#03-July 2023

Recommendations for New Producers

Producers starting up cow-calf operations have many decisions to make. Good advice can be found among those who have been in a similar situation before. Between 2021 and 2023, Canfax Research Services asked 180 Canadian Cow-calf Cost of Production participants what their recommendations would be to someone new starting out in the cow-calf industry. Most advice centered around the following five themes: **record keeping, financial management**, **networking**, **production and marketing**, and **passion**. This fact sheet provides a summary of those recommendations to aid new producers on the path to success.

Record-keeping

Those starting out in the industry should develop a process and a routine of keeping records. This touches on both financial and production practices, and is foundational to those areas (discussed below). Record keeping is a multi-purpose tool producers starting out can use to navigate toward their goals.

Pick it, Populate it, Review it!

Participants recommend having a daily log planner or journal to keep records to use for year-end paperwork. Pick a system, populate it and review regularly. Participants recommended that good record keeping supports better decision-making. They said record keeping will give you the heads up on your own numbers, including your debt-service ratio, cost of production, productivity, and profitability. Record keeping is a tool that supports many business decisions, like price and interest rate negotiations. If producers want to sell seedstock, there is a history of records to show buyers the history of a bull or replacement heifer and progeny. Similarly, a history for preconditioning and calf sales. Record-keeping can divulge long-term trends on your operation. Records of pasture turn out and rotation dates can enable

Get Started with Record-keeping

Visit the Beef Cattle Research Council's *Introduction to Farm Record Keeping* to access record keeping modules in:

- Animal Health and Performance,
- For age and Grasslands,
- Genetics, and
- Finance

Offered at levels 1, 2, and 3 for beginners, intermediates and advanced.

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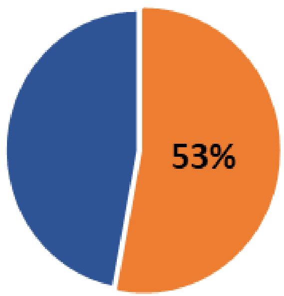
producers to better utilize available grass and possibly extend grazing days. Furthermore, keeping records of contacts and meetings can help save time. Record keeping is a practice that provides a long list of benefits. To benefit from your records, review key metrics regularly.

Financial Management



Fifty-three percent of participants made recommendations about financial management. Key topics included **financial statements and plans, cash-flow, scaling the business, and setting financial goals**.

Financial Statements and Plans

Many recommended new producers should seek out the professional services of a financial advisor and accountant who can help create a plan to manage income, expenses, and growth as well as market and weather-related risks (see drought planning below). Producers will decide between accrual or cash accounting systems when they create their four basic financial statements – balance sheet, net worth statement, income statement, and cash-flow statement. Accrual accounting would record accounts receivable when earned, even if paid later. Cash accounting would record the money when it changes hands. Basic financial plans can help prepare for year-end, GST/HST/CPP payments, identify gaps in cash-flow, and more.

Cash-flow

New producers face increasing financial requirements and more competition to purchase land (Bruhin, 2019). Participants recognized that start-up costs for new producers can be challenging and offered recommendations about managing cash-flow.

Cash flow is frequently a challenge for small and medium businesses. Particularly seasonal businesses that don't have income flowing throughout the year. Some recommended new producers take advantage of grant funding and program dollars for new infrastructure projects like watering or handling. Participants were happy to share that some of these programs can cover most of the costs on certain investments. Others recommended keeping an off-farm job, or building enterprises and marketing strategies that keep income flowing, with cull cows or boxed beef. However, participants also recommended having the personal funds available to support new projects to manage the risk of unforeseen circumstances. A key recommendation on the topic of cash-flow was to minimize expenses early on, and be ever watchful of unnecessary overhead and equipment costs.

Scaling the Business

Participants discussed the benefits of innovation and growth from scaling the business, but recommended the best strategy was to scale the business slowly. Whether through innovation or investment, of money or time, slow growth was consistently recommended by participants who advised against over-extending their time, their finances, or their future opportunities by taking on high debt-service ratios. Participants advised against going deep into debt to run or grow the business quickly.

