Cattle Feeding Gains Real-world Focus

*by **Miranda Reiman,** Certified Angus Beef LLC*

At first glance, many feedlots across the United States look like they did decades ago with their concrete bunks, steel gates and brick offices. They were built to last. Closer inspection reveals improvements through the years: new feed trucks, computerized ration delivery, electronic identification (ID) systems. It is hard, though, to see the changes in one of the biggest variables — the feedlot customer.

David Trowbridge joined the team at Gregory Feedlot nearly 35 years ago, when all cattle in the 7,000-head Tabor, Iowa, yard were investor-owned.

"When they changed the tax laws so it wasn't quite as advantageous for doctors and lawyers to feed cattle, we decided we had to find a niche as a smaller yard," he says. "We didn't know how hard it was going to be, but we decided to get into the retained-ownership business."

After struggling to keep pens full for several years, Trowbridge says the Certified Angus Beef LLC (CAB) partner yard has built up a consistent customer base during the past 20 years.

Ron Rowan, now in customer development for Oregon-based CAB partner Beef Northwest, got his start at AgriBeef during this era of change, too.

"I remember Bob Rebholtz saying, 'A big thing is happening in the cattle-feeding industry.' The tax laws had changed and there would be a lot of outside investors coming in to buy cattle as tax shelters," Rowan recalls.

And so it went.

"The tax shelter in the late '70s and early '80s had a lot of folks investing in agriculture, like buying cattle and maybe sustaining a loss on those cattle to offset some other income," says Guido van der Hoeven, extension tax specialist with North Carolina State University.

In those days, cattle bought in the fall could be an expense tax deduction that year, often moving an investor into a lower tax bracket. When cattle were sold the next year, making money was a bonus.

"Many of them could afford to lose the money," van der Hoeven says. A feeding loss was just another tax deduction.

Tax reform

That activity came under review in the Reagan years, leading to the Tax Reform Act of 1986.

"If I wasn't the guy feeding the cattle or running an animal through a chute to give it a shot, I was just the passive investor looking to make some money on the outside," he explains. "That changed the dynamic between feedlots and who they may have marketed their services to."

Now, passive investors can only deduct losses against income earned the same way, and cattle purchases carry over as expenses in the year they are sold. Most investor feeders exited the business in the late 1980s, and another wave got out early in the last decade.

Keeling Cattle Feeders, Hereford, Texas, used to keep cattle ready for prospective customers to buy, but that "started turning a little bit in 2001 with the dot-com and stock market crashes," says owner-manager Scott Keeling.

The customer who bought a pen to feed just isn't interested in playing that game anymore, he adds.

Rowan saw the same thing at Beef Northwest, "In the early 2000s, people who did retain some ownership were saying, 'there's too much risk in this thing.'"

Keeling says, "Most of the people feeding here today are cow-calf people." That's changed the cattle as much as the customers.

"We learn to feed whatever we can get in because our revenue base is selling feed and making our customers a profit," he says. "But as I look across the yard, it's a more uniform feedlot with more quality cattle."

PHOTO BY ERIC GRANT

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Perhaps half of Keeling's customers are not in the cow-calf business, but they are certainly not the casual investors of past years.

"They are what I call 'professional feeders,' very informed and educated," he says. "And they know what they're doing."

Informed customers

Trowbridge says 85% of Gregory Feedlot pens hold retained-ownership and partner cattle now.

"You're going from customers that had very little knowledge of the industry, of performance expectations and variables you have no control over — the market, the weather — to a customer base that really has a grip on agriculture and the things that affect performance and prices," he says.

Another perk with rancher customers is the progress to be made through cooperation.

"They want to know how their cattle have done, how their genetic program is working," Trowbridge says. "We're trying to learn what they're producing so we can work together to make it better."

Beef Northwest has touted seedstock-customer alliances for a number of years.

"We provide feedback to the producers so they can increase the quality of their animals to make more money," he says. "I think the communication and the transfer of information has helped."

That wasn't a streamlined process in the investors' glory days.

Even outside of retained ownership, Rowan wants to fill his pens with "the same cattle" year after year. That helps limit the risk that was once shouldered by outside money but has increasingly transferred to the feedlot as cattle owner.

"We're trying to establish relationships with ranchers," he says. "You've got to keep raw product coming in and, whether you own it or somebody else does, if you can get quality and predictability, that's key."

Keeling says increased cattle ownership and economics have forced him "to become a better manager."

"I've had to become more detail-oriented," he says, noting capital requirements are double what they were four years ago. "I didn't used to do any [risk management] for my personal business. I figured if I bought the right animal and fed him well, I'd make my highs greater than my lows, and I'd balance out. With owning more cattle and some of the recent times we've been through, we've gone to where we manage risk on 100% of our cattle now."

The relatively high price of feeder calves, coupled with high input prices, can incentivize ranchers to sell at weaning, but Rowan says retaining ownership on the right kind of cattle has continued to pay in the past few years.

"With the Choice-Select spread going so wide last fall, the premiums are there," he says. "We're really seeing a differentiation in cattle that have added value, whether that's quality grade, source and age verification, or natural."

It still takes money to feed cattle. That won't change, but the industry seems to be investing more in itself these days — building genetics, working together and providing feedback.

These rancher-feeder partnerships show more lasting promise than any makeshift shelter ever could.

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