

CATTLE OPERATION STARTUP: LEASED PROPERTY

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TABLE OF CONTENTS

- ◎ Overview of Analysis
- ◎ Methods of Analysis
- ◎ Obtaining a Loan
- ◎ Research Assumptions
- ◎ Structure of Business
- ◎ Problems Encountered
- ◎ Results and Recommendations
- ◎ Conclusion
- ◎ Sources

OVERVIEW OF ANALYSIS: BUSINESS DESCRIPTION

- ◉ Cow/calf operation
- ◉ All of the needed grass land is leased from private owners
- ◉ Business will profit from the sale of calves
- ◉ Business will grow from the retaining of replacement heifers
- ◉ Sole proprietorship

OVERVIEW OF ANALYSIS: REASONS FOR RESEARCH

- ⦿ Entry into the cattle industry are limited and difficult
- ⦿ Obtaining the land and Financing needed for the operation is also a very large obstacle
 - Methods of acquire land
 - ⦿ Inherit the land from family
 - ⦿ Purchase the property
 - ⦿ Leased the land needed from private, state, or federal owners

OVERVIEW OF ANALYSIS: REASONS FOR RESEARCH

- ◎ The research should provide one method for an entrepreneur to enter the cattle industry
- ◎ Young prospective ranchers as well as outside investors could benefit from the research
- ◎ The industry needs these new entrants to keep the cattle business refreshed with new ideas and technology

OVERVIEW OF ANALYSIS: REASONS FOR RESEARCH

- ◎ The research conducted should answer 2 key questions
 1. Does this type of business have the potential for success in terms of profitability?
 2. How does a young prospective rancher go about starting this type of business?

METHODS OF ANALYSIS

- ◉ The research is conducted in the form of a business plan
- ◉ The plan covers all of the marketing, operational, and management aspects of the business
- ◉ All of the data comes from a ranch currently in operation
- ◉ Cattle prices are all current and come from a local salebarn
- ◉ All expenses and prices will be figured very conservatively to attempt to factor in risk

OBTAINING A LOAN

- ◉ Getting a loan is the first step in launching your business plan into action
- ◉ Without the needed financing, the business plan will not function
- ◉ When confronting a lender about obtaining a loan, there are many things that must be considered:
 - Establishing a relationship with the lender
 - Convince the lender that you are competent
 - Persuade the lender that you have good character
 - Show that you are committed
 - A good track record is also preferred

OBTAINING A LOAN

- After a relationship has been established with the lender, you will have to provide verification of how you think the business will succeed
 - Generate a projected budget to show how the borrowed money will be paid back
 - You will need to demonstrate that the money will be paid back according to a loan schedule
 - Risk will have to be determined
 - Collateral will have to be provided

RESEARCH ASSUMPTIONS

- ◎ Plenty of land is available for lease
- ◎ The land leased is fully equipped with all of the necessary water and cattle handling facilities
- ◎ The landowner will take complete care of the livestock in return for higher pasture rent
- ◎ A long term contract is able to be established with the landowner. (at least 10 years)

STRUCTURE OF BUSINESS

◎ Financial structure:

- Will assume loan information is as follows

Down Payment	\$30,000 or 20%
Interest rate	6%
Years	20
Total loan amount	\$120,000
Total money available for operation	$(120,000 + 30,000) =$ \$150,000

STRUCTURE OF BUSINESS

- How money will be used in the business

Use of money	Costs	\$\$\$
Total capital		\$150,000
Purchase of cows	(900/head) @ \$100/hd	\$90,000
Purchase of bulls	5 bulls @ \$2000/hd	\$10,000
First year operating expense		\$50,000

- At the end of the first year, all revenues generated as well as any additional loan money will be the following year's operating cash

STRUCTURE OF BUSINESS

- ◉ Cattle purchased will be bred three-year olds
- ◉ Will be purchased around the first of the year prior to calving
- ◉ Will assume that a 95% calf crop can be obtained and that I only receive a 1% death loss the first year
- ◉ Will keep around 12 of the weaned heifers as replacement heifers the first year and cull any cows that do not produce a calf
- ◉ Will sell all of the steer calves after weaning in the fall

STRUCTURE OF BUSINESS

- Projected feed expenses of the operation

Pasture lease	\$18 per head per month
Cake	\$350 per ton, almost 12 tons will be needed
Hay	One semi load of 500 bales should be plenty @ \$3.50 per bale
Salt	40 blocks @ \$3.87 per block
Mineral	Will need almost 20 mineral tubs @ \$95 per tub

STRUCTURE OF BUSINESS

- Projected vet, marketing, and Miscellaneous expenses

Vet bill for cows	Total of \$6 per head est. Preg test, Ivomec, Vibrio/Lepto, Vit AD
Vet bill for calves	Total of \$3 per head est. Preconditioning, Ivomec, 7 way Blackleg Booster, Vit AD, pre weaning shot (vista once)
Vet bill for replacement hfrs.	Total of \$11 per head est. Bangs vaccination, normal cow treatments
Marketing costs	Total of \$17.63 per head est. brand inspection, salebarn commision, health inspection, beef promotion (beef board), hay (fed at salebarn)
Freight	\$3.84 per loaded mile
Branding expense	Approximately \$200 total
Extra breeding stock	\$2000 per any additional bull

