

Do You Know Your Cow Cost?

Find the fun in recordkeeping: profit.

by Troy Smith, field editor

‘Why wouldn’t you want to know?” asks Kendall Roberts, recalling the attitude of a rancher she encountered during her graduate studies at the University of Wyoming. “I was doing research on enterprise budgets when I met a producer that didn’t know what it cost him to run a cow for a year. He thought it was a waste of time to keep separate accounting for different ranch enterprises, so his only concern was whether, at the end of the year, his operation had made or lost money.”

That was a few years ago, but Roberts still doesn’t understand why any cow-calf producer would not track annual cow costs. Since returning to her family’s ranch, near Cheyenne, Roberts has shared management with her father, Mark Eisele.

It’s Roberts’ responsibility to keep accounts for the ranch’s multiple enterprises, including cow-calf, stocker grazing/backgrounding, hay production and custom haying. Separate analysis shows how each enterprise contributes to the operation’s overall success. It

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reveals whether each enterprise can stand on its own, or if it is being subsidized by others.

Separate enterprises

Looking at the cow-calf enterprise specifically, Roberts says tracking costs is critical to evaluating its performance and long-term sustainability. Investments in animal nutrition, genetics and health are intended to enhance animal performance. Yet a savvy manager must decide if the juice is worth the squeeze.

“You’ve got to know your cost of production to evaluate your management,” says Roberts. “You might be increasing production, but is it profitable? Can you continue on this course well into the future, or will you have to make changes? What kind of changes could make the biggest difference? You can’t answer those questions unless you know what your costs are.”

Be honest

Roberts emphasizes the necessity of calculating cow costs honestly, and Wesley Tucker could not agree more. A University of Missouri Extension specialist, Tucker encourages cow-calf producers to take a businesslike approach.

“A lot of people just look at the Schedule F

of their income tax return. But that’s a pretty poor way to evaluate costs, especially if it includes money spent at the end of the year as a tax write-off — like prepaying for the next year’s fertilizer,” says Tucker. “You really need to make adjustments for things like prepaid expenses, holding cattle over until after the first of the year or any extra depreciation expensed. If you do that for three years, you can get a pretty good rolling average for your costs of production. Looking at multiple years, you can see cost trend lines and identify areas that you ought to work on.”

That can be a struggle for producers who don’t like to ride a desk and do bookwork. Roberts admits that she had trouble finding the fun in recordkeeping — at first. But she took extra classes, worked with Extension personnel and hired an accountant to learn ways to do the work faster and easier. As tedious as it might seem, tracking expenses and making time to think about ways to better manage costs can have a big effect on profitability.

That view is supported by results of Oklahoma State University’s Standard Performance Analysis (SPA) of beef cow herds across the Great Plains. According to the SPA data, high-profit herds have lower annual per-cow costs than low-profit herds

— 43% lower. Yes, higher levels of production, measured by pregnancy rates, weaning rates and weaning weights, also contribute to differences in profitability — but controlling costs is huge.

“You have to sit down and really look at the numbers,” states Tucker. “Make a careful assessment of expenses, and see where you can do better.”

Costs, not just cash

A hard-nosed calculation of cow costs will include some things that many producers overlook or choose to ignore. In Tucker’s opinion, many farmers and ranchers tend to think only about cash costs. Economists also think about opportunity costs. For accurate economic analysis, opportunity costs must be included.

Think about how this applies to feed cost, which many people consider to be the largest cost category for a cow-calf enterprise. Feed, whether grazed, harvested or commercially processed, can account for up to 70% of total annual cow costs. However, many producers fail to charge their cow-calf enterprise for the fair market value of owned range or pasture.

“When a producer owns the pasture, there should be a land enterprise and a cow

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Depreciation is a real cost

“Producers don’t talk about cow depreciation very often,” says University of Nebraska Extension Educator Aaron Berger. “It gets overlooked because it is a non-cash cost, ... but it’s still a cost.”

Berger says the economic ramification of cow depreciation is more significant than many producers realize. He suspects that, for most cow-calf enterprises, it ranks among the top three costs of being in the cow business.

Don’t think so? Well, cost-conscious cow folk ought to pencil it out for themselves. Start with the total initial cost of a replacement female entering the breeding herd, and subtract the sale value recovered when she exits the herd. Dividing that remainder by the number of years the cow was in production provides an amount representing the cow’s annual depreciation cost.

