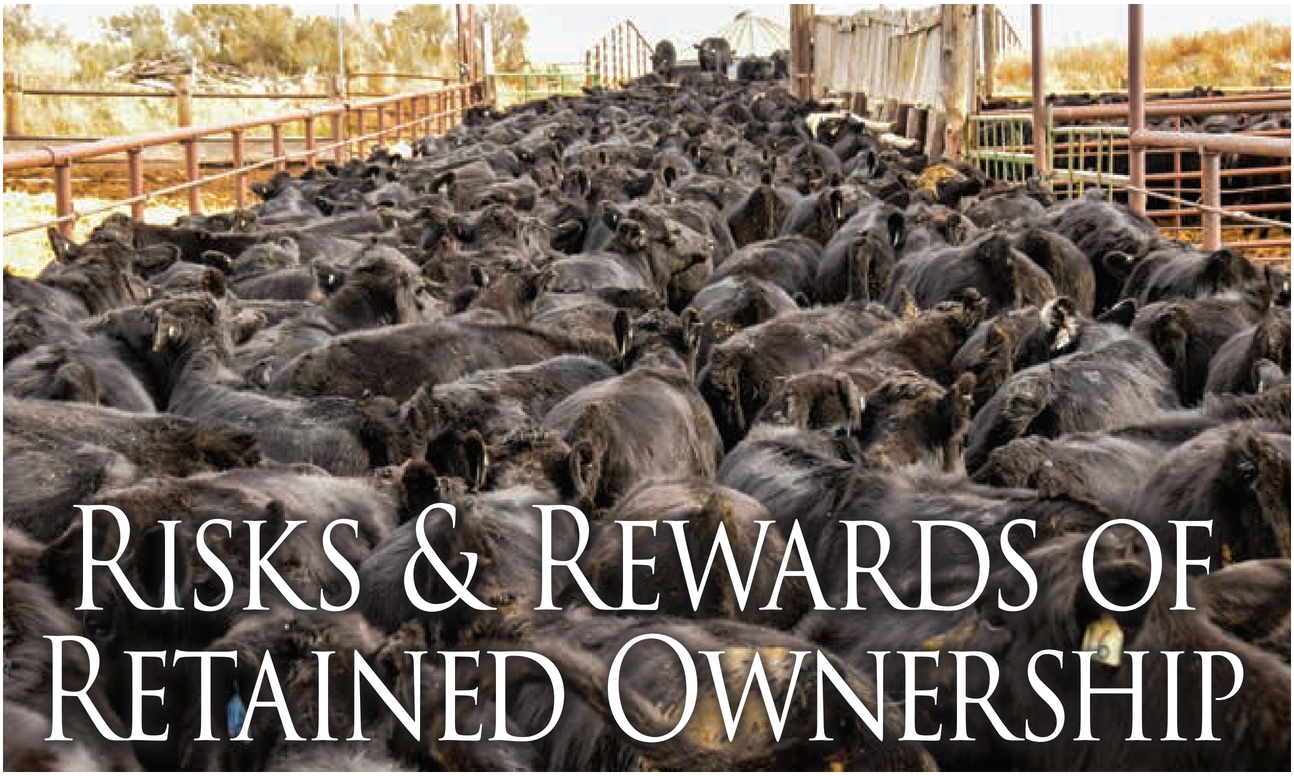


Risks & Rewards of Retained Ownership

Three ranchers discuss their decision to retain ownership through finish.

Story & photos by Paige Nelson, field editor

"Can I make more money owning my cattle through the finishing phase?" That's a question contemplated by many cow-calf producers around weaning time. The answer varies, and true to cattle production, nothing is ever guaranteed.

Retaining ownership is a broad term defined by the beef industry as a cow-calf operator choosing to continue to own calves after weaning for any length of time. However, it is most often used to refer to owning calves through the finishing phase and selling them to a beef packing plant. This is the definition that will be used throughout this article.

More profit, more risk

"In general, as you retain animals, your likelihood of making money goes up, but your risk goes up with it," says Jay Parsons, University of Nebraska-Lincoln's Department of Agricultural Economics.

Data compiled by Minfeng Tang et. al., 2016, in *Identifying Factors that Impact Returns to Retained Ownership of Cattle* found retained ownership returns were positive nine out of 11 years, with an average return of $47.80 per head.

Black swan events — like a worldwide pandemic in 2020-21 — are impossible to predict and change prices for cattle in the course of a few weeks, or even days.

Though often volatile, the futures market is a starting place for making best-guess decisions about the profitability of retaining ownership through finish. Watching the live-cattle futures from month to month can indicate finished cattle value.

