

# Financial Success in Breeding Begins With Finding Your Breakeven Point

By Russell Meerdink

There is something about horses that make savvy businesspeople forget what they learned in Business 101. The dream of breeding the perfect sales yearling often dulls the sharp business judgment that earned them the money to get into the horse business in the first place.

Few breeders calculate in advance what it will cost them to breed and raise a sales yearling. As a result, a large number of the yearlings going through the sales ring - maybe even a majority - are sold at a substantial loss or, at best, at a very modest profit. Yearling Buyers acquire a large percentage of their racing stock at prices below the cost of production. That's not the way the marketplace is supposed to work.

Even when everything goes "right," it costs a lot more to breed a horse than most breeders realize or are likely to admit. The risks of breeding and selling sales yearlings are so great that most banks won't finance a broodmare band without substantial, non-equine collateral. It is logical to assume that in this uncertain business that every breeder would want to know his breakeven point before putting a mare to any stud. That is rarely the case.

Let us assume that this year you want to apply the same business principles to your breeding operation as you do to your other business ventures. The starting point is to find your breakeven point.

Determining your breakeven point comes down to doing some honest cost accounting and eliminating all "wishful thinking" from the formula. This is a hard, no-nonsense exercise to find what it will really cost to breed and raise that horse. Only after you are armed with reliable data can you make the hard business decisions that must be made.

There are eight separate expense categories that accumulate when breeding a horse and raising a foal for sale as a yearling. The sum of the eight expense categories determines the breakeven point. Doing the math is as simple as accurately listing the anticipated costs in each of the categories and adding up the numbers. For those who prefer using a computer to do the job, we have prepared a FREE, easy-to-use spreadsheet in Excel format that you may download from the Internet or receive on a disk via mail. The Excel spreadsheet allows you to quickly analyze various scenarios and "what ifs."

Whether you do the math by hand or by computer, here are the items that go into an honest cost accounting of breeding a horse and raising the foal for sale as a yearling. In each of the categories we have allocated common expenses. Your actual expenses may vary but are easily calculated using the free spreadsheet. Please follow along with the spreadsheet at the end of this document.

Expense Category #1-Stud Fee-This is one of the more easily calculated expenses. The stud fee is what you pay for it. Simple enough. If you own a lifetime breeding you may want to amortize the cost over three or five years. This will take into account the fact that the stallion may die or lose commercial popularity. If you "expense" this cost in the early years and he goes on to have a long and profitable career, future breedings -for the purposes of this accounting-are free. It is one of the few free things you will ever receive in the horse business.

For the sake of our example, let us assume the stud fee is \$5,000.

Expense Category #2-Mare Cost-You don't need an MBA to understand that to produce foals you need a broodmare band and the cost of each mare must be factored into the cost of producing her foals. Mare Cost is the price you paid for her, divided by the number of foals you expect her to give you over her productive career. Let's assume you paid \$30,000 for your mare and you realistically believe that she will have ten productive years. The breed average on well-run farms for getting mares in foal is about 70% so your mare is likely to produce eight foals. The temptation here is to argue that you can beat the breed "in foal" average. The big boys with their on-staff veterinarians can't do it and neither can you. So when calculating Mare Cost you must allocate her cost over 70% of her productive years.

For the sake of our example, your mare cost is \$4,286 ( $\$30,000/7$  years).

Expense Category #3- Breeding Expenses - The cost of getting your mare in foal goes beyond the cost of the stud fee. You are likely to incur semen collection costs, semen transportation costs, veterinary examination fees prior to breeding, veterinary fees to artificially inseminate the mare and veterinary fees to determine that she is pregnant. If this is not enough, it is likely that you will incur all of these several times before your mare catches. The breed average is about two breedings for each pregnancy and in our example we will assume the mare must be bred twice. There are a number of categories of breeding expenses.

(a) Semen Collection Fees - Most farms charge a fee for collecting the semen, processing it and packaging it for shipment. The amount of the fee varies from farm-to-farm but, on average, it is about \$100. Since we probably will be breeding the mare two times, the total cost of collection is \$200.

(b) Semen Transportation costs - The semen will be shipped to you in an Equitainer or some similar, insulated container that you must purchase or rent. Add this to the next day Federal Express shipment your cost will be approximately \$75 or \$150 for the two shipments.

(c) Veterinary expenses - Veterinary expenses add up quickly, particularly for the breeder using shipped semen. To start things off, the mare must be cultured and undergo a breeding soundness examination. Then begins a series of ultra-sounding procedures to monitor her ovulation. Follicle growth must be closely monitored so that semen can be ordered to arrive a few hours before ovulation occurs. It's a tricky business. Miss by just a few hours and it's back to "Go." Then she is inseminated and a series of ultra-sounds are taken over a period of days and weeks to determine whether she is in foal. Let's say that the total cost of doing all this is \$400 for the two breedings that it will take to get her in foal.

The total of the above breeding expenses is \$750.

Expense Category #4-Mare Maintenance (13 months) - This category is the cost of providing "room and board" for a period of 13 months. The 13-month period assumes 11 months of gestation and an additional two months before she is again in foal. This category is further broken down into four sub-categories.

