

Cow-Calf Economics

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2011-2012
Kansas State University

AG PROFITABILITY CONFERENCE

November 22, 2011

Harding Hall 4-H Building
Rooks County Fairgrounds
Stockton, KS

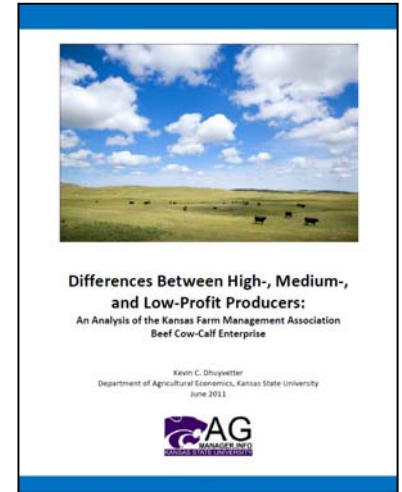


Kansas State University
Department of Agricultural Economics

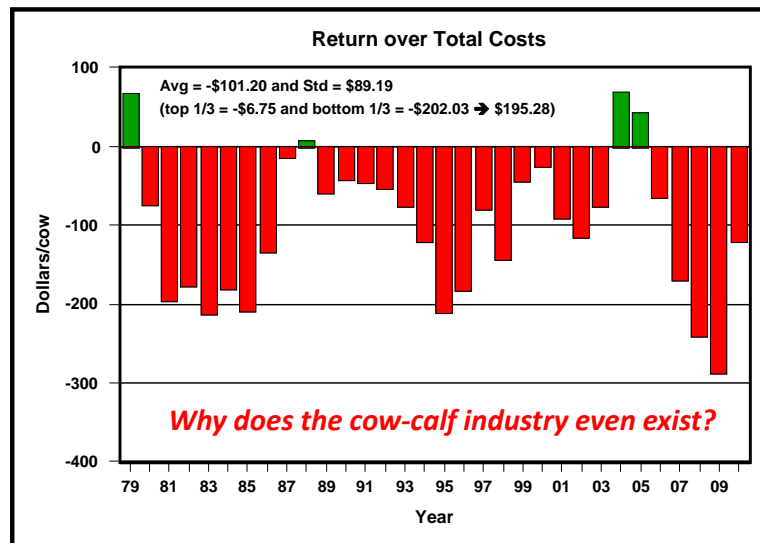


Cow-calf profitability drivers...

- Analysis of KFMA cow-calf enterprise analysis returns
 - 1979-2010 all operations (examine time effect)
 - 2006-2010 operations with at least three years of data (examine producer effect)
- Paper available on web (www.agmanager.info)

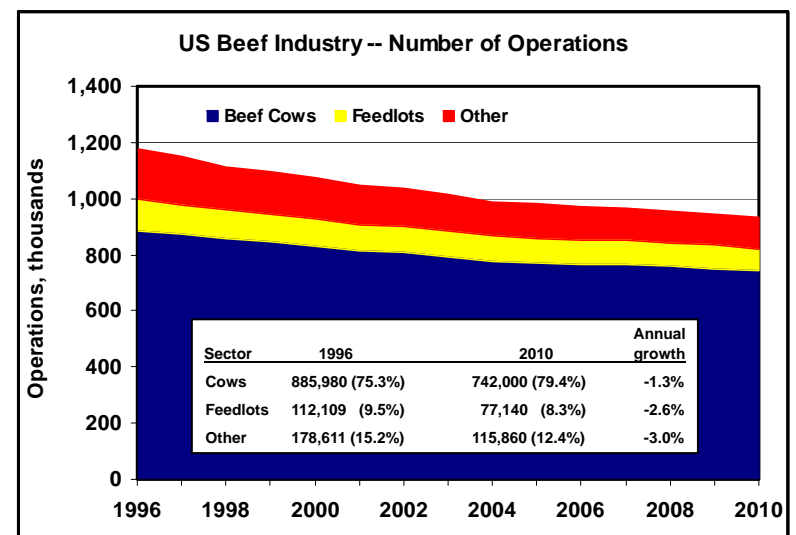


Average returns are highly variable over time...



Source: Kansas Farm Management Association (KFMA) Annual Enterprise Analysis Reports

Fewer operations in all sectors of the beef industry...



Financial importance of cow-calf operation...

Contributions to Income and Labor Input

Reason	Percent of Operations				
	Herd Size (Number of Beef Cows)				
	1-49	50-99	100-199	200+	All
Primary source of income	5.3	24.1	42.8	65.0	14.3
Supplemental source of income	78.0	68.3	50.9	31.7	71.9
Other	16.7	7.6	6.3	3.3	13.8

Source: USDA NASS APHIS, Beef 2007-08, NAHMS report.

One of the characteristics of the beef cow-calf industry slowing consolidation is that many participants are not necessarily motivated by economics...

Average herd size and distribution

Average beef cow herd size increased from 40.4 in 2000 to 42.3 in 2010, but averages can be somewhat deceiving...

Farm size (cows/farm)	Percent of operations		Percent of inventory	
	2000	2010	2000	2010
1-49	78.8	79.2	29.5	28.0
50-99	12.0	11.1	19.1	17.4
100-499	8.5	8.9	36.7	38.0
500+	0.7	0.8	14.7	16.6

Roughly 10% of the operations control over 55% of the cows (diverse cow-calf sector)



Returns are more variable across producers...

