

9 Beef Cow-Calf Marketing

Derrell Peel

Objectives

- Discuss the many facets of cow-calf marketing.
- Recommend strategic management practices.
- Present enterprise alternatives.

Cow-Calf Marketing Philosophy

Cow-calf production represents a long-term investment in land and cattle. Moreover, cow-calf production is tied more closely to the physical environment and location in which it takes place than perhaps any other sector of the cattle industry. In most instances, the ranch production systems, location and environment play a large role in determining the type of cattle, cow size and genetic type that are feasible. Seasonal climate and forage production patterns usually add strong economic incentives to manage cow-calf production with high levels of uniformity and consistency. This means there is considerable economic value in managing genetics, breeding and calving seasons and weaning programs to produce the most homogenous set of calves possible. The effect is that good production management will result in a uniform set of calves available to be marketed on no more than one or two occasions per year. Thus, it is often the view of cow-calf producers that, having made the decision to be in the cow-calf business, there is relatively little marketing flexibility in a cow-calf operation. While there is some truth to this view, relatively speaking, it is also true there are a number of ways cow-calf producers can and should respond to short-term and long-term market influences.

Many times, producers have the view that cow-calf production means calves are the only product being marketed. In fact, a more accurate view of cow-calf production is that of an industry whose job it is to market forage to its best use and value. Viewed this way, the cow-calf operation will be seen to consist of many production activities that offer substantial flexibility in marketing. This view particularly is important given that many producers have a more or less fixed land base and, therefore, forage base with which they are operating. Instead of asking what marketing opportunities

there are for calves, whose timing and availability are almost totally determined by production schedules, producers may ask what activities will allow them to market their forage production for greater value. This broadens the view of the ranch from selling a single set of calves annually to a more conscious consideration of strategic and tactical production and marketing possibilities such as the role of retained ownership of calves or subsets of calves, calf production alternatives, complementary stocker production, cull cow marketing and replacement heifer development and marketing.

Influence of Price Cycles and Seasonality

Cattle markets are characterized by regular patterns of prices each year and cycles of prices and production over a period of years. These seasonal and cyclical patterns originate in a complex set of supply and demand influences, many of which are based on the strong production influences at the cow-calf level. Unique and distinct seasonal price patterns are typical for all classes of cattle. The most pronounced of these are those directly applicable to the cow-calf sector, namely seasonal price patterns for calves and for cull cows (Figure 9.1).

Both calves and cull cows have the largest degree of variation in prices across the year compared to other classes of feeder and fed cattle. The general tendency for calf prices to be the lowest in the fall and highest in the spring reflects the fact many producers have relatively little production and marketing

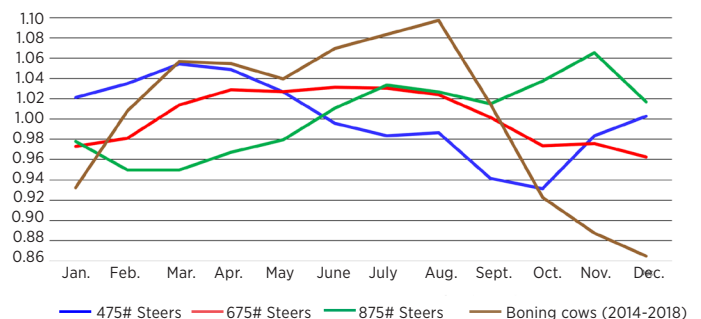


Figure 9.1. Cattle price seasonality, Oklahoma, 2015-2019

All Web addresses given in this chapter are subject to change. The links to these websites will be updated regularly at the Master Cattleman website at extension.okstate.edu/programs/master-cattleman.html

flexibility for calves, but this may provide opportunities for some producers. Likewise, the seasonal low prices for cull cows reflects typical patterns of culling and cull cow marketing but may offer some attractive opportunities to market underutilized forage.

