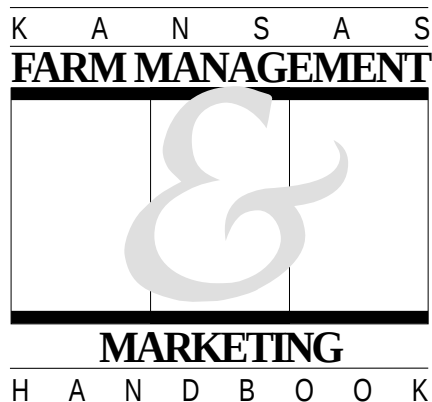




Dairy Enterprise – 2,400 Lactating Cows

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Production Level

Costs per unit and net returns in a dairy enterprise are highly dependent on milk production levels. 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 4 years broken down by quartile of rolling herd average. The following estimated budget includes two production levels — 19,000 and 24,000. The 19,000 pounds reflects producers in the top 25-50 percentile (slightly above average); whereas, the 24,000 pounds is intended to reflect production levels of the top 5-10 percent of producers. The projected budget at the two production levels is presented on both a per cow and a per hundredweight (cwt) 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 2400 lactating cow dairy operation with modern equipment using freestall housing is estimated to be \$5,691,269 with another \$3,952,800 for the cows. A partial breakdown of the investment assumptions used for the cost return projections is shown in Table 2. This budget is based on a total herd size of 2928 cows, with 2400 cows (82 percent of herd) being milked at any one time. Investment amounts are given as total for farm, per cow in the herd, and per lactating cow.

Feed Costs

Dairy cows require high quality forage and grain. Concentrates and grain requirements increase as milk production increases. However, as shown in Table 1, the value of increased production generally will offset the added feed cost associated with the higher production levels. Table 3 shows the amounts and cost of feed used for the different production levels in this budget. At well over \$1,000 per cow per year, feed is obviously 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, Table 4 shows how the return on investment (Line I in the budget) decreases at various milk prices when feed costs increase by 10 percent.

Returns

Producers receive income primarily from the sale of milk. Additional income is received from the sale of calves and culled breeding stock. In this budget it is assumed that replacement heifers are purchased and thus all calves are sold. It is further assumed that one-third (33%) of the cows are replaced each year due to culling and death loss. Cull income is assigned to 28 percent of herd annually. The other five-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 4 shows the return on investment (Line I in the budget) at two levels of feed cost and varying milk prices.

Table 1. Heart of America DHIA Summary of Holstein Herds, 1995-98

Year	Rolling herd average quartile			
	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Average Milk Production, lbs/cow/year				
1995	13,740	16,648	18,601	21,267
1996	13,926	16,907	18,797	21,822
1997	13,904	17,269	19,430	22,294
1998	13,893	17,032	19,173	22,506
Average Income Over Feed Cost, \$/cow/year				
1995	\$874	\$1,103	\$1,237	\$1,492
1996	\$1,034	\$1,438	\$1,599	\$1,860
1997	\$874	\$1,147	\$1,349	\$1,612
1998	\$1,149	\$1,447	\$1,720	\$2,064

