Bull Session 12-19-22

​[00:00:00]

tonight we have Jordan Steele and I'm sure the topic that he chose got a lot of attention.

Cows suck. I'm not going to do much of an introduction. Jordan is from Ranching for Profit and graciously come on tonight and explain what he means and try to help us navigate this enterprise. I will just have Jordan go ahead and start. Okay. Thanks Holly for introducing me and thanks for having me everyone.

Dallas is in Spain at the moment, and this is actually his birthday, so we'll have to give him grief when he gets back. But yeah, we are just gonna go with we're gonna work through some gross margins and look at some overheads for just a typical cow calf deal. That seems to be our most, most common ranch.

[00:01:00] Like Holly said, I'm with Ranch Management Consultants. We do the Ranching for Profit School. I see a lot of alumni's names on here, so if you have any questions about that, don't be afraid to ask and we'll just we'll just get started here.

So I'm gonna minimize this stuff here. So here's our cows suck. We're just gonna get started with this. When Holly and I talked about doing this, we talked about me not really talking too much, and we'll just go through these slides and get it opened up for discussion after that.

But when I was putting this PowerPoint together, I felt like with the current weather we're having right now in, in our northern states, this might be the, most appropriate type of cow. We're gonna do something the, Highlanders here with. A lot of, hair anyways, so seems to be cold in most places.

So first let's just get started with just a, regular regular a hundred cow herd. And what we're gonna do is we're gonna start with a hundred cows, and then we're gonna go through a production year, and then we're gonna end with cow with a hundred cows. [00:02:00] So I got my list here of what we're gonna do.

And so if I can just get someone to, to speak up with what they think a number would be. Out of a hundred, it can be a percent, or it can be a hard and fast number. And then we'll get our sales and our purchases here. How many are gonna die in a year? Cows we're talking about,

this is Chris. I'll say five, but don't make me call on you. Chris, this Chris Mehus, I will call on people.

can we go with two?

So that leaves us 98 in the herd. They're not all gonna wean a calf. They're either gonna slough a calf or the calf's gonna die at birth or sometime during the summer. So how many are not gonna bring a calf in during the fall if we're in a just a regular spring? Having herd?

The beauty of this is every number's wrong. Five. Five. So that takes us down to 93, and I got an asterisk here because we're gonna come back to this. We'll need this when we get our. For our calf sales, cuz these died and these didn't wean a calf, so [00:03:00] we're gonna have to, we're gonna have 93 calves to sell.

How many are gonna wean a calf but not breed back? So we're gonna get rid of them cause they're open. 4, 8, 4. I heard a four and a eight. So we'll shoot the difference there. So that takes us down to 87 and then we're gonna cull some others because they are either they're, old, they're lame, they have a bad bag or we, they're mean or something like that.

We just don't wanna keep 'em. How many else are we gonna get rid of? That'd be another eight. Head. Another eight? Yeah. So that takes us down. So that takes us down to 79. So if we add these up, two and five is seven, and six is 13 and eight is 21. So we have to buy 21. And then that gets us up to our, a hundred head again at the end of the production year.

Does that make sense? This little mind map here I did in the grid.

And so I got two numbers. I gotta remember here. We're gonna sell 93 [00:04:00] calves and these cows died, so we can't sell them, but we have 5 11 19 cull cows. So after we got our herd performance, then we can go into what gro we call it, gross product in our, RFP economic model. And since we started and began since we began and ended with a hundred cows, our gross product's gonna be sales minus purchases.

So we sold 93 calves at, how big did we sell 'em at? This is where I really need you guys for your Montana markets. When are you calving?

Whenever you want. April.

So 600 pound calves. And what are they worth

right now? Sell 'em off the cow.

I, just looked at the Billings, livestock, and heifers were going, I was doing five 50 s, but they were going for a dollar 80 and steers were going for 2 0 5. [00:05:00] Let's go five 50 at a dollar 90.

93 times five, 50 times 1.9. So we have 97,000 in calf sales.

And then those cull cow sales, we had 19 of them. And what's a cull cow worth in Billings?

They were 72 cents a pound. Does it have weights on them? It was like between like about 15, I'd say average. 15. Average. Okay. And 70 cents a pound. 72. Yeah. 70 is close enough. Okay.

We had about 20,000 in cull cow sales, 19 9 50. And so then the cow purchases, we had to buy 21 of them to replace the ones we sold and the two that died. So what are replacement cows? Did billings have any sales there [00:06:00] that I didn't look what's a bred cow worth right now? 1901st instinct.

1,519 ones,

I think I heard 1800, is that right? That'll work. Okay. So 21 times 1800 is 37,800.

And I'm gonna put that one in parentheses cuz we had to buy those. The other two are sales for us. So if we take the calf sales and the cull cow sales, that's 117,000 minus the, cows that we had to buy is 79,335. So that's our gross product. That's the total value that our cowherd has generated this year between sales and purchases, cuz our inventory is still the same.

And so we're working on a hundred cows. So a gross product per cow is $793. So [00:07:00] one, one big thing to notice here is that we sold our calves at $1,045 per head, but our gross product per cow is under $800. So that's we can come back to that in discussion, but that's something important to, to point out here.

So for now let's keep moving into this gross margin scenario. And The direct costs. At rfp, what we teach is the, that the direct costs are only what change per unit of production. So these are going to be, the main ones are opportunity, interest, feed and health. And so the opportunity interest, we're gonna charge these cows, either an interest charge for the money we tied up, and also if we get the option to expand the cow herd, we've already budgeted in there an interest charge, we can go borrow the money and, expand our cow herd that way.

So usually what we do is a conservative, consistent amount for the beginning [00:08:00] inventory value. And that's what we're gonna assume is the money tied up in there. And so if we sold some cows at that eight, $900 mark and for the cull cows, but we had to buy $1,800 cows, this one, let's just assume that we can get all the cows sold for $1,500 ahead.

