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VERTICAL COORDINATION AS RELATED TO THE CONDITIONING AND MARKETING OF CONDITIONED FEEDER CALVES

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Introduction

This paper contains a discussion of vertical coordination as it applies to the conditioning phase of cattle production. The paper is divided into four major areas: (1) conditioning practices currently followed in the cattle industry, (2) a discussion of the degree of vertical coordination currently evident in the conditioning phase, (3) the potentials and limitations for vertical coordination in the conditioning phase, and (4) a discussion of vertical coordination in the conditioning phase as an area of research.

Definitions

In keeping with the "workshop guidelines," the Mighell-Jones definition of vertical coordination will be used in this paper. That is, the concept of vertical coordination is assumed to go beyond ownership of more than one level of activity within a single firm (or vertical intergration) and include the use of contractual agreements.

Conditioning is defined as that phase of production between the time a calf is weaned (or at a weight of approximately 400 pounds) until it is placed on full feed (or at a weight of approximately 700 pounds). Other terms often used to describe this phase of production include "warm-up," "backgrounding" and "limited feeding."

Conditioning should not be confused with pre-conditioning, a practice currently popular in the cattle industry. Pre-conditioning involves a much shorter time period than conditioning. It is a "preventive-medicine" program designed to remove some of the stress which arises when drastic changes are made in an animal's environment, such as when a calf is weaned and shipped to another area for "conditioning" or feeding. It is also used to reduce transmission of diseases from the cow herd to the conditioning area or feedlot.

Current Conditioning Practices

Most of the information in this section is based upon data obtained in a survey of various State Experiment Station and Extension Service personnel. It should be noted that the presentation is very general in nature. Most of the cost figures are "eye-ball" estimates at best. No attempt is made to assign a high degree of accuracy to the estimates. However, they are the "best" available, and are assumed to be accurate enough to draw reliable conclusions with regard to the assigned topic.

Programs reportedly used to condition calves for feedlots varied considerably from one area to another. Since a high percentage of the calves born in the United States are dropped in the Spring and weaned in the Fall, most of the programs started with some type of winter program. Some of the conditioning programs were limited to the use of roughages, while others included supplements. A brief discussion of some of the more prevalent programs follows.

(1) Temporary winter pasture - Temporary winter pastures are used in the Southern states. Oats and rye grass are commonly used. Protein and grain supplements along with hay and other roughages are used when conditions warrant. Costs per hundred pounds of gain usually range between \$15.00 and \$18.00. However, costs can be lower under good conditions and higher under unfavorable weather conditions. The success of the temporary pasture program is dependent to a large extent on weather.

(2) Winter wheat pasture - Many cattlemen in the nation's wheat belt graze cattle on winter wheat. Since most of the costs are allocated to the wheat crop, costs of gain are very low, often less than \$5.00 per hundred-weight. Since this program is very dependent upon weather, supplemental feeding is often required. This usually increases the costs to a level comparable to that of other conditioning methods, or \$15.00 to \$20.00 per hundred pounds of gain.

(3) Permanent pasture - Generally, a permanent pasture usually requires the use of supplemental feeds. When used as a wintering program, cattle are not carried through the winter with the idea of achieving large weight gains. Rather, the program is designed to keep the animals in good shape for the following summer, when summer grasses are used. This program is usually practiced in the plains areas of the country. Costs generally range from \$14.00 to \$18.00 per hundred pounds of gain. When supplemental feeding is practiced, this program can be used as a complete program, depending upon the amount of supplements fed. If not, summer grazing usually follows the winter grazing part of this program.

(4) Winter roughage - In many areas of the country, available roughages are used in some type of conditioning program. Feedstuffs used include corn silage, haylage and hay. Rates of feeding vary considerably and, in many cases, protein or grain supplements are also fed. This program is varied from year to year to meet conditions. Costs per hundred pounds of gain are in the \$15.00-18.00 range. If conditions are favorable, crop aftermath, such as corn stalks, may also be used. Their use is very dependent upon weather. The following quote from a recent issue of Feedlot magazine by cattle feeder Kenneth McLain of York County, Nebraska, illustrates the weather problem:

"Foraging on stalk fields is over for me this winter. When it thaws, the stalks will be wet and soggy and unfit for cattle. Cattle were out in some of my stalk ground for only 10 days before bad weather came. After snow and ice covered the stalk fields, I was forced to put out feed bunks for 300 head about 45 days earlier than planned."

