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EC59-813 Livestock Contract Feeding Arrangements

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The purpose of this circular is to describe some of the different livestock contract plans. No attempt is made to advise the feeder or the owner as to whether he should feed on contract or buy and sell on the market, nor to dictate what type of contract should be used.

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CONTENTS

Situation ................................................................. 3
Contract Arrangement .................................................. 3
Death Loss ............................................................... 4
Types of Contracts ..................................................... 4
Inventory Basis Contract ............................................ 4
50-50 Division of Net Profit or Loss ............................... 7
Flat Rate Per Pound of Gain .......................................... 7
Custom Feeding ......................................................... 7
Principal Provisions of Agreements ................................. 8
Example of Feeding Contract ....................................... 10
LIVESTOCK CONTRACT FEEDING ARRANGEMENTS

By Cliff Ashburn—*

SITUATION

Livestock have been fed under "share or contract feeding" programs for a number of years. Some feeders prefer to risk only their labor or their feed and labor instead of the entire cost of feeding livestock. Others are willing to take the entire risk but lack the necessary capital or credit. Some livestock owners prefer to contract with a second party to finish their livestock for market rather than feeding the cattle out themselves.

When feeding livestock under a contract plan, the contract should be fully understood by, and be fair to, both parties. The contract should be designed to meet specific conditions important to the owner of the stock and to the feeder.

Usually in a contract feeding plan, the owner agrees to supply the stock to be fed and the feeder agrees to furnish the feed, equipment and labor for wintering, pasturing or fattening the stock.

The purpose of the contract is to make provisions for:

1. Handling and feeding.

2. Division of profit or loss.

3. Marketing the livestock.

A thorough understanding of the contract should be reached before the plan is completed and signed. The agreement should always be in writing and each part should have a signed copy.

CONTRACT ARRANGEMENT

Those entering into a contract agreement should understand the feed requirements for the livestock to be fed. Each should have knowledge of the cost of feed and the expense and risk involved while feeding under a contract. Each should have confidence in the ability and integrity of the other contracting party.

Some of the factors to take into consideration in the contract are the shrink and weighing conditions, transportation to and from the feed lot, marketing costs, overhead expense in the use of lots and equipment, feed costs of gain per hundred pounds, division of the profit or loss, and veterinary costs. Where livestock are mortgaged, the consent of the mortgagee should be included in the written contract. If the owner of the cattle employs a third person to act as his agent, the duties and fees of the third person should also be stated in writing.

Generally, the cattle are fed on the feeder's premises and the manure will belong to the feeder. The contract should state which party or parties gets the hides, pelts, or wool and, in case of death loss, whether these pelts are needed for identification.

The agreement should include the type of cattle to be fed. Both parties should be in agreement in regard to the grade to which cattle are to be fed and the approximate time of marketing. The feeder or person furnishing the feed must have ample feed or credit to purchase the necessary feed for the completion of the project.

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DEATH LOSS

The normal death loss on feed-lot lambs is about 3 per cent, with calves about 2 per cent, and with yearlings and older cattle about 1 per cent.

When feeding livestock under a contract, the livestock usually remain in the name of the owner. The death loss is usually borne by the owner, except for such losses as those caused by negligence of the feeder. The contracting parties should have complete understanding of the division of death loss.

Where death loss is assumed by the feeder, the weight loss must be made up by additional gains on the remaining livestock. Because calves make more efficient gains than do older cattle, the 2 per cent loss through death does not increase the cost of gain as much as a loss of 1 per cent of older cattle. Contracts should make provision for this fact as well as for the fact that much greater losses are possible.

In some contracts on lambs the feeder will accept the risk of any death loss greater than 3 per cent if, in return, he receives credit for any death loss less than 3 per cent. In other cases the feeder accepts the responsibility for death loss that may result from negligence or poor management. Where the death loss is caused from disease, storms, lightning or other causes than negligence, the division is then based on what each has invested in the dead livestock. The feeder will be out the feed that was consumed while the owner will be out whatever the dead animal was worth in the feed lot.

Consideration of quality should be given to lambs. Where the quality is poor and there are many culls, the death loss will be higher. The high death loss will increase the cost of producing a pound of gain. A feeder cannot afford to feed unhealthy or unthrifty animals; neither can the owner afford to put such animals out on contract.

