

Table 1 Pennsylvania Dairy Farm Income and Expense Averages

Year	Pennsylvania Dairy Farms			Your Farm
	1994	1995	1996	
No of farms	875	1288	1325	
Averages				
No of cows	72	76	78	
No of crop acres	219	212	198	
No of workers	2.22	2.23	2.23	
Cwt milk sold	12,248	13,012	13,293	
Milk per cow	17,011	17,121	17,042	
Milk per worker	551,712	583,498	6,099	

DAIRY FARM MANAGEMENT BASICS

A Farm Management Course by
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Business Benchmarks - Article 8

Article 7 focused on the importance of determining production costs and profit margins per cwt of milk shipped in an effort to make smart business decisions. You can also use this same information to compare your business with other businesses, we refer to this as benchmarking.

There are a variety of data bases that can be used as benchmarks. Some of them are:

- Other dairy farms that are similar to yours. The ag service people you deal with (accountants, veterinarians, feed industry reps and other consultants) may have summary information for farms they work with that are similar to yours. How do you compare with similar type operations in your area?
- Dairy producers in the top 25% bracket -- brackets such as profit per cwt milk, total farm profit, return on investment, output per worker or per cow, etc. This can help you see what it might take for you to get to that level -- and to determine if you want to be at that level. It also gives you the opportunity to compare your business with your stiffest competition. This kind of information might be available from the same sources listed above. Some is available on the internet. For example, an email source of U.S. Top Dairies Benchmarks is available at <http://www.epdnp.cornell.edu/81/>
- Dairy producers in your own state. In Penna. this information is found in the Annual Pennsylvania Dairy Farm Business Analysis Summary. This information is made available through the cooperative efforts of the Pennsylvania Farm Bureau and The Pennsylvania State University. Table 1 shows three years of data abstracted from these summaries by Dennis Ginder, Extension Farm Management Agent for Lancaster and Chester counties and Glenn Shirk, Extension Dairy Agent for Lancaster County. Keeping similar data for your farm enables you to compare your business to other farms in the state. With several years of data you can also monitor trends in your business. Are you making progress?
- Dairy producers elsewhere in the country. Dairy farms and situations other states and regions may be quite different from your farm or local situations. Never the less, these comparisons still help you see how you stack up with your competition in other parts of the country. One email source of regional Milk Costs and Returns is <http://www.econ.ag.gov/Briefing/fbc/cat/milk2.htm>. Some Wisconsin Farm Financial Benchmarks can be found at <http://www.wisc.edu/dairy-profit/>

When you compare your farm business with averages of other farms, keep in mind that you should strive to be better than average if you intend to stay ahead of the pack. Also, the average farm may bear little resemblance to your farm. Thus, you may want to focus on data for farms that are similar to yours, and farms that are in the top 25% performance category. What makes other non agricultural businesses successful? Can we learn something from them, and should we be benchmarking with some of them as well?

Farmers vary in the way they allocate production costs, and the style of dairying can affect how costs are allocated. For example, a farm with limited acreage will have higher purchased feed costs and lower cropping costs. Thus, it may be difficult for you to compare itemized costs of production with any degree of accuracy. It might be more accurate to compare categories of costs. For example, lump purchased feeds and crop related costs into one broad category of feed-related costs.

