



# Key to Profitability

Defining factors within an operation to increase overall productivity and profitability.

by **Laura Handke**

**S**tep back, look at the operation from a wider perspective and reflect. Reflect on what draws producers to raise row-crops and livestock. Perhaps it is the undying love for the industry or the love of a family business. Perhaps it is the challenge to feed a growing population with less resources or the desire to pioneer new technologies for this purpose. Although, in essence, it may be all of those things in addition to the need for profit.

This thought poised the crowd for discussion when University of Missouri Agriculture Economist, Wesley Tucker presented to the 2019

Kansas, Oklahoma, Missouri and Arkansas Beef Conference attendees this past January.

Tucker went on to share amongst the farms he works with across Missouri, the difference between those who are profitable and those who aren't is always found in their management system. Additionally, finding a system that works vary from farm-to-farm because the circumstances, situations and resources are different between families and farms.

The key: finding a system that works and learning where the operation's strengths and weaknesses for profitability lie.

"Does your grass make you

the most money on your farm," Tuckers asks, "or is it your fencing; maybe it's your fertilizer? How about your cows, are they what's making you money?"

The reality is none of those things make money. The financial success of an operation is dependent on a producer's knowledge — knowledge of the processes, how to use the resources at their disposal and the ability to determine which practices are the most valuable for the operation.

"The practices you use to convert sunlight into grass into something that you can sell is what makes you money," Tucker says. "The 'man' is the most important part of the word

management, and how you set up your system and your knowledge of how the system works is what makes you money."

## Determine actual profitability

Tucker says many of the operations he works with use their Schedule F tax form to determine whether or not their operation is profitable, and this practice, he says, puts a producer in a losing position from the beginning.

"Farmers have two rules. Number one is don't ever pay anything to the government, and number two is don't ever forget rule number one," he says. "So if you are using your Schedule F to determine whether or not you are profitable, you aren't taking into account your end of the year expenditures, and you don't know whether you were truly profitable or not. The only way you are going to know if you are profitable and what your true cost of production looks like is to sit down and do a balance sheet."

All things considered, the first thing that needs to be determined is a realistic set of working numbers from an up-to-date balance sheet. In the 42 years Kansas Farm Business Management Association has been collecting ag economic costs from producers, the average has been negative \$92.50 per cow. Meaning, only six out of 42 years of cow-calf production netted a positive return.

Tucker uses data sets to break production operations into a top third and bottom third based on profitability in a given year. Sharing from his experience, even

## Maximizing a management plan

Initializing a management plan starts with looking at overhead costs and University of Missouri Agriculture Economist, Wesley Tucker asks producers to begin with the following steps:

**1) Manage stocking rates:** Tucker encourages the producers he works with to first assess their stocking rates and make sure their pastures aren't overstocked.

**2) Improve grazing strategies:** Look at grazing and haying strategies. All producers should be looking at what they can grow in the winter rather than what they can put into storage in the summer.

Tucker encourages producers to think about feed, whether it's growing from the ground or stacked in a bale lot, in terms of protein and energy, "I don't care how many bales of hay you have or how much grass you have, I care about how many pounds of protein and how many pounds of energy you have," he explains. "That's what sustains a cow, not how many bales you have in the bale yard."

Tucker says a producer in his area typically spends \$40 per acre on cash rent pasture, \$40 per acre on fertilizer and can grow around 8,000 pounds of forage from the ground up, with average utilization somewhere in the 45% range. Producers willing to take their management a step further and implement intensive grazing management can see utilization as high as 70%, which is what Tucker encourages.

"If we consider the numbers above, 40/40/8,000, being consumed by a 1,200-pound cow eating 2.6% of her body

weight and only utilizing 45% of the available forage, I can calculate that it is costing me \$.81/day just in rent and fertilizer," Tucker explains, "If I take that same animal, with the same numbers and increase her utilization to 70%, I've dropped that number to \$.46 per day."

Regarding hay, Tucker says in an average year, grass will test at about 60% total digestible nutrients (TDN), averaging \$.03 per pound of energy. In the same year, a bale of hay is somewhere in the neighborhood of \$30 per bale, and Tucker stresses in his extension role he sees a lot more hay samples well below 50% TDN than above.

A cow is far more efficient at harvesting forages than any piece of machinery on the farm.

**3) Diversify:** What else can you do with your land rather than only run cow-calf pairs?

"The most profitable people I work with are those people who can run 100 pairs but choose to only run 75 and do something a little different with the rest of their grass. A lot of them are running stockers, some are harvesting fescue seed, but the point is, they aren't putting all of their eggs in the cow-calf basket," Tucker shares. "Creating flexibility in your system is critical." **HW**



in the worst years, there is still someone making money.

#### **Control costs**

“The American beef industry was built on cheap land, cheap feed, cheap fuel and cheap fertilizer,” Tucker says, “but that’s no longer the case and those inputs eat-up your profit fast.”

Tucker shares he has the opportunity to speak in many different places and the one commonality between every producer he speaks to is their cows eat 365 days a year. No matter what they are being fed those costs contribute to determining profits gained and profits lost.

Across geographic locations, the biggest challenges to profitability are land and feed costs. Tucker says in the research he uses help producers establish management systems, 52% of the time profitability can be predicted using only one variable in the operation — feed costs. The second biggest driver of profitability is depreciation — how much new paint an operation has sitting in the barn and finally, calf prices. Weaning weight, a common focus in conversations of profitability, has very little influence on profitability when looking at the management system.

On average, the weaning weight differences between the top third and bottom third of the producers Tucker works with are plus or minus 10%. Conversely, it isn’t rare for Tucker to see a 300% swing in feed costs between the top and bottom division of the producers he helps.

“The reality is, are production variables important? Yes, they are,” Tucker points out. “But what separates the profitable from the unprofitable producers is the operating costs.” He warns producers should be cognizant of what percentage of their operating budget is allocated to feed and land costs.

#### **Shift feeding focus**

Feeding a cow for 365 days is a challenge, no matter how you go about it, but Tucker says the way an operation approaches the challenge and the methods they use to accomplish cow maintenance can drastically impact feeding costs, and, in-turn, profitability.

“The biggest change to the beef industry was the round baler, followed by synthetic fertilizer, followed by an influx of corn production,” Tucker says, “We don’t look at what we can grow in the winter anymore; instead we focus on storing up enough in the summer to make it through the winter.”

Maintaining profitability on the farm is a challenge, and when Mother Nature and trade uncertainties are factored in, there has never been a better time to review management strategies and look for new opportunities to make assets work for the operation. Thinking critically about a holistic approach to management may be the elevation a farm needs to go from average to the top third. **HW**