



An economic analysis of feeder cattle marketing in Montana
by Dolphus R Dawson

A Thesis Submitted to the Graduate Faculty in Partial Fulfillment of the Requirements for the Degree
of DOCTOR OF PHILOSOPHY in Agricultural Economics
Montana State University
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Abstract:

The feeder cattle industry is vital to the economy of Montana. The customary market for the product of this industry is in danger from the encroachment of the produce of the feeder cattle industry in the Central and Southeaster states. The best means of blocking this encroachment is through improved marketing efficiency.

Methods of marketing feeder cattle have long been undergoing change. Resultant indications of each change are that the feeder cattle producer is attempting to reduce his marketing costs, retain more control over the marketing of his product, and attain more bargaining strength.

Observations of the rancher were primarily concerned with direct marketing because analysis of Montana brand inspection records shows an obvious movement of the feeder cattle producer toward this market. Analysis of survey data indicates a strong preference for this market. Even though the surveyed cattlemen were predominately marketing direct, they preferred to deal with the feedlot operator more often than the dealer—order buyer. Analysis of the actual marketing methods which they used demonstrated that they were dealing with these buyers in reverse order.

It is postulated that when the producer is facing the feedlot operator structural characteristics of the market approximate that of pure competition on both sides of the market. When the producer is facing the dealer order buyer, there are market conditions approaching pure competition on the selling side, but there are imperfect conditions on the buying side.

It was posited that these imperfections were due to an imbalance of market information. Models were constructed by which to examine differing posited levels of information. Observations of ranchers offer some empirical evidence to substantiate the resultant conduct indicated by these models. Analysis of market information used by the observed rancher indicates that he is largely unaware of much available information and that very little available information is meaningful in the market of his preference. At the same time, the observed rancher made many efforts to obtain better information.

Most of the sellers in the sample, for strategical reasons engaged in forward contracting. Examination of contracting data indicated that these sellers were subject to disadvantage by the terms of these contracts. This disadvantage is brought about largely by lack of market information.

The observed rancher had definite ideas as to the type, form, and timing of needed information. Market information, designed along these lines, would enable the Montana rancher to increase his bargaining strength, improve his marketing efficiency, and thereby retain his share of the feeder cattle market.

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ABSTRACT

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CHAPTER I

INTRODUCTION

The General Problem Setting

Montana is experiencing a widening gap in her economic growth rate in comparison with that of most other states. ^{1/} In order to reduce this gap, political leaders and chambers of commerce have gone to great effort to induce outside industries to relocate to Montana, to entice new enterprise, promote tourism, and to devise promotional schemes of all sorts. Another way to attack the basic growth problem would be to seek ways to strengthen the basic industries already present.

It has become commonplace among land economists to divide industries into two major categories, those which are town-building and those which are town-serving. Those industries generally referred to as town-building industries are basic industries. There may be a particular characteristic such as geography, or several characteristics which explain the initiation of a basic industry. Around this basic industry springs a community. As the community becomes more concentrated the activities of its population become more specialized. Community growth brings with it many demands for diverse commodities and services. Town-serving industries are initiated and, in time, an economic complex is formed.

A basic industry is not typified. It can be any, but it must be primary in the sense that it provides the chief means of support in the area and

^{1/} Maurice C. Taylor, Income Trends in Montana, (in process of publication), page 1.

other industries in a large measure adjust themselves to it.

Another property of a basic industry is its export orientation. This is not a necessary condition; but most communities owe their origin to an export industry--one which produces for markets mainly out of its area.

General Economic Importance of Agriculture

Agriculture, mining and lumbering have historically been the three main basic industries in Montana. This is still true today even though there are fundamental changes taking place in each of them.

Of these, agriculture is foremost. Within agriculture the cash receipts from the marketing of livestock and livestock products have been increasing as a percentage of total receipts. The upward trend of cash receipts from livestock and livestock products has been under way since 1954. Cash receipts from crops have, during the same time, been declining as a percentage of total receipts. This is illustrated in Figure 1. The trends since 1957-58 have been more divergent.

Within the major classifications of livestock and products, and of crops, attention is drawn in Figure 2 to two particular commodities:

(1) cattle and calves and (2) wheat. Each contributed largely to the trend of its commodity group. Cash receipts from other commodities within each group have remained relatively constant. Crops for livestock feed have at least held their position over the time period under consideration.

Beef cattle production is a basic industry to Montana. It was not always this type of an industry. In the beginning it was a non-basic industry. If one can ignore the early fur trading posts, it can be said

