

05/26/2002 Entry: "Partnership With Packer Means Some Lonely Days For Feeder"

By Colleen Schreiber

LARNED, Kan. – Lee Borck doesn't mince words. He's known for being a straight talker and one who doesn't mind standing apart from the majority, even if for a time it means standing alone.

Borck is president and managing partner of Ward Feed Yard. Back in the early 1990s Ward Feed Yard joined forces with several other Central Kansas feedyards to form the Beef Marketing Group Cooperative. Part of Beef Marketing Group's plan involved a marketing arrangement with IBP whereby cattle were sold to IBP on a value-based formula based off the "practical Kansas top."

The arrangement made with IBP was no different, really, than the one that Cactus or National Farms made with IBP, but the Beef Marketing Group was the first whereby a group of feedyards under different ownership came together.

"We formed this group because we felt like to compete in the future, we had to get larger. We could either do it through capital or through cooperation. We chose cooperation. We took a negative and joined together to make a positive," Borck comments.

That, however, was not the viewpoint of some in the industry. Though BMG had other arrangements with feedstuff suppliers and animal health suppliers (their volume, in essence, allowed them to get better deals), it was the marketing arrangement with IBP which stirred so much controversy in the industry. That controversy led to a battle in the courts in which, at the request of some beef producers, USDA's Packers and Stockyards Administration sued IBP.

The suit alleged that IBP gave "preferential treatment" to a group of Central Kansas feedyards, i.e. Beef Marketing Group. Those who opposed the arrangement dubbed the group the "Cartel."

"Essentially what P&S said was that IBP was paying us too much money for our cattle," Borck says. "Now, isn't that a hell of a note? That's my job, that's what I'm supposed to do. I'm supposed to try and get more money for my customers' cattle."

It was a long, drawn-out court case, several years in the making, but in the end, Judge William G. Jenson, USDA's top judicial officer, ruled that "IBP's failure to offer the same terms...to other feedlots in Kansas is a discriminatory practice that gives members of the pact a competitive advantage."

The judge stopped short, however, of prohibiting IBP from entering into preferential marketing agreements entirely, and it did not order the packer to offer the same prices to all of its suppliers. Thus, Beef Marketing Group continued.

"Our relationship with IBP is as a partner, not an adversary. Those on the outside don't understand that kind of relationship.

"At one time we had four packers buying cattle out of this yard. Now we only use one. Am I afraid of that? I'm not, because we're partners. This is a business agreement. We're trading millions of dollars of cattle every week back and forth. We trust them to do the right job in the packing plant and they trust us to do the right job out here in the country. Do we always get it done? No, we all make some mistakes."

Today BMG has 13 member yards and seven owners. Total one-time capacity stands at about 225,000 head, Borck says. About three years ago, BMG became a formal cooperative, primarily to provide the trade allowances granted under the Capper-Volstad Act.

Ward Feed Yard was one of 10 stops that students in the TCU Ranch Management program made during their annual Oklahoma-Kansas field trip study tour. They've been coming to this particular feedyard for about 20 years now.

The week-long tour, which started in Western Oklahoma and traversed across to the Flint Hills of Kansas and down through the Osage and Arbuckle Mountain areas of Oklahoma, gives students a chance to see and learn firsthand about key enterprises in the beef industry. Other stops included the USDA Southern Great Plains Field Station at Woodward, Iowa Beef Processors at Emporia, and more than half a dozen ranching operations.

Ward Feed Yard was started in 1962 by Wayne Ward. He operated the 10,000-head one-time capacity feedyard until 1978, when Borck and partners bought him out. The yard has grown appreciably since that time. Today the 30,000-head one-time capacity feedyard is operated under a management company called Innovative Livestock Services. ILS is owned by Great Bend Feeding Inc. of Great Bend, Kansas, which is owned by the Roger Murphy family and Ward Feed Yard.

"They (Murphy family) own their yard; we own our yard individually, and then we own three feedyards together," Ward explains.

The three yards owned together are Cheyenne County Feed Yard at St. Francis, Kansas; Roberts Cattle Co. at Lexington, Nebraska; and Lewis Feedyard at Kearney, Nebraska. All total, ILS has approximately a 90,000-head, one-time capacity.

Each of the yards has its own individual manager, but all operate with a Turn-key software system, so that the operational structure is consistent throughout the five feedyards.

Chris Burris is general manager at the Larned yard. He has been here for eight years and is one of 43 employees. Borck says he's proud of the fact that many of their top employees are young professionals in their late 20s and early 30s.

"We like young people around here and we give them responsibility," Borck says.

About 75 percent of the cattle on feed here are customer-owned cattle. The remaining 25 percent are either owned by the feedyard or by the individual stockholders of the feedyard.

