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(no designated  
month)Retained Ownership of Beef Calves--Does It Pay?

by

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Introduction

Following several years of low feeder calf prices and ever increasing costs of production, most Idaho beef cattle producers are experiencing rather large losses. Some producers have been forced out of business entirely and others are in precarious financial position. Better ranchers are closely examining numerous management and marketing tools and options in order to discover methods of improving returns to ranching.

One of the production options receiving a lot of interest is retained ownership of feeder cattle. Programs of retained ownership potentially include a shift from a cow calf to a cow yearling program, to a calf wintering program, to backgrounding calves, to backgrounding yearlings or to custom finishing.

Today I will discuss systematic methods for evaluating several of these alternatives and provide a usable format for you to use in evaluating the profitability of various changes in your beef operations. The attached worksheets should be useful in making such decisions. It is not enough to just use these worksheets to work through several alternate programs for handling this fall's calf crop and stop there. This approach will achieve the most satisfactory results for the rancher when he periodically updates each analysis based on the latest information available. New information on price and production outlook, changes in the prices of hay, pasture and

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feed grains, levels of beef and other imports, changes in consumer demand, changes in personal income, changes in financing costs and availability, etc., can all dramatically affect the profitability of different production strategies and should receive adequate consideration in the decision-making process.

Retained Ownership--Primary Production Options

In evaluating various alternatives the prices in Table 1 will be used. They are not necessarily realistic and are listed for discussion purposes only. You are encouraged to develop your own estimate of expected or most likely prices based on discussions with other farmers, market representatives, University of Idaho marketing specialists, etc.

Table 1: Hypothetical Projected Cattle Prices, Idaho, 1977-79, Dollars per Hundredweight

Class & Weight	<u>1977</u>	<u>1978</u>	<u>1979</u>
Steer calves (450 pounds)	\$38	\$42	\$45
Heifer calves (400 pounds)	31	35	37
Yearling steers ( 625 & 750 pounds)	36	39	42
Yearling heifers (675 pounds)	31	34	36
Cull or utility cows (1000 pounds)	22	24	25
Choice steers (1100 pounds)	40	42	45

In evaluating the first two production options, the following assumptions will be made:

1. Constant feed resources - there is a stable feed supply and because of financial or other reasons, additional feed cannot be purchased.
2. Constant cost - this is a simplification. However, feed usage which is here held constant tends to be closely related to total cost.
3. Bulls and bull replacements are not considered here.

4. 100 cow herd size.
5. 85 percent calf crop, 3 percent cow death loss and minimum cull cow sales of 15 percent.
6. Adequate facilities and labor are available for any of the programs considered.

Option #1: Cull cows and sell yearlings

This program reduces cow numbers to 75 by the third year of the program (1979) and utilizes the feed to overwinter the calves and sell them as yearlings. This procedure is shown on Worksheet #1.

Option #2: Winter calves

This program (again holding feed resources constant) reduces cow numbers less drastically to 90 by the third year of the program. The cattle numbers stabilize thereafter at the third year levels. This procedure is illustrated in Worksheet #2.

The remaining two examples of retained ownership alternatives relax the assumption of limited financial and feed resources. Additional financing will be needed to carry the cattle, purchase feed or replace income from feed which may have otherwise been sold. The options to be illustrated here are backgrounding of calves and custom finishing.

Option #3: Backgrounding of calves

Worksheet #3 provides a useful format for evaluating the potential profitability of retaining calves and backgrounding them for sale to a feed-lot operator.

Option #4: Custom finishing

Worksheet #4 illustrates a useful procedure for examining the profit

potential of retaining ownership of the yearling steer through finishing.

#### Conclusion

The greatest problem with utilizing these procedures for estimating the profitability of various retained ownership alternatives is the difficulty of projecting selling prices and costs. Projection of production levels and performance is relatively easier. However, cattlemen should constantly monitor the factors which affect the supply and demand of beef and develop expertise in combining the more important factors into an overall price projection program. There is considerable help available from the University and others in this matter.

It is also very important to periodically revise these projections - particularly at those times when decisions must be made.

# 1

WORKSHEET FOR TESTING BEEF COWHERD PRODUCTION ALTERNATIVES

	PRESENT PROGRAM: <i>Cow-Calf / No Change</i>						PROPOSED PROGRAM: <i>Cull Cows / Sell Yearlings</i>							
	On Hand	Raised	Sold	Weight	Price	Income	On hand	Raised	Sold	Weight	Price	Income		
1977														
Cows	82		15	1000	22	3,300	82		50	1000	22	11,000		
Bred heifers	18						18							
Heifers	18	42	24	400	31	2976	18	42						
Steers		42	42	450	38	7182		42						
	1977 cash income						13,458	1977 cash income						11,000
1978														
Cows	82		15	1000	24	3600	47		10	1000	24	2400		
Bred heifers	18						18							
Heifers	18	42	24	400	35	3360	42	28	20	675	34	4590		
Steers		42	42	450	42	7938	42	27	42	750	39	12,285		
	1978 cash income						14898	1978 cash income						19,275
1979														
Cows	82		15	1000	25	3750	53		12	1000	25	3000		
Bred heifers	18						22							
Heifers	18	42	24	400	37	3552	28	32	13	675	36	3159		
Steers		42	42	450	45	8505	27	31	27	750	42	8505		
	1979 cash income						15807	1979 cash income						14,664

