Crunching the Numbers

Financial efficiency is critical to cow-calf success.

by ***Barb Baylor Anderson***


PHOTO BY CORINNE PATTERSON

If you keep performance records, feed bills or other important papers shoved in a box in your pickup instead of on your computer, you're behind the eight ball when it comes to measuring your operation's financial efficiency and your cow-calf profitability.

University of Illinois (U of I) beef cattle specialists encourage producers nationwide who do not have a good system for gauging financial efficiency to consider a cow-calf enterprise record program. U of I uses the Integrated Resource Management Standardized Performance Analysis (IRM SPA) program as defined at the national level by the National Cattlemen's Beef Association (NCBA) and the Extension service.

SPA can help producers learn how to manage their systems efficiently, and it can also help identify weak spots that can be subsequently tightened up. SPA helps determine how to best utilize resources to make cow herds more profitable and sustainable by employing an enterprise production and financial performance analysis.

"Recordkeeping has no value if time is not taken to analyze the data or if the analysis does not result in change," says Alan Miller, U of I beef cattle specialist. "Producers who have been in our SPA program for five years have reduced annual production costs by nearly $175 per cow. An average herd size of 128 cows results in annual savings of more than $22,000 per producer."

Miller notes that many producers make the mistake of simply utilizing their income tax reports or a partial budget as a sole measure of business or enterprise profitability. The appropriate definition of profit, according to Farm Financial Standards Council procedures, is net farm income from the operation minus the value of unpaid family labor and management.

Miller says recent analysis of 225 SPA data sets from Illinois and Iowa found eight financial measures capable of explaining more than 82% of farm-to-farm variation in RLM (return to unpaid labor and management per cow). About 57% of variation was explained by feed cost, he says, while smaller contributors include depreciation cost, operating cost, calf weight, capital charge, calf price, weaning percentage and herd size.

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Efficiency beyond recordkeeping

Jeff Windett, Circle A Angus Ranch, Iberia, Mo., offers these tips beyond recordkeeping for helping to maximize cow-calf operation efficiency:

- Nutrition and pasture management are keys to cow efficiency.
- Don't leave your bull with your cows year-round. Have regular breeding and calving seasons, and evaluate fall and spring opportunities.
- Consider buying rather than keeping replacement heifers to get to desired body types quickly, especially if you do not need many and you know their history.
- Focus on the task at hand each day. Make efficient use of labor.
- Have a specific herd health program.
- Know where the industry is headed. Join associations and other groups. Establish relationships with business-savvy people.
- Form a marketing cooperative to market like cattle for more money. Consider value-added and niche markets. Market for acceptability.
- Understand the commercial business.
- Ask "a hundred" questions of your potential customers to learn their needs.
- Visit customer farms and call periodically to check in on cattle performance. Follow your cattle to know how they perform.
- Maintain customer satisfaction to keep your name out of the coffee shop.

Beef herd profits, he adds, equal price minus unit cost of production multiplied by hundredweight (cwt.). For example, if the price received is $1 per pound (lb.), and the unit cost of production is 80¢ (last year's Illinois state average), and 500 lb. were produced (again, the state average), then the profit would be $100, Miller explains.

"Recordkeeping provides this baseline data so you can understand and measure financial efficiency," he says. "It allows for a benchmark to compare your operation to other business opportunities and measure progress over time. Having complete financial records is crucial. Most producers have a very good handle on the income side of their financial picture, but truly measuring the cost side seems more elusive."

Miller adds that beginning or young producers especially need to understand that long-term financial success is about more than having enough money to pay the bills from month to month. "Ask yourself, 'Am I building equity in the operation? Am I providing a decent return on my investment?'

"There are a number of university Extension Web sites that provide good information about these sorts of measures for beef operations, but looking even outside of agriculture to provide yourself with a more business-like economic education is also valuable to your long-term success," he says.

Pinning down profitability

University of Illinois beef cattle specialist Alan Miller says that in the commercial cow-calf industry, for the small percentage of producers who make a living with beef cows, the challenge is competing against producers who don't. For lifestyle producers, often the challenge is not about profit, but about minimizing losses.

To pin down profitability, Miller offers the following suggestions:

- High levels of production do not necessarily lead to high levels of profit.
- Minimize investment in items that will break down and depreciate.
- Feed costs can destroy profitability. Watch the feedbag closely.
- Make every effort to stay debt-free.

Producers weigh in on records

"If you are not going to make a profit, there is no sense beating your head against the wall in this business," says Norman Voyles, Voyles Farms Inc., Martinsville, Ind., who participates in the Indiana IRM project. "The goals for my family's operation are to be profitable, sustainable, accountable, a good neighbor and make the business enjoyable."

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> *— Jeff Windett*

Voyles considers their cattle operation an alternative market source for corn raised on their farm. With more than 150,000 bushels (bu.) of grain storage and 800-plus tons of silage holding capacity, the farm has the facilities to feed to harvest weight all of the calves produced each year. They have 110 spring-calving cows.

"We are sold on performance-tested bulls from bull stations, and when we select heifers, they must be at least breed average on weaning weights," he says. Voyles tracks such calving and weaning records as birth dates and birth weights, weaning dates and weights, and hip heights. He also tracks various heifer and bull statistics and feedlot and carcass merits. Such recordkeeping allows Voyles to hone in on financial efficiency.

"Obviously, biological weights and measures required for American Angus Association EPD (expected progeny difference) generation are important records to maintain," Miller adds.

Jeff Windett, Circle A Angus Ranch, Iberia, Mo., agrees. "Our 205-day weight records are a means of comparison. You risk throwing away good genetics if you do not compare your cattle at that time," he says. "Records help you notice trends and help you avoid making hard-and-fast culling decisions based on one year's records. That is not an accurate assessment. Over time, cows will sort to the top or bottom naturally."

Miller anticipates recordkeeping and measuring financial efficiency will continue to increase in importance. "While the return on investment (ROI) for Illinois beef producers has been 7%-14% per year since 1999, it is only 3%-5% over the longer term," Miller says. "The difference between well-managed operations and the rest will continue to expand as time goes on. Without good data to track economic progress, it will become more of a challenge for marginal producers to stay in business."