STRUCTURE OF BUSINESS

- Expected prices for cattle sold

Cattle:	Price/cwt.	Est. wt.
Steers	\$115	550
Heifers	\$105	480
Cull Cows	\$60	1200

- The prices for cull cows may actually be a lot higher since most of the cull cows at the start will be young and healthy. They're only being sold because they failed to produce a calf

PROBLEMS ENCOUNTERED

- ◉ Cattle will begin to get old around age 10
- ◉ This will cause a large increase in cull cow numbers
- ◉ Could drastically reduce the herd size
- ◉ Must keep enough replacement heifers each year to maintain a sizeable herd at this point
- ◉ Another option would be to purchase the original cattle over a 3 or 4 year period to spread out the ages

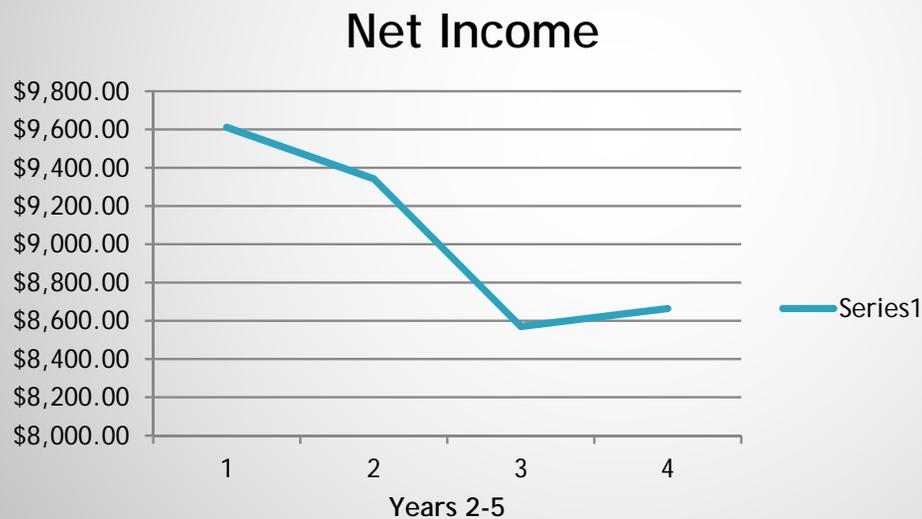
PROBLEMS ENCOUNTERED

- ◎ Keeping replacement heifers is expensive to the operation
 - After the heifers are kept, they do not generate any revenue for 2 years
 - During those 2 years, however, they are still increasing expenses
- ◎ Risk is a major problem for the operation
 - There is a high probability of risk due to prices, death loss, sickness, weather, and regulations
 - A small negative change in any of these risks could have a huge impact on the operation

RESULTS AND RECOMMENDATIONS

◎ Profitability

- The operation does have the potential to generate a profit



- As you can see the business will take about 4 to 5 years to get on its feet and to start increasing net profit every year.

RESULTS AND RECOMMENDATIONS

- Return on Assets and Return on Equity

	Year1	Year 2	Year 3	Year 4	Year 5
Return On Assets	12.94%	19.29%	18.30%	16.88%	16.50%
Return On Equity	12.5%	25.85%	20.32%	14.82%	12.96%

- The data for the first year of the business is not relevant to the rest of the data because the first year is being operated off of loan money and not revenue generated from the sale of calves

RESULTS AND RECOMMENDATIONS

- ◎ The Return on Assets and Return on Equity numbers are significant which indicates that the operation does have the potential to show a profit
- ◎ The business will probably not be a primary source of income and should be treated as an investment
- ◎ However, if a few things occur that reduce net income, ROA and ROE could change greatly

RESULTS AND RECOMMENDATIONS

Examples of Risk involved with business

- If a bull dies or needs to be replaced and grass price rises by 1 dollar:

Net income	\$3,990.70	\$5,009.77	\$3,316.26	\$1,029.20	-\$487.25
ROA	11.38%	13.31%	10.73%	7.66%	5.63%
ROE	9.50%	13.47%	7.21%	1.78%	-0.73%

- If interest rates rise by .5 percent and cattle prices drop by only \$5/cwt:

Net income	\$4,822.09	\$6,621.04	\$3,898.18	\$516.83	-\$2,132.70
ROA	12.68%	15.68%	11.73%	7.29%	3.93%
ROE	11.48%	17.89%	8.54%	0.90%	-3.23%

RESULTS AND RECOMMENDATIONS

- ◎ The business will require a great deal of time and commitment
- ◎ Other business opportunities may generate more money quicker
- ◎ There are also several different ways to get into the cattle business
 - Work for a cattle producer in return for ownership of land or cattle
 - Work for cattle producer who allows you to run a number of your own personal cattle on the land

CONCLUSION

Cattle production is a very hard business to get into if no land or cattle are owned. In addition, the cattle business is not a way to get rich by any means. In order to get into the business and make it work, you must really enjoy the lifestyle and you must be able to deal with the bad years along with the good. However, this research does provide one way to possibly make it work.

SOURCES

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