Beef Talk: The cow business is very positive

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The cow-calf business continues to see positive returns, according to the North Dakota Farm Management Program *(www.ndfarmmanagement.com)*. Although 2009 was not a great year for beef producers, 2010 was and 2011 was even better. The majority of cow-calf enterprises are experiencing good economic times. However, there still are producers who do not enjoy positive returns, despite the increasing value of calves. The culprit is costs, both obvious and those that are not so obvious. Profitability is positive only when expenses are less than income received, which is not rocket science.

In the beef business, particularly the cow-calf business, the numbers that actually are used in the assessment of profitability are not always complete. During good income years, the tendency may creep in to not track expenses. In fact, the current income check may be large and actually overshadow the size of numerous expense checks that had been written or expenses allotted to the beef enterprise during the course of the production year.

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In visiting with Jerry Tuhy, farm business management instructor at the Dickinson Research Extension Center, he offered similar thoughts as he did last spring. For North Dakota cattle, the average herd returned (over direct expenses) $257.19 in 2011, which was up from $183.99 in 2010 and up from $54.08 returned in 2009.

However, he noted the bottom 20% of the herds in 2011 still returned (over direct expenses) only $40.66, while the upper 20% returned (over direct expenses) $421.30. This huge spread in return over direct expenses is nothing new in the beef business. Cost control says a lot.

Trend for increasing cost

The story line is the same from 2010 to 2011, so perhaps the best way to look at increasing costs is to look at all the North Dakota herds in 2008, 2009, 2010 and 2011.

Starting with the cost of replacing cattle, including purchasing replacements or retaining heifers and transferring them into the breeding herd as bred heifers, the cost is the single greatest outlay for the cow-calf enterprise.

It does make a difference (purchased vs. raised) in other financial evaluations, but for the purpose of the profit discussion, let's keep it simple. The cost of maintaining a breeding herd has gone up for North Dakota producers.

In 2008, the purchased and transferred-in breeding stock cost cattle producers in the state $148.42. In 2009, the cost was $175.76, while in 2010, that figure rose to $232.17. The 2011 analysis has the cost per cow to maintain the herd at $269.88. The cost of having higher-priced cattle reflects very quickly in the cost of replacing the breeding herd and also

Table 1: Cow-calf enterprise numbers

	Cost to maintain the herd	Direct costs	Overhead expenses	Net return
2008	$148.42	$390.65	$63.42	$12.11
2009	$175.76	$397.68	$66.93	($12.85)
2010	$232.17	$394.34	$70.70	$113.29
2011	$269.88	$414.65	$83.64	$173.55

Source: North Dakota Farm Management Program, *www.ndfarmmanagement.com*.

the bottom line associated with the cow-calf enterprise.

The actual direct costs for these producers — in other words those costs we tend to write out checks for on a routine basis — were $390.65 in 2008, $397.68 in 2009, $394.34 in 2010 and on the rise in 2011 at $414.65.

In terms of actual net return, figuring the replacement costs, such as direct and overhead expenses, these producers netted $12.11 per cow in 2008, lost $12.85 per cow in 2009 and rejoined the positive side of the equation in 2010 with a net of $113.29. During 2011, the upside even got more positive at $173.55.

This would be the dollars that each cow could contribute to labor and management of the cow-calf enterprise. The question of the day remains: Is this profitability sustainable? Again, let's look at the numbers, but turn to gross margin.

Gross margin

I asked Tuhy to provide an explanation of gross margin. He says gross margin accounts for the purchase and sale of all calves, cull cows and bulls, plus animals transferred in and any overall changes in cattle inventory.

The bottom line: Gross margins reflect the amount of money cattle producers have to work with. In 2010, producers had $578.33 in gross margins, while in 2011 producers had $671.84.

Since the early 1990s, cattle producers generally have not had that much money to work with, so the real question still is costs, because the operational costs still need to be subtracted from the gross margin. In 2010, only 20% of the gross dollars were captured. However, in 2011 producers captured slightly more than 25% of their gross margins.

Is this sustainable?

May you find all your ear tags.

Editor's Note: *"Beef Talk" is a weekly column written by Kris Ringwall, who is an NDSU Extension livestock specialist and director of the Dickinson Research Extension Center. He welcomes your comments at* www.BeefTalk.com. *For more information contact Ringwall at 1041 State Ave., Dickinson, ND 58601, or go to* www.ag.ndsu.edu/news/columns/beeftalk/.