I prefer a production system highly dependent on soil, sunlight, rainfall, and our ingenuity and inventiveness, than one highly dependent on fossil fuels and equipment.
The prices of fuel and equipment have risen significantly faster over time than the market value of cattle. Therefore, I prefer a production system highly dependent on soil, sunlight, rainfall, and our ingenuity and inventiveness, than one highly dependent on fossil fuels and equipment. Most of the following suggestions will tie back to this statement, as well as the fact that cattle prices tend to be cyclical and will most likely decline again at some time.

In my travels, I have visited with many ranchers who struggle to be profitable, even with the good prices of the last few years. At the same time, I talk with ranchers who are having the highest profit years of their lives. Nonetheless, this latter group of ranchers assumes that cattle prices will go down and that the price of purchased inputs will continue to rise, largely because of fuel and equipment prices. As a result, they are paying attention to several, or even all, of the following factors:

• **Ranch size.** There are significant economies of size in ranching. Unless there are sources of income besides cattle, small ranches struggle to be profitable and sustain a good standard of living. However, small ranches run by people with off-farm jobs can be very profitable if they keep it simple, and keep overhead low. In fact, they can compete very well with medium-sized ranches where the operators only work on the ranch.

• **Cows per worker.** Except for land-associated costs, many ranches have more costs that align with the number of workers than with the number of cows. I know of many ranches that run 800-1,200 cows, or cow and yearling equivalent, per worker. That keeps labor, housing, equipment and horse cost per cow quite low.

• **Acres per cow.** My experience says it's usually much less expensive to increase carrying capacity by developing stock water, adding fence and managing grazing than by purchasing more land. As you add cows, you don't have to add people or other overhead. In addition, grazing management can be a very enjoyable challenge.

• **Fed feed vs. grazed feed.** There are very few situations where grazing more and feeding less won’t be more profitable. This may mean you begin to graze former hay land. As I travel about giving talks to groups of cattlemen, I usually hear two kinds of responses. There are those who contend it’s impossible to reduce feeding, and those who tell me about the financial progress they’re making by grazing more and feeding less. I’ve personally been involved in, and have seen, thousands of acres of hay land turned to pasture. In a few cases, pastures that previously produced winter hay are now pastured in the summer, while the cattle are wintered on what once was summer range.

• **Keep debt-to-equity ratio low.** I’ve seen too many cases of a rancher wanting to develop water and buy some fencing to graze better, but his operation’s debt-to-equity ratio was too high to borrow money. Low debt gives you the flexibility to change and adapt to new circumstances and to use new ideas. While the debt may be due to outside causes, too much debt in relationship to size is ultimately the reason that most businesses fail. They get in too deep before recognizing that changes are needed.

• **Cut overhead to the bone.** Most ranches have too much stuff – equipment, buildings and facilities. It just doesn’t take very much stuff or many people to run a good-sized ranch.

• **Improve gross margin.** Gross margin is total dollar returns minus direct costs. Total returns come from how many units you’re able to sell and how well you sell them. In addition to selling well, gross margin is driven by the wise use of inputs. Don’t use the input if you aren’t confident it will pay for itself, plus make a profit.

I like to feel pretty secure that I will get back at least $1.50 for every $1 spent on direct inputs. This includes things like feeds, supplements and healthcare products. Some will do much better. Some won’t. Be careful!

**A Closer Look: Reduce Cow Costs, Increase Revenue**
Every item in the above list is a metric that should be measured and recorded, and then reviewed at least annually to measure progress.

Let’s talk improvement
Now let’s consider ways to improve the items listed above.

• **Good grazing management** is a powerful tool for increasing carrying capacity, animal productivity and...
labor efficiency, and reducing the need for fed feed. I combine nutrition planning with grazing planning because I want to graze during most or all of the year, and supplement to take off the very roughest edges that nature gives.
I will feed cattle when snow depth or severe crusting makes it impossible to graze, but I won’t give in easily. Cattle can graze in tougher conditions than most of us think. I will help them through extreme wind chill, especially the younger ones.
I also will supplement protein when I am expecting them to graze low-protein feeds, and I will strategically supplement mineral. To me, that’s all part of grazing management.

• **Large herds** make grazing management more cost-effective, both in water and fence cost, as well as improved labor efficiency. It’s just easier and quicker to check 500 cows in one herd than 500 cows in five herds. It’s important to have a sufficient number of pastures or paddocks per herd, but large herds enable you to get by with a lot less fencing and stock water sites.

• **Heterosis**, or hybrid vigor, has so many advantages that it deserves consideration on most ranches. Remember, heterosis is most effective where selection is least effective – traits of low heritability that include reproduction and survivability. Using the advantages of both selection and heterosis, while combining the best aspects of two or more breeds, makes for really good cattle.

