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Economic Analysis of Beef Cow-calf Operations: SPA for Decision Makers

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Good Cow-calf Decision Makers

- Recognize the structure of the cow-calf industry compared to other phases of the beef industry.

The Cow-calf Industry as a Business

- The Cow-calf Industry is an “Asset Management” business that must focus on the next seven years.
 - It is not a margin business
 - Buy and sell margins
 - Our Primary Assets are continually eroding
 - Our Breeding Herd
 - Average Replacement Rate is 16%
 - Machinery and Equipment
 - Fencing and Improvements
 - Approximately 45-50% of our total costs are Fixed Costs, not variable.
 - In order to be sustainable, we must focus on “net worth” and not “cash flow”

Good Cow-calf Decision Makers

- Recognize the structure of the cow-calf industry compared to other phases of the beef industry.
 - Unlike other phases
 - Rate of return on assets
 - Depreciating assets
 - Wealth changes even if cash flow income is zero.

Good Cow-calf Decision Makers

- Value good information, both internal and external.

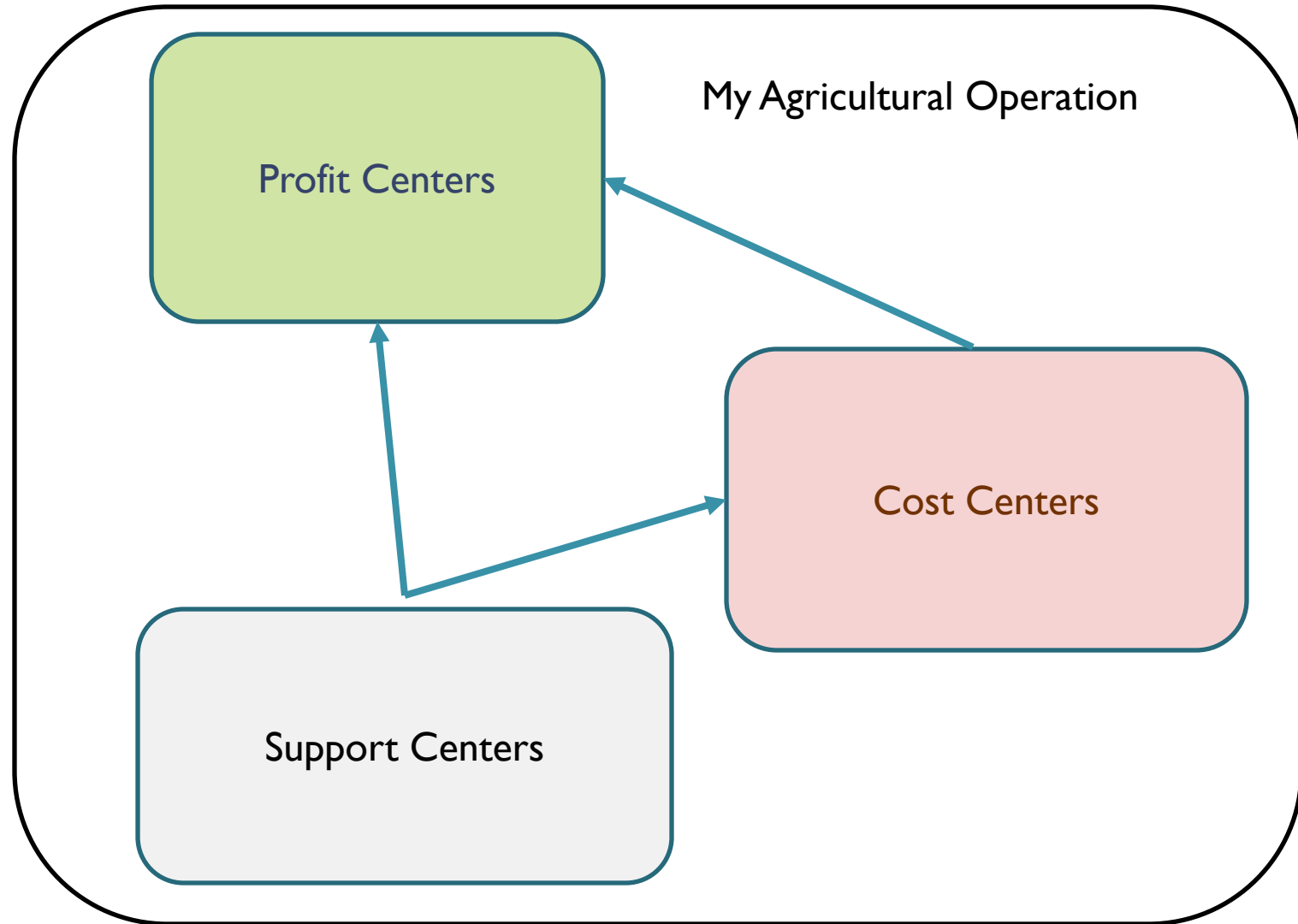
Good Internal Information

- Good Analysis starts with good data; good data is a result of a good information systems (financial records, production inventories, asset schedules)
- Analysis includes the whole as well as it's parts
- If the first two are there, the rest is simply calculations, however, then comes interpretation and implication

Good Internal Information

- You can't manage what you don't measure
- The whole point of being in business is to make a profit
- The whole point of making a profit is so you can make choices
- Analysis of the complete operation
 - Requirements for analysis
 - Implementing change based on the analysis
