Evaluating Enterprise Net Returns

Enterprise diversification is a common strategy used by managers of Wyoming farms and ranches for many reasons. Diversification is often one of the simplest and most effective forms of risk management. Multiple enterprises can spread production risk over a wider range of crops or livestock and can lower costs by complementing one another, such as raising cattle on feed for brockets instead of purchasing from outside sources.

Knowing how these enterprises fit together in the overall farm or ranch business picture is important for business managers. Producers have a tendency to evaluate operations as a whole instead of assessing each enterprise on its own merits and allocating all associated revenue and expenses. Enterprise analysis outlines the profitability of each enterprise and overall enterprise performance.

In an earlier article, we highlighted a diversified southeast Wyoming farm and ranching operation owned by Jason and Masha Collins. Their enterprise mix involves a commercial cowherd, with irrigated corn for silage, alfalfa and wheat. They background calves as an additional enterprise. We outlined the Collins Internal Revenue Service (IRS) Schedule F information into the ERA tool, as well as basic enterprise information including a range of prices and yields for each.

The next step in using the ERA tool is to enter the necessary information under the Schedule F tab. This comprehensive section includes non-revenue and expense items, and it allows the user to sort all asset and liability data as well. Table 1.

The Collins have some prepaid expenses (used $17,500), along with a owning crop step that is accounted for in this section. They have last year’s calves on feed accountable for in Schedule E, and their crop is listed under Schedule F. Schedule F contains their machinery and equipment.

When calculating accumulated deprecation, if specific schedule F information for a particular asset is not known, use the straight-line method (as we have for this example). Real estate improvements are accounted for in Schedule B.

Enterprise Allocation with the ERA Tool

Under the Allocation tab is where we allocate all the previously listed cash and non-cash income and expenses to the various enterprises. The ERA tool summarizes the revenue and expense categories and limit any unallocated amount is red in a separate column. Most revenue categories are easily allocated for example, the Collins’ wheat sales at $15,000 and alfalfa hay sales at $25,000. Revenue minus, such as a cooperatives dividend or the like, may not be as easy to allocate. One way to handle such categories is to allocate them equally across all five enterprises. In another case, such as the government payment revenue is for the corn for wheat and alfalfa and assign the revenue accordingly.

In the expense section, it is important to be as accurate as possible when allocating expenses to the various enterprises. In other words, if it is possible to link indirect expenses with a specific enterprise, it may be worth taking time to do so. Otherwise, use another method for allocating expenses across the enterprises. Taking time to refine your estimates will provide more accurate analyses and results.

Table 1. Enterprise Risk Analyzer Schedule F Tab

Table 2. Enterprise Risk Analyzer Enterprise Income Analysis Tab - Collins Ranch Data.

For more information

The Enterprise Risk Analyzer (ERA) tool is one of many risk management resources available at RightRisk.org. The ERA tool is designed to help ag decision makers evaluate the enterprise mix – both for an individual enterprise and on a whole farm basis.

ERA allows users to enter and allocate revenue and expense data and allocate across enterprises, as well as perform effective risk analysis. The web site includes simple instructions and an instructional farm and ranch examples, highlighting how to use the tool. Simply visit RightRisk.org, and select Risk Management Tools from the Resources tab.

Table 3. Enterprise Risk Analyzer Net Income Analysis Graph - Collins Ranch Data.

For sheep producers, a trade of trace minerals worth a pound of cure

As summer progresses and forage quality declines, we are quick to think of shortfalls in protein and energy in nutritional management yet tend to overlook micronutrients such as trace minerals. Even though these are required in relatively small quantities – parts per million (ppm) or milligrams per kilogram (mg/kg) – these include manganese, copper, zinc, selenium, iron, cobalt, iodine and fluorine. Even though these are required in small quantities, they play key roles. For example, cobalt is a precursor for production of vitamin B12 in the rumen, which is essential for proper rumen fermentation – a small mistake might kill.

Results from a recent Montana study found that 33 percent of sheep producers did not consistently provide a complete trace mineral mixture and many of their flock became large deficiency or marginally deficient in selenium and zinc. After becoming deficient in one mineral component, the producers resumed trace mineral supplementation and associated recurrent production improvements in lamb deviation and weaning weight. In some cases, the sheep producers attributed these improvements to other factors.

There is no denying the essentiality of trace minerals, but the cost of production losses can vary across ranches. Clinical signs of trace mineral deficiency are often very subtle and we need to think about what causes such a deficiency in first place. Inadequate consumption, such as due to disease, decreased intake and poor feed quality, are non-specific, and if not corrected, are not correctly attributed to a specific trace mineral deficiency and are spoiled.

It just because not providing a complete trace mineral doesn’t result in a complete “wreck,” doesn’t mean that production losses aren’t occurring. Futhermore, as sheep genetics improve, it’s important that farmers provide a mineral mix not limiting the genetic potential of our sheep.

A very real challenge to cost-effective trace mineral supplementation is the difficulty in knowing which feedlot to the livestock enterprises. Depreciation and taxes are are the veterinary and feed bills to the livestock enterprises. Depreciation and taxes are.

The importance of providing fresh, clean water with all mineral or exposure to weather may result in mineral losses. Overhead water for drinking and shipping events.

Table 4. Enterprise Risk Analyzer Net Income Analysis Tab.

Important Trace Mineral Reminders

• Read label information and work with nutritionist/supplier to better achieve target intake of minerals. Under- or over-consumption of mineral is not uncommon and requires fine-tuning.

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Table 5. Enterprise Risk Analyzer Enterprise Risk Analysis Graph - Collins Ranch Data.

For evaluation and reevaluating nutrition management is an important practice, growers must understand the quantities, they play key roles.