How to Cut Costs, Not Profits

John L. Merrill

Editor's Note: This article was written specifically for ranchers coping with tight economic conditions but may be helpful in acquainting others with ranchers' problems and possibilities.

The paper was presented on August 10 during the 1982 International Ranchers Roundup held at Del Rio, Texas. Larry White, LeRoy Hoerman, and Ralph Ward, IRR Coordinators, of Uvalde, Texas reported the meeting was a great success with 631 participants. Ranchers and others interested in range and livestock management came from Mexico and the western part of the United States.

While struggling through 4 years of financial disaster in the cattle business from 1974 through 1977, we looked forward to the early eighties, low numbers, and good prices as a time to recover those losses and save enough to ride out the next storm. Well, the next storm came in 1979 for many and has not let up yet.

Where did the good times go, and what can you and I do about it? Why were there approximately 2 million beef producers in 1977 and about 1.25 million now, a loss of about 150,000 per year? The cattle business may and should be better for the survivors. How can you and I work to be one of the surviving beneficiaries? An understanding of the people in our business may be helpful. The average size beef herd in the United States is 24 head. This means that most beef cattle are produced by people who are not dependent on them as a major source of income, have outside income, don't own enough to be badly hurt by adverse prices, know very little about the cattle business and less about their cost of production, and fool with cattle because they like it. Also, mama is glad to have papa occupied with cattle and kids rather than beer and the boys or slow horses and fast women. This kind of producer is a major factor in our business, so be sure to watch what he is doing to measure its impact on you.

At the other end of our business is the very large operator, with either sufficient capital or outside income to be relatively immune to bad markets, and in fact take advantage of adverse times to purchase additional land or livestock. The people with the most problems are those in between, the commercial operator with 200 to 1,000 head, enough to get hurt but not enough to get rich, who have to be efficient enough not to fall off the economic tightrope—a very large order in these difficult times.

What happened? Why has the cycle that hurt us on one side not helped us on the other side? The supply side has been as predicted—less numbers that with steady demand would have increased prices. Be sure you do not confuse consumption with demand in terms of pounds. Someone eats every pound of beef marketed; very little is thrown away.

Therefore, consumption reflects only the amount that is marketed. We have not "lost" our market in that sense. Demand is better measured by the price consumers are willing to pay for the supply of beef on the market, and that is what is hurting. You should know that about 3 years ago Americans spent 17.7% of disposable income for food, that by 2 years ago they spent more to operate their vehicles than to feed their families (priorities?), and by last year spent only 13.6% of disposable income for food. What that means to us is that Americans are meeting inflation, high energy costs, and unemployment by spending less for food and still are eating well. Also, production and consumption of pork and poultry have increased to fill the meat gap left by lower beef supply and at less cost. There is still one more shoe to drop on the demand side. Like it or not, a major source of beef demand is from food stamps. As eligibility for food stamps is tightened, as it should be, there will be a related drop in demand.

At the same time that prices have lagged, costs of production have skyrocketed, led by interest rates and energy related costs, including electricity, fuel, and fertilizer. Feed has not been far behind. These costs have turned good deals into bad ones. Enterprises that usually have worked do not work now. We are hurting. The National Cattlemen's Association meeting in 1981 was the first time in my memory that very many cattlemen ever got together and no matter how bad things were, did not talk about all the reasons it was going to get better. The new mood is realism in place of optimism and the question is, "Now what are we going to do?"

There is no way I could catalog a comprehensive list of responses, but I hope to call enough to your attention that it might spur your own interest and calculation. First question is, how much of what you do and decide is by habit, tradition, repetition, preference, convenience, or happenstance? Unless you are a very unusual human being, the answer is "a lot of it" if not "most of it." Are your budgets and records good enough to let you know what is happening in time to do anything about it? How often do you take time for a decision to list out all the possible alternatives and then budget the ones that look best to determine which will be most cost-effective? We tease about a fellow "not playing with a full deck," but the bare fact is that each time we do not consider all alternatives, we literally are not playing with a full deck.

In hard times it is harder to get back what you spend. With the axiom that a dollar saved is a dollar made, it may be easier to save money than to make money. The trick is to identify savings that can be made that will not cost money in the long run or cut production below optimum. We must get maximum production out of our thinking to determine optimum levels of production for maximum net return within a given cost-price framework. With the roller coaster of costs and prices that we are on, it becomes necessary to recalculate on
every deal the rates of feed, fertilizer, and other inputs to use that will be most economical in terms of cost and return.

