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

   Average # cow for the year

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
### 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

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### 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------------------

7. Livestock expenses

Breeding costs
• Veterinarian costs
• bST

Useful in partial budgeting
### Fresh Cow Problems

<table>
<thead>
<tr>
<th>Health event</th>
<th>Goal</th>
<th>Intervention</th>
<th>cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA</td>
<td>3%</td>
<td>&gt; 5%</td>
<td>$340</td>
</tr>
<tr>
<td>Milk fever</td>
<td>1%</td>
<td>&gt;5%</td>
<td>$344</td>
</tr>
<tr>
<td>Retained placenta</td>
<td>&lt; 10%</td>
<td>&gt;15%</td>
<td>$285</td>
</tr>
<tr>
<td>Ketosis</td>
<td>5%</td>
<td>&gt;10%</td>
<td>$145</td>
</tr>
<tr>
<td>Acidosis</td>
<td>None</td>
<td></td>
<td>??</td>
</tr>
</tbody>
</table>

Hoard's Dairyman, Oct, 1997

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### 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 a benchmark of profit is misleading.

- Example: selling a tractor for $80,000
  
  **In cash flow**
  
  *Additional income of $80K*
  
  *And thus profit*

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

  **In net farm income**
  
  *No Change*

**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
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 (<30 days and < 100 days)