

## **You Manage What You Measure: Cow-Calf and Retained Ownership Ranches**

Ranchers are now and for the future facing a cattle prices-cost squeeze. The challenge is to take on the reality to find ways to be more cost competitive. I share suggestions on ways to reduce costs by measuring “what is going on” and implementing change at the ranch level. Tools are identified for your management information system (MIS) to identify cost saving solutions. The objective is to help the ranchers’ use their MIS to produce reports “so the numbers do the talking” that motivate changes that will lower costs.

The market power is in the concentrated packers, retail and feedlot sectors. The pricing power is not at the cow-calf level. **It never will be.** It’s the price taker sector of the beef supply chain.

The beef sustainability movement does not address ranch profitability or profit information sharing across the supply chain. The cost and financial performance information widely published on the cow-calf sector is wrong as major costs are not included. Most only report cash operating expenses. Not including depreciation and compensation to owner operator labor and management or family living withdrawals. Two major costs of cow-calf production. None of the widely published cow-calf profitability can calculate return on assets (ROA) because they do not have complete expense data nor balance sheet assets and liabilities data. **Ranchers must calculate their own costs and net incomes** including their compensation covering family living withdrawals. The cow-calf and retained ownership beef sector will continue to require top managers to deal with the ups and down in cattle prices. **So much for the reality check.**

**The positive** is there are always ways to lower costs. Beef producers will become more competitive in as there is a commitment to continued improvement by ranchers and their service providers.

Community banks, The Farm Credit System, National Livestock Credit Corporation are examples of lenders committed to meet lending needs with experienced professionals living in ranch communities. These professionals understand your ranch business and reality you face.

The following are helpful tools and ideas on ways to reduce costs and make your cow-calf and retained ownership activities more profitable. There is not a simple solution to solve complex issues facing ranchers. Solutions are different for each ranch. Managing costs will be a long-term challenge. The first thing to realize is you and your family **are not in this business alone** and the importance of your service providers. I provide a “to do” list to put all of you to work. As if you don’t have enough to do. Over the years I’ve been educated by ranchers and their service providers. I share a bunch of ideas with you as a few may help you be more successful. I congratulate many of you who can go beyond my suggestions.

### **Your Service Providers: Find Ways to Effectively Use Them**

When choosing your service, providers be demanding. Be willing to change providers if they cannot address your needs. Always address the question: Do they know your business and demand that you provide good data and information in a timely manner before giving you answers to your questions?

Can they explain the numbers they generate in a helpful way? You want to be a more informed decision maker because of the services they provide. Also, always recall that you pay for what you get.

- **Your CPA’s** knowledge of agriculture beyond IRS compliance is important. Can he/she assist you in developing accrual adjusted financial statements that measure true profitability and return on assets (ROA)?

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- **Your Family Lawyer**- Does he/she keep you updated on your estate transfer plan?
- **Your Lender** – Competitive interest is only one factor of choice of lender. Is he/she the decision maker that can respond to your needs in a timely manner and effectively communicate? Can he/she understand your financial and production performance and give you guidance on your lending needs and ranch business plan?
- **Your veterinarian** – Don't just let the vet do his/her "work" and leave the ranch. Pick his/her very good brain for ways to improve. Can he/she guide you in compliance and take a holistic view of your herd health and nutrition program?
- **Your Feed Salesperson** – Should be one person away from a correct and better deal!
- **Sellers of Iron** – You don't need many things that depreciate. Avoid the "iron disease".
- **Insurance Salesperson** – check your program annually to find a better deal.
- **The Marketing Service Providers** – Are they working with you or just those buyers that they see nearly every day? Do they provide information so you can effectively evaluate market alternatives? Can they provide details on reporting needs for different marketing options? Can they address your needs for price risk management?
- **Your landlord** – It's a tough land lease market. Lease rates based on 2014-2015 cattle prices are out of date. Negotiate a lower grazing cost. Share cattle price information with the land owner(s) as many will need a reality check.
- **Your Land Grant University** – Researchers and Extension professionals address many topics across most states.