"Ideally, we would like to be 100 percent customer cattle. That means less risk for us, but it just doesn't work that way. There are fewer and fewer cattle feeders all the time, and we're going to see another fallout again because of what's happened in the market over the last six to eight months."

John Farley is vice president of procurement. He buys under the management group of ILS. The feedyard makes money when the hotel is full, and at ILS that means moving between 4000 and 5000 head in and out of the yards on a weekly basis, Borck says.

Because risk management is key to staying in the feeding business, ILS also owns a commodity firm in Larned. They provide this service for their own feeding customers as well as for others who want to trade commodities.

Ward Feed Yard also owns a ranch in Southeast Kansas, just south of Yates Center. The ranch is used to stock inventory, and in that way they're able to keep a steady flow of cattle coming into the yards. Cattle, which come mostly out of the Southeast, are straightened out here. They graze fescue early in the season and then go on to native grass in the summer and back to fescue in the fall.

They also work with five or six other operations in the Flint Hills to inventory and background cattle, and they use some local backgrounders as well.

"We need to keep anywhere from 20,000 to 25,000 head outside the yard all the time," Borck notes. "It sure hasn't been the smart thing to do the over the last six months because the price of that inventory has done nothing but decrease, but that's just part of the business."

Just as their feeding capacity has grown, so has their farming operation. Today Ward's farms close to 10,000 acres, about half of which is irrigated. In addition to that total is the farmland operated by the yards at St. Francis and at Lexington, Nebraska. Having farmland, Borck says, is critical to a feedlot operation. It gives

feedlots a way to utilize their animal waste and still stay in compliance with the EPA.

It's not uncommon for there to be 5000 to 6000 head of cattle on the rye and wheat fields around the feedyard. This year, however, drouth severely hampered the grazing program and only about 2000 to 2500 head were turned out, Chris Burris says.

A grazing program is available for their customers as well, but cattle must be straightened out before going into such a program and they must be marked either with a brand or eartag. The going rate, Burris says, is 35 cents for every pound of gain, and that includes mineral and care. Cattle are pulled off and weighed with a two percent shrink coming into the feedyard.

Ward Feed Yard will feed anything. They get a lot of cattle out of Florida, Illinois, Kansas, Missouri, Oklahoma wheat cattle and sometimes cattle from Texas. Lately they've been feeding some Canadian cattle. About 55 percent of the cattle on feed are steers, Burris says.

The average pen size in the yard is the typical 150 head. They figure nine inches of bunk space per head.

"We feel like that's sufficient since we feed three times a day," the manager comments.

They installed a computerized sprinkler system a few years back. It's beneficial for the cattle during the hot summer months, but more important, the sprinkler system helps control dust and odor. Because the yard is only a couple of miles from town, the sprinkler system is used as a "people-friendly" tool.

The feedlot industry has long accepted regulatory control, but today, Lee Borck says, that regulatory control has been carried to the extreme.

"They've regulated the little guy out of business and now they're working to legislatively control the medium and large operators. I believe I'm going to have a very hard time maintaining my business in this country for more than another 15 to 20 years unless there's a drastic change made to the regulatory controls," he adds.

Ward Feed Yard uses five different rations. Cattle are stepped every five days until they're on the finishing ration. The finishing ration consists of steam flaked corn, distiller's grain, dry alfalfa silage or haylage, wheat midds in pellet form, liquid protein and tallow. The microingredients include Vitamin E and D, Tylan and Rumensin.

They only began using distiller's grain last year, and with it came a definite learning curve, Burris says, but they've noticed a definite improvement in dressing percent since they've been feeding the byproduct.

Distiller's grain, he says, is not only a good protein source but a good energy source as well. It's also a little safer source of energy because it doesn't have as much starch. He values it at equal to or above the value of corn.

The ration is about 35 percent moisture.

"It's a pretty wet ration, about as wet as we've ever fed here."

Without interest, the cost of gain this year has ranged from 42 to 56 cents with the average on steers coming closer to 46 cents and 49 cents on the heifers.

"We had good feeding conditions through the winter and the variability in cost of gain has to do with the kind of cattle and the health of those cattle when they arrive at the yard," he notes.

As for conversion, Burris likes to keep it under six (that's on a dry matter basis; six pounds of feed for every pound of gain). In a good season he might get it down to 5.75 for the steers.

Cattle are fed three times a day. Trucks start rolling about 6 a.m., and by noon they're already finished with the second round.

"We want the cattle to be out of feed, but we don't want them hungry," he notes.

Ninety percent of the cattle go to IBP's plant at Emporia. Occasionally when they're short, they'll go to Finney County. They ship cattle any day the packer asks for cattle, and every pen is weighed on the hoof before leaving the yard. The owner of the cattle has the option of selling cattle on a live basis in the cash or on a grid.

