

BIDDING FOR VALUE



Quality, health and consistency are key to a rewarding auction experience.

by Wes Ishmael

Calf and feeder-cattle buyers today expect more than they ever have because their customers demand more. That means sellers have less room for error if they want to stay on the positive side of widening price spreads between cattle of similar class, weight and condition.

This article considers cattle selling at regularly scheduled auctions, be it at physical facilities or via video and internet. Auctions — presenting cattle to multiple buyers in an atmosphere of competitive bidding — continue to be the most prevalent marketing venue for calves and feeder cattle.

“Live auction is true price

discovery. I am very proud of the buying power provided here week in and week out,” says Kelli Payne, president of Oklahoma National Stockyards in Oklahoma City (ONSY).

It is the world’s largest physical facility auction, marketing 436,000 head of stocker and feeder cattle last year. Since beginning in 1910,

Payne says ONSY has marketed more than 110 million head of cattle.

Although the number of cattle marketed through video/internet continues to grow, physical auctions are maintaining their ground.

“We’re seeing new markets being built in multiple regions, as well as changes of ownership,” says Kristen Parman, vice president of membership services for the Livestock Marketing Association (LMA).

There are 846 LMA members, which account for about 80% of all regular auctions, both physical and video/internet.

Buyers at auction reward and discount calves and feeders for a variety of factors, including such things as condition and fill, uniformity and how marketable

those cattle will be to the buyers' eventual customers.

Paying to reduce health risk

If calves aren't weaned at least 45 days and haven't received two rounds of vaccinations, Trent Stewart says they'll bring about \$20 per hundredweight (cwt.) less than preconditioned, double-vaccinated peers.

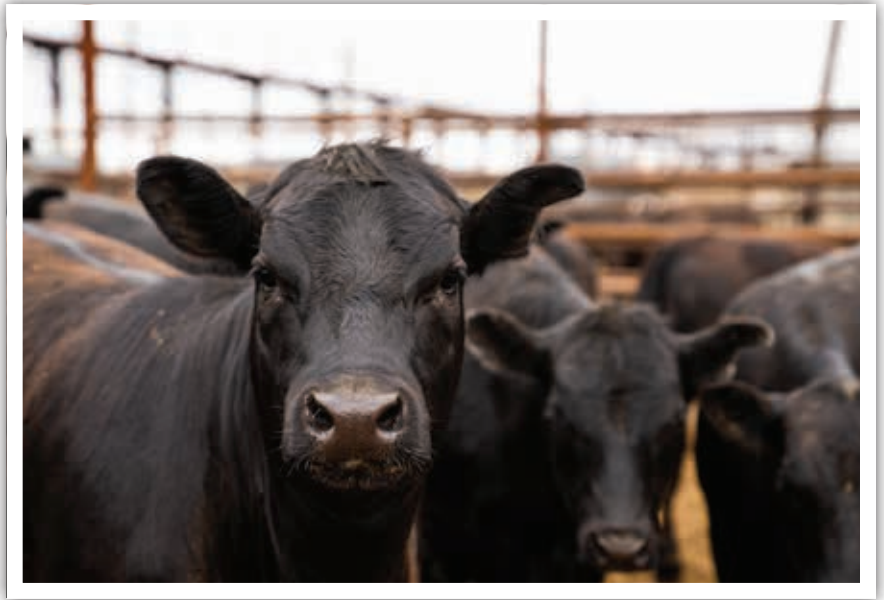
"It's market-driven," says Stewart, who owns Central Oregon Livestock Auction at Madras, Ore. "Discounts are so significant that producers are realizing they need to buy the vaccines; build a facility, if needed, in order to wean; and buy really good bulls."

"Buyer confidence increases if they know cattle have been handled appropriately," Payne says. "No one wants sick animals, and trust me, the buyers will remember a set of cattle that lost them money, the same way they will remember a great set of cattle. As producers, why would we not want to take the extra time and make an investment in our calf crop? While certain circumstances can be limiting (drought, loss of lease pasture, etc.), folks are starting to see the impact on their bottom line from preconditioning their cattle."

