

Do you know the cost of your self-raised feed?

Kevin Hernandez for *Progressive Dairyman*

What is the cost of growing your own crops? Do you even care? You should care; feed costs are the largest cost of production for a dairy operation and play a key role in getting your company the best bottom line. Knowing your costs will help you decide which crops to grow, what quality of feed you need and how much is needed to match your feeding rations.

You can take several paths to track crop costs, but using your accounting software, such as QuickBooks, is the most efficient. The biggest benefit of utilizing your accounting software is that it saves you time and money; both are hot commodities in the dairy business. Using QuickBooks saves you the hassle of entering your crop expenses into two programs, so that saves you a lot of time and you won't need to purchase another software program, which saves you a lot of money.

However, other programs may be more customizable if you find yourself limited by QuickBooks. The first thing you will need to do is modify your chart of accounts so these expenses are organized in a manner that makes printing reports easier. When you write a check to pay a farming expense, just put it in the corresponding account.

The most common type of accounts you will use are fertilizer, chemicals, seed, labor, rent, custom hire, spraying, fuel, water and taxes. How many accounts you need depends on how accurate you would like your figures. The next step is to enter these costs by the crop type. Using "classes" in your software is the easiest way to categorize these expenses. When set up correctly, you should be able to create many customizable reports, such as profit and loss statements that can be filtered by crop type.

At our company, we routinely use reports with customized classes to help prepare farming budgets and to track variances. Keep in mind that tracking the costs by crop type works well for the average dairyman, but not all farm ground is created equal. In some cases, also tracking the costs by field will provide you with better insight on inefficiencies, which will allow you the opportunity to correct those inefficiencies and maximize your farm ground potential.

Certain expenses will be more challenging to allocate to a crop. For example, when fuel is purchased, it could be allocated pro rata to each crop or field by the acreage. For even better accuracy, keep your farm fuel separate from your dairy fueling station. Other items such as labor, taxes, water and

even equipment depreciation will need to be allocated to each crop to achieve true costs.

Some operations also like to use Excel worksheets. The biggest benefit to going this route is that Excel allows you to customize and create any kind of report you can dream up. The problem with using Excel is that it is time-intensive; you are entering the farming expenses twice and the user must be diligent about double-checking their work. With more customization comes more human error.

There are several other items to take into consideration. First and foremost, are the production yields covering the production costs? How does the crop rotation match up with the feeding rations? How is your nutritionist factoring in self-raised feed into the company's feed costs? Is he using the true "cost" of the self-raised feed or a market value so that he can benchmark?

Farming more crops than you need for a 13- to 18-month period can create problems with the company's cash flow and may hurt your liquidity. Keeping good records of harvests and comparing inventories with your needs will help alert you when that situation arises; then, you can recuperate some of that cash by selling the excess inventory.

Knowing the cost of your crops will help you determine the price at which to sell your excess inventory. Another item to consider is how your bank sees you as a lender. Are you a dairyman or farmer first? Each operation needs to consider this question to decide whether the farming operation should be a profit-center or a breakeven operation. The argument can go both ways, but if you believe "you own farm land just to dairy," the breakeven model might make more sense for reporting purposes.

Once you have determined the cost of your self-raised feed, you can add that to the feed you purchased to determine the true cost of feeding your animals. Each operation will have its own production costs, and those costs will vary through the years, so it is not as easy as simply asking your neighbors what their costs were that year. When milk prices dip, like they may this year, many operations will rely on the flexibility and cost savings that raising their own feed provides. For such operations, it is vital to understand the true cost of their feed, so they make decisions to manage their crop production to remain profitable. **PD**

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