# Retained Ownership with Scott Clawson

**Dana Zook:** [00:00:00] Welcome back to the extension experience podcast. I'm Dana Zuck. As this podcast is being recorded, most of Oklahoma has had a week of unseasonably warm temperatures. Many producers have wheat in the ground and that crop will need some moisture in the future. We're just kind of in a, a standstill situation here in specifically northwest and southwest Oklahoma.

Wheat pasture and other small grains are traditionally used as a resource for cattle producers to do a lot of things in the industry. It provides some flexibility so we could grow weaned calves, which is the main thing that we do with wheat pasture, but we can also put weight on thin cows or develop heifers.

It's just a really unique resource that we use and it's unique to this area of the state. With wheat pasture prospects looking dismal, so I don't want to be negative, but they aren't looking great right now. Producers across Oklahoma are facing these challenges head on. We've learned kind of how to deal with this drought situation.

And [00:01:00] so we're, some of them are thinking about feeding their weaned calves instead of grazing. This option is admirable because as producers want something to do this winter. want to justify our labor, but it's not a decision that should be taken lightly. So to address this complex situation, I invited Scott Clausen, our Northeast Area Extension Ag Economist, to the podcast.

Back to the podcast, I guess, Scott. So welcome.

**Scott Clawson:** Yeah, thank you. Thank you. Happy to be here. Happy to help out.

**Dana Zook:** It's a crazy world out there in the cattle industry right now. It seems like it.

**Scott Clawson:** Yeah, it is. To some degree, I think if we just think about just cattle in general you know, our situation is probably shaping up really similar to last year on the just strictly cattle side.

But we are getting some new variables tossed into the mix, right? You mentioned the drought issues that are rare in its ugly head right now all across the state. And you know, where you guys are experiencing wheat pasture issues, we're [00:02:00] experiencing issues with fescue and stockpiling Bermuda out here that are really putting a damper on, our ability to function, you know, in the short term.

So, so it's really hitting, hitting all of us.

**Dana Zook:** Yeah, so yeah, I tend to forget about the fescue and the stockpiled Bermuda Scotts, so I'm glad you brought that brought that to light. So before we dive into this retained ownership discussion, why don't you give us a brief overview of what's going on in the cattle markets and the current situation across the beef industry.

**Scott Clawson:** Yeah, I think if you would have, if, if we, you know, gotten a time machine and went back to, you know, 2022, 2021, we would have thought that by now we would probably be seeing at least some hints of rebuilding our cow herd at this point, right? I mean, you know, prices have been good. We've had a couple of good hay production years.

I think we're, we're finding that, that It's still going to take more to get people really fired up about it. Which is fine. [00:03:00] But you know We've really because of drought and some of those situations. We've kind of just kicked the can down the road You know that looks like for the the balance of 2024 and into 2025 you know the market's just kind of going to be driven by limited supplies, supporting good prices.

And, and so, you know, that's, that's good news for us on the production side of things. Again, to your point though, we're just, we're going to have to find ways to do it that's profitable and, and getting a little rain would sure help everybody out.

**Dana Zook:** Yeah. So yeah, this retaining ownership thing, it would really be impacted well.

If we could get some rain. Yeah. So to the rain gods out there, you know, Send a little bit our way across the state. I mean, it's statewide for sure.

**Scott Clawson:** We'll take anything.

**Dana Zook:** Yeah So this retained ownership thing, typically when I hear that term scott, it's a feedlot term But really we're retaining the ownership of those calves for a couple [00:04:00] months growing them a little bit And this is a, a big decision right now because of the calf prices, like you said.

Just really good prices, so we have to justify keeping them. We have to put the pencil to the paper, because otherwise We're doing a lot of work that maybe isn't going to pay very well.

**Scott Clawson:** Yeah, and, as you mentioned to me and brought up, which a couple of great points that, that I kind of get, I kind of get lost in the math, right?

