Minimizing Cost in a Cow/Calf Enterprise

Philosophies and Personal Experiences

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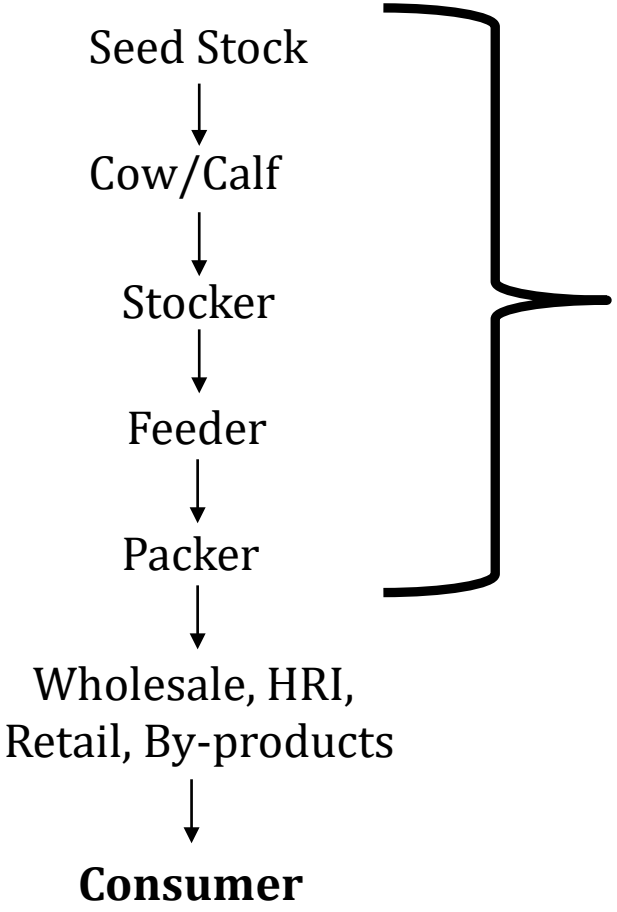
Industry Structure



Generally, lowest cost producers are the most profitable.

Minimizing Costs is a Necessity for Cow/Calf Producers

- **Huge variations in costs:**
  - Geography and Climate
  - Natural resources
  - Size and Economy of scale
  - Highest investment per head marketed
  - Lowest ROI (when market value of land is considered)
  - Land-based and Family-owned (93%)
  - Not all landowners are profit motivated
  - Only “non-margin” operator in the beef production chain
- **Customized approach is required**

Cow/Calf Primary Profit Drivers

- **Expenses**
- **Production**
- **Market value**
  - **calves and salvage**

} Profitability

“You cannot manage/improve what you have not measured.”

Multiple Sources

Minimizing vs. Managing Costs

Unit Cost of Production (UCOP) vs. Total Costs

- UCOP includes fixed and variable costs and is highly dependent on fertility and growth

- A profitable market price cannot be established in the absence of an accurate UCOP (i.e. Breakeven)

UCOP = Total Costs/Units Produced

Cow/Calf UCOP Benchmarks (Financial and Production)

- Annual breeder cost
- Calf Cost ($/head and $/cwt)
- Pregnancy %
- Weaning %
- Turnover rate

Weakest Link in Most Cow/Calf Enterprises

Timely and Accurate Record Keeping

- GAAP Accounting Systems
  - Income statements
  - Balance sheets
  - Budgets
  - Forecasting
- Managerial Accounting and Benchmarking Systems
- Inventory System
- Accurate Allocation of Shared Costs to Cost Centers

