AS-1162

A Cow-Calf Producer's Guide to Custom Feeding

Greg Lardy
NDSU Beef Extension Specialist

Introduction

This circular will discuss items that a cow-calf operator should consider before choosing a feedlot to custom feed cattle. Custom feeding refers to the practice of sending calves, stockers, or yearlings to a commercial feedyard for feeding to slaughter weights. Custom feeding is not without risks. It should be viewed as a potential means to add value to your calf crop and/or to evaluate the genetic potential of your cow herd.

Every custom feedlot has specific advantages and disadvantages which should be considered before selecting a lot which will feed your cattle. Feedlot location, facilities, services, and management are a few of the factors which need to be evaluated.

NDSU EXTENSION SERVICE
North Dakota State University, Fargo, ND 58105

FEBRUARY 1999

What Services Do Commercial Feedyards Offer?

Feeding cattle to slaughter weights

Commercial feedyards are specialists in feeding cattle high concentrate finishing rations. Rations vary from region to region but all feed a diet high in grains or grain byproducts. However, no matter what the ration, the manager should have experience feeding high concentrate diets to slaughter cattle. Many feedlots will use the services of private or feed industry nutritionists to formulate rations and provide technical advice on feeding management.

Financing

Many feedyards will offer their clients financing for cattle, feed, and other charges. This is usually accomplished through local banks or finance companies associated with the feedlot. Your local bank may also assist in arranging financing to place your cattle on feed. Feed is usually billed biweekly or monthly. Almost all feedlots will require you to keep 25 to 30% equity in the cattle. When the cattle are sold, the feedlot will immediately deduct charges for feed, financing, yardage, and other items. You will then be forwarded a check for the proceeds, provided the cattle made enough money to cover all the costs. Depending on how the cattle were financed, and the degree of loss associated with feeding, the lot may be forced to send a bill to cover the losses.

These services can ease cash flow problems since you can wait until the cattle are sold before settling the feed charges. You will be charged interest on feed and other charges which you choose to finance. The interest rate is usually the prime rate plus 1 to 2 percentage points at banks familiar with cattle feeding. Interest should not accrue until you have been billed for the feed, unless you choose to purchase all your feed up front as a risk protection measure.

A good rule of thumb to use when figuring interest charges on feed is to calculate the interest on the projected feed bill and divide by two. For example, if we project that the feed bill will be $200 for a calf on feed for 6 months, and the interest rate is 10%, our interest bill on the feed would be $10 ($200 x 10% x ½ year ÷ 2). The reason we divide the interest bill by two is that in most cases you will only be billed for feed every two weeks. Consequently, over the course of the feeding period, interest will only accrue on a portion of the feed bill, not the entire feed bill.

Marketing

Marketing your finished cattle is one of the most important services a commercial feedyard provides. The feedyard manager should have experience in feeding and marketing the kind and type of cattle you are sending to the feedyard. Questions to ask include: How many packers bid on the cattle weekly? Do you sell "live" or "in the beef"? Do you have access to grids, formula pricing arrangements, contracts, or alliances for selling particular groups of cattle?

Carcass data collection and data management services

Individual carcass data collection may or may not be part of the package which a commercial feedyard offers its customers. Be sure to ask about getting carcass data and about any fees associated with this service. The National Cattleman's Beef Association (NCBA) will collect carcass data, in major cattle feeding areas, for a $6/head fee (minimum charge is $300). The program is managed by West Texas State University; contact them at (806) 656-2275 or (806) 656-2278 for more information. Carcass data can also be collected through individual alliance programs. Contact the specific alliance program that you are participating in for more information.

Risk sharing

Many commercial feedyards that specialize in retained ownership cattle will offer risk sharing plans to customers. In these situations, the feedlot will buy a portion of the calves when they are placed in the lot. This can ease cash flow problems in addition to being a sound risk management tool.

Other services

Larger commercial yards may also offer backgrounding, growing, and pasturing services for their clients in addition to strictly feeding cattle. Most commercial feedlots also work with professional nutritional consultants and veterinarians to ensure the best nutrition, management, and health programs for your cattle.

