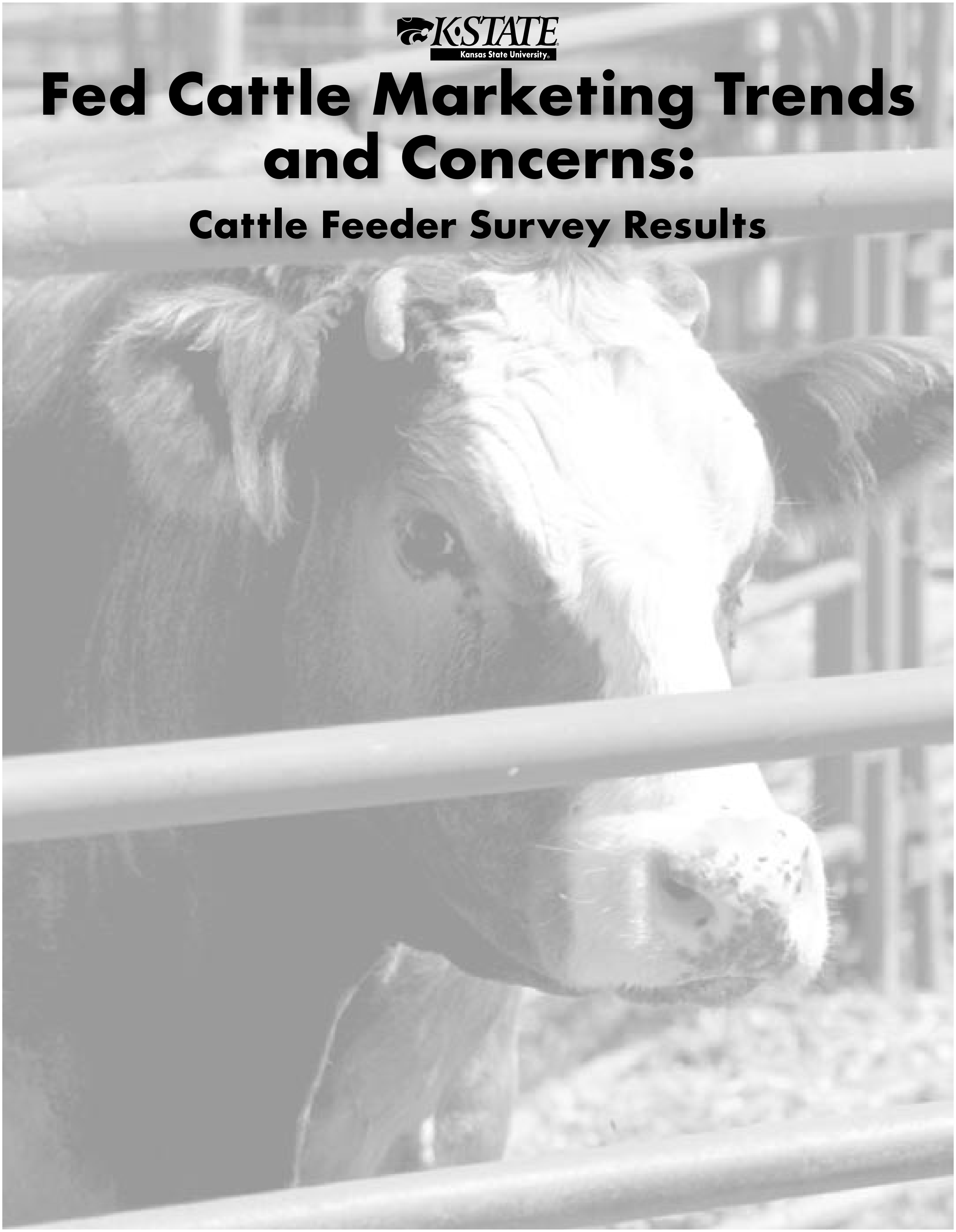
Fed Cattle Marketing Trends and Concerns:

Cattle Feeder Survey Results



Kansas State University Agricultural Experiment Station and Cooperative Extension Service

Fed Cattle Marketing Trends and Concerns: Cattle Feeder Survey Results

Ted C. Schroeder
Kansas State University
tcs@ksu.edu

Clement E. Ward
Oklahoma State University
ceward@okstate.edu

John Lawrence
Iowa State University
jdlaw@iastate.edu

Dillon M. Feuz
University of Nebraska
dfeuz@unlnotes.unl.edu

Executive Summary

- Significant changes in fed cattle marketing methods have occurred over time including increased use of marketing agreements, alliances, and grid pricing as well as reduced use of cash live or dressed weight pricing. These changes have led to cattle feeder concerns regarding fed cattle marketing and pricing issues. This report summarizes a survey conducted to determine how cattle feeders currently market fed cattle and how they intend to do so by 2006. The survey quantifies producer motives for entering into marketing agreements and using grid pricing. Concerns cattle feeders have regarding various marketing issues and mandatory price reporting also are documented.

- A survey was conducted in March and April 2002 of feedlots located primarily in Iowa, Kansas, Nebraska, and Texas. A total of 1,499 surveys were mailed and 316 responses were collected, for an overall response rate of 21 percent.

- Use of marketing agreements is increasing. In 1996, 23 percent of survey respondents' fed cattle were sold under some type of marketing agreement. This increased to 52 percent in 2001 and is expected to increase to 65 percent by 2006.

- Primary motivations for producers to enter into marketing agreements were to obtain quality/yield grade premiums and to get increased access to carcass data.

- Cattle feeder use of cash live and carcass weight pricing is expected to decline and grid pricing to increase substantially over time. Most respondents indicated that they used the cash live or carcass weight market for at least some of their sales in 1996 (97 percent of respondents), 2001 (86 percent), and expect to in 2006 (70 percent). However, the percentage of cattle that feeders market using these cash markets is declining from 82 percent in 1996, to 53 percent in 2001, to an expected 33 percent by 2006. Grid pricing has increased, representing 16 percent of marketings in 1996, 45 percent in 2001, and is expected to reach 62 percent by 2006.

- Motives for increased use of grid pricing mirror those for entering into marketing agreements.

- Respondents feel that cash market bids are lower when packers have cattle contracted. However, they do not generally support breaking the largest beef packers or retailers into smaller companies.

- Respondents indicate a desire to have grid base prices tied to boxed beef or retail markets and a slightly less strong desire to have base prices negotiated.

- In general, respondents felt that beef packers should not be allowed to own and feed cattle. However, this response varied geographically with feeders in Iowa feeling strongly that packer ownership and feeding should be banned and those located in Kansas and Texas being more neutral, on average. Noteworthy though, cattle feeders in Kansas and Texas were largely divided on the issue.

- Respondents did not feel as though mandatory price reporting of fed cattle and boxed beef benefits the industry. They indicated the policy was not as beneficial as they expected and that mandatory price reporting had not enhanced their ability to negotiate terms of trade with beef packers.

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Introduction

The fed cattle marketing environment has changed dramatically over the last decade. Increased use of various pricing methods including value-based pricing, price grids, formula pricing, marketing agreements, and alliances have displaced once dominant negotiated cash live and dressed weight fed cattle trade. These changes have left many local daily cash fed cattle markets with little or sporadic volume. For example, in the early 1990s approximately 10 percent of daily local fed cattle cash market Agricultural Marketing Service (AMS) price reports in Kansas and Texas were not reported because of insufficient trading volume. By 2000 this had increased to nearly 60 percent. However, the center of daily and weekly price discovery in fed cattle markets has for several decades been local cash negotiated trade. Recent evolution away from cash negotiated trade suggests a new center of fed cattle price discovery is probable. For producers who have developed expertise in negotiating cash fed cattle prices, as well as those relying on these prices for formula pricing, a disappearing cash market may be disconcerting.

Changes in fed cattle marketing methods and resulting effects on price and other market information have brought numerous policy proposals to the forefront. The change from voluntary to mandatory price reporting in fed cattle and wholesale boxed beef markets, launched in April 2001, is one notable example of a policy change intended to address producer concerns about availability of reliable and representative price information and terms of trade. Recent proposals intended to prohibit various forms of beef packer fed cattle ownership and feeding at state and national levels are another example of policy issues motivated by fed cattle market changes.

