

# **N** EXTENSION

## IT COSTS HOW MUCH?!



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## UNIT COST OF PRODUCTION

- What is UCOP?
- How is it calculated?
- What are the benefits to knowing UCOP for owners and managers?



## Unit Cost of Production

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



## UNIT COST OF PRODUCTION

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



## RANCH EXAMPLE



Photo Courtesy USDA NRCS



## TWO TYPES OF COSTS

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



## WHAT ARE THE TOP 3 COSTS FOR MOST RANCHES?



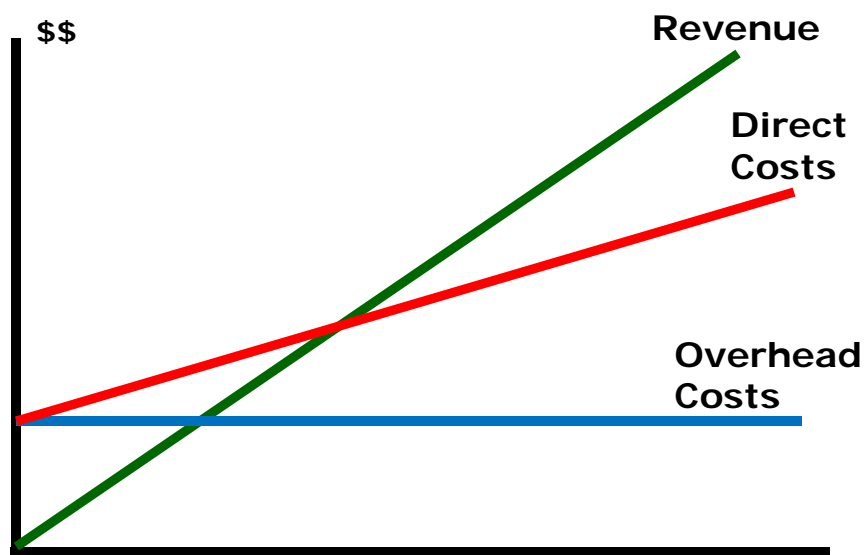
Photo from [agrisk.tamu.edu/agrisk/quickbooks/index.php](http://agrisk.tamu.edu/agrisk/quickbooks/index.php)



## TOP 3 COSTS FOR MOST RANCHES?

- Feed
- Cow Depreciation
- Labor and Equipment

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## You Can't Manage What You Don't Measure



inertlawins.com



www.simplot.com



Photo courtesy of USDA NRCS

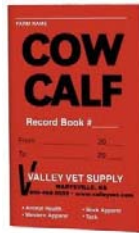


Photo courtesy of USDA NRCS

## Most Management Decisions Influence UCOP!!!

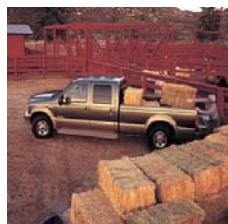


Photo courtesy of USDA NRCS

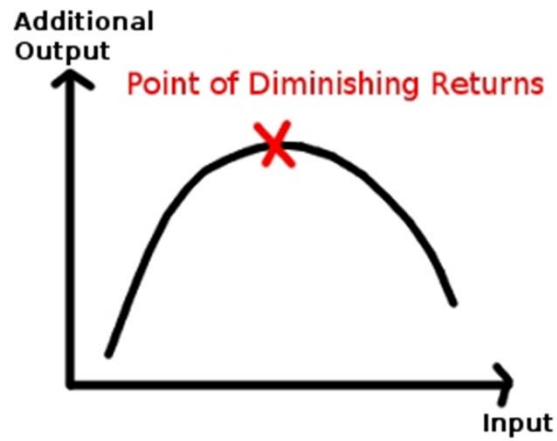


Photo courtesy of USDA NRCS



Photo courtesy of USDA ARS

## DIRECT COSTS AND THE POINT OF DIMINISHING RETURNS



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EVERY DIRECT COST DOLLAR  
INTO THE COWS, SHOULD  
RETURN MORE THAN A DOLLAR!



