

example below of a farrow-to-finish operation setting price objectives for its June marketings.

can lead to a price discount that lowers your net returns. For example, sort discounts on hogs may

easily cost more than they return if they require extra marketing trips or labor that is better used elsewhere in the operation.

Finally, because the future is unknown, marketing decisions are based on expectations. While the exact price that will occur next period is unknown, it does not mean that no decision can be

Example 1. Price objectives for farrow-to-finish operation.

Objective	Price	Action
1) Cover direct cash cost	\$35	Buy Put to cover all production if futures fall below \$40.
2) Cover total economic cost	\$39	Hedge or buy put on half of production if futures fall below \$42
3) Return \$4/cwt. over total cost	\$43	Hedge 25% of production, add 25% for each \$2 increase
4) Return \$8/cwt. over total cost	\$47	Hedge 75% of production

This producer identified different price objectives that were important to the operation and what action would be taken at each objective. The producer has also intuitively placed a risk weighting to each objective by taking full protection at prices below \$40, taken reasonable profits on 75 percent of production if offered, but left himself somewhat open in the middle of the price range. Each producer's objectives will differ depending on his cost of production, financial and cash flow needs, and his ability and/or willingness to bear risk.

The first step to develop a marketing plan is to evaluate the current situation. Get the facts on cost of production and animal quality. Determine how your marketing skills compare with some standard. Next, what will it take to achieve a more profitable market price? Do you need to change markets, what you produce, how you sell, or when you deliver?

Second, realize that higher prices do not necessarily mean higher profits. An additional \$1/cwt. is no advantage if it cost \$1.50/cwt. to get it. With livestock, in particular, additional weight and/or finish

made. History can provide producers with useful information about the probability of a given outcome occurring at some future date. In addition, professional market analysis, both at universities and from private firms, can provide producers with projections about the future.

Where to sell

One of the most important marketing decisions a livestock producer makes is where to sell. The first choice is to determine what type of market best fits his/her needs. Several types exist: terminal markets, selling directly to the packer or a packer buying station, auction markets, livestock dealers, special sales (feeder cattle, bred cows, bred gilts), electronic markets (including satellite auctions and video sales), and marketing cooperatives. Each market has unique features that may or may not fit the farmer's production and marketing plans.

Producers seldom have only one market for their livestock. Creative thinking and cooperation with other producers can often gain access to markets that are typically not considered by the individual. However, if only one market does exist, producers should concentrate on the remaining factors, including when and how to market.

There are six primary factors to consider when choosing where to sell livestock:

1. Transportation cost as affected by the distance from the market.
2. An unseen, but very important cost, is market shrink. There are two types of shrink. The first is fill shrink. It can't be avoided and occurs mostly during sorting, loading, and in the first few miles of the haul. The second is tissue shrink that occurs after the animals are off water 12 to 14 hours. This suggests that it may be better to sell on a carcass basis compared to live weight at a distanced market because the carcass weight is not affected by the long haul.
3. For cattle, pencil shrink is a stated percentage reduction in the animal's pay weight. Typically, pencil shrink is used to adjust the weight at a scale near the feedlot to reflect the weight of the livestock had they been weighed at the plant. If properly used, pencil shrink corrects for weight loss during shipping and allows for a more accurate price comparison.
4. It is important to determine whether the seller can effectively negotiate a fair market price for his livestock. The buyer is a professional that is in the market every day and makes his living by buying livestock. A seller may benefit from selling at a terminal or auction market that attracts a large number of buyers in one location. Likewise, the seller may benefit from marketing services offered by professional marketing firms because they are too in the market every day. The following questions can be used to determine whether a farmer can benefit from a marketing service:
 - Are there several buyers within a reasonable distance of the farm?
 - Are you knowledgeable of the factors that determine price?
 - Are you willing to devote time to the study of market factors and to the bargaining process?
 - Can you accurately estimate grade, weight, and dressing percentage, or are you willing to learn these skills?
 - Do you have the temperament and skills needed for bargaining?
 - Are you willing to live with your marketing decisions?
 - Do you recognize that buyers are not doing you a favor in buying your livestock and that it is in their best interest to buy them as cheaply as possible?
5. Marketing fees charged by terminal, auction markets, and professional marketing firms for their services must also be considered when choosing a market.
6. Sorting is important because buyers react to the uniform lots. In addition, if there are two different types or weights of animals in the pen, a farmer may benefit from sorting and selling to two different markets. The benefits of sorting must be weighed against the cost of sorting. Extra equipment and time may be required and the value of that time will be determined by its next use. For example, time is more valuable at spring planting than it is in August.

The worksheet is a quick and simple tool that can be used to compare alternative marketing locations. Compare markets based on the net farm price.

tive for livestock producers and is quickly becoming the standard for hogs. Like carcass selling, the farmer is paid on the carcass weight of the animal.

Worksheet 1. Comparing bid prices.

