

# COMPETING *for* PROFIT



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## SPADE RANCHES

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Not many ranches hold as rich of history and tradition as Spade Ranches. Having always been known for its innovative and wise management, many changes and adjustments have been made year in and year out in order for the Spades to remain profitable and competitive. Whether installing telephone lines as it did in the early twentieth century or using internet auctions to sell cattle as it does today, the ranch continues to be innovative and forward moving.

To understand the present Spade Ranches, it is helpful to know some of its history. Isaac Ellwood, co-owner of the barbed wire patent, purchased the Renderbrook Ranch from the Snyder brothers in 1889. He also bought the original Spade Ranch in 1891, along with about 800 cattle and its brand, which looks like a shovel or spade. Ellwood continued expanding the Spade up to 1906, at which point his acreage totaled over 400,000 acres, including Renderbrook. The stretch of land reached about 10 miles in width and 54 miles in length and covered areas we now know as Smyer, Littlefield, Ropesville, and other communities throughout the Texas South Plains.



Over the years, Spade ranchland was sold for farming and colonization, however the Renderbrook Ranch continues to be owned by Ellwood's heirs. In addition to Renderbrook, the Spades is formed by five leased ranches. These ranches are located in the areas of Throckmorton, Gail, Canadian, Turkey and Alpine. The Spades chose each ranch for its ability to be a profitable environment to graze cows.

Before signing a new lease, Spade Ranches evaluates the sustainable stocking rate of the land and makes sure the income made from each cow placed on the ranch can pay for the ranch's costs.

The Spades began leasing its Alpine ranch in January 2009. The 27,000 acre ranch is stocked with 400 cows that were purchased in New Mexico. Wesley Welch, assistant manager of Spade Ranches, said they chose to purchase the cattle for the Alpine ranch from New Mexico because these cattle were well adapted to environmental conditions much like that of Alpine, allowing the ranch to avoid having the cattle go through a transitional period.

While Spade Ranches have taken on new leases such as Alpine, they have held on to others, such as Throckmorton, for many

years. The Throckmorton lease began over 30 years ago, and Spade Ranches has made sure to take care of its natural resources in order to continue grazing it for many years to come. The ranch is conservative with its stocking rate to avoid overgrazing and believes in taking care of the land so that it will, in turn, take care of them.

Today, Spade Ranches operates approximately 250,000 acres stocked with 5,500 cows and 2,200 stockers. Having several ranches spread out over a large area enables Spade Ranches to relocate their cattle according to rainfall and grass conditions.

The Spades recently sent 1,000 head of cattle from Renderbrook to the Western Panhandle of Oklahoma for summer grazing. Welch said he was not pleased with the amount of rainfall Renderbrook received in the spring and believed the cattle would do better on the summer grass in Oklahoma. These cattle stayed until the end of September or middle of October and hopefully put on a good 300 pounds in order to be profitably sold to a feed yard at about 850 pounds.

Other steps Spade Ranches take in order to deal with dry weather include rangeland insurance programs which are subsidized by the United States Department of





Agriculture's (USDA) Risk Management Agency. The program insures against drought and covers grazing land and perennial hay production. It bases its measurements on the average rainfall index of the region in which the rangeland is located. Spade Ranches uses the available funds from this program when relocating and buying feed during dry periods.

Another program the ranch participates in for funding is the Environmental Quality Incentives Program (EQIP) which provides payments up to 75 percent of incurred costs for projects deemed eligible. Spade Ranches uses the EQIP program funds to supplement fence building and brush control costs. Welch said the going rate for brush control is \$50 per acre and current fencing costs are around \$10,000 per mile.

"A cow just can't pay for that," Welch said, "so the money comes in handy to help us offset our costs."

Spade Ranches also supplements its income by selling hunting leases. While a hunting agent is utilized to bring hunters to the ranch, little to no advertisement is used to entice hunters. In fact, very little input cost is spent on developing the hunting land in an effort to make the gross revenue generated by the venture as close to the net revenue as possible. On average, Spade Ranches is able to net approximately \$8.00 per acre on hunting leases.

