

## The Future of Feedlots

*Marc Roth, M.S., P.A.S.*

### [Feedlot Magazine](#)

For those old enough to remember watching the integration of the broiler industry, followed by the integration of the swine industry, you'll also remember that the conventional wisdom was that "it can't happen in cattle." Perhaps the most compelling reason offered was the enormous land requirement to support the calf factory.

The capital and management required to become a mega calf producer seemed simply overwhelming. Additionally, the grain companies who were some of the early large-scale feeders were quite conscious about their grain farmer customers perceiving them as competitors for land. Aside from these obstacles there was the matter of economics. Through most of the last four decades, calves were available for less money than a start-up venture could produce them for, little has changed on the cow-calf side. Production units have gotten a bit larger, genetics have gotten a little better, management has improved; but a large amount of land is still required to raise many calves. However, we see more and more of these calves contracted by feeders. Some of these contracts are being extended to multi-year arrangements creating situations where the ranch is essentially a contract producer for the feeder.

The feeding sector has seen more change. Production units have gotten much larger and very large feeding companies have evolved. These companies own and operate multiple yards and own most of the cattle going through them. Why has the change been so much more dramatic in the feeding sector? There are tremendous leaps in yard operating efficiency as they get larger. With adequate land and water and with no design flaws (poor long-range planning) one might expect to see numbers similar to these- At 30,000 capacity a yard might operate for \$.30/hd/day. Expand that yard to 60,000 and it might operate for \$.25/hd/day. That means that the 25,000 addition is operating for \$.17/hd/day or slightly more than half of what the 30,000-head size cost.

Expand the 50,000 head yard to 100,000 and it will operate for \$.20/hd/day meaning that the 50,000 head of added capacity has an operating cost of \$.15/hd/day. Expand the 100,000 to 150,000 and operate for \$.16/hd/day, meaning that the last 50,000 head has operating costs of less than a dime/hd/day. When you consider that the yard is collecting a gross margin of \$.35/hd/day, then the last 50,000 head is generating \$.25/hd/day of net margin or \$45/hd on a 180-day feeding period. The economics of expanding yards are compelling and thus we've seen a tremendous increase in bunk space.

The crunch comes because the yard has to be full to capture that incremental margin - the incremental margin is so large that you'll buy cattle that will lose a little money to stay full and the small yard or investor feeder gets squeezed out due to overpriced feeder cattle. This describes the feeding sector today. In 1981, an executive of one of the nation's leading cattle feeding companies stated that a 30,000 head yard was the optimum size and

that 50,000 DUU head yard could never achieve the same efficiency, Today that same company's smallest feedyard is about 75,000 head of capacity.

We do see direct vertical integration of the feedyard and processing sector with companies like Cargill and Smithfield and by arrangement with others such as Tyson and U.S.P.B. We see the feeding sector working so hard to drive down costs that there's little incentive for the processor to enter that arena. What we have a large scale highly efficient, low margin operators supplying the processing sector, Time will tell if further vertical integration takes place in the industry. •