



MLA/SFE CATTLE FUTURES 2006-07 MARKET RESEARCH RESULTS

The MLA/SFE Cattle Futures has been listed on the Sydney Futures Exchange (SFE) for nearly six years, since August 2002. Since the inception of the contract, MLA has been responsible for the marketing, business development and education required to facilitate the uptake of the cattle futures contract by the Australian beef industry. The responsibility of the business development in 2007-08 was handed over to the ASX, whereby they are now responsible for the activities that fall under the business development unit for the Cattle Futures contract.

In April 2008, MLA conducted its annual market research study of cattle producers and lotfeeders to determine the effectiveness of MLA's cattle futures strategy, and to identify potential areas for focus in the coming year.

KEY PERFORMANCE INDICATORS (KPI)

The following key performance indicators were set by MLA for 2007-08 the Cattle Futures program.

1. Maintain 70% of producers and 80% of lotfeeders aware of the MLA/SFE Cattle Futures contract and achieve 40% of producer and 50% of lotfeeders aware of the AFCC.
2. Achieve 30% of lot feeders and producers aware of the term basis. Further, achieve 50% of these able to correctly explain basis.
3. Increase uptake of MLA/SFE Cattle Futures by 20% on 2006-07 levels.
4. Have a 50% increase in participants reporting using forward contracting.

The first, second and fourth targets are measured by the market research outlined in this paper.

METHODOLOGY

The market research was conducted via a telephone survey of cattle producers and lotfeeders in April 2008 by the market research company Solutions. Producers were selected from an MLA list of the **top 300 grassfed beef producers**, while lotfeeders were selected from an ALFA list of **47** feedlots supplemented with Solutions own database. Businesses with the highest turnoff were selected for the sample frame as these groups represented the key target for adoption of the contract (by volume) and MLA's communication efforts.

These groups were targeted are meant to represent the key audience for the Cattle Futures program. However, the change from an ALFA¹ provided lotfeeders list of above 1000 head to the list was supplied by MLA has greatly, and unexpectedly, changed the survey demographics – in the 2005-06 87% of respondents sold 1000 head or more, whereas only 40% in 2006-07. The change in respondent demographics generally lowered the survey results as a large proportion of respondents were not the targeted audience.

The response rate to the survey was 105 producers (94 in 2007) and 84 lotfeeders surveyed (84), representing 35% and % on the possible sample². In order to gain gauge how the results from the previous year performed against the targeted demographics (greater than 1000 head), lotfeeder respondents were broken down into selling greater than 1000 head and those not, this enables a comparison year on year. There were 38 Lotfeeder respondents selling greater than 1000 head, compared to 71 in the previous year.

RESULTS AND DISCUSSION

A summary of the key results is presented in Table 1 the 2007-08 results are in brackets.

Table 1. Key cattle futures results

	Producers 2008 (2007)	Lotfeeders 2008 (2007)
Issue	N = 105 (97)	N = 84 (94)
Total recall of the MLA / SFE Cattle Futures contract	77% (78%)	78% (83%)
Main source of information on the MLA / SFE cattle futures contract ³ (Of those aware of the contract)		
MLA Feedback Magazine	32% (38%)	43% (29%)
Newspapers	31% (26%)	48% (27%)
Awareness of the EYCI	84% (91%)	91% (89%)
Very Familiar / Familiar with difference between price of cattle bought / sold and the EYCI	35% (42%)	54% (64%)
Awareness of "Basis"	41% (43%)	64% (59%)
Correct Definition of "Basis" ⁴ (Of those aware of "Basis")	12% (12%)	19% (16%)
Used MLA / SFE Cattle Futures contract	8% (4%)	6% (15%)
Likely uptake of the MLA / SFE Cattle Futures Contract in the next 12 months	9% (12%)	5% (17%)
Awareness of NACMA	38%	42%
Awareness of the AFCC by NACMA	55%	54%

¹ Australian Lotfeeders Association

² Possible sample excludes uncontactable numbers i.e. away, incorrect contract details, no answer etc.

³ Filtered sample

⁴ Filtered sample

The different buying/selling tools were also assessed.

Method (%)	Producers		Lotfeeders (sold 1000+)	
Saleyard/Auction	65%	%	59%	
Direct/OTH	80%	%	81%	
Forward Contract	11%	%	15%	
Futures Contract	6%	%	4%	
CBA product	%	%	%	
Other	%	%	%	

1. Awareness

General awareness of the MLA/SFE Cattle Futures programs and the associated programs remains high. Awareness of the MLA/SFE Cattle Futures continues to expand, with % of producers and % of lotfeeders responding that they had heard of the MLA/SFE Cattle Futures contract. This was an increase from 78% of producers aware of the contract in 2006-07 and 83% of lotfeeders. Of particular importance is that awareness of the contract by lotfeeders remains high, despite the inclusion non-targeted lotfeeders.

