

Dairy Enterprise – 2,400 Lactating Cows (Freestall)

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Production Level

Costs per unit and net returns in a dairy enterprise are highly dependent on the level of milk production. Production levels vary for a number of reasons such as livestock genetics, weather, input levels, and management. Budgeting at multiple production levels can help producers examine the financial risk of a livestock enterprise that is directly related to production risk. Table 1 shows milk production levels and income over feed costs from the Heart of America DHIA Summary of Holstein Herds for the last 5 years broken down by quartile of rolling herd average. The following estimated budget includes two production levels – 20,000 and 25,000. The 20,000 pounds reflects producers that are average; whereas, the 25,000 pounds is intended to reflect production levels of the top 10-20 percent of producers. The projected budget at the two production levels is presented on both a per-cow and a per-hundredweight (cwt) of milk production basis.

Capital Requirements

Capital invested in dairy facilities varies greatly depending on herd size and degree of mechanization. The capital needed to establish a new 2,400 lactating cow dairy operation with modern equipment using freestall housing is estimated to be \$13,220,300 with another \$3,879,840 for the cows. This budget is based on a total herd size of 2,832 cows, with 2,400 cows (85 percent of the herd) being milked at any one time. Thus, the total facility investment equates to \$5,508 per lactating cow and \$4,668 per total cow (lactating and dry) in the herd. Because investment in facilities can vary tremendously between operations, sensitivity analyses tables are included to show returns at various levels of facility investment versus milk price (Table 3) and facility investment versus milk production (Table 4).

Feed Costs

Dairy cows require high quality forage and grain. Concentrates and grain requirements increase as milk production increases. Feed efficiency, measured as pounds of milk production divided by pounds of dry matter feed consumed, is generally in the range of 1.4 to 1.6 with more productive dairies being on the high end of this range and lower producing dairies on the lower end. Efficiencies of this magnitude indicate that the value of increased production generally will offset the added feed cost associated with the higher production levels. Feed costs vary significantly over time due to the price of feed ingredients, but feed is consistently the most important factor in the cost of production. Feed costs are based on market prices, thus, for dairy operations that produce some, or all, of their grain and forage requirements this allocates the cost of producing the feed to the dairy enterprise. Because feed costs are so important, it is useful to examine how varying feed prices impact economic returns. Table 2 shows how the return on investment (Line G in the budget) is impacted by both feed and milk prices.

Returns

Producers receive income primarily from the sale of milk. Additional income is received from the Market Income Loss Contract (MILC) payment if national prices are below a target level, sale of calves and culled breeding stock, and the possible sale of manure (or value captured if used on producer owned land). In this budget, it is assumed that replacement heifers are purchased and thus all calves are sold. It is further assumed that slightly over one-third (34 percent) of the cows are replaced each year due to culling and death loss. Cull income is assigned to 27.5 percent of the herd annually. The other 6 percent represents death loss and cows with no salvage value. Because milk sales make up the majority of income, returns are very sensitive to milk prices. Table 2 shows the return on investment (Line G in the budget) at varying feed and milk prices. Similarly, Table 3 shows the return on investment at varying milk prices and facility investment values.

Table 1. *Heart of America DHIA Summary for Holstein Herds, 2004–08*

Year	Bottom 25%	Rolling herd average quartile		Top 25%
		Lower middle 25%	Upper middle 25%	
Average Milk Production, lbs/cow/year				
2004	15,239	18,781	20,703	23,952
2005	16,116	19,437	21,657	24,758
2006	16,083	19,276	21,434	24,796
2007	15,456	19,224	21,360	24,604
2008	15,129	18,863	21,121	24,044
Average Income Over Feed Cost, \$/cow/year				
2004	\$1,359	\$1,799	\$1,936	\$2,447
2005	\$1,389	\$1,734	\$2,145	\$2,434
2006	\$981	\$1,275	\$1,611	\$1,920
2007	\$1,531	\$2,159	\$2,448	\$2,893
2008	\$1,577	\$2,248	\$2,542	\$3,012