Beef Cow-calf Enterprise, 2006-2010 (min of 3 years)*

	All Farms	Profit Category			Difference between High 1/3 and Low 1/3			
		High 1/3 Head / \$	Mid 1/3 Head / \$	Low 1/3 Head / \$	Absolute	%		
Number of Farms	88	29	30	29				
Labor allocated to livestock, %	36.9	47.3	32.0	31.5				
Number of Cows in Herd	134	187	131	85	103	121%		
Number of Calves Sold	122	173	118	77	96	126%		
Weight of Calves Sold	576	587	570	573	14	3%		
Calf Sales Price / Cwt	\$105.99	\$107.19	\$105.07	\$105.73	\$1.46	1%		
Gross Income	\$517.70	\$561.41	\$525.20	\$466.24	\$95.16	20%		
Feed	\$353.91	\$306.48	\$361.24	\$393.76	27.6%	-\$87.28	-22%	34.9%
Interest	\$123.81	\$106.20	\$124.66	\$140.53	-\$34.33	-\$24%		13.7%
Vet Medicine / Drugs	\$18.99	\$18.25	\$17.92	\$20.84	-\$2.60	-\$12%		1.0%
Livestock Marketing / Breeding	\$13.01	\$10.86	\$13.24	\$14.93	-\$4.07	-\$27%		1.6%
Depreciation	\$34.39	\$25.53	\$33.96	\$43.71	-\$18.18	-\$42%		7.3%
Machinery	\$71.05	\$56.93	\$72.72	\$83.46	-\$26.54	-\$32%		10.6%
Labor	\$107.81	\$86.28	\$91.21	\$146.52	-\$60.24	-\$41%		24.1%
Other	\$36.20	\$25.87	\$40.22	\$42.38	-\$16.50	-\$39%		6.6%
Total Cost	\$759.19	\$636.40	\$755.16	\$886.14	-\$249.74	72.4%	-28%	
Net Return to Management	-\$241.48	-\$74.99	-\$229.97	-\$419.89	\$344.90			

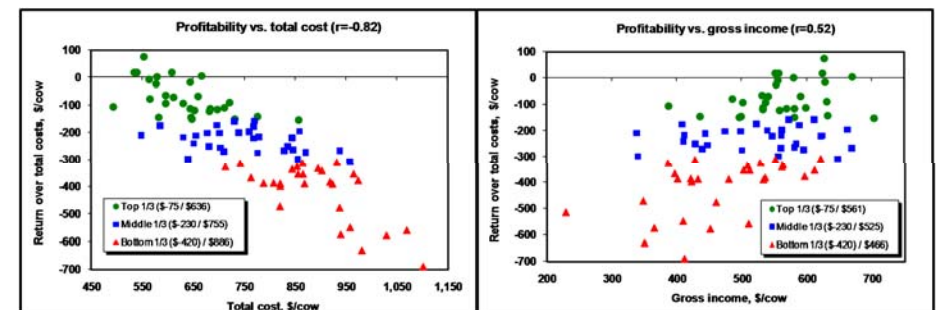
* Sorted by Net Return to Management (Returns over Total Costs) per Cow

Compared to \$195 between top and bottom third years.



Cow-calf profitability drivers...

- Returns are more variable across producers at a point in time than they are on average over time (i.e., even in "hard times" some producers are profitable)
- Cost differences explain a bigger portion of profitability differences across producers than does income differences





Considerable variability unexplained...

Regression Results for Profit and Cost Models

Variable	Profit (\$/cow)		Cost (\$/cow)	
	Coefficient	p-value*	Coefficient	p-value*
Intercept	-4776.64	(0.059)	3441.48	(0.130)
Cows	0.9704	(0.032)	-0.6963	(0.084)
Cows ²	-0.00126	(0.109)	0.00080	(0.254)
Weight	0.2954	(0.272)	0.5233	(0.020)
Price	1.6046	(0.454)	n/a	n/a
Feed%	6.1424	(0.008)	-4.2328	(0.041)
Labor	1.7289	(0.025)	-1.1505	(0.094)
Years	934.585	(0.141)	-692.726	(0.220)
Years ²	-57.981	(0.141)	44.597	(0.203)
R-square**	0.3569		0.2765	

* p-values associated with hypothesis test that coefficient is significantly different from zero. A value of 0.05 implies we are 95% confident that value is significantly different from zero.

** R-square represents the proportion of variability in the dependent variable (*Profit* and *Cost*) that is explained by variation in the independent variables.



Considerable variability unexplained...

Regression Results for Profit and Cost Models

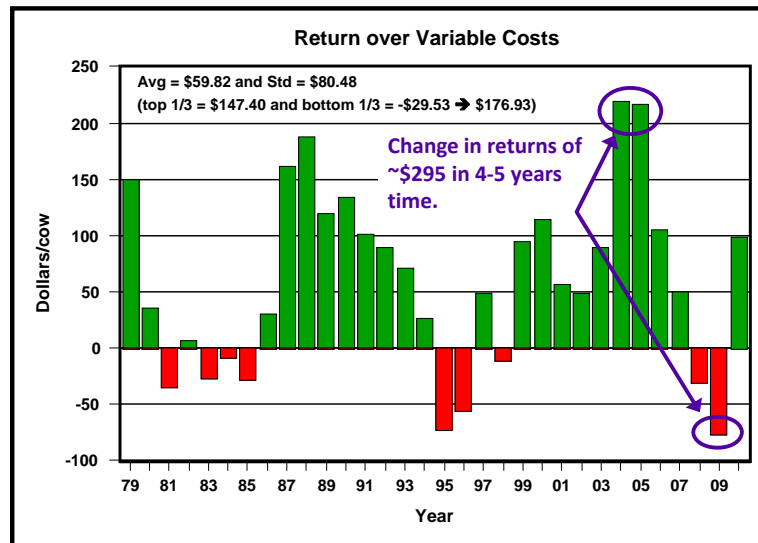
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** R-square represents the proportion of variability in the dependent variable (*Profit* and *Cost*) that is explained by variation in the independent variables.



Big changes can occur quite rapidly...



Source: Kansas Farm Management Association (KFMA) Annual Enterprise Analysis Reports



Returns over VC are slightly less variable...

