

What Is Top Management?

P Top Management isn't doing 1 thing a 1000% better...

P It is doing 1000 things 1% better

Too Often We Try To Hit A Home Run!

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Agenda Item 2: The Profit Equation

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Profit Equation

1. **Income = Price x Cwt Of Calf Produced**
2. **Expenses = UCOP x Cwt Of Calf Produced**
3. Profit = (Price - UCOP) x Cwt Of Calf Produced



Economics Based

Production Based

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You Use These Two Questions To...

- 1. Determine your absolute costs of production
- 2. Find your herd's strength and weaknesses
- 3. Focus your limited management time

Producers Suggest It is Difficult To Allocate Production Costs

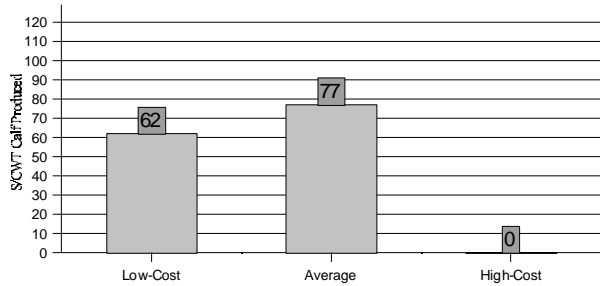
P I will suggest a "Profit Center" approach to simplify the data collection

Why Unit Cost Of Production?

- P** Always express costs of production in the units that you sell
- P** Always compare production costs to market Price
 - ▶ Cost per Cwt. of Calf Sold
 - Not cost per cow
 - ▶ Do same for Wheat
 - Cost per bushel not per acre

High-Cost Vs Low-Cost Herds

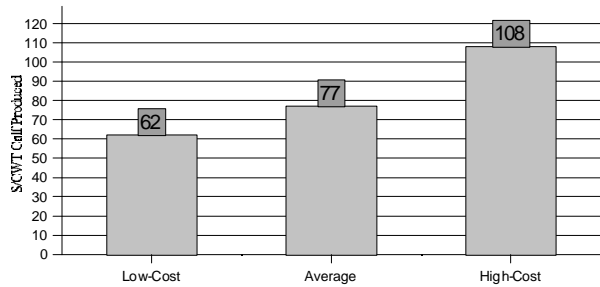
Northern Plains 1997



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High-Cost Vs Low-Cost Herds

Northern Plains 1997



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Where Is The Big Potential For Making A Difference On Your Ranch?

High-Cost Group = \$108/Cwt

Low-Cost Group = \$ 62/Cwt

=====

Difference = \$ 46 Per Cwt

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Implication

Low-Cost Producers

Frequently Are The High Profit Herds

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But Harlan...

“I have my costs as low as I can get them!”

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What I Think They Are Saying Is:

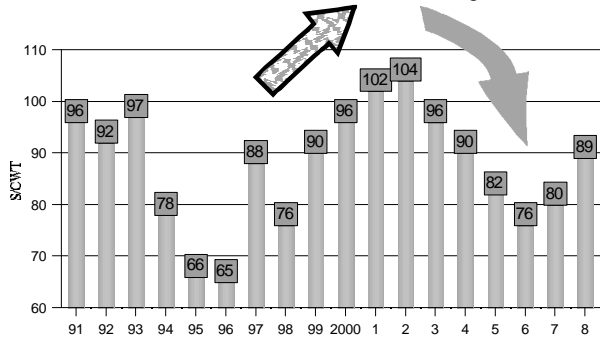
“Given My Management System...

I have my costs as low as I can get them!”

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North Dakota Price Projections 500-600 Lb Steer Calves

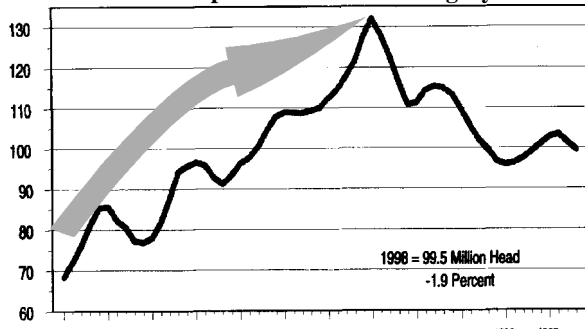
Dickinson, North Dakota October Average



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So... Do You Run A Beef Cow Business The Same...

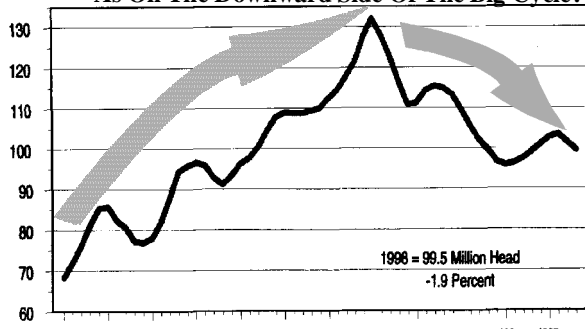
On The Upward Side Of the "Big Cycle"



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So... Do You Run A Beef Cow Business The Same...

