

What Defines a Professional Cattle Feedlot?

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Iowa has a long history of cattle feeding. It was the largest cattle feeding state in the nation from 1968 – 1972 marketing as many as 4.5 million head of fed cattle, 18% of the US total. A variety of factors changed that shifted cattle feeding to the Plains states and by 2005 USDA reported that Iowa marketed less than 1.4 million head of fed cattle. Through this time Iowa had cheaper corn than the Plains feedlots and comparable Choice steer prices, but cattle feeding migrated southwest as did much of the packing sector.

In the mid-1980s a study of the Iowa cattle feeding sector reported that while feed prices were lower than other regions, Iowa feedlots were not “professional” and therefore struggled to compete with feedlots that were. It found that many Iowa cattle feeders didn’t have sufficient information to determine breakeven cost (i.e., didn’t weigh feed or cattle, and kept no records) or profits and didn’t manage price risk with futures or options. While the statement wasn’t true of all Iowa feedlots then, it still applies to some today. In a 2005 survey of Iowa cattle feeders, 14% of the respondents reported feeding cattle in another state besides Iowa. When asked why they feed cattle in other states, the three most common responses were: services offered, feedlot management, and cost of gain. Thus cost of gain is important, but service and management were rated higher by these respondents and they went elsewhere to get it.

While Iowa continues its cheap feed advantage, this alone will not rebuild cattle feeding in the state. Feedlots will need to be well managed and professional if they are to be successful. But, what exactly does it mean to be “well managed and professional”? I recently asked people familiar with cattle feeding in the Midwest and Plains to help me answer this question. They include input and information providers, large scale cattle feeders, cattle buyers, and consultants. I asked two questions:

1. Identify the characteristics of a professionally managed feedlot.
2. List the top three to five things that put the best feedlots ahead of the others.

Below is my summary of the dozen or more responses I received. The comments fell into two broad categories. The first dealing with successful management practices that applies to both commercial feedlots and farmer-feeders. The second centers around marketing of a commercial feedlot to attract and keep customers. The list is not meant to be all-inclusive, but it does identify what people that work in the feedlot industry on a daily basis identify as best practices and provides guidance on where to focus management attention.

Successful Feedlot Management Practices

Operational management

Day-to-day operation of a feedlot is the foundation of a successful feedlot. Effective managers are those that have predictable and repeatable results, have an information system on which to base decisions, are good marketers, and have facilities where cattle perform to their potential. The keys to operational management include:

Consistency: Well run feedlots do the same thing the same way, every time. They are consistent in when and how they deliver feed to the bunk. Bunks are read every day, each pen is fed at the same time every day, and the ingredients are added and mixed the same every day. Cattle are inspected daily using the same criteria. Processing, treatment, and sick pen management is consistent every time. Consistency from day-to-day and group-to-group makes good sense, but can be difficult during planting and harvest or with employee turnover. Developing a written protocol for feeding, processing, treatment, and inspection is a good starting place. It serves as reminder to the experienced and a training manual to the novice.

Information: The old adage is that *you can't manage what you don't measure*. Successful managers measure and record what is important to the profitability of their operation. This includes production and financial variables. They must be able to trust the numbers and thus must calibrate scales and validate results from time to time. The records to calculate cattle performance and profitability are necessary. However, once collected, the information is of little value unless it is used to monitor progress, make decisions, and evaluate alternatives.

Marketing: Managers understand markets, what drives prices, and are up-to-date (that means up-to-the-minute when cattle are trading) on market conditions and price movement. They understand how cattle are expected to grade and how grades and cost of gain change at different market weights and classes of cattle. Successful managers also know the buyers in their area and have a working relationship with each buyer. They also understand and are able to use the various tools available (futures, options, price and margin insurance) to manage price risk.

Facilities: Feedlots must be designed to provide cattle performance, worker safety and efficiency and meet or exceed all environmental regulations. Pens must provide a low stress cattle environment with protection from heat (shade, sprinklers, or breeze) and cold (windbreak). Pens must be well drained and maintained to reduce dust, mud, and run-off problems and provide cattle comfort. Working facilities and equipment must be cattle and worker friendly so that cattle can be processed efficiently with minimal stress and treated when needed.

