# Calf Marketing: Capturing the Greatest Value from a Weaned Calf

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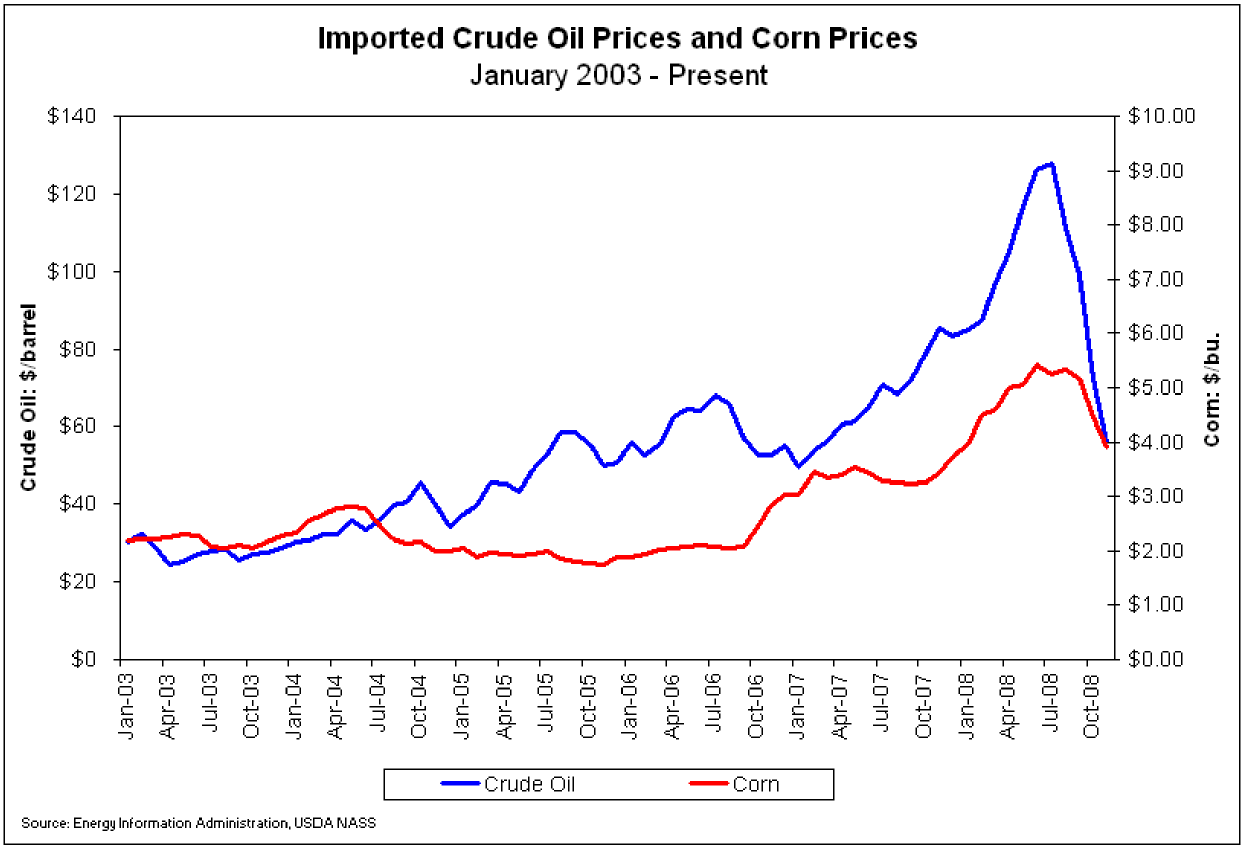
Cattle ranching has always been a challenging and risky operation. Producers deal with production risk on a daily basis. A late winter storm during calving season can result in sickness and even death for many new born calves. Drought can reduce available grazed forages and increase feeding costs. Producers generally have management plans in place to mitigate many of these types of production risks. For example, cattle may be moved to more protected areas for calving, cattle are vaccinated to reduce incidence of disease, and nutritional supplements are often fed to offset shortages in range or pasture conditions.

Another major source of risk that producers face is market or price risk. The expected price for a 500 lb. weaned calf can easily vary more than $20/cwt. From the time the calf is born until it is marketed in the fall; that is a difference of $100 per head. Even at the time of sale, prices for the same weight cattle may vary as much as $10/cwt. at a local auction; a difference of $50 per head. While producers often take measures to mitigate production risk, some feel there is little they can do to impact the price they receive for their calves.

