BeefTalk 656: Good Marketing Captures Available Dollars

Average Gross Margin
2006 to 2011 Cow-calf Enterprise

Average Gross Margin	$549
Upper 40% net return per cow	
Average price/cwt	$115
Average weight of Calves	604 lbs.
Lower 40% net return per cow	
Average price/cwt	$111
Average weight of Calves	574 lbs.

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

Improved marketing to capture the monies available is the key.

Cattle producers need to set focused, systematic goals to capture more net dollars. When the discussion rests on the income side, marketing is the focus. Improved marketing to capture the monies available in the market is the key.

Regardless of current net returns, the goal of increasing net returns in the cattle operation is always commendable. For those who are struggling with negative net returns, the increase should move the cow-calf operation in a positive direction and provide enough additional dollars to remain in business.

For those who are in a very positive position, the challenge will re-emphasize the need to always remain astute and aware of the changing dynamics of the beef business. The challenge or goal is doable, but to meet the challenge is not going to be easy. The place to start is with pen and paper in hand to do some creative figuring, but let's get out of the old mind-set to figure out how.

Initially, let's divide $200 in half and apply $100 to the income side of the cow-calf operation and $100 to the expense side of the equation. For this discussion, we are going to work on the income side.

To make progress increasing income in a beef operation, one first must evaluate gross margin. To do so, we need to return to the North Dakota Farm Management Program numbers that are available on the FINBIN site (www.finbin.umn.edu/) from the Center for Farm Financial Management at the University of Minnesota. These numbers document gross margin in a cow-calf enterprise.

Gross margin accounts for the purchase and sale of all calves, market cows and bulls, plus animals transferred in and any overall changes in cattle inventory, according to Jerry Tuhy, farm business management instructor at the Dickinson Research Extension Center. Therefore, gross margins reflect the amount of money cattle producers have to

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work with, so our goal needs to be attached to gross margin values.

More specifically, the goal is to increase our gross margin by $100. We know what sales influence gross margins, but evaluating gross margins is not easy or simple. Depending on how a producer is marketing calves and if the producer is expanding or contracting, cow numbers have strong impacts on the amount of gross margin available.

Keep in mind that gross margin is the number that pays the bills and is a composite of all sales. The average gross margin for cow-calf producers with more than 50 cows involved in the North Dakota Farm Management program from 2006 to 2011 was $549.

The goal is to increase the $549 to $649. Can it be done? If one reviews the years 2006 to 2011 and looks at the value of the calves that were sold, some interesting numbers come up.

Based on net returns per cow, those producers who were in the upper 40 percent sold an average of 604 pounds of calf from 2006 to 2011 at an average price of $115 ($116 in 2006, $115 in 2007, $105 in 2008, $96 in 2009, $117 in 2010 and $142 in 2011) per hundredweight of calf.

In contrast, those producers who were in the lower 40 percent based on net return per cow sold 574 pounds of calf during that same period at an average price of $111 ($112 in 2006, $109 in 2007, $94 in 2008, $92 in 2009, $119 in 2010 and $141 in 2011) per hundredweight of calf. The difference was $58.

Producers who had a higher net return sold heavier calves for more money per pound than those producers who had lower net returns. In stark contrast to popular thought, lighter-weight calves did not bring more dollars per hundredweight of calf, and the additional weight on each calf at a higher value actually accentuated the positive impacts of good heavier-calf marketing.

The value of marketing is huge and will be the key in using any single factor in determining potential increases in gross margins. The market will reward value, so value is worth seeking.

May you find all your ear tags.

Your comments are always welcome at http://www.BeefTalk.com. For more information, contact the NDBCIA Office, 1041 State Ave., Dickinson, ND 58601, or go to http://www.CHAPS2000.com on the Internet.