

So Where Does the Money Go?

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Times when its ok to say “Oh !#\$*”

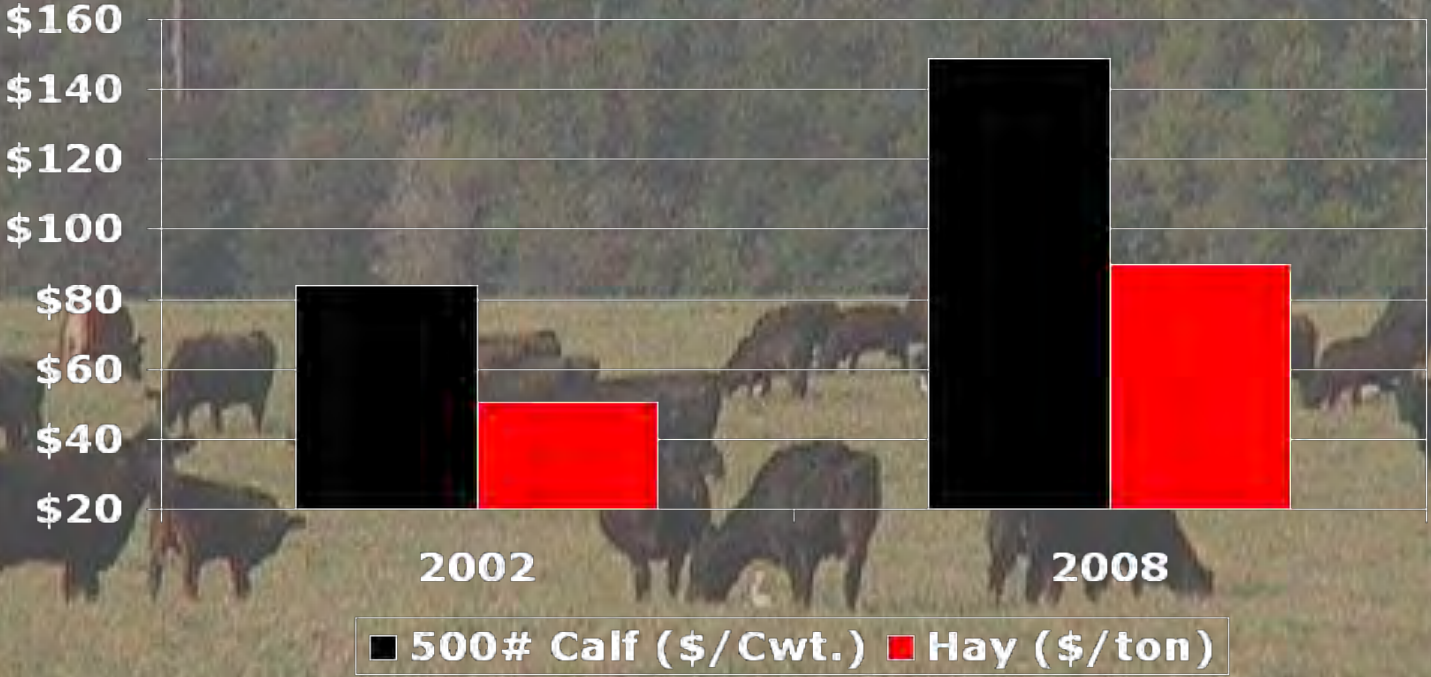




Worth1000.com

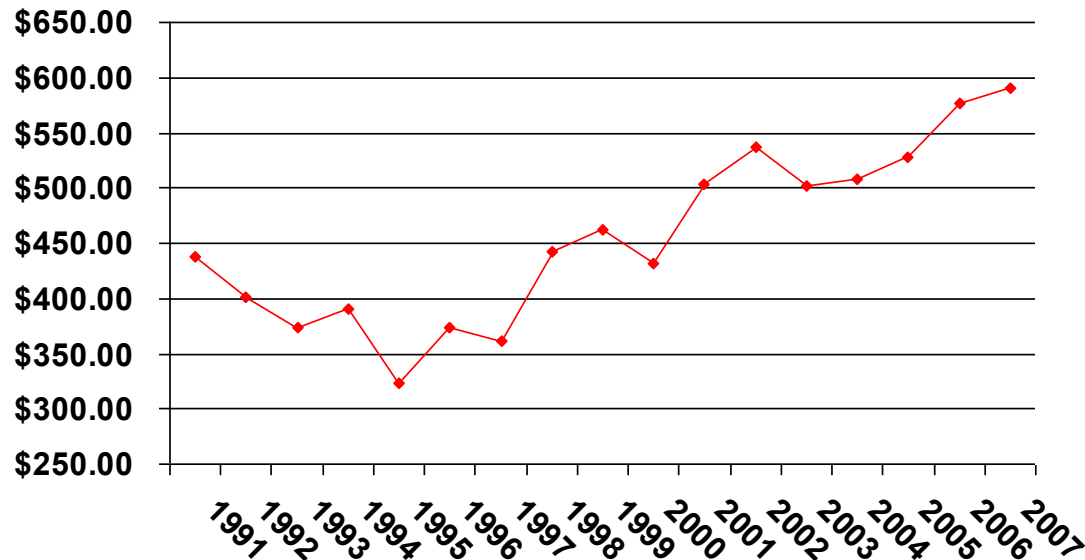


Cost of Production 2002-2008



What Does it Cost to Keep a Cow?

Costs per Female
Summary of Southwest SPA Database
1991 to 2007



Source: Stan Bevers, TAMU



The Fallacy of Cow Cost

- Most requested number from cattlemen and agents.
- Doesn't account for:
 - Calf weight
 - Calf crop percentage



What Price Do I Need?

$$\$/\text{Cwt.} = \frac{\text{Variable} + \text{Fixed Cost}}{\text{Pounds or Cwt. Produced}}$$



What Costs Should I Include?

- Variable costs
 - Feed (including hay)
 - Pasture Costs (including fuel, oil, and repairs)
 - Vet & Med
 - Utilities, other fuel, building & fence repairs
 - Labor
 - Operating interest



What Costs Should I Include?

- Fixed Costs
 - Depreciation & interest or payments on breeding stock,
 - + Bulls
 - + Cows
 - + Replacement heifers
 - + Working horses



What Costs Should I Include?

- Fixed Costs
 - Depreciation & interest or payments on facilities and equipment.
 - + Fences
 - + Facilities
 - + Farm and hay equipment
 - + Pickups (all of them)
 - + Cattle and hay trailers



What Costs Should I Include?

- Fixed Costs-continued
 - Taxes & insurance
 - +Real estate
 - +Property
 - +Liability & Umbrella



What Costs Should I Include?

- Fixed Costs-continued
 - Other overhead expenses (accountants, clerical, etc.)
 - Profit/Management
 - Family Living

