

Future of the beef feedlot industry

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Abstract

North American feedlot practice has evolved over the last four decades to become a highly specialized form of veterinary medicine offering integrated client solutions spanning from animal health protocols to data analysis and economic modeling. Successful new and future feedlot practices will provide integrated multidisciplinary solutions to clients while seeking to create opportunities for true producer-practitioner alignment. In its purest form, this will translate to co-investment and commitment of personal capital by veterinarians and production professionals who seek to monetize intellectual property through equity participation in the feedlot production systems they service.

Key words: feedlot, compensation, alignment

Background

When I graduated from veterinary college in 1983, there were no practices in Western Canada that specialized in feedlot medicine. Feedlots received veterinary services from practitioners at the local mixed animal practice. Veterinarians were paid on a fee for service basis and usually sold pharmaceuticals to feedlots. Herd health programs and preventative medicine concepts were actively discussed but were not actually implemented. As an undergraduate, I could see that there was a significant opportunity to build a specialized feedlot practice in Western Canada if the issues associated with a traditional veterinary client relationship could be resolved in a business model where both parties had a vested interest in success. Thus, the concept of charging on a “per head day” basis emerged. In this situation, the veterinarian is paid each day based on feedlot occupancy so that revenue is not connected to “problems” such as postmortems or large numbers of sick cattle. In this model, there is an incentive for success and considerable improvement in business alignment for both the feedlot and the veterinarian. Also, the potential conflict of being both the prescriber and supplier of pharmaceuticals was resolved by creating a model whereby the feedlot was not “obligated” to purchase pharmaceuticals from the feedlot veterinarian. In addition, a data-based decision-making approach that utilized information from large pen research trials was adopted to make pharmaceutical selection decisions. These changes, which look relatively simple in retrospect, led to the development of Feedlot Health Management Services from a “one-man veterinary show” into a feedlot production consulting company with over 50 professionals and a total team of 125 people.

Significant changes in the beef industry that dramatically influenced beef cattle practice

The total number of beef cows in North America has significantly declined (Figures 1 and 2) because of lack of profitability, drought and increasing carcass weights (Figures 3 and 4).

Moreover, there has been considerable consolidation of the beef industry at all levels from the cow calf producer to the retailer (Figure 5). The number of cattle producers has declined, and the size of operations has increased (Figures 6 and 7). The beef business has transformed from “mom and pop” operations into large scale, sophisticated enterprises that are profit motivated and are achieving economies of scale by spreading fixed costs over a large number of units.

In Canada and the U.S., veterinarians are no longer the exclusive suppliers of pharmaceuticals to their beef clients. Large pharmaceutical distributors reduced the margins to the extent that only a few feedlot practices can participate in selling to their major customers. One can argue whether this is good, bad or indifferent, but the simple fact is that the loss of pharmaceutical sales has decreased the profitability of beef cattle practice.

Current situation

Feedlot veterinarians have become specialists delivering several consultative services including processing protocols, treatment protocols, data analysis, education of personnel, health management strategies, and benchmarking of animal health parameters. In most situations, the veterinarian is paid on a per diem basis. A few practices are paid on an occupancy basis.

Despite progress in improving the degree of sophistication of services to the feedlot industry, I submit that veterinarians must radically change their business models or risk greater marginalization. We must create revenue streams that result in “win/win” scenarios for the clients. Bold innovation is required, not just tinkering and repackaging “herd health” concepts. I believe that veterinary salaries clearly indicate that our “value proposition” is not very compelling. Quite simply, a doctorate degree that can only command a salary of \$88,000 per year indicates lack of demand or a severe oversupply.¹ While harder to quantify due to the myriad of specialties in human medicine, **Salary.com** reports that the average starting salary of physicians across all specialties and practice types is \$204,000 as of early 2022.³ It is amazing to me that veterinary colleges still have considerable competition for enrollment.