When it comes to scaling, a key take-away from network producer advice was to master small areas of the operation before taking on anything new.

Don't be afraid to try. Try on a small scale before you go all the way. If it didn't succeed, try to find the reason, adapt, and try it again.

Set Financial Goals

Thirty percent of participants recommended having your own financial goals in place to evaluate how best practices can best work for you in the context of those goals. Recommended financial goals centered around having business plans, maximizing profit margin and controlling expenses.

A personal farm benchmark is a tool to evaluate the farm's financial success over time and provide clarity about operational trends that need to be addressed. To start, producers could describe their cost of production on a unit basis, such as cow-calf unit costs or cost per cow wintered, using the formula below:

$$Cow\ calf\ Unit\ Cost\ of\ Production = \frac{Total\ production\ costs}{Total\ pounds\ of\ calf\ weaned}$$

Producers can then use index numbers to track cost trends (positive index numbers or negative index numbers) over time by using a select base year to calculate their costs and revenues:

$$Index\ Number\ = \frac{value\ in\ specific\ year}{value\ in\ base\ year} \times\ 100$$

The formulas above are a quick start to a personal, operational benchmark that compares financial performance to operational goals over time. Once producers determine how they are performing against their own goals, they can learn from and set goals in comparison with the performance of similar production systems in Canada.

Canadian Cow-calf Benchmarks

View the variety of production systems available to benchmark with in the table found at: *COP Network Farm Summaries Overview .*

Production system benchmarks established by the Canadian Cow-calf Cost of Production Network help producers understand their own performance within the industry. Comparing against the competitive environment they operate in.

Financial vs. Productive goals

One key to attaining a financial goal is understanding that increased productivity is not a guarantee of increased profitability. Consider the example comparing two operations below:

	Operation one	Operation two
Calving	March	March
Acres/ cow	10	7
Avg. cow weight	1,400 lb	1,100 lb
Wean weight and time	600 lb in Oct.	400 lb in Aug.
Calf price	$1.50/ lb ($900/calf)	$1.80/ lb ($720/calf)
Weaning rate	90%	90%
Weight weaned per cow	150 lb	360 lb
Weight weaned per Acre	54 lb	51 lb
Income per cow	$810	$648
Income per acre	$81	$93

Source: (Ranching 4 Profit, 2018)

In the table above, operation one has larger cows with an extended lactating period and weans in October. Operation two has lighter cows with a shorter lactating period and weans in August; because of this, we can assume about 20% less forage is consumed on operation two, reducing the acres needed per cow. Operation one is more productive when observing the weight weaned per cow and acre, but operation two is more profitable per acre. Your own approach to measuring profitability matters.

A good start to evaluating profitability and production efficiency is through the gross margin per unit (Ranching 4 Profit, 2018). The gross margin is the contribution an enterprise makes to cover overhead cost.

Gross Margin = contribution an enterprise makes to cover overhead cost

To calculate the gross margin per cow or acre, subtract the direct costs from the income per cow or acre. The gross margin can evaluate production and economic efficiency, and some producers prefer this method.

Establishing a profit target in the short-term (1-2 years), mid-term (3-5 years), and long-term (>6 years) creates a mindset for developing a strong financial plan. Rather than accepting profit or loss after overhead costs are subtracted from the gross margin, set a profit target that accounts for overhead costs to determine the amount of gross margin needed.

Profit (loss) = gross margin - overheads

Gross margin = profit target - overheads

Based on the gross margin, producers can decide the units needed for each enterprise to meet their profit target, and understand whether these goals are attainable or what actions need to be taken to get there. Keep in mind that the salary or living costs are included in the overhead costs. This knowledge supports whole farm management by targeting earnings toward a certain amount that you are planning for, either to (1) pay off debt, (2) build reserves, or (3) receive owner dividend. Every producer will have a different rank and list of items for their profit to go toward. With this mindset, producers can structure their operations to profit in the long term instead of accepting year-after-year of breaking even.

