



Master Cattleman Quarterly

Oklahoma State University

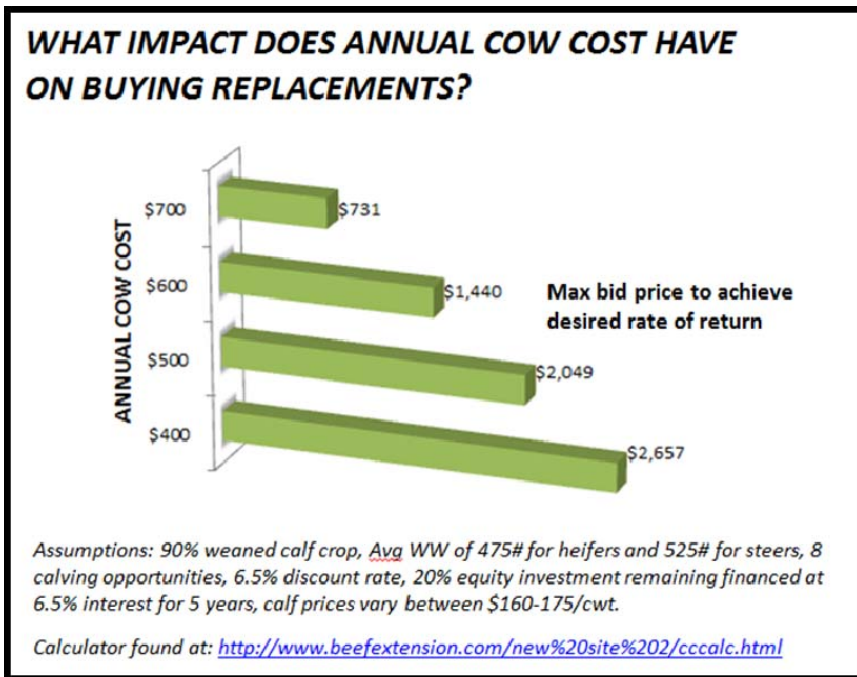
The Cost of Rebuilding

Scott Clawson, Northeast OCES Ag Economics Specialist

Many conversations start out this way: do you want the good news or the bad news? Well, let's start with the good. The combination of restored hay supplies and a strong calf market both provide optimism for cow calf operations, especially in our region. So, what is the bad news? If you are purchasing replacements, you may be looking at paying significantly more for them as well. To put this in perspective, a producer in the not so far past could have paid \$1,400 for a bred heifer while today and in the near future that same female may be much higher. In a series of cattle meetings at which I recently spoke, I asked the following question to cow calf producers. How much will a quality, heavy bred replacement heifer go for in 2014 if calf prices stay strong, we get average or above spring rain, and there are no other big market shake ups? Responses ranged up to \$3,500. If we use \$2,400 as a possible purchase price and a producer was to purchase 30 bred heifers they would run \$72,000 today versus \$42,000 previously. Obviously, that is a significantly larger investment than most producers have encountered.

So, how much is too much to pay for replacements? The answer is not as simple as the question. The better place to start may be what is my annual cow cost? For simplicity, we are going to focus on one piece of information needed to use the Cow Bid Price Estimate Calculator found at

www.beefextension.com. That piece of information is your annual cow cost. The graph shows the maximum amount that a person could pay for a replacement and still achieve their desired rate of return. In this example, all of the other pieces of information (calving percentage, calf sales, weaning weights, etc.) were held constant. There is no denying that our annual cow cost is a driving force between what does and does not pencil out. We tend to focus heavily on the sales price, but this is a great time to remember that our cash flow is



also heavily dependent on our production cost. Review your financial records from previous years. Looking at several years of records may be useful as an average can be developed. Also, a forecasted budget based on current production costs can help determine what to expect in the near future. See how tolerant your plan is to change by fluctuating volatile input prices.

