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Ranch homework for feedlot partnerships

By Laura Nelson

As a cowherd operator, you can produce a quality calf. The feedlot manager knows what it takes to finish that calf on feed so it can earn carcass premiums.

Combine the two sides as partners or retain ownership and the opportunities for herd improvement and profit may just multiply. But this equation only balances when you meet your “perfect” cattle feeding counterpart.

There are thousands of feedlots, and hundreds could work for you, so finding the best partner can be a problem, especially the first time. Once you add up your needs, however, that formula should narrow the field. Finding the answer will lead to more math, but the feedlot and carcass data can help make the herd more predictable and add dollars to your bottom line.

Rather than selling calves or backgrounded feeders for a commodity price, partnering or retaining ownership with a feedlot lets you enter a new world of price discovery. Finished cattle may be sold through value-based, “grid” markets that pay on the individual carcass merit of each animal. That opens the door to selling branded beef and producing for the *Certified Angus Beef*[®] (CAB[®]) brand.

Meanwhile, you can track individual calf performance and progress on feed. Feedyards can report rates of gain and feed efficiency as well as carcass data.

“For cow-calf producers who want information to take back to the ranch for their sire selection and cull-cow programs, this data is so critical,” says Mark Sebranek, manager of Irsik and Doll Feedyard, a 32,000-head CAB-licensed yard near Garden City, Kan. “That carcass information tells a lot of stories producers can’t get any other way.”

The drawback to retained ownership is the initial financial re-arranging.

“One of the toughest deals we run into with first-time feeders is that they have their money set up at home with their bankers for payment at certain times of the year,” Sebranek says. “Selling fat cattle instead of feeders changes when you get money to your banker by several months.”

Income taxes are another concern, as that transition can span across two calendar years. The solution may be found in partnerships on a pen basis, sharing a percentage of ownership. The financial compromise can let you sell enough interest in the calves to cover loan payments and split income across tax years.

Fifty-fifty is the most popular arrangement, but some feedyards will consider any percentage.

Dan Loy, Iowa State University feedlot management professor, says it’s especially useful for first-time feeders. “Partnering on a pen of cattle gives producers confidence that the feedlot is willing to share in both the risks and rewards of a retained ownership relationship,” he says.

Many feedlots also take on some banking functions, financing cattle, feed, transportation and other expenses at competitive interest rates with no payments due until finished cattle are sold, according to beef cattle specialists with CAB. Paul Dykstra and Gary Fike say these services can be necessities.

“Without the right financing scenario, it may not even be feasible to retain ownership,” Dykstra says. “But partnering is one of the surest ways to establish trust.”

Once you decide to establish that link to cattle feeding, it’s time to formulate that list and find a feedlot partner you can trust, Fike says. The first variable to consider in this formula is hard to quantify: feedyard reputation.

You can ask Extension agents, veterinarians and cattle feed nutritionists, work through feeder and rancher associations or browse the Web. You could take a more personal approach.

“Ask for recommendations from your neighbors, friends and other people with the same type of cattle and experience in feeding,” Fike suggests. “Ask about the yards and managers they are comfortable with and that have a record of consistent performance.”

Sebranek gladly provides references. “If I know someone in your area, I’ll ask my customers if they mind new customers calling them, because they want to see what their cattle can do here.”

Establish special marketing needs and exactly what you expect, Dykstra recommends. “If you age-and-source verify or raise natural animals, make sure the feedlot will capture those premiums and aggressively pursue all marketing opportunities for your cattle,” he says.

Some yards will return data on pens of cattle only; others will provide individual animal data. Make your data needs clear from the start, and get a firm commitment from the manager.

“The feedlot should be experienced in accessing carcass data, so it’s part of the normal business of the lot,” Dykstra says. “If a manager says, ‘We can sure try to get you some carcass data,’ that’s not good enough. It’s already clear he’s not sure about it.”

Feedlot performance may be of more immediate concern, Loy says.

“A feedyard must provide the services a producer thinks are important, and they have to do it in a cost-effective way,” he says. To show what they can do, feedlot managers should provide detailed performance reports, closeouts that explains yardage and feed charges, chute fees, typical medical costs and any other financial obligations. Producers should ask to see closeouts that exemplify cattle similar to their own size, type and background.