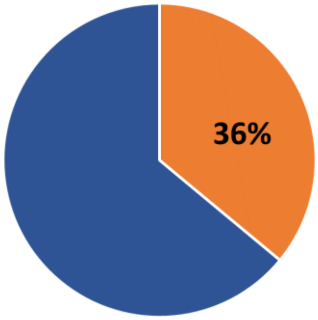
Producers can also use *The 5% Rule* to make intentional incremental improvements to their operations. Some common areas where incremental improvements can be made on cow-calf operations include: marketing, productivity and input costs. For example,

- Increasing the grazing season by 'X' days.
- Increasing the weaning or sale calves' weights by 'X'% by 'Y' time.
- Lower the rate of open cows and heifers by 'X'% by 'Y' time.
- Increase stocking rate by 'X'% by 'Y' time.
    - Through land improvements.
    - Through grazing management.
- Maintain optimal body condition score on cows throughout the year.
- 'X'% of cows calved within 'Y' days.

The 5% Rule

Visit the Beef Cattle Research Council's blog and read, *It Can Pay Exponentially to Have a Precision Rancher Mindset* to learn more about the benefits of making incremental improvements.

Networking



Thirty-six percent of participants recommended seeking out networking opportunities with neighbours, innovators, industry resources and experts for formal and informal mentorship and advice, and to learn and to share resources.

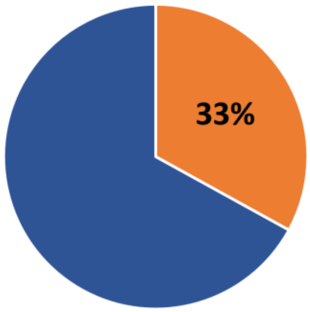
Participants recommended working on other ranches and learning about multiple production systems before starting out on their own. Through those with experience, start-ups have a clearer understanding of the choices available for their own operations.

Central to the recommendation about networking was the underlying idea that community can be a source of continuous improvement and that there is a wealth of information available for new producers to make informed decisions. Participants recommended new producers take advantage of both informal and formal networking opportunities. Informal networking opportunities suggested included chatting with neighbours, seed stock providers, auction marts, and attending webinars. More formal networks can be built by attending conferences, courses, professional meetings, and field days. Partnerships within the community, for example trading time and other assets, were advised. Participants advised new producers to share plans and visions with others, and objectively accept feedback, positive or negative. Ultimately, they advised to trust and respect the experience of others; but to rely on personal merit when making-decisions. Making decisions with others can be a source

Networks make the dream work

of support.

Taking Stock of Opportunities when Choosing a Farm Structure



Thirty-three percent of participants recommended taking stock of opportunities when choosing a farm structure. Advice centered around: working with what you have, investing in quality, and spending the time to get the right systems, tools, and capital in place to meet goals.

Recommendations included: optimizing opportunities on the land base, that is, choosing a production system based on what the land provides and what needs to be an input or improved. "Look at things with a systems approach," participants said. New producers should evaluate their climate, ecoregion, capital, and markets in their area to find the most successful production systems and enterprises for themselves. For example, producers may choose to calve in the summer on grass when the ground is primarily dry if infrastructure is not available. Alternatively, winter calving may be more desirable to sell into higher markets where the climate permits. Overall, participants recommended new producers invest in quality cattle and genetics over quantity at start-up.

Key production system choices for start-ups include:

- Cattle breed
- Calving period
- Confined versus extensive winter feeding
- Summer grazing system
- Climate specific herd health
- Enterprises
- Replacement or seedstock
- Retaining versus selling
- Hay and pasture production

Choose enterprises based on available lands and their potential productivity. For example, arable land may be good for hay production, saving input costs for feed and potentially producing revenue. Without an arable land base, producers will have to weigh the cost of renting land to grow feed versus purchasing hay for winter. By aligning production systems with existing production and marketing opportunities, producers can most efficiently allocate their resources and tap desired markets.

