

BeefTalk: How Does One Stay in the Beef Business?

Change for the better means data or records to guide in and out value, direct expenses and overhead within a beef operation.

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As a profession, the cattle business never has been easy. Many would sum up their experience as “a lot of hard work and little pay,” and adding a final quip, “but it is a good life.”

Will the next generation say the same? The part about the hard work and little pay seems well accepted, but the last quip will cause a slight gaze down the interstate.

As noted in the 2008 Annual Report for the North Dakota Farm and Ranch Business Management Education Program (<http://www.ndfarmmanagement.com>), there is a considerable spread in a producer’s concept of what “little pay” means. Previously, it was noted that by sorting the 119 cow-calf producers by net return per cow, the lower 20 percent lost \$153.78 per cow, the middle or average producer made \$15.21 per cow and the top 20 percent made \$130.25 per cow.

This total spread of \$284.30 in net return from the low to the high group does not include a charge for labor and management. In essence, the lowest net return group paid someone else while they worked hard raising grain, forage and cattle.

The middle group (the majority of producers) worked hard caring for their cattle. Essentially, they choose to market grain and forage through their cattle, with little value added. The higher net return producers managed to add considerable value to their grain and forage by producing beef.

Economic spreads exist within any profession. For the professional beef producer, knowing which category the beef enterprise fits in is important because three potential scenarios exist.

In the first scenario, a producer believes the beef cattle are making a profit, but they are not. No managerial or production changes are initiated. Unfortunately, a financial crisis eventually unravels and the producer has to make quick, uninformed, life-changing decisions.

In the second scenario, a producer believes the beef cattle are not making a profit because the mass media says that times are tough. In this case, the producer initiates change when, in fact, the operation already was a profitable enterprise.

The third scenario includes the producers who know the ins and outs of the beef enterprise thoroughly. Their managerial decisions are based on adequate records.

The challenge is to know where, as a beef producer, the beef enterprise sits. Do not assume anything because profitable enterprises track income, direct expenses and overhead expenses.

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Income within a beef cow enterprise often is noted as being calves. However, that is only one piece of the income equation. There is value in marketing heifers, cows, bulls and replacements.

The data shows a \$160.61-per-cow spread in the dollars available to the enterprise between the low net return producer and the high net return producer when tracking purchasing, marketing and transferring the value of each type of cattle within or out of the enterprise.

This \$160.61 value is the sum of focused marketing processes for all classes of cattle leaving or arriving on the operation. This adds value to an operation and accounts for 56.5 percent of the total difference in net return between the low and high producer groups.

Unfortunately, the in and out beef values for an operation are seldom calculated. Without these values, the discussion focuses on reducing costs when, in fact, increased value may be the real answer.

The direct cost spread is important and should not go unnoticed. In this case, the direct costs are \$95.92 per cow and account for 33.8 percent of the net return spread followed by a spread of \$27.49 per cow for overhead costs that accounts for only 9.7 percent of the spread in net return from the low to the high net return producers.

Change for the better means data or records to guide in and out value, direct expenses and overhead within a beef operation. Real change, at least the right change, will not occur until all these values are determined. That is what makes the beef business a professional business.

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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Attachments



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