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# Economic Analysis of Beef Operations: Factors Affecting Profitability

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TEXAS A&M  
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# 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”

# Benchmarking Your Analysis

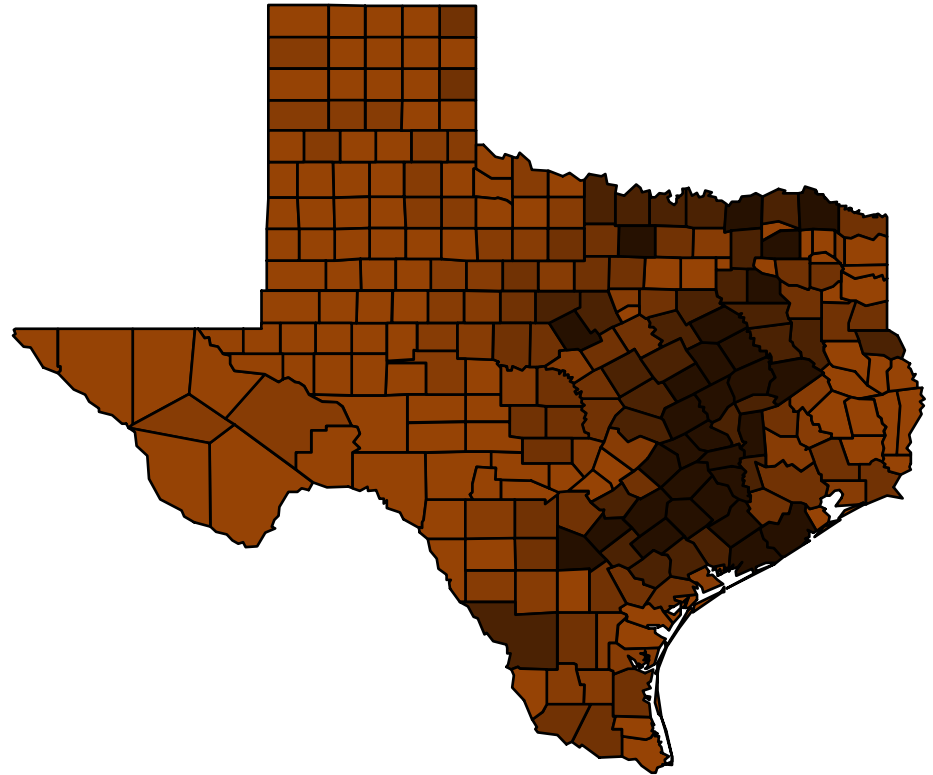
- Be careful; you need to be 100% sure that what you are comparing to is calculated **exactly** as you calculate it
  - Weaning percentage
  - Total cost to run a breeding female annually
- Where to find the database to compare to?

# Southwest Beef Cow-calf SPA

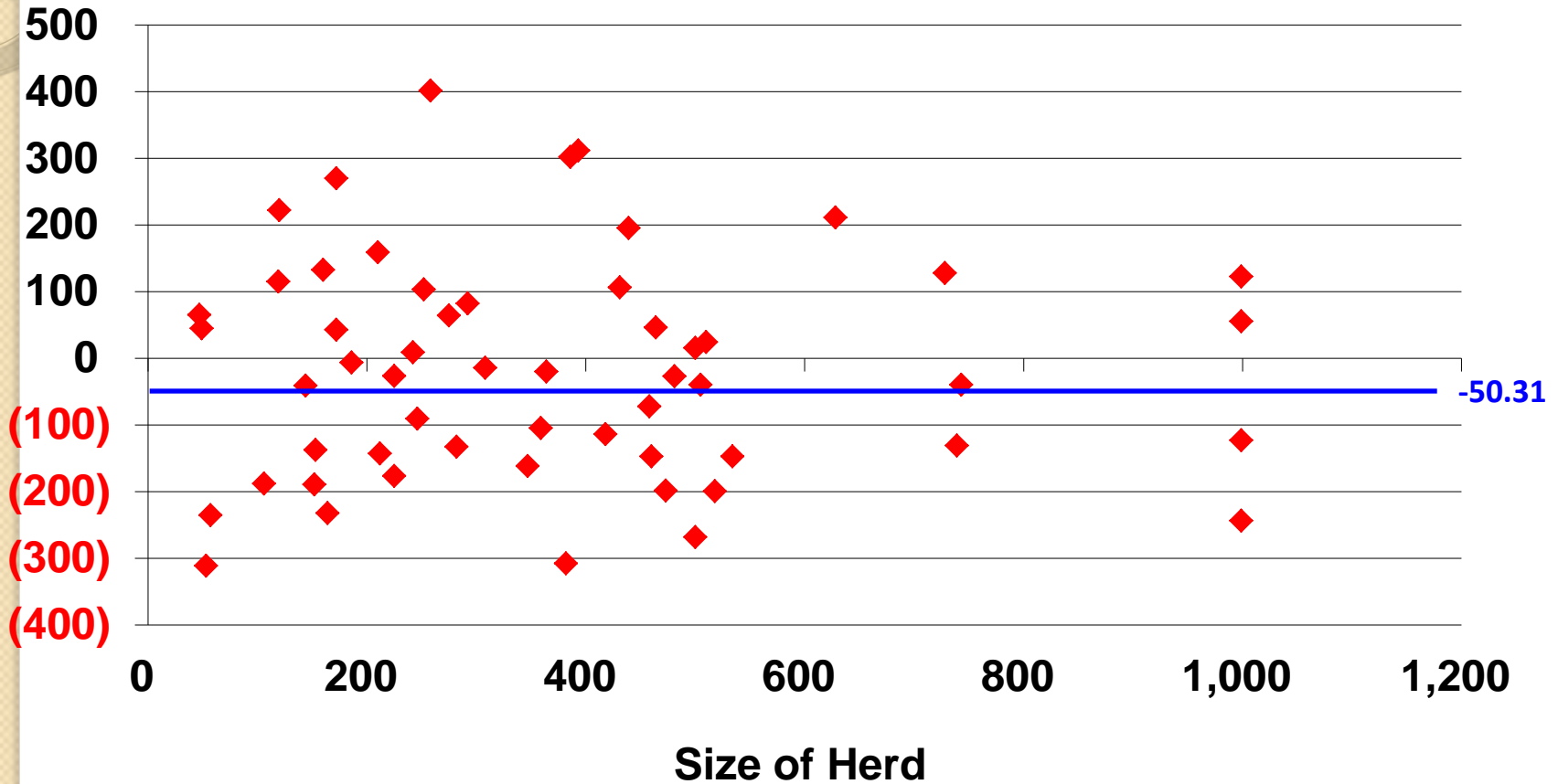
- A few points of where you might want to be as a cow-calf operation
  - Thrivers
  - Survivors
  - Nose-divers
- Recognizing:
  - What you control
    - In the short run
    - In the long run
  - What you don't control