The KPI based on awareness was reached; with producers and lotfeeders surpassing the targeted maintenance of 70%. Despite achieving the KPI, it remains important that MLA continues to improve awareness, particularly when use of the Cattle Futures contract remains low.

The general awareness of the Eastern Young Cattle Indicator (EYCI) was historically a key performance indicator; however, in 2005-06 awareness was determined to have reached such a high level that it was no longer necessary as a KPI. This decision remains justified; in 2007-08 unaided awareness of the EYCI was 84% for producers and lot feeders 91% – in 2006-07 the results were 91% and 89%, respectively.

There were mixed results in the familiarity between respondents cattle buy/sell price and the EYCI. There was a decline in the familiarity between producers buy/sell price and the EYCI, originally 42% and down to 41%. The change in lotfeeder survey demographic hides a positive trend. Of total respondents there was a slight, 3 percentage point, decline in those familiar with their cattle price and the EYCI. However, when the looking at the filter sample of targeted lotfeeders, there is an increase in the respondents aware of the relationship – 64% compared to 80% in 2006-07.

Awareness of the term “basis” has receded. Total producers respondents aware of the term basis declined 1 percentage points to 41%, while lotfeeder awareness (using the filtered sample) increased from 59% to 64%. Of those that responded they were aware of the term basis, 12% of producers were able to correctly identify while 19% of lotfeeders.

The overall general awareness of the MLA/SFE Cattle Futures and its subsidiaries are mixed. The cattle futures and the EYCI awareness have remained strong; however, basis and understanding remains a concern.

2. Communication Methods

There were no major changes to the communication methods, again print media – ALFA magazine included – were targeted as the key means of communication.

There were varied responses for the two groups; the underlying trend for producers was that there was a decline in information gained through the MLA produced information, and an increase in externally produced channels. While for lot feeders, there was an increase in information gained through the MLA produced information. The importance of newspapers as a source of information on Cattle Futures continues to increase for both producers (31%, up from 26%) and lot feeders (48%, up from 27%).

Producers reported a decline in the percentage that gained information through MLA's feedback, down 4 percentage points to 32%. The number that received information from newspapers increased by 5% points to 31% and the other category increased dramatically, up percentage points to %. The other category includes areas such as consultants, brokers, banks agents etc.

Lotfeeders experienced an increase in the percentage on how they found out about futures through Feedback. The increase in newspapers was reciprocated, up 21 percentage points to 48%, while other information also rose percentage points to %.

The change in the means of gaining information about cattle futures is a positive and removes the onus off MLA for being the sole provider of information.

3. Usage of MLA/SFE Cattle Futures

The continual high awareness has not brought about the expected increase to trading volumes with current trading levels remaining below the target increase of 20%.

In terms of total respondent who have used Cattle Futures, there was a 9 percentage point decrease to 6% of lotfeeders. Producer respondents reported an increase in the number that has used the cattle futures, 8% (4% in 2007).

Lotfeeders who responded that they had not traded cattle futures, 17% responded that they were likely or highly likely to in the future – 27% in the previous survey. Using the filtered sample 24% respondents reported that they were likely/highly likely to trade futures compared to 30% in 2006.

The number of producers returning likely or highly likely decreased to 9%, a decrease of 3 percentage points from 2007.

4. Use of other pricing tools

Cattle futures represent just a small proportion of the methods of selling/buying cattle. In 2007-08 there is a concerted effort to increase the use of other methods of selling, away from direct and saleyard, to minimise risk.

Currently, 49% of producers and 46% of lotfeeders report that they use the saleyards to buy/sell their cattle.

This is not an unexpected result, although, lotfeeders may not be buying the majority of their cattle this way. In terms of selling, the high level of direct to works (OTH) for both categories is again no surprise, 73% and 89% respectively. The number of filtered lotfeeders buying cattle direct, at 89%, may suggest a higher than expected usage of some forward agreement.

The limited use of forward contracts in buying and selling for both groups is an area that will form the focus of the 2007-08 strategy. 17% of producers reported that they bought cattle using forward contracts, while 83% reported they sold using forward contracts. Lot feeder response was much higher, 100% bought using forward contract and 67% sold using forward contracts.

The 2008-09 strategy will need to look at the promotion of a variety of different forward contracting styles – in particular basis contracts. The success of the programs can be gauged through awareness and use of basis contracts. Currently 51% of producers and 59% of lot feeders were aware of basis contracts, while 9% and 3%, respectively, of those positive responses had used basis contracts.

5. CONCLUSIONS

The current MLA Cattle Futures program has had reasonable results in 2007-08, although there are many areas that the program needs to focus on, in particular the awareness and understanding of basis and further uptake of a range of price risk management tools within the cattle industry.

Awareness of the Cattle Futures contract improved for lot feeders, although for producers awareness slipped with some reservations in the understanding of risk management in general.

- Further education on risk management tools and basis need to be conducted. The key will be increasing the prevalence of basis in the market
- Increased focus on the other tools available which should naturally lead to greater futures use
- Continue to focus on newspapers and independent information sources, although need to redress the decline in feedback information