

# Are You A Low-Cost Or A High-Cost Producer?

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By

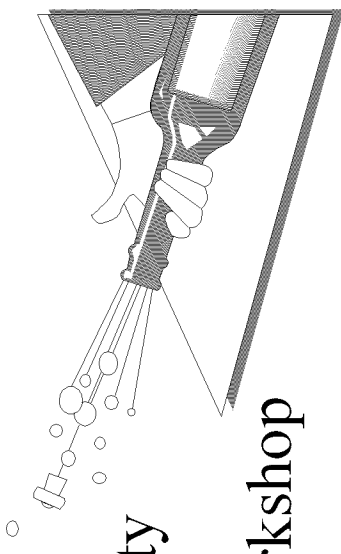
Harlan Hughes

Professor Emeritus  
North Dakota State University

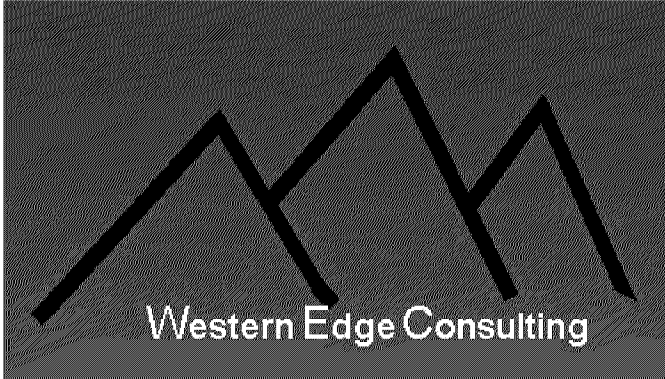
Montana Cost of Production Workshop

Park County, Montana

23 Jan 2008



# Harlan Hughes



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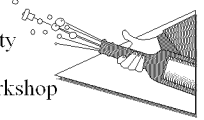
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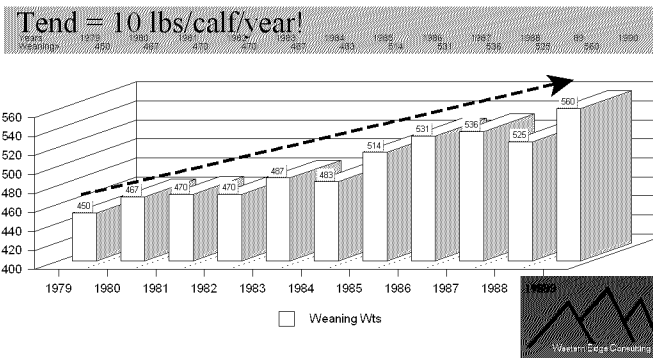
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## CHAPS Weaning Weights

Average Weaning Weight

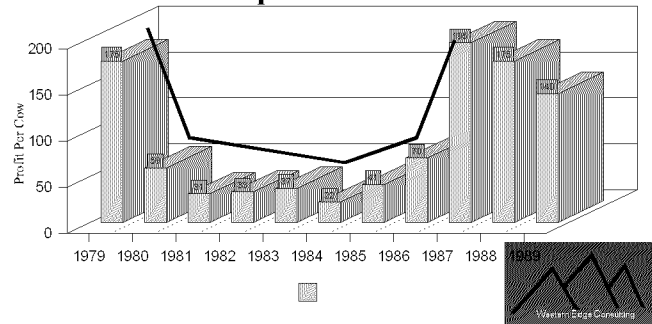


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## Beef Cow Enterprise Profits

Farm Business Management Record Summaries

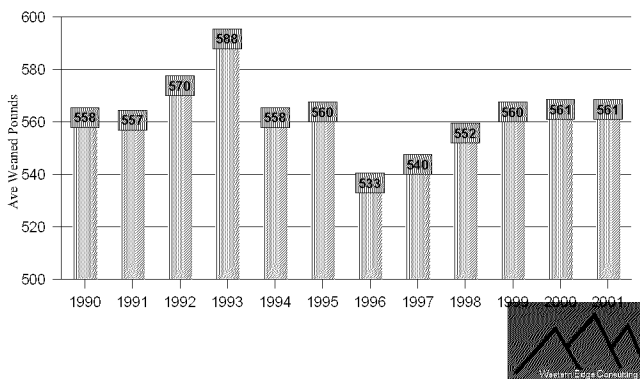
“U Shaped Profit Curve”



