Decisions, Decisions, What do I do with my calf crop?

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Outline

- Making the marketing decision
- Selling now
- Pre-conditioning/backgrounding
- Stockering
- Feeding/Custom Finishing
- Alternative Markets/Direct-marketing

Evaluating Marketing Alternatives

- The preferred marketing alternative is the one that puts the most NET dollars in your pocket, not the one that bring the highest price.

Marketing Math

ITEM	Total Dollars
Final Value of Feeders/Stockers (Price X Sales Weight X Number Sold)	
- Marketing Costs	
Net Final Value (NFV)	
Initial Value of Calves (Price X Sales Weight X Number Sold)	
- Marketing Costs	
Net Beginning Value (NBV)	
Additional Costs	
Pasture (seed, fertilizer, fuel, etc.)	
Feed	
Hay	
Vet & mineral (implants, vaccines, etc.)	
Repairs	
Additional labor	
Land rent	
TOTAL ADDITIONAL COSTS (TAC)	
Profits (NFV-NBV-TAC)	

Major Considerations

- Final sales price
- Input costs of additional weight
  - Feed
  - Pasture
  - Labor/facilities
- Major risks
  - Price
  - Animal performance
  - Death loss

Marketing Decisions

Production

Sell at Weaning

Precondition

Stocker/Background

Finish

→

Alternative

Local Auction Market

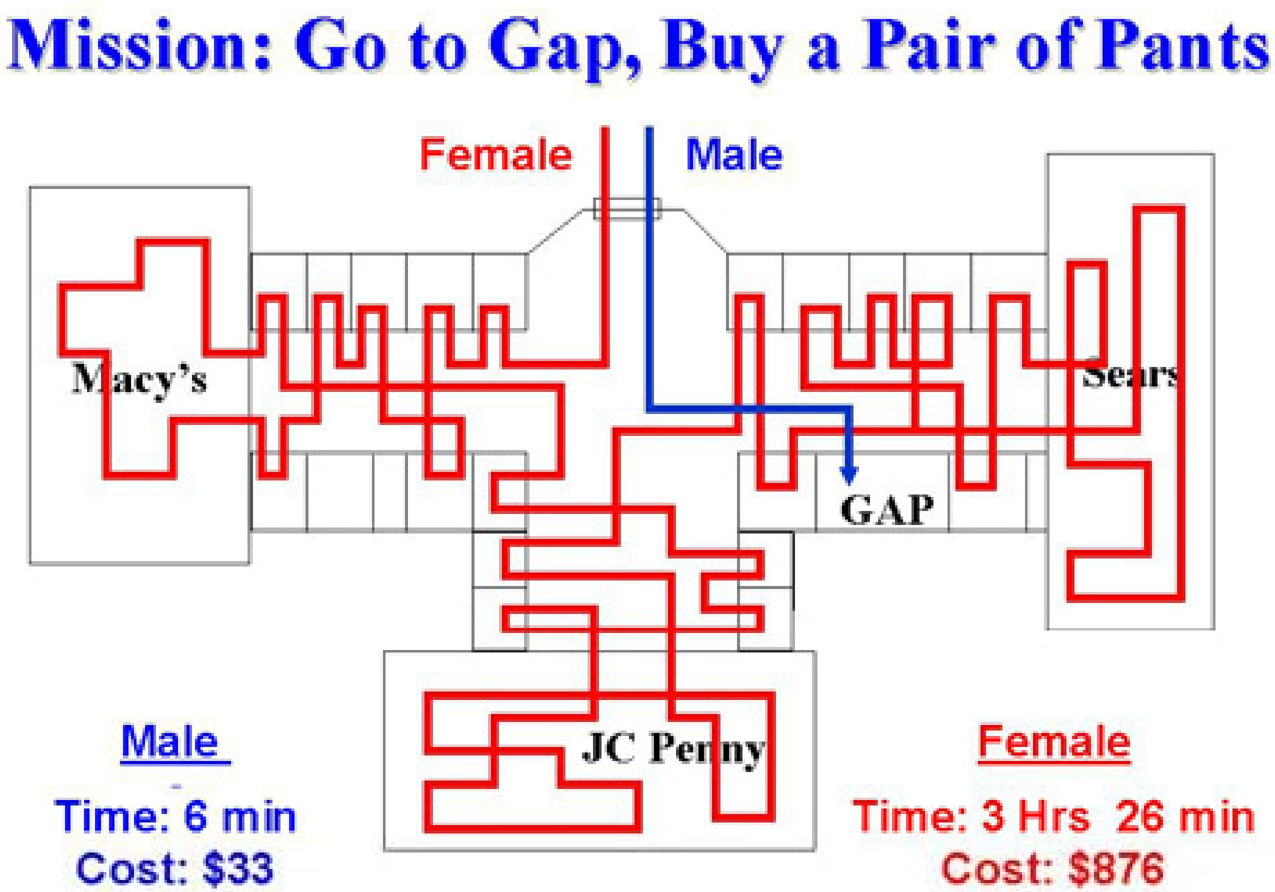
Cooperatives

Graded/Pooled Sales (Group Sales)

Video/Tele-auction

Private Treaty

There is No ONE Best Marketing Alternative



Selling at Weaning

- Advantages
  - Money now
  - No production risk
  - Minimal facilities required
- Disadvantages
  - May not receive true value of calf
  - Higher marketing cost – shrink
  - No opportunity to take advantage of price increases

Preconditioning

- Weaned
- Bunk broke – includes water trough
- Males castrated
- At least two rounds of vaccinations for respiratory and other diseases

Preconditioning

- Advantages
  - Reduced shrink
  - Preconditioned calves usually bring more
  - Opens more marketing alternatives
- Disadvantages
  - Additional cost
  - Requires additional facilities
  - Marketing calves can be an issue

Stockering

- Advantages
  - Extends the marketing window
  - Put additional gains on calves with lower cost forage
  - Allows you to cull poor performing calves before going to feedlot
- Disadvantages
  - Additional cost
  - Production risk
  - Price risk if stockered into fall

