Getting in With Someone Else's Cattle

New Farmers or Bigger Farms?

It seems as at least weekly one can read an article or hear a sound bite of the need to train and bring in young farmers and ranchers. Declining numbers and an increasing average age of farmers are cited along with examples of farm link type programs to facilitate and promote arrangements between retiring farmer landowners with aspiring new farmers. The reality of getting started in farming is it is probably more difficult now than ever. The exception would be the next generation of families currently established with large successful operations.

With soaring land prices, high cost equipment, expensive breeding stock, and escalating operating costs; start-up operators will have limited opportunity to own high capital cost assets as land. When ownership isn't possible, control of land and livestock assets, through leasing is important and more likely. Even with programs of government backed loans to new farmers this is problematic as the competition from expanding farms for land can be fierce. The battleground has intensified with rising commodity prices and recent profitability. Finding opportunities for new players amidst the consolidation to much larger fewer farms aided by new technology and risk protection policies is challenging.

Leasing Cows – Possibilities or Problems?

The cattle industry is smaller at present than in the past and by industry recognition smaller than it should be. Wide spread drought has been a major driver of the trend in the last couple seasons coupled with economic pressures brought on by higher grain and feed prices, and profitability in the farming sector. Older existing ranchers may be less driven to rebuild, creating opportunities for young ranchers to get started or expand as forage conditions improve.

Leasing agricultural lands is common and for most farmers and ranchers comprises the majority of acreage being operated. Most cattle assets are however owned and/or lender financed. With high cost breeding stock and larger herd sizes, interest in leasing cow herds is being explored. While cow-share leases have been around for a long time (often to facilitate a transition between retiring and beginning operators) they have also been often associated with some pitfalls.

Through leasing a herd of stock cows, a rancher gains control of cows to utilize forage and labor resources, and generate income when investing and borrowing to buy cows may not be feasible or desired. A cow owner who leases out cows eliminates the responsibility of caring for the herd while earning an income form the asset.

Historically most cow leases were on a share basis. An equitable split of calves is suggested to be in proportion to contributed costs. The owner typically contributed cow ownership costs (interest on investment, normal death loss, depreciation) and the operator all the operating costs (associated with feed, yardage, care, and health). Publications, worksheets, and spreadsheets are available to help document costs and calculate contributions and shares. More recently, cash cow leases seem to be used. For a set time period (usually one to three years) the operator agrees to pay owner an annual cash payment per cow in exchange of caring for the cow and earning production obtained.

The possibilities for a win-win situation exist. The young rancher gets started in the business using someone else's cows while conserving his borrowing ability for other needs. Provided costs can be controlled and income of cattle great enough, sufficient revenue is generated to leave a return to his labor and management. The retiring or absentee cow owner earns a retirement income, continues to have some involvement, and creates alternatives to phase out. The possibility of lose/win or lose/lose is also possible due to poor production, high death loss, excessive cost, low markets, etc.

With so many complexities in cattle production and business, there are also plenty of problems that can develop. Inequitable leases in which either the operator or owner feels unfairly treated in either revenue generated from shared calf sales or received/paid as cash will be short lived. Communication of expectations is critical. For the most part, the devil is on the details, and to be successful the lease should address cow care, animal identification, marketing, bulls, veterinary care, death losses, culling, replacement, etc. in addition to terms and rates.

While a cow lease can be whatever two parties agree on, and will be unique to a particular situation, a couple of suggestions from experience include:

Plan and budget to explore equitability and feasibility.
Make sure the person you're working with is a good fit.
Put terms of lease in writing including termination date and procedure.
Specifically how animals will be identified (include brand) and annually inventoried.
A cash lease will simplify the arrangement (eliminating shares and marketing concerns).
Leave bull ownerships to operator and keep breeding dates standard.
Allow operator to cull as needed up to a limit with culling income part of the owner return.
Provide replacements up to a limit with replacements purchased/developed externally.
Make separate contract for leased machinery, land, or special services as calf backgrounding.
Accept a normal death loss with compensation for excess.
Expect communication for notification of issues and opportunities for inspection.