



## **BEEF COW ENTERPRISE NET RETURNS**

This article discusses beef cow enterprise net returns for 2010 and for the five-year period from 2006 to 2010. In addition, this article describes the items contained in the cost categories used to discuss livestock profit thirds on the KFMA web site ([www.agmanager.info/kfma](http://www.agmanager.info/kfma)). The tables and figures discussed in this article are similar to those presented on the KFMA web site.

The first table and figure below present information for the 2010 beef cow, sell calves enterprise. There was a \$404 difference in net return to management per cow between the low one-third and high one-third profit groups for this enterprise in 2010. Of this difference, approximately 60 percent is accounted for by the difference in gross income per cow, 23 percent is accounted for by the difference in feed cost, and 8 percent is accounted for by the difference in depreciation and machinery cost. The remaining difference in net return (9 percent) was due to differences in pasture cost,

interest, veterinarian expense, livestock marketing and breeding, labor, and miscellaneous cost items called “other”. Differences in gross income between the two profit groups were due to differences in weaning percentages (not shown in the table), average weight of calves sold, and average sale price per cwt. The high profit third sold heavier calves and received a higher price for their calves. Feed cost includes purchased and raised feed. Summer pasture costs are listed as a separate cost item. The cost of raised feed is computed using the opportunity cost of hay, silage, stalks, wheat pasture, temporary pasture, and straw produced by the farm and utilized by the beef cow enterprise. Purchased and raised feed (i.e., feed cost) is considerably more important in explaining the difference in net return than summer pasture. The large difference in feed cost per head is understated due to the fact that the high profit group actually sold their calves at a heavier weight. Obviously, it is important for beef cow producers to benchmark their feed costs using comparative information. Labor costs include hired labor, operator labor, and family labor. Interest cost includes cash interest paid as well as an opportunity charge on capital invested in the enterprise. Machinery costs include repairs, machine hire, and fuel. The “other” cost category includes fees, property and real estate taxes, general farm insurance, utilities, and the farm portion of auto expense.

The second table and figure below present information for the 2010 beef cow, sell feeders enterprise. There was a \$463 difference in net return to management per cow between the low one-third and high one-third profit groups for

*Also in this newsletter:*

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this enterprise. It is important to note that the difference in net returns is even wider for this enterprise compared to the beef cow, sell calves enterprise. This fact illustrates the problem some farms have in efficiently adding weight to their calves after weaning. The difference in gross income between the profit groups reflects differences in weaning percentages and calf death loss after weaning (neither of which is shown in the table), the average weight of calves sold, and the average sale price per cwt. Note that the high profit group sold heavier calves. The largest difference in per cow costs was feed at \$83. There was also a large difference in labor cost per cow (\$61). These two cost items (feed and labor) accounted for 18 and 13 percent of the net return per cow difference, respectively. The difference in summer pasture cost was minimal. Differences in depreciation and machinery cost accounted for another 17 percent of the difference in net returns between the low one-third and high one-third profit groups.

The third table and figure below present information for the beef cow enterprise using KFMA farms with continuous enterprise data from 2006 to 2010. The data presented represents 5-year averages for 55 farms. The average farm in the high profit group was 46 percent larger than the average farm in the low

profit group suggesting that economies of size were important in explaining net return per cow differences. The difference in gross income per cow (\$23) was much smaller using five-year averages than it was for 2010. It is interesting to note the wide difference in weight of calves sold and average sale price per cwt between the two profit groups. The high profit third group received a higher price, but sold lighter calves. This result is illustrative of the difficulty beef cow producers have had over the last few years in efficiently adding value to weaned calves. Feed cost, which includes summer pasture cost, and labor cost accounted for 47 percent and 21 percent of the difference in net return per cow between the two profit groups, respectively. The only cost item that was not substantially lower for the high profit group was depreciation expense.

