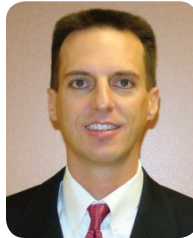


Discover and Control Cow Costs

by Troy Applehans

Managing a cattle operation, large or small, requires many different skills, talents and abilities. In today's world a higher business acumen may very well be the most important item for long term sustainability. If a producer's annual business plan does not compare and forecast cow costs from one year to the next, it's impossible to know what to expect and budget for.



buildings, cattle, operating loans, etc. These costs typically only go away once a note is paid in full.

Variable Costs - Short Term or Annual:

This is primarily production costs and they occur yearly. These costs represent the greatest opportunity to enhance efficiency and reduce costs. Smart shopping and early planning are typically the most effective means of reducing overall production expenses.

Figuring cow costs is not an exact science and can be done several different ways depending on the amount of available information and if a specific value for certain items, such as labor, is able to be determined. Developing a baseline for comparison from several years of data should be a top priority and costs should be figured the same way every year.

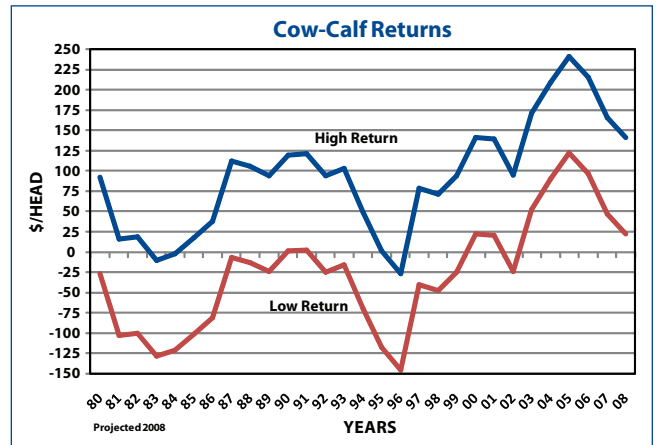
A successful operation knows its costs and keeps records, tracks and evaluates operational and other expenses. This information along with receipts from the sale of calves, culled cows, hay, etc. allows producers to evaluate returns per animal, returns per acre, return on investment or assets and performance evaluations.

Controlling and minimizing costs is the key to profitability over the long term. Comprehensive and accurate records will greatly assist in management decisions. The various types of costs most programs will incur are listed here.

Fixed Costs - These are year-to-year, ongoing expenses that change very little, such as land payments, property taxes, leases, insurance, salary, etc. These costs are difficult to reduce.

Variable Costs - Medium to Long Term: These could include land costs, but mostly relate to equipment,

Again, the key to realizing whether or not progress is being made by reducing expenses or at least maintaining costs is to calculate them the same way every year in order to make year-to-year comparisons. From the start include as many expenses as possible and figure your rate of return. Cattle-Fax data since 1980 has shown that producers who minimize cow costs have the highest rate of return. Over time the average difference in rate of return of high return producers vs. low return producers is \$120 per head on an annual basis.



Hay Prices Are at Record High

On a national basis, hay prices are record high. Those prices are the result of very tight supplies and strong demand, as all feedstuff prices are closely related based on nutritional components. That is, current hay prices largely reflect high energy and protein values as indicated by corn and soybean meal prices.

For the 2007-08 U.S. hay crop-marketing year, the national average, all hay price will be about \$130 per ton. The previous record of \$110 a ton was set just last year.

This crop year, the national alfalfa hay and other hay price are forecast to be record high at over \$135 per ton and over \$115 per ton, respectively. Hay prices differ regionally due to the high transportation costs.

Since 2004, U.S. hay production has steadily declined. U.S. hay production in 2006 was the smallest since 1988. In 2007, U.S. hay production increased to about 140 million tons but was still the second smallest since 1993. At the beginning of the 2007-08 hay crop-year (May 1), U.S. hay stocks were just 15 million tons, the smallest since 1960. With normal winter weather, U.S. hay stocks as of May 1, 2008, may not increase much. Current forecasts put the May 1 national hay stocks at 15.4 million tons, just 3 percent above 2007.

Forecasts suggest U.S. hay acreage harvested in 2008 will increase some. Overall, national average hay prices are expected to remain well above a year ago for the balance of the 2007-08 crop-marketing year.

Source: Livestock Marketing Information Center