



**AG ECONOMIC SERIES**

**TIMELY INFORMATION**  
**Agriculture & Natural Resources**

AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY, AUBURN UNIVERSITY, AL 36849-5639

November 2004

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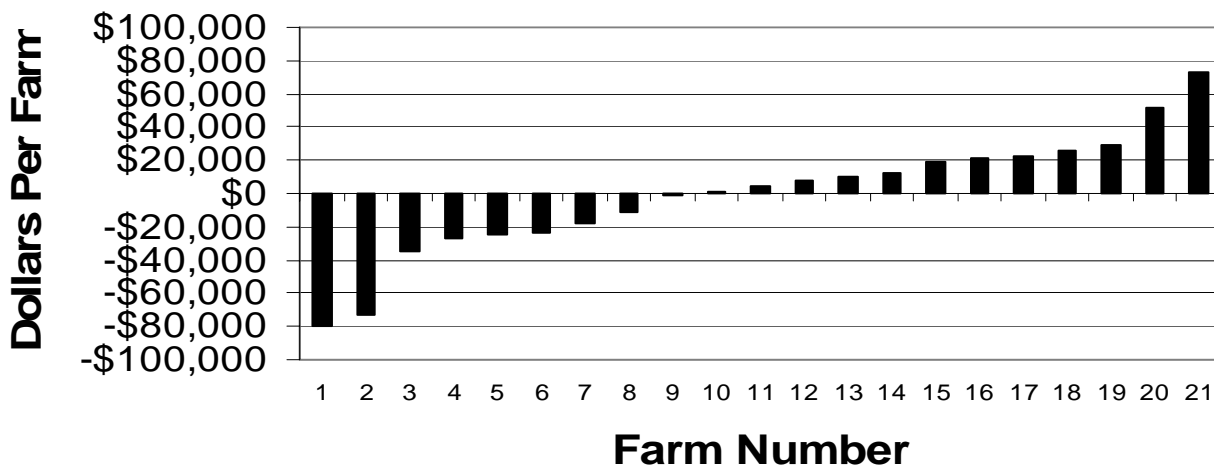
**A Closer Look At Net Farm Income For 21 Alabama Cow-Calf Operations**

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Net farm income on many cow-calf operations is largely determined by the “cost factors.” That is the finding of an examination of the production and financial records of cow-calf operations cooperating in the Alabama Farm Business Analysis Association performed by Extension Economists of the Alabama Cooperative Extension System. Net farm income was calculated for twenty-one Alabama cow-calf operations during 2003. Net farm income is the return to the owner-operator’s labor, management, and owned assets. More specifically, it is gross farm returns less feed costs, total non-feed cost and depreciation plus or minus capital account adjustment.

Net farm income among the 21 farms was positive on 12 farms (57 percent) and negative on 9 farms (43 percent). These results are for 2003, which was a good year for both beef production and market prices (see figure 1). Cow-calf net farm income for the 21 Alabama cow-calf operations ranged from -\$80,125 to +\$72,954 per farm. Obviously, there were some big differences in their goals and/or management that led to such a marked difference in net farm income.

**Figure 1. Cow-Calf Net Farm Income, Alabama, 2003**



Given the wide distribution in net farm income among the 21 cow-calf operations, one would expect major differences in management practices, performance, and costs. Table 1 ranks ten major factors that affected net farm income for these cow-calf operations. These estimates were ranked based on their coefficient of variation (standard deviation of the factor divided by the mean of the factor). This measurement allows the factors to be ranked from least to most variable. The higher the coefficient of variation for a given factor implies more variation was observed among 21 estimates for that factor of production.

For these farms, the first three factors: calf price, calf weight, and calving percent were less variable and similar in the amount of variation expressed for each factor. At least in this dataset, these producers appear to have better adopted these production factors that Extension agents and specialists have been teaching for years.

The next four factors: herd size, other operating cost, culling percent, and hay cost were also similar with a coefficient of variation ranging from 0.70 to 0.76. Thus, the estimates of these factors were considerably more variable than the first group.

The last three factors: depreciation cost, grazing cost, and other feed cost exhibited the most variation in this dataset with the coefficient of variation ranging from 1.19 to 1.47. The higher level of variation among these factors suggests that a wide range of input use and/or costs are being incurred among the 21 farms. Therefore, further examination is necessary to determine if these cost factors can be managed more carefully and whether a given farm may need to increase or decrease the use of the inputs in question. Beware that net farm income can be improved by either making adjustments in over or under-utilizing the inputs associated with these cost factors.

Factor	Average Estimate	Level of Variation	Coefficient of Variation
Calf Price, \$/Cwt.	\$85	Low	0.14
Calf Weight, Pounds/Calf	560	Low	0.17
Calving Percent, %	82%	Low	0.25
Herd Size, Cows	147	Moderate	0.70
Other Operating Cost, \$/Cow	\$630	Moderate	0.70
Culling Percent, %	11%	Moderate	0.71
Hay Cost, \$/Cow	\$127	Moderate	0.76
Depreciation Cost, \$/Cow	\$85	High	1.19
Grazing Cost, \$/Cow	\$53	High	1.35
Other Feed Cost, \$/Cow	\$62	High	1.47

Another approach to improve cow-calf net farm income is to group the farms based on net farm income into the bottom one-third, middle one-third, and top one-third (see Table 2). If you are in the bottom one-third or middle one-third, you need to identify cost-effective strategies that will move your operation into the middle or top one-third. If you are already in the top one-third, you should maintain your current inputs and management practices while continuing to look for opportunities that will improve your estimate of this factor of production. Sometimes it may be a simple management adjustment to move a producer from the lower one-third to the middle or upper one-third (wean heavier calves, adjust marketing date, increase grazing acres, reduce wasted feed, conduct a bull breeding soundness exam, etc.). And in a few rare situations, spending a little more money on

a badly needed input (such as mineral, vaccinations, implants, nutrition, etc.) could move your operation to the middle or top one-third in net farm income.

A comparison of the factors affecting net farm income of 21 cow-calf farms in Alabama during 2003 is provided in Table 2. Significant differences exist for some factors (calving percent, herd size, other operating cost, hay cost, depreciation, grazing cost, other feed cost), while minimal differences are noted for several factors (calf price, calf weight, culling percent). By calculating estimates of each factor for your operation, you will be able to identify areas where you need to study what changes can be made to improve net farm income.

Table 2. A Comparison Of The Factors Affecting Net Farm Income of 21 Cow-Calf Farms, 2003.

Item	Net Farm Income			Overall Average
	Lower One-Third	Middle One-Third	Upper One-Third	
Calf Price, \$/Cwt.	\$84	\$88	\$82	\$85
Calf Weight, Pounds/Calf	578	524	579	560
Calving Percent, %	78%	80%	87%	82%
Herd Size, Cows	103	107	230	147
Other Operating Cost, \$/Cow	\$982	\$527	\$381	\$630
Culling Percent, %	13%	7%	13%	11%
Hay Cost, \$/Cow	\$192	\$97	\$93	\$127
Depreciation, \$/Cow	\$143	\$40	\$71	\$85
Grazing Cost, \$/Cow	\$76	\$43	\$39	\$53
Other Feed Cost, \$/Cow	\$105	\$41	\$39	\$62
Net Farm Income, \$/Cow	-\$522	\$25	\$154	-\$114

If you are not currently keeping production and financial records for your cow-calf operation, now is a good time to get started. You can get help from your Regional Extension Agent and Extension Farm Economist. They can be an excellent source of information on cow-calf production and financial records and management.