

Over the past several months we have discussed the importance of lowering operating cost per cow per year. We have also looked at several ways to reduce the operating cost (these articles can be found in the Herd Health section on our website). This week we will continue this discussion by evaluating a few scenarios that differ solely in operating cost, and look at the financial benefit a low operating cost provides.

Each of the three scenarios provided will consist of a herd of 100 cows that maintain a 90% weaned calf crop. We are assuming that the calves in each scenario average weighing 500lbs each and sell for \$1.40 per pound. You will notice that the only number that changes in each of the scenarios below is the operating cost per cow per year.

Operation 1: Herd of 100 cows with \$600 operating cost per cow = \$60,000 total operating cost per year
90% weaned calf crop = 90 calves weaned at \$700 each = \$63,000 income from calves
\$63,000 calf income - \$60,000 operating cost = \$3,000 profit

Operation 2: Herd of 100 cows with \$550 operating cost per cow = \$55,000 total operating cost per year
90% weaned calf crop = 90 calves weaned at \$700 each = \$63,000 income from calves
\$63,000 calf income - \$55,000 operating cost = \$8,000 profit

Operation 3: Herd of 100 cows with \$500 operating cost per cow = \$50,000 total operating cost per year
90% weaned calf crop = 90 calves weaned at \$700 each = \$63,000 income from calves
\$63,000 calf income - \$50,000 operating cost = \$13,000 profit

From the scenarios above with only operating cost per cow changing, we notice a drastic change in the opportunity for profit. Operation 1 returned a \$3,000 profit with a \$600 operating cost per year. Remember, based on SPA data, the average operating cost per cow in our region is \$600. If the producer was able to maintain his herd for only \$50 less than average per cow per year (as in Operation 2) he was able to return a \$8,000 profit. The operation that had the most opportunity for profit at \$13,000 was Operation 3- the operation with the lowest operating cost. When compared to one another, these scenarios reveal the financial importance of lowering operating cost in order to maximize profitability of your operation. If you have any questions about operating cost, or if you would like to calculate it for your own operation, please contact us.