Profit drivers
for CATTLE FARMERS

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The bottom line of any business depends on and is affected by its internal and external factors called profit drivers. Profit drivers are crucial for cattle farmers because it determines the amount of profit made by the business.

Focus can be put on three main profit drivers for farmers in South Africa. Firstly, the rational use of grazing lands and optimal stocking rates. If focus is not placed on stocking rates the animals cannot perform at an optimal rate meaning the production costs are more to produce less, which is a controllable in the profit equation of a farmer. Second is fertility and the maintenance of proper reproductive health. This directly influences the profitability gained, since animals with good reproductive health can provide better offspring with fewer complications. Furthermore, better marketable calves result in higher profits. Thirdly an appropriate calving and breeding system. The importance of a proper calving system is that it simplifies management, and influences the amount of offspring produced annually and the timing of calf births with market demand which then ultimately influences the income generated.

Factors influencing the current market and why prices don't follow the inflation trend.

COVID-19 policies, increased inflation levels and higher interest rates from 2020 to 2023 caused unstable prices worldwide. The strain on the supply chains due to the Russia and Ukraine war, dry conditions in the United States since 2020 and high feed costs caused the global meat price to spike in 2022.

The meat sector in South Africa also felt this impact (see Figure 1). Gains in meat prices have been limited due to consumer purchasing power being under pressure because of higher interest rates and inflation. Due to the depreciation in the exchange rate and the drought that decreased the summer crop production of 2024, feed prices have struggled to decrease as fast as the global benchmark from a 41% increase during 2020-2022. The higher feed prices and lower purchasing power have made profitability a greater struggle in the past few years.

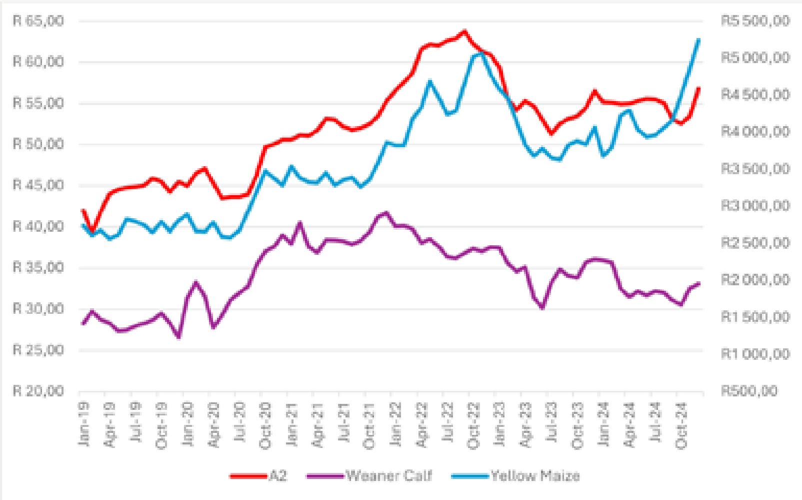
South Africa has become a net exporter of beef but frequent and intense disease outbreaks, such as Foot and Mouth Disease (FMD), have impacted the export markets greatly. Several years preceding 2023 producers were herd building causing the weaner calf supply in 2023 to increase. This, together with constrained exports, caused the weaner prices to drop in 2023 as seen in Figure 1. In the fourth quarter of 2023, a slight price increase was observed due to the reopening of the Chinese market which, since May 2022, had been closed due to FMD. Before May 2022 China accounted for 30% of SA beef exports. In January 2024 the opening of the Saudi Arabia export market also pushed weaner prices up.

At the end of 2024, Minister of Agriculture John Steenhuizen signed a new memorandum of understanding with the Chinese. This allows exports to continue from provinces that are unaffected by FMD and only the affected provinces have to stop exports. This allows a more constant market which may in turn push up weaner calf prices in the future.

Factors that can influence the profit margins of a cattle farmer.

Farmers are price takers which makes them susceptible to many influencing factors. With a vast number of factors that influence profits, focus can be placed on the most critical factors. Firstly, the number of cattle (weaner calves) produced. As the economics of scale states, a proportionate saving in costs is gained by an increased level of production. This means that if an optimal number of cattle is owned it becomes cheaper to produce thus influencing profits. Secondly, a big factor that is usually overlooked is overheads, meaning fixed costs that are not directly allocated to the production of the animal but are needed to produce. Examples of overheads include rent, insurance, utilities and accounting fees. These influence the profit because if not managed correctly it can cause an unnecessary expense. Thirdly another factor which also has a lot of control is resource management. Mismanaged resources lead to a large loss in profits due to not all the resources being used optimally or resources being overused. Mismanaged resources can lead to increased costs, reduced productivity, and lower profitability. As well as decreased cattle health, inadequate veterinary care, poor nutrition, and inadequate living conditions can lead to decreased cattle health, reduced fertility, and increased mortality rates. Lower meat quality and

Figure 1: A2, Weaner Calf and Yellow Maize prices of 2019 to 2024



mismanaged resources can result in lower-quality meat, which can lead to reduced demand and lower prices gained for the product.

What can cattle farmers consider to improve their profits?

With all the influencing factors and increasing production costs, how can farmers improve their profits? Firstly, enhance marketing skills, although easier said than done, marketing of animals is controllable for the farmer. Farmers must ensure that the marketing decisions made by them are made according to market research and advice from field specialists. Then secondly, hand in hand with the first factor is value adding. If knowing how to increase the value of the product either through backgrounding, feedlots or any value-adding practice, the profit margin will directly be influenced. This is due to middlemen being by passed. This also provides great flexibility for farmers to cater for many different markets allowing him/her to find the least saturated and best-paying market. Thirdly, a dynamic financial plan. By developing and improving a financial plan wasted money can be detected and be improved thus increasing production and profit gained thereof. Lastly, according to the Noble Research Institute, cattle farmers should not buy average or inferior bulls. Spending a bit more on a good bull will profit more in the long run as well as improving the herd production. This also allows for keeping better quality replacement animals while the best is sold for a greater profit.

To conclude, ever-increasing production costs make cattle farming more and more challenging. If focus is placed on the three main profit drivers, rational use of grazing and optimal stocking rates, fertility and the maintaining of proper reproductive health and an appropriate calving system farmers can counter some challenges. Inconsistent market prices are external and uncontrollable thus factors that influence profits need to be identified. Farmers can therefore consider some practices or ways to improve their profits. Such as enhanced marketing skills, value-adding, dynamic production plans and purchasing the correct animals.