

# MARKETING



Beef production in Arkansas is primarily the cow-calf enterprise. The principle products sold are stocker and feeder calves, slaughter cows and slaughter bulls. A growing number of yearling feeder cattle are produced by cow-calf operators who retain ownership after weaning through a stocker-grazing or backgrounding program and cattlemen whose primary enterprise is purchasing stocker calves and grazing them to yearling weights. Also, a growing number of Arkansas cattlemen are shipping yearling feeder cattle to custom feedlots in the major cattle-feeding areas of the United States and retaining ownership until they are finished for slaughter.

Most stocker and feeder cattle produced in Arkansas are shipped to pastures and feedlots outside the state. Heavier feeder calves quite commonly move northward to be grown on silage or corn stalks before going to Corn-Belt feedlots for finishing. Lighter stocker calves often move westward to wheat or native pasture to be grown prior to entering feedlots in the High Plains.

Slaughter cows and bulls are purchased and slaughtered primarily by packers in close proximity to the state. Only a small number of steers and heifers are finished for slaughter in Arkansas.

Fed beef consumed by Arkansans is largely shipped in from out of state. Arkansas meat packers purchase small numbers of live cattle from feedlots in other states for slaughter and distribution to Arkansas beef outlets. Most major beef retailers in the state purchase dressed beef in carcass and boxed form from packers in major cattle-feeding areas. Dressed beef and live cattle shipped are mostly U.S. Choice.

## Marketing Alternatives

A good cattle marketing system should be efficient in operation and effective in pricing. The operational efficiency may be judged on how well the system performs the functions of assembling, processing, packaging and distributing cattle to the new owners. Pricing efficiency may be determined by how well the system reflects supply conditions and buyer demand.

Several alternative marketing methods are available to cattle producers in Arkansas. They are principally (1) weekly auction markets, (2) selling direct at private treaty, (3) alliances, (4) video

marketing, (5) special feeder calf sales and (6) vertically integrating the cow-calf operation with a stocker program or, possibly, even the finishing phase of beef production. Other methods of marketing such as cooperative auction sales and board sales have been used with some success in Arkansas.

## Weekly Auction Market

More calves are marketed through weekly auction sales in Arkansas than in all other market outlets combined. There are approximately 32 live-stock auction markets in the state, and a regular weekly livestock auction is located in every area that produces significant numbers of cattle. The majority of Arkansas beef cattle operations are relatively small. The cattle enterprises are often part-time operations in conjunction with other farming activities or off-farm employment. The regular weekly auction provides a convenient market outlet for this type producer.

Arkansas auction markets vary from small markets handling only 5,000-10,000 head of live-stock annually to relatively large markets that annually receive over 80,000 head of livestock. The auctions serve to assemble cattle from many small producers and exhibit them to buyers. Often cattle sell one at a time. Order buyers purchase a large share of stocker and feeder cattle on order for buyers outside the state. Slaughter cows and bulls are purchased by packer buyers or order buyers buying on order for packers.

## Direct Sales

A significant number of stocker and feeder calves and yearlings are sold direct from Arkansas farms, although the volume marketed by this method is small in relation to the numbers moving through weekly auction markets. Direct marketing is best suited to producers that have loadlots of cattle that are the same sex and similar in weight and kind. Most stocker and feeder cattle must be transported several hundred miles from the producer's location to be grown further or finished for slaughter. Partial loads cannot be transported great distances efficiently. Approximately 100 calves or 65 yearling cattle make up a semi-trailer load.

A producer with few cattle, including many different kinds, may sell direct to an order buyer or dealer who, in turn, sorts and assembles the cattle with others of a similar kind for shipment.

Producers that sell direct must act as their own marketing agent or retain another person to provide the marketing agent services. They must stay abreast of current market conditions and prices, locate buyers, negotiate the sale and arrange for shipment. Direct selling allows the producer to establish a reputation and, possibly, obtain a truer market value for his product. Also, direct selling allows the producer to forward contract if market conditions indicate.

Some slaughter cows and bulls are sold direct to meat packing plants priced on either a live or carcass grade and weight basis.

