

Cattle Marketing and Creating a Marketing Plan

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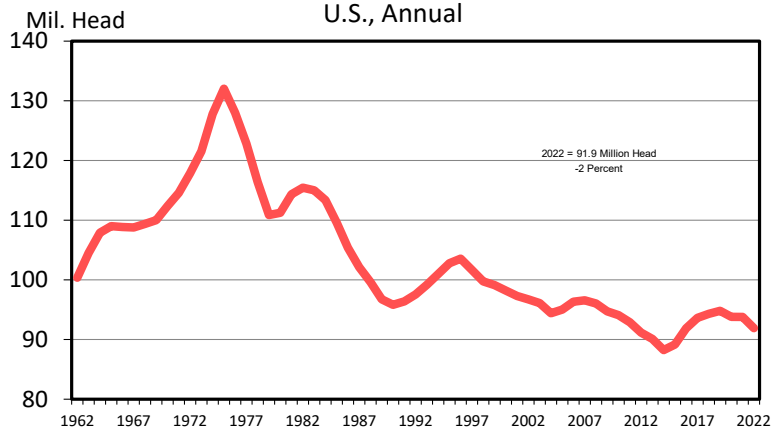


Beef Production and Marketing System



JANUARY 1 TOTAL CATTLE INVENTORY

U.S., Annual



Data Source: USDA-NASS
Livestock Marketing Information Center

C-N-01
01/31/22



Cattle Cycle

Prices for all classes of cattle tend to go up and down in each cycle

Cycles of prices force changes in level of production

Price cycles imply:

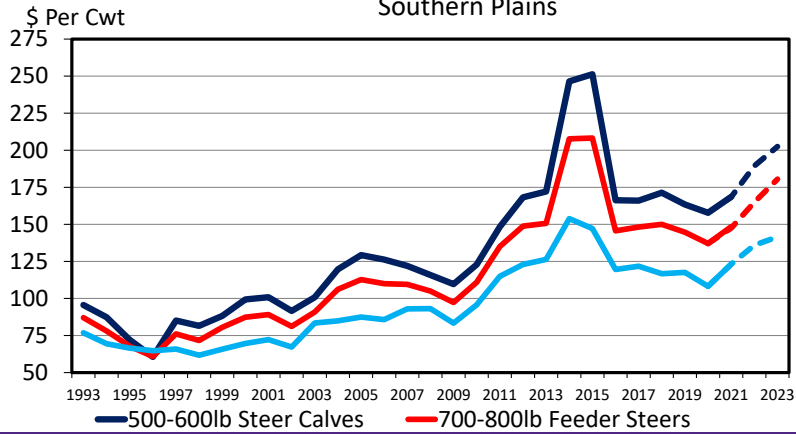
- Cycles of equity change
- Opportunities for strategic behavior

Cycles may be changing



AVERAGE ANNUAL CATTLE PRICES

Southern Plains



Data Source: USDA-AMS, Compiled and Forecasts by LMIC
Livestock Marketing Information Center

C-P-06
02/04/22

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Seasonality

Seasonal price patterns in cattle are very strong

Seasonal price patterns vary for different classes of cattle

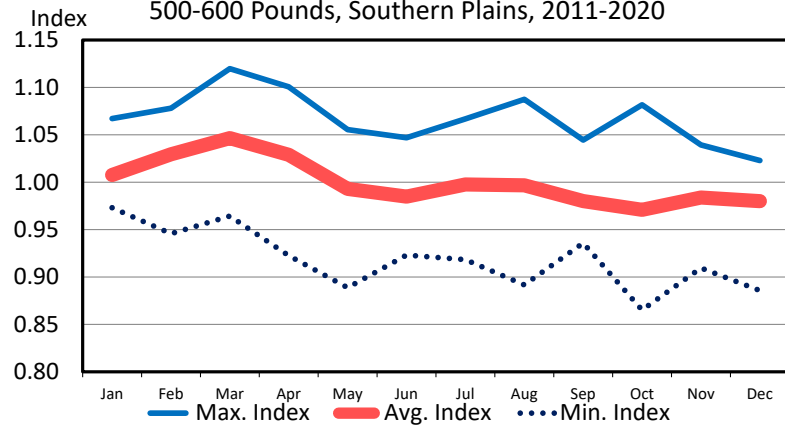
Important for retained ownership and stocker considerations



