

Current Versus Program Cattle Marketing - Added Revenue Versus Added Cost

There is a growth market for “program cattle” for weaned calves and feeder cattle that are produced using defined production practices as well as being marketed with their **source and age data** and individual identification tags. The advantage of sourced and aged program cattle is often expressed as the “price premium” or added value received. However, price premium is not a real measure of profitability if costs are unknown. Added cost includes what is given up to follow the new program cattle market requirements. For the producer to evaluate program cattle production and marketing alternative is more profitable it’s a question – **is the added revenue greater than the added cost for compliance with the required program production system?**

A **partial budget** is method to calculate the added revenue versus added cost changes in the current production and marketing system to what would be required to participate in the value-added program. Getting data and information on paper is the first step to consideration of alternatives. Getting costs and the added value of program cattle can support efforts to expand participation to benefit both sellers and buyers.

The attached spreadsheet helps organize the revenue and cost data and does the calculations. There is a scarcity of published change in health costs and rates of gain. Verification service providers and experienced producers can assist. Program cattle compliance range from just source and age to natural beef. The requirements for compliance are well spelled out for different program’s web page. See Appendix for sources that describe alternative “program cattle” and the service providers the verify the production and marketing systems. Traceability markets are growing!

The first step is to alternatives is describe the current system then the program cattle changes. The age and source components are essential is addressed. Veterinarians can assist in getting the health program clearly and to meet compliance requirements. Third-party verification is required for most program cattle markets.

A critical part of this evaluation is finding a market for the program cattle of choice. Compliance will cost more so the question the premium pricing makes alternatives profitable? – Added revenue verses added costs. Abbreviations for terms used in describing program cattle are as follows (see appendix A).

NHTC -Non-hormone treated cattle

SAV - Source and age verified

RFID- Tag - Radio Frequency Identification Tag or EID

VNB - Verified Natural Beef

GAP - Global Animal Partnership - Animal welfare rating program

A few things to consider if this is a new alternative being considered:

- Is there a “value added” market for your current cattle genetics, the number of cattle and breed?
- Does your current operation sell preconditioned or weaned calves using the video or specialized markets for preconditioned calves?
- Do you have a source and age verification system in place? Is it third-party verified?
- Are you using growth promoting hormones that would lower weaned calf weights and stocker or feeder cattle gain if not used? Is a Non-Hormone Treated Cattle (NHTC) program in place?
- Will the non-use of antibiotics cause serious health risk for your production program?
- Program cattle systems require more management, labor and paper work than commodity or non-program cattle. Do you have the capacity to meet these program cattle needs to be successful?
- Avoiding discounts has the same economic consequence as increased net price. Are your current cattle avoiding buyer discounts? If not, what are changes buyers want?

Decision Aid Evaluating “Program Cattle” Opportunities User Guide

For the producer to evaluate if this production and marketing alternative is more profitable it’s a question – **is the added revenue greater than the added cost for compliance with the program?**

Getting data and information on paper is the first step to consideration of alternatives. The first step is to described the **current production and marketing system**. The second step is to define the changes required to be comply in the “**program cattle**” alternative. Costs are divided into three areas including:

1. The added capital investment in a computerized traceability record system for source and age, 2. Initial enrollment and verification fees, and 3. The system’s annual operating costs. With the change to the program some current costs will be eliminated with the program cattle. For example, not using growth promoting products. This partial budget decision aid does not address price discovery or marketing costs of alternatives or profitability. Review Appendix C for a “To Do Check List”.

Consideration in Evaluation of the Current System Versus Program Cattle

Added Costs for Compliance to Program Cattle

Increase Record Keeping and Paper Work

- Add computer and software investment depreciated over useful life
- Added labor for keeping records and reporting
- Cattle herd identification beyond calves – include sire data
- Health records including pharmaceuticals used and dates.
- Record non-compliant or fall out cattle
- Saving recorded data for 3 years for some programs.