All service providers are more effective if you provide them data and information that show your performance results and business plans. Your management information system (MIS) is a risk management tool that meets your needs but also serves your service provider information needs. Lenders benefit from sound and timely accounting reports, cattle and feed inventories and financial and production performance information. Veterinarians are much more effective advisors when they have accurate reproduction and inventory data and details on your health protocols and performance results.

### **Reward your bookkeeper while you ask for more summary reports!**

The best business information **TEAM** is the husband and wife that work together doing the bookkeeping, reporting and communications with the CPA and lender. A successful TEAM has a systematic way of allocating "special uninterrupted time" working on the books. Your management information system (MIS) is increasingly important for cost management. The time spent doing bookkeeping, financial planning, cash use control and budgeting grows. Deal with the business and family living withdrawals with the same commitment. It's a cost-effective way to use TEAM time. Don't make reporting a thankless job. Daily data recording and all the follow up gets ignored. Then when the report is in demand it's a crisis. The question is why was it not done yesterday? Find ways to reward your bookkeeper!

For some ranches hiring bookkeeping services is a cost-effective step to provides timely reporting.

### **Tools to Facilitate IRS Compliance and Measure Ranch Performance**

- Doing your own bookkeeping offer tremendous advantages for cost control and can be achieved with a very low investment. These are tools to have in your MIS.
- Quick Books Pro™ for IRS compliance, cost and financial management
- The key is getting the chart of accounts right. Involve your CPA.
- See reference website with a guide setting up Quick Books Pro™

- Titles of Excel™ Spreadsheet decision aids as part of your MIS
  - SPA – measure cow-calf production and reproduction.
  - Beginning fiscal year inventories of cattle and feed.
  - Monthly reconciled cattle inventory
  - Feed fed record and reports
  - Grazing record and reports
  - Retained ownership projections and closeout
- Or commercial software for cattle production records and performance. CattleMax™ is a great example on a comprehensive cattle record system. See CattleMax.com

Land Grant Universities have many Excel™ decision aids available free of cost. Using your own data in these tools and doing “what if analysis” makes for a more informed decision maker. See the reference list source for spreadsheet sources.

### **To Do List - Prior Preparation Prevents Poor Performance**

- **Get as much done as possible as some changes can be made before December 31.**
  - Get all the cash information ready to file the IRS taxes – meet with CPA ASAP.
  - Take control of the date you have data together for filing tax return before the end of the fiscal year so you can make timely decisions.
  - Does your loan renewal when you have your information together?
  - Look at family living withdrawals – find ways to reduce them with family involvement.
  - Review and update your depreciation schedule and insurance policies.
  - Review the USDA Pasture, Rangeland and Forage Insurance Program [www.rma.usda.gov/policies/pasturerangeforage/](http://www.rma.usda.gov/policies/pasturerangeforage/)
  - A business can live on depreciation in the short run. IRS calculated depreciation is a poor estimate of depreciation. Use capital asset replacement cost or have the CPA calculate book depreciation with reasonable useful life and salvage value of assets.
  - Your historical based land grazing leased are too high given cattle prices. Lease rates must be renegotiated.
  - Make a list of critical of capital improve needs. There could be some tax or cash advantage of purchase timing but focus on critical needs that are cost effective.
  - Avoiding the “iron disease is a challenge” but a necessary component of cost savings.
  - Lenders don’t like unfavorable surprises any more than you do. Meet with financial information you have ASAP. Respond to their guidance in a timely manner.
  - Provide the earnings information to employees but also payroll tax and housing, utilities and benefits. Inform them that their compensation is beyond the monthly cash salary.
  - Employees need to know their total cost to the ranch, and their contribution to success.
  - Review all cattle and other production performance information with employees.
  - Family members involved in the business need the same information as hired employees.
  - Your time management is always critical. What does your self-evaluation tell you? Do you have your time use priorities right? Do you delegate responsibilities effectively? Do you avoid doing \$15 an hour job and missing \$250 an hour opportunity!
- Get Ready for the end of fiscal year closing to **measure real profitability using an accrual adjusted income statement. Match all revenue against all expenses not just cash!**
    - You need beginning and ending values for making accrual adjustments
      - Cattle and feed inventories
      - Prepaid expenses
      - Accounts receivable and payables

- Accrual taxes and interest
- Investment in growing crops

Work with you CPA to prepare balance sheet (financial statement) and an accrual adjusted income statement (P&L) for the current fiscal year and next years projected cash flow. If you don't measure profitability, you are in the danger of losing it.