# Southwest SPA Results

- 2007 to 2012
- 60 herds
- 47 to 2,972 plus
- 25,324 females
- Average=422



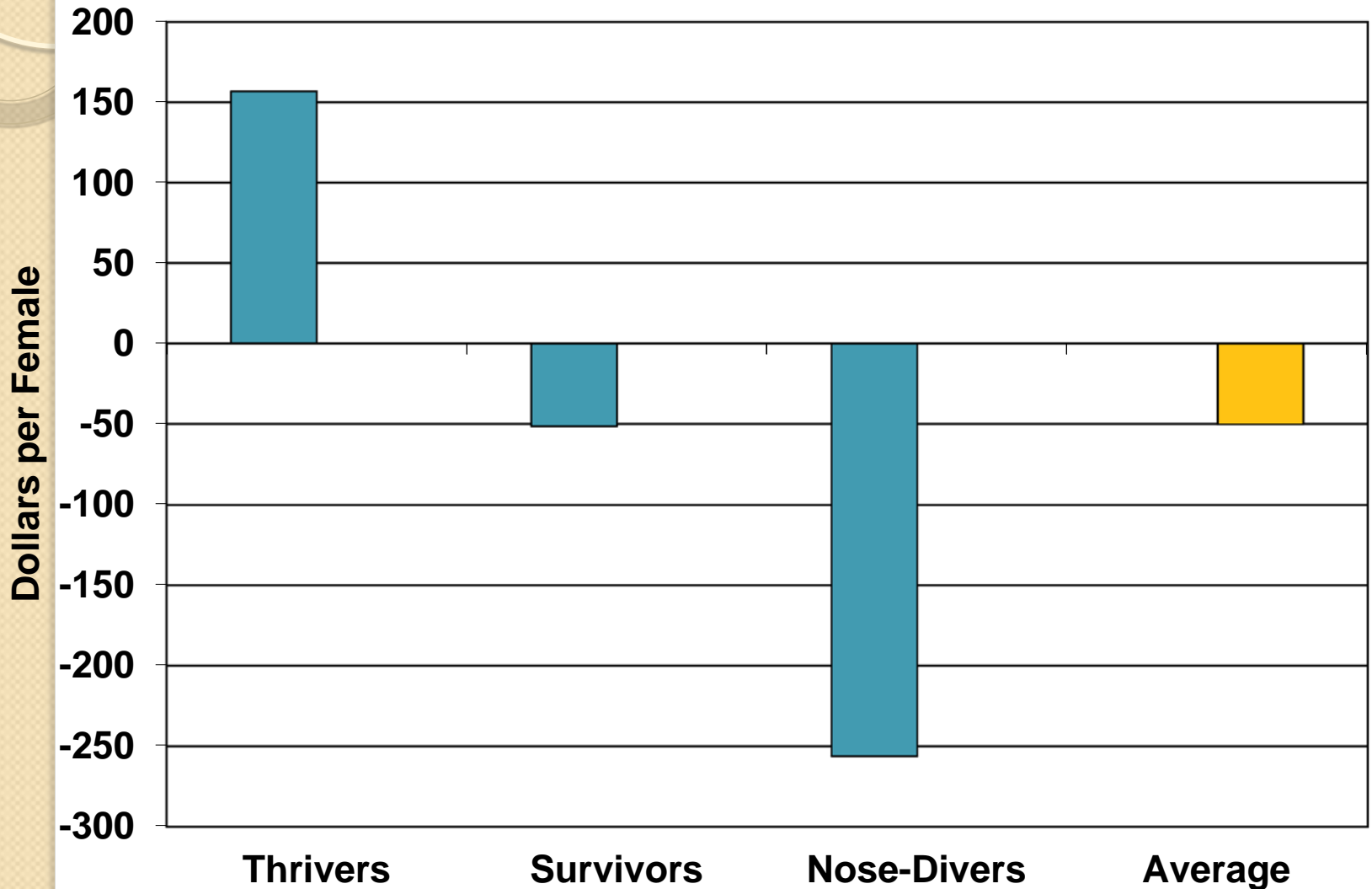
# Net Income per Female by Size



Expenses Include Depreciation and Owner Labor Expense

# Financial Net Income Per Female

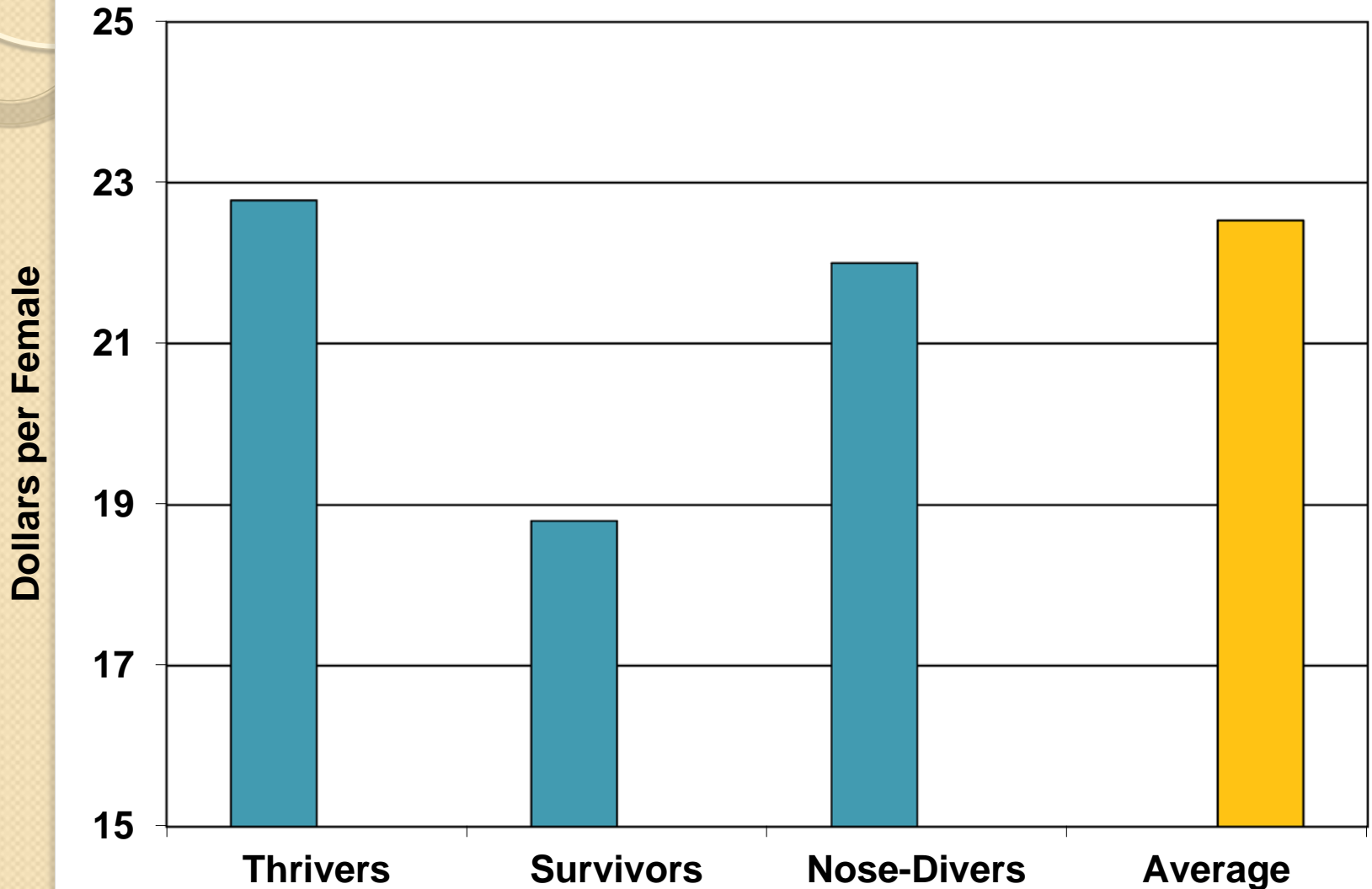
