PEACE COUNTRY BEEF & FORAGE ASSOCIATION

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Forage Facts

Making the Most of Marketing: Maximizing Your Money!

Some days cattle marketing can seem like a test. A test of the nerves, one's sanity and pocket book. Currently however, there may be some joy in taking cattle to the market, since many have a pretty good idea that the prices won't have them seeing red. The only decision to make is, do I sell now, or do I wait. But do remember that marketing cattle should be done in the best interest of the operation. Just because the neighbor is selling, doesn't mean their management system fits with yours!

When making these decisions and asking the tough questions, it is always important to think of the long term impact of either retaining or selling the animals. The following questions and topics are just a few of the things one should try and keep in the back of their mind when deciding on a marketing strategy.

Culling Cows

Cull cows represent 15-17% of gross income on cow/calf operations and are an important contributor to cash flow. On July 1, 2011 beef cow inventories were down only 2.1% from 2010 at 4.2 million head. Cow marketing's in 2011 are down 22% from 2010 to be the smallest in history (excluding the record lows of 03 & 04). The combination of a reduced culling rate and increased heifer retention is encouraging. It would imply that 2011 is going to be a year of consolidation, with liquation being mostly behind us.

Why sell cows?

There are two things that will have a significant impact on a cow/calf producer's bottom line regardless of what price calves are selling this fall. First is maximizing reproductive efficiency and the second is minimizing feed costs relative to feed efficiency. For a cow/calf operation, good reproductive rates are critical to operational success and profitability. It is generally expected that each breeding age female in the herd will produce a healthy calf each year and successfully raise each calf to weaning time. Cows that do not produce calves on an annual basis use resources that could be used to support more productive cattle. Poor reproductive efficiency also influences the per unit cost of production (e.g. the breakeven price per pound weaned) because cows who don't wean calves have costs that must be covered by the remaining pounds of calves weaned.

The July 1st calf crop as a percentage of the total cow herd (beef and dairy) has historically averaged 87.5%. After steady improvement from 1977 to 1998, advancement in reproductive efficiency has been relatively flat over the last decade as small to negative margins in the cow/calf sector reduced incentives to invest in the cow herd and producers focused on minimizing costs.

To think about it another way consider that in 2011 the reproductive efficiency of the national herd was 92% that means that with a culling rate of 8% we would just be removing the animals that were not performing without any consideration of age, udders, legs and feet, disposition or feed conversion. The beef cow culling rate is projected to be 9.5% in 2011, higher than the 8%, indicating producers are culling for other reasons (i.e. calf performance) as well.

When to sell cows?

There are a host of reasons to sell a particular cow, but when should you sell her? This depends on (1) the seasonality of cull cow prices, (2) the price difference between D1/2's and D3's and the percentage of cull cows in each grade, and (3) the cost of feeding cows to sell at a later date. Seasonally the lowest price for cows is in the fourth quarter when supplies are the largest. On average, cow prices rally $9/cwt from November to April. Putting weight on by feeding cows to achieve a better price by improving a slaughter grade or selling into a better market only makes sense when the price spread between D1 and D3 prices is large enough and the cost of feed is low enough.

So far in 2011 the price spread between D1/2 and D3 cows is $9.75/cwt, which is wider than the spread in 2010 of $7.23/cwt and the five year average spread of $7.75/cwt. Historically not only do you have the $10 premium for D1/2 cows, but also a $9 rally from November to April. Therefore, if you have a 1300 lb D3 cow in November valued at $45 ($585/head) by spring she has gained 200 lbs and is now is worth $63 at 1500 lbs or $945/head leaving $360 to feed her for five months or $72/month.

Can you feed for that? The decision is yours?

SELLING CALVES: COW/CALF BREAKEVENS

Western Canadian breakevens in the cow/calf sector have increased 50% over the last 20 years, which is a 7% annual increase on average. Knowing your breakeven price before selling allows you to know when to hold onto your calves and when to take the money with a nice profit built in. The breakevens in 10/11 are estimated to be 3-4% lower with cheaper wintering costs last year. When combined with a higher projected calf price, profitability is expected to swing up.

