

*MLE's lease-to-buy option is helping commercial producers buy high-quality Angus bulls, and commercial cattlemen are reaping the benefits.*

# A New Lease on Bull Buying

BY DEANNA SCRIMGER

**W**hen cattlemen purchase a new truck, the dealer may present lease programs for consideration. When commercial cattlemen purchase bulls, they may lease them through a progressive program offered by MLE Marketing (MLE), a division of Southern States Cooperative. MLE is utilizing the lease concept to help cattle producers afford superior genetics.

MLE Marketing, established in 1922 as Michigan Livestock Exchange, is the largest livestock marketing cooperative in the United States, marketing more than 3.3 million head of livestock annually. MLE merged with Southern States Cooperative in March 1998 and now has business interests in 17 states and networks with more than 800 retail outlets.

Originally launched in 1996, MLE's Beef Improvement Program (BIP) has developed into a vital service of the grassroots cooperative. The BIP encompasses bull leasing, retained-ownership financing, carcass data collection, replacement-heifer financing and feeder-calf sales.

Mark McCully, manager of sales and marketing for MLE, explains, "When we originally explored how we could help producers find an improved market for feeder calves, Angus genetics were an obvious choice for proven carcass genetics and reliability." The cooperative believes Angus genetics hold a superior value for the feeder-calf, bred-heifer and fed-cattle segments.

## Leasing program

MLE's bull-lease program is focused on linking purebred producers and commercial cattlemen. To date, the lease program involves 19 purebred producers throughout MLE's 17-state territory. More than 110 bulls have been leased to producers in 11 states. Expectations are to have 250 bulls

**Table 1: Examples of annual payment schedules by purchase price**

Purchase price, \$	Annual payment, \$
1,750-1,999	490
2,000-2,249	580
2,250-2,499	670
2,500-2,749	760
2,750-2,999	850
3,000+	Case dependent

leased by the end of the spring 2000 bull season.

MLE's lease program is centered around Angus genetics; however, a few Red Angus and Charolais bulls have been leased as part of rotational crossbreeding programs.

Through an extensive selection process, MLE certifies producers to become bull suppliers. A prerequisite for becoming a certified producer is being able to provide a minimum of 20 bulls/year that hit MLE's target. For Angus producers, that target is above breed average for both marbling and yearling weight expected progeny differences (EPDs). These specifications correlate to calves that perform through the feedlot and have a high probability of producing carcasses of superior quality grades.

"The certified-producer aspect has allowed us to develop a framework of producers who have a similar vision and have focused on carcass genetics," says McCully.

Selected producers must also meet a list of requirements including compliance with beef quality assurance practices and providing trucking, as well as paying an annual coordination fee. In return, the purebred producer has another valuable service to offer customers and has access to the cooperative's 800-plus retail outlets



DEANNA SCRIMGER PHOTO

"The simple goal is to allow producers to afford better genetics," says Mark McCully, MLE's manager of sales and marketing. "The lease program provides the means for cash flow and requires less out-of-pocket expense."

where MLE is actively advertising the bull-leasing options.

## Affordable genetics

"The simple goal is to allow producers to afford better genetics," says McCully. "The lease program provides the means for cash flow and requires less out-of-pocket expense."

MLE's bull lease is a three-year lease with annual payment determined by the purchase price (see Table 1). At the end of three years the producer has the option of returning the bull to MLE or purchasing the bull for the salvage value of \$800.

For example, if a producer "buys" a bull

for \$2,100, MLE would pay the seedstock producer the full \$2,100 at the time of the sale. MLE handles all the arrangements with the lease customer, who makes payments directly to MLE, in this case in \$580 annual installments.

"The vast majority of producers have purchased the bull and either continued to use him or [sold] him to another producer," explains McCully.

For Dick Beck, marketing agent and owner-partner in Springfield Angus, Louisburg, N.C., becoming a certified producer was one more element to expand his current bull-marketing efforts. "The program has been another menu selection we can offer, yet we have not forced it on our customers," he says.