The notion of weaning and preconditioning is not new, but it is becoming the industry standard. Fewer feedyards have the manpower or willingness to straighten out and handle bawling calves.

Sorting added value

Next comes the price variation driven by further beef differentiation, which drives increased segregation further back in the supply chain.



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Consider the *Certified Angus Beef*® (CAB®) brand and the beef quality-based programs that followed. The price spread between Choice quality grade and Premium Choice (CAB) continues to grow even as more cattle achieve that level of marbling.

“Right now, the industry, especially the independently owned feedyards, are working to buy Angus-based calves that have a health program behind them and aren't gaining 3 pounds (lb.) a day through the preconditioning phase,” says Bob Rodenberger, co-owner of Apache Livestock Auction, Apache, Okla.

As opposed to cattle being able to gain in the feedlot, Rodenberger's reference has to do with producers, intending to sell preconditioned

calves, who push their calves nutritionally through preconditioning, resulting in overly conditioned calves, which buyers will discount significantly.

Back to Angus-influenced calves, Rodenberger relates details of one order he

started to fill in January and February for calves the buyer could take to Flint Hills grass. The order was for 90% English with a preference for blacks weaned a minimum of 45 days and without excessive condition. He was giving \$10 per cwt. over the market to get them, because other buyers were after the same thing.

“Smaller feedyards are the ones who will pay a premium because they have developed a premium on the back end,” Rodenberger explains.

“Black Angus cattle fit every program, every time. It has to do with all of the people who have built the database, the quality of the cattle and programs like CAB,” says Carson Womble, a representative

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for Superior Livestock Auction, the largest, longest-running video/internet auction (see “Video Differences” below).

“Genetics and quality will outsell anything,” Rodenberger says. “The old adage of upgrading is a thing of the past. ... For average cattle, you’re just looking at the weighted average price.”

In other words, when you start with commodity cattle, then sort them into more homogeneous groups and try to add value through management, they still end up being commodity cattle.

“It pays to buy the best bulls you can from progressive seedstock producers,” Stewart says. “They need to be really predictable cattle.”

He’s a believer in the added consistency associated with using bulls that are half brothers and full brothers.

Consistency drives demand

Whether it has to do with reduced cattle health risk or confidence in the ability of cattle to comply with a variety of added-value specifications, buyer willingness to pay more revolves around predictability and consistency.

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“We continue to see the price spread between average and premium cattle widen. It goes back to the consistency everyone wants,” says Jed Connealy of Connealy Angus at Whitman, Neb., who is also a representative for Northern Video Livestock Auction.

In fact, Connealy first got

involved with video marketing to help bull customers market their calves.

“We wanted to differentiate cattle with superior genetics from cattle with average genetics. There was no good genetic-verification platform at the time,” Connealy explains. “I knew customers’ cattle and operations, and buyers knew who we were and what we did.”

Similarly, Art Butler of Spring Cove Ranch at Bliss, Idaho — another veteran Angus seedstock operation — became a representative for Western Video Market to help his bull customers with a long-term vision of adding value to their cow herds and calves.

Oklahoma National Stockyards hosted two special Angus-influenced specials last year. These were included in the regular weekly sale. Many of the Angus-influenced calves were enrolled in

Video differences

Marketing cattle at a physical auction or broadcast via video or internet is similar. Both offer the opportunity to offer cattle to multiple buyers on a given day with competitive bidding. However, there are some key differences.

“You’ve got to have enough numbers to make a load lot you’ll be proud of and will perform similarly,” says Jed Connealy, a representative for Northern Livestock Video Auction, of what works for selling on video.

“Everyone wants predictability and consistency in what they’re buying. At the end of the day, we need to strive for a consistent product.”

