

Nebraska Producer Perceptions on the Role and Implications of Negotiation in Fed Cattle Transactions

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Summary with Implications

A survey of ten feedlot operators, as identified through the Nebraska Department of Agriculture's (NDA) 2019–2020 Cattle Feeder's Directory was conducted to identify the important concepts related to negotiated transactions and price discovery within the fed cattle market. The surveyed feedlots account for approximately 10 percent of the cattle on feed identified within the directory, on a one-time capacity basis. Conducted in April of 2023 via phone conversation, the questions were related to 1) negotiated cash transactions, 2) the bidding process, and 3) thinning cash trade. Such results lend insight into the marketing practices that currently dominate the fed cattle industry and reveals relevant mechanisms for price discovery. Serving as a proxy for the industry in Nebraska, the survey results implicate future opportunities for a more specific investigation addressing the effectiveness of cattle marketing strategies and their impact on profitability throughout the entire beef value chain.

Introduction

Beef production within recent years has been characterized by uncompetitive outcomes within most sectors of the industry. Repeated Black Swan Events in 2019, 2020, and 2021 has reignited concerns among industry stakeholders regarding current levels of negotiated cash trade and consolidation within the beef packing sector. A Black Swan Event is a label given to describe an unpredictable occurrence that subsequently results in unprecedented price volatility. Such concern has prompted both legislative and voluntary initiatives addressing market transparency and price discovery.

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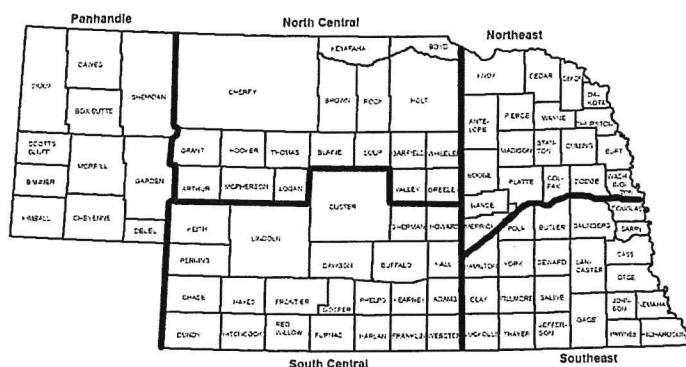


Fig. 1. 2019–2020 Cattle Feeders Directory Map

The sale of slaughter-ready cattle in today's fed cattle market is predominantly characterized by four types of transactions including, (1) negotiated cash, (2) negotiated grid, (3) formula trade, and (4) forward contract. In a competitive market environment where perfect information is not available to all market participants, negotiated transactions become critically important in generating new information. The act of negotiating a transaction price contributes to price discovery in that either party utilizes the knowledge that they may have about current supply and demand to arrive at an "ideal" market price. The importance of price discovery within a non-perfect competitive market yields several implications for thinning cash trade within the fed cattle market.

Given that the interaction between the buyer and the seller, or lack thereof, serves as a critical source of information within the market, effort has been devoted to better understand the bidding process and its role within the market. The objective of this survey was to examine the motivations and implications which drive negotiated trade.

Procedure

Using the NDA's 2019–2020 Cattle Feeders Directory, ten feedlot operators were identified by their location, as designated by their directory listing. The NDA designates

five cattle-feeding regions within the state of Nebraska: Panhandle, North Central, Northeast, South Central, and Southeast (Figure 1). Via phone conversation, survey participants were asked a series of questions pertaining to three key topics: 1) negotiated cash transactions, 2) the bidding process, and 3) thinning cash trade.

The surveyed feedlots account for approximately 140,000 of the 1.4 million head identified within the directory, on a one-time capacity basis. Participant responses were recorded anonymously via manual transcription.

Results

Negotiated Cash Transactions

Survey participants indicated that they utilize negotiation for the transaction of their fed cattle anywhere between zero and 100 percent of the time. Five respondents declared that they market 70 percent or more of their cattle via negotiated cash or negotiated grid transactions. Three respondents indicated that they utilize negotiation within their marketing strategy for 30 percent or less of all their cattle. One participant indicated that they do not take part in any form of negotiation for the sale of their cattle and has adopted this approach within the past four years. One participant noted that negotiation will typically occur for "commodity cattle" or "cattle that don't fit

a program.” Another participant specified that the transaction method varied between different cattle within their operation per the preference of the customer who has retained ownership of the cattle throughout the finishing process.