Making the decision to rebuild in today's market will be more expensive than it ever has been for the commercial producer. If you are

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The Cost of Rebuilding (cont.)

borrowing money to fund expansion, it is especially important to develop a detailed plan or budget as the financial commitment will be significant. Being diligent in the buying process can help as well. Analyze all of the options regarding buying older bred cows, bred heifers, yearling heifers, etc. and try to find the best value on the market. While we will never hear producers at the coffee shop

bragging about how they minimized costs this year, selling \$2.00/lb weaned calves will be even sweeter knowing that we did.

Extension Centennial Road Signs Available

Help celebrate Extension’s Centennial by displaying a Centennial Road Sign on your ranch or farm. There are 3 different designs to choose from. The Oklahoma Department of Corrections will be making the signs on a white reflective background. They will range in cost from \$14.00 - \$110.00 depending on size. **Orders need to be placed**

by March 31, 2014. This will be a one time opportunity that you will not want to miss.

For more information contact Shari Monsees at 580-233-5 295 or email shari.monsees@ okstate.edu.



Size	Cost
10" X 10"	\$14.00
12" X 12"	\$16.50
24" X 24"	\$45.00
30" X 30"	\$75.00
36" X 36"	\$110.00

Farm Transitions Workshop to be Held in Oklahoma

A series of one-day workshops will be held throughout Oklahoma this spring for family farmers and ranchers interested in learning about the components of a successful farm transition.

Managing Farm Transitions: Connecting Landowners, Farmers, and Families will involve four single-day workshops in Oklahoma scheduled for March 24 in Chickasha, March 31 in Claremore, April 7 in Woodward and April 14 in Ardmore. Sessions will cover business and personal goal-setting, financial analysis, human resources, family communications, estate planning, estate taxes and retirement planning

“Research tells us that fewer than one-third of family businesses survive the transfer from one generation to the next,” said Shannon Ferrell, associate professor of agricul-

tural economics at Oklahoma State University. “These workshops will help farmers and ranchers keep their families farming together.”

The workshop series is hosted by Oklahoma Cooperative Extension Service with funding from the USDA Risk Management Agency through the Southern Risk Management Education Center. The workshops are also sponsored by Farm Credit Associations of Oklahoma and the Samuel Roberts Noble Foundation.

The cost for attendees is \$25 for a family of four and includes a lunch, refreshments and two farm transitions workbooks. Additional registrations are \$10 per person.

To register, contact Kareta Casey at 405-744-9836 or via email to kareta.casey@okstate.edu.

Oklahoma Quality Beef Network: Summary of Fall 2013 Sales

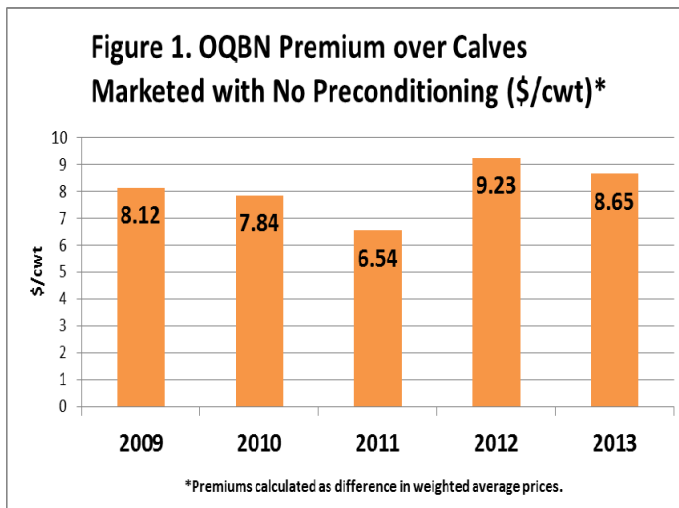
Kellie Curry Raper, Eric DeVuyst, Derrell Pell, OSU Ag Economics, Gant Mourer, OSU Animal Science

The Oklahoma Quality Beef Network (OQBN) is committed to increasing producer access to value added marketing opportunities and improving the quality of Oklahoma cattle. One piece of that commitment involves conducting special sales for calves enrolled in OQBN’s calf certification programs. OQBN calves are managed according to a specific health management preconditioning protocol designed to improve calf performance throughout the beef supply chain. The combined value of the management protocol and the third party certification by OQBN is expected to increase the value of calves at marketing, as compared to calves sold with no preconditioning.

