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Controlling Cost Structures: *What costs should be prioritized?*

Producers who prefer to be outside working can often find bookwork overwhelming and time-consuming. But getting familiar with your finances and understanding profitability is key to a successful and viable operation. So where to start? First, set a goal. That goal might be focused on any objective — from a specific income target for the year to a certain return on investment. The key is to have an attainable goal with a realistic timeframe for your operation. Set the goal, then manage expenses to reach it.

Controlling costs on a cow-calf operation is essential for profitability, especially in times of high input costs or tight margins. But that also applies with record high cattle prices; when input costs have potential to offset or wipe out profit margins.

1. **Start with a cost assessment** - break down your costs per cow into major categories (winter feed, pasture, labour, health, machinery, depreciation). Identify the largest costs that have the most potential for savings.
2. **Prioritize based on impact** - Will changes in this area significantly improve profitability or efficiency? What are the risks of making changes (e.g., reduced productivity, soil fertility, animal health issues?)? Are those trade-offs acceptable? See "[Moving a cowherd towards optimum productivity](#)"
3. **Use partial budgeting** - What are the added costs? What are the cost savings or increased revenues? What is the potential net impact on profit? These results will vary depending on each operation's cost structure with some actions having greater or lesser impact depending on the starting point.
4. **Compare with a benchmark** - Compare your cow-calf enterprise cost of production results with the [COP Network benchmarks](#). Identify where you are above or below the top third performing cow-calf operations. Which costs are outliers that need immediate attention?

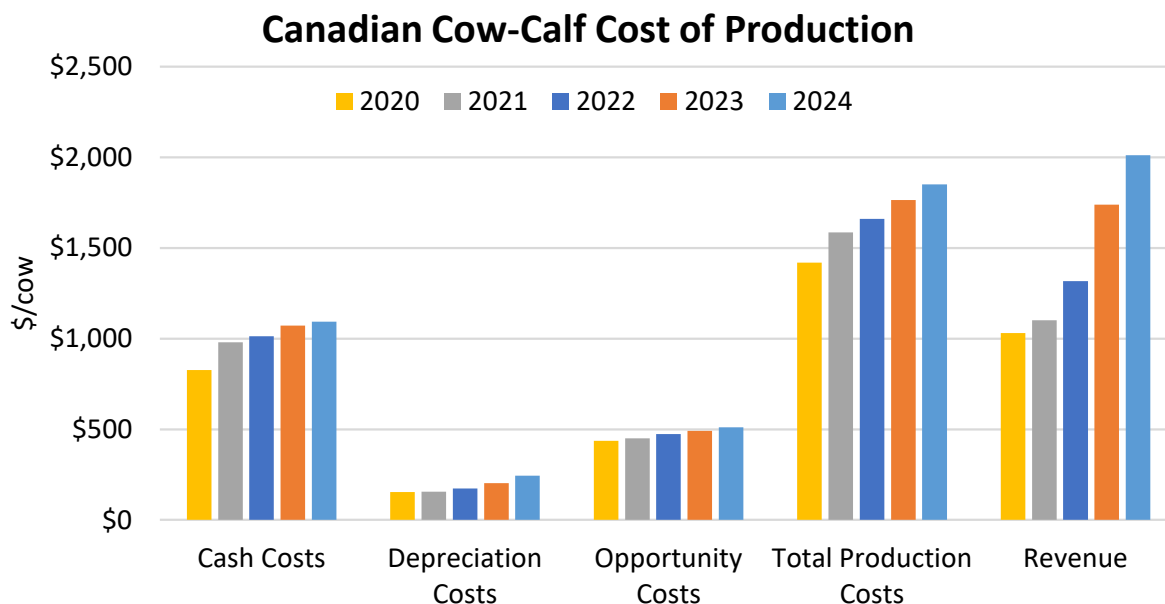
What is the COP Network?

The Canadian Cow-calf Cost of Production Network (COP Network) uses standardized data collection which allows for comparison both within and between provinces, and internationally. Since launching in 2021, the COP Network has collected data from over 235 producers contributing to 64 cow-calf benchmark farms that represent various production systems. Each benchmark is based on data from 3-7 producers. Data collection occurs every 5 years with annual indexing of input and output prices, as well as crop and forage yields, in subsequent years. Individual benchmark farm summaries, can be found at: <https://canfax.ca/resources/cost-of-production/cop-results.html>

While every operation is different, the best starting point is identifying and evaluating the largest or most variable cost categories—typically [winter feed](#), [labour](#), and [overhead \(machinery - depreciation\)](#).

