

## Dairy Pipeline

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### How Is Your Survivability?

Rising costs never are a pleasant thing to face, especially if income is not keeping pace. For dairymen who are heavily indebted or for those who have low levels of production, these rising costs can be devastating.

Now is a good time to be brave enough to check your survival ability. Knowledge of this may help you plan your future more wisely. One way to do this is to look at your DHIA summary. What are your feed costs? What are your returns over feed costs?

These figures can be good indicators of what your situation might be at some point in the future. It is more helpful — and sometimes more uncomfortable — to look ahead and anticipate your future than it is to wait several months until after your tax returns are prepared only to see what has happened months ago. The past can't be changed, but the future can.

Feed costs represent your major expense of producing milk. The feed costs reported in your DHIA sheets represent the cost of feeds purchased plus all those costs associated with growing, harvesting and storing your home-grown feeds. For many dairy farmers, these costs have been totaling about two-thirds of their total farm costs. Your experiences may be different.

As you can appreciate

these figures, and the figures which follow, vary greatly from farm to farm. So, for this to be most beneficial to you, use your own figures. The only purpose for the figures I have used is to illustrate how you might be able to use some of your DHIA data to help you make some farm management decisions.

Here's something for you to try with your own figures — after you take your "brave" pills. Multiply your feed costs per cow by 1.2 to compensate for a 20 percent increase in feed costs. Remember, these feed costs are only for the milking herd. Chances are, you also have to feed some heifers, and they may consume one-fourth as much feed as the milking herd. So, multiply these new, inflated feed costs by 1.25 to get an estimate of your total feed costs for the cows plus the heifers.

I mentioned earlier that feed costs represent about two-thirds of your total costs; all other costs represent the remaining one-third. In other words, all the other costs are equal to about one-half of your total feed costs (one-third is half of two-thirds).

So, to get an estimate of your total costs, multiply total feed costs by 1.5.

Now comes the scary part. Calculate your income from milk and cattle sales. On many farms, income from sale of cattle amounted to 13

percent of the milk check

From your income figure, subtract your total expenses. The difference represents your margin of profit; this is what's left for the family, for savings, or for plowing back into your business.

Now, put yourself to the test to see what kind of economic fluctuations you can tolerate. Increase your total expenses by 10 percent (inflation) or reduce your income by 10 percent (herd health or fat test problems).

After taking out what you need for living, is your profit margin large enough to absorb these changes? If not, don't jump into a costly panic move. The temptation might be to take out a loan for expanding the herd in an attempt to improve cash flow. It will probably be more profitable, and more satisfying, to concentrate on improving herd production and margin of profit per cow first; getting bigger can

come later. It takes a good margin of profit per cow to survive these inflationary times.

The last thing you may need is additional debt load, unless it is for the purpose of improving herd performance.

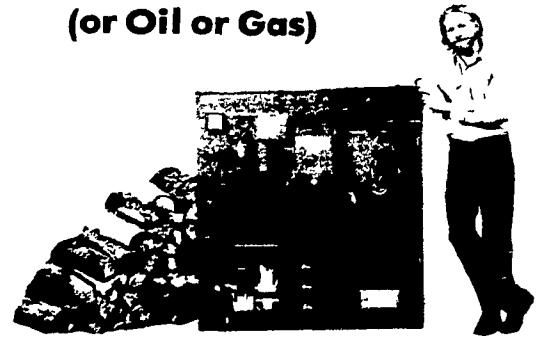
To illustrate this concept, increase milk income by 10 percent (representing a 10 percent increase in production) and increase feed expense by seven percent (as production increases, it takes more feed) and increase other expenses by 10 percent. Look at what this does to your profit margin — your survival ability.

Now let's see what could happen when you take out a 30-year mortgage to expand at a cost of \$2000 per cow. The annual cost of this loan will be about \$300 per cow added. If you take out a short term loan for purchasing the

(Turn to Page C35)

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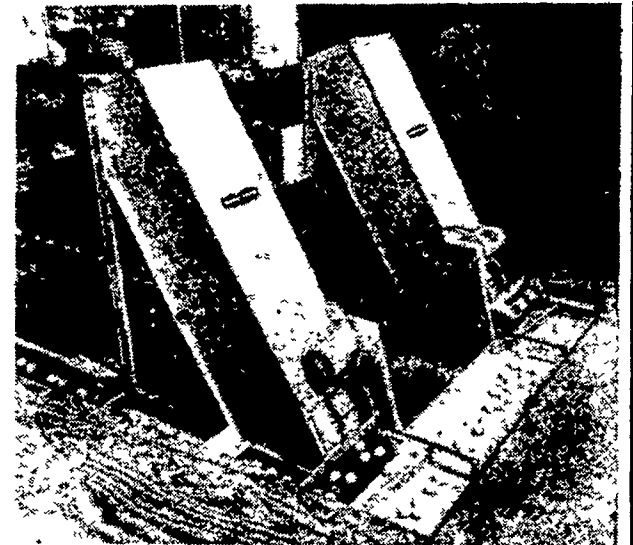
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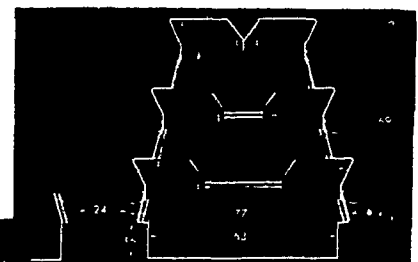
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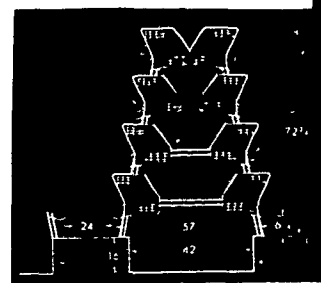
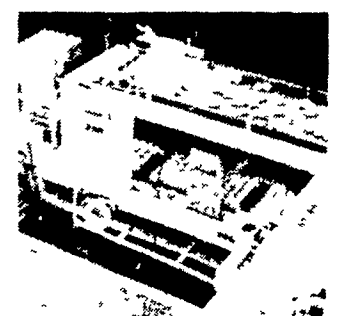
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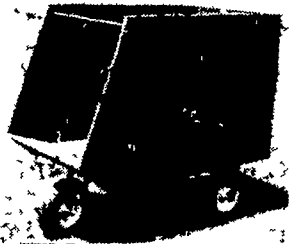
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