



# The Center Spotlight

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## Value of Knowing Costs is Three-Fold for Franklin Co. Producer

*Editor's Note: This is part of a monthly series of timely articles and information from the Center for Dairy Excellence, a non-profit organization focused on strengthening Pennsylvania's dairy industry.*

HARRISBURG, Pa. — Chris Brechbill, who with his father Sherwin is a partner at Brechland Farms in Chambersburg, wishes he knew in 2008 what he knows now.

"Milk prices were good, and we had plenty of money in our checkbook," he said. "But if we would have been tracking our cost of production as closely as we do now, we probably wouldn't have spent all of the money we did."

In June 2009, Brechbill started tracking the cost of production (COP) on their 600-cow dairy on a monthly basis, with the help of the "Dairy Profit Analyzer," which is a tool they access through AgChoice Farm Credit.

"Each month I send my accounting reports, along with my production and cow data, to AgChoice, and they run it through the Dairy Profit Analyzer, which gives me my cost of production on a monthly total basis, per-cow basis and per-hundredweight basis," he said. "It also gives me a rolling average cost of production and a year-to-date cost of production."

For Brechbill, knowing those numbers has helped him make better decisions and keep closer track of his expenses. "We are also able to compare our farm to other farms of similar sizes and see what numbers are out of line. That's been very helpful."

### Three Reasons to Know Cost of Production

"Using Dairy Profit Analyzer to track my cost of production has been one of the best business decisions I have made," Brechbill said. "It is very simple to use, and it has helped us keep track of the numbers a lot better."

Three key ways Brechbill has used the data he receives monthly are with his lender, in making risk management decisions, and in finding problem areas.

"We moved into a new facility a couple of years

ago and we are leveraged some," he said. "The reason why we started monitoring our cost of production closer is because our lender was interested in keeping a closer track on us. Now when someone asks for that number, we have it."

"Also, as contracting opportunities become available, you have to know what your cost of production is. If you don't know what your costs are, how are you going to know when to lock in a price?"

The third benefit of knowing their cost of production has been the ability to compare Brechland Farms to other dairies. "Data from the 30+ farms participating is shared anonymously, and we can see when either our fixed costs or our variable costs are out of line."

For example, in 2008, the Brechbills spent about \$240,000 more than they budgeted on feed. "We were pushing a lot of feed into our cows to get higher production, and I think I just wasted a lot of money," Brechbill said. "That was a huge variable cost that, if I was tracking my COP more closely, I could have reigned in more."

### Resources to Monitor Your COP

The Business Management Committee of the Pennsylvania Dairy Task Force has identified knowing your cost of production as one of several key strategies that should be part of every dairy farm business' plan in 2010.

"Knowing your cost of production is essential to gauging your breakeven costs, setting goals for continued improvement, and making risk management decisions," said John Frey, executive director of the Center for Dairy Excellence.

However, calculating your cost of production can seem like a daunting task for many. Programs like the "Dairy Profit Analyzer," available to Farm Credit customers, can help simplify the process.



*Chris Brechbill, here with his son Aidan, is a fifth generation dairy producer who works with Farm Credit to monitor cost of production monthly on Brechland Farms, a 600-cow dairy in Chambersburg.*

Resources available from the Center for Dairy Excellence and Penn State Dairy Alliance can also make it easier for dairy farm families to calculate their cost of production.

Recently the center has worked with MSC Business Services and a subgroup of the Business Management Committee to publish a "Cash Flow Cost of Production" worksheet, available both as a computerized Excel spreadsheet and in long-hand form, to help producers quickly calculate their Cash Flow COP using numbers readily available to them.

That tool, along with links to COP and cash flow planning resources available from Penn State Dairy Alliance, is available on the center's Web site at [www.centerfordairyexcellence.org](http://www.centerfordairyexcellence.org). Click on "Producer," then on "Determine My Cost of Production" to learn more. Or call the Center for Dairy Excellence at 717-346-0849 to receive a copy of the worksheet.

## State Milk Production Falls for First Time in Seven Months

HARRISBURG, Pa. — For the first time since May, total milk production in Pennsylvania is down, falling 1.6 percent from a year ago. The decrease

was driven by a 9,000-cow year-over-year decline in the state's herd size, according to the latest *Pennsylvania Dairy Industry Performance Scorecard*.

Daily milk production per cow held steady at 60 pounds per day, while the state's rolling herd average fell 0.3 percent to 10.535 billion lbs.

Pennsylvania Dairy Industry Performance Scorecard Summary	January 2009 Report	January 2010 Report	Change from last year	Target range
Commercial Dairy Operations	7,670 Farms	7,400 Farms	-3.5%	
Milk Cows	550,000 cows	541,000 cows	-1.6%	
Rolling 12-Mo. State Milk Production	10.572 bill. lbs.	10.535 bill. lbs.	-0.3%	10.8 bill. lbs.
Wholesale Milk Price	\$16.20/cwt.	\$18.30/cwt.	+13.0%	
PA Daily Feed Costs (cost of corn, soybean & hay at 65 lbs. milk)	\$6.66/cwt.	\$5.98/cwt.	-10.2%	
Milk Production/Cow/Day	60 lbs.	60 lbs.	—	80 lbs.
% of Herds with 80+ lbs./cow/day	12%	12%	+0.8%	
Rolling 12-mo. Herd Production Average	21,097 lbs.	20,888 lbs.	-1.0%	25,000 lbs.
Average Somatic Cell Count	290,000	257,390	-11.2%	200,000
% of Herds below 200,000 SCC	34%	42%	+24.2%	
Average Days In Milk	185 Days	182 Days	-1.7%	185 Days
Average Age to First Calving	25.5 months	25.5 months	-0.1%	21—24 mo.
Average Days to First Service	90 Days	89 Days	-0.6%	< 80 Days
Average Cull Rate (% left herd)	33.3%	33.9%	1.0%	20—35%
Average Pregnancy Rate	17.88%	17.69%	-1.1%	> 20%
To view complete scorecard, visit:	<a href="http://www.centerfordairyexcellence.org">www.centerfordairyexcellence.org</a>			

Pennsylvania lost 270 commercial dairy farms in 2009, or 3.4 percent of its total herd base, compared to a national decrease in total farms of 3.9 percent. About 91 percent of the farms exiting the business nationwide had less than 100 cows, with those farms larger than 100 cows now responsible for producing 85 percent of the nation's milk supply.

### Management continues to improve

Pennsylvania's dairy farms continue to show strength in management. Somatic cell counts for the state are down 11.2 percent in January, with nearly 42 percent of the state's state DHIA herds averaging below 200,000 SCC.

Average days in milk, age to first calving, and days to first service continue to improve as well. The average days in milk is below the benchmark level at 183 day.

### Resources Available

For those who are looking for help to better manage their business and improve profitability, the Center for Dairy Excellence offers several resources. Links to those resources can be found on the center's Web site at [www.centerfordairyexcellence.org](http://www.centerfordairyexcellence.org).

Click on "Producer," then on "Improve Profitability." Or call the center at 717-346-0849.