Break-Even Weaned Calf Price					
	1.28	Annual Maintenance Cost per Cow			
Weaning Weight (lbs)	550	600	650	700	750
450	$1.29	1.40	1.52	1.64	1.75
500	$1.16	1.26	1.37	1.47	1.58
550	$1.05	1.15	1.24	1.34	1.44
600	$0.96	1.05	1.14	1.23	1.32
650	$0.89	0.97	1.05	1.13	1.21
700	$0.83	0.90	0.98	1.05	1.13

When calculating the economic unit cost of producing a calf it is important to include the cost of grass, as even if it is owned there are expenses (i.e. taxes, fencing, etc.) associated with it and there is the opportunity cost of what you would have received if you had rented it out. Similarly it is important to include the cost of labour to get an accurate idea of what it costs to maintain the cow herd. Adjusting for open cows is also important as the revenue from the current calf crop must cover the expenses of the entire cow herd maintained over the past year. Other items include: veterinary costs, medication, marketing, depreciation on equipment, interest on any loans and herd replacement costs for bulls, cows and heifers.

An annual maintenance cost of $700/cow gives a breakeven of $134/cwt on a 550 lb calf . Alberta 550 lb steer prices are currently $153/cwt giving a $19/cwt margin ($104.50/head). Calf prices are expected to average $145-150/cwt throughout the fall providing a margin of $11-16/cwt ($60-88/head).

When selling calves or feeders a producer should consider what the market would value their cattle at based on the live cattle futures, dollar, basis and cost of gain to see if what is being bid is competitive. While every feedlots cost structure, and risk management strategy is going to be slightly different this exercise provides an indication of where fundamentals say the market should be at.

Source: Canfax, Fall Run: Cull Cows & Trading Calves 2011

Factors Affecting Price

Supply & demand. The feeder cattle market is determined by supply and demand. The slaughter market and the cost of gain projections made by buyers determines this demand. Supply also influences the price, in that a shortage of feeder cattle of a certain type can create a price increase.

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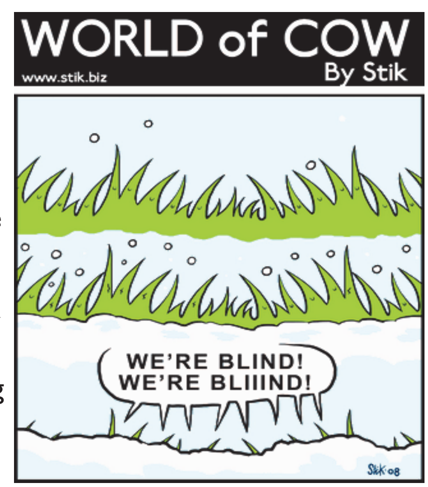
Frame size. The frame size within a given weight range will affect feeder cattle prices accordingly. Large and medium framed cattle are in more demand because of the weight potential of the finished product. Those cattle that are smaller in frame may be discounted, but this relationship may change if feed costs were to rapidly increase.
Breed & colour. Buyers tend to determine what type of animal they are going to buy based on breed and colour. Premiums and discounts for breed and colour is generally related to perceived differences in the performance of the animal on feed and the resulting carcass characteristics.
Carcass value. When determining the bottom line of raising cattle, the value of the finished carcass is the focus. When looking for cattle, buyers look for grade, dressing percentage and marbling potential. This is determined by breed and frame size.
Condition. This term refers to the amount of flesh that the animal is carrying. "Green" animals are carrying little flesh for its weight and frame size. Animals referred to as "heavy" or "fleshy" are considered to be carrying too much flesh and will generally be discounted. Condition also relates to the amount of fill or tag an animal is carrying, such as mud, manure or rumen fill.
Lot size. Animals that are sold in groups of ten or more usually will be bring a premium over those being marketed as small or single lots.
Unhealthy or stressed appearance. Any indication of sickness, such as runny eyes, will find the animal being discounted regardless of their weight or type. Stale or stressed cattle, no matter their weight or type, are discounted even when the supply is short and the markets are active.
Off type cattle. These types of animals are those with horns, are bulls or are improperly castrated (stags). They are discounted because feedlot performance is affected by their condition. Bulls lose gain after castration, staggy animals pose other issues and dehorning will result in a loss of gain time (due to time needed for recovery) and can be dangerous to the operator and other stock.
Weaning, preimmunization, preconditioning and backgrounding. The preference for these items will vary among buyers. They can be important tools that may be used to enhance marketing power, but sellers should be aware of what the market will be willing to pay in regards to premiums at the time and how much the initial cost may be.

Understand the Conditions of Sale

These are any costs, direct or indirect, that either improves or reduces the net return.
Shrinkage. This is the condition of sale that affects the bottom line the most. As cattle are handled, transported, sorted, stood or weighed, they will lose a percentage of their body weight. This results in a reduction in net return.
Commission. This condition of sale also directly decreases net returns. It is the direct cost for each animal sold. As the sale weight of the animal decreases, the cost of commission per pound increases. Commission will vary between markets and it may pay to negotiate this fee.



