

## **Cattle Feeder Marketing/Pricing Practices and Viewpoints**

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## **Collaborators**

- Collaborative effort by four economists
  - Ted Schroeder, KS State Univ.
  - Clement Ward, OK State Univ.
  - John Lawrence, IA State Univ.
  - Dillon Feuz, Univ. of NE

## **Survey Objectives**

- Identify marketing and pricing practices and trends of cattle feeders
- Solicit opinions on several marketing and pricing issues and potential solutions

## **Survey Mailing and Response**

- Mailed a survey questionnaire in February 2002 to 1,501 feedlots in Iowa, Kansas, Nebraska, and Texas
- Feeders returned 316 usable questionnaires, a 21% response rate

## Marketings by Size of Operation

- Percent of marketings in 2001 by number of respondents
  - Less than 5,000 head - 53.8 %
  - 5,000-19,999 - 17.8
  - 20,000-49,999 - 11.5
  - 50,000-99,999 - 10.5
  - 100,000 or more - 6.4

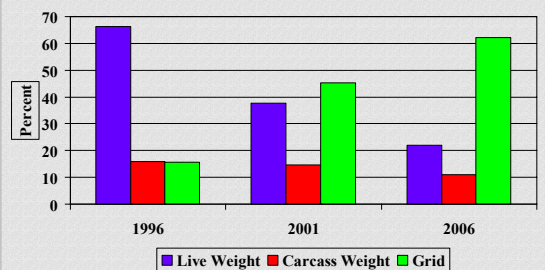
## Marketing and Pricing Practices

- Asked about ...
- Past ('96), current ('01), future ('06) pricing methods and motives
- Past, current, future marketing methods and motives

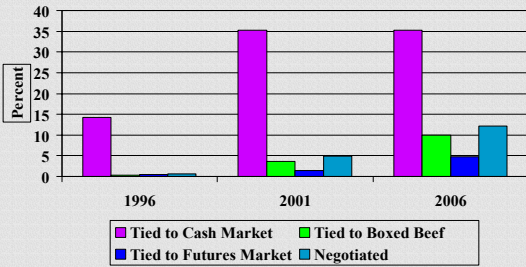
## Pricing Methods

- Distinct trend away from live weight pricing to grid pricing
- Formula pricing tied to the cash market (price quote or plant average) will remain most common
- But increasing interest in negotiated base prices, or formula prices tied to the boxed beef market or futures market
- Little evidence of increased use of fixed price or basis contracts

## Percent of Weighted Average Marketings by Pricing Method



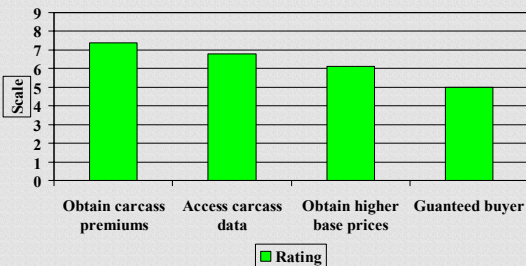
## Alternative Base Prices in Grids (Percent of weighted average marketings)



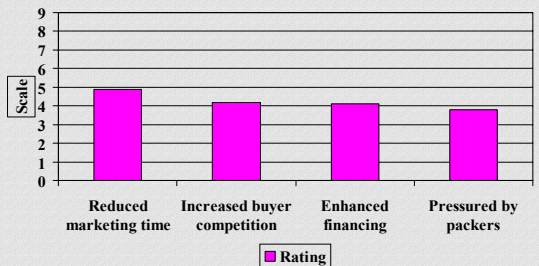
## Motives for Using Grid Pricing

- Most important -
  - Access to carcass premiums
  - Access to carcass data
  - Obtain higher base prices

## Highest-Rated Motives for Grid Pricing (9=Strongly agree)



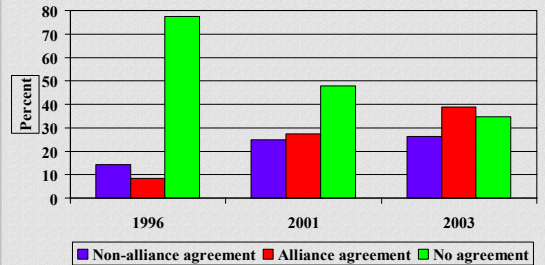
## Lesser-Rated Motives for Grid Pricing (9=Strongly agree)



## Marketing Methods

- Sharp trend toward participating in an alliance, cooperative, or similar marketing program
- Similar distinct decline in *not* being part of some type of marketing agreement or supply contract (part of an alliance, cooperative, or similar marketing program)

