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BeefTalk: Determining the True Value of Calves Can Be Tough

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Are any calves really worth a premium? Or are we really just trying to determine their true value?

When a producer decides to retain ownership of a set of calves, few options for establishing an appropriate value exist. The auction market does not routinely sell lots of calves where the original owner retains a portion of the ownership. Comparative pricing of similar sets of calves is accepted but still does not replace the fact that the calves were never traded in a public market.

Since 1997, the Dickinson Research Extension Center has retained percentage or full ownership of calves to assure adequate documentation of carcass data. The actual net profit or loss from feeding these steers was \$55 in 1997, a loss of \$66 in 1998, \$79 in 1999 and \$28 in 2000. This amounted to \$24 over what the cattle were valued based as calves for the last four years. Thus the most often asked questions (and those with the most impact on profit) are: "What is the appropriate pay weight (shrink) and actual price at the time of transferring these calves to the feed lot?"

For the sake of discussion and sorting out logic, the following are some thoughts, not answers:

In regards to pay weight or shrink, for example, 131 DREC steer calves weighed an average of 697 pounds

standing in the yard. Off the truck (600 plus miles later) the same steers individually averaged 646 pounds, a loss of 51 pounds (7.32 percent). What is the value of the 51 pounds of calf that no longer exists?

We realize we can explain shrink. However, that explanation does not replace the 51 pounds. From either the seller's or buyer's point of view, 51 pounds at the start of the feeding period could be the difference between profit or loss. In terms of hot carcass weight, the 646 pounds is a closer estimate. Logic would say that the buyer and seller split the difference as a cost of doing business. Perhaps there is a better solution, but at this time I don't know it.

The real question more often surrounds the issue of fairness. Most cow-calf producers just want to be fair. In a value based market, our target is still hot carcass weight, and in those cases where individuals do not carry full ownership of the pen, they simply want assurance they are not negotiating away an unfair portion of the profit or loss. At least using our cattle as an example, a total shrink of 7.32 percent with each of us sharing half seemed to meet the industry standard of 3 percent to 4 percent.

In regards to the matter of price, I'm still not comfortable with a delivered price versus the average price which is reported at the local market or through cattle market report summaries. If a producer needs to sell 50 percent of the lot to meet cash flow needs, the price set on those cattle is critical. At times, if a producer pays all the shipping he will receive a delivered price that is lower than what the cattle would bring at the local auction. In other words, he'll incur more cost and receive less money.

Is the data or the long-term security through an alliance affiliation worth the offset in local value of cattle? Is the local value real or simply a function of markets driven by demand rather than end-product value on the rail? Should the producer capture that demand with a calf and forgo the end value?

Therein lies a problem. If real beef value is what is hanging on the rail, how much energy do we expend in changing ownership throughout the life cycle of a calf? This would be a typical robbing Peter to pay Paul scenario. Sometimes we are Peter. Sometimes we are Paul.

Regardless of shrink, fill, price, or transportation, the same question persists: "As a producer who expects that the end product will ultimately determine the true value of the calf, how do I achieve a fair interim price based on a non-

value-based commodity market?" It's certainly some food for thought.

Your comments are always welcome at www.BeefTalk.com. For more information, contact the NDBCIA Office, 1133 State Avenue, Dickinson, ND 58601 or go to www.CHAPS2000.COM on the Internet. In correspondence about this column, refer to BT006.

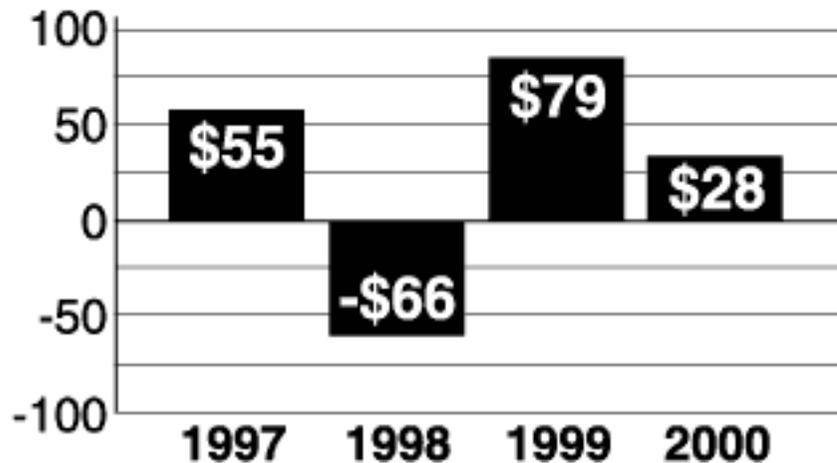
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Average Net Return for Feeding Steers

NDSU Dickinson Research Extension Center



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