How to Lick High Cow Costs

Understanding total production costs is the first step toward a profitable beef operation.

by Norman L. Dalstead

What are the best tools for least-cost production? Norman Dalstead, farm and ranch management economist at Colorado State University, Fort Collins, lists the following:

- *Detailed financial records*
- *Financial statements*
- *Enterprise budgets*
- *Fence pliers, baling wire and duck tape.*

Producers may prefer to work with the latter, but in today's competitive beef industry and tough economy, they can't overlook the first three tools.

Dalstead, who advises producers enrolled in Colorado's Integrated Resource Management (IRM) program, says that once you understand your operation clearly, financially and biologically, you can then make better informed decisions. First, however, you have to be willing to take on the challenge — be proactive, not reactive.

Here is his explanation of production costs and ideas on how to lick high cow costs in your Angus operation — ***JJ.***

Profit is gross revenue minus total costs. IRM producers are concerned about the last term—total costs.

Production costs are an item the individual producer has control over. Part of the IRM program is to assist the producer and family in identifying the costs associated with their business. Proper cost management leads to success and profitability. Good market prices can't hurt either.

The financial analysis conducted in the IRM program provides the manager with financial assessment of the components that comprise the business. This analysis is called enterprise budgeting. The technique separates the returns and costs associated with a given enterprise — cow-calf, replacement heifer, hay, etc. Thus, the term cow cost originated.

Table 1. Annual Cow Costs for Seven IRM Cooperators

	Annual Cow Costs	
	Range	Average
1984	$296-537	$431
1985	$204-528	$392
1986	$157-530	$373
1987	$239-386	$324

Before discussing the factors influencing cow costs, a definition of cow cost is necessary. Cow cost is the annual costs associatd with care, upkeep or maintenance of a cow, including the proportionate share of replacement heifers and herd sires for a production period (usually one year).

Critical to this definition are the items that compose these care, upkeep and maintenance costs. Cow costs should include:

Cash operating expenses (variable costs) — feed, seasonable labor, operating interest, veterinary medicine, marketing/transportation, fuel and oil.

Ownership/property expenses (fixed costs)— clepreciation, taxes, insurance and general overhead costs.

Unpaid operator and family labor -this cost should be calculated in order to ascertain whether the enterprise is capable of paying its share of necessary family living expenses.

Intermediate and long-term debt payments are not included. Due to the varying financial position of livestock producers, it's extremely difficult to specify the appropriate cost. By definition, principal payments aren't a cost to the business, but an addition to equity even though such payments are made.

Before proceeding further, let's go over definitions of cost items that comprise cow costs:

Variable Cost — cash operating expenses, operating costs, production costs, etc. These costs are usually cash costs and are directly associate with production. If no pro uction were to take place, these costs are not incurred.

Fixed Cost — these costs occur whether production takes place or not. Examples include real estate taxes, depreciation, overhead expenses such as accounting or legal fees, insurance, hired labor (annual salary) and utilities.

Fixed costs are generally cash costs, but in the case of depreciation, it's a non-cash cost. You could also argue that depreciation (by IRS definition it is non-cash) is in reality a cash cost varying in any given year, depending on the need to replace capital assets.

Opportunity Costs — an inputed cost as it reflects the best use of a capital or human asset. Opportunity cost of an acre of land is the return that investment could earn in its best alternative use. If an acre of land is worth $500 and current long-term investments are earning an average 10 percent annual return, then the opportunity cost charged to the enterprise utilizing the land resource is $50.

Who are the Low Cost-High Profit Producers?

- ***Have low feed costs***
- ***Don't select extremely large, heavy milking cattle***
- ***Emphasize calving ease through moderate birthweight EPDs***
- ***Sell more pounds of calf per cow at the lowest possible cost***
- ***Purchase top performance-tested bulls***
- ***Run 30 to 40 cows per experienced bull***

The same can be said for the labor provided by the operator. What is the opportunity cost of your labor? If you are an engineer by training, then the salary you could be earning might be $60,000; thus, the opportunity cost of the labor utilized in operating the enterprise is $60,000 -the amount that could be earned in another job.

The whole concept of opportunity cost helps explain why resources— land, labor, capital and management— flow to their best use. Use this cost based on the resource's ability to generate the greatest good. In most cases, greatest good is measured in monetary terms, but could also be measured in number of jobs, quality of life or standard of living.

Total Cost- the summation of variable and fixed costs, also referred to as total direct production costs. It may include opportunity costs or inputed costs, depending on how fixed costs are defined. For accounting purposes, total cost doesn't inclucle opportunity costs, but in a full economic analysis it does inclucle them.

Cow costs vary among producers. Often this is a function of the resource base, management skills and production scheme employed by the producer or manager. Table 1 contains the annual cow cost range for ranches cooperating in the Colorado IRM project for 1984-87.

The average cow cost demonstrates a downward trend for the period 1984-87, a 25 percent decrease in cost per cow. Just as important is the narrowing range of cow costs. For example, in 1985, cow costs on IRM ranches ranged from $204 to $528; by 1987, the range was $239 to $386. This indicates increased attention to cost management by the IRM ranch cooperators.

Cow costs will vary year by year in each beef operation. The key management function is to know what the costs have been and what can be expected in the future. Such knowledge is important to the financial and marketing strategies employecl by you— the farm or ranch manager.

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