

Leverage Genetic Value

Retained ownership offers a variety of advantages.

by *Wes Ishmael*

“When you sell your calves to me, you’re selling two-thirds of the genetic value of those calves,” says Lee Mayo, general manager of HRC Feed Yards LLC at Scott City, Kan. “If you’ve done a good job buying bulls that move the needle in your herd, and you’ve spent years applying selection pressure, why would you let someone else take advantage of all of the time, money and resources you spent trying to make a better product?”

His example references a producer selling calves weighing 500-600 pounds. The cattle feeder will then grow them by another 800-1,000 pounds, so the feeder capitalizes on roughly two-thirds of the calves’ genetic potential.

Like managers of other custom cattle feedlots, Mayo wears plenty of hats, and his role changes depending on which side of the trade he’s representing. If he’s buying cattle for clients or to feed himself, his job is to buy cattle as cheaply as possible. Conversely, he and his crew work hard to make as much money as possible on every head they feed, no matter the owner.

Both are reasons why he encourages cow-calf producers to consider retaining ownership in their cattle through the feedlot, especially those focusing on genetic improvement.

Numbers matter

Producers forego retained ownership for a number of reasons, from cash flow and risk tolerance to not knowing how their genetics will perform in the feedlot and on the rail. Another common reason has to do with raw numbers.

Feedyards deal in load lots which fill pens, which can number in the hundreds. Although it varies, figure that 50,000 pounds make a potload

of feeder calves. That’s equivalent to 100 calves weighing an average of 500 pounds, 83 head weighing 600 pounds and so on. The more same-sex, similar-weight and class cattle a producer can offer, the more value they have to buyers.

While there are rare exceptions, Mayo explains, “You’re not going to top the market with five or 10 head, no matter how good they are.” When sellers offer less than a load lot, he says they can usually expect a discount of \$3-\$10 per hundredweight (cwt.). The discount can be as much as \$20 for groups of five head or fewer.

Although it requires coordination, Mayo points out, retained ownership enables producers with less than a load lot to avoid the discount by building loads with other producers. Keep in mind commingled groups need to be same-sex, same-class and similar weight — within about 100 pounds of each other. The number of owners may also limit partnership options with the feedlot.

Many custom feedlots are willing to partner with owners on a percentage of the cattle. At HRC, they prefer to partner on single-owner groups but will consider partnerships if there are two or three owners, depending on the situation.

Owners of Hereford and Hereford-influenced calves have another option. HRC feeds all of the cattle enrolled in the American Hereford Association’s Hereford Feedout Program (Hereford.org/genetics/breed-improvement/feedout-program). Participants send as few as five head to the yard where they are commingled with other cattle in the program. As with others owning cattle, participants receive monthly feed bills, which include health cost, as well as

individual carcass data after the cattle are harvested.

Mayo and others provide an insightful introduction to cattle feeding in educational videos available at Hereford.org/2021/01/2021-njha-fed-steer-shootout-videos.

Minimal cost up front

Whether or not they share ownership, feedlots, like HRC, often finance any or most of the cost, including the cattle themselves.

“The financial risk is minimal,” Mayo says. He explains the variety of price risk management tools available through the feedlot, such as hedging with futures contracts and Livestock Risk Protection insurance, allow owners to choose the risk level that suits them.

Mayo also points out retained ownership offers owners unique tax advantages, including the ability to defer income from one year to the next.

Health trumps all

Short of retained ownership in the feedlot, Mayo says, “Backgrounding is key and something cow-calf producers can do that adds so much value. A calf weaned 60-90 days in the fall and selling in December is worth \$20 per cwt. more to you. Get the weight and sell more pounds at a higher price.” Much of the premium is based on reduced health risk.

If you retain ownership, Mayo emphasizes preparing calves for the feedlot from a health standpoint.

“Get the health program right, use two rounds of modified-live and a 7-way clostridial vaccine,” he says. “If you’ve already doctored a calf two or three times at home, it’s not a good idea to put him on the truck and expect success at the feedlot.” **BA**