Does this pay? Does this not? But, you know, you mentioned a couple of really good points in taxes and in our line of credit, like those are, those are our big issues. So. I guess I would, from a tax perspective, I would say, is this their normal course of business, right? And so like, for, for where you're at out there, Dana, like, is, is weaning calves, putting them on wheat and selling them after the first of the year at some point, is that their normal course of business?

Because that's going to be important when they stray from that. So, let's say for instance we're not confident about wheat pasture [00:05:00] conditions. We're maybe not wanting to feed everything and use our hay. On these weaned calves, if we market them before the first of the year, we could put ourselves in a bind from a tax perspective, right?

We would have two calf crops selling within the same calendar year with only one year of expenses tied to it, right? So that does create an issue and vice versa. If this is not your normal course of business and you decide to retain ownership this year, We need to be thinking ahead to 2025 and say, what are we going to do with that calf crop in the fall of 25 to keep us from having two calf crops sold in the same year, so that does especially for cow calf producers, you know, we probably don't dive into the tax deal probably as much as we should.

But it does when we get to situations like this, it does come into play. And typically we do have some when drought really becomes an issue, we do have some tools that we can use there. However The best tool to use is just some planning, right? And making sure that, [00:06:00] that we're doing the right thing from the start.

And the other one, is interest rates in our line of credit. That's for those folks that are in the stocker business and buying cattle, that's probably really obvious to them. But , not only your interest rates up, but the value of cattle are up. So we're charging a higher interest rate on a bigger chunk of money, right?

So that issue, I don't mean to use the compounding pun, but it compounds itself, right? Because, because both of those things are occurring at once and, and not just one or the other. And so if we're going to keep these cattle around for another three months and maybe we've got some, Expenses on that line of a credit that we've accrued through the year and we're going to add to those and hold them another three months we're definitely going to have to make some allotment for some interest costs that we wouldn't have had maybe previously

**Dana Zook:** Yeah, such good thoughts and there's just some things I, I guess I would keep in mind from the nutrition perspective. One more considering feeding calves, if it's not something [00:07:00] we've done in the past, it might be a good reminder.

Because health coincides with nutrition so substantially, calves eating means you have a healthy calf, okay? For the most part, for the, for the most part. And so, this isn't the time to use your crappy hay, this isn't the time to find some low end floor sweepings or grain screenings to feed these calves, these are weaned calves, these have a potentially compromised immune system during a stressful point.

And so high quality hay is important here high quality supplement or feed. So like a pelleted by product feed is good. A blended feed is good. Probably not the best idea to use a large cube. At this point, just because of the palatability, if you think about a smaller calf, a 550 pound calf they just can't eat that as well, and so that compromises how much they eat. And then, knowledge of hay quality, Scott is pretty important in this [00:08:00] situation. I think that I will be talking about this for, you know, the rest of my career. It's a pain in the rear end to take hay samples. It is, it is. I, I realized that, but when you come to any of our livestock specialists or extension educators, and, and if someone wants help with this situation, if we don't know the hay quality.

We could really make a decision that isn't very well informed and so a 14 hay sample goes a long ways.

**Scott Clawson:** Some of the best money we can spend.

**Dana Zook:** Yeah, I mean, to get you started on this in the right, on the right fashion. So, Scott, from another standpoint, so what about some other inventory type things on the financial side?

**Scott Clawson:** I do think, you know some of the things that, that you've talked about are super important and, and I'll just, to add to kind of your nutrition comments, if, if we've got a health disaster on these calves, from some sort of issue, whether it's, [00:09:00] you know, nutritionally or, or health in, in general The budget kind of goes out the window, right?

We miss gains, we lose calves, it, it kind of wreaks havoc on the whole budget in general. So, so, you know, yeah, as you were mentioning making investments up front to keep those stressed calves healthy and going will pay dividends for us. I, I would just say, you know, to, to lean on some of our previous discussion, It is going to take some extra cash or some access to cash to make this happen.

When we're not going to be turning them out on wheat and then instead we're going to be putting feed in the bunk. So making sure we've got access to capital and enough capital to where we don't have , to make some shortcuts on that , especially on the initial part of getting those calves straightened out is going to be important.

