

BILL GREXTON, MANAGER OF HERD MANAGEMENT SERVICES, CANWEST DHI

With the low availability and/or high price of quota and the probability of an increase in interest rates in the near future, many herds are looking to improve efficiency in order to maintain or grow margins. The key question is "Which change will have the best results?"

With cows making approximately \$35/hl margin after their own costs, one of the best ways in the past was to increase the number of cows – as long as the acquisition cost of cows, facilities and quota could be covered by that \$35. However, for many that is not an option right now. Is there a way to increase that \$35 to \$40 /hl?

To start with, let's look at cost per KG of FAT SOLD as a better way of measuring cost and profitability. That takes into account variations in BF percent and Protein percent. So, instead of talking \$35.00, lets use \$8.80/kg fat sold instead. It is interesting to note that with the herds using Profit Profiler, the range in margin after cow costs was \$6.55 – \$9.53/kg fat sold (for the middle 2/3 of herds). That means that many herds could improve their margins with better management of resources.

## WHAT OPTIONS ARE THERE?

**More milk per cow.** If additional quota is not available and you increase milk per cow and reduce the number of cows to stay "in-quota", that means lower cost of production because you save the maintenance cost of the extra cows. Here is an example using the Profit Profiler program:

Don Dairyman, a high-cost dairyman with 95 cows has a cost to produce 1 kg of fat of \$10.39 just for the cows (heifers and other costs are in addition to that). By increasing milk 500 kg per cow, he was able to reduce the number of cows needed to 85. This increased his profit after cow costs per kg of fat sold by \$0.33, but because of additional land he could sell cash crop from, his bottom line improved by \$0.47 per kg of fat (or about \$15,000).

**Increasing Protein Fat Ratio.** This is an old strategy, but the reality is that if you can sell additional protein within the existing quota, there is additional income. In every herd there are individuals that drag this ratio down. You need to find them and replace them with animals with

a closer ratio – of course remembering to stay below the herd SNF limit. To achieve the additional revenue, you need to know which cows to replace, which means using DHI test day services.

**Improving your Pregnancy Rate (PR),** will reduce the number of cows needed to fill quota simply because a cow spends less time in late lactation or dry and more time at the higher part of lactation. Research has shown that the amount of impact depends where you start, but if your current PR is 12, improving it will net your business \$66.00 per cow for each point of increase. For example, 100 cows going from a PR of 12 to 16 could expect to see a \$26,400 bottom line improvement. The other side of that is if you start at a PR of 22 and get to 26 (which is exceptional), the financial impact will only be \$15.00 per point of increase (or a total of \$6,000). Having Dairy Comp as a herd management tool will allow you to monitor changes and progress in this area.

There is not enough room in this article to allow me to talk about other ways to improve profitability. However there are many other options some of which you know, and some I'm sure you haven't thought about. Using the Profit Profiler Dairy Financial benchmarking service can help you see where you can make the most appropriate change. It allows you to look at many different possibilities with the "What if" option and allows you to see which option makes the most sense for your business.

For those who haven't thought about making changes (because everything is going okay and you don't plan to change much), consider this: Interest rates will probably rise in the next couple of years with some analysts predicting as much as 4%. For every \$1,000,000 of debt one has, each 1% increase in interest rate will require an additional \$10,000 each year to pay for it. Can you handle this change? It will be coming! The increase in milk price probably will not cover it. You will have to find it from improved efficiency.

In addition to DHI services and Profit Profiler, make use of your advisors' expertise. They can offer you ideas and options to improve profitability.

Dairy farming is a business and should be treated as such. Make a pro-active change.



The Canadian Farm Business Management Council (CFBMC) is the only national organization in Canada devoted exclusively to developing and distributing advanced farm management information

Supported by Agriculture and Agri-Food Canada and a growing number of private partners, the Council is fulfilling a significant role in nurturing a thriving Canadian agriculture industry.

The Council's wide range of information products such as CD-ROMs, books and DVDs cover topics of relevance to farmers such as biotechnology, succession planning, marketing, human resources and finance.

Support for major farm management events; a web site updated daily; and collaboration with industry, the education sector and provinces further help to address the management information needs of Canadian farmers in a globally competitive environment.

