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Transcription of Decisions on replacement females, episode 9

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00;00;16;18 - 00;00;44;18
Unknown
All right, well, back to the Pasture to Profit podcast with your host, Travis Taylor today. I'm CSU extension livestock specialist for the Golden Plains area, the in northeastern Colorado. I'm joined by my fellow co-host Scott Stinnett from Kit Carson County Extension, where he is the 4-H and livestock specialist in. Our guest today is Jenny Byron, all the way from the other side of the state.

00;00;44;19 - 00;01;14;02
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She is our regional agriculture business management specialist. And Jenny, welcome to our podcast. Thank you Travis. Today we're really the topic we have on our mind is that it's that time of year where we're pulling bulls out. We're starting to think about backgrounding calves. We're probably trying to break, check and identify maybe some replacements that we're going to have, as well as maybe think about culling cows.

00;01;14;04 - 00;01;52;14
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And with the really high cattle markets that we're looking forward to this fall. There's a lot of people out there interested in what kind of strategies we can look at to handle our replacements and our heard that we need, because each year, somewhere between 15 to 20% of our cowherd gets turned over. So, Jenny, from your standpoint in our ABM team, what can you do or how can you help us determine whether to maybe you raise our replacements or maybe buy bred cows or all things by some bred heifers?

00;01;52;20 - 00;02;19;15
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A great question, and I'm really thrilled to have the opportunity today to talk about these important decisions for our livestock producers and how they can make strategic and informed decisions that are going to positively impact the profit of their operations and their overall financial health of their ranches. So, of course, as you talked about, a

major cost for our cow calf producers is obtaining that adequate supply of acceptable heifers for replacements in our herds.

00;02;19;17 - 00;02;45;15
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So although most producers raise their own, purchasing replacements can be a really attractive alternative sometime. So selecting the most economical source of your replacement heifers has some major implications for effectively using your resources, controlling your costs on the ranch, as well as sustaining your business vitality. So there are several factors that producers are needing to consider when they're determining their optimal herd replacement strategy.

00;02;45;19 - 00;03;15;16
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Some of these really important factors are going to include your interest rates on your borrowed capital, your cash flow needs. Any feed costs, as well as your labor, labor availability and costs. Reproductive rates of your herds. Ensuring the heifer population is going to thrive in the given environment, and tax implications as well. And of course, many more factors in addition to these that I haven't identified also are going to need to be considered specific to your own cattle operation.

00;03;15;19 - 00;03;38;23
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When you consider these factors, it can determine the difference between profit and loss in any given year. So producers must be really flexible and capable of modifying herd replacement strategies as needed to take advantage of the changing conditions. So, Jenny. My question for you is, you know, looking at the buying versus the replacing, you know, I'm hopefully culling my cattle.

00;03;38;24 - 00;04;07;29
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And right now just I've seen the market for cull cows and you know, it's anywhere from $1.20 to $1.45. I've heard a couple of times, but for $1 dollar $0.20, that 1,500 pound big cow, she's worth $1,800. And so that's a pretty good amount of cash to put in our pocket to buy a replacement. But what are some other things we need to think about when we're trying to make that decision between buying the replacement or just raising our own?

00;04;08;01 - 00;04;39;01
Unknown
Very good question, Scott. So when it comes to raising replacement heifers, there's definitely both some pros and some cons for that. Some advantages are that potentially lower overall cost. So if you have the resources available to raise those heifers internally, your overall cost could be much lower than buying your bred animals. For producers to accurately determine this, it's important that they use decision aids and take into account all factors affecting this decision to know the actual production costs.

00;04;39;02 - 00;05;00;29

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This includes both your fixed and your cash costs for that replacement heifer. Other advantages. You're going to have complete genetic control over your herd by selecting heifers from your best cows and breeding them to your goals. So your breeding program could involve several generations that have been selected for different maternal traits for example, calving ease, mothering ability, and fertility.

00;05;01;02 - 00;05;31;00
Unknown
And that will be difficult to replicate when you're going to purchase elsewhere. Certain populations may also start selecting based on their ability to thrive in the environment. So matching genetics to the environment is very important, especially in a state like Colorado where we have very diverse geography and topography, including high elevations in mountain areas like western Colorado and lower elevation, maybe hotter in some cases on the eastern plains as well.

00;05;31;02 - 00;06;01;07
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Of course, there's risk of biosecurity when you're introducing new animals into your herd, so raising your own can help minimize influx of any sort of disease, such as respiratory disease or bovine viral diarrhea, among others. You can much better control for that when you're developing your heifers on site. Some cons to raising your own replacement heifers. It's going to require a very significant time investment for feeding, for breeding management and for monitoring their health.

00;06;01;14 - 00;06;30;12
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You also need to evaluate if you have the proper management skills to ensure that they're properly developed for breeding. When it comes to that cash side and talking about cold cows now going for a really high price, you're going to have to carry some of those feeding costs. Breeding management costs for the 15 to 18 months that it takes for that heifer to reach the breeding age, which is going to delay the return on your investment versus purchasing bred animals when you're ready to implement them into your herd.

