Cow Country Reporter

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News from your CEO

HAPPY NEW YEAR! May you be blessed with good health and may the year 2020 be a safe one. As the old saying goes, "hindsight is 20/20 vision" let us look back over 2019 and see what we could have done different, better or not at all. We all know that Ma Nature plays a major role in our operations and adjustments are needed to account for her challenges. We hear all the time "you have to reduce your inputs to be more profitable". Yes, that is a fact, however, let's look at it from a different perspective. Can I increase my profits in the future by changing (narrowing) my calving season, extend my grazing season by adding cover crops, thus reducing my dependence on hay and change my marketing plan? You may have some more changes that can be made to make your operation more profitable. This may be the year or decade to look at change. If 2019 taught us anything in the cow/calf business, it is we had better make the adjustments because no one else is concerned about us. The stocker/ backgrounder, feeder, packer, wholesale/retainer all have got their own problems so we just have to be better managers. I was reading the January issue of Progressive Forage and came across a statistic that really caught my attention. The 2018 Top 20 Forage States (total tons of all forage production) only included one state in the Southeast (Kentucky #15). The top 5 were California, Wisconsin, Texas, New York and South Dakota. Why is Louisiana not among the Top 20 states when we can grow forages year-round? Something to think about this year!

Let's have some meetings to address these issues! Start your review of your operation today and see if you can make some profitable adjustments. Contact CPL today.

Dave Foster, CEO

Take stock and look forward

By: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

This final newsletter for 2019 is a good time to encourage cattle producers to reflect on the past year as you think ahead to the coming year. No matter how you judge the past year; good, just okay or disappointing, there is value in taking some time to analyze the reasons for the outcome. What factors contributed to profitability or to the lack of profitability? Inevitably weather and markets have a big impact on the returns to cattle production. Producers do not control either of them and both were important factors in 2019, as they are most years in one way or another. However, you do control how you were prepared for those impacts; how you anticipated those conditions and how you reacted as situations unfolded. What went right and what could have been handled differently? Let's focus on cow-calf operations and consider a few of the questions in three broad categories: production; inputs; and marketing. Each of these deserves separate consideration while recognizing that they are ultimately interrelated.

How many calves were weaned relative to the number of cows and heifers exposed to bulls last year? How does that weaning percentage break down between pregnancy percentage, calving percentage and calf mortality? Are there reproductive problems that suggest changes in herd health management or nutrition? Does calf morbidity and mortality imply that calf health management should be reevaluated? Were weaning weights as expected and if not, why not? It is important to determine appropriate benchmarks to evaluate all aspects of the business. For example, a one hundred percent weaning rate is probably not achievable and certainly would not be economical, but what is the economically optimal level? Is the goal to maximize weaning weights or optimize them by balancing the value of extra pounds against the cost of producing those pounds and what is that

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optimal level?

Input management is mostly cost management. What is the annual cost per cow? A Kansas State University publication shows that annual cow costs vary by $260 from high profit to low profit operations^. Across individual operations, cow costs likely vary by $300-$400/head or more. Feed and pasture costs typically account for 65-70 percent of total variable costs. Grazed forage is a far cheaper source of nutrition for cows compared to harvested forage and purchased supplemental feed. Are there ways to improve grazing management to reduce the need for expensive hay and supplement? It starts with pasture management to improve the quantity and quality of grazeable forage followed by grazing management to best utilize it. Is it possible to reduce cow cost by $25, $50 or $100 per cow per year without impacting production?

Marketing is capturing the revenue offered by the market. There may be more strategic, long-term marketing questions: Are you producing the type of cattle demanded by the market and are you marketing them to their highest value? Are you leaving money on the table by not adding value, such as preconditioning, and marketing calves to capture that value? Is there a need for a more proactive marketing program to manage risk and better capture market value?

Management is an active process to control and direct resource use; to produce a valuable product; and capture the market value of that production. Decisions should be based on a purposeful objective and not habit or tradition. Answers to the questions above and many others depend on having information and that means keeping records and using those records to drive decisions.

A football analogy may be appropriate given that it is college bowl season. Success in the cattle business is a matter of being on offense as much as possible. Weather and markets may force you into defense at times but management can minimize the amount time you spend on defense and help you get back on offense quickly and effectively. I wish everyone in the cattle business a Happy New Year and a prosperous and successful 2020.

Focus on profit, not just costs

Livestock Outlook: Aim to be the best manager of costs and a better marketer of your products.

By: Lee Schulz

Turning a profit in beef production takes two specific management functions. One is finding an appropriate mix of farm-raised and purchased inputs to produce beef efficiently. The second is developing a marketing program to optimize revenue, and therefore profit.

Many producers may believe lowering costs automatically improves profit. Lowering costs and maintaining, or improving, revenue will boost profit. However, some cost cutting moves may erode production or quality, resulting in lower revenue and less profit.