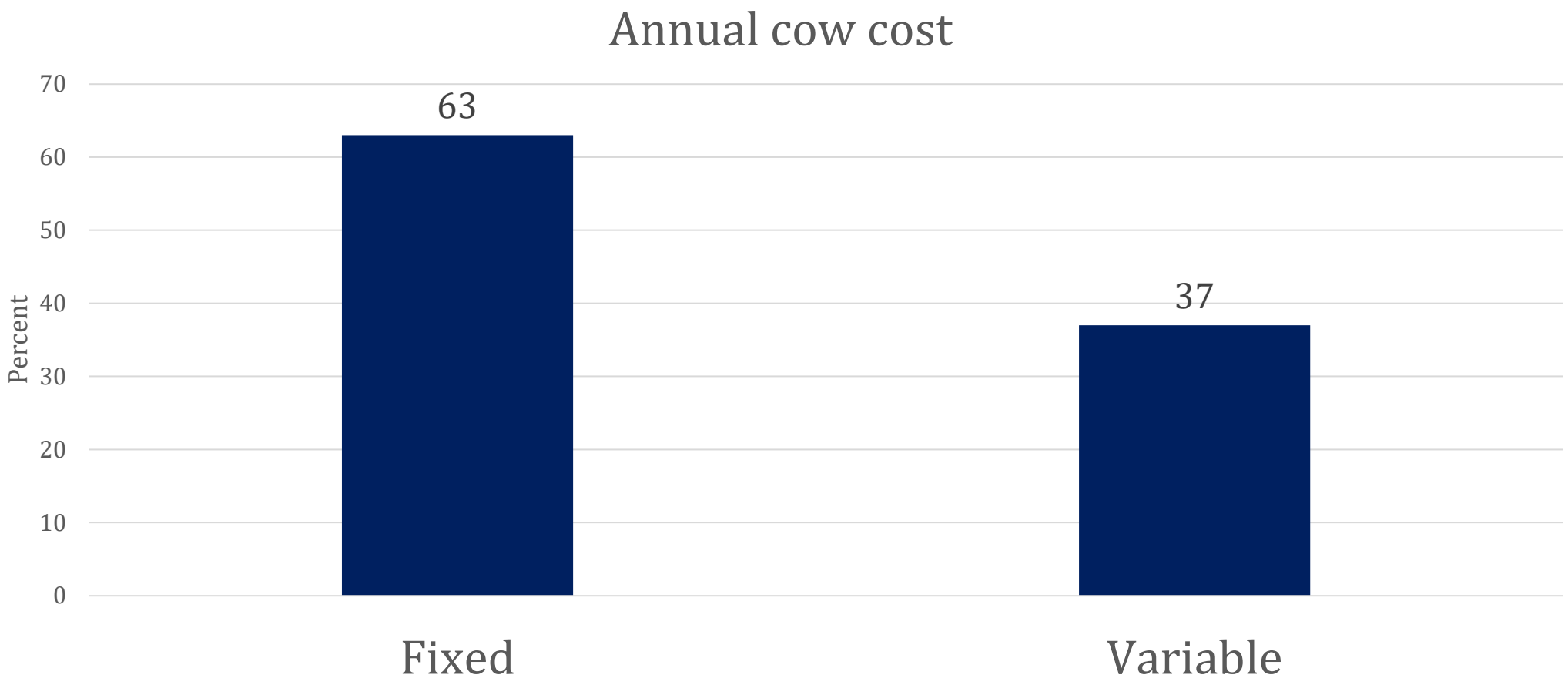
Record Keeping and Accounting

"As ranch size, locations, complexity, and diversification increase, so does the need for accounting system detail and sophistication."

Making Cost Effective Decisions to Minimize UCOP

- Science-based and Proven
- Financially Sound Modeling (positive effect on UCOP)
  - ROI
  - Payback
  - NPV
  - IRR
- Understand Opportunity Costs/Risks
- Understand How to Calculate Marginal Returns
- Safety, Animal Welfare, Environmental Stewardship and Sustainability are tough to model but just as important

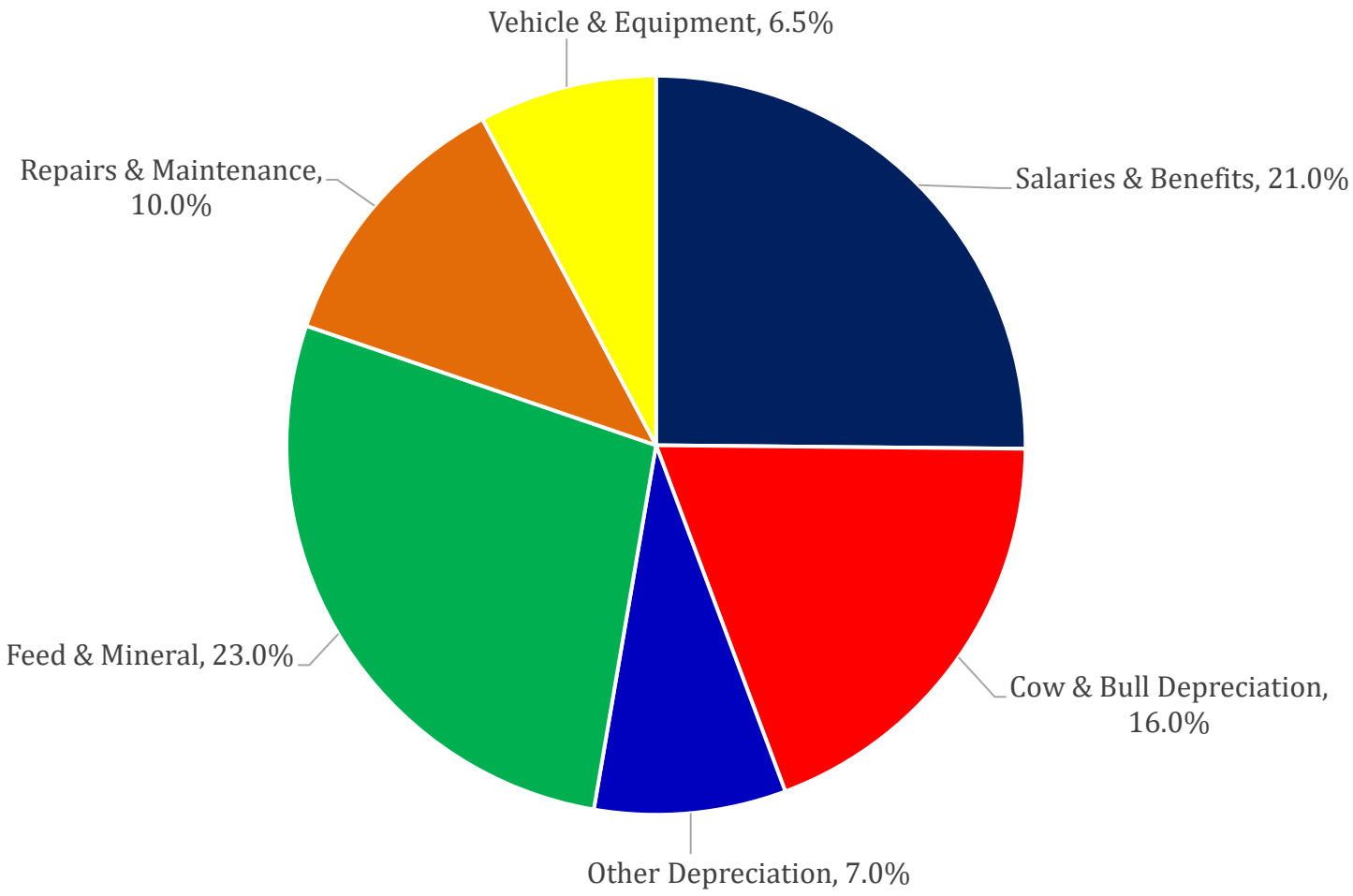
Fixed and Variable Costs (cow/calf)



