

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

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# Outline

- Cattle and Feed Price Risk
- Marketing at Weaning
- On Ranch Retained Ownership
- Off Ranch Retained Ownership
- Summary



# There is no Silver Bullet

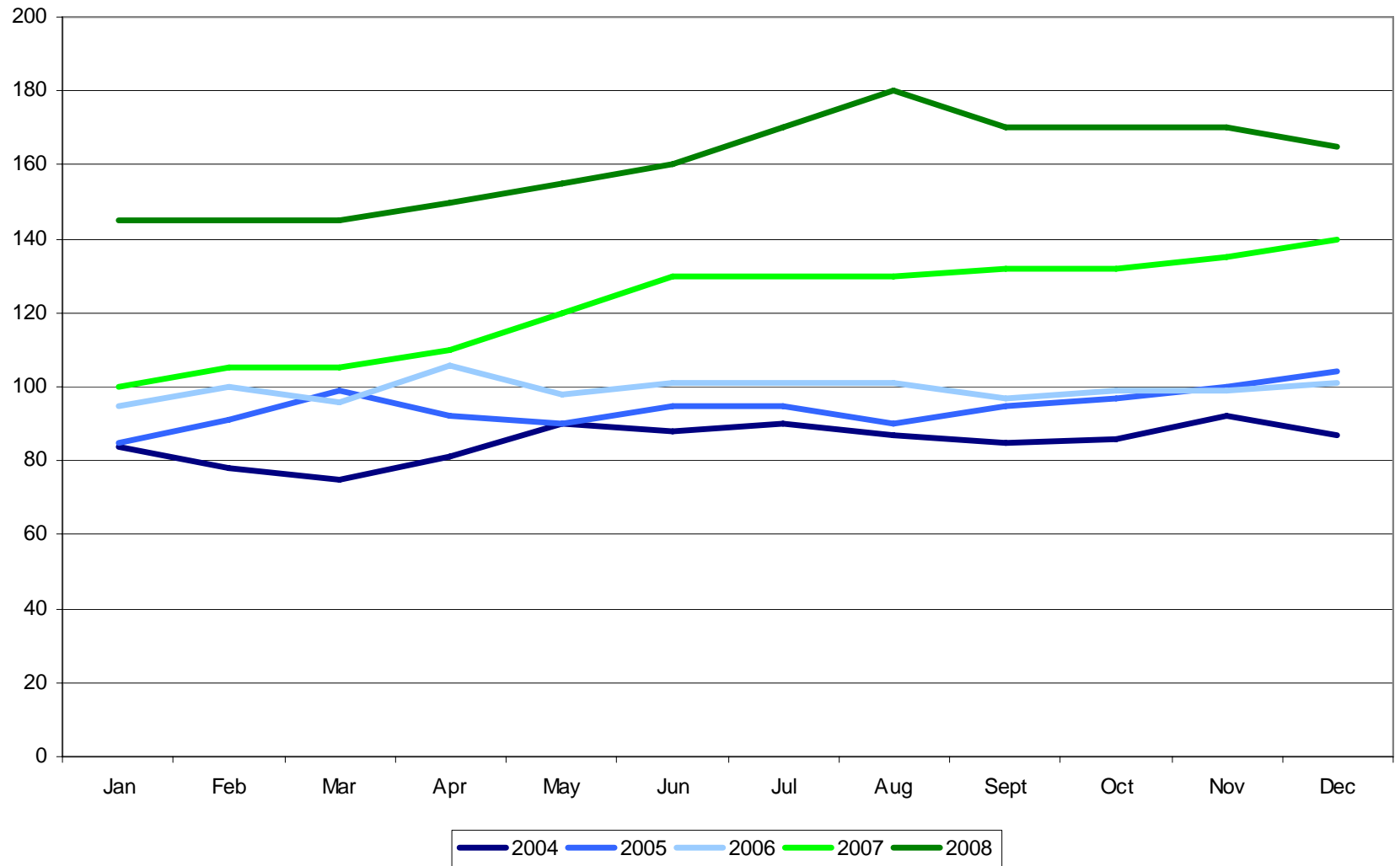


I am hoping to give you a couple of ideas that may make you a few dollars on your calves.

