Economically Expanding the Cow Herd

Researchers discuss economic benefits and considerations of herd expansion.

*by **Raney Lovorn,** editorial intern, & **Troy Smith,** field editor*

High market prices are providing an incentive for producers to grow their herds and increase their profitability, said John Michael Riley, Oklahoma State University (OSU). During the 2015 Beef Improvement Federation (BIF) Annual Convention, Riley addressed factors in the current market that will increase future herd profitability.

Identifying and utilizing a break-even point can help producers evaluate their profitability, said Riley, who recently took a position as assistant professor of ag economics at OSU.

PHOTOS BY TROY SMITH

►**"Reducing non-feed costs is paramount," John Michael Riley said. "Being a jack-of-all-trades can almost get you in trouble. Trying to do many things gets you doing many things somewhat poorly, instead of doing one thing extremely well."**

Although producers with high variable costs are able to make money with current market prices, historically they would be eliminated. In order to be a low-cost operation and receive the highest incentives on a dollar value basis, producers should aim well below their break-even point.

"Reducing non-feed costs is paramount," Riley said. "Being a jack-of-all-trades can almost get you in trouble. Trying to do many things gets you doing many things somewhat poorly, instead of doing one thing extremely well."

Ranchers are at risk when they do not include their time and effort in their cost analysis, Riley said. For example, raising replacement females could be more expensive for producers in terms of time, labor and feed than they realize. In order to evaluate a true break-even point, ranchers should include all expenses associated with their cattle, not just hard monetary data.

Riley reassured producers there is no magic number for herd size to be profitable. Managing costs is most important to maintaining profitability, regardless of herd size.

"Higher-cost producers are lower-profit producers," Riley said. "Lower-cost producers are higher-profit producers."

Riley warned against minimizing costs without thought and consideration. He said making quick decisions could expose producers to unnecessary legal, political, human, price and production risks.

In contrast to cow-calf operations, feedlot profits specifically are influenced by a number of different inputs and outputs, Riley pointed out. Feeder-steer prices, fed-steer prices and feed costs collectively impact 70%-90% of feedlot profits.

Whether in a commercial, stocker or seedstock operation, Riley said all producers are equal in that they cannot change cattle prices. While the market is high, Riley suggested making smart business decisions can contribute to future profitability.

"We need to make more and more of those smart business decisions because right now the market is paying us, paying you, to make those improvements to your farm's infrastructure," Riley said.

Costly improvements like new genetics, enhanced herd nutrition and ranch infrastructure like new equipment or extra hired help could greatly impact a ranch's potential for profitability, he noted.

"Right now the market is putting a little extra cash in your pocket," Riley said. "Take that cash and do something with it. Improve your infrastructure, improve your genetics as much as possible and that's going to increase the productivity of your herd."

— by Raney Lovorn

How do current market incentives affect genetic selection decisions?

Current market signals strongly support expansion of the cow herd. That's obvious to anyone who has been paying attention to calf and feeder-cattle prices. After receiving some relief from drought and high feed costs, a good many cow-calf producers are heeding the signals and shifting into expansion mode.

►**"Genetic selection should be based on long-term profitability, but we live in a short-term world where prices and profitability vary widely from year to year," said Lee Schulz.**

USDA survey data suggest 83% of U.S. cow-calf producers will expand their breeding herds by retaining home-raised females. However, Iowa State University Extension Livestock Economist Lee Schulz suggested producers should consider whether buying replacement females is a more economical alternative.

Schulz said choosing between raising replacements or purchasing bred females can be a complex issue. Each has its advantages and disadvantages.

"Genetic selection should be based on long-term profitability, but we live in a short-term world where prices and profitability vary widely from year to year," said Schulz. "Producers need to look long-term, but current situations do influence decision-making."

Many producers feel they can better achieve genetic improvement through heifer retention. However, Schulz urged them to think about the opportunity cost. Saving heifers means less income when fewer marketable calves are sold. Also to be considered is whether the resources that would be devoted to heifer retention and development could be used for an alternative purpose.

To assist producers in making the "raise vs. buy" decision, Schulz recommended the use of the Excel spreadsheets *Buying Heifers for Beef Cow Replacement* and *Raising Heifers for*

Beef Cow Replacement available at *www.extension.iastate.edu/agdm/livestock/html/b1-73.html* to determine which management strategy is best in any given year.

"Current market incentives should provide an economic compass rather than a road map," stated Schulz.

— by Troy Smith

Worth the hassle

A small percentage of American producers utilize artificial insemination (AI) in their herds, with most American producers relying on natural breeding. Cliff Lamb, University of Florida Research Foundation professor, weighed the hassles most often cited as reasons for not AIing against the economic opportunity it offers.

When Lamb began at the North Florida Research and Education Center (NFREC), he set up a very strict set of criteria for the females on the ranch. To stay in the herd, cows had to calve by 24 months of age, calve every 365 days with no assistance, provide enough resources for her calf to reach its genetic potential, maintain body condition score and not be crazy.

In five years, he was able to convert the ranch from a 120-day breeding season to a 70-day breeding season using AI, estrus synchronization and a strict culling rule eliminating all heifers that became pregnant after the first 25 days of the breeding season.

►**Cliff Lamb, University of Florida Research Foundation professor, weighed the hassles most often cited as reasons for not AIing against the economic opportunity it offers.**

"The other thing that I had to overcome when I first moved to the North Florida Research and Education Center was this mentality that it is too difficult to artificially inseminate cows," Lamb said. "It is a hassle, and there are hassle factors."

Complicated protocols, sire selection, reliable facilities, labor for AI and product administration, and time are all hassle factors used as excuses to not utilize AI and estrus synchronization, Lamb said. However, after implementing timed-AI protocols consistently for five years, the NFREC experienced an increase in herd value of $50,000.

Lamb attributed this success to managing the cattle operation in a real-world manner and pushing their cattle based solely on pregnancy.

"Pregnancy has four times greater economic impact than any other production trait," Lamb said. "Ultimately, when it comes to a beef cattle operation, isn't pregnancy the No. 1 trait that we should be worrying about? … If a cow does not become pregnant, she cannot calve and she won't be able to generate any income for the operation."

— by Raney Lovorn

Editor's Note: *Troy Smith is a freelance writer and cattleman from Sargent, Neb. The 2015 BIF Annual Convention was hosted by Mississippi State University and the Mississippi Extension Service June 9-12 at the Beau Rivage Casino and Hotel in Biloxi. The* Angus Journal *and* LiveAuctions.tv *provide comprehensive online coverage of the event at* www.BIFconference.com. *Visit the Newsroom for summaries, proceedings, PowerPoints and audio of the sessions; the Awards page for announcements of award winners; and the Photos page for photo galleries of the tour.*