TYPES OF CONTRACTS

There are four main types of contracts. Each has numerous variations while some features are common to all. The main types of contracts are:

1. Inventory basis contract.
2. 50-50 division of net profit or loss.
3. Flat rate per pound of gain.

Inventory Basis Contract

The inventory basis contract calls for the feeder and owner to keep complete records. The records include an inventory at the beginning and at the end of the contract and a record of all receipts and expenses. The record should include the livestock, feeds, labor, overhead on buildings, fences, water system, equipment and all other cash costs.

The plan divides risk due to falling prices, as well as the profits to be gained by rising prices, on an equitable basis. Regardless of feeding operations, profits or losses are divided on the basis of the percentage invested by each party.

The disadvantage of the inventory plan is that the feeder may, through negligence or mismanagement, obtain an inefficient gain or suffer extremely heavy death loss. Unless provision is made against this the owner can suffer from the error of the feeder. One method used to compensate for this is that the feeder's investment shall be based on the net gain put on the animals at the average cost per pound of gain, with feed prices, death loss and various overhead costs considered. Another plan requires that the owner employ a representative who will look after the owner's interest.
Example Showing Results of Inventory Basis Contract for Cattle

Number of steers placed on feed 100
Death loss 1%
Number of steers sold (No.) 99
Market weight of steers sold in pounds 106,425
Number of days on feed 150
Number of days in pasture 50
Average weight of feeders at time of purchase 650
Average market weight 1075
Gain for 99 steers sold in pounds (No.) 42,075

Marketing Statement

Gross returns from sale of steers 106,425 pounds @ 27.25 * per 100 pounds $29,000.81
Marketing costs, freight, etc. - 594.00 $28,406.81
Net returns from sale $220.00 $28,626.81
**Value of 220 tons manure @ $1/ton

* Prices used were those of the Scotts Bluff Experiment Station in buying (1958) and selling (1959). Also includes transportation costs to the feed lot.

** Amount produced per animal less reasonable loss which will not be recovered.

Investment Statement

Owner's Investment:

100 steers, average weight 650 pounds @ $26.50 * per hundred pounds $17,225.00
Interest on Investment @ 6 1/2% for 6 months 559.81
Taxes 338.58
Total $18,123.39

Feeder's Investment:

5000 bushels corn @ $1.00 per bu. $5000.00
50 tons alfalfa @ $10.00 per ton 500.00
3.75 tons protein @ $80 per ton 300.00
Bedding 100.00
2000 lbs. salt and mineral @ $24 per ton 24.00
Pasture (corn stalks) 500.00

Interest on investment @ 6 1/2% for 6 months 209.82
(Feed and Expense included in the interest)
Veterinarian fees, misc. 32.00
Depreciation, repairs, taxes on building & lots 200.00
**Labor @ 7¢ per head/day 1039.50

Feeder's Investment Total $7905.32
Total of Feeder's and Owner's Investment $26,028.71
Net Profit from Sale $2,598.10 $28,626.81

* Prices used were those of the Scotts Bluff Experiment Station in buying (1958) and selling (1959). Also includes transportation costs to the feed lot.
Actual charge for labor varies over the country. For cattle it is from 5¢ to 9¢ per head per day. The charge for lambs is from 3/4 to 1 1/4¢ per lamb per day. However, most lamb contracts are on amount of gain for a price per pound which varies with the price of feed, cost of labor, overhead, death loss and shrink. Other contracts call for a mark up on the feeds to compensate for labor and upkeep.

Basis for division of net return
Manure to feeder - hides to owner
Owner's investment 69.63 per cent (18,123.39 ÷ 26,028.71)
Feeder's investment 30.37 per cent (7905.32 ÷ 26,028.71)

Distribution of net returns
Amount due owner
Original investment $18,123.39
Share of net profit (69.63%) $1,809.06
$19,932.45

Amount due feeder
Original investment $7,905.32
Share of net profit 30.37% including the manure $789.04
$8,694.36
$28,626.81

* Actual cash $569.04, Value of Manure $220.00.

Summary of Records of an Inventory Contract

The following steps summarize the foregoing example of an inventory contract plan for cattle. The same procedure may be used for lamb feeding and for other contract feeding plans.

