Beef production: how to make a profit

Per hectare output, physical and financial, is key

Aidan Murray
Beef specialist, Teagasc Animal and Grassland Research and Innovation Programme.

The last nine months have been extremely difficult for beef finishers. With a total kill of 1.8m head in 2018, increased slaughterings in 2019 and the continued uncertainty of Brexit have all impacted on price. Out-of-spec cattle, as was the case in the spring of 2014, have been experiencing long delays before slaughter.

Generally, there has been a lot of talk about the lack of profitability in the beef sector and, in particular, the suckler herd. To state the obvious, profitability in any business sector is key to its long-time sustainability.

This prompted a review of what has been happening with regard to on farm profit over the last decade. Teagasc has been completing profit monitors since 2002 so we have gathered a great deal of data. The data provides a clear indication that gaps are widening between the top performers and those who are classified as average within their respective beef systems.

Table 1 outlines the financial performance of 620 suckler to beef farms who completed a Teagasc profit monitor for 2017.

As is evident from the table, the bottom third in the system made a net loss from production of €163/ha and had to dip into their premia to support their production costs. The average farm in the group made a modest net profit of €145/ha from production and topped this up with €486/ha of premia.

The top third on the other hand made as much from production (€493/ha) as they did from premia which, when combined, gave a net profit of €982/ha.

Encouragingly, the top herds are seeing a return from improved efficiency from production. They are achieving good output on a livestock unit basis

Table 1: 2017 profit monitor results – suckler to beef (n=620)

	Top 10%	Top 1/3	Average	Bottom 1/3	Bottom 10%
Stocking rate (LU/ha)	2.6	2.3	1.9	1.6	1.5
Kg beef / ha	1,038	855	613	405	366
Net profit (excl. premia)	€816	€493	€145	-€163	-€460
Total premia	€539	€489	€486	€477	€454

Table 2: 2017 profit monitor results – non-breeding farms (n=513)

	Top 10%	Top 1/3	Average	Bottom 1/3	Bottom 10%
Stocking rate (LU/ha)	2.5	2.2	1.8	1.4	1.4
Kg beef/ha	1,481	1,097	735	453	441
Net profit (excl. premia)	€1,154	€714	€236	-€229	-€532
Total premia	€470	€452	€460	€464	€479

Table 3: Profitability 2008 v 2017- top one-third of farms comparison

	Suckling to beef farms		Non-breeding farms	
	2008	2017	2008	2017
Total number of farms	252	620	53	513
Stocking rate LU/ha	1.95	2.3	1.61	2.2
Kg beef Lw/ha	637kg	855kg	706kg	1,097kg
Gross output €/ha	€1203	€1932	€1309	€2402
Net profit/ha	€61	€493	€83	€714
Premia/ha	€645	€489	€826	€452

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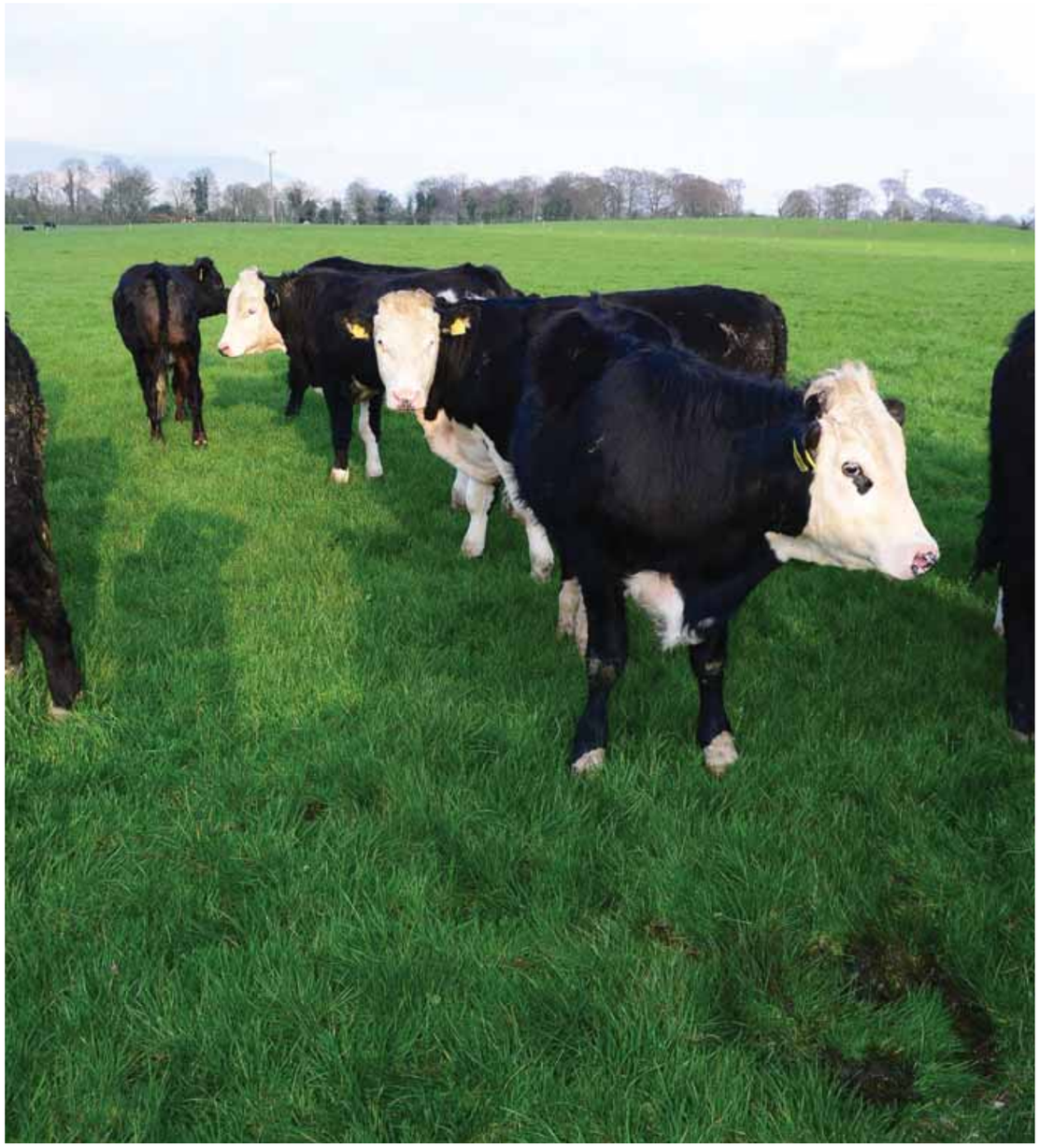