A consensus among survey participants suggested that feedlot operators wish to capture the maximum amount of value they can for each head, which negotiation allows but doesn’t necessarily ensure. Several respondents commented about the leverage which currently exists for feedlot operators when negotiating with packer-buyers given the reduced supply of fed cattle, per the timing of the survey. Other participants noted that it is their personal preference to use negotiated grid and negotiated cash transactions and that they are “comfortable in the cash market given the quality of cattle” they are feeding. The same participant noted that “grids have more discounts” and implied that in these types of situations, it is more opportune to trade in the cash market.

Survey responses indicated a significant variation between participants regarding their experiences about which transaction types a packer will entertain. One participant noted that some packers do not allow negotiation for grid-based transactions whereas another participant mentioned that their relationship with their packer-buyers allows them to have an up-front discussion about alternative marketing transactions for their fed cattle.

An additional survey respondent commented about their efforts to design and establish their own grid which various packers would be able to bid. However, integrating this type of transaction was very challenging due to the corporate nature of current beef processors. In their experience, this participant indicated that many packer-buyers were willing to bid on the base price for the grid transaction but first had to have higher approval for the grid and its corresponding values.

Bidding Process

Regarding the acquisition of cash bids from packing facilities, the general feedback provided by participants indicated that they assemble a “show list,” known as a listing of

cattle within their feedlot that they believe are market ready. Survey respondents also noted that a packer-buyer will typically travel to each feedlot within the week to evaluate the pens of cattle that appear on the show list and provide a bid as to what they believe the value of the cattle are. One participant mentioned that they disperse their show list via text message to their regular packer representatives every Monday morning. Two other respondents acknowledged their use of a third-party consultant for the acquisition and negotiation of cash bids.

Each survey participant indicated that the most important factor in their evaluation of a cash bid is the price value. The next most important factor is the relationship that the feedlot operator has with the packer. One survey participant stated that, “[I] have to be comfortable doing business with them.” The third most significant consideration acknowledged by the surveyed feedlot operators was the location or the cattle’s proximity to the slaughter facility. Another important consideration is their current knowledge about the number of cattle that have been traded within the past week, specifically within their region. Other factors include the operators’ current hedged position within the futures market and how those bids may equate to profit within their marketing strategy. One respondent indicated that an important factor within their decision-making framework is the timing of payment, which builds upon the concept of the relationship between the feedlot and the packer.

To better gauge the level of competition within the fed cattle market throughout Nebraska, survey participants were asked about the quantity of bids they may receive for a pen of cattle. The most predominant response from participants was an average of three to four bids for any lot of cattle. Two operators indicated that they may realistically only receive one bid, while two other operators indicated that they each receive seven or eight bids for any given pen of cattle, respectively. No survey respondents indicated a significant variation in the number of bids that they would receive during different times of the year. The same response was recorded for the number of bids concerning the type of cattle which are being offered.

Thinning Cash Trade

Survey participants provided varying perspectives regarding their opinions about the current volume of negotiated cash sales occurring within the fed cattle market. Several respondents indicated that they would like to see more robust cash trade and that they are not satisfied with the current volume of negotiated transactions. One feedlot operator acknowledged the need for more cash trade given the lower volume of cattle being traded within the market due to the cyclical decline in cattle on feed. Several other respondents indicated that they feel comfortable with the current level of negotiated trade.

None of the surveyed operators indicated that their current feedlot is impacted by the relatively low volume of negotiated cash transactions. One respondent provided a unique perspective about the implications of a thin market, noting that these conditions do not negatively impact the cattle feeder, but rather, harm the cow/calf producer. This comment was in reference to the segregated nature of the beef industry given that changes to the condition of the fed cattle market also potentially reflect to the conditions of the feeder cattle market. Regarding policy initiatives, multiple participants indicated their disfavor towards government intervention within the marketplace, in reference to recent proposals for establishing regionally mandated minimum volumes of cash trade within the fed cattle market. Other participants felt strongly about the need to improve competitiveness through the implementation of minimum cash trade volumes. An additional concern addressed by respondents related to the consolidation that has occurred throughout the beef industry.

Conclusion

The negotiation of a transaction price serves an important role in generating new information within a market through price discovery. Understanding the interaction between the feedlot operator and packer representative via the bid-and-ask process is critical in the exploration of this topic. The questions utilized in this survey reveal the relevant concerns of producers and thus strengthens our insight into these concepts.

The results improve our understanding of bidding and related price discovery mechanisms. As individuals who participate in the market daily, the responses of surveyed feedlot operators lend strong insight into current marketing strategies. The survey results provide direction for future research initiatives, specifically, to examine the relationship between market transactions and profitability at every level of the beef production chain.

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