

2002 OHIO LIVESTOCK ENTERPRISE BUDGETS

Beef - Swine - Sheep

Enterprise budgets are developed to aid producers in evaluating alternative business plans. The following are some points to keep in mind as you use the Ohio Livestock Enterprise Budgets. They represent common, workable combinations of inputs that can achieve a given output. Quantities and types of inputs reflect University recommendations and the experience of many Ohio farmers. The specific combinations of inputs and prices presented may not reflect any given farm. In practice, actual costs may be higher or lower than shown. Thus the most important column is “Your Budget”.

An enterprise budget has the following characteristics:

- It estimates costs and returns expected for a single enterprise.
- It represents one combination (from among hundreds available) of inputs such as feed, health/vet program, buildings charge, and labor to produce some level of output.
- It is a written plan for a future course of action including estimated costs and returns for that particular enterprise.
- It provides a format and a basis for developing enterprise budgets appropriate for a given farm situation.

At the same time, some things must be recognized that are not implied by an enterprise budget:

- It is not the only combination of inputs that can be used to produce this product. For example, pasture quality and yield can cause feed requirements for the beef and sheep enterprises to vary widely.
- It does not imply that anyone whose costs are different from this must have incorrect data or poor records. Volume discounts, local prices, and caliber of facilities are just a few of the causes of cost variation.
- It does not imply that all producers can achieve these costs and production outcomes. Different management systems, breed characteristics, and marketing strategies can cause the actual results to vary greatly from what is presented.

Production Output Levels

Each enterprise budget contains a production output that is intended to be representative of typical output levels for Ohio farms. The output levels can and should be adjusted to the individual's own farm. Reasons for modifying the output levels could include a higher weaning rate for hog producers, a beef producer with a smaller-type breed, a higher or lower lambing rate for sheep producers, or involvement in a niche market.

Pricing Methods

Prices for livestock enterprise outputs and inputs reflect estimates for 2003. If an improved price is reflected in your farm due to marketing strategies, then any increased costs to achieve that price should either be netted out of returns or added to costs.

Variable Costs

Feed requirements are based on University recommendations and author research. These specific quantities are noted in the budgets. Feed amounts may vary due to different feed efficiencies, daily gain desired, and level of output desired. These quantities and prices can easily be modified to reflect your own operation.

Fixed Costs

Four items are included as fixed costs, some of which may or may not be fixed for a particular operation. For example, labor hours are priced at what farmers can expect to pay for hired labor, including workers compensation and social security. Labor hours represent direct husbandry labor, planning, record keeping, purchasing supplies, equipment maintenance, and other overhead labor. The budgets assume labor is a fixed cost, either operator or full-time hired labor. If some of your labor is hired, especially if it is part-time labor, you may want to show some labor as a variable cost.

Building and Equipment costs represent a charge for depreciation, interest, repair, taxes, and insurance on all buildings and equipment used in the livestock enterprise. These costs vary with the level of technology and/or the management system of the enterprise. The building/equipment required for each animal is multiplied by an annual fixed cost rate to calculate the annual costs of building and equipment. The individual components of the annual fixed cost rate is listed below:

	Equipment	Buildings
Depreciation	10.0%	7.0%
Interest	5.0%	5.0%
Repairs	2.1%	1.7%
Taxes	0.0%	0.5%
Insurance	0.5%	0.5%
TOTAL	17.6%	14.7%

The management charge of 5% of receipts represents a charge (or return) for making the decisions and taking the risks of the business. Typically, farmers provide both labor and management. If they are going to stay in business and make a living from farming, they have to earn something for both.

Costing Methods

The enterprise budgets report all costs including cash, depreciation, and opportunity costs. Cash costs likely include many variable cost categories such as feed, utilities, marketing and health programs. Depreciation on buildings and equipment is included in the “Building Charge” and the “Equipment Charge”. Opportunity costs reflect returns to a producer’s labor, capital, and managerial resources. Specific items within the budgets that may contain opportunity costs are:

- Interest on operating capital
- Labor charge
- Buildings and equipment charge
- Land charge
- Management charge

The distribution of cash and opportunity costs will differ between operations. For example, all budgets include a charge for “Interest on Operating Capital”. This interest is a cash cost when a producer uses debt capital to finance variable costs. In this case, the producer must pay for the use of operating capital. On the other hand, this interest is an opportunity cost when a producer uses equity capital to finance variable costs. In this case, the interest reflects a return to a producer’s equity capital. Interest on operating capital could be a mix of cash and opportunity costs if a producer uses both debt and equity capital to finance variable items.

Although opportunity costs are not cash outlays, they should be included in budgeting because they account for the use of a producer’s resources. An enterprise needs to provide returns to a producer’s labor, capital, and managerial resources for the enterprise to be sustainable in the long-run.

Interpretation of Returns

All budgets report “return above variable costs” and “return above total costs”. Return above variable costs is useful in examining decisions that must be made within a year. For example, a producer may consider feeding out a group of steers. Return above variable costs would be used to compare the steer versus lamb options.

Return above total costs would be used to examine “long-run” decisions. This return is useful in determining whether producing a certain type of animal from a specific species will be profitable year after year, given the current prices reflected in the budgets. When revenue above total costs is zero or above, long-run production of the livestock provides all resources an adequate return. In these cases, producing the livestock is profitable.