The U.S. cattle industry has for many years been subject to pronounced cycles of production (Figure 9.2) and prices (Figure 9.3). Although the cycles are not precisely predictable, they are quite regular and inevitable. These cycles occur for a complex set of reasons that relate to the rather extreme price signals needed to induce the cow-calf sector to respond to needed changes in beef production. In the absence of external shocks, cattle cycles are self-correcting changes in production internal to the beef industry. Sometimes external shocks will impact cattle cycles by either offsetting or exaggerating cyclical adjustments in the beef industry or shortening or extending the time of cyclical adjustments. Although there may be a reason to think that cattle cycles are evolving through time, there is little reason to believe they will not continue to occur in some fashion. While there is little a cow-calf producer can do to avoid these price cycles, recognizing them and responding to them can minimize the adverse effects on the financial health of the operation.

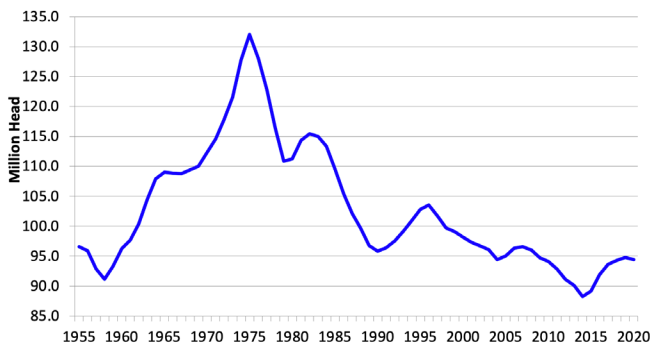


Figure 9.2. U.S. Cattle inventory, 1955-2020.

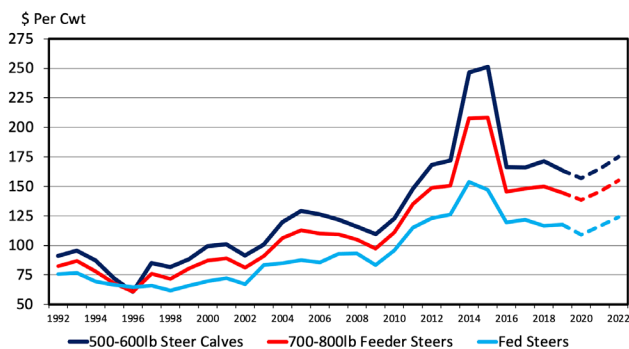


Figure 9.3 Average annual cattle prices, Southern Plains. Data Source: USDA-AMS, Compiled and Forecasts by Livestock Marketing Information Center.

Strategic Cow-calf Management

Cow-calf production always represents a long-term commitment to a particular production system and genetics program. Historically, calf production has been viewed largely as commodity production with producer choices of genetics and cattle types almost entirely determined by personal preference and individual production needs. However, as the needs of the market have become more specific and exacting, the growth in alliances and other coordinating programs has greatly increased the opportunities for cow-calf producers to participate in value-added systems. In many cases, these require producers to have a specific production focus and management commitment. Increasingly, these long-term strategic production choices represent the most important marketing decisions of producers. It is not enough to be in the cow-calf business in the sense of simply selling commodity calves, but rather producers must identify a specific market focus and target the entire production process to a specific market segment, concentrating on the final consumer's requirement and expectation for beef products.

Production values in the cattle industry have always represented a balance of production traits and consumer traits. In many cases, there is a negative relationship between these two sources of value. In other words, some of the traits that increase production value, such as hardiness and adaptability to adverse climates, are often at odds with carcass traits that produce the highest meat value. Historically, production traits have been somewhat overvalued in most live animal markets. The growth of more highly coordinated production and marketing systems implies more value placed on consumer traits all the way to the initial production levels. The implications of these programs will be considered in more detail in chapter 10.

All cow-calf producers, including those who have a well-developed strategic focus, will be subject to the cycles of prices and production that characterize the beef industry. Thus, a cow-calf producer can inevitably expect to experience considerable variability in revenues and, consequently, in profits throughout the course of a cattle cycle. This suggests a producer who desires to minimize the impacts of cyclically low prices will consider cost management as well as decisions about what to produce and market. Although this chapter focuses on marketing, the integrated nature of cow-calf production and marketing means that cost as well as revenue will be impacted by a producer's response to cattle cycles. When the goal is profit maximization, it is imperative to consider both revenue and cost management.

