BeefTalk 783: Grandma and Grandpa Are Worried!

Cost control is the key to long-term success in the cow-calf business.

From the turn of the century, the year 2000, the average cost of raising a calf has almost doubled.

Today's cow-calf producers are enjoying a revenue stream never before realized by the industry. This is good. So why are grandma and grandpa worried?

The current generational discussions - whether causal chit-chat while doing chores or a formal meeting of the minds - have indicated a breather from always having to worry about where the next dollar will come from. Those who have lived without never forget what that means.

However, unfortunately, those who never have lived without really cannot fathom what it means. This creates a bit of a divide between generations in what are some good times. Is the divide real? Yes, it is. Should the divide be a family talking point? Absolutely.

Those who have the wisdom of past cattle cycles know darn well that cattle prices are not the means to long-term success in the cow-calf business. The means to success is to control cost. Prices go up. Prices go down. At some point, income is less than costs. For those who know the feeling, times will change.

All those jokes about the banker tell more truth than one really wants to admit. Cow-calf producers do not control the price; they control the costs. All good prices come down; not all bad prices go up. Nothing is free.

So where is the beef industry? My favorite places for answers are the North Dakota Farm and Ranch Business Management Education Program (http://www.ndfarmmanagement.com) and FINBIN (http://www.finbin.umn.edu/) from the Center for Farm Financial Management, University of Minnesota.

A review of North Dakota numbers from FINBIN since 2000 certainly brings some points up for discussion. Since 2000, a lot has changed. In 2000, the available gross margin for North Dakota cow-calf producers was $466 per cow. In 2013, the available gross margin was $830 (up 178 percent), and in 2014, it was $1,310 (up 281 percent). That translates into considerable more total dollars coming into the operation.

Gross margin accounts for the purchase and sale of all calves, cull cows and bulls, plus the animals transferred in and any overall changes in cattle inventory. At the end of the day, this is the number direct and overhead expenses are subtracted from to calculate net return per cow without labor and management charges deducted.

Dollars coming into the beef enterprise are dramatically positive. This change is evident as cow-calf producers spend or invest the increased dollars generated. So what worries grandma and grandpa? Simple! Income means nothing without a cost calculation. Given that, what is the first cost that deducts dollars from the available gross margin? Most producers would say feed, but the first and greatest cost affecting the gross margin is maintaining the cow inventory.

Looking back at 2000, the cost for purchasing or keeping replacement heifers was $132, which was calculated by dividing the cost of the replacement heifers by the total number of producing cows in the herd. In 2013, this figure was $268 (an increase of 178 percent). In 2014, the same figure was $297 (an increase of 225 percent). In other words, replacement costs are accumulating within the beef herd.

Changes in North Dakota Beef Cattle Operations

	2000	2013	% Change in 10 years	2014	% Change in 11 years
Gross margin	$466	$830	up 178%	$1,310	up 281%
Cost of purchasing or keeping replacement females	$132	$268	up 203%	$297	up 225%
Cost of total direct and overhead expenses	$342	$583	up 170%	$648	up 189%

FINBIN (www.finbin.umn.edu/) from the Center for Farm Financial Management, University of Minnesota

Is that manageable? Well, grandma is worried, and grandpa is more optimistic. But let's look at the total direct and overhead expenses. In 2000, producers spent, on average, $342 per cow for total direct and overhead expenses. By 2013, that average value was $583 per cow, an increase of 170 percent. And in 2014, that average value was $648 per cow, an increase of 189 percent. Well, grandpa just started to worry as well.

That means a 500-pound calf needs to bring $1.30 per pound simply to pay the obvious bills. That leaves nothing to pay the help, pay something for managing the place or buy a nice gift for grandma. Yes, we all know prices are better than that, but why are grandma and grandpa a little worried? Well, simply put, prices go up and prices go down. What's owned is yours, what's not will transfer, always a reality in business.

Grandma and grandpa have a right to worry; controlling costs are critical to survival. If there are lessons in life, with age, those lessons become more apparent. Granted, the younger generation has a lot of tools to use that previous generations did not, but the lessons of life do not need all the tools.

As long as money is positive, a producer has the choice of several managerial options, but once expenses exceed income, those choices can cease quickly. Choose financial commitments with diligence.

May you find all your ear tags.

Your comments are always welcome at http://www.BeefTalk.com.

For more information, contact the NDBCIA Office, 1041 State Ave., Dickinson, ND 58601, or go to http://www.CHAPS2000.com on the Internet.