Agriculture & Business Management Notes ...

Colorado State University Extension

Retained Ownership: A Management Alternative for the Beef Producers

Quick Notes...

Retained Ownership:

Advantages

- Potential economic returns
- Obtain feedlot performance and carcass information
- Requires limited capital investment
- Increases marketing opportunities
- Takes advantage of genetic improvement programs

Disadvantages

- Increases managerial responsibilities
- Delays income and impacts cashflow
- Increases market price exposure

Introduction

Retaining the ownership of calves, rather than selling at weaning, is a management alternative that, under the right circumstances, can improve the profit potential for cow-calf producers; however additional risks are also associated with retained ownership and must be analyzed.

Retaining ownership is one type of integration in the beef production business. While the term may have different meanings to different people, it includes one or more of the phases of beef production: cow-calf to stocker, stocker to feedlot, or cow-calf to feedlot. It can be profitable, especially if the cattle perform well and provide a desirable end product. Retaining ownership of calves allows the producer increased control of the marketing process.

Even though retained ownership has received increased publicity in recent years, it is known that less than 9 percent of the beef calves in the United States are retained from birth to slaughter, in a retained ownership program. This practice offers cow-calf producers an opportunity to expand their beef cattle enterprise and capitalize on the performance potential of the calves they produce. Each producer must determine the potential profitability for that beef enterprise. Each ranch operation is unique and retaining ownership may or may not be feasible.

Advantages

Why retain ownership? The first reason is that the producer can realize greater economic returns. Retained ownership increases the number of marketing options available to the producer. The producer is able to experience the economic advantage, normally received by others, from both the post-weaning growth phase and the finishing phase of the beef production cycle. Retaining ownership also makes it easier for the cow-calf producer to obtain valuable information on both the feedlot performance and the carcass desirability of calves from that herd. This makes available a vital management tool

that can be used to evaluate and improve a herd breeding program.

Retaining ownership of feeder calves requires, in most cases, less investment in facilities and equipment than investing in other livestock operations. On many farms building some fence, providing a few feed bunks or self feeders, adjusting vaccine schedules to complete the programs at or prior to weaning, and perhaps taking advantage of an existing building or barn is all that is required.

Accelerated systems of finishing calves during retained ownership have several advantages in many areas:

Calves are marketed at slaughter weights at 14 to 16 months of age. This reduces interest costs associated with owning calves for a longer period of time.

In the marketing of spring-born calves, accelerated finishing in retained ownership systems place the market timing of finished cattle in the seasonally high value spring-early summer period.

Reduced stress, shrinkage, disease, marketing, transportation and auction expenses combine to greatly lower the cost of production.

Rapid gains from high energy feeding programs allow the producer to take full advantage of the genetic improvement programs.

The system utilizes abundant by-product and grain supplies.

Disadvantages

Some disadvantages that must be considered when making a decision about retaining ownership in beef calves are:

Many cow-calf producers do not have the experience or facilities needed to post-wean feed or finish their cattle, sometimes relying on someone else to provide the service. It is a matter of developing a relationship of trust with the operator of a selected feedlot.

Marketing a small number of fed cattle and the distance from slaughter facilities may present problems. Some feed yards require a minimum number of animals per pen and a small producer may not have enough to fill a pen. It may be possible for two or more individuals to feed in a pen together.

Obtaining credit, maintaining cash flow, and income tax implications must be considered also. Retained ownership increases capital requirements and delays income. This must be considered and adjustments made to be successful.

Increased market price exposure can also be a disadvantage to retained ownership.

Cattlemen interested in retained ownership need not assume the risks of large market swings by accepting whatever the market offers on a market day.

There are flexible forward pricing instruments including forward contracts and futures and options contracts that should be considered to avoid much of the price risk. Utilization of these price risk tools may also assist the cattleman in attaining the additional capital required when retaining ownership of cattle for prolonged periods.

Test and Evaluate

A successful retained ownership venture requires more intensive management and a well planned herd health and feeding program. Favorable weight gains depend upon

satisfying the calf's nutritional needs, efficient feed conversion, as well as keeping the calves healthy throughout the retained ownership. Vaccination and feeding schedules must be planned well in advance.

The longer a producer retains ownership in the cattle, the greater the risk. Changes in the price of cattle and in the price of feeds can adversely affect the potential profitability of retaining ownership. This longer ownership period increases the time in which the owner must provide operating capital and increases the cash flow requirements of the production enterprise. Some lenders may disapprove of the increased capital requirement and risk. Cattle price risk can be limited by forward contracting/hedging.

Health

Minimizing health problems, especially those associated with weaning and starting on feed, is critical to successful retained ownership programs. The common problems associated with purchasing feeder calves, such as stress, excessive shrink, and exposure to a wide variety of infectious agents, are avoided when weaning and feeding out your own calves.

Creep feeding prior to weaning is not always profitable, but it can be a cost effective "health procedure" in successful weaning. It helps avoid stress, reduces digestive problems, and reduces respiratory diseases which are often associated with the post-weaning period.

Calves nursing cows and eating grass do not need extremely high protein levels in creep rations. The key is to get some concentrate into the calves to condition the rumen for the stress associated with weaning and to aid in the adjustment to a grain and forage diet. Calves eating even a small amount of grain in a creep ration have been shown to wean easier. They adjust to bunk feeding quicker and do less wandering of fence lines at weaning.

