



PLANNING FOR PROFIT



Summer 2001

Veal-10 Head Marketed per Week Lower Mainland

This information is a tool to project costs and returns for B.C. farm enterprises and is a general guide to plan individual farm operations.

This sample budget should be used as a guide only and should not be used for business analysis. Each farm should develop their own budget to reflect their production goals, costs and market prices.

Information regarding financial planning and other enterprise budgets may be downloaded from the internet at <http://fbminet.ca/bc> or obtained from your local office of the B.C. Ministry of Agriculture, Food and Fisheries.

Market Factors

The veal industry relies on a steady supply of bull calves from the dairy industry. Although some dairy farms raise their own veal calves for domestic consumption, there has been a growing trend towards individual veal operations that purchase calves from farmers or auctions. Activities in the beef industry can affect the veal industry and the price cycle of the beef and veal industries often runs parallel.

Veal consumption rates have been relatively constant over the last five years, influenced in part by regional ethnic demand. The two types of veal meat marketed in BC are white and pink (approx. 350 lb) which is from primarily milk fed calves, and heavy red (580-600 lb) from grain-fed calves following weaning.

Demand for finished veal calves can peak April to June and November to December, though other factors including weather, volume and quality can also affect price. Average daily weight gains should be a minimum of 2.5 lb.

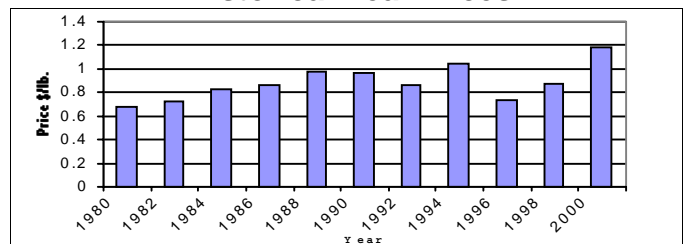
Finished calves can be sold at auctions, or directly to buyers. Prices for both replacement and finished calves fluctuate significantly, making market forecasting difficult.

Risk Factors & Strategies

Risk factors that must be considered by the individual operator include:

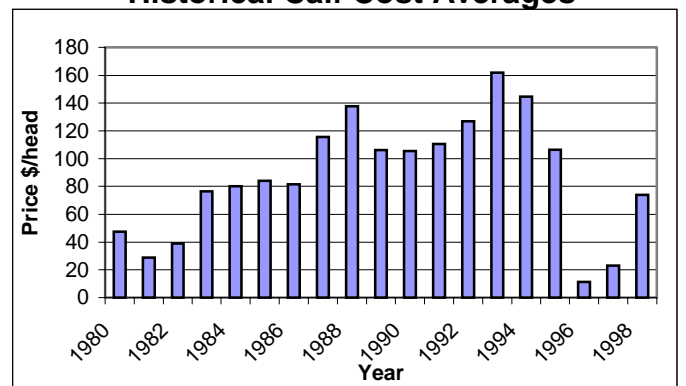
- Calf purchase- calves to be raised for veal production should be healthy when purchased.
- Animal health- optimal nutrition, management and environmental conditions are necessary to obtain optimal weight within a limited growing period.
- Impact of related industries- operator must be aware of trends in dairy and beef industries.

Historical Veal Prices



Source: Weekly averages of BC lower mainland auction marts veal prices.

Historical Calf Cost Averages



Source: Average weekly prices from Lower Mainland auctions

Assumptions: Veal (budget based on unit of 100 head)

The sample budget is based on interviews with producers and BCMAF commodity specialists. Cost and revenue estimates are based on standard practices in the area and do not represent any particular farm.

The following assumptions are made regarding production practices, costs, and revenues:

- Marketing 10 head/week; 480 head/year
- Days to finished weight is approx. 196 (28 weeks). Note: Calf rearing is initially in stalls/nursery for approximately 6-8 weeks (milk fed), then finished (20 to 22 weeks) in group outdoor pens (grain fed).
- 100 calves purchased is used in the budget to allow for 10% mortality
- Calf mortality occurs within first week
- Calves are grain finished
- All feed is purchased
- Average replacement calf cost is \$150.00 (based on producer input and auction price)
- 2000/2001 average replacement costs are at all-time high levels
- Average price for finished calves is \$1.14 /lb
- Average daily weight gains should be a minimum of 2.5 lb.
- Finished calves are sold at auction
- Average weight of finished calves is 580 lb/head

Sensitivity Analysis

The profitability of an operation will be strongly influenced by market prices and yield. The table below illustrates the changes to projected revenue and contribution margin as prices and mortality (yield) vary.

