SALES CONTRACTS FOR CALVES

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In keeping with the theme of "Challenges and Opportunities in the Nineties", I feel that the area of marketing offers both! Once you have produced a desirable product, it must be marketed to the greatest advantage to fully realize its worth.

One valuable tool of marketing is forward contracting, or establishing a selling price in advance of the actual delivery. We contract in April or May and deliver in July. The contract price is based upon the average weight and grade of a load of calves.

Contracting presents the challenge of producing what the market wants in uniform truck load lots. This is in contrast to the producer producing what he wants and then marketing that on an individual basis. Contracting presents further challenges in the logistics area, e.g. penning, sorting, hauling, weighing, loading tractor-trailers, etc.

Along with the challenges, contracting also offers opportunities to:

1. Sell calves during a traditional high market for delivery during a lower market season.
2. Take advantage of truckload prices.
3. Establish projected sales figures in advance for budgeting and cash flow and tax planning purposes.
4. Take advantage of better production practices, e.g. dehorning, vaccinating, working, etc., thereby avoiding discounts associated with calves coming from the Southeastern Region.
5. Establish a history of performance, especially if calves can be followed through to the end point (slaughter and grading).
6. Establish a market closer to the end point. This will become more important as the industry matures and integrates further. Hopefully, some broker margins can be gained in the process.
7. Establish backgrounding and health management programs with buyers, which aid in the transition of calves from the ranch to the buyer, again avoiding discounts and increasing net return.

Contracting offers the buyers some opportunities as well. It allows him to lock in a sell price in advance of delivery for budgeting feed, sales and all other planning purposes. He is also able to purchase a uniformly managed product directly from the ranch rather than mixed loads handled through markets, brokers, etc.

The only pitfalls I can see would be to contract calves early and have the cash market above the contracted price at time of delivery or to contract on a high market, have the market fall and the buyer not perform. However, in the latter case, I still have the cash market plus the deposit money.

I first became interested in contracting when our cattle numbers reached the point of being able to market in multiples of one hundred (a truckload lot is 100, 475 lb. calves) and two-thirds or more of the calves fell into the same weight and grade categories. To get this uniformity, we have shortened our breeding season and over ninety percent of our calves are born in a 45-50 day period.

In the past, every year near selling time, we would try to determine how late we could hold our calves to gain weight before the market would fall enough to offset the gains. Three years ago, we sold early only to have the market go up rather than fall, and we lost in price and weight as well. Last year we contracted early through a video sale and avoided the price drop experienced in relation to the drought. We felt much more comfortable holding our calves to maximize weaning weights after having contracted earlier.

In the contracts we have negotiated, an average weaning weight is predicted based on past experience and current conditions. The number of loads of calves and their delivery grade and/or type is established. From this information, a price per pound is negotiated and a deposit and the delivery date agreed upon.

To take into account some variance in the predicted weaning weights, a "slide" is agreed upon in which the price is adjusted downward for weight above the contract and upward if the calves are lighter. There is usually a weight bracket or "dead space" of twenty-five pounds either side of the predicted weight where the price remains the same, e.g., two years ago we predicted steer weaning weights in early May to be 525 lbs. but due to drought conditions we only realized 496 lbs. The contracted slide was an added three cents per pound to the selling price if the calves were below 500 lbs. Last year, in April we predicted 475 lbs. steers and, due to good spring conditions, the calves reached 520 lbs. This caused a price adjustment downward as the contract called for a nickel per hundred weight deduction for weight over 500 lbs.

From our stand point, we feel we are able to avoid some market fluctuations, do a better job of planning and maximize weaning weights by contracting our calves in the spring for summer delivery. Sooner or later it's bound to "catch" us. However, missing some "windfall" market would not likely cost us as much as the better management and planning necessary for contracting has benefited us.

Thank you for your time and patience.