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 brings the highest price.
## Marketing Math

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

\[
COG = \frac{\text{Total cost of adding weight}}{\text{Pounds of additional gain}}
\]
Example

<table>
<thead>
<tr>
<th>Base</th>
<th>Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td>☐ 100 calves November weighing 450 pounds</td>
<td>☐ Marketed in April weighing 750 pounds.</td>
</tr>
<tr>
<td>☐ Purchase price = $100/Cwt.</td>
<td>☐ Sales price = $79.00/Cwt.</td>
</tr>
<tr>
<td></td>
<td>☐ 2% death loss.</td>
</tr>
<tr>
<td></td>
<td>☐ Cost = $180/head placed</td>
</tr>
</tbody>
</table>
COG

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

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

\[
\text{COG} = \$63.16/\text{Cwt}
\]
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)?

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

\[
VOG = \frac{(EW \times EP) - (BW \times BP)}{\text{WG}}
\]

Where, \( EW = \) ending weight
\( EP = \) ending price
\( BW = \) beginning weight
\( BP = \) beginning price
What is Value of Gain (VOG)?

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

\[
VOG = \frac{58,065 - 45,000}{28,500} = \$45.61/\text{VOG}
\]
So?

\[
\begin{align*}
\text{COG} &= $63.26 \\
\text{VOG} &= $45.61
\end{align*}
\]

\[
\text{COG} > \text{VOG} \Rightarrow \text{Do not RO in this situation}
\]
Impact of Buy-Sell Margin and COG on RO Decision

Difference in Sales Price & Purchase Price
$/Cwt.

COG ($/Cwt.)

- $125.00
- $100.00
- $75.00
- $50.00
- $25.00
- $0.00

- ($5.00)
- ($10.00)
- ($15.00)
- ($20.00)
- ($25.00)
- ($30.00)
- ($35.00)

VOG
What price do I need?

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

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

Breakeven sales price = \$85.71
How much can I pay for a calf/what is the breakeven price for weaned calves?

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

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

Breakeven purchase price = $89.03

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

- Consumers are mostly concerned about "Antibiotics" and "Hormones".
- They are also concerned about animal welfare.
- They want to help the "small/local" producer.
- They are willing to pay some 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)

<table>
<thead>
<tr>
<th>Date</th>
<th>Natural</th>
<th>Conventional</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weaning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weaning +30d</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weaning +60d</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th>Item</th>
<th>2006-2007</th>
<th></th>
<th>2007-2008</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>67 head</td>
<td></td>
<td>71 head</td>
</tr>
<tr>
<td></td>
<td>Steers</td>
<td>Heifers</td>
<td>Steers</td>
<td>Heifers</td>
</tr>
<tr>
<td></td>
<td>(44)</td>
<td>(23)</td>
<td>(46)</td>
<td>(25)</td>
</tr>
<tr>
<td>ADG</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feed:gain</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>%Choice</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>%Prime</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Y3 or less</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Backfat</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average age at slaughter</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Results from Feeding North GA Cattle in Natural Program

<table>
<thead>
<tr>
<th>Item</th>
<th>2006-2007</th>
<th></th>
<th>2007-2008</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Steers</td>
<td>Heifers</td>
<td>Steers</td>
<td>Heifers</td>
</tr>
<tr>
<td>Carcass weight</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feed cost of gain ($/Cwt.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cost of gain ($/Cwt.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Individually treated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Carcass Price ($/Cwt.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits ($/head)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Ability to receive more of the retail value of your product.</td>
<td>□ Additional resources (land, labor and capital).</td>
</tr>
<tr>
<td>□ Sometimes a good outlet for healthy, discounted calves (sex, color, etc.)</td>
<td>□ Market development is critical.</td>
</tr>
<tr>
<td>□ Good way to diversify market risk.</td>
<td>□ Slaughter and processing can be an issue.</td>
</tr>
<tr>
<td></td>
<td>□ Requires knowledge and application of state and federal codes.</td>
</tr>
<tr>
<td></td>
<td>□ Not everything in the carcass is a ribeye.</td>
</tr>
</tbody>
</table>
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!