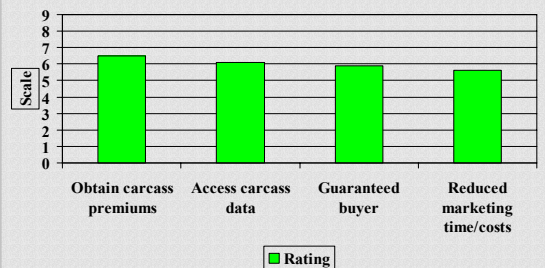
## Percent of Weighted Average Marketings by Marketing Method



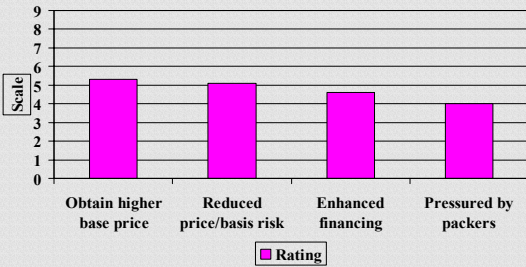
## Motives for Supply Contracts or Marketing Agreements

- Most important -
  - Access to carcass premiums
  - Access to detailed carcass data
  - Guaranteed buyer for cattle
  - Increased marketing efficiency

## Highest-Rated Motives for Using Agreements of Varying Types (9=Strongly agree)



## Lesser-Rated Motives for Using Agreements of Varying Types (9=Strongly agree)



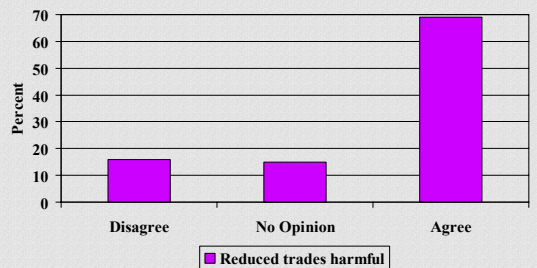
## Marketing and Pricing Issues and Potential Solutions

- Asked about ...
  - Cash market price discovery
  - Captive supplies
  - Contracting and packer ownership
  - Breakup packers or form packer cooperatives
  - Reaction to mandatory price reporting

## Cash Market Price Discovery

- Declining cash market trades are detrimental to the industry

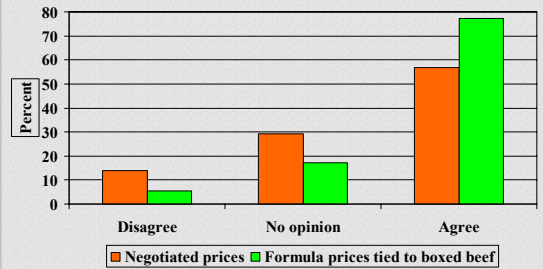
## Will Reduced Trading in the Cash Market Be Harmful to the Industry?



## Establishing Base Prices in Grids

- Formula prices should be tied to boxed beef or retail prices
- Negotiated prices are preferred to formula

## Preferred Base Prices in Grids



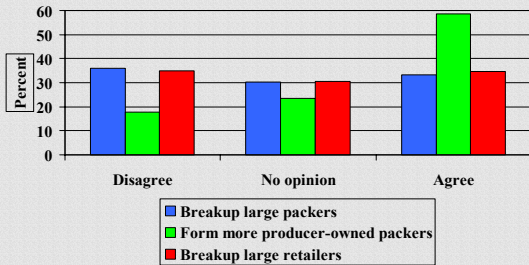
## More Packers Needed?

- Breakup of large packers or large retailers did not receive strong support
- Organizing more producer-owned packers was viewed more favorably

## Percentage of Fed Cattle Marketed to the Largest Buyer



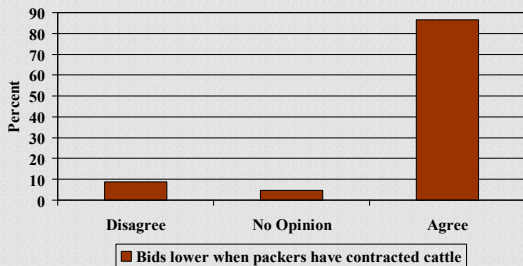
## Break Up Large Packers? Retailers? Organize Producer-Owned Packers?



