



Marketing Update



CERTIFIED RED ANGUS

Pro-Cow

by Ron Bolze, Commercial Marketing Director and Greg Comstock, RAAA Marketing Programs Coordinator

Genetic Risk Management: Less Corn, More Choice

You don't have to listen in on very many Beef industry forecasts to hear various analysts suggest that the cattle price/production cycle is broken. The number of forces exerting pressure and the speed with which those forces change and interact are probably exceeding conventional wisdom's ability to offer feasible risk management strategies. Cow/calf producers and their cattle feeding customers are reevaluating their decision making processes in this increasingly dynamic beef industry.

While the surplus of available bunk space is helping to maintain strong competition for feeder cattle, the surging corn market has the potential to hammer feedlot profitability. In January of this year, CattleFax projected 2008 corn futures to trade in a range of \$3.85 to \$5.60/bu with an average of \$4.30. The pressures to increase ethanol production coupled with increased global demand for corn has driven world corn stocks to their lowest when compared to use since the mid 70's (see Fig. 1). Growing use of ethanol suggests this condition will not go away any time soon, and with it comes increased demand on commodities that can be substituted for corn, as well as increased pressure to plow up any grass that promises an even marginal corn crop. With the value of production inputs changing rapidly, and the market environment right behind it....what footing can provide our commercial customers the necessary traction to negotiate such unfamiliar terrain?

We know that risk experienced at the feedlot level will materialize to the cow/calf producer through changes in demand. And, as this market continues to evolve, risk will impact value in inverse proportion, i.e. those cattle that represent the safest risk management strategy will be the most valuable. So what to do? How do we reduce our exposure to increased input costs such as high priced corn?

Certainly, risk management is the cooperation of multiple strategies working in concert to reduce exposure to all areas where

potential losses could occur. If we accept that reproduction, marketing and genetics all work together to influence ranchers' bottom lines....then we begin to see that our genetic inputs work in similar fashion to locking in lower priced feed, long term grass leases, and cooperative purchasing. **Now that we're in the heart of bull sale season, let's look at ways we can improve our odds through Genetic Risk Management.**

More Choice....Less Corn. If corn is so expensive why not select cattle that don't need as much of it, and will still grade choice. Fewer days on feed to grade choice, and a higher percentage of choice cattle means less money invested in #2 yellow dent and the associated interest costs that goes with higher feed bills. Figure 2 shows Red Angus' superiority in this area; Red Angus sired calves had the highest percentage of cattle grading choice in the Meat Animal Research Center's (MARC) Cycle VII comparison between breeds.

Figure 2. MARC CYCLE VII DATA - Report 22

Breed of Sire	% USDA Choice
Red Angus	89.9
Angus	87.6
Simmental	65.7
Hereford	65.4
Charolais	61.9
Gelbvieh	57.7
Limousin	56.9

Certainly, selection for improved carcass quality is an obvious target to help avoid discounts, and reduce exposure to corn prices by having cattle grade choice with less time on feed. Even though recent choice:select spreads are low enough to make one question this strategy, consider the following: A) Most branded product premiums exist at the choice or higher, and B) The Angus America Grid, which is available through the Red Angus FCCP, puts an \$8/cwt. floor under the spread - this is worth over \$30 per head on the average carcass wt. cattle grading choice. The cure for cow herds that have historically struggled to produce calves that grade Choice or take more days on feed to get there... Red Angus bulls with above average Marbling EPDs.

Feed remains the single largest line item on the expense side of most ranchers P & L statement - but it isn't corn. Grass, hay, and other forages as well as the dirt they grow in are also becoming harder to come by and more expensive. Figure 3 on page 14 shows ending hay stocks as well as per ton price.

Ironically, the answer to the rising forage price tag is the same as corn....Genetics. Five years ago, Red Angus became the first breed to look at the expense side of a rancher's profit equation with the release of its Maintenance Energy Requirement (ME) EPD. This genetic prediction is directly tied to feed costs by predicting which animal's progeny will require less feed to maintain their body condition. This spring there are hundreds of sons of high accuracy low ME sires selling across the country, and the daughters of low ME Red Angus bulls will cost less to maintain.

Figure 1.

