

Value Added Calves

Value is created when you produce a product that meets or exceeds the expectations of the customer. Meets or exceeds their expectations **every time**, not just on the average. Value based marketing has been a buzz word in the cattle industry in recent years. Producers complain that they get average prices in the market place for superior genetics and that they don't receive a premium for delivering a product to the market that has been managed to perform above the average of the industry.

In order to justify and establish relative values, you first have to identify that it exists and determine the cost:benefit ratio of creating the relative value. Once it has been established that relative value exists, you have to market that product to a customer that appreciates the product you have to offer who in turn can benefit financially so he will be a repeat customer.

The cattle industry is a segmented business in which most calves lose their identity in the market channels. There is little feedback of information to cow-calf producers on how their calves fit the needs of the beef industry and the type of end-product -- beef -- they produce. The Texas A&M Ranch to Rail program is an information feedback system that allows producers to learn more about their calf crop and the factors that determine value beyond the weaned calf phase of beef production. It provides an opportunity to determine how their calf crop fits the needs of the industry and provides the information needed to determine if changes in genetics and/or management factors are warranted in order to be competitive in beef production. It helps them establish the relative value of their calves compared to the industry norm.

In Ranch to Rail the average net return over a five year period has been \$37.54 per head. This sounds good, but when you get to examining the variability you discover that there is tremendous room for improvement in consistency and quality since the average net returns per head for the 1,197 participating ranches ranged from +\$307.03 to -\$310.01.

Performance factors such as average daily gain and feed efficiency are important since they impact feed cost of gain. However, one of the main things demonstrated in the Ranch to Rail program was the impact of health on the ability of steers to express their genetic potential and the costs associated with sick cattle beyond the cost of medicine. Shown below is a five year summary of the impact of health on performance, profits and quality grade.

Profits and Carcass Quality

	<u>Sick</u>	<u>Healthy</u>
Head	3,202	9,393
Death Loss	3.4%	0.5%
Average Daily Gain, Lb.	2.78	2.96
Total Cost of Gain, \$/Cwt.	\$65.96	\$56.68
Medicine Cost/Head	\$31.33	\$ 0.00
Net Return/Head	-\$31.97	+\$61.23
Quality Grade		
Choice	29%	39%
Select	63%	56%
Standard	8%	5%

Difference in Value

Healthy	+\$61.23
Sick	<u>- \$31.97</u>
Difference	\$93.20

Average In Weight of Sick Steers = 571 Lbs.
 $\$93.20 \div 5.71 = \$16.32/\text{Cwt.}$ Less as Feeders

Healthy steers had an average of \$93.20 more favorable return. Steers that got sick averaged 571 pounds upon arrival at the feed yard. To recoup the difference in net return, they should have been priced at \$16.32 less per cwt. when placed on feed. Medicine costs averaged \$31.97 for the sick steers. This is a significant factor since 26% of the calves required treatment for respiratory disease. The remaining difference of \$61.87 (\$93.20 - \$31.33) was due to reduced performance, increased feed cost of gain, higher interest expense and lower quality grades. The fact that healthy steers cost of gain was 14% lower resulted in them making substantial profit while the steers that got sick lost money and produced lower quality carcasses. This vividly points out the need to adhere to a sound health management plan. By implementing a sound vaccination program at the ranch of origin, you are adding value to your product, helping increase the consistency and predictability of your calves, and you are providing them the opportunity to express their genetic potential.

This variability in health is built into the calf market. Buyers factor this into what they are willing to pay since they buy calves as a commodity. There are cattle feeding operations that are willing to pay relatively more for properly immunized, properly backgrounded cattle of good quality. The amount they can justify is dictated by the increase in value it benefits them and the volume of similar cattle available to be able to manage them as a unit.

The Ranch to Rail database provided the information that led to the development of the Value Added Calf Vaccination Management Programs (VAC). There are various options and each of the options

have relatively different values and benefits. Producers need to determine the option that best fits their operation **and is of value to their customer**. Remember, value is created when you produce a product that meets or exceeds the expectations of the customer.

You can't manage what you can't measure

and

You must compare your measurement against
some relevant standard to determine
where you are and where you need to be.