Let's take a look at heifer growers

by A. F. Kertz

IT IS difficult to get a good reference point for how many calves and heifers may be raised under commercial contract in the U.S. In the 1996 National Animal Health Monitoring Service (NAHMS) report, 5 percent of calves and heifers were contract reared. However, the 2002 NAHMS report indicated that this had dropped to 3.6 percent. Was there an actual decline or just a difference in the sampling?

Outside of these NAHMS reports, there was a 2003 national study reported in the Journal of Dairy Science from Michigan State University. The balance of this article will provide a synopsis of that study. Advantages to using custom heifer growing operations were characterized as the potential to free labor, management, feed, or facilities for use by the milking herd, while possible disadvantages included greater cash outflow, loss of management control, biosecurity, and potential for conflict. Growers provided the following reasons for entering into custom heifer growing: business opportunity, make use of forages grown, and having a use for livestock facilities.

In the spring of 2001, a survey was mailed to 187 potential dairy heifer growers in 27 major dairy-producing states. Only 65 respondents were included in the summary — those who were known as active heifer growers. States were divided into four geographical regions: Midwest — Iowa, Illinois, Indiana, Kansas, Ohio, Minnesota, Missouri, Wisconsin; West — California, Colorado, Idaho, Nebraska, New Mexico, Utah, Washington; Northeast — Maryland, New York, Pennsylvania; South — Florida, Georgia, South Carolina, Texas, Virginia. The Midwest had 29 completed surveys, while the other three regions produced 12 responses each.

Were sizeable . . .

The average size operation had more than 1,200 heifers and 637 acres owned/rented (see table). There was a wide range in capacity of heifer operations. As expected, operations were largest in the West and generally reflected the size of dairies which contracted out their heifers for raising. Almost one-half of operations had between 250 and 1,000 heifers on-site. Heifer density was quite variable but relatively larger in the West. Acres reported in the table were combined owned and rented. Growers' income averaged 71 percent from heifers, 22 percent from other farm enterprises, and 7 percent from off-farm source. The greatest difference among regions was the much larger off-farm income in the South.

Treat as a business . . .

One-half of growers in the West listed good business opportunity as the reason for becoming a heifer grower versus only 29 percent in each of the other regions. About 50 to 60 percent of growers in each region had between two to five clients. The biggest disparity among number of clients was in the Midwest where nearly 30 percent had from 6 to 20 clients compared to only about 16 to 18 percent in each of the other regions.

Primary reasons dairy clients provided for outsourcing heifer growing were almost equally split at about 20 percent for each of the following: more facilities to expand milking herd and lack of sufficient heifer facilities, labor, and management time.

Other key findings were:

- Many different types of facilities were used, but primary categories identified were 26 percent free stalls, 34 percent bedded pack, 27 percent pasture, and 13 percent other.
- Primary contract payment methods were 51 percent daily charge per head per day, 13 percent sell-buy back, 13 percent gain based, 2 percent feed cost plus yardage, 5 percent set payment per heifer, and 16 percent involved a combination of methods.
- Most common daily charge per head was $1.50, the average was $1.52, and 51 percent indicated a range between $1.40 and $1.60.
- Average daily charge per head by age groupings was $1.88 from birth to weaning, $1.49 from weaning to 6 months of age, $1.50 from 6 months to breeding, and $1.59 after breeding.
- Gain based programs had a wide range with one-half charging between 75 cents and 99 cents per pound gain.
- Several payment arrangements were used. About 70 percent indicated payments were received monthly and 28 percent when heifers were returned to clients.
- Custom growers assumed financial responsibility for veterinary bills 71 percent of the time, the owner/farmer 17 percent, and the balance of 11 percent was shared.
- Custom growers assumed financial responsibility for shipping mortality 25 percent of the time, the owner/farmer 67 percent, and the balance of 8 percent was shared.
- Custom growers assumed financial responsibility for on-farm mortality 40 percent of the time, the owner/farmer 23 percent, and the balance of 37 percent was shared.
- A third party monitored heifer performance for 23 percent of operations, 30 percent had financial adjustments made for sick or poorly performing heifers, and 36 percent of operations had the option for the owner/farmer to refuse payment if heifer performance standards were not met.
- Overall custom heifer grower satisfaction with contract arrangement was: none were "dissatisfied," 5 percent were "somewhat satisfied," 37 percent were "satisfied," 39 percent were "above average satisfied," and 21 percent were "extremely satisfied."

To further explore the financial terms and division of responsibilities, there was a closer look at how average daily charges related to other variables. A statistical analysis found that more than one-half of growers used daily charge as their primary billing method, several other growers used this in combination with other methods; and, in the remaining cases, other pricing methods were converted to an average daily charge with information provided. Other key variables of heifer charges included the following: region, operation size, specialization of the heifer grower operation, heifer facilities, number of clients, and contract clauses such as bonuses, distribution of financial responsibilities, presence of a third party for monitoring, responsibilities, and performance clauses. All of these factors explained 60 percent of the variation in price charged.

Using the Midwest as the reference region variable, the South averaged 23 cents less per heifer daily than the Midwest, while the West tended to have lower charges and the Northeast higher charges. This pattern was true even taking into account economies of scale. As might be expected, larger growers charged a lower price likely reflecting lower costs of 6 cents per 1,000 heifers on-farm. Interestingly, the number of clients served was positively related to the price charged with each additional client being associated with a 15-cent daily charge increase.

Mortality on the heifer grower operation tended to be negatively associated with price, while grower responsibility for shipping mortality added an average of 25 cents per heifer daily. When a third party provided the feed, an average charge rise of 24 cents per heifer daily was associated with this scenario. When the farmer supplied medicine, vaccines, and semen, the charges were 16 cents higher.

It clearly would be helpful for all concerned if more current and complete information were available in this area of custom calf and heifer operations, since the data in this study now are over 5 years old. There will be another NAHMS study done in 2007 running from 12/29/06 through 9/30/07. To help in constructing that survey, 5-minute input is sought at www.surveymonkey.com/s.asp?u=796561691647 or go to http://nahms.aphis.usda.gov for more information.

Survey revealed heifer grower sizes, income sources

	Average	Minimum	Maximum	Midwest	West	Northeast	South
Heifers							
Inventory	1,224	20	20,000	553	4,215	384	693
Capacity	1,492	30	60,000	655	4,860	483	693
Annually	1,694	20	25,000	565	6,768	247	513
Acres	637	11	8,517	538	1,060	296	659
Heifers/acre	2.3	2.7	7.0	1.2	4.6	1.3	1.1
Income, %							
Heifer	70.8			68.6	77.1	81.2	56.5
Other farm	22.1			24.5	21.7	17.0	21.5
Off-farm	7.0			6.9	0.8	1.8	22.0

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