 - Communicating the need for and results from change

Every Operation is Made up of Various Pieces...All Can be Managed



Good Cow-calf Decision Makers

- Value good information, both internal and external.

Good External Information

- Recognizes that most “cattle” information comes from the other phases of the cattle/beef industry.
 - Questions the motivation of that information
 - Questions the accuracy of that information
- Comes from a team of experts with like thinking as himself.
 - Veterinarians?

Good Cow-calf Decision Makers

- Recognizes the value of a calf to the operation.
 - Difference between reproduction and production
 - Does not chase weights at the expense of reproduction

Good Cow-calf Decision Makers

- Recognizes the relation of the female to her environment.
 - Size matters
 - Value of a calf
 - Would rather say, “I sold the most calves” than “I sold the heaviest calves.”
- Understands it is cheaper to change the female than to change the landscape.


3,000 Beef Cow Ranch

	2009	2010	2011	2012
ROA	1.87%	0.87%	7.26%	12.63%
Net Income from Operations	\$172,644	\$83,613	\$724,470	\$1,367,148
Asset Turnover Ratio	0.21%	0.19%	0.26%	0.30%
Operating Expense Ratio	62.0%	61.3%	44.9%	35.3%
Interest Expense Ratio	0.0%	0.0%	0.0%	0.0%
Depreciation Expense Ratio	28.9%	34.2%	26.7%	22.3%
Net Income Ratio	9.1%	4.5%	28.4%	42.5%

3,000 Beef Cow Ranch

	2009	2010	2011	2012
Cow-calf (/ Female)	\$578.76	\$683.72	\$678.82	\$723.31
Cow-calf (/ Cwt. Weaned)	\$92.63	\$110.13	\$98.35	\$106.77
Hay Production (/ Ton)	\$49.46	\$59.79	\$62.98	\$70.59
Replacement Heifer (/Head)	\$1,555	\$997	\$1,028	\$1,281

REAL LIFE EXAMPLE



Slides taken from a specific ranch and it's manager's presentation at the Board of Directors meeting. Salary committee meeting to determine ranch manager's compensation followed this presentation.

