Marketing Alternative for Retained Ownership

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Retained ownership of calves has been a marketing alternative that has worked well in our cattle program for a number of years. The good weaner-calf market in recent years has resulted in us selling the majority of our calf crop. However, we have retained ownership on a number of calves each year in order to remain active in the feeding end of the industry. This allows us to maintain the connections that we have established over the years. The percentage of calves that work into this program varies depending mostly on calf prices and the market outlook.

In our cattle operation we have two basic calving seasons. The early calves are sold in April or May for delivery in June and July. The later calves are weaned in October or November. Our basic plan is to sell the early-weaned calves. They are heavier at weaning and the prices are usually higher than for calves in the later herds. We sell by the truckload lot and very seldom do the calf numbers and the trucks come out even. We have leftover calves that we have to do something with. If prices have remained the same or increased since the earlier sale date, they usually are added to the contract or sold to one of the other buyers. If prices have declined, we have the option of accepting the current market price or retaining the cattle. We also have the animals that lack the uniformity to fit into the sold lot. The majority of these calves are quality animals which will feed well and can either be sold or retained. We try not to add handling and transportation charges to an animal that will not do reasonably well in the feedlot.

Our fall-weaned calves make up a much smaller weaning for us and it is not uncommon for us to decide to retain these calves. We may opt to sell the steer calves and retain the females. After keeping the top end of the females, the sale heifers are lighter in weight and often marginally profitable during times of lower prices. Our objective is to increase the potential for profit on these heifers by retaining ownership. There is a price spread at weaning between heifers and steers that normally gets greater on a declining market. The fed prices for heifers are virtually the same per pound as for steers of equivalent weight. We feel that we have greater opportunity for increased profits on these cattle than any of the others. We try to utilize the grazing programs for the cheaper gains between weaning weights and feeder weights. We have the option of selling them straight from the grazing if it appears to be the thing to do at the time. The last group that we grazed and fed had an $80 per cwt. breakeven price off wheat, based on the price they would have brought at weaning and an interest rate of 9.5%. We retained these heifers and they returned an additional $39 per head as feds after discounting back to the weaner value.

We have experienced the usual "wrecks" associated with learning what pitfalls to expect with retained ownership. The grazing programs have presented us with our more expensive lessons. In most instances, the operations that presented the cheaper proposals lacked the capability of getting the job done when conditions became less than ideal. You never want to go check on your cattle and either not be able to find them, or discover that you had better find another home for them rapidly. The obvious solution to this problem is to find reputable people who have the experience to know what they can or cannot do. This has enabled us to work together and make adjustments before things get out of hand. The contracted costs of gain are higher, but the end results are much more predictable and profitable.

We prefer the use of irrigated wheat in our grazing programs. Having access to a feedlot that is able to take the cattle, in case the grazing programs run into trouble, increases the comfort zone. In 1993, we waited too long to tie up the country for a group of heifer calves and it was determined that we had better go into the feedlot with them. This lot wound up with a high cost of gain and the heifers were sold in July, when the fed market bottomed out, for $60.90. On a net present value, we would have been $161 better off to have sold these calves at weaning. This lot seemed destined to be one on which everything went wrong.

At times, we will joint venture cattle which enables us to get paid for half of the calves at weaning. We share costs and income on the other half. We will use the joint venture option on certain lots of weaners that do not bring a predetermined price. Prior to the sale, we will determine a price that we are willing to take for the cattle. We will make an agreement with a feedlot manager and, if the cattle do not bring this price, we will joint venture them. This marketing alternative assures us of a certain price for half of the lot, and we share the risks on the other half. In 1994, we joint ventured two loads of calves. One was a split load of heifers and steers in June. After discounting back to the weaner value, we were $21 better off on the ones sold at weaning. The other load was a group of heifers weighing 474 lb, weaned in July. On this lot we had an increase of $22 per head in favor of retained ownership.

Being able to sell cattle on the formula is another advantage of retained ownership. The better cattle bring better prices.

In summary, our program is to try to maximize profits by utilizing the various means of retained ownership as an alternative to being at the market's mercy. We like to retain our late heifers, feed our calves that are left over from lot sales, and joint venture cattle that we think should bring more money at sale time. We employ some of these programs every year. The extent depends on the feeder market and the projected fed market. We feel that it has paid dividends for us overall, and we should be in a better position to use these options as feeder prices decline.