Producer participation and the number of calves marketed through the Oklahoma Quality Beef Network (OQBN) value added health management program increased in 2013, relative to 2011 and 2012, as the region began modest drought recovery. OQBN value added calf sales were hosted by several livestock markets around the state in Fall 2013. Market data were collected at eight sales, including Cherokee, Elk City, McAlester, OKC West (x2), Blackwell, Pawnee, and Tulsa between October 30, 2013 and December 14, 2013. Data were collected on approximately 4183 OQBN certified calves sold in 343 lots at these designated OQBN sales. Including the OQBN calves, data were collected on a total of 11,927 calves.

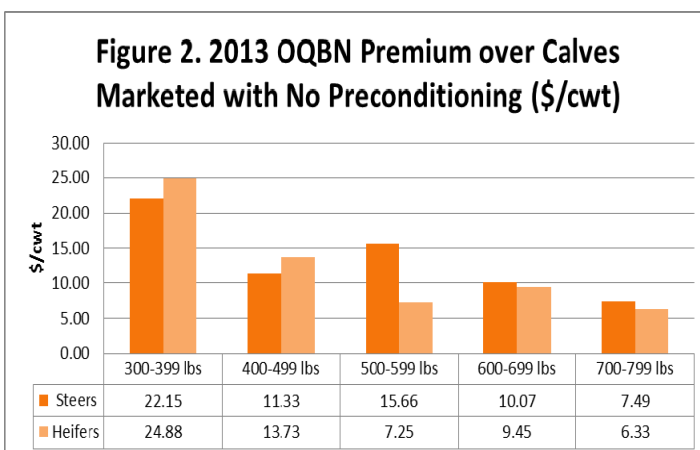
Figure 1 illustrates the OQBN premium (weighted average) over non-preconditioned cattle for marketing years 2009-2013. Premiums across that timeframe ranged from \$6.54/cwt to \$9.23/cwt (see Raper and McKinney, 2009; McKinney, et al, 2010; Raper, et al, 2011). The overall average OQBN premium for 2013 was \$8.65/cwt. Again, this premium and premiums for other years represented are based on the weighted-average price of all OQBN lots as compared to non-preconditioned cattle and do not consider price differences attributable to lot size, weight, breed, hide color, sex, fleshiness, and muscling.

The weighted average OQBN premiums by weight category and gender for 2013 are illustrated in Figure 2. Note again that price differences attributable to other characteristics are not reflected in the weighted-average. OQBN steers and heifers earned market premiums over non-preconditioned cattle in every weight category. Both steers and heifers appeared to garner higher premiums per



hundredweight over non-preconditioned calves at lighter weights. Relative to non-preconditioned calves, steer calf premiums ranged from \$7.49/cwt to \$22.15/cwt (weighted average basis) while heifer calf premiums ranged from \$6.33/cwt to \$24.88/cwt (weighted average basis), generally with higher premiums per cwt for lighter weight calves.

Estimated value added to Oklahoma calves based on premiums alone, including the 1281 OQBN calves marketed outside of OQBN sales, is approximately \$341,000.00. Using the Oklahoma Quality Beef Network Budgeting Tool, profit per head for 2013 OQBN calves is estimated at approximately \$54/head when the cost of preconditioning and the benefit of additional weight gain between weaning and marketing is considered. The OQBN budgeting tool is available at www.agecon.okstate.edu/faculty/publications/3943.xlsx.



Oklahoma Quality Beef Network: Summary of Fall 2013 Sales (cont.)

OQBN's impact reaches beyond the certified sale component. New value-added programs have been developed at participating livestock markets and overall awareness of the value of health management practices has increased. The percentage of Oklahoma's calf crop marketed as value-added increased from 3.06% in 2007 to 6.43% in 2012. See <http://www.oqbn.okstate.edu> for educational information and for more detailed information on the health management protocol and the certification process.

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Are You Operating Your Ranch for Profit or Convenience?

