Practical Production, Business Tips

Cattlemen's College is a producer favorite.

by ***Troy Smith*** & ***Meghan Richey***

For producers seeking practical production, marketing and business management insights, Cattlemen's College® has become a highlight of the Cattle Industry Annual Convention and NCBA Trade Show. Sponsored by Pfizer Animal Health, the educational forum is now in its 17th year.

Writers Troy Smith and Meghan Richey helped us cover the Jan. 27 sessions. Following are some of the highlights. You can find this and more online in the newsroom of *www.4cattlemen.com,* Angus Productions Inc.'s online meeting coverage site for the convention.

Cow Size and Efficiency: Solving the Puzzle

Cow size has become a hot topic of debate among cow-calf producers. One side argues that smaller cows are more efficient, and rising feed costs have only fueled that argument. The other side counters that bigger cows produce the bigger calves that many if not most cattle feeders favor. And the beef packing industry generally rewards the feeder for heavy carcasses from large-framed cattle.

Cow size and efficiency were addressed during a session presented by Texas A&M University King Ranch Institute for Ranch Management (KRIRM) students Jennifer Johnson and J.D. Radokovich, along with KRIRM Director Barry Dunn. The trio confessed to having no easy answer, no simple rule-of-thumb, and said the best way to frame the efficiency question is to ask which cattle are most efficient for a specific environment and production system.

Barry Dunn

"It's complicated," Radokovich said. "We can't tell you exactly what kind of cattle to run. The best we can do is give you some tools to use in making good decisions for your individual operations."

Speakers offer tips to consider in determining the optimum cow size for an individual's operation.

Johnson explained how overall efficiency is a combination of biological efficiency (feed consumed to beef produced) and economic efficiency (dollars spent to dollars returned). Attempting to achieve both simultaneously requires understanding and managing the genetic potential of cattle, the environment in which the cattle must perform, and decisions about what product a producer is marketing and when that product is marketed.

Jennifer Johnson

It's a mistake to equate low cow maintenance requirements with efficiency, she said, noting that low-maintenance cows aren't always efficient. They can be, but they aren't necessarily always efficient. Nor are high-maintenance cows always inefficient. Johnson also warned against using the old rule-of-thumb calling for a cow to wean a calf weighing 50% of her own body weight.

"Though commonly used, it's not an accurate measure of efficiency. It doesn't consider calf age and the cow's milk production. The ratio of total pounds of calves weaned to the total number of cows exposed to breeding is a better evaluation," Johnson suggested.

The KRIRM team said matching growth and milk production to available feed resources is key to creating efficient cows. The natural availability of feed resources varies greatly across the U.S., and utilizing cattle with different genetic potential for production is a logical response to environmental differences. Cow size must fit the environment and economic guardrails (rebreeding on time and producing a calf with market acceptability), to be the "right size."

"The most efficient cow is one with the highest milk production potential that can, without reducing the percent of calves weaned, repeatedly produce a calf sired by bulls with the growth and carcass characteristics valued most in the marketplace," Dunn stated.

"It's management that makes resources productive. We don't need better cow sizes for our managers. We need better managers for our cow sizes."

— by Troy Smith

Profitable Forage Management Strategies

It's OK if your cost of production goes up, claims Texas AgriLife Extension Forage Specialist Larry Redmon, as long as your profit margin increases accordingly. However, too many producers are seeing their profits decline or disappear. During a Cattlemen's College session, Redmon said a primary reason for reduced profitability is that many ranches are overstocked.

"If a rancher is feeding hay in July, it's not a good sign. But I see that happening, particularly in drought-stricken areas," Redmon said. "I would argue that the most important aspect of a forage-based livestock operation is stocking rate."

According to Redmon, one of the reasons that a ranch might be overstocked is increased cattle size. A rancher might be grazing the same number of cattle that Granddad grazed on the same place, but today's cattle are bigger and require more forage than the smaller cattle of the past.

Larry Redmon

Another reason could be that the ranch may be producing less forage due to a lack of soil fertility. This is often true for "improved" grass pastures, Redmon explained. Bermuda grass, for example, was developed to produce a significant volume of forage in response to adequate fertilization. However, as a result of higher fertilizer costs, producers might be using less fertilizer or foregoing fertilization altogether.

"A soil test will tell you what you need. Without a soil test, you may under-apply nutrients that are lacking, or you may over-apply nutrients and waste money," Redmon stated. "And always weigh the cost and benefit. Make sure fertilization will pay."

Redmon said producers may want to consider seeding pastures to alternative forage species that don't require high levels of fertilization. They may not produce the same volume of forage, but input costs will

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be much lower. Another option for some producers may be to return pastures to native grasses that don't require any fertilization after establishment.

