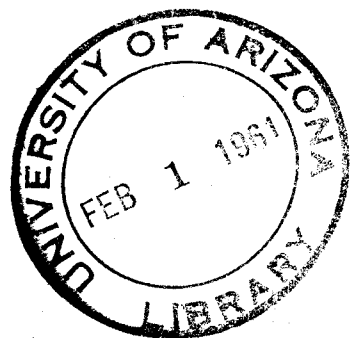


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REPORT 194

NOVEMBER, 1960



# Marketing Cattle and Calves From Small Feedlots In Arizona and California

THE UNIVERSITY OF ARIZONA  
ARIZONA AGRICULTURAL EXPERIMENT STATION  
TUCSON

MARKETING CATTLE AND CALVES FROM SMALL FEEDLOTS IN  
ARIZONA AND CALIFORNIA<sup>1</sup>

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Appreciation is expressed to individual cattle feeders, the Arizona Cattle Feeders' Association, California Cattle Feeders' Association and others who were of help in this study.

Introduction

Cattle feeding in Arizona and California is typified as being done by large commercial feedlots whose capacity runs up to 25,000 head. All of these feedlots are essentially markets and the feedlot managers are qualified cattle sellers and buyers. Most of the marketing is done direct. There is some question as to how the small feeder fits into this cattle feeding industry as far as marketing fat cattle is concerned. The purpose of this report is to examine the market avenues available to these small feeders and determine how dependent he is on the custom feedlot as a market avenue for his cattle.

The methods of sale at the feedlots are: (1) live weight with a pencil shrink, (2) grade-and-yield basis, (3) rail basis, and (4) open consignment.

The cattle sold on a live weight basis are sold F.O.B. the feedlot and prior to weighing, the cattle are held in the alley for one hour. The feedlot scale weights constitute the sale weight with a four per cent pencil shrink taken from this weight.

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1. This publication presents results from research conducted under Western Regional Project WM-39 "An Economic Analysis of Alternative Marketing Methods of Cattle and Sheep in the West."
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Cattle sold on the grade-and-yield basis are sold on the rail at the packing plant. The carcass weight is the hot weight minus an arbitrary pencil shrink which has been agreed to by the seller and the packer-buyer. This pencil shrink allows for the cooler or dehydration shrinkage while the carcasses are being chilled and held in the cooler. In most cases this runs from two to three per cent of the carcass weight. The packer-buyer and feeder agree on a schedule of prices to be paid for the respective U.S.D.A. grade at the time of the sale.

The rail basis of sale is similar to grade-and-yield basis, except that the packer-buyer and the feeder agree on the price that is to be paid per pound of carcass instead of the price for the respective U.S.D.A. live animal grade. The packer pays the feeder on the hot weight of the carcass minus a pencil shrink. Again the pencil shrink is usually from two to three per cent.

The open consignment sale is an arrangement whereby the packer takes the feeder's cattle, slaughters them and sells the carcasses for the feeder. The packer takes his margin from the total revenue of the sale, giving allowance for the by-products and returns the remainder to the feeder.

Most sales at the feedlot are made on the live weight basis. The feeders will agree to the grade-and-yield and rail basis when they feel they are receiving more money on this method of sale than live weight. Open consignment is used for two purposes. Cattle that have been sick or crippled are sold on open consignment. The feeder feels that this is the most equitable way to sell these cattle. Also, open consignment selling is used when there is a glut on the market and the packers have their requirements filled for two weeks or more and the feeder has cattle to be marketed with no packers interested in purchasing them.

### Results of Survey<sup>1</sup>

As was previously mentioned, there is some question as to where the small feeder, who has a feedlot with a capacity of 1,000 head or less, fits into this marketing picture. He has a relatively small number of cattle to sell and is not in

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1. See appendix for information on size of sample and response to mail questionnaire.

the market frequently enough to encourage the packer-buyer to make regular visits to his feedlot. The small feeder has four outlets. He can sell at his feedlot, sell at the Los Angeles stockyards or Stockton stockyards, sell through local auction, or place the cattle in a custom feedlot to be fed for thirty days or more and to be sold at the feedlot by the custom feeder. The custom feeder does not charge extra for selling the cattle. He is experienced in selling, keeps in touch with the market each day, and usually has more contacts with packer-buyers than does the smaller feeder.