	Beef Cow-calf Enterprise, 2006-2010 (min of 3 years)*				Difference between		
	All Farms	Profit Category			High 1/3 and Low 1/3		
		High 1/3 Head / \$	Mid 1/3 Head / \$	Low 1/3 Head / \$	Absolute	%	
Number of Farms	88	29	30	30			
Labor allocated to livestock, %	36.9	46.2	39.0	25.3			
Number of Cows in Herd	134	165	124	114	51	45%	
Number of Calves Sold	122	153	114	101	51	51%	
Weight of Calves Sold	576	595	570	565	29	5%	
Calf Sales Price / Cwt	\$105.99	\$106.24	\$106.95	\$104.74	\$1.51	1%	
Gross Income	\$517.70	\$567.55	\$532.72	\$452.31	\$115.24	25%	
Feed	\$353.91	\$307.04	\$367.32	\$386.91	43.8%	-\$79.87 -21%	54.0%
Interest	\$28.12	\$20.39	\$27.77	\$36.20		-\$15.81 -44%	10.7%
Vet Medicine / Drugs	\$18.99	\$16.93	\$18.53	\$21.53		-\$4.60 -21%	3.1%
Livestock Marketing / Breeding	\$13.01	\$11.18	\$11.78	\$16.13		-\$4.95 -31%	3.3%
Depreciation	\$0.00	\$0.00	\$0.00	\$0.00		\$0.00 n/a	0.0%
Machinery	\$71.05	\$56.61	\$74.54	\$81.89		-\$25.27 -31%	17.1%
Labor	\$10.72	\$11.73	\$5.71	\$14.91		-\$3.18 -21%	2.2%
Other	\$36.20	\$27.06	\$40.19	\$41.22		-\$14.16 -34%	9.6%
Total Variable Cost	\$532.02	\$450.94	\$545.85	\$598.78		-\$147.85	-25%
Return over Variable Costs	-\$14.31	\$116.61	-\$13.12	-\$146.47		\$263.08	

* Sorted by Net Return to Management (Returns over Variable Costs) per Cow

Compared to \$175 between top and bottom third years.

Feed costs

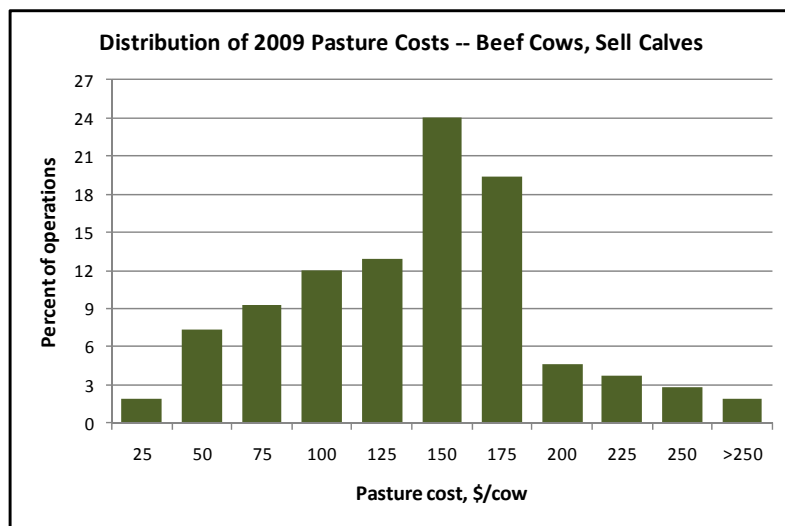
Pasture vs. Purchased Feed



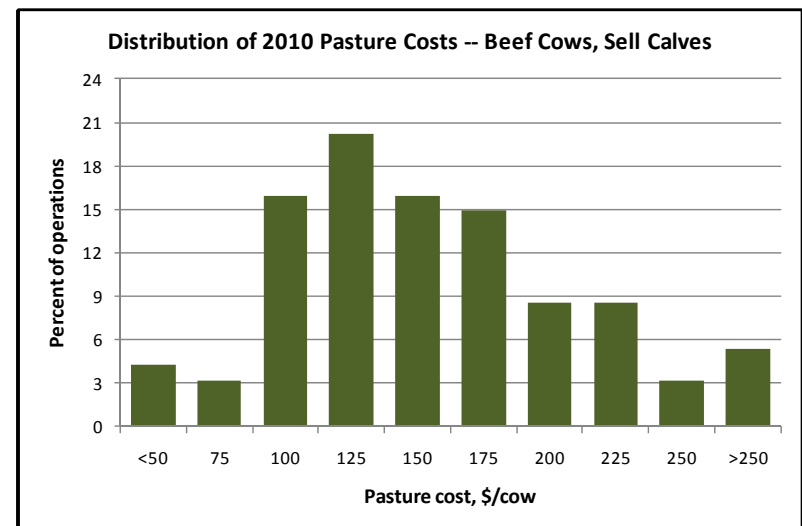
KANSAS FARM MANAGEMENT ASSOCIATION
PROFIT CENTER ANALYSIS: 5-YEAR AVERAGE & 2009
BEEF COWS, SELL CALVES: STATE AVERAGES

	2004-2008 Average			2009		
Number of Farms	104			108		
Number of Cows in Herd	121			127		
Number of Calves Sold	102			107		
Average Weight Calves Sold	581			566		
Calf Selling Price / Cwt	\$110.61			\$96.94		
Gross Income / Cow	\$569.95			\$462.00		
Feed Cost / Cow	\$303.29			\$387.37		
Nonfeed Cost / Cow	\$334.61			\$381.93		
Pounds Beef Produced / Cow	572			546		
GROSS INCOME	\$69,191.60	\$99.61	\$569.95	\$58,750.14	\$54.79	\$462.00
EXPENSES:						
Labor Hired	\$1,781.34	\$2.56	\$14.67	\$2,091.63	\$3.02	\$16.47
General Machinery Repairs	3,916.24	5.64	32.26	4,874.27	7.03	38.38
Interest Paid	3,137.28	4.52	25.84	3,859.23	5.57	30.39
Feed Purchased	36,819.92	53.01	303.29	29,202.31	42.14	229.94
Pasture	-	-	-	17,454.24	25.19	137.43
Machine Hire - Lease	301.06	0.43	2.48	311.97	0.45	2.46
Farm Dig Fees / Travel / Publ	591.65	0.85	4.87	686.33	0.99	5.42
Vet Medicine / Drugs	1,825.05	2.63	15.03	2,249.65	3.23	17.64
Livestock Marketing / Breeding	1,283.63	1.85	10.57	1,536.50	2.22	12.10
Gas / Fuel / Oil	2,563.65	3.73	21.36	3,077.38	4.44	24.23
Personal Property Tax	210.43	0.30	1.73	232.13	0.34	1.83
General Farm Insurance	963.90	1.39	7.94	1,007.12	1.45	7.93
Utilities	1,358.38	1.96	11.19	1,441.19	2.08	11.35
Auto Expense	413.82	0.60	3.41	436.55	0.63	3.43
TOTAL VARIABLE COSTS	\$55,196.33	\$79.46	\$454.66	\$66,452.70	\$69.79	\$539.00
RETURN ABOVE VARIABLE COSTS	\$13,995.27	\$20.15	\$115.28	(\$9,702.56)	(\$14.00)	(\$76.40)
Depreciation	\$3,626.85	\$5.22	\$29.88	\$4,286.61	\$6.19	\$33.75
Real Estate Tax	624.97	0.90	5.15	557.96	0.81	4.39
Unpaid Operator Labor	8,134.53	11.71	67.01	11,126.94	16.06	67.61
Interest Charge *	9,888.77	14.19	81.21	10,737.62	15.50	84.55
TOTAL FIXED COSTS	\$22,245.11	\$32.02	\$183.24	\$26,709.05	\$38.55	\$210.31
TOTAL EXPENSE	\$77,441.44	\$111.48	\$637.90	\$93,161.75	\$137.34	\$749.31
NET RETURN TO MANAGEMENT	(\$2,249.63)	(\$11.88)	(\$67.90)	(\$36,411.61)	(\$52.55)	(\$286.71)
NET RETURN TO LABOR-MGT	\$1,666.03	\$2.40	\$13.72	(\$23,193.14)	(\$33.47)	(\$182.42)

