



BeefTalk: What Is the Real Value In a Beef Herd?

To know our real opportunity to make a profit, we should know what the gross margin is when we sell calves, bulls and cows connected to the enterprise.

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Usually, when businesses buy and sell inventory, one of three things happens.

Under option one, the item sells for more than it was purchased for and one has the opportunity to make money. The second is the break-even option. This is when an item sells for the same as the purchase price.

The last option is selling an item for less than the purchase price, which some refer to as depreciation. Option two and three are both losers because there is no opportunity to make money.

This change in value has a huge impact in business and often is referred to as “gross margin.” If a producer wishes to spend some money to make money, then a profitable gross margin is the correct starting point and an increased value of the product is desired.

If a producer buys calves at \$500 per head and projects selling the calves at \$600 per head, then the producer has \$100 to work with to attempt to make a profit. The \$100 is not profit, but rather is the available budget one has to work with.

Within the process of buying short-term cattle, the concept of gross margin is more common than within the cow-calf segment of the industry. However, the principle still holds true.

Cow-calf producers invest in cows. To know our real opportunity to make a profit, we should know what the gross margin is when we sell calves, bulls and cows connected to the enterprise. This is money committed or invested in cattle versus cash out.

How does one calculate gross margins within the beef operation? Jerry Tuhy, instructor for the North Dakota Farm and Ranch Business Management Education Association, explained the process that is utilized to generate gross margin within the cow-calf enterprise.

Jerry noted the gross margin reported in the program’s 2008 annual report includes depreciation as well. He says the calculation for the 119 beef enterprises (average herd size 163.4 cattle) showed a gross margin of \$466.19 per cow.

These beef producers sold \$151.44 worth of calves per cow and transferred out \$372.21 of calf value (typically replacement heifer calves that will transfer back in following breeding and steers or extra heifers that are backgrounded). These herds averaged \$523.65 worth of calf value generated per cow, as well as \$111.25 in value for the cull bulls and cows.

Images

Gross Margin Per Cow	
North Dakota Cow-calf Enterprise	
Beef calves sold	\$151.44
Beef calves transferred out	\$372.21
Market cows and bull value	\$111.25
Miscellaneous value	\$7.07
Total value generated	\$642.57
Purchased replacement value	\$80.69
Transferred replacement value	\$67.73
Total value for inventory replacement	\$148.42
Inventory change (depreciation)	-\$23.56
Calculated cow-calf gross margin	\$466.19

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Graphic

Although minor, hedging, butchered beef and miscellaneous income provided an additional \$7.67. The total value generated per cow for these operations was \$642.57.

Jerry reminds us that not all that value is available to write checks against. In other words, the inventory needs to be maintained, and these herds spent, on the average, \$81 per cow on replacement bulls or cows and transferred in their home-raised replacements valued at \$67.73 per cow.

A total of \$148.42 was spent to maintain the breeding herd. In addition, an inventory change of \$28 per cow was a drop in asset value from the beginning of the year to the end of the year for the cows and bulls.

Essentially, for both cows and bulls, market value at the end of their productive life is considerably less than their value when they entered the herd.

"Add up all the pluses and minuses and you get gross margin," Jerry says.

As was stated earlier, the gross margin value for the average cowherd in this data set was \$466.19. The bottom line, direct and overhead expenses and labor/management charges must come out of the gross margin value.

The cow-calf enterprise is not any different from any other buy-and-sell game. In the end, you need to have enough margin within the enterprise to accommodate all that you want to do, including making a living.

That is important. Just ask Jerry Tuhy.

May you find all your ear tags.

Your comments are always welcome at <http://www.BeefTalk.com>.

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Attachments



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