

Cattle Business in Mississippi – November/December 2008 **“Stocker Cents” article**

Direct Marketing Beef

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

Keeping a few steers for freezer beef or to sell to neighbors is very common, and niche markets for custom finished or locally produced beef have been in place throughout the history of commercial beef production in the United States. As the market for feeder calves turns down and the cost of beef in the grocery store goes up, beef cattle producers place more emphasis on custom finishing steers and locally marketing beef. This is a great way to diversify, but there are a few important factors to keep in mind that can make this option practical.

The first, and most logical, point to consider is whether this type of marketing will be profitable. The ultimate deciding factor should be a “value of gain” calculation. This would be similar to the calculation for deciding whether or how long to background feeder calves or graze stockers. First, determine the value of the finished cattle then subtract its value as a feeder calf and divide by the number of pounds added. It is important to realize that value of the finished cattle will depend on how it is marketed. Consider an example where they will be marketed on live weight. The calculation, with current values, is as follows: $((1200 \text{ pounds} * \$0.97) - (700 \text{ pounds} * \$0.80)) / 500 \text{ pounds} = \1.21 . In this example, each pound added is worth \$1.21.

The next figure required to calculate the real value of gain is “cost of gain.” This will fluctuate with cost of the diet and feed efficiency of the cattle. If cost of the finishing diet is \$200 per ton and it takes 6 pounds of feed to produce one pound of gain, the feed cost of gain is \$0.60 per pound. The real cost of gain would also include labor, equipment, and any other peripheral costs associated with maintaining that animal. Further, on-farm finishing beef cattle will limit cash flow for those animals. If a 700-pound steer will be harvested at 1200 pounds and gains an average of 3 pounds per day, revenue is offset for 167 days (essentially 5 and a half months) and opportunity cost (interest) should be included. Finally, subtract the cost of gain from the preliminary value of gain to get the real value of gain which, in this example, is \$0.61 per pound for 500 pounds or a total of \$305. It is evident that if the peripheral costs add substantially to the cost of gain, the value of gain can go below the breakeven point.

The method for adding these pounds is another critical factor. The basic choices are simple: forage finished, concentrate finished, or a hybrid of these. However, deciding which method to use is not as simple. Evaluating available resources (forage availability and quality or cost and nutritional value of commodity feeds) and working with a nutritionist will help make the choice less complicated. Keep in mind how diet impacts feed efficiency and how feed efficiency affects cost of gain. Also consider how the diet will influence beef quality and how that quality will be perceived by the target consumer. The most likely scenario for southeastern cattle producers will include forages to some

extent. In any case, consider using an ionophore to improve feed efficiency and help control coccidiosis.

Marketing the final product is one of the most often cited reasons that more beef cattle producers do not retain cattle for local finishing and direct sales. However, this obstacle can also be viewed as an opportunity. Because the cattle have remained on the farm of origin in many cases, source verification can be a strong selling point for some consumers. Advertising the product as not having been treated with antibiotic can also be desirable to some that might be willing to pay more for it. An often used strategy is to keep accurate records and market the individual animals that did not require medication as “not antibiotic treated”. The same could hold true for growth promoting implants or medicated feed. However, any increase in market price from these tactics might not offset reduced performance from not using implants or ionophors. More importantly, if these approaches are used, producers should be careful not to imply that other beef products are any less healthy or wholesome. This could potentially be damaging to the industry as a whole. It has been noted that the consumer’s willingness to pay more for these practices decreases as the general economy slumps. So, constantly think about whether or not there will be any real value to each added practice.

The way the product is sold can also become a challenge. According to Dr. Mike Martin, who teaches food law at Mississippi State University, any meat product intended for retail sales must be harvested in a USDA-inspected facility. Inspected custom processors are not as common as they once were and might be too far from the farm making freight a limiting factor. The most common way this challenge is overcome is by selling the live animal to the consumer and offering to haul it to a custom processor that will package the beef to the buyer’s specifications. Customer service becomes extremely important in this situation. Take time to explain to the consumer how much beef they can expect, their options for different cuts, and the cost of processing. Providing a written example can help clarify these issues for the first-time buyer.

The Niche Meat Processor Assistance Network is a relatively new group supported by the Cooperative State Research, Education, and Extension Services of the U.S. Department of Agriculture. Their goal is to “strengthen and expand processing capacity, nation-wide, for niche meats.” More information on this group can be found online at <http://www.nichemeatprocessing.com/index.html> and should be helpful in finding local processors or understanding regulations.

Finally, maintain some flexibility with regard to cattle diet, length of feeding phase, and volume. If the feeder calf market is relatively high and cost of beef in the supermarket goes down, custom finishing on a small scale might not be profitable. Large-scale finishing has not yet proven to be sustainable in the southeast U.S. , mostly due to high-concentrate feed availability and limited processing facilities. However, keeping a few calves each year to sell as freezer beef is a great way to diversify a cow-calf or stocker operation.