To gain a better understanding of the nature of recent and expected changes in fed cattle marketing and pricing methods, a survey of cattle feeders in the Southern Plains and Corn Belt regions was undertaken. The primary objectives were: 1) to determine the extent of recent and future expected changes in cattle feeder use of marketing agreements and alliances, 2) to quantify how cattle pricing methods are changing, 3) to measure the importance cattle feeders place on various motives they have for entering into marketing agreements and for use of grid pricing, 4) to determine feedlot manager attitudes regarding fed cattle marketing and pricing issues, and 5) to quantify cattle feeder perceptions regarding the effectiveness of mandatory price reporting.

Results of this survey are important for many reasons. First, findings highlight recent and expected changes in fed cattle marketing and pricing methods. Because details of marketing and pricing methods are proprietary, information regarding these practices is not usually reported by public sources. This survey provides a comprehensive snapshot of these practices. Second, better understanding producers' motives for entering into marketing agreements and use of grid pricing is important to appreciate possible benefits to those considering such options. Third, documenting producer perceptions of various marketing, pricing, and information issues is important as additional policies are considered and debated.

Survey

To complete the objectives of this study, a survey of feedlot owners was undertaken by agricultural economists at four land-grant universities during March and April 2002. The economists involved in administering the surveys and the respective groups surveyed are summarized in Table 1.

Response rates for the survey by group are reported in Table 2. Overall, a total of 1,501 surveys were mailed, 4 were undeliverable, and 316 were completed and returned for a response rate of 21 percent. The response rate varied considerably by location, ranging from 16 percent in Iowa to 38 percent in Kansas. The Iowa survey response rate was smaller in part because the survey group was less focused and some of the Iowa Quality Beef Supply Network members are not cattle feeders.

Table 1. *Survey Administrators and Cattle Feeder Groups Surveyed*

University	Survey Administrator	Survey Group
Iowa State University	John Lawrence	Members of Iowa Quality Beef Supply Network
Kansas State University	Ted C. Schroeder	Kansas Livestock Association, Feedlot Members
University of Nebraska	Dillon M. Feuz	Nebraska Cattlemen, Feedlot Members
Oklahoma State University	Clement E. Ward	Texas Cattle Feeders Association, Feedlot Members

Table 2. *Survey Response Rate by Mailing Location*

Surveyed Administered At	Surveys Mailed	Surveys Returned as Non-deliverable	Completed Surveys Returned	Response Rate
Iowa State University	970	0	152	15.7%
Kansas State University	131	0	50	38.2%
University of Nebraska	250	2	66	26.6%
Oklahoma State University	150	2	48	32.4%
Combined	1501	4	316	21.1%

Survey respondents by size of operation and state of primary feeding location are reported in Table 3. Feedlot respondents were categorized roughly by the state where they fed the majority of cattle they marketed in 2001. The primary states included Iowa, Kansas, Nebraska, and Texas. Consistent with the types of feeding companies located in each respective state, smaller yards with less than 5,000 head annual marketings were mostly in Iowa (96 percent of Iowa respondents) followed by Nebraska (39 percent of Nebraska respondents). Kansas and Texas respondents tended to be more represented by feeding companies that marketed more than 5,000 head per year and several companies that marketed in excess of 100,000 head in 2001.

Survey Results

The survey was intended to document several dimensions of cattle feeding including 1) marketing agreement and alliance participation and incentives, 2) changing pricing methods, 3) producers perceptions of pricing, marketing, and structural issues, and 4) effectiveness of mandatory price reporting. Producer responses to these issues are summarized in this report.

Marketing Agreements and Alliances

In 1996, marketing agreements and alliances were uncommon with only 25 percent of respondents indicating they had marketed at least some cattle under a marketing agreement without an alliance, 11 percent under an alliance, and 30 percent indicating they had been involved in one or both types of marketing agreements (Table 4). The average percentage of fed cattle marketed under an agreement without an alliance was 9 percent and 4 percent with an alliance. However, larger operations were more likely to participate in marketing agreements as 14 percent of estimated fed cattle marketed were in a marketing agreement and 8 percent were part of an alliance in 1996. Both alliance and marketing agreement participation increased by 2001, with alliances increasing to 45 percent of respondents marketing at least some cattle under an alliance, representing an estimated 27 percent of fed cattle marketings. Overall marketing agreements in 2001 represented 52 percent of estimated cattle marketed by survey respondents. Alliances and marketing agreements were expected to increase in 2006 to where less than 35 percent of respondents' fed cattle are expected to be marketed without a prearranged agreement in place (Figure 1).

Cattle feeders were queried regarding motives producers had for entering into supply or marketing contracts and agreements with beef packers (Table 5). The most important ranked reasons were that such arrangements enabled them to acquire quality and yield grade premiums as well as obtain detailed carcass data. Detailed data are necessary to provide cattle feeders with important information to identify problem

Table 3. *Survey Respondents by 2001 Fed Cattle Marketings and Location*

State in which Majority of Cattle were Fed	Number of Respondents	Head of Fed Cattle Marketed in 2001				
		<5,000	5,000 to 19,999	20,000 to 49,999	50,000 to 99,999	100,000 up
Iowa[a]	141	96%	3%	1%	0%	0%
Kansas[b]	48	2%	23%	25%	27%	23%
Nebraska[c]	80	39%	39%	11%	9%	3%
Texas[d]	47	6%	21%	30%	28%	15%
All Respondents	316	53.8%	17.8%	11.5%	10.5%	6.4%

[a]Iowa includes 122 respondents with majority of cattle fed in Iowa, 9 in Illinois, and 10 in "Other" states in 2001 (all Iowa respondents were members of the Iowa Quality Beef Supply Network).

[b]Kansas includes 48 respondents with majority of cattle fed in Kansas in 2001.

[c]Nebraska includes 78 respondents with majority of cattle fed in Nebraska and 2 with majority fed in South Dakota in 2001.

[d]Texas includes 36 respondents with majority of cattle fed in Texas, 8 with majority in Oklahoma, and 3 in New Mexico in 2001.

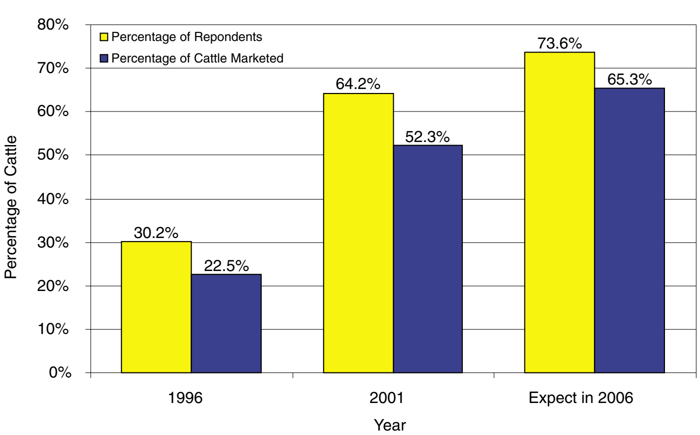
Table 4. Feedlot Respondent Participation in Marketing Agreements and Alliances

Marketing Method	Year 1996	Year 2001	Year Expect in 2006
	(Percentage of Respondents Marketing at Least 1% of Fed Cattle using that Method)		
Agreement with No Alliance	25.1	33.7	37.4
Agreement with an Alliance	11.3	45.2	55.3
Agreement with or without Alliance[a]	30.2	64.2	73.6
No Marketing Agreement	93.8	90.1	82.8
	(Respondent's Simple-Average Percentage Marketed)		
Agreement with No Alliance	8.9	13.8	15.6
Agreement with an Alliance	4.2	20.1	30.7
Total Marketing Agreements	13.1	34.0	46.4
No Marketing Agreement	86.9	66.0	53.6
	(Respondent's Weighted-Average Marketed Weighted by 2001 Fed Cattle Marketings)		
Agreement with No Alliance	14.2	25.0	26.3
Agreement with an Alliance	8.3	27.3	39.0
Total Marketing Agreements	22.5	52.3	65.3
No Marketing Agreement	77.5	47.7	34.7

[a] *Refers to respondents involved in a marketing agreement for at least 1 percent of their fed cattle whether the agreement involved an alliance or not.*

areas and make appropriate adjustments. For those who were involved in an agreement in 2001, the third most important motive was securing a cattle buyer. The least agreed-with motive, especially for those in current agreements, was that the producer was pressured by a packer to enter into an arrangement. This suggests that producers decided to enter into an agreement on their own. Generally, respondent perceptions about motives for entering into marketing agreements were similar between those who were involved in such agreements and those who were not.