Starting in 2009, total feed costs are classified as "Pasture" and "Feed Purchased."



Total of 108 farms (avg = \$127; range = \$19-\$327) – 96 farms between \$50-\$250 (avg \$133)



Total of 94 farms (avg = \$144; range = \$30-\$335) – 85 farms between \$50-\$250 (avg \$140)



Type of Lease	Lease Price Range per Head for Full Season (Dollars)						Price for Pastures Rented on Per Acre Basis	
	Steers and Heifers			Cow/Calf Pairs				
	Under 500 Pounds	500-699 Pounds	700 Pounds Or More	With Fall Calves	With Spring Calves	Average For Pairs		
14 COUNTY BLUESTEM PASTURE AREA								
With Service	60-122	50-153	50-153	58-187	50-185	90-225	50-225	13-27
Without Service	25-100	25-100	25-100	25-200	25-300	25-245	25-300	11-30
Combined Average Lease Rate	25-122	25-153	25-153	25-187	25-300	25-245	25-300	10-30

Wide range across all cow/calf lease types surveyed.

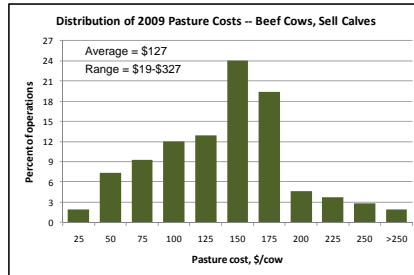
Bluestem Report (combined average lease rate)

Average with fall calves = \$127.60

Average with spring calves = \$131.30

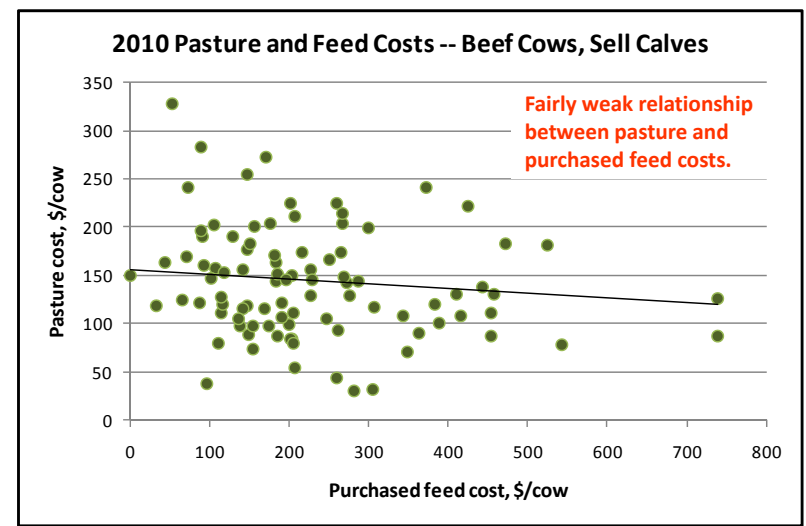
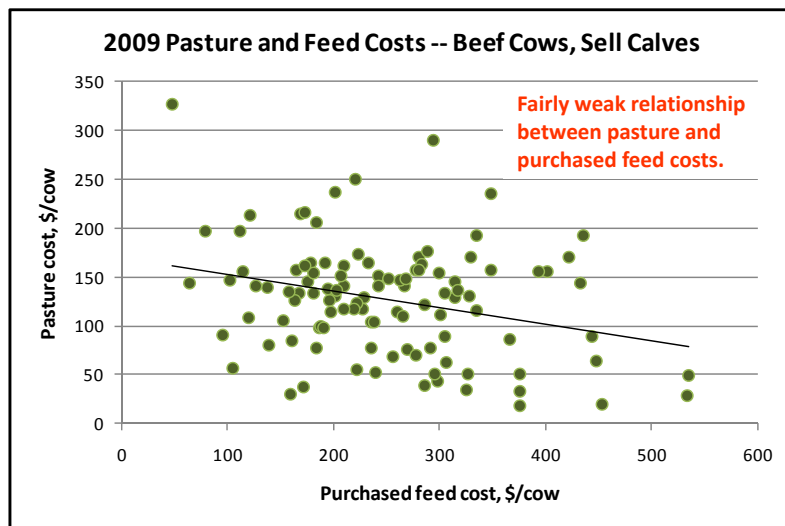
Overall average = \$130.10

KFMA producer enterprise data and Bluestem survey data match up quite well!