The AABP’s own 2016 Economic Report states, “Student educational debt has increased over the last two decades. The DVM debt was on average \$8,694.48 for veterinarians who graduated more than 40 years ago and more than \$132,500.00 for veterinarians who graduated during the last 10 years.”² More recently, the annual AVMA survey of fourth-year veterinary students reported 86.6% of male and 82.5% of female respondents would graduate with DVM-related debt in 2021. Mean debt levels for those graduates was reported at \$160,243 and \$156,503 for men and women, respectively.¹

The future

In the future, there will continue to be conventional feedlot practices that provides only animal health related services.

The second type of practice will be a multidisciplinary team of scientists and paraprofessionals that provides a comprehensive, all-inclusive service for the external consulting needs of the feedlot. Disciplines required include veterinary medicine, nutrition, meat science, epidemiology, statistical analysis, economics, accounting, information technology, engineering, legal, human resources, etc. Consolidation in the beef feedlot sector will continue, and the size and complexity of their operations will continue to grow. The inescapable fact is that these operations will hire and build their own professional infrastructure with “in-house” people unless highly specialized and sophisticated companies can be hired externally at a competitive cost.

Examples of areas that a multidisciplinary beef practice should be engaged in for feedlot clients include:

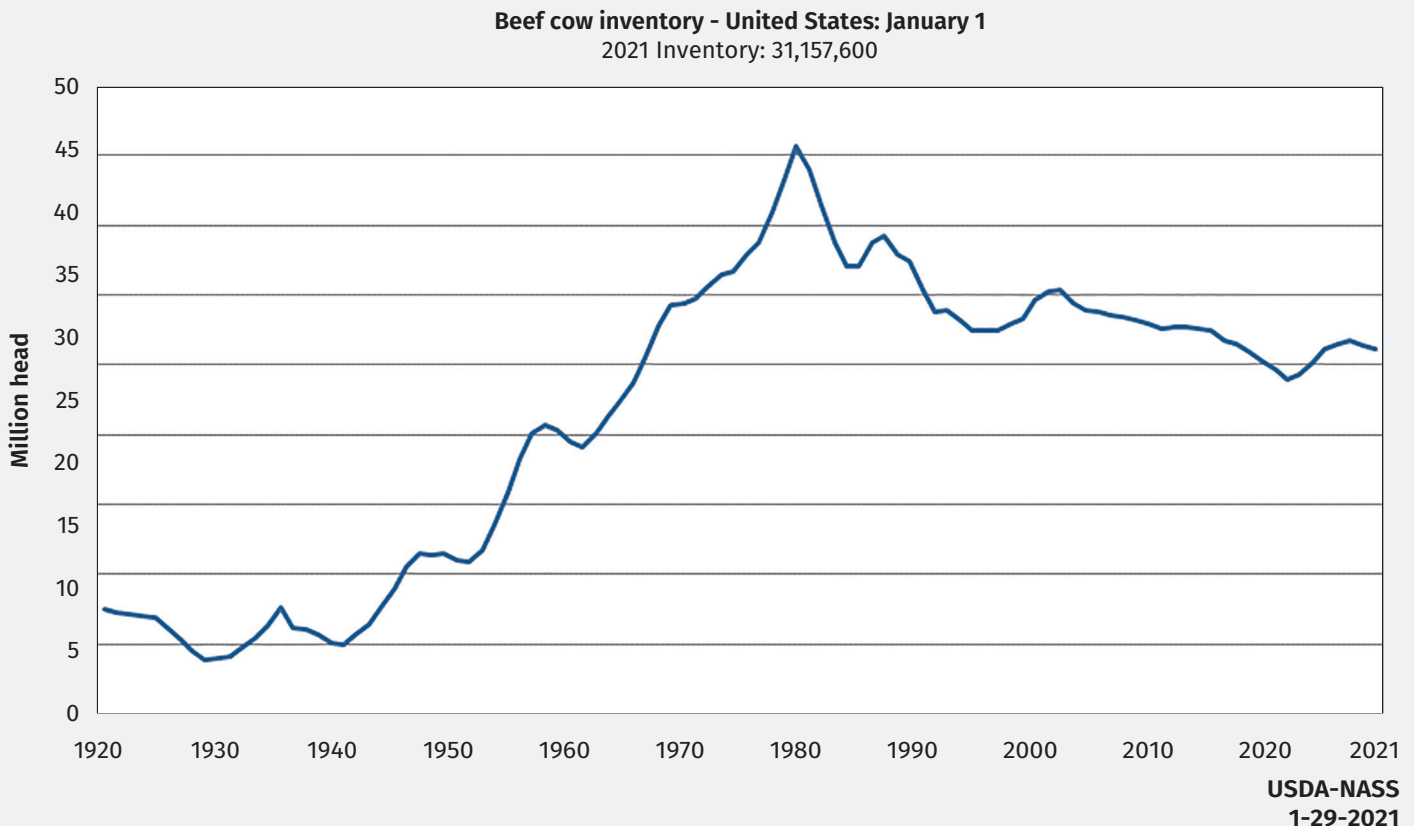
1. Provision of production software
2. Cattle procurement and marketing strategies
3. Research
4. Nutrition
5. Cattle sorting (individual animal management)
6. Environmental management
7. Animal and facility certification
8. Benchmarking of production parameters
9. Economic modeling