Yield	Mortality Rate	Head marketed *	Contribution Margin	Price\$/lb	Contribution Margin
Low	5%	95	17,968	Low	1.10 14,129
Average	10%	90	16,217	Average	1.14 16,217
Above Average	15%	85	14,467	Above Average	1.17 17,783
High	20%	80	12,716	High	1.20 19,349

* 100 calves purchased is used in the budget to allow for 10% mortality

Cash Flow Timing

The table below indicates the monthly flow of income and direct expenses. A complete Projected Cash Flow should include indirect expenses, capital sales and purchases, loans and personal expenses.

	J	F	M	A	M	J	J	A	S	O	N	D
% Income	Consistent throughout year											
% Dir. Expenses	Consistent throughout year											

Key Success Factors

- Ability to respond to developments in related industries
- Good rearing conditions
- Purchase of healthy calves from a reputable seller
- Maintenance of animal health

Sample Enterprise Budget and Worksheet Veal (budget based on unit of 100 head)

The sample enterprise budget provided should be viewed as a first approximation only. Use the column "Estimate," to add, delete and adjust items to reflect your specific production situation.

Project Income	Head	Units/Head	Price/Unit	Value	Your Estimate
Finished Calves	90	580 lbs.	\$ 1.14 /lb.	59,508	
Less: Sales Commission	90		17.00 /Hd.	1,530	
CIDB Fee	90		2.00 /Hd.	180	
Auction Insurance	90		0.70 /Hd.	63	
Net Sales				57,735	
Calf Purchase	100		150.00 /Hd.	15,000	
Plus: Transportation	100		3.00 /Hd.	300	
Total Purchase Cost				15,300	
Gross Profit				42,435	
Projected Direct Expenses	Head	Units/Head	Cost /Unit		
<u>Feed Costs</u>					
Milk Replacer	90	20 lbs.	\$ 2.85 /lb.	5,130	
Grain	90	1600 lbs.	11.06 /Cwt.	15,926	
<u>Livestock Supplies and Services</u>					
Health Costs including Vet	90		30.00 /Hd.	2,700	
Bedding (White Shavings)	90		11.45 /Hd.	1,031	
Tagging	90		5.00 /Hd.	450	
Manure Removal	90	0.046 Hrs.	85.00 /Hr.	351	
Building & Equip Repair	90		7.00 /Hd.	630	
Total Direct Expenses				26,218	
Contribution Margin (gross income less direct expense)				16,217	

Calculation of Projected Net Income

To assess net income, **indirect expenses** must be subtracted from income. Indirect expenses do not vary with the level of output and are typically associated with inputs used in more than one enterprise and must be allocated appropriately (prorated) between uses.

Projected Income
Less Projected Direct Expenses	-
= Projected Contribution Margin	=
Less Projected Indirect Expenses	
Depreciation (e.g., buildings and equipment)	-
Interest	-
Other Indirect Expenses (e.g., operator labour)	-
= Projected Net Income

Veal (budget based on unit of 100 head)

Buildings and Machinery Replacement Cost

Buildings (Hutches & Group Housing)	45,000
Machinery (Used Tractor)	20,000
Vehicle (Used) & Trailer	15,000
Feed bin	5,000
Tools (Includes Feed Buckets)	2,500
	87,500

Labour Requirements

Feeding & Repair	36 hrs/week
Calf Purchasing at Auction	4 hrs/week
Office work	6 hrs/week
Management	2 hrs/week
Total Hours:	48 hrs/week

Alternative Production Practices

Having an experienced buyer purchase the starter calves is an alternative to calf purchase by the manager. Auctioneers can often recommend reputable buyers. This alternative practice could:

- decrease mortality rates
- initially save costs for an inexperienced owner or manager
- save manager's time

For More Information

References

- Ontario Veal Association
<http://www.ontarioveal.on.ca/index.html>
- Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA)
http://www.gov.on.ca/OMAFRA/english/livestock/dhtml_menu/index.html#
- *Agriculture and Agri-Food Canada*, Red Meat Report Canada
<http://www.agr.ca/misb/aisd/redmeat/markets.html>
- USDA National Veal Summary
http://www.ams.usda.gov/lsg/mncs/PDF_Weekly/compweekly.htm

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