

Feedlot Sessions

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The Business of Beef Feedlot Production

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Abstract

The objective of this presentation is to provide an overview of the feedlot business model so that veterinarians/production consultants can understand the complexities and challenges that exist, and use this information to identify opportunities for adding tangible value to the beef production system.

Résumé

L'objectif de cette présentation est de fournir une vue d'ensemble du modèle d'affaires des parcs d'engraissement de sorte que les médecins vétérinaires et les consultants en production puissent mieux comprendre les complexités et les défis qui existent et utiliser cette information afin d'identifier les opportunités d'accroître concrètement la valeur d'un système de production de bœuf.

Introduction

Feedlot production in North America continues to evolve from a lifestyle into a sophisticated, modern agribusiness. Feedlots have adopted modern business strategies used by successful companies in a variety of production and service sectors. This includes having clear and focused company vision and mission statements, as well as documented short-term, medium-term, and long-term goals and objectives, and success (or failure) is assessed on a regular basis using predetermined outcome measures. Business plans are developed to accomplish the stated goals and objectives of the company and include sections on competitive advantage, knowledge management, decision-making processes, production strategies, production models, and execution strategies. All stakeholder interests are considered and assessed, including: shareholders, employees, suppliers, customers, business partners, the beef industry, and the community.

The Business Processes of Feedlot Production

Although feedlot production refers to the management and feeding of cattle to a mature harvest age, weight and carcass quality, in actuality, it is the culmination of combining at least four different and sometimes unrelated channels of processes – business operations, procurement, production, and marketing, each of which is intended to produce a “finished” beef animal with targeted carcass attributes and generate positive financial results. These common goals are accomplished through coordination of specific strategies and actions related to each process.

It all starts with understanding the functionality of the feedlot business and the effect of each variable, determining margins, assessing resources, and identifying available options and opportunities to meet the goals and objectives of the company. This includes business operations, as well as procurement, production, and marketing.

“Business operations” is a catch-all term used to include many different aspects of running a feedlot business, including: physical and operational infrastructure (pens, feed mill, manure management, farming, environmental management); human resource management (organizational structure, recruiting, training, and employee development); information management (data collection systems, knowledge generation, research and development, and decision making); financial management (accounting methods, bank loans and operating lines, cash flows, risk management, tax planning, and reporting); and business planning (strategic planning, growth and development, and succession planning). As the need to manage large capital volumes in complex production systems with ever-narrowing margins continues to emerge, the utilization of properly managed science along with appropriate business decision making models becomes increasingly important.

The procurement side of things focuses on understanding the cattle markets, including pricing, supply,

and volatility. A variety of options and opportunities exist on a daily basis that require study and assessment – lighter weight vs heavier weight, calves vs yearlings, steers vs heifers, high risk vs low risk, auction purchase vs farm-direct purchase, uniformity vs non-uniformity, and one breed type vs another breed type. Data and simple or complex computer models are used to assist in the study and assessment process. Also, the downstream impacts on production, and subsequently marketing, are also included in the procurement decision making process.

The production side of things focuses on what happens when feeder cattle get to the feedlot. Production includes animal health management (disease prevention, control, and treatment); nutrition/feeds and feeding (diet composition, feeding programs, and bunk management); performance enhancement technologies (implants, feed additives, and beta agonists); and sorting/individual animal management (health management, feeding strategies, and performance enhancement). The production plan used for each group of feeder cattle considers the procurement process, as well as the intended marketing plan. External production consultants (veterinarians, animal scientists, and nutritionists) can make valuable contributions in this area.

The marketing side of things focuses on selling the finished animals. Marketing includes assessment of what the feedlot has to sell (directly affected by the procurement and production plans), who the potential buyers are, how each pricing mechanism works (live, flat rail, or grid), and when marketing will occur. Other

factors such as terms and specifications of sale, delivery dates, impact on cash flow and risk management, market timing, and feedlot occupancy are also considered. With the emergence of more specialization in consumer demands (like natural, branded, or “specialty spec”, both domestic and international, the ability to manage production to meet these new and very different market opportunities creates a greater and greater influence of marketing on the procurement and production systems required.

Conclusions

In summary, modern beef feedlot production is significantly more complex than simply buying a few feeder cattle, putting them on feed, and selling them when the time is right. The operations are complex; the opportunities are many; the factors to be considered and assessed are interdependent; and the financial stakes are high. A “one size fits all” approach to operations, procurement, production, and marketing seems efficient from the surface, but may not optimize animal production or feedlot profitability. The key for each operation lies in identification and definition of its niche and the development of strategies and execution processes to allow for sustainable stakeholder returns and future growth and development. As a veterinarian or production consultant, understanding the complexities and challenges that exist in each operation can be used to identify opportunities for adding tangible value to the beef production system.