THE 50,000-LB. DILEMMA

by Darrell Wilkes, PhD, International Brangus Breeders Association, Executive Vice President

One wouldn't think that the size of a truck would have much economic effect on an industry as big and complex as the beef industry, but in a strange way, it has a huge effect.

A 53-foot potbelly trailer can hold about 50,000-lb. of cattle. Some states allow longer trailers which can handle more weight; but for the purpose of this article we will assume a truck holds 50,000-lb. of cattle, whether that's 100 calves at 500-lb. or 35 finished steers at 1,400-lb.

The cow-calf producer who does not have enough cattle to make a 50,000-lb. load of same-sex, similar-weight, consistent-type feeder cattle is, in effect, forced into a situation of less-than-optimal marketing which translates into less-than-optimal pricing for his or her cattle. This author [myself] is not suggesting in any way that there is a conspiracy against smaller producers, or that somebody is cheating or taking advantage of smaller producers by paying less for their small groups of cattle. It is simply a fact that smaller groups of cattle – with all else being equal – will bring less money than groups that are large enough to fill a truck. The reasons are simple. Smaller groups of cattle typically will pass through more hands, will involve more transactions/commissions, more loading and unloading, and will incur higher costs between the time they leave the producer's property and the time they land in a feedlot. The only obvious way to cover all the extra cost is to pay less for the calves in the first place.

We often hear complaints from producers that the gooseneck load of calves they sold at the local auction barn brought significantly less per pound than a group of same-weight calves that are listed on a video sale report. There could be many reasons for the price difference, including differences in perceived or actual genetic quality, health status, or a myriad of other value-influencing factors. But even if all the normal

value determinants were equal, the smaller group of cattle will not match the full-load (or multi-load) sale price reported by the video auction.

Large feedlots are simply not interested in smaller groups of cattle. As feedlots have become larger and larger, the number of cattle they need each week just to fill in behind the cattle they sell to a packer naturally increases. Even a modern-sized 30,000-hd feedlot with an annual turnover of two needs to find at least 1,000 cattle per week just to refill their pens. Large feeding companies with multiple yards and capacity of 200,000-hd or more need to secure, on average, about 8,000 feeder cattle every week. Just think about those logistics! Virtually none of them want to re-fill pens with 15 or 20-hd groups. They want load lots, period. For some, a single load offering barely gets their attention. They'd rather make deals on multiple loads all rolled into one transaction.

Feedlots rely on somebody else to put the small groups together, co-mingle them, sort and re-sort, deal with the cross-contamination that may occur with co-mingled cattle, etc. None of this happens without incurring cost and risk. Somebody has to tie up their capital, their time, use their equipment, facilities and feed, and usually take on significant risk to assemble a 50,000-lb. load of "marketable" feeder cattle made up of calves from many different sources and many different breeding and health programs. And since they cannot sell such cattle for a premium, they need to buy them cheaper in order to cover their costs and make a reasonable return on their capital and risk.

In fact, there is an entire sub-industry within the beef industry that exists for this very purpose. They've been called everything from grow yards to backgrounders to stockers, even junk dealers, and the difference is the kind of cattle they handle, which is usually a function of the markets they have on the other end. Referring to this as a "sub-industry" does not imply that it is small. It is actually a large industry, and it might surprise people to realize the percentage of cattle that go through such a system. While there are no good data sources to compute a reliable number, it is realistic to postulate that at least half of all calves produced every year work through this system in one form or another on their way to a finishing feedlot. The pure demographics of the cow-calf sector almost guarantees that at least half the cattle must work through this system of re-packaging before they are loaded onto a 50,000-lb. load and subsequently unloaded at a feedlot.

The graph to the right shows the demographics of herd size and the proportion of the total beef cow herd that is held by operations of different sizes.

