MARKETING

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What's the best method of pricing your bulls? More registered Angus breeders each year are discovering that a pricing system based upon market conditions, production costs and performance records makes selling bulls easier and more profitable. This approach, sellers have found, attracts customers because it simplifies buying and makes bull prices logical and understandable.

And a logical, understandable, competitive pricing program is vital to the sale of any product.

If you buy bulls, you no doubt know of herd owners who have no firm price on the cattle they sell. A price inquiry is usually met with, "Well, what would you give for him?" And you negotiate by asking a price on every animal you are interested in. It's a clumsy if not unpleasant situation that gives the impression the breeder doesn't know much about his business.

Buyer Who Doesn't Know

On the other hand, if you sell bulls, you've run into the buyer who really doesn't know what he wants nor what cattle are worth. The only thing he seems sure of is that your cattle are over-priced.

These problems make selling difficult, particularly if you don't have a good pricing policy, and both situations can hamper sales. When buyers and sellers of these two types meet, the result is almost always no sale.

The first step in establishing a price, long before considering production records and other factors, is to set a base price. The base price is the minimum to sell bulls for—the price to ask for the lowest indexing bulls offered for sale. Once a base is established, it's easier to price the rest of the offering.

Cost of Production

With good records, a seller should know what it costs to produce a bull. And never sell a bull for less than it costs to produce him—at least not if at all possible. Thus, the cost of production plus a reasonable markup for advertising, sales expense and other costs should be considered as the base price.

One Angus breeder figures the base price on yearling bulls that come off feed test as the price of a finished market steer plus $150. This ties the lowest price he will accept for the bulls directly to market conditions. When you can point out that a yearling bull just off test is worth around $800 at the stockyards and that you have additional costs in him of around $200, it is easy for a buyer to understand why the price for the lowest indexing bull in the herd is $1,000.

Commercial Market

Another Angus breeder says he sets a minimum price based on current market conditions so the lowest indexing bulls, which go mostly to commercial cattle producers, are priced competitively. "We try to establish a relationship that fits into the market picture, and we keep this in mind when pricing the rest of our bulls," says William A. "Bill" Graham, Graham Angus Farm, Albany, Ga.

Graham says their bulls are then priced above this established base by considering their 365-day weights, the Angus Herd Improvement Record yearling ratios and a visual appraisal. "We have never relied on a specific formula for pricing," Graham says. "It has been my experience that, when you tie yourself to a specific formula, it will eventually break down somewhere along the line."

Still, a check of Graham's March Open House Sale price sheets shows that generally the highest yearling ratio bulls command the top price; however, a 115 ratio bull was listed in the second ($2,500) price category, while a 110 ratio bull was in the top ($5,000) category.

Price-Ratio Relationship

Generally, here is how the Graham bulls were priced in March in relation to their ratios: Three bulls at $5,000 (117, 115 and 110 ratios), 7 bulls at $2,500 (107 to 115 ratios), 10 bulls at $2,000 (104 to 109 ratios), 9 bulls at $1,800 (104 to 107 ratios), 9 bulls at $1,500 (102 and 103 ratios), 11 bulls at $1,300 (100 to 101 ratios) and the rest (46 bulls) at the base price of $1,100 (ratios ranging from 90 to 99).

At the Graham open house, bulls are sold only on the day of the sale. Every bull that comes off test at the farm is offered for sale with exception of ones that are judged unfit for use as breeding bulls (about 5%). Each potential buyer gets a price list when he arrives at the open house. If he wants to buy a bull, he puts his name down for that animal. If no one else puts his name on that particular animal, the buyer gets the bull at the lowest price.

If more than one buyer is interested in the bull, a private auction is conducted only among those people to determine the buyer. In some instances, according to Bill Graham, this private auction has turned a $1,200 bull into a $5,000 bull.

After the open house sale, the price of all unsold bulls is raised $100. This assures people that they can't buy a bull later for less money and also helps insure that the farm will have a few bulls around to sell to "drop-in" customers later on in the season.

Production Records

Lee Nichols of Nichols Farms, Bridgewater, Iowa, says that they have been selling bulls based upon their production records for several years. Their pricing program is hampered somewhat by the fact that their bulls don't come off test until late spring, and most commercial cattlemen in their area want to get bulls bought before spring field work begins. As a result, they start selling bulls in late January after 60-day weights are taken. This year all the bulls were sold within 3 weeks after they went on sale Jan. 21. The bulls are not allowed off the farm, however, until the 140-day test is completed.

The Nichols base price is the value of a 1,100-lb. steer plus $150, Lee Nichols says. Then each bull's 60-day gain test record, his 205-day weight ratio, the production history of his mother and the animal's type are considered before setting the final sale price. The bulls are grouped into three price ranges. This year the base price was $800, the middle range was $1,000 and the top range was $1,500. These prices are low compared with current bull prices and point up one of the problems in pricing and selling bulls before they come off test. In a rising market, the bulls go for less than they would if sold later. But the seller gets the benefit in a declining market.

