

Adding Value Through Cooperative Feeder Cattle Marketing

*Andrew P. Griffith, Associate Professor and Extension Economist
Kevin W. Ferguson, Extension Area Specialist
Department of Agricultural and Resource Economics*



Introduction

Marketing is a part of every cattle operation that participates in the sale of an animal to generate income. Feeder cattle are the most widely marketed animals and have traditionally and most commonly been marketed using private treaty and weekly auction markets. These two marketing methods are favored by many cattle producers because they are convenient and have relatively low marketing costs. Other marketing methods available to producers include graded feeder sales, marketing alliances (cooperative marketing), video sales and internet sales.

The focus of this publication is educating cattle producers concerning cooperative marketing of feeder cattle. Our purpose is to 1) define cooperative marketing for feeder cattle and discuss factors to consider when establishing a cooperative marketing effort and the different forms it may take; 2) outline the benefits and potential challenges of cooperatively marketing feeder cattle; and 3) quantify the added value cooperative marketing generates utilizing sale results from the Tennessee Beef Alliance, an established feeder cattle marketing alliance in Middle Tennessee.

What is cooperative marketing for feeder cattle, and why should it be considered?

Cooperative marketing, also termed marketing alliance, is where two or more entities agree to combine marketing efforts to achieve a common goal. In the case of feeder cattle, cooperative marketing is where two or more cattle producers agree to follow similar production practices (i.e., breeding seasons, genetics, health program, etc.) to make larger groups of uniform cattle (i.e., weight, sex, breed). Making larger groups of uniform cattle is an objective of cooperative marketing because research has found larger, more uniform groups generally receive a higher price than smaller and less uniform groups of cattle (Shulz et al., 2010; Burdine, 2011).

Based on the 2012 Census of Agriculture, the national average herd size for beef cows was 40 cows, with nearly 82 percent of beef cow farms maintaining less than 50 cows. Thus, most of these cattle producers have less than 40 calves to market each year. The small number of head makes it difficult to sell large groups of same sex and similar weight cattle that generally maximize feeder cattle prices. Due to this production structure and known marketing characteristics, many feeder cattle producers have an economic incentive to participate in cooperative marketing.

What does cooperative marketing look like, and what factors need to be considered?

Cooperative marketing can take on a couple of different forms in that it can be an informal agreement between as few as two producers who agree to perform production and marketing practices in specific ways. Alternatively, it can take a more formal approach where producers develop production and marketing rules and regulations that must be followed to participate in the marketing opportunities. It may be advisable for all cooperative marketing systems to have key elements of the agreement in writing to address individual producers' decisions that may negatively influence the other members. An example for feeder cattle may be requiring a shot of prostaglandin in heifers to reduce the incidence of bred heifers being marketed. If a buyer finds bred animals in a group of feedlot heifers, they may want to be compensated for the bred animals.

In a cooperative marketing scenario where many producers participate, it is a good practice to establish rules and regulations to govern the group and to protect the reputation and integrity of the effort. The first step of developing rules and regulations is to establish the goals and/or objectives of the participating producers. The second step is to develop the rules and regulations that will help the participating producers achieve the stated goals and objectives. If the cooperative marketing effort includes many producers, it may be beneficial to establish a committee or board of directors to develop rules and regulations. If the group is relatively small, then a committee or board of directors may not be necessary. Third, participating members should follow all rules and regulations to build and protect the reputation of the group. Lastly, participating producers should evaluate and introduce opportunities that may improve the experience of current and future members (Bailey, n.d.).

When utilizing a cooperative marketing effort, additional costs may be incurred such as transportation costs, sale management costs and labor. These additional costs are generally paid by the participants. In instances when a marketing agency provides the marketing services, the producer pays a commission to the marketing agency to cover the costs. In situations where producers are utilizing their own resources, the participating producers must determine an equitable way to allocate marketing costs.

