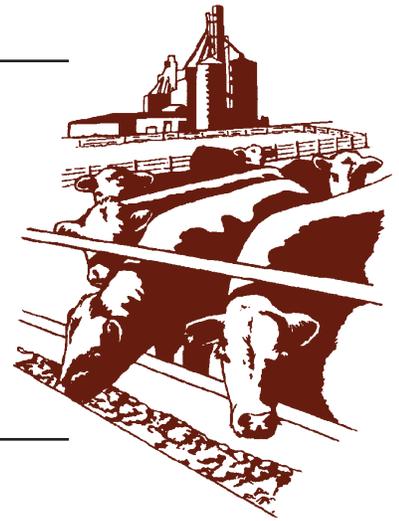


Beef Cattle Handbook



BCH-8460

Product of Extension Beef Cattle Resource Committee

Beef Marketing Technology (Electronic)

Charles H. Rust, Ag Economist, Montana State University
DeeVon Bailey, Ag Economist, Utah State University

Electronic marketing technologies have been tested that allow beef producers some added choices in method of sale. Electronic marketing tools provide added choices for timing of sale and/or price establishment.

Ranchers have always been faced with decisions about which marketing method to use (direct negotiation with buyers, auction selling, terminal markets, forward contracts, etc.), where to sell, when to sell, and in some cases, what form of product to sell (heavy weights, light weights, at what quality grade, what frame, etc.) These decisions must still be made, but in today's environment, effective capital management and selection of appropriate marketing strategies are key to the success of the ranching unit. The addition of various forms of electronic marketing adds another dimension to marketing strategies.

In addition to electronic marketing, producers have at least 12 other choices or combinations to choose from:

Beef Marketing Choices: (1)

1. Electronic Marketing: A variation of the auction system. An electronic device of some type, such as telephone, teletype, computer, or video technique to establish price and exchange of ownership.
2. Terminal Public Markets: The proportion of livestock sold through terminals has declined steadily over the last 30 years.
3. Auction Markets: There are about 1,600 auction markets in the United States.
4. Local Markets or Collection Points: These are more popular in the Midwest than in the West.
5. County Dealers: Independent operators who buy and sell cattle. The dealing is usually done at the ranch.
6. Packer Buyers: Buyers employed by the meat-packing companies. They usually buy directly from producers, most often in their own feedlot.
7. Packing Plants and Packer Buying Stations: Cattle are bought direct at the packing plant or at a station owned by the packer.
8. Order Buyers: Acts as an agent for other livestock buyers.
9. Special Auctions: Most often, feeder calf sales are held seasonally or on an infrequent basis.
10. Cooperative Shipping Associations: They are owned and operated by farmers and ranchers who assemble and ship to a terminal market or auction market.
11. Cooperative Selling Associations: Organized like the cooperative shipping association but perform more services by getting bids on livestock.
12. Country Commission Firm or Feedlot Marketing: Producers have a professional sales representative who negotiates terms of trade before the livestock leave the feedlot.
13. Bargaining Associations: Organized by producers to influence terms of trade—they have had the most use by the National Farmers Organization (NFO).

Electronic Marketing

What is Electronic Marketing?

A mechanism for marketing cattle by description with near-instantaneous communication between buyers and sellers, regardless of physical location of both people and cattle.(2) They have been developed to help pro-

ducers resolve some of the most common marketing problems.

Producer Marketing Problems:

- Lack of market information
- High transaction costs
- High transport costs
- Market prices don't always reflect true value
- Inability to reflect market changes
- Lack of competition among buyers
- Inability of sellers to access buyers
- Inability of buyers to access products

Characteristics of Electronic Trading:

- Market is organized by a set of rules
- Market is run by a centralized organization
- Trading is impersonal
- Product exposure is by description
- Shipment occurs after sale

Types of Electronic Markets:

- Telephone auctions
- Computer auctions
- Video auctions

Benefits of Electronic Marketing:

- Improved market information
- Increased marketing efficiency
- Greater pricing efficiency
- Increased competition
- Improved market access

Concerns With Electronic Marketing:

- Standardized terms, grades, descriptions
- Lack of personal interchange
- Cost effectiveness
- Participation

Requirements for Successful Electronic Marketing:

- Acceptance by all participants
- Adequate buyers and sellers
- Adequate volume
- Set of rules
- Description of items and procedures

Seller Advantages:

- Cattle handled less
- Cattle remain on ranch until sold
- More buyers
- Seller decides when to deliver
- Sale price known before delivery
- Lower transport costs
- Seller can no-sale
- Buyer performance guaranteed
- Less time required to market

Buyer Advantages:

- Seller performance guaranteed
- Cattle handled less

- Less time and travel to see cattle
- Cattle exposed to less disease
- Large (truckload) lots
- Able to arrange convenient delivery
- Lower trucking costs
- Favorable shrink
- Lower prices
- Less competition

Seller Disadvantages:

- Discounts are incurred for less than a full truckload
- Length of time between video and sale (when video sale is used)
- Higher commission charges
- Frequency of sales (once per month), make less liquidity for video auctions than for local auctions

Buyer Disadvantages:

- No-sale policy
- Video auction slower than live auction
- Sellers set delivery to minimize weight loss
- Sellers provide only an estimated average-delivery weight and a slide. This slide may or may not provide correct discounts for excess weight.