Buyer		A \$/ cwt		B \$/ cwt
(A) Bid price	-	_____	-	_____
(B) Grade and weight adjustments	+	_____	+	_____
(C) Transportation cost	-	_____	-	_____
(D) Shrink (% * bid price)	-	_____	-	_____
(E) Marketing costs	-	_____	-	_____
(F) Net farm price	=	_____	=	_____

However, instead of being paid the average price for the entire lot, each carcass is evaluated separately and a price is paid that reflects its actual value. One must realize, however, that only above average animals will receive a premium; below average animals will be paid below average price. Thus, the farmer must have some knowledge of how the livestock will look on the rail. Cattle and hog buying systems have important differences that should be highlighted.

How to sell

Another important question that must be answered is how to sell the livestock, live weight, carcass weight, or grade and yield. Live weight selling is the most common and is simple. The animals are weighed and the producer is paid an average price per pound for the entire lot. However, factors such as shrink, and mud on the hides of cattle affect the net price that the farmer receives.

Selling based on hot carcass weight eliminates the impact of fill shrink and mud. It is similar to selling live weight in that an average price for all the carcasses. To compare a carcass bid to a live bid, simply divide the live bid by the expected dressing percentage. For example, a \$75 live bid is equivalent to a \$120.97 carcass price if the cattle dress 62 percent. The disadvantage to this method is that the seller must trust the packer to weigh the carcass and pay the appropriate price.

Selling grade and yield is another marketing alterna-

Cattle sold by grade and yield are priced according to USDA standards and are evaluated by a grader employed by the USDA. The carcass is given a quality grade (choice, select, etc.) and a yield grade (1, 2, 3, 4, 5) and the farmer is paid the price agreed upon before slaughter for each category of carcasses. For example, Choice, yield grade 2-3, 550-850 pound carcasses are priced at \$121 with a \$20 discount for yield 4, a \$4.50 discount for select, and a \$10 discount for heavy or light carcasses. The advantage to this method is the value based pricing system. The producer is paid what the carcass is worth. In addition, the feeder may receive the cut out information that can be used to make future feeder cattle or seed stock buying decisions. The disadvantage is that the seller must trust the weight and grade of the USDA grader.

Hogs are sold on grade and carcass weight, not grade and yield. What is more important, however, is that instead of USDA standard grades and graders, each packer has his own grading system and the grader is an employee of the packer. Therefore, the integrity of the packer becomes even more important. Also, it

is more difficult to compare bids and pricing systems between packers. The advantage to this diversity in systems is that producers may be able to match their hogs with a packer that needs that type of hogs. But farmers must experiment to find the packer that pays the highest net carcass price for the type of hogs he/she has to sell. Packer buying systems are complicated and often difficult to compare. The producer may want to compare a sample load of hogs under each packer's system to make comparisons on his hogs. Producers should also keep marketing records to have a representative sample of their hogs rather than only one load.

When to sell

A third key decision facing livestock producers is when to sell. Although livestock selling decision is more limited than storable crop selling decision, timing of the sale is still crucial. Livestock can be categorized as a growing inventory. If they are not sold today, there is a cost associated with holding them until tomorrow. In addition, the cost of gain increases at an increasing rate as the animals get larger. Also to be considered is that over finished or overweight animals are discounted when sold. Information on determining the best time to sell is given in file **B2-54**.

Seasonal price patterns for livestock affect the selling decision. These patterns provide decision makers with some insight as to future price changes. While there is no guarantee that this year's price will behave as historic prices, the probabilities generated by historic price patterns are still helpful. Likewise, price discounts also follow a seasonal pattern. Information on seasonal price patterns is available in files **B2-14** and **B2-19**. Finally, farmers may want to consider separating pricing from delivery. By using forward contracts, futures markets or options markets, it is possible to make the pricing decision any time before delivery to take advantage of favorable prices when they arise. Information on using forward contracting, hedging, and the options market is in files **B2-50**, **B2-51**, **B2-52**, **B2-53**, and **B2-54**.

More precise delivery decisions are often more difficult to make and many times less important to the pricing decisions. The appropriate time of day to sell is nearly impossible to determine. It may be more important to consider when it is convenient to load the animals and how to reduce handling stress on the animals as it affects shrink. Also take into account weighing conditions when deciding when to deliver.

The day of week is also difficult to determine. Traditionally, early in the week is more active, with Monday and Friday having the highest prices. Although Friday has a high average price, it is the most volatile. In general, if the market is rising, sell later in the week. If the market is falling, sell earlier in the week.

Summary

A marketing plan should represent a road map to the producer with a clearly marked route to follow to reach the desired destination. As with any route, unforeseen detours may arise. While the plan should be flexible enough to take advantage of market opportunities and avoid unacceptable risk, the manager needs to keep the original goal in mind. A written marketing plan is a resource to which one can quickly refer to help make informed marketing decisions in the heat of battle, such as a sharp break in livestock futures prices during planting or harvest time. Operating without a plan may cause the producer to make a hasty decision he/she will later regret, or to miss an opportunity that may not return.