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Changes in fed cattle marketing methods: survey results

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CHANGES IN FED CATTLE MARKETING METHODS: SURVEY RESULTS

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Summary

Significant changes in fed cattle marketing methods have occurred over time. This report summarizes a survey conducted to determine current and intended marketing practices of cattle feeders. Use of marketing agreements has increased over time. In 1996, 23% of cattle fed by survey respondents were sold under some type of marketing agreement. This increased to 52% in 2001 and was expected to increase to 65% by 2006. Use by cattle feeders of cash live and carcass weight pricing is expected to decline, and grid pricing is expected to increase substantially over time. The percentage of cattle that survey respondents marketed using cash markets declined from 82% in 1996 to 53% in 2001, and it is expected to be only 33% by 2006. Grid pricing increased from 16% of marketings in 1996 to 45% in 2001, and this is expected to reach 62% by 2006. Respondents indicated a strong desire to have grid base prices tied to boxed beef or retail markets, but a slightly less strong desire to have base prices negotiated.

Introduction

The fed cattle marketing environment has changed dramatically over the last decade. Increased use of various pricing methods, including value-based pricing, price grids, formula pricing, marketing agreements, and alliances, have displaced the once dominant ne-

gotiated cash live and dressed weight fed cattle trade. Recent evolution away from cash negotiated trade suggests a new center of fed cattle price discovery is probable.

Changes in fed cattle marketing methods and resulting impacts on price and other market information have recently brought numerous policy proposals to the forefront. Certainly, the change from voluntary to mandatory price reporting in fed cattle and wholesale boxed beef markets is one notable example of a policy change intended to address producer concerns about availability of reliable and representative price information and terms of trade. Recent proposals intended to prohibit various forms of beef processor ownership and control of fed cattle are examples of policy issues motivated by changes occurring in fed cattle markets.

To gain a better understanding of the nature of recent and expected changes occurring in fed cattle marketing and pricing methods, a survey of cattle feeders located in the southern plains and corn belt region was undertaken. The primary objectives summarized here were: 1) to determine the extent of recent and future expected changes in cattle feeder use of marketing agreements and alliances, 2) to quantify how cattle pricing methods are changing over time, and 3) to determine feedlot manager attitudes regarding fed cattle marketing and pricing issues.

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Experimental Procedures

To accomplish the objectives of this study, a survey was conducted in March 2002 of cattle feedlots located in Kansas, Iowa, Texas, and Nebraska. Overall, 1501 feedlots were surveyed, and 316 returned useable responses (21% response rate). Consistent with the types of feeding companies located in each respective state, smaller yards with less than 5,000 head annual marketings were mostly in Iowa (96% of Iowa respondents) followed by Nebraska (39% of Nebraska respondents). Kansas and Texas respondents tended to be more represented by feeding companies that marketed more than 5,000 head per year and several companies that marketed in excess of 100,000 head in 2001.

Results and Discussion

Survey results revealed substantial changes occurring in the way fed cattle are marketed. In 1996, marketing agreements and alliances were uncommon with only 25% of respondents indicating that they had marketed at least some cattle under a marketing agreement without an alliance, while 11% had marketed cattle under an alliance; a total of 30% had been involved in one or both types of marketing agreements (Figure 1). In 1996, the average percentage of each respondent's fed cattle that were marketed under an agreement without an alliance was 9% and with an alliance was 4%. However, larger operations were more likely to participate in marketing agreements, so 14% of total fed cattle were marketed in a marketing agreement and 8% in a marketing alliance in 1996. Both alliance and marketing agreement participation increased by 2001, with alliances increasing to 45% of respondents marketing at least some cattle in an alliance, which represented an estimated 27% of fed cattle marketed. Overall, marketing agreements in 2001 represented 52% of estimated cattle marketed by survey

respondents. Alliances and marketing agreements were expected to increase in 2006 to approximately 65% of fed cattle marketed by respondents (Figure 1).