A list of events and resources that are planned will be included in your DHI herd reports later this fall. Like the dairy business which has both strengths and weaknesses - which are opportunities to make improvements, so do people.

Material available from CFBMC can help the dairyman become a better businessman as well. Use the available resources to make your overall life easier and to improve your bottom line.

More information can be found at [www.farmcentre.com](http://www.farmcentre.com).

An area of dairy management that has become increasingly demanding is the management and monitoring of quota utilization. Dairy Comp SCOUT has a tool that can aid producers in the area of quota management for their dairy business.

The PROJECTED INVENTORY report projects the number of cows in milk at the beginning of each month for nine months into the future. This report uses the number of cows to freshen based on expected due date and the cows needing to go dry based on the estimated dry off date to arrive at a number of cows in milk for each month. These projected calving and dry off totals are displayed per month for an easy and quick reference.

This report can also provide an excellent summary of cows due; a click of the graph option quickly shows the number of expected calvings per month. The percentage of the herd in milk, cow inventory and first lactation animal inventory changes by month for nine months into the future is also displayed.

In addition, the user can enter a culling rate of 1st lactation animals as well as older animals to represent their herd culling practices, which could more closely estimate the number of milking animals into the future.

Knowing the number of cows milking in the herd for each of nine months into the future can help the producer determine when culling or purchasing of animals may need to occur to maximize quota utilization.

The dairy's heifer inventory is also updated for future months by using an estimate of heifer calves born and the number of heifers calving each month. This information can be helpful in determining opportunities to sell heifers in the future.

The PROJECTED INVENTORY report is another tool that Dairy Comp SCOUT offers that can help dairy producers effectively manage their dairy business.

One of the most informative report that DHI supplies is the Herd Management Report – Herd Monitor.

The front of this report is very familiar to most producers and advisors who are tracking herd trends and improvements. On the back of the report is an often forgotten section, called the Management Monitor.

The Management Monitor has "Management Measures" that are common to the Herd Management Score calculated annually by DHI in February with your annual summaries. Each of these six measures highlights a management area for the dairy herd. In this section of the report, there is an economic opportunity for each management measure. The economic opportunity is calculated by comparing a target goal to the actual values for each area and multiplying the difference by a relevant dollar value.

The Target Goal is listed under the Herd Performance column beside the herd's Actual values. If the goal is set lower than the actual performance, no "Economic Opportunity of Reaching Goal" will exist. Therefore, it would be much better to review and keep these goals updated and current so that the areas of greatest economic return can be highlighted. As each goal is achieved it can be re-evaluated, or focus could be placed on another management area.

Each Management area has the percentile values listed as a guide post for you to compare your actual values and help with your goal setting. The percentiles are listed for the 25th, 50th, 75th, and 90th percentiles. Keep in mind that the 90th percentile may not be the most desirable depending on your goals as an enterprise, as would be the case in the groups of "Longevity, and Herd Turnover". Having a herd that is too old misses out on genetic improvement while selling and culling cows too soon doesn't take advantage of the profitability of multiple lactations and higher production.

So, next test day review your goals with your DHI field staff and update them if necessary to see if there are opportunities to be found on your farm.

If you have any questions please call the customer service desk at 1 800-549-4373.

# CATALYST

SEPTEMBER 2010 NEWSLETTER

## Changes in the industry means changes on farm

*Whether it is limited opportunity for growth, or a change to daily quota, producers must now approach things differently*

**BY NOW**, all dairy producers are aware and gaining a better understanding of some of the changes happening across the country as it relates to quota policies. Western provinces are moving to continuous daily quota (CDQ), while some provinces have seen a change in quota policies which is limiting the opportunity to purchase quota and grow herd size and cash flow at the farm level.

### Now more than ever, knowing and managing for components and ratio is critical for overall efficiency and profitability.

David Rinneard, National Manager, Agriculture with BMO Bank of Montreal, notes that "From a business point of view, dairy farms may have to approach things differently to grow profits. For many producers, purchasing quota and adding cows was the traditional growth strategy. In some provinces, that's becoming less of an option. You may now have to look at growing your margins to realize increased profit from your milk cheque. No doubt, focus on production efficiency is increasing."