Business Decisions

Producers produce. Managers make business decisions. Their success depends on how they make decisions, where and how they get and evaluate information, and their ability to develop and implement an effective long run plan. Central elements for business management include:

Financial success: Well managed feedlots base short-term and long-term decisions on the impact it has on the financial success of the feedlot. One could argue that farmer-feeders have priorities other than the feedlot such as crop enterprises, but management of the feedlot should revolve around the financial implications of the feedlot. If it is consistently lower on the farm priority list it will show in the feedlot profitability.

Stay current: Successful managers stay current on new technology and industry issues and work to continually improve the operation. They have a method to systematically receive and evaluate information important to their business that will improve their competitive advantage. Professional managers set aside time each day or each week to study new information and evaluate how it may impact their business. They attend conferences or conventions to learn and/or discuss with experts and other managers. They get involved in issues and give back to the industry.

Strategic plan: Because managers do need to focus on daily activities and markets, it is important that they develop, revisited and updated periodically their strategic plan so they don't lose sight of their long-term goals. Strategic plans evaluate the strengths and weaknesses of the operation in the context of opportunities and threats external to the firm. These are the big picture things that often are lost in the daily grind, but are essential to long term success. The strategic planning process often involves the input and insight from others, but is the manager's responsibility to develop and, more importantly, implement the strategy.

Human Resources

Feedlots, like any business, are only as good as the people doing the work. Even in family operations, professional development, opportunities for advancement, having appropriate resources, effective communication, and training are essential to successful businesses. The human dimension of the operation involves:

Every employee: In successful feedlots every employee fulfills his or her responsibility as well as or better than a typical peer. There are no weak links. The employee knows his/her role and understands how his/her actions impact the overall success of the feedlot. The employee also knows the objective they are asked to work toward, and is evaluated on how well he/she achieves the objective.

Career-oriented: Employees are career oriented and there are opportunities for them to learn skills, develop professionally, and take on new responsibilities. This also applies to family members. Granted not all tasks at a feedlot require a continuous improvement, but don't be surprised by high turnover in jobs with no opportunity for advancement. Another observation is that feedlots with low turn over and good longevity of employees are more successful.

Provide resources: Good employees need the resources and training to do their job well. Resources include good equipment and facilities, but also training and continuing education on skills that helps them do their job better. This includes reinforcing and upgrading skills such as feed mixing and delivery, identifying cattle for treatment, low-stress animal handling, safety training on equipment, emergency preparedness, and interpersonal communication.

Marketing Commercial Feedlots

First impressions

You only get one chance to make a first impression. Long before the customer sees how well his/her cattle performed in your feedlot or if they made a profit, they will make a decision whether or not to do business with you. You are asking the customer to send thousands of dollars of their cattle to your feedlot and then you will send them a bill every two weeks. Feedlots must be professional and earn the trust of the customer by making a good first impression.

Phone practice: Often the first contact with a customer is by phone. They call to enquire about your feedlot and services. They call to check on their cattle. They call to tell you cattle are coming. They are calling on business and do not want to talk to your four-year-old. Have a separate phone line and answering machine with a professional message, answer the phone professionally with the name of the business, and return customer calls promptly.

Business appearance: When the customer visits the feedlot they should feel welcome and be treated as someone that is writing you a check. Also, you do not want them wandering through the feedlot unattended. Have a professional sign at the driveway identifying your feedlot and have the office clearly marked showing them where to go when they arrive. If it is a home office, have a sign to the door that they should enter. When meeting with the customer, wear clean clothes and have a clean truck to show them around your operation and view their cattle. You don't have to look like a cowboy, but you do have to look like someone they want to do business with. Being covered head-to-toe in manure and having a truck cab full of parts, tools, and fast-food wrappers may make you look hard-working and frugal, but it doesn't look professional.

