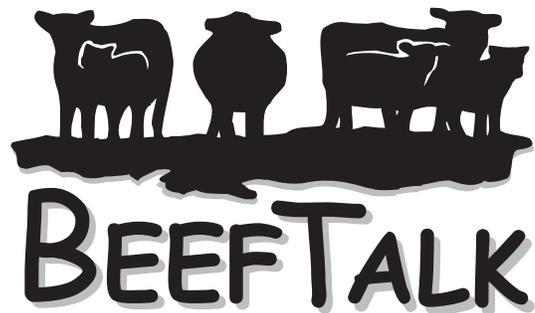


Risk and Potential Benefits Need Managing for Successful Outcome

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It is hard to believe, but the fall weaning season will soon be upon us. Have you put together a plan of what to do with your calves? For the cow-calf producer, this is not a simple question.

Today, the process of selling calves is not as easy as it seems. How integrated do we want the business to be? What are our options? How do feed inventories match livestock numbers? Why should a cow-calf producer take on more risk, when the cow-calf industry is one of the most risk-laden industries already? The questions continue and become more complex.

Information flows from the marketing sector and is available for everyone to plot out effective marketing plans. For the cow-calf producer, the process is not as simple as the numbers often imply. For years, producers have known what being at the beginning (some would say bottom) of the food chain really means.

When consumers pick through all the fruit at the grocery store, the leftover produce has little to no value. The same could be true for the beef producer: once you allow a given set of cattle to be picked over, the remainder has a reduced value.

So, is the same true with retained ownership? Does more selection mean more marketing discounts, less revenue and possibly a negative impact to the overall cow-calf enterprise? Is the assumption of increased risk worth the potential revenue adjustments?

Risk, and willingness to accept, seems to be proportional to the expected outcome. For the North Dakota State University Dickinson Research Extension Center, the average calf value for calves marketed since the 1996 calf crop has been \$513 (673 pound) per head weaned. The average value on the rail at harvest has been \$785 (1,136 pound) per head harvested. The average cost to reach a harvestable point has been \$259 per head fed.

A quick session with a calculator reveals harvest value (\$785) minus feeding and transportation costs (\$259) equals revenue ready to mail back to the owner of the calves. In this case that is \$526 per head. Since this number is greater than the appraised value for selling in the fall, \$526 minus \$513 suggests

an increase in revenue to the cow-calf operation of \$13 per head.

Given interest rates and the risky nature of the cow-calf business, many friends in the cow-calf business have not opted to retain ownership as the Center has since 1996. In retrospect, \$13 dollars is not enough to ante up at the table and place the operation at risk. The other ongoing concern and challenge in encouraging retained ownership is that producers never forget a loss, and quickly pass over the good years.

Is the Dickinson Research Extension Center better or worse off? The answer is probably neither. The data keeps us knowledgeable, the process keeps us integrated into the full industry and the meaning of breakeven is clearer. Risk taking for the pleasure of breaking even is not what retained ownership needs.

Extrapolating the numbers from the Food and Agricultural Policy Research Institute at the University of Missouri and Iowa State University, the average value at weaning for the next nine years is \$528 (600 pound) and average value on the rail is \$866 (1,200 pound). The difference between calf value and rail value is \$338. Assuming no increase in feeding cost or transportation, (not a good bet), subtracting \$259 per head costs (\$338 - \$259), the increased revenue back to the cow calf operator, using these projected average figures is \$79.

Is a projected average of \$79 over the next nine years worth retaining ownership? At least the number is positive, and perhaps tempting. But how tempting? What would improved genetics do to the number? Or should producers dedicate efforts to reducing costs? The answer, unfortunately, is somewhere in the middle. Should I fold or ante up?

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 BT0151.

Historical and Projected Revenue Flow for Cow-Calf Producers Retaining Ownership

	Historical (1997-2002)	Projected (2003-2011)
Fall Calf Value	\$ 513	\$ 528
Fed Value	\$ 785	\$ 866
Feeding and Transportation	\$ 259	\$ 259
Potential Increased Revenue	\$ 13	\$ 79

Historical fall (673 pound) and fed (1,136 pound) values and feeding and transportation costs — NDSU Dickinson Research Extension Center

Projected fall (600 pound) and fed (1,200 pound) values —
FAPRI-UMC TDR 04-03 – 2003 U.S. Baseline Briefing Book