How Electronic Markets Work

Most electronic marketing uses telephones, television, computers, or a combination for transmitting information to buyers and sellers.

Tele-Auction:

This method involves:

1. Circulating a written description of the cattle offered for sale to potential buyers, including weighing and delivery terms.
2. Setting up a conference phone call connecting potential buyers and an auctioneer.
3. Offering each lot for sale successively by the auctioneer, with competitive bidding by the buyers who are identified by number.

A lot is sold when no higher bid is received, unless the seller's minimum price is not reached, in which case a "no sale" results. The sale is over when all consignments have been offered.(3)

Video Auction:

This method entails producing a videotape of the animals being sold. Then, after buyers have received written descriptions, the auction is held. The sale is conducted with buyers assembled in a room looking at TV monitors and/or the sale is beamed by satellite to other buyers who bid by telephone.

Computer Auction:

Computer auctions replace the conference telephone call and auctioneer with electronic computers. Again, cattle are described before the sale with the descriptions transmitted by computer. The sale is conducted with the com-

puter identifying the lot being offered by number. An offering price is typed by a printer or displayed on a TV (video) monitor. This offering price may drop for cattle, for example, by 50 cents per cwt. every 20 seconds until a buyer activates the bid key on his computer terminal. He then has the bid. If another buyer wishes to raise the bid, he pushes his bid key (cattle bids are usually made in increments of 25 cents per cwt.). When a higher bid is not entered within the 20-second interval, the lot is declared sold, unless a seller-set minimum price has not been reached. The computer records the identity of the buyer and informs him of the specifics of his purchase. Buyers are not identified to other bidders. (The numbers—price and time intervals—cited here are for illustration only. The system can be set up to use any price and time intervals.)

The Electronic Auction Market (TEAM) from Calgary Stockyards has been selling cattle for four years and numbers have increased each year.⁽⁴⁾

The way the system works, the cattle are put on the auction bid program. The cattle come up on the computer screen complete with description and asking price. The price drops a dollar/cwt. every 5 seconds until there is a bid. On the feeder sale, the price goes back up in quarters and buyers have 20 seconds to bid. The price keeps going up in quarters until the 20 second time limit has elapsed.

At that time, TEAM is on the phone with the producer, who has to make a decision very quickly about whether or not they can be sold. He has a minute or two to make up his mind. Consignors of the first 5 lots have the option of passing their cattle if they don't like the price being offered, and putting them back in the sale later.

Video Auction Impacts and Opportunities

The most recent evaluation of a video cattle auction was done by Bailey et al., from Utah State University. They analyzed the impact of market prices by the largest video cattle auction on producers and traditional auctions. The video auction estimated video sales in 1990 of 850,000 to 1 million head of cattle.⁽⁵⁾

Detailed Description of Video Cattle Auction:

For illustrative purposes, this section will use the Superior Livestock Auction. This does not endorse the auction, but uses it as an example of how a video auction works and its requirements. These will vary some among auctions. Video auction cattle presentations consist of one of two components—the video or a visual component. A \$2.00/head videotaping fee is included in the sale commission, unless the seller rejects the bid. In that case the seller forfeits the taping fee. The taping is done by one of Superior Livestock Auction's (SLA) regional representatives. Thus, the integrity of the video auction is heavily dependent on the integrity of its regional representatives. Sales catalog descriptions are prepared by the video auction company and the seller when the cattle are videotaped.

Videotapes of about two minutes duration are shown while an auctioneer solicits bids. Buyers must register in advance of the sale and undergo a credit check in order to participate. Buyers may bid either in person or by telephone from any location where the satellite transmission can be received.

The video auction representative oversees delivery. Completed sales become cash-forward contracts since all cattle are sold for future delivery. Although the video auction representative is responsible for ensuring contract compliance by both buyer and seller, buyers are permitted to be present at delivery.

Each video auction has its own set of terms. The following information on how to become a buyer and the terms and conditions are condensed from the *Catalog of Superior Livestock Auction*, Brush, Colorado. A buyer must register with the auction prior to the sale, and be issued a buyer's number. Only qualified, pre-registered buyers with issued numbers are allowed to bid in the sale ring.