## Alliances

Alliance is defined by Webster as “an association to further the common interests of the members.” In the past 10 years, many producer groups have worked to secure marketing agreements with beef packers. Many of these agreements, or alliances, are available to many beef cattle producers.

Beef carcass alliances can be grouped into three broad categories: breed association-sponsored, commercial and natural/implant-free. In addition to these categories, two types of beef carcass targets have emerged. One is a high-quality grade target with an acceptably muscled carcass. The other target includes animals that excel in red meat production with acceptable quality grades.

## Vertical or Partial Integration

Cow-calf producers may not consider vertical integration a method of marketing because ownership is retained. But it does provide a market outlet beyond the weaning point.

The first, and short-term, alternative for producers retaining ownership is to wean calves, place them on a preconditioning program for a short period of time and develop market outlets for these “preconditioned” calves.

A second, and more common, alternative is to keep calves for several months on a growing ration such as pasture or harvested forage and market direct into a feedlot. Calves are usually provided a higher quality feed than cows and, therefore, should not be in competition with cows for the same feed supply.

Growing calves to yearling weights opens up a third alternative, that of retaining ownership while cattle are finished for slaughter. Numerous commercial feedlots are available to finish cattle on a

custom feeding basis. Feedlots act as a service agent, feeding and caring for the cattle for a yardage fee and the cost of the feed.

Any system of maintaining ownership beyond the weaning stage requires additional capital investment, and capital requirements increase substantially if ownership is maintained through the finishing period. However, there is the possibility of additional profit by retaining ownership.

## Special Cooperative Feeder Cattle Sales

Several cooperative feeder cattle marketing associations have held sales in Arkansas.

Members of the associations are trying to offer more desirable cattle to the stocker and feeder cattle buyer. The producer members truck their cattle direct from their farm or ranch to the sale, assuring the buyer of receiving farm fresh cattle. Upon arrival at the sale, cattle are tagged and weighed. They are sorted according to breed, sex, grade, weight and condition and commingled to sell in relatively large lots. Some associations require certain desirable management practices such as dehorning or castration.

Buyers are able to purchase fairly large numbers of cattle in a short period of time and can expect minimal health problems in cattle from these sales. For this convenience, they are often willing to pay a higher net price than at the larger weekly auction markets and nearly as much as for cattle purchased direct.

Cooperative sales are less convenient for producers than the weekly auction. Special sale dates must be set in advance and cannot be changed when market conditions or feed supplies change.

Also, commingling requires that the cattle be weighed prior to the sale. Buyers consider the practice of using these “in-weights” for “pay-weights” undesirable. Weighing conditions can vary tremendously among cattle and affect true market value. Most buyers prefer to see cattle as they are weighed.

## Board Sales

Board sales allow producers to sell cattle directly off the farm but offer large numbers of buyers through a cooperative effort. Arrangements are made to list groups of cattle that are to be sold by auction sale at a specified date, and buyers can view the cattle if they desire on the farm prior to sale.

On sale day, each group is listed on a board by description and auctioned off to the highest bidder who then receives the cattle directly from the farm based on the conditions of sale.

## Future Price Outlook

Prices for cattle are determined jointly by supply and demand, but many factors affect supply and also demand. Demand for beef is relatively constant, although changes do occur over a long time. Supply is much more apt to change, particularly in the short run, and cause rapid movements in market prices for cattle.

The cattle inventory usually increases when prices are at a profitable level. During a build-up phase in the inventory, females are retained in the herd which reduces the available supply of market cattle and forces prices higher. This, in turn, encourages additional hold-back of breeding stock and growth in inventory. Eventually, however, production increases and prices begin to fall. The declining prices cause producers to liquidate some of their inventory and drive prices even further down.