Itemized charges and fees vary from yard to yard, so don’t worry about the small things, Loy advises.

“You may be comparing different costs on kind of an apples-to-oranges basis,” he says. “Focus on comparing the bottom line and total cost of production.”

When the numbers add up, the only decision left is that first one: who can you trust? Sebranek says, “If you’re not comfortable with a feedyard, then it’s not going to work, no matter if they do a great job for you or not.”

Personal visits will convey a feeling for the feedlot’s maintenance, animal treatment and staff integrity. “We’re in the people business as well as the cattle business,” Loy says. “One thing about cattlemen is they have a sense about business relationships, and many times they just need to go with their instincts. They need to find people they trust, and if something doesn’t seem right at a feedlot, it probably isn’t.”

See sidebar:

SIDEBAR: **Sitting down with a feedyard manager**

A good feedlot manager knows his business inside and out. If you're considering a partnership or retaining ownership, it's your business to know it equally well.

"There's no need to be shy in asking questions," says beef cattle specialist Paul Dykstra, with Certified Angus Beef LLC (CAB). "Be upfront and know what you're getting in to." CAB offers questions to consider in the marketing section of its *Best Practices Manual*, available at www.cabpartners.com/bestpractices/index.php or by calling 800-225-2333. Here are a few major topics for your first sit-down with a potential partner.

- Feedlot history

Get the basics on the feedyard's background. How long have they been in business? What are the manager's goals and philosophy of feeding? What kind of cattle do they typically feed? Do they feed cattle from your area?

Feedlot manager Shelby Jones says potential customers of Ranger Feeders II LLC, Dighton, Kan., ask such questions. "They're trying to get a big picture of what goes on at this feedyard, what we do and why," he says. From issues of cattle comfort to the finer points of attention to detail, "accurate two-way communication is essential."

- Feeding process

This is the reason you're entrusting the manager with your cattle, so it better make sense. What do they feed, why, and where does it come from? Do they have emergency feeding plans for when bad weather or other disasters strike? How consistent is their feeding schedule?

"Understanding how feed is accounted for eases the mind of newcomers," Jones says. "So we usually talk about how the feed is weighed to a pen for each feeding, and how it's recorded and posted to the pen."

Rations are customized and change through the year and as your cattle progress toward finished weight, their intake constantly monitored for quantity adjustments. "Starter rations" may vary with calf type and age, and how much intake they are accustomed to, Jones says. Sharing that information can reduce digestive upsets and stress that may lead to other diseases.

- Closeouts or performance records

Managers should be happy to show you a sample closeout record, but if you don't understand what those figures mean, it's not going to do any good. Iowa State University professor Dan Loy says producers should question anything and everything on a closeout.

"Some of these questions are going to seem simple, but they're important," he says. "What were the weighing conditions? Were they full weights, were they adjusted to a standard dressing percentage at the end? Do you calculate deads as part of the cost of production or is the death loss ignored?" Ask about how the numbers on the closeout were calculated – how do they determine the number of days on feed? What's the markup on feed costs, if any? Be sure to clarify any acronyms or abbreviations you're not familiar with.

- Financial options

This is where numbers better start making sense if you're going to make this partnership work. CAB's Gary Fike, beef cattle specialist, says it's critical to know and understand all your financial options when going into business with a feedyard.

"Ask about their financing options, what interest rates are and how much equity you need to leave in," Fike says. "Given the beginning value on cattle, ask what opportunities exist to hedge them or enter into a basis contract. Asking about such risk management techniques doesn't take the risk out of the market, but it does take the unknown out of what you stand to earn or lose."

- Don't stop

Keep asking until you feel well informed in choosing the feedlot. If a manager doesn't take the time to answer all your questions thoroughly, he's probably not someone you want to do business with.

"The big deal in finding a feedlot that works for you is making sure you're going to a yard, you're talking, and you're asking questions," says Mark Sebranek, manager of Irsik and Doll Feedyard near Garden City, Kan. "I give potential customers all the time in the world – if they want to talk for three hours, we're going to talk for three hours. They're going to ask what they might feel are stupid questions, but they're not. They've got to ask all those questions to make sure they're comfortable with what we're doing."

END