And so we're gonna charge you 150 bucks in interest. On those cows. And that one's the only one I'm gonna give you. So then the feed fed. Let's see. What how many months are we gonna have to feed this the, cows in a normal winter? And look at this winter right now too. Cause I know you guys are, cold and snowy at the moment.

Three, three months. Yeah. So we're gonna, if we're gonna feed him 30 pounds a day at 90 days, that's 2,700 pounds. So that's a ton and a half.

And what does hay cost for you guys there? I know [00:09:00] what it is for me.

Better call it at least two and a quarter. Two and a quarter. I would say two 50. So I'm right in line with you there. So we fed, I'm gonna take this out because we said 1.5 ton was 90 days, 30 pounds per day. So that's 1.5 ton equals 2 25

is 338 bucks. Okay. And then next would be the health. So these are gonna be your preg checking, your branding shots, your weaning shots and then any other preventative care or. Vet bills that we would need to associate with the cows.

We get answers anywhere from 20 to a hundred bucks on this.

If you're including breeding, you're probably close to $50. Okay. That's, so the bulls would be included in the gross product, so we don't have to worry about that. But if you're doing any other AI or stuff like that, we can include [00:10:00] those.

What about 40?

And then another one that we commonly see too is if you had taken a sale barn or superior commissions or something like that. And then they gotta get on a truck to go somewhere. We usually put I can put like 10, 20 bucks in there for commissions and, then a semi ride to wherever they're going.

So we'll just call that 20. Up here too. I almost forgot. We could include some salt and mineral up there but we don't really need to. We're still getting the point across here. So this is per cow that we all did this on.

We're not gonna worry about that one. So if we add up these direct costs

is $548.

And we're still working on that a hundred cow herd.

So then the next step we gotta take is our gross product minus

the gross product, minus direct cost is gonna be our gross margin, and that's what we're gonna look at. So gross product was the 79 335

and the [00:11:00] direct costs were $548 or 54,800.

So if we subtract those 2, 4, 5 24 5, yep. 4 5 35. We're gonna knock that down to gross margin per cow. So that's 245 bucks. So why we wanna know the gross margin is that's gonna be, that's our economic efficiency of this enterprise. We could then take this down to comparing it to yearlings or sheep or something like that with some standard weight units.

This gross margin that we've come up with is, not real great. Because then what we haven't included is if we move into our overheads, which are the, last part of our economics. So remember, land and labor are overheads. They do not change per unit of cow. We usually rent the ranch on just a total, dollar amount, or we have forest allotments or something like that.

And then labor. If you go from 99 cows to 100 [00:12:00] cows, you don't need another unit of labor and machinery, equipment, stuff like that. You still just have for the whole cow So then, What we can do is and then now where I want to go into some discussion is on this $245, do we have enough to pay for some rented land and some cows?

How many acres if we were to, we fed for three months, right? So we have nine months to graze. How many acres does it take to run a cow in Eastern Montana? Central Montana?

Are you guys in 40 acre country?

I've seen it as low as 25 and as high as 60 25 to 60. Okay. I can shoot in the middle. So that'd be yeah. We'll call it 40 acres. And I have no idea what cash rent are. Will they be 10 bucks an acre that makes for easy math or is that too high or too low?

Seven and a half an acre. Seven and a half. [00:13:00] Of course. That's Eastern Montana.

My opinion is that it might be a little, you're gonna average BLM forest service state land, and maybe even like a private lease. 10 would be a little low for me. It would be. I, think 15 would be closer, average if you consider private leases being up around 25 bucks a month per head, but or more.

Okay. So you're looking more at a dollar per day or something like that. Okay. I, appreciate that input. Cause I haven't been, I've been living in Kansas for the last seven years, so I know what all the rents are there, but I am not familiar with our, Rocky Mountain states again yet. So 40 times, 15 times a hundred cows

is 60,000.

And then the labor. So what we usually charge for labor is what you, have to, pay to replace yourself? So the work that you're doing, and that includes all of the administrative and the decision making too. Plus moving the cows, [00:14:00] fixing the fence. I'm just gonna put 50,000 in there to find a good hired hand.

And that's the whole package. Salary health insurance, beef, a house, whatever else needs to be included in there. And so for machinery and equipment we need a horse or a horse trailer, a truck, a four-wheeler, and maybe some horses and dogs in there. We don't even really need to put a total value in there, but we're gonna need we're gonna need something due there because this hired hand that we fit put here isn't gonna walk around everywhere.

So that's depreciation, fuel, repairs, and maintenance. Et cetera. Because what we have here is we have $110,000 worth of just land and labor and we only had $24,000 worth of gross margin from our cows. So how many cows do we need is my first question. We need four, four times as many cows cuz we had $25,000 a gross margin and a hundred [00:15:00] times a hundred thousand dollars worth of overheads.

And so the economics of these cow herds what we're gonna run into then is is this how, are these overheads gonna change as our cowher changes? And so this is honestly where, we could open it up for discussion. Holly. I'm happy to go. Any which way the crowd wants to.

And if anyone has any, questions to either yeah, unmute and speak up or you can put it in the chat too. I should be able to see that.

I think our labor's too high. We probably, Lincoln labor's too high. Yeah. We wouldn't be paying anyone labor for with a hundred cows. Someone still needs to get paid to do the work though, even if you're doing it. I understand that, but I work cheaper.

what do you want me to put in there?

Bill Milton, what should he put in there? ? I, think the point comes that this place needs some more cows without actually changing the labor or [00:16:00] the maintenance, or at least not very much. That somehow you gotta increase your numbers without changing your right. Yep. Yep. That's why we all go out and lease land , but then we gotta we're still paying the same whether we're paying our opport opportunity cost for our grass, or paying someone else if they're comparable.

That shouldn't change much.

