

The Cost of Cutting Costs

When times are tough and margins are tight it's easy to look at an upfront expense and say "Money is tight, I don't think I need that" and basically develop a "bare bones" plan to go with for the growing season.

A few of the most common examples of expenses people want to cut are seed treatments, nitrogen stabilizers, and spray adjuvants. But do cutting those costs really save you money? Let's find out.

Let's take a look at nitrogen stabilizers and break it down. For an example let's say you are spreading 180 actual units of N from a urea application (so 391 pounds of urea to the acre), and the price for the nitrogen stabilizer is \$77.50 per ton of urea.

Now let's figure out the cost per acre of the stabilizer:

$$180\# \text{ of N} / .46 = 391\# \text{ of Urea} \quad 391/2000 = 0.1955 \quad 0.1955 \times \$77.50 = \$15.15/\text{ac}$$

That cost per acre is \$15.15, and for some that may be half the profit they can pencil out this year. So if you cut out the cost of the nitrogen stabilizer you automatically assume that you made roughly \$15 more per acre this year, but in reality you should look at it from a different angle to see the true picture:

Let's say the stabilizer saved you even just 10% of the nitrogen from volatilizing through the air or leaching through the soil. That's 18 units of N that cost you \$7.76. You are half way to paying for the stabilizer already! Now let's add the loss of bushels saying that one unit of actual N is equal to one bushel of corn (at \$3/bu) at the end of the year.

$$18 \text{ bushels} \times \$3/\text{bu} = \$54 \text{ /acre loss} + \$7.76 \text{ for the loss of N} = \$61.76!$$

Now that Cost of "Cutting Cost" is at \$61.76 per acre LOSS. Subtract the \$15.15 you thought you saved and you still lost \$46.61 per acre!

In closing, shuffling around upfront expenses is an "easy" way to help pencil out your cost of production on paper. But realize that you get paid on what you produce! Some of these added "costs" help to protect your investment and increase your total production. So before you cut out an upfront expense this year, take a step back and look at the actual Cost of Cutting that Cost.



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