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Contract Growing Cattle Considerations

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Contract growing cattle is a business enterprise in which a person (i.e. grower) who owns or rents land enters an agreement with a cattle owner to grow cattle by grazing forage, feeding concentrate feedstuffs or a combination of both and provide cattle management for a defined period of time. Contract growing arrangements are generally established when an arrangement can be beneficial to both the grower and the cattle owner. There are several reasons a grower may prefer contract growing cattle instead of owning the cattle. Those reasons may include a lower investment cost since the cattle are not purchased or owned, little to no risk associated with market price fluctuations and reduced cattle production risks such as death loss. Similarly, the cattle owner may prefer a contract growing opportunity due to lack of available and suitable grazing land, shortage of labor to manage the cattle or not having the skill set to manage the animals.

The objective of this publication is to outline challenges and benefits of contract growing as well as factors that both the grower and the cattle owner should consider when evaluating and developing a contract growing agreement. This publication is not an exhaustive list of considerations, but rather it presents the components and factors that should be outlined and discussed in all contract growing agreements.

Challenges to Contract Growing

Grower

A person who owns or rents land that can be utilized as pasture and who wants to custom grow cattle for someone else has several challenges when getting started in the business. The following is a list of a few aspects a grower should consider.

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- **Business establishment:** Establishing oneself as a grower is the largest barrier in that a person has to first market themselves as offering a custom growing service and then find someone who would like to enlist the services and resources of a grower.
- **Grower experience:** It is beneficial for the grower to have experience with managing the type of cattle (i.e. cow-calf, heifers, stockers) the cattle owner would like to contract grow because it would be risky for the cattle owner to turn management decisions over to a person with little to no experience managing cattle.
- **Infrastructure:** Adequate facilities for handling and transporting cattle is necessary. Cattle owners in the stocker cattle or backgrounding business typically prefer to grow groups of cattle that will result in a semi-truckload (i.e. 50,000 pounds, 55 to 70 head in most cases) of cattle at the end of the growing period. First time growers might not have historically handled truckload lots of animals and may need additional infrastructure to facilitate handling and loading of large groups of animals, which may include a portable or permanent elevated chute and a large enough area to allow semi-trucks to turn around.

  The ability to store and feed supplemental feed if grazing is not available is also important. Grazing may be the most economical and preferred feeding option, but there may be times when grazing is deficient and growers should have a plan to accommodate those situations. This could include commodity barns for feed storage and an area to feed cattle.
- **Management:** Basic management includes maintaining fences, working facilities, water sources and forage stands. Maintenance of fences and working facilities ensure the safety of both animals and humans interacting with the cattle. Maintaining water sources and managing forages is necessary to meet or exceed the production goals of the grower and the cattle owner. Water is the single most important nutrient to cattle. Water source location influences grazing management as cattle tend to spend more time close to a water source than in areas of a pasture that are distant from a water source. Thus, water sources can influence grazing intensity and grazing height of forages. Additionally, the grower may have to establish different forage species to guarantee forage availability throughout the length of the grazing contract. It is necessary to provide forages that will achieve the grower's and cattle owner's goals for the cattle.

Cattle Owner

Similar to the grower, a cattle owner may have a few challenges to navigate and may include:

- **Grower identification:** Identifying someone with the skills and resources to custom grow cattle can be difficult, but it is a necessity for a cattle owner desiring to expand an operation in this manner.
- **Management experience:** Evaluating a grower's ability to manage the cattle and achieve the goals for the cattle whether that be weight gain or getting females bred in a timely manner is also necessary. If someone with little experience managing cattle is identified (e.g. a cow-calf producer with little knowledge of how to manage stocker cattle) then the cattle owner may have to manage the process of teaching the grower how to manage the cattle and provide the necessary care at the appropriate time.
- **Supplying cattle:** It is important the cattle owner can supply the number of cattle that a grower can feasibly grow in order to maintain a long-term relationship.

Benefits to Contract Growing

Grower

There are several reasons a person may prefer to custom grow cattle for someone else instead of owning the cattle. Those benefits may include:

- **Capital investment:** Owning cattle can require a large capital investment, and not everyone has the ability to or is comfortable with taking on the risk of a large capital investment. Thus, those who already own or rent land may be more comfortable with a lower investment option such as contract growing.
- **Market factors:** Another benefit of contract growing is that the grower's income is not typically associated with changes in market prices, which means they do not bear the risk of market prices. Thus, the contract grower will be paid based on the contract growing agreement and not based on how market prices change over the growing period.
- **Income source:** Contract growing can be used to diversify income streams as a cattle owner with excessive forage may choose to custom graze cattle to utilize excess forage or a row crop farmer with cover crops could generate revenue by grazing cover crops prior to planting a cash crop.