The third practice type will have all the capabilities of the second practice type previously described and will also be “actively engaged” in the beef industry on a large scale. These practices will be involved in ownership of cattle and facilities. With equity participation, these practices will achieve true alignment with their clients and/or partners and achieve rates of return concomitant with educational investment.

References

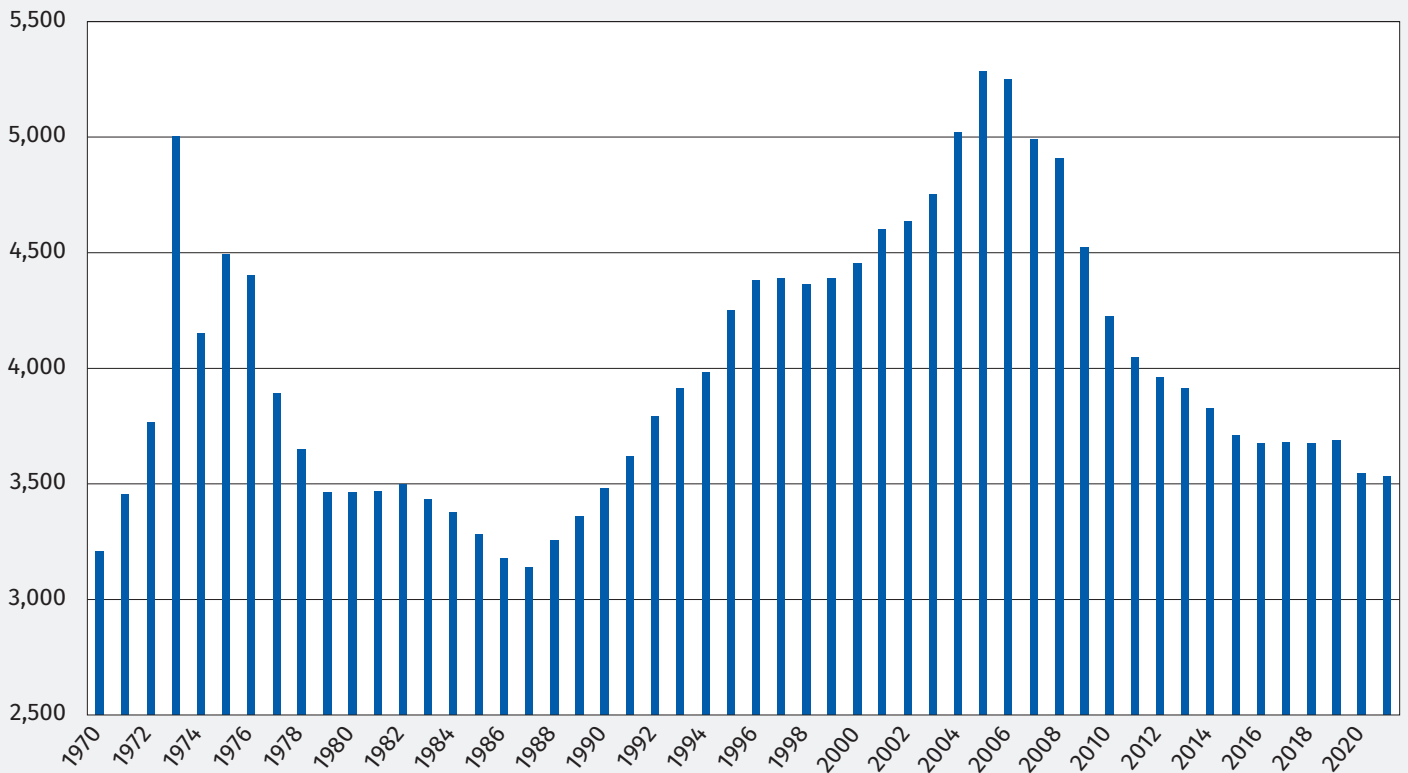
1. Bain B. Employment, starting salaries, and educational indebtedness analyzed by gender for year-2020 graduates of US veterinary medical colleges. *J Am Vet Med Assoc* 2021; 258:865-869.
2. Dicks MR, Ouedraogo FB, Knippenberg R, Dutton B. American Association of Bovine Practitioners Economic Report 2016. https://aabp.org/members/resources/AABP_Econ_Report.pdf. Accessed Feb 7, 2022.
3. Salary.com. Entry level doctor salary in the United States. <https://www.salary.com/research/salary/posting/entry-level-doctor-salary>. Accessed Feb 7, 2022.

