BeefTalk 652: Survival Still is About Production Costs

Cow-calf Enterprise Net Return per Cow

	Gross Margin	Direct Costs and Overhead Expenses
2011	$729	$546
2010	$578	$466
2009	$451	$464
2008	$464	$452
2007	$543	$445
2006	$529	$424

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

A good place to start is gross margin.

The times are good pricewise for cattle, but cattle producers have a lot on their minds these days.

Calving has started on many ranches, and the complicated production scenarios already are constantly churning for producers. Unfortunately, the dollars associated with many production scenarios often are in place well before adequate financial evaluations are done. The critical point is that the dollars are coming in well, but the dollars going out also are growing.

The cattle business costs money.

In visiting with Jerry Tuhy, farm business management instructor at the Dickinson Research Extension Center (www.ndfarmmanagement.com), he noted that free markets will tend to price commodities at or near a break-even point for the bulk of producers. In other words, high-cost producers will be the first producers to lose money in good or bad markets. No market will remain positive enough that all producers will survive the financial tests through time. Cost control remains critical at all times in the cattle business.

In the current world, competition from the energy- and food-producing sectors of agriculture is real. The competition between land uses, such as crops grown for human consumption, crops for energy and crops for livestock feed, is very real. Given Mother Nature's hesitation to provide moisture, the competition only gets tougher.

Grass is becoming even more of a premium. Despite agriculture's tremendous effort at keeping energy costs low and feeding people, the price is high as these inputs return to farms and ranches as needed supplies.

Cost control is the driver for sustaining beef operations and is achieved by the continual evaluation of the planning process.

SUPPORTING MATERIALS

Full Color Graphic
[click here]

Grayscale Graphic
[click here]

Adobe PDF
[click here]

We need to return to the North Dakota Farm Management Program, along with the FINBIN (http://www.finbin.umn.edu/) database from the Center for Farm Financial Management at the University of Minnesota. These programs allow our discussion to focus on the dollars and sense involved in the beef enterprise.

A good place to start is gross margin. According to Tuhy, 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 he or she is involved in the beef business because the money in and the money out are a wash.

Well, that is not true in the beef business because those producers who have at least 50 cows and were involved in the 2011 North Dakota Farm Management program had $729 in gross margins.

Without going too far back in time, these cattle producers have had stable to increasing gross margins to work with. From 2006 through 2010, cattle producers who were enrolled in the North Dakota Farm Management program had gross margins of $578 in 2010, $451 in 2009, $464 in 2008, $543 in 2007 and $529 in 2006.

In 2011, the total direct and overhead expense was $546 per cow. Although the 2010 gross margin was above 2011 expenses, 2009 through 2006 gross margins were all below the current 2011 expenses.

In other words, if cattle prices returned to the prices offered from 2006 through 2009, cattle producers would be operating in the red, which is not a pleasant thought. The total direct and overhead expenses per cow from 2011 back to 2006 were $546 in 2011, $466 in 2010, $464 in 2009, $452 in 2008, $445 in 2007 and $424 in 2006.

A quick review of the numbers points out that, even though average gross margins have been good, if recent expense numbers are any indication of future expense numbers, expenses are accelerating.

From 2010 to 2011, expenses jumped more than 17 percent, while gross margins jumped more than 26 percent, thus the increase in net returns for the cattle producer. However, the red flag still is there, so it will be interesting when the 2012 numbers come out as to where production costs are going.

For now, the point remains: The cost of production is a large, sustainable block in the survival of beef operations. A simple fact is that producers need to plan well while on the high-speed road leading to cattle profits as the 2013 year engages.

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.