Database Average = -\$50.31





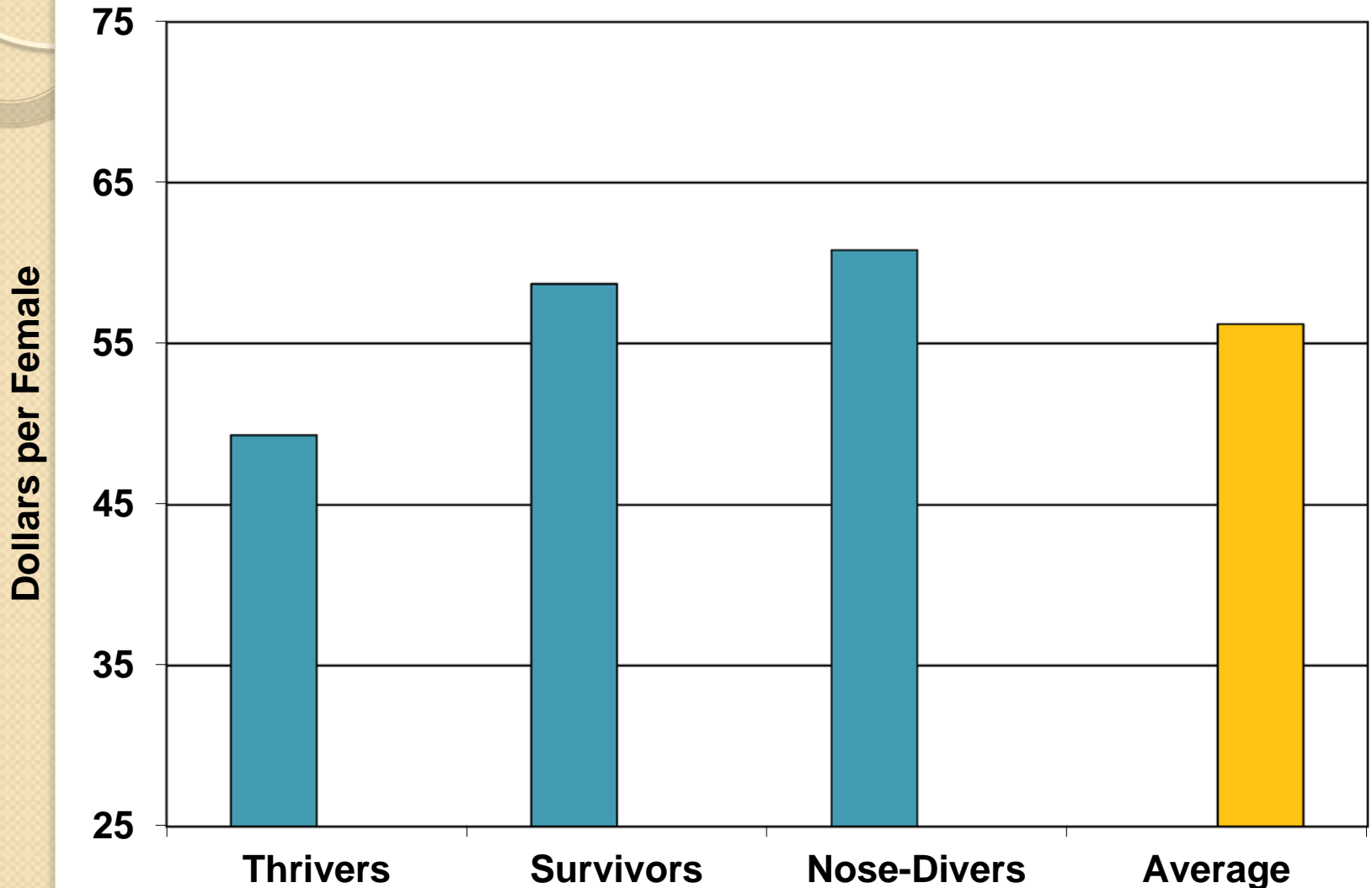
# Land Resources: Acres per Female

Average = 22.5 acres/female



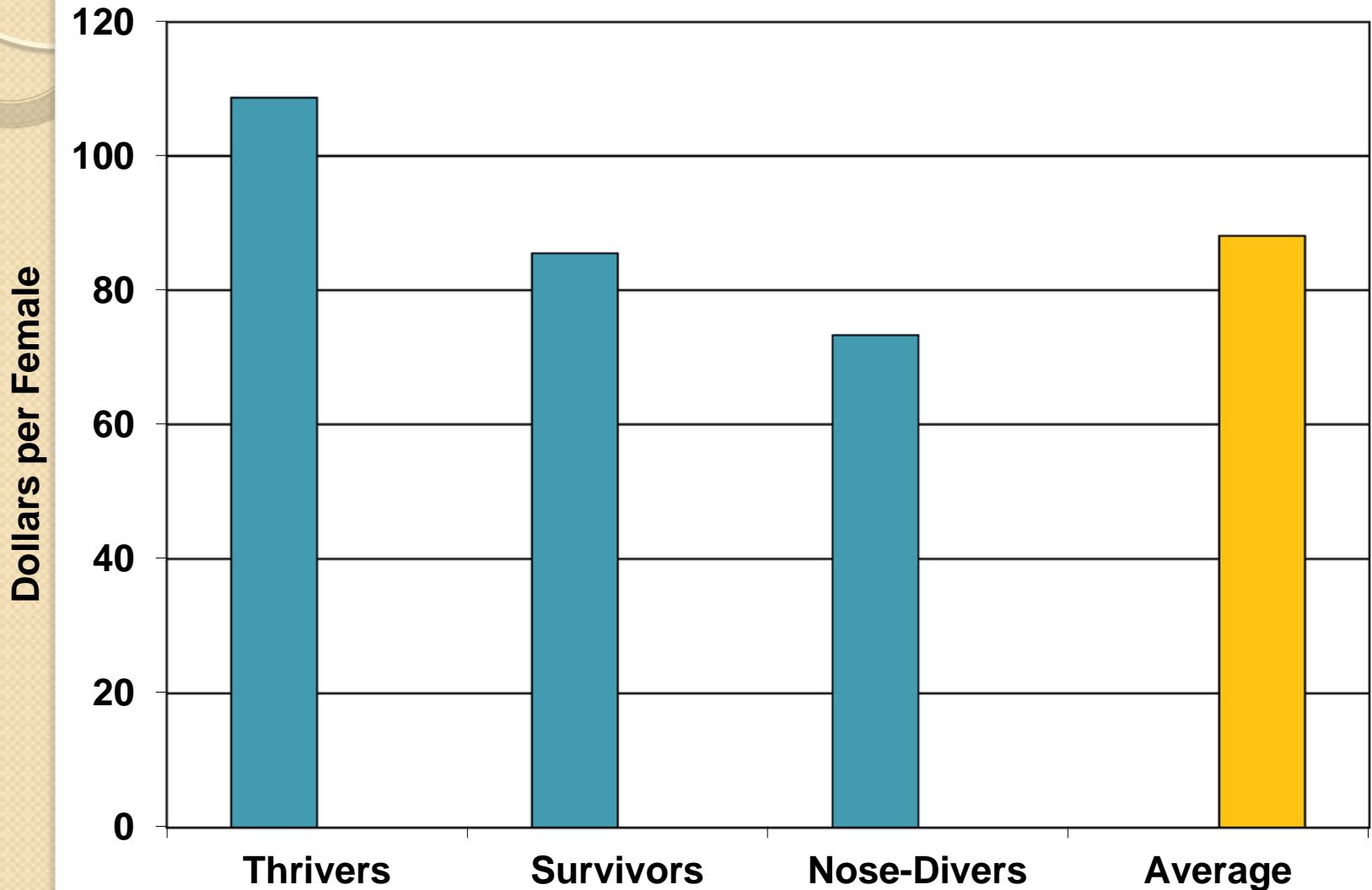
# Land Resources: Percent Land Owned

Average = 56.2 percent



