Key Performance Indicator Targets for Beef Cow-calf Operations

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Key Performance Indicators (KPI)

• Performance Measures of Key Activities happening as a result of your management.
• Is management fulfilling the goals of the ownership.
• Tracked over time.
Key Performance Indicators

- Production KPI follows Beef Cow-calf SPA
- Financial KPI’s follow Farm Financial Standards Council approach for accrual financial statements.
- It is important to calculate them correctly.
Key Performance Indicators

• Need to balance the use of KPIs.
• To focus on one, at the expense of another, will not improve the overall performance of the ranch.
KPI Targets

• Some are specifically for Cow-calf enterprises, while others cover the entire ranching operation.

• Many ranches are involved in multiple enterprises.
  – KPI for all activities.

• Targets have been identified through analysis of individual ranches (Cow-calf SPA, Managerial Ranch Accounting, etc.), experience, and research.
13 KPI Targets

• 1 Production KPI
• 8 Financial KPIs
• 4 Integrated KPIs
• There are an unlimited number of “other” KPIs. Each ranch should determine those activities that are critical to your ranch’s success and determine the best method to calculate a performance.
• Others are not any less important
Production KPI

Pounds Weaned per Exposed Female

• 460 pounds per Exposed Female
  – Should be a KPI for any ranch that owns breeding cows with the intent of weaning calves.
  – Product of weaning percentage and weaning weights
  – Total pounds weaned divided by all females that were exposed and intended to be bred.
Production KPI

**Pounds Weaned per Exposed Female**

460 pounds per Exposed Female

<table>
<thead>
<tr>
<th>Year</th>
<th>Ranch 1</th>
<th>Ranch 2</th>
<th>Target</th>
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<tbody>
<tr>
<td>2009</td>
<td>450</td>
<td>350</td>
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<tr>
<td>2015</td>
<td>450</td>
<td>500</td>
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</tbody>
</table>
Percent Normal Rainfall

Ranch 1  Ranch 2

Percent Normal Rainfall Effect on Pounds Weaned per Cow Exposed

Lbs Weaned per Cow Exposed

\[ y = -0.0049x^2 + 1.6637x + 350.35 \]

\[ R^2 = 0.2377 \]
Integrated KPI

Cost per Cwt. of Weaned Calf

- **Less than $170 per Cwt.**
  - **IMO**: The most important number for ranch management
  - **Incorporates**:
    - Productivity
    - Total expenses it took to get that production
  - Every ranch has different resources; this KPI shows how efficiently those resources are being used to create productivity.
  - Total expenses (less “other revenue”) divided by total pounds weaned.
Integrated KPI

Cost per Cwt. of Weaned Calf

Less than $170 per Cwt.
Financial KPI

Rate of Return on Assets (Cost Basis)

• Greater than 1.5 percent
  – Bottom line for ranch owners
  – This KPI should be measured over time.
  – Net income (plus interest paid) divided by total assets
  – This is the driving force behind the long-term decline in breeding cow numbers.
Financial KPI
Rate of Return on Assets (Cost Basis)
Greater than 1.5 percent

- Ranch 1
- Ranch 2
- Target
Integrated KPI

Revenue per Breeding Female

• Greater than $950 per Breeding Female

  – Not just the value of sold weaned calves
  – Total revenue from weaned calf sales, retained calf values, gains/losses on the sales of breeding stock, and the accrual adjustments on inventories.
  – To compare, it should not include sales from other ranch enterprises
    • Hay sales
  – This target can and will move.
Integrated KPI

Revenue per Breeding Female

Greater than $950 per Breeding Female

- Ranch 1
- Ranch 2
- Target
Financial KPI

Operating Expense as a Percent of Total Revenue

• Less than 75 percent of Total Revenue

  – Controlling expenses can be one of the most important exercises for ranch management.
  
  – Operating expenses = All expenses except interest and depreciation.
  
  – Given 75 % target, the ranch has 25% of the ranch revenue to

1. Pay interest
2. Escrow depreciation expenses
3. Retain as net income
Financial KPI

Operating Expense as a Percent of Total Revenue

Less than 75 percent of Total Revenue

Ranch 1  Ranch 2  Target
Financial KPI

Net Income as a Percent of Total Revenue

- Greater than 5 percent of Total Revenue
  - That portion of total revenue that is being retained as net income.
  - Four things that a ranch can do with revenue:
    1. Pay operating expenses
    2. Pay interest expense
    3. Escrow depreciation expenses
    4. Retain as net income
  - Corresponds with previous KPI
Financial KPI

Net Income as a Percent of Total Revenue
Greater than 5 percent of Total Revenue

- Ranch 1
- Ranch 2
- Target


Values: 0%, 20%, 40%, 60%

Financial performance trend graph showing net income as a percent of total revenue from 2009 to 2015 for Ranch 1, Ranch 2, and the target.
Financial KPI

Labor and Management Expense as a Percent of Total Revenue

- Less than 15 percent of Total Revenue
- One of the most variable expenses
- Hired Management versus Owned Labor
- Include salaries, wages, taxes, benefits, and chuck.
- For every dollar of ranch revenue, the ranch is spending $0.15 of that dollar to pay L&M.
- Total L&M divided by Total Revenue generated on the ranch
Financial KPI

Labor and Management Expense as a Percent of Total Revenue

Less than 15 percent of Total Revenue

- Ranch 1
- Ranch 2
- Target

Financial KPI

Nutrition Base Expense as a Percent of Total Expenses

• Between 30 and 45 percent of Total Expense
  – Reproduction is the most important factor in ranch productivity, thus, herd nutrition is imperative.
  – No two ranches have the same resources.
  – Identify three types
    • Expenditures for purchased nutrition
    • Expenses associated with raising nutrition
    • Costs associated with grazing
  – These three divided by Total Expense
Financial KPI

Nutrition Base Expense as a Percent of Total Expense

Between 30 and 45 percent of Total Expense

Ranch 1
Ranch 2
Integrated KPI

Total Investment (Market Basis) per Breeding Female

• Between $7,500 and $12,500
  – Focus on the Ranch Owner
  – Land is the greatest influencer.
  – Total Assets divided by total number of breeding females as of January 1.
  – Assumes some land is already controlled
  – Demonstrates the real difficulty for beginning ranchers
  – Potential heirs looking at this figure and wondering..
Integrated KPI

Total Investment (Market Basis) per Breeding Female

Between $7,500 and $12,500
Financial KPI

Asset Turnover Ratio (Cost Basis)

• **Greater than 15 percent**
  
  – Given the highly capitalized nature of ranching, it is vital for the manager to generate the greatest possible net income.
  
  – This KPI details how many revenue dollars each dollar of asset is creating.
  
  – **Target:** Every dollar of asset is generating $0.15 of revenue.
  
  – Seems low, but that demonstrates the nature of ranching
Financial KPI

Asset Turnover Ratio (Cost Basis)

Greater than 15 percent

- Ranch 1
- Ranch 2
- Target
KPI targets I didn’t show you

• Current Ratio
  – Greater than 2.0

• Debt per Breeding Female
  – Less than $500 per female

• Equity to Asset Ratio
  – Greater than 50%
KPI targets Not Common to All Ranches

• Hay Production Cost per Ton
  – Less Than $150/ton

• Cost of Gain on Small Annual Pasture

• Others?
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