



## PARTICIPANT NEWSLETTER

### Sharing Information and Trends

This newsletter is to help you understand the results of your analysis and show some trends based on various management differences.

We would appreciate any comments or helpful hints for future newsletters. Please contact Bill Grexton at 1-800-549-4373, Ext 254 or [bgrexton@canwestdhi.com](mailto:bgrexton@canwestdhi.com). For more information, visit [www.canwestdhi.com/profiler.htm](http://www.canwestdhi.com/profiler.htm)

### Why Should a Dairyman Use Profit Profiler?

Bill Grexton, Herd Management Services

Making the decision to go through the process is hard for many dairymen. The main obstacles include workload, confidentiality, value of the results and understanding what is reported.

We understand that when this program was developed and much of the time spent (and associated cost), with the analysis is to help the dairyman collect the information, allocate it to the proper spots and discuss the results with them.

What is the value? A number by itself is meaningless. It establishes a value when it is compared to a measure that is known and understood, like a peer group average for similar businesses. When a number of separate measures point to parts of the business structure showing strengths and weaknesses compared to the peer group, now it has a lot of value – value that very few dairymen have today.

The “What If” feature of this program allows the manager to see what change has the best return based on his own management, costs and production numbers. For example, two herds that may look similar in milk production may have very different costs of production and this will affect borrowing capacity and expansion plans (even of a few cows). This has been seen time and time again. This product allows the dairyman to see what makes sense and what does not.

Only people who have been trained and who understand both how to collect and interpret reports, as well as the confidentiality of the numbers collected, are allowed to offer it to the dairyman. This is a service that provides value and it needs to be offered by qualified people. That is why only certified advisors will be allowed to offer this program to dairymen (Refer to the website for a list).

Advisors who use the results have more confidence in their recommendations.

**Take Home Message: Knowing where you excel, as well as where you need to improve, allows you to make better management decisions.**

### What Do High Profit Dairies Look Like?

Bill Grexton, Herd Management Services

Probably the most basic way to measure profitability is to measure how much is left after all the bills are paid. In this comparison the herds were allocated based on the percentage profit after all costs were paid. Because it was compared as a percent of profit, herd size should not be a factor. What happened however, is the more profitable herds had considerably more cows.

So how much difference is there? Is it significant enough that it is worthwhile “trying to move up the ladder”? To start with, the high profit group paid only \$0.702 to make \$1.00 of revenue, while the low profit group paid \$0.909. That \$0.20 for each dollar earned is used for return to management, risk and principle repayment (owner labor is already included in the cost).

In terms of total profit earned, the high profit group (which had larger herd size), made a net profit of \$514,300 compared to only \$98,700. When adjusted to the equivalent of a 100 cow herd, the high profit group earned \$238,100 while the other group earned \$66,700 – or more than 3.5 times more profit. What were some of the differences?

**Table 1: Comparing High and Low Profit Dairies**

	High Profit	Low Profit
Cost to make \$1.00 of revenue	\$0.702	\$0.909
Milk cow total feed cost as percent of milk revenue	22.0%	25.7%
Milk cow labor cost as percent of milk revenue	6.3%	8.9%
Health and breeding cost as percent of milk revenue	3.1%	3.7%
Total cow cost as percent of milk revenue	47.9%	57.2%
Total replacement cost as percent of milk revenue	10.0%	13.0%
Cost per heifer per year	\$823	\$1,045
Milk sold per cow per year	9,794	8,999
Milk revenue per person	\$500,200	\$298,900

As you can see from Table 1, the high profit group sold more milk per cow and per man. In terms of gross earnings from milk and

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livestock sales, the high group earned \$522 more per cow. Only \$50 of that was improved livestock sales. Total labor costs were 12.3% of gross revenue compared to 15.2%. Total milk cow costs were \$33.32/hl which was more than \$9.50 less than the low profit group.

Replacement costs were an additional \$7.38/hl which was also \$2.50 less than the low profit group.

In my estimation, that makes it worthwhile trying to make an effort to improve. Even a ten percent improvement is a lot of additional profit.

What else was different? High profit herds had higher total debt, but less debt/kg fat sold (about 25% less), and had more than adequate profits to cover the principle payments owed. The low profit herds in many cases did not generate enough profit to cover principle payments. Below are a few other comparative measures.

**Table 2: Comparing High and Low Profit Dairies**

Area	Measure	High Profit	Low Profit
Reproduction	Pregnancy rate	17.8	17.1
Cropping	Percentage corn silage	29%	31%
	Forage cost per acre	\$427	\$405
	Forage acres per cow	1.5	1.9
	Forage cost per cow	\$637	\$735
Heifer Program	1st lactation production: herd avg.	90.4%	83.1%
Labor	Kg fat sold per person	27,165	15,900

It appears that reproduction and forage mix had little impact on the differences. Crop yield as indicated by number of acres needed per cow had the impact of reducing costs almost \$100 per cow. The bottom line was the additional milk sold per person and per cow increased net income. All of the expenses shown were lower when expressed as a percent of milk revenue even though they may have been higher as a dollar value.

**Take Home Message: High profit can be found in all herd sizes and means getting more return for each cost invested in the business. Profit Profiler will identify which expense needs to be evaluated and adjusted.**

If you are considering expansion or improving profitability, you need to have this analysis done. You do not need to be a DHI customer to participate. ALL INFORMATION RECEIVED IS CONFIDENTIAL and is not shared with any other person other than their specific program representative.

## Additional Comparisons

Tables 3 and 4 compare the high and low production and large and small herds. In future newsletters we will show comparisons based on other management strategies. As per protocol, each group has at least 20 herds.

The purpose of this analysis is to show that there are significant differences among management styles.

Identifying where your business is allows you to decide which management change has the greatest potential to improve your profitability.

**Table 3: Comparing High and Low Production Dairies**

Measure	High Prod'n	Low Prod'n
Milk sold per cow per year	10,679	7,999
Total cow cost per cow	\$3,688	\$3,196
Total cow cost as percent of milk revenue	49.2%	53.7%
Milk cow total feed cost as percent of milk revenue	22.2%	24.8%
Milk cow cost per hl	\$35.57	\$41.31
Forage cost per acre	\$408	\$402
Kg fat sold per person	26,063	20,574
Cost to make \$1.00 of revenue	\$0.770	\$0.836

Even though the high production group had higher costs per cow, because of the additional milk sold, the overall cost was much lower. Each cost expressed as a percent of milk revenue was lower including the overall cost to make \$1.00.

**Table 4: Comparing Large and Small Dairies**

Measure	Large	Small
Number of cows	334	73
Number of cows per person	78.6	40.3
Total cow cost as percent of milk revenue	48.1%	56.2%
Milk cow total feed cost as percent of milk revenue	22.4%	25.4%
Milk cow cost per hl	\$35.87	\$42.33
Forage cost per acre	\$427	\$398
Kg fat sold per person	28,640	13,588
Cost to make \$1.00 of revenue	\$0.775	\$0.836

One of the largest differences in this comparison is the amount of milk and components sold per person. While feed costs were slightly higher for the smaller herds, a large part of the difference in overall cow cost was the higher labor cost per hl milk sold.

## ADVISOR INVOLVEMENT WITH PROFIT PROFILER

In addition to CanWest DHI, a number of Advisors (including those below, or perhaps someone you are already dealing with), can provide this service to you. Their personnel have been trained to collect the information and explain the results in accordance with DHI requirements. For more information, please visit the DHI website.

