For Granted

PERSPECTIVES

► by **Eric Grant**, API Creative Media manager

The seven-year itch

About 15 years ago, I interviewed three long-standing seedstock producers about why their businesses survived for decades when so many of their competitors didn't. The majority of seedstock producers, I'd always heard, lasted about seven years before they sold out and moved on to other business endeavors.

The 'whiplash' effect

Looking back, I'm not sure I ever fully comprehended the main challenge to seedstock production, and I skirted by the central issue by exploring things like how best to promote, advertise and communicate with customers.

I've since realized that the real reason most people drop out is that they simply run out of money. Cows, especially registered cows, can eat a person out of house and home. It costs more to raise them than it does commercial cattle. It requires separate pastures, more paperwork and more time. And, it requires that you spend more money on your initial cattle purchases.

Trouble is, purebred producers tend to "overvalue" the livestock they've purchased or produced, sticking with the original purchase price or a perceived market value when they ask a bank for an operating loan.

"Almost everything you buy," Gary Teague, a cattle feeder in eastern Colorado once told me, "becomes less valuable after you buy it. This is a painful lesson to learn, but it's a reality of our business. The sooner you learn it, the better off your business will be."

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The ultimate reality for seedstock producers is that their cattle are often worth less than market value because they often sell in smaller numbers and have less clout when their cattle run through the auction barn. I think in the last 10 years, I've had just one culling experience where I felt I got the better of the market. The other times have left me licking my wounds and wondering how I could have allowed myself to take such a beating.

Effects of calf, corn prices

The flipside of the equation is that most purebred producers — especially those who sell private treaty — tend to undervalue the bulls and females they're selling for seedstock. So it's key that they understand how prices for calves and corn affect bull prices before they consummate a sale with one of their customers.

Research I conducted for *Farm Journal* in the 1990s showed that the average annual bull price of four breeds (Angus, Limousin, Simmental and Hereford) is almost always equal to 25 times the 650-pound (lb.) steer calf price. For example, if the average annual price for a 650-lb. steer calf was $1.10 per hundredweight (cwt.), then the composite average price for bulls of the four major breeds was $2,750. For Angus, you can add another $500 per head.

Seedstock producers should also be aware of a market "whiplash" effect for bulls as well. It takes longer for a market recovery to take place for bull prices than it does for calf prices. Conversely, it takes longer for bull prices to fall after calf prices have begun to tumble.

This is true because the seedstock business typically over-responds to increasing or decreasing cow herd numbers, much like being at the end of a whip, which puts it in an extremely good bargaining position half of the time, and in an extremely bad position during the other half.

At the same time, seedstock producers should keep a close eye on prices for fed cattle and corn. When fed-cattle prices are good, they build value into your customers' feeder-calf price, which, in turn, will build value into prices they can pay for your bulls.

When prices take a downturn and feedlots start to lose money, they must pay less for calves. Conversely, when corn prices are high, feedlots must pay less for calves, which negatively affects bull prices. And when corn prices are low, the calf price goes up — and so does the price for bulls.

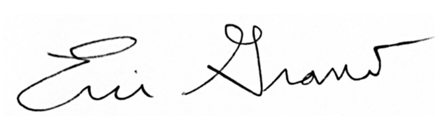
Like all commodities, prices paid for bulls don't keep pace with inflation. Like producers of any commodity, seedstock producers must do one of three things to stay competitive over the long haul: sell more product, cut costs or break out of commodity orientation by adding value to their products.

Today, more than any time in the history of the beef business, successful seedstock producers are heavily involved in the success of their customers, locating feedlots to place their calves, customers to buy them, or branded beef programs through which their genetics can be marketed and receive a premium price.

Successful efforts such as the *Certified Angus Beef*® (CAB®) brand and dozens of other Angus-branded ventures create a "pull-through" effect that adds value to registered Angus bulls.

In fact, many seedstock producers who encourage their customers to participate in any of the Angus-based programs have seen the average prices for their bulls and heifers exceed market averages by many hundreds of dollars.

No doubt this will play an even larger role in the economic success of seedstock producers in the future and help them overcome the seven-year necessity to back out of the business.



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Editor's Note: *"For Granted" is a monthly column written for the* Angus Journal *by Angus Production Inc.'s Creative Media manager Eric Grant. The column focuses on marketing beef, the beef industry and seedstock in particular — aspects of the business that are often taken for granted as day-to-day tasks take center stage.*