Usually inversely related to # of Animal Units

King Ranch Costs - Annualized Breakdown per Breeding Unit

(Includes Bull and Heifer Development)



The Big 3 (Leverage Points)

1. **Depreciation** (Infrastructure, Equipment, Livestock)
2. **Labor**
3. **Fed feed (hay and supplements)**

2 of 3 are fixed costs

<u>Could be #1</u> – Lease and/or Agronomic Costs

Feed and Mineral Supplement Programs

- Forage testing to meet NRC requirements
- Increase pasture productivity (if cost effective)
- Sorting cattle to match requirements
- Evaluate alternative feedstuffs (least cost analysis)
- Consider the cost of various delivery systems
  - Method & timing
  - Cost of equipment & labor
  - Waste
- Bidding??

Grazing and Forage Programs

- Drought Management Plan
  - Recognize the cost of destocking
- Establish/define forage goals
- Appropriate Grazing Systems (Stocking Rate)
- Maximize animal harvest of forages
  - vs. hay and/or supplemental feed
- Minimize supplemental feed requirements
- Appropriate mineral programs
- Stockers as an adjunct to the cow/calf enterprise

LABOR

- Cost is increasing
- Technical knowledge and skills are declining
- Re-evaluate job descriptions and positions
- Appropriate reward system and “Buy In”
- Increase # AU/FTE (800-1,000)
- Evaluate Contract vs. In-house tasks

Depreciation:

Capital Investments Require a Disciplined Approach

- Develop a longterm plan for asset improvement/replacement
  - fencing, pens, water infrastructure, buildings, etc.
- Closely analyze replacement cost vs. extended life
- Analyze annual effect on both P/L and cash flow
- If financed, interest rates are rising
- Compare lease, rental, custom harvest vs. purchase
- Cow stayability (assuming bred) is a key component for reducing depreciation costs

Depreciating Assets

"Overdevelopment of depreciating assets can negatively affect enterprise financial performance and potentially decrease the appreciation of land value."

Herd Management – Low Hanging Fruit

- Calving (Breeding) Seasons
- Preventative Herd Health Plan
- Breeding Soundness & Culling Criteria
- Bull or Heifer Development vs. Purchase
- Body Condition Scores
  - @ calving – primary determinant of pregnancy & weaning %

Genetic and Seedstock Evaluation

Effects on UCOP

- Recognize:
  - value of EPDs to YOUR operation (relative to marketing strategies)
  - as improvement is made, marginal value of improvement decreases
  - correlated effects in selection process
- Environmental vs. genotype effects are real
- Hybrid vigor/heterosis may offer best improvement in UCOP
- Independent culling criteria are extremely important
- Develop genetic/replacement strategies appropriate to <u>your</u> operation

Horse Programs

- Raise vs. Purchase? (recognize the true cost)
- Is 100% of the inventory required and “on the payroll”?
- How/to which centers should costs be allocated?

Asset Repairs & Maintenance

- Scheduled maintenance
  - Lengthens usable life
  - Deferred maintenance is costly
- Annual inspections
- Housing policies

Other Considerations

- Best and Highest Land Use
- Diversification
- EQIP Programs
- Professional Veterinary, Nutrition Inputs
- Technology
- Change of Mindset

Questions?