Accounting for All the Costs of Being a Cattlemen

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There are numerous educational projects sponsored each year by the Alabama Beef Checkoff. One of the projects funded this year was a cow-calf cost study done for South Alabama. This project enabled educators to gather producers from the Gulf Coast (Southwest) and Wiregrass (Southeast) areas of Alabama together to design a "model farm" for the area. The idea of a model farm is to design a theoretical cow-calf farming enterprise that truly represents what producers in each area do. There were 4 different model farms developed for the South Alabama Project, a large and small farm for the Gulf Coast and Wiregrass areas respectively. These farms were designed by a panel of cattle producers from each region that fit into the large (greater than 100 head of brood cows) and small category (less than 100 head of brood cows). These farms were then compared to the University derived Cow-Calf Budgets that Extension Educators developed and have used for many years to evaluate differences in production practices and opportunities for cattle producers to be profitable.

There are several things we learned or had confirmed by this study. First and foremost, cattle producers in Alabama love what they do and produce some top quality beef. There is a passion and dedication to the industry (and way of life) that exudes from Alabama Cattle Men and Women. Second, there are many ways to run a cattle farm- with each offering unique opportunities and challenges. And last, there are opportunities for all our farmers and ranchers to be more profitable if they consider ALL the costs associated with producing cattle !!! Many producers consider only their out of pocket costs such as fertilize and feed costs, but other unaccounted for costs often prove to be the difference between being profitable long term or losing wealth.

One of the first costs that need to be considered are reproductive and production proficiencies. One of the key drivers to income for cow-calf producers is pounds of calf produced per brood cow. Each breeding animal (cows and bulls) will consume feed and resources, so we need as many calves produced as possible. It is (hardly) ever possible to produce a 100 % calf crop, even with the best of management. There are going to be issues of cow fertility, nutrition, disease, inclement weather and quite frankly sometimes just acts of God that prevent a calf from being born and making it to sale time. However, the higher percentage of a live and marketable calf crop we can get, the better off we are. Looking at our model farms VS the university model there is a correlation between calving and weaning percentages and gross income.

It only stands to reason that the more calves we produce, we increase our opportunity to increase returns. There is also a substantial variance on the weaning weight of animals between farms. Our larger farms tended to produce heavier calves and be closer to our university model farm than our smaller farms. The university model farm as well as the large Gulf Coast and Large Wiregrass farms all produced steers that weaned 650 lbs., as opposed to our small Gulf Coast and Small Wiregrass Farms that weaned steer calves that weighed 500 lbs. on average. There is also a correlation between the amount of money producers spend on animal health products (vaccines, wormers, etc., etc.) and the weaning percentage and weaning weights of calves. The producers that spent the least amount on animal health, also produced the least marketable pounds of per cow. There is a substantial return for a minimum level of inputs with animal health.

The other costs that stand out from our model farms are the amount of depreciable assets on each farm. Depreciation refers to an annual, non-cash expense to recognize the amount by which an asset loses value due to use, age, and obsolescence (taken directly from the McGraw-Hill Series in Agricultural Economics: Farm Management….1994 edition I used in Farm Management class at Auburn University that is still just as relevant today). In common English – how much stuff we have on our farms that is constantly losing usefulness and value. There is a lot of equipment on all our farms, and there is a cost for all that equipment. While it can be argued that there is a certain amount of equipment required to farm, it can also be argued that you will never pay for all of that equipment by farming. A tractor to feed hay may be needed, but for small producers hay production equipment usually can't be justified. While we can justify (to ourselves….not economically) buying just about anything on the farm, can we really afford it ? Will the producer with 15 cows pay for the 24' gooseneck cattle trailer with receipts from the farm ? It will be difficult. Machinery, barns , and other depreciable assets are part of building the farm for most producers. It is necessary to have some equipment to farm and ranch, but producers should be very aware of the deprecation expense incurred as those items lose their value and usefulness. The goal is to have more wealth when you quit farming than you did when you began.

The model farms data reflects much of the university model data. The majority of producers can make enough in the cow-calf business to cover their pasture, feed, health and labor costs on average years. However, if they want to truly be profitable and have more wealth when they finish than when they began, they have to truly consider all of the costs… and make decisions based on those.