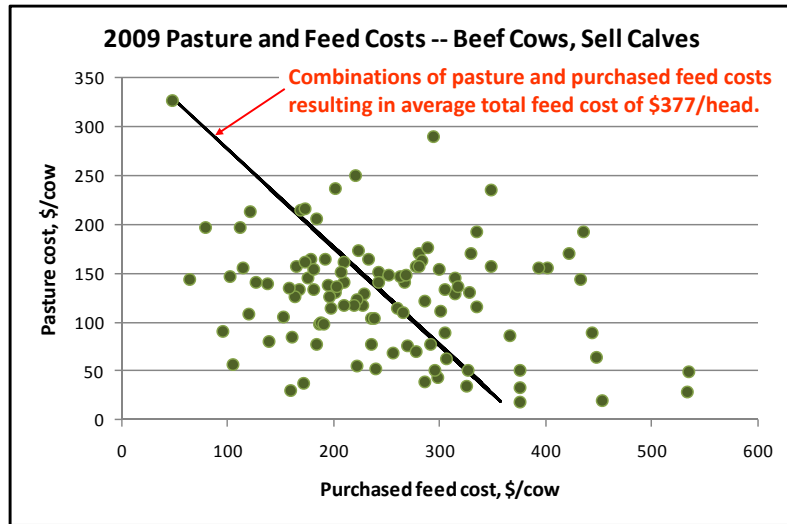


What is driving variability across producers?

- Length of grazing season
 - Trade-off between pasture cost and purchased feed cost
 - Ability to graze stalks in late fall/winter
- Pasture management / intensity
 - Rotational grazing
 - Pasture size / efficiency of use
- Lease rate paid
- Other?

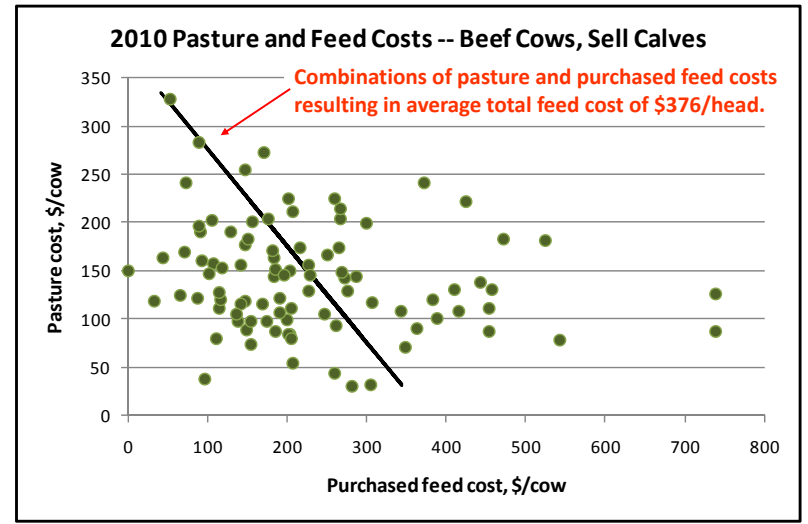


2009 pasture costs



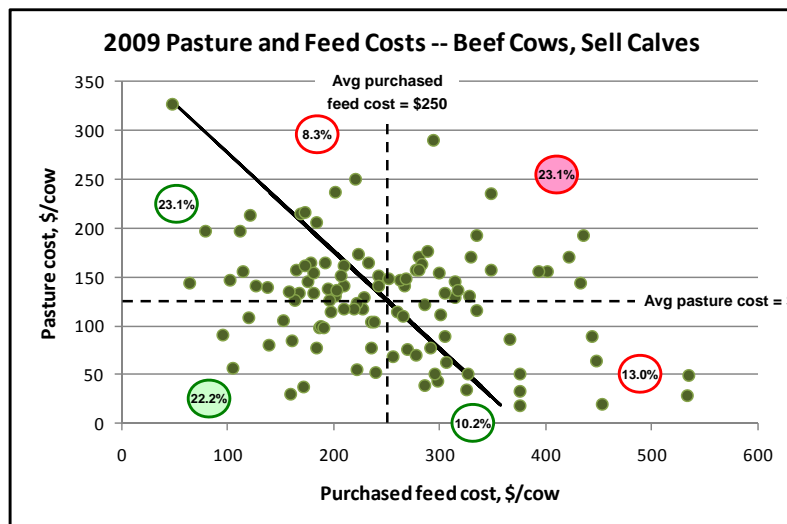
60 of 108 (55%) operations are to the left of the line and 48 (45%) are to the right of the line.

2010 pasture costs



56 of 94 (60%) operations are to the left of the line and 38 (40%) are to the right of the line.

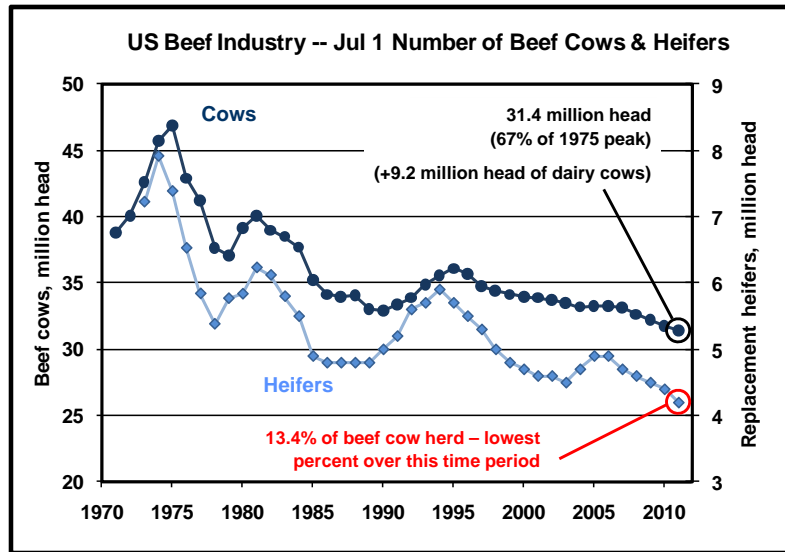
Pasture cost variability



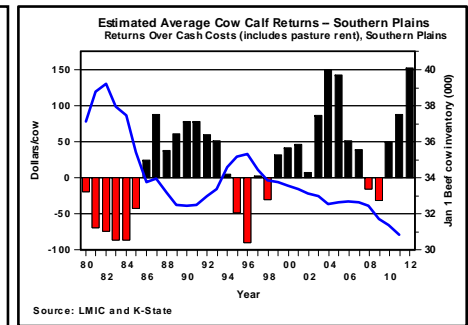
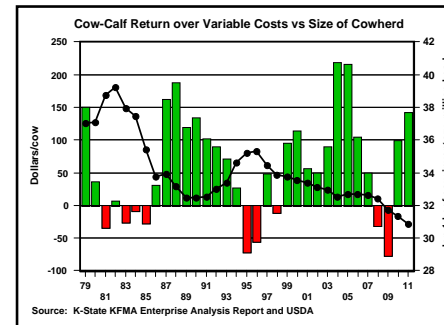
Identifying where your farm falls on this figure (and why) is an important benchmark.