Figure 1: Beef cow inventory – United States: January 1



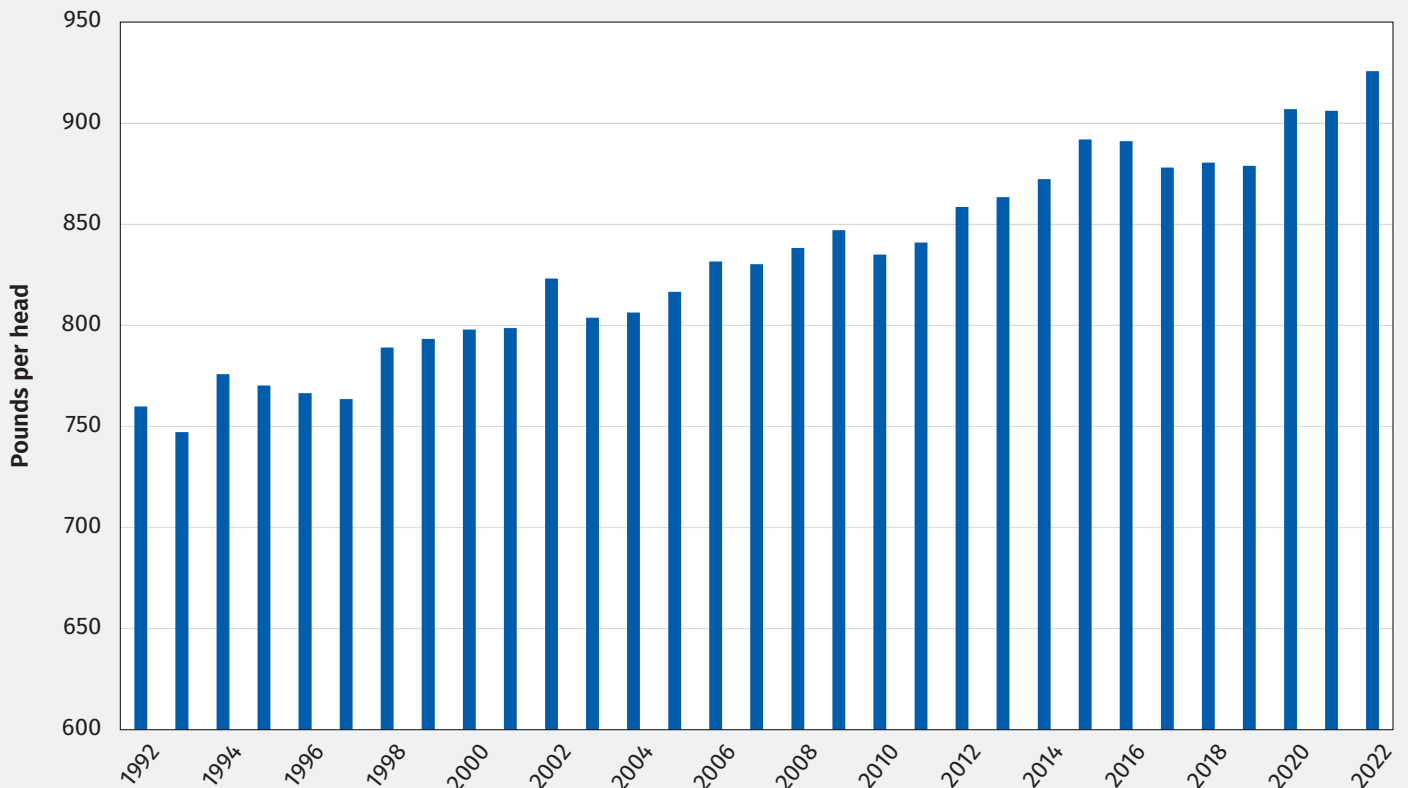
USDA – National Agriculture Statistics Service – Charts and Maps – Beef Cows: Inventory on January 1 by Year, US. Available at: https://www.nass.usda.gov/Charts_and_Maps/Cattle/bcow.php. Accessed on Feb 7, 2022.

