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Retained Ownership: *Balancing risk and reward in a small margin world*

The "why's" of retaining ownership of calves after weaning can be varied. Some producers always retain ownership; while others decide each fall, depending on feed availability and market prices. Is it a good fit for your operation? When is taking the risk of the market moving against you, worth it? And what are the 'difference makers' that can make it profitable? Regardless of your why, anyone who retains ownership knows that they must balance risk and reward, because they are entering a small margin world.

The [2022-23 Canadian Cow-Calf Survey \(CCCS\)](#) reported that 40% of respondents retained ownership. Reasons for retaining ownership were to sell into a different time period (54.4%) and to secure a higher price (48.9%). Other notable motivations include improving calf health (28.5%) and meeting buyer requirements (22.6%). A third of respondents selected "Other" motivations related to marketing strategies such as direct sale to consumers, grass-finish and sell into niche markets, breeding stock sales; genetic performance such as collecting data to observe and improve genetics; and operational practices such as increasing herd size and utilizing pasture and manure.

Among those who retained ownership, introducing feedstuffs was practiced by 63.2% of respondents nationally, followed by low-stress weaning (58.2%), vaccination after weaning (57.3%), bunk breaking calves (43.9%), dehorning and castration before weaning (41.8%), booster vaccines two weeks before weaning (34.3%) and introducing calves to water bowls (24%). Ten per cent of respondents selected "Other" practices such as deworming, treating lice, weighing at weaning, creep feed, and keeping heifers with cows longer to enhance epigenetic selection and improve grazing behaviour. Almost 60% of the CCCS respondents who retained ownership did so for more than 120 days.

What is the COP Network?

The Canadian Cow-calf Cost of Production Network (COP Network) uses standardized data collection which allows for comparison both within and between provinces, and internationally. Since launching in 2021, the COP Network has collected data from over 235 producers contributing to 64 cow-calf benchmark farms that represent various production systems. Each benchmark is based on data from 3-7 producers. Data collection occurs every 5 years with annual indexing of input and output prices, as well as crop and forage yields, in subsequent years. Individual benchmark farm summaries, can be found at: <https://canfax.ca/resources/cost-of-production/cop-results.html>

There are several different retained ownership strategies. Weaned calves can be: (1) dry lotted or fed on pasture at a moderate rate of gain (2 lbs/day) for a short period of time (<100 days). This shifts income into the next year, avoiding the fall run; (2) dry lotted for a medium term (100-140 days) with a relatively low rate of gain (1.8 lbs/day) targeting the grasser market in the spring; (3) dry lotted for a full six-months aiming to sell to a finishing feedlot in the spring; and (4) retaining ownership with the intent of going to grass as yearlings, then selling, targeting the September market.

Within the COP Network half of the benchmark farms retained ownership to some degree. This is slightly higher than the national average. The COP Network data had four distinct groups: 50-99 days (13 farms), 100-140 days (9 farms), 180-208 days (4 farms) and yearling grassers (6 farms), corresponding to each of the four strategies outlined above.

Price risk

One of the goals of producers retaining ownership was to sell into a different time period, with ideally higher prices. However, it must be remembered that retaining ownership has both market risk and performance risk associated with it. The objective is to have enough of a price rally overall and more pounds to sell offsetting the price slide that comes with heavier weights.

Revenue was 6% higher for the top-third performing operations versus the average. This was driven primarily from a heavier sale weight - with the top-third averaging \$3.29/lb at 844 lbs compared to the average at \$3.33/lb at 777 lbs (based on 2024 data - prices have moved significantly since then). Animal performance was the main driver.

Performance is the difference maker

It is not surprising that the top-third most profitable benchmarks had more head, more days on feed/pasture, more pounds gained and a higher average daily gain. All these animal performance metrics were statistically different¹ between the top-third and bottom two-third groups. All of the yearling grasser and three of the four long-day backgrounding operations were in the top-third.

Total	Range	Average	Top 3rd	Top 3rd vs. Avg
# head retained	19-711	165	257	56%
Days on feed	45-295	123	154	+25%
Days on pasture	0-145	24	49	+104%
Placement weight	445-638	536	526	-2%
Sale weight	615-1196	777	844	+9%
Lbs gained	82-627	241	317	+32%
Average daily gain	0.37-3.37	2.02	2.18	+8%

Environmental conditions and genetic ability of calves influence average daily gain in any retained ownership program and can have a big impact on profitability even when feed and cattle prices remain constant.
~Dillon Feuz and John Wagner

Spreading overhead costs to another enterprise OR marketing feed

Some producers retain ownership because they are trying to utilize existing overheads on the operation to generate additional revenue. This allows them to spread their overhead costs across more pounds sold. Another common goal is to market feed through cattle and this can be successfully achieved. However,

¹ Significant at 1% level.

it's important to note that you cannot outrun a high-cost structure by retaining ownership. To be competitive when adding more pounds there needs to be a competitive cost structure to begin with. The top-third operations had lower costs in every aspect with cash costs 10% lower than average, depreciation 13% lower and opportunity costs 20% lower than the average.

