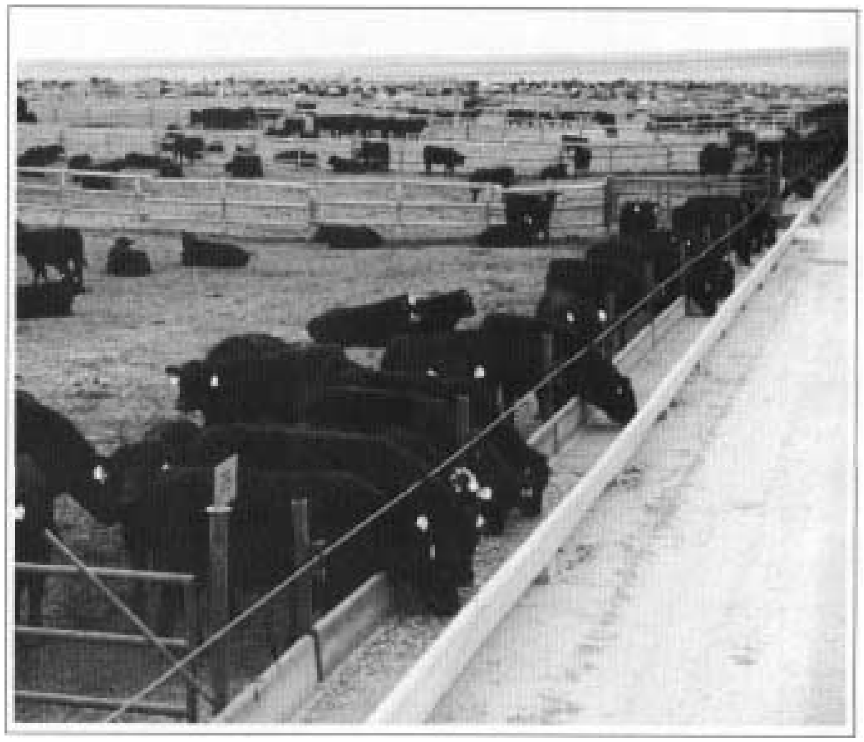
Retained Ownership-
Is it an Option?

by Lori Maude

This is part 1 of a two-part series dealing with retained ownership as a marketing strategy and progeny testing tool. Part 1 looks at what retained ownership is and some of the programs available for commercial and registered seedstock producers alike. The risks of retained ownership will also be addressed. Part 2 will explore retained ownership as a possible progeny testing tool when looking for carcass information on Angus bulls used in today's industry.



Marketing cattle for a profit is the goal of every rancher, producer and breeder. Whether you are a registered seedstock or commercial producer, how you sell your calf crop has a major impact on the financial well-being of your operation. The marketing options are many, but one that benefits both the commercial and the purebred producer is retained ownership.

What is retained ownership? Retained ownership is a marketing strategy where the cow-calf producer maintains ownership of the calves past weaning, usually until slaughter weight is reached.

Retained ownership is not a new idea. It's as old as the cattle industry itself. Since cattle have been domesticated, producers have kept cattle and fed them to slaughter.

Kansas State University brought retained ownership into the university research arena in 1974. It began a 14-year project studying the profitability of retained ownership in a cow-calf program and found it was profitable in 10 of the 14 years studied. The profitable cattle "were heavier at delivery, exhibited higher rates of gain in the feedlot and had a greater tendency to grade Choice at slaughter," said researchers.

Research from South Dakota supports the findings at Kansas State. The researchers at South Dakota State University have studied the profitability of feeding cattle on a two-phase growing and finishing program versus an accelerated finishing program.

The Kansas State report shows a return ranging from -$73.31 per head to a high of $147.61. The South Dakota data from 1990-91 showed a similar range — from -$56.57 to $131.36 per head in the accelerated program. The range in the two-phase program was not as dramatic, with a low of -$39.57 to a high of $57.26. The variations are attributed to fluctuating cattle prices, feed costs, past management backgrounds and genetics.

Kansas State researchers say breed type isn't a major factor in profitability. In general, the higher gaining cattle with a tendency to grade Choice were the most profitable.

Researchers at South Dakota State found that Angus-sired cattle appeared to be profitable under both the accelerated and the two-phase programs. It was found that British breeds can be fed on the accelerated program and pushed to reach slaughter sooner after weaning, if they have the genetics to grade Choice and gain fast.

The two-phase program, where cattle were backgrounded until after January 1 before being put on a finishing ration, had an average profitability of $16.69 per head. The heavier, older and larger-framed cattle initially were found to be most profitable under the two-phase system. The least profitable groups didn't have the genetic capabilities to grade Choice. Angus-sired cattle were profitable under this system because of grading ability.

