Introduction

Many options are available to today's livestock producers when gathering price information and marketing their cattle. The producer's marketing goal is to price his/her product at the highest value the market will bear. Accomplishing this goal depends on the producer's knowledge of markets, market situations, and marketing methods, all of which change over time. Technology has dramatically changed the availability of timely market information and marketing alternatives. This paper overviews sources where producers can look for market information and market alternatives.

Sources of Information:

Information is now more readily available than ever before. The Internet is a source for instant market information. It can give market information that is updated weekly, daily or even by the minute. The Internet can be a powerful tool for monitoring cattle prices and market conditions. One example source is the United States Department of Agriculture's Agriculture Marketing Service web site, which contains information about local prices and market conditions for commodity markets throughout the United States. Following are some of the web sites that have livestock prices and marketing information:

Web Address Sites

www.usda.gov/news/releases USDA Reports
www.ams.usda.gov/lg/nmc USDA Market news, reports prices across the U.S.
http://www.cme.com/ Chicago Mercantile Exchange Futures and Options
lmic1.co.nrca.usda.gov Livestock Marketing Information Center
http://www.ag.state.ut.us/ Utah Department of Agriculture
http://www.superiorlivestock.com/Superior Livestock Auction (Video)
http://www.cattle-fax.com/Cattle-Fax: Cattle data, analysis and education
www.midam.com/ebc/mdmxl.htm MidAm charts and data market overview
http://www.wvmcattle.com/ Western Video Market
Many livestock auctions now have web-sites that report local livestock prices. Unfortunately, we cannot list them all in this publication. However, if you are interested in markets not listed, search for them using an Internet search engine (use a key word such as "Livestock Auction") or call the auction you are interested in to obtain their web site address.

Traditional Markets

A number of different marketing techniques for cattle have been used for many years. Some of these include annual feeder cattle sales, local auction yards, and private treaty transactions between producers and order buyers. Auctions are widely used as a means of establishing livestock prices through competitive bidding among potential buyers. However, competition among buyers at many local auction markets, in terms of buyer numbers, has declined in recent years. The costs associated with maintaining a force of buyer representatives to travel from auction to auction are high. Additionally, the number and selection of specific types of livestock at many local auctions has declined as sellers have found alternative marketing outlets. As a result, buyer interest at some local auctions has declined. This means fewer buyers now compete for the available livestock at some auctions, and this ultimately may impact prices negatively.

Evaluation Price Quotes From Cattle Buyers

If you sell your cattle directly to a cattle buyer, check market information to determine if he/she is offering you a fair price. To make a fair price comparison you need to account for all marketing costs (transportation, shrinkage, market fees, etc). Occasionally producers accept lower than market prices because they do not know what current market prices are. Offered prices can be compared against available contracts such as: other cash forward contracts (contracts given to other producers by livestock buyers), futures contracts adjusted for local basis, or against prices at livestock auction barns. Often contracts are offered well in advance of delivery of the calves. If this is the case, compare the price offered in the contract against the futures market with a similar maturity date and class of cattle.

Futures quotes are posted on the web address for the Chicago Mercantile Exchange (www.cme.com) the Wall Street Journal and other trade publications. Be sure to adjust the futures contract price for your local (personal) basis. Basis is the difference between the cash market and the futures market (Cash Market - Futures Market = Basis). Cash price information to calculate basis information can be found on the USDA Agricultural Marketing service web site (www.ams.usda.gov) or the publication AG-445: Historical Basis Information for Major Crop and Livestock Enterprises gives calculated basis information in Utah, which can be ordered at www.ext.usu.edu. It is best if you also use your own basis information because it represents how your cattle sale compared to the futures market. To calculate your basis, compare the actual price you received to the close of the futures contract that best represents your cattle (for example, stocker cattle).

If the price of the buyer's contract is close to the futures market price, adjusted for basis, then it is likely a fair contract price. Producers may find that the contract offered is significantly lower than the futures adjusted for basis. If so, they may wish to consider hedging the cattle using futures contracts rather than accepting the buyers offer. However, if a producer chooses to hedge their cattle they also accept the basis risk associated with the hedge.

Video Auctions-A Viable Alternative?

During the past ten years video cattle auctions have grown rapidly in popularity. For example, Superior Livestock Auction (SLA) and Western Video market well over one million head of cattle annually. Video cattle auctions consist of two parts, the video or visual segment and the sales catalogue or written description. A flat taping fee per head is usually charged and is included in the sales commission unless the seller rejects the bid, in which case the seller forfeits the taping fee. A representative of the video auction company usually does the taping.

