

BEEF CATTLE ENTERPRISE BUDGETS FOR SOUTH CAROLINA- 2008/2009

Developed by:

Wilder N. Ferreira
Extension Associate – Budget Specialist

Department of Applied Economics and Statistics

Extension Specialists

John W. Irwin Area County Extension Agent - Laurens	J. Marion Hiers Jr. Area County Extension Agent - Orangeburg
John Andrae Assist. Professor and Ext. Agronomist	Kenneth L. Hall Area County Extension Agent – Chesterfield
Kevin Campbell Area County Extension Agent-Greenwood	Jesse Adams III Area County Extension Agent - Florence

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BEEF CATTLE ENTERPRISE BUDGETS FOR SOUTH CAROLINA

Clemson’s Beef Cattle enterprise budgets are intended as guidelines in the estimation of the production costs and returns for South Carolina beef operations and an aid to producers in selecting enterprise combinations for the 2008/2009 season. Budgeting is the basic analytical tool that beef cattle producers use in making production decisions and it is the foundation of a reliable management program. It is important to remember these projections will not be the same as any individual farm business due to differences in management levels, soils, feeding strategy, weather, prices received, prices paid, operational practices. The column “YOUR FARM” was exclusively designed for inclusion of data based on your farm’s records.

PRICES

Prices received for the various enterprises are estimates made a year in advance - and reviewed at the budget preparation period - based on market outlook. The prices used in the beef cattle enterprise budgets are as follow:

Price Assumptions for the 2008/2009 Clemson Enterprise Budgets		
ENTERPRISE	CALF 450 lbs	STEER
SUMMERING LIGHTWEIGHT STEERS ON MILLET PASTURE	\$1.10	\$1.00
WINTERING LIGHTWEIGHT STEERS ON FESCUE PASTURE, HAY, SOYBEANS HULLS AND WHEAT	\$1.10	\$1.00
WINTERING LIGHTWEIGHT STEERS ON OVERSEEDED BERMUDAGRASS, CORN AND HAY	\$1.10	\$1.00
WINTERING LIGHTWEIGHT STEERS ON SMALL GRAIN PASTURE, CORN AND HAY	\$1.10	\$1.00
	HEIFER	STEER
COASTAL PLAIN COW-CALF OPERATION WITH COW ON BERMUDAGRASS HAY AND COTTON SEED	\$1.00	\$1.05
PIEDMONT COW-CALF OPERATION WITH COW ON FESCUE HAY AND COTTON SEED	\$1.00	\$1.05
Price estimates based on June 1, 2008 markets.		

PRODUCTION COSTS

The Clemson Beef Cattle budgets are a good way to organize costs. It divides expenses associated into categories that easily relate to the organization of a livestock operation. Costs are classified into Fixed, Variable, and Other categories. An explanation of each category is shown as follow:

1. Variable Costs

Variable costs are the out-of-pocket costs of producing the animals. These include charges for pasture maintenance such as fertilizer and lime, supplemental hay and feed, veterinary costs, fence maintenance, labor, etc. (costs are typically associated with the production and maintenance of beef cattle for different time periods, 6 months or 1 year). Most of the costs involved in this section are dependent on the quality of the grass and feeding rates.

Labor is treated as a variable cost. It is assumed that most beef cattle operations in South Carolina utilize owner/manager labor and do not hire permanent labor (owner/manager labor is charged at \$8.00/hr). It is also assumed that all funds required for the annual production cost are borrowed. The interest rate is assumed to be 9 percent.

2. **Fixed Costs**

Fixed costs are the expenses that are not directly applicable to each animal but are incurred by the business whether or not any animals are produced or sold. Examples of fixed costs are: depreciation of equipment and facilities, interest on the owner's investment and insurance. Farmers do not write checks for depreciation, but equipment and facilities wear out or become obsolete and must be replaced. Depreciation categories include allowances for herd ownership, equipment, fencing, and pasture establishment.

3. **Other Costs**

A general farm overhead cost of 9 percent of total variable costs is also included. This is a "catch-all" cost including telephone, utilities and contingencies. This item is designed to handle expenses that are not easily allocated to the animal.

Additional land is used just in case the farmer requires to rent extra land to produce the projected number of animals. Land rent is also listed as a reminder that there is an "opportunity charge" associated with the use of pasture. If animals were not grazing this land, it could be rented or sold and the money invested.

RETURNS

Returns reveal the profitability of the enterprise. Two types of results are calculated: Income Above Variable Costs and Net Returns to Risk and Management. They are mostly used to evaluate the financial efficiency of allocating selected production units into the beef cattle operations. The budget estimates may vary from your estimates because the budget returns are directly related to the selected resources allocated for that particular enterprise. Allocation of resources will vary among location, size of operation, technology adoption, financial condition, and enterprises. For that reason, each farm operation should focus on the best combination that applies to its current situation and non-profitable results may not be applied to it.

a) *Income Above Variable Costs (IAVC)*: Gross Receipts minus Total Variable Costs. This figure estimates the beef cattle operations' income above the operating expenditures. It is normally used to represent the financial gains of the enterprise. IAVC is, incorrectly but frequently, called profit by many managers.

b) *Net Returns to Risk and Management*: is the normal stopping point in the construction of most budgets. Purchased inputs and owned resources have been paid. This figure is sometimes referred to as profit; however, it is more correct to call it a return to all resource costs except management. If the figure is positive, the producer will be

rewarded for his management efforts and the entrepreneurial risk he has taken. This is the figure that management should use to make decisions and compare alternatives. It is displayed below the returns of each enterprise:

COSTS AND RETURNS PER HEAD FOR SOUTH CAROLINA LIVESTOCK ENTERPRISES 2008/2009					
	TOTAL	VARIABLE		TOTAL	NET
ENTERPRISE	RETURNS	COSTS	I AVC	COSTS	RETURN
COASTAL PLAIN COW-CALF OPERATION WITH COW ON BERMUDAGRASS (AVG. MANAGEMENT LEVEL)	\$458.28	\$444.02	\$14.26	\$800.18	-\$341.90
PIEDMONT COW-CALF OPERATION WITH COW ON FESCUE HAY AND COTTON SEED	\$582.46	\$382.72	\$199.74	\$749.12	-\$166.66
SUMMERING LIGHTWEIGHT STEERS ON MILLET PASTURE	\$749.20	\$740.74	\$8.46	\$799.80	-\$50.60
WINTERING LIGHTWEIGHT STEERS ON FESCUE PASTURE, HAY, SOYBEANS HULLS AND WHEAT	\$750.00	\$720.20	\$29.80	\$780.26	-\$30.26
WINTERING LIGHTWEIGHT STEERS ON RYEGRASS PASTURE, CORN AND HAY	\$787.50	\$790.07	-\$2.57	\$861.75	-\$74.25
WINTERING LIGHTWEIGHT STEERS ON SMALL GRAIN PASTURE, CORN AND HAY	\$787.50	\$780.81	\$6.69	\$853.94	-\$66.44

c) *Cost Per Unit of Production*: breakeven weights and breakeven prices are shown on all budgets. This table will help analyze the economic effect of weight to given prices and the marketable calf/steer prices to pre-established production quantities using IAVC (Total Variable Costs) and Net Returns (Total Costs) as comparative units. Breakeven price is cost/weight. Breakeven weight is cost/unit price.

d) *Net Returns Above Variable Costs at Different Weights and Prices*: this table allows the producer to gain a better understanding about potential returns when prices and quantities are adjusted higher and lower than the assumed figures. This information will help the producer to evaluate the risk involved in producing each enterprise.