Reduce Cow Costs, Increase Revenue

What makes a big difference, and what doesn't?

Story & photos by
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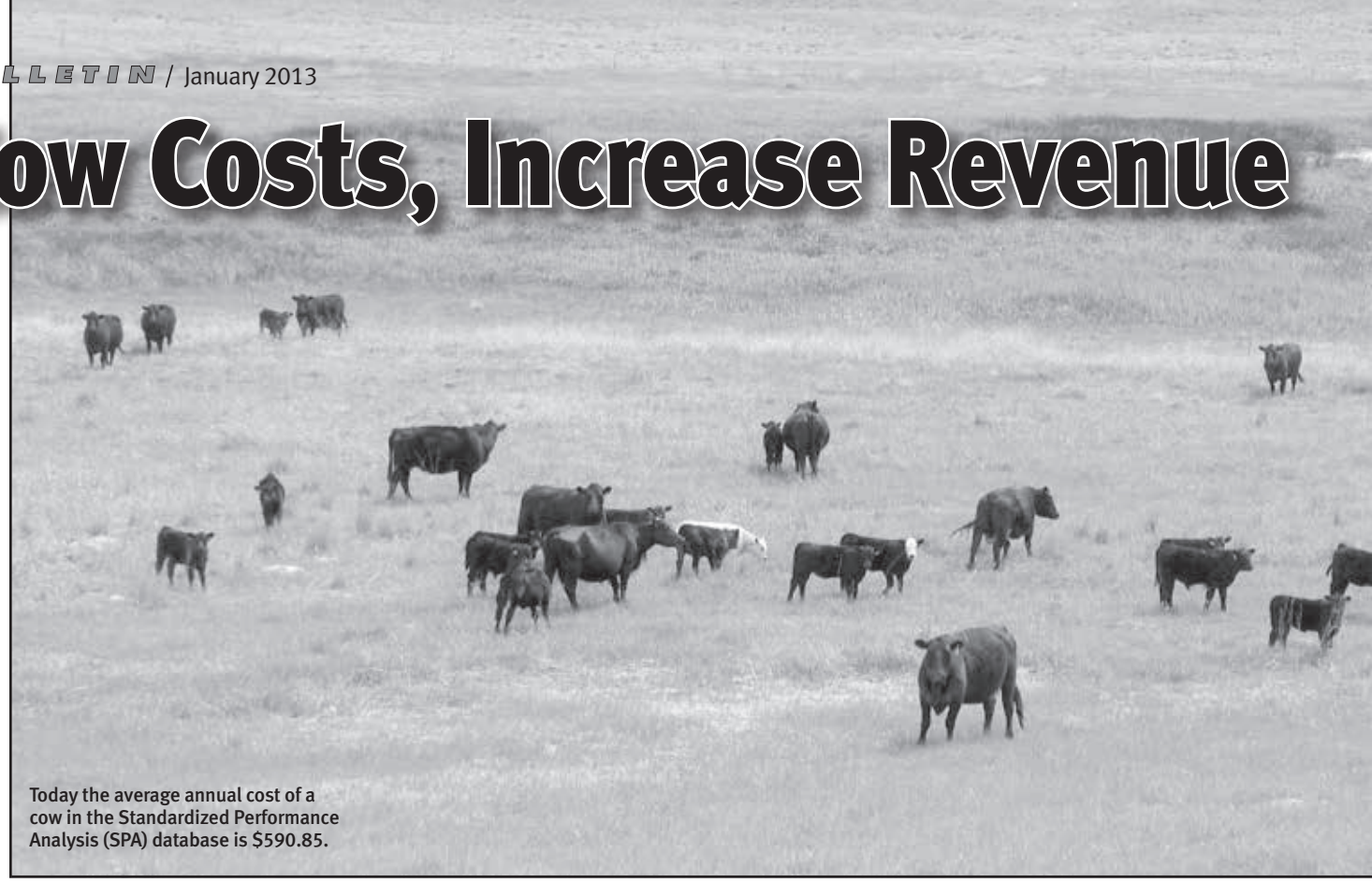

Today the average annual cost of a cow in the Standardized Performance Analysis (SPA) database is $590.85.

Property taxes don't mind if your cows are black or white or red. Ranches must have fences, pickups and equipment, regardless of what the calves weigh at weaning.

"Fixed cost doesn't care whether you've got 400 cows, 200 cows, 60 cows or two cows. It's going to be the same," says Stan Bevers, Texas A&M University beef economist. However, the number you divide by makes a big difference. "The only way to drive down fixed costs is to get more cows."

As the industry anxiously awaits a drought reversal and herd rebuilding, many experts say now is the time to analyze overall carrying expenses.

"One of the problems that we run into is that guys don't calculate their cow costs, so things get out of perspective," says Jim McGrann, emeritus ranch management economist at Texas A&M. "They will try to save in areas where it's not going to make that big of a difference."

McGrann implemented the management program known as Standardized Performance Analysis (SPA) in the 1990s to help producers benchmark their herd against others. Bevers manages that program now.

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Today the average annual cost of a cow in that database is $590.85 — up from when Bevers started 23 years ago.

"Then, the average cost was about a dollar per day, so we haven't quite doubled, but it's getting close," he says.

Pick any year and ask what the largest components of that number were, Bevers says, and the answer is nearly always the same: "Labor and management, depreciation or feed."

