

Farmers and ranchers market the livestock they produce in different ways. The wide range of options available to producers and packers provides a means for market signals and consumer demands to work rapidly and efficiently, while providing opportunities for all market segments. This flexibility has paid off for consumers and for producers, especially in the cow-calf segment.

## How Is Livestock Marketed?

For policy purposes, the method used by farmers and ranchers to market their livestock can be thought of as a spectrum. Across the spectrum producers and packers evaluate and select methods that best allow them to meet their customer's and cost's demands. In some cases it may be a cash sale, in others a handshake agreement on delivery time and quantity, in others it could be that the producer is responsible for feeding and raising the packer's livestock. Some of these agreements are very informal, while others can be very detailed. It is important to note that USDA maintains a library of these more involved contractual agreements for swine on their website as provided by the price reporting statute passed in 1999.

Livestock growers and packers will often employ a mix of these methods to achieve their desired ends. Young farmers and ranchers tend to seek more involved agreements to help secure more favorable financing, while other producers may seek to take a chance on a seasonal trend and utilize the cash market or something similar. Equally, packers also have a tendency to stick with procurement methods that best match their marketing models, customer interest, and risk-management skills. It is important to note that these methods will also often incorporate other quality premiums or discounts based on carcass performance.

### Beef Industry Margins, 1998-2009 (dollars per head)

Year	Packer	Feedlot	Cow/Calf
1988	-14.62	19.78	107.7
1989	-19.67	-4.17	118.6
1990	-18.09	28.77	72.5
1991	-7.08	-56.49	81.26
1992	-25.54	29.04	58.51
1993	-14.55	28.68	52.94
1994	2.72	-57.62	14.97
1995	13.77	4.07	-46.53
1996	14.74	-13.14	-112.20
1997	8.41	-16.66	11.52
1998	-17.22	-91.62	2.90
1999	-0.39	27.25	54.02
2000	7.67	-27.42	92.06
2001	24.96	-43.25	84.96
2002	23.67	-51.44	33.48
2003	6.57	120.24	119.94
2004	16.43	-13.58	145.86
2005	5.84	-30.61	154.96
2006	5.35	-51.52	137.70
2007	-9.50	-16.47	87.36
2008	61.51	-78.31	46.61
2009	-26.73	-59.45	26.57
<i>Source: Sterling Marketing, Inc.</i>			

## Key Specifications in Livestock Marketing

Consumer preferences and marketing models to meet those preferences can include many specifications or values. Equally, producers also have values that are very important for them to adhere to, ranging from a loan payment, skill set, or familiarity with a type of livestock. The list below includes a list of some of the



specifications or values producers and packers consider when entering livestock agreements. (USDA Swine Contract Library).

- Price
- Delivery Date/Time
- Shackle Space
- Breed
- Feeding Regiment
- Veterinary Care Program
- Weight
- Carcass Performance
- Tenderness
- Color
- Yield
- Leanness
- Agreement Duration

## Policy Implications for Livestock Marketing

Since the first agricultural contracts traded on the Chicago Mercantile Exchange in 1898, the government has played a significant role in overseeing the livestock market, ensuring fair dealings, and providing a means for swift dispatch of problems. USDA's Grain Inspectors, Packers and Stockyards Administration, the U.S. Department of Justice, the Federal Trade Commission, the Commodity Futures Trading Commission, in addition to numerous state agencies, regulate the livestock market. Despite these significant protections, there have been Congressional efforts to limit the ability of producers and packers to pursue mutually beneficial agreements. Some of these proposals have taken the form of outright bans on ownership, new cash market requirements and additional limitations on the means of dispute resolution.

Unfortunately, the real victims of these proposals are American agriculture and rural America. As previously mentioned these agreements and

alternatives provide a means for producers and packers to enjoy a livelihood and seek credit, investment and operating loans. Without this necessary capital, the amount of investment that would continue to grow in rural America would be severely limited. As we have seen with the protracted closure of the U.S. border to Canadian cattle and the 10,000 U.S. jobs lost in the packing segment during that time, when policy limits impact operations real Americans suffer.

## Keeping Number One Happy

When Sam Carney, an Iowa hog farmer, starts raising a new litter of piglets, he knows how much profit he will make at the slaughterhouse.

That's because Carney, like many livestock farmers, has already negotiated a price with the company that will turn his pigs into bacon. The ability to project the amount of income for each pig allows him to lock in a good financing package.

"I have to keep number one happy, and that's my banker," he said.

In February 2007, USDA reported that average U.S. farmers have \$13.40 dollars of debt for every \$1.00 of equity. Considering that an average farm size requires \$500,000 to \$700,000, the need for producers to access risk management tools is very clear.

For young farmers, a contract, according to the University of Missouri's Ron Plain, Ph.D., can mean the difference between a \$350,000 initial down payment for a cash pork farm and a \$75,000 down payment for a contract production pork farm.

Farmers and ranchers benefit when they have the most options available to them for marketing their livestock.