Offering Financial Consultation as Part of a Production Medicine Practice

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Bovine practitioners anxious to provide more profitable services for their clients have adopted production medicine techniques into their practice. These veterinarians recognize that, although traditional reproductive herd health and sick cow programs are necessary services for the dairy industry, these services stop short of being an investment in improved herd health. By consulting in replacement rearing, ration balancing, udder health, ventilation and barn design, and records analysis, production medicine veterinarians can impact cow health and production. Improved health and production will reward the producer with increased profits.

Many producers, accustomed to sharing their records with their veterinarian, seek input on their financial records as well. By incorporating analysis of financial records, production medicine programs become more focused, and prioritized. This paper will outline how I incorporate financial data into my consulting program, and how this information affects our production medicine services.

My financial consulting involves 7 steps:

1) Verify that the figures provided me are valid, and standarized.
2) Convert figures to dollars per hundredweight.
3) Subdivide the farm business into various enterprises.
4) Identify efficiencies and opportunities
5) Merge financial and health data.
6) Establish priorities; make a plan.
7) Measure results.

Great variation exists in the producers' ability to provide me with the necessary inputs for this analysis. On some farms, I am provided with a monthly statement of farm expenses summarized into appropriate categories. On other farms, the only information available is the expense summary used in income tax filing.

Because most farms pay taxes from a cash system of accounting, these figures must be reviewed and adjusted to reflect the cost of producing milk in the period, regardless of whether the bills were paid. For example, in December 1990, most farms paid for feed to be used in January 1991, to reduce their 1990 tax liability. When evaluating the cost of production in 1990, this prepaid amount must be subtracted, and when evaluating 1991, it must be added in. Many of these same herds were deliquent in their feed bills in December 1990. Their unpaid feed bill must be added to 1991's expenses. Without these corrections on both ends, last year will look very efficient, as only 10 months feed was paid for.

After certifying that the year's expenses are properly represented, I make an effort to standardize reporting. Many farms report FICA payroll payments under taxes, and Workmen's Compensation under insurance. As both of these expenses are really labor costs, we report them as subcategories under labor. Often, expenses that appear unusually high or low are simply the result of differences in reporting. If labor still appears low after adding FICA and Workman's Comp. back in, look at utilities and rent. If one or both of these areas are high, housing may be part of the compensation package for labor, but the costs are entered under utilities and rent. Land rent should be part of the cropping enterprise, and shouldn't include renting a house for labor.

Once confident that our figures represent the true expenses associated with the farm, each figure is divided by the hundredweights of milk shipped in the same period. Cost per hundredweight of milk production is preferred over net return per cow, or return on investment, as it is independent of milk price and farm debt.

Computing subtotals assists us in evaluating major management areas on the farm. The most useful subtotals are labor and feed. Feed is further divided into feed purchased for cows, feed purchased for replacements, and crop expenses.

These figures are also grouped to divide the typical Northeast dairy farm into three distinct enterprises: milk production, replacement rearing, and crop production. Comparing these values to other herds helps identify which enterprises are managed well, and which enterprises show opportunity for improvement.

Combining this information with the health data generated from our production medicine programs, we prioritize future expenditures of capital and labor, and establish a plan of action. To measure the impact of our production medicine program, we review the financial records in the future, and evaluate the results of our intervention.

This measurement of response has become a vital and revealing component of our production medicine practice. We often use computer spreadsheets that promise attrac-

tive returns for the producer that adopts new techniques. These returns may be derived from such theoretical savings as a lower somatic cell count, less days open, or younger age at first calving. Reviewing financial records demonstrates for the producer, and his consultant, the verifiable returns that were actually realized from the recommended changes.

How I use financial records in my production medicine practice is illustrated by a herd with excessive costs per hundredweight for veterinary services and medicine. Summaries of health data reveal that the percent of cows treated for mastitis each month far exceeds the average for other herds, and a chronically high somatic cell count. The routine milking system evaluation, done as part of the production medicine program, identified severe inadequacies. Updating this equipment now becomes a high priority.

In addition to the anticipated savings from lowering the somatic cell count, we can calculate for this producer the difference in expenses for mastitis in his herd, and the average herd we consult for. This savings is much more tangible for the herd owner, and more likely to be incentive for change, than the theoretical milk response from reducing somatic cells.

But don't we recommend updating all milking systems we find to be inadequate? Certainly not. Our clients may be unique, but they have limited financial resources.

Consider a second herd with the same inadequacy in the milking system. This herd treats less than 2% of the milking string for mastitis each month, and routinely receives bonuses for a bulk tank somatic cell count below 100,000 cells per milliter.

This second herd is spending more than the average for labor, due to poor facilities available for raising youngstock. In this herd, the milking system is a lower priority, and evaluating the replacement raising enterprise is a greater concern.

Other data relative to the enterprise of raising replacements is evaluated, including purchased grain for replacements, average age and size at first calving, and average first lactation peak milk production. In this herd, we must debate the merits of staying in the youngstock business. If our summary of heifer data shows substandard performance, in addition to the problem of labor expense, we have two clear choices. This producer must either cut expenses and get out of this enterprise, or make building a proper facility his top priority.

Both dairies will eventually follow through on recommendations to update the milking equipment, but at different priority levels. For the first herd, reducing the expenses for treating clinical mastitis may justify borrowing money to upgrade the system immediately. The second herd will place this project on a list of capital expenditures to undertake during the next high cycle in milk prices. Because there is less potential for immediate payback, the second herd will wait until the job can be done out of cash flow.

Effective use of financial records allows the production medicine veterinarian to evaluate past performance, identify priorities for the future, and measure future performance.

Production medicine services, and farm resources, become more clearly focused and prioritized. Monitoring response to our efforts adds legitimacy to our programs. Producer confidence increases, and demand for services improves.

As veterinarians providing consulting services, we assume some responsibility for the financial health of our clients. Many of our recommendations require expenditures of capital and labor by the dairyman. Before making such recommendations, we should clearly demonstrate the priority of each expenditure. After making recommendations, we have a duty to measure the impact of our advice on the farm's financial success.

If we use computer spreadsheets to project potential savings from our intervention, we had better be able to find this money in the producer's checkbook.

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