**Dana Zook:** Okay, let's just dive into a scenario, Scott, if you're good with that.

The scenario we are working through is that this producer, typically puts the calves out on wheat, but they don't have any wheat pasture to graze at this moment.

[00:10:00] They would like to use a small grains hay that's about a year old. Okay, so Scott can talk about the limitations from that hay standpoint here in a little bit. This couple had hay tested 11. 8 percent protein, 60. 7 percent , TDN, which is our digestibility, our energy factor, and that's a pretty, pretty decent, option. This producer has a hundred calves.

Half of them are 550 pounds and the other half are a little bit bigger, but from an ease standpoint, I think our numbers are all going to be based on those 550 pound calves. And, and so that's kind of the scenario we're looking at. They are using a 14 percent grower pellet and they drive to town, which is a reality to get that feed because they don't have bulk storage.

They were thinking they would feed those calves to the typical date that they would normally graze those wheat pasture calves. So mid February, which puts it, , a little over three [00:11:00] months.

And so I use that OSU calculator, which is one of our tools that we have available to everyone for free. And I use hay and that 14 percent supplement to come up with a ration that was going to provide about one and a half pounds of gain. And so it was 15 pounds of hay and 5 pounds of that 14 percent on a daily basis.

So given that information, Scott, how would you take the calculations from there?

**Scott Clawson:** Yeah. So I, I think the first thing we do is, is we're just going to look for is, is there a margin there? Right. , if we've got these calves right now that are weighing five 50 and we're looking at taking them, you know, putting, you know, roughly 200 pounds on them and selling them in February.

Being able just to pencil in a margin there, how big a margin are we dealing with? So, , just kind of generally speaking in this scenario those 550 pound [00:12:00] calves at the time we, did all this, right? It's probably changed a little since then, but at that time they were worth, , just over 1, 500, about 15 and some change.

so that's what we're going to consider our starting point. And , project that out , to next February. So that gets tough, right? That's knowing what the price are in February is always the tricky part. My favorite thing to do at that point is to use beefbasis.com. I would that's a free tool that you can go to and sign up.

And it's a great resource because A few things, but one is it takes emotion out of the equation, right? So we can get a number based on what the futures contracts are doing, plus what we know about basis issues, selling live cattle, right? How big's your lot? What quality are they? Et cetera. And tie that into the decision as well.

So, at that point we hop on beefbasis. com. We kind of put in our target end [00:13:00] weight at 750. target our our cattle that we've got and kind of narrow it down. And that told us that those cattle were going to be worth about 1785 at that time. So, just a real quick kind of pencil on there.

We've got roughly 260 to work with in terms of margin. So that's the first thing I always want to find on these, when we do that math right up front , a lot of times we get to this gross margin. That's kind of, I don't know if you use a baseball term like that strike one, right?

If that margin is not good. , we've already got a strike against this decision that we need to make. That's where we would always start. So from there I always like to go the supplement route. Okay. So Dana mentioned, depending on where

I'm at in the state, right, I'll go to, go to Dana or go to one of our other livestock specialists and say, okay, , we're trying to get a pound and a half a gain.

What am I going to have to feed and how much is it going to cost? And, and I think that, , is , the next step [00:14:00] that I always take in that, that process, because that's the. Generally, the cost that the producer is going to be really concerned about. So, , in your scenario that we were working through , we come up with five pounds a day is what we're going to need to feed.

And then, I start brainstorming that at 250 a ton at five pounds a day. That's going to cost us 62. 5 cents a day right off the top there. So that's our, initial cost to look at. If we multiply that out over, over 133 days, that gets us just over $80 a head feeding cost on on those calves.

Our margins down to about 180 bucks just right off the top. And so so again, that's strike two, right? So producer says, Hey, that's, that's already not enough for me to play in this thing. We maybe we move and sell those cattle now. And so those are the initial things that.