Source and Age Verification and Associated Annual Compliance Costs

- Initial program participation fee depreciated over useful life
- Initial Onsite Audit for NHTC and VNB fee depreciated over useful life
- Transportation to conduct Audits
- Annual Renewal Fee for Verification
- Added EID Tags Cost

Increased Health Risk – Non-use of Antibiotics

- Sickness or death loss can change.
- Increased labor and management cost for program cattle.
- Antibiotic treated cattle taken out of program will not receive premium price

Lower Production - daily gain and feed use efficiency

- When growth promoting products not used. A small cost of growth promotants products is saved.
- Fallout rates can be significance if health issues arise.
- Different market weights do involve a price slide between market weights.

Cost Savings Associated with Program Cattle Participation

Direct on ranch sale – or use of Video or web-based Market Options – Over Auction Sale

- Reduced shrink cost – more net payweight
- Reduced commissions cost
- Reduced other auction costs –yardage, insurance, brand inspection, etc.
- Reduce hauling or freight delivery cost

Added Revenue – Increased net price and net sales revenue for program cattle

- Higher price (premium), higher net weight and lower marketing costs.
- Cattle with source and age verified production program have access to more buyers for program cattle that can be delivered at the ranch in truck-loads.
- Opportunity to negotiate price and weight slide conditions in the contract.
- Better opportunity to get paid for superior genetics desired in the feeder market
- Provides opportunity to have record backed information on cattle for buyers
- Provide truckloads of sorted cattle with source age verified (50,000 lb.).

Premium Evaluator Decision Aid Content and Results

- Description of current production and marketing system and net market price
- Added cost for compliance and list of unknown changes
- Expected change in net revenue – net sales price and sales revenue
- Added revenue versus added costs
- What price difference is required to make the program cattle a profitable option.

Program Cattle Levels of Verification Alternatives

1. Source and Age Verified (SAV)
2. Source and Age (SAV) and HNTC and VNB
3. Source and Age, (SAV) HNTC, VNB and GAP

Decision Aids Provided to Evaluate Program Cattle Alternatives

1. Current Versus Program Cattle Marketing - Added Revenue Versus Added Costs.
2. Program Cattle Record and Verification Costs.
3. Health, Treatment, Feed and Grazing Costs Calculator.
4. Cattle Health Record by Group or Lot.

A partial budget does not measure profitability so decision aids are provided to measure profitability – projection and closeout of actual results.

Supporting Budgeting Decision Aids Projection and Closeouts to Measure Profitability Include:

5. Precondition Cattle
6. Stocker-feeder Cattle
7. Custom Finished Cattle

Appendix A. Program Cattle Terms and References

Program cattle – is a broad name placed on weaned calves, feeders or stocker cattle that are being produced and marketed with special requirements to fit specific markets. These cattle start with individual source and age identification tags. Cattle that “fall out” of the requirements are identified and sold separate as non-program cattle. The actual requirement of the production and marketing system followed is spelled out in for the specific program and affidavit signed by the owner. Most requirement require third-party verification. See appendix B. for an example.

Price Premium – is not linked to cost to achieve the added price.

Source and Age Verification (SAV) - Cattle must be sources to ranch of origin. Premise ID is useful.

VNB -Verified Natural Beef - Requires 3rd party verification of production practices.

Certified natural - Requires 3rd party verification with special defined production practices.

RFID – Tag Radio Frequency Identification Tag or **EID** – Electronic Identification Tag

Traceability – individual animal ID and EID tagged with SAV.

Age – all calves tagged at birth or first calf born in the calving season is tagged.

NHTC - Non-Hormone Treated Cattle

Source and Age – and Program Cattle – is a name associated with many of the “niche market” **value added** cattle production and marketing programs that are produced with various specialized markets.

GAP – Global Animal Partnership - Animal Welfare rating program

Value-Added programs - cattle production and marketing system to lower risk to buyer

References and Contact Sources

Superior Livestock Auction- superiorlivestock.com

Western Livestock Auction – westernlivestock.com

Jordan Cattle Auction – JordanCattle.com

IMIGLOBAL IMIGLOBAL.com or INFO@IIMIGLOBAL.COM

Verified Beef www.verifiedbeef.net in Bozeman, MT

Beef Quality Assurance (BQA) www.bqa.org

USDA - Process Verified Program <http://processverified.usda.gov>

Appendix B: Example of Description of Program – AngusSource

AngusSource Promotion a Summary - ADD A TAG THAT ADDS VALUE

AngusSource is a USDA Process Verified Program (PVP) that has added new programs. AngusSource offers the following PVP programs

Age & Source certifies the group age and source of your calves. Animals must be traceable to the ranch of origin and have records documenting the first calf born on the operation. A program compliant RFID AngusSource ear tag will be required for enrollment.