That's, exactly right. And that's why we split it up into the, gross margins and the overheads, because we know what our cows are producing on each cow. So as we in increase numbers of cows, those are gonna contribute to the overheads. And this, question comes up a lot about what to use for the opportunity interest and the labor and the, opportunity, land rent, and then even on this machinery and equipment even if it's paid off, we want you to charge those in there because when you're doing your projections, if everything included and the neighbor's place comes up for lease, then you've already built in the interest.

So you can go buy, borrow the money to, [00:17:00] buy the cows, and you've included the land rent in there. So we know we can cover that and you can go hire someone to, go run the cows. So there's nothing stopping you from expanding tomorrow on those on, that ranch. That's, why it's so important to put all these extra costs in there.

Have, you or has anybody else ever heard of a metric for full-time employees per hundred head or some ratio because I you add more cows and, eventually laborers gonna go up. There's, a lot of work, brandings and vaccinations and everything else.

Have you ever heard, of a metric or used a metric for that? Yeah. Like you said, once you, you keep increasing cow numbers and like you said the, that labor is gonna change eventually. What we like to say is the overheads will usually jump at stairstep levels. So you get to so many cows and then you have to hire the next full-time guy, or the next ranch [00:18:00] increases those, charges.

We have a sister company called RC s and they do, they've got a really good benchmark in Australia, and a lot of times we're, looking at about $400,000 worth of gross product per full-time employee. And also when I was worked at Kansas Farm Management Association for the last seven years too.

So, pretty much any of the K State AG econ reports you're looking at. I was part of the program that was put together with the local farmers and I actually pushed more on the farmers. Depending on cows and farmland. I know there's, more farmland in, in Montana than I realized.

It, could be upwards of 800,000 to a million per full-time employee. And that's on gross product. So that's dollars breaker revenue and then this gross product that we generated here of gross product per cow.

Gotcha. Okay.

And I'm also [00:19:00] gonna, I'm also gonna steal a quote from Burke Tiecert here too. But a common thing you hear him get repeated on is 500 cows is a part-time job. We came up with gross product per cow here of 7 93, and we take that time as 500. There's your 400,000 also.

So Jordan on this, like 500 cows is a part-time job. Yep. And, I've in, in my years going to ranching for profit schools I've seen that yeah. One guy should be able to a thousand cows or whatever, and you just rarely see a situation where there isn't a bunch of other people.

There's somewhat whether it's there's just other people engaged that allow that one person to take care of those cows, that there's someone else in the office, there's someone else fixing things. But maybe I could be wrong here at least I, haven't been around an operation, too many operations that pull that off [00:20:00] successfully.

It, seems like you have to have a really clean piece of grass. In a pretty, pretty accommodating environment. And the other thing is, I've never been in a place where someone, something doesn't happen to that person where he can't be present. , he's not, I haven't met too many people who, you know, 365 days or getting the job done, but Right.

These are just nuances. I know where you're going with this, but in the real world, in the real world it's there's just other people involved, but you maybe don't account for 'em, right? Oh, yeah. A absolutely. There's, gotta be help, help in there. I, would agree with that too.

Yeah. Any, anyone else, any other comments?

I guess on, on, on my side, I put how many cows to provide for a family. That, depends on our family living. And, also the profitability of the business. Where is there room for improvement? The original title of this slide, this [00:21:00] evening was Cows Suck and what to do about it.

So there's multiple ways we can work on improving this here. And, it starts on every slide.

Here on herd performance you we can do our, best to keep these numbers to a minimum. Or if these cows don't fit our operation then we can just do a better job on how we sell them. So maybe we wanna market them instead of writing 'em down to the bottom of cull cow value.

Maybe we can sell 'em as bred cows or, late bred cows or something like that. We can't do much about the market, but we can change our marketing. So what class of animal are we selling? What timing of the year are we selling 'em? And then into our, so that would increase gross product, but we wanna remember we're looking at gross margins.

So we want to increase gross product without cutting, without increasing direct costs. Because another way we can improve is on these direct costs. Like I said, I'm gonna make you charge the interest because I want you to have that factored in however [00:22:00] what can we do about this feed fed? Can we cheapen up the purchase price?

Can we only feed 'em 60 days? And once again, we can't just cut feed. We know how well that's gonna work. We would, if we cut feed out our gross products is gonna get huffer suffered too much. So we, that's why we focus on the gross margin. It's the relationship of gross product and direct costs. We can't steal another quote here, but you can't starve profit into the business.

And then the as far as gross margin, then once we know this then we're just gonna have to get numbers so we can increase gross' product, we can manage direct costs, and we wanna optimize this gross margin per cow and get it up to two size. So if we take, for example, if we added a hundred dollars per market, Per animal that we marketed, that'd get us up to $345.

And if we cut a hundred dollars worth of direct cost out, whether feed was cheaper or we got to better grazing, then we're looking at a gross margin cow [00:23:00] per cow of 445. Now we would only have to double our cow herd to, to let us meet that land and labor charge. D does that make sense to everyone or did I go too fast through those slides?

I'm not sure how well it's relaying onto your guys' slides to go through here.

Yep. That makes sense. That's good. I like to hear that.

So we talked about how many cows, we talked about room for improvement, and that's financial improvement. And then this last one that I thought of too today is sometimes, we're not even asking the right question. During this 20 below weather and the wind and the snow, is anyone questioning whether or not we should just have cows all year round?

These, blizzards are, good times to have these conversations . So in conjunction with your question how does an operation double their cow herd with the resources they have been working with Historically? You don't, sorry, you kind cut out right there. What was that? How do you double the [00:24:00] size of your car cow herd under the best circumstances given the resources you've been working with historically?

The, main way we see people increase their cow herds is getting better at grazing. And getting better at grazing in, in one of two, in, in two ways. The first being setting their system up to graze year round. So we change it from feed fed to feed grazed all year round, cuz that not only gets rid of the feed purchases, but it gets rid of the tractor and all the time and labor to take care of it.

And then some major improvements in grazing management and soil health to get our ranch to have more carrying capacity. Those, are the two biggest areas I see improvement on, feed fed and grazing. That way you can increase your count numbers without necessarily increasing your land base or your labor associated with it.

