

ADDING VALUE TO YOUR CALVES

DAN B. FAULKNER, EXTENSION BEEF SPECIALIST, UNIVERSITY OF ARIZONA

Many Arizona calves sell at a discount compared to other parts of the country. This is because, in general, Arizona calves have more health problems and consequently don't perform as well on the feedlot as other calves. There are opportunities to alleviate this problem and add value to your calves.

Removing horns and castrating bull calves is the first management step to increase value. Preconditioning programs offer further opportunities for producers to improve the market value of their calves. There is a Beef Quality Assurance (BQA) preconditioning program for the state of Arizona or many pharmaceutical companies have programs. Calves that have been preconditioned generally bring a premium compared to other calves. This premium has been as high as \$10 per cwt in some sales.

Developing a breeding program that creates a group of calves that are uniform in color, size and muscling should be a priority. Producers should not give up the advantages of crossbreeding, but a breeding program that involves Angus (black) genetics could maximize income. Generally the premiums are at least \$20 per head and they seem to be getting larger over time. Utilizing crossbred bulls is one way to maintain desired breed composition and still take advantage of heterosis.

The new governmental requirements for selling breeding cattle across state lines will be out this fall. They also indicate that feeder cattle requirements will follow within 18 months. It looks like some type of individual ID will be required to meet these mandates. One way to pay for the increased cost is to enroll in a process verified program that pays premiums to more than cover the costs.

Once basic breeding and management programs are in order, producers can enroll in programs to add further value to their cattle. Process verified programs (PVP) have gone through USDA to document and define a system of management needed for verification. These programs include auditing the producer to make sure the program is followed. The programs will also satisfy Country of Origin Labeling (COOL) requirements. For a complete list of programs go to <http://processverified.usda.gov/>.

Producers can put in tags and enrolling their cattle in age and source verification programs as a marketing tool for their calves. There are PVP with other requirements besides age and source verified. These include Naturally Raised (no hormones or antibiotics), Organic, animal care, or are associated with a breed of cattle.

The cost of PVP varies with the different companies. Producers don't need to buy readers, scanners, computer software and all the other equipment to fully utilize the electronic ID (EID) tags. Producers can put EID tags in the calves and fill out paperwork to enroll the calves without all the equipment. The cost for the tags and enrollment is generally between \$3-8 per head depending on the program. These programs will usually offer producers premiums beyond "commodity beef."

Naturally Raised or Organic markets continue to grow and allow producers an alternative to traditional systems. Cost differences are small for the cow-calf producer but can be quite large in the feedlot. Current USDA Organic standards require that cattle have access to pasture. Naturally Raised cattle can't have antibiotics or implants for either their lifetime (never ever) or in the feedlot depending on the PVP utilized. It is important to understand the increased costs associated with these programs to evaluate the potential economic benefit of Naturally Raised programs. It is also important to identify a market that will pay a sufficient premium to cover additional production and transportation costs prior to starting a Naturally Raised program.

The 2011 National Beef Quality Audit suggests that "how and where the cattle are raised" is important throughout the supply chain to meet consumer expectations. This information will likely be required for participation in programs in the near future.

Developing a program to add value to your calves is a high priority if you want to capture increased value. There are substantial premiums available for producers willing to go to the effort to precondition their calves and/or enroll in PVP. The premiums become larger as the standards become more stringent. Naturally Raised or Organic feeder cattle have the most stringent standards and the highest premiums at this time.

Dr. Dan Faulkner joined the Animal Sciences Department in July 2012. Prior to his University of Arizona appointment Dr. Faulkner was a member of the faculty at the University of Illinois, Department of Animal Sciences as a Professor with a 50% extension and 50% research appointment. His research and extension activities emphasized proper nutrition and management of beef cattle. Dr. Faulkner brings a wealth of knowledge and prominence to his position at the University of Arizona. He led the beef extension group and the beef industry in Illinois for over 25 years. He has also planned and conducted over 500 educational conferences and seminars for over 30,000 individuals, was an invited speaker at 60 regional or national conferences, prepared over 300 extension articles (a number of which received national distribution) and did over 150 radio and television programs.



At the University of Arizona Dr. Faulkner's research program will study the factors that influence cow forage intake, efficiency and longevity under Arizona range conditions. Recently he has evaluated cow forage intake and observed over 100% variation in intake for cows of similar size and milk production. Faulkner says "There is much debate in the industry about what is the ideal cow size, intake for a given cow size and level of milk production. We need to study these factors under Arizona range conditions. Once sufficient animals are characterized, we could develop genetic markers to identify cattle that would be efficient under Arizona range conditions."

Dr. Faulkner's University of Arizona extension and research program goal is to improve the economic viability of Arizona beef producers and improve the environmental impact of their beef operations. He plans to do this by 1) identifying current and future problems facing the Arizona beef industry, 2) acquiring funding and conducting the research to address the problems and 3) delivering those solutions to the industry. He feels that it is important that the research be conducted in a manner that ensures that it is high quality and suitable for publication. Poor quality research can lead to erroneous conclusions and questionable recommendations for producers.