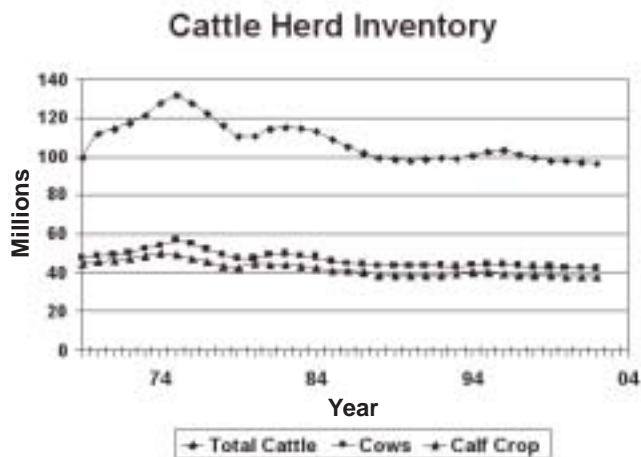


FIGURE 33. Inventory of cattle and calves in the U.S.

These cycles are fairly regular in length because of biological factors involved in cattle production, but the extent of buildup and liquidation and subsequent price change may vary greatly as other economic factors influence market conditions.

Seasonal cycles in production and prices exist as feed supplies vary during the year. Prices for both feeder cattle and cows are usually highest during the spring months when smaller supplies are being offered for market and the upcoming summer grazing is near. In contrast, prices are normally lowest in the fall as greater supplies are marketed and the higher cost of winter feeding is coming on.

## Annual Average Cattle Prices

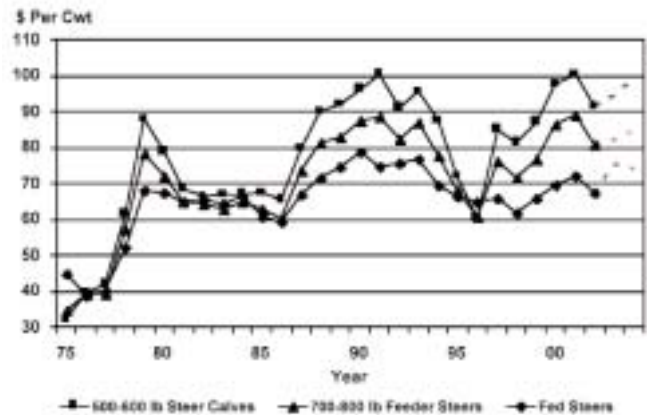


FIGURE 34. U.S. average price for feeder steers and fed steers.

Valuable data are readily available for producers to use in following changes in supply, demand and prices and in projecting future market conditions. Knowledge of these trends should enable cattlemen to make more profitable decisions in production and marketing.

## Current Market Information

Producers should stay abreast of the current market prices and conditions to make profitable marketing decisions. Much reliable market information on current prices and supply is available.

The Arkansas Federal-State Livestock Market News Service covers 16 auction markets in the state and issues reports to newspapers and radio stations. A statewide summary of auctions is prepared each day for use by radio stations. In addition, daily market reports are available from terminal markets nationwide.

Direct sales of slaughter and feeder cattle are reported. Sales of carcass beef and primal wholesale cuts are reported daily for all major producing and consuming areas nationwide. Other reports on offal value, daily slaughter estimates and total weekly meat production are available.

## Market Value

The value of slaughter cattle is dependent upon the quantity and quality of beef produced from the animal. Quality determines the uses that can be made of the beef. Cutability and dressing percentage affect quantity. Stocker and feeder cattle value depends on the potential value of the animal when finished for slaughter and the cost of finishing the animal to a slaughter point.

Several factors that affect the value of cattle in the market are:

## Muscle Thickness

Muscle thickness is related to muscle to bone ratio at a given degree of fatness to carcass yield grade. USDA developed a standard muscle scoring system (USDA, 2000). The scoring system is 1, 2, 3 and 4 (Figure 35). Muscle score 1 cattle are thrifty and moderately thick throughout. They are moderately thick and full in the forearm and gaskin, showing a rounded appearance through the back and loin with moderate width between the legs, both front and rear. Muscle score 2 cattle show a high proportion of beef breeding, are thrifty and tend to be slightly thick throughout. They tend to be slightly thick and full in the forearm and gaskin, showing a rounded appearance through the back and loin with slight width between the legs, both front and rear. Muscle score 3 cattle express a forearm and gaskin that are thin, and the back and loin have a sunken appearance. The legs are set close together, both front and rear. Muscle score 4 cattle are thrifty but have less thickness than the minimum requirements specified for the No. 3 grade.