Cattle Owner

A cattle owner also can benefit from custom growing arrangements. A few reasons a cattle owner may utilize custom growing include:

- **Operation expansion:** Contract growing can allow an operation to expand without having to secure more land or employ additional labor, which may be a cost savings measure. The cattle owner is essentially purchasing standing forage and cattle management through a contract growing agreement.
- **Infrastructure:** The cattle owner also benefits from a contract growing agreement because they generally do not have the cost of infrastructure such as fences and working facilities. This means their capital can go towards purchasing cattle instead of necessary infrastructure.
- **Grower experience:** The cattle owner can benefit from the growing expertise of a grower that may result in improved management of the cattle and pasture.

Necessary Contract Components

There are several components of a contract growing agreement that should be discussed and outlined between the grower and the cattle owner. It is best for these components to be in writing so all parties involved have clearly defined expectations. A written document also is beneficial in the case of one or both parties becoming incapacitated or dying during the life of the contract. This will assist those who are tasked with resolving any issues. The following is a list of components that would be beneficial in a contract growing agreement.

1. Name parties: The names of the cattle owner(s) and the grower(s) should be clearly identified.
2. Property description: The location, description and quantity of acres to be grazed.
3. Growing period: The beginning and end dates of the growing period whether actual dates, number of days or number of months.
4. Quantity and type of animals: The number of head to be grown and the type of animal (i.e. cow-calf, heifer, stocker). It also may be beneficial to include the average weight of the animals at the beginning of the growing period.
5. Responsibilities of each party: This should define who performs certain duties and who pays for inputs and may include but is not limited to animal health/veterinary care, supplemental feed, salt and mineral, hauling, liability insurance and who bears the responsibility of animal death loss.
6. Grazing/growing fees and payment terms: This should include a fee structure based on number of animals, total weight being grown, production incentives or some combination of factors and the payment schedule whether it be incremental payments or one lump sum payment. This could be in the form of a daily rate (i.e. $ per head per day) or a rate based on weight gain (i.e. $ per pound of gain). A daily rate may be more appropriate for breeding stock while a rate based on daily gain may be more appropriate for growing stocker cattle.
7. Termination clause: The conditions in which either party can terminate the contract

All of the aforementioned components are important to a contract growing agreement, but the one of most interest is generally grazing/growing fees as the grower wants to know the earning potential of contract growing while a cattle owner wants to know the approximate cost of paying someone to grow his or her cattle. The most common growing fees are a straight fee that may be based on acreage of available forage or based on the number of head and their weight being grown. This may take the form of dollars per head per day or something that resembles more of a pasture rent structure. Another common method is an incentive-based fee that results in a grower being paid based on weight gain during the growing period. A third method would be revenue sharing where the grower and cattle owner share the revenue at the time of animal sale.

The determination of the specific growing fee structure and the actual fee can be simple or complicated. Both the grower and the cattle owner should evaluate their circumstances to determine what is equitable for them. Thus, the grower would benefit from calculating the expected cost of growing the cattle, which may include property taxes, land rent, facility and fence maintenance, fertilizer, weed control, labor, etc. The grower should then add on an acceptable return for his/her labor and management. This sets the lower bound of what a grower can afford to custom grow cattle. Similarly, the cattle owner should be able to calculate the value of gain to determine the upper bound of what they can afford to pay to have the cattle custom grown. Appendix I provides an example of a contract for growing cattle. This example can be edited to accommodate most any class of cattle or to address any terms the parties involved in the contract desire to address.

Additional Considerations

Supplemental Feed

There are a number of cattle growing contracts that are based on grazing. However, supplemental feeding is common in many operations as it assists in achieving a target rate of weight gain. Similarly, there are situations where climatic conditions such as drought or flooding impact forage availability and carrying capacity. In these situations, it may be necessary to include supplemental feed. It should be outlined who is responsible for purchasing and feeding supplemental feed. This determination will influence grazing/growing fees and payment rates.

Other Input Cost

Contract growers and cattle owners should consider all the costs associated with production. It is important for a grower to consider all costs they incur as they work with the cattle owner to determine an acceptable fee structure and payment rate. For instance, infrastructure repair, maintenance and replacement should be considered, but it is also important to include costs associated with mineral supplementation, fly control, ear tags, animal health treatments and other inputs that may be intermittent type costs. Some of these costs should be discussed with the cattle owner as it may be more appropriate if they supply some of these inputs as opposed to the grower purchasing them and then recapturing the costs through the fee structure.

