

*Ah, profit! What could possibly go wrong?*



With calf prices in triple digits, who cares about creeping production costs, haphazard marketing or accounting systems? What goes up must come down—we are only a few years away from a reversal in the calf price trend. Long-term sustainability means being on track with a plan developed now.

Calf prices move in a cycle, with 5 to 6 years between peak and valley, and values can change 40% or more across those years, despite steady quality and weight. The bills may be easy to pay at \$110/cwt., but will \$66/cwt. cover them?

Know your break-even, the weaned calf price that covers costs. Track actual expenses—don't use suggested "averages"—so you can record a benchmark break-even on which to improve. The cattle cycle may have years of blissful prices left, but a local natural disaster or even less predictable calamity can strike any time, so be sure your financial house is in order.

The aerospace industry provided a familiar concept that keeps us aware of all that can go wrong: Murphy's Law. Air Force engineer Ed Murphy first observed the chaos-related concept in 1949 that if anything can go wrong, it will. Planning helps keep Murphy's truth at bay.

Economists say the one-third of producers who spend the most make a profit only about one third of the time. Those in the middle third make money half the time, and the

low-cost producers make money most of the time. This is a good time to move up in long-term profitability.

If you lose money most of the time, eventually you go out of business or the hobby becomes too expensive to maintain relative to alternative investments. If you're in the cattle business for keeps, you can't stop planning. As the holistic models suggest, plan and replan with the certain knowledge that there are flaws in your original plan.

Whole-farm planning, the Holistic Resource Management (HRM) concept developed by The Center for Holistic Management, Albuquerque, N.M., takes time to master, but the precepts are simple. List assets, including land, natural resources, cattle, labor, expertise and capital. Write down goals and how you will use your assets in production, marketing and financial management to make progress toward those goals. Start with a planned profit, and cut maintenance expenses enough to generate that profit.

Make plans to check up on yourself at least once a month to see if you need course corrections. Gather as much information as you can before making those big changes however, because Murphy is very active at such critical junctions.

Study records to see what costs are unusually high or low in your operation—either could represent opportunities. If a cost item is very low, you may be able to increase profit by targeted spending, especially if it improves weaned calf percentage. A 1 percentage-point increase there can lower calf break-even prices by \$1.25/cwt. or more.

Feed and pasture costs vary from 40% to 70% of all expenses in cow-calf operations. Nail down this figure in your operation, and look for ways to reduce.

If landlords want more rent money, link the rate to cattle prices so you'll pay less when prices fall. Extend grazing by developing cool-season pastures and utilizing crop

residues in the fall. A 100-cow herd on stalks for 45 days can save \$3,000, compared to lot feeding. Test stored feeds—don't overfeed because it's there—you may be ahead to sell what you have and buy lesser quality.

Question everything to keep Murphy's Law from asserting itself: What will you do if a bull is injured? Is your plan drought and flood-proof? Is your calving season well suited to the grass resources? How secure is your labor pool? Can some chores be performed by contract rather than salaried help? How can you work cooperatively with neighbors to save labor problems and enhance marketing opportunities?

Now's the time to take stock of herd genetics. Can you coordinate genetic targets with neighbors for greater marketing clout? Your seedstock supplier may have suggestions on how to build a network to enhance and capitalize on the uniformity, efficiency and beef quality in your herd.

Can you use a consultant? Many larger operations find the outside perspective helps in course corrections—but question their advice, checking logic and figures. Consultants often dispel the myth that profit comes from maximum production, but they need actual records to demonstrate the truth: Production will seek its own level as you aim to maximize profit.

Next time we'll take a look at individual cow-calf ID systems. Questions or comments? Call toll-free 877-241-0717.

##### END