UF UNIVERSITY of FLORIDA
IFAS Extension
Desoto County Extension

Enterprise Budgeting for Cow/Calf Operations

There are many means of budgeting for cow/calf producers including partial budgeting, cash flow budgeting, and many others. An enterprise budget is a written statement of goals including production expectations, management actions, input requirements, and economic returns for an enterprise (crop or livestock). As the name implies it is a holistic view of the individual enterprise. An enterprise budget is generally based or calculated upon a per unit or per acre basis so that similar crops or livestock operations can be compared. We will utilize different budgeting tools such as the operating budget for a new tractor or piece of tillage equipment to feed information into the enterprise budget. The enterprise budget can be used to plan operational changes and evaluate the potential risks and rewards of the said changes. Also inherent in enterprise budgeting is the ability to use the budget as a tool to evaluate the success of decisions that have been made after marketing has taken place.

One of the most useful ways that enterprise budgets can be used is to answer the age old questions of "What can I do this for greater return" or "how can I do this at a lower cost". The cow-calf production scenario lends itself well to utilizing the enterprise budgeting process of answering these questions. When we look at a holistic view of reducing costs of production we see the major input costs are for hay and pasture. If we feed more forage grasses from the pasture and less from hay our production cost go down. We have to look at the production costs of each scenario on a per acre basis. We can then evaluate pasture management scenarios along with hay management scenarios to come to the decision aid of which of the two scenarios nets the most return at the lowest cost under different management strategies.

The same comparisons can be made in a cow-calf scenario on a per head basis when determining management strategies. One comparison could be replacement heifer management. The most common question is do I retain my heifers and grow out replacements or simply sell calves and buy replacement heifers. The input costs, management actions, and expected returns for both scenarios can be calculated on a per head basis in an enterprise budget which will aid in the management decision. Many examples of enterprise budgets or representative templates are available from extension educators and business enterprises. However, all these need to be evaluated to ensure that they fit your operation. Some of these templates are referenced at the end of this publication. These budgets and templates are organized into simple arithmetic spreadsheets or tables.

In accomplishing an enterprise budget there should be four main sections within the budget system. Some of these sections are narrative in nature to clearly identify the alternative or enterprise you are evaluating. While others are numeric and require specific data from your operation in order to fill in the blanks.

1. A production goal.
2. Expected market price and gross receipts.
3. Planned management activities with required resource inputs and costs.
4. Estimated net return and breakeven price for the production goal.

2150 N. E. Roan Street, Arcadia, FL 34266 Phone: (863)993-4846, Fax: (863)993-4849

Production goals can range from whether to plant a pasture with Limpograss or bahia to rotational vs continuous stocking decisions. These statements must be clearly defined as it affects the outcome of the analysis. You will use this statement as the litmus test for all your expected price point, management activities and input costs. Be sure to use an S.M.A.R.T goal when you set forth in this process so that you have a Specific, Measurable, Achievable, Realistic, and Time bound goal. Once we have these written S.M.A.R.T goals we can begin the process of estimating market price and potential gross receipts.

Market price for commodities such as cattle and hay are highly variable and dependent on market factors outside of the control of the producer for the most part. It is imperative to have a good understanding of the marketplace prior to entering into any commodity based operation. Use your local livestock market data, regional and national market data, and potential contract data.

The importance of the S.M.A.R.T goals mentioned earlier will come into play now when we think about the management activities and inputs for the cost structure component of the enterprise budget. This is the section of the enterprise budget that has the propensity to be troublesome. This section can be broken down into variable/operating costs and fixed/ownership/overhead costs. Variable costs are relatively easy to quantify due to the availability of current prices either via quote, contract or known values. However knowing fixed costs is somewhat more difficult. One may know land costs, and some of the basics but when we start asking the questions of "what is the annual cost of a dairy barn" or "what portion of tractor repairs should be associated with the proposed enterprise" calculations become more involved.

In the final section we estimate return and breakeven price for the production goal. This is a simple practice of the equation: Return = Revenues-Costs. In the livestock arena we have to also ensure the time periods are established to make sure we are comparing apples to apples. For example hogs may have cycle times of 3-6 months whereas cattle are more long term operations. So for comparison purposes all factors are not only unit bound but time bound ie annually, monthly, etc.

In summary the use of enterprise budgeting can help the cow-calf producer to make management decisions and evaluate production scenarios on a per unit and time basis as well as to evaluate decisions post marketing. The use of S.M.A.R.T goals in the beginning of the process will allow for the evaluation of goals, and management scenarios, cost, and potential revenues in a more complete manner. When utilizing enterprise budgets many examples and templates are available from extension educators throughout the county but even these need to be modified to fit your operation or production scenario. To this we must have good market, and cost data to fully analyze our options.

Florida: http://nfrec.ifas.ufl.edu/programs/enterprise_budgets.shtml

Alabama: http://www.secattleadvisor.com/decision-aidsbudgets/

Missouri: http://agebb.missouri.edu/mgt/budget/

Virginia: http://pubs.ext.vt.edu/446/446-048/446-048.html

Texas: http://agrilife.org/coastalbend/program-areas/agricultural-economics-for-the-texas-coastal-bend/cow-calf-decision-support-aids/

Georgia: http://www.ag.auburn.edu/agec/pubs/budgets/