



Nebraska

FARMER

April 2009

Sell your product, not next guy's

By DAVID A. DOMINA

WOULD a grain farmer pay all inputs of production, raise the crop and then call the elevator to say, "Harvest it when you get to it, and let me know how it came out?" How foolish!

Yet livestock producers do just that. Soon, nearly 90% of hogs will be marketed under an impossible-to-verify carcass-merit system. Fed cattle are sold the same way. In both instances, the producer pays all the inputs, raises the animal and then calls the packer to say, "Harvest it when you want, and let me know how it came out."

Price can be discovered when both parties know what they are bidding on, see it or know what it looks like. Corn, at No. 2 yellow grade, has definition, and is transparent to buy and sell without seeing every bushel. Not so with cattle and hogs. Producers ought to price what they sell, not what their buyer sells. Sales "in the meat" invite abuse and should be resisted. The feeder's product is a healthy animal. The processor's product is edible cuts and trim. These different products sell into different markets. Producers should not allow live animals to go unpriced and skip a step by selling on a carcass-merit basis.

What impacts carcass yield most? Feeding efficiency or animal injury? Livestock care or slaughter chain inefficiency? Why should the producer absorb 2% because the packer could do a better

job? Isn't the point that the producer, as a seller, should get paid for what he or she delivers, and not for what comes out of the packer's breakdown process?

Each business in a supply chain has to price its own product, sell that product and not skip a step. When markets become so concentrated that processors force producers into contracts passing processing risks to producers, markets no longer work. Each product's creator must have the reward and risk of his or her efforts.

Marketing methods

The press is full of articles about when and how to settle cattle or hogs, and how to hedge price for both finished animals and grain inputs. Talk abounds about long-terms sales, short-term purchases, straddles, strangles, etc.

But few focus on what is being sold. Nearly all concentrate on the price to be paid. Packer buyers want to buy "in the meat"; they can push inefficiencies out the door and onto the producer's empty truck by paying for what is left after butchering is completed.

Who doesn't wonder what goes on behind closed doors? And, when the door is closed, who doesn't let down a little? This is the danger of selling carcasses instead of cattle or hogs.

When animals disappear behind closed doors, they instantly cease to be the same products the producer delivered. They transform into something not recognizable to the producer or traceable to the animals delivered.

How easy is it to lose 30 pounds amidst a bunch of products? How simple is it to mix acceptable with above-average goods to bring up the value of the lower end? Inside a plant, this is simple; outside, it is much harder if the products sold are live cattle or hogs.

And, why should a producer take this risk? Why must the cattle or hog seller try so hard to please the packer that a pricing step is skipped, forcing packing plant inefficiencies or risks onto the producer? Why doesn't the producer insist that the packer run his business while the producer does the same?

Beef and pork producers would do well to negotiate what they sell. They are unlikely to get ahead by taking as payment what the buyer certifies was delivered, and the seller cannot verify. Trust, but verify, makes sense. A little control goes a long way. This is the first step toward a balanced market where price can be negotiated fairly.

Fair pricing cannot occur until buyer and seller agree that the negotiated price is for a product that can be seen, and defined, when the sale occurs. Cattle and hog feeders need to return to selling animals and stop letting packers force them to price the results of their labor in terms of the packer's product.

If the product sold is cattle or hogs, and not carcasses or cuts, then futures markets can be used to control risks. It may be OK to straddle or spread in a futures market, but it is not OK to skip a basic step in the pricing process.

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