Cattle Feeder Marketing/Pricing Practices and Viewpoints

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Collaborators

- Collaborative effort by four economists
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  - 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

- Live Weight
- Carcass Weight
- Grid
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)

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

Percent of Weighted Average Marketings by Marketing Method

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-alliance agreement</th>
<th>Alliance agreement</th>
<th>No agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>10%</td>
<td>20%</td>
<td>70%</td>
</tr>
<tr>
<td>2001</td>
<td>15%</td>
<td>30%</td>
<td>55%</td>
</tr>
<tr>
<td>2003</td>
<td>20%</td>
<td>40%</td>
<td>40%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Motive</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtain carcass premiums</td>
<td>9</td>
</tr>
<tr>
<td>Access carcass data</td>
<td>9</td>
</tr>
<tr>
<td>Guaranteed buyer</td>
<td>9</td>
</tr>
<tr>
<td>Reduced marketing time/costs</td>
<td>9</td>
</tr>
</tbody>
</table>
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?

- Disagree
- No Opinion
- Agree
Establishing Base Prices in Grids

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

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

- Largest Buyer's Share
Break Up Large Packers? Retailers? Organize Producer-Owned Packers?

- Disagree
- No opinion
- Agree

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?
- Disagree
- No Opinion
- Agree

Limit Packer Ownership and Contracting?
- Limit packer ownership
- Limit contracting with feeders
- Limit contracting with retailers
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?

- Less beneficial than expected
- Benefiting the industry

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?

- Regional fed cattle prices
- National fed cattle prices
- Boxed beef prices
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.