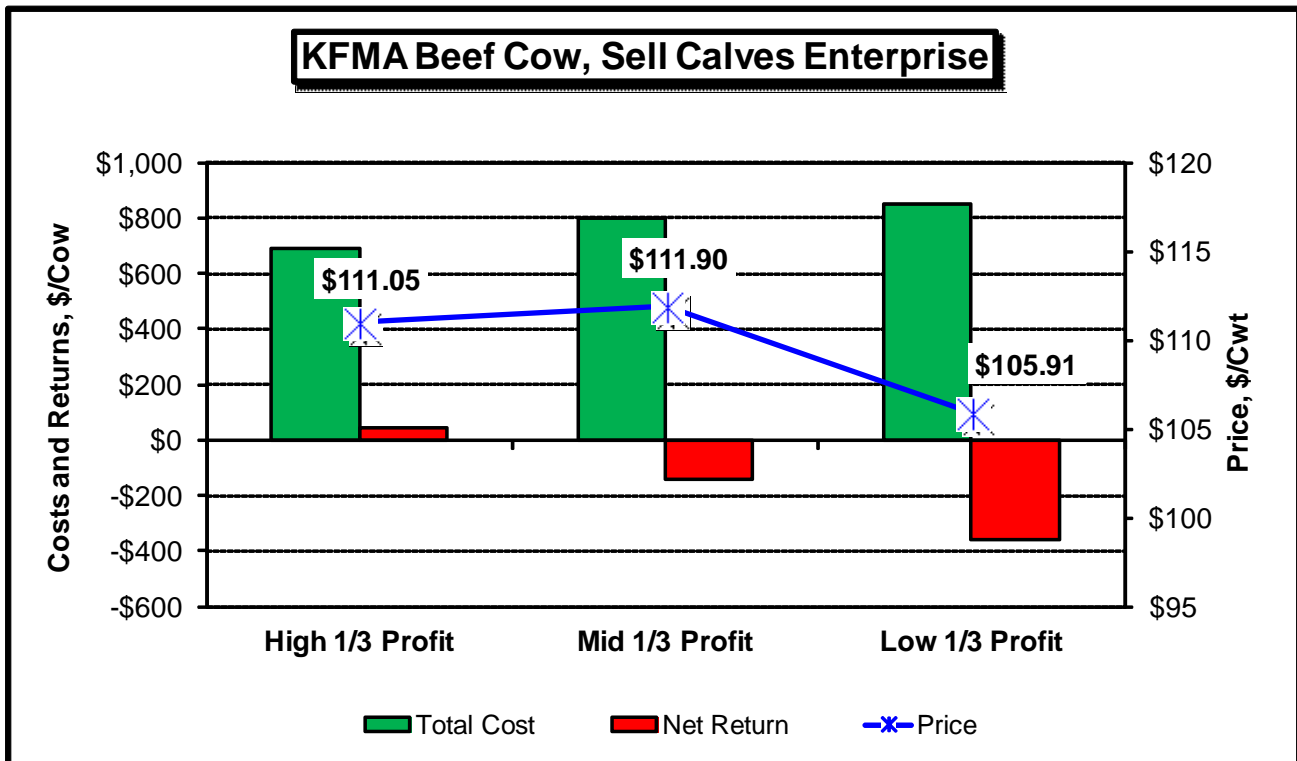
This article illustrated wide differences in net return to management per cow for beef cow producers. The article stresses the importance of measuring and managing production costs, and carefully evaluating retained ownership strategies.

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**Kansas Farm Management Association: State Averages**  
**2010 Beef Cow, Sell Calves Enterprise Sorted by Net Return to Management per Cow**

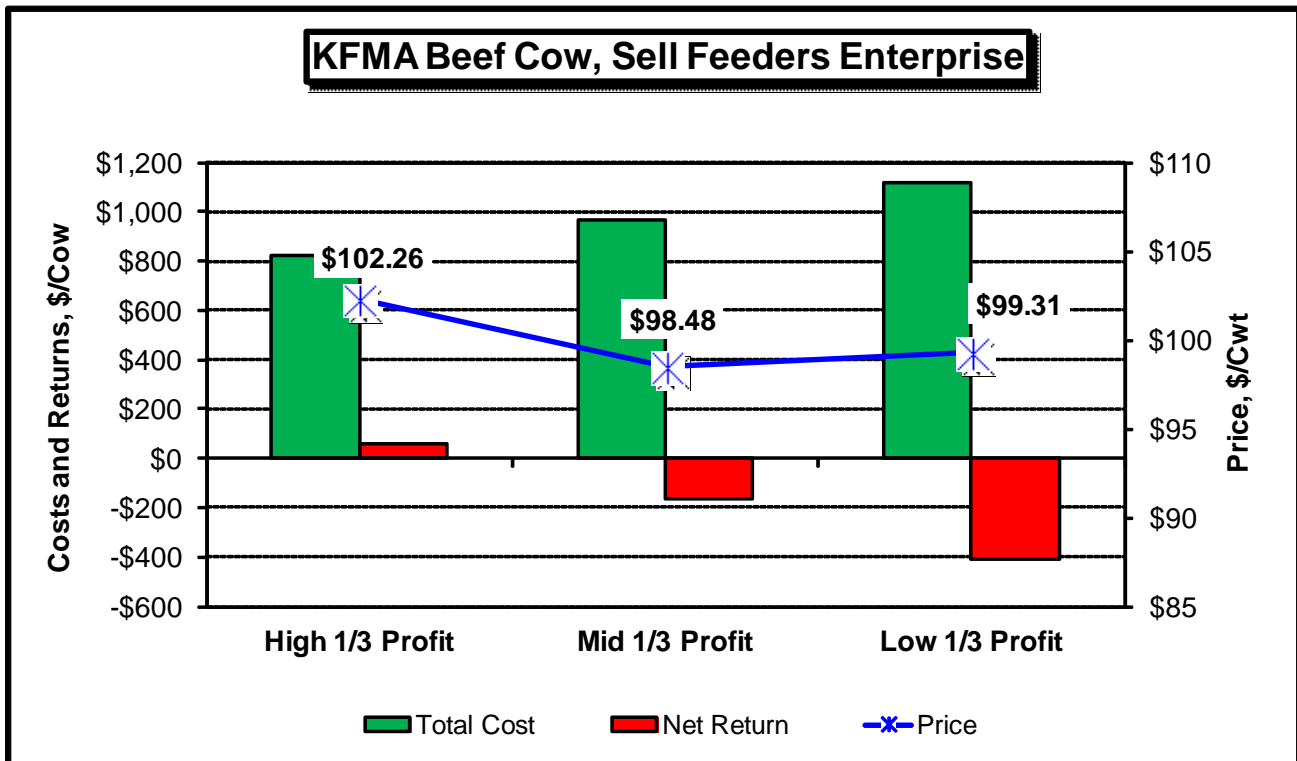
|                                | Profit Category |                   |                   | Difference between   |             |
|--------------------------------|-----------------|-------------------|-------------------|----------------------|-------------|
|                                | High 1/3        | Mid 1/3           | Low 1/3           | High 1/3 and Low 1/3 | %           |
| Number of Farms                | 36              | 36                | 35                |                      |             |
| Number of Cows in Herd         | 167             | 124               | 102               | 65                   | 64%         |
| Number of Calves Sold          | 152             | 104               | 91                | 61                   | 67%         |
| Average Weight of Calves Sold  | 593             | 571               | 556               | 37                   | 7%          |
| Sales Price / Cwt              | \$111.05        | \$111.90          | \$105.91          | \$5.14               | 5%          |
| <b>INCOME PER COW</b>          |                 |                   |                   |                      |             |
| Gross Income                   | <b>\$730.09</b> | <b>\$652.84</b>   | <b>\$489.45</b>   | <b>\$240.64</b>      | <b>49%</b>  |
| <b>COSTS PER COW</b>           |                 |                   |                   |                      |             |
| Feed                           | \$161.03        | \$220.29          | \$252.70          | (\$91.67)            | -36%        |
| Pasture                        | \$161.25        | \$150.05          | \$154.75          | \$6.50               | 4%          |
| Interest                       | \$107.75        | \$126.09          | \$134.38          | (\$26.63)            | -20%        |
| Vet Medicine / Drugs           | \$21.10         | \$22.63           | \$20.84           | \$0.26               | 1%          |
| Livestock Marketing / Breeding | \$8.89          | \$10.13           | \$14.44           | (\$5.55)             | -38%        |
| Depreciation                   | \$22.69         | \$37.00           | \$39.19           | (\$16.50)            | -42%        |
| Machinery                      | \$62.38         | \$73.96           | \$79.16           | (\$16.78)            | -21%        |
| Labor                          | \$111.78        | \$115.57          | \$111.75          | \$0.03               | 0%          |
| Other                          | \$29.91         | \$41.61           | \$43.33           | (\$13.42)            | -31%        |
| Total Cost                     | <b>\$686.78</b> | <b>\$797.33</b>   | <b>\$850.54</b>   | <b>(\$163.76)</b>    | <b>-19%</b> |
| Net Return to Management / Cow | <b>\$43.31</b>  | <b>(\$144.49)</b> | <b>(\$361.09)</b> | <b>\$404.40</b>      |             |