The use of futures markets, hedging, options, and other risk management programs are available through many custom feedlots. In most cases, the feedlot will work with you to put a risk management program in place if you would like one.

Financial Considerations

Although retaining ownership and having your cattle custom fed offers the opportunity for increased profits over simply selling at weaning, the practice is not for everyone. Cattle producers should work closely with their lender to evaluate their financial position before placing cattle on feed. When cattle are fed to slaughter weights, marketing dates are delayed since calves are not sold directly following weaning or after backgrounding. It is prudent to discuss plans you have for retained ownership with your lender well in advance of sending the cattle to the feedlot for finishing. Cash flows are changed when cattle are retained for feeding. If you traditionally market your calves at weaning, income will be delayed six to eight months until slaughter cattle are marketed.

Discuss your equity position with your banker to determine if you have the equity necessary to finish cattle, you should also evaluate how much you can stand to lose in a bad market. Several opportunities exist for reducing risk, but none will guarantee a profit. Many commercial feedyards will offer or have an arrangement with a brokerage firm to provide hedging opportunities for customers who desire them.

Cattle producers who are uneasy about placing their entire calf crop on feed or have limited financial resources should consider participating in local steer feed-outs or fill pens together with neighboring farms and ranches. Producers can consign as few as five head to some feed-out programs. This reduces risk and still allows the producer learn how the cattle will perform in the feedlot.

Cow-calf producers should be aware of the tax implications of retaining ownership. In many cases, income (and taxes) is deferred for four to seven months by retaining ownership over selling weaned calves, backgrounded calves, or yearlings. This situation is more difficult, however, when a producer has retained ownership previously and now wishes to sell weaned calves, backgrounded calves or yearlings since two calf crops will be sold in one year. The new tax laws regarding income averaging may help producers through this situation. Producers should contact their tax professional to determine tax implications of retained ownership.

How Does a Commercial Feedyard Make Money?

Just as in any other business, a commercial feedyard must make a profit in order to stay in business. Commercial feedyards which custom feed cattle make money by selling feed and services. If a commercial feedyard owns the cattle it is feeding, it makes money by adding value to the cattle by feeding them to slaughter weight. If the feedyard is feeding cattle for someone else, it makes money by charging fees for the feed, services, and facilities it provides.

What type of fees can I expect?

Three of the most common ways of charging for services are 1) yardage, 2) yardage plus feed markup, or 3) feed markup only. Yardage is usually charged on a $/head/day basis. When only yardage is charged (no feed markup) yardage generally ranges from $0.25 to $0.35/head/day. Feed is then sold at cost with this arrangement. In feedyards which charge yardage plus feed markup, yardage charges generally run about $0.05/head/day. Feed is sold to the customer with a markup ($/ton) included. In yards which only charge feed markup, the markup typically runs $25 to $30 per ton of feed.

Be sure that you understand how a particular feedyard charges for these services before placing cattle on feed. In most cases, there is little difference in total feed plus yardage costs, no matter which fee structure a yard utilizes. It is to your benefit, however, to be sure to push the pencil to make sure you are getting the best deal.

Example of costs in feedlots which charge yardage vs. yardage plus feed markup

Assumptions

- Initial weight = 600 pounds
- Slaughter weight = 1200 pounds
- ADG = 3.33 pounds per day
- Feed conversion = 6.0 pounds of feed per pound of gain

- Feedlot A
  - Yardage charges = $0.30/head/day
  - No feed markup (ration cost = $100/ton or $0.05/pound)
- Feedlot B
  - Yardage charges = $0.05/head/day
  - Feed markup = $25/ton (ration cost = $125/ton or $0.0625/pound)
- Feedlot C
  - No yardage charges
  - Feed markup = $30/ton (ration cost = $130/ton or $0.065/pound)

Our steer in this example will consume 3600 pounds of feed (600 pounds of gain x 6.0 pounds of feed/pound of gain) and will be on feed for 180 days in all three feedlots.