**Importance of knowing costs
(and how you compare to average)**

U.S. beef cow inventory is at lowest level in 40+ years, is now the time to be expanding?



Outlook for cow-calf sector...

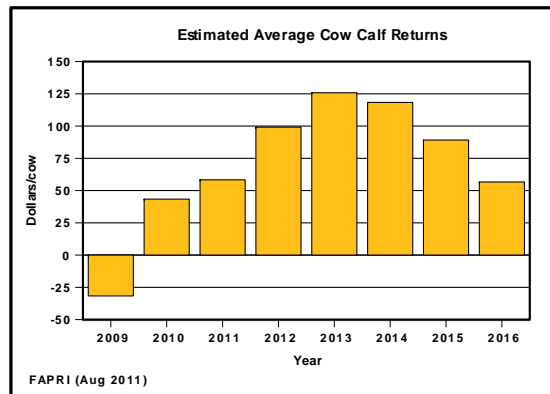


While absolute values for cow-calf returns vary based on source/methodology, projections for 2011 suggest returns will be up considerably from 2010 and projections for 2012 are better yet...

Outlook for cow-calf sector...



Things look quite positive for the cow-calf sector beyond 2012...



So the question is, how much can I pay for a replacement?

KSU-Beef Replacement; Excel Spreadsheet Decision Tool
<http://www.agmanager.info/livestock/budgets/production/default.asp>

KSU-Beef Replacements.xls --- A spreadsheet program to evaluate the economic value of purchasing beef replacements females.
 Version 11-21-11

INPUTS vs CALCULATED VALUES
 In the *Price and weights* and *Net Present Value* tabs all blue numbers are inputs and all black numbers are calculated from these inputs.

DESCRIPTION OF INPUTS:
 Several input cells (i.e., blue number) have a red diamond in the upper right hand corner of the cell. By moving your

What all needs to be factored into determining how much can be paid for replacement heifer or cow?

Developed by:
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www.AgManager.info

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How much can I pay for a heifer/cow if I want to expand?

Input Assumptions

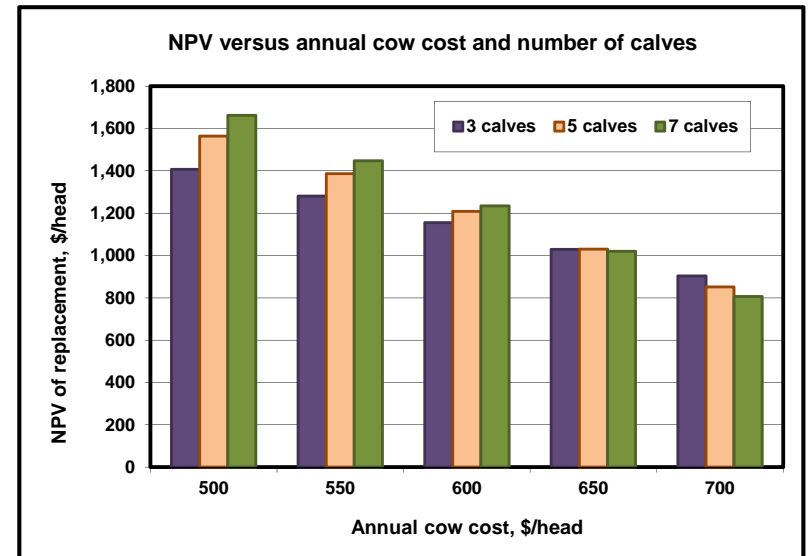
Number of replacements purchased	100	Percent marketable calves (1 - death loss)	97.0%
Year of purchase	2012	Annual cow death loss	0.5%
First year for calf sales	2012	Annual cull rate	12.0%
Cull cow weight, lbs/hd	1,250	Annual inflation rate on costs	1.0%
Annual cow costs, \$/year	\$600	Annual increase in average weaning weight	0.0%
Price scenario to use (1-3) (Adjusted FAPRI)	3	Discount rate (interest rate)	6.5%
Weaning weight scenario to use (1-3)	1		

Net Present Value Analysis

Year	Cows at			Prices, \$/cwt		Calf Income	Cull Income			Net Income	Discount factor	NPV**
	BOY*	Calf	Calf wt	Calf	Cull		Annual	Age	Cost			
2012	100.0	1	542	\$140.78	\$66.40	\$740	\$99.60	\$730	\$600	\$240	1.0000	\$970
2013	87.5	2	552	\$143.48	\$67.80	\$672	\$88.99	\$653	\$530	\$231	0.9390	\$1,069
2014	76.6	3	562	\$144.88	\$68.90	\$605	\$79.13	\$577	\$469	\$215	0.8817	\$1,155
2015	67.0	4	567	\$140.98	\$66.00	\$519	\$66.32	\$487	\$414	\$172	0.8278	\$1,191
2016	58.6	5	572	\$137.68	\$63.20	\$448	\$55.57	\$403	\$366	\$137	0.7773	\$1,208
2017	51.3	6	572	\$135.38	\$60.90	\$385	\$46.85	\$343	\$323	\$109	0.7299	\$1,225
2018	44.9	7	567	\$134.48	\$60.00	\$332	\$40.39	\$293	\$286	\$86	0.6853	\$1,234
2019	39.3	8	565	\$133.90	\$59.10	\$288	\$34.81	\$251	\$253	\$70	0.6435	\$1,241
2020	34.4	9	562	\$136.58	\$59.70	\$256	\$30.77	\$224	\$223	\$63	0.6042	\$1,253
2021	30.1	10	559	\$130.66	\$57.00	\$213	\$25.71	\$185	\$197	\$41	0.5674	\$1,246
			562	\$137.88	\$62.90							