## Kansas Farm Management Association: State Averages

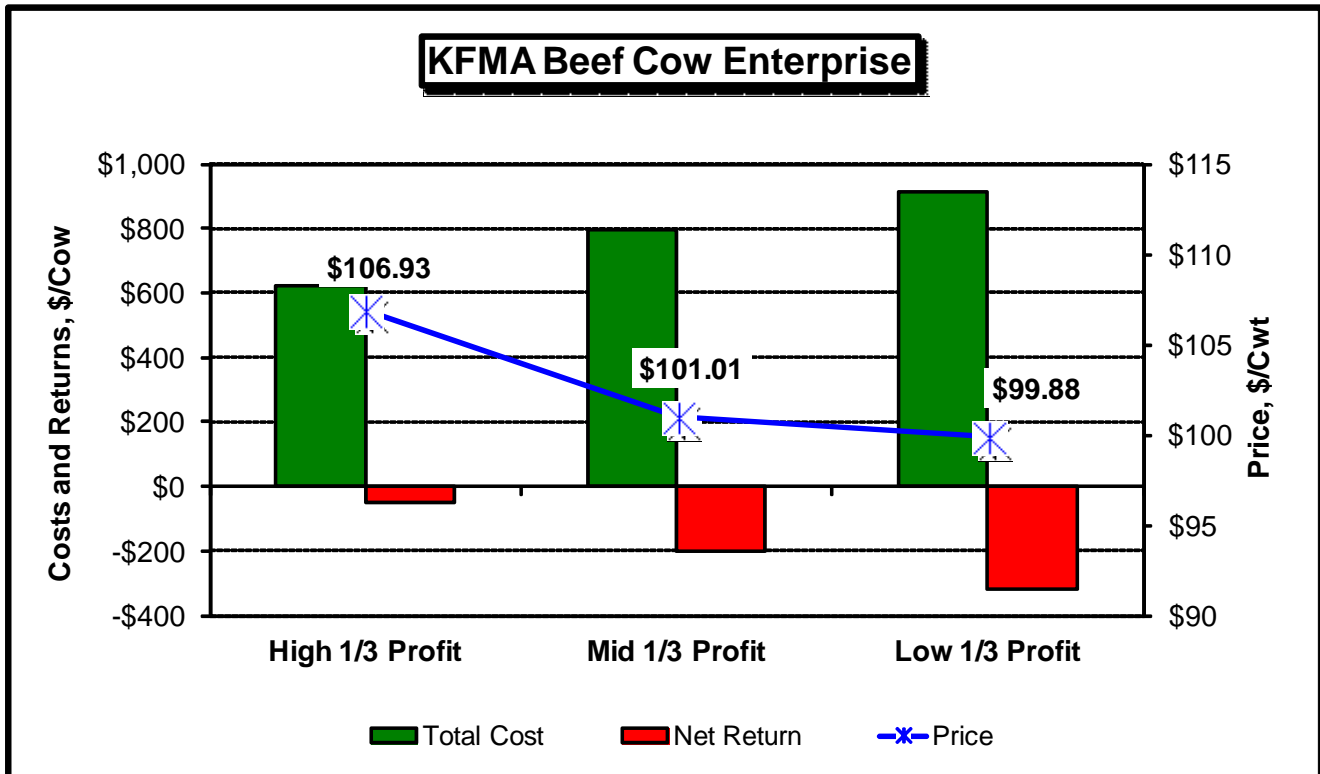
### 2010 Beef Cow, Sell Feeders Enterprise Sorted by Net Return to Management per Cow

