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Carcass-Based Marketing of Cattle and Hogs: Why More Producers Don't Use It

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When marketed on a carcass basis, the value of cattle and hogs to packers is determined after slaughter and is based upon direct measurement of carcass weight and quality. This practice makes it possible to reward producers of high quality livestock with higher payments and to penalize producers of relatively low quality livestock with lower prices. Livestock producers can often benefit from selling cattle and hogs on a carcass, or carcass grade and yield basis. University research has often shown that dollar losses accrue to producers and packers alike because liveweight estimates of carcass grade and yield do not accurately reflect the use value of livestock to packers. Recently, an article in a popular farm magazine reported the results of a study in which a sample of market hogs sold on a liveweight basis brought $44.50 per hundredweight. Had the same hogs been sold on a carcass grade and yield basis, they would have ranged in price from $40.58 to $49.91 per hundredweight.

Besides rewarding producers of more valuable animals, carcass-based selling can show the producer how to improve the quality of his livestock. If the producer learns that feeding practices and/or the quality of feeder stock are responsible for lower than average payments, he can, if he chooses, change these practices or the quality of the stock the next time he feeds. Research recently reported by the authors indicated that livestock producers using carcass-based marketing believe that the method increases their net returns, makes payments more equitable and provides producers with information which enables them to improve their breeding and feeding programs.

The practice can benefit packers and consumers as well. Packers reduce their risk of overpayment, and consumers' preferences are reflected directly to producers.

In spite of the benefits which may accrue to livestock producers who market on a carcass basis, a relatively small share of all producers do so. In 1978, only 25.5 percent of slaughter cattle and 10.4 percent of slaughter hogs were sold on a carcass basis. In recent years, there has been no evidence of an upward trend in the share of livestock sold on a carcass basis.

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Which Producers Market on a Carcass Basis?

A recent study surveyed producers in three states (Illinois, Indiana, and Iowa) and packers in five states (Illinois, Indiana, Iowa, Kansas, and Nebraska). The study determined that producers investing most or investing the greatest share of their capital in livestock production are most likely to market on a carcass basis. This is one of the most persuasive arguments for the benefits of the method to producers. Users of the method rely on livestock for a large share of their income and have relatively large livestock operations. Further, the larger production units tend to sell a greater share of their livestock on a carcass basis.

Some of the survey findings are that:

- Producers selling on a carcass basis received an average of 84 percent of their revenue from livestock sales. For livestock producers not selling on a carcass basis, only 66 percent of revenue was accounted for by livestock sales.

  - Of 168 cattle feeders, 83 (49%) sold more than 200 head per year; of these, about half sold on a carcass basis. Of 85 cattle feeders, 51% selling fewer than 200 head per year, only one-fifth sold on a carcass basis.
  - Of 195 hog producers, 132 (68%) sold more than 500 head per year; of these, 59 (45%) sold some on a carcass basis. But of the 63 producers (32%) selling fewer than 500 hogs per year, only 11 (17%) sold any on a carcass basis.
  - Of the 29 producers selling more than half of their cattle on a carcass basis, 20 (69%) were producers of more than 200 head per year. Of the 42 producers selling more than half of their hogs on a carcass basis, 36 (86%) sold more than 500 head per year.

Why Don’t More Producers Sell on a Carcass Basis?

The authors' study was conducted to determine why more producers don't sell on a carcass basis. The study found that the most important obstacle to use of carcass based marketing is that the method forces the producer to commit livestock for sale before he knows exactly what he will be paid. This obstacle is an unavoidable characteristic of carcass-based marketing since the packer does not know before slaughter what the livestock is worth to him.

A closely related obstacle is the producer's difficulty of comparing terms of trade between alternative carcass-based systems. The capacity to make such comparisons not only requires knowledge of weighing, grading, and trimming procedures but also premium and discount schedules.

Delay in payment is another major obstacle to the use of carcass-based methods. Packers and Stockyards Administration regulations require that payments "be mailed to producers before the close of the first business day following the determination of purchase price." But, by nature, carcass-based marketing delays the time at which the purchase price is determined and, therefore, payment to producers.