And are you finding that [00:25:00] worked? Works consistently?

I would say so I, have heard plenty of learning curves and learning bumps, that's for sure on people doing it the first couple years. But eventually if they stick with it they, get it figured out. I know like I said I, was in Kansas for a while and everyone thought winters were bad there.

And I'm in Wheatland now and the wind blows all the time here. And, you guys are farther north than I am now. So I, I know people in Canada that do it year round too, so it, it can be done. Thank you. You bet. Jordan, to this right question I've, often wondered why people think they're historic place, or the ranch they end up owning is somehow balanced enough to generate a consistent profit.

Profit. Why do we assume that the boundary that we own is sufficient to run a profitable enterprise? It. More times than not, just, at least my experience, , is by putting a [00:26:00] boundary around where our business needs to operate becomes a problem. Some places, based on changing circumstances just don't have the capacity, no matter how cool your grazing is.

And I'm not saying you can't make improvements, but sometimes just trying to partner with other people on other pieces of ground, Yep. Is, a fairly economical way to spread risk and create capacity. Yeah. And I, totally agree with you there. Cause another note I had too was we can always talk about seasonal enterprises like yearlings.

Or a custom graze something. But I also have should you own the animals? And you talked about partnering. So just because you own the cows doesn't mean you have to care for 'em. So if you guys are snowed up in Montana, you can send them out somewhere or, just put cows out on shares too. That's, a way of expanding without you physically doing the work.

Jordan, there's a question in the chat. Oh. If you wanna [00:27:00] read it and. So a question in the chat given these numbers, why do so many people run cow calf operations? I, think there's two reasons here. One, one is I think it's the easiest. Most people can care for cows and calves. Lots of people are, somewhat intimidated by yearlings as far as fence and handling 'em and, wrecks and stuff like that.

And, the old rule the, second thought is the old rule is just that, that's just what we've always done. If there's a positive gross margin, remember if, the ranch is owned and we're, not paying ourselves a full market value to, to Work we can cash flow the ranch without showing a true economic profit.

And, if you can pay the bills on that on those cows and calves then, go on. No one's here to tell you it's wrong. But lately with markets, they've just been having some poor margins. And [00:28:00] we talk about generations it, worked for our older generations.

They could run cows and they could make lots of money on it. Markets were we're looking at the relative market between cows and calves and land and machinery and labor. And right now, those, if we were to look at those similar ratios, they are, they're different. And I think it's important too to remember that our kids are gonna be having these same conversations.

It'll work for them, but it's not gonna work for us. So I hope that answered it. I rambled on there a little bit.

Jordan in the Ranching for Profit world and we have some groups up here in Central Montana that recognize that, and it has been for some time that purchasing land is, really not an economic way to get into managing a livestock earth. It's, just not realistic anymore. But how does that change in your guys' world that land is no longer something people can buy if they think they're gonna make, if they think they're gonna buy it to run [00:29:00] cattle?

Is that just become an accepted kind of norm for this day and age that Land is different, cattle are different. The, connect land and cattle is some kind of synergy, synergistic relationship. It's in terms of, the value, what land can bring in our economy for something other than cattle.

Yeah. Land is no longer, people don't invest in land or run count.

I think it has been somewhat accepted now that you frame it that way. What, we teach at the school is we're going into the livestock business. This is a different deal than the land investment. Now as far as like you said we're not gonna go buy land to put cows on it.

Cows aren't gonna pay for the value. They're not gonna pay the mortgage payment. What we can do with that land though is, different because there's. We can look at other enterprises, hunting and scenery, whatever else. You guys are gonna be a lot different market than, I am here in Wheatland, where you guys are at in Montana.

as far as [00:30:00] cash flow we have to look at what can the business afford The livestock business, I always look at, when people ask me this, I always ask 'em too what, phase is their business in? So phase one, phase two, phase three, if I'm a phase one business and I'm starting from scratch, it is almost business suicide to go buy land because the, like you said, the rent is the, mortgage payment might be four or five times greater than market value rent in that area.

However, I do agree with land will build wealth over time. So as long as we can afford those cash payments, we can buy a small place here, even if it's just a quarter or a section, and get started there and, get through those first sets of payments. And then after 10 years we can capture that land appreciation.

Get another piece bought and then continue to roll our profits into land. So I understand the importance of the business cash flow, not to buy land, but I also see the great value of wealth accumulation in land. Also

The, [00:31:00] question sometimes we get from, people in scenic areas can't remember who I talked to. It might have been Chris in Big Timber. You could sell a small place in Big Timber and go buy really, big place somewhere else that could run three or four times as many cows.

So the question is, are you, do you want to buy land or are you attached to land? You're already on too.

I, think what I'm hearing is that you have this enterprise called land that you can appreciate value of your. It has nothing to do with cattle they're, a small portion of what you can do with it. I'd love to, I'm talking too much. I'd love to hear other people say something, but to, to me, it seems like for any young family to get in the business today, they have to understand what you just explained here with gross margin and can somehow pencil out a gross margin that works at the front end, and then they're gonna have to go find some partner to get some grass and to convince them that they're, if they're there, they're gonna add some value for that landowner.

But and I think that's [00:32:00] I think that's an appropriate and workable way for young people to potentially I'm an older guy and, if I, if my daughter who's coming back doesn't wanna run the business, we'll probably try and find a young family who could make the grass work. With an appropriate growth margin and take care of the ground and do all these cool things.

Yep. So I think there's an opportunity there. But don't, the opportunity for these young people is that there's gonna be some people out there who own land that are gonna Yes. Create that opportunity. Yep. And you, said it already, but that's where I was going with the opportunities there.

If you look for it like you said, if there's you can installment sale, Buy it on an installment contract from, an older couple. If they don't want the land anymore and they can sell it, that would help you, your cash flow and their tax bill. You can take their cows in on shares and help 'em.