(a) Board - This is the category that has the largest potential for the wishful thinking breeder to fudge the numbers. You can board your mare at a first-class farm for about \$15 per day and at a somewhat lesser facility for maybe \$10-\$12. Even if you keep your mare on your own property, a strong argument can be made for charging yourself the same price as it would cost to board her at a commercial farm. The labor you provide should be compensated at the same rate as it would be if someone else were providing it unless, of course, mucking stalls is your hobby. The word "hobby" is one that no horse owner should ever utter except behind closed doors in the privacy of his own home and certainly never within earshot of an IRS agent! The value of your labor, feed, bedding, utilities, supplies, gas for the tractor, real estate taxes, a fair return on the value of your real estate and the dozens of other hidden expenses probably comes to no less than \$10 per day. You can compute your own daily board costs depending upon your situation but in our example we will use \$10 or \$4,260 for the 13 months.

(b) Veterinary Care - Here we will assume the mare is healthy and requires only routine checkups, shots, worming, etc. Veterinary costs associated with breeding are

covered elsewhere. In this example let's assume a bare-bones veterinary cost of \$15 per month or \$195 for the 13 months.

(c) Farrier Care - This cost will vary from mare-to-mare but in this example let's assume she goes unshod and is trimmed every 45 days (9 times in 13 months) at a cost of \$30 per trim or \$270 total cost.

(d) Insurance - Every business must insure its valuable assets and the horse business is no different. In our example, we have a \$30,000 mare that we can insure for about \$1105 for 13 months.

The total of all mare maintenance expenses is \$5,830.

Expense Category #5-Foal Maintenance (18 months) - You must maintain the foal from the time of its birth to the day it is sold. The foal's actual birth date and actual sales date can be easily calculated but in this example we are assuming that is 18 months. Similar to maintaining the mare, there are four sub-categories.

(a) Board - The board for your foal at a first-class farm is about \$2 per day as a suckling and \$15 per day as a weanling and yearling. Included in the board are some early lessons in leading, picking up the feet and in manners in general. For our example, let's assume that you will be raising your foal at home on your own farm and will hire someone to do the work or will pay yourself for doing it. Let's assume that a fair cost is \$2 per day for the first 6 months (\$364) and \$11 per day for 12 months (\$4,015). That's a total of \$4,379.

(b) Veterinary Care - The foal will require an examination by your veterinarian within 24 hours of birth, and over a period of months will need routine inoculations and worming. At sometime or another, it will run a fever and may require a few stitches to close up a cut or two. Let's say that the foal's vet bills average \$20 per month over the 18 months for a total of \$360. This leaves nothing for extraordinary vet expenses in the event that something seriously goes wrong.

(c) Farrier care - This is not an area that you will want to skimp on. Straight legs and orthopedic soundness are a must. Assume that the farrier will take a look at the foal every six weeks or about 12 times in 18 months. Sometimes no work will be required and only light rasping at other times. But, as the foal grows older, it will require complete trims and eventually shoes for the sales ring. Let's also assume that the farrier will check the foal as part of his visit to the farm to check all your other horse. As a result, on average, the 12 farrier checks will cost \$30 each for a \$360.

(d) (Insurance) - Good business practices dictate that the foal be insured. Most insurance companies will readily agree to insure the foal for twice the amount of the stud fee. To insure the foal for more may or may not require additional appraisals or

documentation. In this example, the stud fee is \$5,000 so our foal is insured for \$10,000 (less than our cost of production) for 18 months at a premium of about \$600.

The total of all foal maintenance expenses is \$5,699.

#### Expense Category #6 - Sales Prep Fees -

Sales Expenses: Sales day is about to arrive but your expenses have not yet ended. Here's what is included.

(a) Vanning. Transportation from your place to the sales prep farm and then to the auction. Let's say that's \$200.

(b) Sales Prep. Your yearling will be at the sales prep farm for six weeks at about \$25 per day. We have already included basic board in our calculations at \$11 per day so the sales prep fee is an additional \$14 per day X 42 days or \$588.

(c) Video Taping. These days, prospective yearling buyers want to see a video tape to analyze how your yearling moves. Add \$250 for the tape.

(d) Advertising. Your agent will bill you for your share of advertising his consignment. Your cost will be around \$250.

(e) Auction entry fee. \$350

(f) Other – Then there is a halter, stall card and other miscellaneous expenses. Let's say they all come to \$150.

The total of all sales prep fees comes to \$1,788.

Expense Category #-7 - Staking - Stake payments for the yearling year are due prior to the sales. This means that you must stake the yearling and absorb the cost. Since our goal is to sell the yearling at one of the major sales, staking fees will be about \$600.

Expense Category #8- Commissions - Thus far the cost of breeding and raising this yearling is \$23,953. This plus the commission expenses represent your breakeven point. Your sales agent is likely to charge 5% of the sales price and the Auction Company another 5%, a total of 10%. Consequently, your expenses thus far (\$23,953) represent 90% of your true breakeven point and commission expenses of \$2,661 the other 10%.

You now have your breakeven point of \$26,614. Anything less than this amount is a loss. Taking into account commissions, 90% of anything above that amount is profit.

Not included in our example are some overhead costs that may drive up the cost of production even further. The cost of funds to operate your breeding enterprise is a true cost. So is the cost of maintaining barren broodmares. Your accountant and attorney are part of your overhead. So are your travel, subscriptions and research materials.

There are two quick lessons to be learned by studying our spreadsheet. (1) It costs a lot of money to breed and raise a yearling; and, (2) there is no money to be made breeding cheap horses.

Editors Note: This illustrates the process required to determine your break-even point for breeding a mare and raising the resulting foal. How you report the expenses for income tax purposes is far more complicated and this article is not intended to discuss the income tax implications of breeding. Income tax questions should be directed to your accountant.

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