Figure 1. *Percentage of Respondents and Estimated Weighted-Average Percentage of Cattle Marketed Under Marketing Agreement, by Year*



Fed Cattle Pricing Methods

The majority of survey respondents used the cash market for at least some of their fed cattle marketings (Table 6). However, the trend was clearly downward over time, declining from 97 percent of respondents using the cash market (live and/or carcass weight) in 1996 to 70 percent expected in 2006. The percentage of respondents using grid pricing for at least some fed cattle marketings increased dramatically from 23 percent in 1996 to 88 percent in 2001, with 88 percent also indicating they planned to market at least some fed cattle using grids in 2006.

The percentage of fed cattle marketed using various methods suggests increasing use of grid marketing and reduced use of live or carcass weight pricing (Table 7). In 1996, the average number of fed cattle that respondents marketed using live or carcass weight was 90 percent, this declined to 54.7 percent in 2001 and was expected to decline even further (to only 36 percent) by 2006. Use of grids was increasing from 8.1 percent of average respondent cattle in 1996, to 44 percent in 2001, and 60 percent expected by 2006. Weighted by respondents' approximate 2001 fed cattle marketings, the percentage of cattle priced using grids increased from 16 percent in 1996, to 45 percent in 2001, to 62 percent expected by 2006 (Table 7 and Figure 2).

Why are cattle feeders increasing the use of grid pricing? In the survey, we asked producers to indicate their level of agreement with a list of possible motives to use grid pricing. Results are presented in Table 8. Respondents tended to agree that motives to use grid pricing were to obtain quality/yield grade premiums (average score of 7.3 with 1=strongly disagree to 9=strongly agree) and to get access to detailed carcass data (average response of 6.8). These were similar to rankings regarding why producers use marketing agreements to sell their fed cattle (Table 5). Because marketing

Table 5. Respondents' Perceptions of Cattle Feeder Motives to Form Supply Contracts/Marketing Agreements with Packers (1=Strongly Disagree to 9=Strongly Agree)

Motive for Cattle Feeder to Form Agreement	Overall Average Response	Average of Those with Agreements in 2001	Average of Those without Agreements in 2001
Able to sell cattle at a higher base price	5.1	5.3	4.9
Able to obtain quality/yield grade premiums	6.2	6.5	5.8
Enables access to detailed carcass data	6.1	6.1	6.1
Facilitates financing arrangements with lenders	4.7	4.6	5.0
Guarantees a buyer for cattle	5.7	5.9	5.4
Reduces price risk and/or basis risk	5.0	5.1	5.0
Reduces marketing time and costs	5.5	5.6	5.3
Pressured by packers	4.3	4.0	4.8
Number of Respondents	306 to 308	185 to 187	121

Table 6. Respondents who Marketed at Least 1 Percent of Fed Cattle Using Various Pricing Methods

	1996	2001	Expect in 2006
		(% of Respondents)	
Cash Market (live weight)	73.4	59.1	47.3
Cash Market (carcass weight)	56.0	57.1	43.4
Cash Market (live and/or carcass)	97.2	86.1	70.2
Grid (base cash or plant avg.)	19.1	69.3	61.6
Grid (base futures price)	2.1	4.4	17.1
Grid (base boxed beef)	0.7	5.7	26.7
Grid (negotiated base)	3.9	22.0	31.0
Grid (any above base prices)	23.4	88.0	88.0
Fixed Price Contract	5.0	5.1	8.9
Basis Contract	10.3	9.8	8.9
Other	1.4	1.0	3.1
Fixed, Basis, and/or Other	14.5	14.5	16.7

agreements and alliances often involve some form of grid pricing, similarity in responses across motives for these is not surprising. Respondents tended to disagree that grid pricing facilitated financing arrangements or reduced price or basis risk. They also indicated they were not pressured by packers to use grid pricing. Those who used grids in 2001 had fairly similar responses and rankings of responses (with perhaps a few exceptions) to those who did not sell any cattle using grids. This suggests that experience with grid pricing has not markedly changed feeder perceptions of grid pricing motives.

Figure 2. Weighted-Average Percentage of Respondent Fed Cattle Marketing Using Live or Carcass Weight, Grids, and Other Pricing Methods, by Year

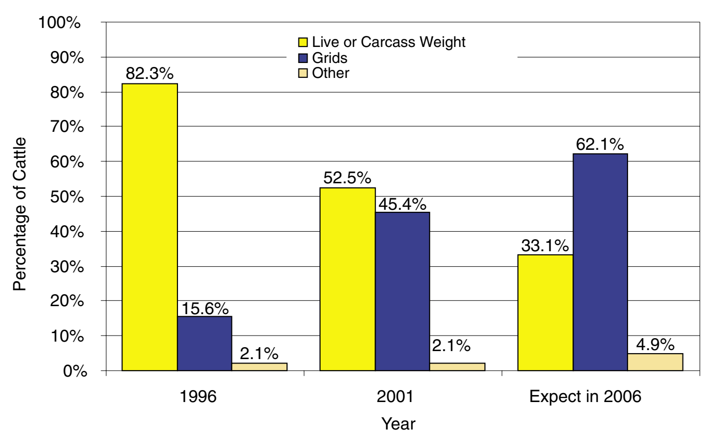


Table 7. Percentages of Respondents' Fed Cattle Sold Using Various Pricing Methods

Pricing Method	1996	2001	Expect in 2006
	(Respondents' Simple Average Percentage Marketed using that Method)		
Cash Market (live weight)	53.5	28.7	18.3
Cash Market (carcass weight)	36.4	25.9	17.7
Total Cash Market	90.0	54.7	36.0
Grid (base cash or plant avg.)	6.9	33.7	32.5
Grid (base futures price)	0.4	1.0	5.6
Grid (base boxed beef)	0.3	2.8	11.2
Grid (negotiated base)	0.4	5.9	10.5
Total Grids	8.1	43.5	59.7
Fixed Price Contract	0.7	1.2	1.8
Basis Contract	0.8	0.6	1.1
Other	0.4	0.1	1.4
Total Other	1.9	1.8	4.3
Grand Total	100.0	100.0	100.0
	(Respondents' Weighted-Average Percentage Marketed using that Method)		
Cash Market (live weight)	66.3	37.7	22.1
Cash Market (carcass weight)	16.0	14.8	11.0
Total Cash Market	82.3	52.5	33.1
Grid (base cash or plant avg.)	14.2	35.2	35.2
Grid (base futures price)	0.4	1.5	4.8
Grid (base boxed beef)	0.3	3.7	9.9
Grid (negotiated base)	0.7	4.9	12.2
Total Grids	15.6	45.4	62.1
Fixed Price Contract	0.4	1.0	1.9
Basis Contract	1.5	1.2	1.7
Other	0.3	0.0	1.2
Total Other	2.1	2.1	4.9
Grand Total	100.0	100.0	100.0

Perceptions Regarding Pricing Methods and Market Structure

The survey asked cattle feeders several questions about their perceptions of pricing methods being used to sell fed cattle and market structure concerns (Table 9). Graphs of the overall distributions of responses to these statements are reported in Figures 3 to 13. There was general agreement that cash market bids by packers are lower when packers have cattle contracted, with an average response of 7.7 (1=strongly disagree to 9=strongly agree). Of the 310 producers responding to this, 64 percent assigned a value of 8 or 9. The majority of research conducted on this question finds economically small, but statistically significant, negative correlation between captive supply and short-run cash fed cattle prices. The survey result is consistent with research findings.