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## Weaning Weights In The 1990s

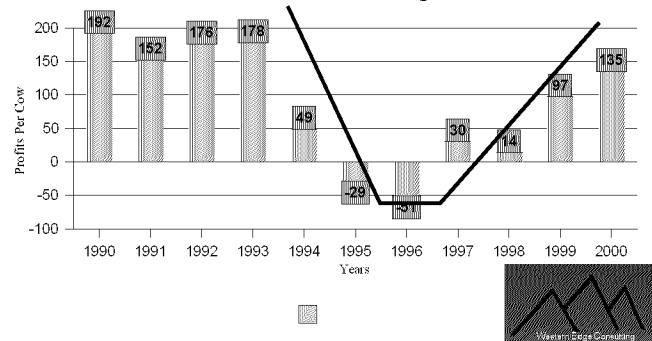
North Dakota CHAPS Data 1990-2001



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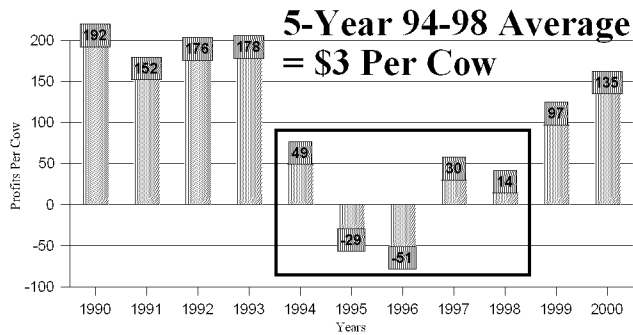
## Beef Cow Profits In The 1990s (North Dakota Farm Business Management Herds)

“V” Shaped Profit Curve



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## Beef Cow Profits In The 1990s (North Dakota Farm Business Management Herds)



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## Why Did Some Commercial Beef Cow Producers Weather The Five, Tough Years In Good Shape, While Others Suffered Severely?

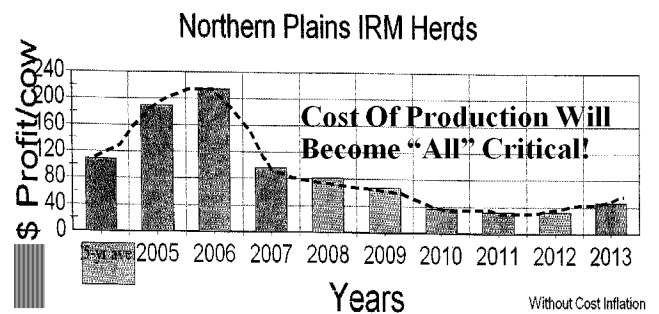
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## I Believe The Answer Lies In The Fact That...

- Some Beef Producers Are **Low-Cost Producers** And Other Beef Producers Are **High-Cost Producers**

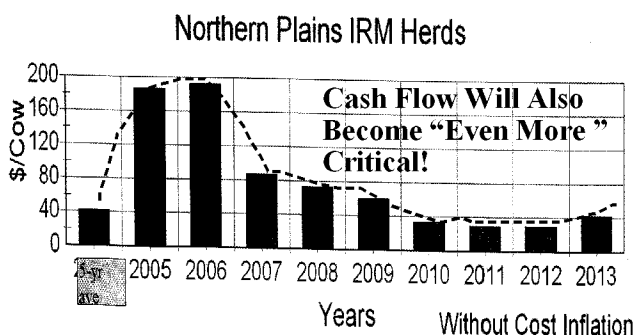
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## Economic Profit Projections



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## Net Cash Flow Projections



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## Two Key Questions Every Rancher Needs To Ask

- What does it cost me to produce a hundredweight of calf?
  - Answer With IRM-SPA Analysis
- Am I A High-Cost or Low-Cost producer?
  - Answer By Benchmarking Against Other Herds

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## Critical Cost Control Point No. 1

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Ranchers Need To Calculate  
Their Unit Costs Of  
Production



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## Why Unit Cost Of Production?

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- Should always express costs of production in the units that you sell
- Always compare *Production Costs* to *Market Price*
  - ▶ Cost per Cwt. of Calf Sold
    - Not cost per cow



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## Certainly, Most Commercial Beef Cow Producers Perceive That They Are Managing Costs....