Income summary:

	1977	1978	1979
Increase in income	-2458	4377	-1143
Accumulated increase	-2458	1919	776

WORKSHEET

#2

WORKSHEET FOR TESTING BEEF COWHERD PRODUCTION ALTERNATIVES

	PRESENT PROGRAM: <i>Cow-Calf / No Change</i>						PROPOSED PROGRAM: <i>Winter Steer Calves</i>							
	On Hand	Raised	Sold	Weight	Price	Income	On hand	Raised	Sold	Weight	Price	Income		
1977														
Cows	82		15	1000	22	3300	82		35	1000	22	7700		
Bred heifers	18						18							
Heifers	18	42	24	400	31	2976	18	42	17	400	31	2108		
Steers		42	42	450	38	7182		42	10	450	38	1710		
	1977 cash income						13458	1977 cash income						11,518
1978														
Cows	82		15	1000	24	3600	62		12	1000	24	2880		
Bred heifers	18						18							
Heifers	18	42	24	400	35	3360	25	34	8	400	35	1120		
Steers		42	42	450	42	7938		34	22	450	42	4158		
							32		32	625	39	7800		
	1978 cash income						14,898	1978 cash income						15,958
1979														
Cows	82		15	1000	25	3750	65		13	1000	25	3250		
Bred heifers	18						25							
Heifers	18	42	24	400	37	3552	26	38	20	400	37	2960		
Steers		42	42	450	45	8505		38	38	450	45	7695		
							12		12	625	42	3150		
	1979 cash income						15,807	1979 cash income						17,055

Income summary:	1977	1978	1979
Increase in income	-1940	1060	1248
Accumulated increase	-1940	-880	368

WORKSHEET

#3

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## WORKSHEET FOR TESTING BACKGROUNDING ALTERNATIVES

DESCRIPTION OF PROPOSED PROGRAM Backgrounding Steer CalvesBeginning date October 1, 1977Ending date April 1, 1978

Item	Description	Per head	Total for 100 head
		(\$)	(\$)
1. Ending value	( <u>720</u> lbs. @ \$ <u>.39</u> )	# <u>280.80</u>	<u>28,080</u>
2. Beginning value	( <u>450</u> lbs. @ \$ <u>.38</u> )	<u>171.00</u>	<u>17,100</u>
3. Feed costs			
Concentrate	( <u>540</u> lbs. @ \$ <u>.05</u> )	<u>27.00</u>	<u>2,700</u>
Hay	( <u>1</u> tons @ \$ <u>50</u> )	<u>50.00</u>	<u>5,000</u>
Grass	( _____ mos. @ _____ )		
Other	(salt, minerals, etc.)	<u>.50</u>	<u>50</u>
Total feed costs		<u>77.50</u>	<u>7,750</u>
4. Non-feed costs			
Death loss	( <u>2</u> % of line 2 )	<u>3.42</u>	<u>342</u>
Vet & medical		<u>1.50</u>	<u>150</u>
Interest on cattle	( <u>10</u> % for <u>6</u> mos. )	<u>8.55</u>	<u>855</u>
Interest on feed	( <u>10</u> % for <u>3</u> mos. )	<u>1.94</u>	<u>194</u>
Other	(taxes on cattle, fees, fuel, etc.)	<u>1.49</u>	<u>149</u>
Total non-feed costs		<u>16.90</u>	<u>1,690</u>
5. Total variable costs	(lines 2 + 3 + 4)	<u>265.40</u>	<u>26,540</u>
6. Return to labor & fixed costs	(lines 1 - 5)	<u>15.40</u>	<u>1,540</u>

#4

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## WORKSHEET FOR TESTING CUSTOM FEEDING ALTERNATIVES

DESCRIPTION OF PROPOSED PROGRAM Finish Yearling SteersBeginning date April 1, 1978Ending date August 20, 1978

Item	Description	Per head (\$)	Total for 100 head (\$)
1. Ending value	( <u>1070</u> lbs. @ \$ <u>.42</u> )	449.40	44940
2. Beginning value	( <u>720</u> lbs. @ \$ <u>.39</u> )	280.80	28080
3. Custom lot charges			
Feed cost	( <u>350</u> lbs. gain @ \$ <u>.40</u> )	140. <sup>00</sup>	14,000
Yardage (if extra)	( <u>140</u> days @ \$ <u>.07</u> )	9. <sup>80</sup>	980
Vet & medical		1. <sup>00</sup>	100
Other	(implants, insurance, etc.)	.50	50
Total lot charges		151.30	15,130
4. Owner's other costs			
Trucking to lot	( <u>7</u> cwt. @ \$ <u>.35</u> )	2.45	245
Death loss	( <u>2</u> % of line 2 )	5.62	562
Interest on cattle	( <u>10</u> % for <u>4<sup>2</sup>/<sub>3</sub></u> mos.)	10.91	1091
Interest on lot charge	( <u>10</u> % for <u>2<sup>1</sup>/<sub>3</sub></u> mos.)	2.93	293
Other	(Taxes on cattle, fees, etc.)	.50	50
Total owner's costs		22.41	2241
5. Total variable costs	(Lines 2 + 3 + 4)	454.51	45451
6. Return to management	(Lines 1 - 5)	- 5.11	- 511