

Cow-Share Agreements: Starting or Expanding a Cow Herd

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Introduction

Attractive feeder calf prices in recent years have sparked a renewed interest in cow-calf production from beef enthusiasts wanting to either enter the business or expand their current operation. An aging population of farmers with pasture acres offers a unique opportunity for the development of cow-share agreements between the two parties. These are important documents that may be crucial to expanding the nation's cowherd in the near term and add to the long term sustainability of the beef industry.

Why Cow-Share?

Given the shear dollars it takes to enter agriculture, many anxious producers struggle to get started. A tougher economy has forced some banks to reduce the risk they are willing to take on livestock loans. As a result, young producers find it very difficult to buy cows, feed, or machinery and equipment necessary to raise beef. This group is largely not afraid of manual labor, but gaining land access often proves more strenuous than building fence. On the other hand, a group of producers are looking to "slow down" or phase out of the cow business. Unfortunately, high grain and land values have caused much of the phasing out process to include plowing up pasture for crop production. Still, a significant number of experienced producers have acres only suited for livestock. Many are too old to jump fences or pull calves like they used to, but they have a wealth of knowledge to offer someone who is. In many cases, they also have tractors, balers, barns, and corn ready for a cowboy willing to put them to good use. If these two groups can find one another, all that is left is an understanding of how things will work: A Cow-Share Agreement.

Assessing the Market

There is a lot of optimism for the cow-calf sector moving forward in 2014. Many signals point to herd expansion and increased heifer retention, though drought conditions need to improve across many cow-producing sections of the country. The world appears to be over-producing grain again, but turning cropland back into hay production or permanent pasture has historically proven very difficult. Estimates for 2014 cow-calf returns are at record levels, in excess of \$300 per cow. Regardless of your optimism, or lack thereof, input costs are lower than previous years and calf prices have remained near all-time highs for a number of months in a row. Lack of rainfall in 2012 & 2013 forced producers to get creative managing cows. Some pastures got abused, cows may have come in a bit thinner, or the feed bill just got larger, but nevertheless, we learned a bit more about management. High slaughter cow prices became the easy way out for a number of producers nearing retirement or looking to expand crop production acres. The same case could be made for the rapid increase in hay prices; both drought and the plow contributed to hay shortages across a wide section of the Corn Belt. Possibly the largest pressure on cow-calf profitability has become land values. No doubt, some marginal land has been sold and turned to corn or soybeans. Competition from grain

farmers moved land values higher across the board. As a result, cash rental rates followed. Added to this, revenue from the Conservation Reserve Program exceeded profitable pasture or hay rental rates. Even though feeder calf prices have been friendly, variable costs of production have diminished net profit.

Types of Agreements

Depending on the situation, there are a number of ways to set up cow-share agreements. A Cash Lease can be quite a simple arrangement, or a very complex document. To remedy this, it is recommended that the livestock involved are separated into their own stand-alone part of the agreement. Land, facilities, machinery, feed and other inputs should be another unique arrangement. Natural disasters, extreme weather, or other unforeseen market circumstances can dramatically impact the long-term feasibility of an agreement. In the simplest form, cows and bulls can be leased for a flat fee per year. If the cattle owner relinquishes all management of the cows, self-employment tax on that income can be avoided. Use of pasture, crop residue, machinery, and facilities can all be separated into cash rental arrangements based on usage or an hourly rate. In the end, these items can be tied together into one final agreement, but flexibility and continual negotiations may be necessary in the long run.

Equitable Share or profit-share agreements are popular and effective ways to manage risk and offer incentives to both parties. The key to these arrangements is establishing who is responsible for the contributions to the cattle enterprise. The owner and the operator need to be compensated for their time put in to the operation if the share in labor is unequal. Together, the two sides arrive at a percentage of contribution to the business that's agreeable. Then, any revenue generated from calves, cull cows, excess hay, etc. is split by the same percentage. Incentives to cut costs or increase cow productivity can also be worked in to the agreement. It is extremely important that these agreements be detailed and well understood. A tank of diesel fuel, a repair bill, or a bottle of vaccine may seem trivial at first, but these small items can lead to discontent. As a result, flexibility is key, and these agreements will likely evolve over time as needs arise.

Management arrangements seem logical for producers wanting to phase out to a younger generation. They also work very well for absentee cattle owners forced to move off the farm for other employment, or for those physically unable to care for their livestock. When turning the cows over to another caretaker, the labor often works for equity in the cowherd instead of an hourly wage. As an example, the manager can work for "10 cows per year" or "15% of the cow herd" on an annual basis. Over the course of the agreement, the manager gains complete control of the cows. It is important that both parties understand the difference between management and just doing chores. If the operator will eventually own the herd, breeding and general management decisions need to migrate to them as well. When management agreements are designed for simply an animal caretaker in the absence of the owner, incentives can bring "value" to both parties. For example, monetary bonuses can be paid for an above average calving or weaning percentage. The owner then has more healthy calves to sell. Operators that can implement artificial insemination or develop a successful premium market for the calves deserve extra compensation.

Developing a Successful Agreement

The #1 key ingredient to a successful cow-share agreement is *trust*. Both the owner and the operator must have trust and confidence that each will honor their parts of the agreement. If either questions the integrity of the other, it may be best to walk away. Once that trust is established (this may take time), each party must be willing to accept some risk. It is likely that the owner endured a number of hardships in building his or her cow herd. As an operator, do not underestimate the value of their experience; there may be a time when you desperately need it. Likewise, owners looking to exit the cattle business need to understand that times are likely much different than when they started years ago. Agreements need to reflect current market conditions for cattle prices, machinery value, interest, depreciation, fuel, etc. If the operator is buying depreciable assets over time, be sure that the agreement reflects a decrease in value or that both parties completely understand the terms of the purchase.

Quarterly or even monthly meetings may be a good idea to revisit the agreement and make necessary alterations. These meetings are also a good opportunity to make management decisions (i.e. bull purchases, culling rate, feed plans). Any disagreements can be ironed out professionally. A simple yet flexible agreement can endure flood or drought, an infertile bull, a broken down feed wagon, or even a death in the family. It is just as important that cow-share agreements spell out how the partnerships end as how they start. These conversations can be very uncomfortable, but necessary. Owners need to bring potential heirs to the table so they understand their plans. Operators may want to include a spouse, sibling, or neighbor in the process. A clear and concise exit strategy can help maintain good neighbor relations.

Conclusion

This presentation will include examples of three types of agreements using real-world examples of each. No two cow-share agreements are exactly alike, so significant adjustments may need to be applied to fit your scenario. An online tool for developing your own cow-share is available at:

<https://www.extension.iastate.edu/agdm/wholefarm/html/c2-36.html>.

Time for questions and answers will conclude the session.