McGrann says it's important to "minimize the costs associated with all the vehicles, machinery and equipment they have, but everything else is more of a question of execution of a good plan and watching how they spend their money."

A key is keeping a focus on reproduction.

Control cost with reproduction

"Cost control is more closely related to making sure they don't hurt reproduction," he says. "For example, if they don't feed right, they are going to hurt reproduction. If they don't get high calf crops relative to their exposed females, they can never have a low-cost operation."

Scott Brown, University of Missouri (MU) ag economist, points to a tool developed by colleague Brent Carpenter that is designed to help determine what one could pay for a female. Available at *www.fapri.missouri.edu*, the CowCalculator can also show a producer at what price they'd be better off keeping a heifer, selling or feeding her.

It points to the need to get a live calf every single year.

"This is a really big deal. Losing a calf in one of her first three or four years of production reduces what you should be willing to pay for her by over $600," he says. "Focusing on predictable calving-ease genetics may provide some risk protection against losing a calf.

"Most of your cost of production needs to be at the low end; there is no question about that. If you're not a cost-effective

At Bradley 3 Ranch, James Henderson (right), wife Mary Lou (left) and mother-in-law Minnie Lou Bradley have been focused on developing a cow that works in the mesquite brush environment they call home in the lower Texas Panhandle.

producer, you're not going to be in business regardless," Brown says. "But many of those costs, you don't have much control over because of your cow choice. I think there is a lot more gain to be had on the revenue side than the expense side."

McGrann says to increase that top line, cattlemen must listen. "First, they have to respond to what the market is telling them. Two, they have to market not only the right product — the right quality — but in a timely manner."

Rain will come. When it does, the decisions made in the rebuilding process could have a huge impact on future production.

"Really, the market is telling you that you have to have cattle that will grade and yield and be taken to a pretty heavy weight," McGrann says.

That all starts with genetics, and better bulls come with a higher price tag. McGrann says that shouldn't scare a producer.

Put into perspective

"When I'm purchasing a bull, it will have an economic life of anywhere from three to five years," he says. It's easy to figure its cost: take purchase price minus salvage value and divide by the number of calves that bull is expected to sire.

"When you put it in the proper perspective — what does it mean in terms of depreciation per female serviced. It's really a low-cost number," McGrann says.

A $3,100 bull servicing 25 cows per year for five years averages out to a $45.49 annual service cost per cow exposed. That's just 7.6% of total cow costs. Spend another $400 on a bull and that number increases less than $4 to $49.41, or 8.2% of total cow costs. Increase that base by $1,000, up to a $4,100 bull, and that would equal a $55.29 service charge, or 9.2% of cow costs.

That's holding everything else equal. What if those genetics are more expensive because they're more reliable, more efficient or help cut costs in other ways?

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"I can buy a really cheap bull, and I think I get what I pay for in many cases," Brown notes. "Some of the advances we have seen on the AI (artificial insemination) side can give you access to better bulls without the full cost."

Looking at the revenue helps prove the value.

"What's it really mean if I get another 10 or 20 pounds of weaning weight on those calves?" Brown asks. In terms of cow costs, that Missouri calculator says you could pay $175 more for a cow if she weans calves that average 20 lb. heavier.

"The chance to increase the genetics of your herd should be something that everyone is looking at," Brown says. In his definition, that would fall into several categories: mothering ability and calving ease, growth and carcass quality.

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"Bulls that are going to have maternal traits would be a big piece of that," says James Henderson of Bradley 3 Ranch in the lower Texas panhandle. The seedstock Angus breeder has been focused on a cow that works in the mesquite brush environment they call home. Structural soundness is a bare minimum, but then cattlemen can "turn to the data," Henderson says.

He suggests commercial Angus producers look at tools like the SPA program they've participated in since its inception, as well as recent advancements like the GeneMax™ DNA test from Certified Angus Beef LLC (CAB) and Angus Genetics Inc. (AGI).

"It really gives you good benchmarks of where they're at in relation to their contemporaries and in relation to females from other years in their own operation," Henderson says.

Bevers says the SPA database doesn't have enough information to correlate calf quality and cow costs, but he suspects you can achieve low costs and high quality in tandem.

"We've found that our high-marbling cattle are our easiest-keeping cattle," Henderson says. "I think marbling may be a more valuable reproductive trait than it is a carcass trait."

When he hears people assigning a negative correlation to the two, he wonders if they're confusing marbling and milk.

"In the Angus breed, there are a lot of high-marbling cattle that are also high-milk. It's pretty easy to misread which one of those traits is costing you money," he says. "High-milk cows are going to be much more expensive to maintain and rebreed, but high-marbling cows, in my experience, are the ones that survive in tough times."

Brown points to the Missouri's Thompson Research Farm that houses 300 Angus-based cows as another example. "They've placed a heavy focus on quality. They've been getting roughly 30% of the steer calves grading Prime," he says. "Think about what a tenfold increase in that Prime grade does to your revenue, and, frankly, without adding much cost."

Talk in the country may say one thing, but McGrann says the records say another. "I've probably done as much individual producer analysis as anybody in the country, from a business perspective, and I've found no relationship between quality of the calf and cost of production."

Editor's Note: *Miranda Reiman is assistant director of industry information for Certified Angus Beef LLC.*

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