Costs for a crop aftermath program can be very low, less than \$5.00 per hundredweight, if weather conditions are good. They can also be as high or higher than other conditioning programs if weather conditions are not favorable.

Current Coordination in Conditioning

Information on the amount and type of vertical coordination was not specifically requested in the survey mentioned earlier. There is very little published information of any type available. However, some unofficial comments indicate that some vertical coordination does take place in the conditioning phase. This is accomplished primarily through the following programs:

(1) Cow-calf operator maintaining ownership through the conditioning phase - This usually involves the use of some type of winter grazing program. Rather than selling the calf in the fall, the owner keeps the calf on temporary pasture through the winter. The use of improved, temporary, winter pastures in the South is a good example.

(2) Contracts between the owner of the calf and someone who "conditions" the calf - This is practiced in some areas, particularly between the larger-volume producers and conditioners.

(3) Contracts between the "conditioner" and the feedlot - Although figures are not available, there were some comments regarding the use of specialized "feedlots" where silage or hay, plus limited amounts of supplements, are fed. Animals coming out of this program are either put into the owners feedlot or have been contracted to go into someone else's feedlot. There are no strong indications that the above programs are increasing in popularity, at least not at a rapid rate.

Potentials and Limitations for Vertical Coordination in Conditioning of Cattle

Conditioning programs discussed earlier all require relatively large quantities of roughages. This usually results in the extensive use of grasses for grazing or some type of grass or hay silage. These opportunities for increased use of the conditioning phase appear to be greatest in areas where roughages can be produced economically and, at the same time, in areas located relatively close to actual or potential feeding areas.

The nature of the feeding industry appears to be both a help and a hindrance to vertical coordination. Large feedlots require large volumes of

cattle. They also require them on a regular basis. To guarantee their supply, they may be forced to go the "contract route." On the other hand, most conditioning activities are on a smaller scale than the feeding operations. As a result, a large number of suppliers are required to supply one feedlot. Often, the producer does not want to be "tied" to a contract, at least not as far in advance as the feedlot would like. This is because the conditioning operation is more dependent upon factors over which there is little control, such as weather. The conditioner wants to be free to modify his program to fit the conditions. This is not conducive to vertical coordination, especially the "contract route."

In effect, when vertical coordination between weaning and the feedlot is accomplished through the use of contracts, there are two divergent goals. The feedlot wants a guaranteed cattle supply on a somewhat fixed schedule. The conditioner wants to maintain a flexible delivery schedule to allow for the effect of exogenous forces on his operation. The marketing system must eventually reconcile the different goals by placing a value, in terms of price, on contracted versus cattle marketed through other channels.

There appears to be considerable opportunities for vertical integration of the cow-calf conditioning operations, especially in the South. The use of temporary pastures in the winter for calves weaned in the Fall is an example. The potential for this program in the South should be sufficient comment on this point.

Vertical Coordination in the Conditioning
Phase as an Area of Research

Personally, I do not think the conditioning phase is an area in which vertical coordination research can be applied, at least on a regional basis.

There are a number of problems and unanswered questions in the conditioning phase, but they can best be answered on a "less than regional basis."

Individual states, or two or three states cooperating, could probably accomplish more than if everyone in the region tried to answer questions related to the conditioning phase.

Some of the areas in which there are questions include:

(1) Costs - There is very little coordinated work on the costs of conditioning cattle. A regional marketing project could not be expected to answer questions related to costs.

(2) Pricing - The methods of pricing, price levels and pricing accuracy are all areas in which there are unanswered questions, particularly with regard to contracted livestock. A regional effort would probably not be needed to answer some of these questions.

(3) Types and degree of coordination currently practices - An expansion of the type of information presented in this paper would aid in evaluating future trends in the livestock industry.

(4) Questions in other areas, such as the role of various types of market outlets in an integrated market or the amount and type of information needed by a producer using contracts, need to be answered.

Summary

In summary, there is very little concrete information on the conditioning of cattle, particularly from a marketing aspect. It is doubtful that a regional research project could supply the answers in this area. However, it is also doubtful that a regional project on vertical coordination of livestock marketing would be complete if the conditioning phase was not included. It may be best to assign this responsibility to one or a small number of states.