

**DAIRY FARM  
MANAGEMENT  
BASICS**

A Farm Management Course by  
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Size of Business vs. Margin of Profit - Article 5

The last article looked at how farming methods can affect farm profits. This week we will focus on size of business and its impact on farm profits and profit margins.

Consider what size business you are capable of managing. As you get larger, remember you start managing more people, and you manage them differently than cows.

Getting better before getting bigger has many advantages, especially when cash flow and equity are limited. It requires less capital, it is less risky, and a smaller operation is easier to manage.

Well-managed smaller farms, with larger margins of profit per cwt. of milk, may be able to survive economic downturns better than a larger farm operating with a smaller margin of profit. Note: larger farms don't necessarily have smaller margins of profit. However, smaller margin of profit may result because of a recent expansion that involves larger debt payments. See Table 1.

Table 1 Profit Margins vs. Size (18,000 lb. of milk per cow)

Description	50-Cow Herd and Larger Margins			100-Cow Herd and Smaller Margins		
	per Farm	per Cow	per Cwt.	per Farm	per Cow	per Cwt.
Cwt milk shipped	9,000			18,000		
Original profit (\$30,000)	30,000	600	3.33	30,000	300	1.67
\$1.00 milk price drop	9,000	180	1.00	18,000	180	1.00
Revised profit	21,000	420	2.33	12,000	120	0.67

In this example, both farms had the same original profit of \$30,000. Then, milk price dropped \$1.00 per cwt. The larger farm experienced a larger drop (\$18,000 vs. \$9,000) because it had more cwt.'s of milk to take the hit. Consequently, the larger farm ended up with less profit (\$12,000 vs. \$21,000). A second \$1.00 drop would send the larger farm into a \$6,000 loss (\$12,000 - \$18,000), while the smaller farm would still have \$12,000 profit (\$21,000 - \$9,000). Conversely, if milk prices increase the larger farm would experience a greater increase in profit.

Getting better might be more profitable than expanding -- at least until the expansion loans are paid off. Situations will vary a lot from farm to farm, so push the pencil and use your own figures. The main point is consider profit margins as well as size, try not to let profit margins shrink to the point where you become extremely vulnerable to even the slightest changes in costs (i.e. feed) or returns (i.e. milk prices). If you do expand, get better before getting bigger, and be sure you are capable of managing a larger operation.

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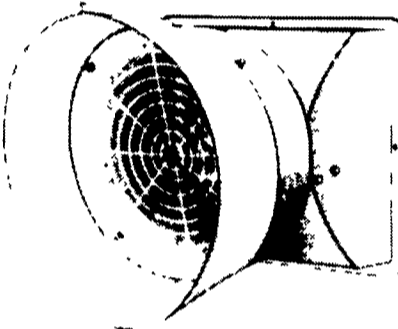
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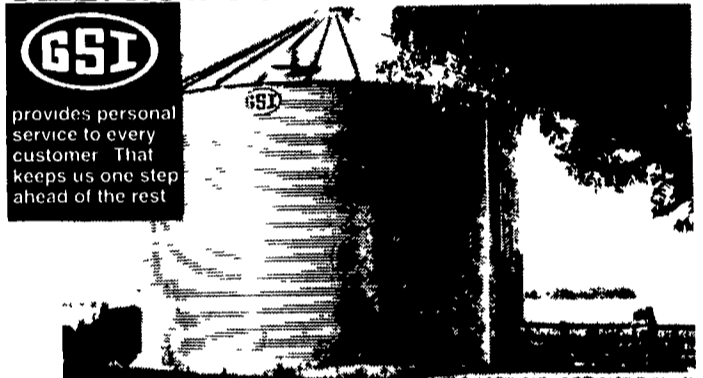
## Dairy Farm Management Basics

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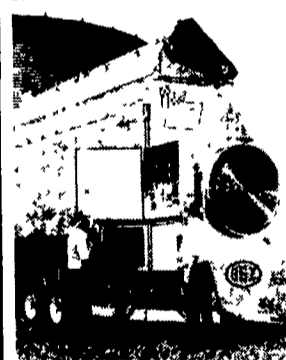


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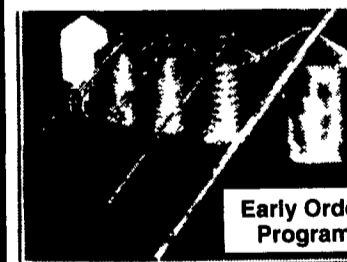
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