Beeftalk 750: Buy Wisely and Spend Thriftily

The first and greatest cost is maintaining the cow inventory.

The world would be a mess if everything were free, so everything has a cost. As the beef industry interacts with the market, individual producers must decide their approach to survival and meeting the family and operational goals.

Dollars are the common denominator. Why be in the beef business without a return to labor and management? With current demand for replacement cattle indicative of a positive industry stance to maintaining and expanding the beef business, now is a good time to ponder some fundamental costs of the business.

My favorite databases and search tools for some answers are the North Dakota Farm and Ranch Business Management Education Program (http://www.ndfarmmanagement.com), along with FINBIN (http://www.finbin.umn.edu/) from the Center for Farm Financial Management at the University of Minnesota. Lynsey Frey, Farm Business Management instructor at the Dickinson Research Extension Center, and other North Dakota instructors contribute to the databases.

North Dakota numbers for the last 10 years from FINBIN certainly show a lot has changed. In 2003, the available gross margin for North Dakota cow-calf producers was $467 per cow. In 2013, the available gross margin was $830, which is an increase of 178 percent. There are a lot of enterprises that wish they could make that statement.

Gross margin accounts for the purchase and sale of all calves, cull cows and bulls, animals transferred in, plus any overall changes in cattle inventory. At the end of the day, this is the number that direct and overhead expenses are subtracted from to calculate net return per cow, but without labor and management charges deducted.

The revenue stream for the beef industry has changed dramatically for the positive. This is evident as cow-calf producers look to spend or invest the increased dollars the beef operation is generating. Given that, what is the first cost that deducts dollars from available gross margin? Although many producers would say feed, generally that is not true.

The first and greatest cost is maintaining the cow inventory. Looking back at 2003, the cow-calf producer cost for purchasing or keeping replacement heifers was $121 per cow. In 2013, producer cost for purchasing or keeping replacement heifers was $268 per cow, an increase of 221 percent per cow. Is that manageable?

To start, let's look at direct and overhead expenses. In 2003, on average, producers spent $361 per cow for total direct and overhead expenses. That increased to $583 per cow by 2013, an increase of 161 percent. That is good because direct and overhead expenses went up less than the available gross margin per cow, which leaves dollars in the producer's pocket. However increases in replacement costs are greater than the increase in gross margins, so that takes some money back out of the producer's pocket. Comfortable would be a good word for the state of the beef business. Income is going up, but costs are still manageable. However, caution must be taken when replacing cheaper, old cows with more expensive, young cows. Putting up a caution flag would be in order when paying for replacements.

So what is likely to go up and what is likely to go down? That is the painful question. Historically, costs tend to remain or increase through time. Occasionally, costs will go down, particularly feed costs as prices fluctuate in the grain and hay market. Supply and demand drive the market. So direct costs often are called variable costs because they vary and respond to the current market.

Overhead costs certainly are more long term. A conservative approach to accruing long-term debt always is advisable. Debt payments, locked in for a fixed number of years, can become problematic if beef values drop.

The 178 percent increase in gross margin per cow will be the most difficult component of a vigorous beef system to maintain. The direct costs currently are manageable, but remember that the replacement of breeding stock is leading the pack on negative impact on gross margin per cow.

Buy wisely and spend thriftily.

May you find all your ear tags.

Your comments are always welcome at http://www.BeefTalk.com.

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	2003	2013	Change in 10 years
Gross Margin	$467	$830	up 178%
Cost of purchasing or keeping replacement females	$121	$268	up 221%
Cost of total direct and overhead expenses	$361	$583	up 161%

FINBIN (www.finbin.umn.edu) from the Center for Farm Financial Management at the University of Minnesota.

For more information, contact the NDBCIA Office, 1041 State Ave., Dickinson, ND 58601, or go to http://www.CHAPS2000.com on the Internet.