1. Determine the selling price per 100 pounds needed to break even. Information on the total feeding cost plus the original value of the steers is needed to arrive at this figure.

$26,028.71 ÷ 106,425 pounds = $24.45, the selling price per 100 pounds needed to break even.

2. Determine the feed cost per 100 lbs. of gain. To do this the actual feed cost and the total gain of the livestock is needed.

$6,324 - 42,075 pounds = $15, the feed cost per 100 pounds of gain.

3. Determine the average gain per animal. The beginning and final weight are necessary as well as the number of days fed.

1075 - 650 = 425 pounds of gain

425 ÷ 200 days = 2.125 pounds of gain per day

4. Find the cost per 100 pounds of gain when excluding the purchase price of the animal and including all expense, labor, feed, taxes and interest on the owner's investment. The sum of all costs along with the total gain of the animals are needed to determine the cost per 100 pounds of gain.

$8,803.71 ÷ 42,075 pounds = $20.92 cost per 100 pounds of gain.
The death loss was assessed against the owner and the feeder according to the percentage of the total investment each had contributed. The owner contributed 69.63 per cent and the feeder 30.37 per cent of the total investment. The feeder lost the feed that was consumed by the animal that died, while the owner lost the value of the animal at the time of its death.

It was estimated that there was 220 tons of manure available for spreading. Valued at $1 per ton, this represented a gain of $220 for the feeder.

The net profit from the sale of the livestock was $2,598.10. The owner received 69.63 per cent and the feeder received 30.37 per cent of the net profit. In case of loss in the feeding venture, the loss would be divided by the same percentage.

50-50 Division of Net Profit or Loss

In the 50-50 division of the net profit or loss, the owner furnishes the livestock to be fed. The feeder furnishes the feed, labor, lots and other equipment needed for the feeding period. When the livestock are sold, the marketing expense is taken from the gross receipts. The owner is then reimbursed for the original value of the livestock and the feeder receives pay for the feed. The remaining sum is then divided equally between the two parties.

When the livestock are sold at a loss, the loss may be made up on a 50-50 basis. The owner will be out part of the money paid for the livestock and the feeder will take less for feed and labor.

Profit or losses may also be divided in any ratio mutually satisfactory to the feeder and owner.

Flat Rate Per Pound of Gain

In this contract feeding agreement, designating a flat rate per pound of gain, the feeder is reimbursed on the basis of the gain put on the livestock. The feeder agrees to put on an approximate amount of gain for an agreed price per pound.

The price per pound varies with the cost of feed, cost of labor, cost of equipment and overhead, death loss, and shrink involved. Slaughter grade at marketing and the approximate length of feeding period should also be indicated.

When the livestock are sold, marketing and transportation costs are paid, the feeder is reimbursed and the remaining income goes to the owner of the livestock.

Another method used under the flat amount per pound of gain is the sliding scale method. The payment is based on per hundred pounds of gain for different weights. An example is the first 100 pounds $16, the second 100 pounds $17, the third 100 pounds $20, and the fourth 100 pounds $24.

Custom Feeding

The custom feeding plan is suitable for an owner who desires to have livestock fattened for market at his own risk. It also offers possibilities to a feeder who is not able to take the financial risk but has feed for fattening livestock and would like to feed on his own premises in order to obtain manure.

When fed by the custom feeding plan, the livestock are shipped by the owner to the feeder's lots where they are fattened for market. The feeding is done under the owner's direction and the feeder is paid an agreed price for all feeds used as well as for his labor and other overhead expense. When the livestock are marketed, the feeder's compen-
sation comes ahead of all other obligations except freight and marketing expense. The feeder is paid the agreed amount regardless of whether there is a profit or loss.

Sometimes the owner purchases the feed and pays the feeder a price per head per day for feeding the livestock. The feeder may be paid each month for all or a part of the feed and labor used in feeding the livestock during that period. Where this method is used the feeder is practically an employee of the owner. However, the arrangement may approach that used under the Gain Basis Contract in which the feeder is regularly paid for the gain he adds to the livestock at a specific price.

SOME OF THE PRINCIPAL PROVISIONS OF AGREEMENTS USED IN CONTRACT FEEDING

The contract should be complete with respect to the duties and responsibilities of each party and should be in writing.