Like you said, there's lots of transfer ideas that we've seen some pretty, pretty creative routes with younger, people taking over for some retired, [00:33:00] retired people that, that don't want to sell everything. And that's where it's also nice too to have that if that livestock business is separated from the land investment, then you know, the younger generation can take over the livestock business while still renting the land from the older couple or, examples like that too.

So Jordan and I was gonna ask, can you hear me? Yep, absolutely. With going through a few years of pretty severe drought here, a lot of people have destocked and so you know the title of your talk here, cows Suck. I think you've established that and we all believe you . So as people let's, hope that we have some good years coming up.

It seems like you've given us some a, small set of variables here that we can consider if we decide to go out and purchase cows and go with pairs again. Or we can weigh that against running some more yearlings or doing some different [00:34:00] things. Maybe custom grazing or, renting out some of that land if, that seems like an option.

So maybe going back to the slides, can you just run through those and give us an example of how we can compare numbers set up projections for running cows versus yearlings versus a custom graze versus something else. . Sure. What I would look at here is on this gross product line the custom grays I'll really have to rely on you guys too.

Cuz if we were to custom grays, I, I know what rates are here, but gross product for custom graze is just gonna be days times. Sorry. Sorry, Jordan. Hey Jordan? Yeah. Can you share your screen again? Oh, sorry. I was typing on my PowerPoint but I never shared it. That's pretty helpful, isn't it?

Thank you. Yep. [00:35:00] There we go.

Does anyone have a a rate that people charge for custom graze? Do we have any custom grazers out there?

Russ, are you still on? Yes, I am for a yearling. And it all depends on your incoming weight. I'd say anywhere from $23, $25 would be a number per head. Per month. Per month. And then how many is that for a six month grazing period? It all depends. Yeah, you could use that, but no typic. Yeah, it could be four to six months, but yeah.

Okay. It just depends on your operation. Okay. And that's, that would I, think that would be comparable to me in southeastern Wyoming here. . So for easy math,

$25 per,

and then we'll call it four months.

And so that's you said four to six, so we'll go five months so that's [00:36:00] 125 bucks. That's our gross product. However, the important thing to remember now on the nice thing about Custom Graze is someone tell me what our direct costs are on a custom graze.

Zero. Zero. Perfect. So what's our gross margin?

1 25. Yep. So then, now we all know, like you said Russ, I think it was you, said it depends on your in weight, but would it be pretty safe to, would it be pretty safe to say we can run two yearlings to this one cow. That would be very safe. Yes. If as long as your incoming weight. Yeah. I, get going on my little side deal here.

You can't have a yearling defined as an 850 pounder. Let's, assume a 650 pound incoming weight. So yes. Okay, I like that.

So then we can just take that 125 and multiply it by two.

So these gross margins would be very comparable of custom grazing the yearlings or [00:37:00] buying the cow. Now the biggest then, comes in our risk factor. So how much money did we have to borrow? How much risk are we taking in the market? With custom grazing, that's on the owner. And so we, can even set 'em up to keep switching back and forth between, excuse me, keep switching back and forth between economics and finance.

But you don't have to borrow the money. And we can ask that custom grazer to pay us once a month. So now every month that they're in here, we get a check for whatever it'd be 10 or $20,000. So that's a good option. I, always think custom grazing is the, first route for us to pick as an option because there's, always people that own cattle that are looking for grass, and they will pay you to take care of 'em.

And if you can keep 'em alive and keep 'em healthy and ship 'em all back out you'll, find yourself a good partnership there. So I always feel like custom graze is a good way to start. And then, let's look at owning the cattle. If we can beat our gross margins owning the cattle, then let's [00:38:00] look at owning them.

Questions on that? Just to follow up, Jordan, so that, that's a pretty simple way to look at things and I think that'll work for most people. Do you guys, does Ranching for Profit have projections spreadsheets that allow you to just plug and play? We do have a spreadsheet that, that is it, I wouldn't say plug and play, but it does, I'm gonna open this up so I can see you guys again.

It does look at the whole operation so we can compare standard animal units and stuff like that. Sometimes it's hard to get into spreadsheets though, just cuz we fight stupid formulas and stuff like that as much as anything. But there are some spreadsheets available. Yeah.

On your previous example with the custom graze, that was only for five months. In our cows, we were grazing them for nine months. So don't we have to also adjust for time that. Seems to me like custom, some grazing should be worth almost twice what the cows were if you adjusted for time. Yeah, I would agree with that.

Cause [00:39:00] like I said, two, two to one for the, cow weights, but then almost another two to one for the time grazing. That's what you were asking, right? Yep. That standardize our numbers a little better. Standardize everything for equal comparison. Absolutely.

So what you were saying here, that's for the weight

and then So we could multiply it again there. So with that would double it. So our, custom graze is, even better. That'd probably be more like four 50, is that what you're saying there? Yeah. Yep, I would totally agree with that.

I got another chat here. Yeah. And Bill, I don't know if you saw this or not, but Jim said thank you for your input. And then Jim, also asked, why isn't the value of grass a direct cost? And so we, get this question a lot too. We do feed fed as a direct cost because we can associate that [00:40:00] per unit of production.

So we have one cow, we feed her a bale. We typically don't rent grass per head. We rent it for the ranch or we pay for the forest allo. . So all land and labor is default to overheads. And, since we get it by the lump sum, that's why we call that an overhead. Does that make sense? If not tell me that.

Jim.

Yeah, I would say the confusion is just that typically direct expenses are, unit base. So since it's, it does go up with the number of head, that would be the reason you'd think of it as a direct expense, but Yep rule of thumb, the easiest rule of thumb that we say is if you take the feed to the cow, that is a direct cost.

But if you take the cow to the feed, then that's gonna be an overhead. I've been to the school and, I get the, distinction there. I, was, To be perfectly honest, I was hoping to get an explanation for another person on the [00:41:00] call. Okay. hope I answered it for them. Could, I comment on that really quick?