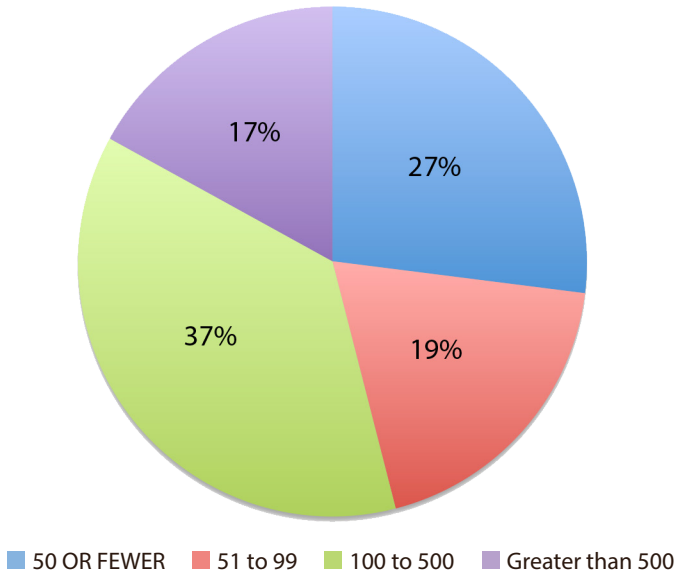
The demographics have changed slightly over time, but it has been true for decades that nearly one-half of all beef cows in the U.S. are in herds of fewer than 100 cows (based on 2017 data, it is 46 percent). Another 37 percent are in herds of 100 to 500-hd, with an average size of 184 within this group. The national average herd size in 2017 was 43.5 cows.

If we assume a 550-lb. average for calves, a 50,000-lb. load requires 91 calves to fill the load. If we assume that a top-dollar load of calves is one where all calves are genetically similar, are the same gender, and they have been sorted for size with the outliers sorted off, even an optimist would conclude that it takes a cow herd well above 200 cows with an extremely tight calving season, a disciplined breeding plan, and exemplary management to fill a 91-hd load of same-sex, uniform calves. No matter how you crunch the numbers, well over half of the cows are in herds that simply cannot put together a full load of calves and, yet, hope to receive the full-load price.

As illustrated below, the demographics of the cow-calf sector virtually require that an extra middleman be involved with a large percentage of calves. Particularly, to get them re-packaged into groups that are large enough to fill a load and get a feedlot interested in bidding full market price for the cattle. This has been true for many decades and will likely hold true for many more. The economic factors that have encouraged larger feedlots at the expense of smaller farmer-feeder lots show no signs of changing and, as a result, feedlots will continue to demand load-lots or multi-load lots of feeder cattle.

Upon hearing this story, some people would respond by saying that small producers are "hobby farmers" anyway. It's easy to stereotype smaller producers into a category. They don't use good genetics, they don't have good health programs, and some don't even castrate their bull calves. They don't know what a good critter is and probably don't care to learn – and they'll never change. That's a pretty unfriendly label but, let's be honest, it is partly true. There are plenty of "junk cattle" in the market. But it is also true that there are plenty of good cattle – or really good cattle – that come in small groups and are being grossly undersold. I saw a guy at a bull sale last fall spend $10,000 for a very impressive and strong-numbered Brangus bull. Come to find out, he has 33 cows and sells his calves at the local sale barn for the average price. One could argue that his high-dollar bull purchase is not a rational decision because he is not cashing in on his good calves. Obviously, he has his reasons for wanting a top end bull; maybe it's nothing more than pride and some extra weaning weight. He's not alone. He is making a positive contribution to the quality profile of the beef industry by taking

PERCENTAGE OF TOTAL BEEF COW HERD BY HERD SIZE



pride in raising good cattle even though he isn't being rewarded for it in financial terms. Considering that more than half of the cattle in U.S. beef supply chain come from small herds, it seems obvious to suggest that quality-oriented smaller producers need to team up and form a local coalition or quality-first "cattlemen's club." Call it what you wish, but the idea is to pool their well-bred, well-managed cattle into groups that are large enough to fill a load and at least have an ***opportunity*** to get top dollar.

The need for this kind of collaboration among quality-oriented small producers has been obvious for a long time. This situation has existed for decades. Why hasn't more been done? As usual, it boils down to economics. Everybody sees the same picture, and they know they're selling their small groups of good cattle for too little, but the price difference hasn't been so large that it stirred people to take action. I believe that the need to do SOMETHING different will become painfully apparent in the very near future. I believe that the price spread between generic cattle and documented, quality cattle will become so wide that it can no longer be shrugged off.

> "[Once] a feedlot finds a source of high-value, predictable cattle that hits targets and makes money, the first question they'll ask is, "How can I get more of them, lots more?"

