

## OVERVIEW

**Drivers of Net Income**

- SPA data

**Revenue**

**Expenses**

- The Big Three

**Putting the Pieces Together**

- Unit cost of production
- Cash flow
- Drought scenario

**Finding Leverage**

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## EXCELLENT MANAGEMENT

**GOOD MANAGERS** make a multitude of small decisions to collectively keep costs low relative to the value of the weaned calves they produce.

**EXCELLENT MANAGERS** do the same, but **ALSO** understand and find leverage in the production system. These managers make a few strategic changes that have long-standing systematic benefit to the operation.

**ALL MANAGERS** need a clear view of the financial position of the ranch and the drivers of net income and return on assets.

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### SOUTHWEST COW-CALF SPA KEY MEASURES SUMMARY

NM, OK, TX from 2008-2012; 17,196 cows; 44 herds

Herd Related Measures	Average
Pregnancy %	90
Calving %	86
Calving death loss / exposed female, %	3.0
Calf crop or weaning %	83
Avg. weaning wt. lbs.	507
Pounds weaned / exp. female	424
Weaned calf pay weight price - weighted average (\$/cwt)	119

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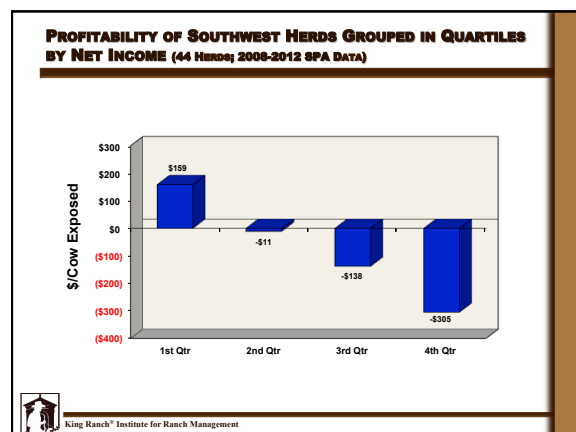
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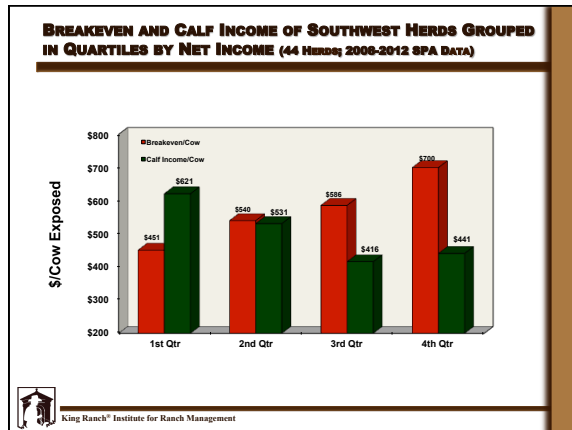
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Financial Performance Measures	---\$---
Raised or Purchased Feed Cost / cow exp.	165
Grazing Cost / cow	92
Total Cost Before Noncalf Revenue Adjustment / cow	608
Total Cost Noncalf Revenue Adjusted / cow (BREAKEVEN)	565
Total Cost Noncalf Revenue Adjusted / cwt - Unit Cost	139
Net Income After Withdrawals / cow	-65
Net Income After Withdrawals / cwt	-19
Total Investment / Breeding Cow - cost basis	3,214
Return on Assets - cost basis	-0.26 %

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### A CLOSER LOOK AT REVENUE

- Calf Sales
- Market Cow & Bull Sales

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### CALF WEANING MEASURES AND CALF REVENUE BY NET INCOME QUARTILE

	Net Income Quartile			
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
<b>Weaning %</b>	83.8	80.3	83.8	85.2
<b>Weaning Wt., lb</b>	562 <small>WHY?</small>	504	455	494
<b>Calf Price, \$/cwt</b>	131	133	110	103
<b>Avg. Calf Value, \$</b>	736	670	501	508
<b>Calf Revenue/Cow Exp., \$</b>	617	538	420	434

Source: SPA 2008-2012

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### WHY HEAVIER?

- ~ 20 days older at weaning
- Likely better genetics for growth
  - ✓ Difference in today's market is > \$100/calf

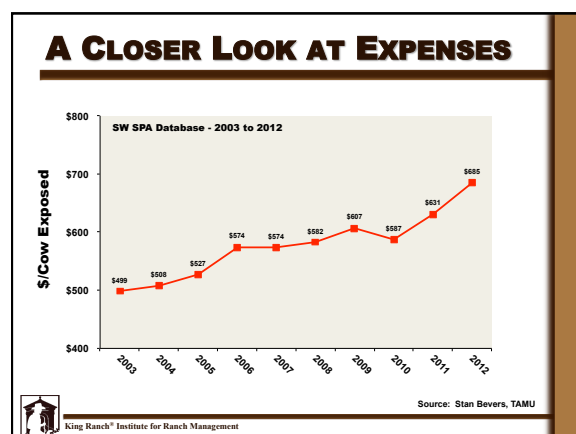
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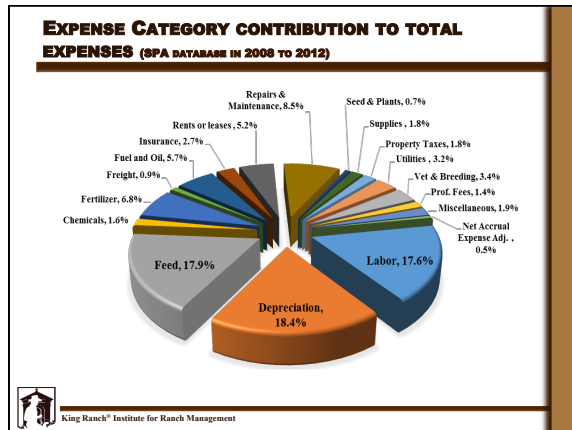
### VALUE OF REPRODUCTIVE PERFORMANCE

**Increasing weaning % by 1 percentage unit increases profit by \$6 / cow exp.**

- Current Market:
  - ✓ \$200 / cwt is ~ \$10 / cow exp.
  - ✓ \$220 / cwt is ~ \$11 / cow exp.

