Stocker-Feedlot Dynamics: How Is It Changing?

Dave Latta
Pratt Feeders • Pratt, KS
Tri-State Stocker Conference
Abingdon, VA • August 7, 2008
Been in the cattle business all my life
Been in the cattle business all my life

Seen a lot of changes over all those years
Been in the cattle business all my life

Seen a lot of changes over all those years

Been against most all of ‘em
Change is Inevitable
Change is Inevitable
Adaptation and survival… are optional.
Pratt Feeders, LLC
Commercial Cattle Feeding

- Pratt Feeders, Pratt, KS
- Ashland Feeders, Ashland, KS
- Hays Feeders, Hays, KS
- Buffalo Feeders, Buffalo, OK
- www.prattfeeders.com
Major changes are currently affecting the stocker cattle and cattle feeding industries.

Our survival depends on our ability to adapt to these changes.
Energy Costs

- Transportation
  - Freight to feedyards
  - Freight to packers
  - Basis on cattle & grains

- Production Costs
  - Feed processing
  - Crop inputs
Commodity Prices

- Grain costs and impact on Cost of Gain
  - COG demands efficient cattle

- Impact of grain costs on roughages
  - No cheap feedstuffs

- Ethanol Industry
  - Competition for Grains
  - Impact of feeding byproducts
Commodity Prices

- Role of FUNDS in commodity markets
  - The 800# Gorilla

- Potential shifts in government policy
  - Pressured by perceived food inflation
Increased Volatility

While these factors are redefining the rules, they have also created unprecedented volatility in the markets.
SEASONAL BASIS for SOUTHWEST KANSAS STEERS minus OCTOBER LIVE CATTLE FUTURES

Chart by CattleHedging.com

Managing Your BASIS is Managing Your EQUITY!

- SBY's average +$3.50 cwt.
- 1970-current year average +$1.00 cwt.
- WBY's average -$1.75 cwt.

DOLLARS per CWT.

WEEK ENDING 2007-08

CattleHedging.com 866-HEDGE-11

7/21/2008 BASIS
AUGUST FORWARD CONTRACTS

Chart by CattleHedging.com

Weighted Avg Basis
$1.30

2008

2007

HEAD

HEAD

200,000
190,000
180,000
170,000
160,000
150,000
140,000
130,000
120,000
110,000
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0

9-Sep
23-Sep
7-Oct
21-Oct
4-Nov
18-Nov
2-Dec
16-Dec
30-Dec
13-Jan
27-Jan
10-Feb
24-Feb
9-Mar
23-Mar
6-Apr
20-Apr
4-May
18-May
1-Jun
15-Jun
13-Jul
27-Jul
10-Aug
24-Aug

WEEK ENDING 2007-08

5 YEAR AVERAGE

Packer Owned, Formula & Contracts.xls

CattleHedging.com  866-HEDGE-11

7/23/2008  PACKER PRICES
Freight VS COG (feed costs)

How does the current cost/price squeeze affect the weight at which it is most economical to place feeder cattle?
Freight VS COG (feed costs)

Assumptions:
- 7.25 Bushel Corn
- Dry Matter Conversions
- 6.0 on 600# Steer
- 6.4 on 900# Steer

Per Rand McNally, Abingdon, VA to Pratt, KS is 1135 miles

Assuming freight is $4.00 per mile with 50,000# loads, freight will be about $9.00 per cwt.
## Comparison Calculations: Background & Graze vs Direct to Feed

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The market is telling us to put more pounds on cattle outside of the feedyard.

If you are a retained ownership stocker operator/ cattle feeder, you can put on pounds cheaper outside the feedyard.

If you are buying feeders to place on feed, you can buy the weight cheaper than you can produce it in the feedyard.
How many pounds can we generate --- at what cost

Feed Efficiency
Feed Efficiency (Dry Matter Conversion) Drives the Bus

Consider the same cattle, using the same assumptions, With $7.25 corn, but improving the DMC by .3 lb.

