Dairy Sense: Will Raising Crossbred Dairy Steers Improve Cash Flow?

Dairy producers have been investigating crossbred steers as an alternative enterprise to improve cash flow. There are a lot of aspects to consider before adopting this strategy.

Photo credit: Tara Felix

Production perspective:

Dairy producers have been investigating the strategy of using beef semen on their dairy cows to generate crossbred dairy steers as an alternative enterprise. The low prices paid for cull cows and calves has forced producers to examine other ways to improve their cash flow. The level of management related to home raised feeds, especially quantity and basic animal husbandry will determine if a profit is possible. There are a lot of aspects to consider about this kind of venture before moving forward.

Examining alternative enterprises relies heavily on knowing the current financial status of the business. It is not a far stretch to engage in the beef side since this aspect has always been a minor component of the dairy operation with income from cull cows and calves. Evaluating the dairy enterprise for the past six years in Pennsylvania, animal sales account for between 5.5 and 8.0 percent of the total inflow on a per cow basis. For the average producer thinking about implementing crossbred dairy steers (assume 40 animals annually), this may increase that number by two to four percent. When the expenses are factored in, it most likely will be a breakeven endeavor. There is a lot of homework that needs done before making any changes.

As with any commodity, there are market specifics including a consistent buyer and a good price. Producing an acceptable-quality carcass from dairy beef crosses requires feeding a high-energy ration and marketing them at an early age (12 to 14 months) and acceptable weight (1,150 to 1,450 pounds). The first questions to answer are: "can the dairy operation provide the number of beef animals to improve the cash flow?" and "will the price paid for Holstein beef crosses make a profit?". For the week ending May 31 the average crossbred dairy steer price was $0.77/lb. The potential income on 40 animals could be around $35,000. The other side of the equation is the expenses, and growing good animals for beef production does not come cheap.

Adequate facilities, labor, and feed will be the three target areas that will determine if raising crossbred dairy steers is profitable. Good management practices must be followed to get animals to the desired weight within the proper time frame. The producer's mind set must change from a forage-based approach to a high concentrate diet if the desired gains are to be achieved.

Dr. Tara Felix at Penn State developed an easy budget calculator to examine costs involved in raising dairy beef steers . Using the standard prices from the budget, the only changes made were for home raised corn grain, corn silage and hay based on high and low profit herds from the Extension dairy team's crops to cow project. The comparison includes only the variable costs (feed, health, bedding, miscellaneous etc.) for 40 animals. The prices used for the high and low profit herds respectively were corn grain: $2.37/bu. and $4.62/bu.; corn silage: $22.58/ton and $40.51/ton; and hay: $231/ton and $64/ton. Expenses for the high profit herd came to $31,000 and the low profit herd $51,000. Herds doing an excellent job on their cropping enterprise have potential to make a cash surplus assuming fixed costs are reasonable. Herds that consistently struggle with high costs for their home-raised feeds would need to market their animals from this alternative enterprise at $1.10 per pound to breakeven just looking at the variable costs, which may not be realistic even for well finished dairy steers.

The same approach for determining what makes a positive cash flow for the dairy operation applies to the beef enterprise. The number of animals and the market price will determine the inflow needed to cover the outflow, and feed cost will be a substantial component. A positive return is possible, but good management practices must be in place to make it work.

Action plan for pursuing crossbred dairy steers as an alternative enterprise

Goal – Determine if raising dairy beef steers is a profitable endeavor

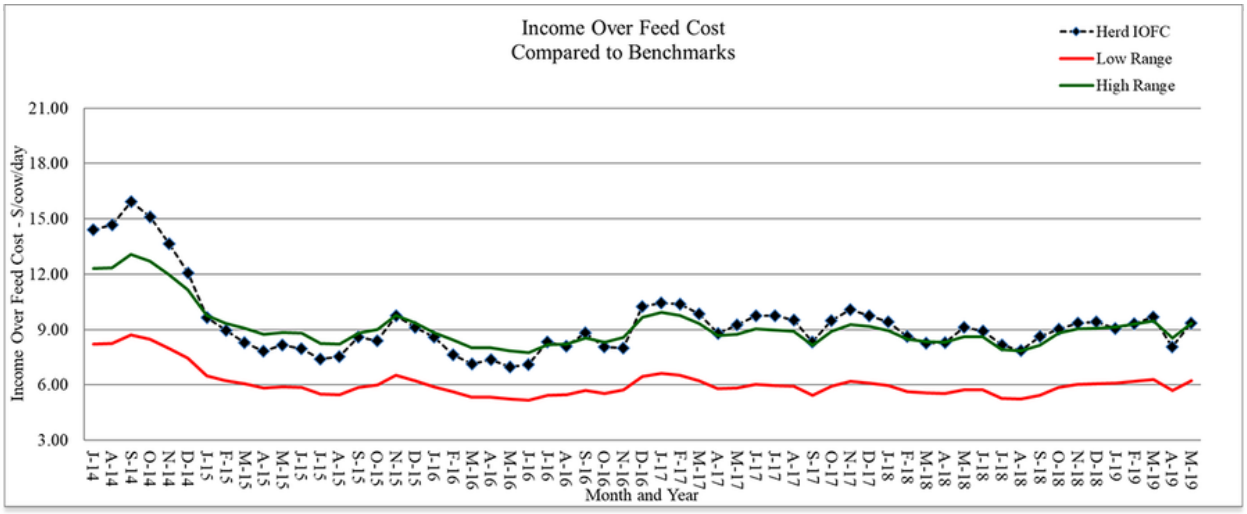
- Step 1: Utilize Penn State Extension's Excel Cash Flow Spreadsheet to determine the farm's breakeven cost of production coupled with the costs to raise home raised feeds.
- Step 2: Working with the appropriate consultants, evaluate what the beef market is looking for and what average price has been paid for crossbred dairy steers raised for beef markets.
- Step 3: Determine the number of crossbred dairy steers needed to cash flow the operation and determine if current facilities and labor are adequate.
- Step 4: Work with a nutritionist to develop the appropriate rations to achieve the necessary gains ensuring current feed inventories are adequate. If home raised feeds cannot cover the diet requirements, evaluate using purchased feed prices.
- Step 5: Using a sample crossbred dairy steer budget, enter in numbers and prices appropriate for the operation. Determine the number of animals and price per pound needed to show a profit.

Economic perspective:

Monitoring must include an economic component to determine if a management strategy is working or not. For the lactating cows, income over feed costs is a good way to check that feed costs are in line for the level of milk production. Starting with July 2014's milk price, income over feed costs was calculated using average intake and production for the last six years from the Penn State dairy herd. The ration contained 63% forage consisting of corn silage, haylage and hay. The concentrate portion included corn grain, candy meal, sugar, canola meal, roasted soybeans, Optigen® and a mineral vitamin mix. All market prices were used.

Also included are the feed costs for dry cows, springing heifers, pregnant heifers and growing heifers. The rations reflect what has been fed to these animal groups at the Penn State dairy herd. All market prices were used.

Income over feed cost using standardized rations and production data from the Penn State dairy herd.



Note: Penn State's May milk price: $18.49/cwt; feed cost/cow: $6.20; average milk production: 84 lbs.

Feed cost/non-lactating animal/day.