

# A beef producer's view of the role of bovine practitioner

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## Abstract

The beef industry has changed significantly over the past decades, and especially in the past five years. Changes in beef industry fundamentals, the broader commodity markets, and the changes in technology and information availability have altered the needs of producers to remain competitive in an ever-challenging market environment. Producers are in need of a strategic partner to assist in development of successful production strategies, manage data available to create valuable information, and to enhance execution capabilities. In short, bovine practitioners should not think of themselves as merely providers of services; a cost of doing business for the producer. Rather, the view should be of that of a strategic partner providing a high return on investment for the producer.

## Résumé

L'industrie bovine a considérablement changé au cours de la dernière décennie, particulièrement au cours des cinq dernières années. Les changements apportés aux fondements de l'industrie bovine, l'expansion de la bourse des marchandises et les changements en matière de technologie et d'accès à l'information ont transformé la nécessité pour les producteurs de demeurer concurrentiels dans un marché toujours aussi exigeant. Les producteurs ont besoin d'un partenaire stratégique qui les aide à mettre au point des stratégies de production efficaces, à gérer les données disponibles pour en tirer une information précieuse et pour améliorer leurs capacités d'exécution. Bref, les praticiens en pratique bovine ne doivent pas se percevoir uniquement comme des fournisseurs de services, soit un coût d'exploitation pour le producteur. Ils doivent plutôt se voir comme des partenaires stratégiques offrant aux producteurs un rendement élevé sur leur investissement.

## Introduction

Not many associated with the beef industry would argue with the idea that our world has changed. A sample of the key changes:

- Massive overcapacity in the feedlot industry, and to a lesser extent the packing industry.
- Increases in cost of doing business – cost of land, cattle, corn, labor, and pharmaceuticals.

- Evolution of the corn processing industry and its impact on feed costs and availability.
- Increase in volatility of all legs of the cattle crush – corn, feeders, fed cattle.
- Shrinking calf supply.
- Consolidation of the feeding industry and increasing packer-affiliated ownership.

These factors (and many others I've left out for brevity) have resulted in the business of feeding cattle being significantly more complex and risky. Unfortunately, this complexity and risk has not necessarily been offset by an increase in absolute economic returns. Research by Iowa State University shows cash-to-cash feedlot margins have been negative significantly more often (63% of months) than they have been positive from 2001 to 2010.

Economists traditionally think of commodity markets being dominated by the lowest-cost producers. The idea is that a commodity producer will maintain production so long as variable costs are being covered. We see this every day in the feedlot industry. With excess capacity, the idea is we can afford to lose a little on the cattle as long as we can keep the hotel full. In the short run this makes sense. In the long run, this is not exactly a recipe for a comfortable retirement. No longer is it simply enough to “do a good job and pinch your pennies”, as my father would say.

The economic variables that put us in this position are not changing anytime soon. So we must adapt. And this discussion is intended to present ideas about how the bovine practitioner can become a strategic partner with the beef producer to adapt the operation's business strategy in a manner that can be successful in light of this challenging economic environment.

The bovine practitioner brings to the table some important skills and experiences that many beef producers lack, or lack the time to fully exploit. I personally regard my veterinarian not as a vet in the classic sense, but a business consultant who happens to have a DVM. Therefore, I propose the following thoughts on how bovine practitioners can more effectively create value for their clients by becoming a business consultant that acts as a strategic partner.

## Holistic View of the Producers Operation

A practitioner cannot be focused on optimizing animal health alone. Nutrition and animal health are

tightly interrelated. Cost of inputs and risk management oftentimes play a bigger role in profitability than animal health. The practitioner must carefully consider the impact all other critical aspects of the producer's operation have on the ultimate profitability of the operation, and adjust the animal health program accordingly.

Ideally, the practitioner's practice would have expertise in many of these other areas. The ability to make solid recommendations on a comprehensive program including animal health protocols, nutrition programs, by-product utilization, implant programs, use of beta-agonists, and risk management strategies would provide a producer with a one-stop shop with the benefits of tight coordination amongst its advisers.

As this is not practical for most practitioners, the alternative is to engage in an open-minded dialogue with the producer's other advisers. I recommend an ongoing dialogue with the producer's other advisers to ensure alignment. An annual strategy session with the producer and all of his advisers is also recommended to ensure alignment and brainstorm further opportunities for improvement.

Ultimately, the practitioner cannot be "on an island" thinking only of optimizing animal health outcomes. Profitability relies on much more than just keeping the calves healthy.

### **Fact-Based Decision Making that Maximize Economic Returns**

The practitioner must be committed to driving decision making that results in positive economic outcomes, not outcomes that make the producer and practitioner feel good about the outcomes. And this decision making must be based on hard facts and information as much as possible.

The human brain is a very imperfect decision making tool. Our biases are ill-formed and not nearly as accurate as we believe. Phrases such as "natural intuition", "going with your gut", and "this has worked well for us in the past" often drive decision making. However, as often as not, these are inaccurate. Human nature causes us to overemphasize the positive outcomes and underemphasize the negative ones. We also have confirmation biases, where we seek out evidence that confirms our existing biases and tend to ignore evidence that counters our biases. All of this results in decision making that is suboptimal in achieving positive economic results.