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Communication

What is the market telling us?

- Hear what is said.
- Understand what is meant.
- Take appropriate action.
What we produce will be treated and priced as a commodity until it is differentiated into a product.
The most successful man in life is the man who has the best information.

Benjamin Disraeli
Your Calf Is Somebody Else’s Investment
What represents value to the commercial cattle feeder?

What can the producer do to differentiate his product?
“Ranchers ask someone to invest in their calves each year.”
Information generally provided when selling calves:

1. How many.
2. Weight.
3. Age.
4. Color
5. Asking price.
6. Weighing conditions.

This information is usually sufficient to establish a commodity price at the current market.
Marketing Options

- Sale Barn
- Video Auction
- Ranch Direct
- Retained Ownership
  - Partnership
The CEO
...we understand that only by creating opportunities for our customers and clients do we create opportunities for ourselves.

- Kenneth Lewis, CEO
Critical to develop relationships
The Investor

- The cattle feeder
  - Writes the checks
The Investor

What would you like to know about the calves?
Ranch Prospectus

Section 1  Demographics
Section 2  Genetics
Section 3  Immune System
Section 4  Cattle Handling
Section 5  Consistency
Uniformity
All Investors

- Performance History
  - ADG
  - FE
  - In weight
  - Out weight
  - DOF
All Investors

- Health History/Nutrition History
  - Pre weaning vaccinations
  - Vaccination program of cows
  - Mineral program
  - Range conditions
All Investors

- Handle cattle quietly — nervous cattle don’t feed well.
The commercial producer must have information on:

- Economic performance
- Carcass merit
- Genetic predictability
Getting the Data

- Establish Relationships
- Partner with Feeder
- Retain Ownership
Match Cattle to the Specs

Think Distribution ~ Not Averages

- Avoid Extremes
- Sort to Minimize Outliers
- Identify Grid that Fits Your Cattle

Daryl Tatum  Colorado State University
“Pay me for it and I will do it.”

The biggest bluff in the cattle business
“Pay me for it and I will do it.”

“...not one out of 100 producers has the data to get there.”
What we are going to do:

- Know our strengths
  - Capitalize on them

- Know our weakness
  - Seek input

- Think of those input resources as your board of directors
Board of Directors

1. University/Extension Specialists
2. Breed Associations
3. Seed Stock Providers
4. Nutritionist
5. Consulting Veterinarian
6. Feedyard Manager
7. Other Producers
8. Banker/Accountant/Economists
9. Internet
“None of us is as good as all of us.”
The dimmest ink is better than the best memory.

Old Chinese Proverb
QSA  Quality Systems Assessment

- Maintain records that may qualify calves for premium programs, such as QSA for export to Japan.

- Records and identification are critical to provide documentation for other programs such as all natural, breed programs, etc.
Produce healthy calves that gain fast and efficiently resulting in carcasses of:
  - high cut-ability
  - appropriate weight
  - appropriate marbling and tenderness
  - fit the market segments
Sire Selection

The fastest way to get genetic change in a herd
What we are going to do

Build Immunity
Does NOT Equal Immunity
What we are going to do

Follow

BQA Guidelines
What we are going to do

What is best for your cattle.

Attention to detail.
Opportunities for Pratt Feeders and the producer.

- Pratt Feeders is a buyer of feeder cattle.
- Pratt Feeders is a custom cattle feeder that can provide feeding services to the retained ownership customer.
- Pratt Feeders may enter into joint venture cattle feeding agreements with producers.
- Pratt Feeders is in a position to seek marketing opportunities for finished cattle that may differentiate themselves in the market.
Six Steps to Success

1. Face reality as it is; not as it was
2. Be candid with everyone
3. Do things right; do right things
4. Change before you have to
5. If you don’t have a competitive advantage—don’t compete
6. Control your own destiny or someone else will

Jack Welch, CEO, GE
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