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FINANCIAL REALITIES OF DAIRYING IN EAST TEXAS

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Background. As dairy farm managers study the financial realities of operating profitable dairies under current and projected economic conditions, they likely will find many challenges. Some will find shortfalls as they evaluate projected income and expenses for the operating year. These producers will be closely scrutinizing major expenses such as family living, purchased and raised feed, and debt retirement, while trying to find ways to enhance income in order to boost profits.

Current information. A recent annual cash flow budget analysis of a representative East Texas dairy was completed utilizing a computerized spreadsheet program entitled "Dairy Farm Annual Budget Estimator." Values included in the evaluation generally represented conditions faced by an average-sized dairy during 1991. The analysis included cash income and expenses for a 200 cow dairy with production of 16,500 lbs per cow and an annual average milk price of \$12.77 per cwt. (1991 average uniform price) which included \$0.10 per cwt. butterfat premium. Culling rate was assumed to be 30 percent and cull cow price was \$49.00 per cwt. Outstanding loans totalled just over \$400,000 for operating capital, livestock, machinery, buildings, equipment, and land.

Pre-tax net returns to ownership, management, and risk were \$37,612 once total expenses of \$433,591 were deducted from milk, cull cow, and bull calf sales of \$471,591. Owner labor was included as an expense item of \$24,000 per year. Other major expense categories (and the proportion of total expenses) included feed cost less sales of excess feed supplies (40%), loan repayments (20%), herd management (9%), labor (9%), and overhead (8%).

Total production cost including payments for owner labor was \$13.14 per cwt. of milk produced. This cost was offset by \$1.52 per cwt. of milk produced from non-milk revenues of calf and cull cow sales for a net cost of milk production of \$11.62 per cwt. When this cost of production is compared to a milk price of \$12.77 per cwt. profits in dairying appear more acceptable than throughout much of the past two years.

This representative dairy required nearly 70% of its receipts to cover operating expenses while allocating over 17% to debt service requirements. Over 35% of receipts went to pay feed expenses and just more than 8% for labor. Farm debt was just over \$2,000 per cow and required an annual debt payment of \$412 per cow.

Recommendation. Dairy farm managers are continually challenged to monitor their business conditions just as they are to oversee the productivity of cows. These tasks are facilitated by analyzing production and financial records and by developing standardized performance measures. These measures will point to problem areas, provide a basis for making management decisions, and track the direction and health of the dairy business when observed over several production cycles. Computerized decision tools assist managers with these tasks and allow them to analyze their information more accurately and on a more timely basis.