first, and then they have the land available to increase stocking rate. This allows them to sell over 855kg of live weight per hectare which is a crucial component in generating profit.

It is a similar picture for the 513 non-breeding farms who buy weanlings, stores or run calf-to-beef systems. The lack of output on the bottom third of farms again sees a loss from production of €229/ha. The average farm produces a modest profit of €236/ha from production. The top third of farms generated €714 net profit before premia. When premia are added the overall net profit rises to €1,166/ha.

The top non-breeding farms are again becoming efficient on a per-livestock unit basis and then scaling up by increasing stocking rate. Non-breeding farmers have the potential to generate more liveweight per hectare because the animals they buy have the potential to gain weight every day from when they arrive until they go out the gate.

The suckler systems, on the other hand, have to maintain the cow, who in her own right doesn't add to liveweight output given the cyclical nature of suckling.

Table 3 compares what has happened on the top third of beef farms in the suckler to beef and non-breeding systems regarding financial performance in 2008 versus 2017.

The first striking feature of the table is that in both systems they have increased stocking rate – from 1.95lu/ha to 2.3lu/ha on the suckling farms and from 1.61 to 2.2lu/ha on the non-breeding farms. This is an increase of 17.9% and 36.6%, respectively.

This has resulted in a higher number of kilos of liveweight per hectare being sold of the farms. The value of this output in monetary terms has also increased. This increase, of 60.5% and 83.4% on suckler and non-breeding farms respectively, reflects an increase in the beef price, and also the extra beef sold off these farms.

The improved efficiency and output achieved over the period has manifested itself in such a way that in 2008 the top third of suckler to beef farms achieved a net profit from production of just €61/ha and on non-breeding farms €83/ha.

In 2008, premia accounted for 91.6% of total profit/ha on suckler farms and 90.9% on non-breeding farms. Contrast that with 2017 where total profit derived from premia was 49.8% on suckler farms and 38.8% on non-breeding farms.

The top third of farms in each of the two systems have demonstrated that with improved efficiency and cost control they have been able to deliver more profit from production, as they have seen their premia take eroded.

Implications

The farms in both systems that have run with improvements in efficiency on a per-animal basis firstly and then scaled it up by raising stocking rate have demonstrated that they can derive higher profits from production.

This is important given that we have already seen erosion in the levels of premia paid to beef farms. Convergence in any new CAP may further accelerate this. Farms that have the ability to drive efficiency, through both physical and financial output, must continue to do so.

The average farms over the same period are still only making a modest profit from production and in a difficult year have struggled to breakeven on production.

These farms, for whatever reason, be it land type, availability of capital for investment or off-farm work, have not been able to generate sufficient output either physical or financial to give themselves a chance to be profitable.

These farms are important and many are efficient on a livestock unit basis but their focus should probably be more on cost control and becoming as efficient from a labour point of view as they can be.

Supports will remain an important income source for many in the beef sector in the future. To help improve confidence in the sector, it is important that some indication as to how and the degree of support intend under any new CAP is communicated as quickly as it is known.

If the protected geographical indication (PGI) can be established for beef from the suckler herd, resulting in greater profitability, it could provide a welcome boost to the sustainability of the sector.