Beef packer and retail grocer concentration has surfaced as a potential issue in policy debates. In 2000, the four largest beef packers represented 82 percent of steer and heifer slaughter according to the USDA. The five largest retail grocers represented 38 percent of retail food market share, according to Progressive Grocer. Survey respondents did not generally feel that breaking either beef packers (average response of 4.9) or retailers (average response of 5.0) into smaller companies would be beneficial to the industry (Table 9 and Figures 4 and 6). However, producers located predominantly in Iowa were more supportive of breaking up these firms (average scores of 5.5 and 5.6), whereas Texas feeders were much less supportive of breaking up the firms (average score of 3.6 for each). Apparently, many producers recognize trade-offs between possible exertion of market power and efficiency gains associated with large processors and retailers.

Related to these questions, cattle feeders were asked to indicate the percentage of cattle sold to the largest single customer in 1996, 2001, and projections for 2006. Results are reported in Table 10. Little change in this area has occurred, or is anticipated. However, larger feedyards appeared to be increasing the percentage of fed cattle sold to the largest customer. This reflects that larger operations are also more likely to sell more cattle under marketing agreements with a particular packer.

Respondents generally agreed that base prices in grids should be tied to boxed beef or retail prices (average response 7.2, with 52 percent of responses at 8 or 9 – Figure 7). Some agreed that negotiated base prices in grids are preferred to formula prices (average response 6.3, with 38 percent of responses at 8 or 9 – Figure 8). Survey respondents also tended to agree that reduced trading in the cash market would be harmful to the beef industry (average score of 6.8, with 55 percent of responses at 8 or 9 – Figure 11). This is particularly interesting since

Table 8. Respondent Perceptions of Cattle Feeder Motives to Use Grid Pricing (1=Strongly Disagree to 9=Strongly Agree)

Motive for Producer to Use Grid Pricing	Overall Average Response	Average for Those Using Grids in 2001	Average for Those Not Using Grids in 2001
Able to sell cattle at a higher base price	6.0	6.1	5.7
Able to obtain quality/yield grade premiums	7.3	7.4	6.7
Enables access to detailed carcass data	6.8	6.8	6.8
Facilitates financing arrangements with lenders	4.3	4.1	4.7
Guarantees a buyer for cattle	5.1	5.0	5.3
Reduces price risk and/or basis risk	4.0	3.9	4.2
Reduces marketing time and costs	4.9	4.9	4.9
Increases competition among packers	4.1	4.2	3.8
Pressured by packers	3.9	3.8	4.2
Number of Respondents	305 to 307	235 or 236	70 or 71

Table 9. Cattle Feeder Perceptions Regarding Pricing and Structural Issues Associated with Fed Cattle Marketing (1=Strongly Disagree to 9=Strongly Agree)

Survey Statement	All Respondents	Iowa Respondents	Kansas Respondents	Nebraska Respondents	Texas Respondents
Cash market bids by packers are lower when packers have cattle contracted	7.7	7.9	7.6	7.6	7.2
The largest packers should be broken into several smaller companies	4.9	5.5	4.1	4.9	3.6
More producer-owned packers would benefit the beef industry	6.2	6.6	5.8	6.2	5.4
The largest retail grocers should be broken into several smaller companies	5.0	5.6	4.4	5.0	3.6
Formula base prices in grids should be tied to boxed beef or retail markets	7.2	7.1	7.0	7.0	7.6
Negotiated base prices in grids are preferred to formula prices	6.3	6.3	6.3	6.4	6.4
Packers should not be permitted to own and feed cattle	6.6	7.7	5.4	6.3	5.2
Reduced trading in the cash market would be harmful to the beef industry	6.8	7.0	7.1	6.9	5.8
Packers should not be permitted to contract or form marketing agreements with feeders and cattle owners	4.8	5.1	4.2	4.8	4.2
Packers should not be permitted to contract or form marketing agreements with retail and food service customers	4.2	4.8	3.5	4.0	3.4

cash trade appears likely to continue its decline in the future, given respondents' intentions to increase marketing agreements to represent more than 65 percent of fed cattle marketings by 2006 (Figure 2).

The question evoking the most polar responses from cattle feeders regarded whether beef packers should be permitted to own or feed cattle. Feeders frequently responded with 1 (strongly disagree), 5 (neutral), or 9 (strongly agree). Overall, respondents tended to feel that packers should not be allowed to own or feed cattle, with an average response of 6.6. However, the most common response was 9 (48 percent of respondents) and the second most common was 5 (15 percent of respondents - Figure 9). Further, of all the statements, this one had the most regional diversity. Feeders located in Iowa agreed most strongly (average score of 7.7, with 60 percent strongly agreeing, i.e., a response of 9 – Figure 10a). In contrast, cattle feeders in Kansas and Texas were neutral, with average scores of 5.4 and 5.2, respectively. However, Kansas and Texas producers were somewhat divided amongst themselves, with the most common responses by producers located in each state being 1, 5, and 9 (Figures 10b and 10c). Further analysis of the data indicated a strong tendency for producer feelings regarding this issue to be related to feeding operation size. Larger cattle feeding operations were considerably more inclined to disagree (though not unanimously, as all feedlot size categories included responses ranging from 1 to 9) that packer feeding or ownership should be banned. Thus, the geographic dispersion in response appears related to operation size.

Respondents generally did not feel that packers should be prevented from contracting or forming marketing agreements with cattle feeders (average response 4.8 – Figure 12). Similarly, respondents generally felt that packers should not be prevented from contracting or forming agreements with retailers (average response 4.2 – Figure 13).

Mandatory Price Reporting

The final topic the survey explored was cattle feeder perceptions regarding mandatory price reporting of fed cattle and boxed beef. Mandatory price reporting (MPR) has been in place since April 2001. At the time of this survey it had been in place approximately 1 year, presumably long enough for producers to determine its effectiveness. Overall, respondents were not particularly pleased with the effectiveness of MPR (Table 11). The average respondent tended to slightly disagree that mandatory price reporting benefits the beef industry (average response of 4.3 with 1=strongly disagree to 9=strongly agree). Respondents felt even more strongly that mandatory price reporting is not as beneficial as expected (average response of 7.3), suggesting producers had higher expectations than MPR has delivered. Kansas producers expressed most disappointment regarding MPR effectiveness. Distributions of responses to these two queries are reported in Figures 14 and 15.

Respondents indicated that information on regional and national fed cattle prices had not increased (Table 11 and Figures 16 and 17). In addition, respondents felt that information on base prices, premiums and discounts, and boxed beef prices, had not increased substantially (Table 11 and Figures 18 to 20).

