

Backgrounding/Stocker Cattle Cost of Gain

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Cost of Gain

- Summarizes quite a bit of important information related to the production and market performance of an operation
 - Health
 - Nutrition
 - Forage/grazing management
 - Input price risk management



COG Planning

- Enterprise budget can provide a good place to start in making cost of gain projections
 - Budget provides a template covering key cost items that should be considered in evaluating cost of gain



COG and Feed Prices

- In the example budget used here, a 10% change in feed price results in about a 3% change in feed price results in about a 3% (roughly \$1.70/cwt) change in cost of gain

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Break-Even COG

- Given purchase price/weight and expected sale price/weight, break-even cost of gain can be calculated:

$$COG_{BE} = \frac{(SW \times SP) - (IW \times IP)}{(SW - IW)}$$

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Break-Even COG Table

Purch. Price	Sale Price									
	\$ 92.00	\$ 94.00	\$ 96.00	\$ 98.00	\$ 100.00	\$ 102.00	\$ 104.00	\$ 106.00	\$ 108.00	\$ 109.00
\$ 100.00	81.33	86.00	90.67	95.33	100.00	104.67	109.33	114.00	118.67	
\$ 102.00	78.67	83.33	88.00	92.67	97.33	102.00	106.67	111.33	116.00	
\$ 104.00	76.00	80.67	85.33	90.00	94.67	99.33	104.00	108.67	113.33	
\$ 106.00	73.33	78.00	82.67	87.33	92.00	96.67	101.33	106.00	110.67	
\$ 108.00	70.67	75.33	80.00	84.67	89.33	94.00	98.67	103.33	108.00	
\$ 110.00	68.00	72.67	77.33	82.00	86.67	91.33	96.00	100.67	105.33	
\$ 112.00	65.33	70.00	74.67	79.33	84.00	88.67	93.33	98.00	102.67	
\$ 114.00	62.67	67.33	72.00	76.67	81.33	86.00	90.67	95.33	100.00	
\$ 116.00	60.00	64.67	69.33	74.00	78.67	83.33	88.00	92.67	97.33	
\$ 118.00	57.33	62.00	66.67	71.33	76.00	80.67	85.33	90.00	94.67	
\$ 120.00	54.67	59.33	64.00	68.67	73.33	78.00	82.67	87.33	92.00	

Note: Purchase weight = 400#, sale weight = 700#

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Break-Even Sale Price

- Alternatively, break-even sale price can be calculated with any particular purchase price/weight and projected cost of gain.

$$SP_{BE} = \frac{(IW \times IP) + COG(SW - IW)}{SW}$$

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Break-Even Sale Price Table

Purch. Price	COG									
	\$ 48.00	\$ 51.00	\$ 54.00	\$ 57.00	\$ 60.00	\$ 63.00	\$ 66.00	\$ 69.00	\$ 72.00	
\$ 100.00	77.71	79.00	80.29	81.57	82.86	84.14	85.43	86.71	88.00	
\$ 102.00	78.88	80.14	81.43	82.71	84.00	85.29	86.57	87.86	89.14	
\$ 104.00	80.00	81.29	82.57	83.86	85.14	86.43	87.71	89.00	90.29	
\$ 106.00	81.14	82.43	83.71	85.00	86.29	87.57	88.86	90.14	91.43	
\$ 108.00	82.29	83.57	84.86	86.14	87.43	88.71	90.00	91.29	92.57	
\$ 110.00	83.43	84.71	86.00	87.29	88.57	89.86	91.14	92.43	93.71	
\$ 112.00	84.57	85.86	87.14	88.43	89.71	91.00	92.29	93.57	94.86	
\$ 114.00	85.71	87.00	88.29	89.57	90.86	92.14	93.43	94.71	96.00	
\$ 116.00	86.86	88.14	89.43	90.71	92.00	93.29	94.57	95.86	97.14	
\$ 118.00	88.00	89.29	90.57	91.86	93.14	94.43	95.71	97.00	98.29	
\$ 120.00	89.14	90.43	91.71	93.00	94.29	95.57	96.86	98.14	99.43	

Note: Purchase weight = 400#, sale weight = 700#

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COG and Feed Prices

- Obviously, cost of gain depends greatly on feed prices
- For the last year, feed prices have been high and volatile
- In this environment, effectively managing COG involves evaluating a number of potential alternative feedstuffs

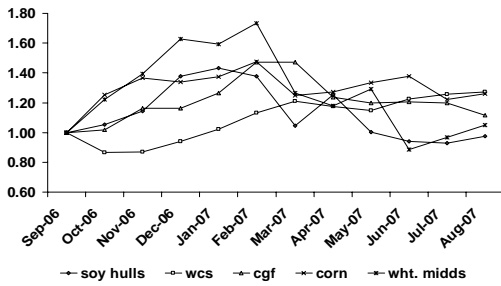
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Corn Market Issues

- While there are a fairly large number of substitutes for corn in backgrounding/stockering rations, prices for all corn alternatives tend to follow corn prices
- When corn is expensive, all feeds are expensive

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Feed Price Indices: 9/06-8/07



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Corn Market Situation

- After peaking February, corn prices moved lower through early September
- Following September reports corn prices have rallied
- Corn remains supported by strong underlying demand despite record production

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Key Corn Demand Factors

- Wheat production problems
 - Tightest wheat stocks in 30 years
 - Affects corn price through competition for acreage and increase in export demand (to replace feed wheat in some countries)
- Ethanol production
 - Still growing, though rate of expansion seems to be slowing
- Export demand
 - Despite high corn prices, weaker dollar and absence of Chinese exports have kept US exports strong

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Risk Management Keys

- Take care of the things that you can manage
 - E.g., receiving/health program should ensure that cattle have potential to gain as efficiently as possible
- Consider all available alternative feed sources
 - What feedstuffs can you realistically source?
 - What can you practically store/handle?
 - Get help in figuring out how to feed the things that you may be unfamiliar with.
- Consider forward pricing opportunities
 - Forward purchase of commodity feeds is sometimes an option

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