

INFORMATION FLYER

What is Profit Profiler?

Profit Profiler is a dairy financial analysis service that combines both the financial and physical aspects of managing a dairy business and provides three simple benchmark reports that rank your dairy business against a peer group of your choosing. The analysis looks at things from an overall financial perspective, cost of production for both livestock and crops as well as physical numbers you are used to seeing. In addition it uses research based factors along with your costs and returns and will project expected results to changes to production parameters.

The service will evaluate a period of one year that corresponds with your financial fiscal year end. Projections will use that base and show the impact of change for another year.

The analysis takes about two to three hours to complete and a certified DHI representative or independent advisor will help you through collecting and recording the information and interpreting the results. You can compare your business to peers by size, production or geographic location.

The program was designed to do four things:

- Compare an individual business with other progressive dairymen including PCTL ranking for over 40 measures
- Show costs and returns for four enterprises: Dairy Cows, Replacements, Forage and Grain Production
- Use your own costs and management measures to project the financial effect of a change in production parameters.
- Allows us to identify the measures of progressive profitable dairymen

The reports show your business from those four viewpoints.

Participants were asked to provide financial and production information and break down this information as it applies to the four enterprises. This is so actual costs and returns of each enterprise will allow more accurate projections.

Interested in More Information?

Profit Profiler Dairy Financial Analysis Service is available to all dairymen. You do not have to be on a DHI testing program to use this service. For more details, visit www.profitprofiler.ca or contact Bill Grexton, CanWest DHI, at (800) 549-4373 ext 254.

Key Measures in the Reports

There are three evaluation reports plus "What if I changed...".

Report 1 is an overview comparison of your business to the other businesses in the group. Whole farm profitability and economic ratios are compared. Some measures are:

- Total variable cost
- Total fixed cost
- Cash available for debt and depreciation
- Costs and returns over costs expressed as per hl milk or fat sold and per person
- Milk sold per person
- Debt per kg fat sold
- Principle and interest payments per kg fat
- Financial ratios

Report 2 shows cost of production for Cows, Replacements, Forages and Grains. In addition you can compare the profitability of your "Dairy" business with your "Whole Farm" business. Some measures are:

- Forage cost per acre
- Grain cost per acre
- Cost to raise a heifer
- Cow cost per hl sold
- Cow cost per kg fat sold
- Actual homegrown feed cost
- Cow and Replacement feed, health and labor cost as % of milk sales
- Return over cost per HL
- Return over cost per kg fat
- Total milk cow and replacement cost as % of milk sales

Report 3 compares physical production numbers for each enterprise, investment, labor efficiency and shows you what % of your expenses is spent in crops, livestock, labor or debt. Some measures are:

- Acres fed per cow
- Forage cost per cow
- % of feed purchased
- Performance of 1st lactation cows
- Milk and fat SOLD per cow
- Milk revenue per person
- Return per cow or kg fat from milk cows only

It allows you to compare your machinery, building and quota investment per cow to see how your peers are investing compared to you.

Report 4 uses your production, costs and sales information to allow you to measure the financial impact of changing:

- Production
- Reproduction
- Cost of Production
- Udder Health
- Replacement Management
- Price changes

You can see the net effect of each change, the combined effect of multiple changes and the debt servicing impact of additional quota needs due to production changes.

Ranges tell more than Averages

Two things will help you decide which cost to tackle when looking to improve: how much range there is within the group and what percentage of the overall cost it represents. Looking at the range for comparable herds will allow you to answer both questions.

This table shows the range that occurred between the 25th and 90th percentile of the 36 herds with 2008 data (65% of the herds involved). Remember there are still herds with values beyond what is shown.