Whether producers account for it or not, a brood cow’s decreasing value over time is a real cost. Producers who quantify the cost are better positioned to manage it. According to Berger, cow depreciation can be reduced in three ways:

- 1) Reduce the initial cost of the replacement female by limiting the price paid for females sourced from outside the operation, or by lowering the total cost of retaining and developing home-raised heifers.
- 2) Reduce the replacement rate. This is accomplished by increasing the number of years a cow is in production — her longevity.
- 3) Increase the market value of females leaving the herd. Don’t think taking “salvage” value for so-called cull animals is the only way to go.

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enterprise, with the cow enterprise paying rent to a land enterprise,” Tucker says. “There’s an opportunity cost because the land could be rented to someone else, and that rental value is the true cost to the cow enterprise.”

Just as the market value of grazed forage is returned to land ownership, the cow enterprise should pay the haying enterprise for harvested forage that is fed to cows. The homegrown hay could be sold elsewhere, so it has market value. Unless all of the forage used by the cow herd is accurately accounted for, the cow enterprise is being subsidized by other enterprises.

A haying enterprise ought to be scrutinized in the same way, with an accounting of costs of land, equipment, fuel, labor and other expenses. If the value of hay produced does not exceed cost of production, perhaps opportunities for grazing the hay ground and buying hay should be explored.

Overhead costs associated with equipment and labor often comprise a large



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percentage of total cow costs. Sometimes, owning newer or more sophisticated equipment may be justified when its use is shared among two or more enterprises. The same may be true for hired labor, but fair allocation of equipment and labor charges should be made to each enterprise.

Looking hard for ways to curb climbing annual cows costs, some producers have sought to spread equipment and labor costs

over more units by increasing the number of cows cared for by the existing labor force or served by currently owned equipment. Alternatively, some producers aggressively try to do more with less by reducing the labor or equipment needed to care for a given number of cows.

According to Tucker, one of the most common mistakes producers make is failing to account for their own labor.

“They may tell you they manage their cow operations like a business, but what kind of business runs on free labor?” he asks. “If you’re donating your time, it’s not really a business.”

Replacement costs

Another area needing careful consideration is accounting for replacement female costs. It’s easy enough, says Tucker, if you buy bred replacements. If you pay \$2,500 to \$3,000 for a heifer or young cow and you replace 15% of the breeding herd, it’s not too hard to calculate cow replacement cost.

“But replacement costs can get muddled when producers keep home-raised females,” opines Tucker. “The guy who raises his own may think he can do it cheaper than those selling replacements. The truth is, because they are dealing with a few head, most people cannot develop replacement females for less than the cost of purchasing them. A few people can, but most can’t.”

Producers often cite the home-raised advantage, meaning they know exactly what

their own heifers are — the genetics and how the heifers were developed.

Home-raised replacements may offer a potential advantage, Tucker admits. “But what’s it costing you? It’s hard to know when you’re not calculating your true development costs.”

Tucker reminds producers to start with the heifer’s value as a weaned calf. She could have been sold, so her weanling value is counted as the first cost in an economic analysis of a replacement-heifer enterprise. To that first cost, add all development and breeding costs incurred to get her to the point of entry in the breeding herd. That is the replacement female’s true cost to the cow enterprise.

Adding interest

Another area of cost that formerly was a big deal, and then wasn’t, is again having an effect on cow-calf operations. Interest rates are significantly higher than they were a couple of years ago. With input costs driven higher by inflation, plus higher replacement

female costs, the amount of money needed for operating expenses keeps creeping upward. Operating loans involve more dollars borrowed at higher rates of interest.

“We’ve got a younger generation of producers that hasn’t seen really high interest rates — none high enough to worry about, anyway. But interest is a cost that’s growing again, plus a lot of non-feed costs are dramatically higher — like equipment, repair parts and fertilizer,” says Tucker, who is afraid that many producers are counting on high cattle prices to cure all ills.

“We may see record cattle prices, but not necessarily record profits. The cost of production is so high, producers have to track costs and see where the money goes,” Tucker says. “I think we’ll continue to see wider separation between the high- and low-cost producers. The more dependent you are on iron (machinery), fuel, fertilizer and labor, the harder it will be to be profitable.” **ABB**

Editor’s note: Troy Smith is a freelance writer and cattleman from Sargent, Neb.