A Marketing Strategy For Livestock

A joint project of the Cooperative
Extension Service, Farm Credit and
Chicago Mercantile Exchange

A Marketing Strategy for Livestock

- calculating production costs
- evaluating price objectives
- consequences
- six-step strategy
- determining price objectives
- net price level and price risk
- reevaluation

A Good Marketing Plan

1. Focuses on realistic goals
2. Compares pricing alternatives
3. Appraises odds of meeting goals
4. Assesses levels of risk
5. Identifies price decision model
6. Encourages periodic evaluation

Marketing Questions Faced by Livestock Producers

1. Price level to market?
2. When to price?
3. Where to market?
4. What to market?

Marketing Rule:

If the price difference between point A and point B is equal to or greater than the shipping cost, then ship to A.

Marketing Rule:

If the price difference between weights B and A is equal to or more than the cost of producing weight B versus A, then put on more weight.

Pricing Questions Are Related To:

1. Production schedule/volume
2. Financial condition, goals and needs
3. Attitude of producer
4. Economic conditions of market

A specific pricing plan has:

- Specific goals that can serve as criteria for judgement
- A pricing mechanism which triggers action when goals are reached.

Pricing Decision Model

Financial
Criteria
Weights

Outlook
Criteria
Weights

Technical
Criteria
Weights

Decision Rules -- Triggers Action

Examples of Cash Flow Needs

- Keep operation afloat
- Plus debt repayment
- Plus min. family living
- plus higher family living
- Plus operation expansion

Examples of Cash Needs

■ Keep operation afloat Plus:	$28,750
■ Debt repayment	30,000
■ Minimum family living	31,250
■ High level family living	32,500
■ Expansion of operation	33,750

Examples of Cash Flow Needs

Keep operation afloat Plus:	$46/CWT
Debt retirement	48/CWT
Minimum family living	50/CWT
High level family living	52/CWT
Expansion of operation 250 hogs at 250 pounds --	54/CWT 625/CWT

Livestock Marketing Alternatives Are:

1. Forward Contract
2. Futures Contract
3. Cash Market

Bounds for Making Decisions

Step 1

Determining Today's Prices:

Forward contract	$50
Futures contract	$52

Bounds for Making Decisions

Step 2

Estimating Basis:

Widest possible	$2.50
Narrowest possible	1.50
Most likely	2.00

Bounds for Making Decisions

Step 3

Estimating Net Hedge Return:

	WIDE	NARROW	LIKELY
FUTURES	$52.00	$52.00	$52.00
- BASIS	2.50	1.50	2.00
NET	49.50	50.50	50.00

Bounds for Making Decisions

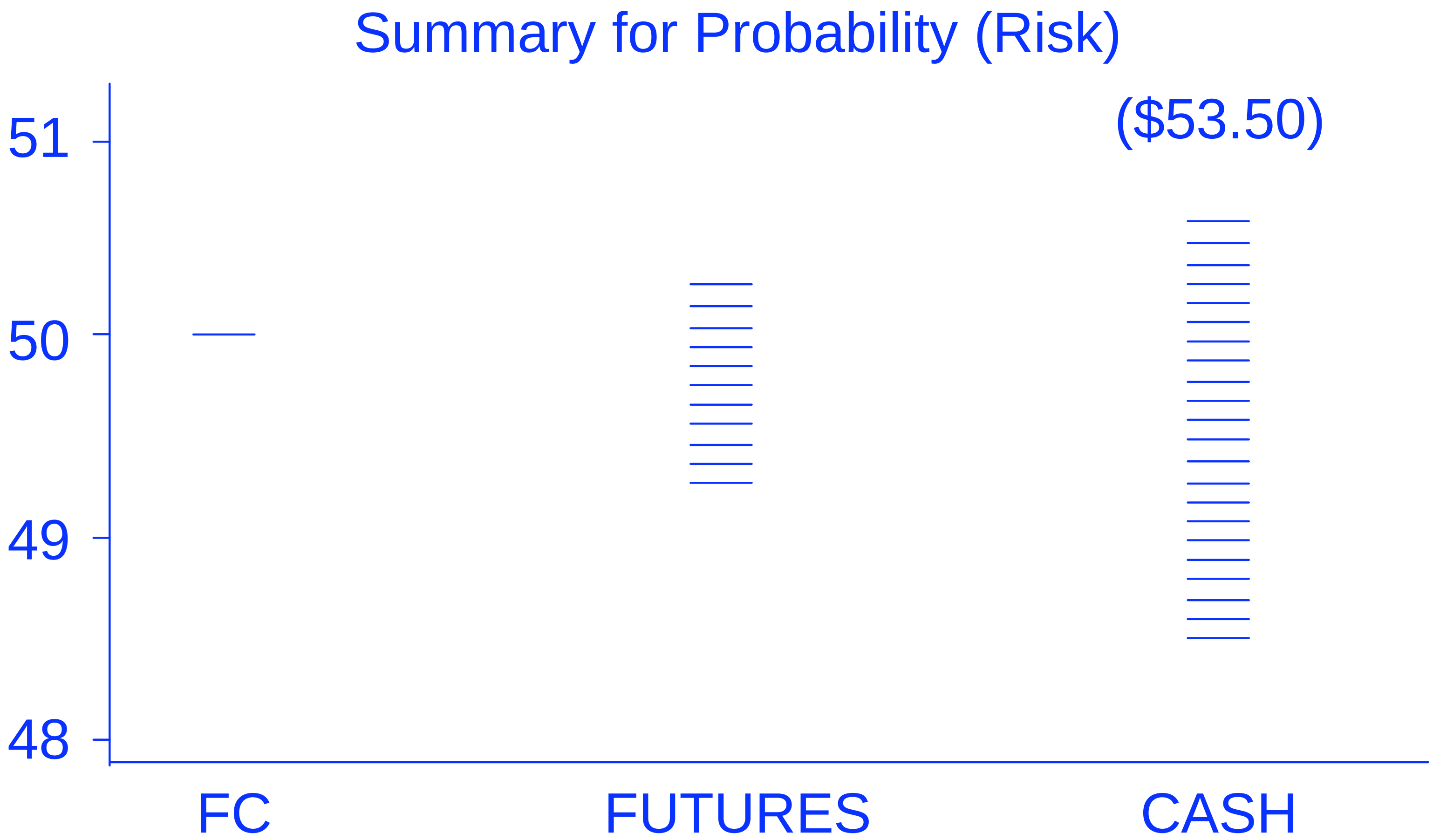
Step 4

Estimating Delivery Cash Price:

Highest possible	$53.50
Lowest possible	48.50
Most likely	49.75

Bounds for Making Decisions:

Step 5



Bounds for Making Decisions

Step 5 Risk in Price Ranges

Forward No Risk

Contract $50.00

Price

Futures Mod. Risk

Prices $49.50 $50.50

Expected

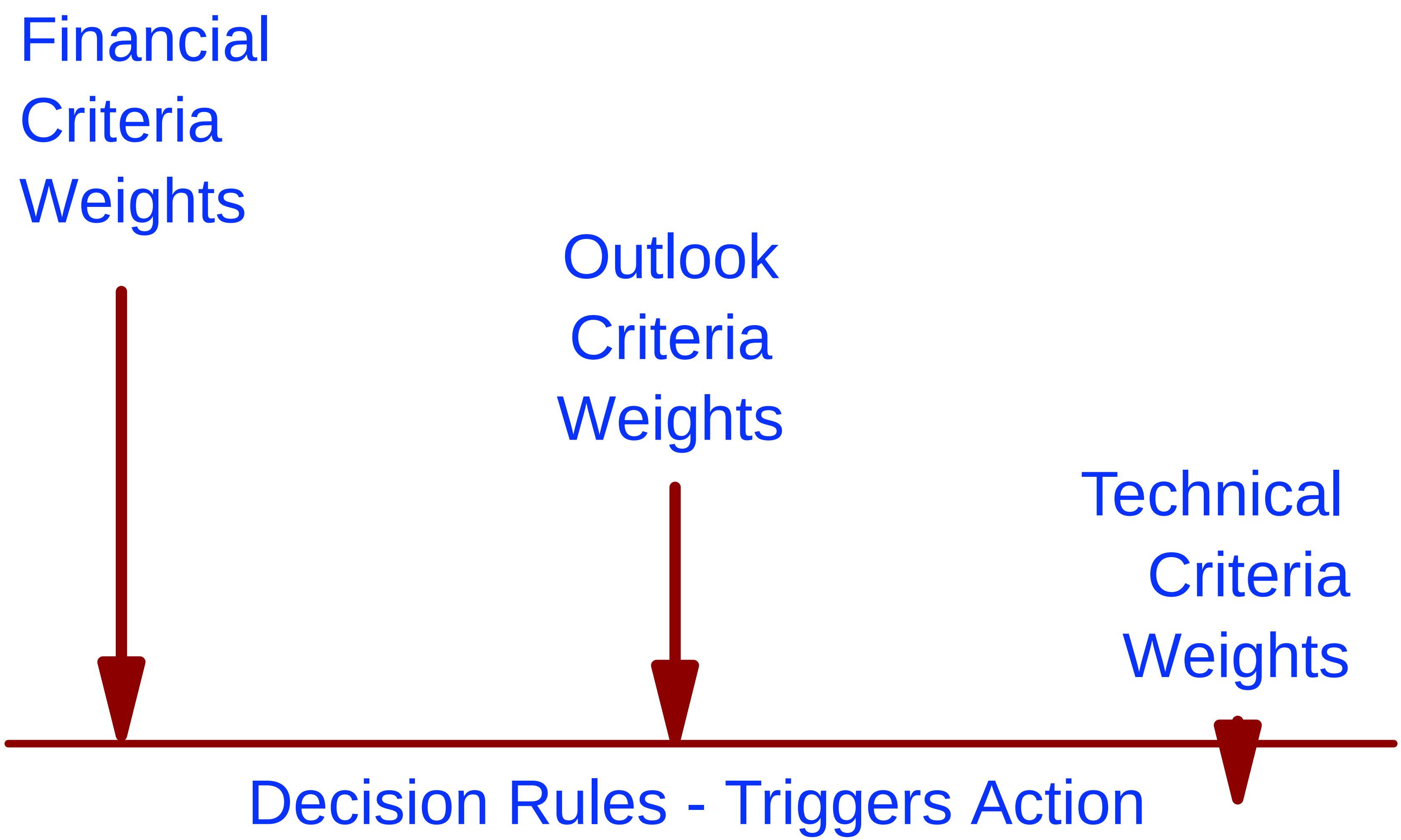
Cash $48.50 $53.50

Prices High Risk

Probabilities of Min. Price Levels From Various Markets

Threshold Levels	Cash Market	Probability Forward Contract	Futures Hedge
Cwt		Percent	
$46	80	100	100
48	75	100	100
50	70	100	98
52	65	65	67
54	60	60	60

Pricing Decision Model



Examples of Pricing Model Criteria and Weight Comparisons

Current Contract Prices Versus:

A. Financial needs of the enterprise (Threshold Price)
B. Outlook prices
C. Signals from tech. analysis

Example Criteria and Weights

A. Current Contract Price vs. Financial Need

WGT	Contract Price Is:
1	Much below (5%) threshold
2	Some below (5%) threshold
3	Equal to threshold
4	Mod. over (2-3%) threshold
5	Well over (5%) threshold

Example Criteria and Weights

B. Current Contract Price vs. Outlook

WGT	Contract Price Is:
1	Much below outlook price
2	Mod below outlook price
3	About equal to outlook
4	Mod above outlook price

Example Criteria and Weights

C. Current Contract Price vs. Technical Signals

WGT	Contract Price Is:
1	Short term uptrend
2	Sideways trend
3	Short term downtrend

		CRITERIA	
OPTIONS	A Only	A & B	A, B & C
		Aggregate Sum-Wgts	
No Forward Pricing	1-2	2-5	3-7
Price Some Production	3	6	8
Scale Up Amt. To Be Priced	4	6	9-10
Price Remain. of Production	5	9	11-12