

Contract Growing Dairy Heifers: The Good, The Bad and The Ugly

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■ Take Home Message

- Contract heifer growing can be beneficial to dairy producers.
- Contract heifer growing allows dairy producers to concentrate capital, labor and management on the lactating herd.
- Heifer growers and dairy producers should have a formal agreement that specifies animal management and financial arrangements.
- Financial arrangements must be beneficial to both the grower and dairy producer.
- Conflicts between heifer growers and dairy producers can be avoided with effective communication.
- Dairy producers have the largest stake in the arrangement; heifers which are the future of the dairy.

■ Introduction

Dairy farm consolidation in the United States has resulted in the development of contract dairy heifer producers that are responsible for raising replacements for the dairy farm. This activity has allowed the dairy producer to focus management and capital resources on the lactating herd. When the system works, the dairy farm receives quality replacements that in many cases are superior to the heifers reared on the dairy. However, due to many factors, the system does not always work smoothly and the dairy producer may have to pay the greatest price, heifers which are underdeveloped at calving resulting in lower than expected production. For new or expanding farms, this can be especially serious because of the potential for reduced cash flow due to lower milk production. Successful contract heifer growing arrangements are

dependent upon effective communication, mutual benefits for producers and growers, adequate health programs, and the integrity of the individuals involved.

■ Making the Decision to Contract Heifers

Biosecurity and Growth Risk with Contracted Heifers

Many dairy producers have valid concerns about allowing heifers to be raised by others. One of the primary concerns is biosecurity. Potential exposure of the dairy herd to disease such as Johnes, BVD, BLV, mastitis, etc. due to replacement heifers is a valid concern. Farms wishing to maintain a closed herd status would need to locate a grower or growers that would grow exclusively for the dairy. Even under this arrangement, the closed herd status is compromised due to the disease potential that may exist on grower farms due to prior livestock activity. In the case of expanding farms, heifers are likely to be purchased from outside sources removing the closed herd status.

The dairy producer is also concerned with the quality of the replacement received from the grower. Replacement heifers are the future of the dairy and the dairy producers wants well-grown heifers, which are capable of reaching full genetic potential. If heifers returning to the dairy are undersized, they will not likely reach full genetic potential. Thus the dairy producer does not receive an adequate return on genetic investment and cash flow may be lower than previously projected.

The issues of biosecurity and heifer growth can be managed with proper contracts and agreements between the dairy producer and grower and should not prevent dairy producers from considering moving heifer operations off the dairy. Decisions should be based on labor and facility requirements, cash flow, manure management and feed availability.

Considerations for Moving Heifers off the Dairy

Labor Requirements As dairy farms expand or as available labor changes due to retirements or departure of children or employees, dairy farms may be faced with a shortage of labor. By removing heifers from the dairy, total farm labor requirements are reduced, allowing the labor and management to be focused on the lactating herd. Most dairies do not have an accurate estimate of the labor requirement for heifer rearing and calculating the labor savings realized by removing the heifers is difficult. Many dairies only realize that they do not have enough labor to raise the heifers when heifer growth and or health suffers due to lack of attention to detail. This is usually realized when underdeveloped

heifers begin entering the lactating herd or death losses reach unacceptable levels.

Facility Considerations Facilities should also be evaluated. Expanding or new dairies may not have the financial resources to build the required facilities for heifer rearing or existing facilities might be modified for the lactating herd or dry cows. Dairies will increase cash flow more by adding cows and facilities for lactating or dry cows as compared to heifer facilities. In many cases, capital resource limitations will drive the decision to move heifers off the farm.

Cash Flow Considerations In addition to capital required for facilities, raising heifers takes a bite out of cash flow. Daily expenses for feed, labor, supplies, etc add up over the two-year rearing period. Most dairies do not calculate these cost, but those that do are surprised by the cost. It is important to note that this money is being invested in non-income producing units until the heifer calves. If the heifer-growing contract allows the producer to avoid investing money in heifers until just prior to freshening, cash flow will generally be improved. However, the heifer grower needs to be compensated for interest associated with delayed payment and risk on variable inputs.

Manure Management Considerations In many areas of the United States, manure management issues have driven the decisions to move heifers to another location. When manure production or disposal limitations become an issue with a dairy farm site, moving replacements off site will allow for expansion of the cowherd. In general, the replacement herd will be about 85% the size of the lactating herd and will generate about 35-40% of the total volume of manure on the dairy. Since heifers are the easiest animals to relocate, it is a possible solution to the manure management issue.

