



Editor's Corner

As we move into the fall, our thoughts turn to evaluating last year's business performance, then putting operational plans together for the upcoming year and beyond. Our eye casts out a bit further into the future, looking for indications of what's in the cards in the intermediate to long term.

In this issue, Zoia Komirenko has put together an overview of some key industry events, their implications for the Alberta beef environment, and some thoughts on how this may spin into strategic choices for cow/calf and feeder cattle producers in the Province. In my mind, Zoia has hit on the elements that will define profit opportunities here in

Alberta for the next few years. I encourage you to mull over her logic, consider how these events may apply to your business, and set out some business change strategies to take advantage of the potential profit opportunities.

The "So What ...?" column builds on one of Zoia's themes, that business choices will be enabled and/or constrained by one's own unit cost of production. I've posed the question, "What's In It For Me?" to highlight the benefits of participating in the *AgriProfit\$* program. An *AgriProfit\$* analysis will help you create your own "information of strategic value".

Dale A. Kaniel, Editor

Information of Strategic Value

Zoia Komirenko, Livestock Economist

The Alberta cattle industry is best described by the word, "dynamic". Key profit drivers, both here and globally, seem to be in a constant state of flux. In this business environment, there are two options to manage a business:

- live for today, produce what you produce, hope to be profitable, or
- look for the opportunities of tomorrow and strategically shape and lead your business there.

Astute managers follow the second route. They understand that while they do not control weather, market prices and cattle cycles, they certainly have control over their own assets, resources, and, in the most part, unit costs.

These managers pursue "Information of Strategic Value", insights that affect choices of what they produce and how they produce it. They observe events, distill out the short and long term implications, and define the potential business opportunities. They seek out messages about production and business structure choices that position them for cost reductions, market effectiveness and acceptable risk exposure.

Over the past few years, four key events have occurred in North America that have created significant opportunities for Alberta cattlemen.

#1: Drought in the Southern U.S.

Severe moisture shortages have plagued the key

cow/calf regions in Oklahoma, Texas and northern Mexico over the past few years. Forage and grazing lands have suffered, and herd reductions, to compensate, have been drastic. Over the past five years Texas and Oklahoma alone have pared their beef cow herds by around 1.11 million head, equivalent to about 70 percent of Alberta's herd!

What's the message of strategic value? Cow herd inventories are low and liquidation of the US cattle herd will likely continue spurred-on by the drought. Some experts believe drought pushed off the herd expansion phase in the US for at least couple more years. Even if it were to rain in the southern U.S. now, and producers began to hold back heifers for breeding, it would be at least three years before calves were available for sale. Calf supplies will be tighter, prices - higher.

#2: Drought in the U.S. Midwest

The summer of 2012 brought significant drought to the US Midwest. Corn yields will be reduced dramatically, expected to average in the range of 127 bu/acre. With shortened supplies anticipated, prices are moving in the opposite direction, currently spiking to the \$8/bu mark.

Up to 70 percent of pastures in Corn Belt and Great Plains region are rated at poor to very poor condition. Tightening feed supplies will put considerable pressure on costs of backgrounding

and finishing cattle, as well as basic herd maintenance. Lack of fall grazing in the Midwest cuts off some backgrounding options. Higher feed grain prices increase cost of gain.

What's the message of strategic value? Price side optimism on calves and feeders will be buffered somewhat this fall as related to U.S. conditions. How much they will be pushed back by high cost feed grains and a stronger Canadian dollar is under debate. It is likely, however, Alberta prices will be strong, certainly stronger than previous years.

#3: Catch-Up Time in Alberta

Alberta's summer started off with cool weather and lots of rain followed by a warm, dry period. The soil has retained moisture well, with 81 percent of the province rated at good or excellent levels at the end of August. Similarly, more than three quarters of hay and pastures are rated as good or excellent. Hay quality and yields have been very good in the province so far, although we have seen a few dry and wet extremes.

What's the message of strategic value? The better part of the Province has "healed" from drought, feed inventories are good and pastures are healthy. Producers will have choices about what to do with their forage resources. The \$64 question is, "should they be used up short term, feeding calves, or should they be invested for the long term, building up the cow herd?"

