



Marketing Alternatives for Fall Born Calves

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Introduction

As mid-summer approaches, many cattlemen with fall-born calves are considering what to do with these calves at weaning. Although there are several decisions to be made, the biggest decisions include when to wean and how to market the calves.

Typically calves born in the fall (September-December) are weaned beginning in mid-June to August. This approach offers several advantages, namely improved body condition scores of cows going into fall and higher selling prices now. Weaning now also lowers forage requirements for lactating cows, reducing the need for supplemental feed during the summer.

Although there are many variations, producers that wean calves in mid-summer have five basic alternatives. They can:

1. Sell at weaning
2. Wean and precondition the calves
3. Wean, precondition, and stocker the calves
4. Wean, precondition, and custom finish the cattle
5. Wean, precondition, stocker, and custom finish the cattle

To aid producers in making this decision, these five alternatives are described below. After the description of the alternatives, an evaluation of the various strategies is presented using current Georgia market prices, historical monthly trends for feeder cattle, futures and historical basis price for fed cattle, and expected feed costs.

Description of Alternatives

Selling at weaning – This method offers two big advantages: producers get their money immediately and they are not exposed to the price and production risk associated with owning their cattle past the calf phase. However, producers who sell at weaning typically do not receive the true value of their calf for several reasons. First, calves sold right off the cow experience a considerable amount of shrink. Several informal studies have shown that calves taken straight from the cow, delivered to a sale barn today and sold tomorrow will shrink from 6-12%. For a 500 pound calf this is a loss of 30-60 pounds. At \$85/Cwt. this amounts to \$25.50-\$51.00 per head lost from shrink. Also, calves sold at weaning will usually bring a lower price (\$2-\$5/cwt.) than PROPERLY MERCHANDISED preconditioned calves.

Precondition – Preconditioning usually describes a process that identifies calves as having been weaned, double-vaccinated, males castrated, and trained to eat and drink from troughs and water tanks. Precon45 refers to a specific program where calves are preconditioned for 45 days prior to marketing.

This marketing method offers several advantages: producers usually receive a higher price; they shrink considerably less; and once preconditioned, calves can go into either a stockering, backgrounding, or finishing program. The biggest disadvantage to preconditioning is that if the calves are not properly merchandised, they may not recoup the additional expenses of preconditioning. However, the savings in shrink are often enough to justify preconditioning the calves.

Precondition + Stocker – In this program, calves are stockered on pasture for approximately 75 days following their preconditioning program. This allows producers the opportunity to own the calves a little longer and put more pounds on them without having to retain ownership through the finishing phase. This also allows producers time to evaluate the market and see if they want to market their calves now or have them custom fed. The biggest disadvantage to this program is the potential price risk that exist from holding on to the calves too far into the fall. Also, many producers may not have the facilities to implement this type of program.

Precondition + Finish – In the Preconditioning+Finish program the calves are sent to a custom feeding operation following the preconditioning program. There are two major advantages to this approach: first, producers with high quality calves get the full value of their calves; and second, these cattle are being harvested and sold when fed cattle prices are at their highest. The major disadvantages to this approach are the price and production risks associated with feeding the cattle, as well as the cash flow strain caused from waiting more than a year from birth to marketing of the calf crop.

Precondition + Stocker + Finish – In this program, calves are stockered on pasture for approximately 75 days following their preconditioning program and then sent to a custom feeding operation. By doing so, producers are able to put maximum gains on less expensive forage before sending the cattle to be fed. In this scenario, producers are also able to make decisions about selling or retaining at each phase. However, as discussed previously, many producers may not have the facilities to stocker or the financial capacity to wait the extended period of time for the cattle to be harvested.

Evaluation of Alternatives

Each of the alternatives was evaluated using current market conditions. The results of this evaluation using cash prices from Georgia auctions ending the week of June 27 are shown below. Prices for feeder cattle sold in August and October were estimated using current cash prices and then adjusting the prices for seasonal changes.

