



Fact Sheet #2: Comparing the Top Half with the Bottom Half of Graziers

Regional Multi-State Interpretation of Small Farm Financial Data from the Fourth Year Report on 2003 Great Lakes Grazing Network Grazing Dairy Data April 2005

Overview

The data and conclusions of this paper are derived from the report with the above title from a USDA Initiative for Future Agricultural and Food Systems (IFAFS) Grant project #00-52101-9708. 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 full report is available at <http://cdp.wisc.edu/Great%20Lakes.htm>.

Participating grazing dairy farms must typically obtain 85% or more of gross income from milk sales, or 90% of gross income from dairy livestock sales plus milk sales, harvest over 30% of grazing season forage 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 102 graziers in 2003, 103 in 2002, 126 in 2001, and 92 in 2000, most from 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. The most profitable half had an advantage of \$2.48 in Net Farm Income From Operations per Hundredweight Equivalent (NFIFO/CWT EQ) over the least profitable half. This result is similar to the three previous years, but the difference between the higher and lower profit herds was greater in the years with lower milk prices.
- 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 \$0.24 advantage in NFIFO/CWT EQ for the smaller herds was a result of a \$0.74 per CWT EQ advantage in the cost of paid labor. This result is similar to the three previous years. For more information, see Fact Sheet #3 of this series.
- Careful examination of the data suggests that achieving a given level of NFIFO per cow or per CWT EQ is more difficult in a seasonal (stops milking at least one day each calendar year) system. The average seasonal herd had a smaller range of financial performance within a year, but experienced more variability of financial performance from year to year. Seasonal herds had a slight advantage in NFIFO/Cow and per CWT EQ in 2003 and a large advantage in 2001. The non-seasonal herds had nearly a two-to-one advantage in NFIFO/Cow and per CWT EQ in 2000 and 2002. For more information, see Fact Sheet #4 of this series.
- The graziers in the study were economically competitive with confinement herds in the states that had comparable data from both groups in four consecutive years. For more information, see Fact Sheet #5 in the series.
- While breed of cattle is a minor factor affecting profitability, the Holstein herds in the data had better financial performance in three years of comparisons. For more information, see Fact Sheet #6 of this series.

The study also confirms that accounting methodology and financial standards are important both in the accuracy and in the standardization of comparison values across large geographic areas that involve different combinations of production assets and management skills. In comparing the results of this study with other data, it will help to understand the measures used here but not in all places in the country.

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

The average "top half" herd in 2003 was smaller, produced slightly more milk per Cow, had a lower basic, allocated and total cost per CWT EQ, and had more than three times as much NFIFO per CWT EQ and more than four times as much 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, repairs, property taxes, and prepaid expense. They tied in spending per CWT EQ for freight and trucking. *The cost categories in which the top group had their biggest advantage was (in order of most to least \$/CWT EQ) labor and management (\$0.32), feed purchased (\$0.28), rent and leasing (\$0.26), interest (\$0.23), other livestock expenses (\$0.20), and other farm expenses (\$0.14).*

Overall, the top herds had a \$1.86 advantage in basic cost per CWT EQ and another \$0.62 per CWT EQ advantage in the four non-basic cost categories that are added to the basic cost category to create the allocated cost category. More specifically, the top group spent \$0.23 per CWT EQ less for interest, \$0.32 per CWT EQ less for labor and management, and \$0.07 less per CWT EQ for depreciation. This accounts for the \$2.48 (\$3.39-\$0.91) advantage that the top herds had in NFIFO per CWT EQ.

Because of rounding, some small mathematical differences might be found in the summary tables below.

Comparing the Top Half with the Bottom Half of Graziers Sorted by NFIFO per CWT EQ Sold/Most	Top Half	Bottom Half	2003 Average
Number of Herds	50	50	102
Number of Cows per Herd	77	98	87
Average Lbs. Milk per Cow	15,938	14,845	15,381
Average Lbs. Milk per Herd	1,221,182	1,460,414	1,344,643
Group Average Mailbox Milk Price	\$15.09	\$13.87	\$14.39
U.S. All Milk Price (used to calculate CWT EQ)*	\$12.50	\$12.50	\$12.50
Average Basic Cost per CWT EQ	\$6.84	\$8.70	\$7.79
Allocated Cost per CWT EQ	\$9.11	\$11.59	\$10.39
Non-Basic Cost per CWT EQ (Allocated Minus Basic)	\$2.27	\$2.89	\$2.60
NFIFO per Cow (without deducting any labor compensation)	\$1,023	\$410	\$662
NFIFO per CWT EQ (without deducting any labor compensation)	\$4.18	\$2.02	\$3.07
NFIFO per Farm	\$63,470	\$18,249	\$40,335
NFIFO per Cow	\$828	\$186	\$461
NFIFO per CWT EQ	\$3.39	\$0.91	\$2.11

*See Chapters IX and X in the full report for more information about CWT EQ and cost categories. <http://cdp.wisc.edu/>

If paid labor and management compensation were omitted, the NFIFO per CWT EQ would increase to \$4.18 for the top half and to \$2.02 for the bottom half.

The year 2003 comparison of the top versus bottom half was more similar to the 2002 and 2000 comparison than to the 2001 comparison. The top half had over four times as much NFIFO per CWT EQ and NFIFO per Cow in 2002 and 2000 and about two and one-half times NFIFO per CWT EQ and per Cow in 2001. **The more difficult years (such as those with lower milk prices) often show more differences in financial performance between the top and bottom groups when compared to high profit years.**

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