Information Included in Budget – 2,400

Lactating cow dairy

1. **Feed:** includes total feed for the dairy cow on an annual basis (see Table 3 for details).
2. **Labor:** based on 25.25 full-time persons at an average of \$33,000 (salary + benefits) per person divided by the number of cows in the herd.
3. **Veterinary, drugs, and supplies:** costs for prevention and treatment of disease.
4. **Utilities and water:** telephone, electricity, fuel, and water costs allocated to the dairy enterprise.
5. **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.
6. **Milk hauling and promotion costs:** milk-hauling costs at \$0.65/cwt. and promotion costs at \$0.15/cwt.
7. **Building and equipment repairs:** annual building and equipment repairs allocated to dairy enterprise calculated as 2 percent of the total investment.
8. **Breeding/genetic charge:**
 - i. **Capital replacement:** price of a heifer replacement times the replacement rate.
 - j. **Semen, A.I. services, and supplies:** includes semen, artificial insemination services, and supplies.
 - k. **Interest:** interest is charged on the value of the breeding herd, which is based on the cost of replacement heifers entering the herd.
 - l. **Insurance:** averages approximately 1 percent of the value of the breeding herd.
9. **Professional fees (legal accounting, etc.):** business costs allocated to the dairy enterprise.
10. **Miscellaneous:** miscellaneous costs (subscriptions, education, etc.) allocated to the dairy enterprise.
11. **Interest on variable costs:** calculated on one-half of variable costs at a rate of 9 percent.
12. **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 \$1,790 per cow and an investment of \$154 per cow for equipment. The useful life is assumed to be 15 years for buildings and improvements and 5 years for equipment. A salvage value of 10 percent is assumed on buildings and improvements and equipment.
13. **Interest on buildings and equipment:** interest is charged on one-half the average investment [(initial cost + salvage value) ÷ 2] for buildings and improvements and equipment at a rate of 9 percent.
14. **Insurance and taxes on buildings and equipment:** based on the original cost times 0.25 percent (insurance) and 1.5 percent (taxes, buildings and improvements only).
15. **Milk sales:** based on the annual production per cow times milk price.
16. **Volume premium:** dairies that can ship milk in semi loads at a time often get a premium based on volume. A premium of \$0.25 per cwt. is included for a 2,400-cow dairy.
17. **Calves sold:** based on a 95 percent calf crop and selling all calves (heifers and bulls) at birth.
18. **Cull cows sold:** assumes cull income is realized on 28 percent of the herd even though one-third of the herd is replaced annually. Five percent with no income represent cow death loss and cows with zero salvage value.
19. **Average selling price of milk to cover variable costs:** represents the price per cwt. needed for milk to cover variable costs of production. Assumes calf and cull income and all costs remain constant.
20. **Average selling price of milk to cover total costs:** represents the price needed for milk per cwt. to cover total costs of production. Assumes calf and cull income and all costs remain constant.
- H. **ASSET TURNOVER:** (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.
- I. **NET RETURN ON ASSETS:** [(returns over total costs + interest on breeding herd + interest on variable costs + interest on fixed costs) ÷ 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 DAIRY (REPLACEMENTS PURCHASED¹)

	Production levels (lbs milk sold)				Your Farm
	19,000		24,000		
	Per cow	Per cwt	Per cow	Per cwt	
VARIABLE COSTS PER COW:					
1. Feed (from Table 3)	\$ 1,093.07	\$ 5.75	\$ 1,221.82	\$ 5.09	
2. Labor	284.73	1.50	284.73	1.19	
3. Veterinary, drugs, and supplies	80.00	0.42	90.00	0.38	
4. Utilities and water	134.75	0.71	148.23	0.62	
5. Fuel, oil, and auto expense	30.00	0.16	30.00	0.13	
6. Milk hauling and promotion cost	152.00	0.80	192.00	0.80	
7. Building and equipment repairs	38.87	0.20	38.87	0.16	
8. Breeding/genetic charge:					
a. Capital replacement: 34% × \$1,350/head	459.00	2.42	459.00	1.91	
b. Semen, A.I. services, and supplies	40.00	0.21	45.00	0.19	
c. Interest	121.50	0.64	121.50	0.51	
d. Insurance.....	13.50	0.07	13.50	0.06	
9. Professional fees (legal, accounting, etc.).....	22.00	0.12	22.00	0.09	
10. Miscellaneous	20.00	0.11	25.00	0.10	
11. Interest on 1/2 variable costs @ 9%	85.29	0.45	94.39	0.39	
A. TOTAL!-ARIABLE COSTS	\$ 2,574.72	\$ 13.55	\$ 2,786.04	\$ 11.61	
FIXED COSTS PER COW:					
12. Depreciation on buildings and equipment	135.07	0.71	135.07	0.56	
13. Interest on buildings and equipment	106.91	0.56	106.91	0.45	
14. Insurance and taxes on buildings and equipment	31.71	0.17	31.71	0.13	
B. TOTAL FIXED COSTS	\$ 273.68	\$ 1.44	\$ 273.68	\$ 1.14	
C. TOTAL COSTS PER COW (A + B)	\$ 2,848.40	\$ 14.99	\$ 3,059.73	\$ 12.75	
RETURNS PER COW					
15. Milk sales @ \$13.00/cwt	\$ 2,470.00	\$ 13.00	\$ 3,120.00	\$ 13.00	
16. Volume premium	95.00	0.50	120.00	0.50	
17. Calves sold: 95% × \$112.50/head	106.88	0.56	106.88	0.45	
18. Cull cows: 1,400 lbs × 28% × \$32.50/cwt	127.40	0.67	127.40	0.53	
D. GROSS RETURNS PER COW	\$ 2,799.28	\$ 14.73	\$ 3,474.28	\$ 14.48	
E. RETURNS OVER VARIABLE COSTS (D–A)	\$ 224.56	\$ 1.18	\$ 688.23	\$ 2.87	
F. RETURNS OVER TOTAL COSTS (D–C)	\$ -49.13	\$ -0.26	\$ 414.55	\$ 1.73	
G. BREAK-EVEN MILK PRICE, \$/cwt:					
19. To cover variable costs	\$ 12.32		\$ 10.63		
20. To cover total costs	\$ 13.76		\$ 11.77		
H. ASSET TURNOVER (D ÷ ASSETS) ²	144.01%		178.74%		
I. NET RETURN ON INVESTMENT					
[(lines F + 8c + 11 + 13) ÷ ASSETS] ²	8.03%		22.39%		

