ALABAMA A&M AND AUBURN UNIVERSITIES

Managing Your Cowherd: Strategies To Lower Cow-Calf Production Costs

ANR-1072

Cow-calf producers are a lot like jet pilots in that both pilots and cattlemen have to think far ahead of the present time in order to react to the problems they will certainly face in the future. Therefore, if you're a cow-calf producer wanting to improve your herd profits, you must begin today managing your production costs.

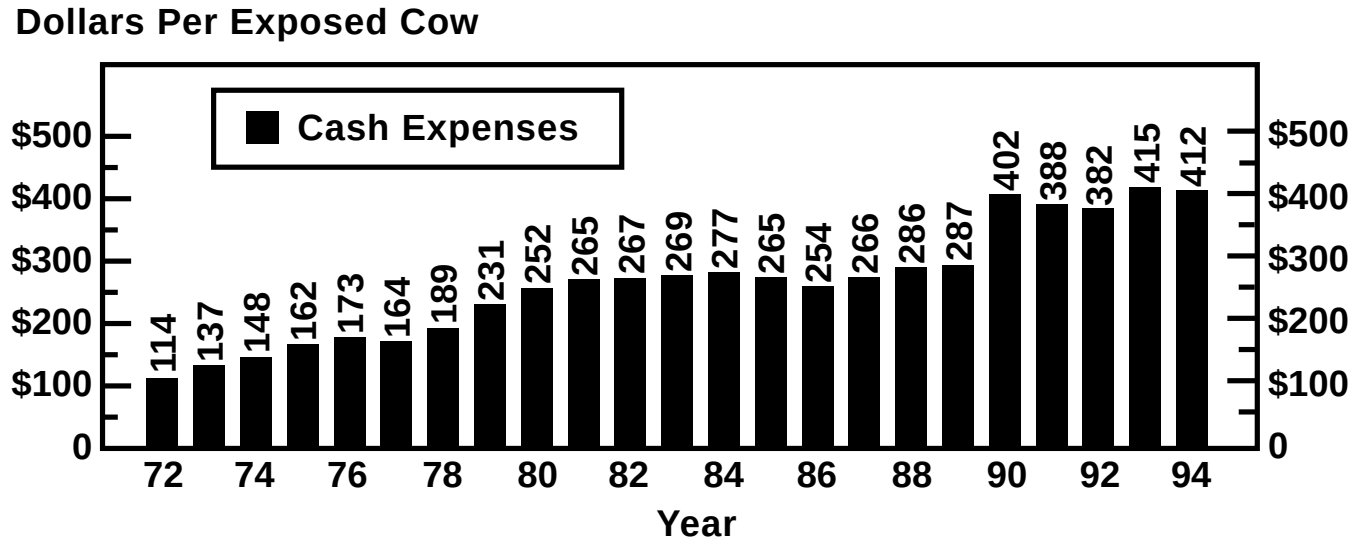
The cash production expenses of U.S. cow-calf producers during the past two decades have nearly quadrupled (Figure 1). In 1994, U.S. cow-calf cash production expenses averaged about $412 per exposed cow. In order to cover these expenses with average calf-weaning weights of 550 pounds, the average producer would need to receive average calf-market prices of about $75 per hundredweight. When adjustments for weaning percent and allocations for depreciation, unpaid family labor and management, and the use of equity capital are included, the producer would need to receive average calf-market prices substantially greater than $75 per hundredweight. Therefore, when calf prices are well below $75 per hundredweight, it is absolutely essential that cow-calf producers know their production costs and seek ways to control, manage, and reduce them.

A Place To Start

First, gather your production costs and separate them into categories. Common categories include purchased feed, raised feed, grazing, cattle, indirect, and interest costs. Sorting your production costs into categories allows you to group common types of costs. Too many categories will only result in confusion, and too few categories will provide too little information to allow you to manage these costs. Separating production costs into these categories for your financial records may be done by hand or using a computer.