Beck sees room for expansion of bull leasing in the North Carolina region. "Many producers in the region are familiar with the contract concept through the hog and poultry industry," he says. Producers who have relied on tobacco as their main cash crop are taking a closer look at making their commercial cow herds profitable.

### Expanding boundaries

A progressive partnership has merged MLE's bull-lease program with the Northeast Texas Beef Improvement Organization (NETBIO). NETBIO, an organization consisting of independent cow-calf producers and agribusiness representatives, has more than 75 producer members with more than 10,000 mother cows under their ownership.

The group is focused on improving the quality of their calves through genetic selection and ensuring management practices that improve health and carcass quality. MLE's lease program is an essential element in providing producers access to superior genetics.

The partnership with NETBIO is what originally sparked purebred producer Donnell Brown's interest in becoming a certified producer. R.A. Brown Ranch, a family operation in northeast Texas since 1895, markets more than 500 bulls each year. The majority of bulls marketed are Angus, although they raise five breeds. In R.A. Brown Ranch's first year of working with MLE, the lease option was only offered to members of NETBIO. However, as MLE develops their cooperative in the Texas region, Brown hopes to offer the lease option to all customers.

In a tradition-bound ranching industry, it is essential for all parties involved to understand the expectations and responsibilities of the new lease program, says Brown. "The service can work for those

**BULL LEASE**

THIS BULL LEASE ("Lease") is made and becomes effective \_\_\_\_\_ by and between Southern States Cooperative, Inc., of 6008 West Broad Street, Richmond, Virginia 23224 ("Lessor"), and \_\_\_\_\_ ("Lessee").

Lessor desires to lease to Lessee, and Lessee desires to lease from Lessor, certain Bulls.

**NOTE, THEREFORE,** in consideration of the mutual covenants and promises hereinafter set forth, the parties hereto agree as follows:

**1. Lease.**  
Lessor hereby leases to Lessee and Lessee hereby leases from Lessor \_\_\_\_\_ bulls described as follows (the "Bulls"):

Type: \_\_\_\_\_ Taintor # \_\_\_\_\_  
Type: \_\_\_\_\_ Taintor # \_\_\_\_\_  
Type: \_\_\_\_\_ Taintor # \_\_\_\_\_  
Type: \_\_\_\_\_ Taintor # \_\_\_\_\_

**2. Breeds/stock Pedigree(s).**  
The Breeds/stock Pedigree(s) pertaining to the above Bulls are designated below according to catalog number:

SP: \_\_\_\_\_ Taintor # \_\_\_\_\_  
SP: \_\_\_\_\_ Taintor # \_\_\_\_\_  
SP: \_\_\_\_\_ Taintor # \_\_\_\_\_  
SP: \_\_\_\_\_ Taintor # \_\_\_\_\_

**3. Lease Payment.**  
The required annual lease payment for the Bulls is outlined in the following schedule:

Type: \_\_\_\_\_ Taintor # \_\_\_\_\_ \$ \_\_\_\_\_/yr  
Type: \_\_\_\_\_ Taintor # \_\_\_\_\_ \$ \_\_\_\_\_/yr  
Type: \_\_\_\_\_ Taintor # \_\_\_\_\_ \$ \_\_\_\_\_/yr  
Type: \_\_\_\_\_ Taintor # \_\_\_\_\_ \$ \_\_\_\_\_/yr

Total Annual Payment: \$ \_\_\_\_\_/yr

The first annual payment shall be due and payable on delivery of the Bulls. The remaining annual payments shall be paid no later than November 1, 20\_\_\_\_, and so late then November 1, 20\_\_\_\_. Any lease payment not made by seven days after the due date shall be considered past due and, in addition to Lessor's other remedies, Lessor will levy a late payment charge equal to one percent (1%) per month on any past due amount. Book for any past due year shall not be provided.

All lease payments shall be paid to Southern States Cooperative, Inc., MLE Marketing Division, Attn: DEJ District Manager at 6008 West Broad Street, P.O. Box 26224, Richmond, Virginia 23226, or any other address as Lessor may direct.

