

11-2015

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Frasier, Mark, "INCORPORATING A YEARLING STOCKER ENTERPRISE TO THE COW/CALF OPERATION: BUY, SELL, OR HOLD?" (2015). *Range Beef Cow Symposium*. 351.  
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## **INCORPORATING A YEARLING STOCKER ENTERPRISE TO THE COW/CALF OPERATION: BUY, SELL, OR HOLD?**

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### **PREMISE**

Many progressive cow/calf producers have considered adding a yearling stocker enterprise to their business model. There are significant benefits to diversification; yearling cattle can help to optimize available forage and balance the financial viability of a livestock operation. At the same time however, managing the dynamics of a secondary enterprise will add complexity and potentially elevate risk to the combined operation. The added dimension of market livestock will help a ranch utilize their forage resources more efficiently, but yearling cattle have different needs than cows and different objectives and require a dissimilar skill set than required to successfully wean a calf.

The primary attraction for adding yearlings to compliment a cow herd is to take advantage of surplus forage production on the ranch. Nearly every ranching operation experiences variability of forage production, both seasonally and between years of abundance and drought. In many cases, producers scale the size of their herd to the mean of their resource base so that they have enough forage to comfortably graze their cows during an average year. In years of abundance excess forage goes unused and provides a margin of comfort going forward. In lean years, the producer is forced to import feed or “cheat” the cows with respect to nutrition, and in extreme circumstances may be forced to liquidate cows to balance what he has with what he needs.

A more conservative approach to managing the ranch for cows is to stock only what the operation can support on a worst-case scenario without supplementation. While this tactic will avoid the forced liquidation of breeding stock and loss of genetic base, in more years than not, the ranch will have idle production capacity in the form of ungrazed grass. A stocker enterprise can be an effective means to increase efficiency and take advantage of these unused resources. Since market livestock are not permanent and are generally sourced off the property, they become a flexible tool to increase ranch inventory on a temporary basis. When grass is abundant you buy. When forage declines you sell or simply elect not to bring market livestock onto the ranch.

For all of the flexibility a yearling enterprise provides to forage use and efficiency, it also brings layers of management challenges and the most obvious is the most simple: Cows are not yearlings and yearlings are not cows. The nutritional plan for a cow herd is a year-long strategy, designed to assure that requirements are adequate for a successful breeding season, perhaps with modest supplementation to maintain body condition prior to calving, and of course sufficient nutrition for lactation and a heavy calf at weaning. In

short, the baseline of cow/calf nutrition is about maintenance; providing the cow with her requirements at essential times so she can do her job. By contrast, ruminant nutrition for market livestock is all about gain. Meeting only the maintenance needs of a yearling achieves simply that, maintenance without growth. To be successful, forage resources must be sufficient to assure the animal has adequate protein and energy to add frame and flesh in addition to basic requirements for living and breathing.

The need for greater nutrients applies to both the quantity and quality of forage resources. Obviously, forage availability must be adequate to allow the yearling steer or heifer maximum consumption. However, it also needs to be of a higher nutritional quality than may be required for mature cows. As a growing animal, the digestive system of a young animal has not matured and does not possess the capacity of an adult bovine. Volume of grass available may be adequate for a yearling, but if the forage quality is insufficient, the animal will be unable to consume adequate energy for growth. Adding a stocker enterprise to a ranch requires that there are abundant forage resources and that the forage be of high quality.

Another more subtle consideration of yearling nutritional planning regards the necessary period of transition when acclimating a yearling to a new home. Cattle have the ability to digest an amazing array of feedstuffs, ranging from highly lignified stem and straw, to very palatable grains, to urea. Of course this level of nutritional adaptability is made possible by a complex digestive tract, with multiple stomachs and a unique population of rumen microflora tailored to the animal's specific diet. Fortunately, the system is self-moderating, but it does take time for the population of rumen microflora to adjust when their environment or ration changes. It may take as much as 21 days for the rumen to achieve peak efficiency on a new nutritional base, especially if there is a change from concentrates to forage. Adding to the complexity, yearling cattle arriving to a new operation are likely also dealing with changes in climate, water, and social structure within the herd. It is normal to expect minimal growth and possibly even a loss in weight during the initial receiving period to a new location.

Unfortunately, the annual election to bring yearlings into an ongoing cow/calf operation may not be triggered until there is an assurance of adequate forage. After all, the point of the secondary enterprise is to make beneficial use of surplus forage resources. However, given the ramp-up period an introduced animal experiences, to delay stocking until the grass has grown often means sacrificing a valuable opportunity when forage is at its leafy best. Successfully timing the arrival of a new crop of yearlings to match the advent of annual forage growth is the stocker operator's greatest dilemma.

Of the all the challenges that face a cow/calf operator in adding yearlings to an operation, the most significant is unrelated to either cattle or forage. The management skills and aptitudes of a cow/calf producer are different – and sometimes at odds – to those required to be a successful yearling operator, and few persons possess both. The cow/calf business model is zero based. Incremental costs accumulate from conception, through calving, and on to weaning. So long as cumulative costs are less than the gross revenue represented by a weaned calf, the enterprise is profitable. By contrast, the yearling stocker model is margin based. Profitability is found between the cost of the calf and sale of the feeder, and fundamentally dependent upon the marginal cost of gain.

The absolute price of calf and feeder are neutral, so long as the marginal value of each new pound exceeds its cost.

Because the margin of this enterprise is greatly influenced by the market for calves and feeders, whose prices are subject to volatility, marketing skills are paramount to the yearling operation. The use of forward pricing tools or hedging contracts for risk management is a necessary consideration to control exposure to significant loss of equity. It is indeed possible to lose more than the amount of direct operational costs, in the event that gross selling value is less than the original purchase cost. Witness the events of September, 2015.

Individuals attracted to the livestock business tend to favor either the zero based model of raising a calf, or the marginal opportunity presented by owning stockers. While the skill sets are not mutually exclusive, the aptitudes required for both models are generally not embodied in a single person. A manager who excels in genetic selection, animal nutrition, and herd health likely has little interest in following commodity markets, and will probably be distressed by the risk of owning market livestock. On the other side of the fence, a yearling operator who constantly monitors livestock markets on his phone will be confused or even bored by the technical elements of fertility and herd management. The two are simply very different people.

## **SUMMARY**

The decision to add a yearling stocker enterprise to an existing cow/calf operation is generally based on the desire to achieve optimal use of forage resources. A less obvious but more important consideration is the skill set required to manage market livestock. Whereas the cow/calf model is built around protecting fertility and managing production within a controlled-cost environment, the yearling program adds an entirely new dynamic; managing a margin and possessing a comfort with market fundamentals. Ultimately, achieving success with cows, yearlings, or in a combined operation relies upon sound management, and there is no reason a seasoned cow/calf producer cannot incorporate a successful yearling enterprise. The businesses do require unique skill sets and there are great rewards for those who can integrate mutually complimentary enterprises, but it is well-advised to assess if there is a good match for the skills, interests, and resources available.

## **NOTES**

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