	Total		Total		Total		Total	
	Per Cwt	Per Cwt	Per Cwt	Per Cwt	Per Cwt	Per Cwt	Per Cwt	
Income:								
Milk sales	168,468	13.75	172,595	13.26	202,910	15.26		
Cattle sales	14,977	1.22	12,411	0.95	10,651	0.80		
Patronage refunds	0	0	0	0	0	0		
Dividends, interest	0	0	0	0	0	0		
Crop sales	3,788	0.31	5,273	0.41	6,166	0.46		
Custom work	1,520	0.12	1,523	0.12	1,631	0.12		
Misc. income	7,597	0.62	8,167	0.63	8,346	0.63		
Accts rec change	-423	-0.03	660	0.05	482	0.04		
Inventory inc								
Livestock	1,261	0.10	2,908	0.22	3,311	0.21		
Feed	112	0.01	7,507	0.58	1,353	0.10		
Supplies	65	0.01	87	0.01	467	0.04		
Total Income	197,365	16.11	211,131	16.23	235,177	17.69		
Expenses:								
Breeding, testing, reg	3,625	0.30	3,762	0.29	3,908	0.29		
Vet, medicine	4,433	0.36	4,705	0.36	4,980	0.37		
Livestock supplies	6,173	0.50	6,649	0.51	7,414	0.56		
Purchased livestock	4,566	0.37	4,956	0.38	5,118	0.39		
Utilities	5,431	0.44	5,470	0.42	5,866	0.44		
Purchased feed	44,142	3.60	44,897	3.45	60,647	4.56		
Crop seed, supplies	8,616	0.70	8,970	0.69	11,434	0.86		
Fertilizer, lime	5,718	0.47	6,386	0.49	6,844	0.51		
Fuel, oil	4,695	0.38	4,625	0.36	5,608	0.42		
Repairs - mach, equip	10,079	0.82	9,835	0.76	11,211	0.84		
Hired labor	13,290	1.09	13,293	1.02	14,121	1.06		
Custom work	3,288	0.27	3,423	0.26	3,960	0.30		
Truck, auto	1,307	0.11	1,354	0.10	1,395	0.10		
Hauling	0	0	0	0	0	0		
Marketing	11,356	0.93	11,951	0.92	10,800	0.81		
Rent, leases	7,380	0.60	9,679	0.74	11,256	0.85		
Repairs - buildings	2,801	0.23	2,694	0.21	3,166	0.24		
Taxes	3,028	0.25	2,785	0.21	3,055	0.23		
Insurance	4,151	0.34	4,085	0.31	4,208	0.32		
Misc expense	3,255	0.27	3,666	0.28	4,344	0.33		
Accts payable change	297	0.02	570	0.04	-223	0.02		
Inventory decreases								
Livestock	0	0	0	0	0	0		
Feed	0	0	0	0	0	0		
Production suppl	0	0	0	0	0	0		
Total Expenses¹	147,631	12.05	153,755	11.82	179,112	13.48		
Net Farm Income²	49,734	4.06	57,376	4.41	56,065	4.21		
Adjustments:								
+ Non farm income	11,469	0.94	11,056	0.85	12,772	0.96		
Family living exp	24,941	2.04	32,721	2.51	37,155	2.80		
Avail. for Debt Pay	36,262	2.96	35,711	2.74	31,682	2.38		
interest payments ²	10,112	0.85	10,702	0.82	11,622	0.87		
principal payments ²	34,831	2.84	35,801	2.75	38,879	2.93		
Estimated Excess	8,981	-0.73	10,792	0.83	18,819	1.42		

Footnote #1 Depreciation was excluded because it may not accurately reflect cash flow.
 Footnote #2 Net farm income reflects profit before debt payments. Interest and principal payments are shown later and compared to funds available for debt payment.
 Footnote #3 Principal payment data was not available for 1995 and 1996, therefore, they were extrapolated from actual interest payments by keeping the ratio of principal to interest the same as for 1994.

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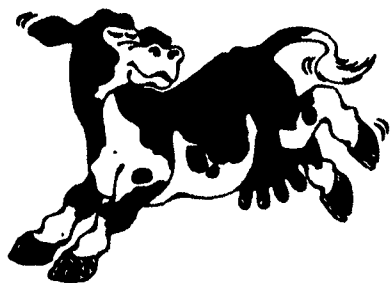
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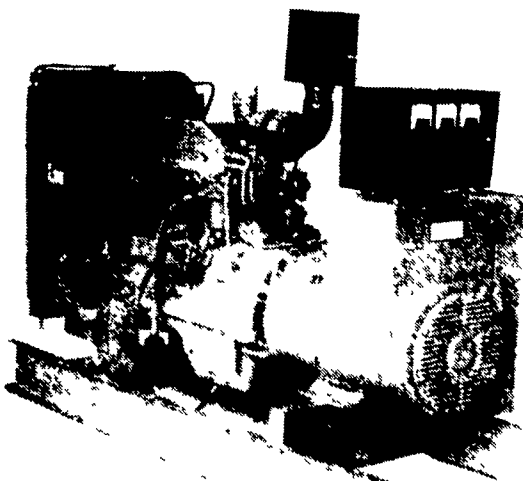
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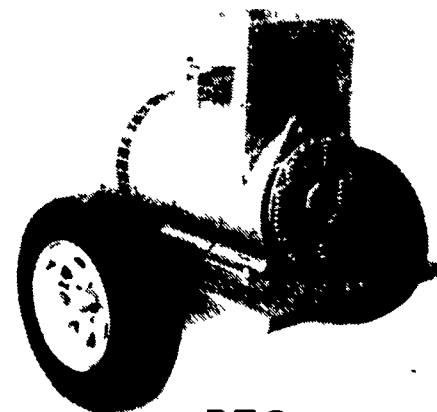
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