

Meeting Challenges of 2009

Most cattle producers happily waved good-bye to 2008, crossing their fingers that 2009 would be much better. Many are wrestling with challenging management decisions as a result of the profitability

challenges they are facing.

“Production costs were extremely high in 2008, and feeder-cattle prices fell dramatically from summer to winter,” said Kenny Burdine, University of Kentucky

(UK) livestock marketing specialist.

“However, it is difficult to make clear recommendations about strategies without good knowledge of the cost structure of the farm.”

Given the situation that cow-calf operators are facing, Burdine strongly encourages producers to spend some time this winter conducting a serious cost analysis.

“All producers know they are facing a challenge, but I don’t think that many have a good feel for exactly what it is costing to maintain each cow in their herd,” he said.

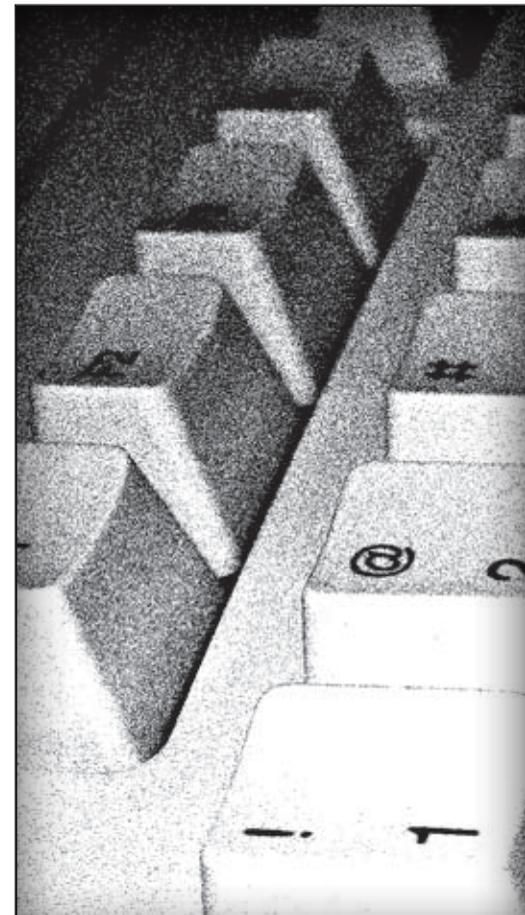
Winter is a good time to go through production and expense records to estimate costs.

“The most important recordkeeping decision producers will make is just deciding to keep records.”

— Kenny Burdine

While there are many ways to do this, Burdine likes to start with forage production since it is probably the biggest expense for most cow-calf operators. He said producers should allocate fertilizer and lime between hay and pasture ground to separate grazing costs from hay production costs. From there, he urged producers not to forget fuel, oil, repairs and labor for these forage programs.

“You should also charge depreciation and interest on forage equipment to get an accurate assessment of what your total feed costs truly are,” Burdine said.



Budgeting tools available

UK's agricultural economics department has budgeting tools available that may make this easier.

Once producers have assigned a cost to the hay that is produced, they can estimate how much hay is fed per cow. The best way to do this is by weighing representative bales and tracking how many bales are fed. However, a typical cow can easily consume two tons of hay or more per year, especially when storage and feeding losses are included. Grazing costs can be estimated by multiplying pasture maintenance costs per acre by stocking rate, Burdine explained.

"Next, move into things such as mineral, water, health, labor, breeding, marketing, fence and building repairs, and other variable expenses," he said. "You will likely find that a lot of little purchases can really add up here. If you don't keep good financial records throughout the year, this will likely require going through many farm store receipts and determining which expenses truly should be charged to your beef enterprise."

Don't forget

Burdine also urges producers to consider fixed costs, like taxes, insurance and family labor, and opportunity costs like unpaid interest. This is also where depreciation on buildings and machinery that are not allocated to the hay enterprise will come in. Once producers consider all costs, Burdine said they will be in a much better position to determine their best strategy given the challenges they are facing today. UK also offers enterprise budget tools for cow-calf operations, which could guide producers through this process.

"Production costs are likely as high as they have ever been for cow-calf

operators," Burdine said. "For some, the best strategy may be to reduce cow numbers and decrease their dependence on stored feed. For others, it may be to add complementary enterprises like stockers to help spread overhead costs further. These possibilities go on and on. Regardless, without knowing something about the cost structure of the herd, these types of decisions are impossible to make."

Burdine said the first of the year is an excellent time to begin a financial recordkeeping system, especially if a producer has never taken the time to set one up. Many tools are available, including record books, spreadsheets and specific computer applications like Quicken® or Quick Books®.

"The most important recordkeeping decision producers will make is just

deciding to keep records," he said. "It's difficult to manage something that we never take time to measure."

UK recordkeeping tools are available at www.ca.uky.edu/agecom/index.php?p=29.



Editor's Note: This article is provided by the UK College of Agriculture.