Freight. This can be negotiated in two ways: FOB (free on board) the farm or FOB the point of sale. FOB the farm finds the buyer paying the freight, whereas FOB the point of sale finds the owner of the livestock responsible for the freight. The freight of FOB the farm is still a direct cost, though it is not paid up front, it is built into the purchase price for the cattle.
Feed & Yardage. These charges may apply when cattle are fed on long journeys or overnight. Some markets also charge for sorting.
Brand Inspection Fees. All licensed livestock dealers deduct brand inspection fees.
Pricing Practices. These differ in the various types of sales. Animals can be purchased by the head, by the pound, or by the pound subject to a sliding scale. If the cattle are being purchased on a per head basis, it is important for the buyer to know the exact weight and market potential of those animals. If animals are sold by the pound, the point and time of sale are important factors. This is due to in the end, a producer ultimately wants to be paid for as many pounds as possible. When the cattle are sold on a sliding scale, this means that the price will be adjusted according to the net weight of the cattle.

Marketing Alternatives

Deciding what and when to sell are not the only issues cattle producers are faced with, but also HOW to sell. The following are a few examples of what methods are currently available to use when trying to sell cattle.

Direct Sales. This type of sales does not include a commission. The cattle are sold from the home farm to the buyer. There are several types of direct sales Farm gate sales find the livestock owner accepting bids for the cattle as they stand on the farm. The net return from a farm gate sale may be higher because there are no freight costs, commission or shrinkage. However, the owner must be prepared to commit the time required for market research, sorting and weighing the cattle, inviting the buyer and conducting the sale. Feedlot direct sales involve working with feedlot owners rather than with a selection of buyers. This marketing strategy can reduce costs for the owner based on not having to deal with a commission agent.

Commission Sales. These are conducted through auction markets. It is easy to use and requires minimal preparation on the part of the producer. The auction system accommodates all kinds of livestock and in any number. This can be very appealing to the smaller producer who may have numerous cattle types to sell.

Direct Sales with Commission. These types of sales combine the basics of a direct sale and commission sale. These sales can be conducted on farm or through a community pasture. They can also be done through an electronic auction, where a producer can receive bids on his animals without them actually having to leave the farm.

Forward Contracting. This is done by contracting cattle to any specified weight range by a predetermined date. A forward contract allows the producer to lock in a price. However a penalty will apply if the producer is unable to fulfill the specifics of the contract.

Satellite Video Auction. Cattle are videotaped in their natural environment and marketed through an auction system.

November Events

Marketing & Nutrition Workshops

Nov 29 @ **High Prairie, Elks Hall**

Nov 30 @ **Fairview, FAS 102 College**

10:30am to 4:00pm

Topics Include:

-What feedlots want to buy?

-Online marketing solutions

-Corn grazing producers perspective

-Winter feeding options

-Cowbytes ration balancing

Understanding Farm Taxes & Financials

Dec 13 @ **Valleyview** ***Dec 15 @*** **Grimshaw**

Dec 14 @ **Spirit River** **6:30pm to 9:30pm**

- Dealing with off-farm income
- Making the most of writing off/claiming items
- Agri-stability
- How to approach this year…...and much more!

RSVP to Morgan @ 780.835.6799

Environmental Farm Plan Workshop

Nov 25 @ **Debolt**

Ag & District Society Hall

10:30 am to 3:00 pm

- Complete a new plan or finish an old one!
- Growing forward funding still available

RSVP to Morgan @ 780.835.6799

Cropping $ Feeding

CAPTURING FEED GRAIN AND FORAGE OPPORTUNITIES CONFERENCE 2011:

"Feeding is a Changing Game"

Join us for this 5th Biennial Conference

At the STRATHMORE TRAVEL LODGE, AB

November 22 & 23, 2011

For more information:

- **call Chinook Applied Research Association**

1-403-664-3777

PCBFA Employment Opportunities

Project/Extension Coordinator

for the High Prairie office. Person must display a passion for agriculture, be self motivated, have an agriculture related Degree or Diploma. Position to start Jan 1, 2012 call Jaime 780-523-4033 or e-mail resume to Jborduzak@gprc.ab.ca

Cow-Calfenomics 2011: Managing the Opportunity

December 5 @ TEC Centre, Grande Prairie 9:30am - 3:30pm