The intent of this paper is to present a number of pricing, marketing, and retained ownership alternatives for producers to consider. While there is no silver bullet here that will guarantee higher calf prices or a profitable cow-calf enterprise, hopefully you can find one or two suggestions that might work for your operation that will increase your returns.

Market price volatility for calves is likely to be greater in the future than it was in the past. One of the major changes in the agricultural markets of the last couple of years is with the government mandates on the use of ethanol in fuel, corn prices have become tied much more closely to energy (oil) prices, Figure 1. That has introduced another major source of risk into much of the agricultural sector. Corn is the dominant feed grain and as corn prices vary, so do all other feed grain prices. Because of the impact of grain prices on feedlot cost of gain, profitability in the feeding industry is directly impacted. This then impacts the price that feeders are willing to pay for calves. Cattle and grain markets continue to be influenced by trade, both imports and exports, and this is another source of volatility. In the near term, as we begin 2009, there is much uncertainty about the overall strength and direction of the US economy. All of these factors contribute to the uncertainty facing agricultural and Utah beef producers. Therefore, it is likely that there will be more volatility, not less volatility, in calf prices in the future.

The volatility with Utah calf prices over the last four years is displayed in figure 2. Where will prices be this fall? Is there anything you can do to improve the price that you might receive on your calves? Perhaps you can find answers to these questions in the pages that follow.



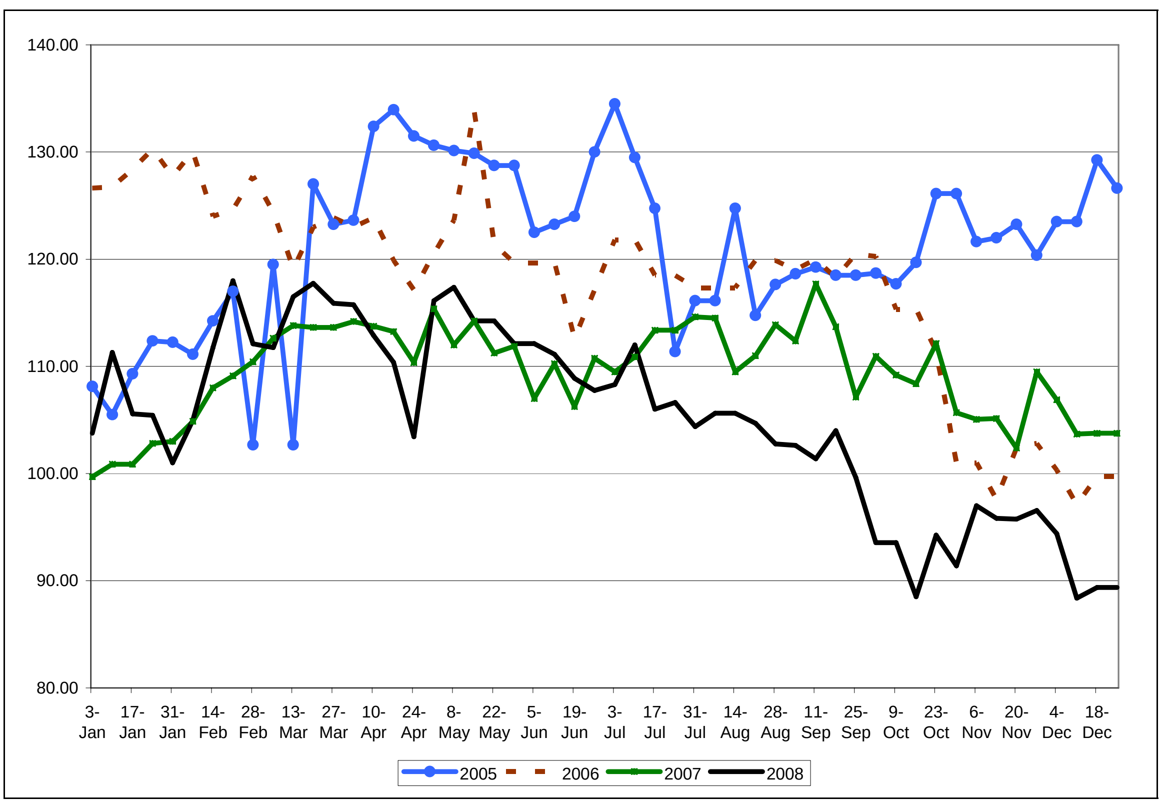




**Figure 2. Utah 550 lb Steer Price 1**

## Marketing at Weaning

This section will be broken into three sections: 1) separating pricing and delivery decisions; 2) packaging your cattle; and 3) preconditioning.