It is not uncommon for calf prices to decrease by 50% from the cyclical peak to the low. This means there are times when the market values calves only half as much as other times, meaning the market wants fewer calves. For the industry as a whole, cyclically low prices result in a reduction of cow-calf production and cow herd liquidation. For the individual producer, the value of forage marketed as calves is reduced and the important question is whether the producer can make production and marketing adjustments

to increase forage value during these periods. By the same token, when prices are cyclically high, the market encourages more calf production and more use of forage resources for calf production. These market signals imply an incentive for producers to adjust cow herd size in response to price cycles. The herd size adjustments discussed here are in addition to normal culling activities, so strategic culling may go beyond culling based only on productivity considerations. A producer who has a normal culling rate of 12% might find it advantageous to push that number to 15% or 20% in some years and occasionally reduce that number to 9% or 10% in other years.

The general cyclical strategy identified above suggests that a producer who is anticipating cyclical higher calf prices will want to expand the cow herd to maximum productive potential to be able to sell the maximum number of calves at the higher prices. Maximum herd size must be determined relative to the productivity and carrying capacity of forage resources and must be determined relative to the production risk associated with maintaining adequate forage reserves to respond to climatic impacts.

Likewise, a producer who anticipates cyclically low prices has an incentive to reduce calf production and try to find other enterprises to increase returns to forage. Since annual maintenance costs of cows are one of the highest components of cow-calf costs, this strategic response has the added benefit of reducing costs during a time when revenues from calf sales are falling. These reductions in the cow herd beg the question of what the producer will do with the excess forage. These alternatives will be discussed below. The degree to which different producers can feasibly adjust the size of the cow herd will vary considerably depending on individual circumstances.

Even producers who do not dramatically adjust herd size may find strategic advantage in adjusting the age composition of the cow herd during the course of a cattle cycle. A producer will reduce the average age of the cow herd during the phase when prices are rising as an attempt to have the highest levels of productivity (both reproductive productivity and average weaning weights) during the highest prices. Moreover, with younger cows, a producer can afford to reduce replacements for a year or two during the highest prices in order to sell the maximum number of calves. To do this, producers should let the average herd age increase through the declining price phase and begin aggressively retaining heifers when prices are perceived to be near the cyclical low. Another advantage of this is reducing average cow cost during the entire cycle compared to using a constant replacement rate.

The strategy of adjusting cow herd age during the cattle cycle also has been stated in terms of a constant value of replacements (Lawrence). If the value of replacement heifers varies over the course of a cattle cycle, a strategy of spending a constant number of dollars for replacements each year will vary the rate of replacements and cause exactly the variation in herd age suggested above. For example, suppose a producer estimates that the long-term cost of a replacement heifer is \$1,200 per head and the producer wishes to have an average replacement (culling) rate of

12% per year, which leads to an average productive life for cows of 8.3 years. Suppose the value of replacement heifers will vary from a low of \$900 per head to a high of \$1,500 per head during the course of a cattle cycle. Using the constant value of replacements would mean that a producer would be varying the actual culling rate from more than 16% at low prices to less than 10% at high prices. This strategy would allow the average age of the cow herd to vary by perhaps $1\frac{1}{2}$ years to two years and would have lower rates of culling during high prices, which would allow for more calf sales.

Additionally, controlling the timing of other periodic production expenses may have strategic benefits during the course of a cattle cycle. The idea is to schedule various expenses where some discretion in timing is allowed so that they do not coincide with those years of lowest prices. This can help reduce the equity drain during low prices and reduce dependence on borrowed capital. Examples of this could include:

- Bull replacements.
- Periodic pasture revitalization or brush/weed control.
- Modified pasture fertilization schedules.
- Delaying capital investments or equipment replacement.
- Other items.

The feasibility and degree of adjustment will depend on the circumstances of the individual producer. It should be noted however, that it is unlikely to be advantageous to make changes that will negatively affect herd nutrition or herd health programs. The comments above assume there are no obvious ways to change the nutrition program to save money. Otherwise, producers should do that regardless of the current phase of the cattle cycle. The items mentioned need to be done periodically but not necessarily in any certain year. Planning ahead is the key to timing such activities to the greatest advantage.

Strategic adjustments in herd size and/or age combined with strategic cost management can significantly reduce the variations in profits through the cattle cycle. However, it may not be possible to entirely mitigate the negative effects of cyclically low prices.

Enterprise Alternatives

The strategic considerations described above suggest that cyclical market conditions may at times favor more than simply selling weaned calves. In fact, strategic reductions in the cow herd will free up forage and other production resources for other activities. Other production enterprises may be attractive at times.

