

Beef Producers Need a Green Thumb

By Kris Ringwall
Extension Beef Specialist
NDSU Extension Service



Good recordkeeping and evaluation of management practices are ongoing through the production season. Winter traditionally is considered the time to summarize those observations and begin the planning for another growing season.

For most producers, the onset of spring and the sight of green growth coming from the cool-season grasses, especially crested wheat grass, is the final reminder that the cropping system needs to be set.

Obviously, if a producer has a system in place, the major decisions were made when the system was designed. Winter and spring should be the time for tweaking or minor modifications. Even livestock producers need to be cognizant of cropping systems.

The first obvious reason is the need to produce a bountiful crop. Cattle eat. Good forage or grain yields are critical. The economics of crop production ultimately determine the magnitude of the largest variable expense, which is feed.

The Dickinson Research Extension Center is focusing some of our efforts on cattle forage production. A subset of the economic question, actually a make-or-break question, simply is the cost of maintaining all the overhead necessary to produce forage or hay crops, including harvesting equipment.

The question was jarred loose the other day by a set of questions from an area producer. “How would I go about analyzing our costs in making our own hay? And if machinery depreciation is the biggest cost in haying, how do I answer those who might say that depreciation is not real money?”

The first question really depends on the willingness of a producer to engage or participate in an appropriate analysis of the operation. The center participates in the Adult Farm and Ranch Business Management program. The program is on the Web at www.ndfarmmanagement.com. It is an excellent opportunity to initiate the appropriate financial records.

Financial and economic evaluations are available from other sources as well, such as the Standardized Production Analysis (SPA) offered by the National Cattleman’s Beef Association through many cooperating groups. Regardless of what approach is taken, the basic analysis requires a good notepad and sound pencil.

Kevin Misek, North Dakota Farm Business Management Program instructor, said, “Determination of what a machine costs to own is a five-step process. Step one includes listing of basic data, such as list price, purchase cost, salvage value, ownership life, estimated annual use and interest rate on the capital investment. From this data, total ownership costs are calculated and converted to average ownership cost per hour or per acre of use. Ownership costs include depreciation, interest, taxes, insurance and housing. Operating expenses can be calculated by including repairs, fuel, oil and labor.”

Once these numbers have been calculated, the appropriate cost per unit can be calculated and the numbers should have a more practical meaning. The discussion then can focus on the cost per cow or other units of measurement that make sense.

A common, practical question is, “Can I buy feed cheaper than I can grow and process feed?” With today’s high equipment and fuel costs, this question certainly is a very real one. The essence of this question, however, is greater than the reality of the first.

For people in general, not only agricultural producers, green cash is easy to comprehend. The reality for production units, and individual accounts as well, green cash is not always very evident in the analysis process. The calculations on paper will drive the analysis outcome and associated impacts to the producer.

Cash may change hands, but depreciation, interest and the changing inventory market values can produce very negative evaluations on cash friendly operations. The bottom line is, as livestock economist Harlen Hughes always said, “If it doesn’t work on paper, don’t do it.”

May you find all your ear tags.

Your comments are always welcome at www.BeefTalk.com. For more information, contact the North Dakota Beef Cattle Improvement Association, 1133 State Avenue, Dickinson, ND 58601 or go to www.CHAPS2000.com on the Internet. In correspondence about this column, refer to BT0242.

Is Depreciation Real Money?

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