Cost is only part of profit. Instead of focusing on becoming a low-cost producer, I challenge you to think about being the best manager of costs and a better marketer of your products. That is the calves, feeder cattle, fed cattle and even cull cows that you sell. This may require a shift in where you are spending money or increasing an expense.

How much input to use

Understand that inputs have diminishing returns. The concept is simple. At some point, each additional unit of input will produce less with less additional output. An example is applying fertilizer to a crop. You want to apply an appropriate amount of fertilizer to get an optimal yield. Not enough fertilizer results in below-optimum yields. Applying too much fertilizer can cut profit by adding cost with no additional yield to pay for it. Finding the right balance requires an evaluation of where the diminishing returns lie.

This principle also applies in beef production. Winter-feeding cows is as an example. The quantity and quality of hay provided to beef cows can influence the pounds of calves produced. Meeting the nutrient recommendations gives you an optimal size of feeder calf to sell. The optimal feeder calf size will be different for each operation.

Winter underfeeding (quality and/or quantity) of cows can result in lower conception rates or weak calves leading to a lower number of pounds weaned per cow exposed. Winter overfeeding of beef cows can result in overconditioned cows that can reduce reproductive performance and milk production and lower weaning weights.

Understanding these examples is easy. But employing this principle is much more difficult. First, producers don't know the end-product price at the time they need to make decisions on inputs. Second, numerous biological factors influence these outcomes. However, producers should constantly be making these assessments as they manage operating expenses.

Gather and use information

To succeed, producers need to find ways to profit in the constantly changing beef cattle production environment. Measuring and recording input-output relationships that help drive profit is one key, but doing so takes time. However, generating and interpreting those data enables you to make the best management decisions possible. The old saying is true: "You can't manage what you don't measure."

Producers cannot control some factors. Still, understanding where costs are occurring and interactions among costs and production practices is critical. Many producers feel that they can't tighten their belts anymore, so the logical option is to improve profitability through increasing revenue. Now is the time to be an effective recordkeeper, which will allow you to manage your operation's cost.

Average expenses deceiving

Farm production expenditures in Iowa were $25.3 billion in 2018, down from $26.4 billion in 2017, according to the latest USDA National Agricultural Statistics Service Farm Production Expenditures 2018 Summary report. Twelve out of the 17 expenditure items measured by USDA declined from 2017.

Total 2018 farm production expenditures were down 4.1% compared with 2017. Lower expenses should help profits. Still, odds are every line item on your 2018 profit and loss statement is up or down more than 4%

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from 2017.

The four-largest expenditures in Iowa total $14.5 billion and accounted for 57.3% of total expenditures in 2018. These included feed at 16.9%; livestock, poultry and related

Livestock, poultry and related expenses include purchases and leasing of livestock and poultry, where intra-state and interstate transfers of livestock are captured. Rent includes cash rent paid, share rent, and public and private grazing fees. Farm services include all crop custom work, veterinary custom services, transportation costs, marketing charges, insurance, leasing of machinery and equipment, utilities, general expenses and miscellaneous business expenses.

In 2018, the Iowa total farm expenditure average per farm was $294,419, down 4% from $306,562 in 2017. On average, Iowa farm operations spent $49,651 on feed; $47,093 on livestock, poultry and related expenses; $42,907 on rent; and $29,070 on farm services. For 2017, Iowa farms spent an average of $51,103 on feed; $49,245 on livestock, poultry and related expenses; $43,206 on rent; and $30,314 on farm services.

In Iowa, the largest percentage increases from 2017 to 2018 were for fuel (up 20.0%), farm supplies and repairs (up 11.6%), taxes (up 9.8%) and interest (up 7.2%). Farm supplies and repairs include bedding and litter, marketing containers, power farm-shop equipment, oils and lubricants, temporary fencing, miscellaneous non-capital equipment and supplies, repairs and maintenance of equipment not depreciated, and other small, non-capital equipment.

Iowa's largest percentage decreases were for farm improvements and construction (down 36.5%), trucks and autos (down 35.4%), other farm machinery (down 23.5%), and tractors and self-propelled farm machinery (down 15.4%). Farm improvements and construction include all expenditures related to new construction or repairs of buildings, fences, operator dwelling (if dwelling is owned by operation) and any improvements to physical structures of land.

Benchmarking across regions

The Midwest region, which includes Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, Wisconsin and other Midwest states, contributed the most to U.S. total expenditures, with expenses of $104.7 billion in 2018. The Midwest accounted for 29.6% of the total U.S. farm production expenditures.

Other regions, ranked by total expenditures, were the Plains at $91.7 billion (25.9%), West at $76.2 billion (21.5%), Atlantic at $45 billion (12.7%), and South at $36.3 billion (10.3%). The Midwest decreased $3 billion, or 2.8% from 2017, the largest regional decrease. Within the Midwest region, Iowa had the highest total and average per farm production expense.