Retained Ownership of Feeder Cattle

Retained ownership may occur for a number of reasons and may occur on ranch or off ranch as retained stocker or feedlot production. Off-ranch retained ownership may be motivated by alliance participation, marketing objectives, such as changing the timing of animal sales, or interest in investment alternative. The focus of this section is efficient

utilization of ranch resources and therefore, the following discussion is directed only to ranch-based retained ownership alternatives. Off-ranch retained ownership is considered in chapter 10.

Generally, when cattle prices decrease cyclically, calf prices tend to fall proportionally more than feeder cattle prices, meaning the value of stocker gain increases relative to the value of cow-calf production. The broad implication of this is a general incentive to reduce calf production and use some forage for stocker-based gains. Clearly, the feasibility of this depends on a number of individual factors including the quality of forage available and its suitability for stocker-based production. With an excess of good-quality harvested forage, programmed feeding in confinement may be another feasible alternative.

It is particularly important in considering retained ownership to not think of marketing the calf crop as an all-or-nothing proposition. There are a number of ways to divide the calf crop into marketing groups based on weight and sex. Even in the best managed herds, there often is at least a 100-pound range from the biggest to the smallest calves. Possible calf marketing groups include:

- Sell everything at weaning.
- Sell the big steers and heifers and retain the little ones.
- Sell the steers and retain the heifers.
- Sell the heifers and retain the steers.
- Retain the little steers.
- Retain the little heifers.
- Retain the big heifers as possible replacements.

It is possible a producer might recognize the incentive to retain stockers, but also recognize their own calves are not the best ones to retain. This might be the case when a producer has calves big enough and fleshy enough to be very attractive for feedlot placement but not ideally suited for a stocker program. It is within the spirit of this alternative to consider selling all of the calves produced and buying stockers as a separate but complementary enterprise. It should be noted, however, that purchased stockers represent a new enterprise and carry a host of different production, financial and management challenges. Producers who might have little problem retaining owned calves may experience many production headaches with purchased calves. OSU enterprise budget software is available at agecon.okstate.edu/budgets to assist producers in evaluating stocker alternatives.

Replacement Heifers

In most instances, it is assumed the producer is selling weaned calves or retained stockers as commercial feeder cattle. However, the last option in the list of calf marketing groups includes possibly retaining heifers as replacements. At certain times, the market for replacement females may be strong enough to consider devoting some effort toward marketing heifers to the breeding market rather than as feeder animals. This may be particularly attractive when the right genetics and management are in place to somewhat specialize in breeding female development. This can occur on a variety of levels including:

- Merchandising weaned heifers specifically as potential replacements.
- Retaining some heifers to grow to breeding age/weight and merchandising as potential replacements.
- Retaining some heifers, breeding them and merchandising as bred heifers.
- Retaining some heifers, breeding, calving and merchandising as pairs.

Each of the alternatives above may provide a high-value mechanism for marketing forage and other ranch resources including producer labor and management skills in developing heifers.

Preconditioning

Preconditioning calves prior to sale may provide a means to add value to calves before marketing. Preconditioning may be done formally, as part of a recognized or certified preconditioning program, or informally as an individual. The difficulty, especially for individual preconditioning programs, is to successfully market calves for sufficient additional value relative to the cost of preconditioning. Nevertheless, preconditioning may open the door to marketing opportunities not otherwise available. One such program in Oklahoma is the Oklahoma Quality Beef Network (OQBN), which provides producers the opportunity to certify calves and participate in special sales. It should also be noted that the retained ownership programs described above imply preconditioning and, in fact, retained ownership may be the best means to capture the benefits of preconditioning in some cases. Chapter 10 has more information on the value of preconditioning programs and additional information on the OQBN program is available at oqbn.okstate.edu.

Creep Feeding

Creep feeding calves is a way to increase calf weights and may increase returns to the cow-calf enterprise. The economic feasibility of creep feeding depends on several factors. First, it is essential to understand the relationship between animal weight and price per pound to understand the marginal value of increasing calf sale weight. The value of gain will vary considerably through time, as relative prices for calves and feeder animals change. Secondly, the value of gain must be balanced against the cost per pound of gain for creep feed needed to increase animal weight. Finally, creep feeding may change the marketing target for calves. Creep feeding may increase weight and finish of calves such that they are no longer best suited to selling into stocker markets but rather, they may need to be merchandised as feeder animals ready for feedlot placement.