Figure 2: Canadian beef cow inventory (January 1; x 1,000)



Statistics Canada. Table 32-10-0130-01. Number of cattle, by class and farm type (x 1,000). Available at: <https://doi.org/10.25318/3210013001-eng>. Accessed Feb 7, 2022.

Figure 3: Annual US steer carcass weights, 1992 to 2021

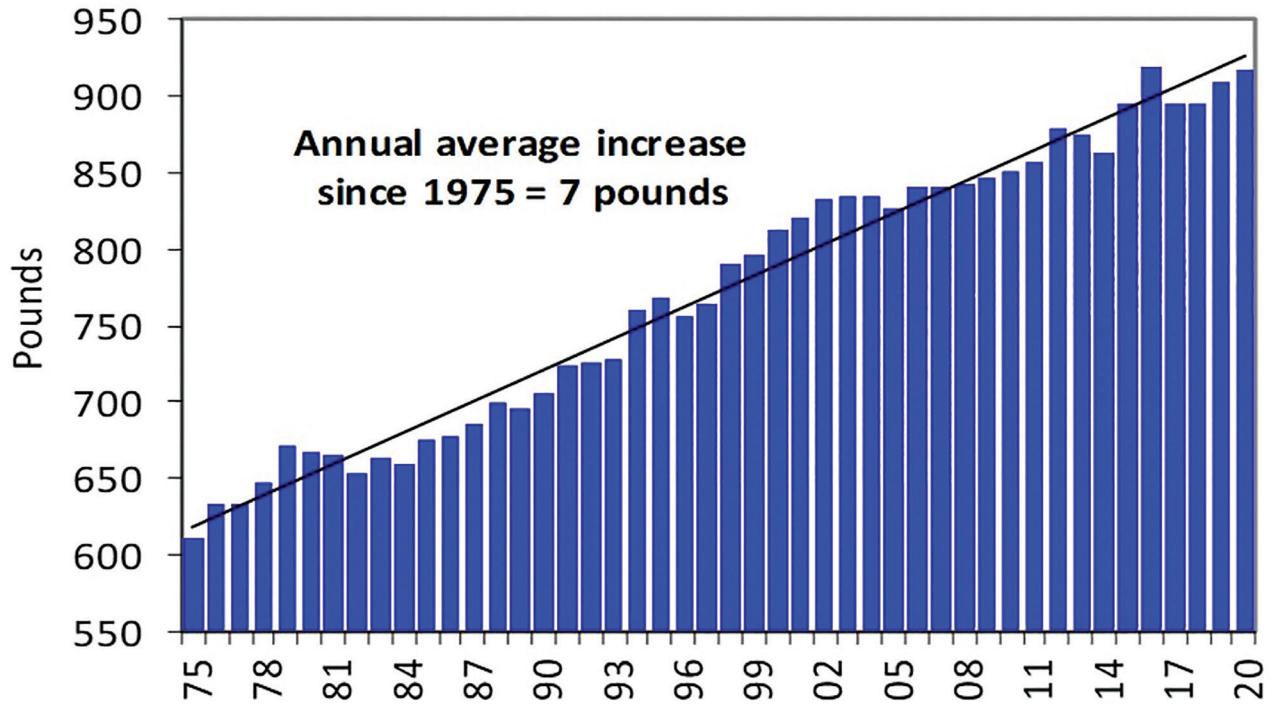


Cattlefax. US steer carcass weights. Available at: <https://www.cattlefax.com/#!/data/cattle/slaughter/steer-carcass-weight/>. Accessed Feb 7, 2022.

Figure 4: Canadian annual steer carcass weight



Canadian Annual Steer Carcass Weight



Source: CBGA

Canfax. Canadian annual steer carcass weight. Available at: <https://canfax.ca/Report/SlideShow.aspx?catalogue=FullCharts&group=Full&report=Canadian+Annual+Steer+Carcass+Weight>. Accessed Feb 7, 2022.