▪ **Production Areas to Measure and Identify Areas for Change**

- Do the fiscal year SPA reproduction and start the next year with the breeding dates and pregnancy percent.
- Get a marketing results summary and next year's plans on paper.
- Project feed purchase needs and costs. Be ready to negotiate a favorable deal.
- Get your cattle health program down on paper. Have your veterinarian check it over.
- Determine the number of bulls and replacements needed for the next breeding season.
- Decide on employee training needs and your own to find new ways to do things. bet
- Commitment to continuous improvement is necessary for all involved.

**Get in place if not currently doing so.**

- A computerized bookkeeping system like "Quick Books Pro™
- One credit card and bank account for the ranch business.
- One other card and bank account for the family living withdrawals
- Set ground rules for the use of credit cards and bank accounts
- A business plan and keep it updated.
- If you have a budget, you have an idea of where your money is going if not, you'll wonder where your money went.
- **To not plan is a plan.**
- An estate transfer plan as it won't get any simpler.

**General Ideas to Think About to Make Your Ranch Business More Profitable**

Over my many years working with ranchers and their service providers I have been well educated by them. I've organized ideas in three areas: 1. Reduce costs. 2. Data and communications. 3. Define objectives and goals.

**1. Specific Target Areas to Look for Reducing Costs**

- Supplemental feed cost can be managed. Make sure the nutrition program is correct for cows of different condition, and reduce feed waste. See UNL decision aids in reference list.
- Cost of raised hay or silage. Often it is cheaper to buy, rather than raise, your own feed. What is your cost of raising your own feed?
- Readily available custom rates make calculating raised feed cost calculation a place to start. Machinery investment and associated cost are very high for limited production. Of course, custom hire is as option.
- Efficiency of the grazing system. Improve it, as this is a low-cost feed source.
- Unnecessary machinery and vehicles. Sell them, and the proceeds from the sale can be used in a variety of productive ways, including the purchase of more efficient equipment or the reduction of debt.
- Reduce operating expenses of vehicles. Using a mileage log and planning vehicle use to minimize mileage is very cost effective.
- CPA services. Spend the extra money to receive managerial financial statements. Your tax forms do not provide an accurate measure of profitability for the business.

- Spend time with your CPA. Review your managerial financial statements, depreciation and your tax management efforts. Do a projected summary in October. After it end of the year is too late!
- Summarize historical financial statement to documented your financial track record.
- Cattle health management program. Review with a veterinarian that understands the production and economics of your business. Cost saving on health programs can be very costly.
- Indirect costs or overhead costs can be managed. They are not as fixed and often communicated. Review to see what expenditures are really necessary.
- Keep the tax appraiser informed. Do not avoid the opportunity to argue your property valuations.
- Ignore publisher cost or profit data. **Cash profit (cash margin) is not a valid measure of real profit** or change in equity this is why return on assets (ROA) is not calculated in reports.
- Beef cattle sector cost developers often ignore self-employment and income taxes, returns to owner management and labor, indirect or overhead costs and depreciation.

