

# **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**

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

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### **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)**

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## 10 Key Financial Indicators

### 1. *Income per cow*

- 80-85% of the income is milk
- A profitable goal for income per cow is

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

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Average # cow for the year

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## 10 Key Financial Indicators

### 2. *Operation cost as a % of gross* *(profitability indicator)*

-----of the gross income

Operation Cost= All expenses - depreciation  
and interest expense

**Operating cost % = operating costs ÷ Gross  
income**

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## 10 Key Financial Indicators

### **3. Milk sold per cow**

**> 23,000 lb**

In a 50% ownership equity dairy  
19,000 -20, 000 lb. herd average is a  
break even level

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## 10 Key Financial Indicators

### **4. Current Equity/Current Ratio**

**----- stable ; ----- Vulnerable**

•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**

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#### **4. Current Equity**

***It is very important in terms of:***

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

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#### **10 Key Financial Indicators**

#### **5. Cost of Producing 100 lbs milk**

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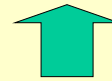
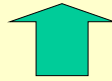
- ***Useful for calculating the breakeven cost***
- ***Make it easier for comparison with other farms***
- ***Make sure other farm income (e.g. cull cows, govt. pmt., bull calves, change in crops and fed value) is subtracted for expenses***

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## 10 Key Financial Indicators

### 6. Feed Cost (% gross income)

- Only buying mineral & protein supplements **20%**
- Only buying grain and commodities **28-35%**
- Buying everything -----%



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## 10 Key Financial Indicators

### 7. Livestock expenses

-----%

- Breeding costs
- Veterinarian costs
- Testing, trimming, supplies, etc.

**Useful in partial budgeting**

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## 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

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## 10 Key Financial Indicators

### 8. Debt per cow

\$3,500, comfortable

\$5,000, manageable

\$6,000, workable

> -----, watch out

Debt = total debt ÷ Avg # cows

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## 10 Key Financial Indicators

### **9a. Asset turnover (Financial Efficiency)**

**40%**

**Asset turnover = gross income ÷ total asset**

**Average dairy is 33%**

**Goal: 45%**

*More difficult to calculate*

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## 10 Key Financial Indicators

### **9b. Return on Asset (profitability indicator)**

**8-12%\***

**Asset turnover = net income ÷ total asset**

- **7-8% for greater than >90% ownership**
- **11-12% for less than 50% ownership**

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## 10 Key Financial Indicators

### **10. Total investment per cow**

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**Total investment/cow = Total assets ÷ # cows**

**Goal: reduce the investment to \$5,500**

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## **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)**

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### Approximate Milk Production Costs and Returns (% of total cost)

Item	Idaho	Washington
<b>Feed Costs</b>	<b>50%</b>	<b>43%</b>
Replacement Cost	8-10%	8.5%
Custom Services, supplies, fuel, utilities, repairers, etc.	13%	12%
Hired Labor	10%	10%
Health, testing, trimming	4.5%	5%
Interest & rent	4%	5%
Ownership cost (e.g. deprec. taxes, insurance, milk hauling)	10%	11%
<b>Return (% recovered cost)</b>	<b>~9 %</b>	<b>~14 %</b>

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## Financials

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

**Debt, profitability, and efficiency**

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## Profit

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

Reality: a little of both

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## 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*

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## 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**

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## 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**

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## 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

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## 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

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## **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**