Key Performance Indicators

- Based on management and Board of Director input, Key Performance Indicators (KPI's) have been established
- They include both production and financial measures
- These indicators are use to evaluate performance and establish goals

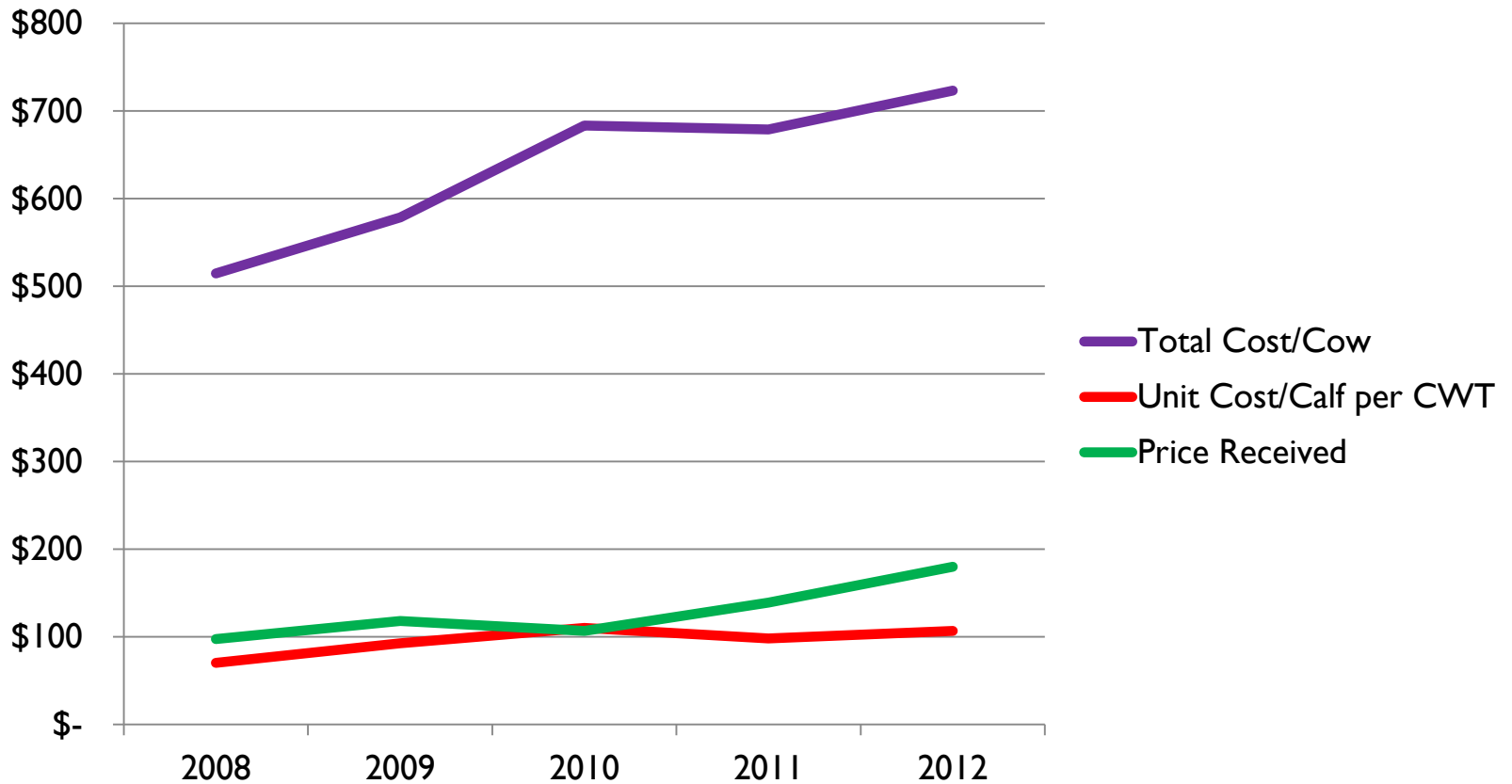
KPI

Production

- Pregnancy percentage
- Calving percentage
- Weaning percentage
- Weaning weight per head
- Lbs. weaned per cow exposed
- Total cost per cow
- Unit cost of weaned calf (break even)

KPI

Production – Unit Cost (Breakeven)



