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A Cow-calf Producer's Guide to Custom Feeding

Reviewed by

Karl Hoppe, Extension Livestock Systems Specialist

Zac Carlson, Extension Beef Specialist

This publication focuses on items a cow-calf operator should consider before choosing a feedlot to custom feed cattle. Custom feeding refers to the practice of sending calves, stockers or yearlings to a commercial feed yard for feeding to slaughter weights.

Custom feeding is not without risks. It should be viewed as a potential means to add value to your calf crop and/or evaluate the genetic merit of your cow herd.

Every custom feedlot has specific advantages and disadvantages that you should consider before selecting a lot to feed your cattle. Feedlot location, facilities, services and management are a few of the factors you need to evaluate.



Questions to ask include:

- How many packers bid on the cattle weekly?
- Do you sell "live" or "in the beef"?
- Do you have access to grids, formula pricing arrangements, contracts or alliances for selling particular groups of cattle?

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What Services Do Commercial Feed Yards Offer?

Feeding Cattle to Slaughter Weights

Commercial feed yards are specialists in feeding cattle high-concentrate finishing rations. Rations vary from region to region, but all feed a diet high in grains or grain byproducts. However, no matter what the ration, the manager should have experience feeding high-concentrate diets to slaughter cattle. Many feedlots will use the services of private or feed industry nutritionists to formulate rations and provide technical advice on feeding management.

Financing

Many feed yards will offer their clients financing for cattle, feed and other charges. This usually is accomplished through local banks or finance companies associated with the feedlot. Your local bank also may assist in arranging financing to place your cattle on feed.

Feed usually is billed biweekly or monthly. Almost all feedlots will require you to retain 25 to 30 percent equity in the cattle. When the cattle are marketed, the feedlot will deduct charges for feed, financing, yardage and other items immediately. You then will be forwarded a check for the proceeds, provided the cattle made enough money to cover all the costs.

These financing services can ease cash flow problems because you can wait until the cattle are sold before settling the feed charges. You will be charged interest on feed and other charges you choose to finance. The interest rate is usually the prime rate plus 1 to 2 percentage points at banks familiar with cattle feeding. Interest should not accrue until you have been billed for the feed unless you choose to purchase all your feed up front as a risk protection measure.

A good rule of thumb to use when figuring interest charges on feed is to calculate the interest on the projected feed bill and divide by two. For example, if we project that the feed bill will be \$600 for a calf on feed for six months and the interest rate is 7 percent, our interest bill on the feed would be \$21 ($\$600 \times 7 \text{ percent} \div 2$).

The reason we divide the interest bill by two is that, in most cases, you only will be billed for feed every two weeks. Consequently, during the course of the feeding period, interest will accrue only on a portion of the feed bill, not the entire feed bill.

Marketing

Marketing your finished cattle is one of the most important services a commercial feed yard provides. The feed yard manager should have experience in feeding and marketing the kind and type of cattle you are sending to the feed yard. Questions to ask include:

- How many packers bid on the cattle weekly?
- Do you sell “live” or “in the beef”?
- Do you have access to grids, formula pricing arrangements, contracts or alliances for selling particular groups of cattle?

Carcass Data Collection and Management Services

Individual carcass data collection may or may not be part of the package a commercial feed yard offers its customers. Be sure to ask about getting carcass data and about any fees associated with this service.

Carcass data also can be collected through individual alliance programs. Contact the specific alliance program that you are participating in for more information. West Texas A&M University also provides carcass data collection services.

Risk Sharing

Many commercial feed yards that specialize in retained-ownership cattle will offer risk-sharing plans to customers. In these situations, the feedlot will buy a portion of the calves when they are placed in the lot. This can ease cash flow problems in addition to being a sound risk management tool.

The use of futures markets, hedging, options and other risk management programs, such as livestock risk protection (LRP) insurance, are available through many custom feedlots. In most cases, the feedlot will work with you to put a risk management program in place.

Other Services

Larger commercial yards also may offer backgrounding, growing and pasturing services for their clients in addition to strictly feeding cattle. Most commercial feedlots also work with professional nutritional consultants and veterinarians to ensure the best nutrition, management and health programs for your cattle.

Financial Considerations

Although retaining ownership and having your cattle custom fed offers the opportunity for increased profits versus simply selling at weaning, the practice is not for everyone. Cattle producers should work closely with their lender to evaluate their financial position before placing cattle on feed.

When cattle are fed to slaughter weights, marketing dates are delayed because calves are not sold directly following weaning or after backgrounding. Discussing plans you have for retained ownership with your lender well in advance of sending the cattle to the feedlot for finishing is prudent. If you traditionally market your calves at weaning, income will be delayed six to eight months until slaughter cattle are marketed.

Discuss your equity position with your banker to determine if you have the equity necessary to finish cattle. You also should evaluate your risk tolerance before retaining ownership.

Several methods exist for reducing risk, but none will guarantee a profit. Many commercial feed yards will offer or have an arrangement with a brokerage firm to provide hedging opportunities for customers who desire them.