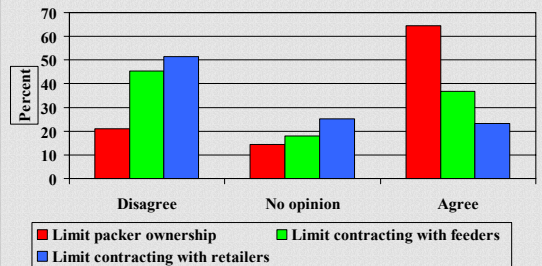
## Captive Supply Restraints Needed?

- Captive supplies were viewed strongly as harmful
- Mixed but overall favorable response to limiting packer ownership
- Much less agreement on restricting packer contracting with feeders and packer contracting with retailers

## Do Captive Supplies Reduce Cash Market Prices?



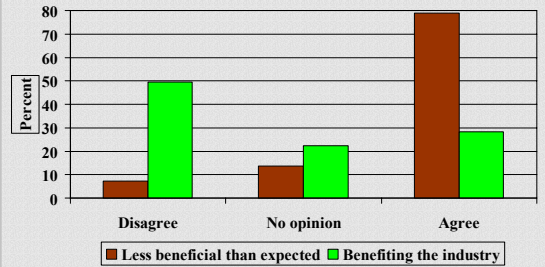
## Limit Packer Ownership and Contracting?



## Assessment of Mandatory Price Reporting

- Mandatory price reporting not as beneficial as expected
- Viewed as not benefiting the industry

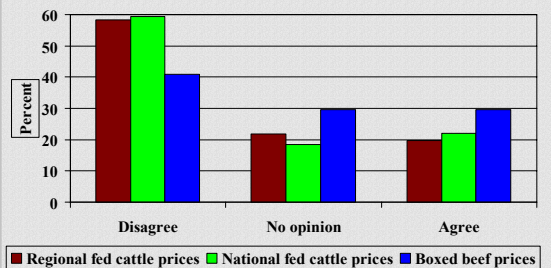
## Mandatory Price Reporting: Expectations vs. Reality?



## Mandatory Price Reporting vs. the Previous Voluntary System

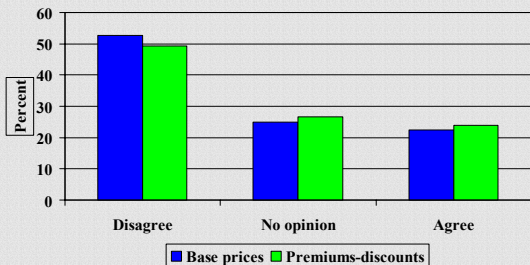
- Less cash market information
- Less information for grid pricing
- No improvement in information for negotiating with buyers
- Reports not as timely and frequent
- More interest in private market reports

## Increased Cash Price Information with Mandatory Price Reporting?

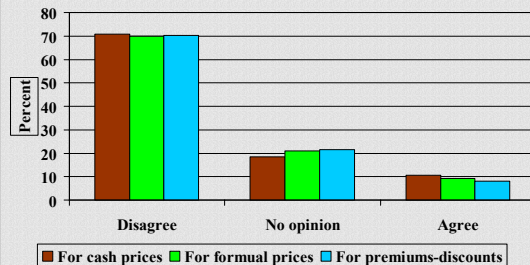




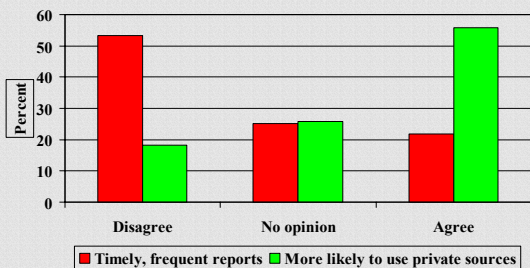
### Increased Information for Grid Pricing with Mandatory Price Reporting?



### Has Mandatory Price Reporting Enhanced Negotiations with Buyers?



### Mandatory Price Reporting: a Better Source of Information?



### Summary and Conclusions

- Fed cattle marketing and pricing has/is changing
- Live and dressed weight pricing are being replaced by grid pricing
- Cattle feeders increasingly are using various types of marketing contracts, agreements, and alliances
- Primary motives for these changes are to access carcass premiums and carcass data and to earn higher prices

## **Summary and Conclusions** **(Continued)**

- Cattle feeders believe prices are lower when packers have precommitted supplies of cattle
- Thus, they prefer – but responses varied widely – that packers be banned from owning cattle
- However, they are less apt to favor limiting contracting or breaking up large packers
- Mandatory price reporting has not met expectations for additional information or assistance in decision-making