Respondents consistently indicated that MPR had not enhanced their ability to negotiate cash prices, base prices, or grid premiums/discounts with packers. More than 50 percent of respondents gave a score of 1 or 2 (1=strongly disagree) to the three statements that MPR had enhanced

Figure 3. *Cash Market Bids by Packers are Lower When Packers Have Cattle Contracted*

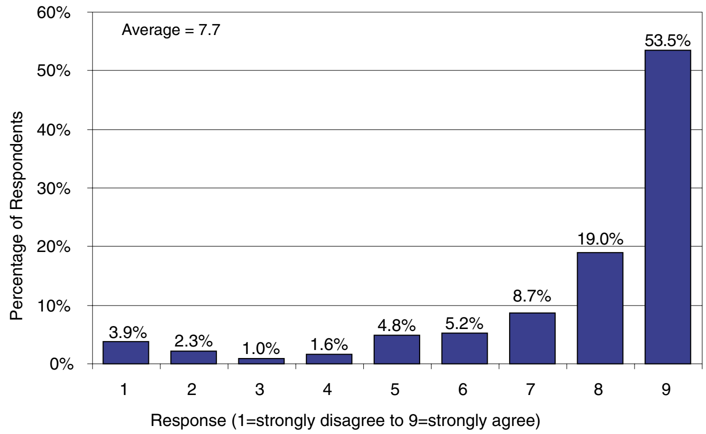


Figure 4. *The Largest Packers Should be Broken into Several Smaller Companies*

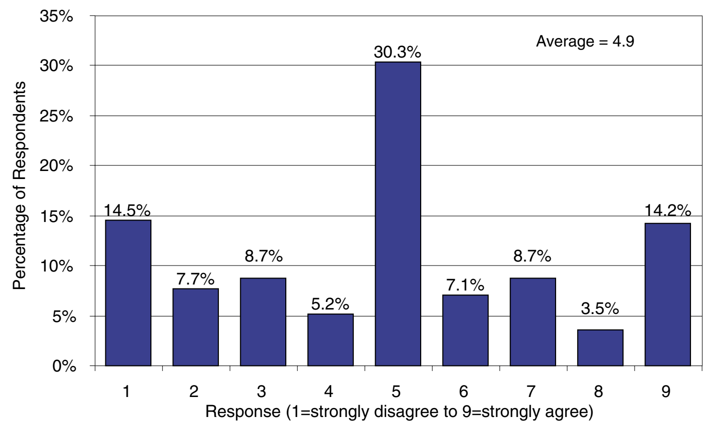


Figure 5. *More Producer-Owned Packers Would Benefit the Beef Industry*

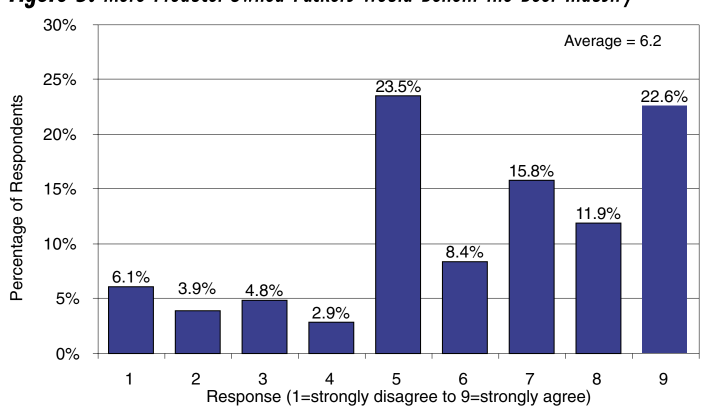


Table 10. *Average Respondent Percentage of Cattle Sold to Largest Single Buyer*

		Head of Fed Cattle Marketed in 2001				
Year	Overall Average	<5,000	5,000 to 19,999	20,000 to 49,999	50,000 to 99,999	100,000 up
1996	66%	72%	61%	62%	52%	58%
2001	66%	70%	65%	70%	64%	77%
Expect in 2006	69%	69%	66%	74%	64%	78%

***Figure 6.** The Largest Retailer Grocers Should be Broken into Several Smaller Companies*

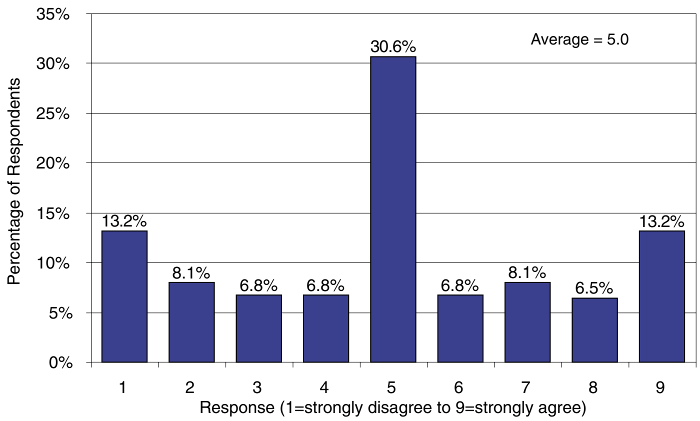


Figure 7. Formula Base Prices Should be Tied to Boxed Beef or Retail Markets

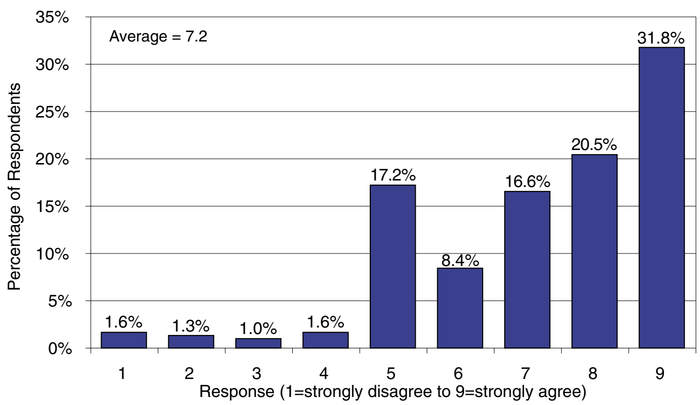


***Figure 8.** Negotiated Base Prices in Grids are Preferred to Formula Prices*

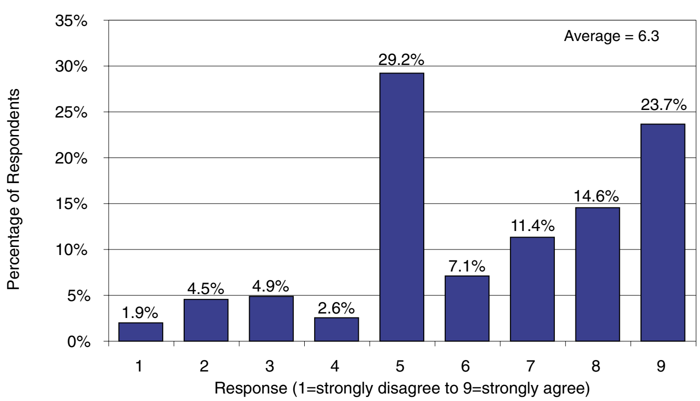


***Figure 9.** Packers Should Not be Permitted to Own or Feed Cattle*

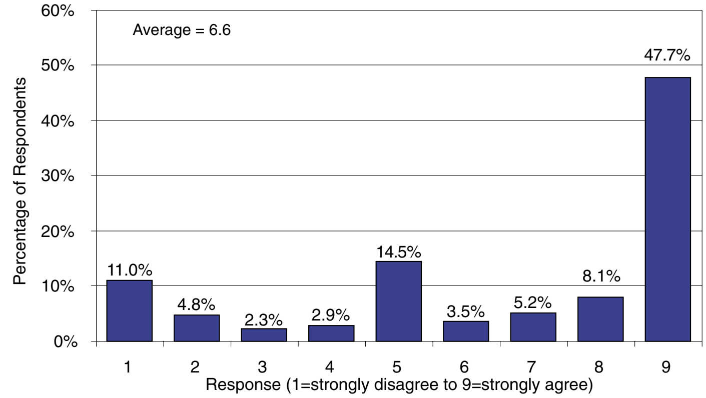


***Figure 10a.** Packers Should Not be Permitted to Own or Feed Cattle – Iowa Feedlot Respondents*

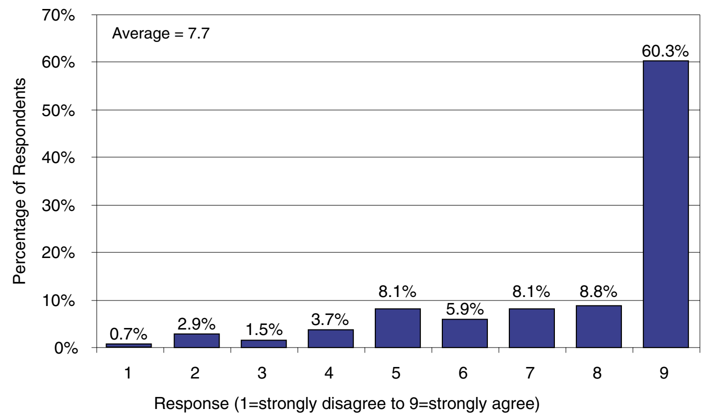
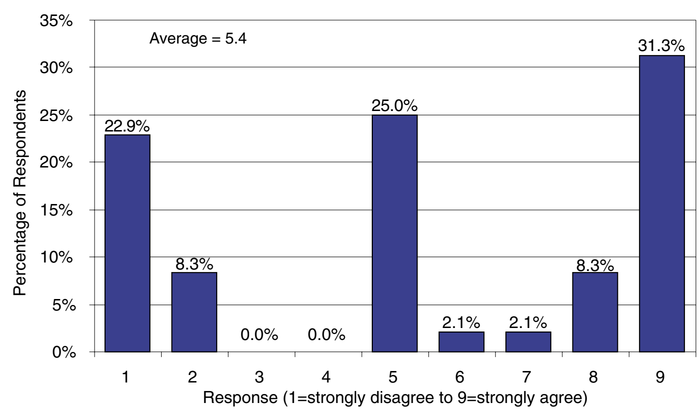