Early Weaning

Early weaning is most often viewed as a contingency for drought management or other emergencies. Certainly early weaning should be considered promptly when drought-forced decisions are looming. Since early weaning reduces forage requirements of cows, an early weaning program may be considered as a means to increase carrying capacity of the ranch. This may have strategic value at some points of the cattle cycle. Careful analysis of the tradeoffs of marketing

light early-weaned calves and regular-weaned calves is necessary to evaluate early weaning programs.

Spring versus Fall Calving

Like so many decisions that affect cow-calf marketing, the choice of calving season is heavily influenced by production considerations. The optimal calving season is likely to be more of a cost of production consideration than purely a marketing decision, but it is clearly one that influences marketing alternatives. In some cases, it is feasible and desirable to simultaneously manage two calving seasons, which has the obvious advantage of providing more marketing opportunities and flexibility for the operation but does increase the management challenges.

Commercial Stockers

Commercial stockers represent a separate and distinct business from cow-calf production. The term commercial stocker is used here to refer to programs using purchased lightweight calves for a variety of post-weaning growing programs (Peel). These may appear very similar to retained ownership programs, but purchased cattle represent a very different set of nutritional and health management skills. Nevertheless, although stocker programs are separate from cow-calf production, such programs may be very complementary to cow-calf operations in a variety of ways.

First, as noted above, purchased stockers may be more appropriate than ranch-raised calves to utilize forage resources when market conditions favor stocker-based gains. Stocker programs typically favor use of relatively thin lightweight calves with good growth potential in forage based production systems. A well-managed cow-calf operation may be producing calves that are too heavy or too fleshy for stocker programs and are better marketed for feedlot placement. Secondly, a stocker enterprise may play an important role in managing forage and production risk. In situations where forage production is highly variable from year to year, it may be less financially disruptive to use a stocker enterprise to utilize excess forage in good years and reduce or eliminate the stocker enterprise in times of low forage production. The combination of stocker and cow-calf enterprises increases the flexibility to implement the strategic cyclical adjustments described previously. The cyclical motivations for adjusting herd size and/or age in response to the cattle cycle is even easier when there is a stocker enterprise that can be expanded or contracted simultaneously.

Adding Value to Calves

A number of well-recognized management practices significantly influence the value of calves. Many of these practices are routinely managed by some producers, but are opportunities overlooked by others. The value of these practices has been well documented (Mintert et al.; Sartwelle et al.; Smith et al. and Williams, et. al.) and often represents \$50 per head to more than \$100 per head in value of weaned

calves at the time of sale. These management practices for individual animals include castration of bulls, vaccinations and dehorning as well as marketing practices for groups of animals including sorting and selling larger lots of uniform animals. Additionally, marketing practices such as the level of fleshiness and fill of animals at the time of marketing can affect animal value. These are all things that can be done to add value to existing animals. Changing genetics also may offer opportunities to increase weaning weight, as well as frame and muscle score, or match marketplace preferences, which will improve the value per pound of animals.

Price Risk Management for Cow-calf Producers

Many factors cause cattle prices to fluctuate and producers often have little means to even anticipate, let alone control, these fluctuations. Nevertheless, there are risk management alternatives that may be considered, depending on the risk management needs of the producer and the type and source of risk under consideration.

Price variation in the cattle industry can be broadly thought of as originating either internal to the industry or from external sources. Internal price risk is risk associated with normal or typical supply and demand forces in the industry. These include seasonal price changes and cycles of prices through a period of years. These internal forces change the level of prices as well as the relationship among prices for various classes of cattle. External price risk is risk that originates in the broader economy or outside of normal industry supply and demand forces. Examples of external risk include the impact of the macroeconomy on overall economic performance in the U.S. or international trade issues, especially things such as exchange rate impacts or geopolitical events. Also included in this category are shocks, such as an animal or human health outbreak, that severely disrupt markets. Although an animal health event, such as Bovine Spongiform Encephalopathy or Foot and Mouth Disease, is specific to the animal industry, it is an unforeseeable and unpredictable event based on normal industry activities and is treated as an external risk.