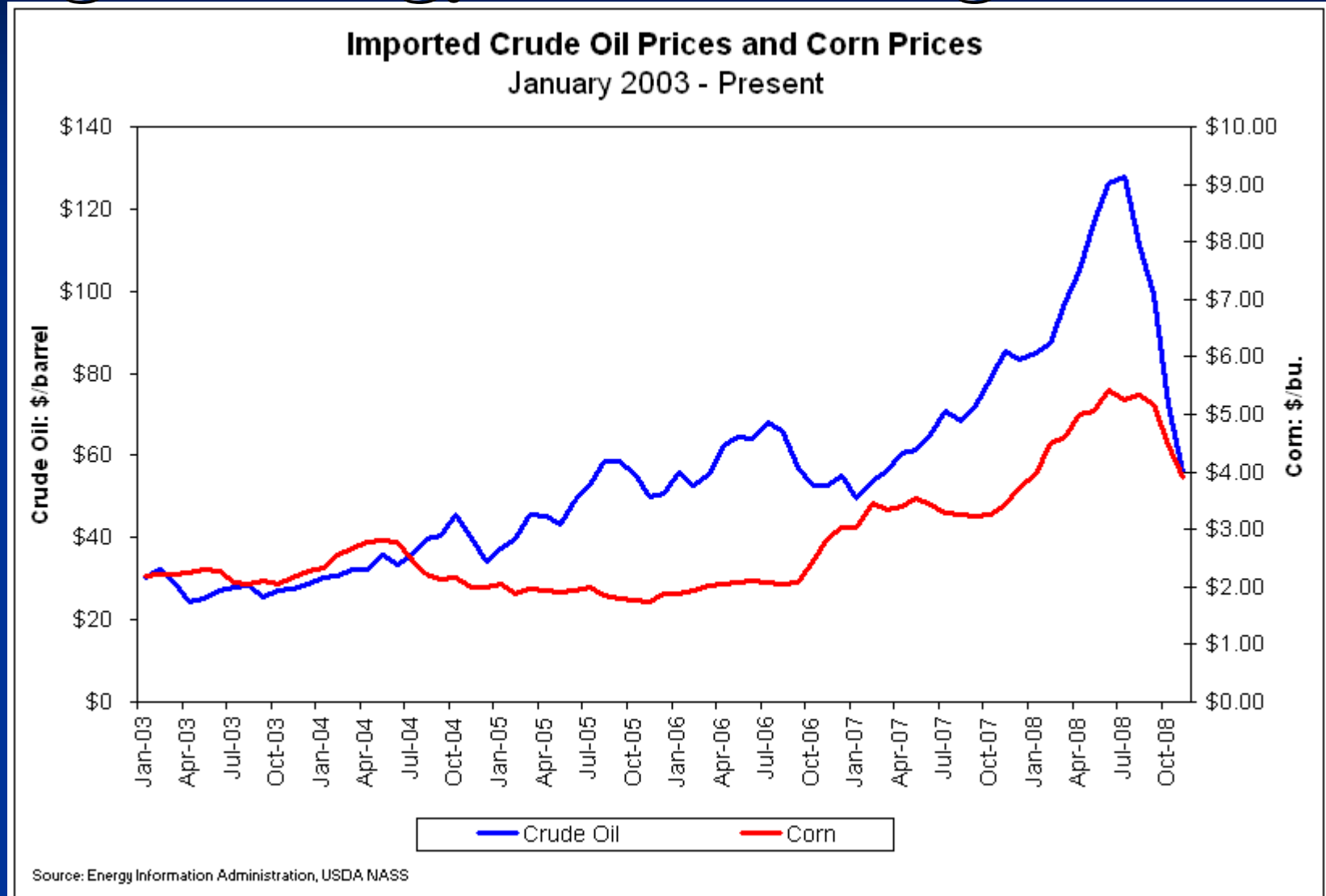
# Market Risk



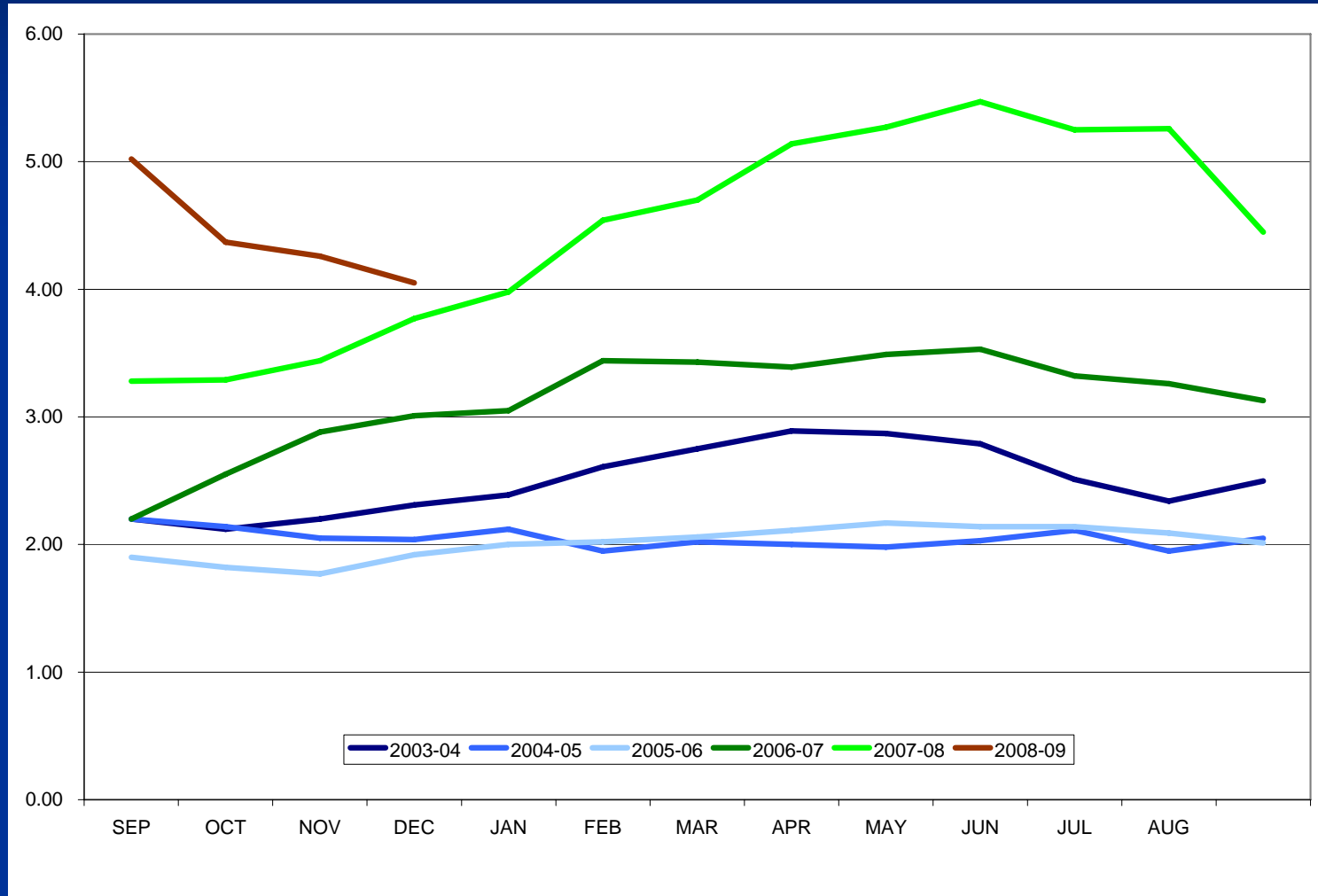
# Utah Alfalfa Hay Prices



# Ag & Energy linked through Ethanol



# National Average Corn Price (Utah +\$.35 to + \$.50)



# Dec Corn Futures

## 12 month trading range

| <u>Year</u> | <u>Low</u> | <u>High</u> | <u>Range</u> | <u>Settle</u> |
|-------------|------------|-------------|--------------|---------------|
| 2004        | 1.90       | 3.40        | 1.50         | 1.95          |
| 2005        | 1.85       | 2.70        | 0.85         | 1.95          |
| 2006        | 2.35       | 3.75        | 1.40         | 3.60          |
| 2007        | 2.70       | 4.30        | 1.60         | 4.20          |
| 2008        | 2.90       | 7.90        | 5.00         | 3.65          |
| 2009        | 3.50       | 7.00        | 3.50         | ?..??         |

# Impact of Higher Corn Prices on Cattle Industry

- Feedlot Cost of Gain
- Calf feds versus Stocker Programs
- Market Risk
- Profitability

