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Pooling For Premiums

Calves can generate a better return when small-scale beef producers work together.

Story & photos by
ED HAAG

When expenses are high and calf prices are declining, combining resources can make a lot of sense, especially for the small-scale calf producer, says Jason Ahola, state beef Extension specialist with the University of Idaho.

He adds that by pooling their calf crops, savvy small-unit producers who are willing to work together can reduce their overall production and marketing costs, reach more potential customers and have a better shot at building a long-term customer base than they could individually.

"In today's beef production environment, the small calf operator is at a distinct economic disadvantage," Ahola says. "Any producer who can't put together a truckload of uniform calves is looking at limited marketing options."

He goes on to point out that to produce an annual truckload of uniform calves an operator must have a herd size of between 200 and 300. Ahola notes that this is far above the average U.S. herd size.

"More than 50% of calf producers in Idaho fall into that small operator category of 30 to 50 cows," he says. "Nationally that percentage is higher."

For instance, in Kentucky, a state that has the highest number of beef cattle east of the Mississippi and is the eighth-largest calf producer in the nation, 86% of farms (out of 40,000) manage fewer than 50 head. According to a survey conducted by the University of Kentucky, less than 4% of the state's calf producers are large enough to market calves in load lots.

Fewer calves, lower return

In an auction market study conducted by the Montana Beef

(Continued on page 2)

Above: Truckload lots of uniform calves can generate a broader market base and can command higher prices at the local auction barn or through television and Internet auctions.

Pooling For Premiums *(from cover)*

Network in cooperation with Extension services in South Dakota and North Dakota, county agents in the three states were asked to monitor and document calf market premiums received in their respective states for a period of three weeks beginning the last week of October 2006. Over that period of time, data were collected on 68,475 calves (6,251 lots).

One of the most striking discoveries made when the numbers were analyzed was the direct correlation between the number of calves sold in a lot and the price received for those calves. Breaking the lots into four categories — 1 to 5 calves, 6 to 10, 11 to 20, and 21 or more — the smallest lot (1 to 5 calves) received the lowest price per calf. The 6-to-10 segment received an average of $4.22 more per hundredweight (cwt.), while the 11-to-20 group exceeded the smallest lot category by $4.31. The difference in return between the 1-to-5 category and the more-than-21 category was $6.20 per cwt.

For Ahola and others who take an interest in the ever-shifting dynamics of calf marketing, the adage "time is money" applies.

"The buyers who are willing to pay a premium for quality animals are more interested in purchasing calves in truckload lots," he says, adding that the work involved in brokering 80 calves of uniform quality and size is a great deal less than purchasing the same animals in smaller numbers or one at a time.

Beyond the sale barn

This also applies to other marketing venues such as television and Internet auctions.

"Without pooling cattle, a small operator can't take advantage of some of these markets that have been very good for producers," Ahola says.

In a 2003 study published in *Journal of Agribusiness*, Arizona State University (ASU) agricultural economists Troy Schmitz, Andrew Schmitz and Charles Moss reveal that 60.8% of the nation's calf crop is sold through local auction barns. The remaining animals are marketed via video auctions (11.4%), Internet sales (5.1%), and private sales (22.7%).

Prior to the advent of the technology-driven marketing vehicles, 85% of calves were sold through the local sale barn with the remainder being marketed through private treaty. This decline in the market dominance of the local sale auction has been visible. The number of stockyards across the country that sold cattle from a permanent location has declined from 1,800 in 1988 to less than 1,400 today.

Ahola notes the major advantage of the video and Internet market alternatives for calf producers is that they increase the potential number of buyers and sellers. They also can be less expensive to use and often attain higher market prices for good-quality feeder calves.

Both the seller and buyer can benefit financially from this sort of sale, Ahola says. The buyer is able to purchase feeder calves directly from the farm of origin, eliminating the stress associated with the trip to the sale barn. Research shows calves that spend less time under stressful conditions usually show higher performance in the feedlot. At the same time, the seller eliminates the transportation costs associated with the trip to the sale barn, reduces his shrinkage and usually cuts his overall marketing expenses.

Potentially lucrative marketing avenues such as video, satellite and Internet, once closed to the calf producers individually, would open up to them collectively with the formation of an alliance.

Small lots need not apply

But such an arrangement is only possible with larger lots of calves, Ahola says. With video, Internet and any other long-distance marketing vehicles, the primary impediment to selling less than truckload lots is the reluctance of prospective purchasers to absorb higher cost-per-animal freight charges.

