



The Center Spotlight

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Cost of Production Key to Managing Dairy Business

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. — Do you know what the most important number is on your dairy farm? It is not how many cows you have or what your herd average is. It is not your somatic cell count, pregnancy rate or cull rate. It is your cost of production or your COP, a number that can make the difference between profits and losses on any dairy farm.

In April, Joanna Samuelson from Farm Credit East provided highlights of the "2009 Northeast Dairy Farm Summary" during a Mastering the Dairy Business conference call hosted by the center.

The summary compiles data from 544 dairy farms in the Northeast to compare best management practices that lead to greater profitability. In this year's summary, the cost of production on individual farms ranged from less than \$9.50 per hundredweight to greater than \$26.50 per hundredweight.

So what accounted for the difference, and what can individual farms do to lower their COP?

Knowing Your COP Is The First Step

Mike Hosterman, a dairy business consultant with AgChoice Farm Credit, says knowing your COP is about profit, not cash flow. "Long-term, we need strong profits to help assure positive cash flow. A low cost of production can stimulate profits long term, which can help producers more easily structure debt to cash flow."

Mike says the first step in calculating your COP is having good records. "It takes a good beginning and ending balance sheet, and a thorough income statement," he explains. "You can do it from your tax return, but you do have to consider depreciation and deferred income that can skew the numbers."

"You need to make sure all income is accounted for, all expenses are paid, and a reasonable number is included for depreciation. Probably, one of the easiest ways to do it is to use one of the tools available

through Penn State or MSC Business Services."

The chart to the right provides a simple outline of the costs that are included in a dairy farm's cost of production. Production related expenses include feed, labor, interest the farm is paying on debt, marketing costs such as hauling and cooperative dues, and other expenses such as dairy supplies, breeding costs, and veterinary services. A farm's cost of production should also include depreciation expenses and family living costs. Farms that have non-milk income, such as grain crop or livestock sales, should deduct that from their COP.

"I always encourage producers to first attempt to figure out their cost of production, then sit down with someone to review it," Hosterman says. "Getting the right number may require asking someone for help."

Barriers to Lowering COP

Hosterman says the most common factor driving up a farm's cost of production is low milk production. "The farm just isn't getting enough milk out of the cows to cover its costs," he says. "Not running at capacity — 80 cows in a 100-stall barn — can also drive up a farm's cost."

Poor forage quality can also be a factor. "If you have poor crop yields or poor forage quality, that can lead to lower production or higher input costs, driving up your COP."

High family living expenses and excessive debt can also drive up a farm's cost of production. "One thing we need to remember is it's misleading to only look at cost of production for one year," Hosterman says. "You should really look at it over a three-year period to get an accurate number."

Hosterman also says that farms can lower their

Do you know how your farm compares to the average?

*From NE Dairy Farm Summary	All-Farm Average	Your Farm's Average
Production Expenses:	Per Hundredweight	Per Hundredweight
Feed	\$5.58	
Labor	\$2.88	
Interest	\$0.55	
Marketing	\$0.93	
Crop	\$1.12	
Other	\$5.78	
Total Production Expenses	\$16.84	
+Depreciation Expense	\$1.32	
+Family Living	\$0.74	
Total Costs	\$18.90	
- Non-Milk Income	\$3.37	
Net Cost of Production	\$15.53	

cost of production with good heifer replacement programs. "If you are doing a good job with your heifers, you get that internal herd growth, leading to greater profits."

Find resources to calculate your COP

The Center for Dairy Excellence has links to resources provided by both Penn State and MSC Business Services on its Web site. Dairy producers and others interested in cost of production can visit the website at www.centerfordairyexcellence.org. Click on "Producer," then on "Determine My Cost of Production."

Audio and presentation materials from Samuelson's call is also available on the center's website. Click on "Listen to past Mastering the Business Conference Calls" at the middle of the home page to find the materials.

Pennsylvania Gains Market Share of U.S. Milk Supply

HARRISBURG, Pa. — Pennsylvania's market share of the U.S. milk supply is up 1.3 percent since last year, according to the latest Pennsylvania Dairy

Industry Performance Scorecard, published monthly by the Center for Dairy Excellence.

Milk production in the commonwealth is up 2.8

percent from a year ago, driven by a 4-percent increase in daily milk production per cow, now at 66 pounds per day.

Pennsylvania's dairy farms continue to show improvements in milk quality, reproduction and other key herd management areas. Milk prices and milk margins are up from last year. However, both the milk price and milk margin are down about 4 percent from a month ago.

Resources for dairy farms

The Center for Dairy Excellence has several resources available to help dairy farms improve milk production and enhance key management areas. Two of those resources are the "On-Farm Dairy Resource Team" and the "Practical Dairy Advisor" programs.

The center recently introduced a new program to help dairy producers evaluate their options for future farm viability. That program, called the "Dairy Decisions Consultant" program, offers funding to hire a consultant to help with key decision making.

To learn more about these and other resources available from the center, dairy farm families are encouraged to call 717-346-0849 or visit www.centerfordairyexcellence.org.

Resources for dairy farms are listed under the "Producer" section of the web site. Questions can also be e-mailed to info@centerfordairyexcellence.org.

Pennsylvania Dairy Industry Performance Scorecard Summary	April 2009 Report	April 2010 Report	Change from last year	Target range
Milk Cows	549,000 cows	541,000 cows	- 1.5%	
Rolling 12-Mo. State Milk Production	10.524 bill. lbs.	10.576 bill. lbs.	+0.5%	10.8 bill. lbs.
Wholesale Milk Price	\$13.40/cwt.	\$16.20/cwt.	+20.9%	
PA Daily Feed Costs (cost of corn, soybean & hay at 65 lbs. milk)	\$6.23/cwt.	\$5.44/cwt.	- 12.7%	
Milk Margin (IOFC @ 100# of Milk)	\$7.17/cwt.	\$10.76/cwt.	+66.6%	
Milk Production/Cow/Day	63 lbs.	66 lbs.	+4.0%	80 lbs.
% of Herds with 80+ lbs./cow/day	17%	21%	+24.9%	
Rolling 12-mo. Herd Production Average	20,935 lbs.	20,813 lbs.	- 0.6%	25,000 lbs.
Average Somatic Cell Count	268,500	258,570	- 3.9%	200,000
% of Herds below 200,000 SCC	38%	41%	+7.9%	
Average Days In Milk	186 Days	181 Days	- 2.7%	185 Days
Average Age to First Calving	25 .5 months	25.5 months	—	21—24 mo.
Average Days to First Service	90 Days	89 Days	- 1.1%	< 80 Days
Average Cull Rate (% left herd)	33%	34.3%	3.5%	20—35%
Average Pregnancy Rate	17.84%	18.73%	5.0%	> 20%
To view complete scorecard, visit:	www.centerfordairyexcellence.org			