

Production Costs in 2014 on Selected Wisconsin Grazing (Not Organic) Dairy Farms

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Introduction (Pages two to four contain the actual cost of production report.)

The number of grazing herds in this summary has declined substantially since 2005 because several of the grazing farms that submitted data have become certified organic. Since 1995, each year at least one of the graziers, from which we were collecting financial data, was in the process of transitioning to organic. This may have reduced the financial performance of that herd in those years. Since 1999, the data included a few grazing farms that were receiving organic milk prices. Until 2006, the presence of these organic farms had minimal impact on the grazing group's Net Farm Income from Operations (NFIFO) but a difference in financial structure began to show in 2006. Therefore, beginning in 2006 the Wisconsin grazing cost of production report does not include any herds receiving organic milk prices.

Data Source

Seven Wisconsin grazing dairy farms providing useable data in 2014 were summarized by AgFA in the following cost of production report.^{2 3} These farms ranged in size from 26 to 209 cows with an average herd size of 77 cows averaging 16,980 lbs. of milk sold at an average of \$24.86 milk income per cwt. sold.

Selected Financial Measures of Studied Farms

In 2014, income per cow averaged \$4,871 with milk sales being \$4,222 of that total. The average income per cow on the 304 Wisconsin dairy farms in AgFA that were NEITHER grazing nor organic was \$7,116 with milk sales accounting for \$5,828 of that total. However, their allocated costs⁴ per cow were \$5,999 versus only \$3,673 for the graziers in this study. This leaves this group of graziers with a NFIFO/cow of \$1,198 versus a NFIFO/cow of \$1,118 for the other 304 dairy farms, although they had more cows - averaging 204 per farm. For graziers these values compare with \$3,310 in allocated costs and \$651 in NFIFO in 2013.

The 2014 non-milk farm income per cow of \$1,289 for confinement versus \$649 for graziers. Sales of dairy livestock, government payments, crop sales and increases in inventories typically account for most of this income. Since about 2008, the value of crop sales as a percent of income on the average confinement farm contributed more to profitability than in most previous years. This was not the case for graziers.

NFIFO is not economic profit. Economic profit requires farm income to exceed all costs, including the opportunity costs of unpaid labor, management, and equity. Economic profit was \$519/cow for the Wisconsin grazing dairy herds in 2014. On the 304 Wisconsin dairy farms in AgFA that were NEITHER grazing nor organic it was \$672 per cow.

In 2014 the grazier's average cost per cow was \$47 for breeding fees, \$67 for insurance, \$1,237 for purchased feed, \$103 for utilities, \$174 for supplies, \$60 for property taxes, \$69 for veterinary fees and medicine, \$156 for interest, \$41 for livestock depreciation and \$428 for other depreciation.

In 2014, for every dollar of income, the average grazier generated: 57.8 cents went to Basic Costs, 31.5 cents went to Non-basic plus Opportunity Costs and 10.7 cents went to economic profit. Looking at it another way, 75.4 cents went to Allocated Costs (Basic plus Non-basic Costs) and 24.6 cents went to NFIFO.

Wrapping up

When comparing the relative performance of dairy systems, recognize that managers of each system tended to have a different focus in their pursuit of profitability and sustainability. Generally the organic system focuses more on obtaining a higher and more consistent milk price. Graziers focus more on reducing all costs and confinement systems focus more on increasing income via high production levels.

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² AgFA @ (Agriculture Financial Advisor) – <http://cdp.wisc.edu>

³ The Center for Dairy Profitability uses an active/real time database AgFA@) for collecting and analyzing data. The number of records may increase throughout the year. Casual users of AgFA may not be able to exactly duplicate this report.

⁴ All costs except the opportunity cost of unpaid labor, management and equity are called "allocated costs." Total income minus "allocated costs" equals Net Farm Income from Operations (NFIFO). "Total costs" are divided into two other categories: basic costs and non-basic and opportunity costs, with it having 3 sub-categories (1. paid interest, 2. all labor and management, and 3. non-livestock depreciation plus equity interest).



