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# Retaining Ownership of Calves or Yearlings

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**This NebGuide discusses the advantages and disadvantages of retaining ownership of calves or yearlings until slaughter rather than selling them to a feeder.**

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Retaining ownership of weanlings or yearlings through to slaughter is a management and/or marketing option that can add to the profits of the calf producer or cattle grower. It is a way of expanding and diversifying the cattle enterprise. has the potential for greater profits for the rancher or grower than for the feeder who might buy them.

The cattle feeding industry exists because it has been a profitable business over the years. These profits have been quite variable from year to year, and even within years. However, the cattle feeder who manages to keep cost of gains competitive has been able to make an acceptable return on his investment over a period of years even though the profit potential cannot be accurately forecast on each pen of cattle fed.

The cattle feeding operation does not lend itself to wide fluctuations in numbers fed because profits cannot be predicted accurately, and also because of the investment in yards, equipment, and training of skilled labor. Thus, if you decide to retain ownership in facilities you own, you should plan for some degree of stability rather than making a year-to-year decision based on your analyses of profit potential.

Feeding cattle in a commercial feedyard gives you more flexibility than if you develop your own feedlot. When feeder prices are exceptionally high as cattle approach low numbers in a cattle cycle, you have the opportunity to let others take the risk in feeding by selling your cattle as stockers or feeders. Changing

plans, however, fluctuates your credit requirements and yearly income tax situation. Yet, it is an option that gives flexibility to a retained ownership program that can add to profits, particularly when cattle are fed in commercial feedlots!

### **Profit Potential Higher For Retained Ownership**

If you retain ownership, your profit potential will usually be higher than for a feeder who might buy your cattle. You can avoid or reduce several costs associated with the sale of feeder cattle through the normal channels. Two cost savings that increase profit potential from retained ownership are: 1) the elimination of your expense in selling feeders and the feeders' buying expense, and 2) reduced transportation costs by delivering directly to the feedlot versus delivery to a sale facility and then to a feedlot.

Less tangible cost savings are involved in reduced shrinkage and stress in delivery to the lot, less exposure to disease organisms, and reduced costs for disease prevention (duplication of disease prevention practices is avoided) than when selling through a sale.

The added profit potential can be estimated fairly accurately for sale and transportation cost savings (\$10 or more in most instances). Other cost savings are harder to estimate. The excess shrink must be gained back, and if it is very high, may contribute to increased disease incidence, higher treatment costs, and more death loss. Reduced exposure to disease and a more effective disease prevention program also contribute to greater profits, but the dollar advantage is difficult to estimate.

Another advantage of retained ownership is that you get the full benefit of the potential of your feeder cattle. For the cow-calf producer, this involves both the genetic growth potential and the compensatory growth potential of the cattle you produce. For the grower, it involves primarily the compensatory gain potential as the result of your management program.

### **Disadvantages**

The major disadvantages of retained ownership relate to cattle availability and additional financing.

Relatively few cattle producers in Nebraska raise as many cattle as are required to fill a feedlot of the size needed for efficient use of labor and equipment. Even for commercial feeding, the number of producers who could keep a 200-head pen filled year around with a set of home-raised uniform steers is rather limited. On the other hand, some commercial feedlot operators have pens for 100 head of cattle, and some do not require that you keep a pen filled throughout the year.

When you retain ownership, you are expanding your business and increasing your investment. For most, more financing will be required and cash flow for the initial year and tax liability will be affected. You need to plan for the loss of income from the sale of cattle the first year you retain ownership, and for the feed and yardage costs necessary to feed them. Then if you decide not to retain ownership at some future date, you may have an increased tax liability as a result of selling the retained cattle as well as the current year's crop of feeders.

### **Feed at Home or in a Commercial Lot?**

Feeding cattle in a commercial lot is the easy way, and may be the most profitable for cattlemen adding retained ownership to their cattle business. The primary advantages of commercial feeding are:

1. Commercial feeders have enough volume for efficient labor and equipment use.
2. Commercial feeders have or can hire expertise in several management areas, including:
  - a. Nutrition,
  - b. disease prevention and control,
  - c. feeding management,
  - d. marketing slaughter cattle.

In addition, you have an opportunity to be selective in choosing a feeder. You can choose one who has a good reputation for a well-managed lot and competitive cost of gains. You can also choose a lot that is located well for marketing the kind of cattle you produce.

Developing your own feedlot may be a viable alternative for retaining ownership. However, several questions should be carefully considered before this decision is made, including: 1) Am I willing to develop the expertise needed to effectively manage a feedlot? 2) Can I develop enough volume for efficient labor and equipment use? 3) Will nutrition and disease control receive adequate attention? 4) Do I have an adequate supply of competitively priced feedstuffs available? 5) Am I located in an area for competitive marketing? 6) Can I justify the investment in lot facilities, feed storage, and feeding equipment?

If the answer to all of these is "yes," then developing your own feedlot may be a viable alternative. On the other hand, unless the feedlot provides a major advantage in marketing homegrown feedstuffs, advantages in feeding in a commercial yard may still outweigh the advantages in developing your own feedyard.

### **Choosing A Commercial Yard**

The major considerations for selecting a commercial feeder is whether or not his customers are satisfied. A lot with satisfied customers will usually be full or nearly full, and will have customers who have fed with him for some time. Many components of feedlot management may be involved in satisfied clientele, including:

- Good customer relations,
- competitive cost of gain,
- low death loss,
- functional lots and facilities with good maintenance,
- use of nutritional and veterinary consultants, and
- expertise in marketing, including forward contracting, hedging and options, and location relative to markets.

Other considerations might include:

- Distance from ranch to feedlot (you will want to check the cattle from time to time),
- distance from feedlot to good markets,
- number of buyers who call on the feedlot regularly, financial stability of the feedlot owner,
- feeds available for starting and growing until your cattle are heavy enough to be fed a high concentrate finishing ration,
- how many cattle are needed per pen, and pen availability at the time you have cattle available.

You may be interested in details of the lot management procedures. The manager should be willing to

discuss the general management, health prevention, basic feeding programs, marketing, and billing programs, and other things about which you have to make decisions. Details beyond these are of limited value in helping you select a feedlot.

## Marketing Slaughter Cattle

One of the new management skills you will need is that of marketing slaughter cattle. You will need to gain a knowledge of: 1) desirable slaughter weight and finish for cattle of your frame size, 2) differences in packing plant acceptance for type and size, 3) principles and strategies involved in hedging, forward contracting, and use of options, and 4) cost of delivery from the lot to different locations of sale. In addition, you will want to put added effort in keeping abreast of market prices, trends, and outlook. Most commercial feedlot managers are knowledgeable in most or all of these areas and can be quite helpful in making marketing decisions. This is another advantage to feeding cattle in a commercial feed yard.



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