



Agri-News

August 3, 2009

Profit-Driven Change in Alberta Cow/Calf Operations

An economic analysis of north and central Alberta beef operations provides insights regarding the durability of the industry over the past 10 years and the opportunities for profit-driven change. Key drivers supporting the 'economics of change' are farm level financial strengths and the potential for herd cost reductions through integrated herd and grazing systems.

"This 10-year analysis involved sifting and sorting hundreds of records from the AgriProfit\$ Business Analysis and Research program," says Dale Kaliel, senior economist: production economics with Alberta Agriculture and Rural Development, Edmonton. "Trends in year-to-year farm financial performance, along with the economics of cow herds and grazing systems were evaluated. To bring further focus, the average of all participating beef farms was contrasted with low cost farms, those with herds in the lower half of total production costs."

During the period of 1998 to 2007, the overall farm level return on assets averaged about three per cent while the low cost group averaged four per cent.

"The drought in 2002 and BSE in 2003 substantially reduced the average return on assets," says Kaliel. "The upside is that these events kick-started a change process in the industry. Producers began to look long and hard at how they were producing cattle. They were driven to fundamentally change their businesses and production systems, taking them to a sustainable, lower cost level."

The low cost group led the transition, shifting to less days feeding and more days grazing. This was driven by the notion of a feed-to-grazing cost gap. Providing feed dry matter from grazing sources, at market value, is more cost effective than acquiring and delivering feed in a drylot.

Observations on the shift in grazing practices over time include:

- from 1998 to 2002, shifts were incremental. Producers added grazing days through practices such as aftermath grazing and small swath grazing parcels

Cont'd on page 2

This Week

<i>Profit-Driven Change in Alberta Cow/Calf Operations</i>	<i>1</i>
<i>Economic Evaluations Help Producers Make Better Decisions</i>	<i>2</i>
<i>Tax Deferral Made Available for Livestock Producers Affected by Drought</i>	<i>3</i>
<i>Online Social Networking and Your Agri-Business</i>	<i>4</i>
<i>Agri-News Briefs</i>	<i>4</i>

- particularly in the low cost group, as time progressed, shifts in grazing systems appeared with more purposeful combinations of native, perennial and annual grazing options
- in the latter years, both groups revealed lower average herd operating and fixed costs linked generally to adjustments in feeding systems (types of feeds, labour use, machinery required)

“There is opportunity to bring further cost effectiveness to cow herds by addressing this feed-to-grazing cost gap,” says Kaliel. “Up until this point, gains have come mainly from applying production options that were easy to identify and implement. Closing this gap further will require on-farm economic assessments of:

- grazing systems available to producers, relevant to their operations and locale
- winter feeding systems that complement the grazing opportunities
- other related production systems, such as types of feed used and calving season

These assessments will lead to long term, truly integrated systems.”

The role of grazing land in the success of north and central Alberta cow/calf operations is easily overlooked. Grazing lands that support Alberta cow herds have helped profitability at the farm level even though the herds within many of these operations have struggled. These grazing systems in these businesses are dynamic from an economics perspective. They include a multitude of elements that change within the system, across years, and among farms.

“Producers often ignore the profit motive for grazing land when it’s used by the cow herd,” says Kaliel. “Grazing land is often undervalued as a profitable land use compared to field crops. Costs per AUM are relatively stable as systems adapted, dealing with pressures of rising input expense, required productivity gains and balancing between intensive versus extensive options.

“When a realistic market value is applied to grazing production, it is consistently profitable. Given emerging grazing systems thinking and technology options this will continue to improve.”

This economic analysis shows that the significant profit opportunity for Alberta cow/calf operators is linked to a systems approach to managing the herd and the grazing resource.

“Over the past 10 years, economics has both driven and led a significant change in the Alberta cow/calf industry,” says Kaliel. “Using economics as a management tool paves the way to sustainable profits with manageable risk.”

Contact: Dale A. Kaliel
780-427-5390

Economic Evaluations Help Producers Make Better Decisions

Local research associations, and the services and field tours they provide, are an incredible untapped resource for producers. Research associations throughout the province are staffed with crop, forage and livestock specialists who are familiar with local interests, issues, conditions, land, advantages, limitations, and they have historic information on what has already been tried.