|                                | <b>Profit Category</b> |                   |                   | Difference between   |             |
|--------------------------------|------------------------|-------------------|-------------------|----------------------|-------------|
|                                | High 1/3               | Mid 1/3           | Low 1/3           | High 1/3 and Low 1/3 | %           |
| Number of Farms                | 37                     | 37                | 36                |                      |             |
| Number of Cows in Herd         | 137                    | 109               | 138               | (1)                  | -1%         |
| Number of Calves Sold          | 117                    | 87                | 109               | 8                    | 7%          |
| Average Weight of Calves Sold  | 770                    | 768               | 741               | 29                   | 4%          |
| Sales Price / Cwt              | \$102.26               | \$98.48           | \$99.31           | \$2.95               | 3%          |
| <b>INCOME PER COW</b>          |                        |                   |                   |                      |             |
| Gross Income                   | <b>\$877.75</b>        | <b>\$800.48</b>   | <b>\$708.48</b>   | <b>\$169.26</b>      | <b>24%</b>  |
| <b>COSTS PER COW</b>           |                        |                   |                   |                      |             |
| Feed                           | \$283.35               | \$336.24          | \$366.14          | (\$82.79)            | -23%        |
| Pasture                        | \$132.21               | \$138.14          | \$146.27          | (\$14.06)            | -10%        |
| Interest                       | \$146.73               | \$163.00          | \$167.64          | (\$20.91)            | -12%        |
| Vet Medicine / Drugs           | \$25.69                | \$28.08           | \$29.75           | (\$4.06)             | -14%        |
| Livestock Marketing / Breeding | \$27.22                | \$21.59           | \$45.39           | (\$18.17)            | -40%        |
| Depreciation                   | \$28.24                | \$46.69           | \$52.46           | (\$24.22)            | -46%        |
| Machinery                      | \$58.00                | \$70.60           | \$113.79          | (\$55.79)            | -49%        |
| Labor                          | \$89.21                | \$120.40          | \$150.31          | (\$61.10)            | -41%        |
| Other                          | \$31.30                | \$40.56           | \$43.47           | (\$12.17)            | -28%        |
| Total Cost                     | <b>\$821.95</b>        | <b>\$965.30</b>   | <b>\$1,115.22</b> | <b>(\$293.27)</b>    | <b>-26%</b> |
| Net Return to Management / Cow | <b>\$55.80</b>         | <b>(\$164.82)</b> | <b>(\$406.74)</b> | <b>\$462.53</b>      |             |



**Kansas Farm Management Association: State Averages**  
**2006 to 2010 Beef Cow Enterprise Sorted by Net Return to Management per Cow**

|                                | Profit Category  |                   |                   | Difference between   |             |
|--------------------------------|------------------|-------------------|-------------------|----------------------|-------------|
|                                | High 1/3         | Mid 1/3           | Low 1/3           | High 1/3 and Low 1/3 | %           |
| Number of Farms                | 18               | 19                | 18                |                      |             |
| Number of Cows in Herd         | 157              | 140               | 114               | 43                   | 37%         |
| Number of Calves Sold          | 135              | 116               | 92                | 42                   | 46%         |
| Average Weight of Calves Sold  | 604              | 656               | 707               | (103)                | -15%        |
| Sales Price / Cwt              | \$106.93         | \$101.01          | \$99.88           | \$7.05               | 7%          |
| <b>INCOME PER COW</b>          |                  |                   |                   |                      |             |
| Gross Income                   | <b>\$573.26</b>  | <b>\$594.56</b>   | <b>\$596.52</b>   | <b>(\$23.25)</b>     | <b>-4%</b>  |
| <b>COSTS PER COW</b>           |                  |                   |                   |                      |             |
| Feed                           | \$310.25         | \$404.10          | \$435.37          | (\$125.12)           | -29%        |
| Interest                       | \$104.30         | \$130.21          | \$150.97          | (\$46.67)            | -31%        |
| Vet Medicine / Drugs           | \$14.63          | \$20.71           | \$26.75           | (\$12.12)            | -45%        |
| Livestock Marketing / Breeding | \$8.04           | \$16.16           | \$21.68           | (\$13.64)            | -63%        |
| Depreciation                   | \$37.93          | \$27.16           | \$35.25           | \$2.69               | 8%          |
| Machinery                      | \$46.78          | \$67.59           | \$72.83           | (\$26.04)            | -36%        |
| Labor                          | \$73.61          | \$90.31           | \$128.93          | (\$55.32)            | -43%        |
| Other                          | \$27.58          | \$37.41           | \$42.76           | (\$15.18)            | -35%        |
| Total Cost                     | <b>\$623.14</b>  | <b>\$793.65</b>   | <b>\$914.54</b>   | <b>(\$291.40)</b>    | <b>-32%</b> |
| Net Return to Management / Cow | <b>(\$49.87)</b> | <b>(\$199.09)</b> | <b>(\$318.02)</b> | <b>\$268.15</b>      |             |



## BACKGROUNDING COST OF GAIN

This article briefly discusses five-year average net return, total cost per cwt, feed cost per cwt, and feeding cost of gain for backgrounding. Information in this article can be used to benchmark backgrounding enterprises.

