

BeefTalk: The Curves Are Getting Tight

Each operation needs to complete an inventory of principle resources available and review potential income sources.

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Tight curves on any roadway require a driver to slow down. Even if one is familiar with the road, changing conditions create unpredictability.

This same is true in the business of agriculture, especially the life of a farmer or rancher. Producer families spend much of their lives on the edge. When the edge is soft, it is better to pull back, rethink and see what happens.

Sometimes we really need to rethink our decisions. Recently, I reviewed enterprise analysis numbers with local North Dakota Farm Business Management instructor Jerry Tuhy.

Traditionally, the North Dakota Farm Business Management data is averaged and the data sorted into three groups based on net return. The groups are the lower 20 percent, middle 60 percent and upper 20 percent. The unit of measurement is a cow.

This type of sorting maintains confidentiality and provides provoking questions for all producers to consider. The most obvious question is how lower net return producers can increase their net return.

That is a good question. However, the data reveals the total difference in net return through the years does not vary much and does not go away.

In the 2008 analysis, the spread for the average net return per cow was \$284.03. The lower 20 percent group showed a loss of \$153.78 per cow, while the upper 20 percent group showed a profit of \$130.25 per cow. That means the lower 20 percent group averaged \$284.03 lower than those producers in the upper 20 percent group.

Those in the lower 20 percent group should do considerable pondering.

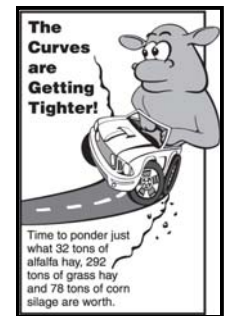
Should they remain in the beef business?

While that seems rather harsh, it is reality. Each operation needs to complete an inventory of principle resources available and review potential income sources.

Beef is the obvious resource and potential income source. However, in the case of those herds that averaged a negative net return, perhaps the answer should not be so quick.

For instance, these same producers fed their cows 77.2 pounds of protein, vitamin and mineral supplements valued at \$16.25 per cow. These producers also gave the cows 36.1 pounds of creep or starter feed valued at \$3.24 per cow, 54.1 pounds of a complete ration valued at \$4.52 per cow, 1,556.8 pounds of

Images



The Curves are Getting Tighter!

corn silage valued at \$16.08 per cow, 644.2 pounds of alfalfa hay valued at \$20.71 per cow and 5,859.8 pounds of hay valued at \$127.09 per cow.

If the cows were not on the place, the purchased feed supplements of \$24.01 would not occur. The average herd size for these producers was 96.8 cows. For easy figuring, we set the herd size at 100 cows.

Without the cows, \$2,401 would not be spent on supplements. In addition, approximately 78 tons of corn silage, more than 32 tons of alfalfa hay and more than 292 tons of hay would be available for sale.

Other direct expenses would not be relevant because the focus of net income would shift to the net return of producing corn, alfalfa and hay.

If the direct expenses involved in these operations also were negative, there is no enjoyable discussion left. However, if a profit margin does exist within these three enterprises, the appropriate managerial decision would be to sell the cows, retire the facilities and enter the plant world.

This is not a real enjoyable BeefTalk to write. Reality does tell us the curves are getting tighter and the options fewer.

If the beef enterprise is not generating positive cash for the operation, then the operation is subsidized by outside income or change is in the wind. It may be time to ponder and add up just what 32 tons of good alfalfa hay, 292 tons of grass hay and 78 tons of corn silage is worth.

Why feed it to the cows and lose \$16,388 when one could sell it. In addition, the grassland is now available for rent.

The hope is that there are cattle producers around to rent the land. Every action has a reaction.

May you find all your ear tags.

Your comments are always welcome at <http://www.BeefTalk.com>.

For more information, contact the NDBCIA Office, 1041 State Ave., Dickinson, ND 58601, or go to <http://www.CHAPS2000.com> on the Internet.

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