

# Dairy Pipeline

By  
Glenn A. Shirk  
Extension  
Dairy  
Agent

### What can over feed costs tell you?

Do you know how much your feeds are really costing you? You should, because feed is your largest item of cost in producing milk.

How close are your DHIA feed costs to your actual feed costs? Remember, your DHIA figures do not reflect feed losses, the cost of feeding heifers, nor the high cost of that expensive new harvesting equipment, feed storage and feeding equipment, you have recently purchased, or are thinking about purchasing.

How much profit is that cow that returns \$800 over feed costs really making for you? Maybe none! It could be that a cow returning \$1,200 over feed costs is only half as profitable as one returning \$1,600.

These are important questions for you to consider as you use your DHIA reports to evaluate individual cows in your herd, and to evaluate the overall efficiency of your dairy operation.

Now, while you are working on your farm tax returns, is a good time to find answers to these questions, and it really isn't too hard to do. Using your Form 1040F

divide your farm expenses into two general columns: those that are affected by the number of cows you have on the farm and those that would occur regardless of whether you had cows or not. The latter expenses, I'll refer to as overhead costs.

Now, divide those cow-related costs into two additional columns: feed-related and non-feed costs. The feed-related costs would include purchased feeds plus all those other costs associated with the growing, harvesting, storing and feeding of crops.

To illustrate this, I've taken the 1980 Pennsylvania Dairy Farm Business Analysis Summary figures for the 50-59 cow herds and allocated them—right or wrong—to one of three columns as shown below. Then, I compared them to our 1980 DHIA figures for Lancaster County. Remember, these are 1980 figures; they do not reflect today's costs and returns.

The average cow on test in Lancaster County in 1980 returned \$1,155 over feed costs. How much of that was true profit? We'll see in a minute.

Her DHIA feed costs were \$742; that is \$293 less than the figure

(\$1,035) in line 33, above, which includes the cost of feeding heifers. Other costs which she has to carry are non-feed cow-related costs (\$436) and overhead costs (\$241). When combined, these unaccounted for expenses total \$970 per cow! Subtract this from her \$1,155 return over feed cost, and we discover that she only made you \$185 profit per year!

In this example, a cow had to return \$970 over feed costs just to

break-even. What is the break-even figure for your farm? Plug in the costs, and savings, of any changes you anticipate in your cropping program, machinery purchases, construction of feed storage or housing facilities, or changes in the size of your heifer or cow herd to see how these changes would affect your break-even level.

Does this mean that your DHIA figures are worthless? On the

contrary! What it does mean is that you may want to change how you interpret your figures.

Correct your return over feed cost figures by the break-even figure, which you have calculated from your tax return for your farm. Then, you can compare the true profitability of one cow with another.

We discovered, in our example, that the \$1,155 return-over-feed-cost cow only made \$185 profit. That means a \$1,340 "return" cow would be twice as profitable (\$1,155 + \$185 = \$1,340), but you probably would not have concluded that from your first glance at your return over feed cost figures.

So, don't let Uncle Sam be the only one who benefits from all the time you spend on your tax return; you may as well benefit, too. Use it in conjunction with your DHIA reports as a guideline for more profitable culling and farm management decisions.

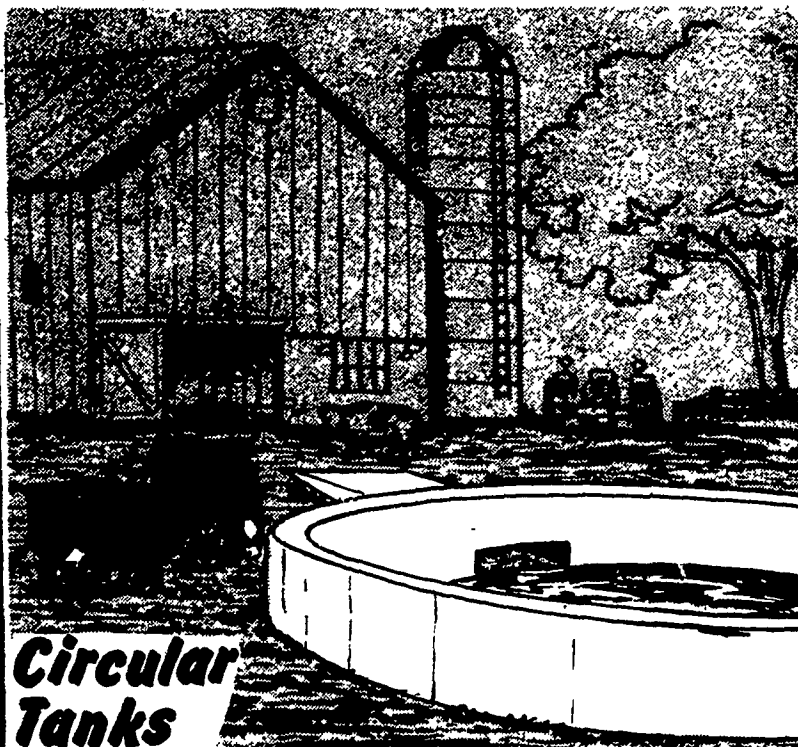
### COSTS AFFECTED BY COWS

Cost Item (Col. A)	Feed-Related (Col. B)	Non-Feed (Col. C)	Overhead Costs (Col. D)
1. Hired labor	\$4,500	\$651	
2. Breeding, testing		2,025	
3. Vet, medicine		1,584	
4. Livestock purchase		4,410	
5. Feed purchase	23,637		
6. Lime, fertilizer	7,248		
7. Supplies-crop	2,752		
8. Supplies-dairy		2,514	
9. Custom work	1,303		
10. Repair machinery	3,000		
11. Repair dairy equipment		1,088	
12. Repair-building			\$1,487
13. Truck-auto	473	400	
14. Gas, oil	3,000	1,357	
15. Utilities	500	1,651	
16. Rent	1,968		
17. Taxes			1,283
18. Buildings insurance			631
19. Cows, milk equipment		500	
20. Feed, machinery interest	500		
21. Buildings			3,717
22. Cows, equipment		2,500	
23. Feed, machinery depreciation	2,500		
24. Buildings			5,882
25. Cows, milk equipment		4,000	
26. Machinery	4,000		
27. Other	500	854	
28. TOTAL	\$55,881	\$23,534	\$13,000
29. No. Cows - 54			
30. Avg. per cow	1,035	436	241

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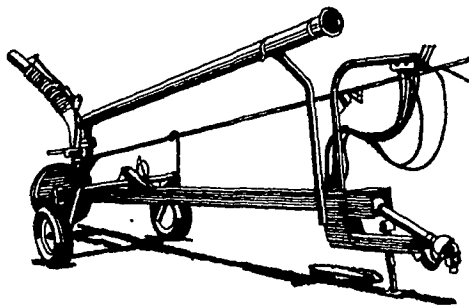
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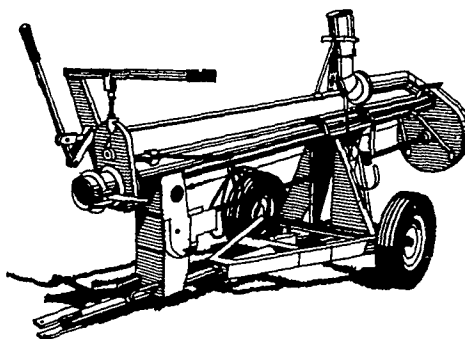
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