



## Drought 2012: Partial Budget

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Year 2012-13 may see producers having to implement partial changes from their original plans due to the drought. Decisions to cut corn for silage or harvest for grain, cull the herd to lower feed needs, and/or feed alternative rations are just a few potential operational changes. Of course, what partial changes are considered and how those changes are made have many implications including financial.

One tool that can help assess financial implications is the “partial budget.” The partial budget is a process that enables the manager to assess the expected change in profits resulting from a change in the operation. The partial budget consists of answering four questions about the change being assessed. Two of the questions are positive for finances and two questions are negative for finances.

- Positive Financial Changes
  - o What current costs will be reduced or eliminated as a result of the change?
  - o What new or additional revenues will be received as a result of the change?
- Negative Financial Changes
  - o What current revenue will be reduced or eliminated?
  - o What new or additional costs will be incurred?

The figure below puts the four questions in a table for easier consideration and calculation.

<b>Partial Budget</b>							
Define the alternative being considered:							
<b>Positive Financial Changes</b>				<b>Negative Financial Changes</b>			
What current costs will be reduced or eliminated?		What new or additional revenues will be received?		What current revenue will be reduced or eliminated?		What new or additional costs will be incurred?	
Description	\$	Description	\$	Description	\$	Description	\$
(A)	Total:	(B)	Total:	(C)	Total:	(D)	Total:
(E) TOTAL Positive Changes (A+B)=				(F) TOTAL Negative Changes (C+D) =			
<b>NET CHANGE IN PROFITS IF THE CHANGE IS MADE (E-F)=</b>							

A process for completing the table includes:

1. Clearly define the alternative being considered compared to the current plan
2. Clearly identify all physical, labor, and financial changes resulting from the alternative (number of cows, change in harvest strategy, change in production, change in feeding values, change in labor requirements, change in capital required, etc.) and decide which category (question) it belongs under.
3. Put a cost/price to all relevant changes (variable costs, fixed costs, insurance, interest, etc.)
  - a. Be sure to include those costs that are saved due to the alternative and those revenues that are forgone due to the alternative.
  - b. Be sure you are using a common unit (total dollars, per acre, per cow, etc.)
4. The final step is determining if the net change is positive or negative. If it is positive then on financial grounds it is a feasible alternative.

Limitations:

Because an alternative is positive does not mean it is the best alternative. One of the limitations of the partial budget is that only one alternative can be considered at a time. Multiple analyses would need to be conducted to consider more than one alternative.

Prices and costs used are a point estimate. Times of stress and uncertainty can result in greater volatility. Therefore it would be prudent to consider a range of prices/costs especially for the bigger ticket items that could be subject to volatile changes. Note, if the change is made it may be prudent to consider employing risk management strategies to assure prices and costs.

Because a change may prove to be profitable for one enterprise may not mean it is a good idea for the whole farm. A decision to change the grain enterprise, while seemingly a profitable choice, may do more harm than good when the impact on the livestock enterprise is considered as well.

Be sure to include fixed cost changes as well (depreciation, interest, insurance, and taxes). This is particularly important if the alternative involves changes in capital.

For more drought information consult your county Extension agent and see the UW-Extension Drought 2012 website at <http://fyi.uwex.edu/drought2012/>.

A partial budget spreadsheet will be made available at the Center for Dairy Profitability website (<http://cdp.wisc.edu/>) under the link to “Decision Making Tools,” or make an email request to Kevin Bernhardt at [bernhark@uwplatt.edu](mailto:bernhark@uwplatt.edu).