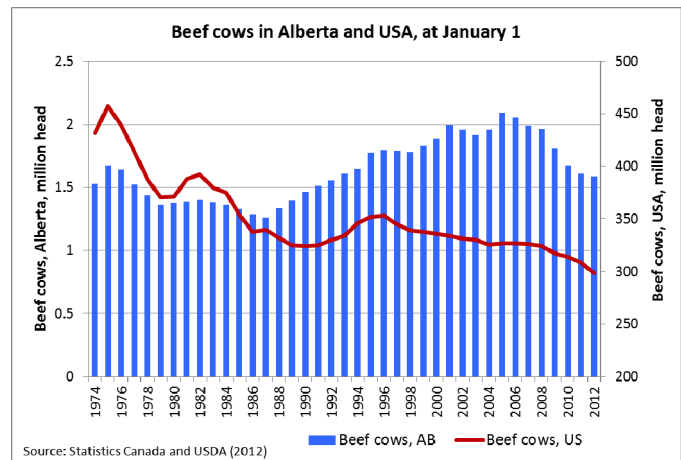
Higher prices of cattle in the near term also present an opportunity to re-trench financially. Paying down debt to more comfortable levels is an option. So, too, is leveraging asset acquisition and upgrades using current cash flow.

#4: Where are we at in the "Cattle Cycle"?

Price signals arising from short cattle supplies have done their job. Locally, heifer retention is on the rise, signaling the beginning of consolidation. The expansion phase in Alberta may still be couple of years away as high cattle prices drive up the value of replacement breeding stock. Higher feed grain prices also buffer the "expand" message.

Similar logic holds for the U.S. herd, but they have a couple key differences:

- the U.S. lags behind Canada regarding its stage in the cycle, i.e. not ready to expand yet, and
- drought and feed price pressures will delay their progress towards expansion.



What's the message of strategic value? Other things remaining equal, Alberta producers will have a head start on their U.S. counterparts in positioning their businesses for the pending expansion phase, while prices are rising!

Distilling the Messages

"Strategic" implies looking out further than one production cycle. This is where choices are made regarding capturing **short term profits** vs. preparing the business for **future profits**. Looking at the big picture, the ultimate question is, "What does all of this mean to me and what should I do?"

The distilled messages are:

- calf prices should be rising the next 4 - 7 years,
- over the next year, cattle feeding margins may be positive ... will depend on my cost of gain ... and will be riskier,
- over the next year or two, there may be profits in grain production ... will depend on my cost per bushel ... and will be riskier,
- forage and grazing supplies locally should be plentiful enough to support an increase in herd size or feeding activity,
- breeding stock values should be on the rise, and
- producers have the opportunity to get their herd size, systems changes and cost efficiency measures in place during a rising price period.

Following the adage, "always deal from a position of strength", what you and your farm's resources do well will help define your strategy of choice.

What will your strategy be?

In the face of uncertainty, we often try to hedge our bets, waiting a year or two while taking on shorter term actions that we readily see the profit in. In so doing, however, we may be foregoing a

longer term venture that delivers longer term, larger and more sustainable profits. For clarity, extremes of choices are assessed at two levels – land use and beef production.

A greater focus on beef production will make demands on land use. Marginal or “swing” acres will be the first targeted. The choices are to use your land to raise:

- cash crops for sale, or
- forages and grazing for own use.

Choosing the cash crop option implies that you feel that a series of years of cropping is more profitable and less risky than converting (back) to forage and grazing, when valued at market.

The beef production strategy choices amount to using your feed and grazing supplies to:

- background and/or finish feeders, or
- support and/or grow your cow herd.

Choosing the feeding option implies that you feel that a series of short term actions (feeding cattle) is more profitable and less risky than re-investing in the core business of keeping cows and producing calves.

To be clear, the longer term investment in the cow herd implies forage and/or grazing resources are directed to expanding the cow herd (to use the capacity of your business). Along with this shift, debt and/or cash flow resources would have to be directed to facilities or systems changes that make the business more cost effective. Herd expansion without specific cost improvement measures will not provide sustainable future margins.

The assessment of the best strategy for you will hinge on your estimate of profitability and risk associated with each option, laid out side-by-side, to compare which may be better for your business.

Critical Support Information

Critical to the assessment is the knowledge of your costs of production, including:

- cost per lb. weaned for your cow herd with your current production practices and systems

- cost per lb. weaned for your herd’s budgeted production practices and systems
- cost of gain in drylot and/or grass
- cost per bushel of cash crops,
- cost per tonne of feeds, and
- cost per AUD (animal unit day) of grazing.

On the market side, you will have to anticipate the average and variability (risk) for prices. Finally, the choice of strategy is highly dependent on a tally of your business’ strengths, weaknesses and financial position.

