Three-tiered Marketing
A Marketing Strategy for the Cow-Calf Operator

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Introduction

Approximately 11 percent of western ranches run 600 to 1,000 mother cows with a 90 to 120 day spring and early summer calving season (U.S.D.A. Agriculture Census). This can be a huge marketing advantage because quantity has a quality all its own. The typical cow is predominately English-bred Angus and Hereford with some Continental influence. Genetic variation within each of these breeds is broad.

Brood cows from these ranches range in age from 2 to 10 years and are in all stages of the production cycle. Summer grazing conditions and forage quality may vary within groups of cattle running on separate rangelands.

Combining these factors, one can visualize why a uniform weight and genetic set of calves is seldom realized when all calves are sold as one lot.

Genetics, frame, time of year marketed, calf age, health status, and sale weight should dictate how individual animals are fed and managed after they leave your ranch. Sale weight often deviates more than 100 pounds on either side of the base weight. Buyers like to purchase uniform lots of cattle that have similar after-ranch requirements. Buyers seek out those lots of calves that match their feed resources, management, and marketing scheme.

This paper discusses marketing alternatives that can optimize performance and profit for cow-calf operators in the western United States.

Three-tiered Marketing Concept

Classing cattle into uniform sale lots is not new; sale yards have done this for many years. At the ranch, sorting prior to marketing is a practice managers could implement that would increase profitability without increasing costs. Many ranches sell all calves as one group, which results in a variable and non-uniform set of calves.
Five hundred-pound or larger calves have different post-ranch feed and growth requirements than 400 to 500 weight calves. Four hundred-pound and lighter calves also have different post ranch requirements than the heavier weight groups. Different buyers are going to be interested in each weight group and will purchase cattle that fit their specific goals and feed resources. Sold separately, each weight group will demand a premium if marketed at the correct time of year with conditions specific to the buyers’ needs.

A three-tiered marketing system simply sorts cattle into three like-marketing groups and markets each group to its fullest potential. Work at the University of Nevada Gund Research and Demonstration Ranch shows that a three-tiered marketing approach can increase profitability with limited input.

**Weaning Weight Variation**

Table 1 shows the weaning weight variation at the Gund Research and Demonstration Ranch from 1993 to 1998. The ranch is located 50 miles north of Austin, Nevada and is typical of those ranches located in northern Nevada and much of the Great Basin. English-bred Angus steers and heifers (combined) are represented during the years 1993 through 1995. Terminal cross Limousin calves are represented for 1996 to 1998.

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<td>430#</td>
<td>447#</td>
<td>428#</td>
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<td>400-500#</td>
<td>67%</td>
<td>51%</td>
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<td>&gt; 500#</td>
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<td>&lt; 400#</td>
<td>18%</td>
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*Weights recorded approximately October 1 of each year.

Quantity has a quality all its own. Cattle are sold in 50,000-pound truckload lots. If calves are 500 pounds at sale time, this would require 100 calves to make a truckload. Using data for English-bred cattle from Table 1, 15 percent of steer and heifer calves would weigh 500 pounds or more at sale time. This would require approximately 750 mature cows to produce 50,000 pounds (assuming a 90 percent conception to weaning rate). This is assuming there are no replacement heifers retained from this weight group.

These same 750 cows would produce 452 calves (67 percent) weighing between 400 to 500 pounds (450 average) or 203,400 pounds (four truckloads). Using a 15 percent replacement heifer rate, one truckload of heifers would be held back leaving two truckloads of steers and one truckload of heifers to be marketed as 400 to 500 pound calves. The two truckloads of steer calves could be divided into tighter weight groups for more uniformity.

The 750 cows would result in 121 head of calves (18 percent) weighing 400 pounds or less totaling 48,600 pounds.

By sorting calves into marketing groups based on weight you have created one truckload each of 500-pound steers and heifers, two truckloads of 450-weight steers, one truckload of 450-weight heifers and one truckload of mixed 400-weight steers and heifers. When a terminal cross program is initiated, the percentages will change as per Table 1, resulting in a different marketing strategy.
**The Heavy Calves**

These are usually the earliest born calves with superior genetics. Five hundred-pound or heavier calves should be managed differently than those that are lighter. If these calves were “double seasoned,” in other words over wintered, grown on spring and summer grass and placed in the feedlot as a yearling the following August; the steer would weigh in excess of 1,000 pounds entering the feedlot. This may result in a 1,400 to 1,500-pound fat steer.

In order to reach the quality and yield grade potential, cattle need to be on a high concentrate diet for a minimum of 90 to 100 days. If cattle are placed on this diet at a heavy weight, they may achieve a high slaughter weight that could result in discounts as high as $20/cwt, if carcasses are heavier than 950 pounds.

Cattle-Fax information suggests that placing 500-pound steers and heifers on a warm-up growing ration and selling at 800 pounds can result in a profit of $35 per head 17 out of 19 years. Taking the 800-pound animal to a finished steer results in a $49 additional profit 13 out of 19 years.

A 500-pound calf taken directly to the feedlot and placed on a finishing ration may result in a profit of $89 per head 15 out of 19 years.

It is essential to realize that markets are seasonable. The profit potential is increased when cattle are placed against the historically better fat marketing months of January through May or November and December. Employing risk management in the form of futures and options when marketing cattle may also insure profit when retaining ownership on cattle as a hedge against the cash market.

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**The Middleweight Calves**

The middleweight calves, those weighing between 400 to 500 pounds, represent the majority of calves produced on western rangelands. In the University of Nevada, Reno, study 67 percent of English-bred calves fell into this weight range.

This group of cattle fits a fall marketing program or, as an alternative, a double seasoned yearling program.

There are many options for the middleweight calves aside from selling on the ranch. For these options to work well, retained ownership is necessary. A strong risk management program using the futures market would strengthen these programs. For those needing a cash flow or those not interested in the extra time and effort necessary in retained ownership programs, selling these calves in the fall might be best.

Selling middleweight calves in the fall of the year results in a cash flow and spreads marketing risk.

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**The Lightweight Calves**

Based on the Nevada study, 18 percent of calves produced on western ranches weigh less than 400 pounds at weaning. Most of these calves are late born (young), and from first-calf heifers or older cows.

Selling this class of cattle in the fall of the year along with the main group has the disadvantage of bringing the base sale weight of the group down and making a non-uniform group of calves. On a per pound basis, these calves are worth more than heavier calves.

December marketing a weaned light calf is another option. This weight of weaned calf sold in December usually results in a premium from buyers filling orders for wheat pasture, California grass, or Midwest grass.
By retaining ownership of lightweight cattle and marketing during optimum market periods such as late November or early December with a 45-day weaning period, producers add weight and subsequent value that increases profitability.

Summary

Sorting cattle into marketing groups based on weight has potential financial rewards. The three-tiered marketing system spreads risk and results in cash flow throughout the year. This approach to marketing capitalizes on the ranch’s best genetics through retained ownership. Three-tiered marketing also takes advantage of the seasonable market that is usually present. The major advantage, however, is making more marketable groups that appeal to buyers. By marketing uniform groups of cattle for specific feed resources at specific times of delivery, value is added to a group of cattle without significant added cost.

Risk management in the form of futures and options should be considered when implementing a three-tiered marketing program. This can be complicated, so it is advisable for producers to become knowledgeable in this area before becoming involved in futures or options trading. Tax ramifications should also be considered when selling cattle in the following tax year.

Reference