The discounts due to lack of muscling are large regardless of feeder calf weight. The discount comparing a No. 2 to No. 1 is approximately \$5.00 per cwt., or \$25.00 for a 500-pound feeder calf. The selling discount for No. 3's compared to No. 1's usually ranges \$12.00 to \$15.00 per cwt., and the discount continues to increase when comparing No. 4's to No. 1's (\$20.00 to \$25.00 per cwt.). Culling light-muscled cows and replacing them with moderate-muscled cows is the first step to producing heavier-muscled feeder cattle. Selecting sires with a full forearm and gaskins, showing rounded appearance through the back and loin with moderate width between the legs is very important.

## Frame Score

Frame scores are determined based on the revised U.S. Standards for Grades of Feeder Cattle (USDA, 2000). According to the standards, frame size is related to the weight at which, under normal feeding and management practices, an animal will produce a carcass that will grade USDA Choice. USDA large-framed steers and heifers are expected to weigh over 1,250 and 1,150 pounds, respectively, to grade USDA Choice. USDA medium-framed

FIGURE 35. Examples of the USDA Muscle Scoring System.



Muscle score 1 cattle are thrifty and moderately thick throughout. They are moderately thick and full in the forearm and gaskin, showing a rounded appearance through the back and loin with moderate width between the legs, both front and rear.



Muscle score 3 cattle express a forearm and gaskin that are thin, and the back and loin have a sunken appearance. The legs are set close together, both front and rear.



Muscle score 2 cattle show a high proportion of beef breeding, are thrifty and tend to be slightly thick and full in the forearm and gaskin, showing rounded appearance through the back and loin with slight width between the legs, both front and rear.



Muscle score 4 cattle are thrifty but have less thickness than the minimum requirements specified for the No. 3 grade.

steers and heifers are expected to weigh 1,100 to 1,250 and 1,000 to 1,150 pounds, respectively, to grade USDA Choice, and USDA small-framed steers and heifers are expected to weigh less than 1,100 and 1,000 pounds, respectively. Large-framed animals require a longer time in the feedlot to reach a given grade and will weigh more than a small-framed animal would weigh at the same grade.

Therefore, USDA Feeder Cattle Grade Medium is equal to hip height frame scores 4 and 5, Small is equal to or less than 3 and Large is equal to or greater than 6. The ideal calf should be between a frame score of 5 to 6. That means at 205 days of age males should be 44.1 to 46.1 inches tall and heifers should be 43.3 to 45.3 inches tall at the hip (see Appendix). It is much easier to produce frame score 5 to 6 calves from frame score 5 to 6 cows. Therefore, it may be important to frame score the cow herd and bulls and eliminate extremely large- and small-framed cattle.

USDA small-framed feeder cattle experience severe discounts, \$20.00 or more per cwt. compared to large-framed feeder cattle. Feeder cattle that are small-framed will generally have more backfat at slaughter than large-framed cattle. The excessive backfat negatively affects yield grade and red meat yield. The difference between large- and medium-framed feeder cattle selling price is usually less than \$5.00 cwt. Oftentimes for feeder cattle weight between 500 to 600 pounds, large- and medium-framed cattle sell for the same price.

## Breed Composition

It has often been stated that there is as much variation within a breed as there is across breeds. When designing breeding programs, it becomes very important to truly identify those superior animals within a breed. The results of crossbreeding can have a greater impact when superior purebred animals are used. The major advantage to using superior animals in crossbreeding programs is heterosis, or “hybrid vigor,” and breed complementation.

When a calf enters the sale ring, buyers evaluate each feeder calf and determine its breed or breed type based on frame score, muscle thickness, color, breed characteristics and body structure. Therefore, breed or breed combination is based on common industry perception rather than actually knowing the breed composition.