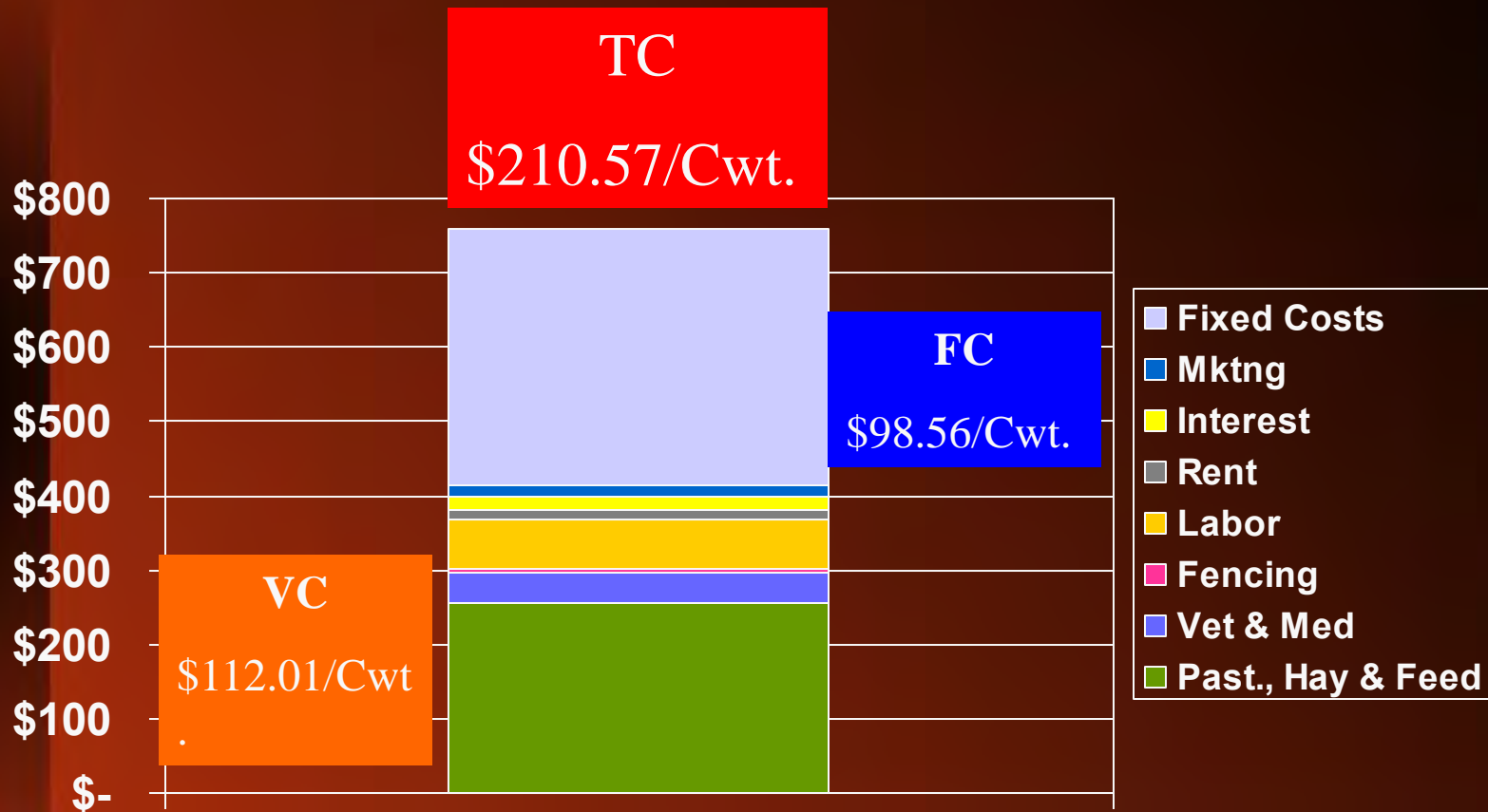


Example Budget for Central Florida

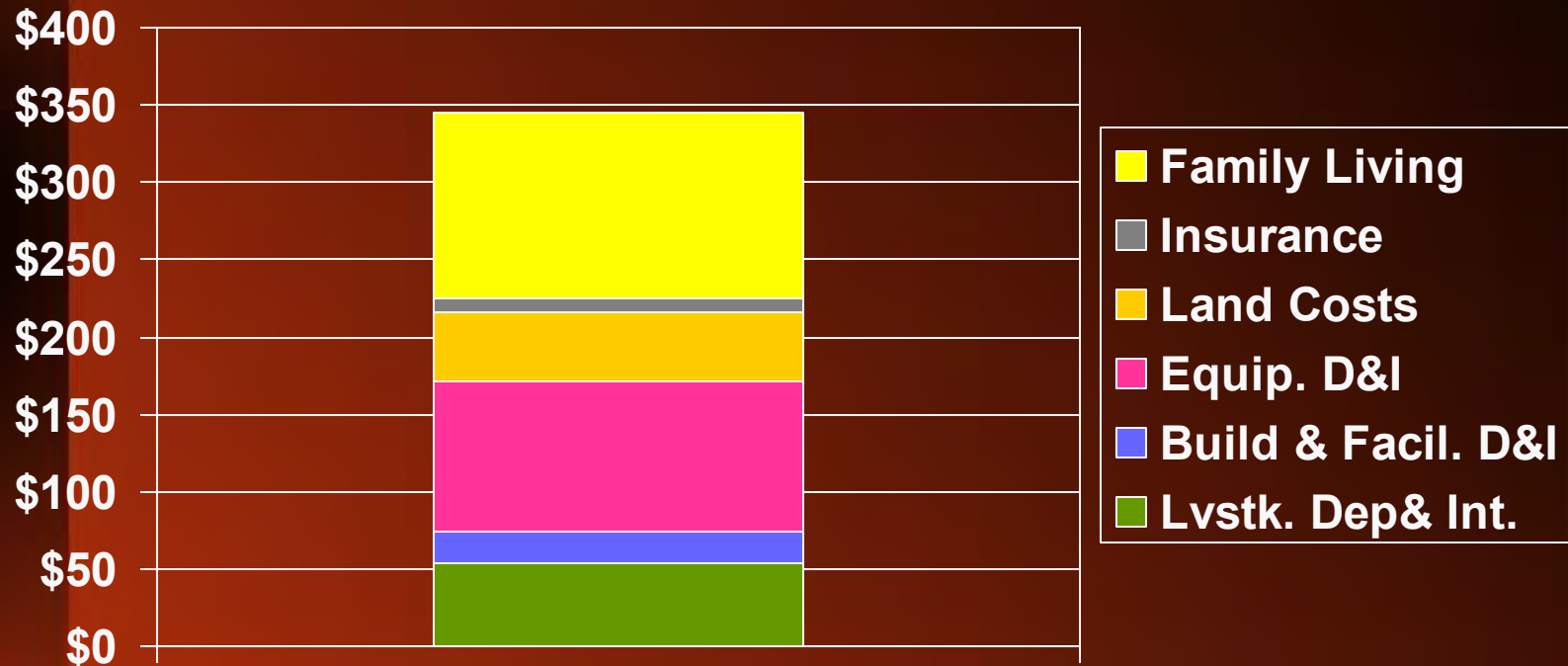
- 250 cows
- 2.0 acres of bahia pasture per cow
- 500 total acres
 - 300 owned
 - 200 rented @ \$20/acre
- 1 paid laborer
- Mix of new and used equipment
- Baler payment
- Family living expenses of \$30,000 per year



