

Necessary Marketing Knowledge Hasn't Changed

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Ranchers are currently selling calves for the highest prices on record. In my ranch work across the country, there is almost a sense of disbelief as to what calves are selling for. However, as I visit with ranchers, I have never seen them quite as nervous as I do now. Certainly, some of this nervousness is justified as the market tries to sort out all the issues including international trade, BSE, animal ID and COOL. Yet, at the most basic level of marketing, there are things that haven't changed and ranchers should pay attention to them. The purpose of this paper is to outline several points that ranchers need to know in order to ensure they receive best price.

Know who your customer is and market to them. This seems obvious. The beef consumer is ultimately the person all ranchers should strive to please; however, there are many stages that a calf travels from the ranch to the consumer's plate. Consider a small cow-calf operator with 50 females versus one with 500 females. The small operator will have approximately 35 calves to sell assuming he keeps 15 percent of the heifers for replacement. The large operation will have approximately 340 calves to sell. What are the marketing options for both? In many cases, the small operation will sell the calves at a local auction barn or retain the calves for a growing period and then market the calves at the auction. Because of sheer numbers, the larger operation will expand his marketing opportunities and also increase the number of possible buyers. Neither case is wrong, but the customers for both operations can be different. Ranchers should identify where they typically sell their calves and who typically buys them and why.

What are the buyers looking for? There have been at least three studies conducted to determine the attributes that cattle buyers at auctions are looking for and willing to pay for. These studies have included south Texas, Oklahoma and Kansas. For the most part, these studies have all shown the same attributes. The first is lot size. The larger the number of cattle that are sold together will generate a higher price per pound. Buyers will pay more for castrated and dehorned cattle. Buyers consistently want English and Continental cross cattle. Buyers are also looking for large to medium framed cattle that are medium to heavily muscled.

All ranches control the bulls that are purchased each year. These bulls will make up fifty percent of the genetics of the years calf crop. Attributes that can be influenced by the bull purchase are horned versus dehorned, color, and muscle conformation. In addition, every operation controls whether the male calf is sold as a bull or a steer.

Know your breakeven price. Any rancher should know the price that is necessary to cover their production costs. At the current price level, ranchers have a tendency to think that their breakeven price is not relevant, and in cases where the ranch is a low to

moderate cost operation, that could well be true. However, breakeven prices have been rising over the past four years. Fuel costs have almost doubled. Fertilizer prices are higher. Record high energy has a compounding effect on other costs. Interest rates have increased almost 100 points. This means that ranchers will be paying higher interest expenses on higher input costs.

According to the Texas, Oklahoma and New Mexico Standardized Performance Analysis (SPA) database, the average breakeven price is \$94.50 per hundredweight of weaned calf production. Table 1 provides a summary of the database by herd size. The table may require some explanation. Pounds produced per female is a production parameter detailing the average total production of weaned calves per female within the herds making up that size category. Total cost per female shows average actual expenses of the operation. Finally, the table shows the average breakeven cost per cwt of weaned calf. This is the price that is necessary from the calf sales in order to generate a zero net income. Breakeven prices are typically higher than what the average rancher thinks. Keep in mind that a rancher is not making a profit if he doesn't contribute to family living or if he didn't pay for his depreciation.

Table 1. Texas, Oklahoma, and New Mexico SPA Data Averages by Size.

Size (Head of Breeding Females)	Less than 100	100 – 249	250 – 499	More than 500
Number of Observations	113	110	101	131
Pounds Produced per Female	425.5	423.2	430.4	434.4
Total Cost per Female	\$478.88	\$453.56	\$424.31	\$366.74
Breakeven Cost per Cwt.	\$114.16	\$98.00	\$91.84	\$76.75

Today's calf prices are certainly adequate to cover all the breakevens. However, while we would all like to think that prices will stay high forever, we know that will not be the case. According to the USDA, the national cow herd has started to increase. This will ultimately cause calf prices to fall in the coming years. Now is the time to start thinking about where changes can be made to improve the ranch.

For cow-calf operations, the calving season will dictate the general timing of the sale; however, there are peak times to try to avoid, even if it is by one month. Over 75 percent of the cows in the U.S. are spring calving cows. These calves are weaned in the fall, from September to November. With this flush of calves on the market, prices for calves during this time are some of the lowest for the year. Selling calves in August or December can help to assure the operation does not sell their calves during the lowest time of the year.

Finally, the market will eventually start paying ranchers for calves that can be age- and location-verified (or discounting those that cannot be verified). Every rancher should start preparing their own plan as to how to take advantage of this. The key is to make this a positive situation for the ranch instead of viewing it as just another regulatory necessity.

Each of these factors has not changed with the rally in cattle prices. Each is a basic component of a good marketing plan. As ranchers continue to work their spring calves, the value of that calf should creep into their minds. Keeping these marketing points in mind can assure that cattle operators will get above average prices for their cattle.