"If we had our choice, we would price and sell all the bulls after they came off test and were semen tested," Lee Nichols concludes. "But in this country that's too late. Our customers don't want to be bothered with buying bulls at corn planting time."

Pricing on Performance

Garold Parks, Ames, Iowa, priced and sold bulls for 10 years for Pioneer based upon production records. "Our base price was what we had to have for the bulls to break even. Then we priced them up depending on their performance records. Pioneer had three categories of bulls with ratios above 100 and two categories for average and below," Parks says. No bulls were sold with ratios below 90. The price spread for the categories was about $500, Parks says, and still the high ratioing bulls generally went first.

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seems to be resistance to prices on more expensive cuts of beef. Steak & Ale's steak sales drop ½% for every 1% increase in price. But eventually, it has been found, most customers return and pay higher prices."

Half the items on Steak & Ale's menu today were not there 5 years ago, thus demonstating a change in tastes and preferences. "There is a trend to smaller portions," Neeb says, "because people do not want to eat as much as they used to, not just for health reasons but because they do not want to waste food."

All three companies represented on the program expect their beef requirement to grow by 10-20% a year, and they expect this kind of trend to continue through the next decade.

No Meat Substitutes

The speakers also indicated no plans for meat substitutes, extenders or any imported products. As domestic output decreases during the next few years, supply as well as price will be a major problem for this growing industry. This can eventually bring about a "revolution" in cattle marketing, one speaker said.

All three companies represented on the program appeared reluctant to enter into contract feeding arrangements, but some might encourage the development of "middlemen" who would assume the risk of such ventures. If no such entity evolves, one speaker said, "we may have to do contract feeding to assure supply."

At any rate, it appeared that these firms' needs for specific quantities, qualities and types of beef eventually would lead to more coordination or integration of production and marketing.

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Parks now works with breeders who sell by auction, and he has developed a cataloging procedure based upon production records. The high ratioing bulls, with minor exceptions, are cataloged first. And generally, he says, the prices paid at auction reflect the way the bulls are cataloged.

"One of the biggest problems in agriculture is pricing," Parks concludes. "We too often take just what we can get. We should put a price on our product, based upon cost of production and value, and then go out and merchandise it to the prospective buyer."

AHIR Records

A registered breeder can use performance figures to prove that a bull with above average production records is worth more to the prospective buyer. And these figures should help you price cattle based on AHIR records.

Dr. Wayne Wagner at the University of Wisconsin, Madison, has put together figures to illustrate the value of records when buying bulls. They indicate that, if a commercial breeder buys bulls in a herd that is genetically equal or superior to his own, he should be able to rely on weaning and yearling ratios to guide his selection and the price he pays. Wagner says that a bull with a 115-weaning ratio should sire calves that are 10 lb. heavier at weaning than the herd average.

If a bull sires 25 calves a year that are 10 lb. heavier at weaning than the average of the buyer's herd, the bull will produce 1,000 lb. more weaned calf over a 4-year period. At today's prices, that means the bull is worth $800-$1,000 more to the buyer based solely on weaning weights. And this doesn't take into account the added production value of his heifers that go back into the herd.

Yearling Ratio Better

Yearling weight ratio is a better indicator of the value of a bull, according to Wagner. The heritability of yearling weight is 40%-60%, depending on the level of nutrition. If a buyer selects a bull with a 110 yearling weight ratio from a herd that is at least equal in genetic make-up to his own, he should expect the bull's calves (figuring 50% heritability) to weigh at least 25 lb. more at a year of age, according to Wagner. At today's USDA choice cattle prices, if the bull sires only 25 calves a year for 4 years, he is worth $1,915 more than an average bull from the same herd. And here again, this doesn't take into account the added value of his replacement heifers or the long-range effect they will have on production in the herd. Wagner says that a 105 ratio bull should add roughly half this amount or 12.5 lb. to each calf's yearling weight. A 90 ratio bull could be expected to sire calves with yearling weights 25 lb. below the average of the herd.

How much of the nearly $2,000 advantage should the registered breeder be paid for on a 110 ratio bull? The answer depends upon the seller, the buyer and market conditions. But if the seller charges for only half of it, bulls with 110 yearling ratios should sell for $1,000 more than bulls with 100 yearling weight ratios, and 105 ratio bulls should sell for $500 more than those with average ratios. Under this arrangement, the buyer stands to earn back the added cost of the 105 or 110 ratio bull in just 4 years.

Not Cut and Dried

It's not all cut and dried. If cattle are on a high genetic level, even 90 ratio bulls might return an extra $500-$1,000 to the buyer over a 4-year period. So don't expect to use ratios exclusively in determining value. As Dr. Wagner points out, it depends upon the relative genetic level of the buying and selling herds. And as Bill Graham said, if you try to develop a specific pricing formula, it will probably break down somewhere along the way.

Production records, particularly weaning and yearling ratios, are good pricing guides. Armed with figures like these, it should be easier to price bulls and to sell them. And a good pricing and sales program should make you more money.