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**

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milk $ + cull cows sales + gvt. Program pmt &patronage

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 STATEMNT**
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)**