The West region, which includes California, Washington and other Western states had the highest per operation production expense at $245,487 in 2018. The Atlantic region, with North Carolina and other Atlantic states, had the lowest per operation expense at $112,366. The Midwest had an average operation expense of $184,653.

The sample for this survey meets the official USDA definition of a farm (all establishments that sold or would normally have sold at least $1,000 of agricultural products during the previous year). These operations include not only traditional agricultural farms such as grain farms and ranching operations, but also specialty farms like orchards, nurseries and aquaculture. This helps explain why the West region has the highest production expense per operation.

The principal expenses for livestock farms are feed costs, purchases of feeder animals and poultry, and hired labor. Projected changes to principal livestock expenses in 2019 were mixed according to USDA's Economic Research Service. Feed costs and hired labor were estimated to be larger than in 2018, while replacement animal costs and interest costs were lower.

Livestock values drive profit prospects

So far in 2019, Iowa calf and feeder cattle prices were 6% and 3%, respectively, below 2018 values. Feeder cattle futures prices suggest higher prices in 2020.

Many expect feed prices to remain relatively low for the next couple of years, pending a major weather impact. Given recent relative stability in feed costs, net return projections for 2020 are primarily driven by animal market values.

Expected feed cost changes vary by type. For 2019, the average rental rate for Iowa pastures was $59 per acre, according to USDA's cash rent survey. This is a record, up $5 from 2018. But pasture rents have likely reached a plateau. The average sales value of Iowa pastureland was $2,720 per acre, down $70 from 2018, according to USDA's agricultural land values survey.

Iowa hay (excluding alfalfa) prices averaged $118.50 per ton through the first 10 months of 2019, about $10 higher than 2018. However, hay prices have averaged $10 per ton lower in September and October, a differential that could continue into 2020 with higher estimated stock levels.

In December, USDA's World Agricultural Outlook Board pegged the 2018-19 marketing-year weighted average corn price received by farmers at $3.61 per bushel, up 7% from 2017-18. USDA forecasts corn prices to rise another 7% in the 2019-20 market year to $3.85 per bushel.

Schulz is the Iowa State University Extension livestock economist. Email lschulz@iastate.edu .

We wish you a year full of happiness and prosperity,
healthy herds and good cow prices!

New ground beef facility to open in Kansas

A new ground beef processing facility will be built on Kansas soil in 2020.

By: Amanda Radke

Just before Christmas, empirical foods, inc., announced its plans to build a new ground beef facility in Garden City, Kan. This new facility will support existing production at its location in South Sioux City, Neb.

“Demand for empirical’s lean ground beef requires us to significantly increase our processing capacity to meet the growing needs of our customers,” said Craig Letch, president of empirical. “This presents an exciting opportunity for the future of our company and the communities that we call home.”

With plans to break ground in early 2020, construction is anticipated to take between two and three years.

According to an empirical press release, “When fully operational, the Garden City facility will more than double empirical’s current ground beef capacity and employ about 300 employees in the Garden City region. Given the technologically-advanced nature of the empirical ground beef operations, there will be a greater need for skilled staff which will entail on-the-job training at the state-of-the-art facility.”

Nick Roth, president of sister company, empirical technology, inc., said, “We took a long time evaluating the right location to be home for our new facility, and could not find a better, more welcoming community than Garden City. The state of Kansas, and Garden City in particular, have always been great partners to the beef industry and companies like ours, that have been valued members of the community for years. As we look to take this next step in the growth of our ground beef business , we can’t imagine a better place, or better people, to be part of the next chapter in the empirical story.”

A formal groundbreaking ceremony and celebration is in the works for early 2020 .

Jennifer Letch, empirical head of administrative support, said, “We want to plan an event that gives us the right opportunity to bring everyone in Garden City up to speed on all of the exciting developments here at empirical. Garden City has so many wonderful things to offer anyone lucky enough to live or work there, and we are thankful to have this chance to expand our relationship with the entire community.”

The empirical company is headquartered in Dakota Dunes, South Dakota, where they have been working in the lean ground beef processing space for 40 years. With a focus on automation, sustainability and food safety, empirical’s facilities use highly-automated and technological advanced systems to best utilize the beef animal from nose to tail.

So what does this mean for producers? At a time where the industry is looking at more marketing opportunities and more competitors in the retail and packing space, this is good news worth celebrating.

“The sustainable nature of empirical foods production process has dramatically increased value to the beef carcass, typically over $50 per head,” said Letch. “Expanding empirical’s production capacity brings even more of that value to the nations producers.

“Based on the current market and demand, we anticipate a relatively short period of time before we will want to be at full operating status. We expect the growth in demand to come from our current client base as well as new customers.”

For more information, visit www.empiricalfoods.com .

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