Cattle feeders indicated that the most important reasons they were entering into marketing agreements was that such arrangements enabled them to acquire quality and yield grade premiums as well as obtain detailed carcass data. Detailed data are necessary to provide cattle feeders with important information to identify problem areas and make appropriate adjustments. For those that were involved in an agreement of some type in 2001, the third most important motive was securing a buyer for their cattle. The least important motive, especially for those in current agreements, was that the producer was pressured by a packer to enter into an arrangement. This suggests the decision to enter into an agreement is something producers make on their own volition.

The vast majority of survey respondents used the cash market for at least some of their fed-cattle marketings. However, the trend was clearly downward over time, declining from 97% of respondents using the cash market (live and/or carcass weight) in 1996 to 70% expected in 2006. The percentage of respondents using grid pricing for at least some of their fed-cattle marketings increased dramatically from 23% in 1996 to 88% in 2001; 88% also indicating they planned to market at least some fed cattle using grids in 2006.

The percentage of fed cattle marketed using various methods suggests increasing use of grid marketing and reduced use of live or carcass-weight pricing. In 1996, the average number of fed cattle that respondents marketed using live or carcass weight was 90%, which declined to 55% in 2001 and was expected to decline to only 36% by 2006. Use of grids increased from 8.1% of average re-

spondent cattle in 1996 to 44% in 2001 and to an expected 60% by 2006. Weighted by respondents' 2001 fed-cattle marketings, the percentage of cattle priced using grids increased from 16% in 1996 to 45% in 2001 and to 62% expected by 2006 (Figure 2).

Related to these changes in marketing practices, cattle feeders have also developed concerns about declining cash market trade and they hold a variety of opinions about how best to deal with these changes. Respondents generally agreed that base prices in grids should be tied to boxed beef or retail prices and somewhat agreed that negotiated base prices in grids are preferred to formula prices. Survey respondents also tended to agree that reduced trading in the cash market would be harmful to the beef industry. This is particularly interesting because cash trade appears likely to continue to decline in the future.

The question evoking the most polar responses from cattle feeders was whether beef packers should be banned from owning or feeding cattle. Feeders frequently responded with three scores of 1 (strongly disagree), 5 (neutral), or 9 (strongly agree). Overall, respondents tended to feel that packers should not be allowed to feed cattle. The most common response was a 9 (48% of respondents) and the second most common was a 5 (15% of respondents). Further, this issue had considerable regional diversity. Feeders located in Iowa agreed most strongly (average score of 7.7, with 60% giving a response of 9). In contrast, cattle feeders in Kansas and Texas were neutral with average scores of 5.4 and 5.2, respectively. However, Kansas and Texas producers were somewhat divided, with the most common responses by producers located in each state being 1, 5, and 9. There was a tendency for producer feelings regarding this issue to be related to feeding operation size. Larger cattle feeding operations were considerably more inclined on average to disagree

(though not unanimously as all feedlot size categories included responses ranging from 1 to 9) that packer feeding or ownership should be banned relative to smaller operations. Thus, the geographic dispersion in response appears related to operation size.

Respondents generally did not feel that packers should be prevented from contracting or forming marketing agreements with cattle feeders (average response 4.8). Similarly, respondents generally felt that packers should not be prevented from contracting or forming agreements with retailers (average response 4.2).

Results of this survey document the extent to which use of cash fed-cattle markets is expected to continue to decline over time. A dilemma presents itself because at the same time as cash fed-cattle markets are declining, survey respondents indicate concerns that reduced cash fed-cattle trade is harmful to the industry. It is not surprising, therefore, that respondents prefer to have base prices in grids tied to boxed beef or retail markets. Dwindling volume of cash trade may make this necessary. However, most grid base prices are tied to plant average or local cash market prices and respondents expect these to continue to be important sources of base prices in the future. As the cash fed-cattle market volume declines, concerns about how representative plant average and local cash-market prices may be is likely to increase. Cattle feeders and beef packers together need to find other sources of base prices than cash fed-cattle prices or plant averages. If they do not, momentum for policies attempting to force various marketing or pricing methods upon the industry are possible at some point in the future.

