

AgriProfit\$

Newsletter for Alberta Cattlemen

Editor's Corner

Welcome to the first edition of "AgriProfit\$ Newsletter for Alberta Cattlemen". This newsletter will bring you *timely information, analysis and applied research on the economics and business management* of cow/calf operations.

Every few weeks, we'll bring you articles on topics such as:

- C managing feed costs,
 - C economics of spring calving,
 - C our research program benchmarks,
 - C markets and outlook,
 - C financial management,
 - C what's new in management tools
- ... all focused on information and thought-provoking discussions on *what you can do to improve your cow herd's bottom line.*

Each edition of the *AgriProfit\$ Newsletter* will have a feature article, exploring an issue in-depth. This will be accompanied by a short "one-pager", designed to take you quickly into a topic, deliver a message, and leave you with some "food for thought".

In this issue, I challenge cow/calf operators to consider "why they're in the business". Then, Ted Darling and Jeff Millang, Extension Specialists with Alberta Agriculture, Food and Rural Development (AAFRD) describe the newly released CowProfit\$ software.

We hope you'll find AgriProfit\$ Newsletter useful in managing your cow/calf operation!

Dale A. Kaliel,
Editor

Why Do We Keep Cows?

Dale A. Kaliel
Sr. Economist: Production Economics

After "surviving" the last few years of lower cattle prices and margins, Alberta cow/calf operators are asking, "why do we keep cows?" Some of the more common reasons I hear from cattlemen are:

- C to make money
- C to use idle grassland (or, my land suits grazing better),
- C to diversify the farming operation, or
- C I like the way of life.

Although profit is generally the driving motive, quite often the decision to be in the cow/calf business involves a combination of these reasons. Any long term evaluation involves a practical assessment of both the tangibles (profitability; asset growth) and the intangibles (a way of life; an asset to pass on to the next generation).

Farm families that recognize, understand and value the trade-offs between each of these have taken the first step in effectively managing their cow/calf operations.

To put this into perspective, let's take a closer look at the historical economic performance of Alberta cow/calf enterprises.

The following discussions should:

- C provide benchmarks for you to judge your operation's performance,
- C pose a few hard questions about the business, and
- C speculate on answers to "why do we keep cows?"

Is There Money in the Cow/Calf Business?

How have Alberta cow/calf enterprises fared over the past five years? Based on our AgriProfit\$ research program results, Figure 1 shows:

Ⓒ average Alberta cow/calf enterprise returns to equity* (in \$/lb. weaned)

[* "Return to Equity" (R to E) is the margin (profit) remaining after all costs (including unpaid operator/family labour) are paid.]

Ⓒ average Central Alberta fall-run steer calf prices.

From 1995 through 1998, average returns to equity from cow/calf operations were negative. This was driven mainly by the lower prices associated with the cattle cycle "bottoming out".

Prior to this period historical information indicates that cow/calf enterprises earned modest profits. Forecasts for 2000 and 2001 are for calf prices to remain stable in the range of 1999 levels. This will likely translate into a continuation of the positive margins posted at the end of Figure 1.

