

**DAIRY FARM
MANAGEMENT
BASICS**

A Farm Management Course by
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Investment / Expansion Considerations

Be careful not to take on more debt than what the dairy can comfortably handle. Some guidelines are:

1. Limit debt load per cow. The guidelines listed below will vary, depending on economic conditions and management abilities. So push the pencil and determine what you can afford.
 - \$2,000 per cow with average production, management and cost control.
 - \$3,000 per cow with good production, management and cost control.
 - \$4,000 per cow with excellent production, management and cost control.

Debt servicing costs can take a big bite out of profit margins. See Table 1. Each \$1,000 borrowed per cow for 15 years at 8% interest costs \$115 per cow per year, or \$0.68 per cwt. milk when production is at 17,000 lb. per cow. Increase debt loads to \$3,000, and the cost per cow per year goes up to \$345.

Table 1. Cost of Servicing \$1000 of Debt per Cow

		5 Year Loan				
Interest Rates	Ann. Cost Per Cow	Cost per Cwt. of Milk at Various Productions				
		15,000	17,000	19,000	21,000	23,000
6	232	1.54	1.76	1.22	1.10	1.01
8	243	1.62	1.43	1.28	1.16	1.06
10	255	1.70	1.50	1.34	1.21	1.11
12	267	1.78	1.57	1.40	1.27	1.16

		10 Year Loan				
Interest Rates	Ann. Cost Per Cow	Cost per Cwt. of Milk at Various Productions				
		15,000	17,000	19,000	21,000	23,000
6	133	.89	.78	.70	.63	.58
8	146	.97	.86	.77	.70	.63
10	159	1.06	.94	.84	.76	.69
12	172	1.15	1.01	.91	.82	.75

		15 Year Loan				
Interest Rates	Ann. Cost Per Cow	Cost per Cwt. of Milk at Various Productions				
		15,000	17,000	19,000	21,000	23,000
6	101	.67	.60	.53	.48	.44
8	115	.77	.68	.61	.55	.50
10	129	.86	.76	.68	.61	.56
12	144	.96	.85	.76	.69	.63

When profit margins improve, debt levels can be increased about \$1,000 or so temporarily, to take advantage of opportune times to remodel or expand. Then, the goal should be to pay down debts quickly to a lower, more comfortable level and build additional equity before making the next jump. In other words, expand only at a rate you can afford. Don't get strapped so tight that you have no financial maneuverability.

2. Aim for a good quick return on your capital.

- Cattle are your best investment! See Table 2. Cows give a good quick return. Feed a cow today, and you get milk tomorrow. Cows also reproduce; no other asset does that! Heifers increase in value with age; most other assets depreciate in value.
- Keep the stalls filled with healthy, productive, profitable cows.

When buying cattle to expand the herd, think about how many of them will be culled within the first few months. Also think about how you are going to fill those empty stalls over the next 2-3 years, while you wait for their offspring to become old enough to enter the milking herd. Also ask yourself, why is the cow being sold, and do I really want her in my herd? In other words, be careful not to purchase problem cows that you'll regret later.

- Machinery and building purchases are expenses that should be minimized, but do invest in equipment and facilities that are essential to animal health, animal performance, animal longevity, and to improving the overall efficiency of the operation.

Table 2. Investment Ratings

Features	Cows	Heifers	Bldgs.	Mach.	Land
Good Return	++	+	--	---	+
Quick Cash	+++	-	--	---	+
Reproduce	+++	++	---	---	---
Gets Better	-	+	-	---	-
Holds Value	?	++	-	--	+++

ATTENTION DAIRY FARMERS!

TIRED of low milk checks? TIRED of unpaid bills?

*TIRED of hearing "THERE'S A SURPLUS...
BECOME MORE EFFICIENT...MAKE MORE MILK..."*

*TIRED of the small 10¢ to 15¢ incentives to stay
where you're at? Don't we need ourselves?*

ARE WE NOT WORTH MORE THAN CENTS?

FARMERS do we not have the product? (THE POWER IS IN THE TANK)

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We are now in 18 states and still growing!!

*ARMPPA is not a milk plant, but simply a price setting agency
striving to work with all existing milk handlers.*

ARMPPA is now working with farmers who want to price their milk before it leaves the farm.

LAST 40 YEARS PRICING HISTORY

(Based on M&W series and Basic Formula Price)

1963 - \$3.11

1973 - \$6.30

1983 - \$12.49

1993 - \$11.80

1997 - \$12.05

MEETINGS ARE AS FOLLOWS:

June 25, 1998

David Beiler, 160 Cedar Hill Road, Peach Bottom, PA • Time 8:00 p.m.

June 30, 1998

LANCO/ARMPPA, Brunnerville Fire House, Brunnerville, PA

Call if any questions and more meetings are in July

East Coast ARMPPA Office - 1-877-367-6455

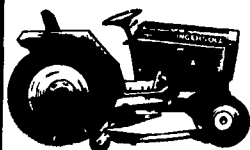
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