

Unlocking The Data Stronghold Where's the Real Trophy?

Consider selling only a part of each calf
this fall to gain future value.

BY STEVE SUTHER

You have a right to remain silent when you sell your cattle, sharing no information. Everything the other side finds out can and will be used against you in the market — and they, too, have a right to remain silent.

These two sides can become partners to their mutual benefit by sharing ownership and information.

More higher quality Angus cattle that feed well are available this year than last. Statistics show that. But where do your

cattle fit? What are they worth? And can you prove it?

Developing a partnership with the right feedlot operator can help you answer those questions. Certified Angus Beef LLC (CAB) licensed partners comment on how and why.

True value discovery

Cattle feeders hate to buy “trophy cattle” on straight averages outright, says Scott Lindsay, vice president for procurement with Agri Beef Co., Boise, Idaho. The cattle are

typically black and show lots of Angus characteristics, but unlike the gold-plated steer champion trophy in the lobby, they have to do more than just look good.

“Sometimes being in the trophy business, you pay \$10 per hundredweight over the average and end up with less profit than you would on average cattle,” Lindsay says.

Cow-calf producers may “top the market” by selling their best-looking calves to trophy-hunting order buyers who are a

step removed from true value discovery.

The beef industry's data network is still thin enough that this may work for a few more years, say feedlot operators. But signs point toward long-term relationship marketing based on trust and shared information.

“They may be good cattle, but we don't know how good until we feed them and gather carcass-merit information,” says Ron Kramer, customer service director for the Irsik & Doll group, headquartered at Cimarron, Kan. “Without data, cattle are cattle coming in. When you find out something about them, you have real price discovery.”

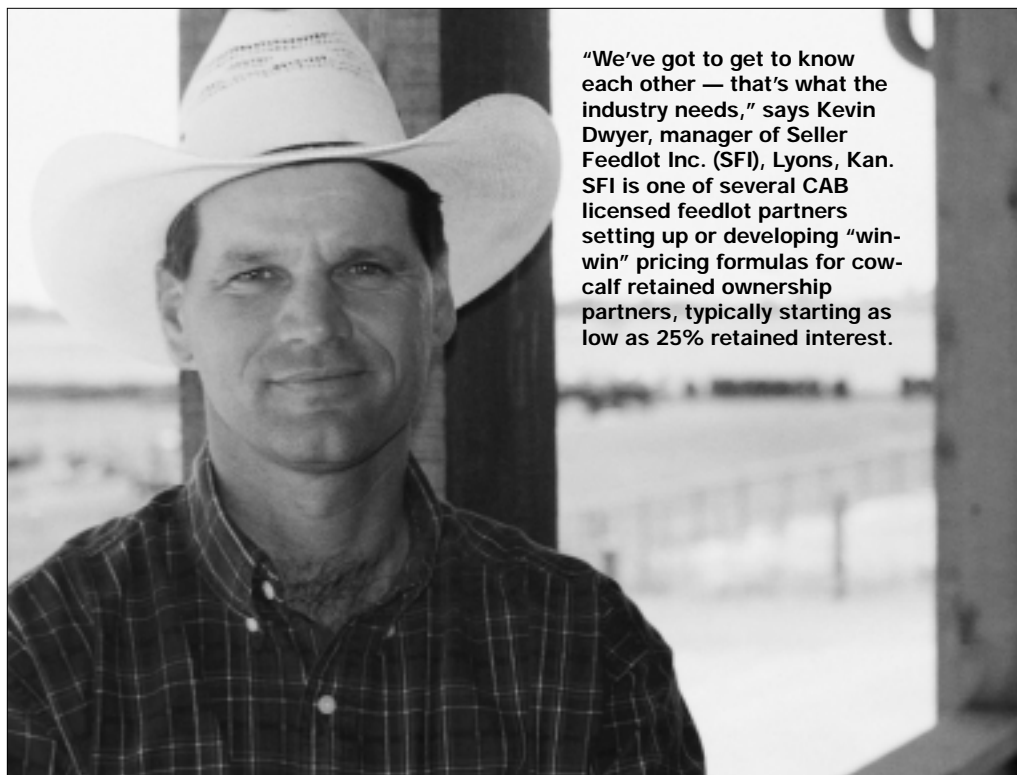
John Anderson, manager of the 7,500-head S&A Feedlot, Plainview, Neb., says, “I can't say there are many cattle being traded on data. We don't see an owner bringing data to the table and saying, ‘This is what I'm basing my price on.’ Industry data is too thin for that to be much of a factor — but I do know from past performance here whose calves have fed better than others, and that helps [establish value] from this end.”

Tales of heroic performance on feed or in the packing plant are just word of mouth, not admissible in the market's court of value determination.

“Saying your cattle did awfully well for the last guy who fed them or that they graded at some level won't make me want to pay a dollar or two more,” Anderson says.

However, those would be welcome opening remarks when backed by documentation and an offer to share ownership and information on a set of calves, he adds.

“That's the kind of opportunity I see the CAB Program giving producers and feeders. We understand the anxiety you feel living a couple of states away and not being able to look out the window at your cattle. That's why we encourage joint retained ownership,” Anderson explains.