At the present time, feeding costs are increasing in Arizona and California. According to Moran, the larger the feedlot, the lower the feeding costs.<sup>1</sup> Thus, it could be more profitable for the small feeder to finish his cattle in a large custom feedlot in order to take advantage of cheaper feeding costs.

There are other advantages in both feeding and selling of fat cattle at the large commercial feedlot. The packer-buyer is familiar with the performance (grade and yield) of cattle sold out of each of the large commercial feedlots, and prefers to buy from them. In addition, there are usually greater economies of scale in feeding operations at the larger feedlots.

#### Use Made of Custom Feedlots

One of the main questions asked on the questionnaire was, "Do you finish cattle for slaughter in your own feedlot or in a custom feedlot?" California feeders finished a higher per cent of cattle for slaughter in their own feedlot than did Arizona feeders (Table 1). The question was also asked, "What are the advantages of finishing your cattle in a custom feedlot?" The answers were divided into three general groups; selling, feeding, and no advantage. The majority of the feeders who did finish in a custom feedlot felt that the custom feedlot would attract more buyers, had better feeding facilities and lower feed costs. Other feeders who fed in a custom lot felt that it was of no advantage to finish for slaughter in a custom feedlot, but nevertheless they continued to finish some cattle in this type of lot.

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1. Moran, Leo J., Nonfeed Costs of Cattle Feeding, Ariz. Agr. Expt. Sta. Tech. Bul. 128 December 1950. Tucson.

A few feeders reported that they only "warmed-up" cattle in their own feedlot and then sold the cattle to someone else to finish. These feeders did not have the feed or feeding facilities to finish cattle for slaughter and did not want to go to the extra expense of building the facilities necessary for this purpose.

Table 1. Type of feedlot used by class.

	0-99		100-249		250-499		500-1000		Total		Per Cent	
	A*	C*	A	C	A	C	A	C	A	C	A	C
Own only	6	9	8	18	10	32	27	37	51	96	73	87
Custom only	0	0	0	1	1	0	5	0	6	1	9	1
Custom & own	0	0	1	2	3	0	6	9	10	11	14	10
No answer	0	1	0	0	0	0	3	1	3	2	4	2
									70	110	100	100

\* A - Arizona, C - California.

However, from other sources of information it appears that the small feeder is feeding cattle to convert roughages and crop residues into a marketable product. Evidently they prefer to finish the cattle in their feedlots rather than move them to the custom feedlots. This should not be construed to mean that these feeders necessarily feed to lower grades. A major portion of these small feeders feed their cattle until they are finished to a degree equal to the finish obtained in the larger commercial feedlots.

From information available from this questionnaire, it was not possible to determine why more small feeders finish in custom feedlots in Arizona than in California. The small feeders who did finish cattle in a custom feedlot fed these cattle from 12 to 250 days in the custom lot. These are extremes; most of the animals were on feed from 60 to 120 days.

## Market Channels

Feeders contacted in this study were asked to indicate which of the following methods or combination of methods they used in selling cattle from their feedlots:

1. Direct to the packer at the feedlot
2. Direct to a packer through a commission man
3. Through the Union Stockyards at Los Angeles
4. Through a local auction

Table 2 gives the method or combination of methods used by the feeders included in this study. The most common method of sale used by both Arizona and California feeders was selling direct to the packers at the feedlot. (Several years ago this was not a very common method of sale, but in the last few years almost every packer in the Los Angeles area has buyers who regularly visit the various feedlots in the Arizona-California area.)

Many of the small feeders sell through a commission man because they do not feel that they have the experience or knowledge to deal with the buyers who are in the market most every day. They would rather hire a commission man to deal with this buyer because they feel that the commission man knows the market better and can get them a better price. Also, the commission men have more contacts with the packer-buyers and know the type and class of cattle each packer-buyer requires.

Several Yuma feeders sold through the Los Angeles Union Stockyards.<sup>1</sup> These feeders are from an area where large scale cattle feeding operations are of fairly recent origin. The concentration of large commercial feedlots is not as great in this area as it is in the Phoenix, Arizona and El Centro, California areas. This

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1. Since this study was made, the Los Angeles Union Stockyards has ceased operations, closing April 30, 1960.

area does not draw many buyers and the feeders felt that they could get a better price by sending their cattle through the terminal market at Los Angeles. However, direct buying is becoming more important in the Yuma area. This shift is the result of two factors: the Los Angeles Union Stockyards have closed and feeding operations in this area are becoming larger.