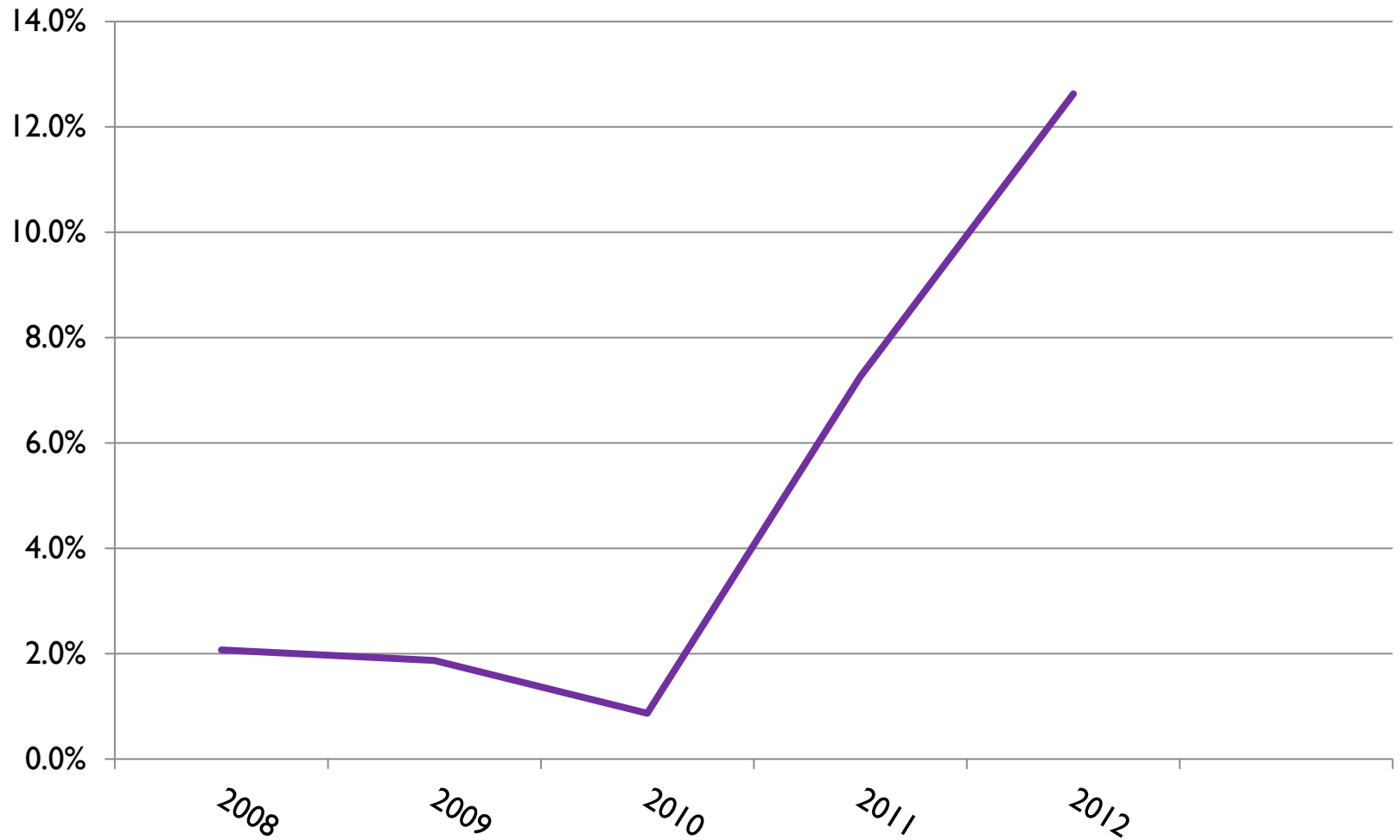
KPI

Financial

- Working capital
- ROA
- Net Income from Operations (pre interest & income tax)
- Ratios
 - Operating Expense
 - Depreciation Expense
 - Interest Expense
 - Net Income from Operations