It's not hard to understand why the historical price difference might not be enough to tip things over. At the risk of stereotyping, if the small producer on the edge of town is a master electrician (or plumber, or dentist, or diesel mechanic, etc.) who earns six figures, he probably hasn't lost any sleep worrying about the $50 or $75/hd that he has been giving up on his 30-hd of good calves because they are sold at the local average price along with the poor cattle produced by the other guy. If you add up the lost opportunity, it equals less than this six-figure-earner makes in a few days. He might be irritated by the lack of price rationale, but it simply doesn't hurt enough to motivate him to take action. Can you picture the guy I'm stereotyping? Most of us can.

Do you think the price difference will get his attention when it reaches $300/hd? How about $500? That's where I believe it's headed. Yes, that sounds extreme, but I predict that when top end calves get back to $2/lb., there will be same-weight calves selling for $1/lb.

To help set the stage for this outlandish prediction: I have a friend who is a vice president and protein analyst for a huge bank. They finance cattle feeding operations to the tune of hundreds of millions of dollars, so they try to have a pretty well-polished crystal ball about where the protein (i.e. meat and poultry) industries are headed. A few years ago, he shocked the industry by suggesting that a portion of the cattle produced in the U.S. should simply be "hamburger cattle." He was not referring to cull cows and bulls. He was referring to young cattle that are typically processed into steaks, roasts, and also hamburger. This was a shocking idea and he was roundly criticized – even lambasted. Looking back, I'm beginning to think he was right.

As the quality grade mix has lurched upward the past few years to a current average of 80 percent Choice or higher, it is astounding that the price spread between Choice and Select remains at record levels. In other words, 80 percent Choice or higher is still not enough! The market wants even more Choice product. If it didn't, the price spread between Choice and Select would disappear. At the risk of overstating it a bit, we're in a Choice beef market; everything else is hamburger.

The extreme price spread among calves that I predicted earlier is not just a quality grade issue. One can cross a Wagyu with a Watusi and produce Choice-grading beef (I suppose). Holstein steers grade Choice at a high rate, although with a skinny ribeye that looks more like a pork chop. It takes more than that. Feedlots want cattle that grow fast, convert feed efficiently, stay healthy, produce high-yielding carcasses, produce right-sized cuts (think ribeye), and grade Choice or higher. And, very importantly, they don't want surprises. They want to be able to accurately predict growth rate, feed conversion, cost of gain, finish weight and, ultimately, carcass quality and yield. If they've negotiated a grid pricing formula with a packer, they have targets to hit and if they miss the targets they are discounted. The value of predictability absolutely cannot be overstated. Finally, if you retain nothing else from this article please remember this: once a feedlot finds a source of high-value, predictable cattle that hits targets and makes money, the first question they'll ask is, "How can I get more of them, lots more?"

THE 50,000-LB. SOLUTION

by Darrell Wilkes, PhD, International Brangus Breeders Association, Executive Vice President

The International Brangus Breeders Association (IBBA) is committed to the success of our commercial bull customers, large and small. Based on everything we know about Brangus genetics, which is based on hard data, we know these cattle will meet or exceed all the demands of high-end cattle feeders. Brangus are unique among the eared breeds in that they carry a strong dose of Angus genetics, which is the industry standard for high-grading cattle. We know that Brangus cattle will grow rapidly, stay healthy, and grade extremely well. That's exactly what feedlots are looking for – and they want to buy them in load lots.

For lack of a better term, we need to build a **Brangus pipeline**. We need a structured and organized way to collect Brangus-based feeder cattle from large, medium, and small herds, document their genetic value, utilize best practices for health and pre-feedlot management, and then offer them in load lots to high-end feedlots. We will seek relationships with feedlots who will either buy the cattle, partner with the producer, custom feed retained ownership cattle, and provide basic data back to the pipeline that can be used for education and program improvement.

IBBA already has a few of the key tools needed. The first is the Igenity® Brangus DNA test. This is a DNA test designed collaboratively by IBBA and Neogen and is made specifically for Brangus-influenced commercial cattle. The Igenity Brangus test (otherwise known as the Brangus Profiler) tests for genetic markers associated with both maternal and terminal traits. This tool would be used by Brangus pipeline producers to benchmark the genetic level in their herds and to track genetic progress over time. Having this information would allow commercial producers to fine-tune their bull selection criteria to strengthen their herd's genetic profile. When combined with feedlot and carcass data from partner feedlots, participating producers could create a very, very clear picture of the genetics of their herd.