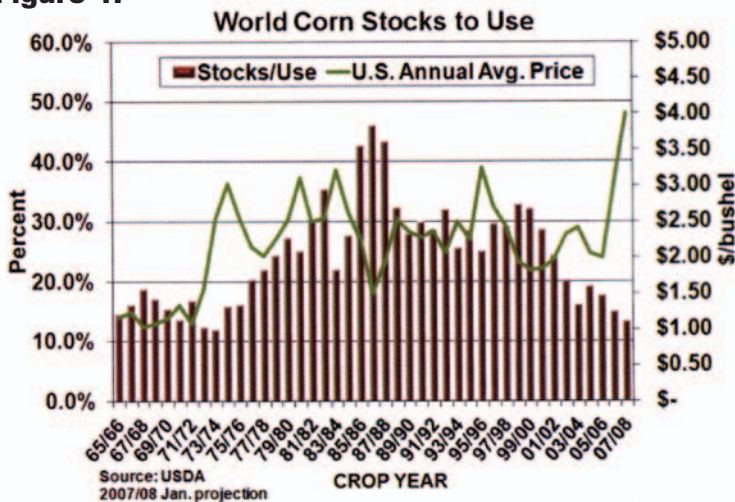
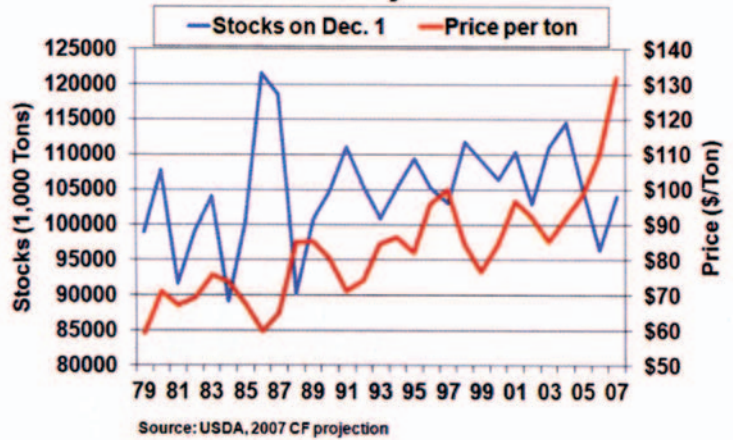


Figure 3. U.S. Hay-All



Sure, a cow that requires less feed is cheaper to keep, but expenses still have to be measured against revenue to determine profit. Losses incurred through poor reproductive performance add up quickly. Calves that are never conceived or born dead can not profit from superior carcass quality, and they eat a lot relative to their yield. A dead calf represents a years worth of feed inputs into their mother....and a pay weight of zero, and the interest compounds rapidly. Cows that don't breed or lose a calf are culled, and a valuable replacement must be retained instead of cash cropped. Stayability is a Red Angus EPD that predicts an animal's daughters' likelihood of remaining productive in the herd past age six. Now with over a dozen years of data, many Red Angus bulls selling this spring will be backed by three and four generations of high accuracy Stayability sires. Additional Red Angus reproductive EPDs offer producers the opportunity to select young sires who have indicated a higher probability of heifers conceiving to calve as two year olds and then to have their first calf without assistance. Reduce your exposure to risk that is related to developing replacement heifers by using sons of Red Angus bulls with breed average or above EPDs for Stayability, (STAY) heifer pregnancy (HPG) and calving ease maternal (CEM).

Red Angus marketing programs are a good risk management strategy in themselves. The Red Angus feeder calf certification program has no enrollment fee other than the cost of the official program tag. Yet, that \$1 investment in this Red Angus Process Verified Program (PVP) provides access to Age and Source Verification which often leads to premiums of \$25 per head. Additionally, the "yellow tag" is many animals' ticket to receive premiums available for cattle that supply Angus and other branded beef programs. Being out in front of the Source Verification trend by a full decade has helped these tagged progeny of Red Angus bulls develop the reputation that frequently leads to their topping video and auction barn markets.

Remember, Risk management starts at conception...

The longer a rancher owns the results of their selection, the greater the potential for those selections to minimize risk. Producers who retain ownership can gain from the higher percentage of choice cattle and put the entire source and age premiums available for fed cattle into their pocket. Those who retain daughters have the opportunity to make genetic enhancements to productive lifespan, percent calf crop weaned and reduced replacement rate. No breed is in a better position than Red Angus, with their unique combination of traits, genetic selection tools, and added value marketing programs, to shield your operation's bottom line by displacing some of the risk created by increased demand for home grown energy. While there are numerous places where risk can be avoided, a great place to start is making Red Angus your genetic risk management strategy. ■