Article reprinted with permission of author Burke Teichert and *Beef Daily*, December 30, 2013

In recent articles, I've asked how we define ourselves – cowboys, stockmen, grass farmers, ranchers, etc. I then proposed a few ways to avoid or escape "paradigm lock-down." Last month, I suggested a way to easily and effectively analyze different methods of structuring and operating our businesses.

My purpose was to suggest that we too often use our thinking and planning time for tasks that either don't matter much economically, or that we are already pretty good at. I'm not sure why that is; perhaps it's just easier to keep doing what we're doing and try to improve little by little

I often see decisions made for the sake of convenience, personal preference or to maintain the current operating system rather than for profitability. It seems we get so emotionally engaged in what we are doing and the way we do it, that we would almost rather lose money than to change. And, I might add, that some do continue to lose money rather than change or even look for ways to change.

Dave Pratt, in his Ranching for Profit school, emphasizes the difference between "working in the business" (WITB) and "working on the business" (WOTB). WITB deals mostly with tactics and tasks that are immediately in

front of us. We're basically planning how and when to do things we've already done many times with a few changes for improvement here and there.

This scenario reminds me of the story about a cowboy applying for a ranch manager job. He came to the interview touting 20 years of experience. When asked how he approached ranch planning in all its aspects, his answer indicated a very rigid and repeated approach that had apparently been a long-time habit. Upon hearing the response, the ranch owner said, "It seems to me that you haven't had 20 years of experience but that you have had one year of experience 20 times.

Yes, WITB is important and should not be neglected. However, WOTB is the big difference maker and an integral part of successful management. Its adherents are, almost without fail, lifelong learners. They kick holes in "the box" or their paradigm – not just big enough to see out of, but big enough to climb out of as soon as they find something better.

WOTB deals with the strategic issues of "what should my ranch look like?" As you begin to "work on the business" you explore alternatives that seem new and sometimes crazy to you. This includes things like:

Are You Operating Your Ranch for Profit or Convenience? (cont.)

- Should I continue to calve in winter when it requires significantly more facilities, feed and labor? If I change calving seasons, what else will change?
- Should I continue to run cows and calves when I have to feed them 4-5 months out of the year when other ranchers (my competitors) perhaps don't feed at all or only supplement to enhance the use of grazed feed or perhaps feed only a few days of each winter when conditions are terrible?
- Can I ranch without putting up hay?
- Can I ranch without all this equipment, labor and these facilities?
- Should I begin to learn about management intensive grazing, planned time-controlled grazing, or mob grazing? Should my emphasis move from cows to grass and soil? After I learn a little, can I find someone doing it well within a reasonable distance of my ranch?
- Should I try to capture and benefit from the advantages of crossbreeding and heterosis? If so, what should my breeding program look like – breeds, crossing system, composites, etc.?
- If I'm to continue with a cow-calf operation, should I raise or buy replacements? If I buy replacements, should they be cows or heifers; and, if I buy replacement cows, should I terminal cross and use high growth and high carcass EPD bulls?
- What really is the optimum cow size and milking ability for my environment and market objectives? Are the market objectives the right ones for my situation – do they fit the resources of our ranch?
- Can I work cooperatively with other ranchers to better meet my objectives and help them meet theirs? Perhaps my neighbor can produce an excess of bred cows, which I buy at a good premium over cull cow prices. I then can terminal cross, don't have to calve or breed heifers, and have a very simple operation.
- Does my ranch have other values that can be developed for other income streams – things like bird

watching, photography opportunities, hunting, camping, gravel sales, etc.?

These and many others are WOTB questions. Getting answers to these questions requires learning, critical examination, analysis, seeing how others are already doing some of the things you are interested in and if it really pays. I highly recommend looking for ranchers who are already doing what you would like to do but think won't work. You may be surprised when you actually came to understand what another rancher is doing and how they are doing it. You may discover that you can do it, too.

I'm not suggesting that dollars are the only payout we get for what we do. However, it isn't much fun to do something that continually loses money simply because it is our favorite thing to do. When our operations are in the black without infusions from our off-farm incomes, it is reasonable to do something less than economic best if total satisfaction is maximized.