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MOST OPERATIONS HAVE  
MORE THAN ONE ENTERPRISE.

WHAT ENTERPRISES ARE PART  
OF YOUR OPERATION?




## Break the Ranch into Enterprises

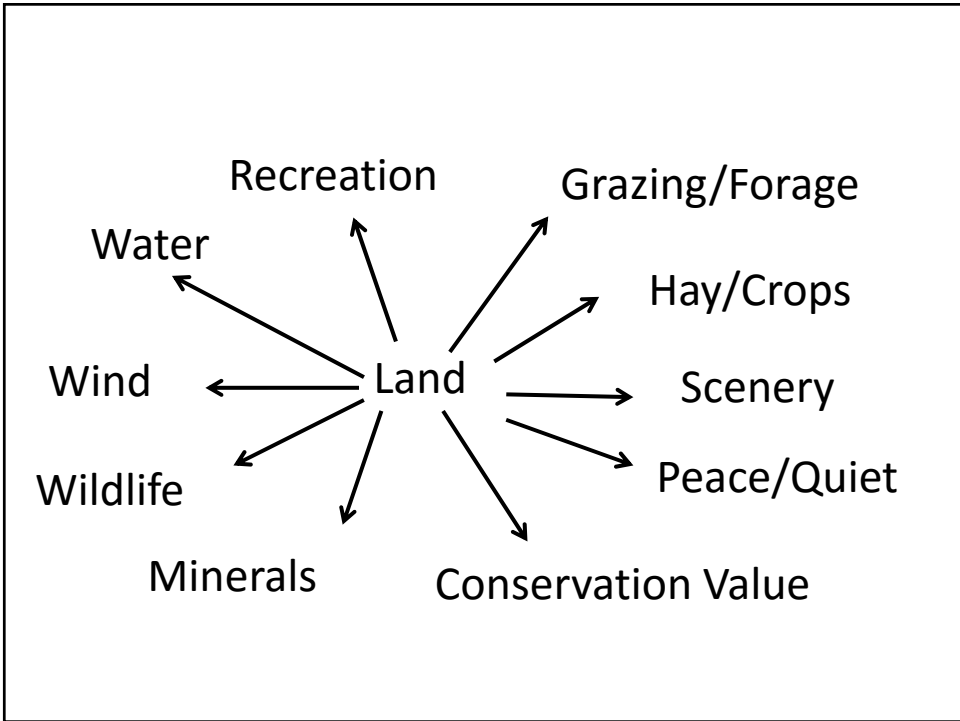





# THE LAND ENTERPRISE



What Value does this Produce?



## ENTERPRISE ANALYSIS

- Enterprises “pay” fair market value or costs are identified when resources move in or out
- Where is value being generated?
- Where do costs occur?
- Which enterprise returns the greatest net dollars per unit of input of forage?
- Look at the long term 3-5 year analysis



## 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.



## KNOWING ENTERPRISE UCOP GIVES INFORMATION TO MAKE MANAGEMENT DECISIONS



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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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## VALUE IN KNOWING UCOP

### Planning and Projecting

- What are my costs going to be?
- What are prices expected to be?
- What can I influence and change?
- Where are points of leverage?



## OPPORTUNITIES TO CHANGE WHAT CHANGES CAN 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 goals for where you want to be and make a plan to get there.



## UCOP SUMMARY THOUGHTS

- UCOP is a valuable tool for decision making
- Most decisions influence UCOP
- Enterprise analysis is needed for UCOP
- UCOP should be used with a systems approach to decision making



## FRESH PERSPECTIVE ON POSSIBLE CHANGES

- Successful Ranchers / Business Owners
- Banker
- Accountant
- Consultant
- Extension Personnel
  - Reproductive Physiologist
  - Nutritionist
  - Geneticist



## UCOP WORKSHOPS FALL/WINTER

- Two day workshop introduces UCOP and works through an example ranch
- Record keeping needed for UCOP is discussed
- Excel Spreadsheets for inputting numbers
- Personal follow up



## CONTACT INFORMATION

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