It is the practitioner's role to break through this barrier of ineffective decision making. The practitioner should work to bring evidence and facts from commercial trial results ideally, and other published scientific trial work to the table to help inform decision making. Reviewing data on the producer's own operation can

be helpful as well – the producer does not necessarily remember correctly about what has worked and what hasn't. Bring as much information to the table as possible.

Another key element is the information overload facing producers today. Pharmaceutical companies are becoming ever more creative in marketing their wares. The internet, smart phones, social media and more are channeling ever more information in new formats. The practitioner can help the producer cut through the clutter by focusing attention on what is most important for the producer's specific needs and providing unbiased advice on what is relevant and what is not.

And finally, keep the ultimate decision making grounded in economics. Remember that the ultimate outcome is not to optimize animal health outcomes, or even overall production metrics, but to have the highest economic return possible.

### **Challenge with Empathy**

The customer is always right. This is probably the most widely dispensed advice on customer service that exists. And in most service businesses, this is probably solid counsel. But as a business adviser, I couldn't agree less. The role of the practitioner is to dispense unbiased advice based on an economic, fact-based decision making process. The producer didn't hire you to be a yes-man to confirm his decisions (if he did, I'd advise dropping him as a client). He needs to hear the practitioner's unbiased thoughts as though you had a financial stake in the operation yourself.

The average age of producers marches relentlessly upward. With this comes a wealth of experience. But it also comes with the development of certain biases, sometimes valid, sometimes not. And the validity of those biases evolves over time. And sometimes the underlying thought process behind the situation is accurate, but the current market dynamics have shifted so that the economics of the situation are different. For example, the value of a calf has significantly increased, making the economic consequences of morbidity and mortality nearly double what they were in years past. In the past, it may not have made sense to revaccinate or to utilize certain ancillary therapies. However, it is the practitioner's role to revisit the data and apply current economics to re-evaluate the correct economic decision. And challenge the producer to recognize that their biases no longer hold true by walking them through the data to show what has changed.

Challenge the producer, but do so with empathy and illustrate how the thinking has evolved by utilizing a strong base of facts and information.

## Execution of Strategy – the Human Element

I begin with three basic assumptions:

- Beef producers typically lack professional managerial and leadership skills
- The declining rural population is leaving us with fewer and fewer qualified technicians with strong animal husbandry skills
- As an industry with tight margins, we tend not to pay enough to attract top talent

This leaves us with a poorly skilled, poorly trained workforce being led by managers lacking in the skills to properly train and motivate their teams. We might have created a cracker-jack strategy to start calves or feed NHTC cattle, but without an effective team to execute the strategy, we will not succeed.

The practitioner should be well skilled in effective employee management. At a minimum, he should be able to identify a poorly motivated and/or trained crew and present it as an opportunity for improvement. Ideally the practitioner is able to coach the manager in this area. Further, the practitioner can play an effective role in training and educating the crew. In our operation, our practitioner acts as a liaison between management and crew to help improve communication and operational effectiveness.

To go one step further, a large percentage of producers are involved in multi-generational family businesses. Playing a role in inter-generational dynamics may often times provide as much value creation to the operation as any technical skill a practitioner can bring to the table.

### Economic Value Added Based Fee Model

Finally, the fee model for practitioners should be based on the value added to the producers operation. I find it curious that many practitioners receive outsize economic rents merely for supplying pharmaceuticals and receive only a moderate hourly fee for providing services. To me this seems backwards – is the practitioner providing value as a distributor or are they providing value as a trusted adviser? Humans respond strongly to incentives, and when incentives of the practitioner are not well aligned with the producer, it becomes difficult to achieve the strong level of trust needed to create a

true trusted partnership. For though the vast majority of practitioners would never let the rebate programs of various pharmaceutical companies impact their recommendations, even the mere perception of this influence can erode the trust between practitioner and producer.

Instead, I propose a model that allows the practitioner to be rewarded for the true value added to the operation. The value stream to the practitioner should be based on the knowledge added to the producer that enables them to enhance returns. And that is not just the hours spent on the operation, that is the additional dollars per head of returns the producer can gain due to the counsel provided by the practitioner. Ideally, my practitioner is spending 10 hours or more off-site time working on their collective clients' behalf, increasing knowledge for every hour they are on my location directly providing counsel. And the practitioner should be compensated accordingly.

### Conclusion

The economic reality of the beef industry has created a new paradigm where the needs of the beef producer have evolved. The world has gotten more complex, and managing a beef operation is more challenging everyday.

The role of the beef practitioner needs to evolve as well to better fit this new paradigm. The practitioner needs to focus on the entire operation, not just the animal health aspects. The practitioner must help the producer wade through the mountains of new information available and make fact-based decisions that maximize economic returns. The practitioner is not the producer's friend – he is a key partner that must challenge the producer constructively. In this era of ever-tighter margins and higher risk, we must keep focused on executing effectively – and the practitioner can play a key role in helping the producer maximize the effectiveness of his team.

And finally, the practitioner should be compensated based on where he is adding value to the operation. The practitioner shouldn't be viewed as another monthly expense or a markup on his pharmaceuticals, but rather as the highest return on investment that a producer can make.