Another reason why ranches may be overstocked is that less grazeable forage is available due to encroachment of weeds and brush. Redmon advised producers to implement control programs noting that such programs still are affordable and cost-effective.

Reminding producers of the adverse effects of overstocking, Redmon said brush and unpalatable species will increase, dominating the plant community, while desirable forage plants decline. Environmental quality is adversely affected, too, as a result of increased rain run-off from severely overgrazed and denuded pastures. Overstocking also reduces drought resistance of range and pasture plants.

"If you stock your ranch according to the amount of forage produced from average precipitation, you will be overstocked," Redmon stated. "If you stock at 75% of average carrying capacity and graze 40% to 50% of standing forage, you can withstand fluctuations in annual precipitation — except during periods of prolonged drought.

"When that happens, it's often wise to consider selling some cattle or moving cattle to someplace where there is adequate grazing. Otherwise, you end up hurting future forage production, and animal performance is adversely affected unless you provide costly supplemental feed."

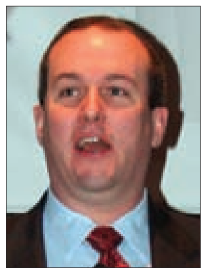
— by Troy Smith

The Current Political Climate and the Beef Business

Colin Woodall, executive director of legislative affairs for the National Cattlemen's Beef Association (NCBA), provided an overview of the current political climate and its effect on the beef business. Woodall set the scene by outlining the major players, starting with President Barack Obama and U.S. Department of Agriculture (USDA) secretary Tom Vilsack, as well as:

- Michael Polan, author of the vegetarianism-promoting book *The Omnivore's Dilemma,* who "has the president's ear and great access to USDA;"
- Cass Sunstein, Obama's new regulatory czar, who believes that animals should have the legal right to sue their human owners and that hunting should be outlawed; and
- Kathleen Merrigan, the deputy secretary of USDA, who wrote the original standards in the USDA Organic program.

"As you can see, this is not your father's USDA anymore. The priorities are very different than they used to be. Now it's all about childhood obesity, alternative 'green' production and farmer's markets. There's no focus on conventional agriculture or commodity programs," Woodall said. He then gave an overview of several current legislative issues affecting the beef industry.


Colin Woodall

Clean Water Restoration Act (CWRA). The CWRA seeks to amend the Federal Water Pollution Control Act (commonly called the Clean Water Act) by removing the "navigable" determination of covered waters and replacing it with the term "waters of the United States." Woodall said this would essentially make possible regulation by the Environmental Protection Agency (EPA) and the Army Corps of Engineers on any body of water or potential body of water in the United States, including those on private property.

"If this passes, you will have to file a report to get permission to water your livestock each day," Woodall said. "Currently the backlog of paperwork at EPA is more than six months long. Can your cattle wait six months for a drink of water?"

Death Tax. "We've all heard the saying, 'There's nothing certain in life but death and taxes,' but only in the United States do you actually get taxed on dying," Woodall joked, noting that NCBA has been fighting for full repeal of the death tax for more than 20 years. Thanks to tax cuts made by former president George W. Bush, the tax is actually repealed for 2010. However, it is scheduled to resume Jan. 1, 2011, with estate value taxed at 55% after a $1 million exemption.

Woodall said he expects the 2009 tax levels to be extended before the 2011 tax levels are enacted, noting that a two- or three-year extension is most likely. Full repeal is not likely, Woodall said, but NCBA is working on an exemption for agricultural estates.

Government Intrusion in the Marketplace. "NCBA supports transparency in the marketplace and making sure that anti-competitive actions are prosecuted, but we don't need to create any additional laws to do that," Woodall said. "We already have laws on the books that do those things. We need to enforce the laws we have rather than make up new ones."

He also said that the Department of Justice (DOJ) and USDA are working to eliminate "business justification," which is the ability to earn premiums on a product by meeting specific program requirements. If they are successful, it would essentially eliminate specification-based marketing programs as a source of premiums for producers.

National Animal Identification System (NAIS). "After outrageous listening sessions involving arrests of unruly protestors, we expect to see a new proposal on mandatory animal identification by Easter," Woodall said.

Immigration. "In a mid-term election year, no one wants to vote on immigration. It's too hot of a topic," Woodall said. "We don't expect to see anything happen on immigration at all this year."

Country-of-Origin Labeling (COOL). "COOL is the gift that keeps on giving, isn't it? Whether you're for it or against it, you have to be ticked off right now," Woodall said, noting that there has yet to be any data generated to quantify what effect, if any, the labeling has had on sales or consumer perceptions. The only known effect of the legislation is that it has prompted Mexico and Canada, our No. 1 and No. 2 trading partners, to file suit with the World Trade Organization (WTO) against the U.S. If they win their suits, they will be able to take retaliatory action, including closing their borders to our products.