When evaluating an enterprise like retained ownership, it is important to put a value on the animals transferred from the cow-calf enterprise to the retained ownership enterprise at the time of weaning. This allows producers to assess if they are achieving their objective.

Metric (\$/head sold)	Range	Average	Top 3rd	Top 3rd vs. Avg	Statistical Significance
Animal Transfers	\$1,619-2,874	\$2,271	\$2,147	-5.5%	**
Cash Costs	\$639-721	\$609	\$548	-10%	
Depreciation	\$24-713	\$250	\$217	-13%	
Opportunity Costs	\$117-768	\$336	\$269	-20%	
Total Costs	\$2,759-4,649	\$3,466	\$3,181	-8%	
Revenue	\$1,769-3,191	\$2,591	\$2,738	+6%	*
Profit	Range	Average	Top 3rd	Top 3rd vs. Avg	
Short-Term	-1,343 to +499	-285	+44	+15%	***
Medium-Term	-1,671 to +85	-536	-173	+32%	***
Long-Term	-1,945 to -213	-872	-443	+51%	***

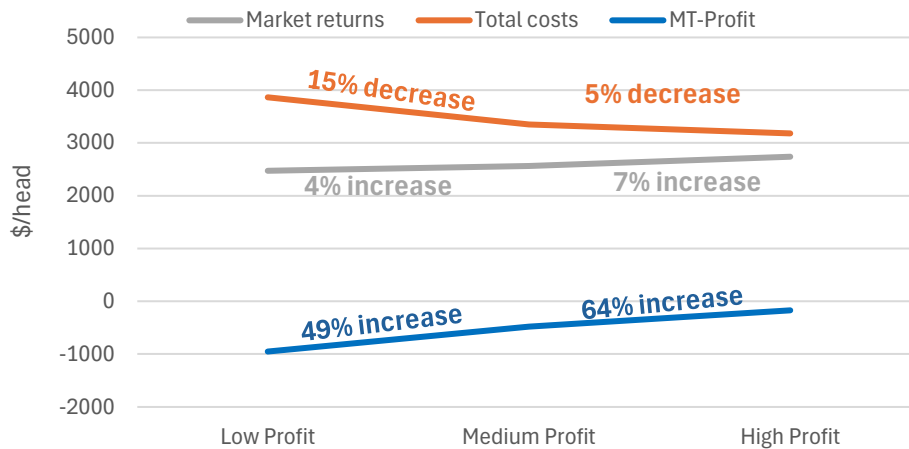
*Significant at 10% level; ** Significant at 5% level, *** Significant at 1% level

Profitability required both controlling costs and revenue gains

When the benchmark farms are divided into three equally sized groups based on medium-term profit, total costs dropped 15% from the low- to medium-profit group and by another 5% from the medium- to high-profit. Meanwhile, the total revenue increased 4% and 7%, between groups, contributing to an increase in medium-term profit. Medium-term profit, which accounts for cash and depreciation costs, is used because these are the costs needed to continue operating

When looking at just cash costs, only the top-third group is profitable showing there is both price and performance risk associated with retained ownership. Overall, it was the difference in cash costs that drove the total cost advantage with the top-third growing their cash cost advantage compared to the bottom two-thirds from 2% in 2021 to an 10% difference in 2024. Feed and interest costs, which vary during the feeding period, can impact margins.

2024 Retained Ownership Cost vs. Revenue



Remember that benchmarks are **NOT** based on who is the **most productive**. Benchmarks **ARE** based on who is the **most profitable**. Therefore, benchmarks come from the **Top 3rd** performing farms (based on Medium-Term profit) not the average.

Margins and leverage

It should be remembered that retained ownership is a margin business. The cattle cycle acts like an accordion, with leverage shifting up and down the supply chain at different phases. There are times when the cow-calf producer has leverage, when the calf crop is relatively small compared to demand. This increases calf values and squeezes margins for later stages such as backgrounding and feedlots. When supplies are more plentiful, or more evenly matched with demand, the incentive for retained ownership is driven by where there is cheaper cost of gain - backgrounding, yearling grassers or in the feedlot.

Dillon Feuz and John Wagner observe that "Profits can be made, or losses incurred, in both relatively high-price and relatively low-price years with retained ownership, depending on the price differentials." Of course, if these price differentials were known in advance there would be no price risk. The feeder futures and projected prices provide insights. But it should be remembered that the purpose of forecasting is not to tell the future, but rather to plan for it.

Key Takeaways:

- You cannot outrun a high-cost structure by retaining ownership. To be competitive when adding more pounds there needs to be a competitive cost structure to begin with.
- Top-third, based on medium-term profit, had more days on feed, more pounds gained and slightly heavier ADG. Performance is key in making retained ownership profitable.
- Top-third, based on medium-term profit, had lower costs in every category (cash, depreciation and opportunity costs) and higher revenues.
- The cattle cycle shifts leverage up and down the supply chain. At times there are large margins in retaining ownership and other times are slim. Price risk associated with retaining ownership needs to be understood to avoid being caught off guard.



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