The benchmarking enterprise has not been particularly profitable over the last ten years. Using KFMA data, the only years that had a positive return over variable cost during the last ten years were 2003, 2004, 2005, and 2010. With relatively higher feed grain prices during the last several years, it has been difficult to control costs. Figure 1 presents average feed cost and total cost per cwt for the backgrounding enterprise from 2001 to 2010. Costs per cwt were the highest in 2007. Though lower than that experienced in 2007, cost per cwt in 2008, 2009, and 2010 was still substantially above levels experienced from 2001 to 2006.

Due to unique circumstances pertaining to a particular year, it is often difficult to benchmark using just one year of data. With that in mind, Table 1 presents average gross income per head, total cost per head, and net return per head for the 16 KFMA farms with continuous backgrounding enterprise data from 2006 to 2010. The average weight produced per head was 377 pounds. The average difference between purchase price and sale price was \$19.14. The average ratio of purchase price to sale price was 1.20. Feed cost per head accounted for 57 percent of total cost per head. Feed cost includes purchased and raised feed. The cost of raised feed is computed using the

opportunity cost of feed grains, hay, and other feedstuffs produced by the farm and utilized by the backgrounding enterprise. The average net return to management was -\$56.28. Of the 16 farms, 1 farm had a positive net return to management and 11 farms had a positive return over variable costs.

Feed cost per cwt is not the same thing as feeding cost of gain. The later is often used when discussing cost for finishing cattle. Table 2, using the averages for the 16 farms with continuous backgrounding enterprise data from 2006 to 2010, presents computations related to feed cost per cwt and feeding cost of gain. Feed cost per cwt is computed using information pertaining to feed cost and weight produced per head. The average feed cost per cwt for the 2006 to 2010 period was \$57.75. Feeding cost of gain is typically computed using all costs except interest on the feeder. Average feeding cost of gain for the 2006 to 2010 period was \$91.09. KFMA members that enterprise their backgrounding enterprise have both of these figures available in their annual analysis report.

This article discussed cost of gain for backgrounding enterprises. Further information on the backgrounding enterprise as well as the backgrounding and finishing enterprise can be found on the KFMA web site ([www.agmanager.info/kfma](http://www.agmanager.info/kfma)).

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**Table 1. Backgrounding Net Return to Management per Head.**

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| Variable                          | Average  |
|-----------------------------------|----------|
| Number of Head                    | 503      |
| Weight Produced per Head          | 377      |
| Purchase Price per Cwt            | \$114.99 |
| Sale Price per Cwt                | \$95.85  |
| Gross Income per Cwt              | \$73.00  |
| <br>                              |          |
| Gross Income per Head             | \$274.89 |
| <br>                              |          |
| <u>Cost per Head</u>              |          |
| Feed                              | \$187.12 |
| Interest                          | \$52.95  |
| Vet Medicine & Drugs              | \$12.80  |
| Livestock Marketing & Breeding    | \$14.21  |
| Depreciation                      | \$9.79   |
| Machinery                         | \$20.77  |
| Labor                             | \$25.84  |
| Other                             | \$7.68   |
| <br>                              |          |
| Total Cost                        | \$331.17 |
| <br>                              |          |
| Net Return to Management per Head | -\$56.28 |

