Iowa’s Beef

Business Climate

John D. Lawrence
Extension Livestock Economist and Director, Iowa Beef Center at Iowa State University
Iowa Was #1 in Beef

- 1968-1972 #1 in fed cattle marketing
  - Over 4 million fed cattle per year
  - 18% of the US total
- The world changed
  - Technology
  - Economies of scale
  - Irrigation
  - Clean Water Act
  - Emphasis on lean beef
  - Falling consumer demand
- 1.275 million marketings in 2007
- 1.860 million marketings in 2007
World Changing Again

- Rising beef demand
  - Up from 1998 but below 2004
- Emphasis on “quality”
  - Choice-Select spread has widen
  - Upper Choice and Prime premiums
  - Growing “natural” market
- Cost structure shift
  - Coproduct surplus
  - Higher energy prices
National Beef Sector
US BEEF AND VEAL EXPORTS
Carcass Weight, Annual

Bil. Pounds

U.S. Beef Exports to Major Markets

Carcass Weight, Monthly

Livestock Marketing Information Center
AVERAGE RETURNS TO CATTLE FEEDERS
Feeding 725 Lb. Steers, S. Plains, Monthly

$ Per Steer

Latest Data: April 2009

IOWA STATE UNIVERSITY
University Extension
Changing Iowa Picture
USDA-NASS Revisions

• In the January 2009 Cattle report USDA made major revisions to the number of cattle on feed in Iowa.
• Did not change the total number of cattle, but recognize that more were “on feed”
• In March they released the revised inventories going back 5-years.
CATTLE ON FEED JANUARY 1, 2009
(1000 Head)

Livestock Marketing Information Center
Data Source: USDA/NASS

Other States  14.7
U.S. Total  13851

Livestock Marketing Information Center
Data Source: USDA/NASS

C-N-03
01/30/09
# Beef Packing within 250 Miles of Ames, IA and Garden City, KS

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<th>Company</th>
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Cattle on Feed, 1000 Head Capacity Feedlots

IANESD  TXOKNM  KSCO
Annual Average Fed Steer Basis to Iowa,
Not Adjusted for Grade or Shrink

$(-)$
$(0.50)$
$(1.00)$
$(1.50)$
$(2.00)$

2002 2003 2004 2005 2006 2007 2008

NE
KS
TX-OK
CO
Fed Steers Live Basis to Iowa
Not Adjusted for Grade or Shrink

J F M A M J J A S O N D Avg
NE KS TX-OK CO
Summary

• Iowa’s feedlot inventory larger than thought and stronger – not weaker than national trends

• Growth in northern cattle feeding, but not packer capacity. Basis has weakened relative to other regions.
Where do we go from here?
Drying of DDG can be 30% of the energy costs of ethanol production

Fertilizer is $\frac{1}{2}$ of the energy used in corn production.
Nat Gas lower through 2015 then equal 2006-2007
Diesel and gas near 2006-07 in 2011-13 then near 2008
Average US Farm Prices, April each Year ($/ton)


- **AA**
- **DAP**
- **Potash**

Price Ranges: $0-$1,200
Corn Basis to Chicago Cash for Cattle Feeding Regions

Iowa Elevators
OMAHA SWNE Dodge City
NECO TX N of Canadian TX Triangle

91-95 96-00 '01-05 '06-08
Energy Forecast Impact

- **Fertilizer price forecast**
  - N $.27, P $.25, K $.27
  - Potential manure nutrient value
    - Steers $12-14/hd

- **Grain freight, $/bushel**

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- At 60 bushels the freight change to Amarillo is $13/head
Implications

• Nutrients and freight savings forecast to be $25/head for an integrated crop livestock farm in Midwest
  – $25 that didn’t exist in 2003
  – Has weather or economies of scale changed $25/head since 2003?
Opportunity for Success

• What is **YOUR** business model and how will **YOU** beat the competition?
  – The existing businesses won’t roll over
  – How will you bid cattle away from them?
  – How will you attract AND KEEP customers

• Survey of Iowans feeding in other states said cost of gain was not enough!!!!
What Defines A “Professional” Feedlot

• Survey of Feedlot Sector observers and consultants
  – What makes some feedlots more successful than others?
  – What defines a “professional” feedlot?
Managing Successful Feedlots

Operations

• **Consistency**: feed delivery, cattle inspection, processing, treatment, marketing

• **Information**: document, utilize, monitor, calibrate, manage

• **Facilities**: pen design and maintenance, working facilities, equipment

• **Marketing**: understands markets, buyers, risk mgt
Managing Successful Feedlots

Business decisions

• **Financial success** is the key driver of short-term and long-term decisions

• **Strategic plan** that is revisited and updated periodically

• **Stays current** on industry issues, gets involved, and continually improving the operation.

• **Method** to obtain and evaluate information to improve competitive advantage
Managing Successful Feedlots

Human resources

• **Every employee** fulfills their responsibility as well as or better than a typical peer
  – Knows objective and is evaluated
  – Knows how he/she impact the business

• **Career oriented** and provided opportunities

• **Provide resources** and training
Marketing Commercial Feedlots

First impressions

• Feedlot appearance (mow, paint, feed, manure)

• Phone practice (separate line, answering machine, return calls)

• Business appearance (sign, office, clean clothes, clean truck)

• Color brochures and materials
Marketing Commercial Feedlots

Honest assessment

• Accurate projections for cattle
• Previous closeouts for track record
• Marketing alternatives and locations
• Health program and protocol
Marketing Commercial Feedlots

Services offered

- **Full service**: financing, grain bank, order buying, risk management, partnering, selling cattle, data collection
- **Communication**: billing, deads, treatment, projections, markets (no surprises)
- **Complete and accurate** closeouts
Am I Competitive Feeding Cattle in Iowa?

- Oil price has changed economics
  - Iowa’s low cost of gain advantage grows on higher transportation costs and wet DGS
  - Opportunity to capture more manure value

- Cheap gain is an opportunity not a guarantee
  - How will you capture the opportunity?
  - What resources and assistance do you need?
A New Era in Management

- Employees
- Benchmarking
- Staying connected
- External forces
- Cattle care and performance
- Nutrient capture and value
Thank you!

Any Questions?