“We've got to get to know each other — that's what the industry needs,” says Kevin Dwyer, manager of Seller Feedlot Inc. (SFI), Lyons, Kan. SFI is one of several CAB licensed feedlot partners setting up or developing “win-win” pricing formulas for cow-calf retained ownership partners, typically starting as low as 25% retained interest.

PHOTOS BY STEVE SUTHER

Share the risk, reward

The biggest obstacles to that shared future are skepticism, greed and the quest for a free lunch. In general, you're not invited to the information banquet if you don't retain some interest in the cattle. Every data-oriented feeder has had producers who took no risk, then asked for detailed information after harvest.

"I have a problem with sharing information on cattle when we take all the risk and the previous owner just wants to use the information against you," Lindsay says. "If we buy the cattle for cash, we consider anything we learn about them ours."

"We do want people to know what they're producing, and [we] encourage them to participate in ownership so we can share everything. But if we buy cattle off the video and the guy calls and wants to know how they fed, I hate to say it, but we're not very cooperative."

Lindsay may share information with outright calf sellers with a 10-year history at Agri Beef, but shorter term he has seen evidence that "some guys would sell their mother out for a quarter. When you see your data posted in the video catalog, it kind of sours you a little."

In Nebraska, Anderson is like many progressive feeders today, tracking information by source, even when there is no retained ownership.

This year a past customer sold calves outright to an investor, and the pen made a considerable profit. When the original owner called for a copy of the closeout, Anderson had to tell him "no" because the investor wouldn't release his proprietary information.

It takes time to build trust, but data can be a tool that helps that construction, if both sides are willing to commit to a business relationship.

"When somebody calls up out of the blue and wants to talk prices on his calves, it's kind of like shooting blanks in the dark," says Kevin Dwyer, manager of the 12,000-head Seller Feedlot

Dwyer seeks sets of black calves that will gain 3.5-4 lb./day, convert feed at a ratio of 4- or 5-to-1, post zero death loss, and grade 75% Choice or better with a high percentage of YG 2s and 3s and 35%-40% CAB®. "That ought to be our benchmark," Dwyer says. "Those cattle should offer a degree of premium on both performance and carcass value."



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The feeders can turn confrontations into opportunities. Scott Mueller, owner-manager of Samson Inc., a 2,700-head yard near Platte Center, Neb., tells of a pen of calves that gained 3.75 pounds (lb.)/day with a 35¢/lb. cost of gain. The previous owner asked how they did: "I said, 'I don't know.' He says, 'What do you mean?' I said, 'If I tell you, you'll go out and recruit other buyers. Now, if you want to partner with me next time, we can talk.'"

John David, who operates the 1,000-head David Ranch feedlot at Lenora, Kan., faced a similar experience this summer. Like Anderson, he had personally invested in the programs required to gather individual carcass data on a pen of cattle, but there was no third-party investor. Most of the news was good, but when the previous owner said he wanted data, David had a dilemma.

"It's a two-edged sword," he says. "I'd like to see this guy from Montana retain ownership with us and feed them here again. But if he decides to sell them to a feedlot again, it would be nice to have a chance at them without everybody else knowing how good they were."

The answer in both of the above cases was agreeing to share information if the rancher would share ownership on the next set of calves.

"You've got the kind of cattle we want," David told his future customer. "The industry needs more sharing of information, and we can show that we can successfully feed the kind of cattle you have. Let's do business in a way that helps each other."

Lindsay says the lure of top dollar at auction puts a lot of good cattle beyond his customers' reach. Agri Beef maintains a large database on hundreds of potential calf sources. "Depending on how much we know, we can tell if their calves are getting better,

declining, erratic or constant in performance and grade."

In direct negotiations for shared ownership, Agri Beef managers may show that data and say, "These are worth \$2 per hundredweight (cwt.) more than average to us."

"That may not beat the video top today, but there was a time not too long ago when you couldn't hardly give the calves away. You want to establish relationships that will carry you through and reward you for improving your cattle when those times come around again," Lindsay says.

"There's no question, carcass data is more important to cow-calf producers on a stagnant or down market," he says. "In an up market, bidding can be like a bunch of piranhas on every set of calves. You watch the videos and you wonder how somebody is going to come out paying \$1.06 per hundredweight on those 660-pound (lb.) calves. You just sit there wondering how and why."

Agri Beef's feedback signals to nonpartners are blunt: silence.

"When somebody doesn't call back the next time, you know they weren't happy. We don't call back and say, 'Hey, they were bad.'" Still, yards in this Northwest feeding group may sample cattle with poor data

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profiles every few years to monitor progress or lack thereof.

Mutual benefit

Several of the CAB licensed feedlot partners are setting up or developing “win-win” pricing formulas for cow-calf retained ownership partners, typically starting as low as 25% retained interest. One of the first such arrangements that is simple enough to publish is the SFI “CAB Retained Partnership” program:

1. Owner retains 25% or more ownership of calf crop.
2. SFI purchases remaining portion for investors.
3. Carcass and performance data are collected and returned to producer.
4. Cost of data collection is shared equally among owner and investors.