Figure 5: Beef industry supply chain

Beef Industry Supply Chain

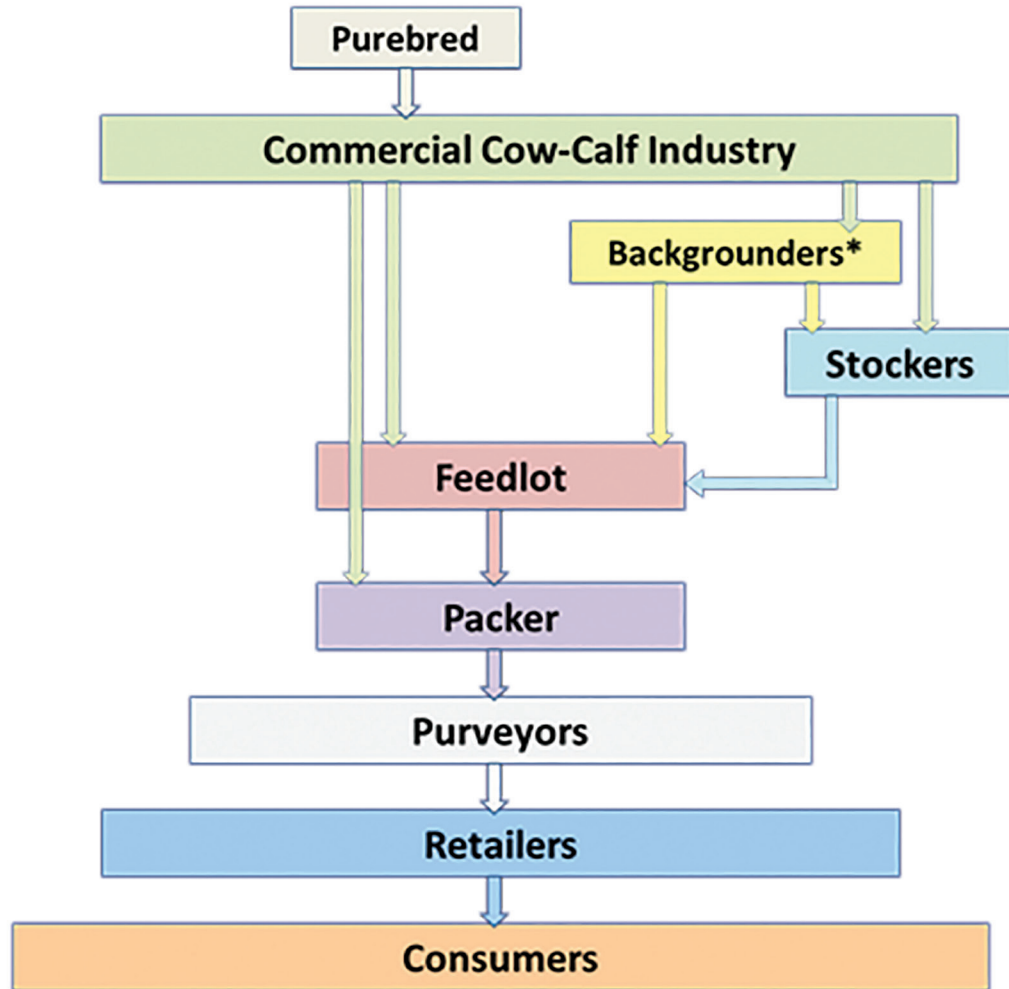
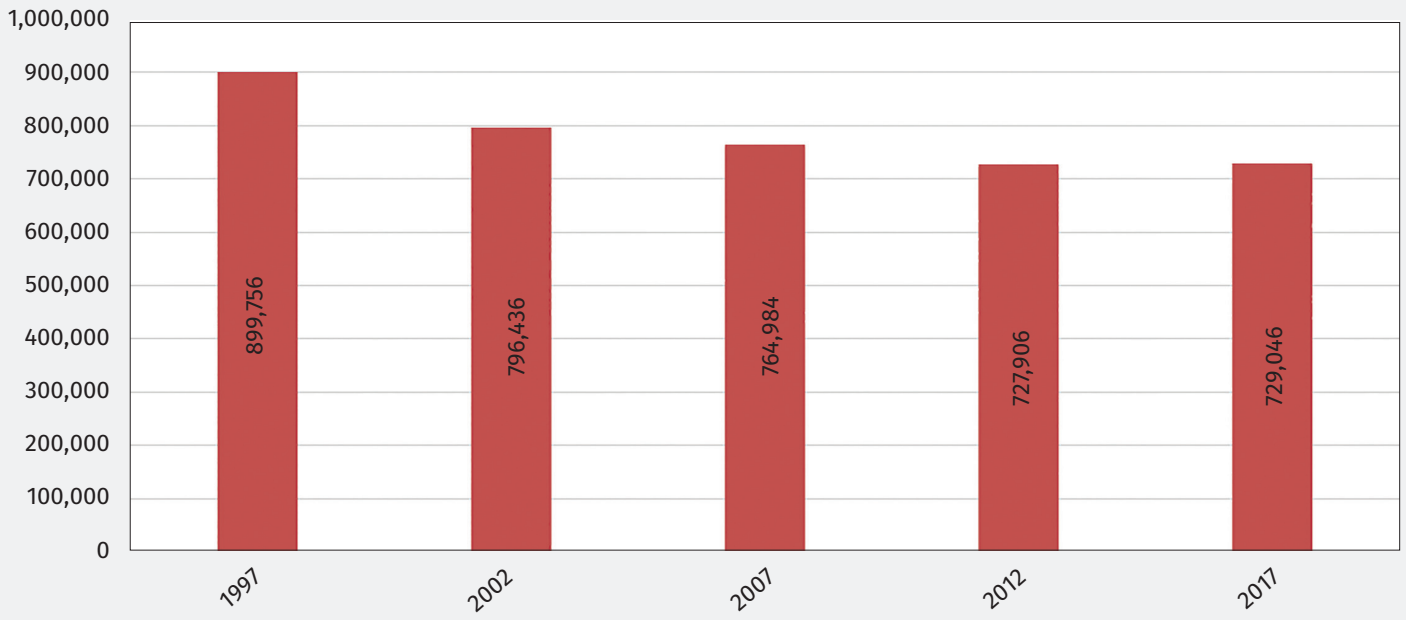