Information Included in Budget – 2,400

Lactating Cow Dairy

1. **Milk sales:** based on the annual production per cow times base milk price of \$16.32/cwt.
2. **Volume premium:** dairies that can ship milk in semi loads at a time often get a premium based on volume. A premium of \$1.00 per cwt. is included for a 2,400-cow dairy.
3. **Government payment (MILC):** the Market Income Loss Contract payment is based on 45 percent of the difference between \$16.94 per cwt (adjusted for feed cost) and the monthly Boston Class I milk price on up to 2.985 million pounds of annual production per dairy operation.
4. **Calves sold:** based on a 95 percent calf crop and selling all calves (heifers and bulls) at birth.
5. **Cull cows sold:** assumes cull income is realized on 27.5 percent of the herd even though 34 percent of the herd is replaced annually. The 6 percent with no income represents cow death loss and cows with zero salvage value.
6. **Manure credit:** based on nitrogen (N) and phosphate (P_2O_5) excreted per cow that would be available the following year for crop production valued at \$0.39/lb of N and \$0.44/lb of P_2O_5 less an application cost of \$0.01/gallon.
7. **Feed:** includes total feed for the dairy cow on an annual basis. Feed costs are based on a feed efficiency (lbs of milk divided by lbs of dry matter feed) of 1.44 and 1.55 for the 20,000 and 25,000 production levels, respectively.
8. **Labor:** based on 25 full-time persons at an average of \$38,000 (salary + benefits) per person divided by the number of cows in the herd.
9. **Veterinary, drugs, and supplies:** costs for prevention and treatment of disease, and general supplies.
10. **Somatotropin:** costs for rbST based on annual doses per cow of 0.0 (not used) and 14.4 (75% of labeled rate) for the 20,000 and 25,000 production levels, respectively.
11. **Utilities and water:** telephone, electricity, fuel, and water costs allocated to the dairy enterprise.
12. **Fuel, oil, and auto expense:** share of the farm car and trucks plus gasoline, diesel, and oil for scraping and hauling manure and for hauling feed to the dairy herd.
13. **Milk hauling and promotion costs:** milk-hauling costs at \$0.85/cwt. and promotion costs at \$0.25/cwt.
14. **Building and equipment repairs:** annual building and equipment repairs allocated to dairy enterprise calculated as 2.5 percent of the total investment.
15. **Breeding/genetic charge:**
 - a. **Capital replacement:** price of a heifer replacement (\$1,370) times the replacement rate (34%).

- b. **Semen, A.I. services, and supplies:** includes semen, artificial insemination services, and supplies.
- c. **Interest:** interest is charged on the value of the breeding herd, which is based on the cost of replacement heifers entering the herd.
- d. **Insurance:** averages approximately 1 percent of the value of the breeding herd.
16. **Professional fees (legal accounting, etc.):** business costs allocated to the dairy enterprise.
17. **Miscellaneous:** miscellaneous costs (subscriptions, education, etc.) allocated to the dairy enterprise.
18. **Depreciation on buildings and equipment:** depreciation is based on the total original cost less the salvage value of buildings and equipment on a per cow basis divided by the estimated life. The budget value is based on a total investment of buildings and improvements of \$4,275 per cow and an investment of \$375 per cow for equipment. The useful life is assumed to be 15 years for buildings and improvements and 7 years for equipment. A salvage value of 10 percent is assumed on buildings and improvements and equipment.
19. **Interest on land, buildings, and equipment:** interest is charged on the land investment at a rate of 5 percent and one-half the average investment [(initial cost + salvage value) ÷ 2] for buildings and improvements and equipment at a rate of 7.5 percent.
20. **Insurance and taxes on land, buildings and equipment:** insurance on buildings and equipment is based on the original cost times 0.25 percent, taxes are based on 1.5 percent of the original cost for buildings and improvements and 0.35 percent for land.
21. **Interest on operating costs:** calculated on one-half of operating costs at a rate of 7.5 percent.
- E. **Breakeven milk price to cover total costs:** represents the price needed for milk per cwt. to cover total costs of production. Assumes MILC payment, calf and cull income, manure credit, and all costs remain constant.
- F. **ASSET TURNOVER:** (gross returns per cow divided by total assets) asset turnover is the percentage of total investment recovered by total returns. Inverting this measure allows different enterprises to be compared on the basis of capital required to generate a dollar of gross income.
- G. **NET RETURN ON ASSETS:** [(returns over total costs + interest on breeding herd + interest on operating costs + interest on land, buildings, and equipment) ÷ assets] net return on assets is the percentage return on investment capital (both borrowed and equity). This measure enables comparisons to be made between enterprises as well as other investment alternatives.

