Marketing Feeder Cattle Via Video Auction

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Cattle producers have several methods to market cattle. Methods commonly used include live auction market, private treaty, graded sale, marketing alliance, video auction, internet auction, and retained ownership through the feedlot. Each of these has advantages and disadvantages relative to the other alternatives. A producer's preferences and goals are largely what determine the marketing method utilized.

The live auction market has been and continues to be a common method of marketing cattle. However, many producers in Tennessee and across the nation have transitioned to using video auctions as their primary method of marketing cattle. Video auctions have been used to market bulls, heifers, cows and feeder cattle. Often times, breeding stock are marketed in lot sizes of



one animal or in a small group. Alternatively, feeder cattle are often marketed in truckload-size lots (48,000 to 50,000 pounds), multi-truckload lots, or groups of 20 or more head when using the video auction platform.

Tennessee producers first began utilizing video auctions in 1981. This marketing method has grown since its inception and will likely continue to grow in coming years due to the convenience it offers buyers and sellers and its reduced cost relative to the live auction. In Tennessee, the video auction platform is primarily used to market lots of feeder cattle, as opposed to breeding stock. However, that is not to say that producers in the state are not utilizing video auctions to market high-quality breeding animals.

Producers unfamiliar with video auctions often have questions about the process and the impacts of marketing through this channel. Thus, the objective of this publication is to inform and educate producers about marketing feeder cattle via video auction. Specific educational points include:

1. the video auction marketing process;
2. management practices commonly used when marketing feeder cattle through a video auction;
3. advantages and disadvantages of video auctions;
4. implications to price and returns when marketing through a video auction; and
5. marketing agencies utilizing the video auction platform.

Marketing Process

The video auction marketing process includes four general steps:

1. The producer must contact a representative from a marketing agency that conducts video sale auctions and express his/her interest in marketing cattle via video auction.
2. The marketing agency representative will then visit the farm or ranch to film the livestock, as well as write a physical description of the cattle expected at delivery and delivery details.
3. The producer will consign the cattle for a specified sale date. On the specified sale date, the auction will take place with buyers bidding on the cattle.
4. The buyer generally takes delivery on-farm or at a designated load-out location during the specified delivery period, and the seller receives payment through the marketing agency.

The typical video auction consists of buyers watching a short video of the livestock, as well as reading the written description prepared by the marketing agency representative, while the marketing agency solicits bids for the cattle. The buyer of the cattle will then take delivery of the cattle at a future date ranging from a few days to a few months.

An example of a physical written description of the cattle is shown in Figure 1. The written description generally includes the breed composition, grade (frame and muscling), average weight, weight range, flesh, health protocol, feeding conditions and other management practices performed. Additionally, the weighing conditions are specified and include shrink and a *price slide*. The producer provides information regarding management

The *price slide* is a predetermined adjustment in the sale price of cattle included in the description of the cattle. It is based on the difference between the estimated weight prior to consignment and the actual pay weight when the cattle are delivered.

Representative name: Phil Phillips
Owner name: John Johnson **City:** Tiny Town, TN
 # Head: 60 steers
Est. Avg. Weight: 850
Est. Weight Range: 800-900
USDA Grade Muscle & Frame: 90% L-1 & M-1 10% L-2 & M-2
Flesh: 5
Description/Breed:
90% Black, 5% CharX, 5% Red and RB
Management:
2 shots each in neck for respiratory and clostridial (brand names commonly used)
Dewormed using injectable (brand names commonly used)
Implanted with (brand name)
Cattle are on pasture and 6 pounds of 14% mixed feed and free choice mineral
Conditions:
Cattle will be penned by 8:00 A.M. morning of weigh up and hauled 15 miles to certified scales by 10:00 A.M. and weighed on the truck with a 2% shrink.
Cattle available May 10th-May 16th
Slide: $6/cwt on up-side only
BQA certification #: #12345

Figure 1. Written physical description of cattle consigned to a video auction.

and weighing conditions. The written description information is then compiled into a catalog and sent to prospective buyers prior to the sale.

Common Management Practices

In Tennessee, most marketing agencies utilizing video auctions focus on marketing feeder cattle. Feeder cattle marketed using video auctions are generally intensely managed. The management styles utilized are largely due to some video auctions having minimum program requirements related to vaccination, weaning, etc. (That is not to say that some cattle marketed through a different avenue are not intensely managed also.) Cattle being marketed through video auction platforms are generally:

1. castrated, if male, and dehorned;
2. weaned a minimum of 45 days with many being backgrounded 120 days or more;
3. vaccinated for respiratory and clostridial diseases; and
4. dewormed.