### **Using Financial Data and Cost Calculation to Reduce Cost**

- Clearly identify which costs can be managed.
- For retained ownership know your cost of gain and value of gain and update full cost calculations in a timely manner. Breaking even in financial failure. Budget for a profit.
- Anticipate in advance what costs should be. Focus on the high-cost areas in your plan for cost control.
- Analyze costs and identify either extraordinarily large or small cost items for cost control or expenditure opportunities. Understand the negative consequence of reducing certain costs like herd health.
- When deciding to reduce cost, determine whether or not the reduced cost results in a greater reduction in revenue.
- When increasing expenditures, determine if the added cost will be covered by added revenue.
- Ensure that meaningful decision and performance evaluation information gets back to those who collect and record data. All employees need to see performance information, and everyone needs to provide ideas on how costs can be reduced.
- Express on a per breeding cow and per cwt. of calf weaned basis so the values serve as reference points. Turn cost data into meaningful management decision information.
- Budget for a profit on the basis of a complete cost of production including indirect or overhead costs.
- Monitor cattle markets carefully and budget marketing alternatives frequently.
- Develop marketing alliances and merchandise cattle to bring the top dollar by evaluating all markets. a
- Invest in profitable assets and technologies. Eliminate assets that do not provide for profitable returns. **Don't depreciate mistakes.** When you are in a hole quit digging.
- To minimize input cost, use volume and seasonal discounts. Be an informed negotiator.
- Make investments on a financially sound basis. Know your projected ROI.
- Do not invest for the sole purpose of reducing IRS taxes. It seldom makes financial sense to spend a dollar to save 28 or 32 cents in taxes.
- Remember, if you are not paying IRS income taxes, there is a good chance that your business is not profitable. After-tax profitability keeps you in business and provides equity growth.
- Find ways to empower your employees to increase their participation in decisions and be more accountable for clearly stated business objectives.
- Work on communication with everyone in the business. Written, accurate and timely summary information is most likely to be used.
- Make decisions based on your information and analysis, not on emotions or others' opinions.
- Develop written business goals, project financial statements and cash flows to achieve these goals.

- Update the business plan quarterly. Monitor projected versus actual cash flow.
- You need your own benchmarks and monitor them and share them with everyone in the business.
- Execution of the plan is the key. It is getting things done right and on time.
- Evaluate cash withdrawals from the business for family living or other activities. Answer the question “Can the business equity be sustained at the level of current and projected withdrawals?”
- Challenge researchers, extension, private firms and consultants to provide sound economic evaluations of their proposed changes in technologies and management practices.
- If a cow-calf operation is not profitable in the beef **commodity market** it is very unlikely that the business will be profitable in a branded or niche market that requires more intensive management and costs than commodity markets.
- Use your own numbers to determine if you want to participate in branded beef programs. Recall niche markets are about 95% marketing!
- Learn how to take the revenue and expense data generated for IRS compliance to generate cost of production, business profitability, for planning and information to meet lender’s needs.
- Land appreciation can improve the equity position but does not generate cash to pay bills.

### **Production and Financial Relationships**

- Key realities I’ve learned from ranchers.
  - Cow-calf profitability – it’s reproduction performance and cow longevity.
  - Retained ownership – you buy a profit.
  - Ranchers must calculate **their own costs and measure your profit.**
  - Breaking–even is a business failure. You can’t rebuild lost equity breaking-even.
  - I was never involved in a SPA that the rancher and I did not find a way to save money.
- Record and monitor supplemental feed use and cow condition scores.
- Small herd owners take a hard look at economics of your cow-calf enterprise. Would you net more income by leasing the land?
- Land owners have the option to lease land to cow or stocker yearling owners and avoid the price risk and operating capital requirements.
- Cold reality if you can make more money leasing than owning and operating cattle production then leasing your resources can be the best route to take. Simplify your life.
- If you can buy hay cheaper than you produce it yourself then get arrangements in place to buy the quantity and quality needed.
- For all leasing and forward purchase have a written agreement. In a cost-price squeeze environment minimize risk in every way possible.
- Don’t get caught in a “tunnel vision” mentality of not being able to do things differently. Make the effort to have the data to evaluate alternatives. **A plan not to change is a plan.**
- Using your data in spreadsheet decision aids is very cost effective. If it won’t work on paper, it most likely won’t work in practice.
- Cattle price data are readily available but must be localized to your situation, marketing commission, yardage costs, freight, shrink, price slides terms to calculated net for each alternative and category of cattle sales.
- A great deal of money can be made by having and implementing a top marketing system. The key is to have a net payweight price for alternatives. It’s one of those \$250 an hour job.
- Conform to the market demands. Look at the discount for un-weaned calves versus weaned calves.

