

Budgeting and Enterprise Management

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Primary causes for unprofitable dairy operation

- 1. Low production per cow**
- 2. Low production per-man year of labor expended**
- 3. High expenditures for feed per cow**
- 4. Too much debt**

- **Famous statement:**
"things never go as planned, so why bother."
- **This reason calls for more planning, not less**

Three Important Financial tools

- **Current Balance Sheet**
 - Snapshot of the total assets and liabilities
- **Income and expense statement of the previous year**
- **Last 3 years of cash flow (for future prediction)**

10 Key Financial Indicators

1. *Income per cow*

- ----- of the income is milk
- A profitable goal for Gross income per cow is

$$\frac{\text{milk \$ + cull cows sales + gvt. Program pmt \& patronage}}{\text{Average \# cow for the year}}$$

10 Key Financial Indicators

2. *Operation cost as a % of gross*

----- *of the gross income*

Operation Cost= All expenses -
depreciation and interest expense

Operating cost % = operating costs ÷ Gross
income

10 Key Financial Indicators

3. Milk sold per cow

> 20,000 lb

In a 50% ownership equity dairy
18,000-19,000 lb. herd average is a break
even level

10 Key Financial Indicators

4. Current Equity

- Should be 2:1 ratio

**\$2 current assets for each \$1 current
liabilities**

Current Liabilities = bills over 30 days old

**Current Assets = cash, feed on hand,
prepaid expenses, animals values**

4. Current Equity

It is very important in terms of:

- *Special cash discounts*
- *Increase the ability to work with lenders*

10 Key Financial Indicators

5. Cost of Producing 100 lbs milk

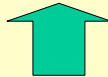


- *Useful for calculating the breakeven cost*
- **Make sure other farm income (e.g. cull cows, govt. pmt., bull calves, change in crops and fed value) is subtracted for expenses**

10 Key Financial Indicators

6. Feed Cost (% gross income)

- Only buying mineral & protein supplements **16%**
- Only buying grain and commodities **25-30%**
- Buying everything-----



10 Key Financial Indicators

7. Livestock expenses

Breeding costs

- Veterinarian costs
- bST

Useful in partial budgeting

Fresh Cow Problems

| Health event | Goal | Intervention | cost |
|-------------------|-------|--------------|-------|
| DA | 3% | > 5% | \$340 |
| Milk fever | 1% | >5% | \$344 |
| Retained placenta | < 10% | >15% | \$285 |
| Ketosis | 5% | >10% | \$145 |
| Acidosis | None | | ?? |

Hoard's Dairyman, Oct, 1997

10 Key Financial Indicators

8. Debt per cow

\$2,500, comfortable

\$3,000, manageable

\$3,500, workable

>-----, watch out

Debt = total debt ÷ Avg # cows

10 Key Financial Indicators

9. Asset turnover

40%

Asset turnover = gross income ÷ total asset

Average dairy is 33%

Goal: 45%

More difficult to calculate

10 Key Financial Indicators

10. Total investment per cow

Total investment/cow = Total assets ÷ # cows

Goal: reduce the investment to \$5,000

Financials

1. CASH FLOW
2. PROFIT AND LOSS
 - INCOME STATEMENT
3. NET WORTH

Debt, profitability, and efficiency

Profit

- Is it growing asset?
- Is it any cash that left at the end of the year?

Reality: a little of both

Cash Flow

- Using cash flow as as bench mark of profit is misleading
- Example: selling a tractor for \$80,000



In cash flow
Additional income of \$80K
And thus profit



In net farm income
No Change

\$80K is a revenue but we have to reduce it from the inventory

Net Income / cow / yr

- **Net Farm = Income -expenses (not including the principle pmt)**
 - *adjust for inventory
- **A lot better measure of profit than cash flow**

What Records do we Really Need?

Milk Production Record:

- One time per month testing may not reflect actual milk production
- Milk on test day often does not match shipped milk
 - Number of hospital cows
 - Meter errors
 - Human errors
 - 2X and 3x milking
- **DAILY MILK SHIPPED PER COW/ PER GROUP/PER TANK IS MORE IMPORTANT**

Record Alternatives

GROUP RECORD:

- pen, stage of lactation, etc.

Monitor:

- Accurate pen counts
- Dry matter intake (daily recording of feed delivered, accurate dry matter of the feed)
- Milk production

Record Alternatives

Group examples

- Close up
- Fresh and early lactation
- mid and late lactation

The impact of herd care or feeding changes can be evaluated easier

What can be obtained from group milk weight and DMI?

- Average daily milk and DMI production per cow
- Daily feed cost per cow, per day by pen, and/or herd
- Daily income over feed cost by pen or herd
- Daily feed to milk ratio by pen or herd

Track fresh cows

Other things to monitor:

- Milk production during the first 45 days
- % fresh cows which milk less than 50 lb.
- Peak milk
- Early lactation culls (<30days and < 100 days)