As On The Downward Side Of The Big Cycle?



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I Don't Think So!



To Run A Profitable Beef Cow Herd On The Downward Side Of The Big Cycle, You...

- P** Have To Be A Low Cost Producer
- P** Have To Operate As A Business
- P** Need A Financial Plan
- P** Need a Marketing Plan

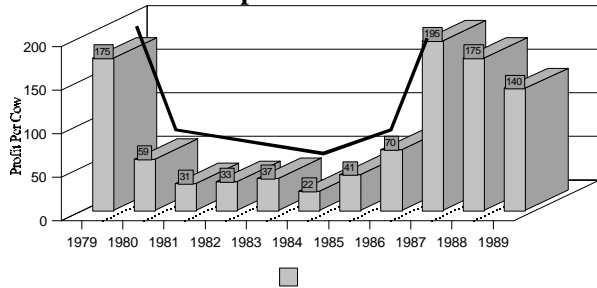
Agenda Item No. 5

How We Collect Cost Of Production Information

Beef Cow Enterprise Profits

Farm Business Management Record Summaries

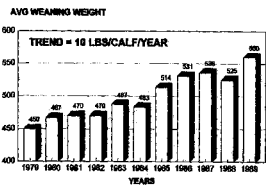
“U Shaped Profit Curve”



55

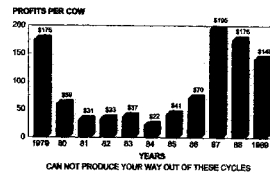
Weaning Weights Vs Beef Cow Profits

CHAPS WEANING WEIGHT



BEEF COW ENTERPRISE PROFITS

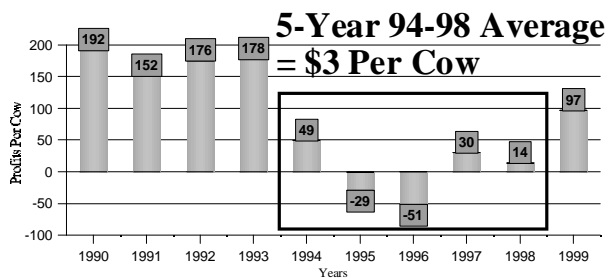
Farm Bus Mgt Record Summaries



Last Cattle Cycle (1979-1989)

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Beef Cow Profits In The 1990s (North Dakota Farm Business Management Herds)



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What Is North Dakota's IRM Program?


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Integrated Resource Management

A New Management
Approach

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Integrated Resource Management

“A Goal Setting Process That
Gives Ordinary Producers
Information To Become
Competitive, Efficient,
International Businessmen”

Martin Jorgensen, S.D. Rancher
Feedstuffs, May 14, 1990

60

**IRM HERD
ANALYZER
Input Form**

**INPUT FORM
FOR
1998
CALVES**

70

**Your Beef Cow Profits
Are Impacted By**

- P The Economic Cost & Return Of Your Beef Cow Herd
- P More so than by the weaning weights that you produce.

71

Agenda Item No. 6

**What We Have
Learned From
10- Years of IRM**

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We Learned That:

- P** High-cost herds are high costs in all categories
- P** Feed costs account for 60% of all costs of production
 - Relatively few producers balance rations
- P** Debt cost was less on the low-cost herds
 - Yet, the low-cost herds averaged \$314 debt per cow
 - High-cost herds averaged \$574 debt per cow
- P** Managers with under stocked pastures, tend to be higher-cost producers
 - Existing cows have to pay total pasture bill
 - opportunity to buy a near-by pasture come at wrong time

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We Learned:

- P** That feed disappearance is a key determinant of unit cost of production
- P** That, typically, farm raised feeds are lower cost
 - But, farm raised feeds are not free
- P** That, if a farmer or rancher has debt on farm land and farm machinery,
 - Raised feeds can cost more than purchased feeds
- P** How to calculate the cash costs of farm raised feeds
- P** That “Iron” (machinery Cost) is typically dragging ranching profits down
 - Particularly true now that machinery cost are so inflated

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Seven Mckenzie County Beef Cow Producers:

- p** Learned how to lower the group’s Unit Costs Of Production \$19 per hundredweight from 1995 to 1996
- p** Net income for these producers went up in 1996
 - The toughest year in this beef price cycle!

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We Learned:

P That low-cost producers made a profit in 1994, 1995, 1996 and 1997

- ▶ The four lowest market price years in this decade

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In Summary, We Learned:

P We have to weigh calves to measure herd performance

P We have to count cows:

- ▶ On bull turn-out date
- ▶ January 1 of each year

P We have to treat our beef cows as a “Profit Center”

P We have to measure costs to manage costs.

P Low-cost producers are the most profitable producers

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And We Learned That:

P Conducting a comparative analysis comparing our herd against the Average of benchmark herds is the single most powerful ranch management tool available, bar none!

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