Cost of Production

Report Basis: Whole Farm, per Head, per Hundredweight Equivalent, Depreciation Method: "Cost (tax)"

Income	<u>2014</u>	<u>2014</u>	<u>2014</u>
Animal Product Sales	326,471.57	4,221.86	20.85
Raised Non-Breeding Livestock Sales	13,224.84	170.88	0.84
Crop Sales	987.84	12.76	0.06
Sale of Raised Breeding Livestock	18,260.63	235.95	1.17
Other Income	17,781.52	229.76	1.13
Total Income	376,996.42	4,871.20	24.06
Expenses	<u>2014</u>	<u>2014</u>	<u>2014</u>
Basic Costs			
Cost of Items for Resale	0.00	0.00	0.00
Breeding Fees	3,648.24	47.14	0.23
Car and Truck Expenses	3,161.30	40.85	0.20
Crop Chemicals	3,795.80	49.05	0.24
Conservation Expenses	0.00	0.00	0.00
Custom Heifer Raising Expenses	600.00	7.75	0.04
Custom Hire (Machine Work)	10,492.30	135.57	0.67
Feed Purchase	95,739.00	1,237.05	6.11
Fertilizer and Lime	8,037.18	103.85	0.51
Freight and Trucking	2,139.03	27.64	0.14
Gasoline, Fuel, and Oil	14,293.38	184.69	0.91
Farm Insurance	5,200.89	67.20	0.33
Rent/Lease Equipment	80.00	1.03	0.01
Rent/Lease Other	8,745.43	113.00	0.56
Repairs and Maintenance	6,146.14	79.41	0.39
Building and Fence Repairs	2,151.43	27.80	0.14
Machinery Repairs	11,102.57	143.46	0.71
Seeds and Plants Purchased	10,445.92	134.97	0.67
Storage and Warehousing	98.86	1.28	0.01
Supplies Purchased	13,439.00	173.65	0.86
Taxes - Other	4,634.46	59.88	0.30
Utilities	7,994.35	103.30	0.51
Veterinary Fees and Medicine	5,317.25	68.70	0.34
Other Farm Expenses	3,808.43	49.21	0.24
Marketing & Hedging	2,642.82	34.15	0.17
Other Crop Expenses	0.00	0.00	0.00
Other Livestock Expenses	2,024.12	26.15	0.13
- Change in Prepaid Expenses	(10,841.02)	(140.08)	(0.69)
Change in Accounts Payable	0.00	0.00	0.00
Depreciation on Purchased Breeding Livestock	3,168.29	40.94	0.20
Total Basic Costs	218,065.17	2,817.64	13.92

Non-Basic and Opportunity Costs

Interest Cost

Mortgage Interest	8,617.42	111.35	0.55
Other Interest	3,434.94	44.38	0.22
Total Interest Cost	12,052.37	155.73	0.77

Labor Cost

Employee Benefits - Dependents	0.00	0.00	0.00
Employee Benefits - Non-Dependents	5,775.02	74.62	0.37
Labor Hired - Dependents	0.00	0.00	0.00
Labor Hired - Non-Dependents	15,248.14	197.02	0.97
Value of Unpaid Labor & Management	41,851.71	540.77	2.67
Total Labor Cost	62,874.87	812.41	4.01

Non-Livestock Depreciation & Equity Cost

Machinery, Equipment, Building Depreciation	33,102.86	427.73	2.11
Interest on Equity Capital	10,702.48	138.29	0.68

Total Non-Livestock Depreciation & Equity Cost	43,805.34	566.01	2.80
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Total Non-Basic and Opportunity Costs	118,732.58	1,534.15	7.58
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Total Expenses	336,797.75	4,351.79	21.49
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Total Income - Total Expenses	40,198.67	519.41	2.57
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Net Farm Income from Operations (NFIFO) Summary

Total Allocated Costs	284,243.55	3,672.74	18.14
Net Farm Income From Operations (NFIFO)	92,752.87	1,198.47	5.92
Gain (Loss) on Sale of All Farm Capital Assets	357.14	4.61	0.02
Net Farm Income (NFI)	93,110.01	1,203.08	5.94

Benchmark Criteria

	2014	2014	2014
Number of Cows	77.39	77.39	77.39
Pounds of Milk Sold per Cow	16,980	16,980	16,980
Hundredweight Equivalent (CWT EQ) per Cow	202	202	202
Gross Milk Price	\$24.86	\$24.86	\$24.86
Total Crop Acres per Cow	3.15	3.15	3.15
Pasture Acres per Cow	1.07	1.07	1.07
Owner/Operator/Families	1.14	1.14	1.14

Primary Enterprise: **Dairy**

Report On: **All Data Sets**

2014 Data Sets: **7**

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Confidence Level Range: **80 to 100**

States: **Wisconsin**

Pasture Management: **= Management Intensive Grazing**

Organic Producer: **<> Yes**