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SEASONAL PRICE INDEX – STEER CALVES

500-600 Pounds, Southern Plains, 2011-2020



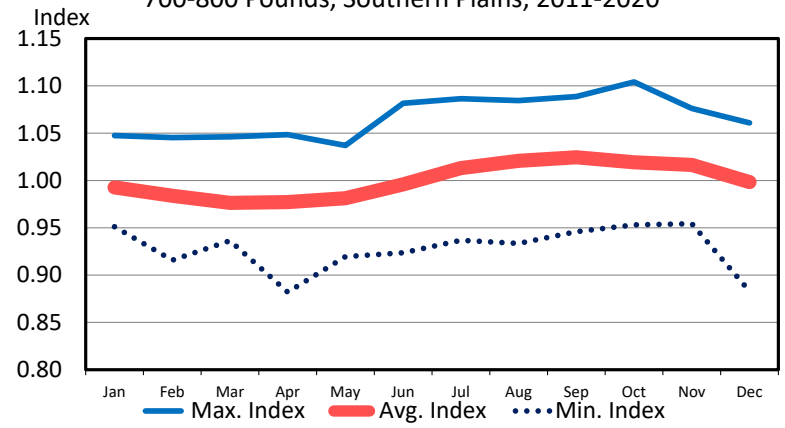
Data Source: USDA-AMS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

10/22/21

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SEASONAL PRICE INDEX – FEEDER STEERS

700-800 Pounds, Southern Plains, 2011-2020



Data Source: USDA-AMS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

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Calf Marketing

Don't think of calves as a single marketing group

- Steers vs. heifers
- Heavy vs. light
- Feeder heifers vs. replacement heifers

What is the best marketing alternative for each group of calves?

- Sell at weaning vs. retained ownership
- Where and how to sell



Adding Value to Calves

Individual animal management

- Dehorn
- Castrate
- Vaccinated
- Weaned
- Preconditioning Package

Animal groups

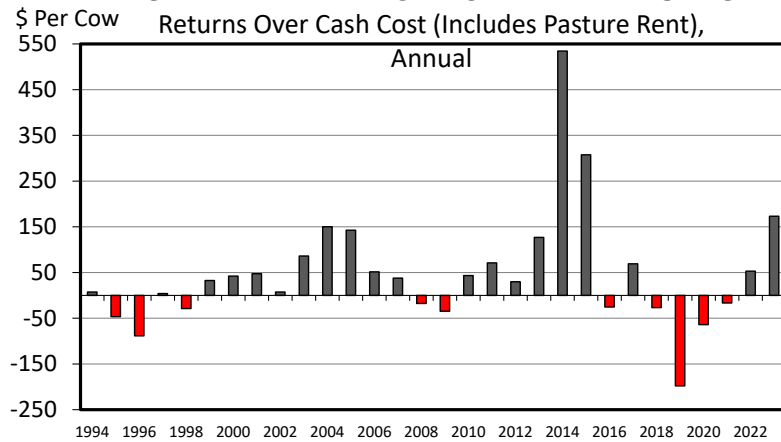
- Lot size
- Uniformity

Change genetics

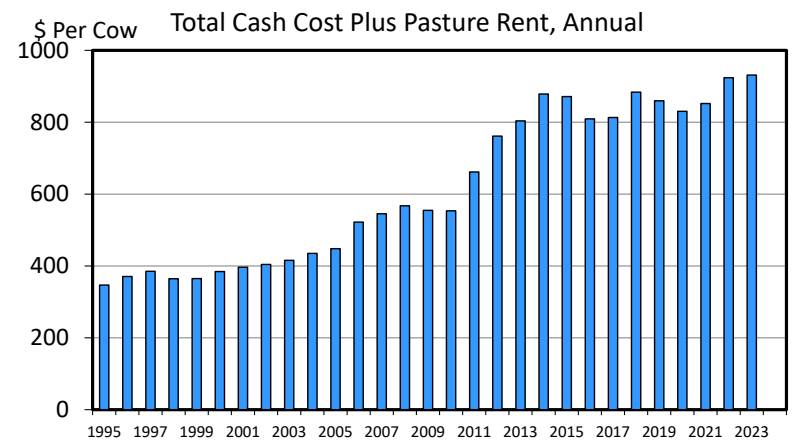
- Improve muscle and frame



ESTIMATED AVERAGE COW CALF RETURNS



ESTIMATED AVERAGE COW CALF COSTS



Possibilities for how to sell

- Sale Barn
 - Easiest
 - Established process for collecting money
 - Participants at the auction determine the value
- Video Auction
 - More popular than in the past
 - Can be a wider range of market participants determining the value of the lot
- Off the Farm
 - No commissions or transportation
 - Weights?
 - Credit risk