Costs for Feedlot A –

- Yardage charges = $54 (180 days x $0.30/head/day)
- Feed charges = $180 (3600 pounds x $0.05/pound)
- Total feed and yardage cost = $234 ($54 + $180)

Costs for Feedlot B –

- Yardage charges = $9 ($0.05/head/day x 180 days)
- Feed charges = $225 (3600 pounds x $0.0625/pound)
- Total feed and yardage charge = $234 ($9 + $225)

Costs for Feedlot C –

- Yardage charges = $0 (no yardage charge)
- Feed charges = $234 (3600 pounds x $0.065/pound)
- Total feed and yardage charge = $234 ($0 + $234)

There is no right or wrong way for feedlots to charge for feed and yardage. It is up to the feedlot manager or owner to decide what type of fee structure to use.

In this example, there is no difference between the three feedlots on total feed and yardage charges. This is not always the case. Take the time to do the calculations yourself when comparing different feedlots.

Other fees and charges

Others fees include medicine, vaccine, implants, processing and chute usage charges, and other miscellaneous fees. In some cases vaccines, medicine, and implants are marked up, as well as feed. It pays to ask before placing cattle so there are no surprises. Generally there are charges for processing the cattle on arrival and chute usage charges (on a per head basis) when the cattle are worked through the chute. Some lots also charge special fees for use of hospital pens when cattle are sick.

Risks Involved in Retaining Ownership

Retaining ownership is not without risk. Bad markets, poor performance, high feed grain prices, and death loss can all contribute to negative returns when feeding cattle. Using marketing tools such as hedging, options, and forward contracting can be used to reduce risk but they cannot cure bad markets or poor performance. If your equity position warrants the use of these tools, you should strongly consider using them.

Unforeseen risks such as inclement weather, storms, and other problems can reduce performance and drive up cost of gain. Even feeding areas which are known for relatively mild weather can have weather-related feeding problems.

Selecting Cattle For Feeding

Sorting cattle

One of the keys to successful feeding is to start with a pen of cattle which are uniform in weight, body type, age, breeding, and previous nutritional management. When a pen of cattle is as similar as possible, the feedlot has an easier time feeding the cattle to an optimum endpoint. Sorting should result in fewer discounts based on quality and yield grades, and carcass weight specifications, if animals are sold on a carcass basis. Either steers or heifers can be fed, but they are usually fed separately.

Most ranches will have light, medium, and heavy calves at weaning simply due to the nature of calving distribution and herd genetics. In larger herds, the heavy end of the calves can be sorted off and sent to a feedyard for finishing following weaning. The medium weight group can be backgrounded and sent at a later date and the light weight group can be wintered and run as yearlings or the two lighter weight groups can be sold at weaning to provide needed income.

Effect of calf health on feedlot performance

It is no secret that healthy calves are worth more than sick calves. An analysis of the Texas A&M Ranch to Rail Retained Ownership Program provides an estimate of the value of a healthy calf in the feedlot. Healthy calves had lower death loss, lower cost of gain, and higher net returns. In fact, healthy calves returned over $90 more per head than sick calves. Sixty dollars of this return was attributed to increased efficiency and $30 to decreased medicine cost.

Minimum pen size

Cow-calf operations with less than 100 head of cows may find it difficult to fill a pen at most commercial feedyards. Ask the manager the minimum pen size required for feeding at a particular lot. Large feedyards prefer to work with 'pot-load' pen sizes or larger. A 'pot-load' lot for 500 pound calves would be approximately 80 to 85 head. However, there are a number of smaller feeders which will feed 25 to 30 head pens.

Marketing your finished cattle is one of the most important services a commercial feedyard provides. The feedyard manager should have experience in feeding and marketing the kind and type of cattle you are sending to the feedyard.

Questions to ask include:

- How many packers bid on the cattle weekly?
- Do you sell "live" or "in the beef"?
- Do you have access to grids, formula pricing arrangements, contracts, or alliances for selling particular groups of cattle?

AS-1182

NDSU Extension Service, North Dakota State University of Agriculture and Applied Science, and U.S. Department of Agriculture cooperating. Sharon D. Anderson, Director, Fargo, North Dakota. Distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. We offer our programs and facilities to all persons regardless of race, color, national origin, religion, sex, disability, age, Vietnam era veterans status, or sexual orientation; and are an equal opportunity employer.

2M-2-99