The Business of Feeding Cattle with Partnerships and Other Enterprise Structures

V.L. Anderson and K.F. Hoppe

Introduction

Cattle feeding is an opportunity for 1) grain farmers to capture more value from their commodities, 2) cattlemen to profit from the genetics in their herds, and 3) investors to profit from opportunities not seized by others. This paper describes some organizations that combine resources and approaches for individuals to feed cattle with minimum risk and maximum return.

Partnerships

Partnerships can form when two or more people agree on a common vision and develop a business plan with clearly stated goals and operating methods. Some legal advice is required to file the partnership forms and maintain the organization as a business according to state laws. Several partnership structures can be organized in ND. Limited liability partnerships (LLPs) are true partnerships best suited for a small numbers of partners where each individual investor/partner has to agree on each decision. The limited liability, limited partnerships (LLLPs) can be legally operated by a managing board. There is no restriction on "farming" status of investors in either partnership type. The limited liability term means partners are liable only for their level of participation if the business does not succeed.

Partnerships subscribe to the rule of thumb "co-mingle investment dollars, but not cattle on feed." Successful examples of this rule are demonstrated in two investor partnerships currently feeding cattle in the area. Rockford Feeders, LLP has been feeding cattle for three years and the ND Barley Feeders, LLLP initiated feeding early in 2001. Both of these partnerships are successful to date but some pointed lessons have been learned.

They are 1) protect your market position with hedges and options, secure modest profits vs. gambling on a windfall, 2) focus your solicitations on small groups or individuals with a common vision, 3) purchase cattle and feed at market prices, sharing the net returns with all partners.

The major advantage of partnerships is the combining of modest resources from a number of individuals to operate on an economical scale, feed cattle using best management practices, spread purchases and marketing over time, and use professional risk management tools.

Cooperatives for Feeding

Cooperatives are formed for specific purposes. The Central Dakota Cattle Feeders Association was developed to finance cattle for coop members. Each member feeds his/her own cattle with his/her own feeds. With cumulative numbers, the cooperative offers lenders security that leads to increased leverage, modest interest rates, and lower equity per head required.

Cooperative feedlots owned by cattlemen, like Dakota Prairie Beef at Gascoyne, ND, provide another method of cattle feeding. Instead of building on-farm feedlots, the producers create a central feedyard that employs professional management with economies of scale. Since the producers own the feedlot, they share in the custom feeding profits via a dividend and equity accumulation. The cooperative charges member feeders for feed and yardage as any commercial yard. Yards that require members to fill pens or pen spaces to maintain cattle numbers may not be as efficient as totally custom operated, cooperatively-owned yards. Yardage may be charged for contracted animal numbers for the period of time regardless of actual cattle in the pen. In this case, the responsibility for filling the pen falls with the cooperative member.

Retained Ownership
Cow/calf producers can feed their own calves at home or at a commercial yard. When they feed at home, with home grown feed, upfront loans may be secured for all but $35 equity per head plus personal guarantees. In this case, a producer would do breakeven calculations, plan rations and feeding management, and market the steers. Help is available from a variety of sources including NDSU livestock specialists to plan or review on-farm feeding operations. Feeding at a commercial yard would increase the equity requirement to $125 per head, but many commercial yards provide breakeven calculations, use professionally developed rations, feeding according to best management practices and offer marketing advice and services.

Investor Feeder
Individuals with the capital, interest, and risk tolerance may invest in a single lot or in multiple lots of cattle at commercial yard(s). Managing marketing risk is the major challenge as the price of a hedge or put weighs against profit potential from cash sales. On the other hand, a volatile cash market can be fiscally stressful if the market turns adverse. Individuals who do this are encouraged to become knowledgeable in the use of futures and options.

Developing the Feeding Industry
A major limitation to feeding more cattle in ND is the amount of pen space. More feedlots are needed to capture the value of grain and/or cattle. Following are steps to consider in developing new feedlots.

Formulate a business plan, company structure, and roles of partners/members, managers and employees. Address regulatory requirements for environmental compliance including runoff containment, water sources, slope, soil type, pen space, surface and ground water, recycling nutrients, and others. Estimate construction costs based on amount of earth to move, buildings needed, pens and bunks, and other facilities. Develop an estimate of initial cash outlay and monthly cash flow for your lender. A sound business plan will use conservative numbers and give your lender confidence that your proposal is potentially profitable.