

# FARM TO FORK: FINISHING AND MARKETING CATTLE ON THE RANCH RETAINED CATTLE OWNERSHIP STRATEGIES

**COORDINATORS: MRS. RACHEL CUTRER  
DR. RICK MACHEN  
DR. JASON SMITH**

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VALUE ADDED PROGRAMS



TEXAS A&M  
**AGRI**LIFE  
EXTENSION







[AgriLifeExtension.tamu.edu](http://AgriLifeExtension.tamu.edu)

# WHERE'S THE BEEF?

## Legal and Economic Considerations for Direct Beef Sales

Justin Benavidez, PhD

Tiffany Dowell Lashmet, JD

Garrett Reed, JD

Elizabeth Rumley, JD

Sarah Patterson, JD

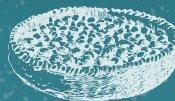


GO TEXAN.®

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# PARTNER BENEFITS GUIDE

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## **YOUR GO TEXAN PARTNER BENEFITS**

include promotional opportunities,  
connections to funding, workshops,  
networking, and access to some of  
the largest events in Texas.



**GO TEXAN.<sup>®</sup>**

**ADDITIONAL PARTNERSHIP  
BENEFITS ARE  
OUTLINED INSIDE.**



## PROMOTIONAL OPPORTUNITIES

- ▶ Recognition on our GO TEXAN social media platforms (@gotexan), reaching over 91,000 fans.
- ▶ The opportunity to be featured by our GO TEXAN Brand Ambassador, Chet Garner (The Daytripper), on his social media platforms and [blog](#).
- ▶ Sell your GO TEXAN products on our e-commerce site, the [GO TEXAN Market](#), for FREE.
- ▶ Participate in retail buyer meetings with grocers like H-E-B, Brookshire's, Aldi, etc.
- ▶ Participate in international inbound trade missions.
- ▶ Receive five professional images of your products FREE of charge through the [product photography](#) initiative, when you donate your products to GO TEXAN.
  - ◊ When you donate your products, GO TEXAN will use the products for giveaways and other promotional initiatives.
- ▶ Free or discounted advertising in publications such as the *Houston Chronicle* or *Cowboys and Indians* magazine.
- ▶ Participate in our Texas Independence Day and Holiday Gift Guides that are sent to over 25,000 email subscribers.





# USE THE GO TEXAN MARK

on your packaging, labels, products, website, etc.  
Mark guidelines can be found [here](#).

## ACCESS TO FUNDING, WORKSHOPS, AND NETWORKING OPPORTUNITIES

- ▶ Participate in GO TEXAN's exclusive tradeshow, networking and workshop event, the [GO TEXAN Expo](#).
- ▶ Apply for various reimbursement grants, such as Event Grants, Farmers Market Assistance Grants and the GO TEXAN Marketing Enhancement Grant Assistance (MEGA) Grant, etc.
- ▶ Access to advisors at the University of Texas at San Antonio Small Business Development Center (UTSA SBDC) that can provide in-depth technical assistance on marketing and sales, access to needed capital, accounting and bookkeeping, human resource management and strategic planning for GO TEXAN businesses.
- ▶ Our GO TEXAN monthly newsletter is sent to all GO TEXAN Partners and provides information on exclusive opportunities to participate in upcoming events.
- ▶ Quarterly Partner Meetings where every Partner is invited to learn all about what GO TEXAN is doing to better serve you and your business.
- ▶ Network with other GO TEXAN Partners and the GO TEXAN team in our Exclusive [Partner Facebook group](#).
- ▶ Access to 11 regional outreach specialists who can help answer questions, share opportunities, and make connections.

## HIGHER-TIER PARTNERSHIP

**Interested in upgrading  
your tier level?**

Request to upgrade through  
[gotexan@TexasAgriculture.gov](mailto:gotexan@TexasAgriculture.gov)

- ▶ First access to all GO TEXAN-hosted events such as stock shows and rodeos, the GO TEXAN Pavilion at the State Fair of Texas, etc.
- ▶ Individual consultations with the GO TEXAN team to advise on how best to utilize your GO TEXAN partnership.
- ▶ Prominent listing in relevant digital publications.
- ▶ Company logo on the GO TEXAN Partner [search webpage](#).
- ▶ Prominent placement of your company logo on the [GO TEXAN website homepage](#).
- ▶ Customized marketing benefits.