Videotapes lasting about two minutes are shown while an auctioneer solicits bids. Buyers must register in advance of the sale and undergo a credit check to participate. Buyers may bid either in person or by telephone
from any location where a satellite transmission can be received. Cattle are sold F.O.B. at the seller's ranch or a nearby scale. This makes transportation costs the responsibility of the buyer, who can adjust his/her bids accordingly. The video auction representative oversees delivery. Completed sales become cash forward contracts, since all cattle are sold for future delivery.

**Are Video Auctions Competitive With Other Market Alternatives?**

The cost of marketing cattle can be high. Total marketing costs including trucking, shrink and commissions, can range from 8-10 percent of the value of the animals. These costs are even higher in areas isolated from the major feeding centers. As a result, it can add to your pocket if you shop around for the best market price with the least marketing cost.

Compared to traditional regional auctions, video auctions appear to reduce overall trucking costs since the cattle are shipped directly from the seller's location to the buyer's. This suggests buyers may be willing and able to pay slightly higher prices for cattle purchased through video auctions, or at least the net price to the seller may be higher than at traditional auctions.

Also, competition may be keener for cattle sold at video auctions than other types of auctions. More buyers participate in this type of auction than in more traditional regional auctions. Other considerations that can make video auctions desirable to buyers include a reduction or elimination of commingled lots of cattle, a knowledge of the vaccination history of the cattle and larger lots that will fit in feedlot pens.

A research study conducted at Utah State University compared prices received at three regional auctions (Oklahoma City, OK; Greeley, CO; and Dodge City, KS; all considered high-volume regional markets) to prices received from video auctions for cattle within a 400-mile radius of the regional auctions. If one considers only quoted prices, the regional auction prices were slightly higher than the video auctions. If cost of transportation and shrinkage were considered, then prices received in the video auctions where $0.95/cwt higher than Oklahoma City, $3.36/cwt above Greeley and $1.48/cwt above Dodge City. These results are averages over the entire 400-mile market area. The differences would be smaller, or even reversed for cattle close to the regional markets, and higher for cattle further away from the regional market.

One other consideration is seasonal prices often are higher earlier in the year (September or earlier) for October or November delivery. Pre-selling the cattle may allow producers to take advantage of this seasonality.

**Internet Marketing**

One of the new options available to livestock producers is to market their cattle over the Internet. Internet livestock auctions are gaining popularity and hold promise for the future. Cattle can be sold two ways: 1) Consigned buyers and sellers can make a deal by negotiating price. This is similar to selling by the traditional method of selling to a cattle buyer, except the buyer in this case is negotiating with you over the Internet. 2) The second option that is available is a real-time auction using a silent bed format. A qualified representative of the Internet auction is responsible for the consignments, biographical information, photos, and collecting payments. Although this is a new method of marketing cattle and extensive research and experience by producers have not yet been completed, this form of selling cattle shows promise. In the future it very well may be a major source of livestock sales. An example of an Internet auction is [http://www.cattlesale.com/](http://www.cattlesale.com/).

**Pooled Cattle**

The average-sized cow/calf operator in the United States has about 50 mother cows. Therefore many producers don't have the option of putting together large enough lots to fill a tractor-trailer. Research conducted at Utah State University found the optimum lot size for cattle is between 200-250 head. The same research found that cattle lots sorted by sex received about $1.50/cwt more for steers and heifers than mixed sex lots. Pooling cattle can be a way for producers of small lots to improve the net market value of their cattle.
However, pooling does offer some unique challenges. Participants must be willing to abide by the rules the pool has established. For example, only cattle meeting pool specifications for breed, weight, sex, or other specific characteristics will be accepted. If cattle fail to meet specifications, they should be sent home. Producers must be willing to accept the price the pool receives.

Conclusion

- Producers should consider many different marketing alternatives.
- Technology has changed market information and market alternatives.
- The Internet can provide information on market prices and conditions for virtually any commodity at most locations in the U.S. It also promises to be a major player in the future for livestock sales.
- In the last decade video auctions have provided producers another marketing option. Video auctions can provide greater competition for cattle and less transportation costs, which may result in higher net prices for many producers.

Cattle sorted into similar lots of 200-250 head bring higher prices than non-sorted or smaller lots of cattle. Pooling cattle can be a viable option for smaller producers to ship semi-loads or larger lots of cattle.

Further Reading