Objectives and rules of a Tennessee alliance

The Giles County Beef Marketing Alliance is an example of a well-established and effective marketing cooperative in Middle Tennessee (the region between the Tennessee River and the Cumberland Plateau). Starting with a few producers, it has expanded into what is now called the Tennessee Beef Alliance, with 155 producers from 27 Tennessee counties and four Alabama counties participating in 2017. This alliance has traditionally used Tennessee Livestock Producers Inc., livestock marketing arm of Tennessee Farm Bureau, as its marketing agency to pool, sort, represent and market feeder cattle via video auction. Participating producers decided to utilize a livestock marketing agency in order to mitigate payment failure risk, because the marketing agencies are bonded and can ensure a quick payment for the cattle sold. Official USDA feeder cattle grading is provided by livestock

specialists from the Tennessee Department of Agriculture to aid in pooling and sorting cattle.

This particular effort has evolved over the years. However, in the early stages of the development of the alliance, members of the marketing alliance established seven objectives:

1. Improve the value of calves produced by the members;
2. Educate members of proper herd health management;
3. Provide a means of communication among area producers;
4. Help members improve herd genetics and cattle quality;
5. Help members establish and maintain herd records;
6. Provide members a channel through which to market cattle; and
7. Aid in the reduction of the expense of supplies by purchasing as a group in large quantities.

From these objectives, the marketing alliance developed a recommendation for the health protocol administered to breeding females, as well as requirements for herd sire selection and a uniform health and management program for calves marketed through the alliance.

The general recommendations for cows producing calves to be entered into the marketing alliance sale include:

1. Cows should be vaccinated annually for respiratory diseases and Leptospirosis and Vibrio;
2. Fly control should be used;
3. A maximum of a 90-day breeding season; and
4. Treat cows for internal and external parasites.

The requirements for sires used by alliance members include:

1. Breeding the cow herd to sires that meet expected progeny difference (EPD) values established by Tennessee Livestock Producers Inc., Producer Genetics Division. A sire breed requirement was also established;
2. Recommended vaccination program is the same as the cows; and
3. Recommended breeding seasons to produce calves with size uniformity for a specific sale date.

The requirements for calves marketed through the alliance were established to improve the desirability of the calves, as follows:

1. All calves must meet or exceed minimum standards set by the alliance;
2. All bull calves must be castrated with a knife and healed, but banding is allowed for the first 14 days;
3. Dehorned and healed;
4. Heifer calves must be open;
5. Calves must be double vaccinated for clostridials (commonly referred to as blackleg) and respiratory diseases (specific health programs outlined in the requirements);
6. Calves must be weaned and bunk broke a minimum of 45 days before shipment;
7. Calves must be dewormed and treated for internal and external parasites;
8. Implants are optional. If heifer calves are implanted, type of implant and date used must be stated;
9. Cattle should be removed from feed the evening before they are shipped with access only to pasture, hay and water, in an effort to reduce or prevent excess shrink from the time of weight up to their destination;
10. No calves appearing unhealthy, lame or with active pinkeye allowed;
11. All calves must have an electronic identification tag;
12. Health records must be provided when calves are delivered to pooling location; and
13. No stags, rattails, warts or short/small frames allowed.

The aforementioned rules and regulations were established during the infancy of the marketing alliance's history. Many of these rules still form the foundation of the alliance but some modifications have been made to stay current with the industry. As an example, health records must be sent to sale management three weeks prior to the sale to ensure correct protocols.

What are the benefits and challenges associated with cooperative marketing?

The primary benefits of cooperative feeder cattle marketing include improving the quality and value of feeder cattle produced on a single operation and for a production region. Another benefit is establishing a reputation in the cattle industry via the cooperative marketing effort. The establishment and development of a good reputation often results in increased demand for cooperatively sold cattle and thus higher prices as compared to similar cattle

with no known history. Ultimately, this increases cattle value and results in greater profitability for participating producers.

Cooperative marketing is not for every producer. For example, cattle not meeting all established criteria can be rejected from the pool or a producer may believe their cattle are superior to the rest of the pool. It is important that minimum standards are upheld so the integrity of the sale is not compromised. It is equally important that producers with “superior” cattle understand their animals may be marketed with animals they deem to be of lesser quality.

