

stockerFACTS

Paying for Reduced Risk

The added value of preconditioned calves in the stocker pasture has plenty to do with length of ownership and marketing plans.

ESSENTIALS:

- Estimate the Net Value
- Define the Terms of Preconditioning

If it's true you must spend money in order to make more jingle, then buying preconditioned calves for the stocker pasture should offer added opportunity, in theory at least.

After all, while there is little stocker-specific data, it would be easier to find a cactus needle in quicksand than ferret out folks to quibble over the increased performance and decreased health cost preconditioned calves bring to the feedlot, versus their fresh-weaned peers.

As an example, in the ongoing Texas A&M University Ranch-to-Rail program — commonly accepted as an industry benchmark for this kind of data — cattle that must be treated in the feedlot even once are worth \$15.09/cwt. less entering the feedlot than those that remain healthy. That's across nine years and 17,000 head of cattle.

Likewise, a Colorado State University study compared the added net value of purchasing and feeding calves from value-added calf programs in Kentucky with calves purchased from auction markets in the same region. The net return to feeding for the two groups of pre-conditioned calves was \$46.83 and \$49.54 per head more for the preconditioned calves. So, at 550 lb. the returns represent increased worth on the buy-side of \$8.53/cwt. and \$9.00/cwt. respectively. Keep in mind, the figure is for net return to

feeding through the feedlot. The returns at stocker level would presumably be less.

Similarly, research from Oklahoma State University surveyed members of the Texas Cattle Feeders Association as to how much extra they were willing to pay for calves that were the product of defined preconditioning programs. Respondents — 19 feed yard managers — reported that on average they would be willing to pay \$5.25/cwt. more.

Overall, according to Kevin Dhuyvetter, an agricultural economist with Kansas State University (KSU), “Based on limited data sets such as these it would appear the value of preconditioned calves is somewhere between \$40 and \$60 per head in the feedlot, which equates to a price premium of \$7-\$11/cwt. that could be paid for the calves.”

Estimate Value Based on Time and Morbidity

Based on experience the past few years and large data sets, such as the one assembled and maintained by Superior Livestock Video Auctions, it appears buyers are willing to pay in the neighborhood of \$3-\$5/cwt. for preconditioning programs that include a weaning period before market. The fact this premium accounts for substantially less than the value these cattle can add to performance and reduced health costs, as cited earlier, is due at least in part to the fact that even with preconditioned calves buyers

still assume health risk. In other words, all non-preconditioned calves won't get sick, nor will all preconditioned calves remain healthy.

With that in mind, Dhuyvetter points out estimating the net economic impact of purchasing preconditioned calves must include estimating the impact on morbidity rate.

For instance, using the TAMU Ranch to Rail data, Dhuyvetter calculates each percentage change in morbidity equates to a change in net value of 92 cents per head (Figure 1). In other words, if 100% of the calves got sick, their net income would represent a loss of \$10.83 per head. If none got sick, the net income would be \$80.94 per head. The 100% difference at 92 cents for each percentage point equals the \$92.00 per head difference in net income. A 10% change in morbidity would represent a \$9.20 per head difference and so on. Again, this is based on a specific set of data.

Carry this a step further, using these same numbers, if a set of preconditioned calves serves up 7% less morbidity, say, that would be equivalent to an extra \$6.44 per head, or about \$1.17/cwt. (basis 550 lb.), which would make it difficult to pay the \$2-\$5/cwt. premium mentioned earlier. Plus, this is based on cattle coming out of the feedlot, rather than the stocker pasture. If the same 550 lb. calves serve up half the morbidity, the resulting \$46 per head increase (\$8.36/cwt.) makes the price increase seem like a bargain.

In sum, estimating the net value of buying the assumed lower risk of pre-conditioned calves must include a feel for the morbidity rate of specific programs versus calves that aren't preconditioned, along with a sense of what healthy calves in a particular program are worth versus those that must be treated.

Define the Terms

Estimating the value of a particular pre-conditioning program obviously necessitates understanding the specific of that program. In other words, preconditioning programs can vary widely. For instance, the Superior Livestock Video Auction data set accounts for two classifications of pre-conditioning: cattle receiving specific vaccinations at specific times and weaned at least 45 days prior to market; cattle

receiving specific vaccinations 3-4 weeks prior to weaning, then shipped. Other programs represent different variations of that.

As such, pre-conditioning really represents a value continuum. The more that is done in preconditioning to reduce health risk, typically the more those cattle are worth and the more premium buyers are willing to pay in order to get the cattle, compared to cattle that aren't preconditioned.

This reality is illustrated by the average premiums paid for preconditioning in Superior Livestock Video Sales over time. The VAC 45 cattle bring approximately twice as much price premium as those that fit the VAC 34 designation (Figure 2).