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- Experience suggests, however, that commercial beef cow producers need to first *measure costs* before they can actually *manage costs*
- And... to manage costs they have to first measure production

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## My IRM Studies Suggests that High-Cost Producers

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- Seem to do neither
  - ▶ They do not measure production
  - ▶ And... they do not measure costs of production

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## The Key To Cutting Costs Is To Have Herd Performance Records

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## IRM Studies Also Suggest That...

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- Cost Control
  - ▶ Is a Critical Success Factor on any profitable beef farm or ranch
- High Profit ranches seem to experience:
  - ▶ High production
  - ▶ And
  - ▶ Low production costs
- Common Ground Seems To Be
  - ▶ Intensive management



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## What, Then, Is Intensive Management?

- Intensive Management isn't doing 1 thing a 1000% better...
- It is doing 1000 things 1% better!

**Too Often We Try To Hit A Home Run!**



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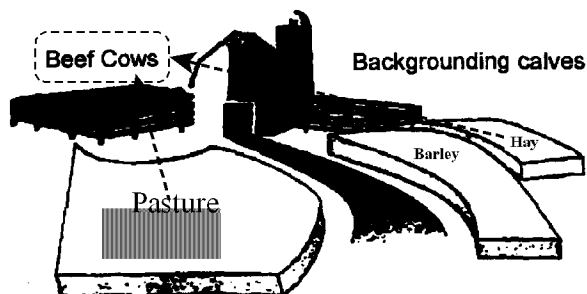
## Producers Suggest It is Difficult To Allocate Production Costs

- I will suggest a "Profit Center" approach to simplify the data collection



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## If A Beef Cow Producer Wants To Know Where His Money Is Earned



Divide his ranch into profit centers such as these. And analyze each one as a separate business.

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## The Most Important Ratio That Cattlemen Can Calculate is:



**Unit Cost Of Producing A CWT Of Calf Produced**  
**UCOP**

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## SO, What Is Unit Cost Of Production?



$$UCOP = \frac{\text{Herd's Total Cost}}{\text{Total Lbs Produced}}$$

Anything You Want To Talk About Is In Either The Numerator Or Denominator Or Both!

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## Critical Cost Control Point No. 2

**Am I A High-Cost Or A Low-Cost Producer?**

**Answer This by Benchmarking**



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## A Rancher Should Use These Two Questions To...

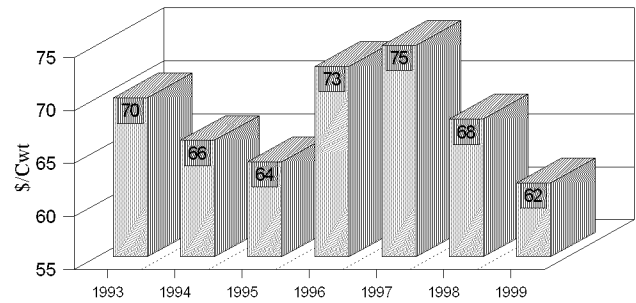
1. Determine his absolute costs of production
2. Find his herd's strength and weaknesses
3. Focus his limited management time



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## IRM Herds' Unit Cost Of Production

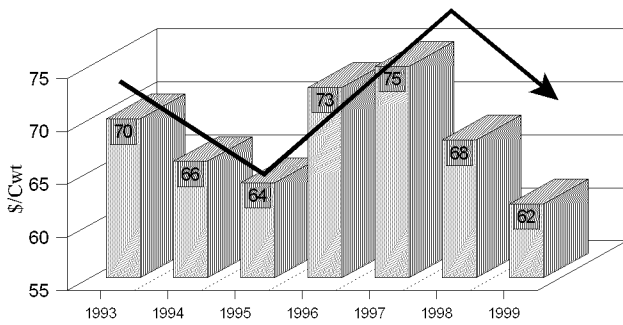
Northern Plains



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## IRM Herds' Unit Cost Of Production

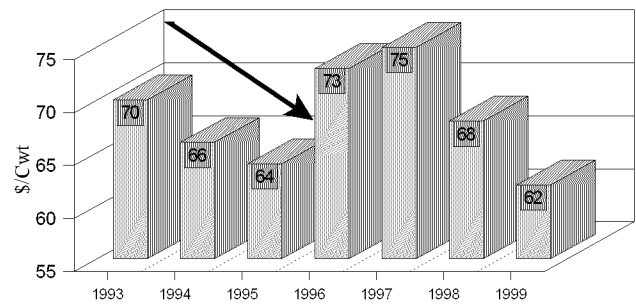
Northern Plains



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## IRM Herds' Unit Cost Of Production

Northern Plains



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## Could Producers Cut Production Costs Too Much????