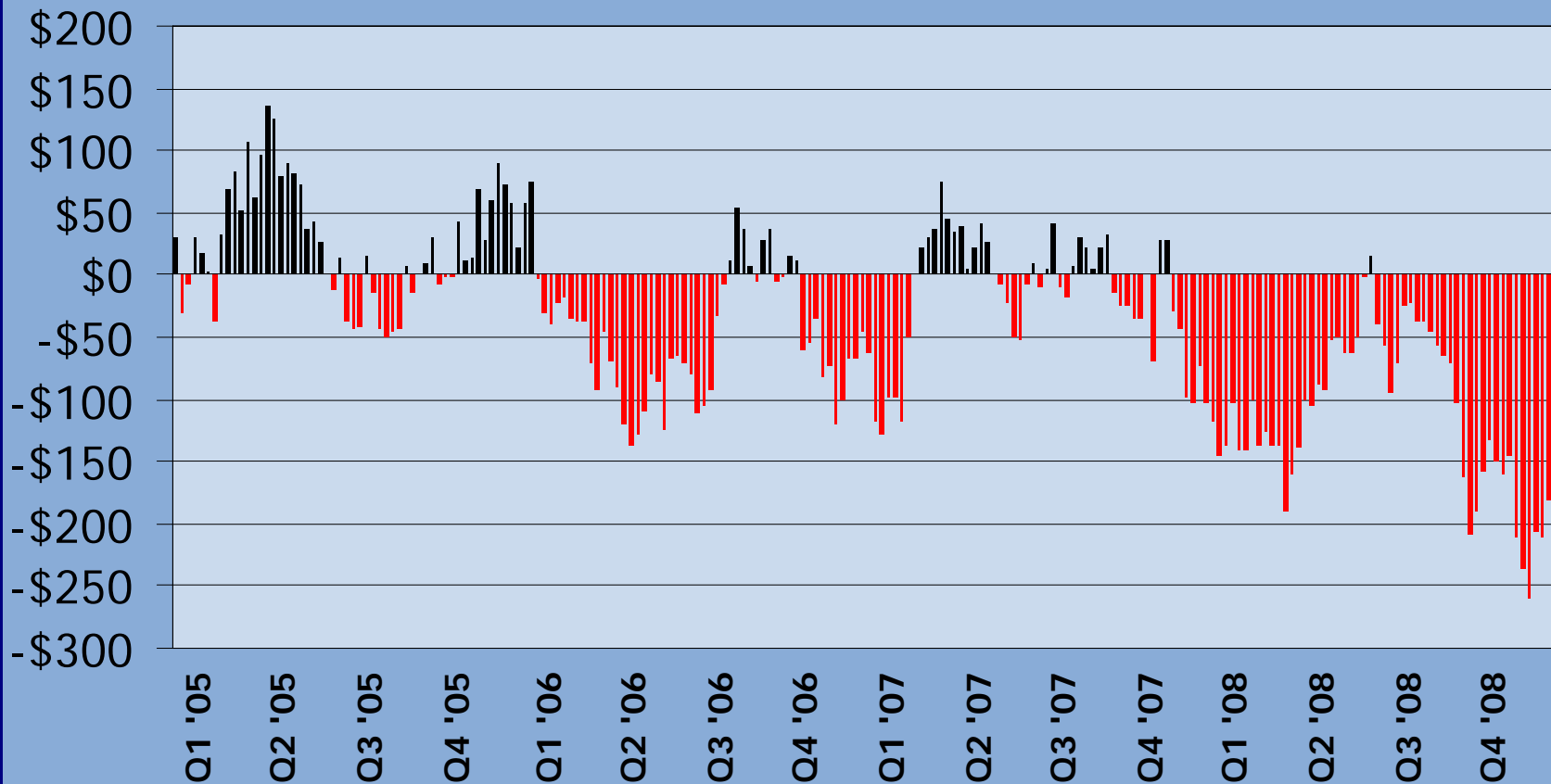
# Feedlot Cost of Gain

- Total Cost of Gain \$45/cwt with Corn <\$2.00/bu
- Total Cost of Gain \$65/cwt with Corn >\$3.00/bu
- Total Cost of Gain \$75/cwt with Corn >\$4.00/bu
- Total Cost of Gain \$85/cwt with Corn =\$5.00/bu
- Total Cost of Gain \$90/cwt with Corn =\$5.50/bu
- Total Cost of Gain \$95/cwt with Corn =\$6.00/bu

# Feedlot Profitability

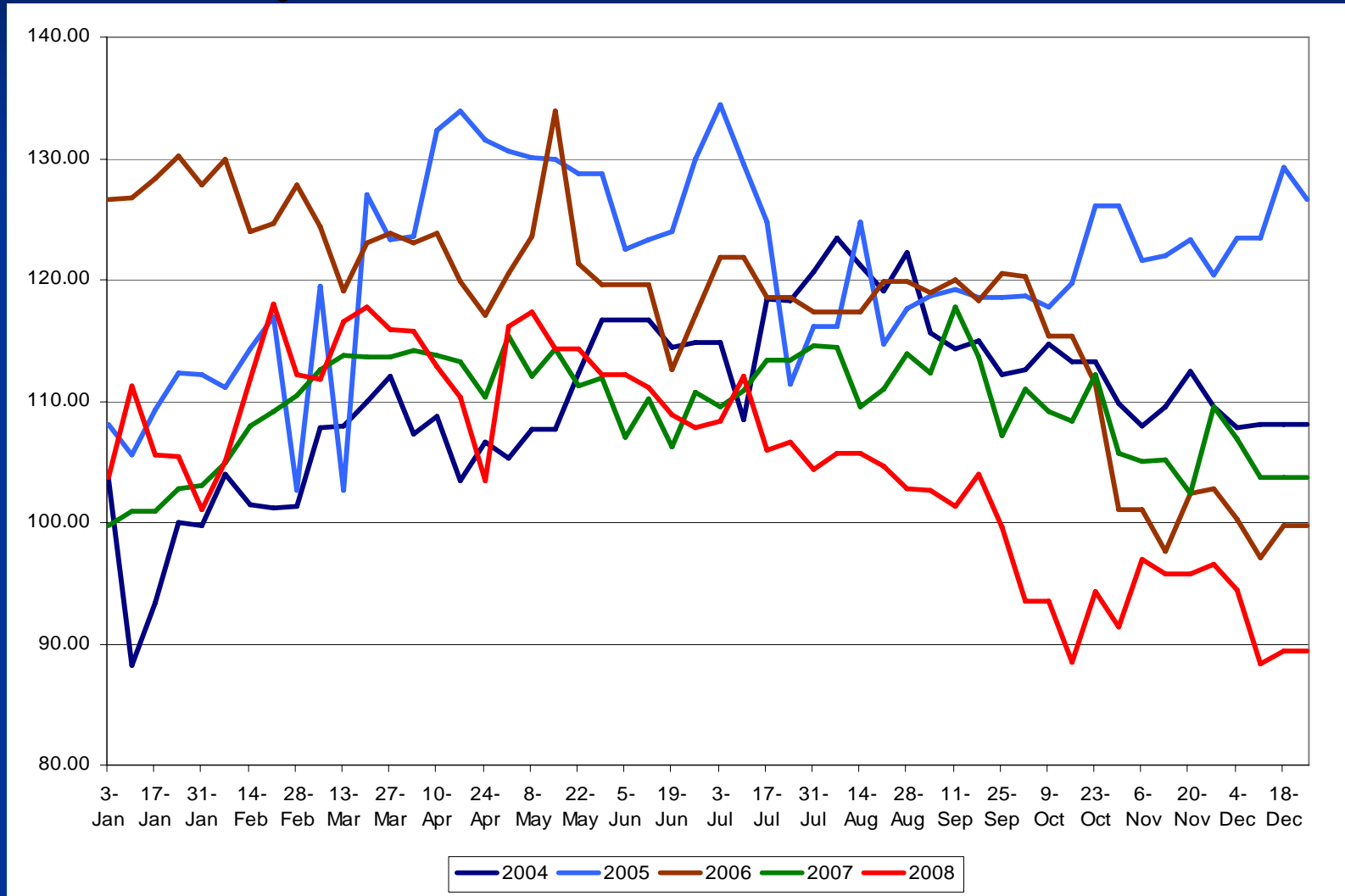
## Estimated Nebraska Feedlot Returns (\$/head)