Possibilities for how to sell

- Use Options
- Use a hedge account
 - Work with a broker or have an online account
 - Pay commissions on trades
 - No physical delivery, futures locked in, no basis established
 - Sell or buy futures in your hedge account
 - Sales marked to market every day
 - Subject to margin calls
- We are focused on Cow/Calf so thinking about selling weaned calves
 - If hedging, would use Feeder Cattle market
 - 1 contract = 50,000 lbs



Marketing is Challenging...

- November 2022 Feeder Cattle Chart – 3 year

➤ www.barchart.com Nov '22 (GFX22) - Barchart.com



Basic Marketing Terms

- Two primary ways to look at the markets
 - Fundamentals Analysis
 - Weather
 - Supply and Demand
 - Currency Valuations
 - Technical Analysis
 - Identifying patterns to predict future movements
 - Chart based analysis
- Hedger vs. Speculator
 - Hedger - A trader or commodity producer who places a trade in order to protect against price fluctuations in commodities or financial instruments.
 - Speculator - a person who invests in stocks, property, or other ventures in the hope of making a profit



What is a Marketing Plan?

- A Marketing Plan is a plan for how to sell your production
 - This example will focus on livestock, but a marketing plan is important for crops and other commodities too
- Considerations
 - Quantity
 - Timeframe
 - Breakeven Price*



When is a Marketing Plan Important?

- Marketing Plans are always important
- Review your Marketing Plan regularly
- Review your Marketing Plan when there have been changes in your business



What is a price?

- Cash Price = Futures – Basis
- Futures
 - Futures are traded every day, similar to the stock market
 - CME Group
- Basis
 - Basis is the difference between the futures market and what you can receive locally as a cash price
 - Basis can be described as a "local barometer" for the demand
 - Cash price (and basis) forecasts found at BeefBasis.com



How do I find the futures market?

- My favorite websites for commodity futures markets
 - www.cmegroup.com/trading/agricultural
 - www.barchart.com
 - www.agweb.com



Information Needed to Create a Marketing Plan

- Quantity
- When will you sell your calves and weight
- Where will you sell your calves
- When do you need the funds?
 - When are loan payments or other bills due?



Marketing Plan Considerations

- Quantity
 - Number of head
 - Anticipated weight
- Know your cost of production
 - Understanding cost of production will give you confidence to make sales when profitable levels are available
- Where will you sell at?
 - Sale Barn
 - Private treaty
- When are funds needed to pay bills or make loan payments?



Example Marketing Plan for Selling Calves

- Calves expected to sell:
 - 140 Cows * 90% calf crop = 126 calves
 - 126 Calves * 600 pounds = 75,600 pounds
- When will you move your calves?
- Where will you sell at?
 - Sale Barn
- Possible Marketing Plans
 - Sell calves at the Sale Barn
 - Use Hedging or Options strategy



Resources

Options presentation - <https://www.youtube.com/watch?v=oT0px8rljHo>

Cash price (and basis) forecasts - BeefBasis.com

Hedging of Livestock - <https://www.extension.iastate.edu/agdm/livestock/html/b2-50.html>

Managing for Today's Cattle Market and Beyond - <https://marketing.uwagec.org/MngTCMkt/FutrMrkt.pdf>

Using Futures Markets to Manage Price Risk for Feeder Cattle - https://agecon.ca.uky.edu/files/using_futures_markets_to_manage_price_risk_in_feeder_cattle.pdf



Summary

- It is important to create a Marketing Plan for selling your production
- It's difficult to sell more than 1-2 times per year
- Watch the markets and monitor seasonal trends
- Best way to learn how to market is to do it

