BeefTalk: Decreasing Markets Are a Good Time to Ponder

The key is maintaining flexibility in marketing calves so you have the ability to move calves when windows open.

Images

Goals during decreasing markets ... I want to be a lower-than-average-cost producer who captures an above-average price with an increasing share of the total carcass weight on the rail

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Input and questions from readers of this column always are welcome.

Following is one such note: "I read with interest a recent column of yours dealing with selling calves in the fall at the same weights year after year despite the increasing overall carcass weights. The point of this email, though, is to

columns

Spotlight on Economics: Spotlight on Economics: Monetary Policy and Commodity Prices (2016-09-15) Changes in monetary policies by the Fed may have a large impact on North Dakota's agricultural sector. FULL STORY

BeefTalk: BeefTalk: Decreasing Markets Are a Good Time to Ponder (2016-09-15) The key is maintaining flexibility in marketing calves so you have the ability to move calves when windows open. FULL STORY

Prairie Fare: Prairie Fare: Family Mealtimes Matter (2016-09-15) Family meals improve nutrition, strengthen relationships and decrease stress. FULL STORY

Small-business Savvy: Small-business Savvy: Follow the Money (2016-09-15) Dig into what makes the most money and where your business may be leaking money. FULL STORY

question what the other alternatives are."

The quick answer is to keep watching the market, calculate one's total costs and sell when a positive return is reached. But with lower markets and higher costs, the outcome is not always positive. So a good buffer is a staggered marketing program in which you sell various weights of calves across different dates, always with one eye open.

The key is maintaining flexibility in marketing calves so you have the ability to move calves when windows open. Creative facilities, weaning dates and low feed costs help, and do not be stuck in a historic all-or-none marketing program.

I don't know the final answer because the final answer is dependent on the ultimate goals and capabilities of each individual producer. I can encourage producers to investigate and open new doors, but real change and acceptance of such risks must come from within.

The "within a producer" has deep roots. Beef production begins by placing cattle on the land and deciding that raising beef would be a good occupation. Producers choose among a variety of enterprises that would provide a desired return. The initial monetary investment needs an acceptable rate of return to sustain the business plus the producer's chosen lifestyle.

For those born in the business, the question never is asked or reported historically: Why have we chosen this occupation? Well, we ranch.

The question is different when someone comes into ranching with earned dollars, or times change and the current ownership wonders if money would be better invested somewhere else. At that time, return on investment needs to be competitive with other investments. Either way, the owner decides what is good, which is embedded in the historical context of why one is ranching.

So how much do we need to obtain a positive return on investment, meet direct and overhead expenses, and purchase replacement cattle, along with obtaining adequate return to labor and management? The long-term answer to this question is at the heart of the short-term answer to the producer's initial question.

By my estimates, a better part of a $1,000 bill per cow is needed to get that job done through the sale of calves, cull cows and cull bulls while accounting for the expense of animals transferred into the herd. Is this possible? The obvious answer is maximizing sale weight because more pounds equal more total dollars.

But keep in mind, total carcass value on the rail caps the available money for distribution through the preharvest beef chain. So everyone who is or has been involved in the same pen of beef is limited to total value on the rail; thus, bidding competition ensues.

Also, the importance of understanding historic, current and future market trends is critical. Anytime an animal changes ownership, the challenge is for the seller to recoup costs and the buyer to reduce costs. This is not a synergistic relationship, and the term “breakeven” gets tossed around a lot. Who can exist at breakeven?

The end result is a continuous profit and loss flux for the cow-calf producer and the feeder. One goes up, one goes down. The heavier the calf gets, the fewer dollars the calf sells for per pound.

The logical answer for beef producers is to manage costs without robbing Peter to pay Paul. Perhaps this is a bit of utopia.

The advantage in the current phase and any future efforts goes to producers who have a good handle on costs and understand markets, which gives such producers a chance to set appropriate production goals. Good market consultations with local sale barns, along with a good pencil to do the math, should guide the sale of calves.

In the long run, finding the best marketing plan starts with a production system that lowers costs while sustaining the meat produced per cow exposed. In the short run, astute market analysis is critical, but keep in mind, the cost of feeders impacts the feeders’ bottom line.

This is the give and take in the beef industry: I take from you, you take from me. What was the goal? What was the need? Every change in ownership is a money exchange with anticipated profit. But for who? I do not have a magic crystal ball, and every producer has a different ability to sustain a dollar lost.

But loss is never the goal. Low prices always will occur, so decreasing markets are a good time to ponder production changes that sustain low prices. In the long term, when an average number is quoted, I want to be on the right side of the average. I want to be a lower-than-average-cost producer who captures an above-average price with an increasing share of the total carcass weight on the rail.

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.

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Attachments

PDF - Goals during decreasing markets

... I want to be a lower-than-average-cost producer who captures an above-average price with an increasing share of the total carcass weight on the rail.

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EPS - Goals during decreasing markets

... I want to be a lower-than-average-cost producer who captures an above-average price with an increasing share of the total carcass weight on the rail.

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