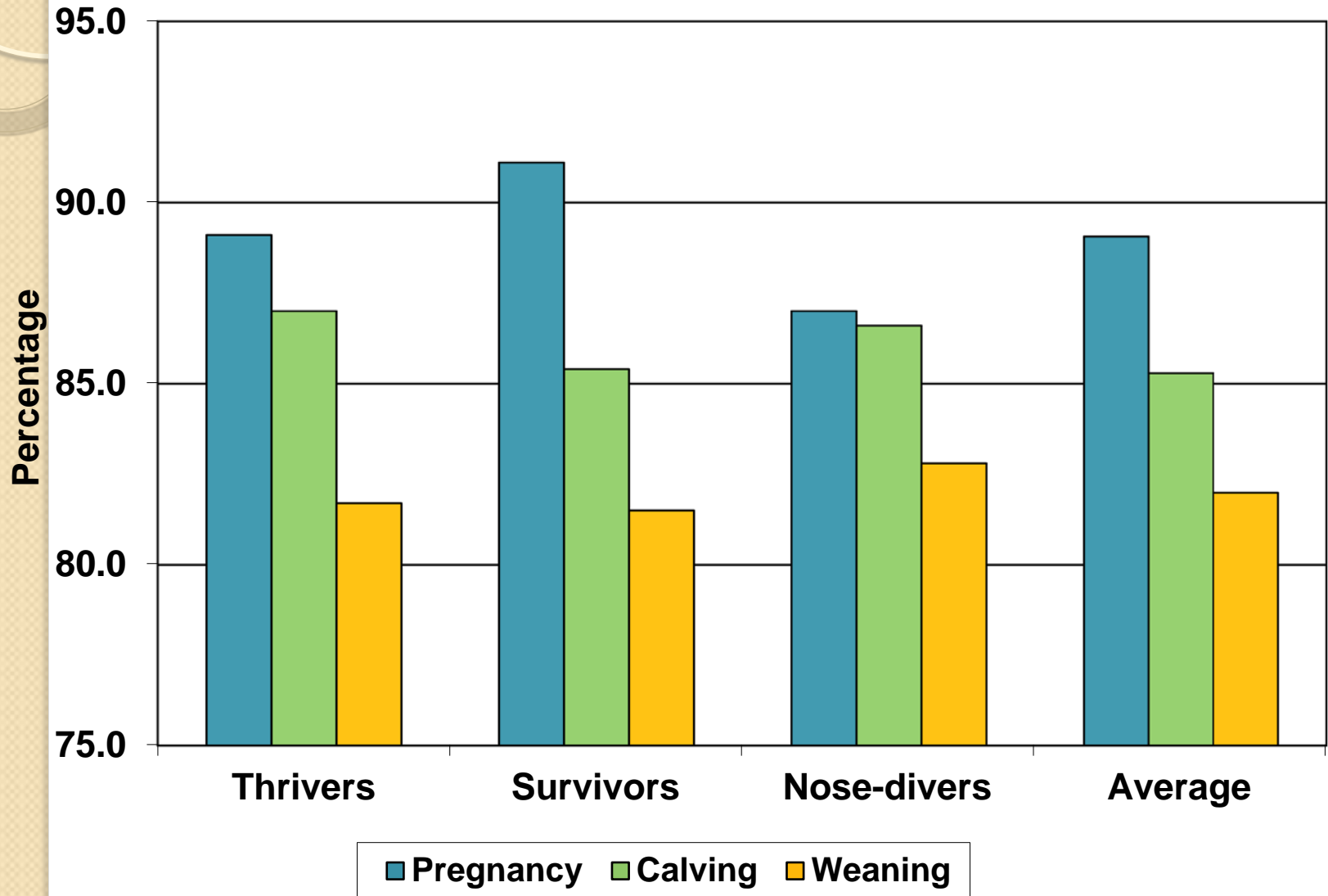
# Fiscal Year Rainfall Received

Average = 88.1 percent of normal



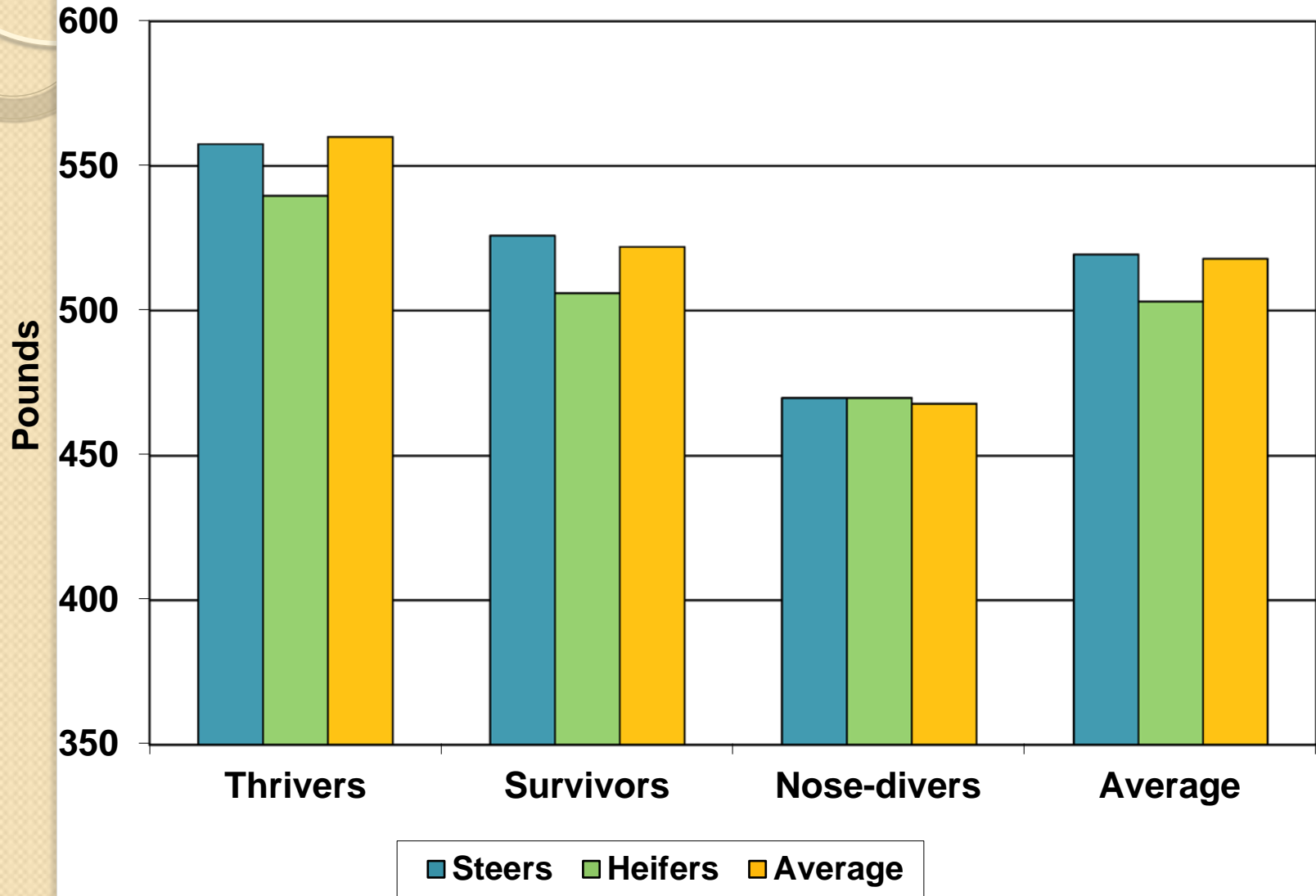
# Production Performances

Database Average = 82.0%

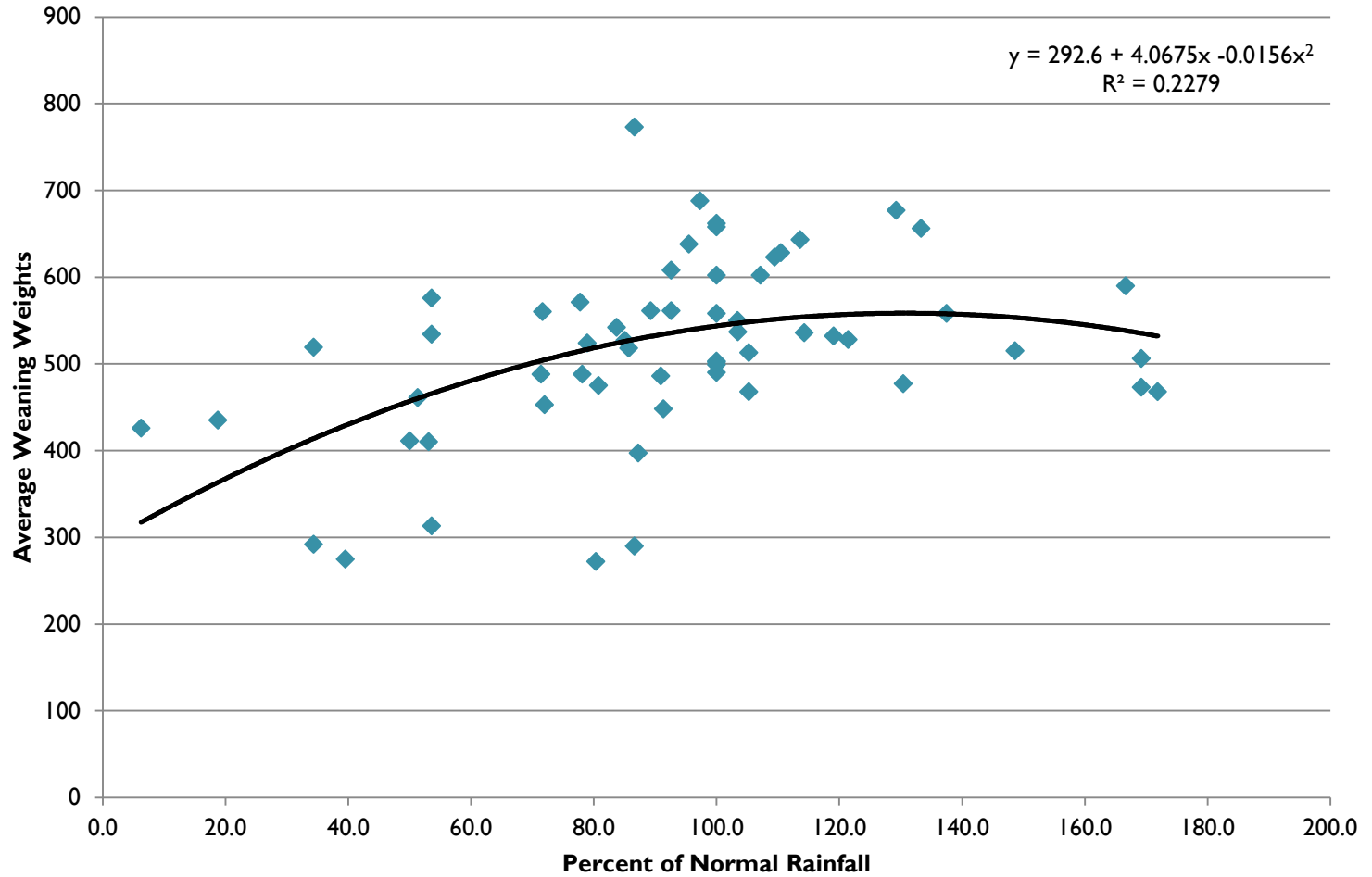


# Weaning Weights

Database Average = 517.9 lbs.