This wk: **-\$181.25**, Average last 13 wks: **-\$188.49**, Average last 4 yrs: **-\$37.58**



# Utah Calf Prices

## Does Anyone Know Where 2009 is Headed?



# Market Risk Summary

- Agricultural Markets and Energy Markets Linked together through Ethanol
  - Increased volatility
- Feed Prices Higher and More Volatile
- Cattle Feeding: High Risk – Low Return
- Cattle Prices Remain Very Volatile
- Calf Prices Lower than Break-Even for Many Producers

# What Can You Do?

- Sharpen Your Pencil
- Evaluate all Marketing Alternatives



# Marketing At Weaning

- Separate Pricing and Delivery Decision
- Packaging
- Pre conditioning



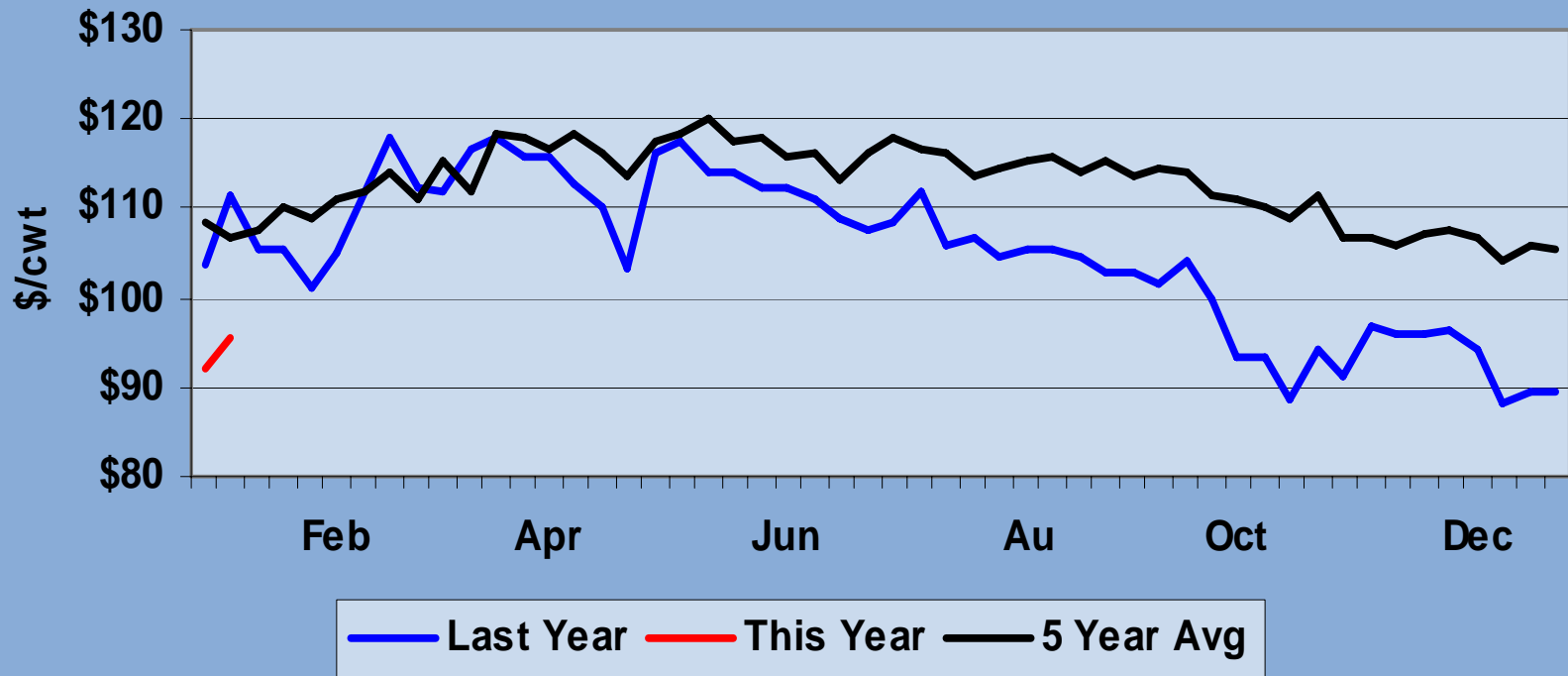
# Pricing & Delivery

- Cash Sales – Pricing and Delivery occur at same time and same place
  - Local Auction
  - Direct Sale on Ranch
- Oct-Nov is typically seasonal low in price
  - Deliver early you give up weight
  - Deliver later you do incur costs
- You can Price earlier and Deliver in Fall