Yes, great to hear too. On the grass charge I, was just thinking too that if a person is running yearlings and buying and selling yearlings and potentially paying leases on a per head basis it seems like it would be pretty important to factor that grass cost into your breakevens so you knew what your, what you could buy those calves for and turn around and sell 'em.

And so I was just thinking there are definitely times when there is a potentially a lease Per head on a per head basis for summer and yearlings or something like that. So just wanted to comment on that and, I agree with that too, Andrew. One of the big questions that we get too is, corn stock leases.

A lot of you can send 'em out to, corn stocks and, that's a dollar some, sort of dollar figure per head [00:42:00] per day. That there's a, there's always a gray area there. But I, do agree if you're looking at, if you're looking at your, sale buy margins we definitely need to factor in some sort land charge in there and feed cost too to say Should we even buy this animal?

But, if we look back and we wanna look at our RFP benchmarks, then that's when we're going to split out that feed fed versus the feed grazed into the direct cost in the overheads. I see one more chat in here. Yeah. And that's a good point. We typically lease stake our forest as an a u m.

So is it a unit cost? I'm gonna say no, it's still an overhead because it's land. We're, like I said, we're trying to, we're trying to get that distinction between the, feeding and the, grazing.

And that's, part of it too, that the, forest AUMs if, we're, if we wanna compare to other people's gross margins per cow or per standard animal unit that's, [00:43:00] when we have to make sure we split out that feed fed versus feed grazed. If, we're looking at your business only we can play with those rules a little bit.

But if we wanna compare apples to apples with everyone else, that's when we have to get strict with those rules.

Jordan, I don't know if this is the appropriate. Discussion to do this I know Ranching for Profit has evolved their benchmarks over time, and they're really a, an important part of your business As you all the people who go to the school and are shooting for targets is a very, difficult to, share what you guys use for benchmarks for for operations.

You probably don't have that. I, don't have it in front of me and, I wish I did. But I, really don't have a great answer for that right now. I do know if you talk to me here, probably next fall that is on Dallas's and Ice to-do list, is to, update those and, get some more, more recent numbers.

Did I beat around the bush on that question? No, You're just [00:44:00] use your fine. Just don't, have that slide. But I, remember off and on talking to Dave Prat about just, so what are these measurable benchmarks that that, somehow you could really, you really do have good data from your alumni that show that they're meeting that because and this this would be a, holler out to you, Holly, for how we do this.

We have these sessions and. And I keep thinking, when are we gonna have a session where we're all willing to share our gross margin, and and, actually congratulate the person who has the best gross margin. And, then ask them, show us how you got a great gross margin versus being embarrassed to show that our gross margin sucks.

Cause this, stuff is great. It's, when I start seeing everyone around me being honest about the gross margin, that we could actually self-educate or self support and improve, but we don't take it to that level very often. [00:45:00] We don't like to. Yeah. That would be, a good question.

The most important question is why don't people like to share their numbers if they think Yep. They might improve their. So with that, I'll just shut up. . That's a, with the, joke at the school is always when, we ask people what a good cow is we could be colors breeds this, that but to us good, a good cow is one with a good gross margin.

And I, can't remember what school it was, but we were joking that when we doctor yearlings in the pasture, you can either write the date that you doctored on 'em, or sometimes we'll be sarcastic and write how many loops it took us to rope 'em. And the next comment was, we should write, if everyone wrote their gross margin on the side of their cow, then that would remind them how good they are in chalk there.

So

maybe adding to that a little bit. I was curious speaking of gross mar gross margins for cow calf enterprise in all the different [00:46:00] producers and areas that you've been in Can you name a couple of the characteristics of those operations that are doing it really well with cow? Cow/calf?

Yeah. So the, biggest deal is And, Dallas just profit tips. I can't remember if he was the last one that went out there two ago, but he, talked about his number he pinpointed was 350. So if we don't have the $350 gross margin that that's, caused for concern. So he wants it to be three 50 and even up above 400.

And as you can see, we came up with a $240 gross margin tonight. The, biggest deal is the, feed fed. So increasing our grazing days and, not just we can't calve in March and, not feed our cows. We know how that's gonna end up. So, increasing those grazing days, but setting those cows up to, to calve with, less assistance.

And then on the marketing side, we're seeing a lot of people really, pushing those cow sales [00:47:00] heifer development and not necessarily heifer development, but watching that cow value curve to increase some sales there. The, to me those would be the biggest ones of gross margin would be the, gross product.

In, what sales, what class of animal are we marketing? And then getting the feed fed out there.

Thank you. You bet.

I know if you saw the chat bill, but Matt, thank you. Sharing . No I was typing in as that uh, maybe Holly can set up a session where we can go over two, get two or three people to commit to share their gross margins and that would be kinda, kinda fun and it would probably be stress, but Matt, might just take the lead and show us how to do that

Yeah, we can definitely set that up cause I'm sure we'd be there cuz we're, toying between bred Heifer's, yearlings, we're still up in the air, so it would be nice to get in a group and be able to bounce ideas back and [00:48:00] numbers and No, we're we're redoing ours. And that's another question for you, Jordan.

It's like you almost have to do a gross margin and I have to admit we've been a little bit sloppy of late, but it seems appropriate that you would do a gross margin every year because it changes every year. Yes, absolutely. And, even a couple times a year. Cause the, nice thing about doing the gross margins and the overheads is once you do it a couple times it's, just like muscle memory.

It's pretty easy. And, once we the, nice thing about putting those, the land and the labor down below in the overheads we know what, we need to keep the lights on in the business. So if it takes 400,000, 500,000, it just it's just that's what we need to generate in gross margin to make this business go round.

What enterprise will give us the gross margins per unit that we can run at scale to meet those overheads. And that's that we you if we just work backwards that's, what's nice about that. And, I know the market fell out of bed this [00:49:00] year, but not enough people look at sheep as another enterprise too.