Once you have defined your production cost categories, you can easily determine where you are spending money and the amount in each category. The use of categories also provides a closer look at the types of inputs you are using and what they cost. Now you can begin to evaluate opportunities to limit or lower input use (or costs), decide on substitute inputs, and/or eliminate these inputs where they are unnecessary.

Most importantly, production-cost information may be used to view the cow-calf operation based on total dollars ($24,812), dollars per breeding cow ($248), and dollars per hundredweight (Cwt) ($58) of calf production (Figure 2). These figures are useful for evaluating



USDA, ERS. Note: 1990-94 estimates were based on revised methodology.

Figure I. U.S. Cow-Calf Cash Production Expenses.

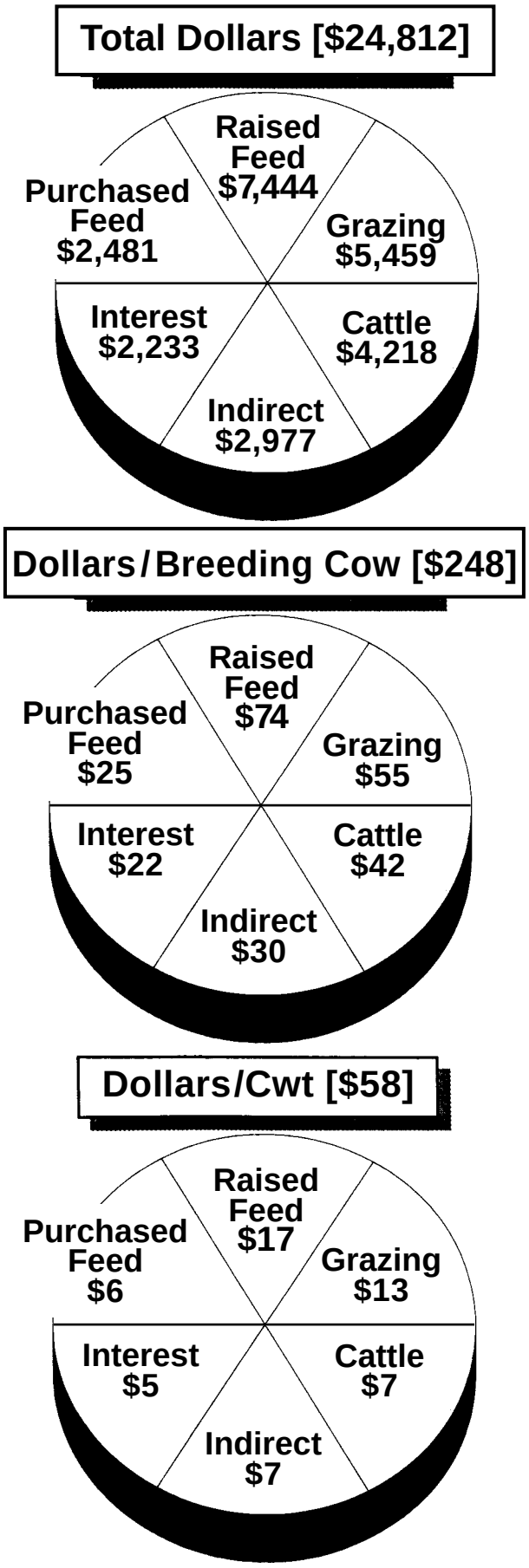


Figure 2. Production Cost Information.

net income, identifying high-cost areas, and comparing inputs and management options.

With your categories established and the dollar figures for each one, you now have the necessary information to begin considering options for improving the net income of your operation. During years of low calf-market prices, your objective should be to lower your unit-cost of production.

You can lower your unit-cost of production by one of four different actions. You can:

1. Maintain the same pounds of calf production while lowering production costs.
2. Maintain the same production costs and increase pounds of calf production.
3. Lower production costs by more than you lower pounds of calf production.
4. Increase pounds of calf production by more than you increase production costs.

