



Which Market Gives Me the Best Price for My Cattle? THINK ABOUT MARKETING COSTS AS WELL AS PRICE!

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Producing calves or yearlings takes so much effort that marketing efforts are often limited to just selling the easiest way possible after weaning or coming off pasture.

Producers seem to get into a marketing rut, and they frequently don't think about marketing alternatives until prices drop. When looking at other alternatives, offer price levels (what you or your neighbor were offered per hundredweight) tend to be what is considered first when thinking about whether an alternative gives the best price for your cattle.

Transportation, shrink, and commission fees comprise the greatest percentage, up to 80 or 90 percent, of marketing costs for livestock. Oftentimes when thinking about marketing alternatives, producers take these costs as given and don't think about differences in these costs across alternatives and how they affect the net price after all costs have been subtracted.

Marketing costs can reduce price per head by as much as 5 to 15 percent off the original offer price. So when considering marketing alternatives, also consider how these costs vary by alternative as well as offer price levels.

To illustrate, let's consider three cattle producers, each using a different marketing alternative based on actual marketing costs recently experienced by Wyoming cattle producers (the names of the producers and the alternatives have been changed for purposes of anonymity).

Longhaul Auction

Kaleb Cattleman sold his steer calves in October at Longhaul Auction. They averaged 550 pounds before he shipped them to auction, and he received \$174.69/cwt. Longhaul charges \$13.50/head for calves under 999 pounds for commission or market charges. Longhaul is 200 miles away from the ranch. Kaleb hired "We-Getem-There" livestock trucking, which charged \$3.50 per loaded mile. They were able to get about 85 head on each truck. Total time spent weighing, handling, and on the truck to auction was eight hours. The cattle re-



ceived feed and water at the auction before being sold and gained back excretory shrink incurred on the trip of about 2 percent of what they lost in terms of physical shrink.

Other costs include: brand inspection= \$1.50/head; health= \$0.30/head; predator board= \$1.00/head; Beef Checkoff= \$1.00/head insurance=\$0.76/head; yardage= \$2.50; and feed= \$2.56.