A more important concern arises when a buyer has a poor experience with a group of cattle purchased through a cooperative marketing effort. This may take the form of calves becoming sick or dying at an unanticipated rate or heifers deemed pregnant upon arrival at the feedlot. Any situation that results in a buyer having a bad experience, whether because of one or several cooperative marketing participants, can have a negative impact on future sales for all participants.

The most important aspect of every individual in a cooperative marketing effort is to protect the integrity of the group. This requires strict adherence to the rules and regulations. Sometimes this means a producer compensating a buyer when what is purchased does not align with the description of what is being sold.

Quantifying the Value of Cooperative Marketing

The added value of cooperative marketing generally grows over time as the reputation of the alliance is built. This requires participating producers to be patient as the alliance is developed.

As previously mentioned, the Tennessee Beef Alliance has been around for several years, and it did not build its reputation in the first few years. However, it has developed a positive reputation as a source of quality cattle that will perform in the feedlot since its inception. Table 1 contains information on the number of head marketed through the Tennessee Beef Alliance from 2006 to 2018, as well as the weighted average annual added value of each animal marketed through the alliance and the total added value across all animals marketed in a year. Added value is calculated by comparing the sale prices from the Tennessee Beef Alliance sales to the USDA-AMS reported Tennessee

weekly weighted average price for similar weight, class and sex of animals being sold through auction markets in Tennessee the same week as the alliance sale. Thus, the added value per head is a weighted average across all weights, classes and sexes in the sale.

The annual number of head marketed through the Tennessee Beef Alliance has fluctuated over the years, but this fluctuation is basically the same as that found for all cattle sales in Tennessee, based on changes in cattle inventory. Three sales were conducted annually from 2007 to 2016 (approximately the first week of August, October and December) (Table 1). Additionally, the number of head being marketed through the alliance has been influenced by the addition of new members, the exit of members no longer producing cattle, and the exit of producers who became large enough to market their own uniform 48,000- to 50,000-pound load of cattle. As can be seen in the 2017 and 2018 head counts, the addition of a spring sale (middle of April) has resulted in new member participation by allowing for breeding season flexibility and management flexibility. The additional sale increased Tennessee Beef Alliance cattle marketings by 21.8 percent in 2017 and 37.4 percent in 2018, compared to the average number of cattle marketed from 2007 through 2016. (The 2006 year was omitted from the average since it only encompassed two sales.)

The added value from the alliance sale increased from 2006 to 2018, with the largest values occurring in the years with the highest feeder cattle prices (2013-2015) (Table 1). Alternatively, the added value from the alliance sale as a percent change compared to cattle in the weekly auction report vary little across year, regardless of price level. The added value as a percent change compared to the weekly auction report averaged 9.52 percent from 2006 to 2018 and ranged from 8.41 percent to 11.26 percent. This result may indicate that feeder cattle buyers are willing to pay a higher premium for a uniform group of low-risk cattle when prices are higher than when prices are lower, but the premium as a percent of total animal value changes very little. This makes intuitive sense considering a higher investment cost carries more financial risk, assuming constant morbidity and mortality rates across time. It is also important to note that our calculation of added value does not include financial gains or losses experienced during the weaning and preconditioning phase due to animal weight gain, additional costs and cattle price movement.

Table 1. Annual Added Value Summary of the Tennessee Beef Alliance Compared to Tennessee Weekly Reported Auction Average Prices (2006-2018)

Year	Number of Head ^a	Added Value TN Avg. Price (\$/hd)	Added Value as a Percent Change Compared to the Weekly Report (%)	Total Added Value TN Avg. Price (\$)
2006 ^b	2,660	\$56.04	8.58%	\$149,061
2007	3,076	\$64.43	9.95%	\$198,189
2008	3,495	\$67.59	11.06%	\$236,225
2009	3,413	\$50.42	8.64%	\$172,084
2010	3,266	\$75.77	11.26%	\$247,470
2011	3,548	\$86.11	10.23%	\$305,531
2012	3,987	\$77.13	8.66%	\$307,533
2013	3,218	\$89.71	8.41%	\$288,686
2014 ^c	3,146	\$109.80		\$345,446
2015	3,385	\$91.18	8.70%	\$308,649
2016	3,534	\$84.52	10.28%	\$298,699
2017 ^b	4,150	\$87.39	9.56%	\$362,677
2018 ^b	4,682	\$80.92	8.96%	\$378,886
Total	45,560	\$79.00	9.52%	\$3,599,136

^a Head count doesn't include alliance member cattle sold in alternative video sales conducted by the same marketing agency.

