

THE DIGESTIVE TRACT

Projecting profitability

by Dan Shike, University of Illinois



Projecting profitability in a cow-calf operation can be challenging. Some expenses are fairly constant and

easy to predict, but feed costs can be quite variable depending on region and weather.

With much of the United States experiencing a hot, dry summer, supplemental feed needs are almost certain to increase. Drought conditions do not help the hay supply, which could lead to large regional variation in hay availability and hay price.

Additionally, grain markets continue to be highly volatile, and even though fall prices have fallen through summer, commodities continue to be expensive relative to

recent years. Collectively, the current outlook would suggest cow costs will be at historically high levels for 2022.

The whole formula

Fortunately, profitability isn't just dependent on input costs. The feeder-calf market has been incredibly good through mid-summer, and projections look to be strong for this fall. With cow costs high, producers will need to capitalize on strong calf markets. Keeping calves healthy and adding pounds will be key to maximizing your potential.

Still, relying on good calf prices to compensate for high cow costs is not a good long-term business model. Despite not being able to control all cow costs, it is still critical

to calculate and evaluate where you are spending money.

I suspect many producers may not enjoy the task of itemizing out expenses for the operation. However, I would wager the most profitable operations know exactly what their expenses are. Every operation is different, and each operation will have different distributions of expenses and in some cases, additional expense categories.

Budget calculator

I have included a screenshot (see page 40) and link (<https://coststudies.ucdavis.edu/en/cow-calf-budget-calculators/>) to a cow-calf budget calculator put together by University of California–Davis (UC–Davis). There are plenty of

options out there. If you have one you like, great. If not, try this one out to get you started.

You will need to enter several items — those cells in yellow. First, input the total number of calves, yearlings, cows and bulls you will be selling this fiscal year. You will also need to enter a weight and a price in dollars per hundredweight (cwt.) for those respective classes of cattle so that a total receipts or income can be calculated.

Next, enter your operating costs. This will require a total number of cows, as well as costs associated with pasture, hay, supplement, mineral, veterinary, breeding, marketing, machinery, trucking, etc. For each of those respective categories, enter the number of

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units (tons, months, miles, hours, etc.) and the cost per unit. This will generate your operating costs.

Then enter ownership costs, such as taxes and insurance.

Areas of concern

Once you have gone through and entered all of your information, you can start to evaluate and identify areas of concern.

Again, every operation is different. Some operations will have high equipment costs; others will have very minimal expenses for machinery. As I have discussed numerous times, the cost that has the biggest effect on profitability is almost always feed costs, especially winter feed costs. In years when drought conditions cut grazing days short and drive up hay and commodity prices, feed costs can easily take an operation from making money on every cow to losing a couple hundred dollars on every cow.

Although we can't control the

weather, we can have a plan for winter feeding and a plan for drought. Operations that know what their feed costs are projected to be in a normal year are much more aware and prepared for what additional expenses will likely be incurred when drought or tough winters hit.

Many producers do have a very good handle on their expenses and routinely run budget projections. Even if you do not have every number entered in a spreadsheet, I realize you likely have somewhat of an idea of where you are. However, if you haven't already, I strongly encourage you to sit down and plug the numbers in. You might find a few areas to focus on. Yes, it does look like prices will be good this year, but if you keep your costs in check, you will be that much more profitable. █

Editor's note: "The Digestive Tract" is a regular column focused on nutrition for the beef cattle life cycle. Dan Shike is associate professor in animal sciences at the University of Illinois.

	A	B	C	D	E	F	G
1	Cow/Calf-Winter Hay Feeding Costs and Returns						
2	Cow/Calf	Head		Units/Head	Unit	Price or Cost/Unit	Total Value
3	Steer Calves	131		7.25	cwt	\$ 158.00	\$ 150,060.50
4	Heifer Calves	96		6.50	cwt	\$ 173.00	\$ 107,952.00
5	Yearling Heifers	5		9.00	cwt	\$ 143.00	\$ 6,435.00
6	Cull Cows	27		12.50	cwt	\$ 72.00	\$ 24,300.00
7	Cull Bulls	4		18.00	cwt	\$ 84.50	\$ 6,084.00
8	Total RECEIPTS						\$ 294,831.50
9	OPERATING COSTS						
10	Summer Pasture (\$35/month-5/1-10/15)	300	cows	5.5	month	\$ 35.00	\$ 57,750.00
11	Crop aftermath (\$30/month-10/16-11/15)	300	cows	1	month	\$ 30.00	\$ 9,000.00
12	Hay-Cows, feeding period 1	300	cows	0.23	tons	\$ 185.00	\$ 12,487.50
13	Hay-Cows, Feeding period 2	300	cows	1.84	tons	\$ 185.00	\$ 101,981.25
14	Hay-Cows, feeding period 3	300	cows	0.23	tons	\$ 185.00	\$ 12,487.50
15	Hay-Cows, feeding period 4		cows	-	tons		\$ -
16	Hay-weaned calves	186	calves	0.420	tons	\$ 185.00	\$ 14,452.20
17	Supplements - Cows	300	cows	0.103	tons	\$ 500.00	\$ 15,468.75
18	Salt Supplement	300	cows	33	lbs	\$ 0.12	\$ 1,200.00
19	Brand Inspection	300	cows	1	inspection	\$ 1.05	\$ 315.00
20	Marketing Order Promo (checkoff)	300	cows	1	checkoff	\$ 1.00	\$ 300.00
21	Freight/trucking			480	miles	\$ 5.00	\$ 2,400.00
22	Marketing	300	cows	1	each	\$ 10.50	\$ 3,150.00
23	Horse (Shoes, Vet, Feed)	4	horses	1	each	\$ 1,500.00	\$ 6,000.00
24	Yearling Bulls Purchased	4	bulls	1	each	\$ 4,000.00	\$ 16,000.00
25	Vaccine/Wormer/Etc	300	cows	1	each	\$ 35.00	\$ 10,500.00
26	Veterinary Service	300	cows	1	each	\$ 10.00	\$ 3,000.00
27	Pick-up			25,000	miles	\$ 0.56	\$ 14,000.00
28	Horse trailer			10,000	miles	\$ 0.20	\$ 2,000.00
29	ATV			1	year	\$ 3,000.00	\$ 3,000.00
30	Tractor/Wagon-65 hp feed off of 3 hrs/day, 166 days			498	hours	\$ 22.00	\$ 10,956.00
31	Equipment (repair)			1	\$/year	\$ 2,000.00	\$ 2,000.00
32	Interest on Operating Capital @ 4.75%			\$ 70,000	\$100	\$ 4.75	\$ 3,325.00
33	Total OPERATING COSTS						\$ 301,773.20
34	INCOME ABOVE OPERATING COSTS						\$ (6,941.70)
35	OWNERSHIP COSTS						
36	Cash Overhead:						
37	Taxes and Insurance						\$ 6,000.00
38	Office						\$ 2,000.00
39	Non-cash Overhead:						
40	Capital Recovery (Livestock, Equipment)						\$ 27,515.00
41	Total OWNERSHIP COSTS						\$ 35,515.00
42	Total COSTS						\$ 337,288.20
43	Returns to Labor, Management, Investment						\$ (42,456.70)
44							