Getting Started in Ag: Gaining Livestock & Livestock Services

A livestock enterprise offers many benefits. This is especially true in Wyoming, where it can be difficult to rely solely on crops as a source of income. Diversifying income streams and maximizing the use of available land resources provides a form of risk management.

Conversely, adding livestock can be an expensive undertaking. Prices for most classes of livestock, especially cattle, are at or near all-time highs, and often require extensive capital investment in equipment, land and facilities. As a new or beginning producer, it can be difficult to cashflow the purchase of all the necessary components—land, livestock and facilities/equipment—outright. Fortunately, creative mechanisms exist to help new and aspiring livestock producers enter the business without a large initial capital outlay.

YOUR FINANCIAL SITUATION

It is important to thoroughly understand your overall financial situation before entering into any livestock purchase, lease or other agreement. This includes accurate, up-to-date records of receipts and expenditures, as well as a precise cash-flow projection and income statement.

Proper planning through detailed budgets, especially partial and enterprise budgets, can help you make better, more informed buying decisions. Breaking operations into enterprise segments, each with a separate budget, can be an excellent way to identify strengths and weaknesses as well as opportunities for expansion with new enterprises.

FOR MORE INFORMATION

Many resources are available for new and beginning producers interested in learning about different ways to enter the livestock business. The University of Nebraska-Lincoln Beef Center (beef.unl.edu) is an important resource for all things beef cattle, covering a wide range of topics from management to leasing and more. Farmanswers.org also offers collections for new producers on a wide range of topics. Visit RightRisk.org for numerous tools, courses and other resources for learning to manage risk associated with the livestock business.

Photo courtesy: John Hewlett, University of Wyoming, Farm/Ranch Management Specialist

ADDING A LIVESTOCK ENTERPRISE

Numerous options are available to add a livestock enterprise for most operations. First, there is the outright purchase option. This option involves the greatest risk in terms of price and production risk, among the alternatives discussed here. However, it can also provide the greatest return.

Livestock can be purchased directly from breeders or brokers. Working with an order buyer or service can help reduce any issues that inexperience might present if livestock are bought at auction. An ever-increasing number of livestock, especially cattle, are sold remotely over the internet, presenting another purchase option.

If you prefer not to purchase outright, consider boarding or pasturing livestock on a fee basis instead. For example, if you have access to crop residue in the form of corn stalks but no livestock, an alternative to buying cattle would be to rent the stalks to a cattle owner. Pasture fees can be set by the acre, by the head or by the animal unit month (AUM), depending on what is customary in your area.

LEASING ARRANGEMENTS

Leasing livestock is another common way for new producers and those with limited financial resources to enter the business, without the large capital outlay required for outright purchase. Leases can be beneficial to established livestock owners who wish to remain in the business, but are unable to cover the daily management duties or are unwilling to shoulder all of the production risk involved.

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Livestock leases can also provide benefits to the livestock owner as a mechanism to transition ownership to a new owner over time without incurring a large tax burden.

CASH AND SHARE LEASES

Cash and share leases are the two main types of leases. Cash leases are usually used when the owner of the breeding livestock gets paid by the lessee on a per bred female basis. The lessee then receives the offspring (calves, lambs, etc.) to market at the end of a production season.

For example, a cattle owner might lease to the lessee on a cash basis for $200 per bred cow, and the lessee then receives the resulting calf crop. Breeding animals, such as bulls, are often leased in this manner; it is often convenient for the lessee, who only needs these animals for the breeding season and otherwise has limited space available. Cash leases transfer the production and price risk directly to the lessee.

Livestock share leases, sometimes called rental arrangements, are typically a situation in which the livestock owner provides cattle to the lessee. The resulting offspring are shared on a percentage basis, depending on what each party contributes to the agreement. Usually the lessee provides the land, labor, other supplies or inputs, and at least a portion of the management.

A livestock share lease can be a way for both parties to bear a portion of the production risk, depending on the agreement reached. Both parties are paid when the offspring are sold; this can be set ahead of time as a fixed percentage. For example, the owner takes 30 percent and the lessee 70 percent. Alternatively, the split may be set as a fixed number of head for each party.

It is important that all the important details are outlined in a written lease agreement. This can help reduce potential problems and ensure that both parties are working towards the same, mutually beneficial outcome.

KEY POINTS OF A LEASE AGREEMENT

There are a few key points to consider when entering into any kind of livestock lease. Most importantly, both parties must be comfortable with the terms before signing the agreement. In addition, a certain degree of trust and comfort with the other party can go a long way toward ensuring a good outcome.

Methods, operating style, type of agreement, marketing preferences and other aspects all play an important part in allowing each party to work together and depend on each other. This is especially true in a share lease agreement, where both parties are sharing in the risks of operation. Agreements should be in writing and updated at least yearly. Finally, the working agreement should be fair and equitable in its treatment of both parties.

RIGHTRISK ANALYTICS BUDGETING TOOLS

The RightRisk Analytics toolbox offers several tools covering budgeting, forage leasing, machinery costs, financial statements, record keeping and whole farm budgeting.

To view or download the toolbox, visit RightRisk.org and select the Resources tab.