Table 1
Results of Marketing Alternatives Analysis

Item	Sell @ Weaning	Precon 45	Precon 45 + Stocker	Precon 45 + Finish	Precon 45 + Stocker + Finish
In Date	07/01	07/01	07/01	07/01	07/01
In Weight¹	500	500	500	500	500
ADG	N/A	2.0	2.0/1.5	2.0/3.2	2.0/1.5/3.2
Out Wt (Pay weight)²	455	575	675	1120	1120
Out/Sales Date	07/01/03	8/15/03	10/13/03	1/12/04	2/16/04
Expected Price³	\$90/Cwt.	\$87	\$75	\$73.35	\$69.40
Additional cost over weaning		\$33.75	\$66.50	\$375.25	\$357.19
Advantage over selling @ weaning	N/A	\$58.66	\$62.30	\$109.28	\$115.92

1. Out date and out weight refer to the dates and weights when the animal is sold.. 2. This weight is the projected ending weight minus shrink. Calves sold at weaning have a 9% shrink. All cattle sold out of Precon45 and stocker programs have a 2% pencil shrink while fed cattle have a 4% marketing shrink. 3. Prices based on current prices plus seasonal adjustments. Cattle sold out of Precon45 and stocker programs are assigned \$3/Cwt. premiums.

Selling at weaning

With current relatively high feeder cattle prices, selling at weaning is not a bad choice. Using information from UGA budgets and personal observation, returns above variable costs should be around \$95/cow for producers doing a good job managing their herd. Producers selling at weaning will be taking advantage of a very tight feeder cattle supply/demand situation.

In general, selling at weaning is usually a favorable alternative when prices are relatively high. Thus, producers who are in a cash flow crunch or do not have the facilities to wean and precondition calves may still have a profitable year if they sell at weaning.

Precondition

Preconditioning calves returns about \$59 per head over selling at weaning. Of course part of the profits made are from the weight gain of the calves. If the calves do not gain as well or feed costs are higher, then returns will be reduced. Also, this analysis assumes the calves sold generate a premium of \$3/cwt. If the calves receive no premium, then preconditioning still generates additional returns of \$13 per head

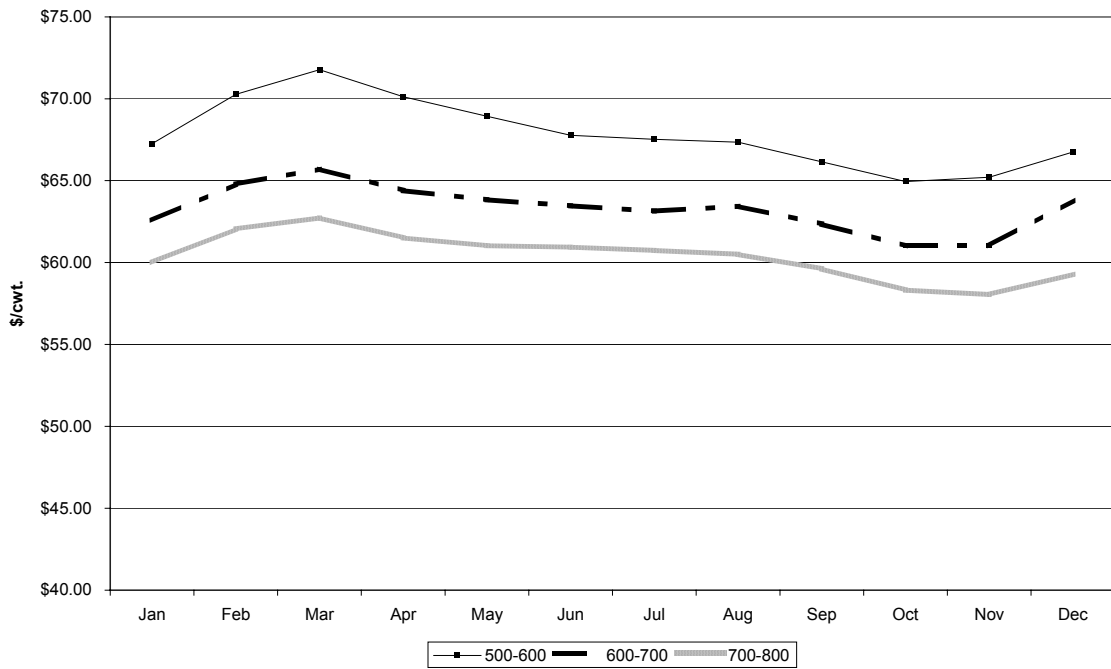
Producers who do not have large lots of cattle to sell should begin marketing the calves long before sales day. There are many options available for preconditioned calves including special live auction sales, video board sales, and special preconditioned feeder calf sales.

