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MARKETING WEANED FEEDER CALVES AND VERTICAL COORDINATION

M. J. Danner

Cow-calf production continues to be the most important phase of the beef cattle industry in much of the Southeast. Brood cow numbers in Alabama increased from 133,000 head in 1940 to 863,000 in 1968 and an equally remarkable growth in other deep South states has occurred. The Southeast is adapted to cow-calf production. Land has been relatively cheap, and a reduction in row cropping has made land available for grass and forage production. The cow-calf system allows more flexibility in marketing programs, requires a lower level of managerial skill, less labor, and involves less risk. The long growing seasons reduce winter feed costs and practically no housing is needed.

For these reasons, the cow-calf system is likely to be the dominant cattle producing system in much of the deep Southeast for some time to come. While the merits of conditioning and of finishing cattle have been extolled and proved highly feasible in the literature, there have been no important shifts in this direction in recent years in our area. Such shifts are quite possible for a number of reasons but the subject of discussion of this paper is that of weaned calves and specifically of improving the marketing of weaned calves.

There are problems in marketing but there are also problems in production which if overcome could make the marketing job easier. One of the more serious is the weight of the weaned calf when sold. In a recent study of 114 weaned calf producers in Alabama, the average weaned calf weights were about 450 pounds at 8 months of age. These were selected producers and probably were above average but even this weight is about 100 pounds below what many cow-calf producers feel can be reasonably achieved. A 550-pound calf, as an average, could circumvent the conditioning phase as a separate phase, and perhaps change the direction of cattle production in the Southeast. There are many reasons why it will be difficult to increase weaned weights. Many of the reasons are beyond the scope of this conference, but higher prices for light weight calves relative to heavier feeder animals is an important plus for weaned calves. Price relationships are not beyond the scope of this workshop. Two reports from the current regional project dealing with price relationships will soon be published and should reveal the advantages for weaned calves.

The marketing problem in weaned calves has been well described in past regional publications. The auction market receives almost all these calves. The animals are received and sold in small lots and very little service is provided with their sale. Most are sold to order buyers or dealers who actually perform, for an additional charge, the services that the feeder needs. Except to accommodate a large number of small producers, the auction market might have difficulty in providing an economic reason for its existence. As cow-calf producers become larger and overcome their reluctance to have calves sold in grouped lots, it is possible that selling procedures may be reorganized. It is possible, also, that auction market operators may overcome their reluctance to innovate and begin to provide a greater amount of service with selling.

The graded feeder calf sale apparently works well in some areas of the Southeast but it is suspected that better, more uniform calves are produced in areas where these sales have been effective. Prices have not been enough better than regular auction prices for feeder calf sales to increase in importance in Alabama. Opposition by auction operators has also been a factor.

What are the opportunities for research in the buying and selling of weaned calves? More pointedly, are there possibilities for vertical coordination in the marketing of weaned calves. We know how weaned calves are sold initially and we know their direction of movement but we do not know as much as we should about how these calves are handled after they are sold. At our last regional meeting, a proposal from Mississippi was distributed which would study alternative systems of marketing weaned calves. In addition to describing the handling of weaned calves, the study proposed cost-returns analyses for alternative systems of handling. A study proposed by Arkansas would thoroughly study the role of livestock dealers and order buyers in marketing weaned calves.

The literature describes very little research dealing with vertical coordination in marketing weaned calves. A current study in Oklahoma deals with beef cow contract arrangements. In this system a corporation acquires, manages, and disposes of breeding cattle for clients who invest in cattle but who do not wish to actively manage the cattle operation. The corporation then contracts with ranchers for the care, feeding, and management of the cattle. The corporation's clients hope to profit in the long-run by the capital gains provision of the tax laws that pertain to sale of breeding stock. An analysis of the returns of ranchers with contracts revealed their profits were higher than ranchers who owned their own cows. Apparently, the main differences in costs between the two systems consisted of the interest charge and death loss of ranchers who owned their cows.

There have been studies in Ohio, Kentucky, Virginia, and possibly more of graded feeder calf sales. It is conceivable that sales of this type could be controlled by farmers through cooperatives, which would be a small step toward vertical integration. Marketing weaned calves through farmer-owned cooperatives in large, graded lots would appear to have considerable promise. There are cooperative livestock auctions but differences from other auctions are not discernible in Alabama. It is conceivable that a cooperative feeder calf facility could eliminate at least one, perhaps two, extra steps that are now done.

There would appear to be limited opportunities integrating backward from the processor in marketing weaned calves. Some form of business co-ordination is possible. If meat packers can feed out steers or contract with feeders or feed lots for slaughter steers it may not be unworkable to further extend the feeding or contracting to the weaned calf.

We have one example. Frosty Morn Packing Co. of Montgomery, Alabama with plants also in Virginia, North Carolina, and Tennessee has a 3,000-acre operation, with an option to purchase 2,000 additional acres, within 30 miles of its Montgomery plant, on which they do a lot of things. The major operation is to buy light weight calves, and feed them out to slaughter weights. The present capacity is about 1,800 animals. Silage is the principal roughage used but winter grazing is also used extensively. They apparently provide all their roughage but not all their grain. At this stage, after three years in operation, it would be difficult to conceive that the operation has returns above costs. Actually, this may not be a foreseeable aim; at least that is what one is led to believe at the current time. Recently, an Armour official on our campus indicated that it would not be feasible to extent their operations extensively into feeding with no more than an expected 6 percent return on investment, suggesting that current feeding operations were hedging or insurance kinds of arrangements.

The remainder of this paper is devoted to a listing of titles of proposed marketing research that concerns weaned calves.

1. An analysis of selling weaned calves versus conditioned calves.
2. To determine the feasibility of selling weaned calves direct from farmers to feeders in grouped lots.
3. To determine the amount and kind of vertical coordination practiced by meat processors with emphasis on weaned calves.
4. To investigate possibilities for grouped lot selling of weaned calves at auction markets.
5. To determine feasibility of marketing weaned calves under contract.
6. To investigate the economic role of the livestock dealer or order buyer in marketing weaned calves.
7. An economic analysis in the pricing of weaned calves.

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