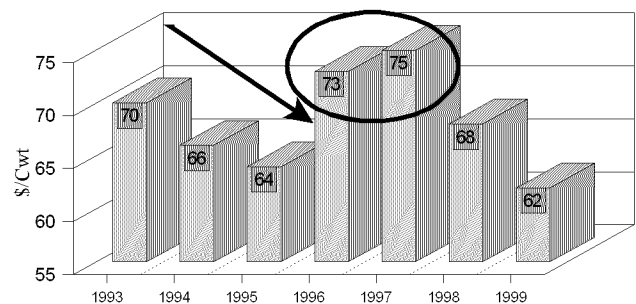
■ I think So!!



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## IRM Herds' Unit Cost Of Production

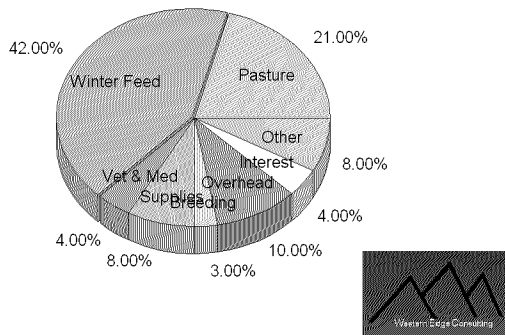
Northern Plains



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## 1997 Unit Cost Of Production Per Cwt. Calf produced (Ave Group)

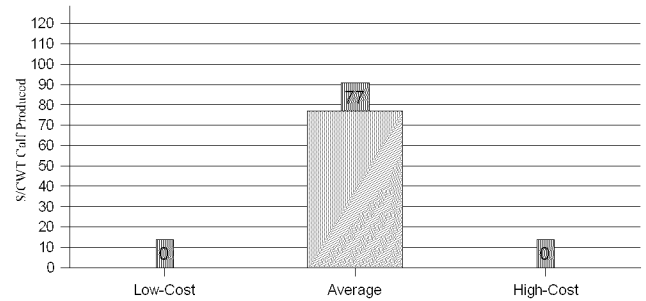
Annual Feed Costs = 63% Of All Costs



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## High-Cost Vs Low-Cost Herds

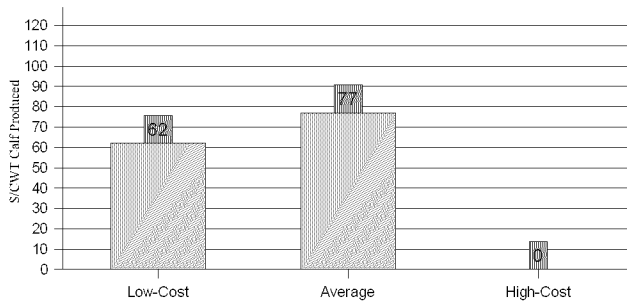
Northern Plains 1997



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## High-Cost Vs Low-Cost Herds

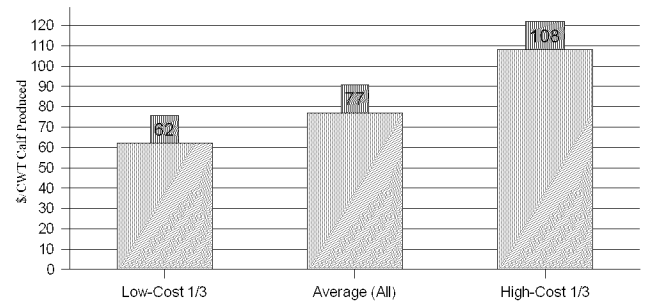
Northern Plains 1997



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## High-Cost Vs Low-Cost Herds

Northern Plains 1997



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## Where Is The Big Potential For Making A Difference On A Commercial Ranch?