Precondition + Stocker

Based on the assumptions used, preconditioning and stockering calves weaned this summer generates an additional \$62 compared to weaning but only an extra \$4 over preconditioning. The major culprit for this small profit is the large negative buy-sell margin from summer until fall. A chart showing historical prices for 500-800 pound steers in Georgia is shown below in Figure 1. It is easy to see that when the cattle come out of the stockering program, prices will be at their normally lowest prices.

Figure 1

**Monthly Average Prices for GA M1 Steers
1973-2001**



Precondition + Finish

With feeder cattle prices relatively high and projected to remain so until fall, finishing preconditioned calves results in a loss of \$2 per head compared to selling after preconditioning. Even with this loss, producers can still put an additional \$110 per head in their pocket compared to selling at weaning. Also, readers are reminded that these projections are based on live cattle prices. Thus, producers who can market high quality cattle on a carcass basis may want to adjust the sales price for any carcass premiums they will receive.

The largest contributing factor to losses from feeding compared to selling after preconditioning is the high opportunity cost of the feeders when they are placed in the finishing program. With current and projected market conditions, the breakeven purchase price for preconditioned calves is about \$86/cwt., \$1/cwt. less than the projected sales price for the preconditioned calves. The breakeven purchase price can be thought of as the price at which they either retain or sell their calves. For instance in Table 2, if the expected sales price is \$71/cwt. and feed is expected to be \$80/ton, the producer should sell his calves if he can receive more than \$80.06/cwt.

**Table 2
Effects of Sales Price and Feed Cost/Ton on
Breakeven Purchase Price for 575 Pound Steers Placed in August**

Sales Price (\$/Cwt.)	Feed Cost (\$/ton)					
	\$70.00	\$75.00	\$80.00	\$85.00	\$90.00	\$95.00
\$65.00	\$73.38	\$70.77	\$68.16	\$65.56	\$62.95	\$60.34
\$67.00	\$77.34	\$74.74	\$72.13	\$69.52	\$66.92	\$64.31
\$69.00	\$81.31	\$78.70	\$76.10	\$73.49	\$70.88	\$68.28
\$71.00	\$85.28	\$82.67	\$80.06	\$77.46	\$74.85	\$72.24
\$73.00	\$89.24	\$86.64	\$84.03	\$81.42	\$78.82	\$76.21

\$75.00	\$93.21	\$90.60	\$88.00	\$85.39	\$82.78	\$80.18
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In addition to feeder price, much of the profitability of feeding cattle rests in the feed conversion of the cattle and the price of feed. Feed conversion, a.k.a. feed-to-gain, is the pounds of feed necessary to put on a pound of gain. It is calculated as:

$$FC = \frac{\text{Pounds of Feed Fed}}{\text{Pounds of Gain}}$$

In the analysis conducted, FC was estimated to be 9.2. Since feed conversion and feed cost per ton can greatly affect profits, it may be helpful for producers to see how much they can afford to pay for calves entering the feedlot this fall. By reviewing Table 3, producers can see if calves gain well (8.0 FC) and feed costs are relatively low (\$80/ton), the breakeven purchase price for 575 pound steers is about \$92/cwt. On the other hand, if FC is poor (10) and feed cost is relatively high (\$95)/ton, then they can afford to pay only about \$73/cwt. for 575 pound steers entering the feedlot in August.

Table 3
Effects of Feed Conversion and Feed Cost/Ton on
Breakeven Purchase Price for 575 Pound Steers Placed in August

<i>Feed Cost</i> \$/ton	<i>Feed Conversion (As Fed Basis)</i>					
	7.50	8.00	8.50	9.00	9.50	10.00
70.00	\$96.68	\$94.70	\$92.72	\$90.73	\$88.75	\$86.76
75.00	\$94.56	\$92.43	\$90.31	\$88.18	\$86.06	\$83.93
80.00	\$92.43	\$90.17	\$87.90	\$85.63	\$83.36	\$81.10
85.00	\$90.31	\$87.90	\$85.49	\$83.08	\$80.67	\$78.26
90.00	\$88.18	\$85.63	\$83.08	\$80.53	\$77.98	\$75.43
95.00	\$86.06	\$83.36	\$80.67	\$77.98	\$75.29	\$72.60

Precondition + Stocker + Finish

The last alternative evaluated consists of preconditioning calves for 45 days, stockering for 75 days, and shipping the cattle to be custom fed. In this instance, the cattle weigh about 675 pounds when they are placed in the feedlot in late October-early November.