Stress, immunosuppression, and subsequent disease are major health problems in the post-weaning period. The key is prevention. The best procedure to follow is a preconditioning program where the vaccination program is completed 21 to 30 days prior to weaning.

Performing any health procedures at weaning is not advised, since the goal of preconditioning and weaning, during a retained ownership program is to extend stress periods and have the calves at a high level of immunity at weaning. If any health procedure is done at weaning it should be limited to the last vaccinations in the planned herd health sequence.

Suggested health procedures include:

- Individual identification
- Vaccinate for IBR, PI-3 and BVD
- Vaccinate for 7-way or 8-way Clostridia
- Vaccinate for Hemophilus somnus
- Treat for worms, grubs and lice
- Implant with a growth promotant

Castration and dehorning should be done when the calves are small. If it has to be done at weaning time, it should be delayed two weeks in order to spread out the stress.

Gain/Feed/Nutrition

One of the often stated restrictions of a cow-calf producer retaining calf ownership is the lack of feeding expertise. The vast majority of problems related to nutrition of feeder calves can be traced to the first two weeks on feed. Once this start-up period is over, a successful feeding program can be accomplished in any phase of the feeding period.

The most important factor in establishing a retained ownership feeding program is to use a feed that will enhance intake. It is common sense, but worth noting, that a calf with a full

belly will be less concerned about being separated from its dam.

Once a post-weaning feeding period has begun, it should be continued for at least two weeks. Observations have shown that when the post-weaning feeding period was stopped within two weeks, it has caused a multiplier effect on stress levels.

The expected level of feed intake of newly weaned calves will vary between 0.5 percent of body weight in highly stressed calves to 3.5 percent of body weight in calves that are less stressed.

Some of the best results recorded in newly weaned calf feeding programs have been accomplished with pelleted, high energy, moderate protein, medicated rations.

Many of these rations contain lures and flavor enhancers to attract the calves and stimulate intake. Anise, yeast, and molasses are common lures used to increase the intake of calves during the critical first several days of a feeding program.

Several excellent rations have been researched and have been on the market for many years that give excellent results during the first few weeks of post-weaning.

Conclusion

Cattle producers are in constant search of increased profits in production and marketing. Retained ownership offers a way to increase the marketing options and may improve profits for many cattle producers.

A producer can take advantage of favorable market conditions and avoid the stress and losses associated with weaning, transfer of ownership, and transportation.
Although retained ownership may not be for everyone, retained ownership is a viable alternative that should be considered by cow-calf producers.

A suggested worksheet for doing an economic analysis is included in the following section.

Source: William F. Hendrix and Douglas Warnock, Washington State University

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Notes... Network *(For More Information) Contact:* ***Tim Stanton & Jack Whittier, Dept. of Animal Sciences, CSU, (970)-491-6905***
Rod Sharp, Ag. & Business Management Economist, CSU Extension (970) 245-9149, Rod.Sharp@Colostate.edu
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Economic and Performance analysis of Retaining Ownership in Beef Calves

1. Value of calves/feeders at the beginning of the feeding period
(post weaning, winter/backgrounding, finishing phase or pasture phase)
_____ *lbs. @ Market price $* _____ = $_____ *1.*

2. Weight Gained or Lost
End Wt. _____ *lbs. - Starting Wt.* _____ *lbs.* = _____ *2.*
lbs.

3. Average Daily Gain
#2 _____ *lbs. ÷* _____ *days* = _____ *3.*
lbs./day

4. Death Loss
Loss _____ *÷ Total Animals* _____ = _____ *4.*
%

5. Costs

a. Feed Expense (Raised and Purchased)

Type	*Amount*	*Price*	*Total*
_____	_____	$_____	$_____
_____	_____	$_____	$_____
_____	_____	$_____	$_____
_____	_____	$_____	$_____

Total Feed = $_____ *5a.*

b. Grazing Expense
$/Animal Unit Month (AUM) _____ *x AUMs* _____ = $_____ *5b.*

c. Yardage Costs
Rate _____ *x No. of Days* _____ = $_____ *5c.*

d. Health Costs

Product	*Amount*	*Cost*
_____	_____	$_____
_____	_____	$_____
_____	_____	$_____
_____	_____	$_____

Total Health = $_____ *5d.*

e. Marketing Expense
Commission _____
Beef Check Off _____
Brand Inspection _____
Hauling _____
Other _____
Total Marketing = $_____ *5e.*

f. Interest Expense
$_____ *x* _____ *÷ 365 x* _____ = $_____ *5f.*
(sum of 1, 5a, 5b, 5c, 5d, and 5e) interest rate No. of days

g. Total Costs (sum of 5a, 5b, 5c, 5d, 5e, & 5f) = $_____ *5g.*

6. Gross value at end of feeding period
End wt. _____ *lbs. @ Market price $* _____ = $_____ *6.*

7. Returns
Gross value #6 _____ *x #4* _____ *minus #1* _____ = $_____ *7.*

8. Profit or Loss
Returns (#7) _____ *minus Costs (#5g) $* _____ = $_____ *8.*