Beef Production: The Basics

Marketing

Marketing has always been essential for a beef farming enterprise to be effective. Competition with imported, subsidized meat and from white meat producers has placed pressure on beef farmers to improve their marketing skills. Furthermore, there is an emerging awareness that a market must be found or created before beef animals are slaughtered. Keeping beef in cold rooms is an option, albeit a costly one for which funds must be obtained. In the past, moneys levied from the sale of slaughtered carcasses were used to fund a system of cold storage. On the other hand, animals kept on the farm continue to eat, draining resources and leading to over finished animals at slaughter. In times of beef shortages, there is no problem because all available carcasses are sold. However, in the past, when large numbers of cattle were slaughtered, beef prices plummeted. A drop in prices could favour consumers in the short term, but beef farmers with high input costs, will not be able to cope under conditions of unstable market prices. Thus, planning is essential.

Marketing channels

Although some farmers slaughter in their own abattoirs and sell the meat through their own butcheries, most beef farmers sell live animals:

1. Out of hand
2. At a farmer's association auction
3. An auction held privately
4. To a feedlot or through a custom feedlot
5. For slaughter at an abattoir - either directly or after on-farm fattening (feedlot or pasture or veld finishing).

With out of hand sales, no commission is payable and usually the buyer provides his own transport or, where a farmer provides transport, the buyer pays. When animals are taken to a local auction (usually a farmer's association sale), the seller is responsible for the commission payable to the auctioneer, although there are some auctions where the buyer pays the commission. The seller pays for the transport to the sale yard or the return of animals if not sold, and the buyer pays for the transport of animals sold. Usually, no commission is payable to an auctioneer when animals are not sold. With private auctions, the same rules usually apply as at farmers' association auctions, although sellers can negotiate the terms they want with the auctioneer, within certain limits.

Feedlotters usually buy at auctions, but often have agents visiting farmers or have known clients from whom they obtain animals for their feedlots. However, there are custom feedlots where a farmer sends his livestock for fattening. The farmer pays a management fee as well as for the feed costs and treatments *e.g.* vaccination, dipping, dosing, implants and treatment of sick animals. With custom feedlots, cattle remain the property of the farmer and at the end of the feeding period the farmer can decide where he wants his animals sold or whether he wants them returned to his farm.

Selling animals through an abattoir is usually done through an agent or the owner of the abattoir. The farmer must ensure that the animal is fat enough and is responsible for transport to the abattoir as well as for the slaughtering fees. In return, the farmer is paid for the carcass, the hide and the offal, which includes the head and trotters. With some small abattoirs, the abattoir owner takes the hide and offal in lieu of the slaughtering fee. It is advisable to investigate costs because there are times when the prices of hides and offal are high when it could be better for farmers to pay the slaughter fee and retain the hide and offal price.

Because selling procedures are so variable, it is advisable for sellers to check all steps and responsibilities for costs before accepting an offer to sell animals.

Beef price changes

Carcass prices tend to fluctuate sharply and a thorough study is necessary to determine the best time to sell. Factors that should be considered include the fact that at some abattoirs all carcasses slaughtered in a day must be sold the same day. At other abattoirs, carcasses are loaded into fridges over some days, after which they are all put on auction.

It is noteworthy that abattoirs are considered quarantine areas and any animal entering the area may not leave it again *i.e.* it must be slaughtered.

Daily, weekly and monthly carcass price fluctuations

Beef prices at controlled abattoirs fluctuate over the day, different days of the week, different months of the year. Daily and weekly fluctuations tend to be unpredictable and can move sharply from a low to a relatively high price. Average weekly prices at Cato Ridge abattoir for the period July 1995 to June 1996 are reflected in Figure 14.