***Figure 10b.** Packers Should Not be Permitted to Own or Feed Cattle Kansas Feedlot Respondents*



their ability to negotiate with packers (Figures 21 to 23). Survey respondents also indicated that current report frequency was generally not timely/frequent enough for their decision needs (average score of 3.8 indicating disagreement that current report timing/frequency was sufficient – Figure 24).

Respondents indicated an increased likelihood of using private information sources following mandatory price reporting initiation (average score of 6.1), although the most common response was 5 (neutral). Figure 25 illustrates the overall response distribution to this statement.

The general sentiment that mandatory price reporting was not perceived as benefiting respondents is not necessarily an indictment against price reporting by the USDA. Rather, this likely reflects sentiments that mandatory price reporting has not markedly improved the amount or type of information available and appears to have reduced timeliness.

Figure 10c. *Packers Should Not be Permitted to Own or Feed Cattle Nebraska Feedlot Respondents*

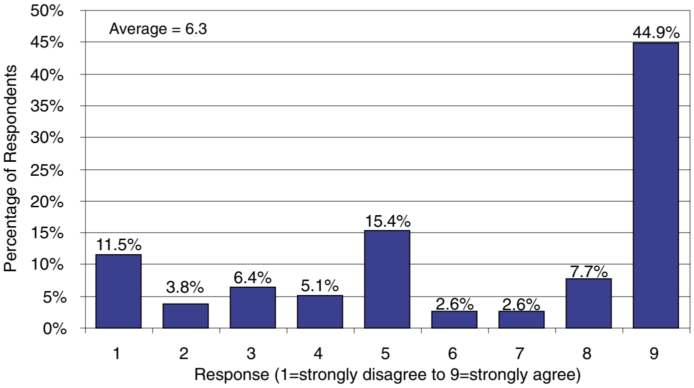


Figure 10d. *Packers Should Not be Permitted to Own or Feed Cattle Texas Feedlot Respondents*

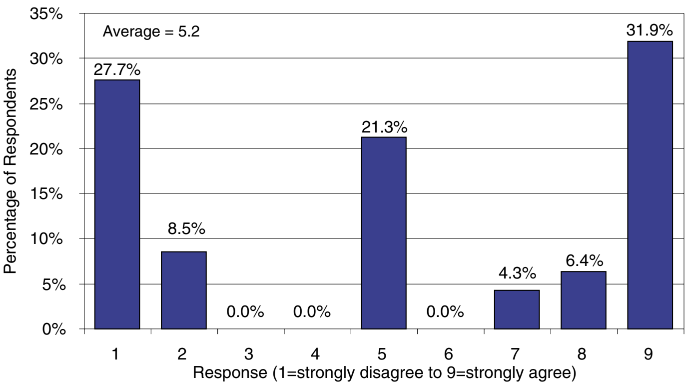
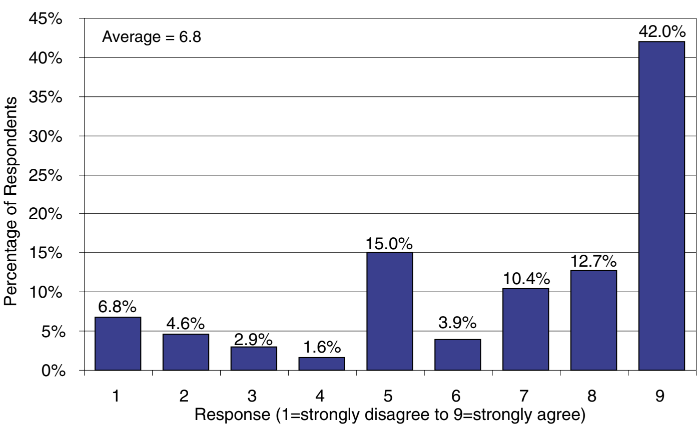


Figure 11. *Reduced Trading in the Cash Market would be Harmful to the Beef Industry*



Conclusions and Implications

Results of this survey indicate several important changes occurring in fed cattle markets. First, cattle feeders are increasingly involved in marketing agreements, with 64 percent of respondents indicating they used an agreement for at least some of their cattle sales in 2001 and 74 percent indicating they expect to do so by 2006. Respondents further indicated they marketed 52 percent of their fed cattle under a marketing agreement in 2001 and plan to market 65 percent in this way by 2006. Producers indicated they marketed 53 percent of their fed cattle using cash live or carcass weight markets in 2001, but they expect to only market 33 percent that way in 2006. They indicated pricing 45 percent of their cattle using grids in 2001 with intentions to increase this to 62 percent by 2006.

Figure 12. *Packers Should Not be Permitted to Contract or Form Marketing Agreements with Feeders and Cattle Owners*

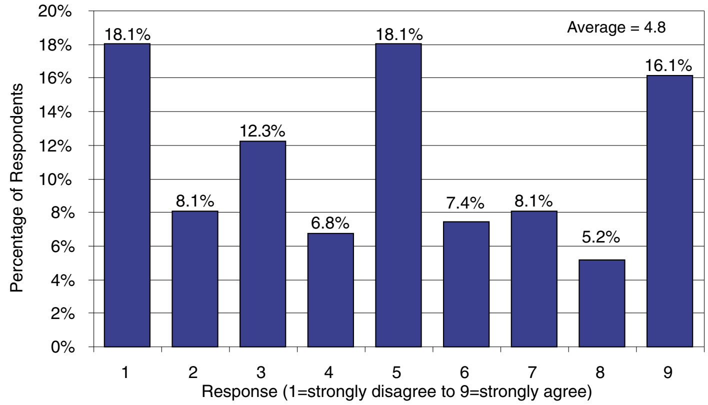
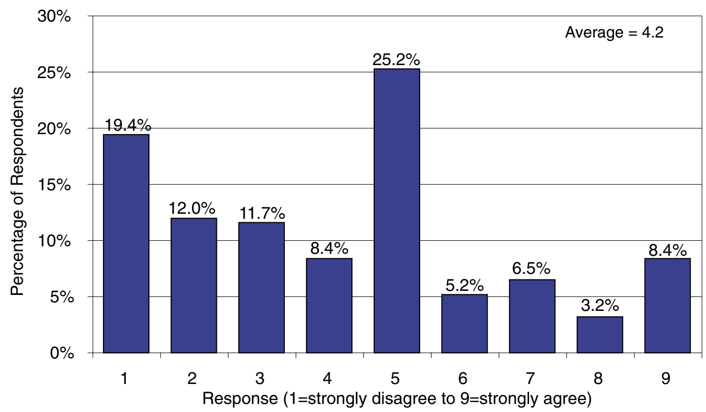


Figure 13. *Packers Should Not be Permitted to Contract or Form Marketing Agreements with Retail and Food Service Customers*



Results document the extent to which use of cash fed cattle markets are expected to continue to decline over time. At the same time cash fed cattle markets are declining, survey respondents indicate concerns that reduced cash fed cattle trade is likely to be harmful to the industry. It is not surprising that respondents prefer to have base prices in grids tied to boxed beef or retail markets. Dwindling volume of cash trade may make this necessary. However, most grid base prices are tied to plant average or local cash market prices, and respondents expect these to continue to be important sources of base prices in the future. As cash fed cattle market volume declines, concerns may grow about how representative plant average and local cash market prices may be. Together, cattle feeders and beef packers need to find sources of base prices other than cash fed cattle prices or plant averages. If they do not, momentum for policies attempting to force various marketing or pricing methods upon the industry are possible at some point in the future.