High-Cost Group = \$108/Cwt

Low-Cost Group = \$ 62/Cwt

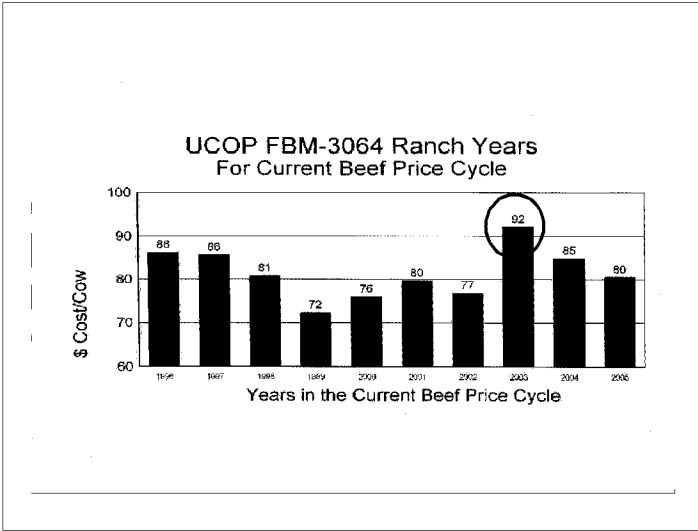
Difference = \$ 46 Per Cwt

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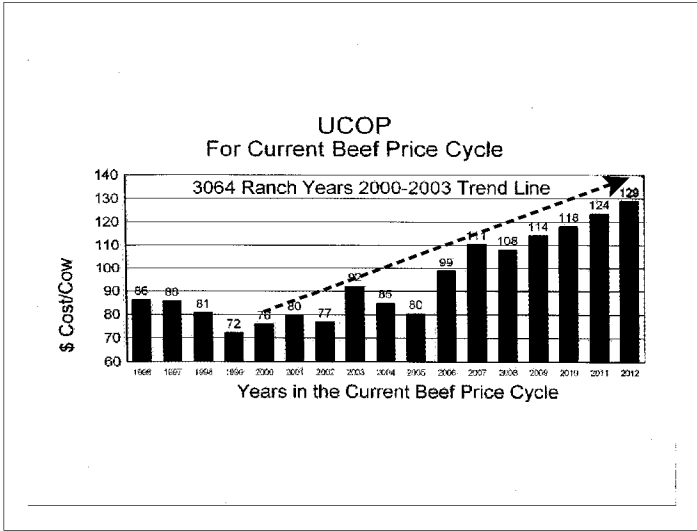
## My IRM Experience

- Producers think that lowering UCOP means spending less money
  - ▶ i.e., reduce production costs
- Not necessarily....
- In many cases, you lower UCOP by intensifying production
  - ▶ i.e., increase production
    - Increase stocking rate
    - Spend more money on output increasing assets

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## But Harlan...

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“I have my costs as low as I can get them!”



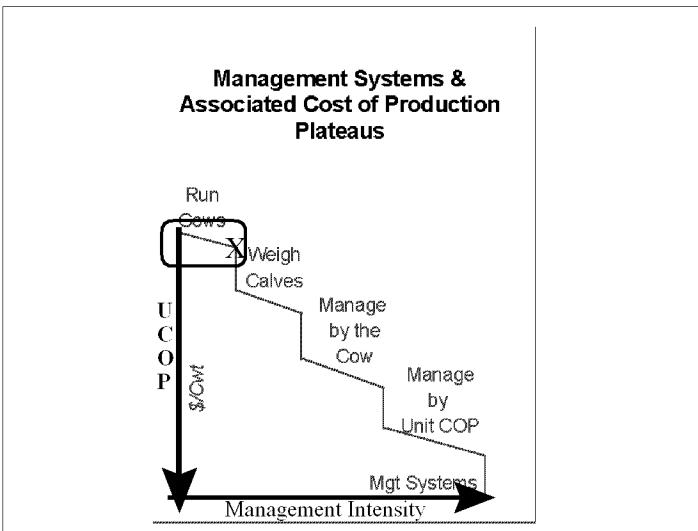
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## What I Think They Are Saying Is:

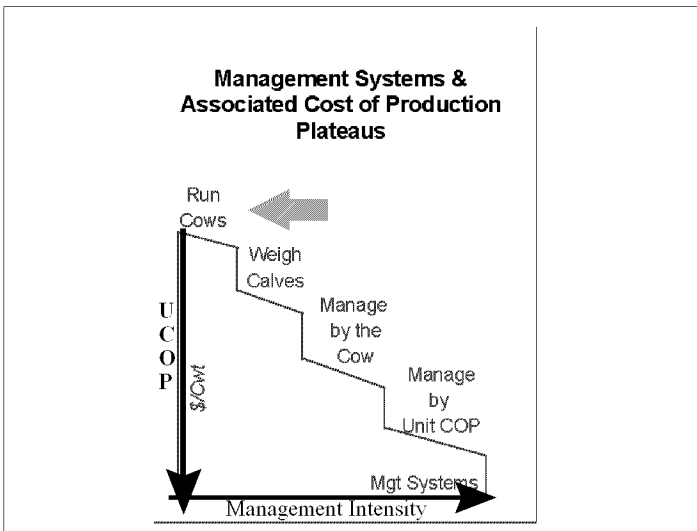
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“Given My Management System...  
I have my costs as low as I can get them!”

