



FACT SHEET #2: COMPARING THE TOP HALF WITH THE BOTTOM HALF OF GRAZIERS

Regional Multi-State Interpretation of Small Farm Financial Data from the First Year Report on 2000 Great Lakes Grazing Network Grazing Dairy Data July 2002

Overview

The data and conclusions of this paper are derived from the report titled Regional Multi-State Interpretation of Small Farm Financial Data, the first year report of a USDA Integrated Food and Agricultural Systems (IFAS) grant project #00-52501-9708. Some strengths of this work include standardized data handling and analysis procedures, combined actual farm data of ten states and one province to provide financial benchmarks to help farm families and their communities be successful and sustainable. The main report is also based upon work supported by Smith Lever funds from the Cooperative State Research, Education and Extension Service, U.S. Department of Agriculture.

The first enterprise analyzed in this project is dairy grazing. To be considered a dairy farm for the study, 85% or more of gross income must be from milk sales, or 90% of gross income must typically be from dairy livestock sales plus milk sales. Additionally, to be considered a grazier for the study, one must harvest over 30 % of grazing season forage needs by grazing and must provide fresh pasture at least once every three days.

Management Intensive Rotational Grazing (MIRG) has become a more common dairy system in the northern U. S. This analysis of actual farm financial data from ninety-two graziers in the Great Lakes region provides some insight into the economics of grazing as a dairy system in the northern U.S.:

- There is a range of profitability amongst graziers. A comparison of the most profitable half with the least profitable half shows that the top herds had an advantage of \$2.41 in Net Farm Income From Operations per Hundred Weight Equivalent (NFIFO/CWT EQ). This is examined specifically in Fact Sheet #2 of this series.
- The average grazing herd with less than 100 cows had a higher NFIFO per cow and per CWT EQ than the average grazing herd with more than 100 cows. The smaller herds have a \$0.54 per CWT EQ advantage in the cost of paid labor, which accounts for more than the \$0.44 NFIFO/CWT EQ overall advantage that the smaller herds have. See Fact Sheet #3 in this series for more on this point.
- The average grazier in the study who is fully seasonal (stops milking at least one day each year), has a less desirable financial performance than the average non-seasonal herd, whether NFIFO/cow, NFIFO/CWT EQ or total NFIFO is used as the yardstick. Despite having access to data from many states, only seven seasonal herds' data were available for analysis. Fact Sheet #4 in the series investigates seasonal milking at greater length.
- The graziers in the study were economically competitive with confinement herds in the states that had comparable data from both groups. Fact Sheet # 5 in the series focuses on the comparisons between grazing and confinement dairy farming.

The study also confirms that accounting methodology and financial standards are important both in the accuracy and the standardization of comparison values across large geographic areas involving different combinations of production assets and management skills. Any comparison between the measures in this report and data based on the current market value (CMV) of assets will be misleading. Here, the measures of profitability are calculated in this report using the historic cost asset valuation method (HC) to provide a better measure of profit levels generated by operating the farm business.

Comparing the Top Half with the Bottom Half of Graziers Sorted by NFIFO/CWT EQ Sold

The average “top half” herd is smaller, produces about five percent more milk per cow, has a lower basic cost per CWT EQ and has over four times as much NFIFO per CWT EQ and NFIFO per COW than the “bottom half” herds. For every basic cost item, the top group spent less per CWT EQ than the bottom group, except for breeding, fertilizer and lime, farm insurance and seeds. Also, the top group spends \$0.34 per CWT EQ less for interest, \$0.28 per CWT EQ less for labor, and \$0.18 less per CWT EQ for depreciation than the low group.

Overall, the top herds have a \$1.60 per CWT EQ advantage in basic costs and another \$0.81 per CWT EQ advantage in the four cost categories (paid labor, paid management, depreciation and interest) that are added to the basic cost category to create the allocated cost category (allocated costs equals total income minus NFIFO).

This accounts for the \$2.41 per CWT EQ advantage that the top herds have in NFIFO.

Comparing The Top Half With The Bottom Half of Graziers, Sorted by NFIFO per CWT EQ Sold			
	Top Half	Bottom Half	Average
Number of Herds	46	44	92
Number of Cows per Herd	78	104	90
Average Lbs. Milk per Cow	17,380	16,530	16,836
Average Lbs. Milk per Herd	1,361,892	1,718,782	1,511,264
Average Basic Cost per CWT EQ	\$6.96	\$8.56	\$7.83
Allocated Cost per CWT EQ	\$9.35	\$11.76	\$10.67
Allocated Minus Basic Cost per CWT EQ	\$2.39	\$3.20	\$2.84
NFIFO per Cow	\$687.00	\$123.00	\$395.00
NFIFO per CWT EQ	\$2.98	\$0.57	\$1.66
NFIFO per Farm	\$53,876.00	\$12,790.00	\$33,098.00
NFIFO CWT EQ (without deducting any labor compensation)**	\$3.77	\$1.64	\$2.60

If paid labor and management compensation were added back, the NFIFO per CWT EQ would increase to \$3.77 for the top half and to \$1.64 for the bottom half.

**NFIFO (without deducting any labor compensation) is not a common measure. It is used in this project because some comparisons are made between farms that rely mainly on hired labor and farms that rely entirely on unpaid labor. In such cases, this uncommon measure provides additional insight to the comparisons.

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