

Considerations for making a profit with stocker cattle

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Introduction

The southeast is home to more than 7.3 million beef cows (USDA 2018). At an estimated 80% weaning rate and 20% heifer retention, the southeast region would be expected to produce more than 4.6 million feeder calves that would go to market in 2018. The cow-calf industry in the region provides an opportunity for the stocker and backgrounding operations to co-exist. Much of the land in the region is best suited for forage and pasture production, which at the current moment, provides a low cost feed for adding pounds to light weight feeder cattle. Yet, the stocker and backgrounding segments are subject to market volatility and the economic risk is greater than the cow-calf segment. The economic risk makes these systems less attractive and being successful financially is challenging.

Definitions

For this paper, the stocker and backgrounding enterprises will be defined as follows. Stocker cattle enterprises aggregate the many small groups of young, light weight feeder calves that are marketed in the region into larger, uniform lots. Management is applied which may include castration, dehorning, aborting, administering preventative health protocols and other husbandry practices that were neglected prior to marketing to add value. This segment adds weight to light weight feeder cattle utilizing pasture forages without or with a small amount of grain/concentrate supplementation. This last point is what differentiates the stocker enterprise from backgrounding enterprises.

Backgrounding enterprises are similar to stocker operations in that the focus is securing small lots of light weight feeders and applying management to upgrade the value when marketed in the future. The contrast between these two industries is backgrounding enterprises are confinement or semi-confinement operations that are not seasonal and they rely heavily on low cost conserved forages and commodity feedstuffs. The main difference is confinement versus pasture-based production systems.

Aggregation is likely the greatest area that these enterprises capture financial gains. Kentucky's 1 million beef cow herd is spread out over some 38,000 beef operations. These figures reveal the average beef cow-calf operation manages slightly less than 30 cows. The average weight spread of a calf crop will exceed 200 pounds between the lightest and heaviest calf resulting in multiple lots at selling in addition to the split based on sex. It would not be uncommon for 28

calves to be separated into four or more marketing groups. Arkansas and Wisconsin feeder cattle market studies reported that 94% and 82% of feeder cattle lots contained 5 or fewer calves (Barham and Troxel, 2005 and Halfman et al., 2009, respectively). Market research clearly demonstrates that fewer calves in a group at marketing bring less price than larger groups that approach 50,000 pounds. As simple as it seems, the ability for stocker operations to sort cattle into more uniform type and weight marketing groups is one of main value addition mechanisms.

Calf Type

In a 2010 NAHMS survey, 60% of feeder calves marketed had not been weaned prior to marketing. A study of feeder cattle sold in Arkansas markets reported that 14% of lots were bulls and only 3.3% of all lots sold were preconditioned calves (Barham and Troxel, 2005). Halfman et al. in 2009 reported that only 5% of lots marketed in a Wisconsin market were announced as being weaned illustrating a similar trend in the Midwest that few feeder calf lots are marketed as weaned. Managing calves through the weaning phase is another area that the stocker and backgrounding enterprises can capture value. One could argue this is also an area that operations could lose money if calves are not managed properly leading to high morbidity and mortality.

Purchasing bulls has been an avenue many stocker and backgrounding programs have found a way of adding value. Bulls typically sell for a discount in relation to steers, though this is not always the case. The discount offered for bulls is due to the fact that bulls after castration perform less than steers for 14-30 days post-castration. Additionally, these calves tend to have a greater morbidity and mortality rate compared to steers associated with the stress from castration. These factors are frequently built into the prices offered at purchase. However, following the recovery period from castration, these now steers, will perform well and at the time they are remarketed have gained in value when sold at the higher steer price. This is one of the most basic management value capturing opportunities the stocker and backgrounding industries capture.

Some stocker operations find value in heifer procurement. Due to lower performance and feed conversion rates, heifers are discounted in price compared to steers. In some instances, the discount may be large enough that stocker operations can find a greater profit margin than steers. Additionally, many stocker operators will purchase heifers for the opportunity to diversify marketing options in the future. A steer only has one market, the feedlot. A heifer could be developed into a replacement female or be marketed to a feed yard. During years of herd expansion, stocker operations may choose to develop and market replacement heifers as they receive a greater value over a feeder heifer.

Lastly, the common industry term of upgrading can be a mechanism of capturing value. This often applies to a USDA feeder calf grading system of muscling. The numeric system is 1-5 with heavy muscled calves receiving a 1 and very light muscled, dairy-type calves receiving the

higher values. Light muscled feeder calves receive a greater price discount due to the anticipated lower meat yield. In many instances, the genetics are present for improved muscling than what is observed in these light feeders. Malnutrition often is the cause for lighter muscling and following a period of increased nutritional plane, these feeder calves will increase in muscling score by a point. At the time of remarketing the feeder calves purchased as a muscle score 3 are then sold as a 2 improving their value. This is a smaller opportunity for value addition, but nonetheless another mechanism to increase profitability.