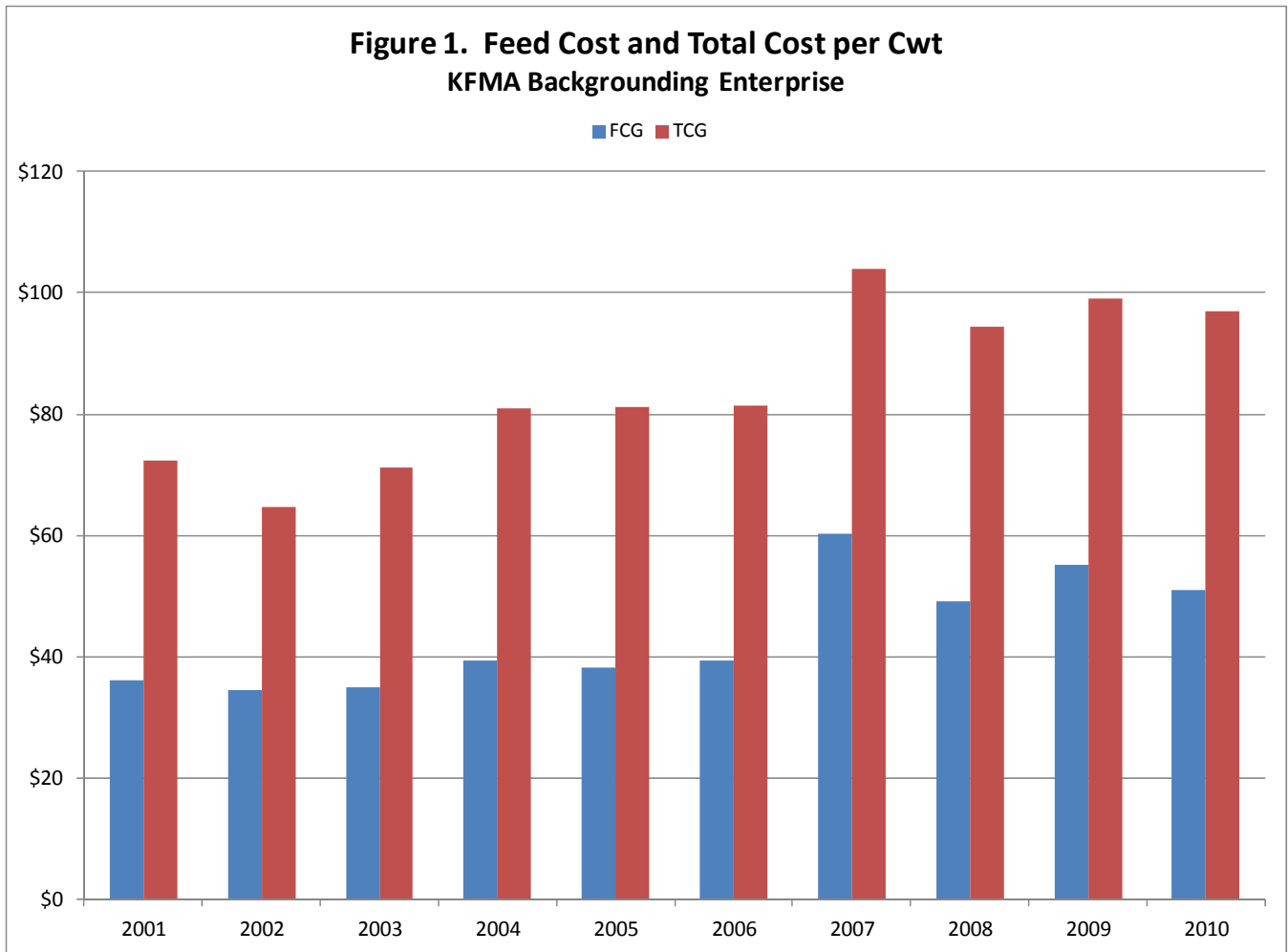
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**Table 2. Feed Cost per Cwt and Feeding Cost of Gain.**


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| Variable   | Average      |
|--|--------------|
| Number of Head                                   | 503          |
| <br><u>Feed Cost per Cwt</u>                     |              |
| Feed Cost per Head                               | \$187.12     |
| Weight Produced per Head                         | 377          |
| Feed Cost per Cwt                                | \$57.75      |
| <br><u>Feeding Cost of Gain</u>                  |              |
| Feed Cost per Head                               | \$187.12     |
| Interest per Head (excluding interest on feeder) | \$13.16      |
| Vet Medicine & Drugs per Head                    | \$12.80      |
| Livestock Marketing & Breeding per Head          | \$14.21      |
| Depreciation per Head                            | \$9.79       |
| Machinery per Head                               | \$20.77      |
| Labor per Head                                   | \$25.84      |
| Other per Head                                   | \$11.44      |
| <br>Total Cost per Head                          | <br>\$295.14 |
| <br>Weight Produced per Head                     | <br>377      |
| <br>Feeding Cost of Gain per Cwt                 | <br>\$91.09  |

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## FACTORS IMPACTING FEEDING COST OF GAIN

This article discusses the impact of cattle performance and feed prices on feeding cost of gain. Data were obtained from monthly issues of the *Focus on Feedlots* newsletter which reports monthly data on average daily gain, feed conversion, days on feed, in weight, out weight, feeding cost of gain, and inventory prices for corn and alfalfa.

Figure 1 illustrates monthly feeding cost of gain for steers from January 2000 to August 2011. Average feeding cost of gain over this time period was \$62.64 per cwt. Feeding cost of gain has been above \$80 per cwt since January of this year. The only other period over the last ten

years that had a feeding cost of gain above \$80 was the April 2008 to May 2009 period. As discussed below, feeding cost of gain can change dramatically as cattle performance and feed price change.

Regression analysis was used to examine the sensitivity of feeding cost of gain to changes in feed conversions, corn prices, and alfalfa prices. Feed conversion and feeding cost of gain data were obtained directly from the *Focus on Feedlots* newsletter. Corn and alfalfa prices were computed using average inventory prices for the previous four months. This procedure ensures that the feed prices are correctly

matched with the closeout month associated with the feed conversion and feeding cost of gain data.

Results of the regression analysis are reported in table 1 and are as follows: each 0.10 increase in feed conversion increases feeding cost of gain by \$1.00 per cwt, each 0.10 per bushel increase in corn prices increases feeding cost of gain by \$1.12 per cwt, and each \$5 per ton increase in alfalfa prices increases feeding cost of gain by \$0.35 per cwt. Of course, market forces change corn and alfalfa prices. Feed conversion changes are due to improvement in technology

and feeding practices that improves feed conversion, the type of cattle being fed, and the seasonality of performance.