That I'll go through kind of right off the top and as we [00:15:00] keep drilling down and getting deeper and deeper into the discussion. And keep peeling cost off of this thing at some point, they reach a point where they say, okay, yeah, this is worth it or, or no, it's not. Just again, initial margin, what's there? peel off feed costs and then we get to hay. So that's the kicker here. So when Dana first kind of brought this discussion to me my mind in eastern Oklahoma, I'm already thinking we're drought, we've got cows to feed. A couple of things. A, even though hay is relatively cheap right now I put my my thinking cap on I'm like, but it's hey gonna be cheap in three months, right?

Because if everybody's feeding hay already, maybe that resource is gonna have some value And we cannot go through the whole backgrounding process and hey, let's just move this hay into the market and, and take our take our good calf price and take our hay price and just make some money. So that, that is always an [00:16:00] option.

Now, how that relates to the budget is interesting. That's where producers are going to have to make their own call here from, from just a, you know, Economic standpoint from a business standpoint the the rule would be to value that hay at what it costs in the market right now, right?

Because you've got an option. You can always, you can sell the hay or you can feed the hay, but either way, it's worth the same. Now, in, in the, I say, kind of air quote, in the real world people don't maybe always approach it that way, right? They might look at that hay crop and say, well, I've got this hay, I've already paid for the fertility, I've already paid for the baling cost .

I mean, to me, it costs nothing, right? And so that makes a, a big play into the margin, right? Is, am I going to assign a value to the hay that I already have or not? And that's going to make the math look really different. Again, the by the book approach would be to, we're going to sign the [00:17:00] value for what this hay's worth in the market.

However, from, from a cash perspective, if you would consider this your only alternative for that hay that's going to make the margin look significantly different, so.

**Dana Zook:** Yeah. Listeners, you can't see me, but Scott is kind of smirking and I was cringing when he said, well, that hay's not worth anything.

I'm not going to put a value to that. I mean, that makes your margin look a lot better, but in reality.

**Scott Clawson:** Yeah. In the real world, I mean, this is, this margin is how you would recover. Those bailing costs, those fertility costs, et cetera. So I don't know. It's, kind of the old time decision that we deal with all the time, you know, is your labor worth anything or not?

Right. So that do you want to count labor or not count labor to me? And this is the same situation. The by the book way is you charge the backgrounding enterprise, the market value of the hay.

If you choose not to do that, it's going to make your margin look quite a bit better.

**Dana Zook:** Yeah. And let's, let's be honest [00:18:00] listeners.

Your labor is worth something. Absolutely. You're tired at the end of the day. And so, it is worth something. It's not free. So, I, I will preach that till the day I die cause I, I come from a farming family and my, Parents are still very active and some days there's not much left at the end of the day. So Scott, how does value of gain come into this?

Because we talk about that from a wheat pasture standpoint a lot. So is that going to complicate the discussion or, or can we talk just a little bit how that can play into this?

**Scott Clawson:** No, absolutely not. So, so value gains a great tool and our initial margin kind of, as we called it here, That is a value of gain calculation, right?

I mean, that is just, but it's just as a per head, so we can analyze value of gain in a lot of different ways. We can do it per head, which is just, , what are they worth now? What do we predict them to be worth in the future? And, and if we do it by [00:19:00] head, that's just, future value minus current value of that calf that gives us a margin there.

A lot of times we see it expressed on a, on a per pound basis. So, so take that total margin and then divide it by the pounds gained in that process. So, , 200 pounds, whatever it is in that process, that's an easy to me good way to look at things because what it's telling us is for every pound that we put on that calf.

What's it worth? What's the value of that pound? And it really helps us when we start to pare back into, let's say feeding decisions or grazing decisions, where we think about maybe we're going to get we have a a cost per pound, right? Maybe our wheat pasture, we've got a rate per pound that we're going to pay for wheat pasture.

It really just helps us get a little more specific down to the day of what's happening with those cattle.

**Dana Zook:** So, so what about the total budget in this scenario, Scott? What are we looking at? Kind of, if you want [00:20:00] to tick off some of the things we've talked about feed, but then there's several other costs . And, and then what did you kind of come to in this scenario? What was, what was the, what was left over after we paid everything off?