The key to lowering your unit-cost of production is being able to estimate the effect that a change in production costs will have on the pounds of calf production. The decision you make about which option to take requires careful management consideration. When making this important decision, do not hesitate to consult with others, such as ranchers, Extension agents, lenders, accountants, veterinarians, or an IRM-SPA (Integrated Resource Management–Standard Performance Analysis) team.

Factors To Consider To Lower Cow-Calf Production Costs

Production costs differ dramatically among U.S. cow-calf producers. Current annual data from the Cow-Calf IRM-SPA Report Card show that production costs range from $156 to $969 per breeding cow. These wide differences are due to the enormous variety of inputs, resources, and production and management practices used by cow-calf producers. The following is an itemized list of factors to consider as opportunities to lower your production costs.

How To Lower Purchased Feed Costs

- Develop a purchasing plan for feed—amount to spend, type of feedstuffs, quantity, quality, etc.
- Minimize the need for the use of purchased feeds.
- Have feed analyzed for nutrient composition.
- Use purchased feeds based on nutritional needs of cow-herd and replacements—lactating, gestating, dry, growing, etc.
- Buy purchased feeds in volume and at seasonal low prices when storage is practical.
- Identify alternative feeds and by-product feedstuffs.
- Compare alternative feed prices and nutrient costs.
- Develop feed rations based on feed and forage analyses.
- Minimize feed losses during storage and feeding.
- Compare alternative feed, storage, and feeding costs.

• Buy feedstuffs by weight and quality (%DM, %TDN, %DP, etc.) instead of bulk measure (bale, roll, trailer load, etc.).

• Use limit-feeding techniques (fat, salt, rolling out hay, etc.) when practical.

• Consider incorporating cool- and warm-season forages (legumes and grasses) in your grazing plan to reduce dependence on purchased feeds and nitrogen fertilizer.

• Consider whether forage species or forage variety selection can lengthen the grazing season and thus lower purchased feed needs.

How To Lower Raised Feed Costs

• Plan your anticipated raised feed needs (best and worst case scenarios).

• Minimize the use of raised feeds when it is economically advantageous to grow forages.

• Compare the costs of raising, harvesting, and storing alternative raised feeds.

• Compare your cost of harvesting raised feed with custom harvesting rates.

• Compare your cost of raised feeds with alternative purchased feeds (buy feed if it is cheaper than self-raising and harvesting feed).

• Consider weather, labor availability, and machinery readiness to minimize harvested feed losses.

• Consider feed storage facilities to minimize feeding losses.

• Consider the use of feed panels/rings to minimize feeding losses.

• Borrow, share, and/or rent machinery and labor with neighbors.

• Use limit-feeding techniques (rolling out hay, etc.) when practical.

How To Lower Grazing Costs

• Develop a grazing plan to put your inputs, resources, and forages to better use.

• Soil test to determine fertilizer nutrients and/or lime needs.

• Evaluate alternative fertilizer formulation prices and spreading costs to reduce the cost of fertilizers and fertilizing.

• Where possible, incorporate legumes into perennial pastures to lower nitrogen fertilizer costs and improve forage quality.

• Split fertilizer applications if doing so will minimize fertilizer losses.

• Use noncommercial fertilizer sources (animal wastes, sludge, light industry and mining materials, etc.) when prices and availability permit.

• Consider leasing additional land when lease rates are cheaper than fertilization costs (compare dollars per AUM or dollars per unit of dry matter forage production).

• Practice weed control (chemical or mechanical) only when it is economically to your advantage.

• Where practical, improve forage use with improved grazing methods (creep, limit, rotational, intensive, etc.).

• Adjust fertilizing and stocking-rate levels based on calf and fertilizer prices (for example, higher fertilizer costs imply lower fertilizer levels, which result in lower stocking rates and fewer cows per acre).

• Use crop aftermath and woodland browse when possible.

• Consider stockpiling certain forages for use as standing hay if this is possible in your area.