Contract forms can be dangerous, as it is easier to adopt and employ a contract form than to draft a form that will meet all specific cases and conditions. Keep the wording simple. Unless the parties to the agreement are accustomed to the making of contracts, obtain legal advice.

Some of the principal provisions of agreement used in contract feeding with some comments about each are:

1. **Delivery date** - The approximate delivery date and deadline for delivery should be stated.

2. **Delivery weights**

   Lambs - State that lambs will be weighed at loading point when they are of dry fleece and have been off water and feed for 12 hours.

   Cattle - Weighed after cattle are off water and feed for 12 hours or weighed at ranch or location deducting 3 per cent shrink. Shrink will run from 3 to 5 per cent, or more, depending upon condition or the cattle will be trailed several miles and weighed with no additional shrink allowance.

3. **Grade and weight requirements**

   Lambs - Quality and condition (health) of lambs should be stated along with minimum and maximum allowable weight.

   Cattle - Desired size and reasonable uniformity with no culls. Grade of cattle should be stated.

4. **Receiving livestock** - Feeder takes possession of the livestock on arrival at premises or at the unloading dock.

5. **Feed and feeding requirements** - Lamb contracts provide that the feeder should feed, water, and care for lambs until they are fat and suitable for market. Some cattle contracts give specific direction for the kind of feed to be fed and the length of the feeding period.
6. **Health and livestock** - An agreement should be made about the health of the livestock on delivery and who stands the veterinarian costs and losses of livestock, if any, during the early feeding period.

7. **Supervision by agent of owner of the livestock** - If supervision is going to be carried out details should be in contract. If a supervisor is to be paid, this should also be stated as to a flat amount or a per head basis.

8. **Repossession of stock** - Should livestock not be cared for properly, provision should be made for repossession.

9. **Division of death loss** - Owner stands death loss in transit to the feeder.

   Percentages of death loss borne by owner and feeder.

   Death loss responsibility of feeder where death is caused by negligence.

   Death loss responsibility where death loss is caused by an unforseen event.

   Owner may want pelts or hides of animals to prove death loss.

10. **Provision of taxes and insurance expense** - Whether insurance is to be carried, kind and amount, also who is to pay taxes and how they are to be shared.

11. **Provision for marketing** - Agreement should be made by grower and feeder for time of marketing and where they are to be marketed. The marketing grade or quality should be stated.

12. **Distribution of marketing expense** - Statement of how marketing expense is to be paid.

   Methods used:
   (1) Owner pays all, or divided between the two.
   (2) Owner pays on the original weight and feeder to pay on gain weight.

13. **Compensation to feeder** - It should be stated how the wool and pelts should be divided. Manure should go to the feeder.

   Lambs - The most general provision in lamb contracts is that the feeder would receive upon the completion of the contract the market price on the gain in weight while others may include a bonus.

   Cattle - On a custom basis the contract provides for specified amounts to be paid to the feeder for labor, feed, cost of grinding and hauling of feed, depreciation, and other expense. The feeder may be paid each month for all or part of the feed and labor or he may be paid the entire amount after the livestock is sold.

14. **Share of each party** - Contract should state what each party's share will be and when each party will be paid.

15. **Disposition of sales proceeds** - Whether any money is to be held back until completion of contract.

16. **Arbitration of disagreement** - Owner and feeder each appoint a party to represent them and the 2 appointed select a third party. The three people so chosen will consider and decide on solution to points of disagreement.
17. **Waiver of liens against livestock and feed** - A release or agreement should be in writing about mortgages on the livestock, feed or equipment.

18. **In the inventory type of contract** - Amount of feeder's investment and amount of owner's investment should be stated with division of profit or loss.

19. **Partnership** - Should state whether or not a partnership is formed.

**EXAMPLE OF FEEDING CONTRACT**

This contract is entered into this day of __________, 19__
by and between ____________________________ of ____________________________,
hereinafter called the "owner," and ____________________________, hereinafter called the "feeder."

The owner agrees:

1. To deliver to the feeder f.o.b. at stock yards about _________ head of feeder branded or/and ear marked __________, free of "culls," "bums," "dogs," "locos," or otherwise objectionable feeding animals, between the _________ day of _________, 19__, and the _________ day of _________, 19__, at the grower's option. All animals are to weigh between _________ pounds and _________ pounds, the average weight being not less than _________ pounds or more than _________ pounds per head.

