

# The Dairy Business

By Newton Bair

**IF YOU ARE PLANNING TO EXPAND**

Readers of "Hoard's Dairyman" will recall a recent article with the same title as this piece. The rest of the title was "Look Before You Leap". Before anyone accuses me of plagiarizing the above article, my intentions are to call your attention to the piece and try to focus attention on its message. The message is that any notions of expansion in the dairy business should be studied carefully and seriously—more so now than ever before.

The idea of doing a partial budget analysis to evaluate the effects of a change in your farm system is not new. We've been stressing the importance of this kind of exercise in our farm management classes for several

years. The trouble is, very few people like to work their way through the tedious calculations that are necessary.

The Hoard's article (found on page 1021, August 10, 1981) computes the cash flow effect of adding 10 cows to a 130-cow herd. It assumes no additional investment in housing or equipment — only cows. The dairyman plans to buy 10 cows at \$1,500 each, borrowing money at 15 percent interest. The budget analysis lists all credits from the expansion move on the side of "positive" effects, and likewise lists all debts on the "negative" side.

While the financial analysis does show an after tax cash balance of \$371 per cow, \$283 of this is calculated as depreciation, and therefore does not contribute to

actual cash flow. Even at his 16,000 pound production level, there is only \$88 per cow generated as actual cash flow—not enough to meet the short term debt repayment.

Now, if this doesn't cause you to scratch your head, consider another angle. Suppose the addition of more cows also will require extra investment in more housing, stalls and equipment. For 10 cows, the cost is a minimum of \$15,000, which amortized over 20 years at 15 percent interest will cost \$2396 per year, or \$239.60 per cow per year for 20 years.

Of course, the cost of the building and equipment will be regained in depreciation, but meanwhile, the loan must be repaid, with interest, out of the cash flow generated by the expansion move.

Now, let's mull over some of the risks involved. Due to the narrow profit margin and weak cash flow position, they are considerable. I realize that it's tough to predict some of the key variables like milk price, feed price and productivity of individual cows. But considering the present mood of the economy, and the 9 percent annual increase in milk production with no market expansion, the future is a little fuzzy.

Maybe I'm getting too conservative in my later years, but I would sure hate to see any of our good, young dairy producers bite off more than they can chew by assuming more debt and more work to service the debt. It will pay to take a sharp look at the risks of expansion in the dairy business at this time.

## Bollingers' dairy farm hosts Lebanon conservation 'open house'

LEBANON — An earthen type animal waste holding pond will be one of the conservation practices shown at the conservation open house to be held Tuesday afternoon, at 1 p.m. on the Harold and Donald Bollinger Farm.

Highlights of the day will be the demonstration of a vertical shaft pump. This equipment pumps manure from holding tank to an earthen holding pond. This recently installed facility, provides a means of manure management for the Bollingers 95-head dairy herd. The holding pond has been fenced with high tensile wire fence to prevent cattle and people from entering the area.

Other conservation practices on the farm are diversions to control

runoff from buildings, subsurface drainage to eliminate excess ground water, contour strips used to dispose of excess runoff and methods to prevent stream bank erosion.

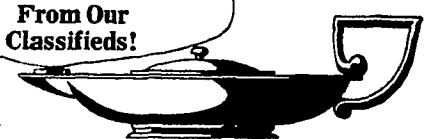
The Bollingers have been carrying out conservation program, with the assistance of the Lebanon County Conservation District, since December 1950, according to Tom Thomas, Conservation Technician with the Soil Conservation Service.

Thomas and other personnel from the Lebanon Soil Conservation Service, will be available to answer questions during the open house.

The Bollingers' farm is located one-half mile northeast of Kleinfeltersville on Millbach Road.

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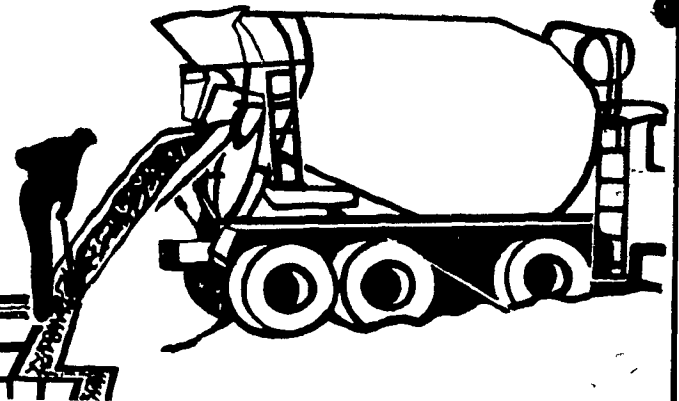
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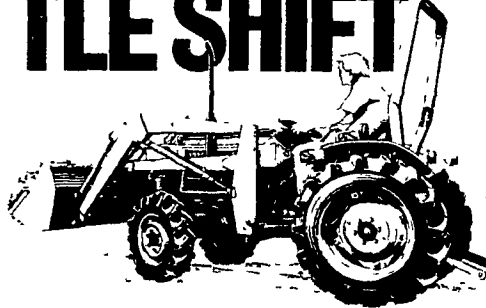
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