RANCHING FOR PROFIT

THE HIDDEN COST OF COWS

Three years ago we were all waiting for calf prices to improve. Ironically, it is when calf prices are highest that our cows are least profitable. That bears repeating: when calf prices are highest your cows are generally least profitable. To understand why, we need to understand what it costs to keep cows.

I bet that if you asked your neighbor what their highest cost of keeping cows is, they'd say feed or land. A few might even say labor. If we actually charged for our own labor they might be right. But while all of these costs are significant, none is *the* biggest cost of keeping cows for most ranchers. The biggest cost is a bit more obscure, but no less real or painful to pay. It is depreciation.

Cows Depreciate

The average cow has 3 calves in her life time. Don't believe me? Do the math. Consider a herd in which 80% of the cows exposed to a bull actually wean a calf and stay in the herd (20% replacement rate). The average herd in north America has a higher replacement rate, but I'll use a more conservative figure to illustrate the point. Using a 20% replacement rate, only 51% of the cows would be left in the herd after 3 years. This statistic comes as a surprise to most ranchers. We tend to remember our 8 year old cows that have a calf every year, but they are the exception, not the rule.

Let's assume that at the peak of the cattle cycle you'll be able to buy bred replacements for $1,000 each and your open culls will fetch $500/head. That's $500 of depreciation in 3 years or $167/year. If we take death loss into account it's even worse. A dead cow in this scenario depreciates $1000. If death loss is 1% it will increase average depreciation to around $175/cow/year!

Now for the bad news, the cattle cycle intensifies the impact. The average replacements purchased at the peak of the cycle will be culled when prices are going down. That will make the annual depreciation over $200!

Now let's find the good news in all of this. Depreciation on those cows purchased during the low part of the cycle may be less than $50 per year. In fact, some of our clients have restructured their businesses so that their cows appreciate in value! By adding value to culls (e.g. breeding, increasing weight, etc.) or taking advantage of the seasonal peaks in the cull market, they've been able to minimize depreciation and in some cases eliminate it all together.

At a recent talk in Nebraska I asked a group of about 40 ranchers to raise their hand if they were in the cow-calf business. Nearly everyone raised their hand. Then I asked them to raise their hand to show me who was in the cull cow business. Only one or two in the audience raised their hands. But if you are in the cow-calf business you are also in the cull cow business. This is an important distinction.

After calculating the cost of depreciation in his herd, a client in the Texas panhandle exclaimed, “I’ll never sell a cull cow again!” At first I thought he was kidding, but then he explained, ‘I’ve just realized that I can’t afford to sell culls. I need to find a way to add value to every animal that leaves my ranch.” He began studying the annual cull market cycle and sold cull cows when the market dictated. He made sure he put weight on his thin culls. He put bulls in with his open cull cows (although they no longer matched his calving schedule, they fit someone’s somewhere). In short, he went into the cull cow business, but if you were to ask him, he’d tell you he never sold a cull cow. The bottom line is that he eliminated cow depreciation in his business. Managing depreciation is critical when you are *Ranching for Profit*.