¹ For cost of raising replacement heifers see MF-399

² Assets equals total value of breeding herd and buildings and equipment.

Table 2. Building, Equipment, and Breeding Herd Investment — 2,400 Lactating Cow Dairy

Item	Total	Per cow in herd	Per lactating cow
Number of cows	XXX	2,928	2,400
Free stall barn	\$2,342,400	\$800	\$976
Feed storage:			
Hay barn	\$128,832	\$44	\$54
Silage bunker	\$751,307	\$257	\$313
Commodity shed	\$143,382	\$49	\$60
Protein bin	\$25,348	\$9	\$11
Milking parlor (80 stalls)	\$960,000	\$328	\$400
Manure storage system	\$840,000	\$287	\$350
Rolling equipment*	\$350,000	\$120	\$146
Miscellaneous**	\$150,000	\$51	\$63
TOTAL	\$5,691,269	\$1,944	\$2,371
Breeding herd	\$3,952,800	\$1,350	\$1,647
TOTAL INVESTMENT	\$9,644,069	\$3,294	\$4,018

* Rolling equipment is all feed handling and processing equipment, tractors, trailers, pickups, etc.

** Miscellaneous is site preparation, electrical grading, water cooling system, etc.

Table 3. Feed Requirements and Costs for Two Levels of Milk Production Per Cow Per Year

Feed	Milk Production Level (lbs/cow/year)			
	19,000		24,000	
	Lbs/cow	Dollars/cow	Lbs/cow	Dollars/cow
Corn silage @ \$20.16 per ton	11,443	\$115.34	13,484	\$135.92
Alfalfa silage @ \$42.60 per ton	2,898	61.73	3,623	77.16
Alfalfa hay @ \$101.00 per ton	3,465	174.98	3,465	174.98
Grass hay @ \$55.00 per ton	825	22.69	935	25.71
Corn, rolled @ \$4.80 per cwt.	5,066	243.18	5,232	251.12
Soybean meal @ \$171.62 per ton	1,706	146.41	2,037	174.79
Dry distillers grain @ \$4.95 per cwt.	992	49.12	992	49.12
Soybean hulls @ \$66.00 per ton	1,916	63.24	1,916	63.24
Feed grade fat @ \$8.50 per cwt.	80	6.83	161	13.66
Whole cotton seed @ \$132.00 per ton	1,323	87.32	1,654	109.15
Minerals/vitamins @ \$22.00 per cwt.	556	122.24	668	146.98
TOTAL FEED COST		\$1,093.07		\$1,221.82

Table 4. Sensitivity of Return on Investment (Line I) to Milk Price

Milk price	Milk Production Level (lbs/cow/year)			
	19,000		24,000	
	Base feed*	+10% feed	Base feed*	+10% feed
\$13.50	10.92%	7.60%	26.03%	22.32%
\$13.00	8.03%	4.71%	22.39%	18.68%
\$12.50	5.15%	1.83%	18.74%	15.03%
\$12.00	2.26%	-1.05%	15.10%	11.39%
\$11.50	-0.62%	-3.94%	11.46%	7.75%
\$11.00	-3.50%	-6.82%	7.81%	4.10%

* Feed cost is equal to that shown in Table 3.

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Kansas State University Agricultural Experiment Station and Cooperative Extension Service

MF-2442

October 1999

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