

Cow Calf Operation Costs Are Up: How are you managing for this?

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

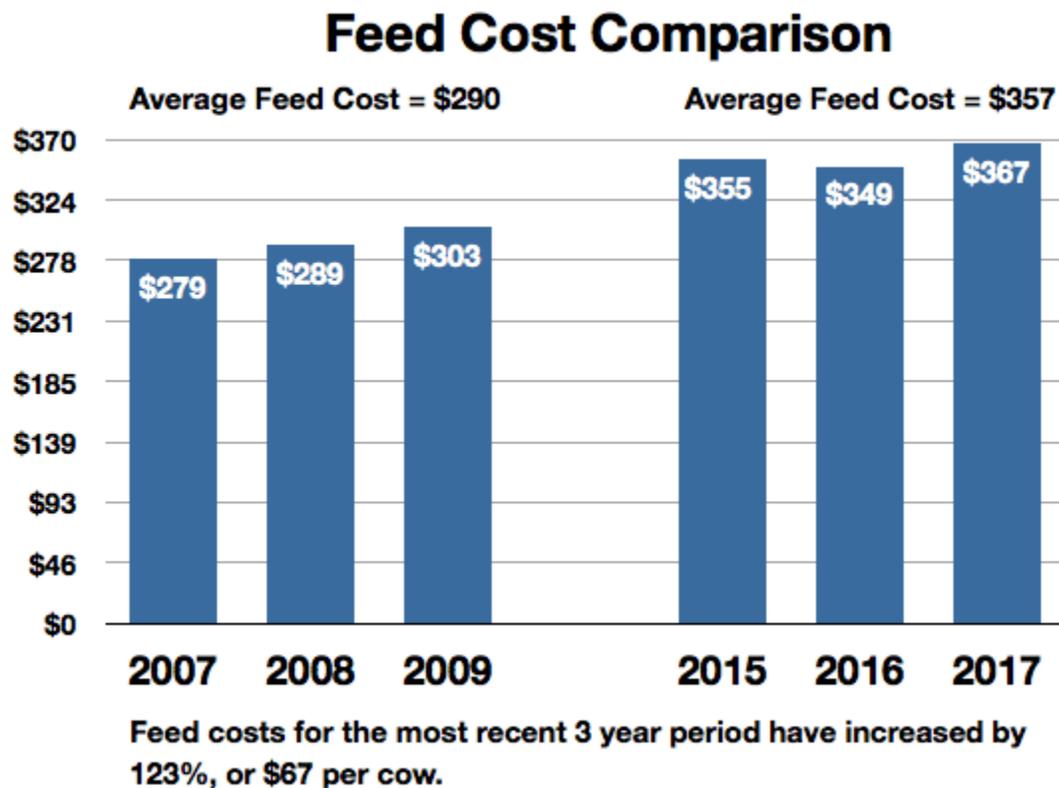
1. How much do I have invested in my cattle operation?
2. Can I get a fair market return on my investment?

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.

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

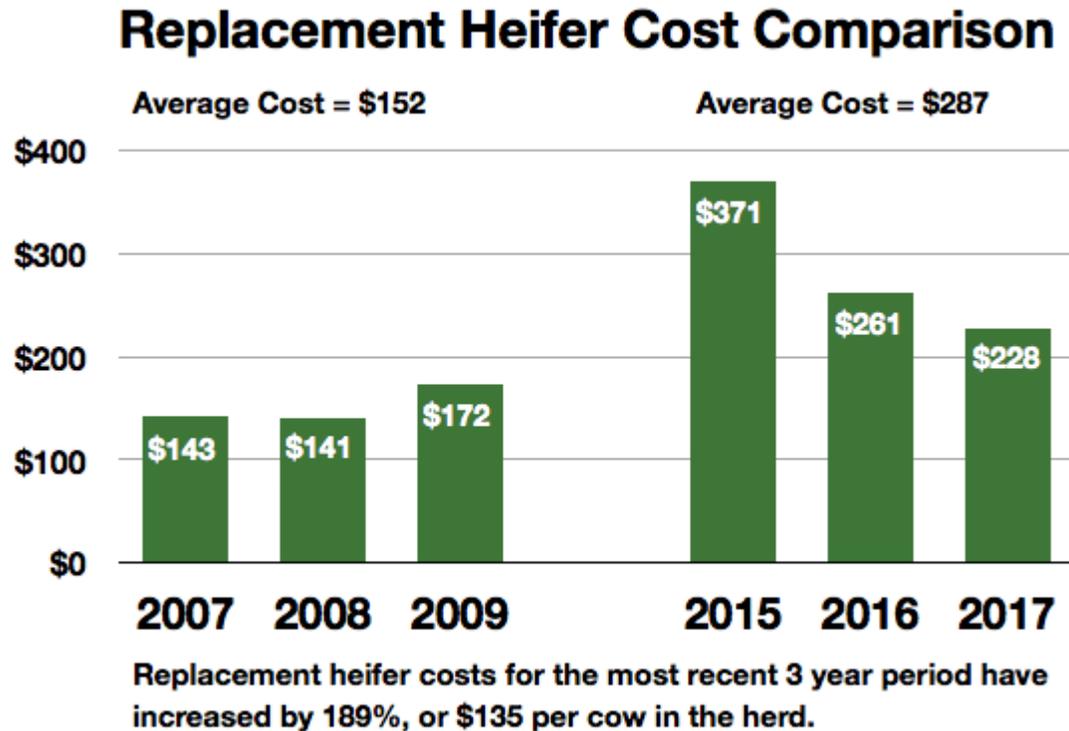
The beef industry enjoyed high prices a few years ago. Today, some leveling has occurred in the current beef producer’s expectations of the market, leading to renewed interest in keeping costs under control. With no upper or lower limits to price, managerial commitment to control costs is imperative, so let’s look at current costs.