* BOY = Beginning of year ** Net present value if replacement is sold in this year

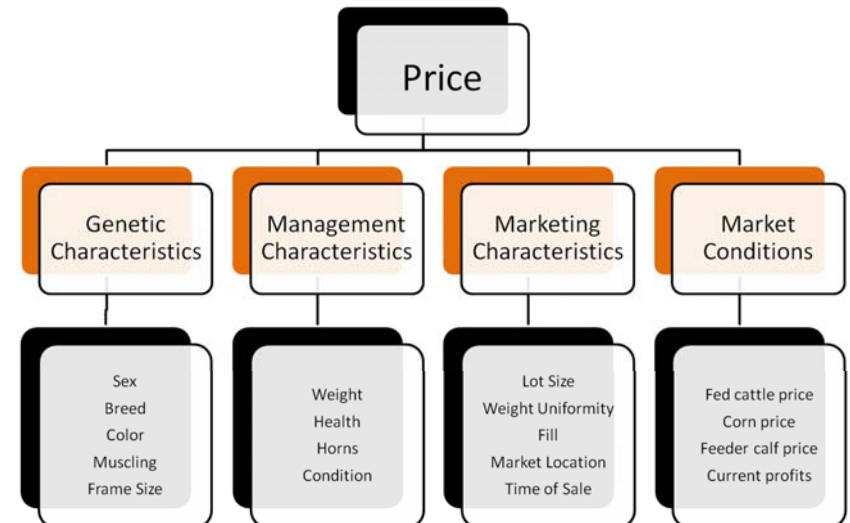
How much can I pay for a heifer/cow if I want to expand?



Prices / Marketing



What drives/determines feeder calf prices?



Home / Livestock Marketing

Market Outlook and Newsletters | Charts and Databases | Marketing Extension Bulletins | USDA News, Reports, Futures Market Prices | Budgets, Economics, LRP and Policy | Related Sites | Cross-Subject Areas

Livestock & Meat Marketing

- **Marketing / Returns / Forecasting Tools**
In the Lambie Market's newsmaster; Livestock Outlook Radio program; "Cattle Finishing Returns" newsletter.
- **Charts / Databases / Beef Demand**
Livestock & Hay Charts; Livestock Databases; Meat Demand Charts.
- **Marketing Extension Bulletins**
Marketing Strategies; Financial Analysis; Trade, Demand and Contracting; Price Risk; Management
- **USDA News / Reports / Futures Market Prices**
USDA News; Futures Market Prices; Pork Price Reporting.
- **Budgets / Economics / LRP / Policy**
Projected Budgets; Historical Budgets; Production Economics; LRP Insurance; Policy
- **Related Sites**
BeefBasis.com; NABER; LMC; RMA's LRP Calculator.
- **Cross-Subject Areas**
Animal ID and Traceability; Animal Well Being; CLPER (Connecting Livestock Producers with Recent Research).

Top 5 '08 to '09 LB Cwt at Selected Kansas Auctions

Month	Top 5 '08	Top 5 '09
Feb	14.00	14.00
Mar	14.50	14.50
Apr	15.00	15.00
May	15.50	15.50
Jun	16.00	16.00
Jul	16.50	16.50
Aug	17.00	17.00
Sep	17.50	17.50
Oct	18.00	18.00
Nov	18.50	18.50
Dec	19.00	19.00

Home / Decision Tools

AgManager.info Decision Tools

POLICY & RISK MANAGEMENT | CROP PRODUCTION ECONOMICS | MACHINERY | LAND LEASING & PURCHASE | LIVESTOCK | MISCELLANEOUS

Some of these files require the Adobe Flash Player. To download or to update your Flash software, please click [HERE](#), or go to: <http://get.adobe.com/flashplayer/>

Title	Author	Excel	Corresponding Paper (PDF)	Web Dashboard	Audio (MP3) or Video (WMV)
LIVESTOCK DECISION TOOLS					
BEEF					
KSU-Cow Weaning Costs	Dhuyvetter	Download	Download		
KSU-Beef Replacements	Dhuyvetter	Download			
SUPPCOST	Dhuyvetter, Blasi, and Smith	Download			
BeefCow-Lease	Dhuyvetter and Fausset	Download	Download		
K-State Feeder Cattle Price Analyzer	Schutz and Dhuyvetter	Download	Download		
Cattle Breakeven Selling and Purchase Prices	Dhuyvetter	Download		View	
Determining Pasture Rents in the Kansas Flint Hills (KSU-Graze.xls)	Dhuyvetter, Chamber, and Tansor	Download	Download	View	
Pricing DOGs in Feedlot Rations	Tansor	Download			
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Forecasting Tools

Feeder Cattle Basis Forecast

State: Kansas | Location: Farmers and Ranchers Livestock Commission - Salina | Expected Sale Date: 2/15/2012

Sex: Heifer | Frame: Lg & Med/Lg | Grade: 1

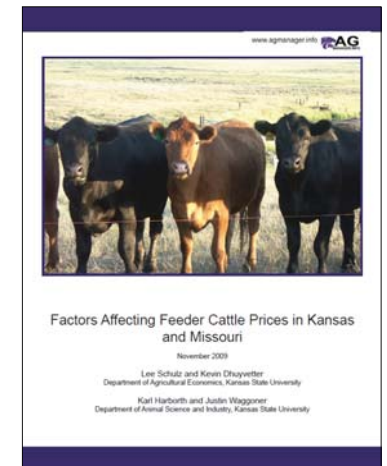
Weight: 630 lbs head | Head: 50

Feeder Cattle Futures Price: \$150.5 \$/cwt | Corn Futures Price: 6.23 \$/bu

Model-Estimated Feeder Cattle Basis Values ¹	Feeder Cattle Basis Results	LRP Cattle Basis Results ⁶
Model-estimated feeder cattle basis, \$/cwt ²	2.21	11.92
Confidence interval for basis, \$/cwt ³	-1.29 to 5.72	8.39 to 15.45
Expected cash price, \$/cwt	152.71	147.37
Confidence interval for expected cash price, \$/cwt ³	149.21 to 156.22	143.84 to 150.90
Optimal hedge ratio ⁴	1.0062	N/A
Number of calves hedged per contract ⁵	79	N/A

What do premiums/discounts indicate...