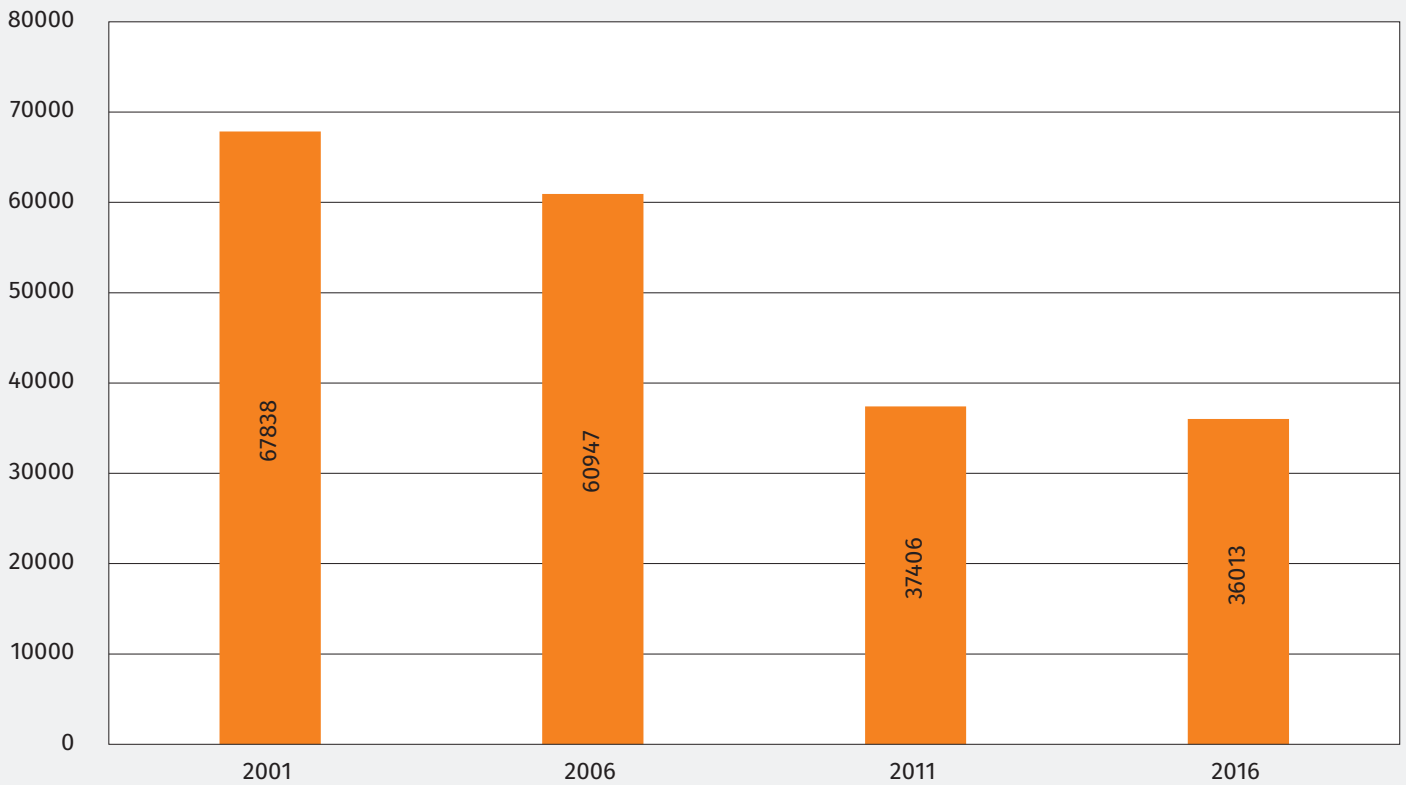
Image produced by author.

Figure 6: Number of farms reporting beef cows in USA



National Agricultural Statistics Service, United States Department of Agriculture. Census of agriculture. Available at: <https://www.nass.usda.gov/AgCensus/>. Accessed Feb 7, 2022.

Figure 7: Number of beef cattle operations in Canada



Statistics Canada. Table 32-10-0166-01 Farms classified by farm type, Census of Agriculture historical data. Available at: <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3210016601>. Accessed Feb 8, 2022.