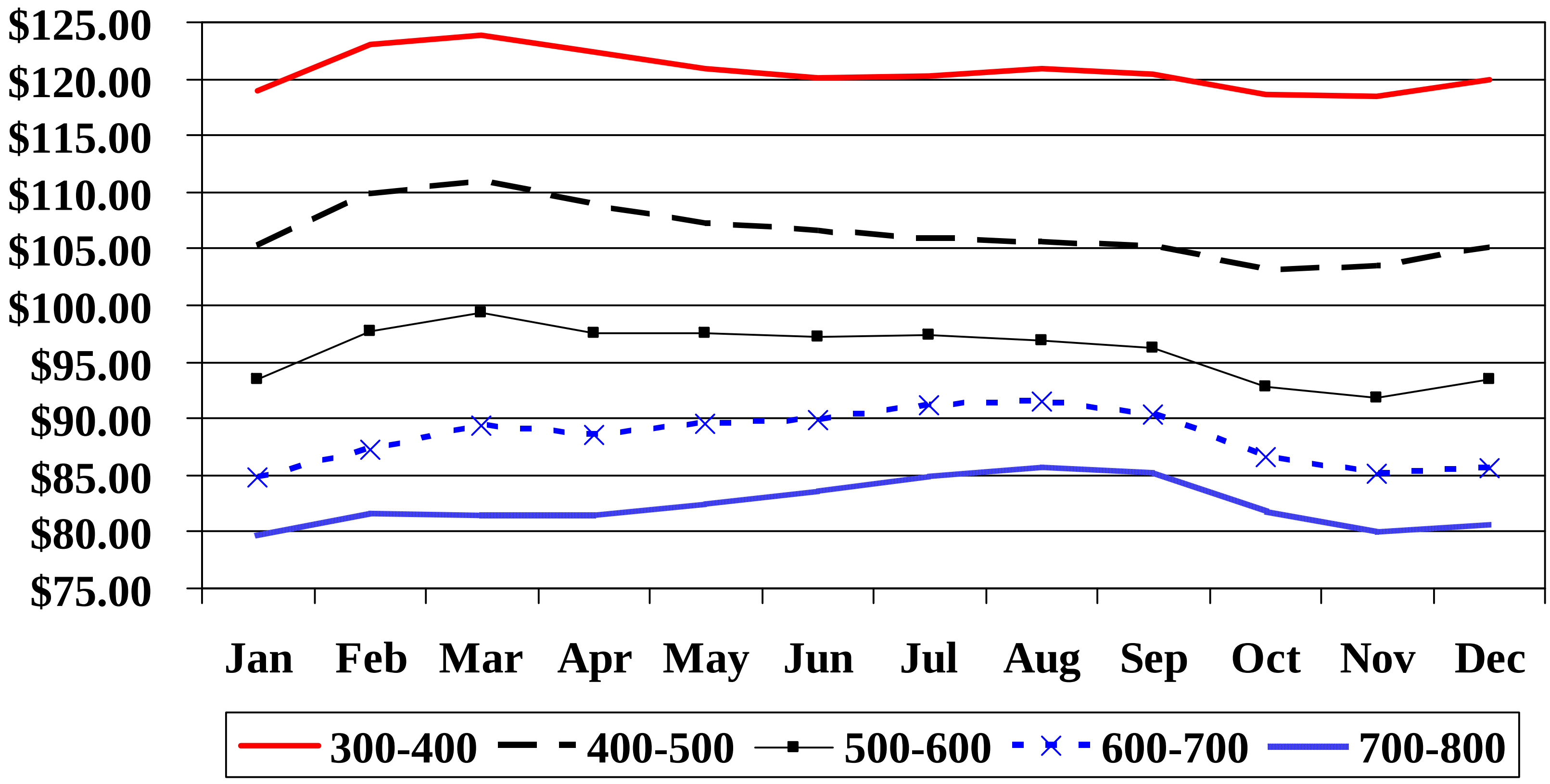
Custom Finishing

- Calves are fed in a feedlot in Corn Belt or Plains
- Fed to an ending weight of 1100-1300 lbs. And backfat thickness of .40-.45 inch
- Cattle are marketed on a live, dressed, or carcass basis
- Producers pay feedlot for feed plus feed markup or daily yardage. Producers also pay for any processing and vet cost.

Custom Finishing

- Advantages
  - Allows you to receive true value on animal
  - Can increase returns per calf
  - Extends marketing window
- Disadvantages
  - Additional time and cost involved
  - True value of calf may be less than thought!
  - Price and Production Risk
  - Locating a feedlot

Georgia Weekly Average Auction Prices for M/L 1-2, Bulls/Steers
2004-2008



Marketing Methods

Auction Market

- Still most popular way to sell cattle
- Advantages
  - Competitive bidding
  - Convenient
  - Open to all sellers & buyers
  - Prompt cash payment
  - All types of livestock can be marketed
  - Provides a place where cattle prices are determined and known to all
  - Supervised by the federal government
  - Requires absolutely no market knowledge by the producer
  - Requires no minimum number of cattle

Auction Market

- Disadvantages
  - Seller has little control over prices
  - Encourages multi-handling, speculative-type trading
  - High overhead cost
  - Excessive shrink and stress possible
  - Lack of volume & uniformity at many markets
  - No permanent system exists for identifying livestock and producers after the sale*
  - Hard for producers to establish a good reputation
  - Grade & price info hard to interpret
  - Prices are uncertain
  - Number of buyers may be small, reducing the competitiveness of bidding

Graded & Pooled Sales

- Advantages
  - Can put large, economical lots of cattle together
  - Cost savings for buyers are passed along to sellers
  - Large numbers of livestock attract more buying competition
- Disadvantages
  - Grading, sorting, weighing, and penning before sale are time-consuming and expensive
  - Individual producers lose their identity
  - Most marketing facilities are not designed for efficient processing for this system
  - It's hard to get a large number of producers to agree on all terms of sale
- A variation of this program uses Video/Tele-auctions

Tele-Auctions

- Utilizes telephones in a conference call type setting to auction cattle
- Producers with less than truckload (LTL) lots are put together “on paper” to make up truckload lots
- Advantages
  - Potentially increases competition
  - Direct buyer-to-seller transportation reduces stress, shrinkage, and death loss
  - Reduces buyer cost
  - Reduces marketing cost
- Disadvantages
  - Requires prior producer commitment
  - Reduces marketing flexibility
  - Requires partial or full truckload lots