Resource management

After choosing a production system, a start-up producer must manage their time, human, and capital resources efficiently. Twenty percent of participants specifically recommended that new producers focus on production related resource management at start-up.

Producers advised getting the right facilities in place from the start. Producers spoke to knowing the needs of your operation first and getting water and handling infrastructure, equipment, and fencing in place based on those decisions early on. Try to budget these items in cash-flow and get good quality, they advised. Stick to the needs and goals of the operation.

Producers provided specific advice on fencing and rotational grazing for start-ups. Some producers advised using electric fencing. Some advised they wished they started rotational grazing right away to increase forage production. Trade-offs when making these decisions will include existing opportunities, how flexible your labour is, and your grass management and feeding strategies for animals. Beneficial Management Practices are by definition beneficial for the environment. It says nothing about the impact to your bottom line.

In addition, producers also have four stages of the cow to manage: breeding, pregnancy, calving, lactation. Professionals can be a resource. A nutritionist or feed test can determine forage quality and if additional supplements are needed. Establishing a relationship with a veterinarian to assist a vaccination program can mitigate loss in cow and calf performance (Jaeger, Pirelli, & Weber, 2004). Producers suggested listening to professionals but advised not to discount personal knowledge and experience when making decisions.

Drought Preparation

Drought conditions can set start-up producers back when developing their cow-calf operations. However, new producers can minimize significant setbacks to future goals and plans by developing a drought strategy.

According to Peine (2021), the most important strategy is to extend forage availability by supplementing with protein. In a drought, feed prices tend to be higher due to hay supply shortages. Minimizing the amount of purchased feed can be a strategy to minimize input costs. A key element of resource management then, is preparing for multiple eventualities as part of every-day business activities.

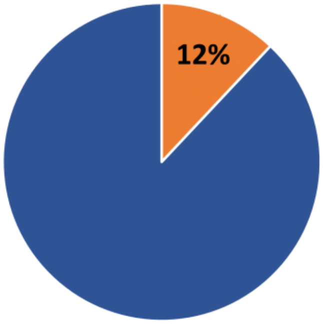
Another option during drought is to wean calves earlier to reduce cow inputs needed (Peine 2021). By weaning calves earlier, feed requirements for the cow are lower compared to extending the cow's lactating period. Producers will have to evaluate the trade-off between selling lighter calves or needing more feed for cow-calf pairs. Producers gain tools to minimize the cost impacts of drought to their cow-calf operation through active resource management and trade-offs based on a longer-term strategy.

See https://www.beefresearch.ca/blog/drought-management-strategies-4/ for more.

Furthermore, producers provided advice on the management of human capital and trade-off considerations that factor personal time and labour into decision-making. The following advice on time and human resource management was given: "when you're starting out, spend the time on management," "find someone who will help you," and "try to work with neighbours." They said to expect sacrifice and hard work and that you have to be in it, "120%." Labour is a resource that can be managed for long-term success.

Burning yourself out doesn't make you go forward and can push you backwards, so be able to manage your time in a healthy way.

Passion



Twelve percent of participants recommended new producers must have a passion for the animals and the work before entering the cow-calf industry. Producers recommended being optimistic and dedicated. They said you must love work, the land, and the animals and surround yourself with others who do too. While passion plays a role, others advised on the importance of every decision being a business decision to get through harder days.

You have to love cows.

Conclusion

New cow-calf producers have many decisions to make when starting their cow-calf operation. Recommendations to new producers from participants is one of many resources available for new producers to evaluate. Participants advised setting personal and financial goals, then choosing a production system that works with their environment and region, and goals. They advised networking with experienced producers and professionals to enhance personal knowledge and better select practices and management styles to best suit their operation. Producers should manage resources to hit profit targets and keep records to evaluate their success toward their goals. Having a passion for land, animals and work in the cow-calf industry is a key recommendation for anyone getting started in the cow-calf business.

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