

How to determine your cost of production

Profitable Pastures 2020

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Cost of production – homegrown feed

Approaches

Production systems

- Production practices
- Capital investments needed
- Enterprise budgeting

Opportunity cost

- Market value – if you sold it (or rented it) instead of feeding it

On farm data

- Whole farm
 - Multi enterprises
 - Allocation



It starts with good records – production and financial

Cost categories – homegrown feed

Direct Variable

- Seed, Fertilizer, Pesticides

Indirect Variable

- Fuel, labour, repairs, custom work

Fixed

- Property taxes, land rent, insurance, term debt interest, depreciation

What is the question you are trying to answer

- What is my total cost of production for pasture?
- Am I better to grow my own or buy?
- Am I better to harvest as hay or pasture?

Establishment costs – hay/pasture crops



Seed

How many years of full production?



Fertilizer

Field Crop Budgets:



Herbicides

\$350 est costs (hay)



Seedbed Prep

Costs breakeven in Year 1



Planting

@ \$200 / tonne

(1.75 tonne harvest Yr 1)



Fert and Spray applications

Pasture

Cost of Production

Direct costs

- Fertilizer (is this replaced (in part) with manure?)
- Herbicides

Machinery (what is different about pasture versus hay)

- Clipping (may replace herbicides)
- Fertilizer application
- Spray application

Fencing and water costs (replaces harvest costs)

- Materials (amortized over useful life)
 - Fence, water lines, water tanks
- Labour

Land

- Cash rent



Per unit basis

Unit produced versus Production Unit



Production unit is the base unit used to produce the output or yield

- Per acre

Unit produced is the output or yield

- Per Tonne or Head or Animal Unit or \$/head/day

Pasture

Cost of Production

Direct costs

- Fertilizer
 - Removal rates or actuals applied
 - P = 6.1 kg/tonne (removal-mixed hay)
 - K = 23.5 kg/tonne (removal-mixed hay)
- Herbicide (if needed)



Machinery/equipment

- Custom rates vs your own costs
- Tractor/equipment – time spent in pasture or machine trips
 - Mach related costs allocated
 - Fuel, repairs, machine labour, depreciation, interest, insurance



Fencing and water

- Enclosed with 2 strand high-tensile electric,
- 1 500m water pipes,
- 100 gal stock tank

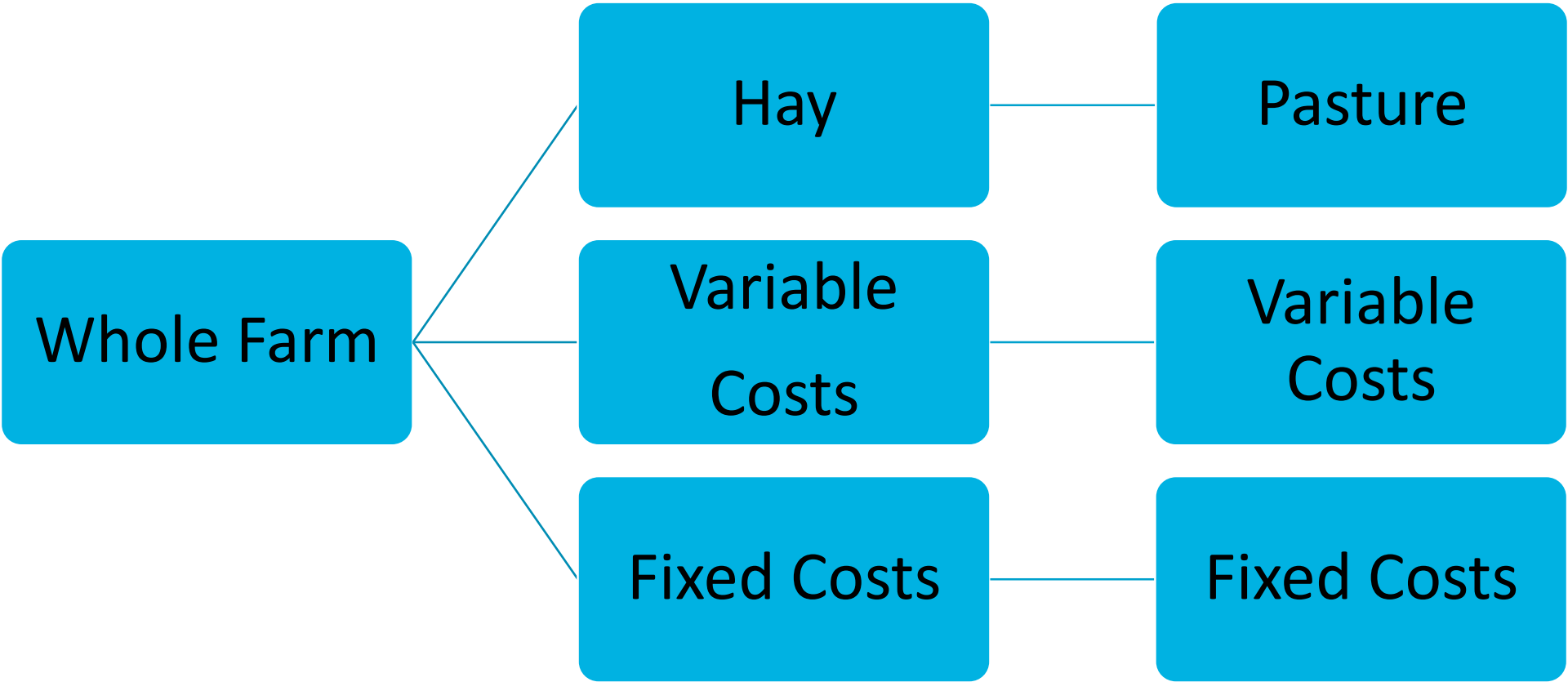
Amortized over 5 years

\$33 per acre annual cost

Labour



Cost of production – by enterprise



Resources

Ontario Enterprise Budgeting Tools

www.omafra.gov.on.ca/english/busdev/bear2000/Budgets/oeb.htm

OMAFRA Publications

- Guide to Cost of Production Budgeting
 - Budgeting Farm Machinery Costs
 - Guide to Custom Farmwork and Short-term Equipment Rental
- www.ontario.ca/agbusiness

Thank you

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