Total Costs of Cow-Calf Production



Breakdown of Fixed Costs



Major Hang-ups

- Equipment
- Shared assets
- Family living
- Land



So how do I Allocate Equipment, Overhead and Family Living Costs?

- Percentage of net income
- Percentage of revenue
- Amount of use



Equipment Depreciation and Interest

DETAIL FOR EQUIPMENT USED IN COW-CALF AND HAY OPERATIONS

Item	Cost	Salvage Value	Useful Life	Depreciation	% Used in Cow-Calf	%Used in Hay	Cow-Calf		Cow-Calf Depreciation	Hay Depreciation
							Avg Investment	Hay Investment		
90 hp Tractor-2wd	\$25,000.00	\$5,000.00	15.00	\$1,333.33	100.00%	0.00%	\$15,000.00	\$0.00	\$1,333.33	\$0.00
130 hp Tractor-MFWD	\$40,000.00	\$8,000.00	10.00	\$3,200.00	100.00%	0.00%	\$24,000.00	\$0.00	\$3,200.00	\$0.00
Front-end loader w/spear	\$5,500.00	\$1,100.00	15.00	\$293.33	100.00%	0.00%	\$3,300.00	\$0.00	\$293.33	\$0.00
15' Rotary Mower	\$10,000.00	\$2,000.00	12.00	\$666.67	100.00%	0.00%	\$6,000.00	\$0.00	\$666.67	\$0.00
14' Disk Harrow	\$4,000.00	\$800.00	10.00	\$320.00	10.00%	0.00%	\$240.00	\$0.00	\$32.00	\$0.00
12' Grain Drill	\$5,000.00	\$1,000.00	10.00	\$400.00	10.00%	0.00%	\$300.00	\$0.00	\$40.00	\$0.00
8' Disc Mower	\$7,500.00	\$1,500.00	7.00	\$857.14	20.00%	80.00%	\$900.00	\$3,600.00	\$171.43	\$685.71
17' Double Hay Rake	\$5,000.00	\$1,000.00	8.00	\$500.00	0.00%	100.00%	\$0.00	\$3,000.00	\$0.00	\$500.00
17' Hay Tedder	\$5,000.00	\$1,000.00	8.00	\$500.00	0.00%	100.00%	\$0.00	\$3,000.00	\$0.00	\$500.00
20' Hay Trailer -5	\$6,875.00	\$1,375.00	15.00	\$366.67	0.00%	100.00%	\$0.00	\$4,125.00	\$0.00	\$366.67
Large Round Baler	\$25,000.00	\$5,000.00	7.00	\$2,857.14	0.00%	100.00%	\$0.00	\$15,000.00	\$0.00	\$2,857.14
27' Broadcast sprayer	\$4,000.00	\$800.00	10.00	\$320.00	100.00%	0.00%	\$2,400.00	\$0.00	\$320.00	\$0.00
F-250, Powerstroke/Brush	\$45,000.00	\$9,000.00	7.00	\$5,142.86	75.00%	50.00%	\$20,250.00	\$13,500.00	\$3,857.14	\$2,571.43
Cattle trailer	\$15,000.00	\$3,000.00	10.00	\$1,200.00	100.00%	0.00%	\$9,000.00	\$0.00	\$1,200.00	\$0.00
Other 4	\$0.00	\$0.00	5.00	\$0.00	0.00%	100.00%	\$0.00	\$0.00	\$0.00	\$0.00
Other 5	\$0.00	\$0.00	5.00	\$0.00	0.00%	100.00%	\$0.00	\$0.00	\$0.00	\$0.00
Other 6							\$0.00	\$0.00		
Total	\$202,875.00	\$40,575.00		\$17,957.14			\$81,390.00	\$42,225.00	\$11,113.90	\$7,480.95