Feed Considerations Raising heifers requires significant amounts of roughage and grain. In areas where feedstuffs are limited or expensive relative to other areas, moving heifers to more favorable growing areas may improve heifer growth as well as reduce the cost for the dairy. In some cases, heifers may be grown over 1,000 km for the source dairy farm. Calves are generally raised to about 150 kg prior to transporting this distance.

■ Locating the Grower

The decision to move the heifers may be the easiest decision in the process. In most cases, the heifers must go if the dairy business plan is going to move forward. The next problem is locating an acceptable grower. Visit with producers, feed consultants, veterinarians and other farm consultants about

possible heifer growers that could work with your dairy. In addition, organizations such as breed associations and the Professional Dairy Heifer Growers Association may be of assistance. Ideally, the dairy producer is looking for someone who will improve the quality of the heifer entering the milking string. In many cases, the heifer growers are ex-dairy producers who know and understand the business.

After the list is compiled, call each potential grower and visit about general heifer management topics. Review the feeding, health and breeding practices utilized on the farm. Determine what records are kept and transferred with the animals and what type of financial arrangements the grower typically operates under. Finally, ask for references from those who have used the growers' services. Based on the telephone discussion, check references on the growers that fit the needs of the farm. After checking with the references, determine which growers offer the greatest advantage to the farm and schedule a site visit.

At the site visit, review the grower's protocols for feeding, health, breeding, and records. Ask to look at various sizes of animals and determine if animals are meeting standards for growth and body condition score. Observe the manner in which animals are handled and how animals react when approached.

Once the grower has been selected the operating agreement needs to be developed. It is recommended that legal counsel review the agreement for the protection of both the dairy and heifer grower. The agreement should contain specific details on heifer growth, health, breeding, nutrition, insurance, culling, payments, incentives and discounts, liens, dispute settlement, records, tracking methods, animal identification and termination methods. In addition, the issues of animal health upon transfer to and from the grower should be addressed. While most dairies and growers do not have written contracts, many potential disagreements could be avoided if the above issues were addressed.

Once agreement is reached between the dairy and grower, the process has just started not finished. Out of site is not out of mind! Dairy producers must monitor the performance of the heifer grower just like any other employee. This is a real challenge for many producers who do not like to manage the labor on the dairy; much less a heifer grower located some distance from the farm. Usually the monitoring consists of evaluating the heifers that the grower returns to the farm. However, at this point the dairy producer can only be reactionary, which does not change the heifer or heifers in question, but can benefit future heifers. The dairy producer needs to be making regular contact with the grower and be proactive with the heifer management program. By maintaining regular contact and thorough site visits, the dairy producer can effectively manage the heifer grower.

■ Types of Contracts

Many 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 that should be addressed. Issues such as breeding, growth rate and early calving have significant impacts upon both growers and dairy producers.

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

Gain Contracts

Gain contracts base the compensation received by the grower simply on the increase in body weight during the contract and animal ownership does not change. The amount of gain is calculated and multiplied by a predetermined price per kg. 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 under developed 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.

Feed Cost and Yardage

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.

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.

■ Dairy Producer Responsibilities

In these arrangements, dairy producers have several responsibilities. First, only healthy animals, which have been well grown up to the time of transfer to the grower, should be delivered to the grower facility. It is unrealistic to expect a grower to correct problems that occurred prior to the transfer. Second, the dairy producer should keep delivery and receiving commitments. Heifer growers need a consistent flow of animals to remain efficient. In addition, holding springers at the grower facility until calving results in a difficult situation for all parties. Third, the producer should visit the facilities regularly to evaluate the progress of the heifers. By doing this, potential problems can be avoided. Fourth, the producer should keep financial agreements with the grower. Growers are dependent upon these agreements just as the dairy producer depends upon the milk check. Fifth, producers need to clearly communicate their satisfaction and concerns with the heifer grower. Open communication will generally avoid many potential problems.

■ Heifer Grower Responsibilities

Heifer growers have the responsibility to provide adequate feed, water and care to produce heifers to meet the specifications of the dairy producer. This includes maintaining health and breeding records. In addition, the dairy producer would benefit from periodic progress reports. These can be very helpful when culling decisions are necessary. The heifer grower should also maintain good communication with the producer. This is very important when problems arise. The goal of the grower should be to produce a better heifer than the dairy producer would produce.

■ The Good, The Bad, The Ugly

The procedures described above 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 exceptions 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 heifer growers due to the terms of the contract, can not 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 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.

The various 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.

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