Until the 1990's, cattle grazing land was also used to graze sheep on the Renderbrook ranch. Renderbrook, which sits on the edge of what many consider sheep country, ran sheep alongside its cattle for several years, providing the ranch additional sources of income through lambs and wool. The sheep promoted better cattle grazing by eating weeds which promoted better growth of grasses. Eventually, pressure from predators and a decline in wool prices made the Spades' sheep operation unfeasible, causing the ranch to sell its sheep herd and focus on its cattle operation.

While some oil is produced on the Spades, royalties go directly to the heirs of the ranch and not to the ranching operation.

"We do not have the luxury of oil and gas income on the Spade Ranches," Welch said.



“Our money is limited to our cow income.”

In order to stay profitable, the ranch keeps its overhead costs low and stays informed about cattle market movement. Many of the calves are sold off the cow in the pasture to private treaty buyers and usually end up being fed out in the Texas Panhandle. Yearlings are sold to various order buyers and cows are only sold if they are low performing or too old to produce.

Balancer cattle, a cross of the Gelbvieh and Angus breeds, and Simmental x Angus crosses graze Spade Ranches today. Half of the Spades' herd is exposed to Balancer bulls while the other half is exposed to Simmental x Angus bulls. The replacements produced from the Balancer bulls are bred

back to Simmental x Angus bulls. The replacements produced from this combination are then exposed to Balancer bulls, and the rotation continues.

The goal of the Spades' breeding program is to produce cows with desirable production and longevity and calves with uniformity and desirable grades and yields. With this breeding program, Spade Ranches produces cows with the ability to survive and reproduce with minimal effort and input costs, allowing the Spades to have a higher cow-per-man ratio. The calves produced carry enough poundage to return a profit covering costs and have predictable feedlot and carcass performance. Thus, the breeding program does what Spade Ranches' needs by keeping input costs low



and generating income.

In an effort to gain premium profits from the cattle they sell to feed yards, Spade Ranches has implemented practices such as age and source verification. This growing topic of interest in the beef industry requires producers to provide accurate documentation of the source and age of their cattle in order to sell calves as USDA Process Verified. If correct and necessary information is provided by the producer, cattle feeders and processors utilize these cattle for sale to foreign markets, such as Japan, and the producers receive a premium for their added effort.

Added effort, however, vaguely describes the labor required for the source and age verification program. To meet industry standards, cattle producers are required to tag all their cows and calves with a unique number, and in most cases the cattle need to have an electronic ear tag that stores verifiable information such as birth dates, ranch identification and breed registration. All calving records, including dam and calf identification, calving date and sex of calf, must be kept in some sort of readily accessible management book.

Spade Ranches does not age and source verify all of its cattle due to the intense records, labor and capital required. However, the potential added benefits that the pro-

gram is capable of bringing the ranch are recognized, which is why the Spades have begun implementing it into the herd.

Another value added practice Spade Ranches implements to increase the marketability of their cattle to feedlots is the use of proven and industry-trusted vaccines. VAC 34 is a series of vaccinations used on calves at the time of working or branding and two to four weeks prior to shipping. By following the VAC 34 protocol, the Spades' cattle will meet industry health standards and have a better chance of receiving premium prices from buyers.

In order to justify the added costs of implementing the VAC 34 and source and age verified programs, Welch did some calculations and came to the conclusion that the costs of the programs will pay for themselves and be profitable to the Spades, as long as buyers continue to be willing to pay above premium prices for vaccinated and verified cattle.

Of course the price buyers are willing to pay producers relies on the cattle market, something Welch says he keeps a close eye on. Welch said the cattle market flows with the trend of the overall stock market, and a down economy will in effect bring the price of cattle down.

"The cattle market has done tick for



tick what the Dow Jones has done," Welch said. "The overall economy trickles down to the cow/calf guy."

