Financial Aspects of Production Medicine Consulting

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Through the 1970's, dairy practitioners developed herd health programs aimed at improving reproductive efficiency on dairy farms. These programs sprung from practitioners' desire to make producers more profitable, and the knowledge that poor reproductive performance was a leading cause of economic loss on many dairies.

These programs began to change the role of the veterinarian in the dairy industry. Producers gradually recognized the potential to use their veterinarian as a source of management advice, in addition to doctoring sick cattle. Over the past decade, dairy practitioners have enlarged their scope of impact to include what we now call dairy production medicine. Production medicine programs evolved as practitioners realized the shortcomings of rectal palpations in providing preventive medicine, and as they recognized the link between nutrition, environment and cow health.

Most full time dairy practitioners now offer at least some aspect of production medicine services. These services may include, in addition to reproduction programs, ration balancing and feed bunk management advice, replacement rearing programs, housing design, plans for improved udder health and milk quality, and analysis of production records.

Producers that view even successful sick cow visits to be avoidable expense have come to recognize production medicine visits as valuable investments. The analyses provided by production medicine visits often results in recommendations for further investment by the producer in new or modified equipment. When making such recommendations, the practitioner typically has identified that making the change will reduce cash costs of producing milk or will result in improved cow health.

What typically has not been analyzed is the farm's ability to incorporate this new capital expenditure into their debt repayment schedule, and whether this expenditure should be the highest priority on the dairy. A computer spreadsheet analysis of the benefit of a TMR mixer may document improved efficiency in feeding the cows, and that the pay back of the mixer is just two years. The spreadsheet does not question if the added short term indebtedness can be met in the next six months. The spreadsheet also puts no relative priority on the purchase.

The producer may have cash in the bank to pay for the mixer, but is it the highest priority for his/her dairy? If 15% of the herd is culled each year due to injury in poorly designed stalls, should the cash on hand buy a mixer? Perhaps the money would be better spent remodeling the barn.

I'm concerned that some of our best intended recommendations result in poor use of our clients' resources. Analyzing financial records can provide the additional information needed for making focused decisions.

In northern New York, young dairymen that started conservatively in the 80's can now produce milk, after meeting all obligations and taking a reasonable family living, for $12.33. The average cost of production for Massachusetts herds in 1991 was $16.39. Assuming this to be somewhat representative of the Northwest, we have to ask, "Where did they go wrong?".

This high cost of production is largely due to poorly planned capital expenditures. Money was either spent on the wrong purchase, or at the wrong time. I'm confident that expenditures recommended by production medicine veterinarians address proper purchases, but I'm not confident that the expenditures come at the right time, or are properly prioritized and planned.

One method of improving the decision making process is through analysis of financial records. My financial analysis involves 7 steps.

1) I must verify that the figures provided me are valid, and standardized. Farmers pay their taxes on a cash system of accounting, so figures generated for tax purposes rarely reflect actual costs of production. When comparing one farm to the average, we must be sure we have standardized reporting between all farms.

2) Convert figures to dollars per hundredweight. Cash cost of production in dollars per hundredweight gives a measurement of management that is independent of milk price or debt level. Dollars per hundredweight needed to meet all obligations gives a measurement of future viability of the farm.

3) The farm is subdivided into various enterprises. Most northeast dairy farms are actually three businesses. These farms include a dairy facility, a heifer raising enterprise, and a field corp enterprise.

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4) The dollars per hundredweight figures are used to identify efficiencies, and opportunities.

5) This analysis is merged with production medicine health records. Financial records alone are just part of the picture. Including summaries of production records illustrates why some of our less efficient areas aren't performing.

6) After identifying opportunities, we must establish priorities, and make a plan.

7) After implementing a plan, we must be prepared to measure the results.

It takes more than a well balanced ration and a proper milking system for dairy producers to be successful. The basic keys to success are providing optimum cow comfort, and utilizing sound financial analysis. Although my month to month goals for my producers include ration balancing, maintaining adequate pregnancy rates, and monitoring the milking system, my year to year goals are to produce milk, after meeting all obligations and providing family living, for less than $12.50, and to reduce debt to less than $2500 per cow.

I am convinced that these goals can be met if we focus our attention on the greatest opportunity areas, as well as the areas we can most surely control. Everyone of us works for producers that enjoy fantastic returns on our programs, and other producers whose returns are more marginal. Assuming that we balance the rations with the same philosophy for all herds, it would appear that milk production is not always within our ability to control.

What can be controlled are the costs inputs involved in feeding the cows. For this reason, my approach to ration balancing is not to identify the missing magic ingredient, but to control costs. I often see herds with mediocre production trying to turn things around through expensive feed additives. The end result is poor production coupled with high expenses. In some cases, the rations costs are so high that cash flow would be poor even with high production.

Allocation of forage is another cost input that generally can be controlled. Designing cropping programs to fit strategy, rather than the other way around, can have a great impact on the cost of feeding.

Because heifer growth more predictably responds to our inputs, we can't overlook this opportunity for financial savings. We can routinely raise heifers to be 50" tall, and ready to breed, at 12 months of age. Any herd missing this mark is missing an easy opportunity to improve cash flow.

As already mentioned, the most important management area is cow comfort. Air quality, and stall design and comfort, are within our ability to control every day. Before making any other capital expenditures, we must be certain that these areas have been addressed. Milk production as a result of cow comfort is a lot easier on cash flow than production driven by feed additives!

If we control input costs, raise replacements optimally, and provide the best comfort for our cows, our dairies will be successful. Combining health and financial records will prioritize farm capital and labor toward the next most significant management areas.

If we demonstrate the benefit of our efforts in dollars per hundredweight, with numbers from the farmer's checkbook, we justify our position on the dairy, and maintain his/her interest in future production medicine programs. The future continues to shine brightly for that segment of the dairy industry that embraces these concepts, and exercises sound financial planning.

**"God grant me the serenity
to accept the things I cannot change,
the courage to change the things I can,
and the wisdom to know the difference."**