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AUGUST·1999 A·NEWSBRIEF·FOR·THE·DAIRY·BUSINESS·ANALYSIS·PROJECT

WELCOME TO THE NEWSBRIEF

It is our pleasure to welcome you to the inaugural issue of DBAP.COM. The purpose of this newsbrief is to stay in touch with each of the project participants by providing up to date information.

This may include technical information that helps interpret reports intended for dairy business management. It may formally address questions that arise in the field that take some research to answer. Events and dates that involve the Dairy Business Analysis Project will be published. We also intend to increase the visibility of this project to you, the participant, and those advisors who you work with in managing your business. In essence, we want you to get the most mileage out of the project and facilitate sound business decisions.

By now, most of you should have had your analysis report delivered. If any questions arise as you dig into the report, please contact us with any questions you may have. We will publish the most frequently asked questions and answers in this newsbrief.

If you have not yet received your report, we may not have received complete information. Please contact us with any updated information or if you need your report in the near future. It is our intention to provide you with useful information in as timely a manner as possible. It is also not too late to join and receive a detailed report for fiscal year 1998.

WHAT ABOUT THE TOP 25%?

Upon returning the reports, we have been getting several questions regarding the makeup of the top 25% profit group. To address these questions, it takes an explanation on how this group was determined.

The top 25% profit group was computed by sorting by net farm income from operations per cwt. milk sold. This figure was computed as total revenues per cwt. milk sold minus total expenses per cwt. milk sold, both accrual adjusted for inventory changes. This figure does not include principal payments on liabilities or capital leases. However, interest expense was included. Because it was divided by the total pounds of milk sold, this profitability measure was not influenced by the size of the business.

As with previous years, it is difficult to typify the top profit group as a certain style of dairy. However, in 1998, certain market conditions may have favored some dairies over others. Several modified grazing dairies were present in this group, mainly due to their ability to feed cheap rations and achieve respectable levels of production. Some of these dairies had active cropping enterprises, suggesting that grazing is not necessary for superior profitability. There were also more 'conventional' dairies that made the list by feeding relatively inexpensive rations and capitalizing on the favorable feed markets.

Feed cost control was not the only factor that made these dairies profitable. As with previous years' results, the top profit group was superior in nearly all expense categories, emphasizing the importance of overall cost control. Many were surprised, however, with the much lower production level of the group. While this challenges assumptions regarding efficient production, it is important to realize that this is a non-random sample that is subject to biases present in the data.

The top 25% profit group also challenged the assumption that bigger is always better. While the average herd size of the top profit group of 1,003 cows was comparable to the project average of 994, there was tremendous variation within the group. Herd size ranged by 2,053 cows with herd sizes below 200 and in excess of 2,000. Similarly, pounds milk sold per farm varied by 35 million pounds. Both small and large dairies had a very profitable 1998.

Look for a more thorough analysis of this and other groups in upcoming summaries and newsletter articles. A preliminary listing of results is listed on the project website.

A GLANCE AHEAD…

As previously mentioned, we are currently in the process of returning fiscal year 1998 analysis reports. We have an exciting lineup of events planned in the upcoming months:

- ✓ Florida Dairy Business Conference: Marion County Extension Office, October 7.
- ✓ Sunbelt Ag Expo: Moultrie, GA. October 20.
- ✓ Southeast Dairy Herd Management Conference: Macon, GA. November 16-17.

We also plan to setup an advisory committee which will help plan future project direction including developing a nominal fee schedule for the 1999 report.

ADJUSTED REPLACEMENT EXPENSE

A big difference between the 1997 and 1998 reports dealt with how replacement expense information was collected and computed. Previously, it was assumed that all replacement expenses were expensed. This usually inflated replacement expenses, especially for those dairies expanding their herds. However, a couple of items should be kept in mind when interpreting this information:

- ✓ Since a majority of project dairies that buy replacements capitalized the purchases as an asset, the project collected in-depth capital livestock investment transaction and inventory information. This required us to separate inventory and transactions for purchased livestock from those raised. This treats raised livestock differently from purchased.
- ✓ If capitalized animals were sold, the sale was compared to the capital base less any depreciation. If the sale was in excess of the depreciated base, a gain on sale was recognized. If the sale was less than the base, a loss on sale was posted. This gain/loss was recognized as revenue according to Farm Financial Standards Council. As revenues, this is contrary to how replacement expenses are usually thought of.

To better understand replacement expense, an adjusted replacement expense was computed in your reports. This number properly computes expenses and should be used for replacement expense comparisons:

	Expensed livestock purchases (per cwt. milk sold)
+	Depreciation (per cwt. milk sold)
-	Loss (gain) on sale (per cwt. milk sold)
=	Adjusted replacement expense (per cwt. milk sold)

Of interest was the large variation in gains/losses on sale of capital livestock. Some of this may be attributed to the differences in the useful lives used for capital livestock. Accelerated depreciation methods may also account for large differences in this number. However, total adjusted replacement expense will adjust for accounting differences and more properly compute replacement expenses even if depreciation does not match the useful lives.

Another item of note is the difference between the gain/loss on sale reported for this project and that computed by your accountant. The beginning and end of year balances for capital livestock define the capital base that is used to compute a gain/loss for this project. Your accountant computes a gain/loss on individual cows and groups of cows for their useful lives. While the project computes this over an annual group 'base value', your accountant computes this over the life of the asset. The difference is when the gain/loss is recognized. The project methodology produces a more stable number that is less vulnerable to distortions created by tax management strategies.

PROJECT WEBSITE

If you are online, please check out the website for the Dairy Business Analysis Project. The address is http://dps.ufl.edu/DBAP/ and is full of updated project information. The general outline of the site is as follows:

- ✓ Current Results: The most recent articles, presentations, and publications using project information are listed here. Check this section often as it is updated regularly. Did you miss out on a presentation? Don't worry, a downloadable copy of the slides and proceedings are available for your use.
- ✓ Previous Year's Results: Archives of past years' summaries are available for view and downloading. Currently, we have 1995 and 1996 information listed.
- ✓ Example Dairy: Interested in joining the project? Then this is the section to check out since it lists out a sample report for an example dairy business.
- ✓ Other information: As the project continues to grow, the site will be updated with new features.

A comprehensive links page with dairy business information is now listed. Fiscal year 1998 summary information will also be posted as soon as it is available. Check out the site for the most recent and comprehensive project information.

Not online? Copies of any of the information listed on the site will be sent to you upon request.

PROJECT CONTACTS

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Any of the above people can answer your questions regarding the project and enroll your dairy. You may also contact the project manager via email hoekema@ufl.edu or phone: 352-392-5594.

DBAP.COM is published on a quarterly basis by the University of Florida, Department of Dairy and Poultry Sciences as an educational and informational service for participants and associates of the Dairy Business Analysis Project. Please address any questions, comments, or suggestions to Marvin Hoekema, Editor, PO Box 110920, Gainesville, FL 32611-0920. Ph. 352-392-5594.