

Raising Versus Buying Replacement Females



Lesson 6

Introduction

The aspects of raising your own replacement females versus purchasing them are based on your situation. There are numerous factors in addition to economics, which will be discussed further in this lesson. Please enter the discussion with an open mind and carefully evaluate each of the items discussed. Remember you each have specific circumstances, which will dictate what your outcome will be.

Be aware the lesson isn't titled Buying vs Raising heifers; it is titled, Raising vs Buying Replacement Females. This can include 1st - calf heifers, 2nd - calves, or cows.

Long Term Goals and Objectives

Ones personal long-term objectives must be analyzed before a decision can be made on buying or raising replacements. While there is no clear cut answer and constant changing economics in the beef industry may alter long term goals, it is important to set overall general long term objectives such as:

- 1. Marketing strategy**
- 2. Uniform genetics**
- 3. Herd expansion or reduction**
- 4. Bio-security**
- 5. Beef Quality Assurance Program**

Marketing strategy is a major consideration when deciding on whether or not to raise or purchase heifers. Research indicates that uniformity of calves and lot sizes are major factors in determining higher prices. Considering the fact that the average beef herd in Minnesota consists of about 50 cows the average beef producer usually cannot obtain the highest possible price without belonging to some type of alliance or co-mingling group. In order for alliances or co-mingling groups to be successful, cattle must be of uniform size, color, muscling and preferably genetics that will make up pot loads from several producers.

Herd expansion or reduction can play a major role in raising or purchasing heifers. If expansion is to be rapid, purchasing replacements may be the only alternative. If long term goals are to reduce herd size, then few if any replacements may be needed.

Biosecurity. The tragic events of 9-11 have forced the beef industry to evaluate and recommend bio-security safety procedures to producers. While many people look at bio-security as an outside terrorist threat, the beef producer must also evaluate bio-security within the industry that would include items such as drugs, E.coli contamination and disease transfer. Bio-security can be monitored in one of two ways; 1) by buying replacements from reputable suppliers which can guarantee in writing the condition which the replacements were raised under; and, 2) raising replacements and having a closed herd.

Beef Quality Assurance. It should be the immediate goal of each beef producer to attend Beef Quality Assurance Training and become certified. Following the recommendations of the Beef Quality Assurance Program will not only increase long-term profits but also increase credibility of the entire beef industry. When purchasing replacements in the future, it is important to purchase replacements from Beef Quality Assured herds.

Enterprise Analysis

As a business manager it is important to evaluate enterprises of your operation. The use of the term enterprise means evaluating each of the different aspects of your operations independently, (i.e., cows, heifers, backgrounding, finishing, corn, alfalfa, etc.). The intent, first and foremost, is to determine if the enterprise is a profitable venture, and if no, how/why to justify the enterprise.

When considering these enterprises remember that by using facilities and equipment you divide (spread) fixed costs over more animals and can cause specific enterprises to be more or less profitable.

Another consideration is if you or your management and labor can adequately manage the additional enterprise. Could that management and labor give a better investment if directed to other enterprises?

One example would be to not raise replacement heifers and invest labor, management and finances in more cows. This decision would provide: more/larger groups of calves to market; the opportunity to spread specialized equipment, (maternity pens, etc.) over more cows, and better management of cows, (pre and post calving and breeding), by using pen space that would be occupied by heifers for feeding cows for body conditions; breeding systems etc.

These are all things that need consideration to effectively decide what and why one scenario is better than another.

Financial Considerations

In most beef operations, financial considerations are usually the driving force for most decisions. It is extremely important that producers have a handle on cost of production in many different scenarios. Factors, which will have an affect on overall finances, include:

- Calf prices

- Cost of custom raising replacement
- Feed costs and available local supplies
- Cost of purchased animals
- Cull prices
- Facilities
- Equity
- Ability to borrow money
- Overall cash flow
- Cost of money
- Cows vs. heifers

Calf prices are usually the number one factor that beef producers use when making decisions about retaining replacements. The rules of economics suggest:

- When calf prices are high, purchase replacements.
- When calf prices are low and feed prices are high, purchase replacements.
- When calf prices are low and feed prices are low, retain heifers.
- When calf prices are low and feed prices are low, consider purchasing superior genetics.

Estimate Cost of Heifer Raising

Value of heifer at weaning (550 lbs. @ \$0.85)	\$468.00
Cost of 250 lb. Gain @ \$0.40 per day	\$100.00
Breeding fee	\$ 20.00
May-November grazing (\$10.00 per month)	\$ 60.00
Health Program	\$ 20.00
Summer mineral + misc.	\$ 20.00
Nov. – March winter feed	<u>\$100.00</u>
TOTAL	<u>\$788.00</u>

While the above is only an estimate, it is extremely important to analyze each line above for your actual cost. When interest on money becomes a significant factor in your operation it is important to consider this as an additional input.

Cost of custom raising heifers. While the costs of custom raising of heifers will vary from season to season depending on feed costs and other inputs, it is often possible to find individuals with underutilized facilities and cheap feed that may make custom feeding of your heifers attractive.

Feed costs and available local supplies. Besides the value of the calf, feed cost will usually be the number one cost of heifer production. If you raise your feed it is important to analyze the cost of beef production as a separate enterprise and charge out feed to the feed herd. If a beef producer is raising feed, the total cost should be equal to or below the cost of purchasing feed including transportation (5-year average) or the beef herd is subsidizing the feed producing enterprise.

Items to evaluate in your feed producing enterprise:

- machinery costs including depreciation, maintenance;
- direct crop inputs, (seed, fertilizer, etc.);
- land costs;
- labor costs;
- crops produced-amounts;
- quality of crops.