Making a consistent load typically means having more than the number required. As Connealy says, no matter how superior the genetics and management, there is natural variation associated with a calving season of 45-60 days.

“Video marketing works best for producers with a health program, a breeding program and [who] want to produce a load lot of cattle that look alike,” says Art

Butler, a representative for Western Video Market. “It really works for producers in remote areas, where shrink and freight can eat up returns.”

One key difference to video marketing is that the cattle never leave the home operation. They’re sold for future delivery. That means cattle are never commingled or endure the shrink associated with taking them to market.

“Some people don’t truly understand what shrink involves. Loading them up and taking them to town, shrink can easily be 10%. Buyers are willing to accept less shrink,” Butler explains.

Shrink for video/internet cattle is typically 2%-3%. Cattle trailed a ways to the truck, loaded and then hauled to a scale a ways off will typically be assessed less shrink. Those weighed on the ground before climbing on the trailer will typically be assessed more.

Also, buyers of cattle sold through video pay the freight.

Carson Womble, a representative for Superior



PHOTO BY KATY HOLDENER

Based on video sale data from last summer, Angus-sired genetics brought \$5.01 per cwt. more than others enrolled in source- and age-verification programs, plus vaccination.

AngusLinkSM, besides being weaned at least 60 days and having two rounds of vaccinations.

AngusLink offers a suite of USDA-certified Process Verified Programs (PVPs), including genetic documentation, along with a Genetic Merit Scorecard[®] that predicts genetic potential for feedlot

performance and carcass value.

Price differences at ONSY between Angus-influenced calves and other cattle of similar class and weight were significant. For instance, light five-weight Medium and Large No. 1 steers with Angus documentation brought \$173.14 per cwt. in the Dec. 7 Oklahoma

Special, compared to \$163.93 for others at the same weight. There were similar price spreads at the Angus Special Aug. 10.

Video sale data from last summer also illustrate the point. Based on program claims, Angus-sired genetics brought \$5.01 per cwt. more than others enrolled in source- and age-verification programs, plus vaccination. Angus-sired calves brought \$7.86 per cwt. more than others enrolled in Non-hormone Treated Cattle (NHTC) and all-natural (no antibiotics) programs.

Further, the American Angus Association analyzed whether buyers were differentiating Angus-sired calves based on the Angus Genetic Merit Scorecard. In simple terms, the upper half had a Genetic Merit Scorecard Beef Score of 147 and brought \$12.43 per cwt. more than the bottom half that had an

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Livestock Auction (SLA) explains that selling for future delivery also means producers can effectively forward-contract cattle without a complex hedging strategy. SLA is the industry's video/internet pioneer and markets more than 1 million head each year.

Womble was an SLA customer before becoming a representative.

"I was working hard on my genetics and cow herd and wanted to get paid for doing the extra work," Womble says. "I thought the best way was to describe them in a contract and market through the video."

In simple terms, the buyer of your calves pays a nonrefundable deposit per head on sale day. The auction company typically shares a portion of that deposit with the seller. On the day of delivery, the buyer pays the balance. The seller receives payment, minus deposit money paid at the time of sale and minus commission and any other fees.

There are other key differences with video marketing. They include details about arriving at pay weight for the

cattle, such as price slides and weight stops. The representative you consider is best equipped to provide a detailed explanation.

"I want you to watch one of our sales before you get involved. Find cattle similar to yours in weight, delivery window and genetics. Look at how the contract is written, the different ways sellers and their representatives describe the cattle," Womble says. "Study the market and understand what we're going to do is a four- to six-week process."

It takes time to video the cattle. Most importantly, it takes time to write a contract describing the cattle, weighing conditions and other details that make a favorable trade for both buyer and seller.

"This is not a knee-jerk thing; it's a process. It's about trusting the process, doing the work and following through," Womble says. "We have to do all of these things. We have to realize we're going to be in a very big arena, competing with others who have well-written, high-quality contracts that are well-executed."

average Genetic Merit Scorecard Beef Score of 121.

