

AgriProfit\$

Newsletter for Alberta Cattlemen

Editor's Corner

This issue keys in on the first steps of *to improve your cow herd's bottom line*.

In the feature article, Jake Kotowich & I cover the "why's and how's" of benchmarking your cow/calf operation. The challenge we pose is to match up your cost per lb. weaned against "competitors".

Following the discussions on benchmarking, I've provided a brief review of Alberta Agriculture, Food and Rural Development's (AFRD) AgriProfit\$ and CowProfit\$ programs. These initiatives focus

on assisting producers to develop their own unit production costs, according to their specific information and decision-making needs.

With the weaning and sale season coming on, a "Market Watch" chart posting historical calf prices has been included in this issue. In upcoming issues we'll be touching on market outlook for the fall plus some of the "management factors" that need to be considered when making decisions about culling and replacement.

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"Benchmark" Your Cow/Calf Operation

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The cow/calf business today seems to be a combination of good news and bad news. This may be the only thing that doesn't change from year to year ...

On one hand, we expect that last fall's strong calf prices will continue this fall. On the other hand, parts of the province are experiencing serious shortages of rainfall (and grazing), forcing producers to downsize herds, graze crops they originally intended to sell for cash, or both.

Events like this cause us to pause and ask, "how are we supposed to manage our way through these ever-changing conditions?" As the industry works through these events, three key themes come out.

1. Good information is the key to sound management decisions.

This includes:

- < market outlook and marketing options
- < knowing and using your own production costs in day-to-day production and business management

< how and what your peers and competitors are doing ... technologically, productively and financially.

2. "Management" is an integrated package.

Producers who monitor, control and keep a step ahead on productivity, markets and cost control perform better regarding:

- < long term profitability
- < cash flow & operational flexibility, and
- < minimizing long term risk

"Integrated" also recognizes that the cow herd, as a profit center, works in conjunction with other farm enterprises.

3. Cow/calf production has evolved to a dynamic, cost control business.

Physiology defines the environment in which beef cows can be profitably managed.

- < beef cows efficiently turn lower valued feed stuffs (forages) into lbs. of calf
- < as calves are expected from only a percentage of the breeding herd, the focus shifts from volume to minimizing costs per lb. weaned.

< when using products from other farm profit centers (forages, grazing, cereal production), dynamic trade-offs occur. Profitability must be assessed within each enterprise, plus how each contributes to the farm level picture.

Constant attention to performance in all aspects of production, marketing, economics and finance, is vital.

So ... What is “Benchmarking”?

Benchmarking is the process of objectively comparing your performance to your industry peers, locally, regionally and internationally. The purpose is to identify strengths, weaknesses and opportunities within your operation with “benchmark” performance as a reference.

Using your own business analysis, along with benchmarks, the following questions need to be at the front of your mind:

- < how did the benchmark (group) perform?
- < how did I do in comparison to the benchmark?
- < what did the “group” do to achieve this performance?
- < what do I do, both short and long term, to meet or beat the benchmark performance?
- < what does the benchmark imply, for the industry as a whole, in the long term?

The benchmarks don’t provide answers. They provide focus for you in examining your own operation.

AgriProfit\$ Benchmarks

One of the products of our AgriProfit\$ economic research program is a series of “Benchmarks for Alberta Cattlemen”. These are reported by grass-type (region) across the province and are based on business analyses we’ve prepared for a number of Alberta cow/calf operations for 1999. (Copies of the detailed benchmark reports can be obtained from us or your local AFRD office.)

Each of the grass-type reports provides economic and production performance benchmarks noting regional average vs. “top performer” groups. In the following chart we’ve summarized some key benchmark elements for the Aspen Parkland region in 1999. Participants were divided into two groups

based on enterprise profitability (Return to Equity per Lb. Weaned). Averages of the lower group (Bottom 1/2 in column A) and upper group (Top 1/2 in column B), are used in an example of the benchmarking process.

1999 Cow-Calf Enterprise Overview			
Economic & Physical Performance Comparisons			
Benchmark Comparables: Aspen Parkland Top 1/2 vs. Bottom 1/2			
Economic Performance Indicators:			
	Aspen Parkland		
	Bottom 1/2	Top 1/2	Difference
	(A)	(B)	(A - B)
Production Stock Sales	1.324	1.253	0.071
Value of Production	1.295	1.285	0.010
Winter Feed & Bedding Costs	0.418	0.320	0.098
Pasture Costs	0.276	0.217	0.059
Labour Costs	0.237	0.132	0.104
Other Variable Costs	0.266	0.144	0.122
Fixed Costs	0.214	0.124	0.090
Total Cash Costs	1.075	0.712	0.363
Total Production Costs	1.411	0.938	0.473
Gross Margin	0.220	0.573	(0.353)
Return to Equity & Mgmt.	(0.116)	0.347	(0.463)

