

Mount 'n Cattle

Article for the Wyoming Livestock Roundup

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What do profitable producers do?

Profitability between beef cow operations varies greatly – it doesn't matter the county or state in which you live, the forage base, or brand of pickup you drive.

Two ranches that share a fence line and have the same breed of cattle may have drastically different profits. Profit is most closely correlated to cost of production. If you can raise a pound of calf for \$0.80, you're likely going to make more money every year than the guy who spends \$1 to raise a pound of calf.

So, how do you lower your cost of production?

What are the high profit producers doing?

We have recently finished the 2008-9 High Plains Ranch Practicum School in southeast Wyoming and western Nebraska (<http://HPRanchPracticum.com>). Participants in this year's class conducted a unit cost of production analysis using a method developed by Dr. Harlan Hughes professor emeritus North Dakota State University and well known livestock economist. The financial records from these producers were submitted and analyzed to help determine the common traits and costs in various categories for high-profit producers. North Dakota State University also has been conducting financial analysis and benchmarking for producers through the Farm Business Management Program for quite some time.

Using these two databases, we can draw some conclusions about production practices and costs of production common to high-profit, low-cost producers.

First, there are some important things to understand about this method of financial analysis. This is an analysis of only the beef cow-calf segment of the ranch. It does not include costs of other ranch enterprises such as haying, yearlings, etc. For example, if a tractor is used for baling hay in the summer and feeding hay in the winter, then 50 percent (or whatever percentage the producer believes appropriate) of the costs associated with that tractor are charged to the beef cow enterprise. This is also true with buildings and other fixed costs associated with the ranch. Beef cows are charged market price for pasture usage and all feeds, including ranch-raised feeds. Your beef cows should be able to pay market price for use of your pasture and any ranch-raised feeds. If they can't pay market price, then you need to recognize your ranch business is subsidizing your beef-cow business with your land or hay business

So, what do profitable producers do?

From our dataset of 13 ranches in Wyoming and Nebraska, we selected the three high-profit ranches, averaged their production costs, and compared these to the average of the other producers. First, the most profitable producers did not raise the biggest calves! The catch-all for measuring calf production on the ranch is pounds weaned/female exposed. This ratio considers everything from getting cows bred, to live calves born to live calves weaned.

Our most profitable three operations weaned 394 pounds of calf for every female exposed to breeding compared to 517 pounds of the remaining producers. North Dakota's numbers differed significantly from ours. Their most profitable producers in 2007 weaned 543 pounds of calf for each female exposed. It is important to understand that cost of production is a ratio of herds total cost/total pounds produced. There are two ways to lower your cost of production: raise more total pounds or reduce the cost. Production is just as important as cost, but many producers find more opportunities in cutting costs than increasing production.

Secondly, the most profitable producers had the lowest feed costs/cow. Hay costs in particular were very low. The average hay cost/cow of the producers in our dataset, excluding the most profitable three, was \$166. The most profitable three had an average hay cost/cow of \$40.17! This is a significant difference! North Dakota's data also showed that higher profit producers also had lower feed costs but not to the degree in Wyoming and Nebraska. High-profit producers averaged \$232 total feed costs/cow and the remaining producers average \$352/cow. This includes pasture costs charged to the cow herd for deeded and leased pasture.

Our higher profit producers had livestock costs of \$166/cow, and the average of the remaining producers was \$247/cow. Livestock costs include marketing, heifers, bulls, fuel, labor, vet costs, etc. Overhead costs charged to the beef cows for breeding herd, equipment, and buildings was \$22/cow for the high-profit producers and \$52 for the remaining producers.

Total costs of production per hundredweight (cwt) of steer calf averaged \$88.74 for the high-profit and \$117.35 for the remaining producers. North Dakota producers average \$84.40 with their high-profit producers averaging \$70.52. This means that, when steer calves are bringing \$113.50/cwt, the producer with an \$88.74/cwt cost of production is making a **PROFIT** of \$24.76/cwt while the producer with a \$117.35 cost of production is **LOSING** \$3.85/cwt.

So, how do you compare? How can you become a high-profit producer?

The first step is to measure your costs and determine your ranch's unit cost of production. Once you determine your numbers, compare yours against known averages and those of high-profit producers. Where are you low cost and where are you high cost? Of high-cost areas, which can you address most easily?

Identifying one or two areas requiring some management attention each year and developing a plan to address those areas is a critical step to moving your operation in the right direction.

Learning how to conduct a financial analysis of the various enterprises on your ranch is a critical management tool. Not only should you evaluate your beef-cow enterprise but also your hay production, yearling program, land business, and any other enterprises you have.

For instructions and online tools on how to calculate your unit cost of production, visit <http://HPRanchPracticum.com> and click on the unit cost of production link. Also posted here is the report of averages for both the Wyoming-Nebraska producers and the North Dakota report.

The High Plains Ranch Practicum School will be taking the show on the road this year. We will be condensing the key messages from the school into a one-day session and offering this session at various locations across the state. We have a session scheduled June 2 in Gillette and are scheduling more now.

If you believe a one-day Ranch Practicum School would be of interest in your area, contact me at (307) 322-3667 or your local extension office.

As I write this, we are in the midst of receiving 2 inches of moisture in the form of snow and rain. Looks like the start of a great grass year!

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