Stocking Rates

In many instances, it is appropriate to determine acceptable stocking rates on pastures. This could be in terms of pounds of animal per acre or number of head per acre. The stocking rate could be a fixed number or could have a range that provides the grower and the cattle owner flexibility. Regardless of the defined stocking rate, it is also beneficial to include provisions that allow changes due to drought, flooding, other natural disasters or "acts of God" that arise.

Benefits to Contract Growing

Contract growing cattle is an alternative to owning cattle and land that can be beneficial to both a grower and a cattle owner. It can reduce the capital outlay to both parties while also providing an avenue to share cattle production risk that is dependent on how the growing agreement is designed. A contract growing enterprise can provide the grower a revenue stream without having to take on all the risk of cattle production and cattle markets while a cattle owner can benefit from additional grazing land and the labor provided by the grower.

Appendix I

CATTLE GROWING CONTRACT

This agreement made this _____ day of ___________, 20?? between OWNER OF CATTLE/BUSINESS NAME having an office in the Town of CITY, STATE, ADDRESS (the "Owner") NAME OF OWNER/PERSON RESPONSIBLE, (Cattle Manager) # PHONE NUMBER
and___________________________________, (the "Grower") Address_____________
_________________________________, Telephone # ____________, Cell #______________, and Fax #___________________E-Mail____.

It is hereby agreed between the Owner and the Grower as follows:

1. For the duration of this Agreement, and until the Cattle are returned to the possession of the Owner, the Backgrounder will keep and properly care for the Cattle on the property located at Section ____, Township _____, Range ____ , _______ of the _____ Meridian, in the State of ___ approximately _____ miles from _______________________________ town & state.

2. The Owner's cattle will be kept in separate pens and or pastures from cattle located on the property owned by other parties. Each individual animal will be identified with a lot number/ear tag and brand.

3. The Owner shall at all times during this agreement be the sole legal and beneficial Owner of the Cattle and the Grower acknowledges and agrees that he has no interests, whether proprietary or non-proprietary, whatsoever in the Cattle. The Grower hereby acknowledges and agrees that he shall not pledge, mortgage or encumber the Cattle, and the Grower shall have no right to sell, negotiate or otherwise deal with the Cattle in any manner whatsoever.

4. The Owner and/or manager shall have the right to enter the property with reasonable advance notice at any reasonable time to inspect the cattle.

5. The Owner and/or manager will be solely responsible for deciding when the cattle shall be sold and/or shipped. The Owner and/or Manager or Grower may terminate this agreement at any point with a fourteen (14) day notice. Termination may be sooner if improper actions are exhibited by either party.

6. The Grower will notify the Owner and/or manager when cattle die. If more than a regular expected death loss percentage (2%) is exhibited you must call OWNER/MANGER NAME. A dead animal's individual ear tag must be presented to the owner/manager on all dead cattle. All tags from dead cattle must be stored in safe keeping until the Owner/manager visits and counts tags.

7. The Grower and Owner agree that the final settlement will be figured as follows: [(The ending pay weight minus the starting pay weight) x (the agreed cost of gain)] minus any advance payment.

8. The costs of medicine for processing and hospital treatments are the responsibility of the Owner.

9. The Grower's fees for services rendered are in "Schedule A" which forms an integral part of this Agreement.

10. Grower agrees upon receiving cattle that they will fill out and fax or email the supplied receiving report within 24 hours of cattle arrival. Along with the receiving report the owner agrees that the grower will bill owner, as an advance payment on gain, the sum of $20.00 per head to be deducted off of total due from the final settlement.

11. Grower will communicate weekly any cattle movement activity by lot to OWNER/MANAGER NAME (Cattle Manager).

12. Grower will call Owner and/or manager as each new shipment of cattle is sent to lot by order buyers stating condition of cattle, head count of each sex, off truck weight and any concerns with the cattle. Grower will fill out a receiving report on new cattle and e-mail to Owner and/or manager as cattle are received.

13. Grower will complete an Owner supplied closeout form for each lot as it is shipped back to the Owner.

14. In the event that the Owner elects to have cattle insured under a Natural Disaster Policy, the Owner may ask the Grower to insure his cattle under the Grower's policy. The Grower has the right to bill the Owner for the cost of the insurance.

15. Disagreements will first be attempted to be settled via arbitration. In the unlikely event of a disagreement that goes to court the venue will be in the County of the party filing the disagreement.

SCHEDULE A

Starting weight condition and shrink ____

____

Ending weight condition and shrink ____

____

Guaranteed Cost per pound of gain $____________________________________

This agreement shall be in effect from _______________, 20?? to ______________, 20__.

This agreement may be extended by mutual agreement of both parties.

Facsimile signatures are legal and binding.

OWNER/BUSINESS NAME

Date:

____

By:

____

____

Grower Name

Date:

____

By:

____

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