Ahola's conclusions are supported by the 2003 ASU study that confirms most video and Internet marketing outlets share a bias for single-sex calf lots that add up to at least one truckload. The authors of the study go on to point out that as herd size increases, so does the usage of marketing channels other than live auctions.

They cite the correlation between herd size and choice of marketing venue in North Dakota and Montana. In North Dakota, 24.4% of the cattle are from large herds of 500 or greater while in Montana that percentage is roughly double (51%). These percentages are reflected in choice of marketing venue, with 72% of North Dakota's young beef animals being sold through local auction. On the other hand, only 12.5% of Montana beef animals see the inside of the neighborhood sale barn.

Making pooling work for you

Jim Church, Extension educator, Idaho County, Idaho, was instrumental in helping establish a calf pool that has been successfully operating since 1998.

"Several of the original participants contacted me about putting calves together in larger lots," he recalls. "These were small- to medium-sized producers."

For them the reason for exploring the possibility of forming a pool or a marketing alliance was straightforward. After selling their calves through the local sale barn, they were ready for something different.

"They felt that they could do a little better than they were doing in terms of the prices they were receiving for their calf crop at market time," Church says. "The objective was to look at alternatives that would give them more control of their marketing program, increase exposure of their calves to more buyers and, in turn, increase prices received."

Potentially lucrative marketing avenues such as video, satellite and Internet, once closed to the calf producers individually, would open up to them collectively with the formation of an alliance.

Church recalls that eight local calf producers attended the first exploratory meetings. "Initially we laid the groundwork by discussing some of the opportunities and what they might want to consider if they were to proceed," he says. "The next time we met we brought in some marketing people from Superior."

Strict standards established

When the decision was made to form the Clearwater Valley Beef Alliance (CVBA) the membership consisted of five cow-calf producers, all of whom agreed to pursue the goal of marketing their spring-born calves collectively in truckload lots. As part of their legal structure, the group formed a legal partnership in which each member was an equal partner. A treasurer was elected to handle the funds and disperse the proceeds.

(Continued on page 4)

Formula for success

- Work with producers who have similar programs, i.e., breeds, calving dates, management practices, cattle quality.
- Know each other well and trust each other.
- Have members who are willing to give and take a little bit.
- Be committed to making it work.
- Be willing to meet regularly at first.

Source: *Jim Church, Extension educator, Idaho County, Idaho.*

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Pooling For Premiums *(from page 2)*

It was also agreed that members would establish a uniformity standard by managing their calves identically and by utilizing similar genetics.

"Everything from when the calves were born to when they were weaned had to be similar so that when those animals sold together they were uniform product," Church says, noting that all the extra work coordinating their calf operations has paid off for the members. "It is amazing how uniform these cattle are when they go out."

Each year, since the alliance's inception, members contributed enough steer calves to produce two semitrailer loads all shipped on the same day.

"One load has a base weight of 575 pounds (lb.) and then comes a second, heavier load with a base weight of 650 to 675," Church says, pointing out that each member is extremely conscientious about holding the cattle he is contributing to a very exacting weight standard.

For the CVBA members, uniformity doesn't just mean adhering to strict weight parameters, it also means following identical management protocols.

"They are following a VAC 45 system," Church says. "They are all vaccinated the same, weaned about the same week, and then backgrounded at their home ranches for 30 to 45 days."

Each year, since the alliance's inception, members contributed enough steer calves to produce two semitrailer loads all shipped on the same day.

A successful 10 years

During the last decade the alliance has explored a variety of marketing options, beginning with two loads of calves sold the first year through Superior Satellite Livestock Auction. In the years following, the group has marketed their calves using the video auction, the Internet and most recently direct marketing through a regional broker.

Considering the group's original objectives, no one could argue with Clearwater Valley Alliance's success. In all but one year, the group has either matched or exceeded the top prices received at the local auction markets. Premiums over top local auction prices ranged from $15 per cwt. higher in 2001 to $20 per cwt. higher in 2006.

For Church, the success of the alliance can be attributed directly to the integrity of each of its members.

"The whole key to succeeding in something like this is you have to be able to trust each other," he says. "You have to be able to work together, be flexible and be willing to admit when they unload one, that that calf isn't good enough to go."

In all but one year, the CVBA has either matched or exceeded the top prices received at local auction markets.