



Business Strategies for Cattle

Story by

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“We want to make sure everyone goes home today understanding why they need

to manage risk,” said Cattle-Fax Analyst Mike Murphy as he addressed Cattlemen’s College.®

Murphy and his Cattle-Fax colleagues Brett Stuart and Troy Applehans focused

on the topic of “Business Strategies for Cattle Producers.” They noted how capital-intensive the beef business has become. “Think about how much more capital it takes to run your operations today compared to five years ago — and that will continue to go up,” said Murphy.

With that said, he added, “We want you to consider how you can harness some of the tools in the marketplace, think outside the box and improve your bottom line.”

He noted that while the cattle market has been positive during the last 13 months, all sectors of the cattle industry need to address the volatility in the marketplace.

“What goes up must come down,” Murphy said. “Risk management helps you focus on generating a positive return on your investment and minimizing risk from variable factors.”

Murphy’s advice to cattle producers — from feedlot and stockers to cow-calf — was to have a plan. “If you’re going to be in the risk management business, it’s important you have a plan in place and write it down. Secondly, don’t deviate from the plan,” he emphasized.

As part of developing that plan, Murphy stressed the importance of knowing your breakeven costs and setting realistic profit objectives. Along with that, Applehans emphasized understanding the seasonal cycles within the market. “One of the easiest aspects of managing risk is understanding the seasonality of prices and marketing to capture seasonal peaks,” he stated.

Applehans gave the example that 80% of cow-calf producers in the United States calve in the spring and wean in the fall, putting a lot of calves on the market in October and November.

“You are putting all your eggs in



Producers

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— Mike Murphy

one basket on that one day of the year,” he pointed out, and suggested that with video sales and forward contracts producers may be able to capture a better price.

Likewise, Applehans said thinking differently about marketing cull cows — such as selling them after the seasonal glut on the market in the fall — can be a way to capture more dollars as well. Adding stockers to the ranch inventory may be another way to have some flexibility and tap seasonal price peaks.

In concluding the session, Stuart encouraged cattlemen in all sectors to really ask themselves how they can maximize their resources and take a “whole operation” view. This includes analyzing goals, marketing, forages, equipment, land, equity, knowledge, skills and business relationships.

Stuart emphasized the need to maximize skills and find new opportunities, saying, “The cattle business is no longer just about cattle. Higher costs of land, cattle and equipment necessitate thinking outside the box in order to turn your land, cattle and skills into profit centers.”



Cattle-Fax Analyst Mike Murphy (foreground) contemplates a question as his colleague, Troy Applehans, listens. A trio of Cattle-Fax staff shared business strategies for cattle producers during a Cattlemen's College session at the 2011 Cattle Industry Convention.



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