- Lot size and uniformity are very important
- Breed/color impact price
- Time of sale important (probably hard to manage)
- Dehorn and castrate early
- Market healthy cattle
- Stay away from extremes (frame, condition, fill)
- Results written up in paper on www.agmanager.info



What about preconditioning your calves?

- Premiums of +\$6/cwt when calves are vaccinated and weaned
- Premiums tend to be higher for steers than heifers

Figure 5.4 - Steer Vaccination and Weaning Program Value, 2008 to 2009

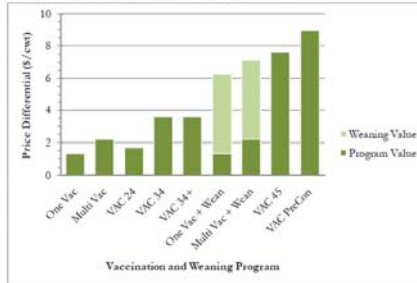
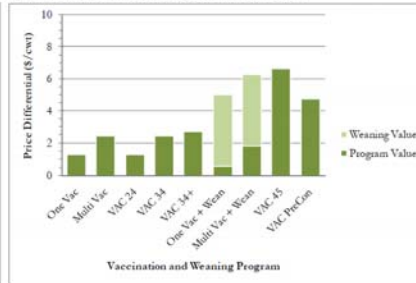


Figure 5.5 - Heifer Vaccination and Weaning Program Value, 2008 to 2009



Source: Factors Influencing the Price of Value-Added Calves at Superior Livestock Auction (Lance Zimmerman MS thesis, 2010 – Kansas State University)

- So, does it pay to precondition your calves?

What about Age & Source Verification programs?

- Premium of around \$1.50-\$2.00 per cwt pretty consistently over last several years

Figure 5.23 - Price Effect and Percentage of ASV Steer Lots, 2004 to 2009

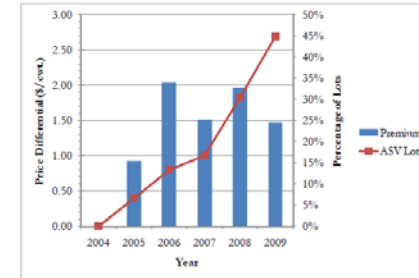
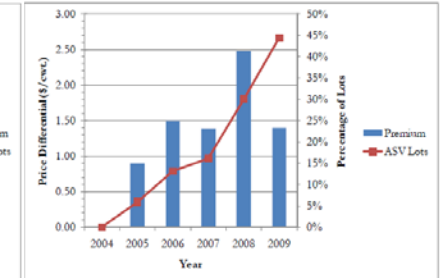


Figure 5.24 - Price Effect and Percentage of ASV Heifer Lots, 2004 to 2009



Source: Factors Influencing the Price of Value-Added Calves at Superior Livestock Auction (Lance Zimmerman MS thesis, 2010 – Kansas State University)

- Will premium disappear as ASV becomes more common?

Who is doing “value added” marketing?

Marketing Channels for Calves Produced

Marketing Channel	Percent Operations				
	Herd Size (Number of Beef Cows)				
	1-49	50-99	100-199	200+	All
Breed-influenced program	11.7	15.9	16.1	28.6	13.6
Age-and source verification program	5.2	11.7	14.9	29.0	8.2
Conventional	60.5	68.7	68.4	67.8	62.8
Natural	28.8	25.3	24.4	30.8	28.0
Certified organic*	1.2	0.2	0.3	1.3	1.0
Other	1.4	0.8	2.6	2.3	1.5

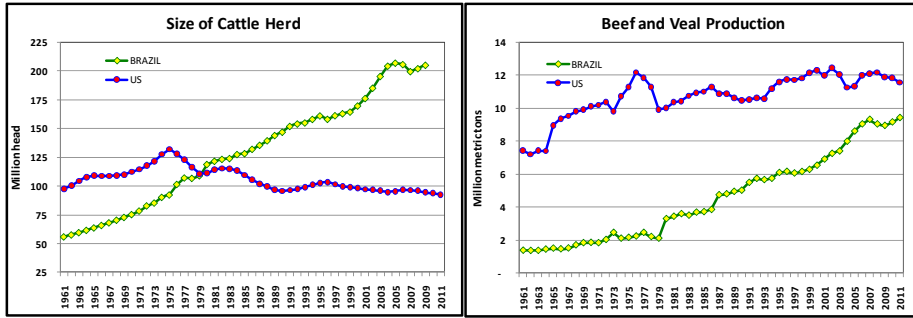
* Operation certified by USDA

Source: USDA NASS APHIS, Beef 2007-08, NAHMS report.

Summary...

- More variability in returns between producers at a point in time than on average for an industry over time
➔ management is more important than “cycles”
- Most of the variability in returns is explained by cost differences as opposed to revenue differences
➔ Feed is big driver – important to know why they are low
➔ Fixed costs are important – driven by economies of size
- Knowing where one stands relative to average regarding costs is important to make sound management and investment decisions.
- Marketing – focus should be on delivering what the market wants rather than trying to out-guess market

U.S. and Brazil cattle industries...



- A “mature” industry versus a “growing/evolving” industry...
- Should same management approach be used in both countries?
- Identify and capitalize on comparative advantages

Production “sectors” in the U.S. beef industry



1) Cow-calf



2) Stocker/backgrounder



3) Feedlot

Ownership is generally separate across the three sectors

Implications – competition, industry polarization, and slow response to changing markets.



For more information and decision tools related to farm management, marketing, and risk management go to www.AgManager.info

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