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CORNHUSKER ECONOMICS

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Labor Issues in Nebraska Feedyards

Market Report	Yr Ago	4 Wks Ago	8/19/05
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$87.84	\$79.02	\$78.96
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	138.99	128.17	133.76
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	121.54	111.96	114.67
Choice Boxed Beef, 600-750 lb. Carcass	140.51	129.77	134.41
Western Corn Belt Base Hog Price Carcass, Negotiated	73.30	68.14	70.41
Feeder Pigs, National Direct 45 lbs, FOB	45.91	45.97	49.36
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	76.83	71.01	73.88
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	95.50	105.00	91.00
National Carcass Lamb Cutout, FOB	217.15	250.36	243.73
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.22	2.97	3.14
Corn, No. 2, Yellow Omaha, bu	2.28	1.83	1.65
Soybeans, No. 1, Yellow Omaha, bu	6.67	6.55	5.82
Grain Sorghum, No. 2, Yellow Columbus, cwt	3.27	3.14	2.79
Oats, No. 2, Heavy Minneapolis, MN , bu	1.62	1.87	1.77
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	117.50	117.50
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	37.50	37.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	52.50	52.50
* No market.			

Cattle feeders in Nebraska employ significant labor resources to care for and manage the two million cattle on feed in Nebraska. With an average of about one employee for every thousand head of cattle fed, that translates to around 2,000 jobs for rural economies in Nebraska.

As feedyards must increasingly compete with other employers, both agricultural and nonagricultural, for the limited supply of available workers in rural areas, labor costs in the form of wages, salaries and benefits continue to rise substantially. Feedyards face the challenge of balancing the need to offer competitive wages and salaries to attract quality employees with the need to maintain profitability. Finding a balance between these two conflicting forces requires an understanding of what the actual labor costs to a feedyard are and how those costs have changed in recent years.

In 2004, Nebraska feedyards were surveyed to determine average wage, salary and benefit levels of feedyard employees. The 59 feedyards responding to the survey had an average maximum capacity of 9,473 head with an average on-feed inventory of 7,699 head. Average inventory turnover was 2.26 times per year for a total of 17,400 head marketed per year. The feedyards had an average total annual labor expense of \$354,822, including salaries or annual wage equivalents, benefits and bonuses. The average labor cost per head per day was \$0.10.

Employee compensation data were collected in 13 categories of full-time employees. Categories ranged from manager and assistant manager to maintenance personnel, cowboys and office personnel. Across all categories of feedyard employees, total annual compensation (salary or wage, benefits and bonuses) increased 24.4 percent or 4.9 percent per year since the previous survey in 1999. Salaries increased 4.8 percent per year, while hourly wages rose 2.3 percent per year. Most significant were the increases seen in employee benefits. Benefits across all employee categories increased 31.2 percent from 1999 to 2004, or 6.2 percent per year.

The increase in the value of benefits is in response to feedyards offering more comprehensive benefit packages to remain competitive with other businesses, and overall increases in health insurance costs. For example, feedyards provide health



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insurance to a majority of employees in all job categories. In fact, the lowest percentage of employees in any category receiving health insurance (Yard Foreman) was 74 percent. Additionally, employees participating in retirement plans ranged from a low of 52 percent for Maintenance Foreman to a high of 83 percent for Maintenance Personnel. Life insurance was provided to a majority of employees in nearly every job category.

Table 1 shows total annual compensation paid to Nebraska feedyard employees over time. The 2004 survey is the first year since 1992 that compensation has increased for all categories of employees from the previous survey conducted. Further, compensation increases to feedyard employees from 1999 to 2004 outpaced inflation for the same period. Based on the Consumer Price Index for the Midwest from March 1999 to March 2004, inflation was approximately 12.4 percent or 2.5 percent per year. This increase is about half the increase seen in total annual compensation to feedyard employees of 4.9 percent per year.

Another important factor that feedyard operators must consider in making employee decisions and determining salary levels is placing a value on the skills and characteristics that a prospective employee possesses. In other words, how valuable is a particular attribute of a given employee? By understanding the value of certain employee attributes, feedyard operators may be able to be more competitive and better match employee skills with salary. This issue was examined in more detail for the assistant manager position at Nebraska feedyards (Smith). The value of varying levels of experience, education and area of expertise were estimated based on survey responses to an experimental choice question. Feedyard operators ranked their likelihood of hiring 16 potential candidates for an assistant manager position. The candidates had varying levels of education (high school to college), experience (none to more than four years) and expertise (animal health, nutrition, ag economics/marketing, or personnel management) along with the salary requirement to hire them.