The feedlot pledges to market the cattle in ways that will maximize return on investment, certainly maintaining breakeven through risk management, while rewarding the producer with a share of any carcass premiums that are greater than their share of ownership.

Of course, the simple guidelines leave out pricing negotiations; but, Dwyer explains, “the producer has to settle for breakeven value initially, which is less than he can get at the sale barn right now — but he stands to get performance and carcass premiums if the cattle are really better than average.” Each case will vary, but for example, Dwyer says, someone who retains 50% ownership may get 75% of the carcass premiums.

The investor feeds cattle that should have above-average performance capability without guesswork and the health problems associated with put-together cattle, Dwyer says.

“The owner gets data collection and analysis with a fraction of the risk, and SFI gets to feed more good Angus cattle that deliver a quality product to

the consumer every time.”

Owners can retain any share of ownership above 25% if they want to value the calves a little higher.

“The carcass premiums they may bring could be secondary to the premiums we will realize in performance from getting around those put-together cattle and the potential health wrecks they bring,” Dwyer adds.

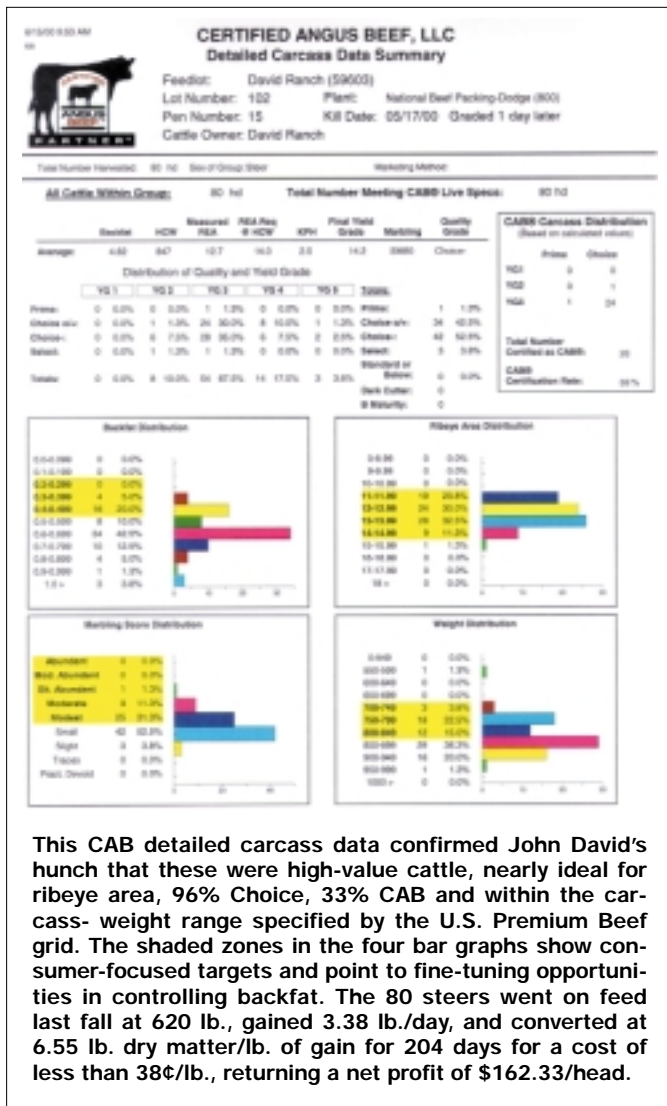
What kind of cattle is Dwyer looking for in this Angus-only program?

“We need to feed a set of black calves that will gain 3.5 to 4 pounds a day, convert [feed-to-gain ratio] in the high 4s or low 5s, and have zero death loss. They need to be 75% Choice or better with a high percentage of Yield Grade (YG) 2s and 3s, and 35% to 40% CAB®. That ought to be our benchmark. Those cattle should offer a degree of premium on both performance and carcass value.”

Are your calves up to that level of performance? If they aren't, or if you just don't know, it might pay long-term dividends to use some of the current cow-calf profitability in the cattle cycle to invest in data for calf improvement against the coming day when the cycle turns more of its profitability toward cattle feeding.

“Most producers are proud of their calves,” Lindsay says, “even before they know anything about them. It's hard to be critical without alienating people, but we want to work with them on improving their cattle. That calls for honest and open communication.”

Feedlot operators who specialize in “win-win” partnerships and focused management to hit a quality and profitability target need cow-calf producer contact in order to move forward. Don't assume retained ownership won't work for you or your banker; the alternative of facing the next downturn in the calf market with unknown cattle is what won't work.



This CAB detailed carcass data confirmed John David's hunch that these were high-value cattle, nearly ideal for ribeye area, 96% Choice, 33% CAB and within the carcass-weight range specified by the U.S. Premium Beef grid. The shaded zones in the four bar graphs show consumer-focused targets and point to fine-tuning opportunities in controlling backfat. The 80 steers went on feed last fall at 620 lb., gained 3.38 lb./day, and converted at 6.55 lb. dry matter/lb. of gain for 204 days for a cost of less than 38¢/lb., returning a net profit of \$162.33/head.



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