# Historical Seasonal Calf Prices

Utah 550 lb Steer Price \$95.44

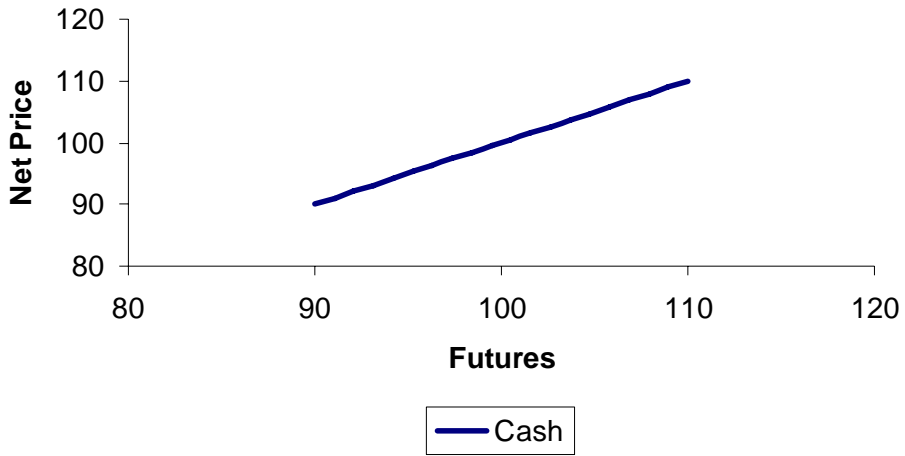
Last wk \$91.94 Last yr \$111.31



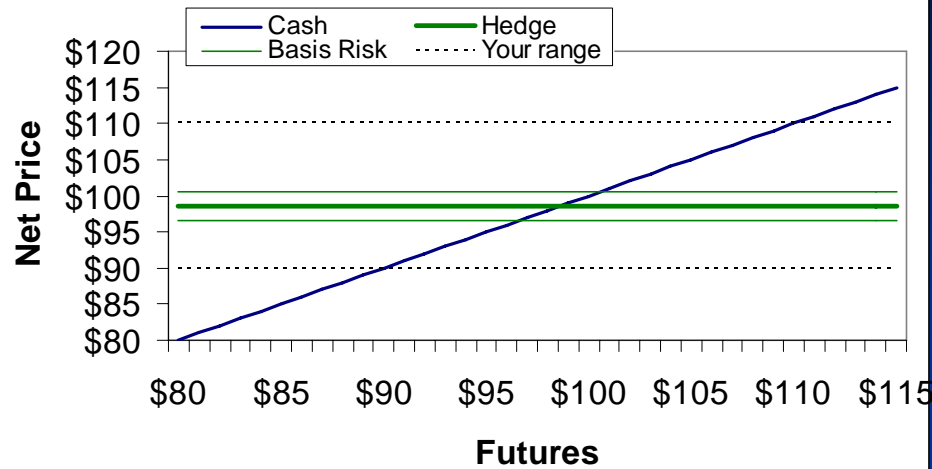
# Forward Pricing Alternatives

- Cash Forward Contract
  - Direct with Order Buyer
  - Satellite Video Sale
  - Internet Forward Sale
- Futures Hedge
- Options on Futures
- Livestock Risk Protection (LRP) Insurance

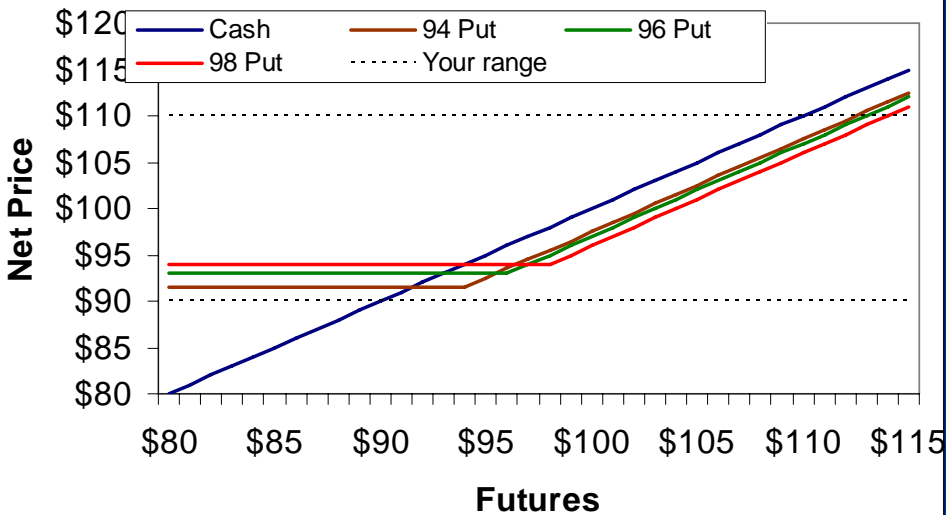
### Cash Price



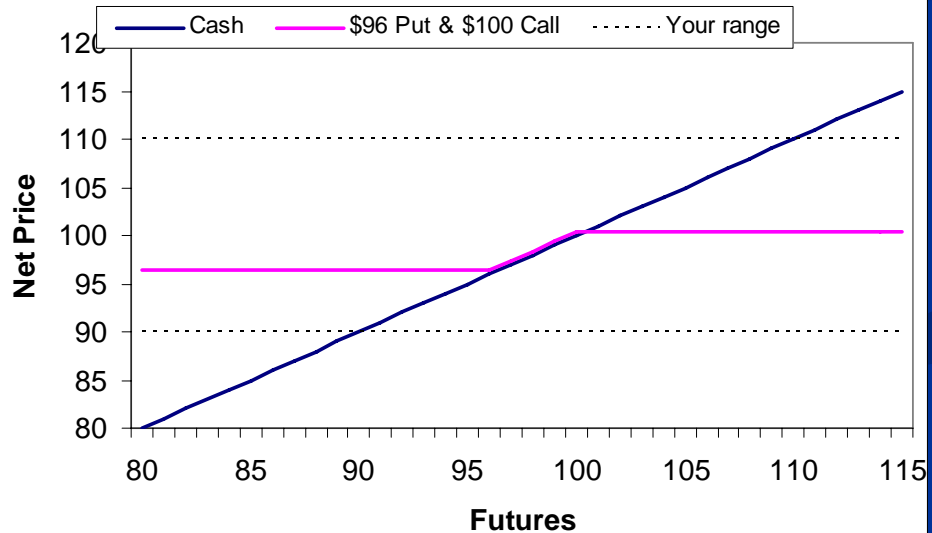
### Hedge vs Cash



### Buying Puts vs Cash



### Fence vs Cash



# Pricing Decision

- Know Your Break-even
- Follow the Market
- Be Prepared to take a Position When the Opportunity Arises
- Good Pricing Opportunities may be Short Duration
- May need to consider Protecting greater losses, rather than Capturing Profit