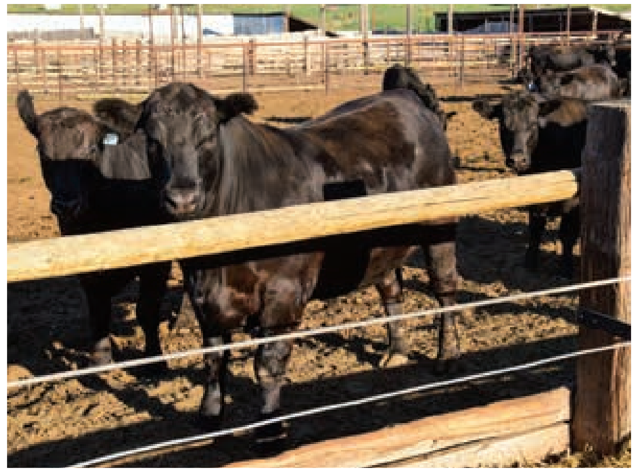
Parsons offers this profit equation as a place for producers to start:

Ending value
– Beginning value
– Cost
– Death loss
= Profit

At the start, only the beginning value (what cattle are worth today on the cash market) is known. Unknown are the ending value (ending weight × ending price); the cost [feed cost + other operating cost (daily fixed costs) + interest + overhead]; and the death loss.

Whether or not to retain

Above: Choosing to retain calves for any amount of time after weaning is choosing to add operating costs and risk of death loss to the ranch's bottom line. However, with the right facilities, management style and cost of gain, retaining ownership can be profitable.



Finished Angus cattle offer flexibility to feedyard managers because of their ability to be pulled forward on feed or backed off depending on market fluctuations, says J.W. Wood, Boise Valley Feeders.

ownership is really dependent on the ranch's relationship with risk, says Parsons.

"The tendency is, as your margin for error goes up, your willingness for risk goes up. As margin for error goes down, willingness for risk also goes down," he says. "Ask yourself, how risk-loving are you?"

Delayed payday(s)

Risk isn't novel to cattle producers, but many depend on an annual check from the sale of calves to pay the last year's or the next year's bills. Switching to getting paid for 2020's spring calf crop in fall of 2021 might be tough on the checkbook.

If financing is needed to put cattle in a finish feedlot, a general rule of thumb is for the customer to put down 30% of the value of the cattle for equity.

Rick Miller, partner in White Sands Enterprises, Parker, Idaho, manages a birth-to-finish commercial Angus operation.

"We really enjoy feeding our own cattle on our home place, and we learn a lot and make improvements with each year," he says. "What we have found, though, is our cattle do better when we don't push them too hard."

> "We don't care if it's an unweaned calf, if it's a steer off of grass, if it's a big heavy thing out of a grow yard. We're happy to do whatever."
>
> *— J.W. Wood*

For Miller, that means feeding his March- and April-born calves until they reach finished weight sometime in August through November the following year. The nearest packing plant is 200 miles away. When the cattle reach a finished weight of 1,300-1,400 pounds (lb.) they are shipped a truckload at a time. Instead of one or two big paydays a year, Miller gets a check each time he ships a load of cattle.

"This type of marketing cattle gives us a little more leverage," says Miller. "I watch the live-cattle futures, and when they are going up, I schedule a load with the plant. It's not perfect, but I can at least aim for the hills in the market rather than the valleys."

Gradual switch

Ted Blackstock, owner of Blackstock Ranch near Marsing, Idaho, finishes all of his commercial Angus calves, plus some he buys, in a custom feedyard. However, the transition from weaned-calf sales to 100% retained ownership through finish didn't happen overnight.

It began with Blackstock feeling unsatisfied about the weighing conditions required of his calves when they were sold via video sale. In 2005, he decided to change things.

"We tried feeding our calves once, and we really liked it. Now everything gets finished. It took us a while to get everything moved over to where everything gets fed," says Blackstock.

As for the pay, he admits he wasn't much of a cattle marketer to begin with. Retaining ownership and participating in an all-natural branded beef program has allowed him to manage his risk across several harvest days and prices.

"I just don't have to stress over the price that we're going to get, because we're going to hit three or four different markets with them, so you're getting what the cattle are exactly worth," he says. "There's ups and downs, but it seems like, all but a couple of times, we've made money doing it. It may have only been $20 a head, sometimes, but it's always paid to do it. And even in this terribly unusual year, we are still profitable!"