Total Investment (\$/cow)	2,116	2,118	(2)
Physical Performance Indicators:			
Cows Wintered	108.6	146.9	(38.3)
Calf Crop (%)	90.2	89.5	0.7
Lbs. Weaned/Cow Wintered	482.7	553.6	(70.8)
Weight per Day of Age (lbs.)	2.71	2.68	0.03
Labour Hours per Cow	11.5	7.4	4.1
AUM's/Cow Wintered	7.8	7.0	0.8
Feeding Season Days	179.5	183.5	(4.0)
Tonnes Fed per Cow (as-fed)	4.26	3.50	0.76
G rowth (weaning weight)	527.7	588.6	(61.0)
O pen Cows (%)	4.4	8.3	(3.8)
L ength of Calving Period (days)	95.1	85.9	9.2
D eath Loss of Calves (%)	2.8	2.3	0.5

Starting the Process

Knowing your own cost and returns profile is so important. Comparing your figures against peers within your grass-type (or your competitors at the provincial level) allows you to:

- < identify significant differences, and
- < differentiate between items needing short term (within year) attention vs. those requiring longer term planning and adjustments.

If you have your own numbers, pencil them in. If you don’t, this comparison should give you incentive to do so. Benchmarking is the first step in identifying opportunities to change or fine-tune your

operation, with the goal to improve your bottom line ... Where do you fit in?

What Do the Numbers Say?

When we compare unit production costs between the two groups, for the low profit herds:

- < combined feed & pasture costs are \$0.157/lb. weaned (\$75/cow) higher,
- < cost of labour, both paid and family, are \$0.104/lb. weaned (\$50/cow) higher, and
- < fixed costs (eg. term interest and depreciation) are \$0.090/lb. weaned (\$43/cow) higher.

Just for these items, the bottom group averaged \$0.35 per lb. weaned (roughly \$168/cow) higher!

On the physical production side, the lower group:

- < weans 71 lbs. less per cow,
- < has a marginally better calf crop percentage,
- < uses roughly 4 hours more labour/cow,
- < requires modestly more grazing AUMs, and
- < provides about 3/4's of a tonne/cow more feed (as-fed) to the herd ... although, this difference could be due to feeding silage vs hay.

This comparison shows clearly that there is room for improvement in Alberta cow herds. By doing this for yourself, with your own "on farm facts", you will be able to identify areas for improvement in your operation, ... or simply identify constraints that may, or may not, be "fixable" in either the short or long run in your operation.

Where to Next?

The next steps are to:

- < move forward into the benchmarks in more detail to see how the (per unit) cost savings were achieved,
- < examine the productivity ratings to see what can be done to improve physical performance (in other words, produce more lbs. of weaned calf for at, or near, the same cost),
- < consult with reference sources (farm magazines, research reports, extension production specialists, etc.) to find alternatives that suit your production program and reduce unit costs, increase productivity, or both,

< pencil out how these alternatives might affect your unit costs, in the short term and over the longer term, and

< work out a plan to systematically incorporate these alternatives into your operating plan.

This will start a dynamic process, building from:

- < partial budgets (assessing change options), to
- < enterprise budgets (assessing changes to cow/calf profitability), to
- < farm level income statements, balance sheets and cash flows (assessing short and longer term changes in farm profitability and risk exposure), and ending with
- < "benchmarking" against yourself. Use your own year-to-year information to follow the progress you've made in your herd's physical and economic performance.

The end result will be greater control of your business and improved profits.

The August "Cattlemen" magazine contains an article titled, "Surf the Beef Cycle to Higher Profits" based on an interview with Harlan Hughes, an extension specialist from North Dakota. Hughes' theme, based on his work with U.S. producers, is that high prices come and go, but operations that focus on being consistently "low-cost" are more profitable in the long haul. The article wraps up with,