Color brochures: When meeting with a potential customer have professional-looking materials including color brochures and business cards. The cost of these materials has come down and can be produced on demand rather than printed by the thousands, thanks to desktop publishing. The competition will have attractive advertising. You will need to have professional materials as well.

Feedlot appearance: The feedyard should look neat, weeds sprayed or mowed, and old equipment and fencing materials out of sight. The commodity area should be organized. Clean up spilled feed, especially around the bunks because the customer knows he paid for feed on the ground outside the bunk. The pens should be well maintained and manure well managed. Paint where appropriate. Spray for flies.

Honest assessment

Customers understand advertising and are basing many decisions on first impressions, but repeat business will depend on how well their cattle perform and are marketed. Likewise, they don't like surprises. An honest assessment of how you believe their cattle will perform, their marketing options, and expected costs is important as is meeting those expectations.

Accurate projections: Prepare a projection for the customer to establish the expected marketing date and weight, projected cost of gain, estimate non-feed cost, and project their estimated return based on a basis adjusted futures price. Be honest with the customer and inform them of all expected costs before feeding the cattle so there are no surprises at the end.

Previous closeouts: Have a portfolio of previous closeouts for different types of cattle to share you track record with the customer. Don't be afraid to share the wrecks along with the really good ones to prepare them for what could happen. Again, customers don't like surprises.

Marketing alternatives: Discuss with the customer ahead of time the marketing alternatives that you use and have experienced. Explain how the cattle can best be marketed and who makes the marketing decision, the feedlot, the customer, or combined. Discuss how quickly decisions may have to be made and the importance of timely communication at marketing time. Explain how the check will be handled and how final invoices will be handled.

Health program: Explain your health program and processing and hospital pen protocol and billing. Discuss the customer's health program and your recommendations for his cattle at your feedlot. Explain how chronic cattle and deads are handled and when the customer will be notified. Customers don't like surprises.

Services offered

Commercial cattle feeding is a service business. Feedlots are paid to provide a service to the owner of the cattle. Feedlots do not have price risk of owning cattle, but have a risk of not operating at capacity. As with any service business, being the lowest price may not always get or keep business. The variety and quality of service and effective communication is essential to repeat customers.

Full service: Many commercial feedlots offer full service cattle feeding. The cattle owner need only to provide the minimum required equity and the feedlot will arrange financing of cattle, feed, and services, order buying of feeder cattle, price risk management on cattle and corn, and selling of the finished cattle. Other customers may own the cattle already (i.e., cow-calf or stocker operator) and may want individual animal performance and carcass data collection. Still other customers may want to partner with the feedlot on the cattle rather than owning all the cattle in a pen. Some customers may be grain farmers that want to market their grain through cattle fed in your feedlots. The ability to warehouse or grain bank corn delivered to your feedlot at harvest may be the service this customer wants. Not all feedlots can or wish to provide all of these services themselves, but finding a way to make them available to your customers can make your feedlot more attractive than your competitor.

Communication: Customers do not like surprises and they do like to be informed of how their cattle are doing. Provide regular billing that is easy to understand. Notify them immediately if cattle die or if additional treatment is needed. In addition to an initial projection, update them if there is a significant change (i.e., adverse weather, change in feed prices), and update them at reimplant time as to how their cattle are performing relative to projections. Call and discuss markets as their marketing date approaches. In addition to phone calls and personal communication, provide a monthly or quarterly newsletter to update customers on industry news or activities at your feedlot.

Closeouts: Provide complete and accurate closeouts to the customer in a timely fashion. Educate the customer about what happens to costs when the poor performers and deads are included in the closeout. Help them make better marketing and management decisions in the future. They can't be a repeat customer if they are out of business.

Summary

If Iowa is to increase cattle feeding, it will likely be a mix of farmer-feeder and commercial feedlots. Feed price is a significant advantage for Iowa, but it alone is not enough. Regardless of ownership, feedlots will have to be well managed to be successful. For farmer feeders this may mean having at least one person whose priorities are cattle before crops every day. In addition to superior management, commercial feedlots must also

market themselves to attract customers. These service businesses must make a professional first impression and effectively perform and communicate to earn repeat customers.

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