Production, Marketing Plans Need to be Evaluated Separately

By Kris Ringwall
Extension Beef Specialist
NDSU Extension Service

The Dec. 23 issue of Cattle-Fax reported an interesting figure. According to its summaries, the most recent market history (prior 18 months) was an especially variable market in terms of price. I suspect many producers werenít disappointed at recent cattle markets and some were probably so pleased that the impact of these market fluctuations simply went by with little pain.

Cattle-Faxís comment was noteworthy, indicating that the fed market moved $3 per hundredweight from one week to the next 29 times in the last 18 months. This is more movement in the market than has been seen in more than 22 years, according to Cattle-Fax. The notation brings up the constant dilemma of monitoring production plans within the beef operation while simultaneously monitoring marketing plans.

An ever-changing market constantly revalues cattle in the system and makes predictive change from production plans extremely difficult. When monitoring production plans, the most common end point of discussion amongst producers is the question, ìDid you make any more money?î The point that always needs to be remembered is that changes in market price can have a significant impact on the bottom line of any production plan, but the bottom line may not have had any impact on the production plan.

Production plans need to be evaluated based on a common market number and not on the current bottom line. That is a hard concept to get across, as the dollar value seems to be the determining factor. At least, itís the factor most producers want to talk about first. Production plans and market plans have two completely different functions.

In a production plan, the goal is to develop a product that meets the desired specifications of the market, choice versus select, yield grade 2 or better, rib eye area, etc. These criteria are independent of the current market. For example, given a weekly change in market price of $3 per hundredweight on a 1,200-pound steer, the $36 dollars could come and go simply on market ups and downs.

Over the course of the 18 months that Cattle-Fax evaluated the price shifts, several pens of cattle could be fed using different production plans. Depending on how the beginning and end dates fit the production calendar, there is a significant chance of hitting a negative price impact with a positive production plan. Simply put, a shift up at the start of the feeding period and a shift down at the end of the feeding period will decrease dollars realized. This shift, however, should not overshadow the production impacts.

Until last year, the $36 dollar value in quick market price shifts was more than twice the net profit seen in cattle the Dickinson Research Extension Center fed out over the last few years. A quick market jump or decline certainly can test a producerís willingness to feed cattle. However, feeding cattle is the only way producers really get a handle on how their cattle fit the current needs of the food chain.

In addition, not only the dramatic volatility of the market, but the seasonal and yearly price fluctuations and changes in the Choice-Select spread, make it impossible to compare pens of cattle across different feeding time periods without using a set value for the product. Currently the center is utilizing feedlot-generated numbers that use the USDA averages from 1997-2003 as a reference point and then adjusts the value of each animal according to deviations from weighted means.

In the end, long-term and short-term production and marketing plans need to be evaluated. The evaluation of production plans, however, must involve standardized pricing mechanisms in order to make correct management decisions.

May you find all your USAIP ear tags.

Your comments are always welcome at *www.BeefTalk.com*. For more information, contact the North Dakota Beef Cattle Improvement Association, 1133 State Avenue, Dickinson, ND 58601 or go to *www.CHAPS2000.com* on the Internet. In correspondence about this column, refer to BT0228.

Production Plans Need to Account for Price Variability

In the past 18 months, weekly fed cattle prices increased or decreased $3 or greater 29 times from one week to the next.

$

Source: December 23, 2004 Cattle-Fax