“The number of markets is increasing that work with breed organizations to leverage genetics and management in order to provide customers new marketing opportunities,” Parman explains. “Don’t underestimate your marketing plan and that your local sale can be an advisor for that marketing plan. Develop a relationship with your local auction operator and use them as an advisor.”

Use programs, don’t chase

“I don’t know that I sell a set of cattle that aren’t program cattle of some sort, from AngusLink to GAP (Global Animal Partnership),” Connealy says.

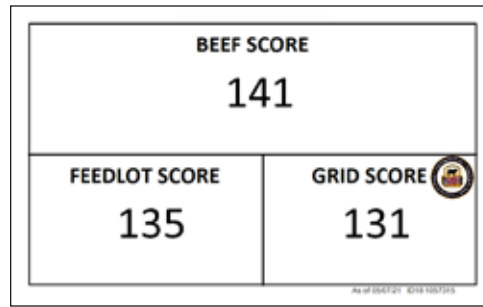
For the purposes of this article, program cattle are those that qualify for a variety of value-added programs, whether a defined weaning and preconditioning program, genetics, NHTC, all-natural, or the animal welfare and environmental claims associated with the GAP. These programs often require third-party verification through a PVP.

“Genetic verification is relevant in any of these programs,” Connealy says. “Cattle with upper-end genetics will excel in those programs — cattle with the genetics for growth, feed conversion, efficiency and genetic verification.”

Buyers of natural and NHTC cattle covet genetic performance even more since they’re unable to use growth implants.

“If one of those programs fits your operation, use it; but I’m not sure we need to try to make our operation fit a program,” Connealy says. He adds that many producers

Fig. 1: Angus Genetic Merit Scorecard



AngusLink offers a suite of USDA-certified PVP claims, along with a Genetic Merit Scorecard that predicts genetic potential for feedlot performance and carcass value.

are closer to fitting these programs than they might think.

Bottom line, to have a crack at the most value, Stewart says, “Wean your calves 45 days, put an electronic ID (eID) tag in their ear and enroll them in a third-party-verified all-natural or NHTC program.”

Documentation has power

“In the last two or three years, we’ve seen great demand from cattle feeders and grass feeders (stockers/grazers). They want the documentation because the next buyer wants the documentation,” Butler explains.

In some cases, the documentation is worth more than many would guess. For instance, Butler shares the story of a summer grazier who bought calves from one of his customers. A few of the calves showed up on shipping day without their eID tags. Still, the producer had the eID cross-referenced to the dangle ear tags, so they could provide the information. That information was worth \$300 per head to the buyer because of the deal he had with who was buying the cattle coming off grass.

For health programs, Connealy says, “Whether through AngusLink

or other programs, we can transfer information from the seller to the buyer. The buyer knows what the health program has been, where the cattle are currently and that helps them know the next step to take.”

Connealy adds that AngusLink helps match cattle with the right buyer.

For instance, the Genetic Merit Scorecard carcass score likely has more value to a feedlot intending to market them on a quality-based grid, while those marketing live weight probably place more value on feedlot performance.

While documentation matters, keep in mind the value of the information the auctioneer knows and can share about the cattle.

“At the point of sale, the right marketing partner understanding and promoting the product is influential,” Stewart says.

One reason is the sheer volume of cattle many buyers are tasked with buying. For instance, if you need to get 2,500 head bought every week, there’s lots of data to sift through.

“I think the price spread is going to continue to widen,” Payne says. “As producers, we need to be thinking about the end product; the steak on the plate. How do we make sure the customer is getting the best product available? Genetics, proper handling, vaccinations, appropriate weaning, dehorning, etc., will all come into play. You worked hard getting the cow bred and fed, maintained your rangelands. Why would you not apply the same work into your calf crop? After all, it’s your name on the product.”

Editor’s note: Wes Ishmael is a freelance writer from Benbrook, Texas.