Feeder cattle perceived to be Charolais x Limousin, Hereford x Charolais, Hereford x Brahman x Angus, Charolais, Angus x Brahman,

Hereford x Limousin, Limousin and Angus x Hereford historically are usually sold for higher prices in Arkansas livestock auctions than feeder calves of other breeds. In addition, feeder calves of one-quarter Brahman crosses, Simmental, Hereford, Brahman and Longhorn historically sold for lower prices than from other breeds or breed combinations.

Breeds or breed types do affect the selling price of feeder cattle. This is due to the perception by the order buyer as to how different breeds or breed types perform (gain, sick rate, quality grade, etc.). For many years, a perception existed that if cattle were black they had some degree of Angus breeding. Today that may or may not be true. Many beef breeds have animals that are black, such as Limousin, Simmental and Gelbvieh, to name a few. The perceptions regarding certain breeds and subsequent performance may be right or wrong, but they exist. With a high percentage of feeder cattle sold in livestock auctions weighing less than 550 pounds, the majority of these cattle are purchased for placement in a backgrounding grazing program. Backgrounding programs are forage based (native pasture, wheat, etc.), and buyers are looking for the breeds or breed combinations that perform best under those conditions. Cow-calf producers should be aware that the breeds or breed types that perform best under backgrounding programs might not be the breeds or breed types that make good replacements. Cow-calf producers must be attentive of this and design an appropriate breeding program.

## Color

The color of the calf does affect the selling price. Yellow, yellow-white faced, black-white faced, white and black colored calves have historically sold for a higher price than red, gray, red-white faced, gray-white faced and spotted or striped feeder cattle. A uniform set of cows bred to the bull of the same breed can help produce the color of calf that will be advantageous in the market place.

## Management Factors Affecting Market Price

### Castration

Although bulls gain faster than steers (approximately 6 percent) and can have acceptable carcasses, the mainstream beef industry does not want to feed bulls. The main reason for castrating bulls is to control behavior and disposition. If a cow-calf producer sells weaned bull calves, somebody will castrate them.

Historically, steer calves sell for a higher selling price than bull calves regardless of the selling weight group. The price difference between steers and bulls varies but averages approximately \$5.00 to \$6.00 per cwt. Therefore, the selling price difference between a 500-pound steer and a 500-pound bull is approximately \$25.00. The selling price of heifers averages \$10.00 per cwt. less than the selling price for steers.

## Fill

When compared to the average fill selling price, selling prices for gaunt and shrunk feeder cattle are usually higher (\$2.00 to \$4.00 per cwt.). The selling prices for feeder cattle classified as full and tanked are discounted considerably (\$5.00 to 12.00 per cwt.). Feed and water can be purchased for less, relative to the selling price of cattle, but those animals exhibiting excessive fill are discounted. Order buyers discount feeder calves that show excessive potential for shrinkage. This affects the cow-calf producer in two ways. The producer not only absorbs the extra feed cost that results in the extra fill, but also the calf is discounted when it is sold.

## Body Condition

The only body condition classification that usually sells for a higher price than the average body condition is thin feeder cattle (approximately \$3.00 per cwt.). All of the other body condition classifications (very thin, fleshy and fat) usually sell for less than the average body condition (\$2.00 to \$6.00 per cwt.). Calves that are overconditioned have usually been on a high plane of pre-weaning nutrition (creep feeding, etc.). Subsequent to weaning, the level of nutrition may decrease and the overconditioned feeder cattle may actually lose weight for a period. Order buyers will not pay for that weight and time loss, thus the large discounts seen with fleshy and fat feeder calves.

## Horned Cattle

Most of the feeder cattle raised in Arkansas are polled (71 percent). Historically, polled, or dehorned, feeder cattle sell for \$2.00 per cwt. more than horned feeder cattle. Because horns can damage loins, cow-calf producers should change management practices to reduce the presence of horns.

## Sick or Lame Cattle

Over 97 percent of the feeder cattle sold in Arkansas are healthy. Healthy feeder cattle sell for a much higher price than any of the unhealthy categories do. Discounts on unhealthy cattle were greatest with lame and sick feeder cattle usually ranging between \$26.00 to \$28.00 per cwt. Selling

prices of feeder cattle that had dead hair, were stale or had bad eye(s) generally range between \$10.00 and \$12.00.