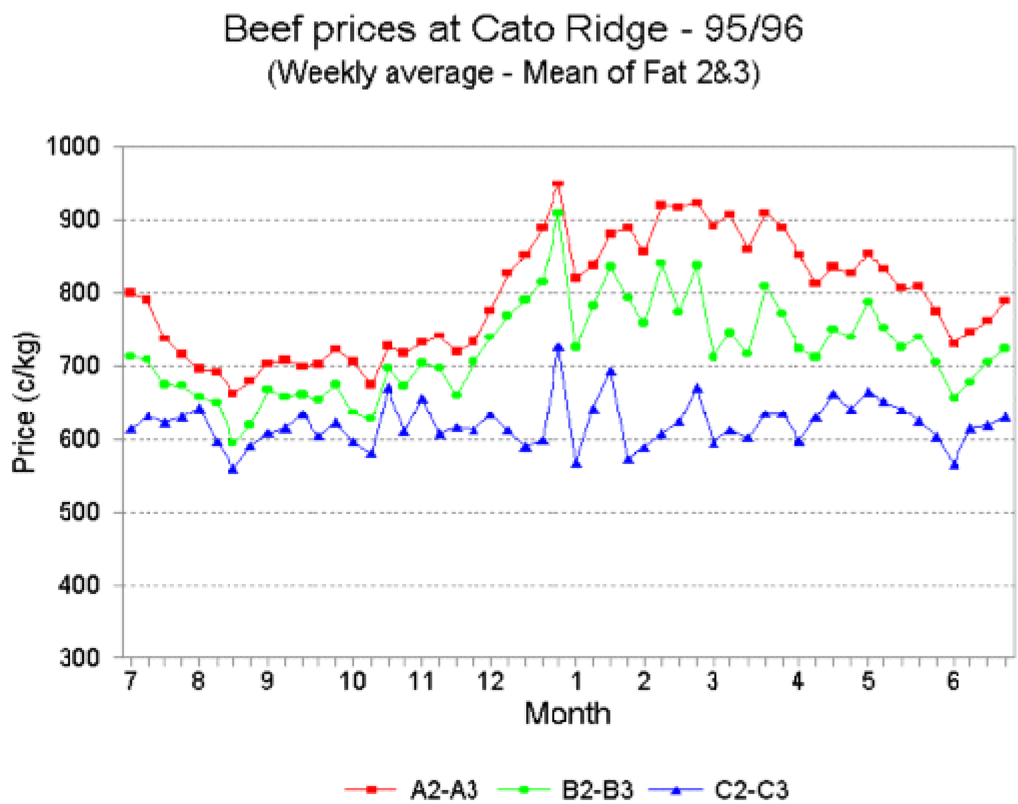

Figure 14. Weekly beef prices at Cato Ridge abattoir for the period July 1995 to June 1996.

Daily and weekly price fluctuations are difficult to predict and are affected by supply and demand, as well as factors such as short weeks when a holiday within a week plays a role or by strikes which arrest slaughtering.

On average, over the year, prices tend to rise from September/October to December, whereafter they gradually decline to June and remain relatively constant up to September. Although this is the pattern, many factors can affect the pattern.

Seven-year beef price cycle

In the past, beef carcass prices tended to remain relatively stagnant for a period of 5 years, after which there were sharp increases over a two-year period when prices doubled. Thus, from 1980/81 to 1985/86, the average price of carcasses at City Deep abattoir (Figure 15), remained relatively constant, whereafter prices doubled up to 1987/88. Prices again remained relatively stagnant for five years before the price increases of 1992/93, although a doubling of prices did not materialise at that time. Up to 2001, prices fluctuated between R8.00 and R10.00 per kg. Although it can be expected that a tendency for prices to rise sharply followed by periods characterised by small increases will continue, it is likely that these cycles will follow the American trend, where the cycles occur, but the time period is very variable. In any event, in South Africa, it seems that imports are placing a ceiling on the price of local beef.