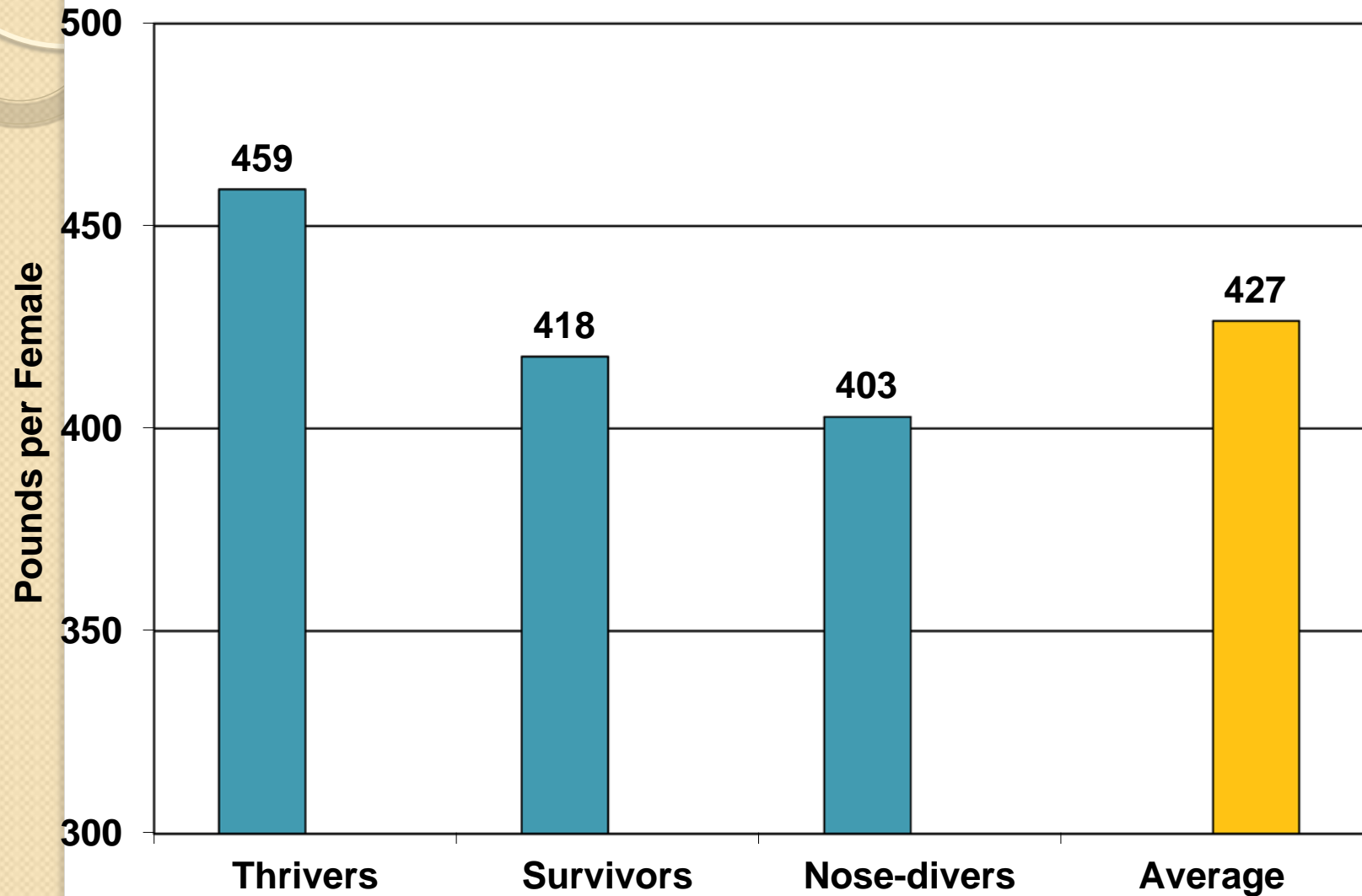


# Impact of Percent Normal Rainfall Received

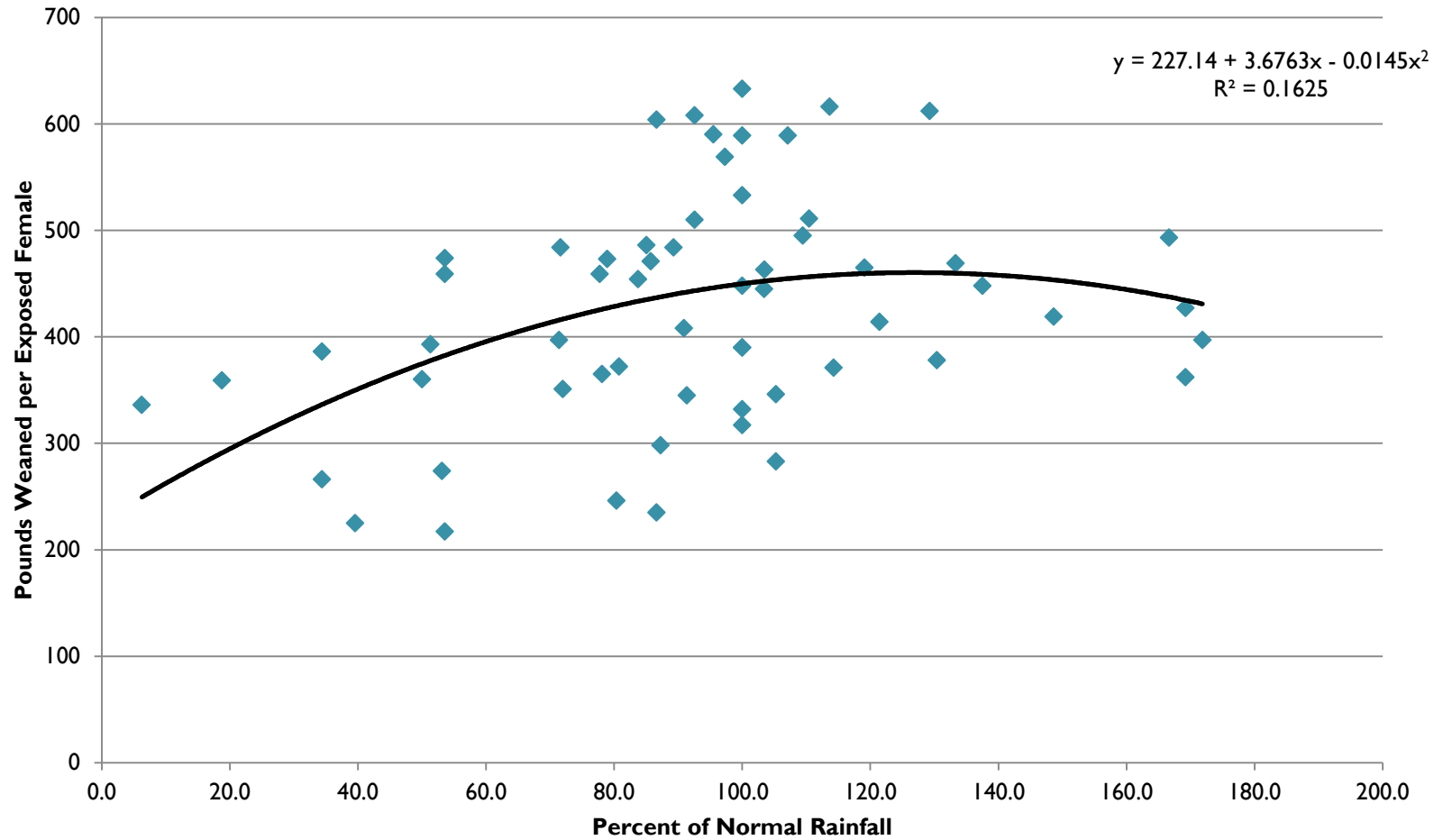


# Pounds Weaned per Exposed Female

Database Average = 441.9 lbs.



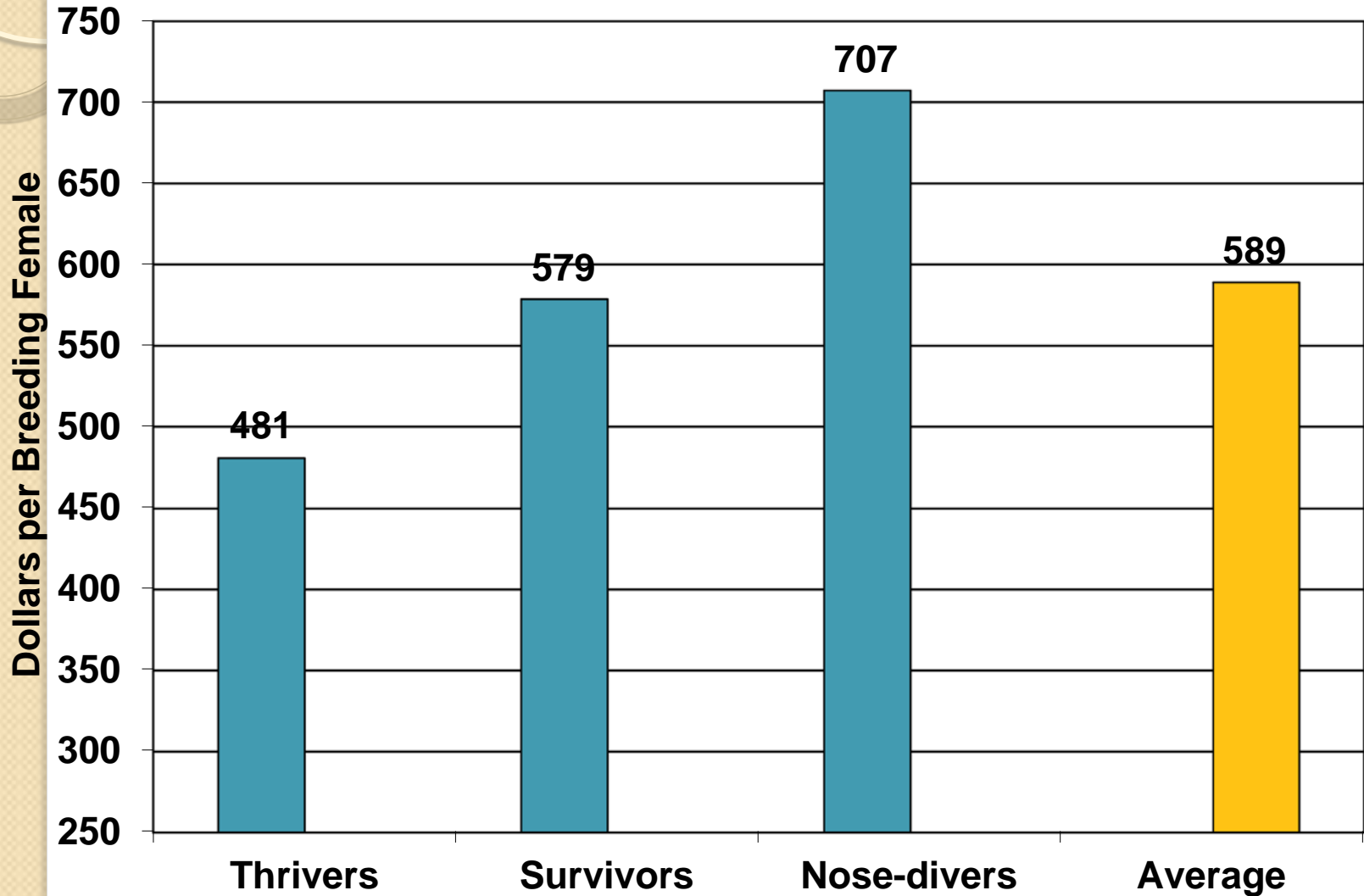
# Impact of Percent Normal Rainfall Received