Terms and Conditions of the Sale:

1. Each bidder must be properly registered and have a buyer's number to bid.
2. If any dispute arises between two or more bidders, the decision of the auctioneer is final.
3. The auctioneer reserves the right to reject any and all bids.
4. The record of sale kept by the auctioneer and clerk will be taken as final in the even of any dispute.
5. All purchases require a per head partial payment, due and payable at the conclusion of the auction. The amount can vary, but Superior requires \$40.00 per head. Those buyers using a satellite connection to purchase livestock will be required to wire transfer funds the following business day.
6. Acceptable payment is made by: a check or wire transfer of funds only. Any and all payments are made to the Livestock Auction Custodial Account.
7. All cattle are sold on a sliding scale. Example: Yearlings - Base Weight 700lbs. (ave.) @ \$70.00. Cattle can weigh up to 710lbs. (ave.) at same sale price. If cattle weigh 720lbs. (ave.), price will be \$69.60; 730 lbs., \$69.20, etc.
8. All cattle are weighed on certified scales. Any cuts made on cattle that are weighed on the ground will be made after the cattle are weighed. All cattle sell FOB the ranch, unless otherwise stated.
9. Any heifers that are guaranteed open, are pregnancy checked open, prior to delivery at the seller's expense. They will be accompanied by a certificate from a licensed veterinarian.
10. Cows and heifers that are guaranteed bred and/or with a negative Bangs test, will be pregnancy checked and blood tested prior to delivery. The buyer accepts cattle with a certificate from a licensed veterinarian. Buyer will be notified prior to testing and may be present at his option.

11. The Auction reserves the right to sign the Livestock Contract on behalf of any buyer that is not present at the auction.
12. Every effort is made to assure the correctness of the catalog, but all announcements from the auction block take precedence over previously printed matter.
13. Bangs vaccination of heifer calves (if required) will be done at the seller's expense, unless otherwise stated.

Summary

We have reviewed the advantages and disadvantages of different electronic marketing methods. At this time, there does not appear to be a clear "dollars and cents" advantage to one method over the other. Rather, it will more likely depend upon your location, availability of different marketing methods, conditions of sale, and your level of satisfaction with your existing marketing method (i.e. shrink - actual, or pencil.)

The telephone has proven to be effective and computerized marketing will likely enjoy some growth. Video marketing has some appeal and will likely continue to grow slowly. It is dependent on the written descriptions and terms. For electronic marketing success, both seller and buyer must understand the terms. Producers who have reputation cattle will likely continue to enjoy the privilege of buyers seeking their feeder cattle direct on the ranch. As with all marketing decisions, the producer needs to determine which best suits his/her individual situation, and will provide the greatest return.

Research to determine if buyers/sellers could expect to pay/receive different prices at regional and video auctions was recently completed at Utah State University by DeeVon Bailey(6). "Transaction costs (trucking, shrink, and commissions) made the biggest difference in which type of auction was more favorable to individual buyers/sellers. On average, however, the video auction did bring higher prices."

Prices were analyzed at three major regional auctions: Oklahoma City, OK; Greeley, CO; and Dodge City, KS. Comparisons were made with prices at the largest satellite video auction—the Superior Livestock Auction in Brush, CO.

The study compared prices for 600 to 800-pound steers sold at the video auction during 1987, with the prices those cattle might have gotten if they had been shipped to one of the regional auctions. The study included only those cattle from within the regional mar-

ket's service area (300 to 400 miles).

The USU research found the "raw" regional auction prices were slightly higher than the video auction prices. When adjusted for trucking, shrink, and commission costs, however, sellers' video auction prices averaged \$0.95, \$3.25, and \$1.48 per cwt. higher than the Oklahoma City, Greeley, and Dodge City auctions' prices, respectively. Buyers paid an average \$0.66, \$2.41, and \$1.69 per cwt. more at the video auction than at the Oklahoma City, Greeley, and Dodge City auctions. Comparable data is not available for comparisons to country buying and direct sales.

Looked at another way, the average total transaction costs to buy and sell cattle at the regional auctions were about 10 percent of the regional auctions' unadjusted price. Video auction transaction costs were only about 8.5 percent of the cattle's value.

Obviously, these results suggest that due to reduced transaction costs, buyers and sellers can pay and receive higher prices at a video auction.

How smaller local auctions will be affected by video auction isn't clear. Local auctions may, in fact, feel little impact as the sales volumes of video auctions increase. Nor is it clear what the impact of computerized auctions will have on local auctions. The Alberta and British Columbia producers are continuing to use the computer. TEAM reports a steady growth, and perhaps future data will help answer this question.

References

1. Futrell, Gene and Robert Wisner. *Marketing for Farmers* Doane Information Services, 11701 Borman Drive, St. Louis, Missouri 63146.
2. *Marketing of Agricultural Products*, WEMC, MSU/ES.
3. Marousek, Gerald and Edward Duren. *Electronic Marketing* CIS no. 715, Cooperative Extension Service, University of Idaho.
4. *Cattleman* August 1990, and telephone conversation with TEAM staff.
5. *Beef* September 1990.
6. *Western Livestock Round-up* August 1990.

Authors:

Charles H. Rust, Ag Economist, Montana State University
DeeVon Bailey, Ag Economist, Utah State University

This publication was prepared in cooperation with the Extension Beef Cattle Resource Committee and its member states and produced in an electronic format by the University of Wisconsin-Extension, Cooperative Extension. Issued in furtherance of Cooperative Extension work, ACTS of May 8 and June 30, 1914.