

Pencil It Out

When is preconditioning profitable?

by Troy Smith, field editor

For close to 20 years, cow-calf producers have heard all about the advantages of preconditioning calves. Studies have demonstrated the benefits to subsequent calf health, performance and carcass merit. There is ample evidence preconditioning adds value. It can make a set of calves worth more money. There is no guarantee, however, that preconditioning will make them more profitable.

For the sake of this discussion, preconditioning refers to application of a VAC-45 protocol, meaning value-added calves are weaned at least 45 days prior to sale and receive specific disease immunizations. The program typically starts two to four weeks before weaning, with initial vaccinations against clostridial infections; viral respiratory infections including infectious bovine rhinotracheitis (IBR), bovine viral diarrhea (BVD), parainfluenza-3 (PI₃) and bovine respiratory syncytial virus (BRSV); and nasty secondary infections by mannheimia (formerly called pasteurella) bacteria. Booster vaccinations would be given at weaning.

Alternatively, initial vaccinations could occur at weaning, with boosters administered two to four weeks later, during the 45-day backgrounding period. Deworming of calves often is included in the application of many VAC-45 protocols. It all works for the good of the calves.

Repeatedly demonstrated by research and confirmed by cattle feeders is the effect properly applied preconditioning programs have on calf health. Fewer preconditioned calves get sick and require treatment in the feedlot. Treatment costs money, for medicine and time, and it impacts performance. Texas A&M University Ranch to Rail data has shown how steers that have been sick often post rates of gain that are 14% lower than steers not requiring treatment. The average cost of gain for treated steers can be 30% higher. Evidence also shows that among cattle that have been sick, fewer produce Choice carcasses.

All of that works for the good of cattle feeders. Consequently, growing numbers of calf buyers have displayed a willingness to pay more for preconditioned calves. Over time, premiums became significant. For example, reports indicate that calves sold through special value-added calf sales conducted by Joplin Regional Stockyards during 2012 averaged \$5-\$7 per hundredweight (cwt.) more than market average. The average premium paid for VAC-45-program calves sold through Superior Livestock video auctions was more than \$12 per cwt.

Does it pay?

The potential for premiums lured more producers, who had traditionally sold calves straight off the cow to adopt preconditioning. However, University of Wyoming Extension Beef Cattle Specialist Steve Paisley has been urging ranchers to think long and hard about it. Participation in a preconditioning program, he warns, probably isn't for everyone.

"It sounds a little like blasphemy to question participation in a VAC-45 program or to come across as negative toward them, but I have legitimate concerns," explains Paisley. "In the past, I've been extremely cautious when recommending preconditioning programs."

Paisley remains cautious. He says it's not that he disputes the potential advantages to calf health, performance and carcass quality. Those advantages are well-documented, and Paisley has seen the benefits demonstrated through the Wyoming Beef Cattle Improvement Association feedlot test and carcass-evaluation program. Paisley is convinced that preconditioning can add value to ranchers' calves.

Profitability, however, depends on capturing sufficient premiums to pay the cost. In some cases, preconditioning programs probably don't pay.

Back in 2007, Paisley worked through

several preconditioning program budgets that Wyoming ranchers might apply, assigning timely cost values for feed, vaccines and dewormer. He estimated reasonable

costs for labor, treatment of sick animals and death loss. Marketing costs would cover commission, ear tags and any fees associated with a certified preconditioning program. Not included in Paisley's cost estimate were yardage or trucking costs that could be applicable to some situations. He did include opportunity costs.

Consider opportunity costs

"Even though you may have feed on hand, and your operating budget allows you to wait an additional 45 days to market your calves, it's still important to estimate the opportunity costs associated with preconditioning," says Paisley. "Instead of preconditioning your calves, what if you sold

them at weaning and invested the money? Along the same lines, instead of feeding your hay and purchasing supplement, what if you sold the hay and never spent the money on supplement? In both cases, there is an opportunity cost associated with preconditioning."

As an example, Paisley cites a traditional approach to preconditioning where calves weighing 525 pounds (lb.) are weaned in a drylot on the ranch and fed prairie hay plus protein supplement for 45 days. In 2007, hay was priced at \$120 per ton and 20% protein supplement at \$185 per ton. The sum of all costs associated with this example came to just more than \$73 per head.

Using regional price data and assuming the preconditioned calves earned a premium of \$7 per cwt., Paisley calculated calf selling price. The return to preconditioning was \$10 per head if the calves exhibited average performance and gained an average of 2

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lb. per day. With higher-than-expected gains averaging 2.5 lb. per day, the return to preconditioning was approximately \$24. However, for calves gaining only 1.5 lb. per day, the return to preconditioning was negative — a loss of \$2.79 per head.

“Based on my 2007 budget, a traditional VAC-45 drylot program on the ranch cost approximately \$73 per head. I’m guessing, based on current feed prices, that program now would cost closer to \$100 per head,” says Paisley. “That means the additional weight gained by the calf, as well as any market premium, have to cover that \$100.”

Paisley emphasizes that producers have to know their costs — all of them. To reduce feed costs and inputs associated with feed processing and delivery, ranchers may want to consider pasture-based weaning systems. Accessibility to meadow regrowth, crop residues and grain coproducts could afford producers an advantage when developing low-cost backgrounding programs. Forage analysis and ration balancing can help make the most of available resources.

Marketing needed

Additionally, says Paisley, capturing

premiums often hinges on marketing preconditioned calves appropriately. He recommends participating in an established certified preconditioning program that buyers will recognize and in which they have confidence. It matters when, how and where calves are marketed. Private-treaty sales afford opportunity to negotiate prices reflecting added value. Video auctions and special added-value calf sales are known to attract bidders that are more apt to bid aggressively and pay premiums for preconditioned calves. Those bidders may not be present at the local sale barn’s “regular” auction.

According to Kansas State University agricultural economist Glynn Tonsor, industry and market conditions can be less favorable for marketing preconditioned calves. The current low calf numbers and relatively high prices can discourage bidder differentiation of value.

“In this situation, more buyers may bid



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like the calves are all alike. It’s not permanent. That won’t always be the case,” explains Tonsor. “But it makes it more important for producers to seek marketing channels to buyers that appreciate added value and will pay for it.”

Even though the benefits of preconditioning calves are well-documented, producers must evaluate whether preconditioning will increase returns relative to selling at weaning. Profitability is no sure thing.

“It won’t work for certain producers because of their cost structure. It may not work for others due to marketing restraints — sometimes because they won’t break from their traditional way of marketing,” adds Tonsor.

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Editor’s Note: Troy Smith is a cattleman and freelance writer from Sargent, Neb.