**4. Payment by Lessee.**  
Payments by Lessee shall be made in United States dollars, free of any duties, exchange or collection charges, and of any taxes imposed under the laws of any country other than the United States. Payment shall be made by check, bank wire transfer, or otherwise in immediately available funds.

**5. Terms.**  
The term of this Lease shall commence on the effective date above, and shall expire on the earlier of: (i) November 1, 20\_\_\_\_ or (ii) the date after three breeding seasons when the Bulls are returned to Lessor or are purchased for salvage value by Lessee. It is the intent of the parties that the Lessee have possession of the Bulls for three breeding seasons. In some cases that may require the Lessee has possession of the Bulls for less than three calendar years and in other cases that may mean the Lessee has possession of the Bulls for more than three calendar years.

**6. Option Upon Expiration.**  
Upon expiration of this Lease, Lessee shall select one of the following two options:  
1. The Lessee may immediately return the Bulls, no later than November 1, 20\_\_\_\_, to \_\_\_\_\_ in a condition similar to that in which Lessee received the Bulls at the inception of this Lease. All Bulls returned under this option must be accompanied by a certificate stating that they have passed a breeding soundness exam. If Lessee opts to return the Bulls, Lessee acknowledges that Lessee shall assume all costs associated with shipping the Bulls and also those costs associated with the required breeding soundness exam.  
2. Provided that the Lessee is not in default of any of its obligations under this Lease, the Lessee may purchase the Bulls for their salvage value of \$800 per leased bull. Payment shall be made by no later than November 1, 20\_\_\_\_, to the Lessee at the address listed in Section 10.

**7. Commitment Fee.**  
The commitment fee of \$ \_\_\_\_\_ per Bull for acceptance of the Lessee's initial lease application and was made payable to the Lessor is not refundable in the event the Bulls are not leased. The commitment fee shall be applied to the residual value of the Bulls upon expiration of the Lease if the Lessee elects to purchase the Bulls under Section 6 (2). The Lessee forfeits the commitment fee if the Bull is returned to Lessor under Section 6 (1).

**8. Delivery.**  
The Bulls shall be delivered to the Lessee by the Lessor's Breeds/stock Pedigree(s) identified in section 2, above, without expense to the Lessee, provided that Lessee designates a location within one hundred (100) \_\_\_\_\_ (nearest point of sale location) ("Pick Point") for Bulls identified under this lease in section 1 above. By Agreement between the Breeds/stock Pedigree and the Lessee, the Breeds/stock Pedigree shall be responsible for tagging and paying for all shipping, freight, and other charges for delivery from the Pick Point to the location designated by the Lessee.

**9. Loss and Damage.**  
4. Lessee hereby assumes and shall bear the entire risk of loss and damage to the Bulls from any and every cause whatsoever after the initial delivery of the Bulls to \_\_\_\_\_ in loss or damage to the Bulls shall impose the obligation of Lessee under this Lease that shall continue in full force and effect through the term of the Lease.  
5. In the event of loss of any kind whatsoever to the Bulls, Lessee shall pay to Lessor an amount equal to the cost of the then remaining lease payments plus the salvage value of the Bulls on loss.

**10. Notices.**  
Notice of all notices under this Agreement shall be sufficient if given personally or mailed certified return receipt requested, postage prepaid, at the address hereinafter set forth, or to such address at such party may provide in writing if no time to time.

If to Lessor: \_\_\_\_\_ If to Lessee: \_\_\_\_\_  
Southern States Cooperative, Inc.  
MLE Marketing Division  
Attn: DEJ District Manager  
6008 West Broad Street  
P.O. Box 26224  
Richmond, Virginia 23226

