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“Stocker Cents” article

Custom Grazing Strategies for a Changing Market

Justin Rhinehart – Beef Cattle Specialist; Mississippi State University Extension Service

It is evident that market signals are indicating an increased value for heavier feeder calves. The historical decline in price as feeder cattle increase in weight still exists but it has narrowed considerably. There are exceptions in some local markets on certain weeks but the national trend, driven by high priced corn and feedlot cost of gain, has become apparent.

One adaptation that southeastern cow-calf and stocker operators can consider is adding more weight on forages before selling them as feeder calves. However, grazing land availability has become scarce in many areas, most ranches are already at the top end of their carrying capacity, and growing grass is not necessarily a cheap venture. So, the logical strategies include leasing more pasture from the many farms and ranches that are currently exiting the industry or hiring a custom grazer to provide the background service. From the perspective of a purely stocker cattle operation, providing custom grazing services creates the same regular cash flow without the initial cost of owning the cattle but does not provide the opportunity to increase margins on them.

The obvious deciding factor in considering custom grazing is cost of gain. The basic breakeven calculation should include value of the weaned calf, desired weight gain, cost of that weight gain, and value of the calf at the heavier weight. Other peripheral costs including transportation, interest on the investment and risk should be considered. Deduct the initial value of the calf and all the costs associated with adding the weight from the projected value of the calf at a heavier weight to determine whether it should be profitable to have that calf custom grazed. For stocker operators considering whether to provide custom grazing as a service, determine how much it will cost to add weight on forages (per unit added) to come up with a cost of gain projection. Remember to consider every possible cost including (but not limited to) fertilizer, rent, labor, facilities, interest on operating capital, taxes and insurance. Demand will be severely limited if these costs add up to more, per unit weight gain, than the potential customer's breakeven calculation affords.

It is critical that custom grazers know their clients and clients know their custom grazer. As with any other business, the honesty and reliability of each party is extremely important. An entire year's revenue could rest on the integrity of just a few people. Do not hesitate check references, credentials and even credit history. Each contract should have a written agreement that covers which party is responsible for each point and who pays for what. Make sure to outline a payment schedule and obtain the final payment before the cattle are removed.

Determining how to charge for custom grazing might be the most important decision for the grazer. As mentioned above, the traditional fee structure was based on money per pound of gain. However, this places almost all of the environmental and health risk on the grazer. A recent survey of custom grazers in Iowa showed that most stocker grazers have switched to charging a per-head, per-day rate with incentives for better stocker performance. While this takes a great deal of risk off the grazer, it can also be beneficial for stocker owners who would rather not have fleshy calves but want to send “hard yearlings” to the feedlot with the potential for compensatory gain.

Another point brought out in that survey was the potential for increased “three-party management arrangements.” This is a great way for absentee land owners to maintain their investment and generate revenue by renting it to a custom grazer that backgrounds calves on a contract basis. This arrangement works especially well for owners who maintain their land for recreation and wildlife. They will be more likely to provide consistent access and not sell the land without advanced notice. In the current market situation, the three-party management arrangement might also be a great alternative for landowners who are exiting the beef cattle industry but wish to maintain ownership of the land and see it remain in production.

Stay in contact with each other. Custom grazers should regularly call the cattle owners to report on progress and health. This will give the client peace of mind that the cattle are being properly cared for. Producers choosing to have their calves grazed prior to marketing should feel free to contact the provider as often as they consider necessary. Try to get a feel for communication with the grazer prior to drawing up a contract.

One of the most important things to remember is that the beef industry, and the factors influencing it, continues to be extremely volatile. Custom grazing calves to add weight before marketing as feeders might not always be the most favorable decision. To lower risk, always have an alternative plan and do not over commit.