

**DAIRY FARM
MANAGEMENT
BASICS**

A Farm Management Course by
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Factors Affecting Farm Profits - Article 4

A number of factors can affect farm profits, some of which are

- Farming methods
- Size of business
- Management practices
- Income and expenses

This article will focus on farming methods. Other factors will be discussed in upcoming articles. There are many different ways to farm. How much capital you will need and what you will need it for, will be determined in part by the style of farming you choose.

The dairy industry is changing, and these changes may dictate a need for farmers to reexamine the way they do business. The traditional methods of the past may not be appropriate for the present or the future. So, explore the options, push the pencil, consider the pros and cons of the various options, and choose a style that fits you.

Rent vs. Buy If capital is tight, it will probably be more economical to rent rather than taking on a lot of debt to purchase your own farm. Rental payments generally are less than real-estate taxes and mortgage payments. Rent also is a tax deductible expense, principal payments on land are not.

Custom Hire vs. Owning, Operating and Maintaining Your Own Equipment Similarly, it will probably be cheaper to hire a custom operator to do some farm jobs rather than owning, housing, operating and maintaining your own machinery -- that is, if good operators are available when you need them. When you hire a custom operator, you are also hiring some part time help and some extra machinery, such as tractors, wagons, etc.

Leasing and Sharing vs. Purchasing and Maintaining Your Own Equipment Another option is to lease some of your equipment when you need it, rather than to buy it and have it sit idle for long periods of time. You can also share machinery with the neighbors in order to reduce capital expenditures.

Buying Feeds vs. Growing Them You also have the option of buying all your feed, or growing forages only and buying all your grain, or buying all your feed. The option you choose may depend on the amount of acreage you have, the amount of time you have for fieldwork, the amount of equipment you own or afford to own and maintain, or your costs of producing feed vs. the cost of buying it. Generally, you can buy grain almost as cheap as you can grow it, especially if you buy feed at harvest time when prices are generally more favorable. Having enough land to grow most of your feed is advantageous, but it may not always be available or affordable. Even if you have a lot of land, the time you spend in the barn with the cows may be more valuable than the time you spend in the fields. In that case you may want to hire crop labor, hire custom operators, or rent your land out and let someone else produce the feed.

Buying all Your Feed as a TMR Mix You could own your farm and dairy herd, but have someone else crop the land, store the feed, purchase the necessary feed ingredients, mix up the feed ration, and deliver it as a TMR to your farm daily. Through your TMR provider, you may have access to a greater variety of feeds, and at bulk discount rates. This eliminates your need for feed storage facilities and field machinery plus it could provide you the opportunity to earn additional income from other employment and ventures.

Grazing vs. Cropping If capital is short, you may want to consider grazing vs. cropping as a way to reduce capital requirements. Chances are, this may not make your life any simpler. You need to look at pasture as a crop, the goal of which is to get high yields of good quality feed at reasonable cost. This requires a lot of management skills. You always need to be monitoring pasture growth and grazing patterns in order to match pasture production with the herd's daily needs while also reducing pasture losses. You need to be continually asking yourself, where is the feed coming from tomorrow? next week? two months from now? when the pastures dry up? and next winter? What pasture species do I plant that will be high yielding throughout the year while being palatable to the herd? How do I maintain a thick productive stand? What size plot do I need today or how long should I leave cows in a given plot? What do I do with the small plots of excess growth that are a nuisance to bale? How can I manage pasture plots to reduce selective grazing and pasture wastage without depressing dry matter intakes and milk production? How do I get rid of manure? How do I get water to the pastures, and how do I maintain dry matter intakes in the heat of summer? How do I feed and manage the herd in a pasture system? How heavily do I rely on pastures for feed, and how much supplemental feeding do I do in the barn? How much production can I afford to give up, if any, relative to the costs I save?