The University of Missouri in conjunction with the Missouri Cattlemen's Association began a steer feedout in 1988. Their research has found that the two greatest variables in profitability are the initial value of the cattle and the carcass quality grade. Some pens of cattle graded a higher percentage of Choice than other pens. Researchers said breed makeup was a contributing factor.

University/Extension Programs

University research in all of these states involves cattle consigned by producers in those states. The programs are conducted by university Extension personnel and cattle are fed at commercial centrally located feedlots.

The producer retains ownership of the calves and is responsible for paying transportation, vet, feed and yardage. Most of

Kelly Elkins of the CAB Program.

the programs are based on lots of five steers consigned by individual cow-calf producers in the fall of the year. Missouri and Oklahoma also have programs for fall born calves that enter the feedlot in the spring.

The cattle are processed like all calves entering a commercial feedlot, Vaccinations — IBR, BRSV, BVD, PI_3, 7-Way Blackleg and Hemophilus — are given and cattle are usually implanted. All cattle are started on a roughage diet to adjust them to the bunk and to equalize pre-arrival management practices. As cattle adjust to their surroundings the roughage is replaced by higher amounts of the finishing diet. The cattle are fed until three out of the five consigned are estimated to grade Choice. The cattle are sent to slaughter where carcass data is collected and sent to the producers.

More of these university and Extension programs are being established each year to allow cow-calf producers a chance to see what kind of cattle they are putting on the market. It also gives them a limited taste of the feeding process and what it's like to work with a commercial feedlot.

The CAB Route

University programs aren't the only way Angus breeders or cow-calf producers can experiment with retained ownership before taking the plunge with a large number of cattle. Certified Angus Beef

Angus Journal Retained Ownership Survey Results

Surveys sent: 298
Number of states sent to: 30 states

Surveys returned: 146
Percent returned: 48.7%

Number of states represented by returned surveys: 27

Type of Operation
Registered: 60%
Registered and Commercial: 40%

Size of Operation

50-100	9.7%
100-200:	35.9%
200-400:	31%
400 or more:	22.8%
No Response:	.06%

Percentage of bulls sold to commercial cowi-calf producers

Less than 50%	4.7%
50 to 99%	75.8%
100% sold to commercial	19.5%

Method of follow up on bulls sold

Correspondence	15.3%
Telephone call	41%
Personal visit	38.3%
No follow up	3.8%
No response	1.5%

Participation in retained ownership

Yes	27.8%
No	70.8%
No response	1.4%

Reasons for not participating

Lack of interest	11.3%
Lack of Financing	9.2%
Lack of available program feedlot	19 .9%
Not enough cattle	39%
Other	19.1%
No response	1.4%

Retained ownership viable option

Yes	39.2%
No	23.8%
No response	34.3%
Not sure	2.8%

Considered carcass EPDs in sire selection

Yes	66.9%
No	26.9%
No response	6.2%

Use of carcass EPDs in the future

Less	2.8%
More	58.2%
Same as past	22%
Not sure	5.7%
Noresponse	10.6%
Going out of business	.07%

How Calf Crop is Marketed

Registered Seedstock
0-30% 23.3%
31-60% 29.5%
61-100% 45.9%

Commercial Replacement Heifers

0-30%	43.2%
31-60%	5.5%
61-100%	1.4%

Feeder Steers and Heifers

0-30%	39%
31-60%	13.7%
61-100%	8.9%

No. 1 trait cow-calf producers look for

Calving Ease	62.3%
Weaning Weight	22.6%
Yearling Weight	12.3%
Milk	4.1%
Carcass traits	4.1%
Balanced traits	2.05%
No response	.7%

Traits Angus Breeders Select For

Calving Ease	41.1%
Weaning Weight	19.2%
Yearling weight	21.2%
Milk	12.3%
Carcass	3.4%
Balanced traites	3.4%
No Repsonce	3.4%

Program began its Feedlot Gain and Carcass Contest in 1991.

The cattle are consigned in lots of five or six. Decatur County Feed Yard Inc., Oberlin, Kan., is the site for the contest. The cattle must be sired by registered Angus bulls and meet the CAB visual cattle specifications: 1. predominantly black in hide color 2. traditional beef-type conformation 3. no excessive hump or long, floppy ear.

The program will continue into its third year under a different name. The project will be called the Certified Angus Beef Value Discovery Project. CAB director of feedlot and packing operations Kelly Elkins says the name change reflects the purpose behind the contest and project. They want producers to use the project to discover information about their breeding programs instead of just for competition. They hope breeders can gain knowledge about the process their animals go through in the feedlot and use the information gathered to make adjustments in their programs if they feel changes are needed.