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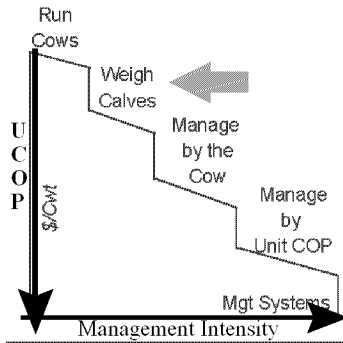


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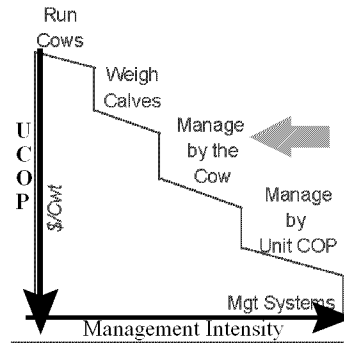
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### Management Systems & Associated Cost of Production Plateaus



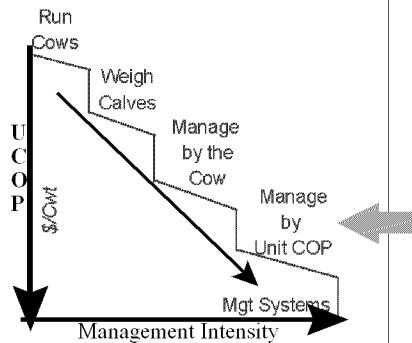
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### Management Systems & Associated Cost of Production Plateaus



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### Management Systems & Associated Cost of Production Plateaus



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## Today's Family Farmer & Rancher Are Too Busy To Manage

Yet, their long-run economic survival hinges on their level of management!!!!



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## In Summary



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### We Learned That:

- We have to weigh calves to measure herd performance
- We have to count cows:
  - On bull turn-out date
  - January 1 of each year
- We have to treat our beef cows as a “Profit Center”
- We have to measure costs to manage costs.
- Low-cost producers are the most profitable producers

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# My Observation

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**You Have To Measure It  
Before You Can Manage It**



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# Implication No. 1

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Cost Identification

Leads To Cost Reduction



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# Implication No. 2

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Low-Cost Producers

Almost Always Are The  
High Profit Herds



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# So... Are You A Low Cost Or A High Cost Producer?

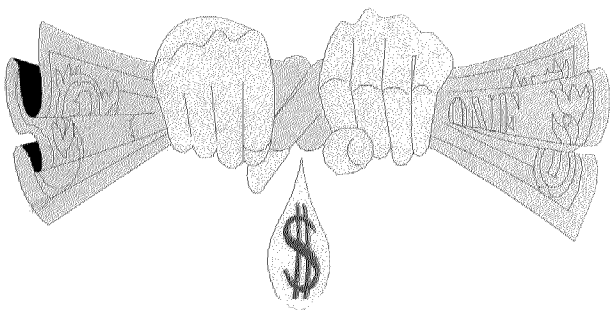
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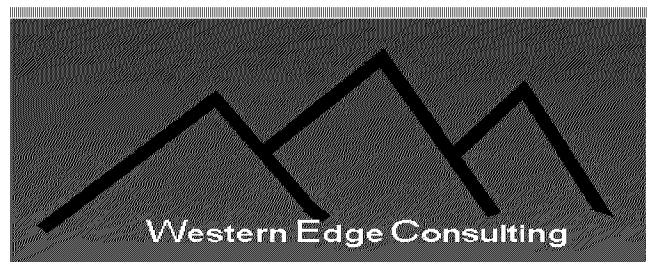
# Your Unit Costs Of Production (UCOP) Tells Your Story!

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# The End



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## Harlan's Business Card

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# **Economic Consulting      Harlan Hughes**

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