• Be careful in the **selection of bulls and the seedstock provider**. The seedstock provider is your genetics supplier. He should thoroughly understand your objectives and be able to provide the bulls to meet those objectives. Remember, the bulls determine what the herd will be in a few years, unless you are buying replacement cows or heifers.

• **A good culling program** combined with an effective, low-cost heifer development program will result in very few cow problems, as well as a short calving season with uniform calves that are very marketable. It will also reduce the need for labor to handle cattle problems.

• **Marketing** must be attended to continuously, so always be thinking about how to sell each animal to its highest and best use. This doesn’t imply that you sell animals individually, however. You can group similar animals and ages to sell to best advantage.

• Use **good animal handling** practices to improve production, reduce risk and improve buyer acceptance of your product. Learning good technique is another area that can be very challenging and fun. Your buyer will like your cattle better, too.

Monitor for performance

Monitoring can be done for each of the above practices to make sure you are getting desirable results, or to provide warning that things aren’t going right. Rangeland and pasture conditions, along with plant growth rates, can be measured. Weaned calf crop percentage, pregnancy rate, stocking rate, weaning weight and yearling gain also can be measured. It might require a little more subjectivity to evaluate animal handling procedures, but it’s important that you also measure progress there as well as you can. You also want an early warning if things aren’t going right.

*Burke Teichert, consultant on strategic planning for ranches, is retired as vice president and general manager of Deseret. He can be reached at burketei@comcast.net.*
Costs of production were much more important in explaining profit differences between producers than selling weight or price of calves.

Production costs, rather than selling weight and price, were the most important contributors to profit differences between high- and low-profit cow-calf producers, according to Kansas State University economists.

Cow-calf cost and return records for the 2006-2010 period (Kansas Farm Management Association Enterprise Analysis) were divided into high-profitability operations (HPO), as well as medium and low (LPO) categories, based on annual net return to management (NRM). NRM is gross income minus total costs of production/cow.

HPO and LPO firms had an average NRM of $-75 and $-420, respectively, whereas annual return over variable costs were $117 and $-146/cow. The magnitude of these differences allowed economists to determine which production and management parameters account for the relative profitability differences between groups.

HPOs were larger (187 vs. 85 cows/herd), sold slightly heavier calves (587 vs. 573 lbs.), and allocated more labor to the livestock enterprise (47% vs. 32%) compared to LPOs. This may account for the slightly higher calf-selling price ($1.46/cwt.) and higher percentage of calves sold/cow (2%) for the HPOs. In total, HPOs generated $95/cow more income than LPOs.

Despite the production advantages, HPOs had a large cost advantage over LPOs, in all cost categories evaluated. Total annual production costs were $250/cow less for HPOs compared to LPOs. Almost ¾ of the NRM difference between HPO and LPO producers was due to cost-of-production differences. Total cost of production had a high negative correlation to profit (-0.82). High total costs lead to lower profits.

Feed costs, which accounted for nearly half of all total costs, were the single largest cost difference ($87/cow) between HPOs and LPOs. As feed costs increased, profit/cow decreased. There was a strong positive correlation between feed costs and total costs. While positive, the relationship between feed cost/cow and calf-selling weight wasn’t particularly strong.

Herd size and feed cost were also only weakly correlated, but larger herds did tend to have lower feed cost/cow. Overall, producers having a high percentage of their total costs as feed were more profitable.

One factor that was extremely important regarding profit and cost differences was producers’ management of non-feed costs. Those with a lower percentage of total costs as non-feed costs had lower total cost, resulting in greater profits.

Interest and labor ranked second and third in total cost/cow with the differences between HPOs and LPOs being $34 and $60, respectively. Machinery and depreciation were also major cost components with differences of $26 and $18/cow. Strong positive correlations between total cost and labor, depreciation and machinery occurred. Larger operations also tended to have an advantage in these categories.

Herd size favored the larger operations for profit as larger operators tended to have lower costs per cow for most cost categories. Being a large operator, however didn’t guarantee low costs and higher profits, as a number of mid-sized to smaller operations were competitive and profitable. Profit for larger herds increased up to about 400 cows and then began to decrease.

Producers who specialized more in the livestock enterprise relative to a crop enterprise tended to have lower costs and be more profitable.

Costs of production were much more important in explaining profit differences between producers than selling weight or price of calves. A great deal of variability exists among producers, which indicates room for improvement. Benchmarking against other producers to identify strengths and weaknesses is a big step to determining where to focus management efforts to improve profitability.