MARKETING

Dollars & Sense

► by **Vern Pierce,** *beef economist, University of Missouri-Columbia*

The risk, reward of owning calves longer

It is difficult to pick up any beef industry publication without finding some reference to the changing structure of our industry and how alliances are coming on strong. Indeed, our industry is changing and will allow some managers an opportunity, but not a guarantee, to move into the next phase of commercial beef production. Vertical and horizontal marketing arrangements are a viable way to find your niche.

Keep or sell?

Developing relationships with upstream partners to capture some of the value that you put into your calves is a great idea, and one whose time has obviously come. At the same time, you need to realize the real value of your calves all the way up the chain.

When calves stay healthy at the feedyard, fed-cattle prices are adequate, feed prices are low and feeder-calf prices are just right, the calves make money for the feeder.

However, when some of the factors are not in balance, the feeder takes a hit just like you — or maybe instead of you if he paid too much. The true value of any product is basically what it is worth to the next person to own it. If the feeder pays too high of a price or some of the other factors are out of balance, his returns fall.

As cow-calf producers or backgrounders approach the time to make a decision on whether to keep or sell their calves, they should be aware of the advantages and disadvantages of retained ownership.

There are many costs up the line. For example, every time a calf is sold there are commissions, trucking charges and health costs associated with the transaction. These costs are paid by the producer. If producers own the calves from birth to harvest, they'll save the marketing costs and profit-taking of two transactions. However, they may also risk a changing feed price market.

Those who buy cattle have largely bid for them based on expected performance, expected pull rates, and the balance between other input and output costs. If the calves they buy perform better than expected, they get a reward for the risk they took. If they don't do as well as expected, they take the hit.

One example

Let's consider a set of calves, whether raised or purchased, that you are planning to market to a feeding operation in some type of retained ownership plan. The feeder purchases steers weighing an average of 700 pounds (lb.) for $88 per hundredweight (cwt.) for an average cost per head of $616. Assume that during the feeding period, the cattle have a total cost of gain of 44¢ per lb., gain 550 lb. and are marketed at an average weight of 1,250 lb.

Table 1: Purchase and feeding costs

No. head	100
Feeder cost/cwt.	$88
In weight (wt.)	700 lb.
Feeder cost/head	$616
Live out wt.	1,250 lb.
Avg. sick cost/head	$3.50
Cost of gain (COG)	44¢
Death loss, %	1.5
Total COG/head	$242

At this point, the feeder has invested $861.50 per head for each animal purchased, and with a 1.5% death loss, the feeder has to make even more per head to break even. These cattle grade 72% Choice or better but have a fairly high level of Yield Grade (YG) 4s and 5s.

Adding it together

The net income from sales works out to be $894.16 per head. Spreading that return out over the number of head the feeder purchased (recall the 1.5% death loss) and subtracting the feeder's costs, he could have spent $264.75 per head on feeding and health costs to still break even. In this example, the actual cost per head was $245.50, leaving a gain of $19.25 per head.

A return of nearly $20 a head sounds good, right? But consider the following figures that were assumed and how little they would have had to differ from assumptions before the feeder would lose money:

	Actual	Value to make the feeder breakeven
Purchase price	$88	$91
Cost of gain	44¢	48¢
Death loss	1.5%	3.7%
Dressing %	63%	61.6%

Once you've decided if you have a retained ownership option and what it may be, you're down to the most important consideration: Does it have a good chance of making money? All that's required now is a perfectly clear crystal ball to tell what price you'll be getting for your cattle and what all the performance and input costs will be.

The risks of becoming part of the value-added system by retaining ownership of your cattle are very real. As you move into this system, take a look at the potential for profit using an analysis like I have done here, and consider a feedlot that will allow you to have a small percentage of ownership the first year. Then, after you have a better feel for the risks and how your cattle perform, you can consider increasing the percentage. However, in this changing system, the risk of not getting started may be greater.

E-MAIL: piercev@missouri.edu

Table 2: Cattle sales grid

Assumptions: Base price, $120.00; No. head, 98.5; Dressing %, 63%; Carcass wt., 787.50 lb.

			YG1	YG2	YG3	YG4	YG5
	Premium/	Percent:	2%	55%	15%	23%	5%
	Discount:		$ 2.83	$ 1.50	Base	$ 12.00	$ 20.00
Prime	+$8.17	2%	$131.00	$129.67	$128.17	$116.17	$108.17
CAB	+$2.36	15%	$125.19	$123.86	$122.36	$110.36	$102.36
Choice	Base	55%	$122.83	$121.50	$120.00	$108.00	$100.00
Select	–$9.64	18%	$113.19	$111.86	$110.36	$ 98.36	$ 90.36
Standard	–$20.14	10%	$102.69	$101.36	$ 99.86	$ 87.86	$ 79.86

Estimated avg. value of carcasses — $894.16.