BeefTalk: Little Money Available for High-cost Producers

How Does One Sustain a Cow-calf Enterprise?

North Dakota FINBIN numbers for the lower 40% of producers

	2004-2005 Combined	2010
Gross margin	544.55	[illegible]
Direct costs and overhead expenses	427.70	[illegible]
Net return	116.85	[illegible]

How Does One Sustain a Cow-calf Enterprise?

The life of the operation is tweaked annually as planning sessions are held and available operating money is evaluated.

Times are good and perennial grasses, or should we say perennial plants, are doing a little more waving in the wind this spring than their annual grass counterparts.

If one mentions grass, then cattle discussions are soon to follow. Even when times are good, with good grasses and good prices, survival is not to be taken for granted by grass and cattle producers.

In fact, throughout the years when the grain bins were overflowing, producers readily realized the goodness of a bountiful year. Likewise, when the bins were half full, producers experienced the harshness of a poor year.

The cattle business, like the grain business, is no different. The real impact of the overfull or half-full concept is much more relevant at the bank. Those who are in the cattle business realize that cattle operations, as do all farm and ranch operations, progress through life slowly. The life of the operation is tweaked annually as planning sessions are held and available operating money is evaluated. Good use is more appropriate because the best use may not always be what a producer wants to do.

As we continue to evaluate the planning process, we need to return to the North Dakota Farm and Ranch Business Management Education Program (Http://www.ndfarmmanagement.com), along with FINBIN (http://www.finbin.umn.edu/) data from the Center for Farm Financial Management at the University of Minnesota. These programs allow our discussion to focus on the dollars and cents involved in the beef enterprise.

A good place to start is gross margin.

According to Jerry Tuhy, farm business management instructor at the Dickinson Research Extension Center, gross margin accounts for the purchase and sale of all calves, cull cows and bulls, plus animals transferred in and any overall changes in cattle inventory.

The bottom line: Gross margins reflect the amount of money cattle producers have to work with. In the bigger picture, if gross margins are very small, a producer needs to ask why be involved in the beef business if the money in and the money out are a wash.

That is not true in the beef business because those producers who have at least 50 cows and are involved in the North Dakota Farm Management program in 2010 had gross margins of $578 per head. Since the early ’90s, cattle producers have not had that much money to work with, except for 2004 and 2005. If we combine those two years, the average gross margin was $596 per head.

The difference between the two periods is real. In 2004 and 2005, producers captured more than 34 percent of their gross margin as net return. In 2010, the net return was more than 19 percent. As producers try to sort out the difference, one conclusion readily made is that times have changed. Even with available money, producers need to realize the opportunities for creating more wealth are not as easy.

A quick review of the numbers points out that, even though average gross margins were high, those 2010 producers who were in the lower 40 percent of producers based on net return had gross margins of $525 per head. These producers had a negative $3 net return per cow. Essentially, these producers lost the opportunity to capture any of the dollars they had to work with as profit.

If we go back to the 2004 and 2005 time frame, looking only at the lower 40 percent of the producers based on net return, these producers had gross margins of $545 per head. This is similar to the 2010 low-return producers. These producers still managed to capture more than 21 percent of their gross margins. A simple fact is that it was easier to run a below-average cattle operation based on net returns when gross margins were high.

However, in today’s high-cost environment, below-average cattle operations based on net return are no longer returning any money back to the cow-calf enterprise. Even though the opportunity to make some money is there, the 2010 lower 40 percent of cow-calf producers based on net return had total direct and overhead expenses of more than $528 per cow. Meanwhile, in 2004 and 2005, the lower 40 percent of the operators had total direct and overhead expenses of just more than $427 per cow, for a difference of $101.

So, the question of how a producer sustains a cow-calf enterprise remains.

May you find all your ear tags.