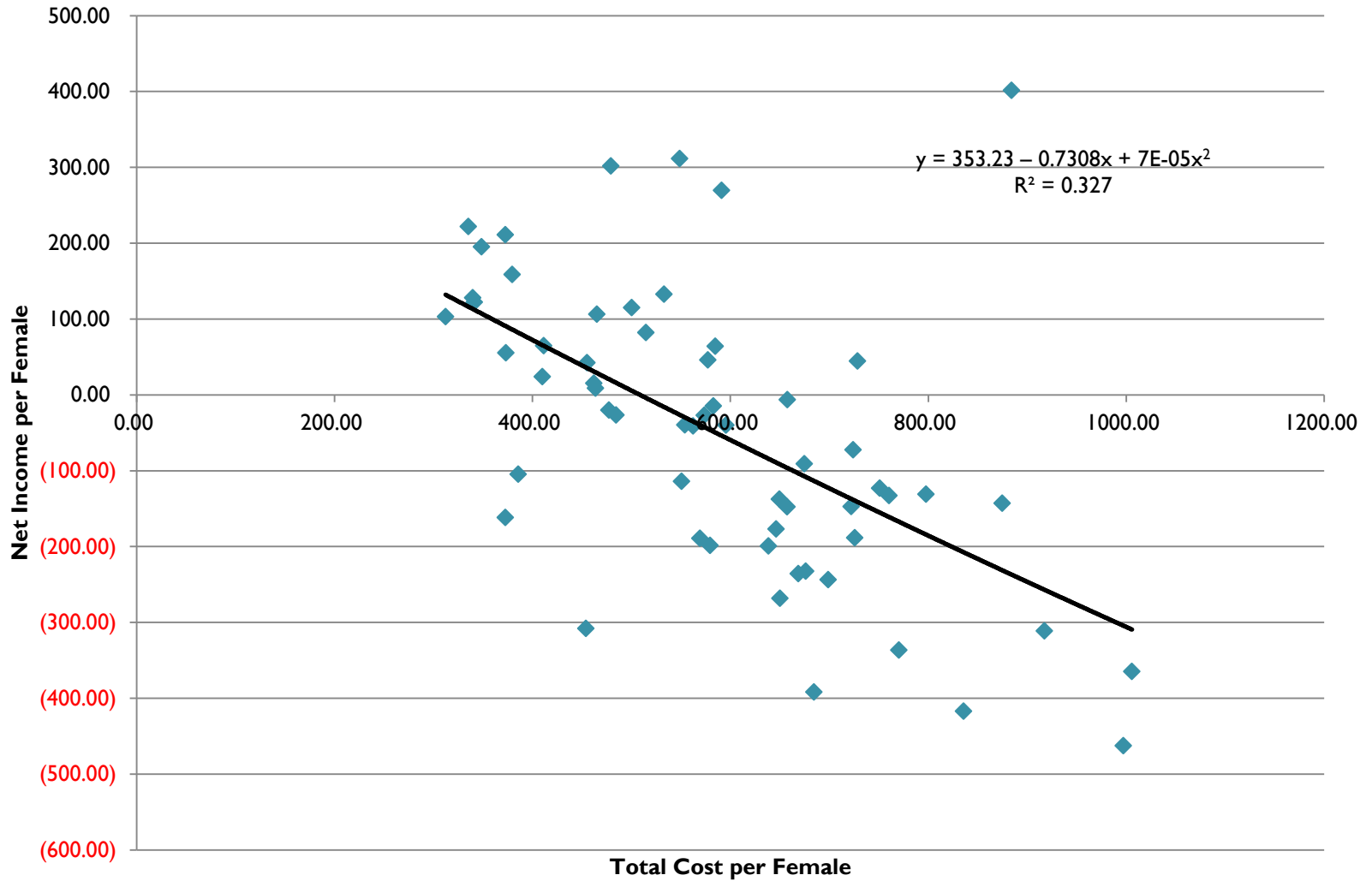


# Total Cost per Female

Database Average = \$588.97



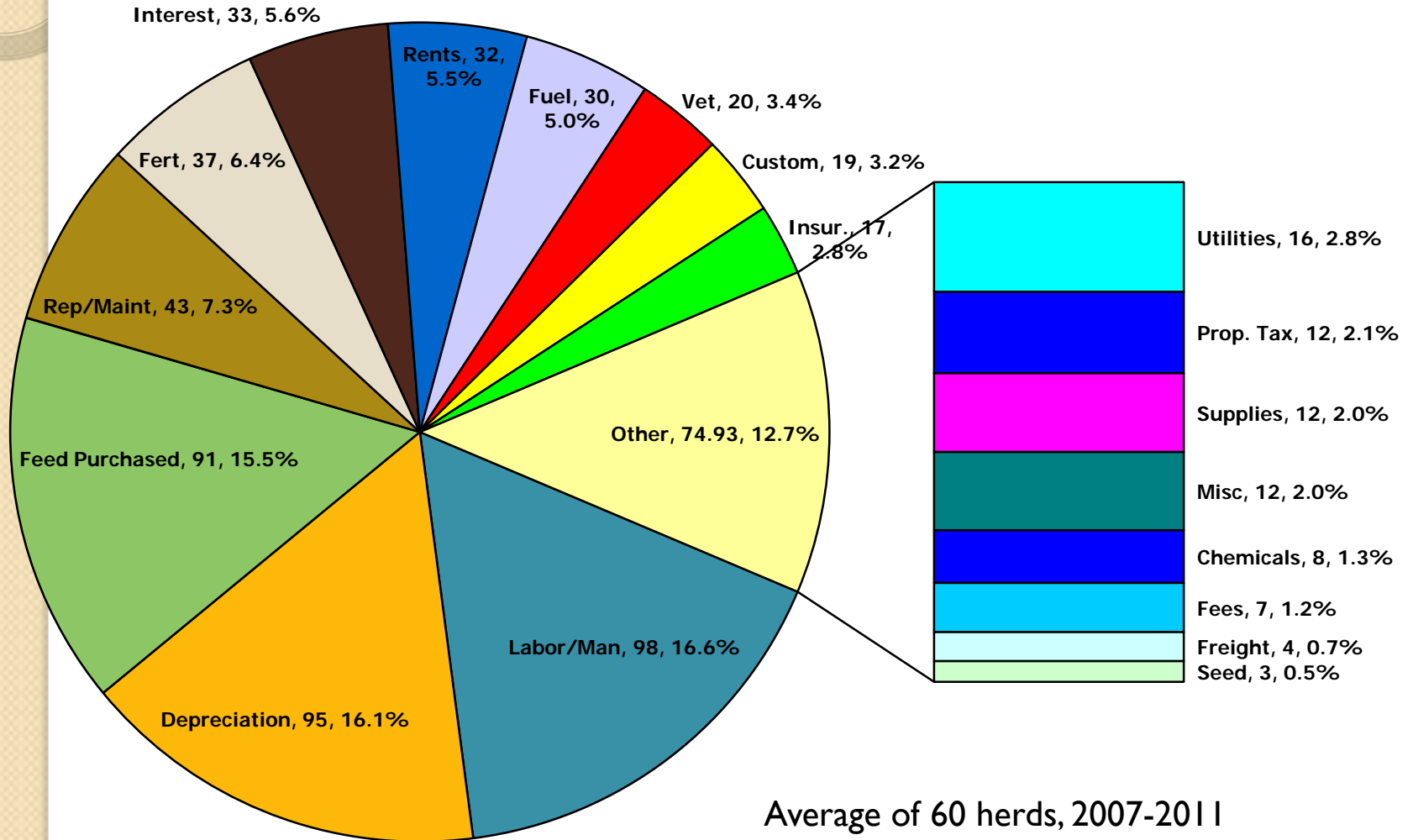
# Total Cost of Production & Net Income



# Texas SPA

## Expense Breakdown per Female

Average Total Cost per Female = \$588.97

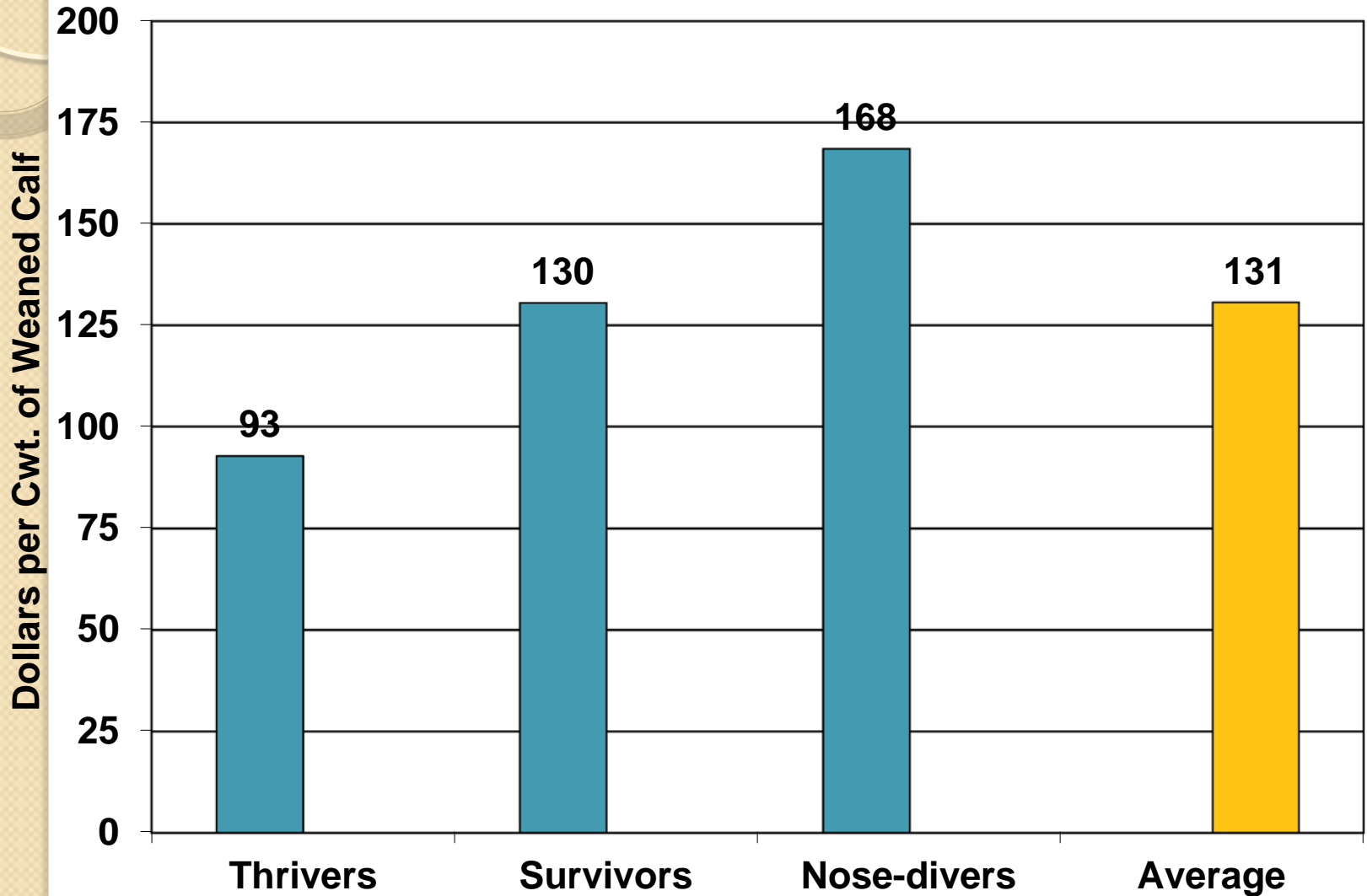


# Top 5 Expenses

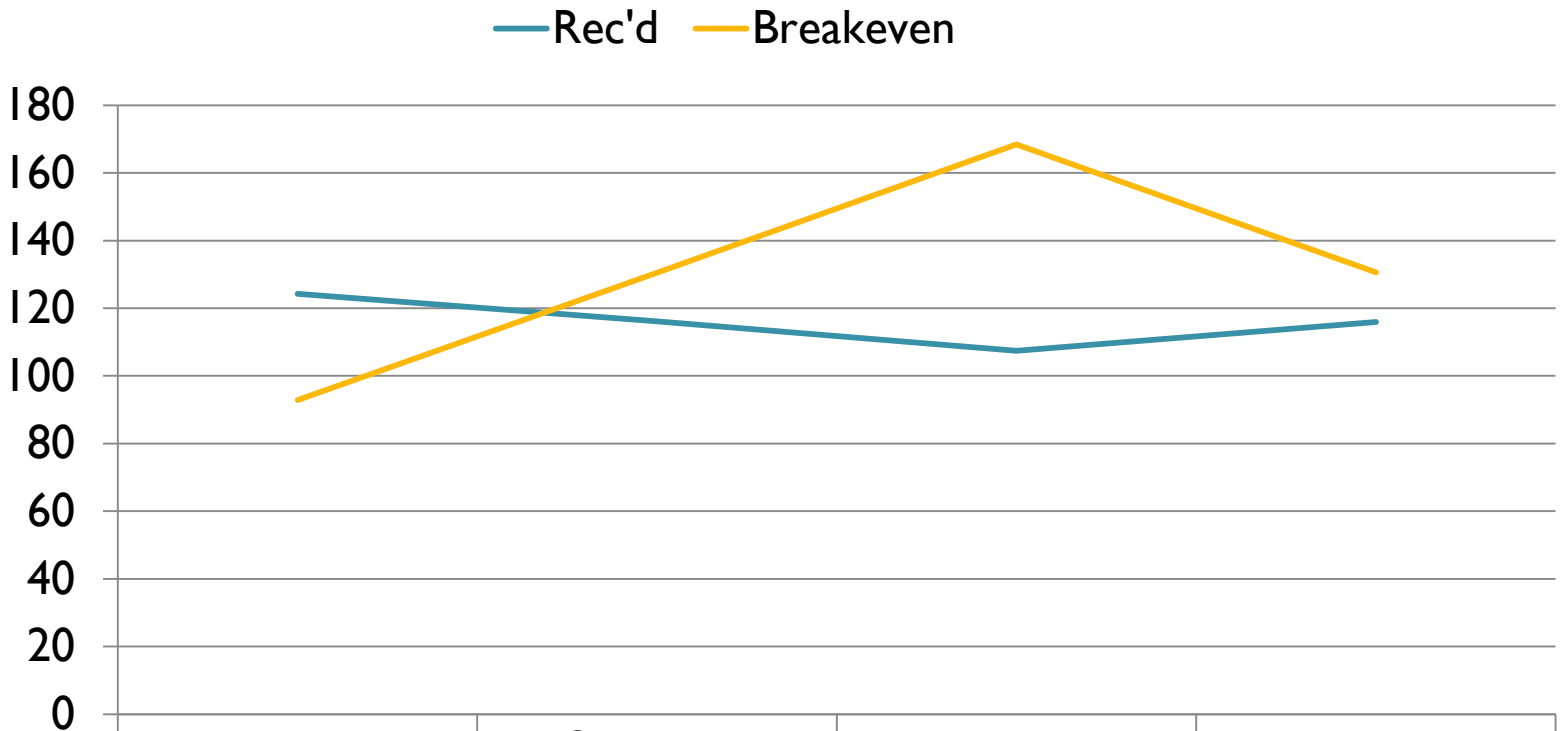
Thrivers	Survivors	Nose Divers	Average
Feed Purchased \$83.96	Depreciation \$103.40	Depreciation \$119.08	Labor/Management \$97.55
Labor/Management \$80.88	Labor/Management \$98.14	Labor/Management \$113.66	Depreciation \$94.85
Depreciation \$62.06	Feed Purchased \$87.08	Feed Purchased \$102.39	Feed Purchased \$91.14
Rents \$41.64	Interest \$40.45	Repairs/Maint \$52.78	Repairs/Maint \$43.24
Repairs/Maint \$39.70	Fertilizer \$39.85	Fertilizer \$49.69	Fertilizer \$37.43