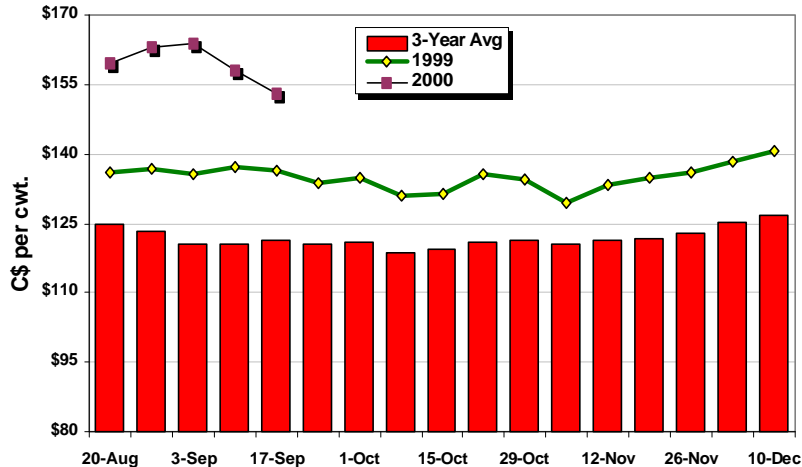
"Hughes' last bit of advice is to not get complacent during times of high feeder cattle prices. Always strive to be a low-cost producer by concentrating on the unit cost of producing 100 lbs of calf. Avoid focusing on weaning weights because they tell you little about the profitability of your operation unless you've factored in the cost of getting that higher weaning weight. Remember, if you're producing on very low costs, your profit margins are that much better during the good times."

Know where you're at ... benchmark your cow/calf operation!

Market Watch

Northern Alberta 5-600 lb. Feeders

Weekly Average Fall-Run Steer Price



Source: Canfax, Economics & Competitiveness Division, AAFRD

Cattle markets have posted some lofty gains thus far. With the fall run kicking into high gear prices have come under some pressure lately. For the moment tight feeder supplies and low feed costs seem to be offsetting the feedyard manager's desire to restore operating margins. The downside looks to be about 15-20% off the August peaks, somewhere in the \$1.40 to \$1.50 per pound range. Keep in mind you don't have to move your calves now to get them sold! A little marketing this fall can go a long way.

One of the hardest decisions this fall will be deciding what to do with heifer calves -- do you hold them back in hopes of enough good years ahead, or sell them now? Either way, leaving a nickel on the table today may seem like a small amount in relative terms, but producers should try to ensure they get the most out of these good times.

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:
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So What's This All About?

Knowing where you've come from is critical in charting where you're going. Alberta cow/calf producers are increasingly aware of the value of knowing their own costs and returns as a key component in managing their businesses.

Alberta Agriculture, Food & Rural Development (AFRD) has a rich history in research, information development and extension. By now you've heard a fair amount about AgriProfit\$ and CowProfit\$. To clarify what these initiatives are "all about", I'll describe each briefly and note how they're related. This will help you make best use of the information, technology and expertise AFRD has to offer.

The AgriProfit\$ program has served Alberta's agriculture industry for many years. It is an analysis, benchmarking and research program offered through AFRD in Edmonton.

- C Producers complete forms on each farm enterprise they want analyzed, with the assistance of a trained interviewer.
- C Farm information is logged into a confidential database in Edmonton.
- C Participants receive detailed business analyses on their cow herd, individual crop, forage and grazing parcels, plus farm financial reports.
- C The pool of producer information is used to create benchmark information for use by producers. These are in the same format as individual reports allowing direct comparison.
- C With these reports in hand, consultations with AFRD farm management and production specialists are typically far more productive.
- C The database is also used for further research into the economics of producing agricultural commodities in the Province (eg. cow/calf operations),
- C Benchmark and research information is also valuable to AFRD extension, research and program staff, producer organizations, agribusinesses, and educational institutions.

AFRD research and extension staff recognized long ago the value of "on-farm" information and quality benchmarks in supporting producers' decision-making. At the same time, producers' information and decision-making needs are very

diverse. Although the AgriProfit\$ analyses fit the bill in most cases, a simpler alternative was needed, especially for those just starting to analyze their operations.

The CowProfit\$ initiative was the answer. It is designed as a starting point for producers to develop and use their own basic cost and returns profiles with the main emphasis on cow herd "dollars & cents". It has software, information and business management training components.

- C CowProfit\$ software is for use by producers on their own home computers.
- C Information requirements are generally simpler ... the emphasis is on getting producers comfortable with generating and using their own farm numbers.
- C Training sessions are being organized this fall for producers interested in learning how to use the software and then how to apply their analyses.
- C Information packages and benchmarks are being put together to complement the initiative.

How are these initiatives related? CowProfit\$ development was lead by AFRD specialists with assistance from AgriProfit\$ staff.

- C Calculations and reports are directly comparable. AgriProfit\$ benchmarks can be used directly by CowProfit\$ users.
- C Producers familiar with CowProfit\$ can easily "contribute" their information to the AgriProfit\$ program ... supporting research into the economics and management of cow/calf businesses. This will be valuable to Alberta producers in their future management and decision-making
- C AgriProfit\$ or CowProfit\$ analyses are sound bases for consultation with AFRD extension staff.

What's this all about? ... a way for you to improve your "Profit\$" from your cow herd and your farm!

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