**COST-RETURN PROJECTION — 2,400 LACTATING COW FREESTALL DAIRY
(REPLACEMENTS PURCHASED¹)**

	Production Level (lbs milk sold)				Your Farm
	20,000	25,000			
	Per cow	Per cwt	Per cow	Per cwt	
RETURNS PER COW:					
1. Milk sales @\$16.32/cwt	\$ 3,263.77	\$ 16.32	\$ 4,079.71	\$ 16.32	
2. Volume premium	200.00	1.00	250.00	1.00	
3. Government payment (MILC).....					
4. Calves sold: 95% × \$199/head.....	188.87	0.94	188.87	0.76	
5. Cull cows sold: 1,350 lbs × 28% × \$47.51/cwt	179.59	0.90	179.59	0.72	
6. Manure credit	7.23	0.04	4.59	0.02	
A. GROSS RETURNS	\$ 3,839.46	\$ 19.20	\$ 4,702.76	\$ 18.81	
COSTS PER COW:					
7. Feed	\$ 1,620.23	\$ 8.10	\$ 1,856.96	\$ 7.43	
8. Labor	335.45	1.68	335.45	1.34	
9. Veterinary, drugs, and supplies	130.00	0.65	140.00	0.56	
10. Somatotropin (rbST)	0.00	0.00	82.93	0.33	
11. Utilities and water.....	122.65	0.61	125.47	0.50	
12. Fuel, oil, and auto expense.....	63.00	0.32	63.00	0.25	
13. Milk hauling and promotion cost	220.00	1.10	275.00	1.10	
14. Building and equipment repairs	116.25	0.58	116.25	0.47	
15. Breeding/genetic charge:					
a. Capital replacement: 34% × \$1,370/head	465.80	2.33	465.80	1.86	
b. Semen, A.I. services, and supplies	42.00	0.21	52.50	0.21	
c. Interest	102.75	0.51	102.75	0.41	
d. Insurance.....	13.70	0.07	13.70	0.05	
16. Professional fees (legal, accounting, etc.).....	12.71	0.06	12.71	0.05	
17. Miscellaneous	17.66	0.09	22.66	0.09	
18. Depreciation on buildings and equipment	235.22	1.18	235.22	0.94	
19. Interest on land, buildings, and equipment	207.01	1.04	207.01	0.83	
20. Insurance & taxes on land, buildings, & equipment	75.82	0.38	75.82	0.30	
B. SUB TOTAL	\$ 3,780.24	\$ 18.90	\$ 4,183.22	\$ 16.73	
21. Interest on ½ operating costs @ 7.5%	95.61	0.48	108.65	0.43	
C. TOTAL COSTS PER COW	\$ 3,875.85	\$ 19.38	\$ 4,291.87	\$ 17.17	
D. RETURNS OVER TOTAL COST (A-C).....	\$ -36.39	\$ -0.18	\$ 410.89	\$ 1.64	
E. BREAKEVEN MILK PRICE, \$/cwt.....	\$ 16.50			\$ 14.68	
22. Lactating cow feed cost, \$/head/day.....	4.71		5.46		
23. Dry cow feed cost, \$/head/day.....	1.94		1.94		
F. ASSET TURNOVER (A ÷ Assets)²	63.6%		77.9%		
G. NET RETURN ON ASSETS					
[(D + 15c + 19 + 21) ÷ Assets] ²	6.11%		13.73%		

¹ For cost of raising replacement heifers see MF-399.

