Form Follows Function: The Profitability Equation

A producer panel at this summer's Angus University debated the finer points of how to wring a profit out of today's commercial beef industry.

BY STEVE SUTHER

STEVE SUTHER PHOTO

From left, Dale Johnson, Belt, Mont.; Bill Rishel, North Platte, Neb.; Tim Ohlde, Palmer, Kan.; Ronnie Green, Colorado State University; and Gene Harris, Killdeer, N.D., rounded out the evening panel.

Experience, logic and opinion were the tools used at the Angus University producer panel discussion last August in Bozeman, Mont. The theme was "Commercial Cow-Calf Profitability = Value of Outputs – Cost of Inputs." The panel members were Angus seedstock producers Bill Rishel, North Platte, Neb., and Tim Ohlde, Palmer, Kan.; and commercial producers Gene Harris, Killdeer, N.D., and Dale Johnson, Belt, Mont.; with Colorado State University beef scientist Ronnie Green as the academic anchor.

Rishel began by saying both sides of that equation need equal attention, and too much emphasis on least-cost production has hurt beef's market share.

"For many years the whole world has been telling us that our only means of economic survival is through least-cost production. Yes, the low-cost producer has survived, but with that has come a decrease in demand for beef — and a decrease in our ability to make a living," said Rishel. He noted that according to economist Wayne Purcell, failure to focus on the end product means, "eventually you least-cost-produce yourself right out of business."

The alternative, Rishel suggested, is the use of "smart genetics," similar to Desert Storm smart bombs in their ability to hit specific targets without sacrificing collateral damage. "We can increase the value of outputs through increasing demand, but we have neglected this as an industry."

Of course, producers must control costs to improve their bottom lines, Rishel said. "However, I believe the future belongs to those operations that can figure out a way to increase the value of what they do." He pointed out many value-adding efforts compound to increase the value of outputs much more than the incremental added cost of production.

For example, 5% increases in percent calf crop, average weaning weight, feedlot gain and carcass value can add up to more than $8,500 more profit for a 100-cow herd, Rishel noted, doing the math for the 270 attendees. "You may not need all of these improvements, but you can plug in and use what you need, simply by using smart genetics from a huge [Angus] database with EPDs (expected progeny differences) that will help us get to some of those numbers."

ANGIE STUMP DENTON PHOTO

"Adding value begins with the cow herd," said Palmer, Kan., Angus producer Tim Ohlde.

Few shortcuts

There are few shortcuts, outside of genetics, to address profitability.

"The long-term answer resides in the genetic makeup of the commercial cow herd. We've got the technology and data to address those issues today," Rishel said. He showed Certified Angus Beef (CAB) Program progeny test data on two of his bulls where steers had 82% and 83% *Certified Angus Beef* ™ acceptance rates at 14 and 15 months of age, the sires also having excellent EPDs for maternal traits. "With data and information, we can defy the antagonisms."

Lest anyone think those are idealistic, breeder-controlled numbers, Rishel showed "an example of real-world genetics working at adding value." The 1998 U.S. Premium Beef (USPB) kill sheet on 90 customer steers showed them at 14 months of age, 63.78% yield, 95.5% Choice and an average premium over cash of $32.08/head. And to show that was no fluke, Rishel showed that customer's 1999 USPB sheet on 98 steers. They had a 64.71% yield and graded 91.23% Choice or higher, but that included

STEVE SUTHER PHOTO

"In the future profitability will rely heavily on our ability to increase the value of what we produce and create more demand for beef that delivers a satisfying eating experience, time after time, in a convenient way," said Bill Rishel, Angus breeder from North Platte, Neb.

18 Prime and 42 CAB® carcasses, and only one USDA Yield Grade (YG) 4, netting $69.38/head above the cash price this past May.

"In the future," Rishel concluded, "profitability will rely heavily on our ability to increase the value of what we produce and create more demand for beef that delivers a satisfying eating experience, time after time, in a convenient way."

Control costs

Ohlde allowed that adding value is a worthy long-term goal, but he pointed out that in the short term, "controlling costs may do as much or more to improve the bottom line." He noted that a reported 80% of producers don't know their breakeven cost. If they do, Ohlde said, they can see that selection for better feed efficiency on the ranch can go hand in hand with better feedlot and carcass performance.