The process of marketing cattle consists of three distinct activities: 1) determining price, 2) determining the buyer and 3) physical transfer of the cattle. Price risk management involves separating these activities with the use of marketing alternatives. In the simplest case, all three functions occur at the same time. For example, selling cattle at a cash auction establishes a price, determines a new owner and transfers possession all the same time. In order to reduce price risk, it is necessary to establish price prior to the time when possession is transferred. As discussed below, using futures or options is a way to establish an expected fixed or minimum price well before the new owner is identified and possession is transferred. With a forward cash contract, the ownership and price are established well before possession is transferred.

Futures/Options for Cow-calf Risk Management

In principle, a producer can use futures or options to establish an expected fixed or minimum price for future cattle marketings. For weaned calves, the closest type of contract is the feeder cattle futures, which means a producer is cross-hedging calves with this contract. This highlights the fact that, since the contract is not an exact fit, the basis risk can be considerable and, in some cases, is as large as the market risk, which means hedging is not very effective at reducing the price risk for weaned calves. For example, in the declining price element of the cattle cycle, calf prices typically fall further and faster than feeder cattle prices. This means much of the adverse price risk is captured as changes in the basis and not by the hedge. One of the advantages of retained ownership, which often is more attractive as calf prices fall, is the ability to manage price risk with futures and options is enhanced when the producer is selling retained feeders rather than weaned calves. More information and tutorials on hedging with futures and options can be found in the Education section of the Chicago Mercantile Exchange website at cmegroup.com.

Retained Ownership

As noted previously, retained ownership is mostly a production alternative and is usually motivated more by production considerations, in conjunction with marketing, rather than a marketing alternative. However, retained ownership provides means to change marketing timing. This flexibility may be particularly useful to avoid short-term shocks that reduce market values but are expected to be short lived. However, retaining ownership to avoid a loss now may not be beneficial if the production and marketing decisions of the retained ownership program are not carefully considered.

Forward Cash Contracting

A producer may establish a forward price for cattle by forward contracting the cattle prior to weaning or delivery. This may be done as a direct sale at the ranch or through a video or Internet sale. Forward cash contracting is a straightforward means to reduce the risk of market price changes. There are some risks and considerations associated with this alternative. There may be some production risk about exactly how many calves will be available to sell or, more typically, some uncertainty about how much the calves will weigh at delivery. Details associated with how shrink, weighing conditions and price slides will be handled may impact the worth of a forward cash price. Moreover, cash contracts often are informal, which increases the seller's risk of buyer nonperformance if market conditions change dramatically. Without a written contract and a down payment, the risk of the buyer defaulting on the contract increases directly as the conditions under which the contract has the most value to the seller increases or when prices fall significantly.

Using Options as Disaster Insurance

The cattle industry faces arguably greater external risks now than previously. Increased market globalization increases the exposure of the markets to economic shocks,

along with increasing the risks of animal and human health impacts from increased international trade of meat and cattle. General macroeconomic weaknesses coupled with heightened geopolitical tensions since Sept. 11, 2001, imply all markets are more vulnerable to shocks than before. Some of this vulnerability may diminish with time, or it may simply be a sign of operating conditions of the future.

The limitation of futures and options in pricing cattle for ongoing business transactions was noted above. However, options on futures contracts provide a way for all cattle producers to have some disaster level of price protection. While it may not work well to use options to hedge cattle profits at current market levels (protect against normal price risk), it certainly is true that an option would capture at least a portion of a devastating market decline in the wake of a major shock. Cow-calf producers may want to consider the use of options purely to provide some coverage against massive price declines. Thus, in the event of a Bovine Spongiform Encephalopathy case or a Foot and Mouth Disease outbreak, a futures option that does not become effective until the market drops by \$15 per cwt. will look good if the market actually drops by \$40 per cwt. or \$50 per cwt. Such an option might not keep a producer from losing money on the current set of cattle, but it might prevent an irreparable financial impact that puts the producer out of business.

Livestock Risk Protection (LRP) Program

Beginning in June 2003, the USDA's Risk Management Agency began offering price insurance for livestock producers. The pilot program, available in selected states including Oklahoma, allows feeder cattle producers to purchase revenue insurance. The program functions much like futures options and serves much the same purpose. However, the LRP may provide advantages for some producers including:

- Variable quantity of coverage, which may help small producers to match their actual production level.
- Variable lengths of time provide more flexibility to match production programs.