Defining the terms also applies to length of ownership when estimating the worth of owning preconditioned calves. Although there is little stocker specific data available, cowboy logic says operators should have a chance to earn some of the added return that cattle feeders do. Moreover, that same logic says the longer you own preconditioned calves the more opportunity you have to leverage the input cost and extract the added value in them.

As an example, it makes sense that a stocker operator purchasing preconditioned calves for a 120-day winter program, followed by 90 days of summer pasture, will have more opportunity to recoup the price premium paid for preconditioning than the operator who owns the same cattle only through a winter wheat program.

Given the negative impact cattle sickness has on ultimate carcass quality, it also makes sense that in either of these situations the stocker operator who retains ownership through the feedlot will have the most opportunity of any to get back the price premium.

For perspective, in the TAMU Ranch to Rail data, since 1992 healthy calves have yielded 41.9% USDA Choice quality carcasses versus 29.2% for the cattle that had to be treated even one time. Cattle that got sick served up 9.2% of the profit-sucking USDA Standard quality carcasses, compared to 4.9% for the healthy cattle.

Another way of looking at it is that the shorter the period of time that stocker operators plan to own

cattle, the more need they will have to receive a price premium at the time of sale in order to recoup the price premium paid for preconditioned calves.

Consider the Alternatives

Finally, different stocker operations can justify paying extra for preconditioning or passing on it based upon their management goals, coupled with their resources and the cattle available to them.

As for management goals and resources, a stocker operation in business to straighten out and start calves may see little value in paying someone else to do the job they have the expertise and will to perform. Conversely, a stocker program that operates as a secondary enterprise may find more value in low-risk, low-labor preconditioned calves than the expected increased performance return.

Similarly, if a stocker has access to loads of single-iron, fresh, healthy calves with a history of low morbidity, it may be difficult to justify paying a premium for preconditioned ones. On the other hand, if the only other buying option is put-together cattle of unknown origin, it may be easier to place a price on risk, which is more definable.

BOTTOM LINE: There is little question that preconditioned calves can reduce health risk, thereby reducing health costs and boosting performance. How much that advantage is worth has everything to do with how long you plan to own them and how much morbidity can be reduced with calves from a particular program.

Literature Cited

Dhuyvetter, Kevin, *Preconditioning Beef Calves: An Economic Analysis*, Kansas State University, 2003

Lalman, David, et al, *Effects of Preconditioning on Health, Performance and Prices of Weaned Calves*, Oklahoma State University, 2001.

For more information and fact sheets pertaining to other topics of interest to stocker operators, visit www.beefstockerusa.org.

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AUTHORS:

Wes Ishmael, Clear Point Communications

Kevin Dhuyvetter, Agricultural Economist
Kansas State University
kcd@ksu.edu

FIGURE 1.

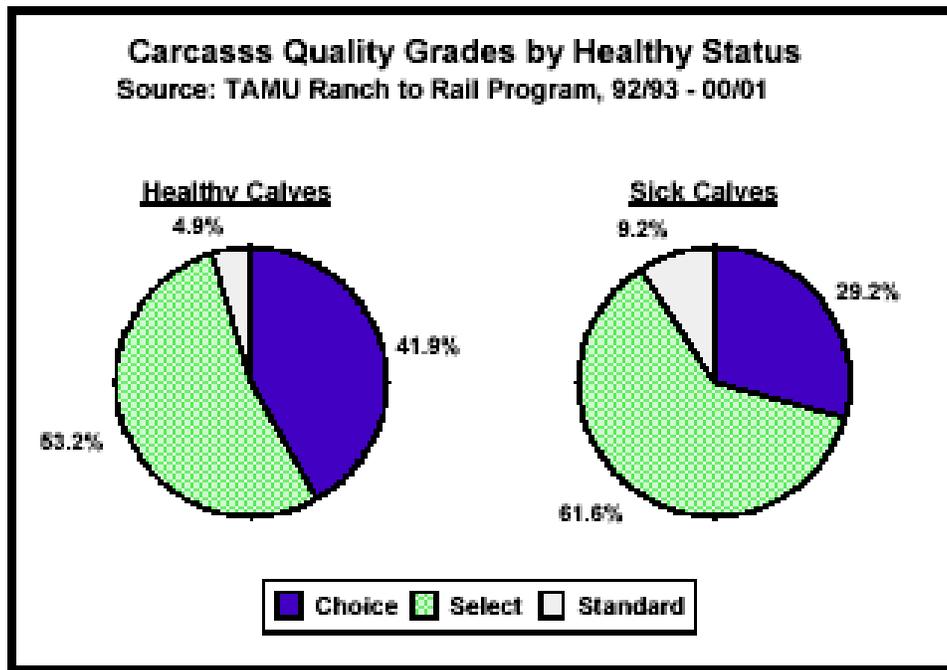


FIGURE 2.