This analysis indicates that producers can receive an additional \$115 from following this program this year. Based on projected feeder cattle prices and current fed cattle futures, this alternative returns about \$6 more per head than feeding the cattle immediately following the preconditioning phase. This minimal profit from stockering is not very attractive given the additional time and expense associated with stockering. Also, because the calves are placed later in the fall, they will endure more winter weather when they are on feed increasing their chances for poor feed conversion.

It should be pointed out that the biggest reason that calves marketed in this scenario return only \$6 more per head is because their sales price is based on June futures prices. The reason for using the June futures is because the cattle are projected to be marketed after April 15, 2004. If the cattle grow well and are marketed in late March or early April then their sales price will be based on April futures. In that case, the cattle can be sold for \$5/cwt. more and their profits increase to \$167 per head compared to selling at weaning. In that instance, the returns to stockering the calves would be about \$50 per head

The effects of feed conversion, feed costs per ton, and sales prices are shown below in Tables 4 and 5.

Table 4
Effects of Feed Conversion and Feed Cost/Ton on
Breakeven Purchase Price for 675 Pound Steers Placed in October-November

<i>Feed Cost</i> \$/ton	<i>Feed Conversion (As Fed Basis)</i>					
	7.50	8.00	8.50	9.00	9.50	10.00
70.00	\$87.62	\$86.21	\$84.80	\$83.39	\$81.98	\$80.57
75.00	\$86.11	\$84.60	\$83.09	\$81.58	\$80.07	\$78.56
80.00	\$84.60	\$82.99	\$81.38	\$79.77	\$78.16	\$76.54
85.00	\$83.09	\$81.38	\$79.67	\$77.95	\$76.24	\$74.53
90.00	\$81.58	\$79.77	\$77.95	\$76.14	\$74.33	\$72.52
95.00	\$80.07	\$78.16	\$76.24	\$74.33	\$72.42	\$70.50

Table 5
Effects of Sales Price and Feed Cost/Ton on
Breakeven Purchase Price for 675 Pound Steers Placed in August

<i>Sales Price</i> <i>(\$/Cwt.)</i>	<i>Feed Cost (\$/ton)</i>					
	<i>\$70.00</i>	<i>\$75.00</i>	<i>\$80.00</i>	<i>\$85.00</i>	<i>\$90.00</i>	<i>\$95.00</i>
\$65.00	\$67.91	\$66.06	\$64.20	\$62.35	\$60.50	\$58.64
\$67.00	\$71.29	\$69.44	\$67.58	\$65.73	\$63.88	\$62.02
\$69.00	\$74.67	\$72.82	\$70.96	\$69.11	\$67.26	\$65.40
\$71.00	\$78.05	\$76.19	\$74.34	\$72.49	\$70.63	\$68.78
\$73.00	\$81.43	\$79.57	\$77.72	\$75.87	\$74.01	\$72.16
\$75.00	\$84.81	\$82.95	\$81.10	\$79.25	\$77.39	\$75.54

Other Considerations

Although custom finishing fed cattle appears to be a profitable venture at this time, there is considerable price and production risk involved. Producers interested in custom finishing should also strongly consider implementing a risk management plan that involves protecting the value of the cattle as well as setting an upper limit on feed cost. The local county extension office can provide helpful information on developing and implementing a risk management strategy.

Summary

Current strong calf prices provide most beef cattle producers with several profitable marketing alternatives. At this time, the most profitable alternative compared to selling at weaning appears to be preconditioning, stockering, and custom finishing fall born calves. Producers who do not wish to custom finish can increase their profits by preconditioning their calves and selling them after this phase.

In any case, producers are encouraged to make their decision based on their own objectives and resource situation. For additional help and information on livestock economics and marketing, producers are encouraged to contact their local county extension office.