## ACCESS TO SOME OF THE LARGEST EVENTS IN TEXAS

- ▶ Attending events with GO TEXAN has major benefits....and discounts!! Often, GO TEXAN Partners can participate in large events, tradeshows, festivals, etc. at a much lower cost by being in our designated area.
- ▶ The [GO TEXAN Pavilion](#) at the State Fair of Texas is GO TEXAN's largest outreach event for GO TEXAN Partners. We have a 25,000 sq. ft. building that contains opportunities such as:
  - ◊ The GO TEXAN General Store, a retail market where you can showcase and sell your products at the State Fair of Texas. Learn more [here](#).
  - ◊ Sampling your products in the GO TEXAN General Store.
  - ◊ Sampling your wine, beer and spirits at the dedicated Pop-Up Porch.
  - ◊ Sampling and selling your products directly to fairgoers for the 24 days of fair at one of our Retail Porches.
  - ◊ If you can't participate all 24 days of Fair, the Pop-up Porch is available to GO TEXAN Partners selling their product in the General Store.
- ◊ Become an Exhibitor to showcase your organization's initiatives.
- ◊ Our Certified Retirement Communities/ GO TEXAN Communities booth is perfect for partner communities to spend a few days promoting their community and events to fairgoers.
- ◊ Want to make an even bigger impact? Consider our [sponsorship opportunities](#) in the GO TEXAN Pavilion that help you to further promote your business.
- ▶ Join us at Texas' biggest Stock Shows and Rodeos! GO TEXAN has a presence at the Fort Worth, Houston, Austin, East Texas, San Angelo, San Antonio, Rio Grande Valley, and Corpus Christi fairs, stock shows, and rodeos and your company can participate with us by advertising or sampling/selling product.
- ▶ Display your products inside a GO TEXAN display case at events throughout the state.
- ▶ Customized signage for your business and products at all events that you participate in.



**INTERESTED IN LEARNING  
MORE ABOUT ANY OF THESE  
OPPORTUNITIES?**

**Reach out to GO TEXAN  
at (877) 99-GOTEX or  
gotexan@texasagriculture.gov**

**GOTEXAN.ORG**

**FIND US ONLINE AT**

 [instagram.com/GOTEXAN](https://www.instagram.com/GOTEXAN)

 [facebook.com/GOTEXAN](https://www.facebook.com/GOTEXAN)



**TEXAS DEPARTMENT OF AGRICULTURE  
COMMISSIONER SID MILLER**



# Retained Ownership Strategies for Cattlemen

Ernest E. Davis, James McGrann and James Mintert\*

## Market Integration

Market integration, or retained ownership, involves carrying over a production activity into the next phase of preparation for the marketplace. There are certain advantages associated with this production and marketing strategy. Retained ownership through the stocker/feeder and finishing phase eliminates some trading points, which can lower procurement, transportation and selling costs. Cattle or calves may still be moved, but without the stress of being cycled through regular market channels. Such cattle can be shipped directly to the place where they will be grazed, backgrounded or finished in a feedlot.

Retained ownership also allows producers to spread risk from one production activity to another and from one period of time to another. Cattle producers should seriously investigate the possibilities of retained ownership and then elect the alternative that most closely meets their profit objectives. History reveals that between birth and slaughter, someone will often profit from cattle before they reach slaughter weight. One of the objectives of retained ownership is to take advantage of this tendency.

During certain periods and conditions, retaining ownership can be, and has been, more profitable than selling calves at weaning. Ranchers must carefully evaluate each decision period, because by retaining ownership they are assuming more production and marketing risks. If the producer misjudges future market conditions, or if the cattle are not properly contracted, retaining ownership can cause an accumulation of losses rather than profits.

There are other important conditions to consider when deciding whether to retain ownership. First, retaining ownership will increase management and decision-making requirements. More capital will be required for the additional production expenses. The cattle producer's cash flow will change because retained ownership delays income and adds production costs.

## Producer Size

Many cattle producers do not have enough calves of similar kind at one time to use the retained ownership strategy. Usually 100 head are required for a pen at most commercial feedyards. But this should not deter you from using this strategy when trying to make a profit. Producers can form marketing associations, cooperatives or partnerships to put together the necessary cattle. In some cases, it may be feasible to sort and commingle calves or feeder cattle into lots large enough to achieve this minimum size, thus making retained ownership a feasible alternative.