Another major obstacle is often the producer's lack of confidence in the accuracy of carcass-based grading. This distrust stems from the fact that grading takes place in the packer's plant and generally out of sight of the livestock producer even though it is performed by USDA graders.

Packers’ Perceptions Of Producers’ Concerns

Most packers wish to purchase more of their livestock supplies on a carcass basis. In some cases, they are willing to make adjustments which would encourage producers in this direction.

The authors' research indicates


that packers do not always accurately perceive the importance of obstacles to carcass-based marketing. Packers recognize that the need to commit livestock before value is determined is the greatest obstacle to producers. But packers thought that delayed payment and the difficulty of comparing alternative offers were relatively unimportant. If packers are more aware of producers' concerns, they may be more able to respond to those concerns.

What Would Cause Producers to Sell More Livestock on a Carcass Basis?

If producers are to sell more livestock on a carcass basis, the following conditions are necessary.

1) Producers must be readily able to estimate their total returns using a carcass-based premium and discount schedule.

2) Producers must be able to compare the value of their livestock on alternative carcass-based grading systems.

3) Producers must understand the practical limitation on speed of payment.

4) Producers must become familiar with the carcass-based grading process if they are to develop confidence in the integrity of the method.

Given the general interest of meat packers in expanding the use of carcass-based marketing, meat packers and livestock extension specialists could play a role in bringing the interests of producers and packers together by helping to overcome these obstacles.

Experience Would Help Producers

Experience with carcass-based marketing reduces producers' concerns about the method and helps them to recognize more benefits from its use. For example, compared to producers who have never sold on a carcass basis, producers who have sold on a carcass basis:

- Have more confidence in the accuracy and honesty of grades and the grading system.

- Are more able to compare alternative grading systems.

- Are more able to compare carcass-based alternatives to liveweight marketing alternatives.

- Believe more commonly that the procedure provides information useful in future production practices.

- Believe that carcass-based marketing leads to fairer payment.

- Believe that the method increases net returns.

Producers who are skeptical of carcass-based marketing may be encouraged by the experiences of others. The factors listed above indicate that use of the method is often informative and beneficial to producers who try it.
would show other producers what
they would have to do to cap-
ture greater returns and how
much they could benefit from
doing so.

Along with such information, pack-
ers could inform producers that Packers
and Stockyards Regulations require that
payments be sent to producers within 24
hours after price is determined. This
would reduce the extent to which produc-
ers perceive exaggerated delays in the
receipt of payment.

Packers could also cooperate with
extension specialists in an effort to
demonstrate the carcass-based grading
process for livestock producers. Famili-
arity with the process may well reduce
distrust on the part of producers.
Another possibility in this regard is
for packers to invite growers to observe
the grading of their cattle or hogs.
This has been done with success in the
grading of other agricultural commodi-
ties.

What Livestock Extension Personnel Could
Do

Livestock extension specialists
could play two roles in expanding the
use of carcass-based marketing. First,
they could play the role of catalyst in
organizing livestock producers, prompt-
ing the above activities by packers and
bringing both groups together to facili-
tate communication about the issues men-
tioned above.

Second, extension specialists could
engage in direct educational efforts by
presenting data on the benefits of
carcass-based sales and developing
illustrations of the pay-out conse-
quences of alternative grading systems.
The authors are not aware of major ef-
forts to model the effects of using such
alternatives. But it is conceptually
simple and feasible to develop such a
model for hand or computer use.

Why Everyone Shouldn’t Market
on a Carcass Basis

The potential for producer and
packer gains from carcass-based sales is
not always great enough to justify use
of the method. Some producers and small
packers deal with each other on a regu-
lar basis. Under these circumstances,
the packer may be familiar enough with
each producer’s stock to have confidence
in his estimate of its value. A produc-
er whose cattle or hogs are consistent
in quality may already be recognized and
rewarded.

In some cases, the potential gains
from carcass-based sales at a given
scale of operation may not justify the
use of a federal grader. In still other
cases the opportunity to sell livestock
at auction or terminal markets may prove
more attractive to producers than are
direct market sales, even though poten-
tial gains from carcass-based sales are
only possible through direct markets.