

# Beef Cattle Handbook



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## Retained Ownership: Discussion and Alternatives

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Retained ownership is a marketing strategy that involves maintaining ownership of cattle beyond the traditional marketing time. A traditional marketing time for many cow-calf producers is weaning. The length of time calves are retained can vary considerably depending upon the goals of the cow-calf producer. Calves may be retained for only a couple of months to shift income into the next year, or ownership may be maintained until the animals are shipped for processing.

Retained ownership may occur on your own farm or ranch, on a neighbors pasture or feedlot, or in a custom feedlot that may be some distance from your operation. Often full ownership of the cattle is maintained, but this does not have to be the case. Custom feeders or individuals with surplus pasture may be willing to form partnership arrangements on the cattle. These agreements are usually based on sharing the returns in the same proportion as the contribution to the feeding enterprise. If full ownership is retained, then the method of payment with the neighbor or custom feedlot needs to be negotiated. Several common arrangements are 1) feed costs plus yardage, 2) feed mark-up, 3) price per pound of gain, or 4) price per head per day. There are advantages and disadvantages to each of these payment methods, and the parties involved need to carefully consider who is bearing the risk and adjust payment accordingly.

Several retained ownership strategies, or pathways, exist (Figure 1). Weaned calves can be 1) dry lotted at the ranch, 2) placed on wheat pastures, 3) backgrounded in a feedlot, or 4) fed out in a feedlot. Dry lotted calves and calves on wheat pastures can be sold, placed on summer

grass, or fed out in a feedlot before shipping.

Backgrounded calves can either be sold or finished in a feedlot and calves coming off summer grass can be sold or finished out in a feedlot. It is extremely important for producers and their lenders to clearly understand the advantages and disadvantages of a specific retained ownership strategy and the type of cattle that will work best in each strategy. The stage of the cattle cycle will also affect this decision.

### Profitability

Cattle-Fax has estimated the average profitability of retaining a 475-pound calf in each of these alternatives from 1980-1993, Table 1. Year to year variations in profit can be expected because the price relationship between calves, feeders, and slaughter cattle is not constant. Feeding costs also vary due to changing feed prices and environmental conditions that alter animal performance.

### Genetic Differences

Within year variations can also occur because not all calves are created equal. Weaning weights and performance through the retained ownership program will vary based on genetics and prior management of the calves. In a retained ownership demonstration in South Dakota, the background, background to feedlot, and direct to feedlot alternatives were evaluated. Average profit and the range in profitability for 1991 are displayed in Table 2.

When is retained ownership profitable? What type of cattle are most suitable for each type of program? Each of the retained ownership alternatives will be dis-

Figure 1. A Schematic of Possible Retained Ownership Alternatives. Sales Can Occur Between Each Box.

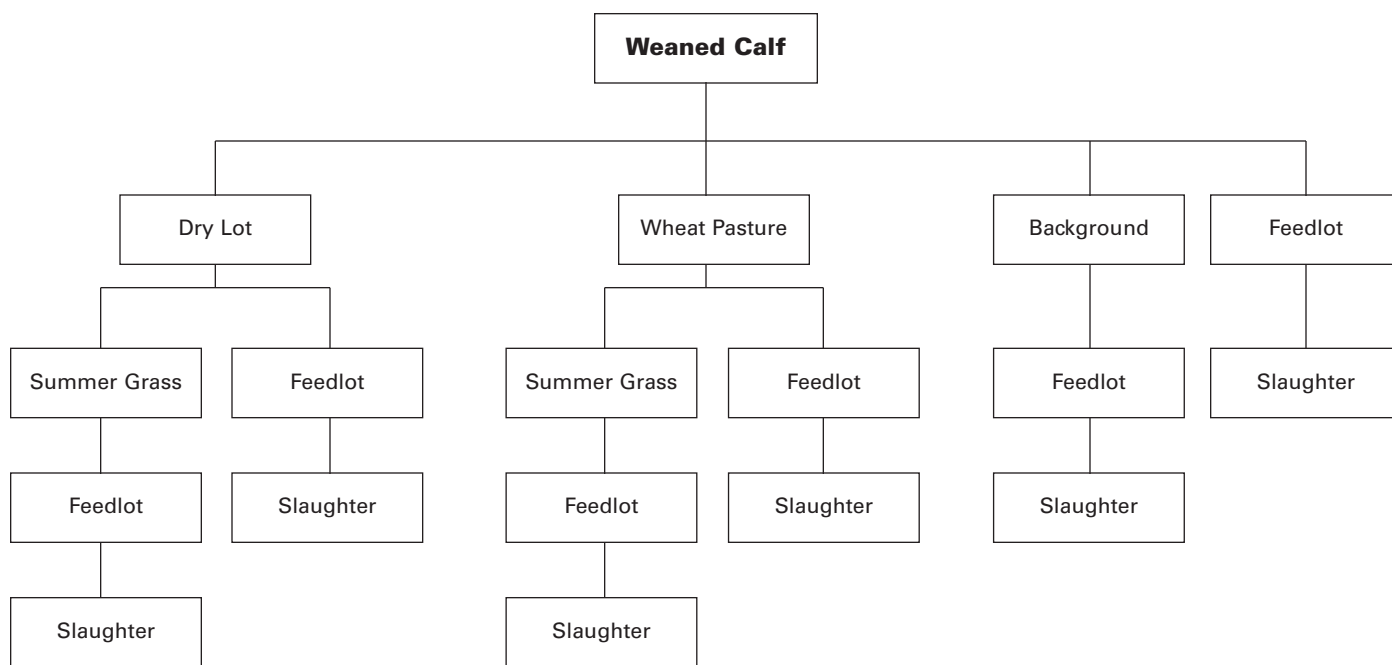


Table 1. Retained Ownership Profits per Head from 1980-1992.