Cost control need not have a negative impact on product quality, he stressed, pointing to opportunities in the areas of later calving, grazing of winter residues and minimizing machinery investment. Attention to cost control can actually add value to your cattle, Ohlde pointed out.

Citing data that it is not practical for most commercial operators to push beyond 600-pound (lb.) weaning weights, he said the better road is to produce them cheaper and add value to the female side. With management and smart marketing, he noted that brood cows and replacement heifers are worth much more than culls and feeders.

Start with the cow herd

"Adding value begins with the cow herd," Ohlde said. "There are several cow-herd traits that I believe must be addressed in order to develop a low-cost cow herd. These traits include fertility, weaning weight, disposition, longevity, hybrid vigor, calving ease and fleshing ability."

He provided examples illustrating the importance of each trait, any of which could affect heifer or bred-cow values by $100 or more. With respect to weaning weights, however, Ohlde said, "The U.S. beef industry has nearly plateaued on growth traits, and it is time to emphasize other traits." Most producers should try to maintain weaning weights in the 500- to 575-lb. area, he said, but they can make average-weaning-weight gains by better grouping of the calving dates.

Fleshing ability in particular is a highly sought-after trait. Like Rishel, Ohlde noted that selection can find animals that defy antagonisms. "We have some cattle today with a +40 milk EPD that flesh easier than some cattle with a +10 milk EPD."

Likewise in bull selection, Ohlde said producers need not choose height to get weight. "It's a common belief that a bull must have extra frame to have growth, but we have found that's not necessarily true either," Ohlde noted. "A 5-frame bull can have +80 growth EPDs and have steers that grow just as fast to 1,200 pounds as a taller bull."

He suggested cutting back on breeding-heifer weights to the 700- to 800-lb. area, allowing for gains of 200-250 lb. on grass as 2-year-olds.

"Gain on grass is much cheaper than gain on harvested feeds," Ohlde noted. Again, steers have a similar advantage if they possess easy-fleshing genetics, in that they can get more of their growth from cheaper forages while still achieving acceptable quality, he said.

Ohlde doesn't use many of the highest marbling sires because they "lack percent retail product and sire daughters with unacceptable maternal function." To date, he is satisfied with just making sure sires are positive for marbling EPD while high in retail product, which he has found to be positively correlated with fleshing ease.

Admitting his program aims at the maternal side, Ohlde said that is because "high-quality, reputation females are not hard to sell." Conversely, he does not believe producers get "enough premium for top carcass cattle" on the steer side.

Ohlde concluded with a hopeful note: "With increased carcass data on more sires we will find individuals that can sire the best carcass traits, as well as functional, easy-fleshing females. Those exceptions will be found, using the American Angus Association database, and then we will see even greater popularity of Angus and Angus-cross cattle."

Commercial viewpoint

The commercial producers on the panel summarized the points of their operations that affect profitability. To Harris, maintaining his reputation for producing high-quality Angus-type calves for Corn Belt buyers is a necessity. But that goes along with such cost-cutting strategies as rotating not only pastures but vaccinations on the cow herd, calving as close to green grass as possible, and buying seedstock only from those with the same management philosophy.

Johnson, like Harris, a CAB Program sire-test cooperator, has begun culling cows on the basis of progeny carcasses. "In 10 years of carcass testing and striving to produce a high-quality carcass, I didn't have to compromise efficiency or fertility in my cow herd," he said.

Green discussed the science and research behind the issues of reconciling cow-herd adaptability with carcass acceptability. While he maintained there are far too many breeds in the industry today, Green also stressed the value of crossbreeding and heterosis in achieving herd adaptability.

The degree to which heterosis can help was an issue of minor disagreement on the panel. Ohlde agreed with Green, but he said as little as one-eighth of another breed could provide the "free lunch" boost from hybrid vigor.

Rishel, quoting Michigan State University's Harlan Ritchie, said crossbreeding only provides "about half a free lunch," because producers often lose predictability and revert back to another breed's poorly-documented average value.