

BeefTalk: Understanding and Controlling Cost Is Critical



North Dakota FINBIN numbers (2008, 2009 and 2010)

	2008	2009	2010
Cost to Maintain Herd	181.69	176.69	232.17
Direct Costs	390.23	398.27	394.34
Overhead Expenses	83.18	87.01	75.20
Net Return	93.71	113.74	113.29

FINBIN (Financial Information) from the Center for Farm Financial Management, University of Minnesota

Cow-calf Enterprise - North Dakota FINBIN numbers (2008, 2009 and 2010)

The question of the day remains on how a producer can sustain a cow-calf enterprise.

The beef business hit some positive returns, according to the North Dakota Farm and Ranch Business Management Education Program (www.ndfarmmanagement.com) and FINBIN (www.finbin.umn.edu/) farm financial database from the Center for Farm Financial

Management at the University of Minnesota.

However, in reviewing the numbers for the various states that contribute data to the Center for Farm Financial Management, not all producers have had positive returns despite the increasing value of calves. The culprit is costs, both obvious and those that are not so obvious.

Profitability is positive when expenses are less than income received. This is not rocket science, but in the beef business, particularly the cow-calf business, the actual numbers used in the assessment of profitability are not always complete.

The income check may be large and actually overshadow the size of the expense checks that were written or expenses allotted to the beef enterprise through the production year.

In visiting with Jerry Tuhy, farm business management instructor at the Dickinson Research Extension Center, he indicated that, for North Dakota herds, the average herd returned \$183.99 in 2010, which is up from \$53.27 in 2009. However, he noted the bottom 20 percent of the herds still had direct expenses exceed income by a whopping \$145.43.

So, good times were not had by all. Even the middle 20 percent of the beef producers utilizing the North Dakota Farm and Ranch Business Management Education Program only exceeded direct costs by \$45.49.

Perhaps the best way to look at increasing costs is to look at all North Dakota herds. Their revenue was \$738.23 per cow in 2010 versus \$624.27 in 2009, for a difference of \$113.96 more income. Where did the additional income go? Remember that not all costs are obvious.

For example, the cost of bringing breeding cattle into the herd is never cheap. It really does not make a difference in relationship to costs if the cattle are purchased to replace existing breeding cows or if the heifers are retained and simply transferred into the breeding herd as bred heifers.

It does make a difference (purchased versus raised) in other financial processes involved in the overall operation of the farm or ranch. However, for the purpose of the profit discussion, let's keep it simple.

The cost of maintaining a breeding herd has increased for North Dakota producers. In 2008, the purchase and transfer of breeding stock cost cattle producers \$141.69. In 2009, the purchase and transfer of breeding stock cost cattle producers \$176.69. That figure increased to \$232.17 in 2010.

The cost of having higher-priced cattle reflects very quickly in the cost of replacing the breeding herd and also the bottom line associated with the cow-calf enterprise. The actual direct costs for these producers, in other words, those costs we tend to write out checks for on a routine basis, were \$390.23 in 2008 and \$398.27 in 2009 and dropped slightly to \$394.34 in 2010.

In terms of actual net return, figuring the replacement costs, direct expenses and overhead expenses, these producers netted \$10.71 per cow in 2008, lost \$13.74 per cow in 2009 and rejoined the positive side of the equation in 2010 with a net gain of \$113.29. This would be the dollars that each cow could contribute to the labor and management of the cow-calf enterprise.

The question of the day remains on how a producer can sustain a cow-calf enterprise. Again, let's look at the numbers, but now turn to gross margin.

I asked Tuhy to provide an explanation of gross margin. He says gross margin accounts for the purchase and sale of all calves, cull cows and bulls, plus animals transferred in. It also includes any other changes in cattle inventory.

The bottom line: Gross margins reflect the amount of money cattle producers have to work with. In 2010, producers had gross margins of \$578.33. Since the early '90s, cattle producers have not had that much money to work with. The exception was 2005, when gross margins were \$619.73. In 2005, producers captured 35 percent of their gross margin, but only 20 percent in 2010.

It's about costs, which I'll talk more about later.

May you find all your ear tags.