Woodall concluded with these remarks: "If you hear nothing else I say today, please hear this: Vote, vote, vote! November 2 is Election Day. No excuses; get out and vote. You do make a difference."

— by Meghan Richey

Water Law

"Where is water law going in this country? To court, unfortunately," said Joe Guild, a third-generation water law lawyer who spoke during Cattlemen's College. "Water law has a complicated history and complicated application in each different state. There are no simple solutions, but there are plenty of challenges. We need to creatively manage water resources, particularly in the West, if we want viable agriculture production to continue in areas where millions of people live and also desire water for their own uses."

State water laws vary widely across the United States and depend on which legal doctrine each state chooses to recognize as a basis for its laws. States that recognize the "Prior Appropriation Doctrine" believe the first person who was able to divert water from a source and put it to beneficial use has the most senior right to that water. Under the doctrine, the right is retained as long as the water continues to be beneficially diverted. If use is abandoned, the right may be lost.


Joe Guild

By contrast, under the "Riparian Doctrine" the landowner whose land borders a water body has certain rights to use that water, including the right to make reasonable use of it for any purpose so long as it does not interfere with the reasonable uses of other riparian owners.

Ten states have hybridized the doctrines to create a basis for their state water laws, including California, Oregon, Washington, Texas, Kansas, Nebraska, North Dakota, Oklahoma and South Dakota. Twenty-nine states adhere to the Riparian Doctrine, most of which are east of the Mississippi River, with the remainder recognizing the Prior Appropriations Doctrine.

Clean Water Act. On a national scale, the Federal Water Pollution Control Act [commonly called the Clean Water Act (CWA)] was created in 1972 to give the Environmental Protection Agency jurisdiction over the navigable waters of the United States.

"The changes proposed in the Clean Water Restoration Act offer potentially the most sweeping change in the nation's water law in our history," Guild said. It seeks to amend the CWA by removing the "navigable" determination of covered waters and replacing it with the term "waters of the United States."

"This would be an incredible encroachment on states' rights and personal water rights by the federal government," Guild said. Historically, the EPA has had to defer to state water law and conform to the individual states, but if this passes the EPA and the Army Corps of Engineers would have authority to regulate all waters in the United States, everything from large flowing rivers to earthen stock tanks to depressions that have the potential to accumulate seasonal water.

Desalination. Considering that most of the United States' population lives within relatively few miles of the east and west coasts and the Gulf of Mexico, some suggest that desalination may cure the water shortage and water quality problems created by an increasingly urban population. However, a major, seven-year study on the subject recently concluded that taxpayers would likely be unwilling to pay for the development costs.

Urban vs. rural. Competition for water in the western United States has always been keen and is now spreading east, Guild said. "How do you manage the needs of millions of people, of agricultural producers and the growing demands of a huge urbanization of formerly agricultural lands, and balance those needs against the necessities of protecting endangered species and providing meaningful reaction experiences for those millions of people? It's a really big question, that has no simple answers," Guild commented.

— by Meghan Richey

Enhance Profitability in Chaotic Times

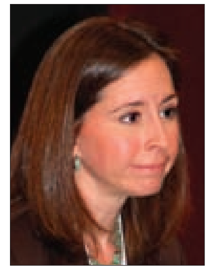
During recent years, beef producers have repeatedly heard market analysts advise careful attention to risk management. The reason cited is market volatility. However, volatility also creates opportunity to improve profitability when savvy producers apply some time-tested business tools.

Cattlemen's College attendees heard how the principle of arbitrage and increased asset turnover ratio can be used to take advantage of market volatility. According to session speakers Barry Dunn and Kim McCuistion of Texas A&M University's KRIRM, commodity producers have profited from their use for more than 100 years.

Arbitrage, explained the speakers, is a high-falutin' word for the simultaneous buying and selling of the same commodity in different markets in order to profit from price discrepancies. They defined asset turnover ratio as the amount of sales generated for every dollar's worth of assets. It is calculated by dividing dollars of sales income by dollars of assets.

According to Dunn, the King Ranch marketing plan is a classic example of the use of arbitrage. The third-largest cow-calf operation in the U.S., the King Ranch calves approximately 25,000 mother cows in South Texas, but it also stocks up to 14,000 stocker cattle and maintains a 16,000-head-capacity feedlot.

Arbitrage and increased asset turnover ratio can be used to take advantage of market volatility.