Commercial Feedyards

Commercial feedyards are another way producers can retain ownership. Once you get a feeling for the feeding process, you may want to try retaining ownership on a larger number of cattle.

Feedyards have become more willing to work with producers on retaining ownership of their cattle because it helps improve the cattle sent to the packers. Cooperation between the packers, feedlot operators and producers in gathering carcass data gives the producers information for making changes in their operations to better meet the needs of the packing industry.

Some feedlots have financing plans available for producers who don't feel they want to borrow money from the bank. Feedlot operators will sometimes carry the feed bill until the cattle are sold and then the bills will be paid. Financing is often the largest barrier when producers want to retain ownership on their cattle.

GM Feedlot, located in Appleton City, Mo., is a 6,000-head feedlot specializing in retained ownership. Manager Roger Reeves says at least 50 percent of the cattle are on retained ownership. The feedlot has been involved with retained ownership since it opened in the mid-'80s, but interest in retained ownership has intensified in the past few years.

"There has always been a margin for stockers. Producers are becoming more aware of that margin. Now producers are taking cattle directly to the feedlot to take advantage of the margin, which depending on prices can range from $25 to $75 at times," says Reeves.

The Risks and The Decision

Like any marketing option, retained ownership isn't without faults. The producer accepts increased risk of poor performance due to genetics, health problems or decreasing amount of forage available. There is also the increased risk of market prices falling and more need for additional financing because the calves won't be sold in the fall. The carryover of cattle for sale in the early spring will also create extra assets that may cause problems with taxes.

Before you decide to take on the risk of retaining ownership you need to do some homework. You need to pencil out the breakeven cost of your cattle and look at the current market prices and the feeder cattle trend. You also need to have a heart-to-heart talk with your banker.

By retaining ownership there is no income in the fall, instead it will occur in the early spring. You need to have an organized cash flow and some costs worked up on paper to show the bank that it is a workable idea. This step may also show retained ownership as a bad option, which will save you money and headaches in the long run.

In addition to studying the numbers, you need to look at the type of cattle produced. Are your cattle the type that will be profitable — rapid gaining cattle that will grade Choice? If the cattle aren't the right type then selling in the fall may be the best option.

Each producer's situation is different. A retained ownership situation that is profitable one year may not be the next year because of fluctuating markets. Like any marketing situation retained ownership is not one to be taken lightly.

Next Month in the Journal

Retained ownership and how it can be used by purebred breeders as a progeny testing tool will be looked at more in-depth in the November *Angus Journal*. Results of a survey sent to 300 Angus breeders will be shared and questions the producers asked will be answered by American Angus Association and Certified Angus Beef Program staff. The accuracy of carcass EPDs and where the numbers come from will also be discussed.

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Cattle-Fax Retained Ownership Report Shows Economic Advantages

Beef producers now have access to comprehensive information on possible advantages of various programs for retaining ownership of calves after weaning.

Cattle-Fax, a market information and analysis service, has published a report titled, "Retained Ownership," which spells out results of retaining ownership of calves.

On average, during the past 12 years, the Cattle-Fax analysis shows eight of 11 retained ownership programs outlined in the publication have resulted in economic advantages over selling calves at weaning.

During this period, 1980-91, cow-calf producers selling calves at weaning had profits in six years and losses in six years. Returns per head ranged from a profit of $82.39 in 1990 to a loss of $77.33 in 1983. The annual average was a profit of $11.16. By retaining ownership, some producers had an average advantage of as much as $84 per head over sale at weaning.

However, a few retained ownership programs showed disadvantages — less return than if calves had been sold at weaning — during most of the 12 years covered in the analysis.

"Cow-calf producers have more alternatives than cattlemen in any other segment of the industry," says Topper Thorpe, Cattle-Fax executive vice president. "However, for various reasons, many producers don't utilize the alternatives."

Thorpe says as the industty changes and as margins narrow, successful producers will have to analyze their alternatives more closely. For cow-calf producers, this means taking a closer look at the advantages and disadvantages of retaining ownership of calves through one or more subsequent production steps, such as dry lot wintering, summer grass, wheat pasture, backgrounding yard or feedlot.

"Interest in retaining ownership should increase during the next few years," Thorpe says. "When the cattle herd is expanded and beef production increases, calf prices will tend to be lower than during the past several years. Farmers and ranchers with cow herds will find it pays in most instances to retain ownership. Also, if producers are to be paid for superior genetics, they will have to retain ownership through the feedlot."

Cattle-Fax is offering the "Retained Ownership" analysis to its members for $10 and to non-members for $25, with quantity discounts. For more information, contact Cattle-Fax, 5420 South Quebec, Englewood, CO 80111; (303) 694-0323.