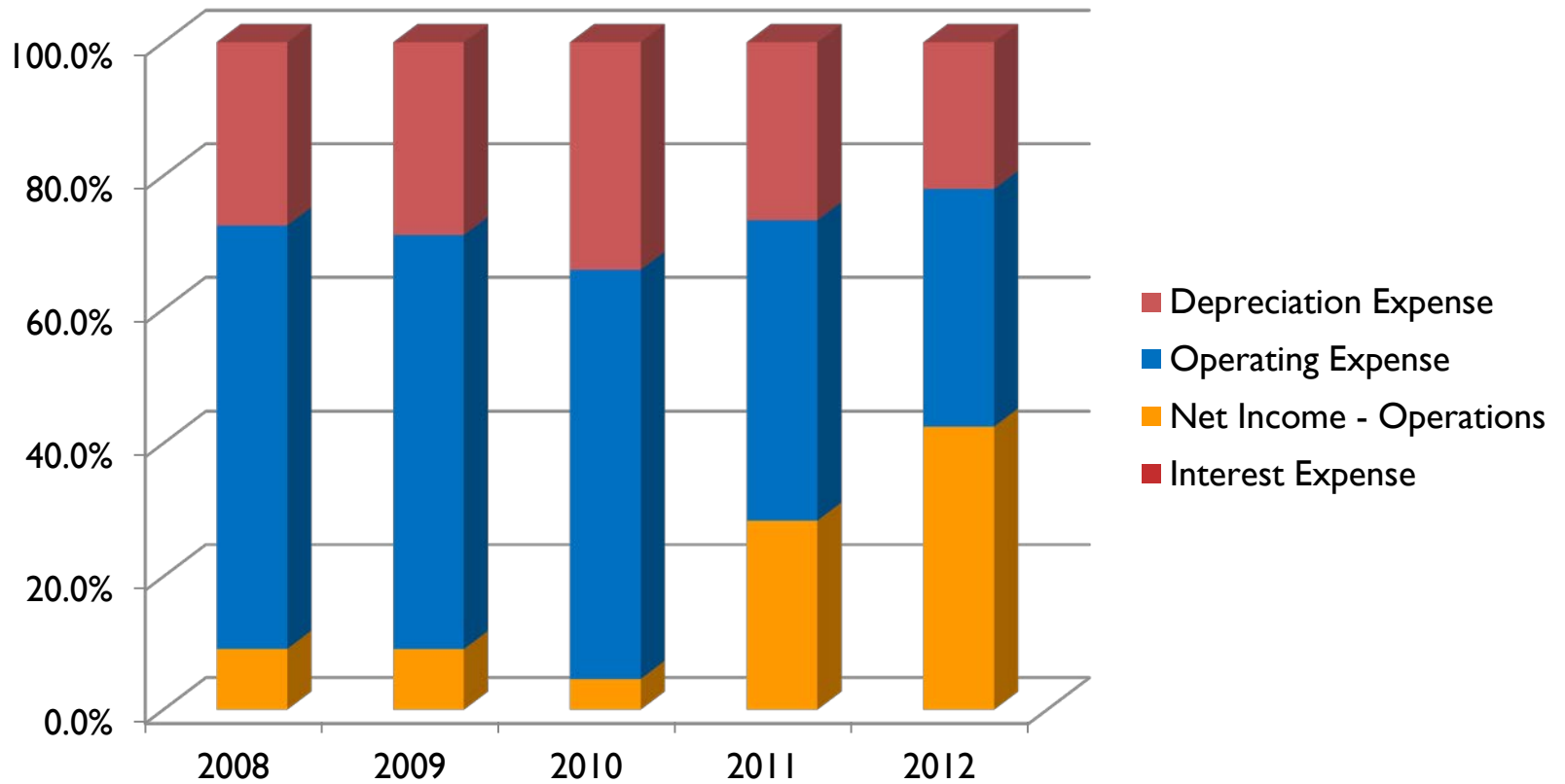
KPI

Financial - ROA



KPI

Operating Ratios



In Summary

- There are an endless numbers of analytical ratios and figures, you or whoever you are accountable to should select your KPI's.
- Trends of KPIs point out your fulfilling the operational goals.
- Benchmarking can be fun, but you have to be careful of “their” data calculations.

In Summary

- If nothing changes, then...nothing changes.
- Strive for Excellence, not perfection.
- Minimizing losses are one of the most important management requirements and abilities.
- If you find your advisors difficult, then you probably have good advisors.

Questions/Comments



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