The Pressure

Price inflation has impacted cost structures for all of agriculture and the cow-calf sector is no exception. From 2020 to 2024, total production costs on Canadian cow-calf operations have increased 30% (cash up 32%, depreciation up 58% and opportunity costs up 17%).



Costs to consider

There are two buckets of expenses: variable and overhead costs.

A **variable cost** is something that varies with the level of production. More specifically, when production increases, variable costs increase, and when production decreases, variable costs decrease. The top third performing benchmark farms (based on medium-term profit) had statistically lower costs for machinery (maintenance and depreciation), fuel energy, veterinary and medicine, other inputs and unpaid labour.

For the operation to remain viable it is important to monitor machinery depreciation and plan for replacement as equipment ages. There are periods of time when machinery values have increased significantly, and depreciation based on book value can leave an operation offside when it comes time to replace machinery. Don't be caught unaware!

The Whole Farm Benchmarks notes that depreciation for machinery and buildings should be <10% of total farm revenue (TFR).

Smaller costs, such as vet and medicine can have big implications on animal health and overall performance of the herd. Check out the Veterinarian and Medicine Costs: Are you getting results? fact sheet to learn more.

VARIABLE COSTS (\$/cow/year)	Total AVG	Bottom 2/3	Top 1/3	Top 1/3 vs. Bottom 2/3
Animal purchases	\$93	\$104	\$69	-33%
Feed (purchased feed, fertilizer, seed, pesticides)	\$330	\$343	\$303	-12%
Machinery (maintenance, depreciation, contractor)	\$276	\$317	\$194	-39%***
Fuel, energy, lubricants, water	\$83	\$94	\$62	-33%**
Vet & medicine	\$39	\$42	\$33	-21%**
Other inputs cow calf enterprise	\$99	\$117	\$62	-47%***
Labour				
Paid labour	\$51	\$58	\$37	-37%
Unpaid labour	\$282	\$340	\$165	-51%**
Total Variable Costs	\$1,254	\$1,414	\$926	-35%***

*Significant at 10% level; ** Significant at 5% level; *** Significant at 1% level

Overhead or capital costs are fixed, one-time expenses incurred on the purchase of land, buildings, facilities, and equipment used in the production of goods. This includes the cost of money; loans (i.e., interest payments on liabilities) or the use of internal equity. In other words, they are the costs incurred regardless of the level of production. Statistically lower costs on insurance, taxes, buildings (maintenance, depreciation), and liabilities contributed to the lower total capital costs for the top-third COP Network benchmark farms. Lower liabilities could be attributed to mature operations that had paid off loans. The lower costs on insurance and buildings indicate it may be worthwhile spending time evaluating cost-saving options for your operation.

OVERHEAD OR CAPITAL COSTS (\$/cow/year)	Total AVG	Bottom 2/3	Top 1/3	Top 1/3 vs. Bottom 2/3
Overhead				
Insurance, taxes	\$65	\$77	\$39	-50.3%***
Buildings (maintenance, depreciation)	\$93	\$113	\$53	-53.5%***
Land Cost				
Rented land	\$123	\$128	\$113	-11.7%
Owned land	\$175	\$162	\$200	23.5%
Capital Costs				
Liabilities	\$86	\$109	\$39	-63.9%***
Own capital	\$55	\$61	\$42	-30.2%
Total Capital Costs	\$596	\$650	\$486	-25.3%***

*Significant at 10% level; ** Significant at 5% level; *** Significant at 1% level

More production is not always better. Chasing weaning weights, reproductive efficiency or any other single metric can come at a cost. Profitability may be obtained through optimization— because it costs less to get there.

The 5% Rule

At times we can get caught up in finding and focusing on the single, silver bullet that is going to solve all our problems. And in waiting for someone else to identify it, nothing gets done. “Studies show that the

most sustained success comes from doing 20 things 5 percent better, rather than doing one thing 100 percent better,” Dr. Danny Klinefelter says. “Also, the most profitable producers tend to be only about 5 percent better than average farmers in terms of costs, production, or marketing.”

The concept is that a 5% increase in price received, a 5% decrease in costs, and a 5% increase in production will often produce more than a 100% increase in net returns. Because the effect is cumulative, multiplicative, and compounding. This means the nickels and dimes add up to dollars! This approach of continuous improvement through several small changes can make a significant difference in cow-calf profitability.

Key Takeaways:

- Have an attainable goal with a realistic timeframe for your operation. Set the goal, then manage expenses to reach it.
- There is no single production system guaranteed to be profitable. Management is the key difference maker, working with the resources available for each unique operation.
- Change is possible, work on incremental progress.



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