## Size and Uniformity

Arkansas primarily produces feeder cattle that weigh less than 550 pounds. Most of the feeder cattle are sold individually (81.2 percent). The selling price for feeder cattle sold in groups of two to five head is usually higher than the selling price of feeder cattle sold as singles. There is a trend in the cattle industry to sell larger, uniform lots of feeder cattle versus selling feeder cattle one head at a time.

## Marketing Purebred Cattle

Purebred breeders are producers of seedstock. Primarily, they develop bulls for use by commercial cattlemen. A few "top-line" bulls and females capable of contributing to breed improvement are sold to other purebred herds. Certain breeders, especially in breeds noted for their mothering ability, have a good outlet for females to commercial herds.

Producing crossbred "F<sub>1</sub>" females from two complementary pure breeds for commercial replacement heifers has become popular in recent years. This, too, may be considered a form of purebred production.

Many large breeders have an annual "production" auction sale for bulls and females produced in their herds. The "consignment" auction sale will include cattle consigned by several breeders. The consignment sale benefits primarily small breeders who wish to sell at auction but do not have sufficient numbers for an individual production sale. An individual breeder may consign only one or several animals to a consignment sale.

Both large and small breeders can sell successfully by private treaty. Many breeders regularly furnish the breeding stock needs of their neighbors, and such sales are often single animals. Some large breeders may sell to large commercial herds in lots that include ten or more animals.

Purebred cattle are a special-type product requiring certain specialized marketing techniques not altogether common in marketing commercial cattle.

Marketing costs per animal for purebred auction sale are often ten times the per-animal cost of selling commercial cattle at a regular weekly auction. Many purebred breeders advertise regularly in trade magazines and newspapers,

especially those breeders who sell predominantly at private treaty. For production and consignment sales, there is the cost of sale catalogues, television, radio and newspaper advertisements, photography, artwork, postage and pre-sale and post-sale entertainment.

Breeders who do have an annual production sale usually construct their own sale facilities and show barns. Most consignment sales and some production sales lease facilities.

Consignment sales are usually sponsored by a producer association that handles all the sale arrangements for a fee paid by the breeder.

The market value of purebred cattle relates to the market for commercial cattle in that the same characteristics which contribute to production efficiency and consumer acceptance are important. However, breeding values are multiplied many times when total offsprings from a bull or female are considered.

Breeder reputation, visual characteristics and performance records largely determine the market value of a purebred animal.

Few beef bulls, and practically none used in commercial herds, are progeny tested. Thus, buyers are dependent mostly on breeder reputation. Commercial producers, through "trial and error" over the years, tend to find a source of bulls that "fit" well with their cow herd. A small, part-time cowman may buy one bull every two or three years from the same neighbor, or a large commercial cattleman in another state may buy a battery of bulls from the same purebred breeder every year.

Visual characteristics and performance records influence market value of an animal to the extent that the desirable characteristics are expected to be transmitted to its offsprings.

## Market Regulations

The Packers and Stockyards Act, a law passed by Congress in 1921, places the responsibility of regulating the livestock and meat industry on the Secretary of Agriculture. The law was passed to restrict unfair and deceptive practices of people involved in livestock marketing.

The Packers and Stockyards Administration regulates stockyards, auction markets, packers, market agencies and dealers engaged in interstate livestock marketing business. The regulations include requirements dealing with fair trade practices, bonds, records and weighing conditions. All agencies have to maintain sufficient records to disclose the full nature of each transaction. Farmers who buy or sell in their farming or feeding operations are not considered livestock dealers and do not come under the P&S regulations.

Market operators and dealers must carry a bond based on volume of businesses to assure farmers they will receive the net proceeds for their livestock sold through the agency. All scales must be tested at least twice a year. No stockyards, commission firm, auction, livestock dealer or packer is to engage in unfair practices that could injure producers. Each producer selling through a marketing agency must receive full and accurate accounting concerning the sale of livestock. The account of sale shows the buyer, number of head, weight, price, all expenses and the net amount realized from the sale.