Program	Average Profit	Best Year	Worst Year	Years Profitable
Dry lot	-32	24	-106	3/13
Dry lot to Grass	33	136	-78	9/13
Dry lot to Feedlot	1	131	-117	7/13
Dry lot to Grass to Feedlot	33	139	-113	8/12
Wheat pasture	35	78	-21	11/13
Wheat to Grass	84	163	-25	12/13
Wheat to Feedlot	55	153	-68	10/13
Wheat to Grass to Feedlot	92	175	-40	12/13
Background	5	74	-98	5/13
Background to Feedlot	0	151	-134	5/13
Direct to Feedlot	67	213	-32	10/13

Source: Cattle-Fax, Englewood, Colorado

cussed briefly and the type of cattle that may work best in that program will be identified in this fact sheet.

### Dry Lot

Many producers choose to dry lot calves at a fairly low rate of gain, usually 1.0 lb/day, to utilize surplus labor and roughages not used by the cow herd. If there is not a viable market for the feed, and if labor can not be employed elsewhere, then this alternative can be attractive for those producers. As shown in Table 1, dry lotting and selling may not be very profitable. However, in years when, or in areas where, a high feeder cattle price is expected in the spring, this alternative can be more profitable. Research has also

Table 2. Variations in Profit per Head on Three Retained Ownership Programs in 1991.

Program	Average Profit	Best Pen	Worst Pen
Background	-1.84	51.14	-62.03
Background to Feedlot	16.69	57.26	-39.57
Direct to Feedlot	38.75	131.36	-56.75

Source: South Dakota State University Retained Ownership Demonstration

shown that this type of program is better suited for younger and lighter calves. Heavy calves with the abil-

ity to grow rapidly will be more profitable in other retained ownership alternatives.

Generally, dry lotting is most profitable if the cattle are put on summer grass following the dry lot program. Younger lighter calves that have been dry lotted at a low rate of gain often experience compensatory gain through the summer. The cost of gain on summer grass is much lower than most of the other alternatives. Most of the profit on these calves can be gained if they are sold as yearlings coming off grass. However, Cattle Fax has estimated that an additional \$5/head can be earned on average by going on into the feedlot following the summer grass program. The decision to sell as a yearling or go on into the feedlot should be evaluated each year depending upon the market conditions.

Going from a dry lot program into a finish feeding program has not been profitable on average. These calves are typically ready for shipping in the latter part of the summer when prices are often at the low point for the year. In general, if the calves are of the type that they will be too large following a summer grass program, then it will be more profitable to retain them in a program other than the dry lot program.

### **Wheat Pastures**

If a producer has wheat pasture available, this is a very valuable resource in a retained ownership program. Returns from retained ownership on wheat pasture offer some of the most profitable returns. The amount of loss suffered in the worst years also is generally lower with wheat pasture. Producers who don't have wheat pasture available would need to consider transportation costs into their profits from this alternative.

It is generally more profitable to take lighter calves on to grass following the wheat pasture rather than to go directly to the feedlot. Lighter cattle that go to the feedlot following wheat pasture tend to be shipped for processing in late summer when prices are at their seasonal low. By going from wheat pasture to grass, producers are able to put a lot of weight gain on cattle with very little labor and feed costs. Calves that are heavier and carrying more flesh should probably be placed in the feedlot after grazing on wheat pasture.

### **Background**

From Table 1 and Table 2 it is apparent that the background only program is essentially a break-even alternative. For producers looking to sell corn and silage through their cattle, a break-even program will accomplish their goal. However, to send cattle to a custom lot to be backgrounded may not be the best alternative. Sending cattle on to a finish program after the background program does not improve the chances for profit.

In the trial at South Dakota, it was found that lighter steers that were backgrounded and sold were more profitable than heavy steers. It was also determined that for steers to be backgrounded and then finished in the feedlot, the ability to grade choice was a key to profitability. These cattle are typically marketed in the early

summer when the price is falling from spring time highs. The choice-select spread tends to widen, thus, if cattle will grade choice they will be more profitable in this alternative.

### **Direct to Feedlot**

Cattle producers who have selected genetics on the basis of high EPD weaning weights and yearling weights need to give their calves a chance to grow and be challenged. Heavier calves at weaning, and calves with the ability to gain in excess of 3.0 lbs./day tend to be profitable in an accelerated feeding program. These cattle can be ready for shipping in the spring when prices are often at their peak for the year. The choice-select spread also is generally smaller during this time of the year.

Lighter, younger calves may not be well suited for this program. One problem occurs if the cattle reach finished condition, in terms of fatness, before an acceptable carcass weight for processing is reached. This problem tends to be even more pronounced if lighter heifers are placed on this program.

### **Summary and Conclusions**

Retained ownership of calves is a viable market alternative for cattle producers. The advantages may include: 1) compensation for superior genetics, 2) reduction in market inefficiencies, 3) increased quality control in beef, 4) reduction in market risk for frost or drought-damaged crops, and 5) reduction in profitability peaks and valleys associated with cattle cycles. Retained ownership of cattle is not without problems. Disadvantages can include 1) risk due to declining cattle markets, 2) increased risk of poor performance due to poor genetics, health problems or deteriorating environmental conditions, 3) increased financing requirements, 4) potential tax problems, and 5) legal arrangements with potential commercial feedlot operators.

Several retained ownership alternatives exist and the most profitable alternative will not only depend upon the market prices for the year, but also on the type of cattle. Each producer needs to keep data on performance through the retained ownership process. If the cattle are not profitable, then a different retained ownership alternative may need to be considered, changes may need to be made in the genetics of the herd, or the calves may need to go to the sale barn.

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