**11. Warranties.**  
Lessor warrants that it will make the Bulls that are the subject of this lease available to Lessee and that it will obtain guarantees for the Bulls. Lessor further warrants that all Bulls sold under this Agreement have passed a breeding soundness examination and, at the time of delivery, possess correct structural type to be considered sound, breeding animals. Lessor further warrants that the Bulls will continue their breeding ability status through the first breeding season. The breeding season is defined as the first sixty (60) days of pregnancy to cover. Lessee has accepted for the designated Breeds/stock Pedigree(s) to replace any and all Bulls that Lessee deems to be unsatisfactory because of the following reasons: quantity or quality, fluids, or structural conformation. These warranties do not include any injury or act of God that may render a Bull infertile. In the event that a Bull needs to be replaced within the first breeding season, Lessee will notify Lessor and Lessor will notify the Breeds/stock Pedigree(s), who will replace the defective Bull with another Bull of equal or greater value at the expense of the Breeds/stock Pedigree(s), including freight costs for delivery of the new Bull to the Lessee.

The parties agree that the Bulls have been fully inspected, are as described in section 1, above, and are delivered and accepted to be AS-IS CONDITION, with the exception of the aforementioned sixty (60)-day warranty against infertility during the first breeding season. LESSOR DISCLAIMS ANY AND ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, EXCEPT THAT LESSOR WARRANTS THAT LESSOR HAS THE RIGHT TO LEASE THE BULLS, AS PROVIDED IN THIS LEASE.

**Reverse Side**  
Lessee acknowledges this contract has a reverse side and Lessee is subject to all terms and conditions on the reverse side.

IN WITNESS WHEREOF, the parties hereto have executed this Lease on the day and year first above written.

SOUTHERN STATES COOPERATIVE, INC.  
By: \_\_\_\_\_  
Mark A. MURPHY  
As: Manager, Sales and Marketing Development  
Lessee: \_\_\_\_\_

Approved 9/24/99 Bull Lease  
Legal Shared Agreement/DFP Program/06/18/01 Bull Lease

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producers who want to use it," he explains. "Producers with 10 cows to 10,000 cows can be a part of leasing and receive the benefits."

### More than genetics

For Brown, offering the lease option attracted potential bull buyers who normally would not have traveled to his region. In his opinion, MLE's involvement in helping commercial producers develop a breeding

plan is one of the largest advantages of the lease program.

"They help producers analyze their cow herd and select a bull that matches their needs to produce the best calves for the market," explains Brown. "As we strive to be a full-service genetic provider, MLE is helping us."

Brown recognizes the value of MLE's third-party involvement, but he still thinks it

is essential for customers to be involved in the selection process. "It is important for the person breeding the cows to pick out the bull. It helps establish pride in ownership," says Brown. After relationships are established, he is more comfortable with a producer's buying bulls sight unseen.

The Texas cattleman believes other strengths of MLE's lease program are leasing virgin bulls and the three-year lease commitment. "The producer keeps the bull through the productive life, which helps customers be more confident with herd health," says Brown. He cautions of potential health problems associated with sexually transmitted disease if a bull were to be used in a different herd every 90 days.

MLE has targeted cattlemen's organizations, cooperative Extension services and direct producer communication to explain the leasing option. An MLE representative is present with a display booth and information at each certified producer's bull sale. All bulls are reviewed prior to the sale and prequalified for the lease program. MLE requires that bulls pass a breeding soundness exam (BSE) and possess correct type and skeletal structure. A list of bulls approved for the lease program is only available to the potential buyers who have previously completed a lease application.

The sale or auction format is not disrupted by the lease option. Individual producers may be bidding on approved bulls during the auction; or, in some cases, McCully may be bidding on bulls on behalf of lease customers. MLE handles all final arrangements with sale staff after the sale.

The lease option is not limited to the certified producer's annual sale. Bulls meeting all criteria sold through state sales, bull-test sales or private treaty may be financed through the lease program if interested buyers are approved.

MLE feels this service is one avenue to

assist commercial cattlemen in bull selection. "Seedstock producers have done an excellent job providing data on their cattle, yet it can become overwhelming for buyers if they don't know how to interpret it," says McCully. "Ultrasound data also adds another figure to the equation. It is essential that producers understand what all of the data means and how to use it as a selection tool."

McCully is available to consult with potential lease customers. Still, he feels it is vitally important to establish communication between the purebred and the commercial producers.

