LMC QUARTERLY - EXTRA
Winter 2012/13 Issue No. 5

THE average cost of production figures for suckler beef, outlined in this issue of LMC Quarterly demonstrate the ongoing profitability challenge facing the average suckler beef producer. However, there is a wide variation in profitability across the sector and it is recognised that some producers are operating more effectively than others by managing to optimise production by minimising costs and maximising output.

The article below from CAFRE outlines some of the traits of the more efficient suckler beef producers in the benchmarking scheme and offers useful advice to producers keen to reduce their costs of production.

BENCHMARKING IS THE EASY PART

IT is clear from the analysis of benchmarking data that there continues to be a substantial variation in the costs of production across the range of beef and sheep farms in Northern Ireland. In the short-term all businesses should consider ways to increase efficiency by maximising output at least cost. The longer term strategy should be to investigate the full range of alternative sources of income. Consider the mix of enterprises on the farm giving priority to those that are profitable.

Benchmarking is the easy part of reviewing a farm business. Basing decisions on the benchmarking information and acting on them is the more difficult part. The de-coupling of subsidies from production has added an extra dimension to the decision making process. The Single Farm Payment does not depend on livestock numbers.

How do you improve profitability?

There are two ways to improve profitability. Either reduce costs or increase income and it is possible, but difficult, to do both at the same time. Variable costs such as concentrates and veterinary costs will have a direct effect on the performance of stock and reducing these costs is likely to have an adverse effect on income. These costs relate directly to a particular enterprise and are easily allocated and increase/decrease in direct proportion to its size.

Overhead costs or fixed costs as they are more commonly known, on the other hand, cannot be easily allocated to a specific enterprise. They

cafre
College of Agriculture, Food & Rural Enterprise

do not vary proportionately with changes in stock numbers and require careful analysis if they are to be reduced. For example if suckler cow numbers on a farm were to increase from 40 to 50, the cost of meal (a variable cost) could also be expected to rise by 25%. However fixed costs such as property repairs, professional fees, machinery running costs may increase slightly, but not by 25%.

In 2011/12 CAFRE benchmarking shows that 'total fixed costs' for suckler to beef herds were 31% higher in the bottom herds than in the top herds. This probably does not come as a surprise however it should be noted that there were on average 12% less cows in the bottom compared to the top 25% of herds.

This difference in fixed costs per cow suggests that there is scope for a dramatic attack on fixed costs especially in the bottom 25% of herds. The tractor and machinery inventory may need to be pruned, insurance costs reviewed, water and electricity costs checked and building repairs analysed. The sale of a tractor could save on running costs, depreciation and insurance. It may be handy to have it but how much is that convenience costing? This is the painful part but if it means survival it may be worthwhile. But remember there could be tax implications if too much is sold in one year.

The other option is to hire a tractor during the busy times of the year. Rates can range from £250 - £450/ week depending on the size and specification of the tractor.

Increasing income is the other route to higher profitability. Producing in spec cattle (and where appropriate heavier cattle), and achieving a better grade and hence price per kilogram are ways of boosting income. Calving intervals for cows need to be close to 365 days per cow. Herds need every cow to produce at maximum efficiency – carrying passengers is no longer an option. Production efficiency is essential if reasonable profits are to be achieved.

Conacre rents are another major item of cost on some farms (£60-£70 per cow). The stock on the conacre ground need to repay the rent and the variable costs associated with the rented ground before they can make a contribution to overall net margin. Spreading fixed costs is not sufficient justification.

There are a lot of improvements possible on the average farm, however this requires factual information and a practical knowledge of alternatives. CAFRE Beef and Sheep Development Branch is equipped to assist in the development of this knowledge and technology base through a range of programmes such as benchmarking and training courses.

Ask your local adviser for details or contact Technology administration at Greenmount Campus, CAFRE on 028 9442 6771 or visit the website at ruralni.gov.uk.