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HELP FOR THE NEXT GENERATION OF RANCHERS

DOUG NORTON, LOAN OFFICER FCSSW

We at Farm Credit Services Southwest and similar Farm Credit associations across the country are eyeing the transfer of agricultural operations to the next generation with increasing curiosity and anticipation. We are making a concerted effort to assist in this generational transition and are creating specific growth objectives to focus on the next generation of producers. The average age of agricultural producers across the country has been increasing as more of the next generation is choosing not to come back to the ranch or farm. We consider this trend an opportunity for us to help where we can so the next generation has the tools and the confidence to take over.

In the spirit of this opportunity I wanted to briefly discuss what every rancher, and more particularly, the young and beginning rancher, needs to know to increase the likelihood of obtaining credit for their operation. This will give you an idea what bankers look for when they analyze credit.

The first thing to understand is that bankers, just like you ranchers, use tools to do their job. Just as ranch horses, branding irons, rope and ear tags are important tools for ranchers, balance sheets, income statements, budget and cash flow statements and business plans are vital tools bankers use to do their job effectively. The timelier, more detailed and consistent this financial information is the easier it will be for your banker to make prompt and informed decisions. Keep in mind that the producer/banker

relationship is unique and that the “tools” he requires you to provide to him can in turn be vital tools for your operation. Current and historical information can provide important trend information for your operation which will allow you to more quickly identify issues. You should consider the relationship with your Banker as one of your many assets that can pay dividends.



There are certain financial ratios and markers that bankers look at in their analysis to determine credit worthiness. I won't go into specific details on each ratio, but rather will speak in general terms. Capital is one area of analysis that shows total equity and leverage of an operation. In short, this analysis looks at the ratio of assets to debt. The threshold is typically 50%, which means that if your total debt equals more than 50% of the value of your assets your debt level would be considered high and it would be more difficult to get financed. Liquidity is another area of capital analysis that looks at current assets or those assets that are cash or can be turned to cash in a normal operating cycle and comparing those to current liabilities which is debt due in the next 12 months. There should be adequate margin between current assets and current liabilities. Having

this adequate margin shows that your operation can absorb distress whether it is from low cattle prices, higher than expected input costs or any other unforeseen expense.

Capacity analysis shows your ability to generate sufficient earnings, both historical and projected, to cover operating expenses, living expenses and taxes and have sufficient left over to service term debt and replace breeding stock and equipment. Having excess earnings after everything has been covered is crucial because that is where you can grow your liquidity and is the basis for expanding your operation.

One last area I will discuss is less numbers-driven but equally as important – that of Character. If you are applying for your first loan or are working with a new banker, being able to determine your character will be crucial to him. Tools that are used to analyze your character are credit reports, credit references, financial and production records and a comprehensive business plan including operational projections, objectives and strategies. Remember that a banker is trying to learn everything he can about his potential “partner” in the ranching operation and so the more pertinent information he can gather about the individual and the operation the more informed he will be as he considers the loan.

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**U.S. Customs and
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Patrick Bray
Vice President
Arizona Cattleman's Association
1401 N 24th Street, Suite 4
Phoenix, Arizona 85008

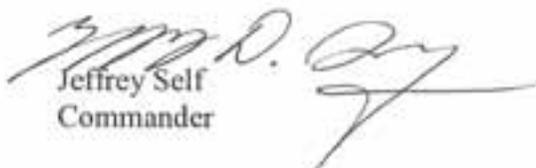
Dear Mr. Bray:

The Customs and Border Protection family experienced a great tragedy on October 2, 2012, as we learned of the shooting incident near Bisbee, Arizona which left one agent injured and the other fatally wounded. Border Patrol Agent Nicolas J. Ivie was killed in the line of duty serving his country and community.

As you know, Agent Ivie was on the Horse Patrol Unit at the Brian A. Terry station (formerly the Naco station). Understanding the value of working together, Agent Ivie developed relationships with the ranchers that exemplify the true partnership we strive to have between CBP agents and the ranchers. The connection we share through Agent Ivie and the heartfelt condolences of the Cattle Growers Association is true comfort as we work through the grieving process.

Our loss of Agent Ivie cannot be measured in any fashion, nor can the losses of the other 117 Border Patrol Agents killed in the line of duty since 1924. In difficult times such as these, the men and women of CBP greatly appreciate your support.

Sincerely,


Jeffrey Self
Commander

I have touched on a just few areas of credit analysis that I feel are important for you to know. There are more and I would encourage you to talk with your banker about them in more detail. For you young and beginning producers it is vital that you understand what the bank is going to look for when you present a credit application to them. The more you understand the more prepared you will be when the

opportunity presents itself to take over the family operation. That is what we need - a new generation of agricultural producers that are armed with the tools of success.

If you have any questions about what I have discussed or want to explore opportunities we have for young and beginning ranchers please call me at 520-975-8804 and I would be happy to discuss it with you.