

Dollars & Sense

by Vern Pierce, beef economist, University of Missouri-Columbia



Benchmarking your cow herd

Recently I visited with a cow-calf producer to discuss his plans for the coming year. During the conversation, we began to talk about cow-replacement strategies.

As the conversation progressed, I asked him about a specific cow he had on his farm and about some that already had been culled. My intention was to see what specific criteria he used to determine which cows stayed and which ones were sold.

"Well, I get rid of the bad ones and keep the good ones," he said as if my question was about the dumbest thing he had heard.

He had a good set of computer records that detailed the production data on his herd. I pointed to one of the cows on his printout that did not produce a calf last year. I asked him why that cow was still in the herd.

"That is one of my best cows," he said.

This is what we in the education business call a "teachable moment." I was trying to help him think through the process of having some benchmarks on his farm so decisions were made based on some objective, measurable criteria established to help the operation be more profitable.

The benchmarking concept

Benchmarking is about measurement. The objective of benchmarking is to give managers a focus in making decisions that result in cost reduction, quality and marketing adjustments, and increased profitability. It differs from seat-of-the-pants management and decision making in that it avoids the tendency to make decisions based on unmeasured reasons (like keeping a cow that didn't produce a calf last year because she produced three consecutive calves previously).

Benchmarks are used to establish the "scoring system" to accomplish your

operation's written goals and to begin keeping the statistics. Armed with this measurement system, you can make decisions about why you are or are not moving in a certain direction on your farm. The issue here is that the chosen benchmarks need to reflect the real contribution of an asset to production efficiency and profit.

As you choose production benchmarks, write down an explanation of what conclusions you can make about their efficiency based on a potential numeric result. Then go back and see if the benchmarks make sense in drawing that conclusion.

For example, "number of cows pregnant" does not increase your income. "Pounds of calf sold per herd cow" more accurately gives an assessment of the effectiveness of your production system. There are two basic differences here: (1) You are not paid based on the number of calves sold, but on how much they weigh; and (2) the first definition is a measure of the breeding program's success (cows pregnant), but the second incorporates all the management practices that get you to the marketplace.

If you can establish a few benchmarks that "flag" problems, your records system will be more useful because you will be looking for answers to specific questions, not just hoping that something will jump off the printout as an indicator of poor performance.

Cull-cow decisions

Let's go back to the example of the 6-year-old cow that didn't produce a calf last year.

Assuming an average of 80¢/pound (lb.) for calves over the next few years, the cow

will have to produce five more calves before she breaks even. Consider an annual cow cost of \$300, which includes all costs to maintain a cow, includes income from culling and gets the calf to market (vaccinations, preconditioning, etc.).

This cow has racked up a debt for which the next few calves must pay. If — every year after the missed year — the cow produces a calf that sells at an average weight of 500 lb., she will earn \$370 net income (500 lb., less 5% shrink to the sale barn, times 80¢, less \$10 commission and fees). The \$70 profit (\$370 income less the \$300 cow maintenance) in your pocket from each calf will take more than four years to make up for the \$300 loss you had from that cow's not producing a calf one year.

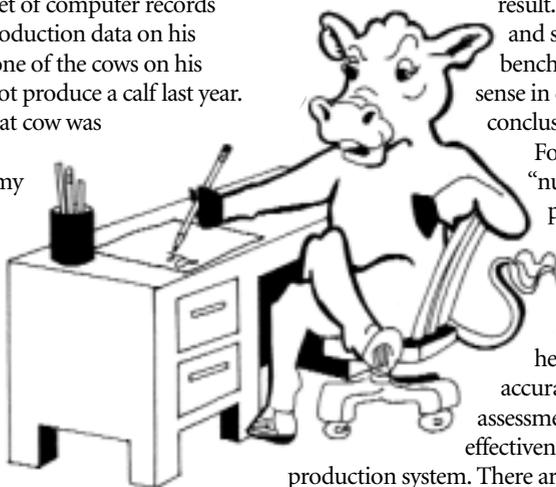
Of course, this means that each of those four years, plus the one that the cow didn't produce a calf, is five years of no profit on that cow compared to five years at \$70/head (\$350) that could have gone to profits during this time period. The bottom line: This 6-year-old cow cannot produce a profit for the farm again until she is about 12.

That is, of course, assuming that she has a calf every year after that. If she misses again, you will not be able to break even — ever.

Do you still think this is one of your "best cows"?

To develop a benchmark like this example on your farm, you obviously would include other income streams like those from heifers kept back as replacements. However, the economics in this benchmark help remove the emotion from decision making.

This simple example demonstrates that decisions on your farm can be simplified substantially if they have some measurable benchmarked criteria that holds up each production unit to a standard.



e-mail: pierce@missouri.edu