The value of the employee attributes estimated in this study is shown in Table 2. These values represent the salary difference associated with moving between levels of a given employee attribute and can be interpreted several ways. Consider the first line of Table 2. A feedyard operator would be willing to pay a job candidate with some college but no degree \$6,383 more than a candidate with only a high school education. Alternatively, the

feedyard operator would only hire the candidate with a high school education instead of the candidate with some college but no degree if the former's salary was \$6,383 less than that needed to hire the latter. Additionally, the results are additive within a given attribute. A feedyard operator would pay a candidate with a two-year degree \$22,747 (\$6,383 + \$16,364) more than a candidate with a high school education.

In general, the results are fairly intuitive. Feedyard operators placed the most value on higher levels of education and experience. As an area of expertise, animal health was valued highest. Animal nutrition and ag economics/marketing were valued next with personnel management valued lowest. This is likely because assistant managers are more involved in production aspects of feedyard management than marketing or employee issues.

Based on the total compensation levels for assistant managers reported in Table 1, the values for some attribute levels, particularly the experience attribute, appear somewhat overstated. However, these high values can be viewed as a strong disincentive for hiring employees that do not have a given level of an attribute. Basically this means that feedyard operators will not hire assistant managers who have low levels of experience. Also important are the relative levels of values between attributes. For example, it is clear the experience attribute is valued higher than education or expertise, which appear to be of about equal importance.

Resources:

Smith, R. R., and D. R. Mark. "Nebraska Feedyard Labor Cost Benchmarks and Historical Trends." University of Nebraska-Lincoln Extension Circular EC04-836.

Smith, R. R. "An Evaluation of Feedyard Management Training and Experience." *American Journal of Agricultural Economics* 86 (Number 5, 2004):1377-1383.

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Table 1. Average Total Annual Compensation for Nebraska Feedyards, 1990-2004

	1990	1992	1995	1999	2004
Manager	\$40,951	\$47,014	\$43,621	\$50,652	\$66,281
Assistant Manager	\$32,274	\$34,947	\$37,986	\$37,181	\$47,587
Yard Foreman	\$29,116	\$30,052	\$28,757	\$35,231	\$44,167
Mill Foreman	\$22,416	\$27,032	\$29,952	\$31,794	\$41,952
Mill Operator	\$22,105	\$24,903	\$22,635	\$27,713	\$32,436
Feed Truck Driver	\$22,299	\$23,347	\$23,271	\$26,526	\$31,315
Head Cowboy	\$23,590	\$26,978	\$27,495	\$30,509	\$38,636
Cowboys	\$20,302	\$21,487	\$23,748	\$25,315	\$30,410
Maintenance Foreman	\$23,747	\$26,803	\$26,587	\$32,168	\$41,351
Maintenance Personnel	\$20,298	\$23,868	\$27,081	\$27,018	\$31,677
General Labor	\$17,050	\$19,756	\$23,928	\$23,875	\$29,892
Office Manager	\$18,604	\$23,556	\$19,218	\$28,060	\$33,414
Office Personnel	\$15,428	\$17,158	\$18,511	\$21,443	\$25,423
Average	\$23,706	\$26,685	\$27,138	\$30,576	\$38,042
Standard Deviation	\$6,882	\$7,588	\$7,039	\$7,483	\$10,705

Table 2. Valuation of Assistant Manager Candidate Attributes by Feedyard Operators

Willingness to Pay For	Relative To	
Some College, No Degree	High School	\$6,383
Two-year Degree	Some College, No Degree	\$16,364
Four-year Degree	Two-year Degree	\$17,176
< 2 years Experience	No Experience	\$32,959
2-4 years Experience	< 2 years Experience	\$23,095
>4 years Experience	2-4 years Experience	\$14,971
Animal Health	Nutrition	\$9,632
Ag Econ/Marketing	Animal Health	-\$12,418
Personnel Management	Ag Econ/Marketing	-\$12,070