² Assets equal total value of breeding herd and land, buildings and equipment.

Table 2. Sensitivity of Return on Investment (Line G) to Milk Price and Feed Price

Gross Milk price**	Lactating cow feed price, \$/cwt of DM*				
	\$9.65	\$10.15	\$10.65	\$11.15	\$11.65
Production level (lbs milk sold/cow/year) = 20,000					
\$14.32	1.94%	0.72%	-0.51%	-1.74%	-2.97%
\$15.32	5.26%	4.03%	2.80%	1.57%	0.34%
\$16.32	8.57%	7.34%	6.11%	4.88%	3.65%
\$17.32	11.88%	10.65%	9.42%	8.19%	6.97%
\$18.32	15.19%	13.96%	12.74%	11.51%	10.28%
Production level (lbs milk sold/cow/year) = 25,000					
\$14.32	8.28%	6.87%	5.45%	4.04%	2.63%
\$15.32	12.42%	11.01%	9.59%	8.18%	6.77%
\$16.32	16.56%	15.15%	13.73%	12.32%	10.91%
\$17.32	20.70%	19.29%	17.87%	16.46%	15.05%
\$18.32	24.84%	23.43%	22.01%	20.60%	19.19%

* Dry cow feed price equals 60.8% of lactating cow feed price.

** Gross milk price includes hauling and promotion costs

Table 3. Sensitivity of Return on Investment (Line G) to Milk Price and Facility Investment

Gross Milk price**	Total investment in facilities and equipment, \$/lactating cow*				
	\$4,987	\$5,237	\$5,487	\$5,737	\$5,987
Production level (lbs milk sold/cow/year) = 20,000					
\$14.32	0.14%	-0.20%	-0.51%	-0.81%	-1.08%
\$15.32	3.70%	3.23%	2.80%	2.39%	2.01%
\$16.32	7.27%	6.67%	6.11%	5.59%	5.11%
\$17.32	10.83%	10.10%	9.42%	8.79%	8.20%
\$18.32	14.39%	13.53%	12.74%	11.99%	11.30%
Production level (lbs milk sold/cow/year) = 25,000					
\$14.32	6.56%	5.99%	5.45%	4.96%	4.49%
\$15.32	11.01%	10.28%	9.59%	8.96%	8.36%
\$16.32	15.46%	14.57%	13.73%	12.96%	12.23%
\$17.32	19.92%	18.86%	17.87%	16.96%	16.10%
\$18.32	24.37%	23.15%	22.01%	20.96%	19.97%

* Investment per cow in herd equals investment per lactating cow times 84.7%.

** Gross milk price includes hauling and promotion costs

Table 4. Sensitivity of Return on Investment (Line G) to Production and Facility Investment

Milk production	Total investment in facilities and equipment, \$/lactating cow*				
	\$4,987	\$5,237	\$5,487	\$5,737	\$5,987
Production level (lbs milk sold/cow/year) = 20,000**					
19,500	6.24%	5.68%	5.16%	4.67%	4.22%
19,750	6.75%	6.17%	5.64%	5.13%	4.66%
20,000	7.27%	6.67%	6.11%	5.59%	5.11%
20,250	7.78%	7.16%	6.59%	6.05%	5.55%
20,500	8.29%	7.65%	7.06%	6.51%	6.00%
Production level (lbs milk sold/cow/year) = 25,000**					
24,500	14.44%	13.58%	12.78%	12.04%	11.34%
24,750	14.95%	14.07%	13.26%	12.50%	11.79%
25,000	15.46%	14.57%	13.73%	12.96%	12.23%
25,250	15.98%	15.06%	14.21%	13.42%	12.68%
25,500	16.49%	15.55%	14.69%	13.88%	13.12%

* Investment per cow in herd equals investment per lactating cow times 84.7%.

** Costs vary by production level due to varying feed and hauling and promotion costs.

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