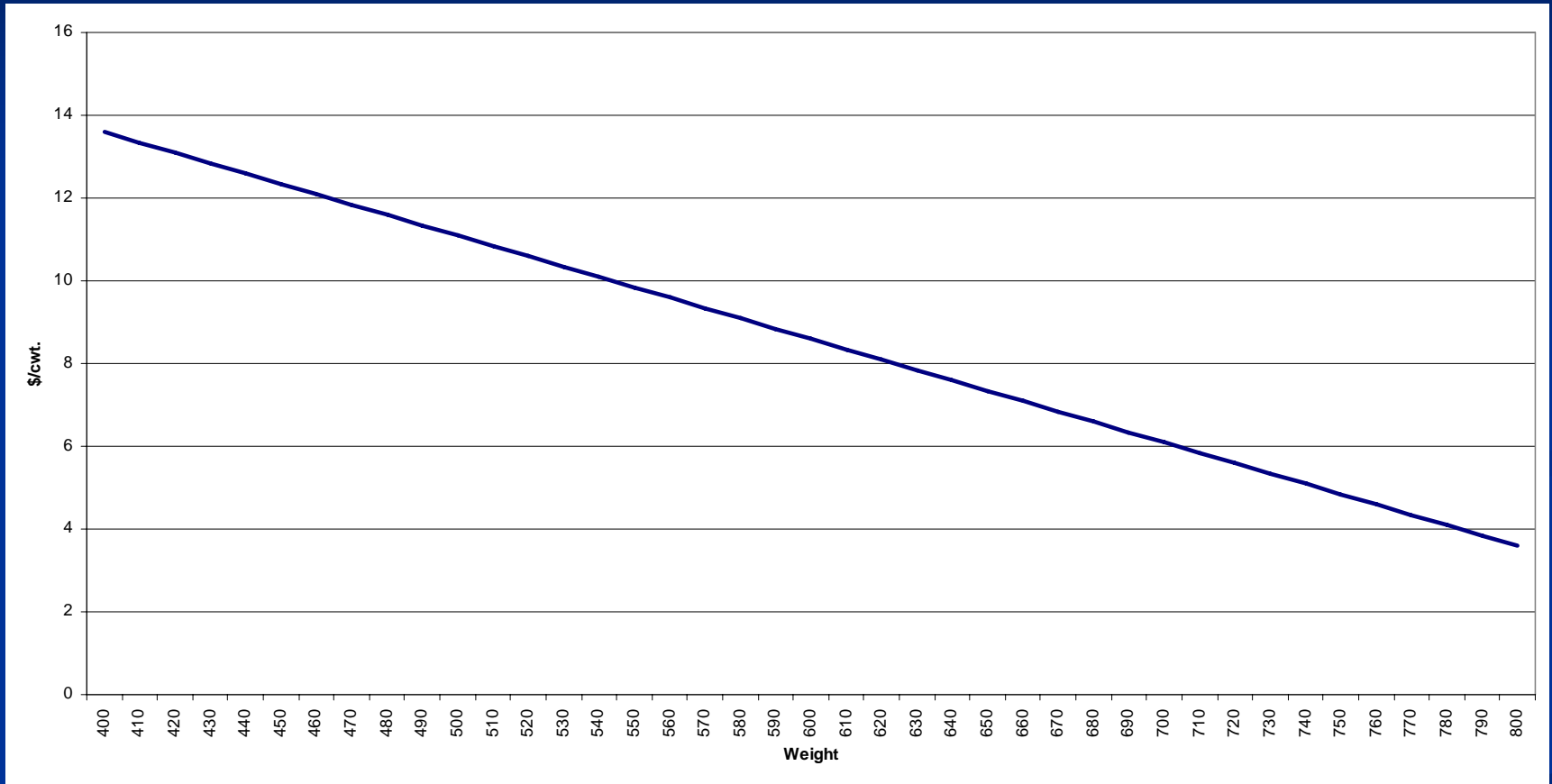
# Packaging



# Superior Livestock Auction Data

- Data on Sales from 2004-2006
- 31,702 lots
- Average lot size, 98 head
- Average weight 616 pounds
- Evaluated Cattle Characteristics
- Evaluated Sale Characteristics