I, know there's a whole slew of learning curves with them too. But man, there's a lot of people that made a lot of money on sheep over the last few years too.

You're on mute, bill. They made an unaccept an unusual pile last fall, but it's, a total wreck this fall. , yeah. Yep. Absolutely.

Jordan, there's another question in the chat if you wanna the, might be best to do it over drinks that question or the next comment. The, that's a given the next one. It's a given . Yeah. As we are starting out, is there a better livestock to start with than cows? I, would say yes. And I, there's a disclaimer here that you have to operate an operation with animals that you can take care.

Sheep and yearlings are gonna have a much better turnover than cows. So if you don't have cash available, you're gonna have to borrow money to buy cows. They're gonna be a year out before they have the calf. You're [00:50:00] gonna have this and that. And with those, custom graze yearlings, we could run two to one.

We could turn them over. If you're comfortable buying and selling, you could turn 'em every 90 days or so and get a couple turns in on a year, and that's gonna give you better turnover for cash flow and you can increase your size there. Once again, I can't remember who I'm stealing this from, but they said the size of the animal does reflect the turnover.

So she are gonna have a higher turnover and then small yearlings and then big yearlings and then cows are actually the, lowest turnover. If, I'm reading that question right, if it's a, if it's a startup business, I'm gonna really, push cash flow. on that operation.

I was in Texas last week at our Ranching for Profit school and there were several people down there running hundreds and hundreds of goats. And so if, that's an option too. I don't know what they I, don't know a thing about goats, but I know some people make money on 'em. , I wonder if in this [00:51:00] discussion that we aren't falling into a little bit of a cookie cutter for each of these class of cattle.

Because one of the things that you can do to kill a cow operation as far as your margins is spend too much money up front on cows. But the same can be said for yearlings for somebody. cows it might be possible to just slip into some short-term cows for a while and start then you have an opportunity to maybe raise some cal heifers.

There's a lot of ways to look at that. The going clear back to the very beginning of your worksheet your upfront investment in your cows. Right now it looks tough because interest rates are hard, but that applies to yearlings as well. And on the yearling side, you can set yourself up for a wreck by going after high end ca On, the same, in the same sentence, though, you can have a wreck by buying [00:52:00] cheap calves too. Yes, absolutely. You gotta keep 'em alive and you gotta keep 'em healthy. I, would totally agree with that.

So anyhow, in that same turnover mindset short-term cows may be a possible cuz those cows the, plus one cows that you buy a short-term and you get an extra year out of those are the best cows. But chances are, you may not even breed those cows. You might just turn 'em over. Yep, You're gonna if I'm hearing you an example would be buy a late bred old cow and, runner for six months and ween the calf and sell both of them. Would that be an example? Yeah Anyhow I, know that you have to have some sort of a template to try and make a point with, but yep, I think to write the cow calf deal totally off maybe isn't, Oh yeah no, that, that wasn't the point. Because if we go back to that, now that you said that let's go back to this here. So our, calf, oh, [00:53:00] I forgot to share my screen again.

So this here, like you said, we sold our calves at five 50 at a dollar 90 was a little over a thousand dollars ahead. We sold cows at $1,500. So we sold our cull cows at 1,050, and then we bought our new cows back at 1800. So you're saying let's buy cheaper cows. Not necessarily bad cows but, better valued cows and, we can sell 'em before they fall off this depreciations.

Not, tax, just I'm talking about cow values here. But so we're, gonna, we're gonna decrease our purchase price and increase our, sale price. And so what we get is we're, gonna take the cow depreciation out of it and, in fact, we might even have an increasing value in our cow herd by capturing those sales there.

Yeah, I would agree. Because the depreciation is the bubble in the whole deal. Yep.[00:54:00] Yeah. Thank, you for bringing that up. I, forgot to go. I said we'd come back to that slide, and I never did. So

I, guess this be a question for folks. And you, Jordan I, see people raising livestock that are, that can be on, on, on two different paths. There's a sell by just what can you bring on, use that grass, turn it over quick, and just keep moving it through that commodity market.

Then, there's a case to be made for people who are trying to raise livestock with a, value and a value factor in terms of marketing. We're part of a, big co-op in which you just can't buy and sell and have that consistent placing of cattle. And over time they usually produce higher value in a year like this.

It's it's become more challenging, but, and people who are doing selling grass fed animals or genetics, it's really trying. That is a more complicated path. But [00:55:00] if you really are wanting to sell a beef product that has high quality for particular targeted customer, the path of just buying and selling and getting whatever makes the most sense and has the best gross margin at a certain point in time, doesn't necessarily work over the long term.

If you're trying to create that market. And I'm not putting the value in one or the other. I've, done both maybe more toward the, value deal, but and there's challenges on both ends here, I'm just saying that as a bee producer, it's cool to think that you can produce a product that you know, What it looks like and what it tastes like and who's buying it and who's appreciating it when it's actually processed.

So that's just a everybody out here, some, there's some people out here who, are raising those kind of things. Let's see, Brian here with, they're grassed. I don't know. I dunno if Brian wants to talk or not, but they've worked pretty hard on a craft [00:56:00] market. Yeah, no I, would love to hear from everyone else too, cuz that's, like you said I, hope we're, I hope you didn't hear, I hope you didn't hear me say, sell your cows and, buy something else.

Cuz that was not the point too. It was just to, go through the numbers and, look at it. Like I I'd love to hear from, anyone else too.

Is there becoming more and more grass fed up there? Bill? Oh, there, Brian muted. I'll, let him talk. I don't know if I have too much to add. I think Bill's got a good point of, as far as Wally Olson talks a lot about sell, buying the cow Bell curve. And there's a lot to that, but there's also, if you pick a different route, there's a lot of value to be captured in niche markets.

Not everybody has the opportunities on location and transportation makes a big difference, but Gil facilities. But[00:57:00] there is still a lot of opportunities in creating value in those other markets. Looking at different revenue sources by creating value, whether it's through genetics or finishing animals out, but you always have to keep an eye on what's that realistic cost?

