Ranching For Profit

Healthy Land, Happy Families & Profitable Businesses

A Few Good Cows

Tom McGrady is one of my favorite people. I respect Tom's opinion about cattle breeding and genetics more than anyone else I've met. He's quick to admit that he doesn't have all the answers. In fact, he's likely to start the conversation by telling you that there's a lot he doesn't know. And while his humility is sincere, don't be mistaken, Tom knows a lot. There are a lot of people who are knowledgeable about genetics and breeding. I think the thing that makes me so appreciative of his cattle breeding knowledge is the context into which he puts genetics. Tom knows that the pasture trumps the show ring when it comes to identifying a "good" cow.

Last month I attended a two day conference on grass finishing in Kearney, Nebraska. As I walked around the pens of cows and bulls that some exhibitors had brought, I saw Tom looking at a couple of heifers. "I love those heifers," he said. I took advantage of the opportunity to ask Tom to help me see cattle through his eyes.

He told me that the first thing he looked at was structure. He said it's hard to fix that so you need to make sure their legs are right to start with. Then, pointing to their heads, he asked, "See how feminine these are?" and he started to describe the close link between femininity and fertility.

He said that when most of us look at our own animals we get blinded by something we like and tend to overlook aspects that may not be as strong. He pointed to the udder on one of the heifers and said that he looked for an udder where all four quarters will be able to endure 10 to 12 lactations.

The discussion boiled down to longevity. If you do the math, with a 20% replacement rate, which is typical for US and Canadian ranches, half of the replacements we keep will have fewer than 4 calves in their lives. (If you don't believe it, just divide your replacement rate into 100 four times and see how many of the original 100 are left.) A few very productive herds (average 15% replacement rate) average 4 calves/cow. Tom said that he thought a good herd needs to average 6!

Assuming 80% of our cows wean a 500 pound calf and our cull cows weigh 1250 pounds, and we cull everything that doesn't wean a calf, nearly 40% of our sales by weight will be cull animals. We are nearly as much in the cull cow business as we are in the cow calf business. The cull cow business drives the profitability of the cow calf business. Here's why.

At current cow prices, cow depreciation is averaging about $250/cow/year in the US. This makes depreciation the biggest cost of keeping a cow. That's a problem. We can overcome this in several ways:

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- We can use other people's young culls (open H2's or young cows) as our replacements, thereby buying cows that are already depreciated.
- We can find ways to add value to our own culls.
- We can adjust our replacement rate and culling strategies as the cattle cycle changes, retaining more heifers when prices are low.

What Tom suggested is that rather than manage the problem of deprecation, we eliminate the problem by building cow herds full of cows that average 6 calves in their lifetime and that thrive on grass, producing a calf every year with virtually no inputs.

As I walked around the pens looking at animals, I was thinking of longevity. In the short term we need to consider tactics to manage our culls or pursue replacement strategies that reduce the hit from depreciation. But in the long term wouldn't it be something to double the longevity of our cows?

We won't do that over-night and we can't afford to do that by providing more inputs. In fact most ranchers would be well served to provide less inputs. (See the following article for more reasons for reducing inputs.) Only then can we identify cows that are really adapted to our environment. Those cows will be structurally sound, have udders that will last and will be highly fertile with virtually no inputs. To create that herd, culling rates will increase and the average number of calves weaned per cow may go down for several years because, unfortunately, right now most of us have only a few good cows.

Fair Trade: A bushel of wheat for a barrel of oil?

We've known fuel prices had to increase, it was just a matter of when and how much. Lester Brown's book *Plan B2.0* examines the ecological impacts of globalization. In it he compares wheat prices to oil prices. According to Brown, the price for a bushel of wheat and a barrel of oil were similar from 1950 through 1973. Since 1973 the value of oil relative to a bushel has changed dramatically. In 2005 it would have taken 13 bushels of wheat to buy one barrel of oil. As the world's largest grain exporter and oil importer, the US is suffering mightily from this shift.

Year	Wheat $/Bushel	Oil $/Barrel	Bushels/ Barrel
1950	1.89	1.71	1
1955	1.81	2.11	1
1960	1.58	1.85	1
1965	1.62	1.79	1
1970	1.49	1.79	1
1975	4.06	11.45	3
1980	4.70	35.71	8
1985	3.70	27.37	7
1990	3.69	22.99	6
1995	4.82	17.20	4
2000	3.10	28.23	9
2005	3.90	52.00	13

Source: Plan B2.0, Lester Brown

Oil industry analysts say we are entering a period they call APO (After Peak Oil). In this period, oil production will gradually decline, and the cost of extraction will increase.