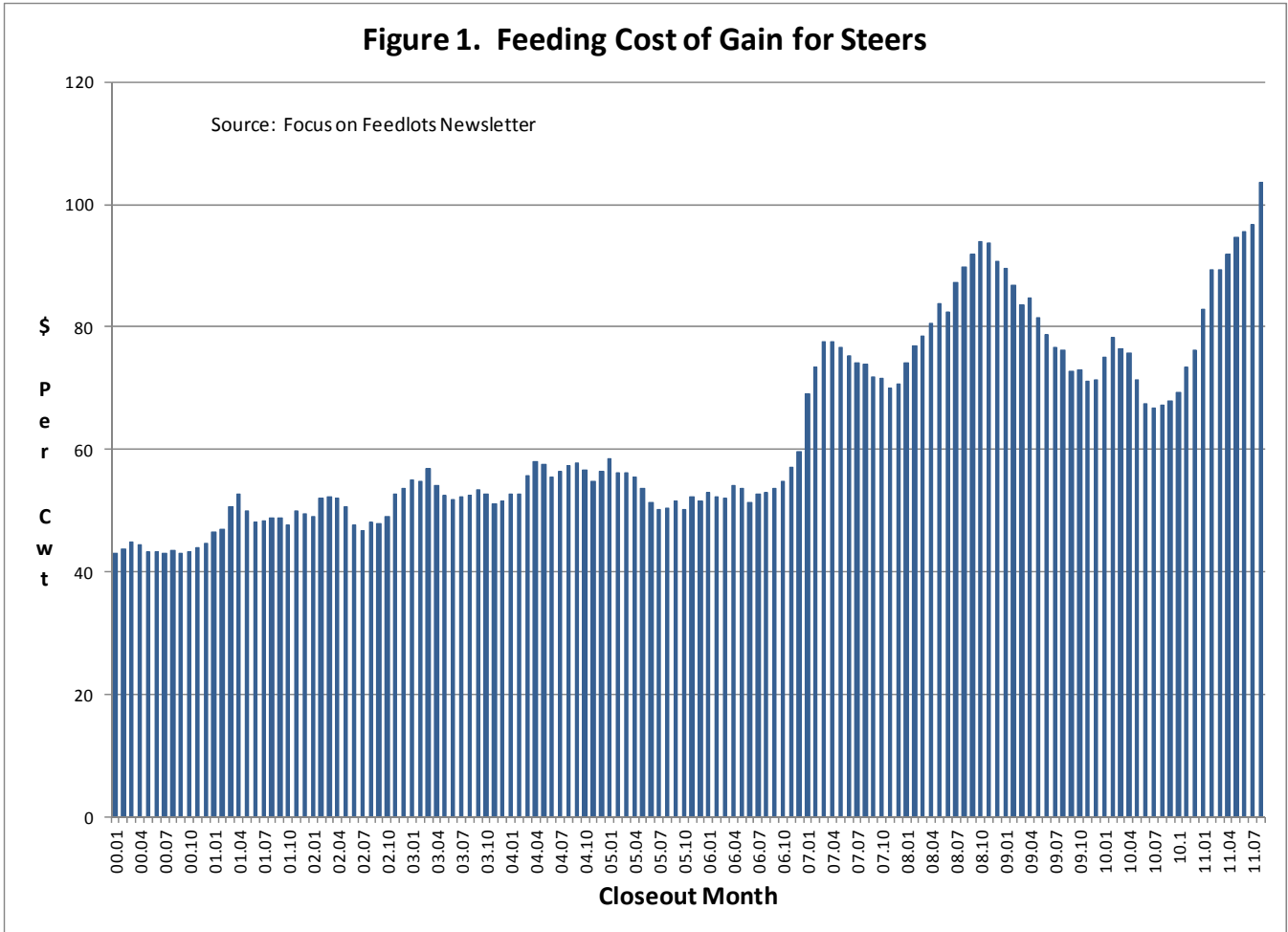
This article illustrated the sensitivity of feeding cost of gain to changes in cattle performance and feed prices. The information in this article is updated monthly and published in the monthly cattle return series which is posted to the AgManager web site: [www.agmanager.info](http://www.agmanager.info).

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**Table 1. Factors Impacting Feeding Cost of Gain.**

| Factor                  | Change Analyzed | Per Cwt. Impact |
|-------------------------|-----------------|-----------------|
| Feed Conversion (index) | + 0.10          | \$1.00          |
| Corn Prices (bu)        | + 0.10          | \$1.12          |
| Alfalfa Prices (ton)    | + 5.00          | \$0.35          |

**Figure 1. Feeding Cost of Gain for Steers**



## TAX IMPLICATIONS OF SELLING LIVESTOCK DURING A DROUGHT

There are two tax treatments that are important to note when selling cattle during a drought. These two tax treatments or options apply to counties that are within a natural-disaster-designated area. One of these options involves just breeding livestock while the other involves both market and breeding livestock.

The first option involves breeding livestock and is addressed under IRS Code Section 1033(e). If a producer sells more breeding livestock than normal, he or she can elect not to recognize any gain if the proceeds are used to purchase replacement head within two years of the end of the tax year in which the sale takes place. The

time period is extended to four years when the sale of the animals takes place in a natural-disaster-designated area. Two caveats are important to note: the new livestock purchased must be used for the same purpose as those sold and only additional animals sold in excess of normal sales can be replaced without recognition of gain.

