CALF TO BEEF

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High beef output is the key to profits

Gordon Peppard reviews the financial performance of the 10 farms participating in the Teagasc Green Acres Calf to Beef Programme

HAVING completed one year in the Teagasc Green Acres Calf to Beef programme, it's a good time to look at the financial and physical performance of the 10 participating farmers.

In order to analyse the 2015 figures we need to firstly understand the main headings.

Gross Output

This is the difference between the amount of money received from sales of animals minus the amount of money paid out to buy in the next group of calves/ animals to be finished.

There is also an account made for change in inventory. This can be a plus or minus figure, it depends on whether the farmer has more or less stock at the end of the year than at the beginning of the year.

If he/she has more animals at the end of the year than at the beginning, they are stock that potentially could have been sold and represent a plus figure.

Alternatively, if the number of animals at the end of the year is less than at the beginning there have been excess stock sold in that year and this represents a minus figure for change in inventory.

In an expanding enterprise the change in inventory will be a positive figure and will add to the Gross Output.

Variable Costs

These are the main costs associated with producing an animal for sale and they include, milk replacer, purchased and home grown feed, purchased forage, fertiliser, lime, veterinary, contractor, seed, spray, straw, silage additives, polythene, levies and transport.

Gross Margin

Gross Output minus Variable Costs gives you the Gross Margin.

The Gross Margin figure is the amount of money that is left to pay the fixed costs.

These fixed costs include land rental, hired labour, machinery running costs, machinery leasing costs, overdraft, credit and loan interest, depreciation on machinery and buildings, repairs and maintenance, insurance, professional fees, car, phone, electricity and sundry costs.

The average fixed costs on non-breeding dry stock farms will generally range from €450 -€650 per hectare.

Net Margin

When this amount is subtracted from the gross margin it represents the Net Margin and this is effectively the amount of money available to live off.

In many incidences, net margin may be zero or a negative value and farmers are left to survive on the Basic Payment Scheme and GLAS payments and so on.

The clear aim would be to have a positive net margin of at least €500/ha once all costs have been taken out.

Looking at the experience of the 10 Teagasc Green Acres Calf to Beef farmers, we can see a range in financial and physical performances.

All farmers started from different bases and the plan is to improve gross and net margins over the next two years.

Profit drivers

The key to achieving a good gross margin on any farm is to have a good output.

There are three main drivers of profit on a farm.

- Performance per livestock unit
- Stocking rate
- Beef/Sale Price

The first two are factors that can be controlled inside the farm gate by the farmer. They are management issues and if the farmer can get these right he/she gives themselves every chance of a good margin.

The third factor in relation to price is one that he/she can have little or no influence over, unless they have a pre-arranged contract price agreed with their processor.

As can be seen from the adjoining table, the highest gross margins come from the farms where the gross output is highest. These farms invariably have the highest stocking rates as well.

The variable costs as a percentage of output are generally higher on systems where there is a lot of meal fed in an intensive finishing system like an 18 month old bull.

A finishing system like a Friesian steer at 28–30 months and an Angus heifer system would have lower costs as per percentage of output and the target would be around 50pc versus 60pc for the bull system.

Some of the participating farmers have higher percentages than these and over the next few years as output increases this figure should come down.

A lot of the increase in output at the moment is coming from a positive change in inventory as most or all farmers are currently increasing stock numbers.

Some gross margins may appear low at the moment.

For example, in Christy Dowd's case, he has just bought calves for the first time in the spring of 2015 and has sold none of them yet, at the moment he has an 52 extra one year old stock and an extra 55 calves on the farm that weren't previously there.

These will form a system over the next two years where he will have 50 plus stock to sell every year, increasing the output and gross margin.

Targets

The target would be to get all farmers to have a gross output of close to €2,500 per ha.

Even with average variable costs as a percentage of output as 55pc, this would be equal to variable costs of €1,375, subtracting this from €2,500 would give a gross margin of €1,125 per ha.

In order to reach a gross output of €2,500 per ha, a number of factors need to be addressed.

Stocking rates need to be increased to at least 2.2 livestock units per ha.

Performance per animal needs to be improved to around 500kgs+ per LU.