

# STRATEGIES FOR TIGHT BUDGETS AND MINIMAL RISK

## Costs, Risks and Wise Spending in the Cow-Calf Enterprise

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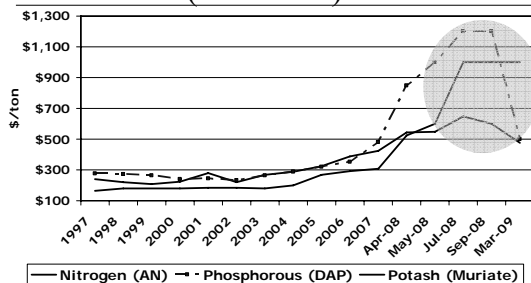
Dr. Curt Lacy  
Extension Economist-Livestock

### Outline

1. Examine the effects of input prices on costs (and profits).
2. Calculate the true cost of cattle and hay production.
3. Making smart spending and management decisions.



### Fertilizer Prices 1997-2008 (and 2009)



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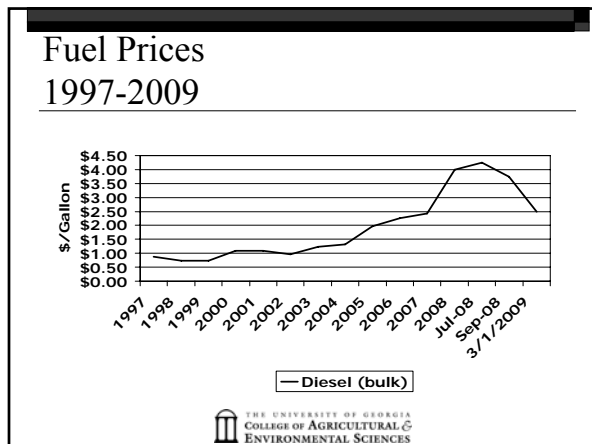


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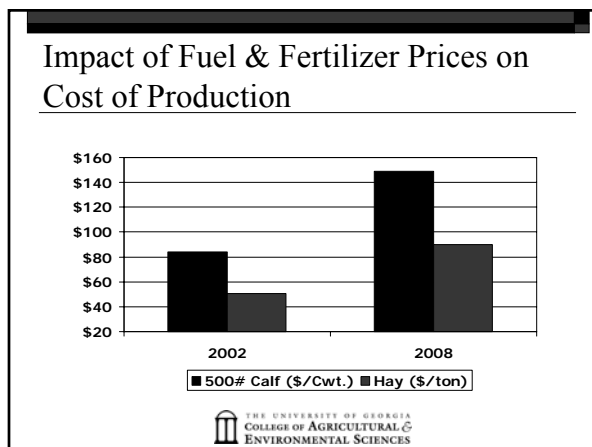
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### Input Outlook for 2009 – Fuel and Fertilizer

**Fuel**

- ☐ Crude oil peaked in July at \$147/barrel.
- ☐ Averaged \$101/barrel for 2008.
- ☐ Natural gas prices also impact fertilizer prices.
- ☐ Expected to be considerably lower in 2009.

**Fertilizer**

- ☐ We import most of our fertilizer
- ☐ Nitrogen generally manufactured while phosphate and potash are mined.
- ☐ Major input for nitrogen is natural gas.
- ☐ Strong dollar makes inputs cheaper.
- ☐ Outlook for 2009
  - Nitrogen ↓
  - Phosphorous ↓
  - Potash ↔↑

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### Input Outlook for 2009 – Capital

1. Current financial situation also causing problems in agriculture.
2. Some reluctance to make cattle loans → no cow equity.
3. Reduced credit availability for some.
4. Increased collateral requirements.



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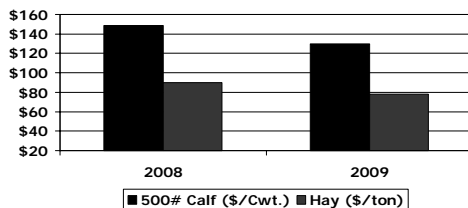
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### Good News-Costs Should be Lower. Bad News – They are Still Too High!

Projected Costs for 2009 vs. 2008



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### So what do I spend my money on?



1. Determine the amount you have to work with.
  1. Cash
  2. Liquid assets
  3. Non-liquid assets
  4. Loans
2. Identify your costs.
3. Rank them in order.
4. Focus on the larger number.
5. Understand the difference in cutting costs and cutting corners.