00;06;30;12 - 00;07;02;02
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And when you have the cash on hand and you're a little bit more liquid in your business when it comes to buying bred animals instead of raising your own, you're going to have some things like faster integration. So expanding your herd or changing your breeding program, it's going to take less time. Any producers who may have source some increased pasture ground or a more cost effective feed resources, they might be looking to expand their herd size much more quickly than existing replacement numbers will allow.

00;07;02;04 - 00;07;35;05
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Or maybe, let's say you have a new marketing avenue and your direct marketing of your beef and your local community that necessitates a development of a different either population of genetics or an additional supply of animals that you can filter into processing to supply those direct markets. And either of those situations, sourcing heifers from a different breeding program or bringing those in, maybe the best viable option for you to meet the new demands that you have for your herd in a timely manner.

00;07;35;07 - 00;07;58;03
Unknown
You do also have some genetic control when you're purchasing bred livestock. You can select any desired traits that you would like. Either similar to your own herd or different traits that you want to introduce to your herd. Producers may be able to purchase replacement heifers from someone who specializes in producing replacement heifers, which can be a really big advantage for some of our producers.

00;07;58;05 - 00;08;25;06
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And of course, once you pencil it out, depending on your own situation and your own considerations for your operation, raising those heifers from weaning to breeding is going to require a lot of inputs, and we're seeing a huge increase in our input costs for farmers and ranchers. So if you have so many input costs involved, it might be better for you and cost less for you to purchase bred breeding stock when you're ready to integrate that into your herd.

00;08;25;09 - 00;08;53;21
Unknown
Well, Jenny, I think you kind of hit it on the nose when you say pencil it out. Because even in my own personal situation back in 2023, a year ago, those heifers that I kept back, I figure I'm going to have $3,200 in those heifers by the time I get to sell their first calf. So I think using that tool, a lot of times people don't understand.

00;08;53;22 - 00;09;22;21
Unknown
So being able to use some of the tools that your A team offers us, like our cow carrying cost to all cow budgets. You have an epic farm business management tool that you guys have online. All of those things sit there, but I think truly penciling it out. So you guys have some tools that will allow us to help do that and not have to go through it on our own.

00;09;22;23 - 00;09;46;04
Unknown
Yeah, absolutely. We've talked about the pros and cons of each of these options, and now it's time for us to look at making that decision and following those factors that are specific to our farm and ranch. So starting out by taking a look at our budget and how much we can afford to spend on those talking about our labor availability, and if we have the labor force to manage that.

00;09;46;06 - 00;10;17;28

Unknown
We're looking at our management skills, all our genetic goals and our biosecurity concerns. We're also looking at our urgency for new calves. So, for example, maybe you had to sell some cows due to drought concerns and you need to restock and rebuild at a specific time. So let's do a basic example here. Let's assume that the average cost of a bred cow or bred heifer would be $2,000, and raising heifer to breeding age is going to cost around $1000 to $1200.

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That's going to include our feed, our labor, and our veterinary care. So based on these estimates, buying 20 bred cows would cost us $40,000 and raising 20 heifers would have an upfront cost of $20,000. But of course, there's going to be that delay in returns until they reach breeding age. So at first glance, it seems like it's a no brainer that we should raise our own.

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But we also want to consider things like our interest rates on our line of credit, and determine if you can bear those costs until your own race. Replacement heifers have a calf for you to sell. Interest rates right now are sitting at 9 to 10%, which, coupled with the increased input costs we're seeing interest expense can really add up quickly.

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Unknown
You also really want to look closely at your cash flow needs during the process of raising your own replacement heifers. If you have cash flow problems or needs that are going to affect your operations, ability to withstand the cost of raising your own replacement heifers, you're going to need to look at alternative options. And again, maybe if you have immediate restocking needs, it may be your only option and worth paying the additional money to build your herd strategically.

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Unknown
So this decision is going to look very different from producer to producer, and more importantly, is going to look different each production season for each individual producer. Well, I think, Jenny, you know, when when I go to our extension a b m site, and could you give that address real quick for us? Yeah, absolutely. The ag business management website, your URL is abm.extension.com state.edu.

00;12;01;13 - 00;12;27;00
Unknown
Yes. When I, when I go there and I look at some of those tools that you have available, as well as the wide variety of resources that you guys make available on that site, I think it's very important because there's things that I don't take into consideration that I've been raising cattle for a number of years, and now I'm trying to make sure that I'm accounting for everything.

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Unknown
And sometimes when I just sit down at the kitchen table, I really forget to add. Yes, interest on this is going to be $100.30 this year. I don't have my depreciation cost calculated in for a tax issue. So can you tell us what tools do you actually have available on the site? Absolutely. There's two tools that I'd like to talk about today that can be helpful for producers who are analyzing, raising versus buying replacement heifers for their operation.