^b Two sales in 2006. Four sales in 2017 and 2018.

^c Percent change not included for 2014, due to missing data.

Figure 1 displays the price premium in dollars per hundredweight for the sales occurring during or near the first week of August, October and December from 2006 through 2018. It should be noted that the price premium of the alliance compared to Tennessee weekly auction averages exceeded \$10 per hundredweight nine out of 13 years (69.2 percent) for the August and December sales and eight out of 12 years (66.7 percent) for the October sale. Alternatively, the August and October sale each had two years in which premiums were smaller than \$9 per hundredweight, while the December sale had four years with premiums less than \$9 per hundredweight. The highest price premium received compared to Tennessee weekly auction average prices was the October sale in 2013 when the premium reached \$17.95 per hundredweight. Alternatively, the lowest premium was \$4.61 per hundredweight for the December sale in 2008.

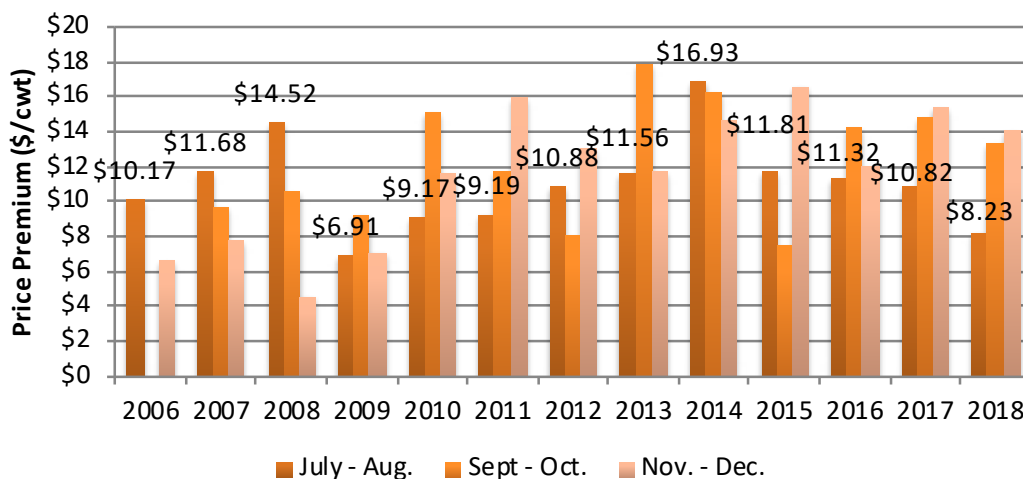


Figure 1. Tennessee Beef Alliance 2006-2018 Added Value Premium (\$/cwt.) Compared to Tennessee Weekly Average Prices

Summary and Conclusion

A cooperative marketing effort can provide small and large cow-calf producers an alternative marketing method for feeder cattle compared to traditional marketing methods. It is best if the cooperative marketing effort is led and governed by the producers participating in the sale. It is also imperative that producers follow the established rules and regulations to build the reputation and maintain the integrity of the group that supports prices received.

Producers participating in a cooperative marketing effort can represent their own cattle, as well as solicit bids for their cattle. However, it can be advantageous and cost effective to work with an established cattle marketing agency to pool, sort, grade and market the calves participating in the sale.

Given the example of the Tennessee Beef Alliance, cooperative marketing of feeder cattle can result in price premiums. However, the added value from price premiums does not account for changes in cattle value that may occur due to added weight or the market price fluctuating during the time of preconditioning.

Producers interested in marketing feeder cattle through a cooperative marketing effort should contact their local county Extension office to determine if a local effort exists. If such an effort does not exist or if a producer does not want to participate in an established effort, then it may be beneficial to work with neighboring producers and an established livestock marketing agency to establish a cooperative marketing effort for feeder cattle.

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