BeefTalk: Gross Margins Are Not Price Per Calf

Gross Margin Per Cow

FINBIN estimates for the years 2000-2010

Beef Calves sold	$180.96
Transferred out	$358.85
Cull sales	$99.30
Other income	$5.74
Inventory change	$3.38
Purchased	- $77.75
Transferred in	- $69.07
Gross margin	**$501.42**

Gross Margin Per Cow

When a producer understands gross margins, he or she can start to appreciate what dollars are available to work with.

A point of clarification is in order. Assessing income in a cow-calf enterprise is more than just the price received for the calves. The impact of making change also needs to be measured. If the impact of the change is measured only in calf value or dollars received per pound of calf sold, the measured impact is not the most accurate.

The assessment of the health of a beef enterprise is critical. If the current managerial efforts are generating the desired outcome, pen and paper should be able to track the effort. Did net return go up and did the desired managerial effort have a positive outcome?

The measuring stick that is most beneficial is the calculation of gross margin per cow. That value is not the same as the calf value per cow. That is because there are multiple sources of income within a cow-calf enterprise.

The natural and appropriate tendency is to focus on cost as one evaluates a cow enterprise. However, if a major change in management is made such that the historical income opportunities also have been modified, then both the cost and income side of the operation must be assessed properly to understand fully the results that are positive, neutral or negative.

That is why the call for a point of clarification. Gross margins per cow should be discussed as a finite value. To change the value (increasing or decreasing gross margins), the dollar change is not directly connected to a particular dollar value in terms of price per pound of calf or any other livestock sale. It is a dollar value projected by the composite sale of all cattle products. This is the overriding business principle in using gross margins.

When a producer understands gross margins, he or she can start to appreciate what dollars are available to work with. How those dollars are obtained depends on what livestock are available to sell.

According to Jerry Tuhy, Bismarck State College farm business management instructor at the Dickinson Research Extension Center, gross margin accounts for the purchase and sale of all calves, cull cows and bulls, plus the animals transferred in and any overall changes in cattle inventory.

The North Dakota Farm Management education program (http://www.ndfarmmanagement.com), along with FINBIN (http://www.finbin.umn.edu/) data from the Center for Farm Financial Management at the University of Minnesota, indicate that, since the turn of the century, per cow gross margins have averaged $501.42.

To get to that number, questions based on dollars per cow in the cowherd need to be answered. The answers will reflect the FINBIN estimates for the years 2000 through 2010. What was the value of calves sold per cow ($180.96)? What was the per-cow value of the calves transferred out of the cow-calf enterprise to a backgrounding or feedlot operation ($358.85)? What was the per-cow value of cull sales that includes bulls, cows or young breeding stock ($99.30)? What other miscellaneous sales of beef were accounted for per cow ($5.74)?

As a producer, if I stop there and add up the income per cow, the total sales income per cow would be $644.85. Keep in mind that, even though this is the average value of sales per cow, the average value per pound of calf sold cannot be calculated by this number. In fact, even if one looks at only the value of calves sold and calves transferred out, the average value per pound cannot be determined by these numbers.

It is critical to think gross margin concepts instead of value per pound of calf. However, we still do not have the gross margin calculated because the cowherd needs to be replaced. We have old cows going out and new cows coming in. Therefore, what was the cost per cow of all purchased breeding stock ($77.75)? What was the cost per cow of breeding stock transferred into the breeding herd ($69.07)? Finally, did the inventory within the herd change at all? If so, what was the value of that change ($3.38)?

Right now, all the numbers for calculating gross margin are available. If the sale numbers are added up, plus inventory change, one gets a gross margin of $648.23. To offset the cost of replacing the herd, one needs to subtract the cost of purchased or transferred breeding stock. If one does that, the average gross margin per cow since the year 2000 is $501.42.

Now that’s gross margin.

May you find all your ear tags.