Facilities-The costs and kind of facilities that are available will play a major role in deciding if a beef producer should raise or buy replacements. Beef heifer raising should be considered as a separate enterprise for facilities as heifers have different needs than the cowherd and need to be separated most of the time.

Cost of purchased replacements is the other end of the raising vs. buying. When considering purchasing replacements keep the following in mind.

- **Genetics**-Are the genetics of the replacements I am purchasing equal to, less, or greater than the heifer I would be raising. If not equal to a value must be added or subtracted.
- **Size and Condition**. Should be equal to your own raised heifers. Usually replacements with a low body score (below 5) will sell “cheap” considering the possibilities of lower calf weaning weights and open cows at the end of the breeding season. These “cheap” replacements are usually no bargain.

Cash Flow including the price and cost of money is often a determining factor in buying or raising replacements. Operations costs of money may often be a consideration.

- Heifers born in 2003 will calf in 2005.
- Replacement purchased in 2003-will calf in 2003.

Performance Cows vs. heifers

- heifers will wean calves about 50# lighter than cows;
- expect 10% more open heifers than cows;
- number of calves weaned from heifers is less;
- salvage value of heifer is often less than cows;
- heifers can potentially stay in the herd longer than cows.

Budget

It is extremely important to create a budget for your cow/calf herd to analyze the costs involved. These budgets can help make decisions. Below is a sample budget for a 100 cow operation broken down per cow.

Cost-Return Projection -- Beef Cow-Calf Enterprise (Per Cow), 2003 ¹		
	N.D. Avg.	Your Numbers
VARIABLE COST PER COW:		
1. Summer Pasture	\$ 72.00	\$ _____
2. Hay—Forage	111.00	_____
3. Other feed	15.00	_____
4. Protein and Mineral	10.25	_____
5. Hired Labor, Custom Hire	12.00	_____
6. Veterinary, Drugs, and Supplies	13.00	_____
7. Utilities, Fuel, and Oil	19.00	_____
8. Facilities and Equipment Repairs	19.00	_____
9. Breeding Charge	10.00	_____
10. Marketing	10.00	_____
11. Miscellaneous	19.00	_____
12 Interest	7.50	_____
A. TOTAL VARIABLE COSTS	\$ 317.75	\$ 0.00
FIXED COSTS PER COW		
13. Depreciation	\$ 12.75	\$ _____
14. Interest	15.00	_____
15. Insurance	5.80	_____
16. Miscellaneous	9.75	_____
B. TOTAL FIXED COSTS	\$ 43.30	\$ 0.00
C. TOTAL COSTS PER COW (A + B)	\$ 361.05	\$ 0.00
RETURNS PER COW ²		
17. Steers: .45 x 550 x .98	\$ 242.55	\$ _____
18. Heifers: .26 x 530 x .90	124.02	_____
19. Cull cows; .14 x 1100 x .36	55.44	_____
20. Cull heifers: .05 x 900 x .75	33.75	_____
D. GROSS RETURNS PER COW	\$ 455.76	\$ 0.00
E. RETURN OVER VARIABLE COSTS (D - A)	\$ 138.01	\$ 0.00
F. RETURN OVER TOTAL COSTS (D - C) ³	\$ 94.71	\$ 0.00

¹ Information in this budget is based on the North Dakota Farm and Ranch Business Management Annual Report, 2001

² Returns are based on a 90 percent weaning rate, 45 steers sold, 26 heifers sold, 19 heifers kept for replacement, 14 cull cows sold, and 5 cull heifers sold

³ Return over total costs is return to unpaid family labor, management, and equity.

Genetic Source

A great deal of planning and research needs to go into selecting a heifer replacement source.

First, don't forget your goals and objectives discussed in this lesson. Write these items down and prioritize them.

Next, herd health is a very important detail. The more herds contributing genetics to your operation the more risk you have to bring in one if not multiple diseases.

Finally, repeatability and management of the genetics purchased. This includes items such as:

- Does source produce enough replacements every year
- Does source have stable or changing prices
- Check references
- What is their reputation
- Is source willing to work with you on; genetic selection, vaccination program, delivery date, breeding/calving date

Conclusion

The aspects of raising or buying your replacements are not something to consider lightly. It is very specific to each operation and management.

Consider both long and short term goals and objectives. Be aware of your enterprise analysis and the financial implication to your operation. Is there a genetic source available to meet your goals and objectives?

Finally, understand, even if the financial or other item suggests one option is better than another, yet the outcome doesn't match the analysis, you have to have legitimate justification to continue the management.

Resources

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Feuz, Dillon M. *The costs of Raising Replacement Heifers and the value of a Purchased Versus Raised Replacement.* University of Nebraska

Mckinnon, Bill R. *The Cattle Business – Buying vs. Raising Heifers,* Animal & Poultry Sciences, Virginia Tech. OSU Extension – Fairfield County

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Lesson 6 Quiz

Raising Versus Buying Replacement Females

1. What classes of females are there for replacing females in your herd?
2. Please list three of the five important long-term objectives you need to set?
3. Why could marketing strategies impact your female replacement options?
4. List six financial factors, which should be considered when evaluating herd replacement options.
5. Why is enterprise analysis important to your operation?
6. Why is it important to evaluate cows vs. heifers from a financial scenario?
7. What considerations are needed when evaluating a genetic source?
8. What items impact the financial aspects of your feed stuff producing enterprise(s)?
9. True or False The aspects of bio-security are important to you as a beef producer?
10. True or False Enterprise analysis is not important as long as you come out with a positive bottom line.?

Please list any questions you may have that weren't answered in this lesson:

Name _____ Phone _____

Address _____

(Optional) Fax _____ E-mail _____

