BeefTalk: The Uphill Battle of Expanding the Cow Business

Why Is Expanding the Family Cow-calf Business Difficult?

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Should we think about data or just ponder? That is the question. With the holiday season quickly slowing us down, now is a good time to ponder and maybe let the data rest for a bit.

Most of the time, managerial decisions are driven and validated by data. The idea is that data should lead. However, how many times has the question been asked: When will the cow herd expand?

Data drives the models. However, one thing about models is that, as new data comes in, the model simply repredicts. If the projections based on various assumptions do not hold true, then the assumptions can be changed and new projections created. This process really has no end and actually creates a lot of news and information that, in turn, drives managerial decisions.

What drives the beef business? The demand for beef is the answer. That seems like a simple answer, but the answer is very complex. As long as consumers prefer or at least desire to eat beef, supply and demand will regulate price. Those entities closest to the consumer, which are those who harvest, process, package and serve the beef, will purchase beef at the current competitive price.

All marketable products will be extracted from the purchased inputs and the cost of doing business will be added. Ultimately, a final product will be offered at a price driven by demand. If the accepted price is greater than the costs, the food side of the beef business will do fine. If the price dips below cost, then the purchased inputs also must decline or those who harvest, process, package and serve the beef cannot function.

The same can be said about the feed yard business. Feeding cattle is the only thing feed yards do. Granted, feed yards do a lot of things while they are in the feeding business and can offer a lot of services to producers. However, the bottom line is that, without cattle, feed yards are not feed yards.

Feed yards must balance the cost of feeding cattle with the ability to price the product. The value of the product follows supply and demand, so feed yards estimate product value while adding the cost of feed and services to the desired price. In turn, this generates a break-even price. Those involved in the beef business are very familiar with break-even prices. Most feed yards are fairly comfortable operating using the price of the product plus the costs of feed and services.

Just like those that are involved further up the food chain, if the saleable product value decreases or the cost of feed and services increases, feed yards must adjust. The adjustments usually come from the main source of value in a feed yard, which is the value of the beef produced. The owner of the beef will receive fewer dollars, which will shrink the owner's pocketbook.

As we discuss the world of beef, it does not take long to understand that those who own the cattle are at the lower end of the price model. Beef demand is generated out of the need for human food. That demand, plus all the costs of getting the beef to the consumer, must come from the value generated by the cattle.

Although there are those who speculate by buying and selling cattle, the real base of the beef industry is the cow-calf producer. We ask why the cow-calf business has been declining even though market signals would indicate producers should be expanding.

Fortunately or unfortunately, those involved in the cow-calf business can estimate product value but, in most cases, cannot impact the value originating from consumer demand. Unlike those who feed, harvest, process, package and serve the beef, cow-calf producers must focus on costs. Even when supply and demand is pushing up the value, increased revenue means very little to cow-calf producers if managerial plans do not control costs.

The double challenge is that most cow-calf producers do not operate under the same business plan as those who feed, harvest, process, package and serve the beef. Many cow-calf business plans are vague. This leaves producers open to decisions that are heavily influenced by comingling opinions from other sectors of the beef business that are operating under a different business model. With that in mind, is it really any wonder that it is difficult to get young producers established within the beef business?

The cow-calf business is a demanding, labor-intensive business built on family labor and long hours. With very little control of income, the risk is high, so controlling costs is paramount. When costs are high, producers seldom desire to increase costs by hiring more labor. This creates a very difficult scenario. By expanding, labor must be increased, so costs go up. By staying constant, costs still go up, but not by as much.

Unfortunately, as a producer's age increases, he or she unrealistically holds down perceived costs. When cow-calf producers finally evaluate the operation, the family base has left and the hired labor will make more than the owner.

With that in mind, one of two plans is implemented. The first thought is to try to expand, but the older age of the producer makes expansion difficult, so the second option self-generates, which means dispersing the herd and enjoying the money.

May you find all your ear tags.