

CREATING VALUE AND PRESERVING MARGIN WITH COMMERCIAL COWS

Jim Lerwick, Producer
Lerwick Bros. LLC
Pine Bluffs, Wyoming

If the object of the game is to do what one enjoys while making outstanding margin, we in the cow business have enjoyed one of the greatest opportunities in decades. Even though drought has made it an unequal distribution, and disease and politics have added considerable confusion, turning grass and other feed stuffs into marketable calves has been good. We have had challenges to enhance value for specific markets with new technologies. We have seen our aged cow and bull markets influenced heavily by border issues as well as premium meat markets disrupted by embargos and restrictions. Feed price has begun to make a major sort of production systems. However “good” calves produced in economically viable systems have been highly profitable.

We have been asked to discuss how we endeavor to create and capture value in beef calf production. In summary, we attempt to maximize revenue by creating measurable or perceived value to the grow out and finishing segments, while knowing what input costs produce the greatest margin potential and reducing those costs which are not contributors. We will try to share with you some of our thoughts in these areas, while openly admitting we are learning every year and have much to do to stay competitive with this dynamic industry.

I should mention that, as every production system, we operate within certain constraints and enjoy some specific opportunities in the southeast corner of Wyoming. Our diversification with both dry land and irrigated crop production puts labor constraints on the April through August time frame and summer pastures are five to two hundred miles from the headquarters. We calve heifers by the barn in January and calve cows February 1 to March 15, run the cows on cropland aftermath fall and spring, with pairs on summer pasture from April 15 to October sometime. We have high per head transportation costs but utilize trucks necessary in our crop production.

AREAS THAT WE FEEL WE CAN ENHANCE VALUE ARE:

- A. **Performance potential** of the weaned calf either for sale or retained ownership is addressed in the following ways.
1. **Genetics.** We believe the bull and purchased semen expenditure are a poor place to cut costs, and try to buy in the top 10% of a suppliers presentation.
 2. **Crossbreeding.** Our records indicate that Charolais sires on Angus and Black Baldie cows return from \$70 to \$100 more in the lifecycle of the calf than straight bred cows, about half prior to weaning and half after.
 3. **Health.** We keep complete individual history, use a veterinary supervised herd health program and precondition prior to weaning.

4. Records. Cow records are computerized and cows are indexed with birth, weaning, and when available feedlot performance data. Individual weights are recorded at birth, preconditioning, and sometimes at weaning as well as mid finish and slaughter, depending on where they are finished. Information is shared with those interested or impacted.

B. **Market timing** is a value we address by weaning a 600 to 700 pound calf in early September that will finish in the April market when yearlings are gone and the calf surge hasn't started.

C. **Carcass quality** is addressed with the same focus and record systems as addressed in

Item A. Harvesting data is critical here and collected differently by each feeding and processing system. New markers and EPD's affect our breeding stock decisions.

D. **Market premiums** are pursued through age and source verification, grids, and other enhancements. Natural may be considered, but has not been our program. Source and age verification has added \$25 and \$34 to end value of cattle for us. Grid premiums have varied with year and feedlot but have given substantial genetic evaluation information.

Real or perceived value as the calf enters the feeding cycle is meaningless if the production system that delivers it is not sustainable or profitable. We break our cost considerations into the following four categories:

- A. **Cash costs.** We use enterprise accounting and the cows pay the farming enterprise fair market value for any good or service rendered and used as if the enterprises were not financially related. Areas of significant costs are addresses as follows.
1. Feed is nutrition tested and feed piles priced at market value, then least cost rations developed with a maintenance and gain target for the calving period. The feed resources not need are sold into other systems by the farming enterprise. Baled corn stalks, straw and silage allow us to sell dairy and horse hay. Triticale planted into irrigated winter wheat stubble provides three to five cow months of grazing per acre for November, December, and April when excessive hay or other processed and delivered feed stuffs would cut profits. Total annual feed and grazing costs in 2007 were less than 50% of calf receipts on a per head basis.
 2. Labor and overhead costs are allocated to the cow and farming enterprises to reflect true costs in a diversified system.
 3. Replacement female cost is constantly analyzed as to impact on future production, cost, and sustainability and economic viability as a future supply.

- B. Opportunity costs.** People and management resources as well as capital and other costs that can be utilized in other enterprises for greater return must be justified by profitability or the enterprise is subject to size reduction.
- C. Noneconomic costs.** Costs which do not have a dollar value are sometimes the deciding factor as to the sustainability of an enterprise. Some of these costs are:
1. Quality of life, i.e. family time, R&R, purpose of life etc.
 2. Conservation benefit, wildlife aesthetic value etc.
- D. Interference costs.** These are costs which occur outside the enterprise because of decisions made for economic reasons within the cow enterprise. Examples of these costs are:
1. If early summer calving were substantially more profitable but interfered enough with the farming enterprise to restrict excellence and profit of the farm, then the reduced profit of the farm enterprise must be allocated against the calf.
 2. If compaction of soil by grazing reduces crop production or requires additional farming costs, then proper compensation and allocation must be made.

SUMMARY

There are many ways to enhance value, however without measurement of cost and return of each opportunity, invalid conclusions may hide the reality of the decisions. Calf production, as any other business is merely an allocation of resources available, and the principle of diminishing returns must be respected. Sustainability of the business depends both on enhanced value and cost control balanced by personal and business goals.