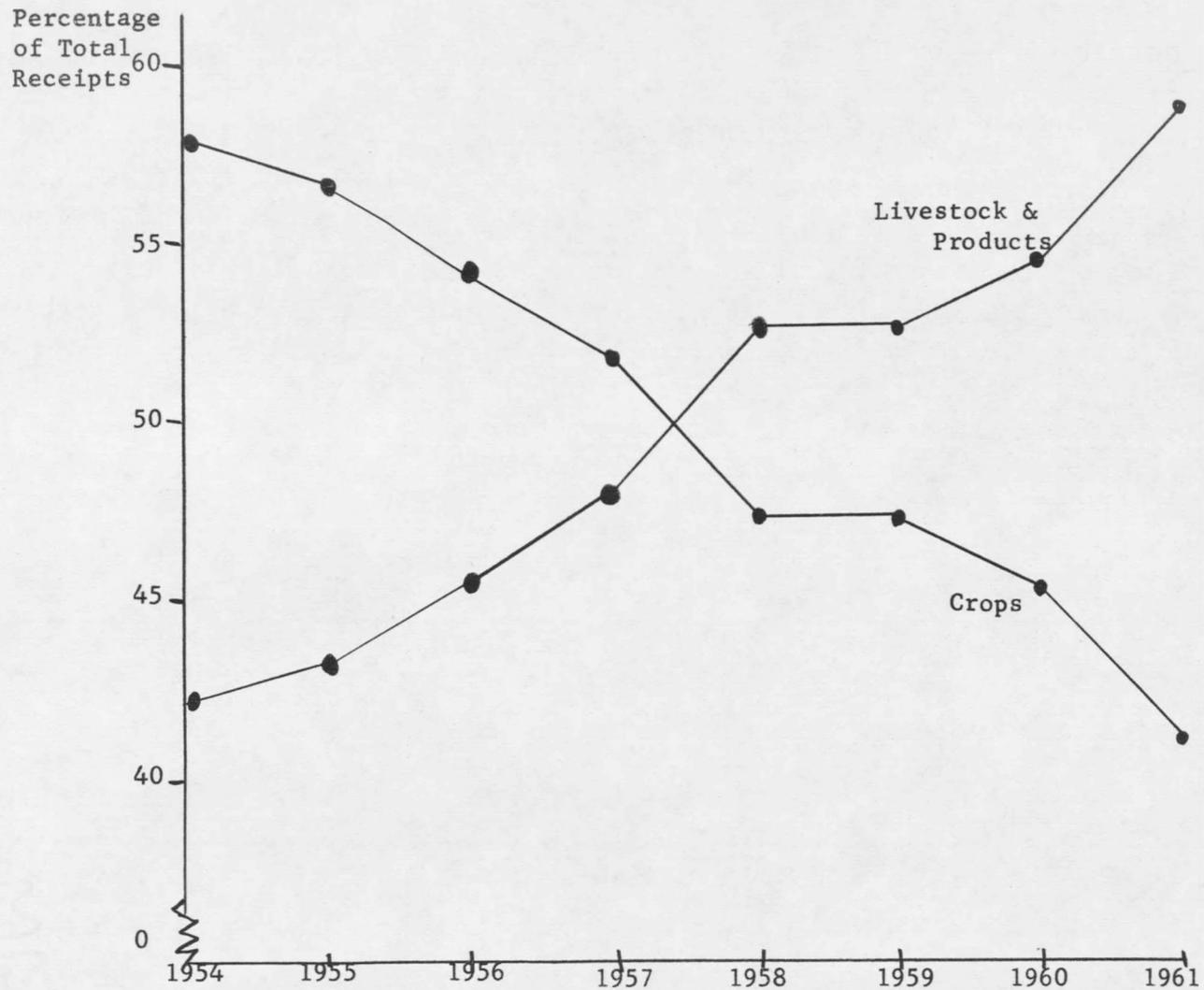


Figure 1. Cash Receipts as a Percentage of Farm Marketings by Major Commodities, 1954-61.*

* Source: Montana Department of Agricultura, Statistical Reporting Service, Helena, Montana.

that mining was the first industry which was basic to Montana and to early Montana communities.

Before the coming of the white man, it is said that certain Inter-mountain Indian Tribes annually traveled well-defined trails to the plains to hunt buffalo. These annual migrations, of course, were not possible before the taming of the horse. Days on the trail were many. The object was to return to home grounds with the heaviest possible payload of cured meat for winter use. This meant that the parties had to live off the country while on the trail. The accounts of Lewis and Clark make note of the scarcity of game on the portions of their journey which took them over these trails.

When the early prospectors made their finds and began working the pay dirt of Bannack, Nevada City, and Virginia City, they were in areas which had felt the hunting pressure of many such annual migrations. Game was scarce even from the beginning. As population increased in the mining camps, game had to be sought farther and farther away from the camps. Time spent hunting for food was time lost to the primary industry. To meet this demand cattle at first were trailed in for immediate slaughter. Soon herds were established on the grass ranges near the mining camps. Beef cattle production had become a town-serving industry in Montana.

Good grass was abundant. Of course, there were the original land owners--the Indians; and the original grass consumers--the buffalo. These though, were regarded by the white man as nothing more than hindrances to his "manifest destiny". Over uncertain and dangerous routes--great herds

from all directions were trailed into Montana.

On trail junctions and supply routes communities sprang up. At first, the industries were rudimentary; mostly food, drink, and shelter for horse and rider. The nature and number of the population changed rapidly; so did the industries serving them. Big money was being made running cattle on the free grass and shipping them to eastern markets. Big money was also being made providing commodities and services to those who herded the cattle. Beef cattle production had become an export or town-building industry long before the big bonanza days of the mining camps ended.

Types of beef cattle and techniques of producing them have undergone many changes. Beef production became a leading industry almost from its inception in Montana and has remained so ever since. Montana, in turn, has been for many years not only a leading state in feeder cattle production, but has a reputation for producing high quality feeder cattle.

There is nothing sacred about such a position, however. Most segments of the beef industry are in the midst of drastic changes. Many old areas are changing to new methods and new forms of production. New areas are now ready to challenge the position of areas holding historically prominent positions. Montana is one of the historic areas of beef production that are about to be challenged by the growing industry in the South and Southeast. This industry is vital to the economy of Montana. It is important to appraise the means at the industry's disposal which can be used to keep and perhaps improve its position.