Table 11. *Cattle Feeder Perceptions Regarding Mandatory Fed Cattle and Boxed Beef Price Reporting (1=Strongly Disagree to 9=Strongly Agree)*

Survey Statement	All Respondents	Iowa Respondents	Kansas Respondents	Nebraska Respondents	Texas Respondents
Mandatory price reporting is benefiting the beef industry	4.3	4.8	3.1	4.5	3.7
Mandatory price reporting is not as beneficial as expected	7.3	6.9	8.0	7.4	7.6
Information on regional daily fed cattle cash prices has increased	3.6	3.8	3.4	4.0	2.5
Information on national daily fed cattle cash prices has increased	3.7	3.9	3.4	4.0	2.7
Information on base prices used in grid pricing has increased	3.9	4.2	3.5	3.9	3.1
Information on premiums/discounts used in grid pricing has increased	4.0	4.3	3.8	4.2	3.3
Information on boxed beef prices has increased	4.4	4.5	4.2	4.8	3.7
MPR has enhanced my ability to negotiate cash prices with packers	3.0	3.3	2.1	3.4	2.2
MPR has enhanced my ability to negotiate base prices or formulas with packers	3.0	3.2	2.3	3.5	2.3
MPR has enhanced my ability to negotiate grid premiums/discounts with packers	2.9	3.1	2.2	3.5	2.3
Current morning, afternoon, and daily summary reports are timely/ frequent enough for my decision needs	3.8	4.3	3.0	3.6	3.6
MPR has made you more likely to use private price information sources (e.g., Cattle-Fax or others)	6.1	5.6	6.9	6.6	6.0

Respondents indicate that grid pricing and marketing agreements have enabled producers to obtain more information regarding carcass quality and yield grades, and to secure associated premiums and discounts. Such pricing and marketing arrangements obviously are valued by survey respondents or they would not indicate such large anticipated increases in future use. Such pricing methods clearly benefit the industry by improving the flow of quality information from consumers to producers. Therefore, it is imperative that policies do not inhibit value-based pricing and information sharing networks, or much of the progress made to date could be jeopardized.

Respondents generally do not want beef packers to own or feed cattle. However, many cattle feeders have opposite sentiments regarding this issue, with marked differences by location and correlation with feeding operation size. Iowa cattle feeders are strongly opposed and Nebraska producers are moderately opposed to packer feeding. Kansas and Texas producers are somewhat neutral. However, a large number of producers in Kansas and Texas are strongly opposed to banning packer ownership and feeding of cattle. This issue is likely not settled. However, respondents were clear that they do not want contracts or marketing agreements between packers and cattle feeders eliminated.

Figure 14. *Mandatory Price Reporting is Benefitting the Beef Industry*

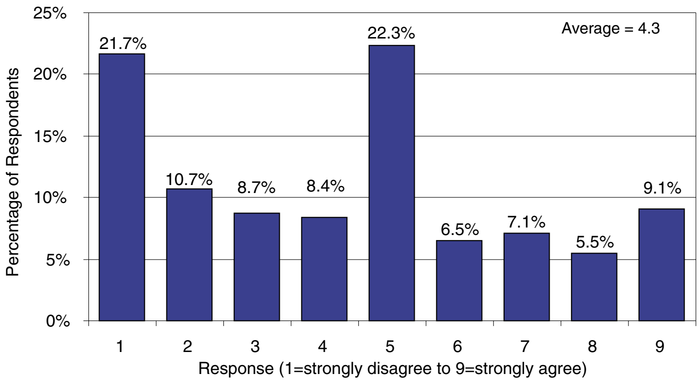


Figure 15. *Mandatory Price Reporting is Not as Beneficial as Expected*

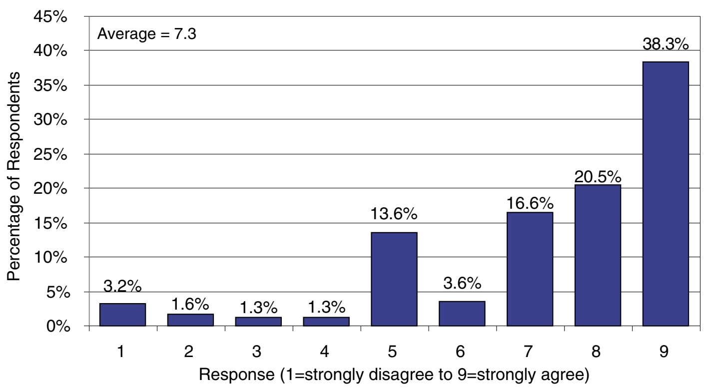


Figure 16. *Information on Regional Daily Fed Cattle Cash Prices has Increased*

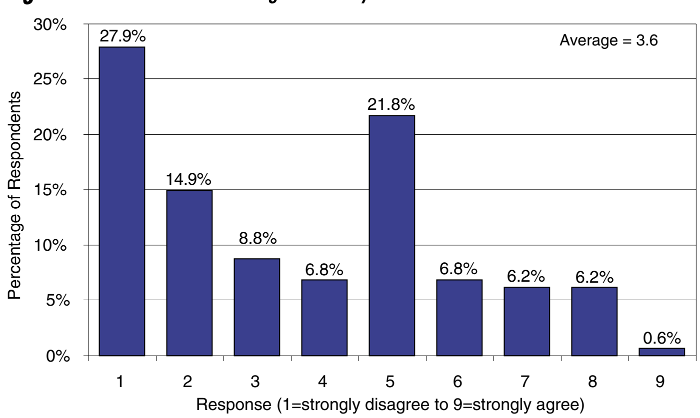


Figure 17. *Information on National Daily Fed Cattle Cash Prices has Increased*

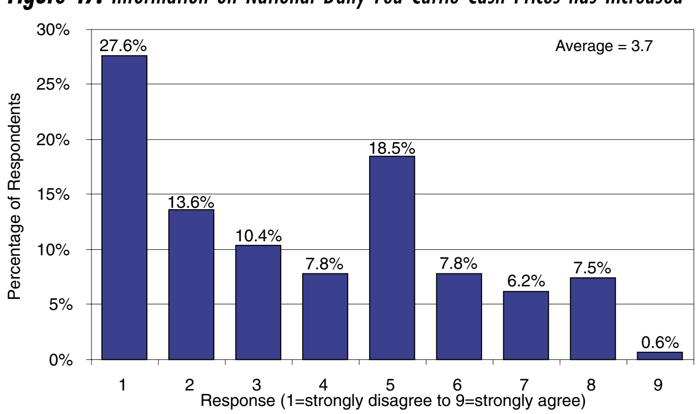


Figure 18. *Information on Base Prices Used in Grid Pricing has Increased*

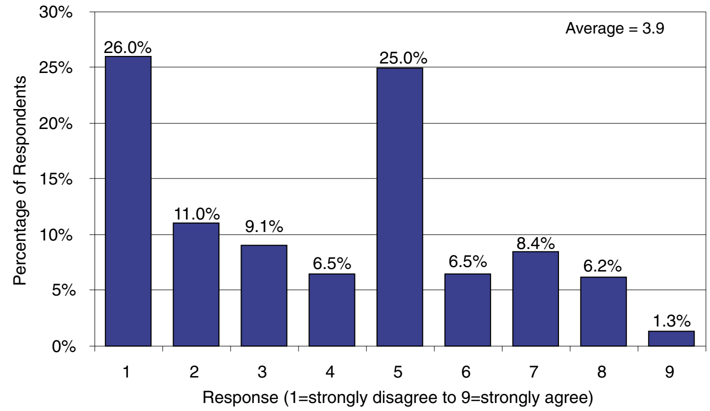


Figure 19. *Information on Premiums/Discounts Used in Grid Pricing has Increased*