<u>Pricing and Delivery</u>

If you traditionally market your calves at weaning and either sell them direct or through a local auction, then you are essentially pricing them and delivering them in the same time period. In some years this is the most profitable alternative. However, in other years a higher price can be obtained if the cattle are priced earlier but still deliver in the fall. Historically, prices follow a seasonal pattern. The average seasonal low in prices occurs in the fall of the year when the majority of calves are sold, Figure 3. Delivering calves at other times may prove costly. Delivering calves early usually results in giving up too much weight. While you will likely receive a higher cost per pound for the lighter calves, revenue for each calf is usually decreased because of the lighter weight. Yet, your costs for carry a cow are not changed. This strategy is sometime effective to minimize impacts from drought, but otherwise usually results in reduced profitability. Likewise, to carry a calf to a later time beyond weaning requires additional costs and therefore the market needs to be higher to offset those added costs.

However, if you separate the pricing and delivery decision you can still deliver your calves when it is most cost effective, but you have several opportunities to price them prior to delivery. Forward contracting is the most common method of pricing prior to delivery. This can be done either direct with a buyer or satellite video sales are another example. There is no guarantee that a forward price will result in a higher price in any given year. However, each year is different and if this particular year, it appears that prices in the summer are higher than your expectations are for fall prices, then it is probably wise to forward price.

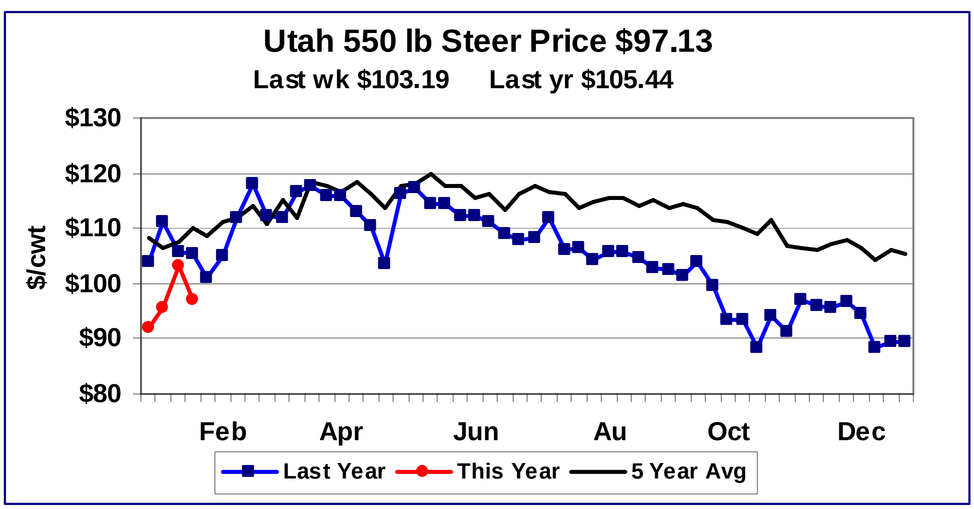



**Figure 3. Seasonal Price for 550 lb Steer.**

Producers can also establish a price prior to delivery by using the Chicago Mercantile Exchange feeder cattle futures. A producer can hedge their calves by selling a October or November feeder cattle contract earlier in the spring or summer. Then, when the calves are sold at weaning in the local market, the producer buys back the October or November feeder cattle contract. If the market has declined from the time of the initial futures market sale, then the producer will make a positive return in the futures market. This will offset the lower cash price received. However, the same as with a forward contract, producers also cannot take advantage of higher prices. If prices increase after the initial sale of the October or November feeder cattle futures, then when the producer buys the contract back, they lose money in the futures market. This offsets the higher price received in the cash market and producers are left with about the same return irregardless of whether the market moves higher or lower after the initial futures sale. Hedging is designed to minimize price risk; it is not a method to consistently receive a higher price.