**Scott Clawson:** , I think , the, the process of just kind of give the AgEcon disclaimer here, but the process is really important because it's going to make you make some decisions as far as what's valuable to you. And I think that's as important probably as anything in this.

And what I mean by that is, We know there's going to be other costs, right? We know that we're going to have some vet expense in this process. We know we're going to have some fuel expense in this. We know that chances are, if we've got a hundred head, We're not going to end with 100 head, right? So we're going to have some death loss calculation tied into there as well.

So a lot of those things we can, we can add into add into that math. And I would urge producers kind of part of the records process to. for those things to [00:21:00] be guided by what have you done historically, right? So if, if a 2 percent death loss has been the norm, then go with 2%. Your records on your place are more valuable than any benchmark exterior number that somebody like me would bring to the table.

So So guide by there. The other thing is price protection on this. So we've got a lot of tools right now. Well, I shouldn't say a lot, but we've got more tools now than we've ever had before. on the front of giving you some sort of comfort that We can at least hit a break even and move on to next year.

If we were to to tie in a lot of those things, If we if we don't value hay and and I know i've said that's not the right way to do it But if you don't and you just calculate, you know $15- 20 for vet bills, $25 for death loss cost, $10 for fuel and then look at, you know, you could buy a really high, you know LRP contract [00:22:00] and high meaning cover a lot of your market price risk for about 40 bucks on these calves.

So, right now, and again, there's cheaper options for, for LRP on that, but, but that's kind of the, the max level coverage, about roughly 40 bucks. You plug into there all kind of all those things , you end up with something around a hundred dollars eighty to a hundred dollars per head margin Again with no value to the hay, right?

So That's that's the big kicker with no value to the hay. So, if you put in hay the way that that we're taught to do things and and value it from a market perspective It's going to take another hit. But again, we end up with what are we going to do with this? hay, in this situation, right?

There is an opportunity here. But I would say that it's important to understand that. While cattle prices are high, once we get past weaning, we're in a margin business. Meaning that, we're going to [00:23:00] sacrifice a lot in terms of dollars by not selling this calf right now in the hopes that we, we sell high really later.

It's not just, well, cattle prices are high. So this is going to be profitable. It is, we're high on both ends, right? The buy and the sell on this equation. So we get into the margin business and it does get a little tighter regardless because

because there's a lot of things that, that go into play to make this decision, I guess.

**Dana Zook:** So $80 to 100 times how many of our calves we're considering 100 calves. You guys can do that math. Is that what you want for your labor over the next three to four months? That's something. That's the question, right? Yeah.

**Scott Clawson:** Yeah. Are we using your cash or are you on a line of credit?

Right. If we're going to carry that on our line of credit we have an interest charge you know, that it's going to be on a line of credit. At the same time, as Dana, we kind of, we kind of joked about, like, we also [00:24:00] have a charge if you're using your cash, right? Your cash is worth something, especially right now.

Like, our cash is worth more right now than it has been in, in, for most of my life, right? I mean, , interest rates have been fairly low for, for a long time. So our, our cash has value there. So that is also another alternative that, that we need to think about too.

**Dana Zook:** Okay, so there are always other options besides what we've listed here, so what are some other decisions maybe that you could speculate on, Scott, that this, Scenario or this scenario producer could take.

**Scott Clawson:** Yeah. So I would just say we probably I think all of us do to some degree. We get to get stuck in the way we do things, right?

This is just what we do. I I'd say that this is a good time to get a little creative and to think about this . If, if we do have some hay sitting around, we we've had pretty good hay production years just generally over the past couple of years. If we do have hay [00:25:00] sitting around then I think there's a risk component we need to think about with that, right?

Do we need to, if we project this dry, these dry conditions out over the next, you know, few months, are we going to need this hay? So, I mean, if we're already feeding hay and we've got to maintain a cow herd, maybe this hay is better served as a risk management for what our forage conditions might be.

So that's always one thought. So the other one , we would hold the hay, for the cows, just take these calves to town, sell them, make our cash and, and just move on. That's the easy play. You mentioned we could also maybe use the hay as a bit of a bartering tool ?

