Backgrounding / Stocker Profitability Conference

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A huge thanks to the Agricultural Development Board for funding this program through the Kentucky Beef Network!
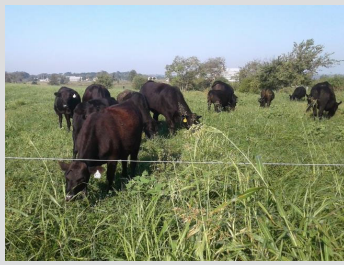

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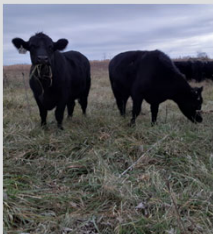## Key Marketing Concepts for Margin Operations

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Overview of Discussion

- The power of lot size
- Shrink – actual and pencil
- Price slides
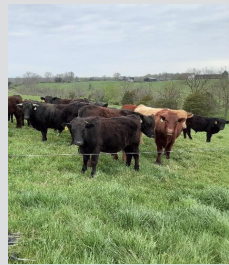- Importance of know the market and cattle weights

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Lot size

- Feeder cattle move in 50,000 lb lots
  - This is what a semi holds
- Buyers put cattle into load lots to be shipped west
  - Smaller groups must be grouped together
- Lots closest to 50,000 lbs usually bring the most

Lot size example

- Lot A
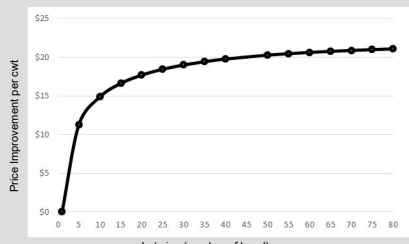 - 65 steers, average weight 750 lbs
  - 48,750 lbs total
- Lot B
  - 15 steers, average weight 750 lbs
  - 11,250 lbs total
- What does a buyer have to do if he / she buys lot B?

Lot Size Impacts
(Halich and Burdine, 2015)

- $21 per cwt - load vs single

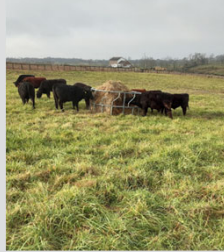- Nearly 75% of price benefit at 10 head

- Story is on lower left

Lot size (number of head)
Data: Bluegrass Stockyards CPH Sales 2005-2012

Use Lot Size to Your Advantage

- Smaller groups can be a good buy
- Value is added through grouping
- Commission savings can exceed 50%

Price Discovery – Market Valuation

- Easy to take for granted
- Auction markets / internet sales
- Private treaty sales – less common
  - Price discovery more of a challenge
- Futures market, AMS reports, KY Livestock and Grain Market Report
- Price can be based on negotiation or formula

Kentucky Livestock and Grain Market Report slide (KENTUCKY LIVESTOCK AND GRAIN MARKET REPORT, Volume No: 37 Issue No: 10 Released: 03/14/2022)

Weekly Kentucky Cattle and Grain Summary slide

Blue Grass auction market reports slide

AMS Livestock Market Reports

What is shrink?

- Shrink = weight loss during transport
- Cattle will weigh less after transport to sale / weigh location
  - Farm to stockyards, farm to certified scales
- This refers to "actual" shrink

What is a "pencil shrink"?

- Artificial weight reduction to account for transit weight loss
- Common when cattle are weighed on farm
  - 2% is common, more in unique situations
- Not typical if cattle are hauled and weighed on ground
- Commonly used in internet and private treaty sales
  - Will specify shrink and weighing process
- Much of this will be reflected in price

65 Head - 750 lb steers

- Buyer 1 – bids you $140 on farm weight (no shrink) and picks up
  - 750 @ $1.40 = $1,050 per head / $68,250 for load
- Buyer 2 – bids you $142 with 2% pencil shrink and picks up
  - 735 @ $1.42 = $1,043.70 per head / $67,840.50 for load
- Buyer 3 – bids you $146 – you haul 100 miles to weigh station
  - Ex: Cattle shrink 4% and it costs $4.50 per loaded mile for haul
  - 720 @ $1.46 = $1,051.00 per head / $68,328 for load, minus $450 for transportation = $67,878 net for load
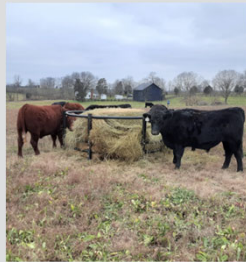
Dealing with Weight Uncertainties

- Weight often not known until sale
  - Private treaty, internet sales, forward contracts
- Price per lb heavily impacted by sale weight
  - Price per lb decreases as cattle get heavier
- Process needed to adjust price based on sale weight

What is a price slide?

