



## Fact Sheet #5 : Grazing vs. Confinement Farms — Year 6

### Regional Multi-State Interpretation of Small Farm Financial Data from the Sixth Year Report on 2005 Great Lakes Grazing Network Grazing Dairy Data October 2007

#### 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/>.

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 115 graziers in 2005, 101 in 2004 102 in 2003, 103 in 2002, 126 in 2001, and 92 in 2000 (more than 251 farms supplied at least one year of data), mainly 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 ratio between the most profitable half and the least profitable half's Net Farm Income from Operations (NFIFO) per cow and per Hundredweight Equivalent (CWT EQ) was greater in the lower profit years (usually with lower milk prices) than in the higher profit years. For more information, see 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 100 cows or more. The smallest margin appeared in the 2003 data. For more information, see Fact Sheet #3 of this series.
- Non-seasonal herds had a large NFIFO per cow and per CWT EQ advantage in 2000 and 2002. The seasonal herds (stop milking at least one day each calendar year) had a large NFIFO per cow and per CWT EQ advantage in 2001 and 2004 and a very small advantage in 2003. In 2005, non-seasonal herds had a NFIFO/Cow advantage and slight NFIFO/CWT EQ disadvantage. **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 system.** The seasonal group had a smaller range of financial performance within a year but experienced more variability of financial performance from year to year. Less than 15 percent of the herds in the data were seasonal. 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. For more information, see Fact Sheet #5 of the series.
- While breed of cattle is a minor factor affecting profitability, the Holstein herds in the data had better financial performance in NFIFO per cow in five of five years and NFIFO per CWT EQ in four of five years of comparisons with other breeds. For more information, see Fact Sheet #6 of this series.
- The ranking of major cost items is remarkably similar between grazing and confinement herds. For more information, see Fact Sheet #7 and #8, of this series.
- Relatively consistent differences in financial performance between states have appeared in all years. These differences must be considered when interpreting the data.

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.

**Comparing Grazing Herds to Confinement Herds**

Most of the available data indicates that the NFIFO per cow and NFIFO per CWT EQ decreases as herd size increases. That is only one of the many reasons to be very careful when comparing the average financial performance of graziers to the average financial performance of confinement herds. While progress has been made in standardizing data handling procedures and analysis for graziers in some states, this level of uniformity does not yet exist with all confinement data. Consequently, the comments made about the relative financial performance of graziers versus confinement herds focus on data from New York and Wisconsin. These states have collected their confinement data under conditions similar to those used to collect grazer data.

**In all six years, the Wisconsin graziers had an advantage over their confinement counterparts in NFIFO per CWT EQ and per cow and in the basic, non-basic and allocated cost/CWT EQ categories. The smallest advantage occurred in 2003. If all labor was unpaid, Wisconsin graziers would have retained their NFIFO per CWT EQ advantage in all years but 2003 and 2005, and their NFIFO per cow advantage in 2000 to 2002.**

**In all six years, the New York graziers had an advantage over their confinement counterparts in NFIFO per CWT EQ and in the allocated and non-basic cost categories. New York graziers had a NFIFO per cow advantage over their confinement counterparts in all years but 2004. If all labor was unpaid, New York graziers would have kept their NFIFO per cow advantage in 2002 and 2003 and would have kept their NFIFO per CWT EQ advantage in 2000, 2002, and 2003.**

**The New York graziers had an advantage in the basic cost category in three years and a very slight disadvantage in the other three years. Together, this suggests that the graziers in this study spread their NFIFO per CWT EQ advantage among many cost items.**

A higher percent of total labor used on the larger confinement farms was hired. To better understand the effects of this information on financial performance, it is useful to examine the impact of labor compensation on NFIFO per cow and NFIFO per CWT EQ by recalculating NFIFO as if all labor was unpaid.

\*See Chapters IX and X in the fall report for more information about CWT EQ and cost categories. Because of rounding, some small mathematical differences might be found in the summary tables below.

<b>Comparing the Financial Performance of Graziers to Confinement Dairy Herds in Two Participating States in 2005</b>	<b>Wisconsin</b>		<b>New York</b>	
	<b>Grazier</b>	<b>Confinement</b>	<b>Grazier</b>	<b>Confinement</b>
Number of Herds	41	617	50	185
Number of Cows per Herd	68	133	103	392
Average Lbs. Milk per Cow	16,700	21,788	17,113	23,335
Average Lbs. Milk per Herd	3,562	2,896,790	1,767,108	9,147,275
Group Average Mailbox Milk Price	\$16.79	\$15.83	\$17.10	\$15.97
U.S. All Milk Price (used to calculate CWT EQ)*	\$15.14	\$15.14	\$15.14	\$15.14
Average Basic Cost per CWT EQ	\$8.51	\$9.12	\$9.41	\$9.37
Non-Basic Cost per CWT EQ	\$3.13	\$3.50	\$3.08	\$3.83
Allocated Cost per CWT EQ (Basic + Non-Basic Cost)	\$11.64	\$12.62	\$12.49	\$13.19
NFIFO per Cow (if all labor was unpaid)	\$919	\$1,200	\$868	\$1,177
NFIFO per CWT EQ (if all labor was unpaid)	\$4.06	\$4.21	\$4.07	\$4.22
NFIFO per Farm	\$54,308	\$95,171	\$62,429	\$216,117
<b>NFIFO per Cow</b>	<b>\$800</b>	<b>\$716</b>	<b>\$605</b>	<b>\$551</b>
<b>NFIFO per CWT EQ</b>	<b>\$3.50</b>	<b>\$2.51</b>	<b>\$2.65</b>	<b>\$2.01</b>

Tom Kriegl from the U.W. Center for Dairy Profitability is the lead author of this report. You may contact him at (608) 263-2685, via e-mail at [tskriegl@wisc.edu](mailto:tskriegl@wisc.edu), by writing the UW Center for Dairy Profitability, 277 Animal Science Bldg., 1675 Observatory Drive, Madison, WI 53706, or by visiting <http://cdp.wisc.edu>. The following researchers have led the project in their respective states: Jim Endress (Illinois), Larry Tranel and Robert Tigner (Iowa), Ralph Booker and Ed Heckman (Indiana), Sherrill Nott, Bill Bivens, Phil Taylor, and Chris Wolf (Michigan), Margot Rudstrom (Minnesota), Tony Rickard (Missouri) Jim Grace (New York), Thomas Noyes and Clif Little (Ohio), Jack Kyle and John Molenhuis (Ontario, Canada), J. Craig Williams (Pennsylvania), and Tom Kriegl and Gary Frank (Wisconsin). Any opinions, findings, conclusions or recommendations expressed in this publication are those of the authors and do not necessarily reflect the view of the U.S. Department of Agriculture.