**Capital efficiency**

**“Objectives have to** be lined up with marketing and the financial plan,” says Sterling Liddell, a senior analyst with Rabobank Food & Agribusiness (FAR) Research and Advisory group. “Managing the balance sheet, long-term, must be as important as managing cash flow.”

The latter speaks to the ability to survive over months. The former gets at sustainability over the long haul. Both promise to get tougher.

“The current environment continues to pressure revenue and earnings for U.S. row-crop farming, and, unfortunately, the near-term sector outlook remains somewhat ominous, “Liddell says in a recent special FAR report, Farming the Efficient Frontier. “In order to survive and thrive, farmers must adopt strategies that maximize bottom-line profit, rather than simply focus on crop yield.”

**In fact, FAR** analysts believe transitioning the focus from yield and volume toward efficiency represents a paradigm shift necessitated by structurally lower commodity prices, relatively high input costs and an extended period of low average returns.

Liddell and fellow FAR senior analyst Don Close explain that similar forces means cow-calf producers need to begin thinking in terms of efficiency rather than volume, too.

Martin operators in the cattle business – stocker operators and cattle feeders – have plenty of recent experience trying to figure out how to earn as much or more revenue with fewer head, relative to equity levels. Now, Liddell says, cow-calf producers need to focus more intently on capital efficiency; getting the most out of every dollar of equity placed at risk.

There are different equations used by different industries at different times to get a capital efficiency, aimed at output relative to the capital required to maintain that output at a specific level. Examples are return on capital employed (earnings before interest and tax/capital employed) and asset turnover ratio (gross farm income/average total farm assets).

**One way or** the other, the notion is to understand if dollars invested are working for you – and how hard. Theses measures can help ferret out whether a current enterprise should be continued, altered or discontinued.

Along with capital efficiency, Liddell cites these as components of efficiency-driven strategies:

* **Planting discipline.** Planting acreage up to, but not exceeding the point where marginal costs equal marginal profits. For cow-calf producers, aside from thinking of this in terms of cows and heifers retained, Close point out this takes on different shades, given the slower inventory turnover. But you get the idea.
* **Price realization.**

Coordination of merchandising and hedging activities to maximize the price per bushel harvested.

In the context of the cow-calf business, producer management has plenty to say about revenue generated per cow and per acre.

Moreover, no cow-calf producer must be a simple price-taker. Never mind the opportunities to qualify calves for multiple branded programs through management – all producers have the opportunity to seek more bids for their calves.

**Increased efficiency** is also where Liddell and Close see the most opportunity for the beef and cattle industries as a whole, likely through increased communication and cooperation between sectors. It stems from need.

There’s competition, for one thing.

“Poultry is going to return to its long-term, real pricing trend (downward,”) Liddell says. “If protein competitors can’t or don’t respond, they simply lose market share.”

There’s also the fact that Close and Liddell say current national herd expansion appears to be ushering in the longer, more familiar cattle cycle, which has been absent for more than two decades.

“To get into that long-term cycle, we’ve got to get beef exports back to 11% of production,” Liddell says.

From the perspectives of both the industry and the nation, Liddell adds, “We have to recognize how important trade is to U.S. agriculture, and how important agriculture is to the U.S. economy.”

Wes Ishmael

Beef Magazine, September 2016

October 26, 2016