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Unit Cost of Production



What does it cost to produce a unit of product off your ranch?



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Dr. Harlan Hughes



Dave Pratt
Ranching for Profit



Dr. Dillon Feuz
Utah State



Dr. Darrell Mark



Dr. Barry Dunn



Dallas Mount UW
Extension Educator

Burke Teichert
retired vice president and general manager of Ag Reserves Inc.



Dr. Tom Field




Roger Wilson UNL



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UNIT COST OF PRODUCTION

- What is UCOP?
- How is it calculated on the ranch?
- What benefits are there to knowing UCOP for ranch managers?




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What Percentage of Ranchers Know their UCOP

- 80%
- 50%
- 30%
- 15%

- Estimate that only 15% of ranchers know their UCOP



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Behind every successful rancher there's a wife who works in town.




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"Profits are to business as breathing is to life. Breathing is essential to life, but is not the purpose for living."



Dennise Bakke




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Characteristics of Profitable Ranches

Taken from Dr. Barry Dunn's presentation
Measuring Cow-calf Profitability and Financial Efficiency
at the 2002 BIF Annual Convention


- Low Levels of Investment
- Average Levels of Production
- Low Levels of Annual Costs
- Above Average Marketing

"The most statistically sensitive measure to differences in managerial efficiency was on a per cwt. of weaned calf basis."



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Unit Cost of Production

$$UCOP = \frac{\text{Cost}}{\text{Units Produced}}$$


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Unit Cost of Production

- Combines both input costs and production
- Measures impact/benefit of inputs



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UCOP for Cow-Calf Production


- Standardized Performance Analysis (SPA)
 - Combines both Production and Financial Data
- National Cattlemen's Beef Association (NCBA) Producer Committee and Extension Specialists
 - Dr. Jim McGrann Texas A&M University
 - Dr. Harlan Hughes North Dakota State University



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Two Types of Costs

- **Direct Costs**
 - Health Products
 - Feed and Supplements
- **Overhead Costs**
 - Labor
 - Equipment
 - Horses
 - Buildings




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Values Influencing Production

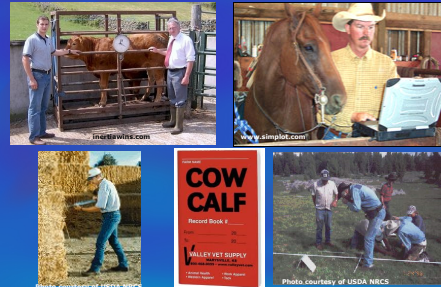

Cow-Calf Production

- SPA Adjusted Pounds Weaned Per Cow Exposed
 - Pregnancy Rates
 - Calving Rates
 - Weaning Rates
 - Calf Weight at Weaning



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You Can't Manage What You Don't Measure

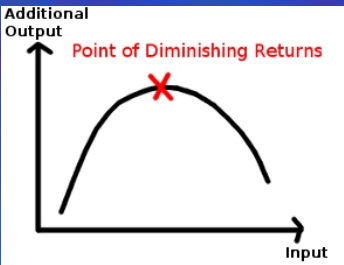

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Most Management Decisions Influence UCOP!!!




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Direct Costs Point of Diminishing Returns

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Every direct cost dollar put into the cows, should return more than a dollar!



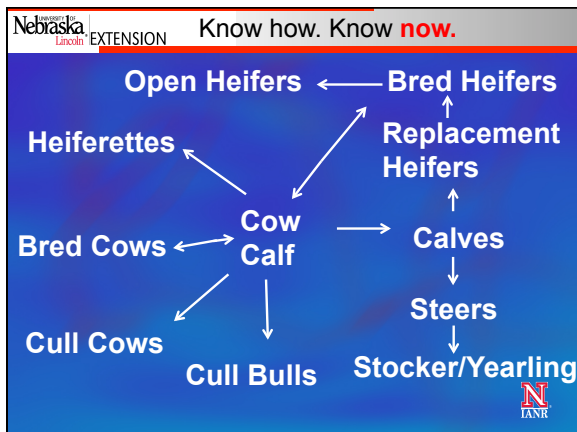
Photo from agrisk.tamu.edu/agrisk/quickbooks/index.php



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Break the Ranch into Enterprises



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Challenges and Dangers of Enterprise Analysis

- How to break out and allocate costs.
- Variations in production/expenses can skew results especially for one year.
- Eliminating an enterprise won't always eliminate all the costs associated with it.

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Knowing your UCOP gives you tremendous power to make management decisions.

Photo courtesy of USDA NRCS

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Value in Knowing UCOP

- Budgeting
- Evaluating Inputs
- Evaluating Enterprises or Entities
- Marketing and Risk Management
- Benchmarking the Operation

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Values to Compare Cow-calf

- UCOP – Price per pound of calf weaned per cow exposed
- Production values
 - Pregnancy, Calving, Weaning Rates
- Cost Values
 - Harvested/Supplemental Feed, Grazing
 - Labor and Equipment

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Identify What Needs to Change and That Change Might be Made


1. Pick one or two areas to focus on this year.
2. Choose areas where the greatest progress can be made.
3. Set some goals for where you want to be and make a plan to get there.

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Team approach for input on possible management changes

- Other Successful Ranchers
- Veterinarian
- Banker
- Accountant
- Extension Personnel
 - Economist
 - Reproductive Physiologist
 - Nutritionist
 - Geneticist




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Ranch Management Practicum

- Eight full days usually June - January
- Business Planning
- Understanding UCOP
- Range & Forage Resources
- Cattle Nutrition/Production
- Systems Approach to Decision Making



Photo courtesy of Dallas Houtz UW Extension



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