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### LABOR EXAMPLE

**1000-cow operation**

- 4 employees = \$200,000 total compensation
- \$50,000/employee = salary + benefits + housing + beef(?)

**What if there were only 3 employees?**

- Labor cost ↓ by ~\$50,000
- One less vehicle, fuel, horse, etc. ???
- Ranch Labor ↓ by \$50/cow exposed

**What does such change mean for operations?**

- Less labor
- More outsourcing?
- Less equipment needs?

**Is it reasonable????? ...maybe, its at least worth considering**

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### DEPRECIATION

**Livestock Depreciation Reduction**

- ↓ purchase price
- ↑ salvage value
- ↑ longevity

**Equipment Depreciation Reduction**

- Sharing
- Leasing
- Outsourcing

*Convenience? & Control?*

**The most profitable operations work hard to minimize depreciation!**

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### KEY POINT

**Stay Focused on the Big Three!**

**Labor**

**Feed**

**Depreciation**

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### PUTTING THE PIECES TOGETHER

Photo by Joann Meeker

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### RECOMMENDATION

**Profit-minded managers should:**

- seek practical, high leverage interventions to the production system
- focus on optimizing
  - ✓ Weaning rate
  - ✓ Weaning weight
  - ✓ Feed
  - ✓ Labor
  - ✓ Depreciation

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## UNIT COST OF PRODUCTION

### UCOP

- Merges cost of production with output
- Cost \$/cwt calf weaned
- Often discussed, but seldom practiced!

**How do you get there?**



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## KEY POINT

### Implement a managerial accounting system!

#### Managerial Accounting

- process of preparing management reports and accounts that provide financial and statistical information required to make day-to-day decisions.
- generates reports for an organization's internal audiences



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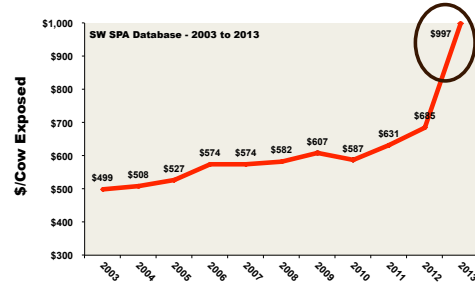
## CASH FLOW

- Operating capital is essential
- Avoid liquidation of revenue producing assets (Cows)



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## COW/CALF EXPENSES



Source: Stan Bevers, TAMU



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## DROUGHT FEEDING SCENARIO

### 1000-cow operation

#### Situation:

- Oct 15, 2013 – its so dry you must remove 175 cows
- How much can you afford to spend on feed to keep them?

#### Information:

- Cow cost \$600/yr
- Weaning rate 85%
- Fixed cost 62.5% of total cost (\$375/cow)
- Variable cost 37.5% of total cost (\$225/cow)
- 500 lb calves \$165/cwt



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## CALCULATION

### Fully stocked with 1000 cows

Variable cost \$225,000  
Fixed costs \$375,000  
Total cost \$600,000

#### Revenue

Calf sales \$701,250  
850 calves @ 500 lb @ \$165/cwt  
Cull sales n/a  
Total revenue \$701,250

#### Buy back cows

n/a

Net Income \$101,250

### Reduced by 175 cows (850-hd)

Variable cost \$185,625  
Fixed costs \$375,000  
Total cost \$560,625

#### Revenue

701 calves \$578,250  
175 Cows @ \$1000 \$175,000  
Total revenue \$753,250

175 bred @ \$1500 - Oct, 2014 \$262,500

Net Income (\$69,875)

Difference \$171,125  
\$978/cow sold



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## FINDING LEVERAGE

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## EXAMPLES FOR CONSIDERATION

Intervention <sup>a</sup>	Potential Impact on the System
Implement Managerial Accounting System	(+) ↑ information to make decisions (-) ↓ short term cost for professional services
Purchase bred replacement females instead of raising replacements	(+) ↓ labor needed for calving (+) ↓ weaning weight with terminal system (+) ↑ total cows by 5 – 8% by ↓ replacement rate (-) ↓ depreciation
Contract Haying/Farming	(+) ↓ labor (+) ↓ equipment depreciation (+) ↓ equipment repairs, maintenance, fuel (-) ↓ service cost (-) ↓ control of farming/haying activities
Implement Crossbreeding System	(+) ↑ reproductive performance (+) ↑ cow longevity (+) ↓ # of replacements developed annually (+) ↑ calf age and weight at weaning (-) ↓ complexity of the production system

<sup>a</sup>Interventions are intended as examples, not blanket recommendations.



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## LISTEN FOR LEVERAGE

- Cow Efficiency
- Heifer Development
- Nutrition Management
- Technology

**Listen for information that may lead to high-leverage improvement in your operation!**



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## THANK YOU!



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