Health & Management

Unweaned, light weight calves are a higher risk category from a health perspective. The stocker cattle manager must be prepared to manage this type of calf to be successful. Early detection of sickness is key. In many instances, bovine respiratory disease (BRD) is the major challenge operators must manage. However, this is a multi-faceted disease that includes viral and bacterial pathogens along with nutritional status. Many operations may observe treatment rates of 20-50%.

To manage health challenges, the manager will need to consult with their local veterinarian. In doing so the veterinarian and producer can establish a valid patient-client relationship. This process should include development of health protocols. These protocols will include vaccination products for respiratory disease, clostridial diseases, internal and external parasites and other preventative health procedures. Additionally, the development of treatment protocols for BRD, pinkeye, footrot, bloat and other disorders should be established. This will allow the producer to know which product to use in the second and third treatments for BRD.

The relationship with the veterinarian should also include an evaluation of treatment success rates. The evaluation of repulls/retreats from the veterinarian can allow for determining if health protocols need to be altered to improve success rates. The greater the success rate from the first treatment, the lower the risk of a mortality as well as a reduction in medication costs for retreats. Fecal floats can be performed 14 days following treatment for internal parasites to determine efficacy rate as well. The veterinarian is an often overlooked tool for improving profits in a stocker enterprise.

Forage Management

Likely the simplest forage management consideration to improve profitability of a stocker operation is to ensure adequate forage is available so that intake is never limited. Appropriate stocking rates will need to be managed to ensure forage doesn't limit intake and subsequently performance. Stocking rate will vary depending on the size of the animal, forage species production potential, soil fertility, soil moisture and other factors.

Dilution of fescue infected with the wild-type endophyte is another management consideration. Pasture evaluation to determine the percentage of fescue in the fields as well as the percentage

of infected fescue will allow for making management decisions. Often we naturally assume pastures are 100% infected tall fescue when in reality the infection rates may be 80-90% and other forage species such as bluegrass, clover, bermudagrass and other forages may be present. A simple pasture renovation for diluting fescue that is recommended often is interseeding of clover. Recent studies indicate that the clover effect on animal performance may not be solely due to dilution, but could be also be due to other physiological responses.

Maintain desirable forages for cattle. Although cattle can be trained to consume weeds, in stocker operations the continued turnover of livestock with new calves limits this strategy. Thus, concentrate on maintaining soil fertility and interseed pastures as needed to ensure thick diverse sward of forage is available for grazing. Visit with an agronomist and / or weed specialist to determine effective weed control strategies. In many cases, this will likely not be just mowing.

Technology

As with many other agricultural enterprises, technology allows for the opportunity to improve profit margins. There are fewer technologies available for stocker operations, but there are very effective technologies to consider. Examples include growth promoting implants, ionophores, eartags that monitor temperature/movement, drones, and other items. With any technology, the decision to use or avoid should be based on economic and ethical rationale. One can choose not to use a technology even though it doesn't make economic sense if the technology has not been proven to be safe or would negatively impact health and well-being of the animals or other individuals. Growth promoting implants and ionophores are likely the two most heavily research proven technologies that stocker enterprises have available to them today.

Buy Them Right

I have often heard it said that the money is made in the stocker enterprise at the time the cattle are purchased. Essentially, this refers to the industry being a thin margin business. Cattle can be contracted or another form of economic risk management strategy can be utilized to protect market risk. Little changes will occur in feed/pasture prices, health products, and other inputs over a short period. Knowing the possible market price and input costs allows one to work out a budget. This budget process will identify the purchase price that one can offer for calves. Strict adherence to the purchase price will increase the opportunity for making a profit. I was once told by a farmer-feeder after I mentioned determining the break-even price on a set of feedlot steers the following "I don't do anything to breakeven. If I can't make money doing it why would I work so hard to make nothing." This was early in my career, but has been engrained in me since. When working through the budgets, be sure to include a realistic return per head when determining your purchase price.

Conclusion

Though this is a vague overview of the basics that may impact profitability of a stocker enterprise, it should lay the ground work of the items to evaluate for those considering entering the stocker industry. The stocker industry can be very rewarding, both from a lifestyle and financial stance. However, this higher risk business is not suited for everyone. Contemplate your management strengths and determine if this industry is the right choice for you.