- If you have an “excellent proven straightening out program” for high-risk un-weaned calves, look for a retained ownership of the discounted calves. One man’s problem maybe another man’s opportunity.
- The market place tells you if you are using the right genetics if they fit the production environment. Capture the benefits of heterosis. Although it requires more management.
- Either you are in control of your own marketing or someone else is in control and they are not necessarily looking out for you. Normally the buyer is in control and taking care of his/her interest.
- Source and age data on calves is a progressing management practice.
- Fully utilize your data generated for compliance with IRS to measure production costs and calculate the profitability of the ranch business with an accrual adjusted income statement.
- Many cow-calf producers have a “feed bag” mentality. If they overgraze or have a poor grazing management system, they cover their mistake by buying feed.
- We import beef from countries like New Zealand and Australia and South America. Their producers that have a “grazing mentality” where 100% of beef is produced from grazing. The grazing mentality will always produce beef cheaper than the “feed bag” mentality. This is why grazing land management is so important.
- AI technology is very cost effective for producing replacement heifers but requires a high level of management and commitment to details for high pregnancy rates.

### **When Measuring Performance Focus First on a Limited Number of Key Benchmark Measures**

#### **Cow-Calf**

Reproduction based on exposed females

- Pregnancy Percent
- Weaning Percent
- Average Weaning Weight
- Pounds weaned per Exposed Females
- Total Cost per Breeding Cow Unit (BCU)
- Net income and ROA

**Retained Ownership** – Raised or Purchased is a margin business. You buy a profit.

- Net Payweight Price or Calf In
- Average daily Gain (ADG)
- Grazing and Raised Feed Cost
- Total Unit Cost (TUC) of Production
- Cost of Gain
- Net Payweight Out
- Net Income and ROI

A second level with more details in closeouts for cow-calf and retained ownership can be useful.

## **2. Communications – Becoming a More Informed Effective Decision Maker**

- Attitude – make a business management commitment, measure and monitor progress toward written goals. There must be a felt need to expect change.
- Manage by objectives and measure goals achievements. Reward results! Even if it is a slap on your own back. See defining objectives and goals below.
- Make a commitment to continued improvement in all that you do.

- Identify the “over achievers” as a source of information and challenges. As they say fly with the eagles!
- Build on your strength and hire on your weakness.
- Always be committed to continued education. This starts with effective use of the Land Grant Universities research and extension.
- Encourage all children after college to work for someone else for a few years before coming back to the ranch business. The whole family and business will benefit from this approach.
- Don’t hesitate to hire private consultants to address areas of weakness. Complexity means it’s just hard to cover all areas. Outside experience and second opinions can challenge thoughts. Again, the comprehensive MIS can make outsiders more effective consultants.
- The web is a free library but use it with a cautious approach. Always cross check sources and facts.
- Find ways to always be positive. Always start a report with the positive things!
- Encourage everyone in the family and ranch business to be solution oriented.
- Top managers do the right things; get them done right and on time.
- Persistence to execute a plan or solution can never be undervalued.
- Have a business plan and update it annually.
- Start the written marketing plan when bulls are selected and after pregnancy testing.
- One rancher’s problem is another rancher’s opportunity. Just have your numbers to know the difference.
- Make sure you have a price risk management system that meets your needs and risk tolerance.
- Insure all involved are Beef Quality Assurance (BQA) certified. It creates a positive commitment.
- Traceability includes source and age verification requires careful planning, execution and records.
- Health records are a necessity for antibiotic use compliance.
- A highly productive grazing system is key to cost effective cow-calf production.
- Take advantage the of the cattle rumen. Grazing is low cost compared to any harvest forage so year around grazing is optimal.
- Do not overstock grazing land. Use soil testing to guide fertilizer use.
- Avoid production of hay – build a hay barn, buy hay and minimize hay feeding losses and hay.
- Record and monitor supplemental feed use and get feed quality analysis.
- Most small producers should buy replacements and use terminal cross bulls.
- Stay away from seedstock production.
- Minimize investment in horses if cows to pay their expense. Horses eat while you sleep.
- Develop an integrated system for total resource management including wildlife and recreation if it fits your resources and marketing skills.
- Adopt profitable or cost-effective practices (ensure added revenue is greater then added cost) that will reduce losses.
- Have a controlled breeding season that will optimize grazing land use, minimize purchased feed and result in high reproduction.
- Reproduction (weaning percent based on exposed females) is the number one production factor cow-calf producers must focus attention.
- Use proper herd health practices to insure sound herd health and participation in marketing alternatives. Have a written plan and get a veterinary review.
- Avoid industry fads that are not cost effective. Make your numbers inform you.
- The large difference in cost of production performance between same size herds helps validate the necessity to measure and manage for performance.
- Participation in cattle and grazing associations at all levels is important for the industry as well as cost effective when ranchers exchange ideas. Honest information comes from fellow ranchers.
- Take advantage of all USDA-FSA programs that are profitable for the ranch.