The reason producers perform these practices is because they have found them to increase sale price and returns to the operation relative to not performing these management practices. The economic benefits will be more thoroughly discussed in a later section.

Advantages and Disadvantages

When considering the use of video auctions to market feeder cattle, it is important to examine the possible advantages and disadvantages associated with video auctions. What may be considered an advantage to one producer may be considered a disadvantage to another producer. The advantages and disadvantages will be discussed from the standpoint of a typical producer in Tennessee.

Advantages

- **Producer sets selling conditions:** Setting the selling conditions allow the producer to have a certain amount of control over the marketing process.
- **Competitive pricing with a large number of buyers:** A video auction is a true auction that allows buyers to follow a bidding procedure to purchase cattle. Video auctions generally draw a large number of buyers due to the ease of purchasing and because the cattle have been managed appropriately to enter a feedlot.
- **Cattle remain on the farm until sold (fresh cattle):** Cattle remaining on the farm can reduce stress to the cattle, which reduces shrink (weight loss) relative to cattle standing in an auction barn. Additionally, it reduces the risk of injury during transport and sickness from being co-mingled in a sale barn.
- **Buyers know how cattle were handled:** Any management practice that reduces risk to a buyer increases the value of the animal. Knowing how the animals were handled and cared for is important to cattle buyers.
- **Lower marketing costs:** The marketing agency generally has lower marketing fees for feeder cattle being marketed through video auctions because they can market a large number of head in a fairly short period of time. Additionally, the marketing agency does not have any costs associated with housing the animals, or providing feed or water, which is required by law for auction markets receiving cattle. The cost to producers is also reduced due to lower transportation costs if the cattle are picked up on the farm.
- **Buyers do not need to be physically present:** Some cattle buyers will be physically present at the auction, while buyers scattered across the country may participate via phone or internet.
- **Buyer's cost reduced:** Video auctions provide a convenient method for buyers across the country to participate in the auction without it taking a significant portion of their time. It also allows them to secure large numbers of animals in a short amount of time.
- **"No sale" option:** Sellers have the option to "no sale" the cattle if the price is deemed unsatisfactory.

Disadvantages

- **Best suited for uniform truckloads (48,000 to 50,000 pounds):** Many producers do not have a sufficient quantity of uniform animals (sex, weight, frame, muscling, etc.) to make a group of feeder cattle to fill a trailer.
- **Requires consignment and prices may be low on sale day:** Cattle generally have to be consigned to the sale a minimum of two weeks prior to the sale. Cattle prices have the ability to change abruptly, which could result in prices being much lower on the sale date than when the cattle were consigned.
- **Difficult for buyers to physically evaluate cattle:** Buyers usually do not physically see the cattle until they walk off the truck; therefore, it is difficult for buyers to estimate weight and flesh condition. Thus, the inability of buyers to physically evaluate cattle is why it is important to review an accurate written description of the cattle.

Impact to Profitability

Ultimately, cattle producers tend to use the marketing method they believe will return them the most profit for the product being produced. Profit is dependent upon sale price, cost and cattle performance. Management costs can be higher for feeder cattle being marketed via video auction compared to cattle being marketed through a live auction market because of the inclusion of a more complete health program and the increased time it takes to manage groups of cattle. Alternatively, marketing costs to the producer tend to be lower for video auctions than for live auction markets because marketing costs are reduced to the marketing agency and because transportation costs can be reduced to the producer. Similarly, the amount of time it takes to market cattle is lower through a video auction than through private treaty. Marketing cattle through private treaty can eliminate paying sales commission but can increase the amount of time to locate buyers. Cost management can range widely across producers, which can result in differences in profitability when marketing cattle via video auction.



