



Cattle Producer's Handbook

Finance Section

930

Enterprise Budgets for Cow-Calf Operators

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As a ranch manager, you must answer many questions each year to continue operating. How many replacement heifers should I keep? Should I sell 450-pound calves or 800-pound yearlings? Is my expected income for the coming year sufficient to cover my expenses and family living needs? Answers to these and other questions, followed by appropriate actions, determine your farm's production and economic performance.

Budgets provide information for making ranch management decisions. Budgets are constructed to estimate the outcomes of future activities, as opposed to records, which are summaries of past outcomes. Budgeting allows you to make estimates on paper and to anticipate and avoid problems that you are likely to encounter.

One type of budget that is particularly useful to cow-calf operators is an enterprise budget. An enterprise is any activity that results in a product used on the ranch (such as hay), or sold in the market (such as calves). A cow-calf enterprise budget includes all the costs and returns associated with producing calves using a specific combination of feeds, variable inputs, and fixed resources. Enterprise budgets are usually constructed on a total cow enterprise basis and on a per-cow basis, providing operators with estimates of overall profits as well as an indication of profit per head.

Constructing an enterprise budget for your cow-calf operation will assist you in projecting the coming year's cash flow requirements, which is something that often concerns lenders. You can also use an enterprise budget to select among marketing alternatives, plan for income tax management, and monitor expenditures throughout the year.

Refer to Table 1 as we discuss the construction of a cow-calf budget. You should pencil in your own values as we work through this budget. Our budget assumes a 350-cow herd and using public and private grazing. Prices and costs used are expected long-run averages.

Returns

The first part of our budget estimates returns from the cow-calf operation. Returns are estimated based on number of head sold by class, weight per head, and expected or contracted price. In our example, we assumed an 88 percent calf crop with 2 percent calf death loss, or 151 steer calves and 151 heifer calves weaned.

All of the steer calves and 96 of the heifer calves are sold at weaning. The remaining heifers are held as replacements. Two yearling heifers die and 18 are culled and sold, leaving 35 first-calf heifers to replenish the cow herd. Seven cows die and 28 are culled annually. Assuming 21 cows per bull, we maintain 17 bulls year-round and replace three each year.

Our total returns are \$114,206, or \$326.31 per cow. Changes in death losses, sale weights, and prices will obviously change returns. The assumptions you make for these key parameters will depend upon the purpose of the budget. If you want to estimate next year's returns, use current estimates for prices, weights, and death loss based on current market information and weather patterns. On the other hand, if you intend to construct a long-term budget to be used in whole-farm planning, you should use estimates based on long-term averages (e.g., 5 to 10 years) of prices, calf crops, weaning weights, etc.