

GROWING BEEF



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Marketing 101: Developing a plan

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Do you want to take more control over your operation's profits? A marketing plan is one tool no producer should be without during these tough economic times.

The first step in developing a marketing plan is to determine the cost of producing the cattle to be sold. Divide the total cost over the number of animals that will be sold to establish a breakeven benchmark. While the marketing objective may be to maximize selling price, it will help to know what is needed to keep the business profitable.

The second step is to assess the amount of risk tolerance of both the operation and the cattle owner. If the operation or the cattle owner is fearful of a downturn in the market before the cattle are sold some steps for risk management should be taken. Choosing the best method for marketing risk will depend on the size of the operation and number of marketing venues available.

While the simplest marketing plan may be to deliver cattle at the local cattle auction and take whatever the market will offer that day, it also makes the producer a "price taker" with little say in the price negotiation. Proactive marketers will not only follow the market trends well in advance of the expected sale time, but also take steps to add value to the cattle and establish price guarantees when the market reaches a perceived apex.

As a means of trying to ensure a price guarantee, forward pricing cattle can be done in a variety of methods, the simplest method being a forward contract. The point of forward pricing is not only to limit mar-

ket risk, but to also to strike when the iron is hot. If cattle prices are predicted to be higher when the cattle will be marketed, rather than waiting for that market price to come to you, try to establish some guarantee that price will still be there when the cattle are ready.

Forward contracts and futures market hedges will lock in a price and are the best protection from decline in the market. If only a price floor is desired with the opportunity to profit from a market upturn then purchasing a futures put option or feeder cattle price insurance from your insurance agent may be the best choice.

If you're hoping to lock in a higher market price in other ways, feeder cattle preconditioning and other value-added programs are worth understanding. Third-party preconditioning programs such as the Iowa green tag and gold tag programs have been shown to improve the price of cattle sold at auction. (A great resource: <http://www.iowabeefcenter.org/content/IBC30.pdf>)

If the cattle market is expected to improve after the calves are weaned a producer may consider retaining the calves and backgrounding them for a period of time. Evaluate the cost effectiveness of backgrounding by adding the cost of holding the calves to their market value at the initially intended time of sale. If this amount is less than the expected market value at a future time then backgrounding may be a viable option. If things don't add up to be profitable on paper, they probably won't in the real world.

To evaluate your operation's marketing and risk management techniques, check out the IBC Cattle Marketing Assessment Tool on page two.

2009 Fall Market Conditions

For the past three years there has been a decline in feeder cattle prices in the late summer and/or early fall. Feeder cattle prices are directly influenced by fed cattle prices, corn prices, and the supply of feeder cattle.

In the fall of 2006 and 2007 increases in corn prices had an immediate effect on feeder cattle prices. In late summer 2008 the downturn in the economy and fed cattle prices swamped feeder cattle prices again.

Forward pricing fall feeder cattle in those years likely resulted in a better net price than would have been received using strictly an auction.

Some good news in the cattle industry is as of the first week of July 2009 there are expectations of a healthy corn crop, and corn prices have dropped nearly \$1/bu in the past month.

If these lower corn prices remain into harvest time then feeder cattle prices should be more bullish into the fall. In addition, improvements in the general economy will likely improve consumer demand for beef and help raise prices.

To learn more about the current cattle market conditions, go to www.iowabeefcenter.org/content/economics_biz_currentmarkets.html.

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Cattle Marketing Assessment Tool

Feeder Cattle Marketing Assessment Tool

Cash Marketing

Action	Needs Improvement	Average	Doing well
Setting price objectives	Don't know cost of production	Determine breakeven before selling	Determine breakeven and profit objectives before selling
Where to sell	Sell at same location and do not consider options	Sell at different locations or to different buyers occasionally	Evaluate competing locations and buyers each time.
When to sell	Sell the same date each year	Sell when convenient but on multiple dates each year	Evaluate alternative marketing dates each year before selling.
What to sell	Produce and sell the same class of cattle each year.	Change dates each year depending on feed supply and market trends.	Evaluate different market dates and weights before making marketing decision.
Health and weaning	Sell them off the cow.	Vaccinate and wean 30 or more days then sell.	Evaluate weaning and vaccination decision each year well before weaning
Cattle preparation and presentation	Sell them off the cow	Wean 30 days or more	Background to add weight without getting too fleshy, bed cattle to clean up hair coat.
Promotion and advertising	Regular sale	Sell at special feeder calf sale	Contact buyers and promote cattle before they will sell.
Evaluate marketing program	Cash the check	Calculate average price and return per cow or cwt.	Evaluate what worked and what didn't, note what to change for next year.

Risk Management

Action	Needs Improvement	Average	Doing well
Knowing costs	Don't know costs	Calculate breakeven cost	Calculate price to cover variable costs, total costs and at least 2 profit objectives
Monitor markets	Check when time to sell	Listen to markets daily	Chart prices, read outlook and form own outlook projections and write them down
Marketing plan	Don't plan marketing	Have marketing dates and breakeven prices in mind.	Have written marketing plan with price/time objectives and actions spelled out.
Risk management tools	Don't understand futures, options and insurance	Have attended workshop and understand tools, but don't use	Regularly use marketing tools when appropriate to meet price or risk objective.

Fed Cattle Marketing Assessment Tool

Cash Marketing

Action	Needs Improvement	Average	Doing well
Setting price objectives	Don't know cost of production	Determine breakeven before selling	Determine breakeven and profit objectives before selling
Where to sell	Sell to the same buyer and do not consider options	Sell to different buyers occasionally	Evaluate competing locations and buyers each time
When to sell	Sell once a year and all cattle at once	Sell multiple dates each year when cattle are ready.	Evaluate marketing dates before cattle are purchased
What to sell	Produce and sell the same class of cattle each year	Adjust cattle types depending on feed supply and market trends	Evaluate different types, weights and outlook before buying feeder cattle
Health program	Buy what is cheap and treat the sick ones	Buy vaccinated and weaned	Discuss weaning and vaccination decision status with seller and adjust management to match cattle
Cattle preparation and presentation	No preparation	Call one buyer when cattle are market ready	Contact multiple buyers at least two weeks before marketing cattle
Representing cattle	No preparation	Buyer views cattle at the farm	Have database of cattle performance and carcass traits used in negotiations
Evaluate marketing program	Cash the check	Calculate average price and return per cow or cwt	Evaluate what worked and what didn't, note what to change for next year

Risk Management

Action	Needs Improvement	Average	Doing well
Knowing costs	Don't know costs	Calculate breakeven cost	Calculate price to cover variable costs, total costs and at least two profit objectives
Monitoring markets	Check when time to sell	Listen to markets daily	Chart prices, read outlook and form own outlook projections and write them down
Marketing plan	Don't plan marketing	Have marketing dates and breakeven prices in mind	Have written marketing plan with price/time objectives and actions spelled out
Risk management tools	Don't understand futures, options and insurance	Have attended workshop and understand tools, but don't use	Regularly use marketing tools when appropriate to meet price or risk objective

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