- Price adjustment for weight differences
- Base weight and price established
- 750 lb base weight @ $146 per cwt
  - Price reduced for cattle delivered above base weight

Common Specifications

- Slide per cwt.
  - Adjustment to price per 100 lbs, ie: $4 per cwt or $0.04 cents per lb
- Up only
  - Price is only adjusted downward for heavier weights
- Slide increases after so many lbs
  - $.04 per lb on first 50 lbs, $.06 for over 50 lbs. as an example
  - retroactive

Video/Internet Sales
Sample Description

- 65 Mixed Heifers - 40% Black / 60% Charx- (4 tip horns)
- Base Weight 780 +/-100 lbs (slide up only .04 Cents)
- Bought Dec 2010 – Lutalyse 30 days later
- SelectVac Progam- dewormed Dec-Mar-June
- Hand fed 2 lbs of distillers with minerals every other day. Medium & large 1-2. Flesh is medium
- Gathered early 70 mile haul weighed on ground straight after all cattle arrive
- Delivery dates August 9th, 10th, or 12th

What if these cattle weigh 810 lbs?

- Assume sale for $140 per cwt with 780 lb base weight
  - 780 lbs @ $140 per cwt = $1,092
- However, their weight ends up being 810#
  - 30 lbs above the base weight
- Price is adjusted downward by $0.04 for every lb over
- 30 * $0.04 = $1.20 per cwt
- New price = $140 - $1.20 = $138.80
  - 810 lbs @ $138.80 per cwt = $1,124.28

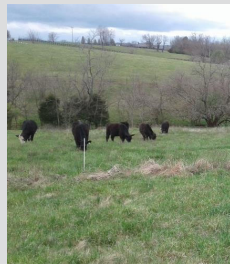### Do you want to avoid price slide discounts?

- Seldom large enough to see per head values drop
  - Often means cattle gained better than expected
- Usually slide is less severe than market discount
- "Fairest" slide matches markets discount for weight
  - Example: 700 lb steers @ $142, 750 lb steers @ $139, market discount is $6 per cwt for 100 lbs
  - No incentive to under (or over) estimate weight

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Pricing slide vs market slide

- Pricing slide = market slide – no incentive either way
- Pricing slide < market slide – incentive to underestimate weight and deliver heavier cattle
- Pricing slide > market slide – incentive for weight to match base weight
  - Or overestimate weight if slide works in both directions

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A Quick Example

- Cattle priced at $130 per cwt
  - 800 lb base weight and $4 per cwt slide
  - Market discount is $6 per cwt
- Cattle arrive at 850 lbs
  - 850 lbs @ $128 = $1,088
- Same cattle on market
  - 850 lbs @ $127 = $1,079.50
- Seller did better with the slide

Another Approach to Weight Uncertainty

- Seller offers 550 lb steer calves $1.35/lb
- $1.35 firm but lbs over 575 "free to buyer"
- Price is set at $1.35, but max weight is 575
- How would this work in practice?

Let's look at some actual weights…

- 550 lb x $1.35 = $743
- 575 lb x $1.35 = $776.25
- 600 lb, cost is still $776.25
  - About $1.29 per lb
- What is optimal weight for seller?

Importance of Knowing Weight

- When selling direct, know weight of cattle
- Estimating weights visually is challenging
- Pay weight and base weight - two different things

Over-guess Example

- Seller expects steers to weigh around 775
- Buyer looks and estimates steers to weigh 825 lbs
- 825 lb steers are selling for around $135
  - Buyer and seller agree on $135 with no price slide
- Steers end up weighing 750 lbs
- Who got the better deal?

Steer / heifer example – think calves

- Seller prices steer calves that weigh 550 lbs on average
  - Buyer and seller agree to price of $150 per cwt
- The buyer offers $135 for the heifers in the same cohort
- 550 lb steer / heifer differential is $15, so seller agrees
- Is this a good deal?

Final Thoughts…

- Use lot size to your advantage
  - Buying and selling
- Fully consider shrink
  - Transportation costs
- Understand price slides
  - Market and pricing
- Study the markets

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