

BeefTalk: Cow-calf Enterprise Expenses Are Up

Good business practices, an understanding of herd data and marketing skills are the cornerstones of a cow-calf operation.

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The business success of beef enterprises often suffers because two questions are not evaluated regularly.

First, how much does the average beef producer have invested in the cattle operation? Second, can a producer get a fair market return on that investment?

Some families accept a negative return because the “way of life” is a benefit. Still, good business practices will enhance the “way of life” benefit.

So let us look at the dollars and cents of the cow-calf business, keeping in mind that the business really does not have an average cow-calf person. The reasons, the “whys,” and the ultimate end desires vary more than we have words to describe. Perhaps that is why these discussions often evolve around the word “commodity.”

Commodity beef production focuses on prices, assuming the greater the price, the bigger the check, thus more positive the outcomes. However, expenses play a key role in what remains of the beef check.

The beef industry enjoyed high prices a few years ago. Today, some leveling has occurred in the current beef producer’s expectations of the market, leading to renewed interest in keeping costs under control.

With no upper or lower limits to price, managerial commitment to control costs is imperative, so let us look at current costs. A review of FINBIN (<https://finbin.umn.edu/>) from the Center for Farm Financial Management, University of Minnesota, really helps get a handle on dollars.

The problem inherent to any data set is how relevant are those herds that submit data. Unfortunately, data sets are hard to establish, and those that exist are good. I just wish more herds would participate. Or more deeply, the wish is that more herds would have the data to participate. However, we use the data available.

Let us review North Dakota FINBIN numbers for cow-calf enterprise costs from 2007, 2008 and 2009 (the early years) with years 2015, 2016 and 2017 (the recent years). Total feed cost per cow was \$279 in 2007, \$289 in 2008 and \$303 in 2009, or a three-year average of \$290. Total feed cost per cow was \$355 in 2015, \$349 in 2016 and \$367 in 2017, or a three-year average for the recent years of \$357. This is an increase of 123 percent, or \$67 per cow.

The next largest cost would be the replacement of breeding cows. The average cost to purchase or transfer in replacement heifers per cow in the herd was \$143 in 2007, \$141 in 2008 and \$172 in 2009, for an average of \$152. The same costs were \$371 in 2015, \$261 in 2016 and \$228 in 2017, for an average of \$287. This is an increase of 189 percent, or \$135 per cow in the herd.

Images

	2007-2009	2015-2017	Percent Change
Cost of purchasing or keeping replacement females	\$150	\$307	up 105
Cost of total direct expenses	\$303	\$367	up 21
Total feed costs	\$290	\$355	up 23
Percentage of total expenses on feed	79%	79%	about 2
Additional direct costs, such as veterinary, supplies, fuel and all repairs, marketing, marketing and operating interest	\$60	\$112	up 137

Cow-calf Costs Rise From 2007 to 2017 (per cow)

Additional direct costs (veterinary services, supplies, fuel and oil, repairs, custom hiring, marketing and operating interest) are calculated by subtracting the total feed cost from the total direct cost. FINBIN data show additional direct costs were \$91 (\$370 minus \$279) in 2007, \$100 (\$389 minus \$289) in 2008 and \$95 (\$398 minus \$303) in 2009, for a three-year average of \$95. Additional direct costs were \$141 (\$496 minus \$355) in 2015, \$110 (\$459 minus \$349) in 2016 and \$139 (\$506 minus \$367) in 2017, for a three-year average of \$130. The additional direct costs increased 137 percent, or \$35 per cow.

In reality, costs continue to rise, marketable production remains stagnant and prices have leveled. Yet, the current response to staying in the cow-calf business is similar to previous responses. Producers generally focus on the market price of calves, promptly noting if a change in market direction occurs.

The actual cow-calf costs are generally not part of the equation. As the record prices of previous years are put in the history books, today's backgrounders and feedlot owners will buy calves at a price based on potential market indicators and the ability to profit, as well as seek a positive return on investment. They will continue to project income and subtract expenses while managing grass calves or feedlot calves.

Break-even prices will be calculated based on the costs associated with the cattle-feeding operation. In theory, supply and demand will negotiate the final price that a grass or feedlot manager will offer to cow-calf producers.

Once the final purchase is settled, feedlots will manage cattle so carcass quantity and quality will maximize the cattle-feeding operation's capacity to offset costs. Feedlots will revisit costs and adjust costs and the price of incoming cattle to manage expected returns.

Ultimately, understanding consumer demand factors into the equation. So what can the cow-calf producer do? The cow-calf producer needs to know input costs to help determine break-even prices and, more importantly, realize some profit and an acceptable return on investment.

Average expenses are up 144 percent. Good business practices, associated data and marketing skills need to be the cornerstone of the cow-calf operation. Then implement tight cost controls for a return on the investment.

May you find all your ear tags.

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Attachments



PDF - Cow-calf Costs Rise From 2007 to 2017 (per cow) 
(NDSU_Extension_BeefTalk_071918.pdf - 20.41 Kb)



EPS - Cow-calf Costs Rise From 2007 to 2017 (per cow)
(NDSU_Extension_BeefTalk_071918.eps - 233.25 Kb)