What could you have pulled that animal for as a calf or a yearling versus a finished animal. That opportunity cost can really eat you up sometimes. And it gets hard because if you go down a, if you go down a finished beef route one year you're like, oh, we should have sold all these animals is yearlings.

But you can't exactly create a name brand. If you're trying to create a brand for yourself, it's, you gotta commit to it. You can't really be like, this year the opportunity cost, we should have sold them as yearlings or calves. But it's pretty hard to create those brands and direct market to consumers that want a [00:58:00] certain product a certain way.

So that. It gets a little tricky sometimes with my mind on the books as far as that opportunity costs and where you should be at. But it's something that you definitely need to keep track of. Cause a lot of guys don't, keep track of that and look at, they'll just get stuck in one realm, not realizing they should be selling something else, but the direct to consumer business, you definitely have to commit to it a little bit to make it pay, cuz there's gonna be years where you're up and there's gonna be years where you're down, if that makes sense.

Hopefully overall, I mean by creating a brand, you're hoping to be up more than down. Like the really, good years, like 14, 15 that everybody likes to talk about. You're gonna be down a little bit, but everything else, you should be up if you're doing your job right. In marketing. Anyway.

And so it's really important for you to [00:59:00] understand what are your customer values if they really, want your beef that you raised. Then like you said, that gross margin on the weaned calf and the yearling calf, it isn't quite as important as, it is to the, end run in the business.

We, have some we just had our economics intensive last week. We had several businesses that were doing some direct market just like that. And, like you said the, production areas were yeah, break even not that great, but that, enterprise fed the direct market enterprise. So it was important to them to have that feed, those two.

So you got I, yeah, you gotta look at those two together.

I guess I got a question on your you're looking at it mostly from a grazing standpoint, but if you've got a hay base that you're producing the feed and almost backwards, we produce hay and background or calves into a source verified marketing program. Does that [01:00:00] shuffle your costs from a direct cost into the overhead costs on your feed?

No. When you're putting up the hay we're gonna, we're gonna assign a market value and, make your cows and your background in calves. They're gonna, they're gonna buy that hay at market value that way we can get, please split up the three enterprises. Yep. But then should you be pulling gross margin on all three then, shouldn't you Correct.

Between the cow calf, the feed lot, and the hay operation? Yes. Yep. And so the, hay operation is gonna have a gross product and the hay operation gross product will just be yield yield per acre times market value price. And then your cows will have to buy what they eat and then your backgrounding in your feedlot will have to buy what they eat too.

So, what that's gonna tell us then is, your hay making enterprise paying for its direct costs or should we just go buy the hay on the open market? [01:01:00] And, then on the flip side, on your cattle enterprises, it's gonna help us determine those margins to, to keep moving forward. Those, with those enterprises, then like putting the cows on the cover crops and the, where you're intermingling all that.

What val or how do you transfer the value of the soil health into your crop operation?

that's the gray area there, . We go everything's integrated in amongst itself. To divide it out, to make your numbers work, creates a, that's a mess, but how do you transfer that? That's exactly right. Yep. If it's so, if it's on your if you're planting one field full of a cover crop for some winter grazing, what I would do is probably just make the cows pay for those input costs.

If you're, if you hay the field and we mark down the production and the hay bales off that and you, the cows out there in the winter, we could probably let the cows donate that, cause, like you said on, the soil health [01:02:00] part, should the cows be paying for the feed value or should the cover crops be paying the cows to spread the fertilizer?

Yeah, that's the thing. Yep. As a, as does the crop pull back in the fertilizer that comes out of the feed lot as you spread the manure back out? I mean it, to divide it all up like that kinda, you're losing some in the mix. Yep. Yep. And so yeah the, cover crops and, aftermath grazing the that can get, into a gray area.

And so that's like the direct marketing we're gonna look at, we're gonna look at bottom line profit and, see if they're, if it's all a set of synergistic enterprises that work together and that improves soil health, cattle performance and all that then we can let some of that slide.

But yeah it, can get complicated pretty quickly when you integrate crops and livestock in there together.

And I will I'll put my email up here in our office phone. You guys feel free to call me, email me [01:03:00] whatever, you need.

So my email's just, Jordan ranch

anybody have one last question?

I've got one. I understand how if the yearlings were roughly half the year that we could at least in theory, double their gross product, but. In, reality, is that practical? The grass isn't necessarily gonna be yearling quality through the winter, that kind of thing. Can you expound on that please?

Yeah, I, you're definitely gonna have to said, look at the, grass on your ranch or the reho resources of the ranch. I, I was just, and I hope this didn't skew the answer, but yeah, I was thinking growing season grass. So if then we would have, the same quality for the yearlings to the cows.

I was just thinking in my mind, we need a, weight factor how many pounds are out there, and then the the growing season or the grazing season answer too. So I wasn't thinking about winter quality or, poor quality grass, but yeah, that, that would [01:04:00] have to be taken account.

Is it possible we could run another class? We say we, we spend our quality grass, say May through July or something like that. Maybe a little earlier, maybe April, but roughly half the year goes to some high gaining yearlings. Yep. And then, we replace them with something maybe that we could rough through for a portion of the year or, at least buy back at a, younger class of animal that is expected to gain.

If we were to feed, say we didn't have quality range to feed them, but we had we could spend, our hay dollar would go further on a smaller growing animal through the off season. Is that one way that we could double crop the yearling type situation? Yes. Yep. I, would agree with that.

Or, go to a, a. An open cow or something like that that can get away on just forage and doesn't necessarily need to gain or grow [01:05:00] also. Yeah I would agree with that.

Thank you Jordan. We really appreciate you coming on tonight. Take You're welcome. Thank you. And I guess that'll end our the year bull sessions. So thank you guys for all coming up. Yeah, awesome.

Thanks for having me. have a Merry Christmas too.

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