Purchasing Replacements or Contracting Heifers vs. Raising Them If you are short on acreage on barn space or labor, you may want to purchase your replacements, or contract your heifers out for someone else to raise rather than raising them yourself. Maybe you don't like raising heifers and perhaps someone else could do a better job than you. This might cost you more than raising them yourself, but it also allows you to devote more of your land, labor and facilities to support a larger milking herd and perhaps earn more profit. Purchasing some replacements also is a way of improving or diversifying the genetics of your herd. You need to consider the cost of doing this plus you also need to be concerned about the quality of the job done by the heifer raiser, and about the risk of introducing new diseases to your farm.

Joint Ventures Would it be beneficial to unite with other dairy farmers in a joint venture of some sort to form a larger, more efficient, jointly-owned dairy business that consists of a herd and facilities? You could still own your farm but rent it to the business while working for the business and drawing a salary and then splitting the herd profits and losses at the end of the year. Rather than spend the same dollars remodeling your present facilities and possibly still not have a desirable setup, or building a new, small sized facility that matches the size of your farm, would it be more economical to join forces with other similar farmers to build a larger, more efficient operation? This also has the potential of letting the participating farmers specialize so they could do the things they are good at and enjoy doing for the overall good of the whole team. The farmers would have to be able to work together as a team, and if sometime in the future you want out of the business, you could sell your share in the dairy business and still retain ownership of your farm.

F.O. 4 July Milk \$14

ALEXANDRIA, Va. — Acting Market Administrator David Z. Walker recently announced for July 1998 a Class I price of \$14.11 per hundredweight and a Class II price of \$11.18 per hundredweight.

The Class I price could be affected by judicial action.

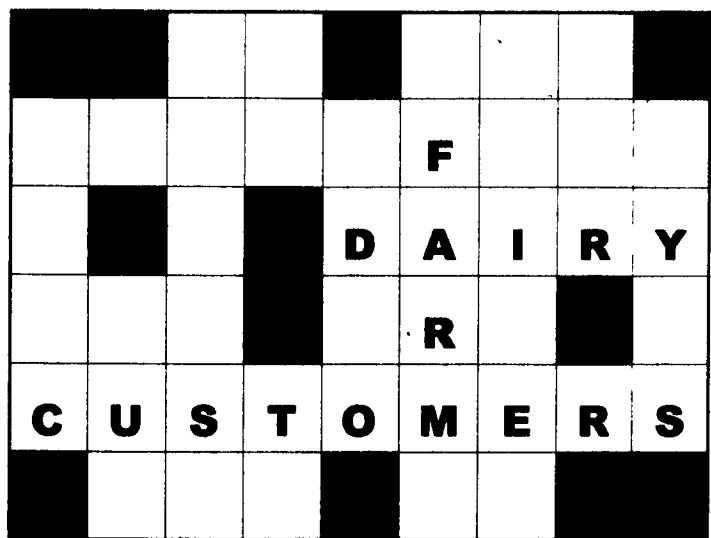
The July Class I price includes the 20-cent assessment for fluid milk promotion and consumer education. The Class I price and the Class II price are down \$1.13 from June but are 18 cents higher when compared to year earlier levels.

Mr. Walker announced a Class III milk price of \$10.78 per hundredweight for May 1998 and a Class III-A price of \$13.86 per hundredweight for the

month. The Class III price was down \$1.16 from the previous month, while Class III-A price, increased \$1.05.

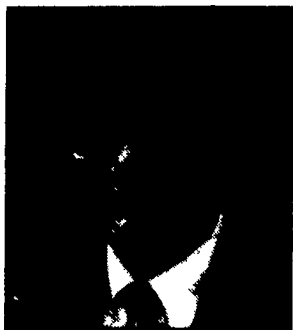
The July 1998 Class I and Class II prices and the May 1998 Class III price are based on the May 1998 basic formula milk price of \$10.88 per hundredweight at a 3.5 percent butterfat content. The May 1998 butterfat price was \$1.7966 per pound, up 30.69 cents from April. The May skim milk price per hundredweight was \$4.66.

The USDA reported that the wholesale price of Grade A butter at Chicago for May was \$1.4945 per pound on the mercantile exchange and the Central States nonfat dry milk price was \$1.0348 per pound.



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