# Weight Price Slide 2004-2006

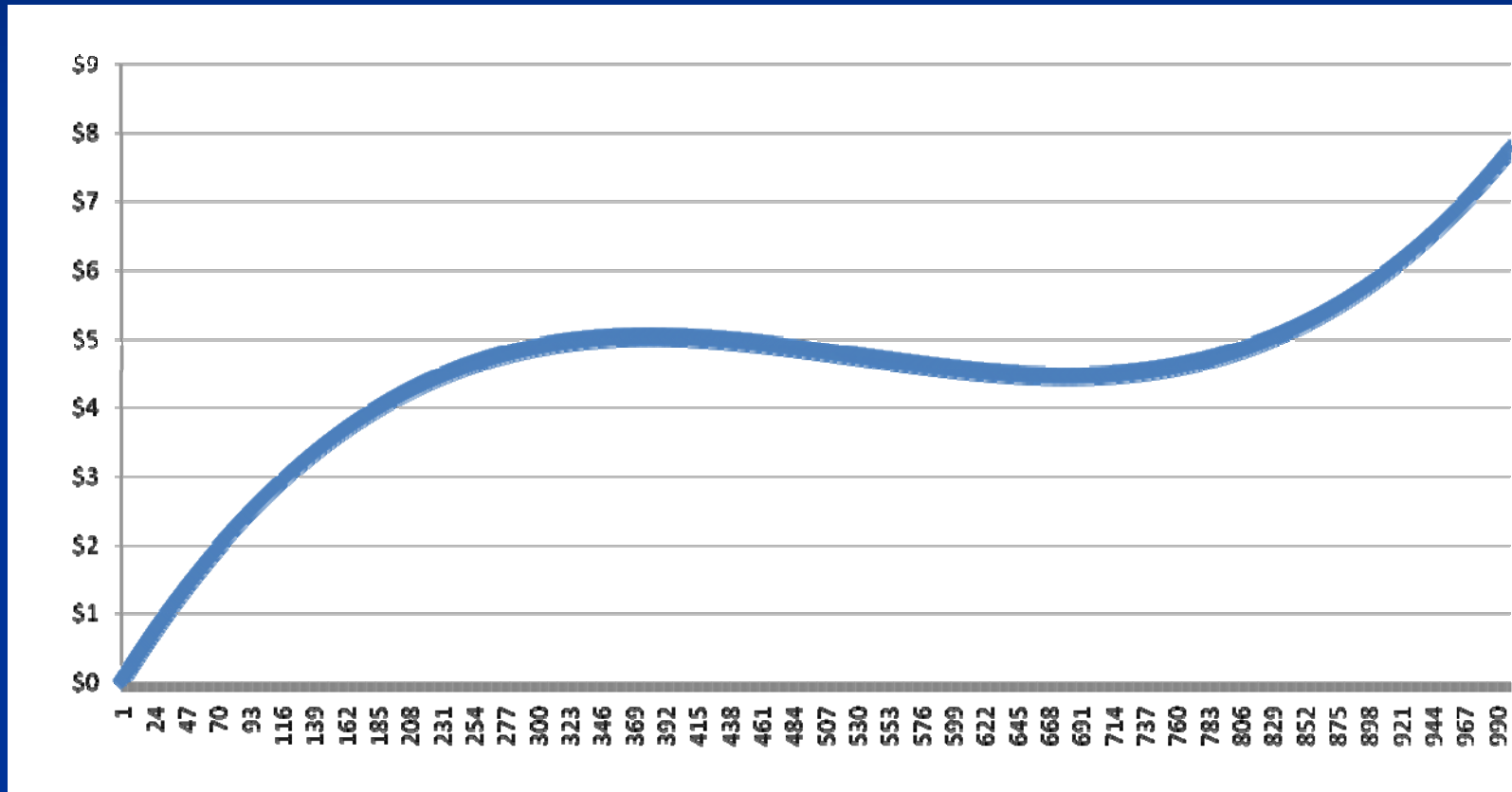


**Price Slides will likely be lower at lighter weights due to higher grain prices in the future**

# Price Premiums/Discounts compared to a med frame, med flesh, crossbred steer

- Heifer -\$8.12/cwt
- Small Frame -\$4.48
- Heavy Flesh -\$2.50/cwt
- Light Flesh +\$1.38/cwt
- Angus +\$2.65/cwt.
- Exotic -5.23/cwt.
- Horned lot -\$3.39/cwt.

# Estimated Relationship Between Price/Cwt. and Number of Head in the Lot



Number of Head in Lot

# Estimated Relationship Between Price/Cwt. and Cattle Lot Characteristics

- Uniform lot +\$2.73/cwt.
- Mixed lot by sex -\$2.78/cwt.
- Natural +\$0.65/cwt.
- RFID +\$1.50/cwt.
- Age Verification +\$0.01/cwt.
  - Probably greater premium now compared to the 2004-2006 data

# Package Summary

- The Premiums are not independently additive
- However, “Best” packages are probably worth \$5 per cwt or more over average price
- “Poor” packages may be valued \$5 or more below the average price
- If you are a smaller producer, or a producer with non-uniform calves, perhaps you should consider pooling with other smaller producers

# Preconditioning



# Preconditioned Calves

**Table 1. Perceived Performance Differences by Texas Cattle Feeders Association Feedlot Managers.<sup>a</sup>**

|                       | <i>Preconditioned calves</i> | <i>Non-preconditioned calves</i> |
|-----------------------|------------------------------|----------------------------------|
| % Sick                | 9.2                          | 36.4                             |
| % Death loss          | 1.5                          | 4.3                              |
| ADG (lbs/day)         | 2.9                          | 2.6                              |
| Conversion (lbs/gain) | 6.3                          | 6.9                              |
| % Choice carcasses    | 50.4                         | 35.8                             |
| % Outs                | 2.5                          | 6.9                              |

Source: Oklahoma State University, Avent, Ward & Lalman, 2003

# Economics of Sick Calves

| Item                    | Healthy Calves | Sick Calves |
|-------------------------|----------------|-------------|
| Treatment cost, \$/head | 0.00           | 27.03       |
| Daily gain, lb          | 2.99           | 2.67        |
| Net return, \$/head     | 67.32          | -20.28      |
| Choice or higher, %     | 39.6           | 27.5        |

**Source:** Texas A&M Ranch to Rail

# Recent Economic Evaluations of Preconditioning

- Iowa State study 2006
  - \$6.15/cwt price premium 3<sup>rd</sup> Party Certification
  - \$3.40/cwt price premium rancher's claim
  - A 45 day program, with 100 lbs gain, returned \$35 per head
- Oklahoma State, Superior Livestock Auction 2001
  - \$4.00/cwt premium for VAC45 calves
  - \$1.10/cwt premium for "Vaccinated" calves
  - More than 50% calves were preconditioned

# To Evaluate Preconditioning

- Market Price
  - Seasonal pattern (October-December)
  - Weight Price Slide
  - Preconditioning price premium
- Costs
  - Feed
  - Vaccination
  - Death Loss

# Preconditioning Price Premium

- Work an example with \$0 premium
- Work an example with \$4 premium
- Real value of good preconditioning program may be closer to \$10/cwt premium
  - Consider retained ownership to capture this

# Precondition Program

## Example

- Wean calves, Vaccinate, Return to Meadow for 15 days
  - Supplement with 7 lbs/day Alfalfa
- Bring into dry lot 30 days
  - 6.7 lbs Alfalfa, 6.7 lbs Grass hay, 1.5 lbs Corn
- Average 1.33 lbs Average Daily Gain for 45 days, 60 lbs

# 2009

## Precondition Program Example

- Feed costs
  - Alfalfa \$150/ton, Grass Hay \$100/ton, Corn \$8/cwt.
  - Feed Cost per cwt. of gain \$65
  - Total Feed Cost \$39
- Other Costs
  - Vaccination \$7/hd
  - Death Loss .75% \$4/hd
- Total Direct Cost for program \$50

# 2009

## Precondition Program Example

|                   | 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                    |

# Preconditioning Summary

- Market Pays a Premium for Preconditioned Calves
- Last couple of years not much of a weight price slide
- With no Premium – Preconditioning is a Break-even program
- With \$4 Premium – Extra \$20/calf
- Does Preconditioning fit Your Operation?