Cattle producers who are apprehensive about placing their entire calf crop on feed or have limited financial resources should consider participating in local steer feed-outs or fill pens together with neighboring farms and ranches. Producers can consign as few as five head to some feed-out programs. This reduces risk and still allows the producer to learn how the cattle will perform in the feedlot.

Cow-calf producers should be aware of the tax implications of retaining ownership. In many cases, income and taxes are deferred for six to eight months by retaining ownership versus selling weaned calves, backgrounded calves or yearlings.

This situation is more difficult, however, when a producer has retained ownership previously and now wishes to sell weaned calves, backgrounded calves or yearlings because two calf crops will be sold in one year. The tax laws regarding income averaging may help producers through this situation. Producers should contact their tax professional to determine tax implications of retained ownership.

How Does a Commercial Feed Yard Make Money?

Just as in any other business, a commercial feed yard must make a profit to stay in business. Commercial feed yards that custom feed cattle make money by marketing feed and services. If a commercial feed yard owns the cattle it is feeding, it makes money by adding value to the cattle by feeding them to slaughter weight. If the feed yard is feeding cattle for someone else, it makes money by charging fees for the feed, services and facilities it provides.

What Type of Fees Can I Expect?

Three of the most common ways of charging for services are:

- Yardage
- Yardage plus feed markup
- Feed markup only

Yardage usually is charged on a \$/head/day basis. When only yardage is charged (no feed markup), yardage generally ranges from 35 to 45 cents/head/day. Feed then is sold at cost with this arrangement.

In feed yards that charge yardage plus feed markup, yardage charges generally run about 5 cents/head/day. Feed is sold to the customer with a markup (\$/ton) included. In yards that only charge feed markup, the markup typically runs \$30 to \$40 per ton of feed.

Be sure you understand how a particular feed yard charges for these services before placing cattle on feed.

In most cases, little difference occurs in total feed plus yardage costs, no matter which fee structure a yard utilizes. You can benefit by understanding the fee structure and charges before placing cattle.

Example of costs in feedlots that charge yardage vs. yardage plus feed markup

Assumptions

- Initial weight = 600 pounds
- Slaughter weight = 1,350 pounds
- Average daily gain = 3.75 pounds per day
- Feed conversion = 5.8 pounds of feed per pound of gain
- **Feedlot A**
 - Yardage charges = 40cents/head/day
 - No feed markup (ration cost = \$150/ton or 7.5 cents/pound)
- **Feedlot B**
 - Yardage charges = 5 cents/head/day
 - Feed markup = \$35/ton
(ration cost = \$185/ton or 9.25 cents/pound)
- **Feedlot C**
 - No yardage charges
 - Feed markup = \$40/ton
(ration cost = \$190/ton or 9.5 cents/pound)

Our steer in this example will consume 4,350 pounds of feed (750 pounds of gain x 5.8 pounds of feed/pound of gain) and will be on feed for 200 days in all three feedlots.

Costs for Feedlot A

- Yardage charges = \$80 (200 days x 40 cents/head/day)
- Feed charges = \$326.25 (4,350 pounds x 7.5 cents/pound)
- Total feed and yardage cost = \$406.25 (\$80 + \$326.25)

Costs for Feedlot B

- Yardage charges = \$10 (5 cents/head/day x 200 days)
- Feed charges = \$402.38 (4,350 pounds x 9.25 cents/pound)
- Total feed and yardage charge = \$412.38 (\$10 + \$402.38)

Costs for Feedlot C

- Yardage charges = \$0 (no yardage charge)
- Feed charges = \$413.25 (4,350 pounds x 9.5 cents/pound)
- Total feed and yardage charge = \$413.25 (\$0 + \$413.25)

Feedlots have no right or wrong way to charge for feed and yardage. The feedlot manager or owner is responsible for deciding what type of fee structure to use.

In this example, minimal differences occur among the three feedlots on total feed and yardage charges. This is not always the case. Take the time to do the calculations yourself when comparing different feedlots.

Other Fees and Charges

Others fees include medicine, vaccine, implants, processing and chute usage charges, and other miscellaneous fees. In some cases, feedlots mark up vaccines, medicine and implants, as well as feed. Ask about other fees before placing cattle so you have no surprises.

Generally, producers pay charges for processing the cattle on arrival and chute usage charges (on a per-head basis) when the cattle are worked through the chute. Some lots also charge special fees for use of hospital pens when cattle are sick.

Selecting Cattle for Feeding

Sorting Cattle

One of the keys to successful feeding is to start with a pen of cattle that are uniform in weight, body type, age, breeding and previous nutritional management. When a pen of cattle is as similar as possible, the feedlot manager has an easier time feeding the cattle to an optimum endpoint. Sorting should result in fewer discounts based on quality and yield grades, and carcass weight specifications if animals are sold on a carcass basis. Steers or heifers can be fed, but they usually are fed separately.