There is a hidden benefit in this process that goes beyond the ability it gives the producer to constantly improve the feedlot and carcass performance of his or her cattle. Namely, it could easily create a premium market for high-value replacement heifers that are excess to the replacements needed by a Brangus pipeline producer.

IBBA has already established the Brangus Built™ tagging program which is recognized to some extent in the marketplace and has been shown to add value to cattle that carry the tag. It is only provided for cattle that are at least 50 percent Brangus or Ultra, in most cases, cattle that are sired by a registered Brangus, Red Brangus, Ultrablack, or Ultrared bull. Participants in the Brangus pipeline will use these tags to ensure that the Brangus brand stays with the cattle as they move through the system. IBBA will ensure that the tags meet the latest requirements for interstate shipment and will add an option for an electronic tag (EID) which are preferred by most feedlots and packers.

There is a LOT of money slipping through the cracks. A lot of good cattle, especially from smaller herds, are being undersold because of the lack of an organized pipeline designed and operated particularly for Brangus influenced cattle. It is high time to step forward and address this blatantly obvious problem. IBBA (including the author of this article) is willing to help coordinate this process, but we need boots on the ground to actually make it happen. Below is a short list of the partners needed for the ***Brangus pipeline project***.

Quality-oriented grow yards or stocker operators.

The pipeline needs people scattered across Brangus country with the facilities to receive small (or large) groups of cattle to get them started on feed. Whether the cattle are fed in bunks or put on grass is irrelevant; but having access to both is a plus.

The pipeline will need operators in this sector who are tech-savvy with sufficiently sophisticated recordkeeping, probably including the routine use of electronic identification. They need to be Beef Quality Assurance (BQA) certified. It would be ideal if they had the ability to purchase some of the cattle, although, it is probably better if the original producer owns the cattle

through this phase. After all, it is the original producer who is under-selling his cattle currently that is the intended primary beneficiary of this program.

This group of partners could include Brangus seedstock producers who have the facilities and the resources to take in cattle – probably from their bull customers. They don't necessarily need to handle thousands of cattle. If they could handle a few hundred, that's good enough.

If you are a grow yard or stocker operator and you want to move from commodity cattle to value-added cattle, please consider joining the Brangus pipeline.

Brangus seedstock producers.

These are the folks who are selling good bulls to customers, some of whom are certainly underselling their calves through the commodity markets. The Brangus pipeline needs you to inform your bull customers of the opportunity to join this value-added system. In reality, it is the Brangus seedstock producers who need to be the front-line sales force for this project.

Auction operators and cattle brokers.

It will benefit this program to have relationships with people and companies who are already in the business of marketing cattle. These are people who are bonded, who have systems for complying with Uniform Commercial Code (UCC) filings, and a myriad of other "back office" competencies that are vital to the integrity of the envisioned pipeline. They also have pre-existing relationships with feedlots and those who buy cattle on feedlot orders.

Some progressive auction market operators are already holding special sales of value-added cattle. They are, of course, motivated to get the highest price they can get for cattle that sell through their facilities. The pipeline could work with these progressive markets to hold special sales with the goal of attracting enough cattle to capture the attention of value-added buyers.

This article describes a situation where there is DEMAND for a product, there is a SUPPLY of the product, but there is not an organized system to efficiently and effectively bring the suppliers and the buyers together. IBBA is highly motivated to help our commercial bull customers prosper as the cattle industry transitions from a commodity business to a business comprised of value-added supply chains. We intend for the Brangus pipeline to be one of the most successful value-added supply chains in the industry. Please consider partnering with us to make this happen.

The project, or something very similar, is part of the IBBA's Long Term Plan. The leadership for this effort will come from the chairman of the IBBA Commercial Marketing Committee. The incoming IBBA President will be looking for a person to chair this effort. Even if you don't have time to chair the committee, we need active committee members, too. If this is appealing to you, please call or email Darrell Wilkes, dwilkes@gobrangus.com, at the IBBA office.