



## Finding Comfort In Your First Retained Ownership Experience

It's a safe bet that, over the long haul, each change in ownership during the production process (cow-calf operator → feedlot → packer → retailer) results in profit to a calf's previous owner. The way to capture more of that profit is to participate in more steps in the chain.

Most of the coffeeshop-type authorities on the beef industry can tell you what drives profitability in the cattle business today, usually with an amazing degree of simplicity but still largely accurate: "Fewer cows, higher prices and, well, just more demand." Then they'll follow with, "Why, I never did believe folks liked eatin' all that chicken! I think they still like a good steak."

But what does it take to find a good steak? Choice beef retail demand bottomed out in 1998 at about 50% of what it was in 1980 but rallied to about 63% (of 1980) in 2004. While that's good news for the industry, surveys show that your chances of having a totally satisfactory beef eating experience is about 1 in 2 if you order a prime cut, but only 1 in 4 if you order choice, and a dreadful 1 in 8 if you order select. Could this be part of the reason demand declined in each of the 17 consecutive years following 1980? As you would expect, totally satisfactory was a highly variable response among survey participants and was directly related to cost. This cost versus level of satisfaction relationship is, in general, what we know as value.

The historic, supply-driven flow of beef can be described by **cow-calf operator → feedlot → packer → retailer → consumer**. The modern, demand-driven flow of beef quality/value concerns is **consumer → retailer → packer → feedlot → cow-calf operator**, which is just the opposite. As recently as 2005, Wal-Mart and Sam's claimed

nearly 22% of the grocery market and expected to increase their share to more than 30% by the end of 2007. Their retail beef marketing strategy focuses on catering to consumers who want national, packer, and private brands in the meat case. So what happens if you insist on remaining a producer of commodity beef?

The commodity beef industry is one in which there are few rewards for wise investments and top shelf management, and success is measured by the lowest cost of production. By comparison, value-based marketing involves development of processes and systems that create desirable attributes. Conversely, it rewards producers for their significant investments. But added value means nothing if it doesn't result in added income, and added income means nothing if it doesn't result in added profit (Darrh Bullock, University of Kentucky, at a recent University of Missouri Beef Day). More importantly, it doesn't do any good to add value if you do nothing to call the buyer's attention to it.

Value-based marketing of cattle seems to be catching on. The following table shows the percentage of fed cattle marketed via live or carcass weight compared to those sold via a grid.

	1996	2001	2006
Live or carcass weight	82%	53%	33%
Grid	16%	45%	62%

Packers and producers need each other. What consumers want, they have to produce. Packers recognize that the only way to have the right kind of cattle available is to pass along some of that incremental (grid) revenue to the producers.

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The two most common objections to retained ownership and marketing on a grid are: 1) lack of confidence in the outcome, and 2) lack of trust in the feedlot. **Lack of confidence in the outcome** usually goes something like this: “I feel like I’ve done a good job of improving the genetics in my herd. But if I retain ownership in my calves and get back the carcass data, I might not like what it tells me. Anyway, I’ve got a payment due at the bank in December, and I’ll need to sell my calves to make that.” **Lack of trust in the feedlot** is expressed a lot of different ways, but to take a humorous approach: “I think those feedlots are a bunch of (bleep) (bleep) thieves. They’ve got a license to steal. Why, I’ve been told that if a steer dies while they’re feeding in the morning, they don’t count him dead until after midnight that night just so they can collect another day’s yardage.” In most cases, neither objection is well founded.

To bolster your confidence in the carcass outcome, realize how far you’ve come in modernizing your thinking toward your cowherd. It’s probably been a “who’s your daddy?” and “what’s your momma?” collection of decisions that got you where you are today. Those good breeding decisions will perform in both the feedlot and the meat case. In your herd, recording the sire and dam of calves probably has been as low-tech as a #2 pencil and the calendar on your barn wall but likely will soon be as high-tech as EID and DNA fingerprinting. Deciding which heifers to keep as replacements probably has been as low-tech as sorting for growthiness at weaning but should be as high-tech as the use of EPDs and the collection of carcass data from herd mates. Presently, it’s the only way to prove that your genetic decisions have added value to your product.

Considering the moderate to highly heritable traits for growth and carcass (those with heritability estimates of 30 to 60%), who benefits the most, the cow-calf operator **or** the feeder, packer, and retailer, from dollars spent on genetics if the cow-calf operator doesn’t retain ownership? It’s an easy answer. The cow-calf operator probably benefits only from his selection for weaning weight. The feeder, packer, and retailer collectively benefit

from the cow-calf operator’s selection for yearling weight, feedlot gain, feed efficiency, final feedlot weight, marbling, fat thickness, percent retail product, and tenderness. That hardly seems fair.

