

Know the Numbers When Making Ownership Decisions

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As the beef business changes, cow calf producers are challenged to change as well. How they fit into the future of the beef business will have far-reaching impacts on each individual's operation.

Retained ownership discussions raise many questions. Is the future of the cow-calf enterprise always going to be connected with only the calf? Will changes in the industry prompt producers to look past the traditional sale of a calf in the fall to owning the calf longer?

Such questions need to be answered based on risk management considerations and a review of available numbers to project a sound financial future. These numbers can be relatively overbearing, confusing and frustrating -- but are necessary if one is try to plan for the future.

One source of those numbers is the Food and Agricultural Policy Institute at the University of Missouri and Iowa State University. The Institute's 2003 U.S. Baseline Briefing Book projected high, average and low values for a typical 1200-pound Nebraska direct steer through 2011. The values are about \$100 apart, \$920 for a high and \$821 for a low.

Keeping that range of numbers in mind, the same report for 600-pound Oklahoma feeder steers allows the calculation of the projected value of feeder steers in the fall. The calculated values are about \$130 apart, a high of \$599 per head and a low of \$469 per head. Keep in mind these are average figures and presented to help frame the variation in value.

The key point is that both markets will fluctuate, but from a cow-calf perspective, if risk is manageable, the absolute values do not answer the question. In order to explore the world of retained ownership, the difference between the value of the feeder calf and value of the finished steer is what is critical.

The maximum difference between what a producer could get in the fall versus owning the calf on the rail is projected at \$363 per head and the least difference is \$316 per head. That variation, the important number in our examination of retained ownership, is less than \$50

per head. Again, these are average figures. The greatest variation exists with the fall calf value. The next is finished steer value. And the figure with the least amount of variation is the amount of margin between the two.

Now enter a fourth variable, the amount of cost required for a cow-calf producer to capture a portion of the difference in value between the value in the fall and value on the rail. This is where we can tap our own data. The North Dakota State University Dickinson Research Extension Center's total feeding charges per head have averaged \$239, other costs were \$20 for a total cost of \$259 for every calf the Center has fed and placed on the rail at harvest since 1997.

Over the years, the low total cost lot was \$200 per head and the high was \$302 per head, a spread of roughly \$100. The Center could gain approximately \$100 per feeder calf (rounding \$363 minus \$259) on the high side, if costs average \$259 per head through 2011.

In the case of the lowest difference in value on the rail versus value in the fall, perhaps \$50 per feeder calf (rounding \$316 minus \$259) would still be available.

The bottom line: these numbers strongly hint that there is an opportunity for those cow-calf producers who wish to develop a relationship with a feed yard. Keep in mind that the rest of the industry is also making these calculations and everyone will grab at a dollar floating in the wind.

Don't believe what everyone tells you. As cow-calf producers, if you desire to let the dollar float by, that's fine. But do so based on a good set of numbers, good discussion and a thorough review of retained ownership.

May you find all your ear tags.

Your comments are always welcome at www.BeefTalk.com. For more information, contact the North Dakota Beef Cattle Improvement Association, 1133 State Avenue, Dickinson, ND 58601 or go to www.CHAPS2000.com on the Internet. In correspondence about this column, refer to BT0150.

Projected Difference Between Feeder and Fed Steer Values, 2003-2011

Year	600 Pound Feeder Steers Oklahoma City	1200 Pound Steers Nebraska Direct	Value to Feeder (fall steer calf vs on the rail)
2003	\$ 557	\$ 920	\$ 363
2005	\$ 599	\$ 915	\$ 316
2007	\$ 529	\$ 852	\$ 323
2009	\$ 486	\$ 824	\$ 338
2011	\$ 469	\$ 821	\$ 352

FAPRI-UMC TDR 04-03 – 2003 U.S. Baseline Briefing Book