BeefTalk 787: Can Commercial Producers Afford to Sell 7-month-old Calves?

The way to maximize calf weight is knowing and controlling direct and overhead costs incurred up to weaning.

Ponder this: Can commercial producers afford to sell 7-month-old calves?

We need to search for a profit. As costs rise and production levels off, spreading costs across a longer ownership period seems doable. But is it correct?

Let's look at the objective. By considering the 2014 calf prices abnormally high, budgeting for the future is challenging as prices drop. Budget development is challenging, but cost cutting is even more challenging. The actual implementation of a conservative budget, regardless of what business is being discussed, is never pleasant.

First, what are some realistic numbers to discuss? For income, after reviewing the last several years of income and expenses per cow from the Center for Farm Financial Management, University of Minnesota (http://www.finbin.umn.edu/), let's set expected gross margin conservatively at $600 per cow for the beef herd.

Why so low? Remember, gross margin accounts for the purchase and sale of all calves, cull cows and bulls, plus the expense of animals transferred in and overall changes in cattle inventory.

Let's ignore the abnormally high 2014 prices. For the years 2009, 2010, 2011, 2012 and 2013, cow herds garnered $630-plus in average gross margin for each cow. Building a budget on lower than average income creates more pressure on expenses. As long as total direct and overhead expenses are less than $600 per cow, some money remains.

But labor, management and return on investment need to be factored in for long-term success. Breaking even by generating dollars to meet expected gross margin doesn't work.

Let's keep moving and anticipate 2015 total direct and overhead expenses to exceed $650 per cow. Budget flags start to pop up as we ponder. As one thinks, the plan is to increase revenue and decrease expenses. Ultimately, the revenue side needs to be great enough to provide dollars for the cow-calf producer's labor, management skills and return on the investment.

Having taught cow-calf management for several years to typical university students, this is the point where faces become somewhat somber. The anticipation of returning home now has a cost. The cost has been manageable through the years, but with no homework, real-life failure starts to become a real possibility.

I still am thinking on how to make a $600 gross margin work with $650 expenses. One way is to manage the total feed cost, which is 70 percent or more of the total direct costs. In addition, adding value to the calf is doable. Both suggestions were advanced by the students in this year's Dickinson State University cow-calf management class.

In simple terms, a thorough evaluation of feed costs is critical. A reminder: The goal for summer or winter feed needs should be evaluated and actual costs applied. Sometimes cows are on pasture when land charges make feeding in a dry lot more feasible. Other times, feed costs make pasture more feasible than the dry lot.

Perhaps, if a mistake is made in the evaluation of a budget, the main one often is not letting oneself think outside the constraints of the operation. Too many times, those constraints are set in a producer's mind but are not real when applied to the operation. Thinking past the present is critical.

That being said, let's get back to the initial question: "Can commercial producers afford to sell 7-month-old calves?" The answer is imbedded in calving season, weaning time, grass turnout, labor requirements and many more intricate aspects of the whole cow-calf operation. These questions should lead to the assessment of the specific operational protocols on the ranch and, we hope, unveil hidden opportunities.

Within those opportunities are alternative marketing options. Fundamental to the answer on how to maximize pounds coming off the operation in respect to calf weight is knowing and controlling direct and overhead costs that have been incurred up to weaning so you can make comparisons of marketing alternatives.

What is the daily incremental cost of keeping the calf for additional days? Traditional thinking would imply backgrounding the calf, but most producers just want to run cows. But, as live weight at slaughter goes up and we market cattle at, say, 1,350 pounds of live weight, the opportunity for the producer to capture a greater percentage of the increased pounds of beef at harvest is real.

As cow-calf producers, do we actively seek an aggressive share of what we produced? Think about it. May you find all your ear tags.

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

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