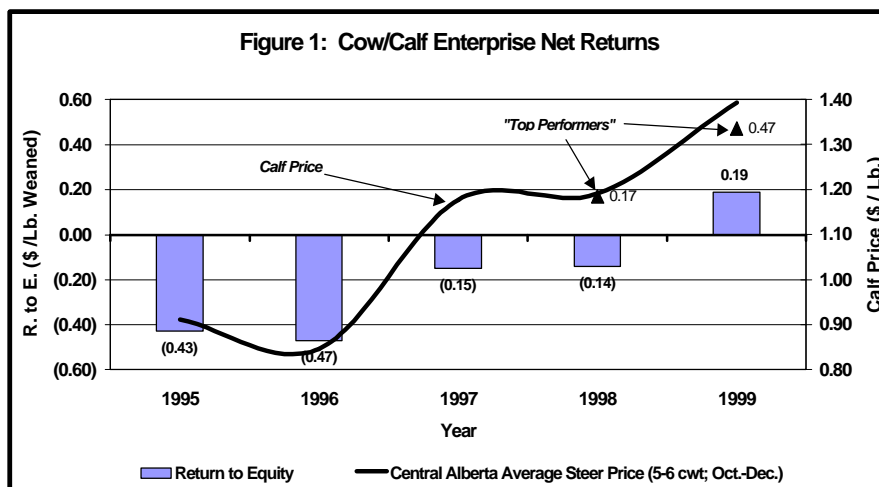
Management Makes a Difference

The facts and figures related to the cow/calf business are rather sobering. Earning a living in this business is difficult. However, a look at the "top managers" show that a dollar can be turned.

The averages displayed in Figure 1 can be deceiving. Producers who aggressively manage their operations certainly performed better than these averages. For instance, "top managers" on the AgriProfit\$ program had net returns roughly \$0.30 per lb. higher in both 1998 and 1999 than averages shown in Figure 1.

Cost Control Important

Why do we see such a difference? Cost control is fundamental to economic success of cow/calf operations. Producers need to assess the pros and cons of each input, and each asset, used by the cow/calf enterprise. There should be both short and



long term payback coming from their use. This is likely the root of the difference between the "averages" and the "top management group".

Contribution to the "Whole Farm" Picture

Often, cow/calf enterprises are only one component of farm operations. How did the AgriProfit\$ participants, with cow herds, fare when we look at combined net earnings of all their farm enterprises (ie. for the "whole farm")?

Figure 2 shows the farm level "return on assets" for producers on the AgriProfits\$ program. From 1995 through 1999, the rate of return to all farm assets was positive even though cow/calf enterprises suffered some degree of losses during the same period. The cow herds weren't a "dead weight" ... they made a contribution. But how?

Effective resource use implies that all farm assets are as fully utilized as possible. Each enterprise contributes to covering ownership costs. One example of this might be that revenues from a cow herd will cover part of the fixed costs of assets needed to grow forage crops. Another is the cow herd grazing land that has no other alternate use. The act of grazing creates value where none existed before.

Role of Diversification

Having a diversified operation means that positive returns for one enterprise can balance the negative returns of another over time. Healthy crop and forage receipts may offset depressed beef revenues.

In total, a cow/calf enterprise can provide stability in farm level income. This is likely what happened with our AgriProfit\$ participants.

Can We Value a “Way of Life”?

The last reason noted at the outset for keeping cows was “I like the way of life”. This article indirectly suggests that there is a trade off, in terms of foregone “earnings”, to be in the beef business. We recognize this value ... but defining how a beef operation can sustain both income and quality of life needs is best covered in another issue.

The Home Stretch

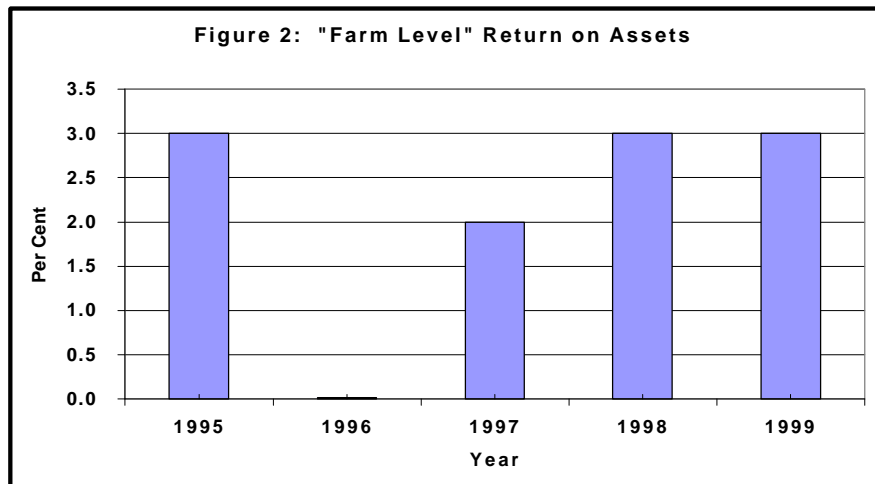
All together, this overview provides an indication that success in the cow/calf business, measured in economic terms, is earned by day-in/day-out focused management. Dr. Michael Boehlje from Purdue University once said,