When Burris makes up the showlist each week, he breaks it down according to estimated weight, dressing percentage, percent Choice, percent of YG 1's, 2's, 3's and 4's, heavy cattle — those animals expected to have a carcass weight in excess of 950 pounds — and light cattle, carcasses 550 pounds or lighter. He then uses those projections to see how the cattle will fit the grid.

Grids, Borck reminds, offer producers a way to possibly capture more money for the product they produce. It's common knowledge that IBP's grid is geared more toward yield grade than quality grade, and that's because, as Borck points out, not all packers want Choice cattle.

Those considering a marketing grid, he stresses, must know which grid best suits their kind of cattle. For example, heavy muscled cattle would likely perform better on a muscle grid that gives more of a premium for YG 1's and 2's rather than for Choice cattle. English-type cattle that are more likely to grade and have a higher percentage of Choice should be harvested on a grid that gives premiums for quality rather than yield grade.

Alliances formed with the packers, Borck insists, are an important part of the beef industry's future. Yet while Borck believes in alliances per se, he acknowledges, even goes so far as to say, that the "pricing system is broke" and part of that is because of so-called captive supplies and the fact that the industry now sells more cattle on grids on a weekly basis than it does on the live cash market.

"Cash is no longer a good index," Borck says, "because we now have the tail wagging the dog. And though the industry is trying to find an alternative, it's struggling to do so.

"We keep talking about a boxed beef index whereby we take the carcass after it's broken down into the various cuts and build that back up into an animal. The problem with that kind of index is that it's not a visible number. That number, unlike the cash price or the futures price where both are determined in open outcry, has to be figured using some kind of formula, and that leaves room for suspicion of manipulation."

And though the feedyard operator acknowledges problems with the marketing system, he has difficulty in saying or believing that so-called captive supplies are wrong.

"Haven't most all of us forward contracted our calves before? Why should the packer have to go out every day and secure a supply for tomorrow's kill? We don't do it. Why should they?"

Borck is also likely in the minority when he says the industry needs fewer decision-makers.

"We have too many decision-makers, and consequently we don't have any common focus as to what the end result should be, and we're constantly fighting with one another about what the focus should be.

"When the poultry people want to change something, there are three or four key people who make the decisions. Admittedly that is one feedyard manager's opinion, and it is not a popular opinion, but I believe as firmly as we're sitting here, there will be fewer in the business. The bigger are only going to get bigger."

Capitalism is the symbol of America, and it's for that reason that Borck says he was so adamantly opposed to the Johnson Amendment.

"Our society is built on people having the freedom to do whatever it takes to survive. It's not about having the federal government tell its people what they can or can't do — that I can feed cattle but you can't. There's nothing right about that.

"If we can't compete in the market and make it work, then those who can't make it work need to get the hell out instead of trying to get the government to say certain people can or can't be in the business just so that they stay in it themselves."

Regarding the futures trade, Borck says, "I wouldn't say the futures market is broken, but never have I seen anything like what we had in April where the futures market was \$3 to \$5 under the cash market with only two weeks to expiration.

"There are sure some things we can do to make it better," he remarks. "NCBA has made it very clear that the mercantile needs to update the contract so that the weights are representative of what's out there. Right now, the real weights don't match the contract, and consequently basis has been way out of whack. People have hedged cattle thinking they were hedging the right thing, only to find out that basis was \$3 off from where it traditionally is."

As for the future, Borck is just about as uncertain about where the market is headed as everyone else.

"I understand that there is pen space beginning to open up in Kansas. There were permits in Kansas issued between December of 1999 and July of 2001 that would have increased feeding capacity by approximately 10 percent. At the same time, the Monfort plant burned down in Garden City. Until then Kansas always had an excess of killing capacity. That was one reason why our market was sometimes better. The Monfort plant not being reopened has certainly made a difference in how competitive the packers have to be here," Borck says.

Overall there hasn't been much, if any, positive news in the beef industry for well over nine months now, and it all started, Borck says, with 9-11. When business travel came to a screeching halt, so did the HRI trade (hotel and restaurant institutions). Along about the same time, the BSE crisis in Japan caused U.S. exports to take a dive.

The faltering U.S. economy coupled with the high dollar only contributed to the problems by making it tougher for the U.S. to compete in the world market.

Finally, March and April arrive. It is traditionally considered the peak time for selling meat. Everyone thought the market was sure to be better then, but the unforeseen foot and mouth rumors in Kansas, Borck reminds, snuffed that optimism quickly.

The industry was already dealing with a burdensome supply of meat thanks to the mild winter and record gains, and then along came the Russian ban on U.S. poultry. For some it was the final blow.

"I didn't mention one positive thing," Borck points out. "All of these things combined have had a very negative impact on the beef industry. We've lost a couple of the major players in the futures market too, those who used to stand in there and fight the short side of the market to keep them honest."

"The bottom line," he concludes, "is that people in the cattle industry are not willing to be long in the market any more than they are in any of the other industries in our country."

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