# Cost of Production

Database Average = \$130.61

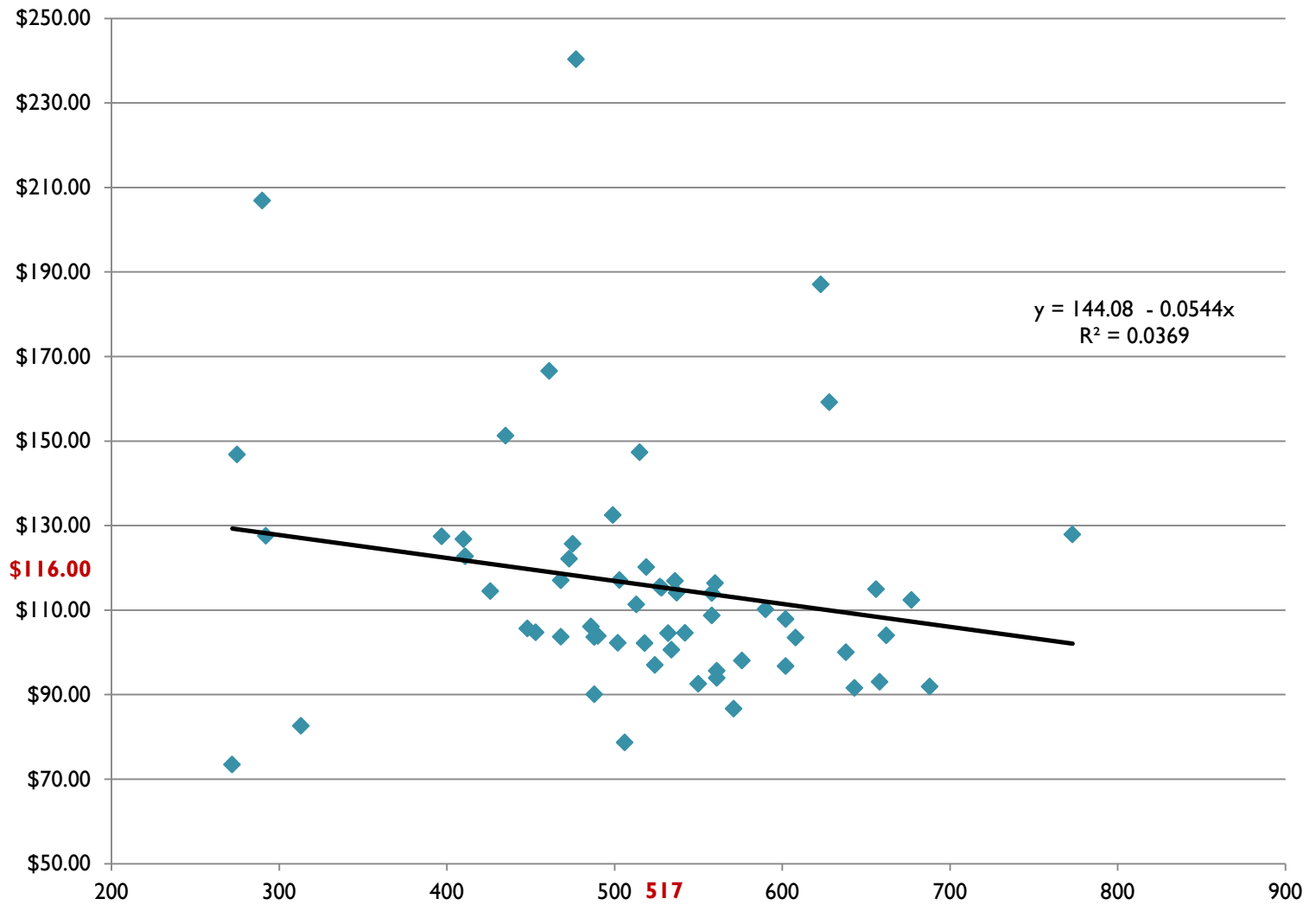


# Price Rec'd versus Breakeven



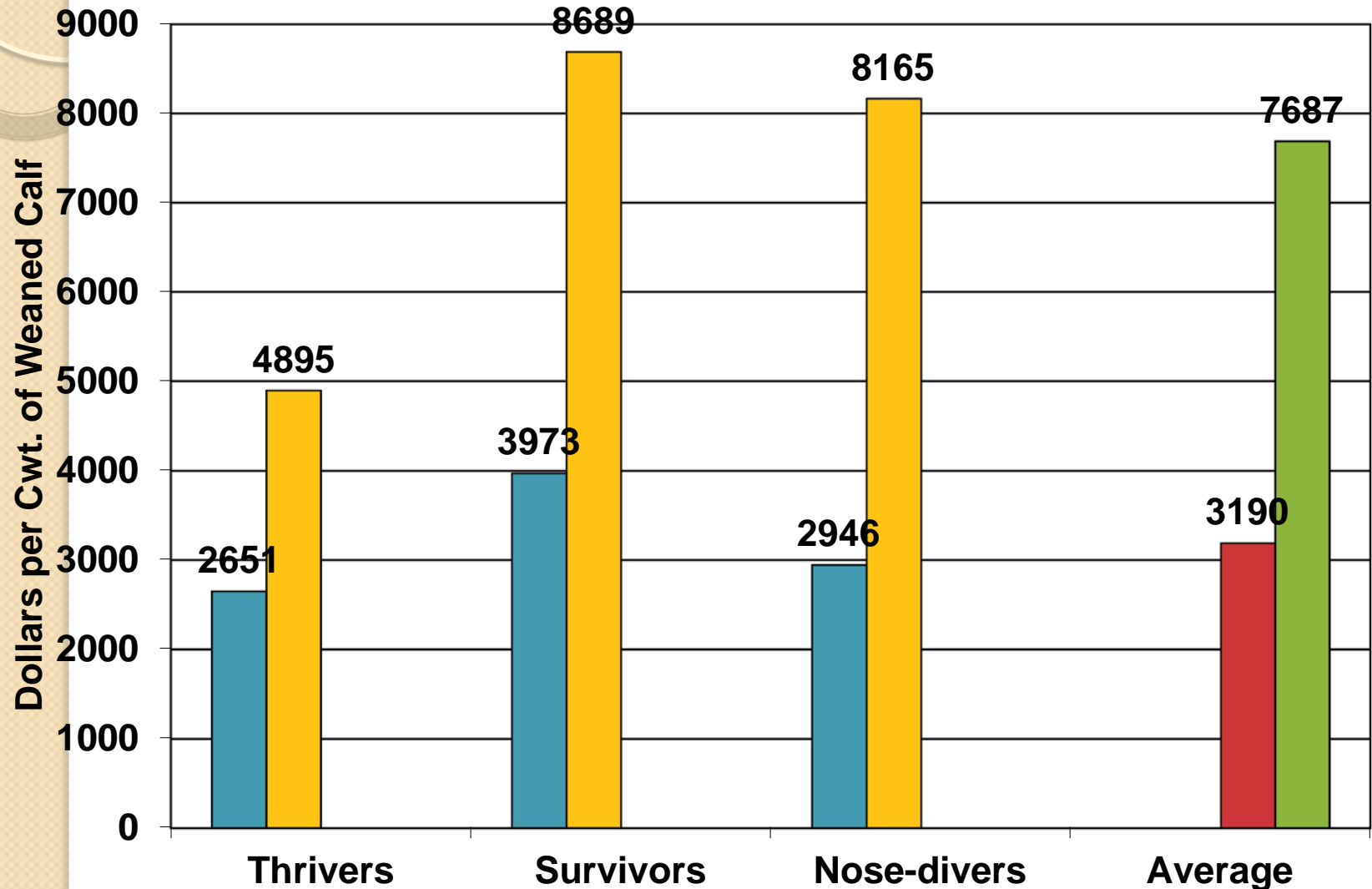
	Thrivers	Survivors	Nose-divers	Mean
Rec'd	124.28	116.09	107.39	115.92
Breakeven	92.86	130.49	168.49	130.61

# Price Rec'd versus Average Weaning Weight



# Total Investment at Cost and Market

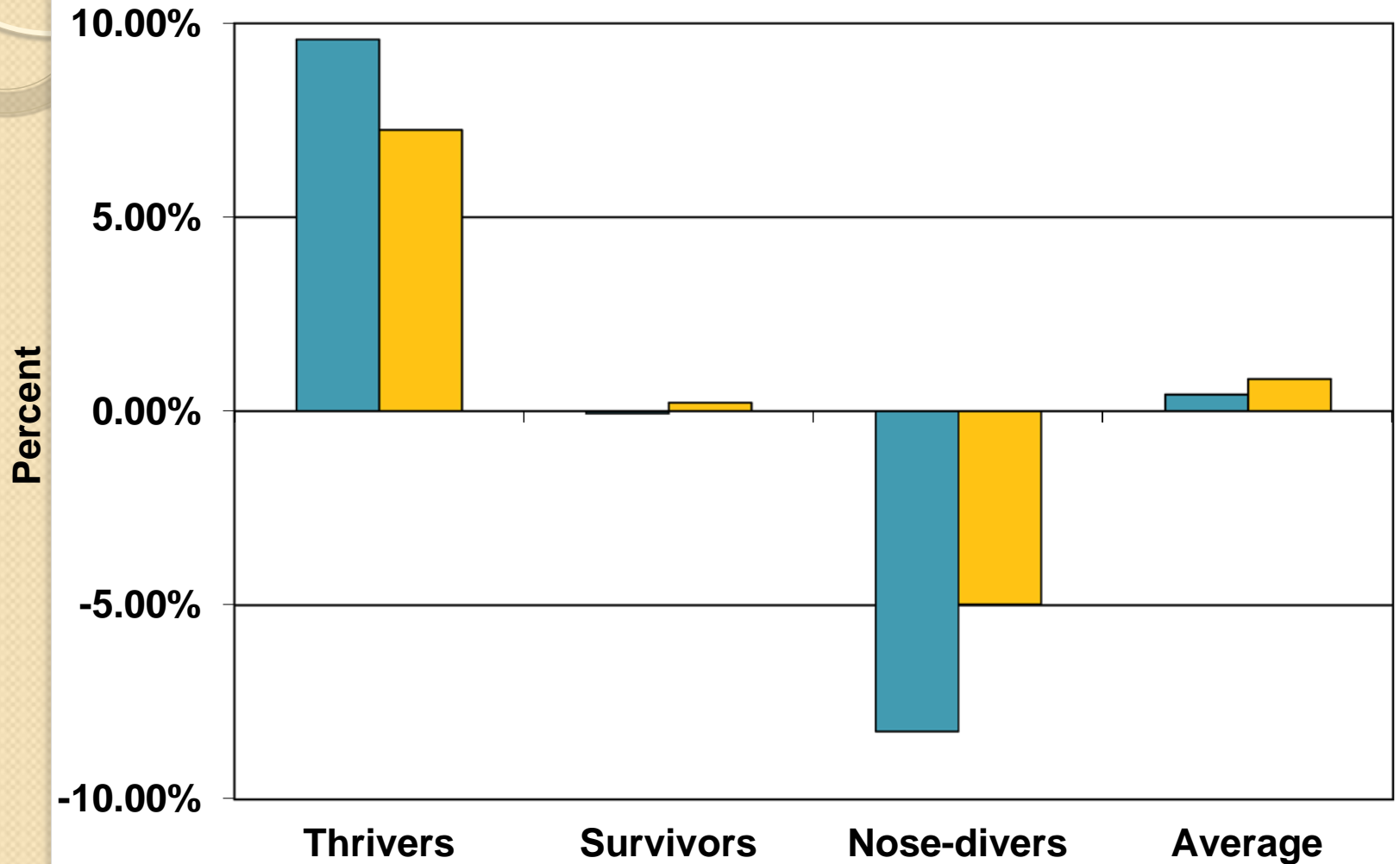
Database Average = \$3,190 & \$7,687





# Rate of Return on Assets

Database Average = 0.43% & 0.83%



# Reproduction/Production Goals

- Pregnancy Rate: Greater than 90.0%
  - This includes all females
    - Including
      - 1<sup>st</sup> calf heifers
      - 2<sup>nd</sup> calf heifers
- Calving Rate: Greater than 85.0%
- Weaning Percentage: Greater than 82.0%
- Your management determines these.
- Any less than these, you need to figure out why. Where is the loss occurring?
- Any more than these may cost too much.

# Reproduction/Production Goals

- Average Weaning Weights of all calves: 520 pounds.
- While your management determines this to a degree (ie. Genetics, etc.), mother nature can always trump you (ie. Rainfall after calving).
- Combine this with an 82% weaning percentage, then pounds per female will be 426 pounds.

# Production Efficiencies

- Are you stocked right for you land resources?
  - Affects reproduction, weaning weights, feed costs, etc.
    - Remember, if she doesn't get bred, everything else that follows is an expense with no income to offset it.
- Are my females “sized” right?
- Are your females weaning an appropriate weighted calf annually for your resources?

# Financial Goals

- Total Costs should be below \$600.
- Top three expenses (Depreciation, Labor & Management, and Feed Purchased) should account for at least 45% of your total expense (\$270 per female).
- That gives you \$\$\$330 for everything else.
- Ask yourself: Is this \_\_\_\_\_ that I am considering purchasing going to improve my reproduction and/or production efficiency?
  - Feed
  - Labor (save one more calf)
  - New pickup

# Southwest SPA Results 2007 - 2011

- **Average Gross Revenue = \$538.65**
- **Average Total Costs = \$588.97**
- **Average Net Income = -\$50.31**
- **Rate of Returns on Assets**
  - **Cost Basis = 0.43%**
  - **Market Basis = 0.83%**
- ***\$718.34 per weaned calf***

# Questions/Comments



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