The Market Advisor

Retained ownership and its profit potential

As beef producers contemplate joining a beef cooperative or alliance, retained ownership will be a major component of that decision. In order to make a profit, members must be low-cost beef cow operators and their calves must be fed and marketed in a cost-effective manner.

For the majority of producers, the retained ownership component will add new marketing opportunities as well as management responsibilities. Retained ownership of calves beyond weaning will be a new value-added experience for them. Its profit potential is in turning lower-value calves and feedstuffs into higher-value animals. Retained ownership is also an opportunity to add value to resources such as labor, facilities, feeds, management skills and investment capital.

Certainly, every producer wanting to increase profits should seriously evaluate membership in an alliance or cooperative. At the same time, the risks associated with retained ownership guarantees that cooperative membership will not be for everyone.

For example while membership in a program can cover all of your calves, it also can cover only a portion of your calf crop. Some calves can be sold as feeders while the remainder can be used to meet a program's membership delivery requirement. Selling some calves at weaning, selling some as backgrounded feeders and selling the remainder as program cattle can spread marketings and reduce price risk over time.

Feeding cattle in a cooperative or commercial feedlot allows the owner to hire specialists that use state-of-the art equipment and facilities.

Many commercial feedlots have consulting nutritionists, marketing and risk management specialists, and other professionals whose sole objective is profitable cattle feeding, Cooperative feedlot can provide similar professional services to their members.

John Lawrence, an Extension economist at Iowa State University, has compiled one of several sets of data that provide insight into the past profits from retained ownership. Lawrence's data, covering 1983 thru 1995 with fed cattle sold in 1984 to 1996, compares profits from different marketing strategies.

Let's review his study of five beef cow market strategies.

Returns from Alternative Retained Ownership Strategies

Year	Wean & Sell Nov. 1	Background & Sell Jan. 1	Background & Finish Aug. 20	Wean Nov. 1 & Finish July 1	Wean Sept. 1 & Finish April 15
1983	($83.30)	($85.58)	($140.53)	($114.82)	($115.52)
1984	($94.85)	($83.98)	($239.96)	($195.78)	($191.33)
1985	($53.93)	($77.25)	($27.36)	($45.55)	($95.75)
1986	$37.88	$31.80	$146.32	$190.68	$161.16
1987	$155.05	$164.92	$234.56	$194.26	$270.53
1988	$69.87	$55.43	$56.00	$64.86	$106.67
1989	$59.76	$44.47	$121.66	$94.18	$141.57
1990	$76.99	$104.70	$72.84	$120.35	$196.65
1991	$54.89	($1.81)	$87.35	$80.08	$112.21
1992	$56.61	$65.36	$121.03	$142.83	$184.05
1993	$32.93	$10.04	($61.05)	($88.37)	$84.17
1994	($8.19)	$31.50	($36.95)	($14.45)	$28.70
1995	($149.17)	($184.47)	($150.12)	($193.04)	($168.62)
Average	**$11.89**	**$5.78**	**$14.14**	**$18.09**	**$54.96**
Std. Dev.	$76.93	$89.24	$131.58	$131.00	$144.62
Max.	$155.05	$164.92	$234.56	$194.26	$270.53
Min.	($149.17)	($184.47)	($239.96)	($195.78)	($191.33)
91-95	**($2.59)**	**($15.88)**	**($7.95)**	**($14.59)**	**$48.10**
86-96	**$38.66**	**$32.19**	**$59.16**	**$59.14**	**$111.71**

John Lawrence, "Alternative Retained Ownership Strategies for Cow Herds," Iowa State University, August 1996.

– Sell at weaning — Selling calves at weaning serves as the benchmark strategy. Calves are weaned and sold on Nov. 1. This strategy produced a lower 13-year average net returns of $12 per calf with a last 10-year average of $39 and the last five-year average of $12 per calf — all below corresponding averages for retained ownership. This strategy produced a lower average and a lower maximum annual net return than did the feedlot strategies. From a risk standpoint, selling at weaning had a higher minimum return and less year-to-year variation in annual net return.

- Background and sell Jan. 1 – The calves were weaned Nov. 1 and backgrounded for approximately 60 days. Average daily gain was targeted at 1.75 pounds but was adjusted to reflect actual performance conditions summarized in Iowa's feedlot Enterprise Records for each year in the study. The 13-year average net return was $6 per calf with the last lo-year average net return of $39 per calf and the last five-year average return of a minus $3 per calf.

This marketing strategy had the lowest 13-year average net return, the lowest 10-year average net return, and the lowest five-year average net return. From a risk standpoint, selling backgrounded calves had the next lowest year-to-year variation in net income measured via standard deviation. This marketing strategy had less downside risk than the feedlot strategies.

- **Retain background cattle until slaughter on** Aug. 20 — Backgrounded calves in this strategy were put in the feedlot Jan. 1 and fed until Aug. 20. The cattle were assumed to grade 75 percent Choice, 25 percent Select and were priced accordingly. The 13-year average net return was $14 per calf with the last 10-year average net return of $59 per calf and the last five-year average net return of a minus $8 per calf. This option had the highest downside risk and the second highest year-to-year variation with a standard deviation of $132.

- **Wean calves Nov.** 1 and finish July 1 -Calves were weaned Nov. 1, placed directly into the feedlot and sold July 1, grading 70 percent Choice. The 13-year average net return was $18 per calf with the last 10-year average net return of $59 per calf and the last five-year average net return of a minus $15 per head. The downside risk was the second highest of the five marketing strategies. The year-to-year variation was in the middle of five marketing strategies evaluated.

- **Wean Sept.** 1 **and finish April** 15 -Calves were weaned Sept. 1, placed directly into the feedlot and sold April 15, grading 60 percent Choice. This marketing strategy generated the highest average returns of the five marketing strategies studied. The 13-year average net return was $55 per calf with the last lo-year average net returns of $112 per calf and the last five-year average of $48 per head. This is the only marketing alternative to generate a positive average net return over the last five years. The downside risk was the highest for this marketing strategy as was the year-to-year variation in net income.

The primary conclusion of this study is that no one marketing strategy generated a positive net return in all 13 years studied. The highest average net returns over the 13-year period was generated by weaning the calves early and finishing by April 15. Even in this highest-profit marketing alternative, risk management needs to be practiced because four out of 13 years generated a negative average net return per calf. AJ