Someone once said, "Man's a funny animal. He can only read the writing on the wall when his back is up against it." It is important to think through the consequences of this reality for agriculture and especially for your business, sooner rather than later.

Agriculture in North America is a fossil fuel dependant business. The production, harvest, processing, marketing and transport of food all rely on fossil fuel use. News on the production

front is a mixed bag. On the positive side, farmers are producing more tons of grain per gallon of fuel than in decades past. Thirty years ago it took over 30 gallons of fuel to produce a ton of grain. Due mostly to no-till farming, fuel use has been cut to about 13 gallons/ton. But we need to face the bad news too. Our reliance on irrigation is increasing as aquifers are being depleted. That means more and more energy is needed to pump water from deeper and deeper. Sooner or later we won't have to worry about the fuel because there won't be enough water to pump through the center pivots being installed.

Food, Fiber & Fuel

In addition to the need for energy to produce the crop and compounding the issue especially for the livestock industry, is the use of the crop itself. Nearly every crop we eat can be converted into fuel. Bio-fuels amounted to only 2 percent of the world gasoline use in 2005. A drop in the bucket (or gas tank). More significant is the trend. Bio-fuel production increased 165% in the first five years of this century.

This is an issue because it affects the livestock industry in two ways. First, as more and more crops, especially corn, are used for bio-fuels, the cost of grain will increase. As the price of grains go up, the economics of cattle feeding are likely to go down. Is this the pressure that will force beef finishing out of the feedlot and into the pasture?

And speaking of the pasture, new technology using enzymes to break down cellulose has many looking at switchgrass, a fast growing warm-season perennial, as a potential "breakthrough" for bio-fuel production. Up until now, livestock had the corner on the cellulose market. If switchgrass turns out to be an economic source of bio-fuels, it may create a terrific opportunity for land owners. And it may make leases harder to come by for graziers.

That's food, err, fuel for thought.

Repeat the Ranching For Profit School and Join the Executive Link

If you are like most people who attend the Ranching for Profit School, you probably told yourself "I need to come back." Most people find that the second and third time they take the school they get even more out of it than the first time. Steve Oswald found that to be true when he repeated the school two years ago. After the class he wrote to me to say, *"Thanks for the great week. This school is without question one of the most challenging and thought provoking experiences I've had. And sooooo much better the third time around."* Whether it'll be your second or seventh time in class, we'd love to see you back. The repeat fee is still only $100 ($200 Can.) The winter schools are filling quickly so if you'd like to repeat, reserve your seat by registering right away. You can enroll on-line by visiting our website at *www.ranchingforprofit.com*. And if you're not receiving Profitpoints, it's easy to go to our website and sign up for this free on-line column. It's another great way to keep Ranching For Profit principles in the foreground, not the background.

If you have family, friends, neighbors and colleagues that would benefit from participating in the school please tell them about it. If you benefited from the school, you'll be doing them, and us, a favor. If you give us their names and addresses we'd be delighted to send them a letter with our complete information packet and CD in the next day's mail.

Whether you repeat the school or not, winter is the time to enroll in the Executive Link program for 2007. Winter meetings for all four chapters are listed on the back page. If you're ready to

implement the changes you know you need to make, please consider joining the Executive Link. As an EL member you can send family members to the school at half the normal tuition! Contact Sally Silvia, our EL coordinator (sally@ranchmanagement.com), to find out more about the benefits you'll enjoy by joining the EL.

UPCOMING RANCHING FOR PROFIT EVENTS
Ranching For Profit Schools *It is still only $100 US ($200 CAN) to repeat the school.*
Colorado Springs, Colorado, December 3-9, 2006
Saskatoon, Saskatchewan, December 10 - 16, 2006 ***FULL***
Boise, Idaho, January 7 - 13, 2007
Edmonton, Alberta, January14 - 20, 2007 ***FULL***
Billings, Montana, January 28. - February 3, 2007
Executive Link Meetings
Colorado Chapter, Colorado Springs, CO, Feb. 13 -15, 2007
Far West Chapter, Cottonwood Ranch, Boise, ID, Feb. 15 – 17, 2007
Alberta Chapter, Edmonton, AB, Feb. 19 – 21, 2007
High Plains Chapter, Billings, MT, March 6 – 8, 2007
Roanoke, VA T.B.A.

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We are in the business of putting profit into agriculture!

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