

OVERVIEW

Drivers of Net Income

- SPA data

Revenue

Expenses


- The Big Three

Putting the Pieces Together

- Unit cost of production (knowledge)
- Fixed and Variable Costs
 - ✓ Contribution Margin

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PROFIT DRIVERS!



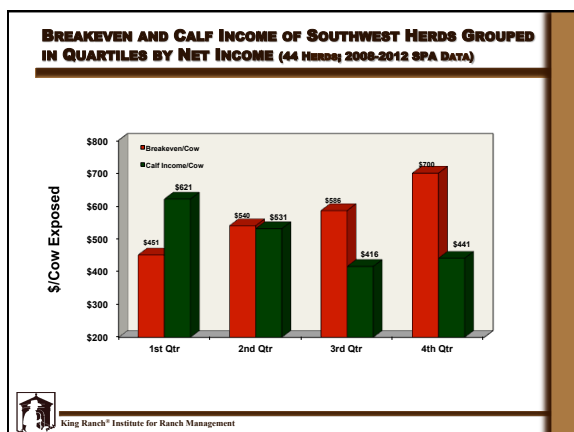
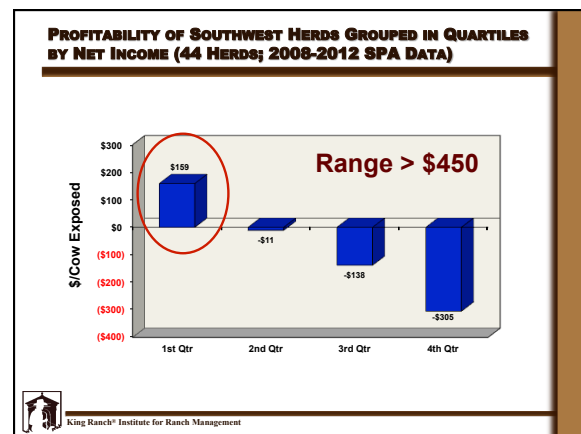
\$275/cwt calves!

\$30/barrel oil!

Sometimes making money in the cattle business isn't hard...

What about the other years?

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A CLOSER LOOK AT REVENUE

Calf Sales ~ 90%

- Weaning rate
- Weaning wt.
- Marketing

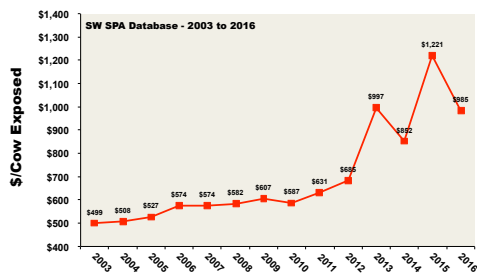
Market Cow & Bull Sales ~ 10%

- Marketing
- Class



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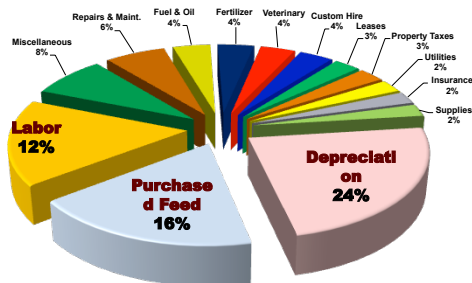
A CLOSER LOOK AT EXPENSES



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Source: Stan Bevers, Ranch KPI

EXPENSE CATEGORY CONTRIBUTION TO TOTAL EXPENSES (SPA DATABASE IN 2012 TO 2016)



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KEY POINT...FIND LEVERAGE HERE!

Stay Focused on the Big Three!

Labor



Feed



Depreciation



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LABOR EXAMPLE

1000-cow operation

- 4 employees = \$200,000 total compensation
- \$50,000/employee = salary + benefits + housing + beef(?)

What if there were only 3 employees?

- Labor cost ↓ by ~\$50,000
- One less vehicle, fuel, horse, etc. ???
- Ranch Labor ↓ by \$50/cow exposed

What does such change mean for operations?

- Less labor
- More outsourcing?
- Less equipment needs?

Is it reasonable???? ...maybe, its at least worth considering



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PUTTING THE PIECES TOGETHER



Photo by Joann Mooker



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OPTIMIZATION

Profit-minded managers should focus on optimizing:

➢ Calf revenue

- ✓ Weaning rate
- ✓ Weaning weight

➢ Cull revenue

➢ Major Costs

- ✓ Feed
- ✓ Labor
- ✓ Depreciation



How do we know if production is optimized?

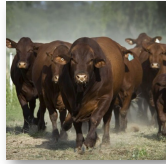


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UNIT COST OF PRODUCTION

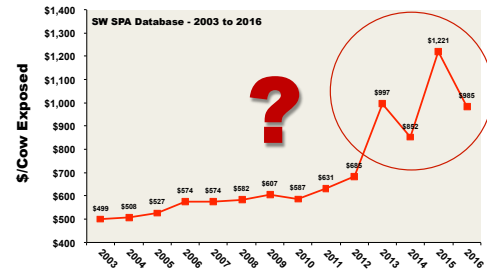
UCOP

- Merges cost of production with output (Excludes Revenue)
- Cost/cwt calf weaned
- **Often discussed... seldom practiced!**



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A CLOSER LOOK AT EXPENSES



Source: Stan Bevers, Ranch KPI



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RANCHING IS MOSTLY A FIXED COST BUSINESS

Generally

- 60 to 70 % Fixed Cost
- 30 to 40 % Variable Cost

FIXED

VARIABLE

Successful managers understand how important it is to minimize fixed cost/unit...



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FIXED VS VARIABLE COSTS

	100 Cows
Revenue	\$105,000
Fixed Cost	\$60,000
Variable Cost	\$40,000
Net Income	\$5,000



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FIXED VS VARIABLE COSTS

	100 Cows	1 Cow
Revenue	\$105,000	\$1,050
Fixed Cost	\$60,000	\$600
Variable Cost	\$40,000	\$400
Net Income	\$5,000	\$50

Net income/cow = \$50

How does net income change with 1 more cow?



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FIXED VS VARIABLE COSTS

	100 Cows	1 Cow	101 Cows
Revenue	\$105,000	\$1,050	\$106,050
Fixed Cost	\$60,000	\$600	\$60,000
Variable Cost	\$40,000	\$400	\$40,400
Net Income	\$5,000	\$50	\$5,650

Contribution Margin

- Revenue minus variable expenses
- **\$1,050 revenue – \$400 variable cost = \$650**
- **\$650 revenue in excess of variable cost can be used to cover fixed cost or is simply profit!**



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STOCKING DECISIONS?

If our example Contribution Margin is \$650, then...

Drought ?

- How much can you spend to keep a cow in the herd?
- **\$649**

Wet Year ?

- How much is an additional cow worth in Net Income?
- **\$650**



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KEY DRIVERS OF PROFITABILITY?

Drivers

- Revenue: Calf Sales + Culls (lbs weaned; price received)
- Expenses: >50% are Labor, Feed, and Depreciation

Useful metrics

- Unit Cost of Production
- Contribution Margin



Profitability of a cow/calf enterprise is a function of management decisions in response to the natural and business environment. Knowing unit cost of production and understanding contribution margin are critical to driving profit.



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THANK YOU!



Clay P. Mathis
Director and Robert J. Kleberg, Jr. and Helen C. Kleberg Endowed Chair
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