Getting Started In Ag: Livestock Marketing Options

Market prices for cattle and most other livestock are at or near record highs. While this may seem like a relatively easy time to market your livestock, it remains important to seek out the best marketing alternative from the many that are available.

Every dollar counts for new or beginning producers. When prices are high, shoot for the highest value possible—but make sure you have a firm grip on your financial position before you sell. Know what your break-evens are and how your expenses are structured; put time into planning the best marketing approach for your operation. What works for one livestock business may not be the best fit for others. Match your production with a marketing strategy that best suits the size and scale of your operation.

Figure 1 Livestock Arriving at an Auction Yard, J.P. Hewlett

Traditional Auctions

Buyers bid for livestock until a price is settled on in an "English" auction. This is one of the oldest methods of price discovery and remains one of the most effective. This option is most commonly used by sale barns, where producers bring their animals to the auction and the auction company sells them for the best price possible via competitive bidding among multiple buyers. It can also be used onsite in your operation; a method often used to conduct breeding livestock sales.

There are advantages to this approach, especially for producers with fewer animals to sell: a larger number of buyers are exposed to the animals, sellers can group smaller lots together to form larger lots, and the marketing is often completed for the seller if the animals are consigned ahead of time.

Disadvantages to the sale barn approach may include the costs involved in transporting the livestock to the barn, as well as the yardage costs associated with selling and housing the stock at the barn. Another disadvantage is market timing; if your livestock sell on an unexpectedly down day, without a reservation price, it can result in a substantial cost, otherwise known as price risk.

From:
negotiation.farmmanagement.org

Steps to Improve Bargaining Position:

1) Form a reserve price
2) Have a best alternative to negotiated agreement (BATNA)
3) Set a target price
4) Know your break-even (cost of production, market information)
5) Start the negotiation/Offer the first price
6) Focus on the target price
7) Be prepared to make a counteroffer
8) Be willing to make more than one counteroffer

Online and Video Options

Another form of auction is commonly referred to as the video auction. Most video auctions also offer an online option. The basic premise is the same as the sale barn approach, with the difference being that the auction company broadcasts the sale on a satellite TV channel, over the internet, or both. Buyers can bid onsite at the auction, phone in their bids, or place bids over the internet.

The main advantage of a video auction is that your cattle are exposed to a wider group of potential buyers. Another advantage is that the cattle stay home and are shipped directly to the buyer after they are sold. This eliminates the costs associated with hauling them to a sale barn and helps both buyer and seller by reducing stress on the livestock. However, video auctions tend to be geared for larger-scale operations, i.e. those selling larger lots.

While video and online options are better suited for producers with larger lots of animals, it can be a viable option for smaller-scale producers, depending on how their operation is structured. This might be achieved by co-marketing with a neighbor. For example, suppose I only have enough calves for half a load and that my neighbor is in a similar position. If we sell our calves together on the video auction, assuming our cattle are similar in type and quality, we can most likely achieve a better outcome than if we sell separately.

Direct Marketing

Direct marketing may be another viable option, depending on your livestock operation and the type of animals you sell. The main advantages of selling directly to a buyer include: costs are minimized for the seller; there is no transportation, nor any sale commissions or fees, and the buyer can take delivery at the seller's place. The disadvantages of this approach lie in the seller's ability to negotiate for the best price. Part of being involved in production agriculture is often negotiating prices for commodities sold; it can also be an uncomfortable facet for many producers.

Direct negotiation often raises difficult question such as, do you hold out for the highest price and risk losing a buyer? Do you take the first price offered? Or is the best course of action somewhere in the middle?

In these scenarios, farmers and ranchers often face several forms of risk. Producers tend to have high upfront costs in production, meaning that they often must sell to cover expenses and are more likely to make concessions on price due to worries about finding more than one buyer.

Figure 2 Negotiation.FarmManagement.org

As discussed above, it is important to put some time into preparing a plan for marketing your production. This includes knowing your break-even costs, developing a strategy, and not waiting for a first offer. Direct marketing can also involve selling animals to multiple buyers on a smaller scale, such as selling slaughter-ready or locker animals directly to consumers.

Managing Risk

It is important to carefully consider risk when developing your market strategy. You should evaluate any downside price risk protection when it is available. Livestock Risk Protection (LRP) insurance, part of the Federal Crop Insurance program, can help limit downside price risk with minimal cost exposure compared to futures and options. Developing a plan using futures and options markets can be a way to limit risk and lock in profit; however, it should be carefully considered and developed in cooperation with a market advisor and your lender.

Add Value Where You Can

Regardless of the marketing plan you choose, it is important to add as much value to your animals as possible. Taking some relatively small steps can add considerable value when sale time arrives. Regardless of the scale of your operation, lot uniformity can add significant value.

Working with a vet to develop a vaccination and preconditioning program is one of the easiest and highest returns on investment you can make as a producer, as well as reducing your disease and production risk. Cow-calf operations might also consider weaning and backgrounding calves to add value.

Consider adding value through third-party verification programs as part of your marketing plan. These programs can assist in finding buyers and marketing your livestock, often with minimal documentation required. These programs may pay a premium for practices you have already implemented n many cases.

Examples of 3rd Party Certification programs for cattle:

1) Beef Quality Assurance Program (BQA)
2) Non hormone treated cattle (NHTC)
3) Certified All Natural
4) Age and Source Verified
5) Certified Organic
6) Breed Specific—i.e. Certified Angus Beef

For More Information

For more information on livestock marketing and other risk management options, including online courses, tools, and more, visit RightRisk.org. For a series of online bulletins and modules on negotiation, including Bargaining for a Better Outcome, visit negotitation.farmmanagement.org.