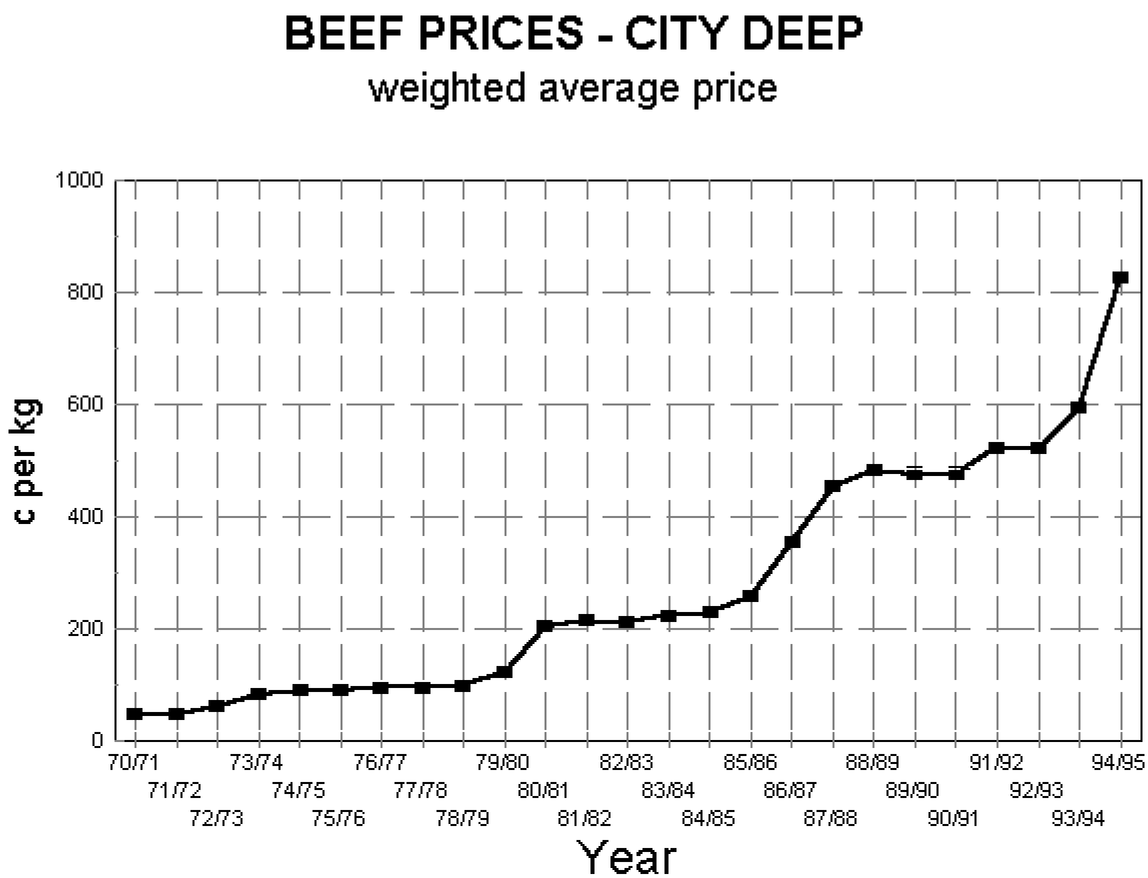

Figure 15. Average price of beef carcasses at City Deep Abattoir over all grades from 1970/71 to 1994/95.

It is noteworthy that during the 5-year periods of relatively stagnant prices, weaner price relative to carcass prices were high at the beginning of this period, whereafter the weaner prices declined to relative levels much lower than the carcass prices.

Table 17. Example of costs associated with marketing a steer.

COSTS	
Steer - 250 kg at R4.50/kg	R1125.00
Feed for 150 kg gain at 6,5:1 and cost of R490/ton	R477.75
Veterinary costs	R15.00
Management, labour and transport	R20.00
Mortality (1% of mean value)	R11.25
Interest at 17,25% for 100 days (on value of steer only)	R53.17
MARKETING	
STEER - 400 kg - 54% - R4.86/kg	R1944.00
Offal and hide	R215.00
Agents commission, transport, slaughter fee etc.	R242.56
Profit/Loss	R214.27

Marketing cull cows

Categories of cull cows

1. Cull heifers.
2. Empty cows that have lost their calves.
3. Empty cows that did not reconceive.
4. Old cows.
5. Cows that must be culled because of injury.

Major options

1. Sell soon after weaning (May)
2. Hold and fatten for sale later
3. Overwinter cheaply and fatten on veld next summer

The calculations for selling cull cows are the same as for sending a steer to the abattoir.

Profitability of on-farm feedlotting is affected by:

1. Buying price (or initial value).
2. Selling price.
3. Feed cost - which is dependent on the cost of the feed and the feed conversion ratio.
4. Marketing cost.
5. Mortality.
6. Veterinary costs.
7. Management, which includes:

Feedlot management.

Ability to predict selling price.

Evaluation of suitability of animal for feedlotting.

Ability to obtain cheap food either by effective buying or by using home grown feeds.