Video-Auctions

- Very similar to tele-auction except that cattle are video taped beforehand so buyers can view the cattle via internet/satellite during the sale.
- Usually sponsored by regional/national companies
- Some progressive local markets are now videotaping cattle and e-mailing/posting to internet the tapes to buyers so they can view the tapes before the sale
- Advantages
  - Largest number of potential buyers of all market methods
  - Potential for reduced buyer cost passed along to seller
  - Direct buyer-to-seller transportation
  - Delivery schedules very flexible. Example sell cattle in July for October delivery
- Disadvantages
  - Requires producer to have on-farm truckload (preferably more) of uniform cattle

Private-Treaty Selling

- Cattle bought straight from the farm
- Been around for many years
- Used by many buyers to avoid co-mingling of cattle
- Advantages
  - Seller controls the marketing process
  - Costs less than other methods of marketing
  - Producer can establish a reputation
  - Animals are farm-fresh with no stress
  - Disease spread is minimal
  - Producer can condition cattle to buyer specifications
- Disadvantages
  - Requires excellent marketing knowledge by the seller
  - No federal government supervision
  - Producers assumes risk of payment collection
  - May be little or no buyer competition

Producer Marketing Groups/Networks

- Four Examples
  - Red Carpet Cattlemen's Association*
  - SE GA Feeder Cattle Marketing Association
  - SW GA Feeder Cattle Marketing Association
  - Madison County Cattleman's Association
- Cattle preconditioned and described prior to sale.
- Cattle are videotaped/photographed digitally and then marketed via a tele-auction.
- Cattle marketed in early-mid August for August-October delivery.

Red Carpet does not require pre-conditioning and the conduct auctions/delivery monthly

Choosing a Marketing Alternative

- What kind of cattle do you have?
- What is required?
- How does this fit into your program?
  - Calves
  - Stockers
  - Finishing
- **WILL IT INCREASE YOUR PROFITS?**

Four Numbers to Know When Considering Retained Ownership

- Cost of Gain – COG
- Value of Gain – VOG
- Breakeven Price –
  - Sale - BES
  - Purchase - BEP

What is COG of Gain (GOG)?

COG is the cost of putting the additional weight on the animal ***excluding*** the initial value of the animal. Usually expressed as $/Cwt.

$$\text{COG} = \frac{\text{Total cost of adding weight}}{\text{Pounds of additional gain}}$$

Example

Base

- 100 calves November weighing 450 pounds
- Purchase price = $100/Cwt.

Alternative

- Marketed in April weighing 750 pounds.
- Sales price = $79.00/Cwt.
- 2% death loss.
- Cost = $180/head placed

COG

$$\text{COG} = \frac{\text{100 hd @ \$180/hd}}{\text{Pounds of additional gain}}$$

$$\text{COG} = \frac{\$18{,}000}{\text{98 hd@750\# - 100 hd @ 450\#}} = \frac{\$18{,}000}{28{,}500}$$

$$\text{COG} = \$63.16/\text{Cwt} \quad .$$

What is Value of Gain (VOG)?

VOG is the value of the additional weight placed on the animal. Usually expressed as $/Cwt.

VOG is NOT the sales price!!

What is Value of Gain (VOG)?

$$\text{VOG} = \frac{\text{Ending Value - Beginning Value}}{\text{WG}}$$

$$\text{VOG} = \frac{(\text{EW x EP}) - (\text{BW x BP})}{\text{WG}}$$

Where, EW = ending weight

EP = ending price

BW = beginning weight

BP = beginning price

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What is Value of Gain (VOG)?

$$\text{VOG} = \frac{(98\ \text{hd} @750\#\ \text{x}\ \$79/\text{Cwt}) - (100\ \text{hd} @\ 450\#\ \text{x}\ \$100)}{28{,}500}$$

