



Western Beef Development Centre

2001 Saskatchewan Backgrounding Report

Introduction

This report aims to provide producers with some basic economic insights into the costs and returns associated with backgrounding calves in Saskatchewan. It is a summary of the costs incurred and returns realized by 23 cow-calf producers who backgrounded a portion of their calf crop in a drylot situation during the **2001 fiscal year** (typically January 1 – December 31, 2001). It must be stressed this does not represent the costs of one particular feeding cycle; rather it is based on parts of two different cycles. Portions of the cycle included in this analysis were generally from (i) January - May when cattle were sold or placed on grass and (ii) from fall weaning until the end of December. Furthermore, there were numerous types of cattle fed in this analysis and many of the cattle being fed were replacement heifers.

Value of Production

Section A of Table 1 outlines the accrual value of production generated in the backgrounding enterprise. The value of production represents:

- + The value of feeder cattle sold/transferred out of this enterprise
- The value of cattle purchased/transferred in during the year
- +/- Inventory adjustment

In this analysis every pound of animal produced resulted in an additional value of \$0.85/lb.

Variable Costs

Section B represents the variable costs of production associated with the drylot backgrounding enterprise. In this analysis all costs have been assumed at market value. This means winterfeed and bedding have been allocated to this enterprise at the value they could have been sold for in the market.

Please note trucking and marketing costs appear to be low. The reason for this is many of these backgrounded cattle were replacement heifers which were never sold. Instead, these heifers were transferred to the producer's breeding program in the spring. The average variable cost of backgrounding in these operations totaled \$0.775/lb. of gain.

Fixed Costs

Section C represents the fixed costs involved with backgrounding these cattle. Depreciation has been assumed at 8% of the market value of powered machinery (such as tractors and pick-up trucks), 11.5% for non-powered machinery (bale processors, mix-mills, stock trailers, etc.) and 5% for buildings and facilities. Total fixed costs amounted to approximately \$0.045/lb. of gain.

Combining all variable and fixed costs resulted in a total production cost of \$0.82/lb. of gain. Therefore yardage, which includes all costs but winter feed, trucking and marketing, totaled \$0.35/lb. of gain. **Please note that principal debt payments have not been included in this analysis.**

Returns

Gross margin, which is calculated by subtracting all production costs (excluding unpaid labour and depreciation) from the total value of production, totaled \$0.14/lb. Gross margin represents the amount that is left to cover personal draw, depreciation and principal payments on enterprise debt. Return to equity, which is the producer's return after all production costs have been subtracted from the value of production totaled \$0.03/lb.

These returns appear to be overly optimistic given the large losses experienced by feedlots during the fall of 2001 and spring of 2002. However, remember this analysis was completed for the **2001 fiscal year** and therefore (i) includes portions of two different feeding cycles, (ii) does not take into account the slide in prices that occurred during 2002 and (iii) does not include principal debt payments.

If you are interested in calculating what it costs your operation to background calves contact Tim Highmoor at the Western Beef Development Centre in Saskatoon at (306) 966-2627 or thighmoor@wbdc.sk.ca.

Table 1. 2001 Saskatchewan Backgrounding Report

Average Number of Pounds Produced/Operation	48,835	
Number of Producers	23	
Category	Total \$	\$/Lb.
Value when Transferred Out/Sold	176,140.00	
Less: Cattle Purchases/Transfers In	-	
Inventory Adjustment	116,915.00	
Value of Production	41,516.59	0.85
Section B		
Winter feed	22,165.00	0.45
Bedding	631.41	0.01
Veterinary & Medicine	2,157.73	0.04
Trucking & Marketing	1,105.68	0.02
Fuel	847.55	0.02
Repairs - Machinery	1,054.86	0.02
Repairs - Buildings /Corrals	297.73	0.01
Utilities & Miscellaneous	1,875.82	0.04
Custom Work & Specialized Labour	1,926.14	0.04
Operating Interest Paid	701.05	0.01
Paid Labour	1355.00	0.03
Unpaid Labour	3823.00	0.08
Variable Costs	37,941.14	0.775
Section C		
Taxes, Water Rates, Licenses & Insurance	376.64	0.01
Equipment and Building		
a) Depreciation	1,650.86	0.03
b) Lease Payments	73.68	0.00
Capital Interest	202.55	0.00
Total Fixed Costs	2,303.82	0.045
Total Production Costs	40,244.82	0.82
Gross Margin *	6,745.27	0.14
Return to Equity	1,271.68	0.03

* Value of Production - Total Production Costs (excluding unpaid labour and depreciation)