



Yes, but will they break even?

The first herdsman stood before his tribal council, eyes shining in the firelight. He had corralled 20 of the wild cattle and proposed to domesticate and manage them for milk and meat. Surely, this would be a great moment for his clan.

But the headman cut him to the quick when he asked, “Are you certain we can break even on this venture?”

With all the hunting and gathering to do, who had time to think about how or if the cattle would break even? Well, these were the first people to bring it up. The question has haunted cattlemen ever since.

It is easier to round up 20, or even 2,000 head today than in the tribal past, but the economics have become a bit more complicated. Economists have studied the issue for more than a century. A Kansas Experiment Station report from 1919 concludes wild, four-year-old Texas steers must be discounted 60% to 75% at purchase to break even with gentle cattle for 120-day fattening.

Today’s grazing land, confinement feedlots and feed storage facilities are big investments. Large operations have an experienced staff in need of steady work, and the banker expects you to meet the cash-flow budget. All of this works on the mind when it comes to buying calves and figuring a break-even price.

It wouldn’t be so bad if it stopped at buying calves, but you must also consider a break-even price when buying feed. If you are growing the feed, you have to keep the cost of production below break-even if there is to be any profit.

Then you can estimate a break-even selling price and rate of gain, factoring in feed conversion and interest rates. This is a job for computers, and one of the first jobs agricultural economists asked their first computers to perform. In recent decades, personal computers have brought the tool to all producers, from their Extension specialist or via the World Wide Web.

The trouble is, there are still a lot of variables to estimate. User-friendly programs have suggested, “default” numbers in place that you may want to change to fit your situation. Especially if they were written in the days of 65-cent calves, \$3 corn and 10% interest.

If you research the numbers by talking to your feedlot partner, banker, feed company rep or county agent, you can come up with some reasonable assumptions. Still, they are assumptions and can be moving targets, blown off course by unexpected weather, disease or even political news.

Despite the pitfalls, break-even calculations are essential to planning your profit. The next level of skill is risk management to put ceilings over your costs and floors under your sale prices. You can do that with using forward contracts, hedging or options.

Breaking even is never the goal, of course. You can’t control the weather, but you can exercise a little control over most of the assumptions and expectations in the long and complicated formula. Negotiate for lower or deferred interest. Employ an experienced buyer who can purchase better cattle for less. Consider alternative feed ingredients for a least-cost ration that doesn’t scrimp on quality. Work on keeping overhead costs under control with conservative management.

The big opportunities are information-based. Break-even purchase price on the steers you have fed successfully for the last five years is a higher figure than average. Unknown steers should be laid in at a much lower price—and don’t get caught with any four-year-old, wild steers from off the Western frontier.

If purchase price is the biggest number in total cost, feed is generally next. Those costs depend on much more than the price of corn, forage and supplement. It’s what the cattle can do

with the ration, the rate of gain and conversion of feed to muscle that moves your fortune above or below break-even.

Your knowledge of the genetics and management behind a set of steers is critical. Health alone can make a \$200/head difference in the bottom line between calves that must be treated twice and healthy herd mates.

Don't overlook the opportunities to beat the average price for finished cattle—not so much by haggling with buyers as by producing quality beef that sells itself and brings home grid premiums of \$40, \$80 or more than \$100/head. By collecting and using data from the buyer, feedlot and packer, you can work to reduce variability in cattle, too.

Next time in *Black Ink*, we'll look at death, taxes and other certainties. Questions? Call toll-free at 877-241-0717 or e-mail steve@certifiedangusbeef.com.

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