Most ranches will have light, medium and heavy calves at weaning simply due to the nature of calving distribution and herd genetics. In larger herds, the heavy end of the calves can be sorted off and sent to a feed yard for finishing following weaning. The medium-weight group can be backgrounded and sent at a later date, and the light-weight group can be wintered and run as yearlings, or the two lighter-weight groups can be sold at weaning to provide needed income.

Effect of Calf Health on Feedlot Performance

Healthy calves obviously are worth more than sick calves. Healthy calves have lower death loss, lower cost of gain and higher net returns. Implementing a high-quality nutrition and vaccination program preweaning will pay dividends in a retained ownership program with less sickness and lower death loss.

Minimum Pen Size

Cow-calf operations with fewer than 100 head of cows may find that filling a pen is difficult at most commercial feed yards. Ask the manager the minimum pen size required for feeding at a particular lot. Large feed yards prefer to work with “pot-load” pen sizes or larger. A “pot-load” lot for 500-pound calves would be approximately 80 to 85 head. However, a number of feedlots will feed 25- to 30-head pens.

How Do I Find a Feedlot That Will Work For Me?

Identifying Potential Feedlots

Ask friends or neighbors who have retained ownership for references at lots where they have fed cattle. Ask the feedlot manager for names of customers who have fed cattle recently. Be sure to call those references and ask them about the service they received. Your local veterinarian or Extension personnel also may be able to refer you to a reputable feeder. State or local cattlemen or cattle feeder organizations may be able to provide you with lists of custom cattle feeders in a particular area as well.

Selecting a Feedlot

Once you have narrowed your selection to a couple of feed yards, call the managers and visit with them, or better yet, visit the feedlot. Observe the condition of the pens, facilities and cattle on feed. Neat, clean facilities indicate pride in the feedlot on the part of the owner, manager and employees.

Observe the daily operations at the lot. Do you see stale feed in the bunks? Do the employees appear to take pride in feeding and caring for the cattle? Are muddy conditions prevalent? Does the feedlot use mounds, concrete aprons or underground drainage to control mud problems?

Invest time up front “interviewing” the manager and asking questions. Be sure you understand the fees and charges as well as the services you will receive. Ask yourself if you will feel comfortable with the manager and the feedlot’s crew caring for your cattle for three to seven months. If you don’t feel comfortable with the manager, the lot is probably not the place for you. How accessible is the manager or assistant manager? If you need to reach a person with authority at the feedlot, can you do it?

If you have concerns about the financial condition of a particular feedlot, have your banker call the feedlot’s banker. Your banker may gain insight into possible financial problems at that feedlot and help you avoid problems with a lot that is in poor financial condition.

When You Have Cattle on Feed

Maintain periodic contact with the manager and discuss any problems openly. If time permits, visit the lot once or twice to see your cattle while on feed. Remember to inform your lender about the feeding conditions, performance, market outlook and projected marketing date of the cattle. Don’t call or visit the lot daily. Allow managers to do their job.

Summary

A successful custom feeding program involves an investment of time from you before cattle are placed on feed. Do your homework and take the time to check out potential feedlots thoroughly. A high degree of trust between the cattle owner and feedlot manager is necessary to ensure successful long-term feeding arrangements.

Worksheet for Projecting Cost of Gain and Breakeven Price

	Example Projection	Your Projection
1. Beginning cattle weight (shrunk weight)	600 pounds	_____
2. Estimated cattle value at feedlot entry <i>(line 1 x estimated feeder calf price of \$170/hundredweight [cwt])</i>	\$1,020	_____
3. Finished cattle weight	1,350 pounds	_____
4. Total gain <i>(line 2 – line 1)</i>	750 pounds	_____
5. Estimated daily gain	3.75 pounds/day	_____
6. Estimated days on feed <i>(line 4 ÷ line 5)</i>	200 days	_____
7. Projected feed efficiency <i>(feed:gain)</i>	5.8	_____
8. Total feed intake <i>(line 4 x line 7)</i>	4,350 pounds	_____
9. Feed cost <i>(75 cents/pound or \$150/ton)</i>	\$326.25	_____
10. Daily yardage charge	40 cents/head/day	_____
11. Total yardage charges <i>(line 6 x line 10)</i>	\$80.00	_____
12. Vet/chute/misc. charges	\$25.00	_____
13. Death loss <i>(1 percent of initial value)</i>	\$10.20	_____
14. Trucking <i>(include charges for feeder calves and slaughter cattle)</i>	\$30.00	_____
15. Interest on feedlot charges <i>(line 9 + line 11 + line 12) ÷ 2 x (200/365 days) x 4 percent APR</i>	\$4.73	_____
16. Interest on feeder calf <i>line 2 x (200/365 days) x 4 percent APR</i>	\$22.36	_____
17. Total feedlot cost <i>(add lines 9, 11, 12, 13, 14, 15, 16)</i>	\$498.54	_____
18. Cost of gain <i>(line 17 ÷ line 4)</i>	\$66.47/cwt	_____
19. Estimated breakeven <i>(line 2 + line 17) ÷ line 3</i>	\$112.48/cwt	_____

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*This publication was originally authored by
Greg Lardy, Department Head, NDSU Animal Sciences Department*

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