LRP contracts are purchased through authorized crop insurance dealers and do not require an account with a commodity broker. However, the contracts are related to feeder cattle futures contracts and indemnity calculations are based on the cash settlement price index calculated by the Chicago Mercantile Exchange (CME). This means producers using the LRP need to understand the basis relationships between their local cash price and the CME feeder cattle futures price. More details are provided in chapter 8.

Marketing Tactics

Marketing cattle generally involves two levels of decision-making. First are those strategic production and

marketing decisions that relate to what products will be marketed and how to establish a value in the market. These decisions are made before, during and sometimes after production and relate to all the things previously discussed in this chapter. Second, tactical decisions involve actually choosing a particular marketing channel and physically moving the animals into the marketplace. Sometimes these tactical decisions are highly related to the strategic decisions. For example, the use of futures to manage price risk has relatively little impact on whether the producers ultimately market the animals through an auction or by private treaty or whether they retain ownership. However, the choice of forward cash contracting simultaneously determines the price and the ultimate destination of the animals.

The choice of marketing channels also may affect a producer's approach to the marketing challenge. One of the primary considerations of marketing animals is to ensure the producer receives a fair market value for the animals. There is considerable variability in the informational burden on the producer, depending on the marketing method employed. For example, an auction generally has the benefit of providing multiple buyers to compete and establish a value for the animals. On the other hand, a direct ranch sale implies the producer is accepting all of the responsibility of knowing the value of the animals and negotiating a fair value. In some cases, the tactical details of transferring ownership can significantly affect the outcome of a sale. These details include items such as shrink, weighing conditions and price slides.

Shrink and Weighing Conditions

Shrink and weighing conditions both are related to the process by which a pay weight will be established for animals (Barnes et al.). In the best of circumstances, shrink and weighing conditions should not be biased in favor of either the buyer or the seller. The buyer clearly should not be expected to pay for excessive gut fill nor should the seller be penalized for excessive loss of gut fill or, in extreme cases, actual tissue loss.

Shrink, although a physical process, is usually taken as one of the terms of trade to mean an adjustment to the actual recorded weight of animals. Referred to as pencil shrink, the amount of adjustment logically should be closely related to the agreed-upon weighing conditions, which will clearly affect the actual amount of shrink in the animals. As a general rule, when weighing will occur at the place and time of loading or very soon after, a higher rate of pencil shrink is used to account for extra gut fill in the animals. On the other hand, fill shrink occurs very rapidly and animals trucked even relatively short distances to scales should require less pencil shrink for a fair deal. Shrink also will be greatly influenced by the amount of time animals spend standing in corrals or on trucks and by the amount of handling and sorting to which they are subjected. Unfortunately, both buyers and sellers can engage in a variety of games to try to manipulate shrink into an unfair advantage. A classic example is the buyer making sure that the trucks arrive three or four hours later than the agreed loading time to increase shrink in penned animals. Also, a seller may have animals eating a very salty

feed in the corral, causing animals to drink extra water.

Weighing conditions relate specifically to when, where and how the animals will be weighed thereby establishing the base to determine the pay weight. These can be extremely important relative to the appropriate level of pencil shrink. For example, if animals are to be weighed on the truck (or trailer) rather than in pen scales, the fill loss before weighing may still be in the truck if not in the animals. It is important that producers clearly understand the weighing conditions and shrink allowances in order to avoid disputes.

Price Slides

When animals are sold prior to actual delivery, there usually is some uncertainty over what the animals will weigh at delivery. Buyers and sellers often negotiate a price slide that reflects, in varying degrees, the relationship between animal price and weight that usually exists in the cattle industry. Price changes by animal weight are usually higher for lightweight animals compared to heavier feeder cattle and vary according to price level or cyclical conditions. Much of the cyclical impact is eliminated if the price adjustment by weight is expressed as a percent of the animal price (Peel and Riley). In Oklahoma, the average price adjustment for animals less than 500 pounds is about 9% of the price. For example, for a 425-pound animal, priced at \$100 per cwt., the decrease in price per cwt. for increasing the weight to 450 pounds would be about \$0.09 for each pound, or \$2.25 per cwt., resulting in a price of \$97.75 for the 450-pound animal. Expressing the rollback as a percent of price means that variation in cattle prices due to the cattle cycle or other factors should result in adjustments in price slides according to price level. For example, this means when the 425-pound animal is priced at \$2.50 per cwt., the price slide, at a percent of price, would be \$0.225 per pound. Animals between 500 pounds and 650 pounds have an average price adjustment of 6.5% of the price and animals more than 650 pounds have an average adjustment of 5% of price.