Maybe if we don't necessarily need it Maybe we'll project that in in three to four months. Somebody's going to need it, right? And maybe we could make some margin on the hay from from that perspective Okay, we we could we we backgrounded the cattle like you're talking about that's obviously an option you know, what if [00:26:00] You Would there be a way to change our nutrition program to make this more advantageous?

There's a lot of folks that would say, well, if we're gonna, if we're already gonna be feeding these cattle, well, why stop at 5? Right? So, like, let's really push gains. And and feed them a lot and hope for for bigger gains. That would be a step in the math that you could take. You could also take the other side of that math, like really slow them down, hope for some green grass, and maybe instead of just going to February, we're thinking Well, if we get some timely spring rains, maybe we could run them longer into the summer, right?

And maybe sell nine weights you know, and let, let grass take a bunch of that gain for us. Maybe that's an option. And if somebody was really wanting to, to play with things, , is there something in the market that they feel is undervalued? So we could move our own cattle and go find something else that we thought maybe the math worked better on.

Again, a lot of folks probably aren't [00:27:00] super excited about those prospects for whatever their, their reason is, but, but that was always an option. There's going to be something on the market that's, that's undervalued or that they feel is a better investment. We could always turn these calves into cash and then reinvest in something else to use this hay.

**Dana Zook:** Well, and I think with our discussion with the educators the other day, somebody said maybe sell the steers and keep the heifers for some replacement heifer prospects, you know, down the road or sell the big end of calves and feed the little end. So that might, , you bet. Yeah. So, so many options.

I think we, Forget that there are just so many ways to use that and do a little differently.

**Scott Clawson:** Yeah, absolutely.

**Dana Zook:** So great, great ideas. Scott given this discussion is any final thoughts to producers who are, who are just pondering this, I mean, some producers have made their decision already. , it is mid October little mid delayed October.

And so any [00:28:00] ideas or thoughts to those producers who are, who are pondering this. I mean, end of the year.

**Scott Clawson:** I would just say there's not a right and wrong. It's just a decision about, what are you interested in doing? You know what? As you kind of listed when we started, what resources do we have to work with?

And what are we willing to do? And then just finding, what's gonna fit your operation and then Just really, I would just say, really work through the process and think about all of our avenues, , not just this is how it's done. So these are our only options. Like really sit down and kind of brainstorm, what, what are our options and what are all of our real costs involved there?

Because, you know, as we get further down the line, our overhead costs are. Always a concern especially just from my perspective going forward. I think that's a an area that our producers need to be thinking about. Overheads are high. How do we make the best use of, of our opportunities [00:29:00] and resources?

And, and that might look different on your place than your neighbor's place or somebody else's place. And, and I just think thinking about kind of what you're interested in, what your skill set is, what resources do you have. And then just really pencil whipping that thing and making sure that, that all the boxes are checked that need to be checked for you.

**Dana Zook:** That's great advice. Scott listeners. I hope you find this discussion helpful talking through this, I think helps me better guide producers. And so do you know that there's a lot of questions coming in right now about this? And, and so reach out to your extension educator. They can reach out to Scott or me or any of the other area specialists to help you go through some of these numbers and, and know that a scenario that came into our office was one that spurred this discussion.

So Scott, thanks so much for taking the time for having this discussion with me so many times this week.

**Scott Clawson:** No, it's been good for both of us.

**Dana Zook:** Yeah, absolutely. Well, listeners, [00:30:00] we will have kind of a set of slides that we'll post on in the show notes. And if you would like those or would like some guidance, on paper, we, Scott and I could put something together for you.

So just go ahead and contact either of us at our emails or, or through this as well. Listeners, it's a pleasure to podcast for you. And I, I think Scott enjoyed this discussion. So thanks for joining me, Scott.

**Scott Clawson:** You're very welcome. Enjoyed it.

**Dana Zook:** Yep. So I hope you all have a wonderful week. Pray for rain and we'll just keep powering through.

Have a great week.