Risk Management Education



\*Professors and Extension Economists, The Texas A&M University System; and Extension Agricultural Economist, Kansas State University Agricultural Experiment Station and Cooperative Extension Service.

## The First Decision Point

The most important piece of information for making marketing decisions comes from you, the producer. It's important to know your individual production costs for each stage of production. Sometimes cattle producers pass up profit opportunities because they do not know their own production costs and, as a result, are unable to project profitability accurately in the next production phase. For example, if at weaning time a cow-calf producer determines that a profit is not available on the cash market, nor has it been locked in by contracting calf sales, the logical strategy is to maximize returns from that point on. Although the initial production phase, in this case the cow-calf stage, may not be profitable, it's possible the cattle enterprise's total profitability may be improved by retaining ownership into the next production phase. But to accurately assess profitability, you need to be able to project costs for the next production phase.

## Buy-Sell Price Relationships

One reason some cattle producers have not used retained ownership strategies more often is to avoid the adverse buy-sell price situations associated with buying lighter calves and selling heavier cattle. Generally, as cattle gain more weight their price per pounds drops, or as a term commonly used in the industry implies, the price "rolls-back." This means that producers will generally sell heavier weight feeder cattle at a price per hundredweight that is lower than the price per hundredweight they are accustomed to receiving for lighter weight calves.

## Cost Considerations

Even with price roll-backs, retained ownership programs can be profitable. An important consideration in determining whether or not to retain ownership of a group of cattle is the relationship between calf prices and cost of gain. Knowing this enables you to determine the required price relationship between the beginning and end of the production period. For example, if expected costs of gain exceed weaned calf prices, the sale price at the end of the production period will need to be above the weaned calf price at the program's outset. If costs of gain are less than weaned calf prices, some roll-back in prices of feeder cattle can be endured without suffering a loss.

Table 1 illustrates the effects of cost of gain and total pounds of gain on cattle break-even prices. The table assumes you are grazing or backgrounding a 500-pound stocker calf with a value at the program's outset of \$80 per hundredweight. Costs of gain are given in units of \$5 per hundredweight, beginning at \$35 and increasing to \$55. If, for example, the stocker gained 200 pounds during this period at a cost of \$40 per hundredweight, the break-even price at the program's end would be \$70.29 per hundredweight, including interest charges on the calf and other feeding costs. As one would expect, the price per hundredweight required to break even is below the calf's per hundredweight price at the program's outset because of the lower cost of gain. Also note that as the total pounds of gain during the feeding program increase, you can tolerate a larger price rollback.

**Table 1. Break-even prices for a 500-pound calf grazed to different endpoint weights at various costs of gain.<sup>1</sup>**

Pounds gained	Costs of gain \$/cwt.				
	35	40	45	50	55
	Break-even prices \$/cwt.				
100	73.45	74.29	75.13	75.97	76.81
150	70.96	72.13	73.29	74.46	75.63
200	68.85	70.29	71.74	73.19	74.64
250	67.03	68.72	70.42	72.11	73.81
300	65.45	67.36	69.28	71.19	73.10

<sup>1</sup>500-pound calf at \$80.00 per cwt.; costs of gain include all production, management, marketing, finance and transportation costs.

Table 2 provides break-even prices for 750-pound feeders entering a feedlot at a price of \$68 per hundredweight. Once again, costs of gain and total weight gain are allowed to vary. Finishing a 750-pound animal to 1,150 pounds at \$55 direct cost of gain would require a \$65.45 break-even price with interest. Interest is charged on the full cost of the feeder and all other costs, adjusted for the time the cattle are on feed.

**Table 2. Break-even prices for a 750-pound feeder fed to different endpoint weights at different costs.<sup>1</sup>**

Pounds gained	Costs of gain \$/cwt.				
	50	55	60	65	70
	Break-even prices \$/cwt.				
300	64.38	65.83	67.28	68.73	70.18
350	64.01	65.63	67.24	68.86	70.47
400	63.68	65.45	67.22	68.99	70.76
450	63.38	65.30	67.21	69.12	71.04
500	63.12	65.17	67.21	69.26	71.30

<sup>1</sup>750-pound calf at \$68.00 per cwt.; costs of gain include all production, management, marketing, finance and transportation costs. Average daily gain of 3 lbs. per day assumed.

