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BeefTalk: Lower Prices Need Lower Costs

The first step to lowering costs is knowing the costs.

By Kris Ringwall, Beef Specialist NDSU Extension Service

The daily CattleFax report just popped into my email and was not the positive news one would like.

The Oct. 10 values were \$98.87 for live cattle and \$124.65 for feeder cattle. I had a simple thought: "What, two-digit live-cattle prices!" My second thought: "We have got to get costs down!"

For someone trained in genetics, my mind was trying to make sense of a \$1.30 cost per pound of weaned calf per exposed cow. This was not good because this was my conclusion of costs when gross margins per cow were exceeding \$1,000 in many beef operations. Prior to this thought, I was

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thinking of what would happen if gross margins dropped to \$600 and direct and overhead expenses were \$650 per cow.

Earlier this fall, I expected a gross margin of \$700 and expenses of \$650; this was a positive thought based on the new market prices. Now I am thinking I should go back to my original thought, and check the savings account.

Beef production management is a swing from market highs to market lows and back and forth. Sometimes the swing goes really high; sometimes it moves very little. But swing it does, and beef production swings with it. Of course, we have those who want to find someone to blame, but finding blame does not stop the swing.

I can remember one spring a pen of market heifers that the Dickinson Research Extension Center owned, and every day the cattle were worth less, and the discussions of breakeven were long gone. Finally, the cattle were sold and the center took a significant loss on the cattle.

Through the years, that has been the exception, but exceptions are still real. We all should learn the supply-and-demand principle very early. If I have something that everyone else has and the demand is small, my asking price will be low. If I have what few people have, and the product is desirable, my asking price will be higher. And I actually may have the ability to ask for a price,

use of releases

The news media and others may use these news releases in their entirety. If the articles are edited, the sources and NDSU must be given credit.

although I cannot say I ever have had that option.

The movement up or down in beef prices results in many news story indicating the consequences. The challenge for beef producers is to develop a production system in which expenses are underneath the ever-changing swinging commodity prices while learning to utilize the appropriate financial tools to help minimize risk.

This balance of risk protection as investments mount versus limiting investment by decreasing expenses is a fundamental split in the beef world. For producers, balancing these two principles is the challenge. At what point do producers quit putting money into the trough versus trying to make the trough smaller?

Today, I am going to go down the hard path of controlling expenses. I suggest producers also visit with those who have much more expertise in managing risk.

At the center, our yearly response to the cattle business has been to look at production systems that will lower expenses and keep us under the swings.

Expenses can be controlled, and the first step to lowering costs is to know what the costs are in the first place. Unfortunately, despite many efforts, many beef producers do not have an adequate handle on expenses. That is not meant to be critical of beef producers but simply acknowledging

the difficulty in tracking expenses.

At the center, we do track costs. Presenting those costs as typical would be misleading because every cow-calf enterprise is unique. Ranch and farm records are very diverse, resulting in difficulty in clearly understanding what the records mean. This diversity also results in even more difficulty in trying to take the concepts of one cow-calf enterprise and model that enterprise on one's own operation.

Producers must take care to ensure the accuracy of the numbers needed to answer the question. In addition, even if the expenses are known, the market price of a calf minus the direct expenses of producing that calf is far from any indication of the financial status of a beef operation.

The issue of controlling expenses has no simple answers because answers start with tax preparation, loan renewals, checking account balances, gross margins, direct and indirect expenses, depreciation, net returns, labor and management charges, and, ultimately, return on total assets. Management needs to provide the financial analysis that determines an acceptable return on total assets, which leads to sound decisions regarding the future of the beef enterprise, rather than a knee-jerk reaction to the markets.

But that being said, an evaluation of expenses and

reduction of the cost of production, along with improved production and marketing efficiency, is still a good place to start. That we all can do and must do, but this effort generates some interesting thoughts. More later, so start pondering.

May you find all your ear tags.

For more information, contact your local NDSU Extension Service agent (<https://www.ag.ndsu.edu/extension/directory>) or Ringwall at the Dickinson Research Extension Center, 1041 State Ave., Dickinson, ND 58601; 701-456-1103; or [✉kris.ringwall@ndsu.edu](mailto:kris.ringwall@ndsu.edu).

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source:	Kris Ringwall, 701-456-1103, ✉kris.ringwall@ndsu.edu
editor:	Ellen Crawford, 701-231-5391, ✉ellen.crawford@ndsu.edu

Attachments



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