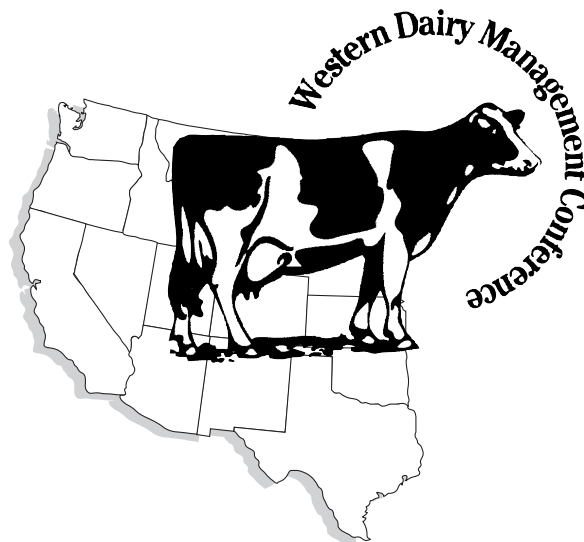


Dealing With Dairy Financial Variables

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Dealing With Dairy Financial Variables

We are witnessing and being part of the largest swings in agricultural prices in modern times. We have no more price supports to put floors and ceilings on prices. This will create greater opportunities for profits and greater opportunities for losses. To take advantage of this, we must use the good times properly and survive the hard times. Tax planning will become more critical.

Being profitable today and unprofitable tomorrow won't cut it. It's too stressful and it's too hard to get along with your banker. An example of this is that many dairymen got slack on cow care and cow comfort and got away with it when replacement prices were low and beef prices high. The last couple of years has eaten them alive. The successful dairymen of the future will be prepared to deal with widely variable milk, feed, cull cow and

replacement prices. Being at the total mercy of any one of these is unrealistically risky. Heavy emphasis will need to be placed on the following:

1. Forward planning.
2. Budgeting and cash flows.
3. Equity growth vs. paying taxes.

Sometimes we forget about the basics. Factors that are simple but forgotten about when in crisis. A key is that high cost facilities require high utilization and high production. A couple of years ago when it became obvious that we were going to go through a period of low milk prices, many dairymen in Florida and elsewhere decided they would just slow up and kind of coast through the bad times. The net effect of this, I will demonstrate below. We will break our costs down into feed costs and for simplicity all 'other costs'. Let's take a farm

with a parlor with a capacity to milk 1000 cows. The feed cost will be \$4.00 per milking cow per day and all others costs are \$2,500 per day. This is outlined in the table at left.

Our farms need to be well balanced. We need to do everything as well as we can and not over emphasize any one factor like herd average. Sometimes when we talk parlor efficiency, cows per man hour can be over emphasized. The profitability of the whole operation is determined by the milk produced in the parlor (see table at top of facing page).

When we discuss heifers, the topic is often the cost of raising vs. the cost of buying. I think there is a lot more to it than that. The big advantage to rais-

• 1000 Cows			
Daily Cost	(\$4.00/head to feed)		\$4,000
All other costs	(\$2.50/Cow/Day)		\$2,500
TOTAL	(\$6.50/Cow/Day)		\$6,500
Let's say the dairyman decides to slow up and only milk 800 cows.			
• 1800 Cows			
Daily Cost	(\$4.00/head to feed)		\$3,200
All other costs	(\$3.13/Cow/Day)		\$2,500
TOTAL	(\$7.13/Cow/Day)		\$5,700
• To break even with \$15 milk:			
1,000 Cows	\$6.50 cost	= 43 lbs. milk	
800 Cows	\$7.13 cost	= 47½ lbs. milk	
Milk Production	Gross Revenue Per Cow	Profit or Loss Per Day	
		1000 Cows	800 Cows
45#	\$6.75	\$250	(\$304)
50#	\$7.50	\$1,000	\$296
Parlor pressure is important. It doesn't pay to run on idle.			



Example: Double-12 Parlor

One person can milk 60 cows per hour or two people can milk 100 cows per hour (50 cows per man hour).

Cows milked in 7 hours:

1 Person	60 X 7	= 420 cows
2 People	100 X 7	= 700 cows

Assume 50 pounds per cow and \$15/cwt.

420 Cows	\$3,150 per day	= \$1,149,750 per year
700 Cows	\$5,250 per day	= \$1,916,250 per year

• *A difference of \$766,500 per year!*

ing, gets back again to the issue of parlor pressure. Too often those that buy, decide they need heifers too late and then they wait for:

1. Financing to come through.
2. Locating the quality and price desired.
3. Calving out their purchases.

In the meantime, the parlor is producing below capacity. The ideal situation is to have so many heifers calving that you have to find a cow to cull to make room for every new heifer. Another huge advantage to raising heifers is the extra flexibility they give you in tax planning and in weathering through hard times.

Let's look at the worksheet at the bottom of this page to see how replacement costs have affected the cost in producing milk.

Real cow comfort is our best investment. Why? The results are the following:

1. Cut involuntary turnover.
2. Cut veterinary treatment costs.
3. Increase production.
4. Get higher dry matter intake.

To achieve the above, the cow must have conveniently available a clean comfortable place to lay down and a minimum of environmental stress for the climate

she is in. In designing facilities, the involvement of more cow oriented people would really help. Sometimes we leave too much of this to the engineers. They may end up with most of the manure in the alley in free stall barns but we sure see a lot of banded up cows and cows rejecting free stalls. It is common for dairymen to miss major opportunities of balancing taxable income with equity growth. This is particularly important now that we don't have income averaging and have only minimal capital gain savings. Ways of getting equity growth over paying taxes plus making the good years ease the pain of the bad years are the following:

1. Get ahead on repairs and fix ups in the good years.
2. Raise heifers and raise more of them in the good years.
3. Keep bills current.
4. Keep up with budgets and cash flows. Know your likely potential taxable income ahead of time to keep surprises to a minimum.
5. Use cash basis deductions if you have the option and try to keep a form of business that allows it.
6. Get your ph's and fertility up to snuff in the good years.
7. Grow extra feed or plant extra feed in the good years.
8. Put together some facilities to improve foot health and reduce heat stress in the good years.

A major factor that many dairymen are missing out on from both a satisfaction and an economic standpoint is the importance of public relations. Be involved. Treat your animals well. Treat your employees well. Help the schools. Hire local if possible. Good neighbors pay. A letter to the DEP or to your state environmental agency can be expensive.

	<u>2 years ago</u>	<u>now</u>		
springers	1150	\$1250		
cull cows	\$700	\$350		
difference	\$450	\$900		
<i>Doubled our replacement cost.!</i>				
<u>herd turnover rate</u>	<u>Increase in replacement cost per milking cow</u>	<u>total per cow</u>	<u>increase* per cwt. milk</u>	
50%	\$225	\$450	\$1.40	
40%	\$180	\$360	\$1.13	
30%	\$135	\$270	\$.84	
*: 16,000 pounds sold per cow				

Notes