Philip and Peter Armstrong of Armstrong Manor, a 290 cow herd in Caledon, Ontario, agree. "Over the years, at every herd size, we've always tried to be as efficient as possible before considering herd expansion. Now with the limited growth opportunity, the only option to improve our profitability is to get better at our current

herd size. It is clear that efficiency of production is where it's at and you have to manage your herd as well as you can."

For provinces that are moving to daily quota, an adjustment in 'the way of thinking' is no doubt required. You now have to focus on components yield, in particular fat yield. For many years under multiple component milk pricing, fat and protein yields were the focus. With what is currently happening in the industry, that focus has to increase even more. Actually, one could even argue that milk volume should be considered, but from a negative point of view, since milk cheque deductions are based on volume shipped.

Daily Fat Yield	Daily Protein Yield
1.39	1.19

When it comes down to looking at efficiency of production at the herd level, one must consider fat and protein kg yield per cow per day

as well as the ratio. Having a 35 litre average is certainly a good thing from an efficiency point of view, but more importantly is the components that are produced with that.

It is clear that high volume herds and cows will tend to also have high component kg yields. However, at the individual cow level that is often not the case. Within every herd, some cows will have average or above average milk volume but will be below or well below in components

Continued on page 2



1.800.549.4373 [www.canwestdhi.com](http://www.canwestdhi.com)

yield, or will have a poor ratio. Components yield is a function of volume and percentage components in that volume. Without knowing the percentage components you only have half the picture. Now more than ever, managing for components and ratio is critical for overall efficiency and profitability. The old saying that 'you can't manage what you don't measure' is very true in this case, and that's where DHI services can play a valuable role in this evaluation process.

## Many cows with good milk volumes are not paying their way when it comes down to components

Phillip Armstrong adds, "Monitoring and managing for components yield is becoming more important. Whether it be at the herd or group level, component data is important to confirm that your overall management and feeding program are effective and as efficient as possible to maximize profits from your milk cheque."

Many cows with good milk volumes are not paying their way when it comes down to components. Producers must now identify these cows and deal with them. The reality is that the only way to improve overall herd or group performance is to eventually deal with the individuals within the group.

As things change, our points of reference for herd performance will also have to shift. More and more herds are monitoring their production totally based on daily and lactation kilograms of components as well as the ratio. The goal is no longer to have a 35+ litre average, but rather a good daily fat and protein kg average with a ratio that allows you to maximize your milk revenue, based on pricing and the SNF limit in your province. Certainly this requires a change in how we're used to looking at herd and cow performance, but given the evolution of our industry and what is driving the economics, the time for a change in approach has come.

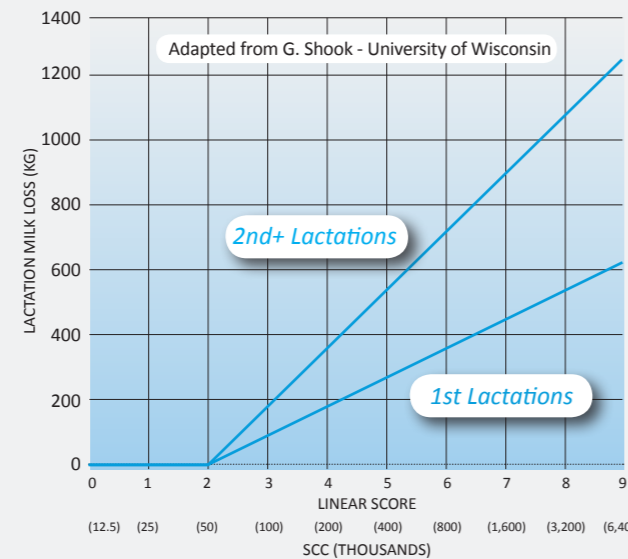
**To find out how DHI can assist you in managing components for optimum efficiency and profitability, call us at 1-800-549-4373.**

## Somatic Cell Count Penalty Level Heading down to 400,000

Another trend in the industry is a focus on continued improvements in milk quality and a decrease in somatic cell count (SCC) levels. A national initiative to reduce SCC penalty level to 400,000 cells (down from 500,000) is being implemented by each province over the next couple years.

Also, some provinces provide bonus payment for low SCC milk which can boost your milk cheque.

