

Summer Grazing of Steers in Western Kansas

Department of Agricultural Economics



Kansas State University Agricultural Experiment Station and Cooperative Extension Service

Troy J. Dumler
Agricultural Economist, SW

Rodney Jones
Agricultural Economist
Livestock Production

Daniel M. O'Brien
Agricultural Economist, NW

Cost–Return Budget

This budget estimates costs and returns for a season-long and an early-intensive grazing system. Projected 2002 input and output prices are used for illustrative purposes. Producers should use their own prices when using the budget. Break-even prices are particularly sensitive to changes in average daily gain, pasture-rental charge, and feeder cost. The profitability of each system depends on many factors, including forage mix, pasture costs, type and weight of cattle, and price changes during the grazing season. It is important to analyze the feasibility of both systems at the beginning of each grazing season.

Production Level

Costs per unit and net returns in livestock production are highly dependent on production levels. The following estimated budget includes two different production levels. Production levels vary for a number of reasons including livestock quality or genetics, weather, input levels, and management. The two production levels included in this estimated budget primarily reflect production variability due to weather and management. Budgeting at multiple production levels can help producers examine the financial risk of a livestock enterprise that is directly related to production risk.

This summer grazing budget includes columns for two alternative performance levels for both season-long and early-intensive grazing systems. Performance varies due to differences in average daily gain. The values assumed are included in Table 1 and are deviations from long-term averages.

Variable and Fixed Costs

Variable costs are costs that vary in the short run and can differ on a per head basis from one grazing cycle to the next. Feed requirements for summer grazing systems are minimal. The budgets assume that pasture will be utilized for 5 months for the season-long and 2.5 months for the early-intensive program. Each column includes interest on one-half the variable costs added to the cost of the purchased animal for the length of time the animal is being grazed. Producers who

do not rely on borrowed funds should consider the interest charge as an opportunity cost of their own capital. An allowance for shrink is included in the average daily gain estimates. Hundredweight produced is adjusted for death loss and shrink. Farm Management Association summary reports are used as a basis for estimating variable costs such as labor, veterinary, drugs, repairs, fuel, oil, and utilities. These cost items may vary considerably among individual producers.

Fixed costs do not vary from one grazing period to the next and are incurred by virtue of owning equipment and facilities. These capital requirements are minimal for a grazing system. A salvage value of 35 percent is assumed at the end of useful life for facilities and equipment. In each column, interest is calculated on one-half the original cost of facilities and equipment.

Table 1. Factors Used for Cost–Return Budget

	Season-Long		Early-Intensive	
Performance level	Level 1	Level 2	Level 1	Level 2
Days on pasture	150	150	75	75
Average Daily Gain	1.5	1.2	1.9	1.5
Purchase weight	550	550	550	550
Purchase Price (\$/cwt.)	102.33	102.33	102.33	102.33
Sale weight	775	730	693	663
Sale price (\$/cwt.)	88.61	90.34	92.00	93.34
Pasture rate (\$/head)	53.21	53.21	42.50	42.50
Mineral / Salt (\$/head)	4.80	4.80	2.40	2.40
Value per head				
Investment in facilities	\$20.00		\$10.00	
Life of facilities	20 yrs		20 yrs	
Investment in equipment	\$10.00		\$5.00	
Life of equipment	10 yrs		10 yrs	
Salvage value on facilities and equipment	35%		35%	
Interest rate on facilities and equipment	8.00%		8.00%	
Insurance rate on facilities and equipment	0.25%		0.25%	
Tax rate on facilities and equipment	1.50%		1.50%	
Interest rate on variable costs				
and purchased livestock	8.00%		8.00%	
Labor hours	0.6		0.4	
Labor price per hour	\$10.00		\$10.00	