Cattle feeders in the San Joaquin and Sacramento Valley areas of California sell large numbers of cattle in the local auctions at Visalia and Stockton. These local auctions are big enough and draw enough buyers to establish a market price for finished cattle. Several packing plants are located in this area and they demand enough finished cattle to establish a good market through these local auctions.

The number of feeders that use one, two, or three different marketing channels are shown in Table 2. Approximately 44 per cent of the Arizona feeders and 61 per cent of the California feeders used only one method to sell their finished cattle. A little over 81 per cent of the Arizona cattle feeders and 85 per cent of the California cattle feeders used either one or two market outlets to sell their cattle. This indicates that the small feeders use one or two market channels. This could mean that they are satisfied with their outlets or do not have any alternate choice. Certain areas of Arizona do not have any local auctions that sell fat cattle, and it is some 450 miles to Los Angeles from the major Arizona feeding areas. It has been estimated by the authors that less than five per cent of the cattle finished in Arizona feedlots are sold through local auctions.

Table 2. Market outlets used by Arizona and California feeders.

Method of Sale	Arizona		California	
	No. feeders	% of Total	No. feeders	% of Total
Sold by one method				
A*	18		41	
B*	5		14	
C*	7		8	
D*	1		4	
Total	<u>31</u>	44%	<u>67</u>	61%
Sold by two methods				
AB	14		5	
AC	5		1	
AD	4		15	
BC	3		2	
ED	-		1	
CD	-		3	
Total	<u>26</u>	37%	<u>27</u>	25%
Sold by three methods				
ABC	5		4	
ABD	-		2	
ACD	1		2	
BCD	1		-	
Total	<u>7</u>	10%	<u>8</u>	7%
Sold by all methods				
ABCD	4	6%	0	0%
No Answer	2	3%	8	7%

- \* A - Direct to packer at feedlot
- \* B - Direct to packer at feedlot through a commission man
- \* C - Through Los Angeles Union Stockyards
- \* D - Through local auction

It is interesting to note that 73 per cent and 64 per cent of the Arizona and California feeders, respectively, sold cattle direct to the packer at the feedlot at one time or another during 1958 (Table 3). Approximately 46 per cent of the Arizona and 26 per cent of the California feeders also sold direct to the packer at the feedlot, but used a commission agent in negotiating the sale. This tends to point out that the majority of the small feeders contacted by this questionnaire sold



cattle direct to packers at the feedlot using either themselves or a commission man as the bargaining agent.

Table 3. Methods of sale used by 68 Arizona and 102 California small feeders.

Method of Sale	Arizona	California
	Per cent*	Per cent*
Direct to packer at feedlot	73	64
Direct to packer at feedlot through a commission man	46	26
Through Los Angeles Union Stockyard	37	18
Through local auction	16	25

\* Percentages for each state add to more than 100, because feeders sold cattle by more than one method.

#### Type of Direct Sale

Feeders who sold cattle directly to the packer at the feedlot were asked, "Do you complete sale at feedlot, sell on grade-and-yield basis, or consign your cattle with no agreement on price?" Fifty-one Arizona and 69 California feeders answered this question (Table 4). The most popular method for both Arizona and California feeders was to complete the sale at the feedlot. In fact, 98 per cent of the Arizona and 93 per cent of the California feeders sold cattle by this method at one time or another during 1958. Grade-and-yield sales and consignment with no agreement on price were used by a few of the feeders who were contacted by the questionnaire. Grade-and-yield and consignment selling of finished cattle are not popular methods of sale with Arizona and California feeders. Many feeders use these methods only with specific lots or types of cattle. These methods of selling are used only when it is believed that the cattle will net a greater return by selling grade-and-yield or consignment as compared to other types of sales. The feeder must

have the utmost confidence in the integrity of the buyer in selling cattle by grade-and-yield or on consignment because the selling price is not determined until after the animal is slaughtered and hanging in the cooler.

Table 4. Sale methods used by fifty-one feeders in Arizona and sixty-nine in California who sold cattle direct to the packer at the feedlot.

	Complete Sale at Feedlot		Grade and Yield		Consignment	
	Arizona	California	Arizona	California	Arizona	California
Number	50	64	5	10	1	4
Per Cent*	98	93	10	14	2	6

\* Percentages for each state add to more than 100, because some feeders sold cattle by more than one method.

#### The Reason For Use of Custom Feedlots

The final question asked on this questionnaire was, "Do you feel that more packer-buyers look at your cattle in a custom feedlot than if you finished them in your own feedlot?"