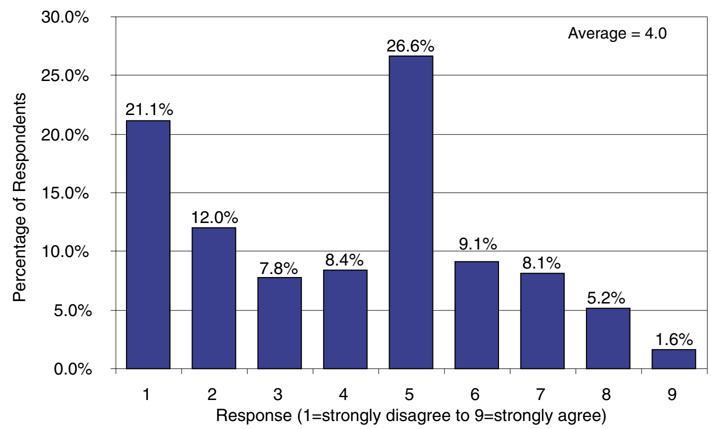


Figure 20. *Information on Boxed Beef Prices has Increased*

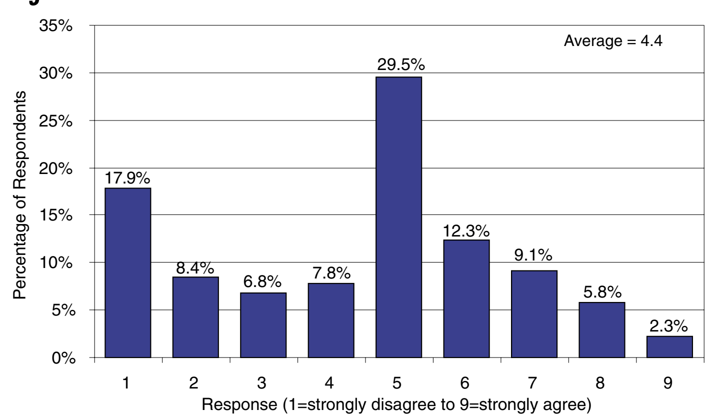


Figure 21. *Mandatory Price Reporting has Enhanced My Ability to Negotiate Cash Prices with Packers*

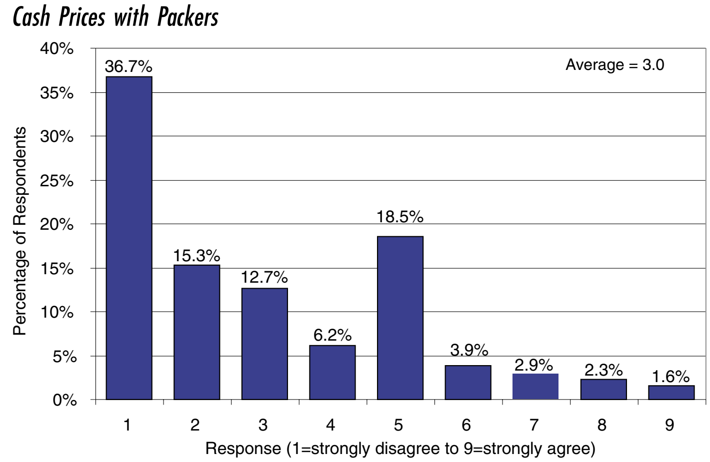


Figure 22. *Mandatory Price Reporting has Enhanced My Ability to Negotiate Base Prices or Formulas with Packers*

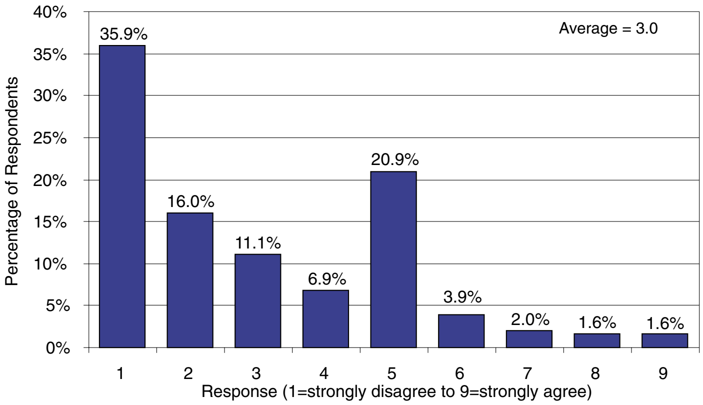


Figure 23. *Mandatory Price Reporting has Enhanced My Ability to Negotiate Grid Premiums/Discounts with Packers*

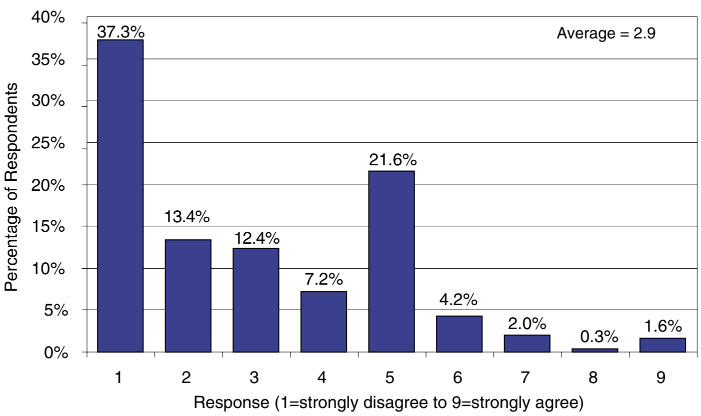


Figure 24. *Current Morning, Afternoon, and Daily Summary (Mandatory Price) Reports are Timely/Frequent Enough for My Decision Needs*

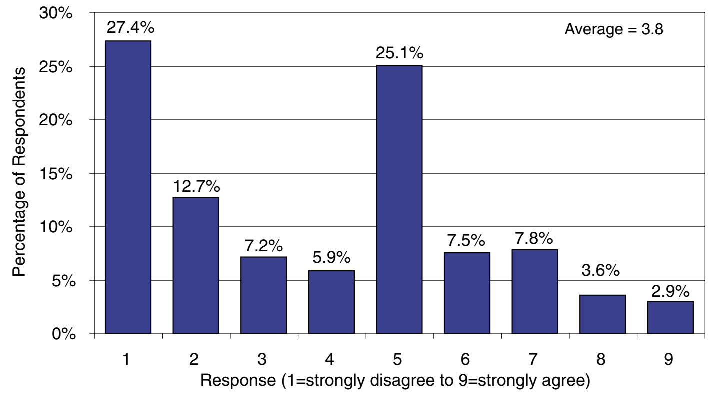
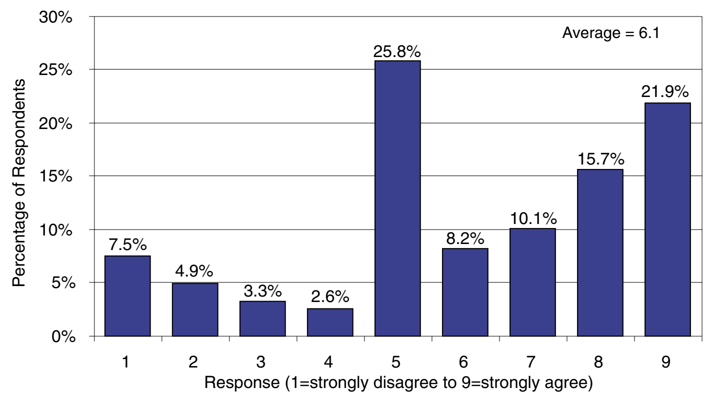


Figure 25. *Mandatory Price Reporting has Made You More Likely to use Private Price Information Sources (e.g., Cattle-Fax or others)*



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