Home Stretch

Pursuit of “information of strategic value” has uncovered some substantial profit opportunities running out over the next few years. These can be captured by defining and implementing a profit based strategy. One avenue would see the sale of calves at weaning (except replacements), guarding of forage and grazing acres and supplies for herd expansion, and investment in cost-saving systems change and herd expansion. The other route would involve proceeding as you have in the past, growing some crops, feeding some calves and keeping some cows. Which strategy would net the best expected profits and risk for your farm, added up over the next 7 years? When you’re used to collecting strategic information, you’ll find these choices get easier to make.

Zoia Komirenko

Livestock Economist
Economics & Competitiveness Division
780-422-5027
zoia.komirenko@gov.ab.ca

Would you like to receive the “*AgriProfit\$* Newsletter for Alberta Cattlemen” directly by e-mail? Just drop me an e-mail to: dale.kaliel@gov.ab.ca and I’ll put you on our e-mail list!

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

by e-mail: dale.kaliel@gov.ab.ca
or, by mail: #302, 7000-113 Street, Edmonton, Alberta T6H 5T6

by phone: (780) 427-5390

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If you’d like to learn more about and/or participate in our research & business analysis program, please contact me at the above.



So What's ... In It For Me?

(Why Would I Do an AgriProfit\$ Analysis on My Business?)

This is the time of year when your *AgriProfit\$* team is busily preparing for the upcoming program season. We're enlisting new and returning producers, and organizing for the on-farm interviews to collect the information that will be processed into business analysis reports for each. Our more experienced *AgriProfit\$* participants are familiar with the "how's and why's" of using the management information in their reports, but we spend a fair amount of time with newer folks addressing the question of "what's in it for me?"

What's in it for producers?

While participation in the *AgriProfit\$* program is free-of-charge, it does require an investment in time from producers. As it is essential for *AgriProfit\$* participants to see direct value in return for their time, each receive:

- a detailed economic analysis of farm enterprises of their choosing, driving at unit production costs and returns for their commodities,
- a "whole farm" analysis, revealing financial performance, strengths and weaknesses,
- benchmark analysis, laying out their own productive, economic and financial progress over time, as well as comparisons to "peers".
- newsletters, bulletins and analysis tools, based on standardized *AgriProfit\$* information.

Participants are in the position to measure performance, and take active management control.

How can *AgriProfit\$* help producers?

The link between *AgriProfit\$* and farm business success can be summed up by two phrases:

1. "*You Can't Manage What You Don't Measure!*"

To reduce unit costs and improve profitability, the first logical step is to measure the "current position". A basic business analysis, including key enterprises and a roll-up to the farm financial position, is a starting point. Your analysis and budgets are *based on your farm*. Each year of analysis adds another dimension in measurement, showing progress, opportunity for change, and/or potential areas of strength and weakness.

2. "*Who's in Control of this Business, Anyhow?*"

For all intents-and-poses, without a business

analysis a farm directs itself. Knowledge of unit production costs and financial performance helps producers focus, strategically, on necessary short and long term choices and changes. It provides a basis to measure success, and how each choice improves farm profits, with acceptable risks. The manager is now in control.

How is my information used?

The confidentiality of individual producer information is paramount.

In addition to business analyses for participants, pooled producer information is used in benchmarking, applied analysis, and decision tool support. The focus is on creating "knowledge nuggets" and decision aids based on real farm information.

Doesn't my accountant do this?

Although you may get similar farm level information from your accountant, it:

- often masks things you could do to manage for profit within your operation.
- doesn't deliver unit costs of production.
- is typically not comparable to broad-based industry economic benchmarks and analysis.

These differences may seem small but can make a big difference in how effective you can be in using your own "on-farm facts".

Does *AgriProfit\$* have local partners?

AgriProfit\$ staff work closely with local forage and applied research associations, adding value to local trials and demos, and bringing the economics and business management messages home.

Home Stretch

An *AgriProfit\$* business analysis is designed to *measure* so producers can *manage*. The focus is to deliver information and critical thinking so farm managers can control their business future. If you would like to sign up to *AgriProfit\$*, or have questions, don't hesitate to contact me by phone (toll-free using the 310-0000 line), or by e-mail.

Dale A. Kaliel

Sr. Economist: Production Economics

Phone: (780) 427-5390 Fax: (780) 427-5220

dale.kaliel@gov.ab.ca