“Local field research trials or demonstrations are an invaluable screening tool that allows producers to see which changes have potential,” says Karla Bergstrom, production crops economist with Alberta Agriculture and Rural Development. “And many of these groups are very interested in working with producers to identify emerging areas of interest and to conduct on-farm applied research projects.

“One of the biggest problems in farm business, that I see, is managing change because the focus tends to be production-driven and not profit-driven. Success in farming will continue to require that operations be efficient, but there is a growing payoff for making strategic decisions to manage change and to do the right things.”

Farms that operate by the motto “*if it ain’t broke then don’t fix it*” make the strategic decision to not manage for change. That can mean missing out on opportunities and will likely reduce your return on investment over time.

“Evaluating, revisiting and making changes annually identifies efficiencies that will contribute to future business success,” says Bergstrom. “Change should not be viewed as something that is pushing you; but should be thought of as something you pursue.”

Change can be a new crop, a new technology, a new system, or a new business management approach. Pursuing change and being open to the introduction of new products and technologies have provided significant returns on investment for producers when their focus is on making strategic decisions.

Local field tours identify many changes that can be applied to your farm. Making a decision to implement a change depends on evaluating how that change applies to the business and the effects on costs and returns. Using the following three steps will help farm managers make better business decisions about what changes to implement.

- **know your business** – understand what your business is capable of doing and your actual costs. A starting point from which to measure the effects of a change is critical because you cannot manage what you don’t measure.

Cont’d on page 3

- **have a plan** – successful plans are profit-driven not production-driven. Successful farm managers identify what changes need to be made to remain competitive, sustainable and consistent with their long term business strategy.
- **evaluate the profitability, affordability and desirability of implementing a change** – if the change is not profitable and does not increase your net worth over time, then don't do it. If the change is profitable, but it negatively affects your cash flow, liquidity, solvency, risk tolerance and long-term strategy, then don't do it. If the change is profitable and affordable, but you have no desire to do it, then don't do it.

“Evaluating a change before proceeding can save a lot of expense, headaches and “gut checks” from making an uninformed decision,” says Bergstrom. “Intuition is a good thing, but it might not be something you want to rely on solely. Validating hunches about a change may reduce the times you get caught in the end saying *I'll never do that again!* Profitability is not about finding one key change and doing it right; it's about managing all the little things and doing your best with each. Long term success is built on the ability to consistently do the right things, which starts by evaluating before implementing any changes. Remember that the most important “input” in today's agriculture is the farm manager who actively manages the farm business.”

Contact: *Karla Bergstrom*
780-422-3122

Tax Deferral Made Available for Livestock Producers Affected by Drought

On July 22, 2009, Agriculture Canada announced that livestock producers in Alberta in drought affected areas will be eligible for tax deferrals on breeding livestock sold due to drought in 2009. The tax deferral allows eligible producers in designated areas to defer income tax on the sale of breeding livestock for one year to help replenish breeding stock in the following year. In the case of consecutive years of drought designation, producers may defer sales income to the first year in which the area is no longer designated.

Producers who reduced their breeding herds by at least 15 per cent are eligible. Thirty per cent of income from net sales can be deferred if the herd has been reduced by at least 15 per cent, but less than 30 per cent. Where the herd has been reduced by 30 per cent or more, 90 per cent of income from net sales can be deferred.

Eligible producers will be able to request this deferral when filing their 2009 income tax returns. Livestock producers are

advised to contact their local Canada Revenue Agency Tax Services Office for details on the income tax provisions.

While forage yield information is not available until later in the year, designations can be made earlier in the year based primarily on spring moisture conditions and estimates of forage yield. Early designation of eligible areas will allow producers to make informed decisions about fall and winter livestock management decisions.

As the growing season continues, further areas can be designated for the tax deferral should they meet the established criteria.