Respondents indicated that grid pricing and marketing agreements have enabled producers to obtain greater information regarding

carcass quality and yield grades and to secure associated premiums and discounts. Such pricing and marketing arrangements obviously are valued by the survey respondents or they would not indicate such large anticipated increases in future use. Such pricing methods

clearly benefit the industry by improving the flow of quality information from processors to producers. Therefore, it is imperative that policies do not inhibit value-based pricing and information-sharing networks, or much of the progress made to date could be jeopardized.

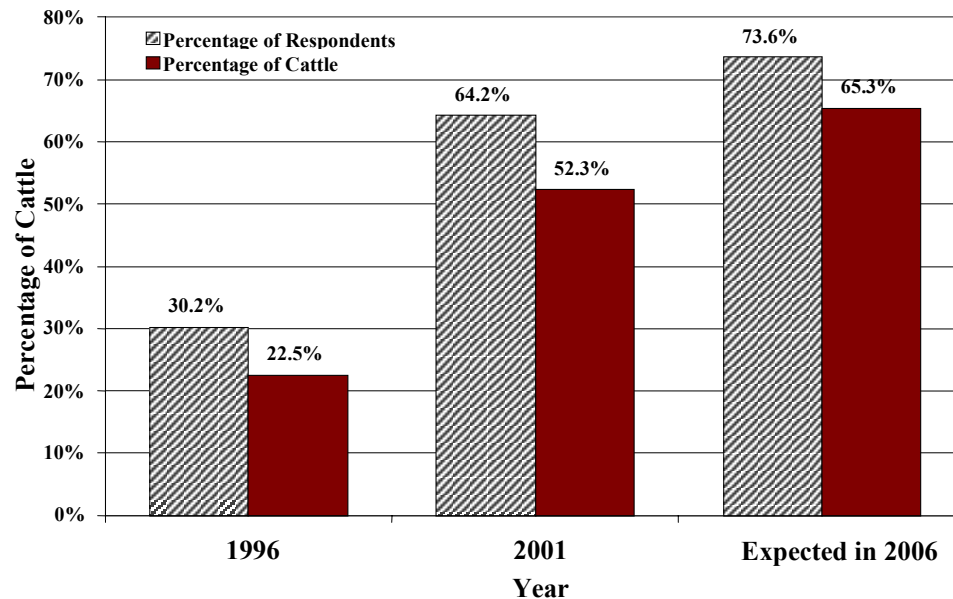


Figure 1. Percentage of Respondents and Estimated Weighted-Average Percentage of Cattle Marketed Under Marketing Agreements, by Year.

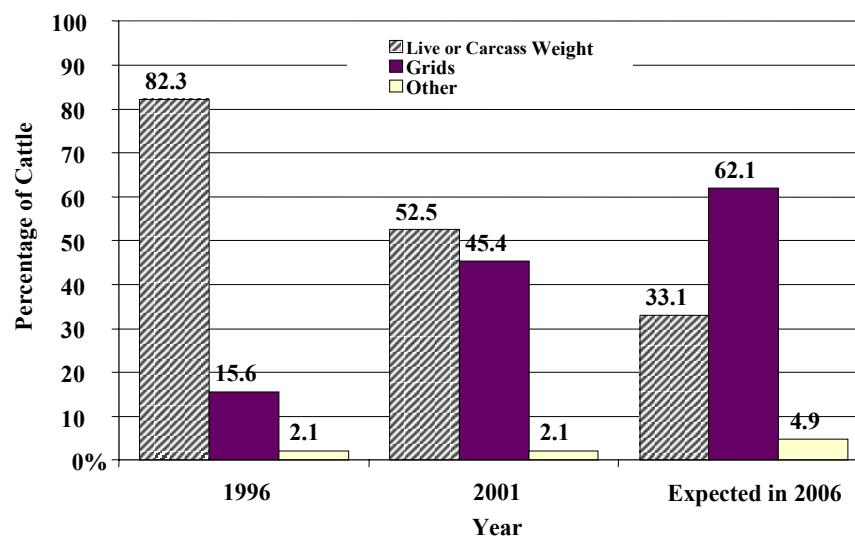


Figure 2. Weighted-Average Percentage of Respondents Fed Cattle Marketed Using Live or Carcass Weight, Grids, and Other Pricing Methods, by Year.