

# Introduction to Livestock Marketing

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To the smart livestock producer, marketing means more than selling. Marketing is part of the entire process to produce, promote and price a commodity.

The initial step in cattle marketing is selecting the type of stock in demand by the market place. Other essential components of the process include: estimating production costs, calculating cash flow needs, knowing what type and quality of animal is being produced and which buyers will be interested in that type of animal. Final steps in the plan are evaluating the pricing and delivery alternatives, and deciding on which of these to use.

Once the final sale has been made, it's useful to review the marketing process to determine what worked well and what needs improving.

This module outlines how the marketing process can be organized into seven logical steps. The livestock section of the marketing manual contains many relevant modules that focus on these individual marketing steps. More detailed discussions of these steps to marketing livestock can be found in other modules.

## The Seven Steps of Marketing

### **1. Estimate costs**

The first step involves accurately estimating costs of production and cash flow needs. This step is listed first because of its importance. While it can be done at any time, it is best to do this step as early as possible.

By estimating both production costs and cash flow requirements, you can decide what type of animal to produce and when it will have to be sold to meet payment schedules. These estimates, along with price forecasts, should be used to determine how the animal will be marketed.

By knowing past production costs and future price forecasts, you can also determine when to retain female stock for expansion or to cull more heavily. Production cost estimates and breakeven calculations are critical in setting a series of target prices that should be watched for in the changing market.

### **2. Gather information, including market outlook**

Following market trends and projected livestock prices aids you in deciding what to produce in order to bring the greatest returns. For example, deciding whether to sell weaned calves, yearlings or slaughter cattle depends upon the market outlook for each of these animals. In some cases you will watch the United States market for export opportunities, so a decision could be made to finish animals to a weight preferred by American buyers.

### **3. Know your product**

The quality and type of livestock for sale must be known before you can seriously evaluate the

different pricing and delivery alternatives. By knowing what you have for sale, you can contact interested buyers and, if there are premiums in the market for livestock with specific characteristics, you can then capitalize on them.

Knowing your product also involves presenting it favorably. Sorting animals into lots of similar size and weight will make them more attractive to buyers. Selling clean and healthy animals assures buyers that they are paying for a quality product.

#### **4. Set several target prices**

Set target prices by knowing production costs and what the market is paying or is expected to pay. The level and timing of these targets should be set based on outlook information, cost of production figures and cash flow needs rather than expected profit levels. The advantage of setting several target prices rather than just one price is that it gives you flexibility to respond to changing market trends. Staying in touch with the market is crucial when trying to achieve a target price.

#### **5. Evaluate pricing and delivery alternatives**

Evaluate all available alternatives for pricing and delivering livestock. Each alternative has specific features that may make it more suitable than another.

When pricing livestock, there are several choices available. A forward contract offers you the opportunity to lock in a price for the livestock ahead of an expected sale date. Other livestock pricing alternatives include open bids at auction markets, producer or breed association sales, video auctions, electronic auctions, direct sales to packers, sales to livestock order buyers or using the futures or options market for a hedging strategy. As a pricing alternative is considered, keep the target prices in mind.

For each of the market delivery alternatives, there are associated pricing methods to consider. For example, a pricing method may determine whether an animal is sold live or rail graded, and whether it is sold with a pencil shrink or not. All pricing agreements will have a direct influence on the final returns.

When evaluating marketing alternatives, keep in mind how the animals will be delivered to the buyer and if this delivery method will influence the settlement price. Transportation considerations include both the costs of the trucking and the costs of lost quality or weight of the animals. These factors should be kept in mind as you decide how and where to have the livestock priced.

Pricing and delivery decisions are typically made together when selling. The pricing decision will sometimes dictate what the delivery method will be. However, both pricing and delivery methods can be negotiated when reaching a settlement price with a buyer. By knowing production costs, cash flow needs and current market conditions, you can determine if the price being negotiated is suitable for your needs and is a reasonable price for current conditions.

#### **6. Stick to your plan**

A livestock marketing plan involves all the steps listed above. By executing these steps, you will have a thorough understanding of how your business is functioning. Have confidence to stick to your plan as you follow the market.

### ***7. Evaluate your plan***

All plans must be evaluated to determine what worked and what can be improved upon. By looking back on livestock sales and how the returns matched the needs of the business, you will continue to learn about what factors influence the operation. This learning process will provide opportunity for future growth.

### **Additional Information**

Marketing is more than just selling. For your farm to be a successful business, it must include marketing as part of the farm management process.

The Livestock Marketing section of the marketing manual expands on the topics that have been mentioned in this module. Livestock producers are encouraged to look at other modules in this Marketing Manual for further information. Also check the many other sources on Ropin' the Web, at [agriculture.alberta.ca](http://agriculture.alberta.ca) or call Alberta Agriculture's Ag Info Centre at 310-3276

Alberta Feedlot Management Guide.

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