From an animal health point of view mastitis and high SCC are very costly to producers through treatment, discarded milk, premature culling, etc. More importantly high SCC is very costly from a production efficiency point of view. As illustrated in the chart below, studies have clearly indicated that as SCC rises above 200k cells, significant milk production losses begin to accumulate. Research has also demonstrated a negative impact of mastitis infections on reproductive success of cows.



So lower SCC not only improves milk quality and milk marketing but also improves production efficiency and ultimately profits.

DHI services such as individual cow SCC and Mastitis DNA testing are invaluable tools to help achieve good udder health and low herd SCC average. To find out how we can assist you, call us at 1-800-549-4373.

## Things Continue to Change



The only constant is change. This phrase is very applicable to our dairy industry. Whether it's our member organizations shifting focus and amalgamating to gain efficiencies and serve us better, or our provincial

marketing organizations adapting to changing markets and trade realities, these changes create both challenges and opportunities for dairy farm managers.

With the quota changes that are taking place in many provinces the opportunity lies in being able to market milk with the components at the desired level and ratio so that return on quota investment is maximized. The challenge is measuring and managing these components on a individual or production group basis.

SCC is another challenge and opportunity scenario. As Quality Premiums become more popular across the country, measuring individual SCC scores accurately and DNA testing suspect cows will be key to managing herd SCC in order to take full advantage of this opportunity.

As dairy farm managers across the country adapt to the changing realities of quota availability and market demands, they are looking for new ways to increase efficiency and over all profitability. CanWest DHI is looking forward to helping them measure and manage to attain their goals.

John Bongers

*John Bongers is a dairy producer from Elgin, Ontario*

### DHI PRIVACY POLICY SUMMARY

The information collected by CanWest DHI, voluntarily provided by producers through testing services, is available to customers in paper and electronic forms. Access to information by advisors and/or any other parties via mail, email, website, or otherwise, requires explicit customer consent.

Herds enrolled on DHI services may have information published for awards and recognition purposes with Annual Summaries and year-end publications. Additionally, selected information from all customers will be provided to Canadian Dairy Network for the calculation of genetic indexes and sire proofs. Where applicable, information is provided to various breed associations for recognition and breed improvement programs. Participation in DHI testing programs implies consent for the release of data to these third party organizations, unless otherwise stated to DHI.

From time to time, CanWest DHI provides marketing services to third party agricultural organizations. All methods of distribution of marketing materials maintain producer confidentiality. No producer information is sold, traded or otherwise shared.

CanWest DHI operates under Canada 's Personal Information Protection and Electronic Documents Act (PIPEDA).

Please Note: This is a summary of the DHI Privacy Policy. For the complete statement, please visit [www.canwestdhi.com](http://www.canwestdhi.com)

## Expanded DNA Mastitis Test Now Available

CanWest DHI is pleased to announce that the identification of the *Mycoplasma bovis* (M. bovis) organism is now part of the routine Mastitis 3 testing service. This enhancement to the test is being provided to customers at no additional cost. The Mastitis 3 service is now complete and includes all three common contagious pathogens: *Staph aureus* (and beta lactamase gene), *Strep agalactiae* and *Mycoplasma bovis*.

M. bovis mastitis is not believed to be very common in Canada. However, its effect can be devastating as it is contagious and unresponsive to treatment. Often, the outcome is to cull infected animals. The M. bovis organism is difficult to successfully culture; therefore, the DHI PCR test is a real enhancement in the diagnosis of this type of mastitis.

The convenience, reliability and rapid turn around of results of the Mastitis 3 test offers significant improvements in mastitis management. The test, based on Polymerase Chain Reaction (PCR) technology, identifies the DNA of mastitis causing pathogens.

According to Richard Cantin, DHI's Manager of Marketing and Customer Services, "We are pleased to offer this enhancement to our Mastitis testing service. Although Mycoplasma is not believed to be a significant mastitis causing pathogen here in Canada, the ability to identify it with more confidence will no doubt be welcomed by producers and veterinarians. This is a great example of value added service, where we are doing more for our customers, with that same sample and at the same price."



## HERD HEALTH

To maintain a healthy herd and protect your future, milk test for Johne's, Leukosis, and Mastitis.