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P G. Frapple

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DIRECT SELLING is a plus for cattle producers

By Paul Frapple, Research Officer, Division of Animal Production, South Perth

The aim when marketing cattle is to maximize the net return with the minimum level of risk. To do this a producer needs an accurate description of the stock for sale and information on the likely gross returns and costs of selling through the different marketing systems.

About 60 per cent of the 440,000 head of cattle sold for slaughter in Western Australia's agricultural area in 1988 passed through a live auction and 30 per cent were consigned directly to a meat processor for sale according to the characteristics of the carcass.

From 1982 to 1988, the Department of Agriculture compared the costs incurred and the net return received by the producer when selling virtually identical lines of cattle by these selling methods.

In 9 of the 10 comparisons, the gross return (price paid) from direct sale was higher than that from auction, with the weighted average difference being $20.99 per head. In each comparison, the cost of selling by auction was higher than that in direct sale. The net return from direct selling was higher on all occasions, with the weighted average difference being $31.48 per head.

Since producers' selling costs and processors' buying costs are lower in direct sales, it is more likely that net returns from direct delivery will be higher.

Selling methods

There is considerable scope for variations in net return from different selling systems depending on the costs incurred by the producer and the prices realized at sale.

The characteristics of the two methods of sale, which can influence the price paid or the selling costs are:

Auction
- Price is determined at a central location by visual assessment or by a combination of visual assessment and liveweight.
- Competition is determined by demand from the number of buyers present.
- Payment is guaranteed by the selling agent.
- Direct costs are incurred by producers for:
  - Freight to the saleyards
  - Agents commission (5 per cent)
  - Yard fees (currently $1.49/head at Midland Saleyards)
  - Transit insurance (currently 40c/$100 sum insured - optional)
  - Cattle Industry Compensation Act levy (50c/head)
  - Weighing fee if applicable (currently $1/head at Midland Saleyards).
- Handling in transport and through the saleyards can lead to increased losses in value caused by bruising and increased stress.
- Direct costs are incurred by buyers for:
  - Freight from saleyards to abattoirs
  - Commonwealth Livestock Slaughter Levy (currently $14.05/head)
  - Commonwealth Meat Export Inspection cost if applicable (currently about $2.50/head)
  - Stock buyer's costs
  - Losses caused by condemnation, disease or bruising
  - Agistment of stock before slaughter
  - Possible loss of carcass weight in the time between purchase and slaughter.
Carcass weight is the basis of payment for direct delivery sales.

Direct sale

- The purchase price ($/kg) is negotiated before the cattle leave the property, based on either an objective description of the carcass (weight and classification) or visual appraisal of the carcass by the purchaser (weight and grade).
- Direct costs are incurred by the producer for:
  - Freight to the abattoir
  - Commonwealth Livestock Slaughter Levy (currently $14.05/head)
  - Cattle Industry Compensation Act levy (50c/head)
  - Commonwealth Meat Export Inspection costs at export abattoirs (currently about $2.50/head but varies with export abattoir).
- The producer bears the cost of losses due to condemnation, bruising or disease. Reduced handling of stock can lead to less loss in value caused by bruising and stress.
- The only cost to the buyer is when cattle are assessed on the farm before sale.

The comparison

On 10 occasions between April 1982 and November 1988, drafts of a minimum of 19 cattle were divided into two groups of similar liveweight, fat score, sex and breed. The cattle came from six properties and average liveweights of the groups ranged from 256 kg to 494 kg. The stock were predominantly of fat score 3 (6 to 12 mm, P8 site).

One group from each draft was sold by live auction at the sale yard of the producer's choice and the other group was consigned direct to an abattoir also chosen by the producer. Cattle were sold at four saleyards, with five lots being sold by appraisal and five lots by liveweight. Four abattoirs bought the direct consigned cattle, and the price was based on carcass weight and fatness on five occasions and on carcass weight only on the other five.

Net returns to producers when selling cattle at live auction are more likely to be lower than from direct delivery.
The results

In each sale, the net return was calculated by deducting the marketing costs from the gross return (Table 1).

Some of the costs changed over the period of the comparisons, as follows:

• Yard fees (Midland): $1.09 - $1.49/head.
• Commonwealth Livestock Slaughter Levy: $4.02 - $14.05.
• Commonwealth Meat Export Inspection cost: $1.80 - $5.40/head.

The Commonwealth Meat Export Inspection cost was incurred in all but the fourth comparison.

In 9 of the 10 comparisons, the gross return (price paid) from direct sale was higher than that from auction, with the weighted average difference being $20.99 per head. This may be expected from an analysis of the buyers costs as follows:

The total cost of cattle to the buyer is the sum of the purchase price plus the costs of buying the cattle. Since the cost of buying direct delivered cattle is lower as explained previously, buyers can afford to pay a higher purchase price for those cattle to achieve the same total cost as for cattle bought at auction.

Table 1 also shows that on each occasion, the cost of selling by auction was higher than the cost of direct sales. In April 1989, the direct cost, excluding freight, of selling an animal worth $400 by liveweight was about $6 higher than selling that animal to an export abattoir, and about $8.50 higher than selling it to a domestic abattoir.

The major component of the auction selling costs is the agent’s commission which is 5 per cent of the gross return. The reduction in cost from selling direct is therefore mainly attributable to the producer undertaking more of the marketing functions and accepting more risks.

The combination of lower selling costs and generally higher buying prices resulted in a higher net return from selling direct on every occasion, with the weighted average difference being $31.48 per head.

It could be argued that if a person more skilled in cattle marketing, such as an agent, was involved in the direct sale, the gross return would have been higher. In this case, the gross return would have to be at least 3 per cent higher to offset the agent’s commission charge, though allowance should also be made for the service provided and the guarantee of payment provided by the agent. In 8 of the 10 comparisons, the net return from selling direct would still have been higher than that from auction sales if an agent had organized the direct sale and charged 3 per cent commission.

Even though the net return from selling direct was higher than that from selling in the live auction on each occasion, it is unlikely that this would always be the case. Strong competition in a rising market could see prices higher at auction. However, since producers’ selling costs and processors’ buying costs are lower in direct sales, it is more likely that net returns from direct delivery will be higher.

The results highlight that both buying prices and selling costs can influence the net return from different selling methods. To maximize their net return, producers should know the costs and obtain quotes or estimate returns for their stock from several selling methods.

The Department of Agriculture has developed a computer program named ‘CATMARK’ to assist producers in marketing their cattle. Producers can use this program by contacting their local Departmental office.

Further information