Welch is optimistic, however, that the liquidation of cow herds on ranches experiencing drought or being taken out of production for high-fenced hunting is now reducing the supply of cattle and keeping a bottom on the market. He admits the cattle market needs a better economy to see a rise in prices and, as always, the market can fluctuate as rainfall comes and goes.

Welch is careful to stay educated and attentive to markets. He buys futures for price protection and hedges calves when the opportunity presents itself. He said that having a risk management plan in place is extremely important in order to stay successful in the cattle business because you never know what might happen in the industry.

Welch also stays educated and attentive of the cattle industry through his membership with the Texas and Southwestern Cattle Raisers Association (TSCRA). Welch said the association is a good source of valuable information keeping him aware of cattle industry issues. He also said the majority of his peers and contacts are met through TSCRA, making it a great networking source. Welch is active in the association, serving as vice-committee chairman.

"I feel that if I am not voicing my opinion in the association and make Spades' per-

spective heard," Welch said, "then someone else is speaking their own, and maybe opposite, opinion and shaping the direction of the industry."

While Spade Ranches may not be able to control the market and industry trends, one component they can control to secure a successful cattle business is reliable and quality cowboys. The Spades' has 13 salaried employees throughout its operation whose housing, horses and vehicles are provided. Each ranch consists of about two fulltime cowboys and day-help is regularly required for working cattle.

The office for Spade Ranches is located in Lubbock, Texas, and employs a fulltime secretary. Welch and his father, John Welch who is President and CEO of Spade Ranches, also work at the office when they are not needed horseback. Welch said personnel is certainly the largest expense for Spade Ranches; however, he included, good help is well worth the price you must pay for it.

Spade Ranches has been a successful enterprise for over a hundred years, and it has never quit moving forward in its managing techniques. It has made needed adjustments throughout its existence in order to stay instep with the market, industry and technology. Though books have documented the rich history of the Spades, they all are to be continued as the ranch continues to write its own history with each successful year.

## NOTE FROM THE CHAIR

DR. DARREN HUDSON

As anyone knows that has been involved in cow-calf operations, it's often hard to turn a profit. Material costs eat into thin margins that are heavily influenced by subtle changes in rainfall on grassland. Like other types of agriculturalists, ranchers are subject to the whims of mother nature and the ebbs and flows of commodities markets. It takes some creativity to survive, and that is just what this ranch has done since 1889.

While this story outlines a number of creative management ideas, I want to focus on a couple important areas. First, there are many opportunities available for enhancing income through different production methods and/or breeding programs. For example, one can use a breeding program that leads to "Certified Angus Beef." Or, perhaps you use complex record-keeping to participate in the "Process Verified" marketing channel as the Spades has done. There are also opportunities for non-hormone treated beef, grass-fed finishing operations, etc. Each of these has the potential to add premiums to the final price for the cattle. But, each of these may not work for everyone.

Not only has the Spades been selective in its choice of marketing channel (source verified), but they also do not apply this universally across their operation. The record-keeping requirements are just too onerous for their size of operation without additional technology/labor. The selectivity takes patience and will-power. You must

really understand your operation to be able to adequately assess the potential success of different alternatives. But, you must also have the patience to design and implement the new strategy over time. In the end, however, selectivity will lead to a more efficient operation rather than a patchwork of management schemes that may not fit together cohesively.



Dr. Darren Hudson, ACC Chair

The second area that I would like to mention is their long-term perspective on land management. As they take on new properties (as well as monitoring existing properties), they are supremely concerned with stocking rates. This may seem quite logical to most readers. But, the incentive to overstock and maximize sellable weight is quite high, especially given the increased prevalence of rented land from owners who are quite removed from the land itself. After all, if no one is looking, why not overgraze it for 10 years and then turn it back? The Spades' approach of matching stocking rates to long-term sustainable use insures that productive quality of that land into the future. That reputation will precede them when they want to rent more land. But, more importantly, that type of management likely insures access to their current land for as long as they wish to continue ranching. With a ranch that has been around since 1889, you would expect nothing less.