### Information Sources

It is essential that cattlemen have good information on current conditions and trends in the livestock, grain and meat sectors as they become involved with retained ownership strategies. They must also be current on consumer eating trends, as well as the general conditions of the U.S. and world economies.

Trends in domestic cattle numbers and prices should be considered before deciding whether or not to retain ownership. Cattlemen should be aware of the size of the U.S. cow herd and the calf crop and also have some knowledge of the current cattle cycle. Perhaps the most important piece of market information to consider is whether cattle prices are expected to rise or fall, as a function of the cattle cycle. Generally, retained ownership strategies will work best when cattle prices are expected to rise cyclically over the course of the feeding period, although retained ownership can still be profitable even without a significant rise in price level.

It may at first appear to be a difficult task to access such information, but it is not. Much of the information is available at little or no cost through the U.S Department of Agriculture, the Extension Service or cattlemen's associations. The next step is to determine what factors are having the most impact on the current market and to watch those trends carefully.

One of the simplest ways to monitor market conditions is to subscribe to weekly or monthly newsletters with analyses of current trends and factors that affect the markets. Such newsletters are available through Extension Services or various commercial consulting firms. These resources may help you fine-tune your market awareness and decision-making skills. Examples of these newsletters are the *K-State Ag Update* from the Kansas State University Cooperative Extension Service (via subscription, or free on the Internet at <http://www.agecon.ksu.edu/livestock>), and *Texas Livestock Roundup* (<http://livestock-marketing.tamu.edu>) from the Texas Agricultural Extension Service.

### Financial Considerations

Retained ownership increases capital requirements and delays income. This must be considered and some adjustment to cash flow expectations must be made if retained ownership is going to be successful. You may need to prepare a balance sheet, projected income statement, cash flow, and a marketing plan before the lender will provide the additional capital required for increased production costs and delayed income. Some lenders may require that a portion of the cattle be hedged before lending additional capital.

### Feeding Arrangements

In today's cattle industry, leased grazing and custom feeding are options available to most cattlemen. In both options there are various arrangements for assessing charges. The two most common methods are a fixed charge based on cost of gain, and the sale of feed and services. These two approaches differ primarily in the way risk is shared between the feeder and cattle owner. Under a fixed cost of gain arrangement, the cattle owner shares in the risks of death loss and assumes all the risks of falling cattle prices, whereas the custom grazer or feeder shares in the death risks and assumes all the risks of poor cattle performance, bad weather, poor facilities, sickness, rising feed costs,

weight shrink and management. If the feeder simply sells feed and services to the cattle owner, virtually all of the risks are shifted away from the feeder to the cattle owner. Very few commercial cattle feeders will feed cattle for a fixed cost of gain, but it is not uncommon for custom graziers or custom backgrounders to offer a fixed cost of gain program. The relative merits of the two approaches to custom feeding depend on the individual situation, but be aware of the big difference in the risk profile under the two approaches.

### **Tax Advantages**

Retained ownership also offers cattle producers some flexibility in managing their annual income tax liabilities. By retaining ownership, a producer may transfer taxable income from one year to the next. This may be especially useful in years when sales have been high. It is possible that some sales can be carried over to the next year at reduced risk by using futures or options contracts. It is important to discuss these options with your financial advisor.

If cattle are being fed in one year and sold in the next, prepayment of feed and production expenses, not to exceed 50 percent of the total, may be charged against income received during the year the cattle were placed on feed. This allows cattlemen some flexibility in planning their taxable income and tax liabilities from one year to the next.

### **Decision Aids**

The Texas Agricultural Extension Service has computer software that helps prepare financial statements, set up retained ownership budgeting, and summarize closeouts. This software can be obtained from Extension livestock marketing and management economists or on the Internet at <http://agecoext.tamu.edu/irm-spa/irm-spa.htm>.

For estimating returns in a cattle feeding program, you may obtain a copy of publication C-734, "Seasonality in Steer Feeding Profitability, Prices and Performance," from the Kansas State University Cooperative Extension Service. It is available at county Extension offices in Kansas or on the Internet at <http://www.agecon.ksu.edu/livestock>.

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### **Texas A&M AgriLife Extension Service**

*AgriLifeExtension.tamu.edu*

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The Texas A&M University System, U.S. Department of Agriculture, and the County Commissioners Courts of Texas Cooperating.