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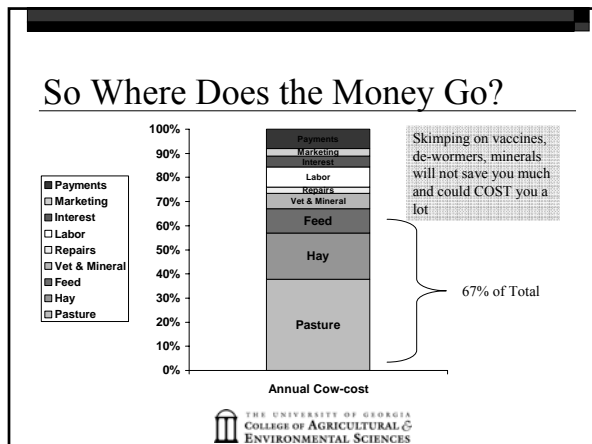


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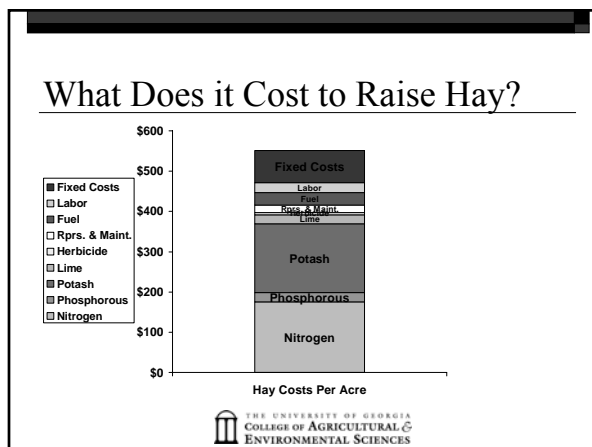
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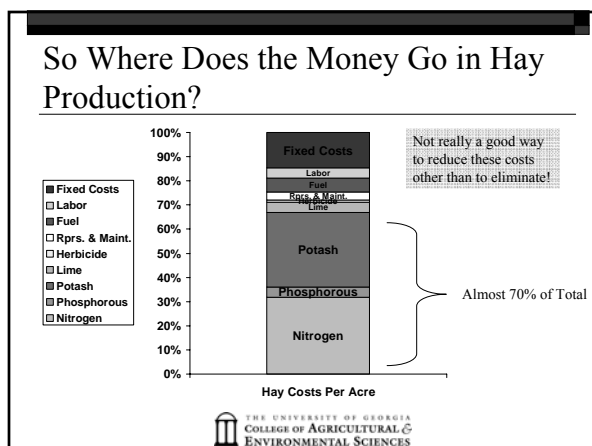
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# STRATEGIES FOR TIGHT BUDGETS AND MINIMAL RISK

## Costs, Risks and Wise Spending in the Cow-Calf Enterprise

### Ways to reduce the grocery bill

1. Sell non-productive or unprofitable cows.
2. Forages
  1. What does the soil test say?
  2. Hay production vs. purchased hay or no hay.
  3. Hay rings and hay storage.
  4. Rotational grazing.
  5. Legumes?
3. Feeding
  1. Segregate classes of animals.
  2. What does the forage test say?
  3. Look for alternative sources of feed. Hint, if its in a bag its more expensive.




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### How many cows do I need to justify hay production?

	Number of Cows					
	35.00	50.00	100.00	200.00	300.00	500.00
Tons/cow	2.00	2.00	2.00	2.00	2.00	2.00
Acres required	11.67	16.67	33.33	66.67	100.00	166.67
TVC	\$469.78	\$469.78	\$469.78	\$469.78	\$469.78	\$469.78
VC/Ton	\$78.30	\$78.30	\$78.30	\$78.30	\$78.30	\$78.30
FC	\$8,687.96	\$8,687.96	\$8,687.96	\$8,687.96	\$8,687.96	\$8,687.96
FC/ton	\$124.11	\$86.88	\$43.44	\$21.72	\$14.48	\$8.69
TC	\$14,168.73	\$16,517.63	\$24,347.29	\$40,006.63	\$55,665.96	\$86,984.63
TC/ton	\$202.41	\$165.18	\$121.74	\$100.02	\$92.78	\$86.98
TC/1,000# roll	\$101.21	\$82.59	\$60.87	\$50.01	\$46.39	\$43.49
TC/Cow	\$404.82	\$330.35	\$243.47	\$200.03	\$185.55	\$173.97

As long as you can buy it for this price or less, you are better off buying hay.




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### Comparison of 50 cows raising hay vs. 50 cows buying hay (same land).

Cost Item	50 Cows - Raising Hay	50 Cows - Purchased Hay
Variable Costs (NVC)	\$29,017	\$25,553
NVC (\$/Cow)	\$580	\$511.07
NVC (\$/Cwt.)	\$131	\$115
Total Costs (TC)	\$35,116	\$29,060
TC (\$/Cow)	\$703	\$581
TC (\$/Cwt.)	\$158	\$131

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### Summary

- ☐ 2009 will another tough year for cattlemen.
- ☐ Costs should be lower, making it some better than 2008.
- ☐ There are ways to reduce costs but it requires taking time and making some tough decisions.



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