# On Ranch Retained Ownership for 500 lb Steer

- 70-100 Days, sell in Jan-Feb
  - 1.5 – 2.0 lbs ADG
  - Market a 650-700 lb steer
- 150-180 Days, sell in Spring for Grass Market
  - 1.25-1.75 lbs ADG
  - Market 700-800 lb steer
- 120 Days on grass after winter program
  - 1.65 lbs ADG
  - Market 900-1000 lb steer end of August

# 100 Day Program

## Grass Hay (15lbs) & Trace Mineral Salt

- 1.5 lbs ADG 150 lbs total gain 650 lb steer
- Market end of Jan or early Feb
- Grass Hay @120/ton = Feed cost of gain  
\$.65/lb
- Total cost of Gain = \$.83/lb = \$125/head
- If 500 lb calf @\$100/cwt = \$500/head
- Then break-even =  $(500+125)/650 = \$96/\text{cwt}$
- Fall 2008 500 lb @\$100, Current 650 lb \$94-97

# 100 Day Program

Alfalfa Hay (9 lbs), Corn(5lbs) & Trace Mineral Salt

- 2.1 lbs ADG 210 lbs total gain 710 lb steer
- Market end of Jan or early Feb
- Alfalfa Hay @160/ton Corn @8/cwt = Feed cost of gain \$.57/lb
- Total cost of Gain = \$.69/lb = \$145/head
- If 500 lb calf @\$100/cwt = \$500/head
- Then break-even =  $(500+145)/710 = \$91/\text{cwt}$
- Fall 2008 500 lb @\$100, Current 710 lb \$88-96

# 180 Day Program

Grass Hay (19lbs), Barley (1 lb) & Trace Mineral Salt

- 1.5 lbs ADG 270 lbs total gain 770 lb steer
- Market end of April
- Grass Hay @120/ton, Barley @7/cwt = Feed cost of gain \$.81/lb
- Total cost of Gain = \$.98/lb = \$265/head
- If 500 lb calf @\$100/cwt = \$500/head
- Then break-even =  $(500+265)/770 = \$99/\text{cwt}$
- Fall 2008 500 lb @\$100, Current 770 lb \$87-92

# 180 Day Program

Grass Hay (19lbs), Barley (1 lb) & Trace Mineral Salt

- 1.5 lbs ADG 270 lbs total gain 770 lb steer
- Market end of April
- Grass Hay @**90**/ton, Barley @7/cwt = Feed cost of gain \$.62/lb
- Total cost of Gain = \$.78/lb = \$212/head
- If 500 lb calf @\$100/cwt = \$500/head
- Then break-even =  $(500+212)/770 =$ **\$92/cwt**
- Fall 2008 500 lb @\$100, Current 770 lb \$87-92

# 180 Day Winter + 120 Day Summer Program Grass Hay (19lbs), Barley (1 lb) & Trace Mineral Salt

- 1.5 lbs ADG 270 lbs total gain winter
- 1.65 lbs ADG 200 lbs total gain summer
- Market end of August 970 lb steer
- Grass Hay @120/ton, Barley @7/cwt = Feed cost of gain \$.81/lb
- Grazing @18/hd/month = Feed cost of gain \$.36/lb
- Total cost of Gain = \$.79/lb = \$372/head
- If 500 lb calf @\$100/cwt = \$500/head
- Then break-even =  $(500+372)/970 = \$90/\text{cwt}$
- Fall 2008 500 lb @\$100, Current 970 lb \$85

# 180 Day Winter + 120 Day Summer Program Grass Hay (19lbs), Barley (1 lb) & Trace Mineral Salt

- 1.5 lbs ADG 270 lbs total gain winter
- 1.65 lbs ADG 200 lbs total gain summer
- Market end of August 970 lb steer
- Grass Hay @**90**/ton, Barley @7/cwt = Feed cost of gain \$.62/lb
- Grazing @18/hd/month = Feed cost of gain \$.36/lb
- Total cost of Gain = \$.68/lb = \$319/head
- If 500 lb calf @\$100/cwt = \$500/head
- Then break-even =  $(500+319)/970 = \text{\$84/cwt}$
- Fall 2008 500 lb @\$100, Current 970 lb \$85

# On Ranch Retained Ownership Summary

- To be successful MUST find relatively low cost of gain program for winter
- Purchasing hay or grain at market cost, probably not going to return a profit
- Below cost of market feeds
- Other creative rations

# Off Ranch Retained Ownership

- Wheat Pasture
- Corn Stalks
- Feedlot Finishing

# Wheat Pasture

- 120 Days, Nov 1 – Mar 1, 2 lb ADG, 740 lb Steer to Sell Mar 1
- Wheat Pasture Cost \$135/hd
- Transportation Cost \$ 20/hd
- Total Cost \$155/hd
- If 500 lb calf @\$100/cwt = \$500/head
- Then break-even =  $(500+155)/740 = \$89/\text{cwt}$
- Fall 2008 500 lb @\$100, Current Oklahoma 740 lb \$95

# Corn Stalk Grazing

- 120 Days, Nov 1 – Mar 1, 1.5 lb ADG, 680 lb Steer to Sell Mar 1,
- Corn Stalk Cost \$30/hd
- DDG Supplement 4 lb/day \$30/hd
- Other (vet, int., death loss, supplies) \$40/hd
- Transportation Cost \$ 20/hd
- Total Cost \$120/hd
- If 500 lb calf @\$100/cwt = \$500/head
- Then break-even =  $(500+120)/680 = \$91/\text{cwt}$
- Fall 2008 500 lb @\$100, Current Nebraska 680 lb \$100

# Feedlot Finishing

- 240 Days, Oct 15 – Jun 15, 3.0 lb ADG, 1220 lb Steer to Sell Jun 15
- Total Cost of Gain in a Feedlot \$70/cwt
- Transportation Cost \$ 20/hd
- Total Cost \$524/hd
- If 500 lb calf @\$100/cwt = \$500/head
- Then break-even =  $(500+524)/1220 = \$84/\text{cwt}$
- Fall 2008 500 lb @\$100, Current Nebraska Fat Cattle \$84

# Off Ranch Retained Ownership Considerations

## Advantages

- Get Cattle Closer to major cattle markets
  - Higher prices
- Utilize others feeding expertise
- Take advantage of resources you don't have
  - Wheat Pasture
  - Corn Stalks

## Disadvantages

- Lose some control of cattle
- Must trust others to take care of your cattle
- You are subject to production and market risk

# Market Risk and Retained Ownership

- Can use all pricing tool with retained ownership
- Futures and Options probably more effective with retained ownership because the cattle fit the specifications better
- Can use LRP Insurance and Livestock Gross Margin (LGM) Insurance with cattle in a feedlot

# Retained Ownership Not Always the Answer

- Low Calf Prices do not always mean you should retain ownership
- Could lose even more money if you are not careful
- Evaluate each alternative before proceeding



# Questions