“Family farmers of the future will be defined by their management of labour, production and marketing opportunities and less by their own labour and land holdings.”

The reasons for keeping cows yesterday may be the same as today ... but, the economic and financial performance required in the future will be more demanding.

Summing Up

- C Overall, cow/calf operations have weathered a few years of poor prices. Those producers who have practised cost control have more likely fared better than the “average”.
- C Strong, stable calf prices over the next few years should result in continued positive net returns for cow/calf enterprises.
- C Cow herds can play a significant role in “harvesting” income from lower-value resources,



such as land suited for grazing. The higher the investment dedicated to the cow/calf enterprise, the more difficult this becomes.

- C Implementing good economic and management information will significantly improve your bottom line.

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We'd like your comments and questions about the articles featured in this newsletter. Suggestions for future issues are also welcome. Please contact me at:

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AgriProfit\$

If you'd like to learn more about and/or participate in our research program, please contact me, as well, at the above.



If you're interested in the CowProfit\$ software, training or seminars, contact:
 Ted Darling at (403) 948-8524 (ted.darling@gov.ab.ca), or Jeff Millang at (403) 556-4220 (jeff.millang@gov.ab.ca)



If there's one common bit of wisdom that's being talked about in the cow/calf business these days, it's "Know your cost of production." Whether you're thinking about expanding, cutting back or joining a value chain, you can't make informed decisions unless you know your costs. The problem has been that until now, cow/calf enterprises have been extremely difficult to analyze, especially if they're part of a mixed farm operation.

CowProfit\$, a new computer software package from Alberta Agriculture, Food and Rural Development (AAFRD), helps cow/calf producers calculate their "cost per pound of calf produced." It will also perform a basic analysis of the feeder, forage, grain, and pasture enterprises that interact with the cow/calf enterprise.

CowProfit\$ was written for cow/calf producers but it can be extremely valuable to consultants, lenders and extension workers. It draws on information from your financial and production records to create a series of enterprise and whole farm reports. These reports show your farm's financial performance, enterprise by enterprise.

CowProfit\$ helps farm and ranch managers answer some other tough questions including: Is each of my enterprises pulling its weight? Which ones should I expand? Which ones should I downsize or do differently?

CowProfit\$ reports help you create your own cost and returns profiles which are directly

comparable to AAFRD's AgriProfit\$ program benchmarks. You will be able to compare your operation's performance to provincial or local (grass type) averages. Your cost and returns profiles will also help you to relate more directly to other AgriProfit\$ research and analysis, focused on the cow/calf business.

CowProfit\$ uses whole-farm numbers and allocates the various costs and returns to individual enterprises. Adjustments can be made for inventory changes and transfers between enterprises.

Costs per unit of production are calculated for cow/calf enterprises (up to five are supported) as well as for forage, straw, grain and pasture enterprises. The "winners and losers" report shows which enterprises are profitable and which enterprises may need some attention. One of CowProfit\$ features is that it can use numbers from your income tax return or the most detailed statements from your accounting system, whichever is available.

Watch this news letter for further CowProfit\$ developments such as information sessions and hands-on software training workshops. CowProfit\$ is available for \$150 from AAFRD's Home Study branch at (780)427-2404. A free demonstration version is available on "Ropin' the Web" at <http://www.agric.gov.ab.ca>. Just follow the links to Department Publications & Products, Home Study and Livestock Production Courses, or use the search engine to find CowProfit\$.

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