2. To guarantee the said animals to have been off feed and water for a period of at least twelve hours immediately prior to weighing and that these animals shall be dry when weighed.

3. To bill said animals to the _________ market F.I.T. _________, the bill of lading to be attached to the feeder's copy of the contract and to become a part of it except as hereinafter provided under paragraph 2 of the joint agreement.

4. To secure the consent of the mortgagee to this contract if the said animals are mortgaged and to attach such consent hereto.

5. To have payment made by joint agreement mentioned below, direct to the feeder by the commission agency handling the sale of these said animals at the market. _________

The feeder agrees:

1. To take possession of said animals at _________ stock yards and to accept weights of said animals at _________

2. To feed and/or pasture said animals at feeder's farm located _________ miles from ____________________________, ____________________________.

3. To shelter, care for, and bed said animals and to feed and/or pasture them in the manner designated in paragraph 4 of the joint agreement.

1/ Based on Bulletin 274 (See references.)
4. To sort out and deliver said animals to _______ in merchantable lots as they, in the opinion of the commission firm handling the animals, become fat.

5. To secure the consent of the mortgagee to this contract if the feed is mortgaged and attach same hereto. 

It is jointly agreed that:

1. Copy of the original weights of said animals at _______ shall be attached to and become a part of this contract.

2. Freight charges shall be advanced by _______ to be later deducted with interest at ______ percent from the gross sale proceeds of said animals at market before either of the contracting parties participates in the returns.

3. Said animals are to be marketed through _______ commission firm at _______ unless otherwise mutually agreed.

4. The said animals shall be fed, pastured and/or wintered for _______ days in a manner appropriate to fatten rather than grow them, unless otherwise agreed.

5. Veterinary charges and death loss shall be borne by/or divided _______ and the feeder shall skin all dead animals upon request and present the hide as evidence.

6. The feeding in transit tax (if any) shall be borne by _______.

7. The said animals shall not be fed at any public feeding station while in transit to market for more than _______ day(s) unless otherwise agreed.

PAYMENT ON BASIS OF GAINS PLAN

8. After the marketing costs and freight have been deducted from the gross proceeds of the sale of said animals, the contracting parties shall be entitled to payments out of remaining sum as follows:

A. Mortgagees whose consent are attached to this contract shall be paid according to the terms expressed in such consents.

B. First, the feeder shall receive _______ dollars per hundredweight for the gain he has added to said animals. This sum, except as modified by paragraphs 4, 5, and 8 A under the joint agreement above, shall be paid direct to the feeder by the commission firm selling said animals. The gain shall be based upon the difference in the original weight of said animals at _______ and the finished weight of said animals at _______.

11
Sliding scale of flat rate per pound of gain.

First, the feeder shall receive by a sliding scale payment, first 100 pounds of gain , second 100 pounds of gain , third 100 pounds of gain , and the fourth 100 pounds of gain , except as modified by paragraph 4, 5, and 8 A under the joint agreement.

50-50 division of net profit or loss

First, the marketing expense will be paid, the owner will be reimbursed for the original value of the livestock, the feeder will be reimbursed for the feed and the remaining sum will then be divided 50-50, except as modified by paragraph 4, 5, and 8 A above. Losses will be divided as follows: owner per cent, feeder per cent.

Custom feeding

The feeder shall receive per head per day for labor, per ton of alfalfa, for protein supplement per ton, per bu. for corn, for equipment and rental charge, interest on feed value, and for other costs. This sum, except as modified by paragraph 4, 5, and 8 A under the joint agreement shall be paid direct to the feeder by the commission firm selling said animals or by .

Note: If other methods of payment are used, the method should be designated as to the manner in which the payment will be made, the amount and time of such payments, and who, if anybody, is to be appointed as the owner's representative. It may be necessary to have something on the weighing of the feed and if the owner furnishes the feed, there will be cost for labor and overhead.

C. After the feeder's deductions have been made, all remaining proceeds from the sale of said animals, except as modified by paragraphs 4, 5, and 8 A above, shall be paid to the owner.