It is difficult to determine if there is a price difference between cattle being marketed through a video auction versus a live auction market when using video sale data from Tennessee. A number of factors have been found to impact the price of feeder cattle including sex, breed, color, muscle score, presence of horns, fill, body condition, health, weight and lot size. Research conducted in Kansas found prices for feeder cattle are maximized when the lot size approaches the truckload sizes. Therefore, it is difficult to determine the individual effect lot size and marketing venue (video versus live auction market) have on price. The difficulty arises because most video auctions in Tennessee market load lots of feeder cattle, while live auction markets generally market single animals or small groups of cattle at a time. What can be deduced is that most feeder cattle being marketed in Tennessee via video auction are being produced with a health program to reduce risk to buyers, as well as being marketed in truckload lot size. These two management characteristics generally support a higher sale price than cattle that are marketed in smaller lot sizes and have no health program.

Figure 2, Figure 3, and Figure 4 show monthly average prices for video auctions and live auctions in Tennessee from 2005 through 2014 (120 months). Video auction prices represent load lots marketed through East Tennessee Livestock Center; Knoxville Livestock Center; Athens Stockyard; Dickson Livestock Center; Hardin County Stockyard; Mid-South Livestock Center; Hodge Livestock Network (formerly Wilson Livestock Network); Lower Middle Tennessee Cattle Association Board Sale; Tennessee Livestock Producers; and Tennessee Bluegrass. Live auction market prices were obtained from the Tennessee Feeder Cattle Weekly Summary produced by USDA-Tennessee Department of Agriculture Market News.

The average price received in video auctions exceeded the average price received for live auctions 118 months out of 120 months for 700- to 800-pound heifers; 117 months for 700- to 800-pound steers; and every month for 800- to 900-pound steers. On average, video auction prices exceeded the live auction price by $9.42 (700- to 800-pound heifers); $7.06 (700- to 800-pound steers); and $9.45 (800- to 900-pound steers) per hundredweight over the 120-month period.

As previously stated, it is difficult to place a specific value on a video auction compared to a live auction with the data set used. Some of the difference in price could be due to feeder cattle management, lot size, quality of cattle, reduced risk of morbidity or mortality, etc. Producers should consider all the aforementioned factors when considering a marketing method.



Figure 2. Monthly average price comparison of 700- to 800-pound heifers being marketed through video auction and live auction markets in Tennessee from 2005 through 2014. (Video auction represents 685 loads.)