**Data and Communications**

- The costliest data is data collected is never used decision maker. Reporting is key to use.
- Timing of reports makes them either very valuable if on time to impact decisions but worthless if available too late to influence decisions.
- Piles of data do not create value. It’s the data processing and reports that are valuable to decision makers. Implementation of course is the necessity to make data collection cost effective!
- Collect data with a management report and use in mind.
- The one-page analysis or business written report is the most valuable communication report.
- **One-page reports** have a higher probability of being read and used in decision making.
- Evaluate management software reports on reports generated not on the data collected.
- Being informed makes you a better negotiator.
- If you know your feed salesperson by first name you are likely buying too much feed. If you know your cows’ name you are also likely spending too much feed (Words of a Texas rancher).
- If you beat on the numbers using the right data and methodology **they will confess**.
- A confession means actions need to be taken to find a cost-effective solution. Cost effective means the added revenue or reduced cost offset the additional cost of the solution.
- Get contracts on paper as the written document is defensible and reflects thought by both parties.
- Text messages are pretty worthless for meaningful communications that require commitments.

**3. Guide to define Objectives and Goals: Manage by objectives and measure goal achievements.**

*Objectives* are general statements describing the desired achievement over time. Clear objectives have the following characteristics:

<b>Directional</b>	Moves you in the general direction of finding ways to complete mission
<b>Reasonable</b>	Intended accomplishments are practical and attainable
<b>Inspiring</b>	Outcomes are positive and challenging
<b>Visible</b>	Accomplishments are easy to imagine
<b>Eventual</b>	Long-term outlook (ten or more years) in fulfilling mission

*Goals* are specific statements describing what must be done to achieve objectives. **SMART Goals** define goal attributes as follows:

<b>Specific</b>	States only one intention
<b>Measurable</b>	An observation can be made to indicate fulfillment
<b>Attainable</b>	Realistic, yet challenging
<b>Rewarding</b>	Accomplishment must be valued to maintain persistence
<b>Traceable</b>	Traceable over a specific time period, strategic monitoring

## **References and Spreadsheet Tools Sources**

Alexander, Pita. “Farming Thoughts and Comments”. Alexanders Accounting & Advice for Agribusiness, Christchurch, New Zealand, June 30, 2016, [www.alexanders.net.nz](http://www.alexanders.net.nz)

Farm Financial Standards Council (FFSC). “Financial Guidelines for Agricultural”. 2021, Recommendations of Farm Financial Standards Council, [www.FFSC.org](http://www.FFSC.org)

## **Sources of Beef Cattle Spreadsheets:**

**Texas A&M University – Department of Agricultural Economics Beef Cattle Decision Aids**  
<http://agecoext.tamu.edu/resources/decisionaids/beef>

Helpful articles for many “Profit Tips” from the **University of Nebraska Lincoln (UNL)**  
<http://beef.unl.edu>

**UNL Beef Website** <http://beef.unl.edu/>, UNLV Beefwatch

**Kansas State University – Farm Management**  
<http://www.ksre.k-state.edu/agriculture/farmmanagement/>

**Oklahoma State University** <http://www.agecon.okstate.edu.extension/>

**Iowa State University** <http://www.extension.iastate.edu>