9. In the event that the feeder at any time materially fails to carry out his obligations under this contract, the owner shall be entitled to resume possession of said animals without accountability to the feeder for the feed and labor used or gain produced , except as follows: ____________________________________

The owner shall also be entitled to assert all other contract and property rights otherwise available to him by law.

10. Nothing in this contract shall ever be construed as creating a partnership between the feeder and owner and, likewise, nothing in this contract shall ever be construed as vesting in the feeder the ownership in the above-mentioned animals.

11. For arbitration of disagreement the owner and feeder will each appoint a party to represent him and the two appointed will select a third party. The three people so chosen will consider and decide on solution to points of disagreement.
CONSENT OF MORTGAGEE

Of ____________________

The undersigned mortgagee, under the mortgage(s) by the feeder referred to in the above contract, consents to the foregoing contract conditioned upon the payment of all sums which shall accrue to said owner under the contract to ________________ for account of said owner.

Date ____________________

Mortgagee ____________________

CONSENT OF MORTGAGEE
(Grain and feed of feeder)

The undersigned mortgagee, under the mortgage(s) by the feeder referred to in the above contract, consents to the foregoing contract conditioned upon the payment of all sums which shall accrue to said feeder under the contract to ________________ for account of said feeder.

Date ____________________

Mortgagee ____________________

GAIN AT MARKET PRICE FEEDING CONTRACT

It is jointly agreed that:

8. After the marketing costs and freight have been deducted from the gross proceeds of the sale of said animals, the contracting parties shall be entitled to payments out of remaining sum as follows:

A. Mortgagees whose consents are attached to this contract shall be paid according to the terms expressed in such consents.

B. First, the feeder shall receive market price of the fat animals for each hundred pounds of gain in weight or fraction thereof that he has, through his feeding, added to the said animals. This gain shall be computed by deducting the original weights of said animals at ____________________ from the finished weights of said animals at ____________________. In addition, the feeder shall receive __________ dollars for each hundredweight or fraction thereof of the original weight, or __________ percent. These amounts, except as modified by paragraphs 4, 5, and 8A under the joint agreement above, shall be paid to the feeder direct by the commission firm selling the said animals.

C. After the above-mentioned deductions have been made, the owner shall receive all remaining proceeds from the sale of said animals except as modified by paragraphs 4, 5, and 8A under the joint agreement above.
THE STRAIGHT INVENTORY CONTRACT

It is jointly agreed that:

8. After the marketing costs and freight have been deducted from the gross proceeds of the sale of said animals, the remaining sum shall be divided between the contracting parties according to the percentage of their respective investments in the finished animals, to-wit:

A. Mortgagees whose consents are attached to this contract shall be paid according to the terms expressed in such consents.

B. The feeder's investment shall be a sum equal to the inventoried value of all feeds, labor, rent on equipment, and overhead, which it is mutually agreed is as follows:

Alfalfa hay ___________ tons at $________ per ton or $
Shelled corn ___________ bushels at $________ per bu. or $
Labor ___________ days at $________ per day or $
Equipment and rental charges of $________
Interest on all feed value for ___________ days at ________ % per annum.

Feeder's Total investment $________

In the event that all of the above feeds are not used to fatten the said animals, the portions not so used shall be deducted from the feeder's investment at the above-mentioned prices, and if additional feeds are required, the same shall be bought at market price and their cost shall be considered a part of the feeder's investment.

C. The owner's investment shall be a sum equal to the inventoried value of his said animals at the time of delivery to the feeder plus interest on that inventoried value for the duration of the feeding period. This sum is calculated as follows:

Value of ________ cwt. of ________ at $________ per cwt. or $
Interest on $________ for ________ days at ________ % or $
Owner's investment $________

D. Reimbursements on the basis of the total investments shown above shall be made, except as modified by paragraphs 5 and 8 A above, direct to the feeder and the grower, respectively by the commission firm selling the livestock.

E. The owner here by designates ______________________ as his representative to look after his interests in this operation and it is mutually agreed that the owner and his representative shall have the privilege of inspecting the said animals and consulting with the feeder on methods of feeding to be employed.

References

Bulletin 274 - The Contract Feeding of Livestock, by R. R. Thalman, Nebr. Experiment Station

Bulletin No. 15 - Contract Feeding of Lambs and Cattle, by C. G. Randell, Farm Credit Administration, Washington, D.C.