Producers also have the opportunity to purchase a put option on the feeder cattle futures. This enables producers to establish a minimum price but still take advantage of higher prices, should they occur. However, there is a cost, the premium, associated with buying a put. In these volatile markets, premiums have become quite high for this type of market insurance. For more information on hedging using futures and options the reader is encouraged to go to the following on-line publication from the Chicago Mercantile Exchange: http://www.cme.com/files/HedgingElectronicFile.pdf

Recently, the USDA-Risk Management Agency has also introduced an insurance product for cattle producers. Livestock Risk Protection (LRP) insurances is available for feeder cattle. It works similarly to buying a put on feeder cattle futures, in that a minimum price is established. If prices fall below this level, then an insurance indemnity is paid out to the producer. If the market is higher than the insured price, then the producer is out the insurance premium but receives the higher market price. More information on LRP feeder cattle can be obtained at: http://livestockinsurance.unl.edu

There is no one pricing strategy that will return the highest price every year. Nor is there one pricing strategy that is right for each producer. However, if producers know their cost of producing a calf and evaluate the various pricing alternatives, the "best" alternative can be selected for a particular year and situation.

## Packaging Cattle

Studies have shown that there are things producers can do to receive a higher price for their cattle. Data were recently analyzed for over 30,000 lots of cattle sold on Superior Livestock Video Auction from 2004-2006. Various cattle traits and market lot characteristics were found to result in price premiums or discounts. Table 1, displays the premiums and discounts on a per hundred weight basis compared. The premiums and discounts are compared to selling a medium frame, medium flesh, crossbred steer. Cattle that are lighter fleshed or Angus receive a premium as well as uniform lots, truck load lots or greater, and cattle that have an RFID tag and qualify for a natural program. Small framed, heavy fleshed, exotic cross, and cattle with horns are all discounted.

Table 1. Price Premiums/Discount for various cattle traits and lot characteristics. (Base price is for a medium frame, medium flesh, cross bred steer

| Characteristic | Premium/Discount | Characteristic | Premium/Discount |
|---|---|---|---|
| Heifer | -8.12 | Horns | -3.39 |
| Small Frame | -4.48 | Uniform Lot | 2.73 |
| Light Flesh | 1.38 | Mixed Lot | -2.38 |
| Heavy Flesh | -2.50 | Natural | 0.65 |
| Angus | 2.65 | RFID | 1.45 |
| Exotic Cross | -5.23 | Truck load Lot | 3.00 |

To the extent possible, as you can manage for the positive characteristics and away from the negatives, you should sell at the higher end rather than the lower end of a price range for a given weight of cattle.

Preconditioning

Often times the market will pay a premium for preconditioned calves. Preconditioning programs vary considerably in length and weight gain of calves. Generally, buyers like calves to be weaned for 30 to 60 days, to have received a vaccination program, and to be accustomed to coming to feed and water. A 2006 study of calves sold at auctions in Iowa reported price premiums of $3.40 to $6.15 per cwt. for preconditioned calves as reported by farmers and as reported by a third party. An earlier study, 2001, of Superior Livestock Video sales reported a $4.00 per cwt. premium for calves that had followed the VAC 45 program of preconditioning.

I evaluated a preconditioning program for Utah cattle producers. I assumed that calves would be weaned and vaccinated and returned to meadows to graze for 15 days. They would be supplemented with about seven pounds of alfalfa. Then the calves would be put in a dry lot and fed an alfalfa and grass hay ration with about 1.5 pounds of grain. This program should result in about 60 pounds of gain over the 45 days. Using calf and feed prices for fall 2008, the results of this program are displayed in Table 2. If the cattle do not receive a price premium after the precondition program, then the precondition program is essentially a break-even activity. However, if there is a $4 premium than the result is a net return from preconditioning of $21 per head.

Table 2. Results of an example precondition program for Utah calves, based on market prices in the fall of 2008.

| | Sell at Weaning | Precondition No Premium | Precondition $4 Premium |
|---|---|---|---|
| Sale Weight | 500 | 560 | 560 |
| Sale Price $/cwt | $100 | $98 | $102 |
| Gross Return | $500 | $549 | $571 |
| Cost | | $50 | $50 |
| Net return | $500 | $499 | $521 |

**Retained Ownership**

There are many different retained ownership alternatives ranging from not much more than a preconditioning program to running long yearlings and taking them clear to slaughter. Retained ownership may occur on your own ranch, at a neighbor's place or at a distant pasture or feedlot. Sometimes there are even opportunities to share in the ownership of the cattle with a feedlot or stocker operator, thus sharing in the risks and returns of the feeding program. A brief discussion of on ranch and off ranch retained ownership alternatives follows.