Alberta Tax Deferral Designated Areas:

Beaver County
Camrose County No. 22
County of Minburn No. 27
County of Paintearth No. 18
County of Stettler No. 6
County of Two Hills No. 21
County of Vermilion River No. 24
County of Wetaskiwin No. 10
Flagstaff County
Improvement District No. 13
Kneehill County
Lacombe County
Leduc County
Lamont County
Municipal District of Acadia No. 34
Municipal District of Provost No. 52
Municipal District of Wainwright No. 61
Parkland County
Ponoka County
Red Deer County
Special Area No. 2
Special Area No. 3
Special Area No. 4
Starland County
Strathcona County
Sturgeon County

Contact: *Agriculture and Agri-Food Canada*
Ottawa, Ontario
613-759-7972
1-866-345-7972

Online Social Networking and Your Agri-Business

Online social networking is here to stay, and the buzz around blogging, Facebook, Twitter, YouTube and other online communities can really matter to agribusiness.

“This modern marketing tool is all about making connections and using the power of the internet to launch, sell, improve and profile your product or service,” says Tricia Simon, new venture specialist with Alberta Agriculture and Rural Development, Stettler. “Whether you are a vendor at an Alberta Approved Farmers’ Market, an ag-tourism operator, food processor, organic beef producer or greenhouse grower the vast world of social networking can be a powerful marketing tool for your agri-business.”

Online social networking offers a convenient way of exchanging information with countless numbers of current and potential customers. This may be why it is one the most popular marketing tools for small businesses, and it is free!

To harness the power of social networking for an agri-business:

1. Start with one site: explore various social networking sites and choose one that will best reach target customers. Find out who is talking to whom!

2. Prepare the site before promoting it: there is only one chance to make a first impression so make sure that the site is informative, timely and visually appealing.
3. Invite current customers to join the site: send virtual invites to current customers and encourage them to invite their friends. The ‘domino effect’ will take care of the rest!
4. Update the site regularly: give customers something new to discover such as product specials, photos, recipes and links. Keep them coming back for more!
5. Use the site to test the water: post new business ideas on your discussion board and get instant feedback. Back to the drawing board or off to the races!

There is a huge opportunity for agribusinesses to get connected and farm the online community. To learn more about online social networking and how it can enhance agri-business, call 310-FARM (3276) and ask for a new venture specialist.

Contact: *Tricia Simon*
310-FARM (3276)

Agri-News Briefs

Fruit and Vegetable Field Day

The Fruit and Vegetable Field Day is an opportunity to see different types and sizes of direct market fruit and vegetable operations with a visit to two Alberta Farm Fresh Producers Association member farms. New, potential and existing producers are all welcome to attend. The field day is being held on August 18, 2009, beginning at noon with a complimentary lunch at Riverbend Gardens, Edmonton, sponsored by Alberta Agriculture and Rural Development. The tour begins at 1:00 p.m. and includes a farm tour and equipment viewing at Riverbend Gardens, Edmonton, with Janelle and Aaron Herbert and E.L.K.S. and then on to Fruit & Vegetable Farm, St. Albert, with Emile & Laurel Iseke. The tours focus on signage and innovations for moving people through a U-pick operation, equipment of different sizes and scales (for various purposes), washing, packaging and storage equipment. Participants will use their own vehicles for travel between farms. A detailed itinerary will be provided at the event. To facilitate lunch preparation, please register for this free tour by calling toll-free 1-800-661-2642 by Friday, August 14, 2009.

Pembina Sheep Grazing Symposium

The Pembina Sheep Grazing Symposium is being held in Sangudo on September 11 and 12, 2009. Guest speakers (September 11) include:

- Martin Gooch**, director, Value Chain Management Centre
- consumer data for farmers and the agri-food industry
 - condensed lamb report on national purchasing panel data

- Len Larson**, producer, Rouleu, SK
- mixed ‘fleder’ grazing operation

Adam Molliet, producer, Aveley Ranch, Vavenby, B.C.

- fourth generation family farming operation with agri-tourism and alpine grazing

The symposium concludes with a sheep grazing bus tour (September 12). Cost of the symposium is \$125 per person, \$50 per person for September 11 and \$75 for the bus tour on September 12. For further information, contact West Central Forage at 780-727-4447, Evansburg, toll-free at 1-866-725-4447, or e-mail westcentralforage@gmail.com