If ranching isn't fun and profitable, it isn't sustainable. There's very little incentive for the next generation to carry on. The lack of profitability begins to discourage the owners – even the wealthy. It wears on the ego of hired managers and employees.

In the long run, you can't make it fun enough to compensate for lack of profitability. Until our ranches are nicely profitable, we must make decisions for profitability and not for convenience, personal comfort or to maintain our preferred way of operating. Once we are routinely profitable, then we can allow the fun and enjoyment to become part of the compensation.

Burke Teichert, consultant on strategic planning for ranches, is retired as vice president and general manager of Deseret. He can be reached at burketei@comcast.net

Raising Versus Buying Heifers for Beef Cow Replacement

With permission of Lee Shultz and Patrick Gunn, Iowa State University Extension.

As expected, the recent annual cattle inventory report confirmed that the U.S. cattle herd continued to liquidate in 2013. Given the extremely low inventory of beef cows and strong market signals, the industry is poised to rebuild over the next several years with increased beef heifer retention. It is difficult to generalize about raising or buying heifers for beef cow replacements as each producer has a different resource base to draw upon and a different set of goals in mind. Only by analyzing the benefits and costs on a case-by-case basis can producers determine the most economical method to acquire replacements.

Most producers raise their own heifers as a way to maintain or build the cowherd. However, purchasing replacements may sometimes be an attractive alternative. Selecting the most economical source of replacement heifers has major implications for effectively utilizing resources, controlling costs, and sustaining the business for the long-term.

The following factors are important when determining an optimal herd replacement strategy.

- Interest rates on savings or other alternative uses of capital.
- Interest rates on borrowed capital.
- Cash flow needs.
- Feed costs.
- Labor availability and costs.
- Relative price difference between bred heifer replacements and heifer calves.
- Reproductive rates.
- Forced (or involuntary) culling rates (cows that must be culled each year).
- Environmental conditions due to existing or impending drought.
- Genetic improvement potential and/or maintaining a desired genetic base.
- Tax implications.

Since these factors can determine the difference between profit and loss within any given year, producers

must be flexible with their beef expansion plans in taking advantage of changing economic conditions.

Potential Advantages of Raising Replacement Heifers

There are several reasons why raising replacement heifers may be in the producer's best interest. A major consideration to raise heifers is that the breeding program may involve several generations of cattle that have been selected for maternal traits (e.g., calving ease, milk production, mothering ability, fertility, etc.) that would be difficult to replicate and purchase external to the existing herd. It may be difficult to source heifers that meet a specific desired genetic profile.

In addition, replacement heifers raised on-farm may be better acclimated to an operation's environment (e.g., climate, feed resources, diseases, parasites, management, etc.). By raising replacement heifers, a producer may be in a better position to evaluate their growth, phenotype, and temperament. Also, they may be better accustomed to the manner in which they will be managed when added to the cow herd.

Producers who operate a closed-herd system or minimize the influx of live genetics can also minimize health risks within the herd. Various disease issues can be better controlled for when developing heifers on-site.

Finally, producers may be able to raise their own replacement heifers more economically than buying heifers. However, producers need decision tools to know actual production costs (both cash and fixed) for a replacement heifer to determine whether this is the case.

Potential Advantages of Buying Replacement Heifers

By the same token, there may be several valid motives in buying replacement heifers. One important consideration is that buying replacement heifers eliminates the need for keeping a group of heifers from weaning to two-years of age that consume resources but produce no calves. Facility, pasture, and lot space, as well as feed consumed by growing heifers, might be used more productively by cows that produce a calf. This allows fixed costs to be spread over more productive units, thereby reducing costs per cow.

Raising Versus Buying Heifers for Beef Cow Replacement (cont.)

Furthermore, producers who have sourced additional pastureland or cost-effective feed resources may look to expand herd size more quickly than existing replacement numbers will allow. Alternatively, a new marketing avenue may be explored that necessitates development of a different sub-population of genetics. In either situation, sourcing heifers from an external breeding program may be the best viable option to meet the new demands in a timely fashion.