Let’s review the numbers for cow-calf enterprise costs from 2007, 2008 and 2009 (the early years) with years 2015, 2016 and 2017 (the recent years). The graph below shows us costs for each year, and the average over the three years – \$290 for the early years, and \$357 for the recent years. This is an increase of 123 percent, or \$67 per cow.



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The next largest cost would be the replacement of breeding cows. You can see the costs per year in the graph below. The average cost for the early years is \$152 and \$287 for the later years. Again, we see an increase, this time of 189 percent, or \$135 per cow in the herd.



Finally lets look at additional direct costs (veterinary services, supplies, fuel and oil, repairs, custom hiring, marketing and operating interest). These are calculated by subtracting the total feed cost from the total direct cost. The average cost for the early years was \$95. For the recent years, that average is \$130, an increase of 137 percent, or \$35 per cow.

Average expenses over all are up 144 percent.

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.

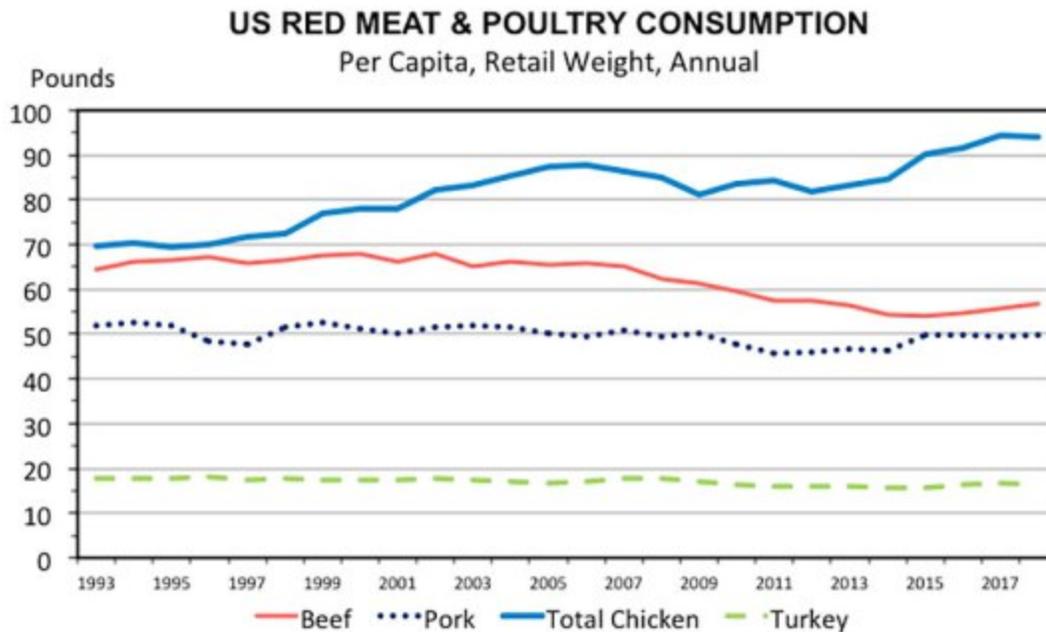
There are lots of factors determining cattle prices and cost, and many beyond our control. As the record prices of previous years are put in the history books, today's backgrounders and feedlot owners will buy calves at a price based on potential market indicators and the ability to profit, as well as seek a positive return on investment. They will continue to project income and subtract expenses while managing grass calves or feedlot calves.

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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.

Consumer demand also factors into the equation.



So what can the cow-calf producer do? Know input costs to help determine break-even prices and, more importantly, realize some profit and an acceptable return on investment.

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.