$$\text{VOG} = \frac{\$58{,}065 - \$45{,}00}{28{,}500} = \$45.61/\text{VOG}$$

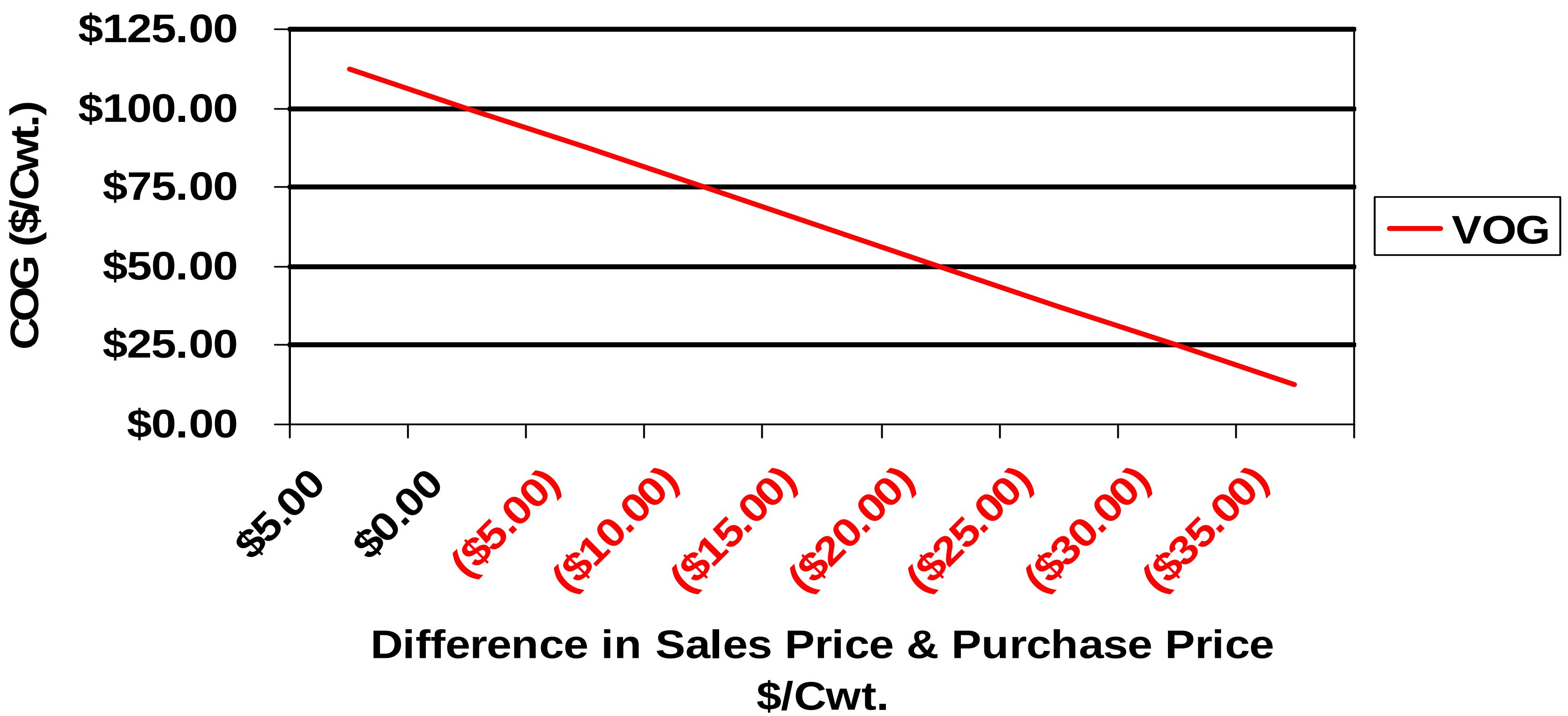
So?

COG = $63.26

VOG = $45.61

COG>VOG → Do not RO in this situation

Impact of Buy-Sell Margin and COG on RO Decision



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What price do I need?

$$\text{Breakeven sales price} = \frac{\text{Total stockering cost (including calf value)}}{\text{Sales weight}}$$

$$\text{Breakeven sales price} = \frac{\$18,000 + \$45,000}{73,500} = \frac{\$63,000}{73,500}$$

$$\text{Breakeven sales price} = \$85.71$$

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How much can I pay for a calf/what is the breakeven price for weaned calves?

$$\text{Breakeven purchase price} = \frac{\text{Final Value - Total stockering cost (EXCLUDING calf value)}}{\text{Purchase/beginning weight}}$$

$$\text{Breakeven purchase price} = \frac{\$58{,}065 - \$18{,}000}{450\ \text{Cwt.}} = \frac{\$40{,}065}{450}$$

$$\text{Breakeven purchase price} = \$89.03$$

Values higher than this should be sold while values less than this will be profitable.