Here is a partial checklist:

Forages—On range, are you refining the no-cost management items like properly adjusted stocking rates, grazing distribution, and rotation that will result in optimum forage and livestock production with minimum inputs? On tame pastures, are you using forage species that produce well without fertilizer or respond well to it if costs and prices justify? Grazing management? Alternative income from hay or seed production?

Livestock—Are you using the type and breed or breeds most productive under your conditions with minimum inputs for which there usually is a good market? Is your production system—breeding, stocker or combination—best adapted to your growing conditions and tax structure? Flexibility to adjust to changing conditions? Is timing of your breeding, birth, and weaning matched to weather, feed requirements, and markets available?

Feeding—Have you optimized pasture and livestock management to reduce the amount of feed required? Separated livestock by class to feed according to need without under or overfeeding others in with them? Calculated needs of each class, priced various feedstuffs (including home-grown at what you can sell it for), and calculated amounts required and cost of each delivered to the livestock to determine cheapest kind and source of feed per pound of digestible protein or total digestible nutrients (TDN)? Considered bulk feeding to reduce sacking costs by $17 to $20 per ton plus labor in handling? Feed protein supplement only as often as you need to see the livestock? Adequate mineral and vitamin supplementation not to be limiting factor in other inputs. Calculate very carefully any time you feed stored roughage to cattle to be sure it will pay.

Health—Too much or too little spent on immunization? Internal and external parasites robbing inputs and performance? Alert observation, diagnosis, and treatment early enough for minimum treatment, cost and lost performance?

Vehicles—Cheaper to repair or replace? Matched to job for minimum running cost (running a 4-WD when a 2-WD would do, 8, 6, or 4 cylinders, checking troughs in a 3/4 ton at 8 miles per gallon of gasoline instead of a mini-pickup, motorcycle, or horse if time permits)? Plan trips and don’t forget what you need to get as much done in one pass as you can without backtracking or repeat trips? Accurate records to show costs per mile?

Buildings and facilities—Minimum required, designed for flexibility, and built to last to reduce taxes, maintenance, depreciation, and insurance costs? How much does it cost per animal unit amortized over a reasonable period? Do you need it?

Farming—Plan yield desired based on expected costs of inputs and returns. Determine most cost effective combination of steps in seedbed preparation, cultivation, and herbicides? Most economical levels, analysis, form, source and application of fertilizer? Amount and frequency of irrigation justified by cost/returns? Harvest by livestock owned, leased or custom equipment? Use of aftermath for conservation and income?

Risk Management—Partnership or incorporation on part or all of operation? Take in someone else’s animals to market your grass and knowledge without as much risk and money borrowed? Lease out or sublease to hold for better times? Forward contract? Hedge on futures? Integrate forward or back? Insurance?

Maximize other income—Minerals? Timber harvest? Hunting and fishing? Other recreation? Outside job for one or more family members? Investment of funds not needed for periods of time?

I said before this could be only a partial list, but before you “holler calf rope,” be sure you have played all your cards. Both pasture and feedlot cattle numbers are under long-time averages. If and as the general economy recovers and unemployment and interest rates drop, there is room for improvement. If anyone knew when and how much, he or she could retire. Until that happens, be sure you are not so busy wallowing in misery that you overlook the profit opportunities that always come with hard times. Figure every move you make, and don’t sell your saddle. Good luck—

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Announcement of a Vacancy in the Position of Editor of Rangelands

Applications are invited from interested candidates to fill the position of editor of Rangelands. Rangelands is a serial publication for the presentation and discussion of facts, ideas, and philosophies pertaining to the study, management, and use of rangelands and their several resources. It is user-oriented.

Applicants must have a demonstrated interest in the Society for Range Management and the publication Rangelands.

Applications will be accepted until the position is filled.

Applications will be screened by the Search Committee beginning on June 1, 1983.

Salary will be negotiable, depending upon the projected requirements of the position and the experience and qualifications of the applicant.

Applicants should submit their resume with two letters of reference to the Rangelands Editor Search Committee: E.H. Reid, Chairman, 624 South Shields Street, Fort Collins, Colo. 80521.