COST-RETURN PROJECTION — SUMMER GRAZING STEERS IN WESTERN KANSAS

	Season-Long		Early-Intensive		Your Farm
	Level 1	Level 2	Level 1	Level 2	
VARIABLE COSTS PER HEAD ¹					
1. Pasture	\$ 53.21	\$ 53.21	\$ 42.50	\$ 42.50	\$
2. Silage .....	.....	.....	.....	.....	.....
3. Hay .....	.....	.....	.....	.....	.....
4. Grain .....	.....	.....	.....	.....	.....
5. Supplement .....	.....	.....	.....	.....	.....
6. Mineral—salt	4.80	4.80	2.40	2.40	.....
7. Feed processing .....	.....	.....	.....	.....	.....
8. Labor	6.00	6.00	4.00	4.00	.....
9. Veterinary, drugs, supplies	10.00	10.00	8.50	8.50	.....
10. Marketing costs	4.00	4.00	4.00	4.00	.....
11. Hauling/yardage .....	.....	.....	.....	.....	.....
12. Utilities, fuel, oil	4.50	4.50	3.50	3.50	.....
13. Facilities and equipment repairs	5.00	5.00	4.00	4.00	.....
14. Miscellaneous	6.00	6.00	5.00	5.00	.....
15. Interest on purchased livestock + 1/2 variable costs	20.32	20.32	10.00	10.00	.....
A. TOTAL VARIABLE COSTS	\$ 113.83	\$ 113.83	\$ 83.90	\$ 83.90	.....
FIXED COSTS PER HEAD					
16. Depreciation on facilities and equipment	\$ 1.30	\$ 1.30	\$ 0.65	\$ 0.00	.....
17. Interest on facilities and equipment ¹	1.62	1.62	0.81	0.81	.....
18. Insurance and taxes on facilities and equipment	0.53	0.53	0.26	0.26	.....
B. TOTAL FIXED COSTS	\$ 3.45	\$ 3.45	\$ 1.72	\$ 1.07	.....
C. TOTAL COSTS PER HEAD (A+B)	\$ 117.27	\$ 117.27	\$ 85.62	\$ 84.97	.....
RETURNS PER HEAD					
19. Market steer: (See Table 1)	\$ 686.69	\$ 659.51	\$ 637.55	\$ 618.84	.....
20. Less cost of steer: (See Table 1)	562.82	562.82	562.82	562.82	.....
21. Less Death Loss: (1.5% of line 19)	10.30	9.89	9.56	9.28	.....
D. GROSS RETURN PER HEAD	\$ 113.57	\$ 86.80	\$ 65.17	\$ 46.74	.....
E. RETURNS OVER VARIABLE COSTS (D – A)	\$ -0.26	\$ -27.03	\$ -18.73	\$ -37.16	.....
F. RETURNS OVER TOTAL COSTS (D – C)	\$ -3.70	\$ -30.47	\$ -20.45	\$ -38.23	.....
G. AVERAGE SELLING PRICE NEEDED PER CWT:					
22. To cover variable cost and feeder (A + 20) ÷ (net selling weight) ²	\$ 88.64	\$ 94.10	\$ 94.74	\$ 99.03	.....
23. To cover total cost and feeder (C + 20) ÷ (net selling weight) ²	\$ 89.09	\$ 94.58	\$ 94.99	\$ 99.19	.....
H. TOTAL FEED COST (lines 1 through 7)	\$ 58.01	\$ 58.01	\$ 44.90	\$ 44.90	.....
24. Hundredweight produced	2.21	1.65	1.29	1.00	.....
25. Feed cost per hundredweight (H ÷ 24)	\$ 26.23	\$ 35.07	\$ 34.77	\$ 45.02	.....
I. ASSET TURNOVER ((19 - 21) ÷ INVESTMENT) ³	114.10%	109.58%	105.93%	102.82%	.....
J. NET RETURN ON INVESTMENT [(F + 15 + 17) ÷ INVESTMENT] ³	3.08%	-1.44%	-1.67%	-4.75%	.....

¹Original cost of facilities and equipment plus salvage value divided by 2, times an interest rate of 8 percent.

²Net selling weight = selling weight - (death loss% × selling weight).

³Investment equals total cost of purchased animal and value of facilities and equipment.

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