Kim McCuistion

Weaned, home-raised calves are sold, typically at a premium. At the same time, the ranch purchases stockers at discounted prices — cattle to which it can add value through the ranch management system. In addition, the feedlot is filled with feeder cattle that, for various reasons, can be purchased at discounted prices and eventually sold at prices on par with the finished market.

"And as a result of being in the marketplace multiple times each year," Dunn said, "King Ranch also increases its asset turnover ratio."

The advantages of arbitrage and increased asset turnover ratio explain why King Ranch and some other operations do not retain

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their home-raised calves all the way through the finishing period, despite the widespread promotion of retained ownership as a means of increasing profitability. The advantages became clear when a case study compared results of the King Ranch marketing plan, for eight years, with expected results of retaining ownership of ranch-raised calves for the same period.

"Results of these analyses show that for the last eight years, King Ranch had greater per head annual net income ($300 vs. $8) and cumulative net income ($2,400 vs. $62) using the production and marketing plan they have had in place, than if it had retained ownership of home-raised calves through the stocker and feedlot phases," Dunn said. "On the King Ranch, retained ownership would remove opportunities for arbitrage and reduce asset turnover ratio."

McCuistion said the King Ranch scenario was not presented as a recipe for profitability, but it is an example of the successful use of these business tools. She cited other examples, including a New Mexico producer who purchases small groups of "end lot" calves from other nearby ranchers to grow, repackage in larger lots and resell.

"He can buy calves at a $5 to $7 discount to the market, but it's still more than the sellers might receive if they hauled the calves to a distant sale barn," McCuistion explained. And after applying his good management, the calves are sold again, but at prices on par with the market."

McCuistion advised producers to consider what production and market strengths or weaknesses are present in their localities and think about ways to apply arbitrage and increase asset turnover ratio.

"There are opportunities everywhere," McCuistion added, "but you do have to be in tune with the market, be adaptable, be aggressive and reinvest your profits."

— by Troy Smith

A Look at the Global Economy

The global recession has hit rock bottom and is now slowly moving to recovery mode, said Gregg Doud, chief economist for the NCBA. Speaking during the Cattlemen's College, he commented on the relationship between key trading partners and how their economies affect our beef industry.

"China buys our national debt because it wants U.S. consumers to continue buying Chinese products," Doud said, noting that the Chinese have a much better perspective on the importance of global trade than Americans do. Doud says he sees increasing protectionism in the United States, with only 59% of Americans agreeing that it is "beneficial for our country to sell goods around the world." By contrast, 91% of Chinese agree with that statement.

That understanding has assisted China in making a much faster economic rebound than the United States, Doud said. China needs at least 8% growth to sustain its social programs, and its economy is already back at 10% growth.

There are signs the Chinese are starting to "tap on the brakes a bit," Doud said, noting that they've increased their national reserve requirements and slowed loan growth, signs that they're trying to stave off inflation.

"The first half of 2009 was a total bust for exporting U.S. meat," Doud said. For the first nine months of 2008, Russia had the highest imports of beef in the world. Then the global recession hit in October 2008, and Russia immediately refused to purchase the Australian beef that was already waiting in its ports. South Korea was able to purchase that beef at a substantial discount because it was one of the only countries in the world with enough cold storage space to house it.

"So that leaves us with Russia not importing any beef because they couldn't pay for it and South Korea not importing any beef because they have enough in storage to last them," Doud explained.


Gregg Doud

The most recent stumbling block for U.S. beef exports is that Russia has now shut its borders to U.S. poultry and pork. Historically, Russia has been the largest export market for U.S. poultry, but it is now trying to build its own poultry and pork industries domestically, which leaves excess poultry and pork on the U.S. market at lower prices.

Doud said Brazil is not expected to grow its beef herd this year because the exchange rate would prohibit it. If the World Trade Organization (WTO) sides with Mexico and Canada on their suits filed against the United States' COOL laws, he added, border closure is a likely and legally justified retaliatory action.

Doud said there is tremendous economic growth potential in "BRIC" investments, an acronym for the economies of Brazil, Russia, India and China. Additionally, he said that growth of world gross domestic product (GDP) is expected in southeastern Asia, so that's where the United States will have opportunity to export beef.

Doud predicted unemployment would stay at 10% this year, noting that it would take the creation of 12 million new jobs to bring us to full employment in the United States.

"As long as we have a weak dollar, we can expect to see our manufacturing industry grow," he said. Additionally, we can expect to see the weak dollar translate into higher input costs for the beef industry, specifically for fuel and fertilizer since they come from overseas.

— by Meghan Richey

Editor's Note: *For additional coverage of the 2010 Cattle Industry Convention and NCBA Trade Show, visit* www.4cattlemen.com *and* www.appliedreprostrategies.com.