Deeper understanding

West-central Alabama commercial Angus producer Roscoe Harvell pores over each closeout report on his finished cattle. He knows the genetic makeup of his herd inside and out and is concerned about the price of beef on harvest day, but he is more interested in making sure his cattle are finished enough to grade exceptionally well.

He has bred for heavy muscle in his cattle. When trusted feedyard manager Ken Burch calls to say he thinks a pen is ready, Harvell tells him to feed the cattle another two weeks.

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"The animals may look fat because of how heavily muscled they are, and they can stand another two weeks," explains Harvell. "We study these cattle. We use all the tools that we can find on them. We use the U.S. Premium Beef data that has the complete carcass data that comes back on them."

These three ranchers agree, the risk associated with raising and finishing their cattle is balanced with marketing flexibility and premiums for high-quality beef. Building relationships with feedlot managers sure doesn't hurt either.

It takes a team

Picking the right feedyard for your calves is probably just as important as picking their sires.

J.W. Wood is the feedlot manager for Boise Valley Feeders in Parma, Idaho. Seeing cattle succeed in his yard is the ultimate goal. He does that by being concerned about his customers.

Boise Valley, says Wood, was built for custom-feeding cattle. Many of the pens are smaller than average to accommodate the smaller ranches that want to finish their cattle.

"Whether it's a mixed lot or just a set of steers or just a set of heifers, we do try to cater to them as best as we can," says Wood. Size, age, weight — it doesn't matter to Wood. He says he'll take anything you send him.

"We don't care if it's an unweaned calf, if it's a steer off of grass, if it's a big heavy thing out of a grow yard. We're happy to do whatever," he says.

Wood's feedyard isn't unique in that regard. According to the Texas Cattle Feeders Association (TCFA), most feedlots will partner with smaller operations to purchase enough extra cattle to fill the pen. If a producer would like to finish some cattle but needs cash flow, feedlots will purchase a portion of the cattle and custom-feed the retained number.

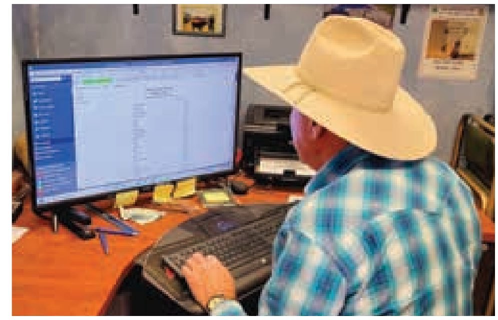
The goal for Wood is that his yard is agile enough to meet the demands of any of his customers. He recognizes that most ranches retain ownership for the closeout data they get back on their finished cattle. This helps them make management decisions on the ranch, he notes.

Because ranchers are most often looking for data that either validate their management decisions or cause changes to be made, Wood feels it is important to have ongoing communication. He visits with owners prior to any shipment of cattle to make sure they feel good about the cattle/market. He'll also call if he starts to see health challenges in the cattle.

After four years at the same feedlot in a neighboring state, Blackstock only physically sees his feedlot cattle when he delivers additional calves. Harvell sends his cattle to Kansas — three states away from home. Both ranchers have complete trust in the decision-making happening a long way from home.

The cattle industry is more about relationships with people than anything else. Burch is the manager of Beefland Feed Yard, where all of Harvell's cattle are sent. Burch proved his dedication to customer success when he entered one of Harvell's finished steers in the 2015 Beef Empire Days competition.

"He said, 'If you don't mind, we've got a calf here that we would like to enter into that competition,'"



Understanding the operation's relationship with risk, whether the margin for error is great or small, should be the first step in deciding whether to retain ownership on calves or sell at weaning.

remembers Harvell of Burch's phone call.

"I really didn't know anything about Empire days. I didn't understand any of the importance," Harvell admits. "I told him, 'Ken, as long as you feel comfortable with it and you think the steer is going to be presentable, that'd be fine.' So, he entered the steer."

The Harvell steer earned Grand Champion Carcass, the Cargill Meat Solutions Award and became the overall 2015 Beef Empire Days Grand Champion Steer.

A couple facts to note: Miller, Blackstock and Harvell all use registered-Angus bulls and maintain an all-but-purebred Angus cow herd. Proven genetics matter when selling finished cattle in a grid-based pricing system.

Retaining ownership adds risk to the profit equation, delays payment on calf crops, requires locating a feedlot and extends management beyond weaning. However, it also provides marketing flexibility and feedback on genetics and management decisions within the cow herd. It is always an option for those willing to give it a go.

Editor's note: Paige Nelson is a freelance writer and cattlewoman from Rigby, Idaho.