• Consider drilling/overseeding cool-season forages (grasses and legumes) to lengthen the grazing season and reduce your purchased and/or raised feed needs.

• Provide animals that have the highest nutritional requirements access to the highest quality pasture.

How To Lower Cattle Costs

• Develop a cattle management plan—production, reproduction, nutrition, herd health, feeds, forages, marketing, etc.

• Adopt a controlled breeding season to improve and/or reduce management and labor costs.

• Consider adjusting cow-herd inventory and stocking rate due to lower beef prices and/or higher input costs. That is, lower calf prices imply lower fertilizer levels, which result in lower stocking rates and fewer cows per acre.

• Review cow-herd records and cull open, defective, low-producing cows and especially older cows.

• Keep only the essential number of replacement animals to achieve the desired herd inventory. Developing replacement animals is expensive.

• Consider the economics of buying versus raising replacement animals.

• Try to keep cows productive over a longer time period.

• Consider leasing high-quality bulls, cows, and replacement heifers.

• Perform preventive herd-health practices to reduce "emergency" costs and losses.

• Compare prices of herd-health animal products.

• Reduce cow frame size over time if needed to lower total feed requirements.

• Sort cows into groups based on nutritional needs to improve or reduce management and feed costs.

• Use caution when selecting inputs to increase weaning percent or weights during years of low beef-market prices. The expense of some inputs will exceed the income their use will generate.

How To Lower Indirect Costs

• Identify overhead items not essential to maintaining production, and eliminate them.

• Monitor utility costs and manage their use.

• Maintain only an essential inventory of farm supplies.

• Compare insurance coverage and rates.

• Plan vehicle, machinery, and equipment use to reduce labor and operating costs.

• Control and monitor family living withdrawals.

• Be selective about educational, travel, and entertainment opportunities.

How To Lower Interest Costs

• Develop a financing plan and review financial records to identify time periods when loans will be needed and when they can be repaid.

• Minimize the use of borrowed money during years of low beef-market prices. Delay purchasing machinery and equipment, renovating pastures, and improving facilities until market conditions justify these capital expenditures.

• Thoroughly evaluate all capital purchases that require financing to ensure they result in profitable investments and have a reasonable payback period.

• Compare interest rates and finance charges among financial institutions. Negotiate whenever possible.

• Consider consolidating debt when necessary in order to reduce service charges.

• Consider liquidating nonessential or nonproductive assets in order to reduce borrowed funds.

• Consider liquidating assets (land, cattle, timber, machinery, etc.) in advance to avoid making delinquent payments or defaulting on loans.

Summary

In the beef cattle industry, production costs are constantly changing due to weather conditions affecting forage and feed production, fluctuating input prices, animal performance, domestic and export markets, technology, and agricultural policies. As a consequence, the cow-calf producer must continually measure, analyze, and manage production costs of the overall operation.

By collecting and organizing production-cost data, producers can determine their total production costs, costs per breeding cow, and costs per hundredweight of calf production. The process is not complicated. It only requires a degree of commitment and discipline to continuously record and tabulate the cost data.

Without production-cost data, cow-calf producers will not know whether they are a high- or low-cost operation or what is an acceptable bid price for their calves. In addition, they cannot evaluate profitability, nor can they make informed decisions about what pays and what does not. The chances of making profitable decisions are extremely limited when producers do not know their costs of production. However, by knowing their production costs and being able to estimate the effect that a change in these costs will have on the pounds of calf production, cow-calf producers immeasurably improve their chances of making profitable management decisions.

Cow-calf producers, just like jet pilots, must always be keenly aware of current and future conditions. Current and projected production costs provide producers with the knowledge and planning time to make adjustments in their operations before adverse market-price conditions occur. Producers who want to improve cow-calf profitability are producers who manage their production costs on a daily basis. Only with precise knowledge of your production costs is cost management possible.

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UPS, 10M6, **New March 1998,** ANR-1072