As with shrink and weighing conditions, a fair price slide should not create bias for either the buyer or the seller. However, price slides tend to be negotiated or subject to customary practices in various regions and may or may not accurately reflect changing market conditions. Price slides are usually specified in terms of the amount of price adjustment per pound that animals will be subject to and often a weight window around the target weight (Bailey and Holmgren). Both the size of the slide and the size of the window are negotiable and sellers often will use these terms to indicate their confidence in meeting the target weight. A producer quite confident of the target weight may agree to a relatively large price adjustment for heavier weights and a small weight window before the slide takes effect. Although price slides should logically apply to weights both lighter and heavier-than-target weight, there is a tendency, especially in some regions, to only slide the price down, lower for heavier-than-expected animals, with little or no adjustment for lighter-than-expected weights. This clearly favors the buyers and puts more risk on the sellers. Sometimes this tendency is more negotiable in times of limited cattle supplies. Most important is that terms of trade, such as details of how a

price slide is to be applied, should be clearly understood by both buyers and sellers.

Marketing Channels

Producers have a variety of marketing channels to choose from, each of which offers advantages and disadvantages in various circumstances. Principal alternatives include auctions, direct sales, video/Internet sales and special sales. These are briefly discussed in Table 9.1.

Marketing Cull Cows

Cow-calf producers often give relatively little consideration to marketing cull cows to a higher value. Consequently, the pronounced seasonality of fall culling decisions results in a low price for cull cows in the fall and a tendency for a strong price recovery in the first quarter of the year (Figure 9.4). Cull cows, especially cows that are thin but sound in the fall, represent one of the few opportunities in the cattle business to increase both weight and price per pound between November and the January to March period. Cull cows also represent an opportunity to utilize lower quality forages or pasture that may not be well suited for younger animals. Thus, like other enterprise considerations discussed previously, cull cow marketing depends on the availability and quality of feed resources and what other opportunities exist for use of those resources. In some cases, retaining cull cows for 60 days to 100 days may provide a nice return for surplus feed resources.

Further Reading

This subject is addressed in more detail in chapter 10. AGECE-613 *Cull Cow Grazing and Marketing Opportunities* at extension.okstate.edu

References

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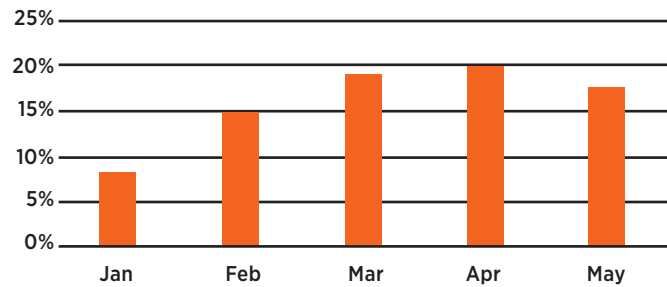


Figure 9.4. Percent change in breaking cow price from previous November, Oklahoma, 2010-2019.

Table 9.1. Beef cattle marketing channels.

Market type	Advantages	Disadvantages
Local/regional auction	Easy to use; requires little advance planning; numerous buyers; distance is limitation; works well for small lots or diverse sets of animals.	Cost; seller is subject to commission, shrink and hauling.
Direct (or ranch) sale	No commission with minimal hauling and shrink; may facilitate reputation sales and long-term relationship with buyer; facilitates forward pricing.	Requires seller knowledge of value and ability to negotiate; less feasible for small producers; requires buyer contacts.
Video/Internet sales	Larger buyer base; reduced shrink/hauling.	Subject to commissions; requires planning; usually means forward sales; less feasible for small producers; works best for large lots of uniform animals.
Special sales	May attract a better and bigger buyer base; may facilitate reputation sales.	Same as for auctions.

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