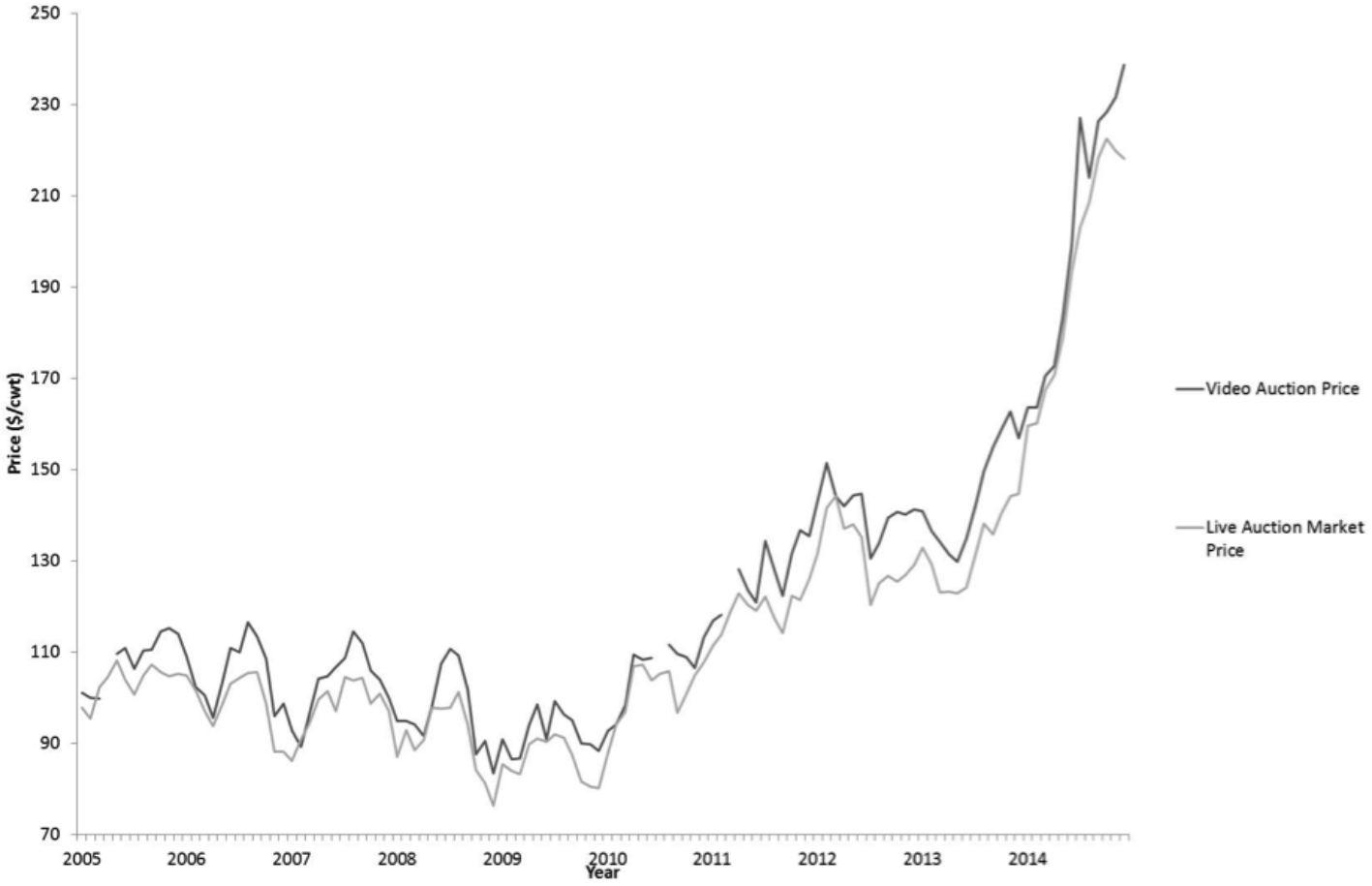


Figure 3. Monthly average price comparison of 700- to 800-pound steers being marketed through video auction and live auction markets in Tennessee from 2005 through 2014. (Video auction represents 532 loads.)