Non-Hormone Treated Cattle (NHTC) - This program requires cattle have not received any added-hormones for their entire life cycle. An onsite audit must be conducted prior to the calves leaving the ranch of origin.

Hormone growth promotants (HGP) may not be used at any time in the cattle being verified. HGPs include MGA or other products used for estrus synchronization, implants such as Ralgro, Synovex and Compudose.

If HGPs are used or purchased (even for cattle not being enrolled) on the operation, documentation must be maintained detailing purchases and which animals receive HGPs. Enrolled calves that become non-compliant must use the fall-out procedure to ensure calves are not marketed as NHTC.

AS-Calf Management - This program improves confidence of the buyers. Participating cattle producers will document their preventative animal health program prior to delivery.

This is an optional certification and will not be offered as a stand-alone program.

AS-NeverEver3 (NE3) -Animals may not receive any antibiotics, HGPs or animal by-products.

No animal byproducts can be fed to the enrolled cattle. This includes products from mammals or avian species including but not limited to animal fat, feather meal, blood meal, meat & bone meal. Fish products are allowed by must be documented.

Calves must have an AngusSource RFID tag for enrollment and an onsite audit must be conducted prior to the calves leaving the ranch of origin.

No antibiotics can be used for the enrolled calves. This includes injectable, or antibiotics used in the feed or water.

If HGPs, animal byproducts or antibiotics are purchased documentation must be maintained for purchases and usage on all cattle on the farm or ranch. Enrolled calves that become non-compliant must use the fall-out procedure to ensure calves are not marketed as AS-NE-3.

AS-Cattle Care & Handling - This program raises consumer confidence by documenting proper management techniques and showing a commitment to quality within the beef industry. Age and Source verification through AngusSource is a requirement. Your initial enrollment in Cattle Care and Handling will require an onsite review/audit.

This is an optional certification to document processes that follow BQA guidelines for handling cattle. Ranches that handle cattle by following BQA guidelines and are BQA certified should consider this optional verification.

Angus Source Participant Manual, <http://www.angus.org/angussource/>

Appendix C: Brief to Do List to Prepare for Many “Program Cattle” Market Options

Identity of the program marketing option that fit the production and marketing system desired. Must start with the communications with the professionals operating the marketing options and with experienced producers. Appendix A has sources of information.

Record Keeping – Check the web sites for Livestock Market’s Affidavit to sign for a couple market alternatives see attached – Superior Video Auction and Angus Source. **A few things to observe:**

1. Have a **written herd detail health program** and details on products used and dates. Have your veterinary verified the program being used.
2. Descriptions of supplemental feeds used (see affidavit requirements).
3. **Source and age identification** – minimal requirements are date of first calf born and last calf born. Turn out date for bulls or start of AI program. Pick-up date of bulls and end of AI program.
4. Movement is to permanent calf ID when born and computerized herd traceability record system. EID tags can be “program cattle” specific. **Traceability** is offering more marketing alternatives! Source and age verification – traceability increase paper work!
5. Keep records for 3 years for program cattle markets. Have a way to identify cattle that fall out of program so they can be separated for fall out market.
6. Maintain record of sires in inventory with pedigrees and for AI semen used.

Revenue and Costs Differences with Change

7. Producer that can sell truck load lots of feeder cattle (50,000 lb.) have many more marketing options where cattle are picked up at the ranch. Video, direct sale, web markets open up when loads of sorted cattle can be picked up at the ranch.
8. On Ranch **net prices and total revenue** received can be better as shrink is reduced and forward pricing is possible. Marketing costs are lower. Will require engaging representatives from the different markets and negotiating different terms on shrink and price slides.
9. Question - what is given up with change to traceability and program cattle? More health issues. Non-use of growth promotants lower gain and increase cost of gain. Fall out of program cattle sell for less. We sure need more data on these issues, measured results.
10. There is no “free lunch” to produce program or added value cattle. Each alternative needs to be evaluated to determine if **Added Value** (price premium and total revenue) is greater than **Added Cost over** the current production and marketing system being used.