Equipment Annual Payments

DETAIL FOR EQUIPMENT USED IN COW-CALF AND HAY OPERATIONS

Item	Cost	% Used in Cow-Calf	%Used in Hay	%Financed	Interest Rate	Years	Total Payment
90 hp Tractor-2wd	\$25,000.00	100.00%	0.00%	0.00%	8.00%	5	\$0.00
130 hp Tractor-MFWD	\$40,000.00	100.00%	0.00%	50.00%	8.00%	5	\$5,009.13
Front-end loader w/spear	\$5,500.00	100.00%	0.00%	0.00%	8.00%	5	\$0.00
15' Rotary Mower	\$10,000.00	100.00%	0.00%	0.00%	8.00%	5	\$0.00
14' Disk Harrow	\$4,000.00	10.00%	0.00%	0.00%	8.00%	5	\$0.00
12' Grain Drill	\$5,000.00	10.00%	0.00%	0.00%	8.00%	5	\$0.00
8' Disc Mower	\$7,500.00	20.00%	80.00%	0.00%	8.00%	5	\$0.00
17' Double Hay Rake	\$5,000.00	0.00%	100.00%	0.00%	8.00%	5	\$0.00
17' Hay Tedder	\$5,000.00	0.00%	100.00%	0.00%	8.00%	5	\$0.00
20' Hay Trailer -5	\$6,875.00	0.00%	100.00%	0.00%	8.00%	5	\$0.00
Large Round Baler	\$25,000.00	0.00%	100.00%	50.00%	8.00%	5	\$3,130.71
27' Broadcast sprayer	\$4,000.00	100.00%	0.00%	50.00%	8.00%	5	\$500.91
F-250, Powerstroke/Brush	\$45,000.00	75.00%	25.00%	50.00%	8.00%	5	\$5,635.27
Cattle trailer	\$15,000.00	100.00%	0.00%	50.00%	8.00%	5	\$1,878.42
Other 4	\$0.00	0.00%	100.00%	50.00%	8.00%	5	\$0.00
Other 5	\$0.00	0.00%	100.00%	50.00%	8.00%	5	\$0.00
Other 6							
Total	\$202,875.00						\$16,154.44



Items that are usually not included (but should be)

- F-250 Powerstroke with brushguard and mud-flaps
- Cattle trailers
- Management and/or
- Family Living



What About Land?

- Local rental rates
- Rate of return on land
- Taxes + some return



So How Can I Control My Cost?

Genetics

Health

Nutrition

1. Determine the amount you have to work with.
 1. Cash
 2. Liquid assets
 3. Non-liquid assets
 4. Loans
2. Identify your costs.
3. Rank them in order.
4. Focus on the larger number.
5. Understand the difference in cutting costs and cutting corners.



Practical Ways to Lower Costs/Cwt.

- Reducing Variable Costs
 - Lower feeding costs
 - Reduce hay usage/costs
 - Reduce pasture costs
- Reducing Fixed Costs
 - Lease vs. buying equipment
 - Purchase vs. buying hay
 - Share equipment among enterprises
 - Increase production



Two Alternatives

1. Reduced stocking rate and lower inputs
 - No fertilizer on pasture
 - Reduce stocking rate from 2.0 acres per cow to 2.5 acres per cow
2. Additional cows on leased land
 - Add 100 cows
 - Rent additional acres for \$20 per acre



Analysis of Alternatives

Item	Base	Reduced Stocking Rate	Additional Cows
Number of Cows	250	200	350
Acres Owned	300	300	300
Acres Leased	200	200	400
Total Acres	500	500	700
NVC (\$/Cwt.)	\$108.01	\$72.62	\$109.80
FC (\$/Cwt.)	\$98.56	\$123.20	\$79.43
TC (\$/Cwt.)	\$203.05	\$191.41	\$187.06
TC (\$/Cow)	\$737.84	\$695.35	\$679.68



Key Observations

- Reduced stocking rates may work well if overhead is low.
- If overhead is high, expanding production may work better.



Summary

- You have to know your costs before you can control them.
- Know not only total costs but also how the costs are allocated.
- Include everything that is associated with the operation including family living, equipment and land.
- When looking for areas to reduce expenses, focus on the big numbers first.

