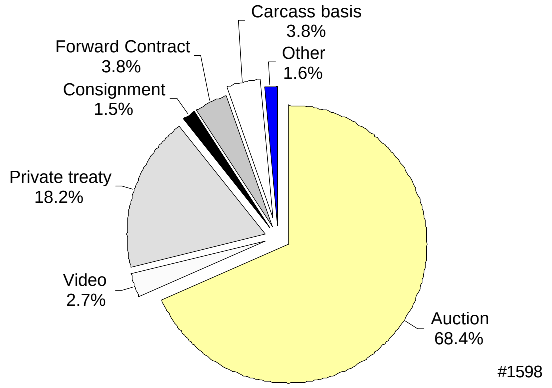


Figure 4

Percent of Weaned Steers by Marketing Method in 1996



Marketing on a single day makes the yearly income, and hence the profitability of the operation, dependent on daily market fluctuations. Producers may want to diversify their marketing strategies to defray effects of volatility in the cash market. Altering market strategies allows a producer to ensure a more stable and predictable market price. Decreasing the price risk then allows the producer to better plan the production year.

Forward pricing was used by 1.5 percent of operations as a means to market weaned calves in 1996. This method of marketing can decrease price volatility by allowing the producer to lock-in a price before calves are marketed. Larger operations were more apt to use forward pricing for their calves (Figure 5). When producers forward priced their calves, they did so with only 53.8 percent of the calf crop. This strategy allows for price diversification by not relying on one single market.

There are many ways to establish a forward price for calves. The most common method used by producers was a cash forward price (49.0 percent). A cash forward price is an agreement between the buyer and seller on a fair price at some point in the future. There is usually a ‘slide’ established based on the number and weight of calves at time of delivery.

Futures contracts and options were utilized by 28.5 percent and 10.9 percent of producers respectively (Figure 6). These methods use future or option contracts traded in the commodity markets. These strategies have been used successfully by some producers, but they require an understanding of principles of the futures and options markets.

Figure 5

Percent of Operations that Used Forward Pricing by Herd Size

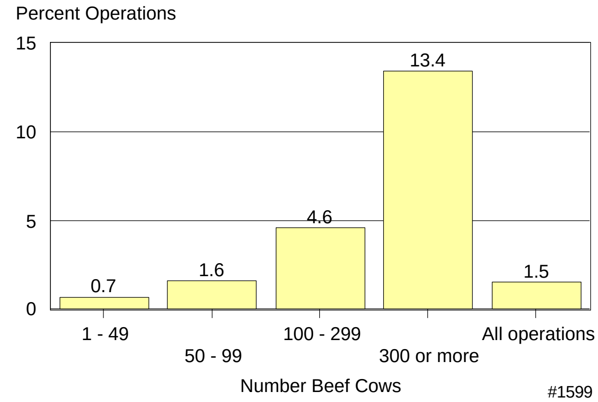
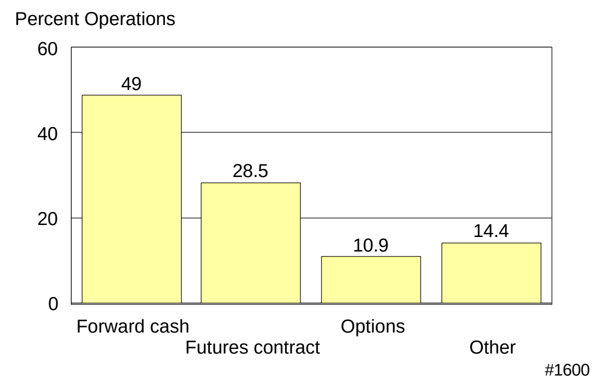


Figure 6

Percent of Operations that Used Forward Pricing by Type of Forward Pricing*



*Of operations that used forward pricing.

As the cattle market becomes more volatile due to less government control of agriculture (decreased farm subsidies and price guarantees) and more international trade, producers will need to establish a marketing system to protect themselves. This strategy will allow the producer more planning options and greater flexibility.

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