The second option applies to all livestock (i.e., market and breeding livestock) and is addressed under IRS Code Section 451(e). This option allows for one-year postponement of reporting the sale proceeds from livestock sold due to drought in excess of the number ordinarily sold.

Unlike the first option, with this option the animals do not have to be replaced. Conditions that must be met include the following: the producer's area must be designated as a natural-disaster-designated area, the principal business must be farming, the cash method of accounting must be used, the producer must show that the livestock would normally have been sold in the following year, and the weather-related conditions that caused an area to be declared eligible for federal assistance must have caused the sale of livestock.

To qualify for postponement of gain or revenue, livestock typically need to be sold as a result of weather conditions *and* the same weather

conditions result in a disaster declaration. Producers should check with their local FSA office to see if their county has been declared and to determine if other disaster assistance is available (e.g., Livestock Forage Disaster Program and Livestock Indemnity Program). Also, before electing either of the above options, I strongly encourage you to discuss each option with your KFMA economist or tax preparer. Finally, it is important to note that additional records and documentation will be needed if one of the above options is chosen.

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## **ENROLLMENT IN 2011-2012 MAST PROGRAM**

MAST is a distance education program for producers and agribusiness professionals who desire to strategically position their businesses for success. Through MAST, participants are equipped with better management skills, new decision-making tools, peer networking, and strategic planning.

This year, MAST begins with a two-day workshop on the K-State campus, November 15-16. At this workshop, program participants are introduced to key management tools and business planning models. For the next three months, participants learn through distance education methods, and progress through several learning modules focusing on various farm management topics and tools. Topics covered include land and machinery

management, financial analysis, human resource management, tax and policy issues, risk management, and marketing. Participants return to campus for a final two-day program in February that emphasizes applying tools and concepts to developing comprehensive business plans.

For more information visit the Ag Manager web site ([www.agmanager.info/MAST](http://www.agmanager.info/MAST)) or contact Judy Maberry, MAST Program Coordinator at (785) 532-6994 or via e-mail at [judym@agecon.ksu.edu](mailto:judym@agecon.ksu.edu).

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## **RECOMMENDATIONS FOR FURTHER READING**

The purpose of this section of the newsletter is to briefly discuss articles and web sites that may be of interest to readers. In general, the articles discussed will not report on original research.

Rather, the articles will contain citations to web sites and articles that discuss topics of general interest.

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In issue 127 of the *Animal Science Monitor*, Dan Simmons discusses maximizing your resources and reaching your peak as a manager. He notes that even in cases where your employees have a lot of talent, if you as the manager are not handling the talent appropriately your team will not be reaching its peak. He lists several important items that managers should consider: communicate often and clearly, set concrete expectations, give team members a measure of control over what they do, encourage feedback and input, make training readily available, and think about ways to shorten the time it takes to train new employees.

FAPRI at the University of Missouri has recently updated their long-run price forecasts ([www.fapri.missouri.edu](http://www.fapri.missouri.edu)). Wheat price is expected to average \$7.44 in 11/12 and then decline to a long-run average of approximately \$6.50. Corn price is expected to average \$6.46 in 11/12 and then decline to a long-run average of approximately \$5.30. Soybean price is expected to average \$13.53 in 11/12 and then decline to a long-run average of approximately \$12.65. Finally, fed cattle prices are expected to average \$112.29 in 2011, \$118.52 in 2012, and \$120.00 in 2013. For 2014-2016, prices are forecasted to range from approximately \$116.25 to \$120.25. Beef cow inventories are expected to decline through 2013 and then slowly increase thereafter.

In a recent article in the *Main Street Economist*, published by the Federal Reserve Bank of Kansas City, Jason Henderson discusses U.S. food prices. The author notes that higher agricultural commodity prices translate into

higher food costs, particularly for those in developing countries. Though affected by commodity prices, U.S. food prices, because of the high consumption of processed and prepared foods, are heavily influenced by labor markets. In general, in countries where additional processing and prepared foods are relatively more important, commodity prices play a smaller role. Details related to crop and livestock price changes during the last year can be found in the article which is posted on my contributor site under "Recommendations for Further Reading".

In an article entitled "The Foreclosure Crisis in 2008: Predatory Lending or Household Overreaching"; which was recently published in the *The Regional Economist* (Federal Reserve Bank of St. Louis); William Emmons, Kathy Fogel, Wayne Lee, Liping Ma, Deena Rorie, and Timothy Yeager discuss the subprime housing bubble. The basic question addressed by the authors is as follows: did households overreach by taking on too much housing debt or were households duped by Wall Street? As noted by the authors, both predatory lending and household overreaching occurred during the subprime housing bubble. However, the authors argue that household overreaching was the primary culprit. More information can be found in the article which is posted on my contributor site under "Recommendations for Further Reading".

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The Kansas Farm Management Association (KFMA) Newsletter is distributed monthly to provide farm management information to farm decision makers. Further farm management information can be found on the KFMA program website: [www.agmanager.info/kfma](http://www.agmanager.info/kfma); and, on the Extension Agricultural Economics website: [www.agmanager.info](http://www.agmanager.info). The Newsletter is edited by Michael Langemeier, Professor, Department of Agricultural Economics, Kansas State University.



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