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Alternative Markets

Alternative Production Systems/Markets

- Natural
- Local/Direct-marketing to consumers
- Grass-fed
- Organic

Major considerations

1. Do you have a market?
2. Do you have a market?
3. Can you market in a timely manner?
4. Are there additional costs?
5. Are there premiums?
6. What's the downside?

General Observations

- Consumer's are mostly concerned about
  - Antibiotics
  - Hormones
- They are also concerned about animal welfare.
- They want to help the "small/local" producer.
- They are willing to pay **<u>some</u>** premium for these products.

Common Threads of Most Alternative Production Systems

- Reduction or complete elimination of:
  - Antibiotics
  - Implants
  - Growth promotants (ionophores/ beta-agonists)
  - Animal derived proteins
- Increased record-keeping requirements
- More planning for marketing

Natural Beef

Natural Beef

- Consumer's definition of "Natural" is different from current USDA definition of minimally processed.
- Approximately 20 different lines of natural beef being offered.
- Natural is essentially grain-fed beef without antibiotics, hormones or ionophores.

Natural Beef

- All natural beef programs place limitations on:
  - Antibiotics
  - Implants
  - Ionophores/Beta-agonists
  - Animal derived proteins
- Usually fed in selected feedlots

Economic Tradeoffs

- Cow-calf
  - Reduced implant and antibiotic costs
  - Lower weaning weights (possibly)
  - Increased vet expenses?
- Finishing Phase
  - Reduced implant and antibiotic costs
  - Slower growth
  - Higher feed conversion
  - Higher feed expense
  - Increased vet expense
  - “Fall-out” rate around 20%
  - Higher percentage of cattle grading Choice (10-15%)

Short-story

- Cow-calf producers need $4.00-$6.00/cwt. premium for weaned calves.
- Backgrounded/preconditioned cattle need $7.00-$9.00/cwt. (depending on morbidity and feed conversion).
- Slaughter cattle need $12-$15 carcass cwt. ($7-$9/cwt. live).

Real-world data from North Georgia

- North Georgia
  - AN and ANx cow-calf pairs from NW GA Experiment Station (Calhoun) divided into two groups prior to calving (2007 & 2008).
  - One group treated conventionally the other group treated as natural (no implants, no antibiotics).
  - Both groups weighed at weaning, preconditioned for 60 days and sent to SW IA to be fed in GA Beef Challenge.

Results available at meeting.

Results from NW GA Cattle (2007)

Date	Natural	Conventional	Difference
Weaning			
Weaning +30d			
Weaning +60d			

- 16% fall-out in calf phase from foot-rot on natural calves.
- At weaning needed $4.08/cwt. to cover difference in weight.
- After 60d precon needed $6.34/cwt. to cover difference in weight.
- Carcass data should be available tomorrow ☺

Results from Feeding North GA Cattle in Natural Program

Item	**2006-2007 67 head**		**2007-2008 71 head**	
	Steers (44)	**Heifers (23)**	**Steers (46)**	**Heifers (25)**
ADG				
Feed:gain				
%Choice				
%Prime				
% Y3 or less				
Backfat				
Average age at slaughter				

Results from Feeding North GA Cattle in Natural Program

Item	2006-2007		2007-2008	
	Steers	**Heifers**	**Steers**	**Heifers**
Carcass weight				
Feed cost of gain ($/Cwt.)				
Total cost of gain ($/Cwt.)				
% Individually treated				
Average Carcass Price ($/Cwt.)				
Profits ($/head)				

Other Considerations on Natural Cattle

- Often no CAB premium.
- Probably no Prime premium.
- Select discount may not be as severe.
- Delays in slaughter can increase Y4s.
- Heifers can be a problem → Light carcass discount = $20-$30/cwt. vs. $15 in conventional.

Direct-Marketing

Advantages

- Ability to receive more of the retail value of your product.
- Sometimes a good outlet for healthy, discounted calves (sex, color, etc.).
- Good way to diversify market risk.

Disadvantages

- Additional resources (land, labor and capital).
- Market development is critical.
- Slaughter and processing can be an issue.
- Requires knowledge and application of state and federal codes.
- Not everything in the carcass is a ribeye.

Summary

- There is no one best alternative
- Producers can and should be creative in developing alternatives
- Evaluations should be made in light of the bottom line NOT highest price!