Working with a feedlot requires more than trust. We advise having some knowledge as well. Feedlot operators, nutritionists, and market advisors can only help clients understand the process and make informed decisions. In the past, nutritionists worked expressly for the feedyard, providing mostly formulation and feeding management services. Minimal concern for the interests of the cow-calf operator was apparent. Now modern, value-based beef marketing initiatives dictate that feedlot nutritionists work to create a seamless commitment to beef quality. This includes assistance with location of purpose-specific cattle, liaison for financial and risk management arrangements, source- and process-verification of incoming cattle, optimum performance of cattle on feed, periodic reporting of cattle performance and well-being to the owner, market savvy, compiling and interpretation of carcass data, and conveying consumer, retailer, and packer interests. Unlike the past, these services are all friendly and beneficial to the cow-calf operation.

## Potential Services Offered By Feedlots

- Cattle procurement
- Preconditioning, backgrounding, finishing
- Heifer development
- Bull testing
- Cull cow feeding
- Retained ownership financing
- Partnering
- Risk management
- Individual weighing of cattle
- Sorting
- Nutrition and veterinary consultants
- Marketing services

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## **Vigortone's Technical Staff Interfaces With Feedlot Management To The Benefit Of The Cow-Calf Producer**

We've all heard the adage that success in any business is learning how to do something right, then doing it right every time. Continued success in the cattle business lies in eliminating traits and processes that hinder progress toward the long-term goal, which is producing beef and beef-based meals that give the customer a satisfactory eating experience every time. A number of Vigortone's technical staff specialize in beef cattle. Although we cannot guarantee your first retained ownership experience to be profitable, we do service many of the aspects of getting your cattle fed and marketed in the interest of minimizing your downside risk.

Keep in mind that a good outcome for you as a cow-calf operator is a win-win-win scenario for all three parties. As a cowman, you achieve much needed benchmarking to assist with future genetic and management decisions. As an expert liaison, Vigortone achieves the opportunity to service both you and the feedlot's nutrition needs. And the feedlot operator achieves, through your satisfaction and Vigortone's monitoring of your cattle's well-being, the possibility to perpetuate your return business and improved relations with first-time feeders.

### **How To Get Retained Ownership Under Way**

Systems for the retained ownership feeding of your cattle vary between feedlots, but the general procedure is described here. Note that Vigortone, as your representative, is involved in many of these steps.

- ❑ Description of cattle by the owner and Vigortone nutritionist, including source- and process-verification, sex, breeds, colors, age, weight, weight variance, weight relative to age, frame, muscling, condition, and previous feeding program.
- ❑ Feeding program and profit projection by nutritionist.

- ❑ If desired, loan application by owner to cooperating lender, coordinated by feedlot.
- ❑ If financed, an advance is paid to the owner within 4-6 working days.
- ❑ Most often, owner must retain \$125 of equity.
- ❑ Credit line is equal to the advance plus projected cost of feeding, inflated by 10%.
- ❑ Term of loan is projected finish date plus 30 days.
- ❑ Interest rate averages 1% over prime.
- ❑ If desired, Vigortone will put the owner in contact with risk management services.
- ❑ Bills for yardage, feed, and medicine are copied to owner but paid by lender.
- ❑ Cattle available for inspection by owner during normal working hours, otherwise by appointment.
- ❑ Monthly inspection of cattle by Vigortone nutritionist with reports of performance and well-being to owner.
- ❑ Marketing decisions ultimately made by owner but advised by feedlot and nutritionist.

### **Case Study From A Southeastern Missouri Herd**

This operation was started in 1997 on 1,200 acres with about 250 commercial black and black baldy cows bought through a sale barn. At that point, quality of the cowherd was not a major consideration. Percentage Maine-Anjou bulls were initially used, with most of the early replacements carrying that genetic influence. In 2000-2002, all replacements were purchased through Missouri's Show Me Select heifer development initiative. Approximately 60 registered Angus cows were purchased in 2001 from a very progressive seedstock operation, and AI-sired heifers are now the basis for replacement. Their first feeding experience was in 2004 with the placement of 72 steers and heifers in a Vigortone feedlot.

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Placement cost was \$127.50 per hundredweight at an average of 575 lb, creating a breakeven of \$86.60. Projected out date was April 10, 2005. Actual out date was April 8, 2005, at which time the choice-select spread was approximately \$15.

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Choice or higher	89%
Prime	22%
CAB	43%
Yield grade 2	18%
Yield grade 3	75%
Yield grade 4	7%
Projected breakeven, \$/cwt	\$86.60
Western Kansas avg live price, \$/cwt	\$92.07
Premium, \$/head	\$51.48
Equivalent live price, \$/cwt	\$99.79

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Of the 11,100 head processed on the same carcass quality grid the week these cattle were sold, the

top 25% of premiums averaged \$51.28 per head, and the top 50% averaged \$38.47 per head.

## Summary

Retained ownership cattle feeding offers the potential to increase profitability while monitoring genetic improvement. You may not learn everything you need to know by feeding one set of your cattle, but data like those depicted will allow you to adjust your genetics and management to reach realistic quality goals. Given an accurate description of the cattle and costs, performance and profit projections can be made with considerable accuracy. Attention to choosing a feedlot and subsequent monitoring of management and performance will improve a first-time feeder's confidence.

Key words: retained ownership, carcass quality grids, marketing