



**ABUNDANT CORN:** Corn shoots out onto a feed pile. Missouri River Feeders grows irrigated corn averaging 185 bushels per acre. Manure from the feedlot is spread on the fields to help produce the high yields.



**CHECKUP TIME:** A heifer, restrained at the feedbunk by a headgate, is next to be checked by feedlot technicians.



**BENEFICIAL WEATHER:** The lots at Missouri River Feeders stay high and dry. Western North Dakota's dry climate is a plus.

## Contracts reduce heifer-growing risks

By M.J. BROUK

**M**ANY different types of contracts can be used to protect both the dairy producer and heifer grower. Most of these contracts are similar to those utilized in the beef feeding industry. However, there are some important differences in areas such as breeding, growth rate and early calving.

### First-right-of-refusal contracts

Under this contract, the heifer grower purchases the calf from the dairy producer for a specific price and the dairy producer has the first right to purchase the heifer just prior to calving. The future purchase price may be specified at the time the grower purchases the calf or determined at a later date. The heifer grower assumes the risk of feed cost, death loss, culling and all costs associated with raising the heifer. This is the simplest contract and avoids many of the ownership issues associated with other contracts. In general, the heifer grower is assuming all the risk associated with developing the heifer, allowing the dairy producer to efficiently invest money in producing units. Since the heifer grower is assuming the risks, adequate compensation for this should be reflected in the springer price. Some agreements allow the heifer grower to purchase the calf at a reduced price, which helps reduce the risk associated

### Key Points

- You can grow dairy heifers under several types of contracts.
- Contracts vary from first right of refusal to yardage costs.
- You can set up when payments are made under contracts.

with the dairy producer declining the right to purchase the heifer.

### Feed-cost and yardage contracts

Some growers may prefer to charge the dairy producer for the actual feed consumed by the heifers in addition to a nominal fee for daily care. The yardage charge may include breeding and health costs, or these may be billed separately. Under this arrangement, the dairy producer does not transfer ownership and assumes much of the risk associated with death loss, culling and feed costs. Contracts should specify how feed charges are billed and prices of feedstuffs determined. If the prices are set at the beginning of the contract, risk associated with changes in feedstuff prices is transferred to the grower. Contracts should specify rate of gain to ensure that animals will be properly developed.

### Gain contracts

Gain contracts base the compensation received by the grower simply on

the increase in body weight during the contract. Animal ownership does not change. The amount of gain is calculated and multiplied by a predetermined price per kilogram. The grower may or may not be compensated for death loss and culls. In addition, the dairy producer may be given the right to refuse a certain percentage of the heifers. Depending upon the arrangements, the grower may assume all the risk involved in rearing the heifer. The dairy producer is at risk if heifers are underdeveloped or carry excess body condition at calving. Gain limits could be specified to reduce these risks. The compensation should reflect costs associated with breeding and normal death and cull losses.

### Payment arrangements

With the first-right-of-refusal contract, the grower is compensated when the heifers are transferred back to the dairy producer. With gain contracts, growers may be compensated at the conclusion of the contract or may receive a monthly payment and a final settlement. Feed-cost contracts generally specify that the grower will bill the dairy producer monthly for the feed and yardage. Whatever the arrangements, the contracts should specify when payments are due and terms which will be exercised for nonpayment.

*Brouk is professor of animal science at Kansas State University.*

## Avoid potential contract issues

**G**OOD contracts should prevent most of the problems that arise between dairy producers and heifer growers.

The good occurs when a dairy producer and a heifer grower work together to reach an agreement which is mutually beneficial to both parties. If one party is placed at a financial disadvantage, the arrangement may not survive.

However, most heifers are raised with a handshake and verbal commitments. Many of the factors mentioned above are never discussed.

In general, problems are generally associated with the financial side of the agreement. Dairy producers generally do not understand the cost of rearing heifers on their own farm and are looking for the best deal. It is interesting that when the same producer buys a tractor, the decision is not strictly cost, but also includes service and resale value. The same needs to apply when working with heifer growers.

The bad and ugly occur when heifers return to the farm and fall short of the expectations of the dairy producer. The issues are generally either growth or disease related. Many causes may lead to the situation; however lack of financial compensation may be the leading cause. If due to the terms of the contract heifer growers cannot afford feed, the heifers are likely to be underdeveloped at freshening. This is an avoidable situation, but it requires good communication between the producer and grower.

Disease issues such as mastitis and fly control should be addressed in the beginning. Heifers calving with mastitis or blind quarters could be the result of environment and management during the rearing period.

The dairy producer needs to monitor the grower facility frequently to assure that heifers are meeting predetermined growth standards.

Contracts distribute risk differently and both the grower and dairy producer should understand what types of risk they have assumed under the agreement. Once those risks are identified, they must be managed. It is unfortunate that many times heifer growth suffers because risk is not managed correctly.

To avoid ugly situations, dairy producers should work with heifer growers to clearly communicate growth standards and other heifer rearing goals. This involves frequent visits to the grower to evaluate heifer growth. The agreement must be mutually beneficial to both parties and the heifer grower needs to be adequately compensated for the risk that they assume.

— By M.J. Brouk

### Find out more online

Visit the Web site at [www.wcds.afns.ualberta.ca/proceedings/2000/chapter29.htm](http://www.wcds.afns.ualberta.ca/proceedings/2000/chapter29.htm).