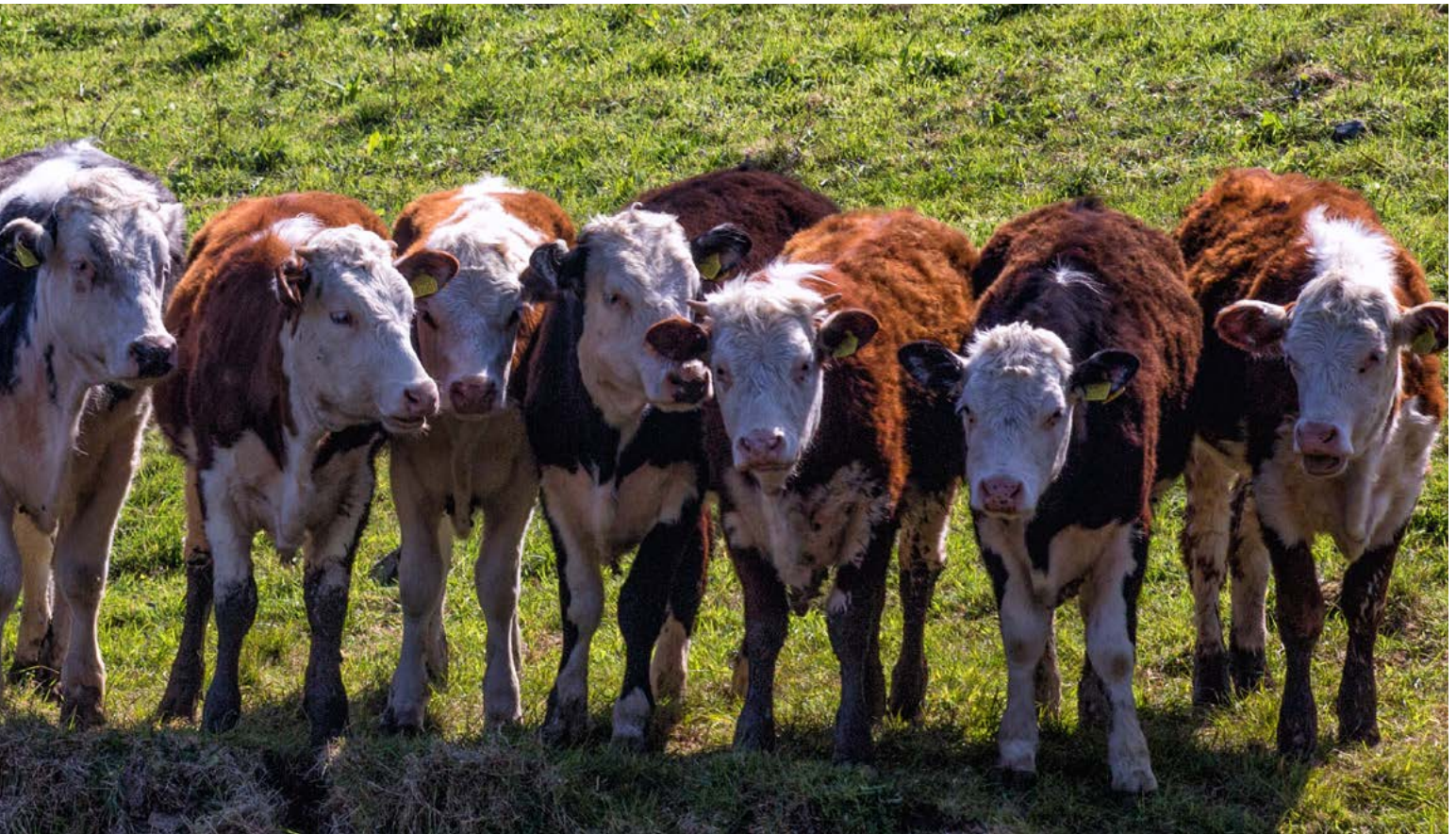
Video Auction – Alternative 1

Widow Lonesome sold her steer calves on the Wild West video auction for \$173.50/cwt in March for October delivery. The calves were contracted for an expected average weight of 525 pounds with a slide of \$0.15/cwt for every pound over an average weight of 540 (price will be discounted by this amount if cattle are over this weight). The cattle were weighed on certified scales and sold free on board (FOB) at the ranch. When trucks came to pick up the cattle, they averaged 542 pounds. The cattle were sold with a 3 percent pencil shrink. Other costs for this alternative included: filming fee= \$3/head; commission at delivery=\$10/head; brand inspection= \$1.50/head; health= \$0.30/head; predator board= \$1.00/head; Beef Checkoff= \$1.00/head.

Video Auction – Alternative 2

Rowdy Cowman sold his steer calves on the Western Excellence video auction for \$174.10/cwt. His calves were contracted for an expected average weight of 530 pounds with a slide of \$0.20/cwt for every pound over an average weight of 540. His cattle were weighed on certified scales and sold FOB at the ranch. When trucks came to pick up the cattle, they averaged 552 pounds. The cattle were sold with a 2 percent pencil shrink. Other costs for this alternative included: 2 percent of gross sales commission fee (\$3.00/hd taping fee is charged seller even if cattle no-saled); brand inspection= \$1.50/head; health= \$0.30/head; predator board= \$1.00/head; Beef Checkoff= \$1.00/head.

Who got the best price? If offer price alone, Kaleb Cattleman seemed to get the best price with Longhaul Auction. Is this still true when considering all the marketing costs and estimate a net price received? When thinking about the video auction alternatives, we don't have to pay transportation costs as cattle are sold FOB at the ranch (meaning the buyer assumes possession and liability once cattle are loaded), but shrink and commission charges are different than Longhaul Auction. Additionally, if the cattle are over the projected weight offered on the video when the buyer shows up months



later, you may face a price slide (price is discounted if they are over the agreed upon weight by a certain amount). All of these issues need to be considered.

Let's calculate the net price after marketing costs so we can decide which market offered the best price for the cattle. Table 1 shows gross revenue and marketing costs per head. Kaleb gets the lowest price per hundred-weight (\$162.87) after marketing costs. This is largely driven by the higher shrink and transportation costs as compared to the other two alternatives. After handling and trucking for eight hours, the estimated shrink is 5.5 percent according to research at Montana State University (Brownson, 1993). Because the cattle are on feed and water, they gain back the excretory shrink for a net of 3.5 percent lost in the marketing process.

The Western Excellence Video Auction yields Rowdy Cowman the best price at \$166.32/cwt. This is even after a slight deduction in price from the slide. Even though the commission is slightly higher compared to the Wild West Video, the cost associated with shrink is less. After all this is netted out, Western Excellence

Video is the best. In this case, Kaleb may be better off to consider Western Excellence given his distance from Longhaul Auction. Kaleb would have never known this if he hadn't calculated the net price after marketing. If he was within 50 miles and only handled the cattle for a couple of hours, Longhaul would garner Kaleb the best price at \$168.38/cwt. In that case, the shrink and transportation costs would be low and that, coupled with the higher offer price, makes this a better option compared to the two video auctions.

Remember to not only think about the offer prices but also marketing costs the next time you are thinking about marketing alternatives. You need to calculate the net price after all marketing costs to make a fair comparison. So brag about the offer price at the coffee shop, but don't forget the marketing costs and your net price after marketing when you talk to your banker!

An online tool is available to help in calculating your net price. The tool allows you to compare two marketing alternatives. The tool can be found on the Wyoming Ranch Tools website at uwyoextension.org/ranchtools.

Table 1. Revenue, costs, net revenue after marketing, and net price after marketing.

Category	Longhaul Auction	Western Excellence Video Auction	Wild West Video Auction
Price (\$/cwt)	\$174.69	\$173.90 (\$0.20/cwt slide invoked)	\$173.50
Average weight before shrink	550 lbs.	552 lbs.	542 lbs.
Gross Revenue/hd	\$960.80	\$959.93	\$940.37
Transportation cost			
(rate per loaded mile)	\$3.50		
(# of miles)	200		
(Rate * miles)	\$700		
(# of head/truck)	85		
(Cost/head)	\$8.24		
Shrink			
%	5.5% but gained 2% back – net 3.5%	2% (after shrink – cattle at 541 so slide invoked)	3% (after shrink, weight does not invoke slide)
Cost per head	\$33.63	\$19.20	\$28.21
Commission	\$13.50	\$18.82	\$10.00
Brand, Health, Fees	\$1.80	\$1.80	\$1.80
Insurance (\$/hd)	\$0.76		
Checkoff (\$/hd)	\$1.00	\$1.00	\$1.00
Feed (\$/hd)	\$2.56		
Taping fee/yardage/ other	\$2.50		\$3.00
Predator Board	\$1.00	\$1.00	\$1.00
\$ per head after marketing	\$895.81	\$918.11	\$895.36
\$ per CWT after marketing	\$162.87	\$166.32	\$165.20

References

Brownson, R.M. 1993. *Shrinkage in Beef Cattle*. Catteman's Library CL835

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