### Commercial experience

For commercial producer Jennifer Qualls of Qualls Ranch in northeast Texas, assistance in purchasing bulls was exactly what she needed. Through involvement in Texas A&M's Ranch to Rail Program, Qualls realized she needed to improve both marbling and gain in her calf crop.

Qualls uncovered MLE's bull-lease program through her local Extension agent and NETBIO. Angus genetics surfaced as an obvious choice for the ranch's 300 Brangus- and Braford-based cows.

"Not only was the expertise in selection well worth the investment, the lease option allowed more cash flow by spreading the payment over three years," explains Qualls.

Inquiries from neighbors about the new Angus genetics being used have become common for Del Ray Wilson, Ramseur, N.C. With a young son and daughter who have their sights set on being involved in farming, Wilson is focused on long-term profitability and increasing marketing options for his calves.

In his second year of the lease program, Wilson has been very involved in the bull-selection process and is now more focused on EPDs than ever before. A balance of traits has been important for the Angus



PHOTO COURTESY MLE MARKETING

Realizing she needed to improve both marbling and gain in her calf crop, Jennifer Qualls of Qualls Ranch in northeast Texas needed assistance in purchasing bulls. Through the MLE program, she purchased this bull from Twin Valley Farms.

bulls he'll turn out with his 100 crossbred cows and 50 black-baldy heifers.

"The lease program has given me the chance to select bulls with the genetics I was looking for to improve my entire cow herd," says Wilson. The first year in the program he relied heavily on McCully's involvement in evaluating the bulls; the second year he worked directly with Springfield Angus.

"After seeing the genetics perform, Wilson came back and bought one of our top-selling bulls the very next year," says Beck. "MLE's lease program made it possible for him to afford higher-quality genetics than he ever dreamed."

MLE's lease program requires certified producers to guarantee bulls through the first breeding season. Both Brown and Beck agree this is a logical guarantee that they typically offer all customers. Wilson, who had a bull that was not sound in the first breeding season, was impressed with both MLE's and Beck's prompt response. Wilson was able to review EPDs on a new set of bulls and select a feasible replacement.

It is important for producers to understand that MLE's lease program does not, however, eliminate all risk associated with bull ownership. MLE still requires that bulls be insured for replacement value.

McCully has worked closely with several small-scale Kentucky producer groups who view the lease program primarily as a bull-selection tool and secondarily as a financing option. "These groups started looking at backgrounding calves of a similar age and consistent health program. It's now evolved to focusing on genetics," says McCully. "Utilizing targeted genetics through our bull-lease program helps them increase the consistency of the entire calf crop when working with many producers."

**To date, several special feeder-calf sales have been organized through MLE's auction facilities. Although the sales have not been exclusively calves of lease customers, the genetics are heavily promoted on calves from leased bulls.**

### Marketing advantage

The lease program has been a win-win for both MLE and producers. As a livestock marketing organization, MLE becomes a marketing avenue for bull-lease customers to consider when they are ready to market their calves. MLE guarantees to be a competitive bidder on calves where there is a concentration of lease customers.

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Through a partnership with eMerge Interactive, MLE has made it possible for

several lease customers to market their calves on Cyberstockyards. The cattle were videotaped prior to the sale and sold on the Internet-based auction system that utilizes real-time bidding.

The long-term marketing advantages are one of the largest benefits Beck sees for his customers. "Entrance into the marketplace will become a key to ensuring marketing of the product," he says. "Long-term, this provides an opportunity for our customers to qualify for a premium on their calves."

Brown agrees with the marketing advantages gained through MLE's system. "Increasing the profitability and sustainability is essential for the future," says Brown. "Anytime we can help our

customers increase the money they put in their pocket, it is a win-win."

MLE is committed to helping cattle producers in its region, and the lease program has proven to be a successful option. "It wouldn't hurt our feelings if we never leased another bull. Our goal is to get the better genetics out there. Leasing is one step to help producers along the way. As they see return from better genetics, cost will no longer be an issue," says McCully. "Yet leasing has become a way of life in other business and has the potential to become the norm in our industry as well."