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So the first type of budgeting that can be useful for producers is called a partial budget. So what a partial budget is an analysis based on the availability of complete and accurate information using appropriate decision analysis tools. So partial budgeting can evaluate one change or one alternative to an operation or a management decision. Partial budgeting is based on the principle that a small change in the organization of a farm, or the management of the farm, is going to have one or more of the four following effects.

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So implementing a change in management is going to eliminate or reduce some costs. Number two it's going to eliminate or reduce some returns. Number three it's going to cause additional costs to be incurred. And then number four is going to cause additional returns to be received. So the net effect will be the sum of the positive economic effects minus the sum of the negative economic effects.

00;14;01;24 - 00;14;31;05
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And this is going to help identify your net return or loss based on the alternative or change in the operation. So partial budgets are extremely useful for changes such as expanding an enterprise or in our case, looking at raising our own replacement heifers versus buying them. Because we're evaluating one change in our management principle. So the agriculture and business management team has developed an Excel based decision tool, which is a formal guideline for preparing a partial budget.

00;14;31;13 - 00;14;53;23
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It allows the producer to input the four categories of expenses that we discuss. And then what it does is it helps evaluate the net return or the net loss based on the alternative that's being analyzed. In addition to the partial budget, we also have a special buying versus raising replacement heifers tool specific to the decision that we're making in this scenario.

00;14;54;00 - 00;15;18;01
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So the tool allows for input of very detailed production records and any estimates to help you fully make that informed decision for your

operation that will be most economically beneficial. So if you're very closely honing in on your production records, your expenses including your operating interests and any other herd factors that are going to affect affect this decision, this is going to be the best tool for you to use.

00;15;18;04 - 00;15;54;00
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So whether you decide to use a partial budget, if you're just starting out and thinking about making this decision and want to make some broad assumptions and get a broad overview of what this management change would look like in your operation, or if you use the special buying versus raising replacement heifers tool. What we like to suggest, and what's great about these tools, is that you can run multiple scenarios and look at different outcomes based on varying conditions, for example, the weather or the markets or any other things that might impact your operation throughout the production year.

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We like to suggest preparing a best case scenario, a status quo scenario, and then also a worst case scenario to accurately compare the information and make an informed decision on your own guidance and intuition, coupled with the ability of risks that you as a producer can and are willing to bear, and also what will be best for the bottom line of your business in the long run.

00;16;17;07 - 00;16;35;03
Unknown
Well, Jenny, those are great tools, and you kind of gave me a little bit of a flashback there to 30 years ago, sitting in Aggie Con class and doing the quadrants of the positives and negatives of your returns and your expenses. But the great thing about all these ABM tools is they are just kind of plug and play.

00;16;35;07 - 00;16;54;15
Unknown
You plug in your numbers and it it will take it, do the calculations for you. And to some extent I mean they can be used, like I said, to make those three different scenarios. But you can play with the numbers. You can watch the market as you see bred cow and heifer markets start to come around here this fall.

00;16;54;22 - 00;17;13;08
Unknown
And hey, that's the kind that I'm looking for. I'm looking for a specific breed and from a specific ranch or, and you can watch those and plug numbers in and see where it's going to fall for, for you. So those are great tools. I think every producer could very easily use them. Most of them are Excel based.

00;17;13;09 - 00;17;40;00
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Is that correct? That is correct. You brought up a really great observation about, how to use the tools, and I want to note that we also intend for these tools to be used not just one time, but throughout the production season. You know, as something happens in your operation, you can pull that decision tool back up and make that change directly into the decision tool to see how that's going to impact your bottom line or impact decisions that you've made.

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So we expect producers to use these as a working tool in their operation, and not just a one time set it and forget it. This is what we determine from our initial scenario in this tool. You never know what. Hey, prices are going to be for the winter unless you've already got that locked in and other things in the economy.

00;17;58;03 - 00;18;20;04
Unknown
If they ever decide to drop interest rates again, that'd be a quarter percent. Can make a pretty good dent in the in the books for, you know, a very large producer. Very true. Well, Scott, I think that that kind of brings this session of our Pasture to Profit Podcast to a close. We want to thank Jenny for joining us today.

00;18;20;07 - 00;18;43;11
Unknown
We appreciate her expertise. And do go check out the a b m website. You can Google CSU a m. That's what I do and it brings it to the forefront of your web browser. Check out the tools that they offer and make sure you look at it so. But if you have any questions, you don't hesitate to give me a call.

00;18;43;13 - 00;19;15;12
Unknown
I'm Travis Taylor, and I'm at the extension office in Wray, Colorado. That number is (719)332-4151. Or. Scott, where can we get ahold of you? I'm right here in the Kit Carson County Extension office in Burlington, Colorado. And I can be reached at (719)346-5571. And if you want to contact one of the ag business management specialists like Jenny, if you go to that ag business management website, you can look up the contacts.

00;19;15;13 - 00;19;38;07
Unknown
They can help you with everything from these decisions on whether to buy or raise your own replacements to estate planning and all sorts of other economic decision making that you may need to do. So, Jenny, again, thank you for being here with us, Travis. Thank you, Scott and Jenny, and we'll see you next time on our next Pasture to Profit podcast.

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