TABLE I: RANGE IN VALUES - 2008

	25th PCTL	90th PCTL
Cost to make \$1.00 of revenue	\$0.87	\$0.72
Milk cow total feed costs (% of milk revenue)	28.1%	17.0%
Milk cow labor costs (% of milk revenue)	9.4%	4.3%
Total cow costs (% of milk revenue)	57.6%	46.3%
Milk sold per cow per year	\$8,710	\$10,872
Milk revenue per person	\$311,675	\$608,013
Cost per heifer per year	\$1,046	\$602
Forage cost per acre	\$517	\$269

The first thing to note is that within this 65% of the herds, there is a \$0.15 range in overall costs for every dollar earned. That means for herds with \$750,000 gross revenue (\$575,000 from milk), someone has \$112,000 more profit than someone else. That leaves a lot of room for improvement.

Second, consider the feed costs. The average is 24.8% of milk revenue (with a range of 10 percentage points or about \$63,000). Approximately half of that will be in purchased feeds and the rest will be homegrown feeds. That means if you reduced your purchased feed costs from 12% to 10% of milk revenue, you could add \$11,500 to profit. The same amount could be made by reducing crop costs.

Third, look at labor costs. Milk cow labor cost averages 7% of milk revenue and the range is 4.3% - 9.4%. If you could reduce labor costs by 10% (or 0.7% of milk revenue, which is reasonable), that would add \$4,025 to the bottom line.

It is similar with the cost to raise heifers — there is \$37,000 per year range for that 100 cow herd size. It is interesting to note that there seems to be no relationship between herd production and cost to raise heifers.

There are more costs to consider than just these. However, which move has the best chance of improving profit? Which would be the easiest to achieve?

As dairymen know, one alternative may be “What would be the impact of purchasing quota, increasing production or reducing cows and increasing production per cow?” Which option has a better outcome? The “What if” report from Profit Profiler is the best way to evaluate each of these alternatives.

TAKE HOME MESSAGE: Knowing the range and the possibility for improvement in that area allows you to plan effectively.

What is Included in Cost of Production?

The most difficult part of any true cost of production analysis is to allocate the costs to the enterprises as required. However, to get an accurate picture of the true cost to keep cows or grow forages, you need to take into account ALL costs.

For example, most of us think that fuel is a crop cost. However, when you calculate how many tractor hours are spent around the barn mixing feed, or other jobs such as scraping, you may find that more than 30% of total fuel bill could be a COW cost. A number of participants found that to be true. True cost of production for an enterprise needs to include every cost.

The owner's drawings are to compensate him or her for labor, management ability and investment. What portion of your drawings do you allocate as a labor cost to your cows? That is part of the true cost of production.

Building repair may include a forage storage expense. Part of truck expense is to get supplies for the cows. Most of your custom work expense may be relief milkers and not for forages or grains. To get an accurate cost of production, you need to realize where each part of every expense is used.

Why? So you can make better management decisions. For example, if you found that your cost to grow grains was higher than what you could purchase it for and you were planning expansion, this would help you to decide whether to buy more (expensive) land or to buy grain instead.

What about your cost to raise heifers? What is your cost to grow forages? What is your true cost per HL of milk sold? You can not know how you will compete in the world market until you accurately know all your costs.

A major issue is how you record your costs. For some expenses like feed, it is a matter of being more specific when recording them in your bookkeeping system. Virtually all computerized systems allow you to subdivide expenses and then provide you with sub-totals as well as the overall total at the end of a period. If yours does not, you should consider getting a different program.

For other costs like fuel or labor, you need to decide afterwards how the expense should be allocated (example: based on tractor hours or labor hours) with each enterprise.

Regardless, you need to allocate costs as accurately as possible or your 'Cost of Production' value is flawed. Once you have been through the process, you can truly know which enterprise (and which cost within that enterprise) you can change to improve your profitability.

The last point to be made is how often you check your cost of production. Sadly, many people see the totals four months after the year end when it is too late to do anything about it. I recommend you should do it at least quarterly and compare the results to your budget.

What is the benefit of doing this? If you can save just 1% of your cow costs, for a 100 cow herd that would amount to \$7,000 added profit — profit you earned because you did another job well!

The following companies have personnel trained to offer the service. For more information, please visit www.canwesthdi.com/profiler.htm

