



CAB Corner

by **MARK MCCULLY**, *CAB Supply Development Director*

Focus on the top line, and the bottom line will follow

Historically, farming and ranching have been “least-cost” and commodity-based businesses. We are frugal managers, masters of efficiency who try to drive cost from our budgets every day.

Like most commodity producers, we keep the bottom line on the top of our minds. Sales and marketing of the product typically gets far less consideration than the mechanics of getting it produced. We will be profitable, if only we can get rid of more costs — or so we think.

Granted, an effective and sustainable business model always looks at its expenses — but not exclusively.

Expenses make up only part of the picture. That same model also looks at the performance, quality and worth of its end product. Do our cost-saving methods hurt our short- and long-term sales? Will customers be adversely affected? Am I giving my customers what they really want? Are they willing to pay more for an improved product? More importantly, do they insist on an improved product? And could we produce it here at a higher margin?

Margin (or profit) is income minus expenses, a simple economic concept. There are five primary ways to increase margin:

- Hold income constant and reduce expenses.
- Increase income and decrease expenses.
- Increase income and hold expenses.
- Increase income at a faster rate than increased expenses.
- Decrease income at a slower rate than decreased expenses.

Again, pretty basic economics

So, why in commodity production (where we call ourselves “margin operators”) do we not invest more time in growing income? We seem to concentrate all our energies on the expense lines.

Thinking first about the top line (income) of our budget is the best way to grow our bottom line. That takes a small mental step from pure competition to value-added commodity producer.

Let’s review: When financial times get tough in the cow-calf business, we tend to look at our expenses. Can we get by with

less fertilizer on the pasture? How about our mineral program; is there something cheaper that will get us through the year? Maybe we can pick up a couple of cheap bulls at the stockyard. And we might have to reconsider vaccinations and preconditioning the calves this year.

All valid questions and ideas that could decrease expenses, but consider the effect on income and, ultimately, profit. Keep in mind that you may reduce herd size so that fixed cost per unit increases. Pastures suffer, you have to buy hay at some cost, your calves are not as heavy or healthy at weaning, and a few more thin cows come up open, despite regular consumption of that cheaper mineral.

It will take longer to see all the results of that decision to buy salebarn bulls, assuming they got cows bred. Lighter calves of unknown genetics won’t impress buyers nearly as much as the neighbor’s AngusSource® calves with their trademark health program.

If you think we can still afford to retain heifers for replacements, those generic females could hurt your calf crop value for years to come. Pulling the vaccination program and selling the bawling calves straight off the cow did free up some expense dollars. And maybe you saved a trip by fitting more calves on each load than projected, but the lighter weights did not help your bottom line, especially when buyers backed away from the perceived greater health risk. They have to watch expenses, too.

Balanced approach

Now let’s think about a more balanced approach that includes a bit more confidence in tomorrow. Growing the top line is a continuous process in making your cattle operation more profitable. Some strategies are fairly easy and inexpensive (money and time) while some are more significant.

- Document calves’ age through recordkeeping to qualify for age-verified premiums.
- Wean, vaccinate, castrate, dehorn and bunk-break the calves.
- Create a résumé for your cattle to communicate their added value.
- Market your calves in load-lot groups

by cooperating with other producers on a similar program (genetic, calving season, health program).

- Participate in special, value-added feeder-calf sales with more buyers.
- Produce value-added calves that are weaned 45 days or more (VAC-45), and participate in a marketing system (special preconditioned sale, etc.) that helps convey that value to the bank.
- Retain ownership through the feedlot to capture the full feeding and carcass value of your cattle.
- Improve the genetics through artificial insemination (AI) and the use of better bulls. Pay special attention to improving carcass traits like marbling and muscling while keeping the functional cow in mind.
- Increase saleable weights by supplementing calves on first-calf heifers or cows in forage-limited situations.

Start small

Start small with reasonable goals. Don’t try to change the world overnight.

Skyrocketing input costs are a sure sign that you must tighten the belt. Scrutinize your expenses. Be brutally honest with yourself about what expenses are truly needed and justified. But don’t lose sight of the product you will have to sell in the end.

Many seemingly harmless cost-saving strategies won’t have a noticeable effect in the near term, and some may be hidden altogether. But beware, cutting corners on genetics, nutrition or health can have a significantly negative effect on the number, weight and value of your calves. Saving a few dollars now on the expense line may end up cutting into sales and profits on the other side of the ledger in a much bigger way.

