

## Understand your bottom line, what you need to change it



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Here in the office, the end of the fiscal year traditionally brings with it a series of reviews — both performance and financial. We force ourselves to pull our heads out of the day-to-day rhythm of the business to evaluate whether we're performing at our peak.

Did we meet the goals we set for ourselves at the beginning of the year? What and who helped us in our achievements? What pulled our attention and energy away from our original goals? Did it help or hinder our ability to move in the right direction? Where can we tighten the belt and become more efficient? Where are we stretched too thin and risking a breakdown?

We take a hard look at the numbers. How do they compare to where we thought they would be at the outset of the year? Where there are differences, can we provide reasons? Were they factors we could influence, or were they beyond our control? Did we properly adjust? Why or why not?

Are they likely to continue to influence our business?

### If I asked you the same questions, would you have answers?

While the American Angus Association and Angus Media close out the fiscal year Sept. 30, most farmers and ranchers would plan according to the calendar or tax year, with year's end falling on Dec. 31. You may or may not do a formal review of your business each year, but the Internal Revenue Service (IRS) and governmental agencies make sure you at least establish a year-end inventory of assets and calculate a profit or loss for the past year. Your banker will certainly pay attention to your cash flow and progress on paying down debt.

The past year has had more than its share of those external factors affecting our bottom lines — storms, flooding, tornadoes, hurricanes, packer closings, extreme heat, poor weather for harvesting hay and uncertain markets to name a few. Many will have uncomfortable discussions with bankers.

A frighteningly small percentage of producers know their actual cost of maintaining a cow, let alone how each enterprise contributes to the bottom line. If you are among that group, I encourage you to sharpen your pencil and start figuring. It will make that visit with the banker a little easier, and it will put you in the driver's seat for making decisions that could keep you in business.

CattleFax offers a breakeven calculator for cow-calf producers at <https://www.cattlefax.com/ccbe/>. Check with your local extension office to see if they can offer a cow-calf cost analysis for your area. The University of Nebraska's Aaron Berger provides a simple explanation of calculating the unit cost of production (UCOP) for a beef herd at <http://bit.ly/ABB-UCOP>. Berger shows how to look at your expenses to calculate the cost of producing a pound of calf. At bare minimum look at your expenses for the year vs. the number of cows in inventory to get a rough cost per cow.

### What are we going to do about it?

Of course, the big question becomes, what are we going to do with our assessment? Will we file it in a drawer, glad the exercise is done for the year and wait for next year's assessment so we can spot a trend? Or will we use what we learn to direct that trend and make next year a more profitable one?

Understanding things like your UCOP can help you calculate the price you need to receive to make a profit. Looking at the purchase of anything from a cutting horse to a bull to a pickup truck in terms of what it will add to your UCOP can make decisions a little easier. If current prices aren't allowing you to exceed your UCOP, what can you do to change the outlook? Can you decrease expenses? Can you get more revenue per unit sold?

Choose your next herd sire with the traits that will help you make more money. Do you need to add growth, add milk, lessen milk, increase birth weight for more viable calves, lower birth weight to lessen calving problems? Would marbling ability or enrollment in a processed-verified program (PVP) change your price received?

Understanding your bottom line gives you the power to change it. |

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