Another motive may be where in the absence of herd expansion, a purchased bred heifer from an external vendor may realize a lesser need for bulls over those operations that retain and breed their own yearlings. Moreover, a large emphasis is typically placed on birth weight and calving ease EPDs by producers purchasing bulls to mate to yearling heifers. Eliminating this group of females during the breeding season may allow producers to place a greater emphasis on growth or carcass-related traits in their bull selection criteria.

Producers may be able to purchase replacement heifers from someone who specializes in producing replacement heifers. Producers can often specify the breed cross or genetic profile of purebred and composite heifers purchased, as well as the breed and individual sire within that breed to which heifers are bred. In most instances, commercial developers utilize estrous synchronization in conjunction with artificial insemination, which should increase genetic merit of progeny and eliminate the potential for reproductive disease transmission.

Lastly, raising heifers from weaning to breeding requires feed inputs, which may be more costly to producers than if they were provided by someone else who has cheaper feed resources. Further, if heifers are grown too slowly from weaning to breeding as a result of poor quality or limited feed resources, puberty can be delayed, conception rates reduced, calving season extended, and cost per pregnant heifer increased. The net result is lowered weaning rates and weights with a reduced gross value at sale time.

Analyzing the Raise versus Buy Decision for Replacement Heifers

A partial budget is a valuable tool for analyzing the

positive and negative economic effects of a proposed change within an operation. The partial budget is organized into two categories — total added returns and total added costs. Total added income includes added returns and/or reduced costs while total added cost contains reduced returns and/or added costs. If total additions to income exceed total added costs, the proposed change will increase net returns. On the other hand, if total added costs exceed total added income, the net economic effect is to reduce net returns.

Two Ag Decision Maker Decision Tools from Iowa State University Extension have been developed to aid in decisions with regards to raising or buying heifers for beef cow replacement. The first spreadsheet, B1-73, **Buying Heifers for Beef Cow Replacement**, considers the returns and costs that will change if replacement heifers are purchased rather than raised from within the herd. The second spreadsheet, B1-73, **Raising Heifers for Beef Cow Replacement**, considers the returns and costs that will change if replacement heifers are raised from within the herd rather than purchased. While these two calculators are similar in design, they are geared towards two different producers: 1) a producer who typically develops his or her own heifers and is considering purchasing replacement females in a given year, and alternatively 2) a producer who typically purchases replacement females and is considering developing heifers in a given year. Both spreadsheets are free to download at

<http://www.extension.iastate.edu/agdm/decisionaidsld.html>

Summary

Selecting the most economical source of replacement females is often one of the most important decisions confronting cow-calf producers and will likely influence the future direction and growth within the beef industry. Due to differences in enterprise goals and, perhaps most importantly, resource availability, each producer must make this decision independent of other local operations. It is also important to consult with the team of experts you have assembled including your beef extension specialist, herd health veterinarian, nutritionist, and tax advisor.

Oklahoma Custom Rates Survey, 2013-2014*Roger Sahs, OSU Ag Economics Extension Specialist*

The OSU Agricultural Economics Department in cooperation with the Oklahoma Agricultural Statistics Service recently surveyed Oklahoma custom operators to determine rates charged for various farm and ranch operations. Seven-hundred twenty surveys were returned. Along with statewide averages, results are also reported for western, central and eastern Oklahoma where sufficient responses were returned.

In general, rates continue to increase despite fuel prices remaining roughly the same as 2011. Higher labor costs as well as machinery repair and ownership costs contribute to higher rates. Reported custom rates are quite variable. For instance, while the average charge for application of dry bulk fertilizer was \$4.85 per acre, the range of reported charges was \$2-10 per acre. No-till drill-

ing of small grains averaged \$14.50 per acre with a range of \$10-20 per acre. Rates for a variety of other field operations, tractor and machinery rental, and miscellaneous activities are reported in the publication.

The results are published in CR-205, "Oklahoma Farm and Ranch Custom Rates, 2013-2014". See <http://pods.dasnr.okstate.edu/docushare/dsweb/> for details. At the Search prompt at the top right of the screen, enter Custom Rates. The publication also includes a worksheet designed to help users calculate their costs of ownership and operation in determining the appropriate custom rate to charge.

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