Outside the Box: Responding to high-priced inputs

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Input costs — feed, fuel and fertilizer — comprise the most significant barrier to profitability for the cow-calf sector. As cost pressure on the industry increases, discussion has turned to adjusting genetics, timing of marketing and management practices in response. As strategic changes are made, it is important that the consequences, both intended and unintended, are carefully considered.

Too often in response to short-term challenges, the industry has overreacted by shifting selection pressure toward extremes or by radically altering management practices that put the enterprise into a less competitive position for the long term.

My grandmother always told the teenagers in our family to "have fun but to be good." In essence, she was advocating for a balanced approach. The cow-calf enterprise has typically been most successful when managers were able to balance the multiple components of the system — biology, finances, marketing, forage and natural resources, human beings, and production — within the context of the operational mission and goals.

Balancing the system doesn't mean we have to accept average or low performance. Nor does it suggest that one component of the system has to give ground for another to gain, although this is sometimes the case. And achieving systems balance in any one enterprise requires the creativity of leadership, as there are no set recipes for success.

Cattle-Fax reports that the average cash cost per cow (excludes depreciation, opportunity cost and return to management) in 2007 was $388. If the non-cash variables are included, the cost increases approximately $100 to $471 per cow. Interestingly, the net income difference between the most profitable one-third of the industry and the poorest performing group is approximately $120 per head — a difference that has held relatively consistent over the course of the past two decades.

In making strategic decisions at the cow-calf level, several economic principles as described by people such as Barry Dunn and Gregg Simonds are fundamental to good choices:

- Production drives the income side of the profit equation, but costs drive profitability of the enterprise. Twenty percent of variation is due to productivity differences, with 80% due to costs.
- While there is variation in the productivity of cattle between herds, there is more variation in expenses of the cow-calf enterprise.
- Feed costs account for about 60% of the variation in profitability between herds.

Strong herds

Evaluating the results of Standardized Performance Analysis (SPA) evaluations of individual cow-calf enterprises and a variety of other financial systems, it is possible to characterize the differences between profitable and unprofitable operations. Those herds with strong financial performance tend to accomplish the following:

- Maintain below-average annual cow costs and breakevens resulting from lower feed costs, less debt and lower operating expenses.

- Higher productivity resulting from higher sale weights, better conception rates, and more pounds weaned per cow exposed.
- Better overall management of genetics, herd health and pastures.
- Correct choice of mating system, breed, individual sires, management of breeding herd, measuring performance, benchmarking, and choosing the right replacement stock.
- Effectively matching cattle to marketing pathways (sorting strategies).
- Correct use of technology that accounts for both desired and unfavorable outcomes.

Dreamers and doers

As the industry faces the uncertainly created by high input costs, it has never been more important for individual cow-calf enterprises to accurately assess and monitor production expenses. Quantifying expenditures and income helps managers focus on the most critical areas where managerial control can have the greatest effect. Excellent recordkeeping provides the framework to build a unified game plan for profitability. The creativity of people is the key to the development, implementation and effective utilization of a profitable enterprise with staying power.

Stressful times, while difficult, do offer opportunity, and businesses that weather the storm tend to be those managed by leaders who can simultaneously deal with the problems, challenges and issues while maintaining hope for the future.

Chip Ramsey, a successful ranch manager from Nebraska, recently told an audience, "a problem is only a problem until it has been recognized and defined; then it becomes an opportunity." He went on to say that the key to success comes from our ability to "empower people through education and responsibility and reward them for success."

Too often people tend to retreat or develop a cocoon mentality when economic conditions undergo radical shifts. We are far better served if we engage in our professional and community networks in search of creative solutions.

Agriculture has never been a static industry insulated from the forces of change, and just as previous generations of leaders confronted the challenges of their times, so shall we if our eyes remain fixed on the goals, our actions supported by effective information systems, and our hearts focused on creating a better tomorrow by the force of our collective courage and will.

America is a nation of dreamers and doers, and now is the time to reinvest ourselves in that heritage of accomplishment in the face of adversity.