Approximately two-thirds of small feeders in Arizona and California felt that more packer-buyers would look at their cattle in a custom feedlot than if they finished the cattle in their own feedlot (Table 5). The percentages were 69 per cent in Arizona and 60 per cent in California. Eight per cent in Arizona and nine per cent in California had no opinion on this question. Ten per cent more California feeders than Arizona feeders answered this question with a definite "no." This is probably true because California has more packers who have buyers in the field and the California meat packing industry is more widely dispersed over the state than in Arizona. Arizona has only a few packers who have buyers in the field.

Table 5. Do you feel that more packer-buyers look at your cattle in a custom feedlot than if you finish them in your own feedlot?

	Arizona		California	
	Number	Per cent	Number	Per cent
Yes	32	69	53	60
No	10	22	28	32
Don't know	<u>4</u>	<u>9</u>	<u>7</u>	<u>8</u>
Total*	46	100	88	100

\* Twenty-four Arizona and 22 California feeders did not answer this question.

#### Summary

In summary, small feeders (feeding 1,000 head or less) in Arizona and California make more use of the central markets, auctions and commission men who sell directly at the feedlot than the larger commercial feeders. However, in spite of the lack of volume, and in some instances uniformity in feeding, the majority of the smaller feeders sell directly to the packer at their feedlot. One might expect the smaller feeders to make use of the large custom feedlot to finish their cattle in order to enjoy the benefits of the economies of scale and the experience of the custom feeders in selling. The large custom feedlots are not used to any large extent by smaller feeders who have feedlots on their own farm or ranch.

On the surface it might appear that the smaller feeder is at a disadvantage in selling his fat cattle. In most instances, however, he has two or more avenues through which he can sell. This, coupled with the fact that the larger commercial feeders are interested in keeping the smaller feeders informed on market conditions in order that the smaller feeders will not undersell the market, indicates that the smaller feeder is in a stronger bargaining position than one might think. The

Arizona and California country markets are reported by the U. S. Department of Agriculture, Livestock Market News Service, and feeders in these areas have very complete market news information available to them. The fact that some of the smaller feeder's cattle sell at prices apparently below the market can be accounted for in many instances by the fact that the packer has not had experience in slaughtering this feeder's cattle and is afraid that the cattle will not produce the carcass grade indicated by their live condition, or that the packer has had experience with this feeder's cattle and has found that they do not perform as well as their live appearance would indicate. The use made of grade-and-yield and open consignment basis for selling cattle directly from the feedlots of the smaller feeders is about the same as that of the larger feedlots.

## Appendix

This report is the summary of results obtained from a questionnaire mailed to cattle feeders in Arizona and California whose feedlots had a capacity at one time of 1,000 head or less. Three mailings were made during the spring of 1959 and the information requested was for 1958. The list of cattle feeders used was compiled from various sources. This list was checked for completeness and was found to be essentially complete. There is always the problem of recent entry or discontinuance of the feeding enterprise as well as recent exchange of property. In fact, many names were included in the list that were doubtful as to whether they were feeding.

Using three mailings, 227 questionnaires or 76 per cent were returned from California, and 118 or 86 per cent were returned from Arizona feeders with 1,000 head or less capacity (Appendix Table 1). After editing the schedules it was possible to use 110 from California and 70 from Arizona. The other schedules were not usable because of numerous reasons: capacity not given, over 1,000 head capacity, lot had been sold, meat packer, not feeding, death of operator, and others.

Appendix Table 1. Response of small Arizona and California feeder to mailed questionnaire.

	Number Mailed	Number Returned	Per Cent Returned	Used
California	299	227	76	110
Arizona	137	118	86	70

The schedules used were divided into four classes, according to size, for the final analysis. Appendix Table 2 gives the classes, schedules per class, and the average capacity of feedlots included in each size category.

Appendix Table 2. Feedlots in sample by class and size.

Class	Arizona		California		Average Size/Class	
	Number	Per Cent	Number	Per Cent	Arizona	California
0-99	6	9	10	9	55	58
100-249	9	13	21	19	161	156
250-499	14	20	32	29	329	339
500-1000	<u>41</u>	<u>58</u>	<u>47</u>	<u>43</u>	706	703
Total	70	100	110	100		

There was no significant difference between the means of the Arizona and California feedlot sizes.<sup>1</sup>

1. The "t" value for the significance of the difference between the two means, for Arizona and California feedlots, was .17.