<u>On Ranch Retained Ownership</u>

I evaluated two different 100 day retained ownership programs. One where the calves were fed a ration of grass hay and trace minerals and gained about 1.5 pounds a day and another program where calves were fed alfalfa, corn and minerals and gained just over 2 pounds per day. Based on feed and cattle prices in the fall of 2008 and winter of 2009, each of these programs were essentially a break-even program.

I also looked at wintering calves on a low rate of gain for 180 days and then selling them in the spring. At present hay prices, this program was not profitable. If the calves were retained and grazed through the summer for another 120 days, the program was close to break-even. In other words the gains for the summer grazing program nearly offset the losses the occurred in feeding the calves through the winter. There does appear to be opportunities for positive returns to a summer grazing program. The secret is to find a wintering program that has a lower cost of gain than what is possible through feeding hay at current market prices.

It appears that to be successful with on ranch retained ownership either feeds need to be available at below market prices, or producers need to get creative with rations that may cost less per pound of gain than what can be obtained with market priced hay and grain.

<u>Off Ranch Retained Ownership</u>

Two off ranch retained ownership programs that appear to offer relative low costs of gain and hence a better probability of earning a positive return are wheat pasture grazing and corn stalk grazing. Depending on the pasture or stock condition, the calves may need to be supplemented to achieve optimal gains. Dried distillers grain is often used as a supplement to corns stalk grazing. Often times these grazing programs may return $50 to $75 per head for a 120 day program. One of the main risks of these programs is Mother Nature. Drought conditions may limit wheat pasture growth and cause cattle to have to be marketed sooner than desired. Winter storms can cover up much of the available feed in field of corn stalks. However, the producers who typically run cattle on wheat pastures or corn stalks are accustomed to these risks and generally have contingency plans in place.

At the present time, with relative high priced corn, placing 500 pound calves directly into a feedlot appears quite risky for the expected return. That doesn't mean this will always be the case. Each year is different as calf, grain and fed cattle prices all change. However, the last two years have not been profitable at all to feed cattle, and hence those who retained ownership of calves in a feedlot likely lost money on the program.

On ranch retained ownership offers the advantage of you being able to maintain full control of your calves. Depending upon your resource and labor situation, it may offer a potential to better utilize labor over all seasons of the years and utilize resources that may not be readily marketable. The disadvantage may be that you are limited in the resources you have to feed calves. If you have traditionally sold calves at weaning, you may also lack the feeding expertise to feed calves effectively.

Off ranch retained ownership offers the advantage of have access to a greater variety of pasture and other forage or grain resources. You may also be tapping into the management expertise of a stocker operator or feedlot manager. However, there are some disadvantages as well. You do lose some control over your cattle and you are forced to trust their care to someone else. You are subject to what ever environmental conditions exist where the cattle are retained.

With all forms of retained ownership, the pricing alternatives discussed earlier are all available: forward contracts, futures hedge, buying put options, or using LRP insurance. At times it is even easier to determine your cost of production and put together a solid marketing plan with retained ownership calves than with claves that are not yet weaned.

With all retained ownership alternatives, producers should evaluate them closely to determine the expected return compared to the likely risk of the retained ownership program. You can find some helpful web based programs to evaluate retained ownership alternatives at the following site: http://cattlemarketanalysis.org/breakeven.html

**Summary**

There is not one pricing strategy or retained ownership program that will be right for all producers. In fact, the best strategy for any one producer will also likely vary year to year. Over this next year, the general level of calf prices is likely to be at or below many producers break-even price. Therefore it is critical for producers to examine a number of alternatives and select the one that will yield the best return for them. As market conditions change over the next several months prior to you weaning and marketing your calves, the "best" strategy may change several times.

To help you stay abreast of changing market conditions in Utah and nationally, the following web site is updated on a weekly basis: http://cattlemarketanalysis.org
You are encouraged to visit this site on a regular basis. If there are additional materials you would like to see on the site, please email me with those suggestions (email is on the main page of the site).