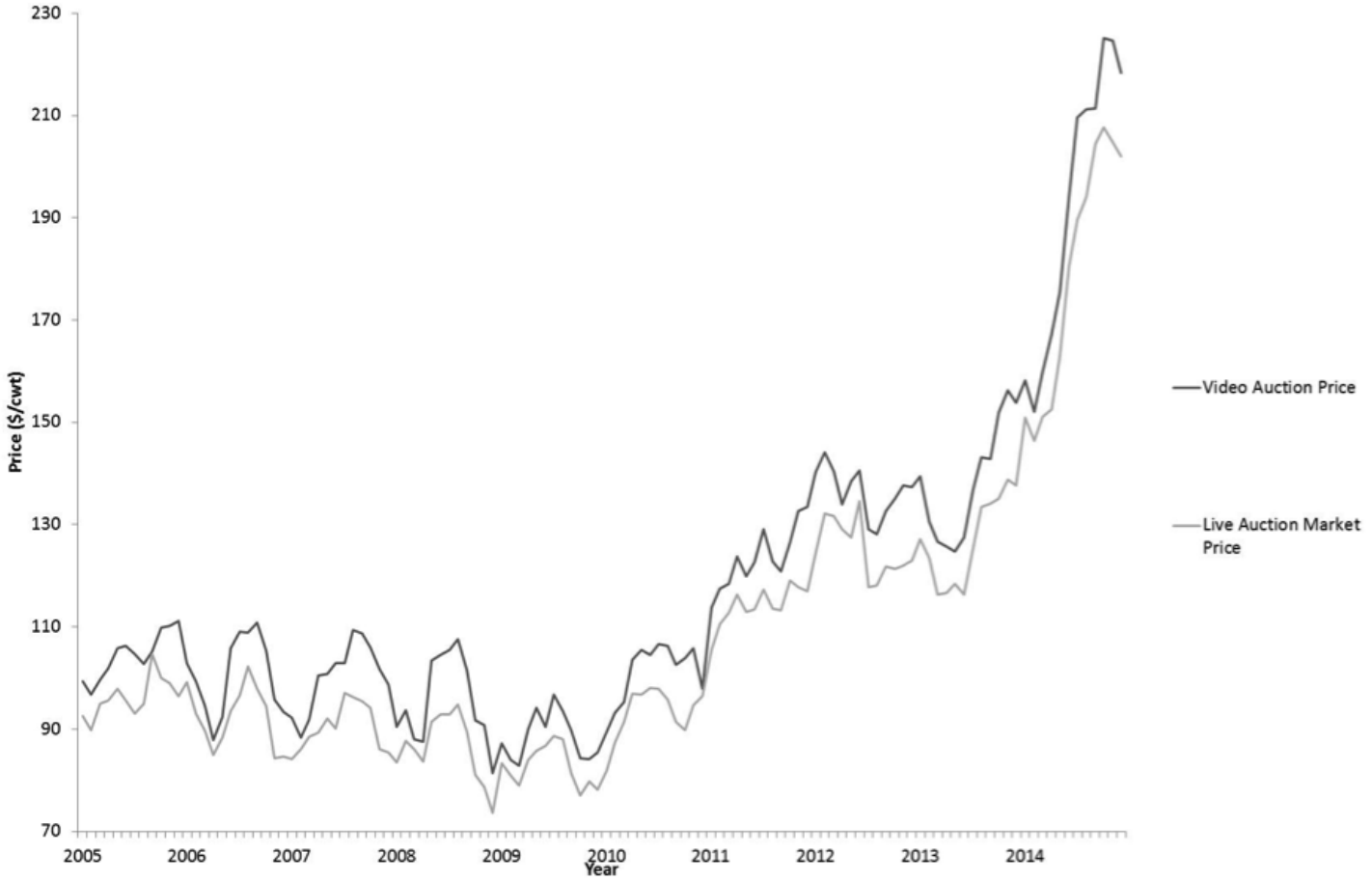


Figure 4. Monthly average price comparison of 800- to 900-pound steers being marketed through video auction and live auction markets in Tennessee from 2005 through 2014. (Video auction represents 959 loads.)

Marketing Agencies

There are a number of video auction agencies available for producers to utilize when marketing feeder cattle. The most well-known option in the nation is Superior Livestock Auction that introduced satellite video marketing in 1987. There are also several well-known regional video auctions such as Western Video Market and Northern Livestock Video Auction that can be utilized by Tennessee producers. However, Tennessee producers have a number of ***in-state video auction marketing alternatives*** that have been successful marketing feeder cattle for many years:

Video auctions held in conjunction with the weekly live auction market

- Athens Stockyard (Athens, TN)
- Dickson Livestock Center (Dickson, TN)
- East Tennessee Livestock Center (Sweetwater, TN)
- Hardin County Stockyards (Savannah, TN)
- Knoxville Livestock Auction Center (Knoxville, TN)
- Mid-South Livestock Center (Unionville, TN)

Dedicated video auctions

- Hodge Livestock Network (Newport, TN)
- Lower Middle Tennessee Cattle Association with Tennessee Livestock Producers providing sale management (Columbia, TN)

Co-mingled groups of cattle marketed using the video auction platform

- Tennessee Beef Alliance (Columbia, TN and Cookeville, TN)
- Hawkins County Cattlemen's Association (Rogersville, TN)
- Tennessee Elite (Northeast, TN)

This is not an exhaustive list of the video auction markets available to Tennessee producers. Producers are encouraged to talk with persons managing video auctions to determine the best fit for their operation. Many of the aforementioned video auctions market cattle produced in Tennessee as well as market cattle from surrounding states. Thus, Tennessee producers can also use marketing agencies outside Tennessee to market cattle.

When determining which video auction marketing agency to work with, producers should:

1. evaluate several video auction marketing agency alternatives;
2. talk with producers currently utilizing the video auction being considered and discuss their satisfaction and/or dissatisfaction with the marketing agency;
3. talk with market management to ensure the goals of the operation can be met;
4. discuss buyers who commonly participate in the auction; and
5. know who they are doing business with.

Conclusion

Marketing feeder cattle using the video auction platform has grown in popularity since its inception. Many cattle buyers and sellers have found this method of marketing to be advantageous for conducting business and efficiently moving cattle through different stages of production. It is important for producers using video auctions and those considering video auctions to feel comfortable with marketing agency management. This may mean talking with agency representatives to discuss goals of the operation, the process the agency will go through to market the cattle, and any other points of concern.

Video auctions have witnessed many years of success and will likely continue to be successful marketing livestock in years to come. It is unlikely that video auctions will become the primary method of marketing cattle for the majority of producers in the country; however, video auctions will continue to gain support from producers who have been successful marketing their cattle via video auction. Producers are encouraged to educate themselves with regards to all marketing alternatives in order to determine which method is most appropriate for their operation.

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