Dairy Enterprise –
600 Lactating Cows (Freestall)

Production Level
Costs per unit and net returns in a dairy enterprise are highly dependent on the level of milk production. Production levels vary for a number of reasons such as livestock genetics, weather, input levels, and management. Budgeting at multiple production levels can help producers examine the financial risk of a livestock enterprise that is directly related to production risk. Table 1 shows per cow milk production levels for Kansas as well as the top 25 percent, middle 50 percent, and bottom 25 percent of the states in the United States for the most recent 5 years. This indicates how much production might vary regionally, but it can vary considerably within a state for reasons already mentioned. The following estimated budget includes two production levels – 21,000 and 25,000. The 21,000 pounds reflects producers that are average; whereas, the 25,000 pounds is intended to reflect production levels of the top 20 to 25 percent of producers. The projected budget at the two production levels is presented on both a per-cow and a per-hundredweight (cwt) of milk production basis.

Capital Requirements
Capital invested in dairy facilities varies greatly depending on herd size and degree of mechanization. The capital needed to establish a new 600 lactating cow dairy operation with modern equipment using freestall housing is estimated to be $4,357,520 with another $927,480 for the cows. This budget is based on a total herd size of 708 cows, with 600 cows (85 percent of the herd) being milked at any one time. Thus, the total land, facility and equipment investment equates to $7,263 per lactating cow and $6,155 per total cow (lactating and dry) in the herd. Because investment in facilities can vary tremendously between operations, sensitivity analyses tables are included to show returns at various levels of facility investment versus milk price (Table 3) and facility investment versus milk production (Table 4).

Feed Costs
Dairy cows require high quality forage and grain. Concentrates and grain requirements increase as milk production increases. Feed efficiency, measured as pounds of milk production divided by pounds of dry matter feed consumed, is generally in the range of 1.4 to 1.6 with more productive dairies being on the high end of this range and lower producing dairies on the lower end. Efficiencies of this magnitude indicate that the value of increased production generally will offset the added feed cost associated with the higher production levels. Feed costs vary significantly over time due to the price of feed ingredients, but feed is consistently the most important factor in the cost of production. Feed costs are based on market prices, thus, for dairy operations that produce some, or all, of their grain and forage requirements this allocates the cost of producing the feed to the dairy enterprise. Because feed costs are so important, it is useful to examine how varying feed prices impact economic returns. Table 2 shows how the return on investment (Line G in the budget) is impacted by both feed and milk prices.

Returns
Producers receive income primarily from the sale of milk. Additional income may be received from government programs depending on milk and feed prices, sale of calves and culled breeding stock, and the possible sale of manure (or value captured if used on producer owned land). In this budget, it is assumed that replacement heifers are purchased and thus all calves are sold. It is further assumed that slightly less than one-third (32 percent) of the cows are replaced each year due to culling and death loss. Cull income is assigned to 26.5 percent of the herd annually. The other 4.5 percent represents death loss and cows with no salvage value. Because milk sales make up the majority of income, returns are very sensitive to milk prices. Table 2 shows the return on investment (Line G in the budget) at varying feed and milk prices. Similarly, Table 3 shows the return on investment at varying milk prices and facility investment values.
Information Included in Budget – 600
Lactating Cow Dairy
1. **Milk sales**: based on the annual production per cow times base milk price of $20.27/cwt.
2. **Volume premium**: dairies that can ship milk in semi loads at a time often get a premium based on volume. A premium of $0.50 per cwt. is included for a 600-cow dairy.
3. **Government payment**: producers could possibly receive price support through the Market Income Loss Contract Program or the new Dairy Producer Margin Protection Program, but no payments are anticipated at current projected prices and feed costs.
4. **Calves sold**: based on a 95 percent calf crop and selling all calves (heifers and bulls) at birth.
5. **Cull cows sold**: assumes cull income is realized on 26.5 percent of the herd even though 32 percent of the herd is replaced annually. The 4.5 percent with no income represents cow death loss and cows with zero salvage value.
6. **Manure credit**: based on nitrogen (N) and phosphate (P₂O₅) excreted per cow that would be available the following year for crop production valued at $0.55/lb of N and $0.52/lb of P₂O₅ less an application cost of $0.01/gallon.
7. **Feed**: includes total feed for the dairy cow on an annual basis. Feed costs are based on a feed efficiency (lbs of milk divided by lbs of dry matter fed) of 1.44 and 1.55 for the 21,000 and 25,000 production levels, respectively.
8. **Labor**: based on 7.5 full-time persons at an average of $41,520 (salary + benefits) per person divided by the number of cows in the herd.
9. **Veterinary, drugs, and supplies**: costs for prevention and treatment of disease, and general supplies.
10. **Somatotropin**: costs for rbST based on annual doses per cow of 0.0 (not used) and 14.4 (75% of labeled rate) for the 21,000 and 25,000 production levels, respectively.
11. **Utilities and water**: telephone, electricity, fuel, and water costs allocated to the dairy enterprise.
12. **Fuel, oil, and auto expense**: share of the farm car and trucks plus gasoline, diesel, and oil for scraping and hauling manure and for hauling feed to the dairy herd.
13. **Milk hauling and promotion costs**: milk-hauling costs at $0.95/cwt. and promotion costs at $0.25/cwt.
14. **Building and equipment repairs**: annual building and equipment repairs allocated to dairy enterprise calculated as 2.5 percent of the total investment.
15. **Breeding/genetic charge**: 
   a. **Capital replacement**: price of a heifer replacement ($1,310) times the replacement rate (32%).
   b. **Semen, A.I. services, and supplies**: includes semen, artificial insemination services, and supplies.
   c. **Interest**: interest is charged on the value of the breeding herd, which is based on the cost of replacement heifers entering the herd.
   d. **Insurance**: averages approximately 1 percent of the value of the breeding herd.
16. **Professional fees (legal accounting, etc.)**: business costs allocated to the dairy enterprise.
17. **Miscellaneous**: miscellaneous costs (subscriptions, education, etc.) allocated to the dairy enterprise.
18. **Depreciation on buildings and equipment**: depreciation is based on the total original cost less the salvage value of buildings and equipment on a per cow basis divided by the estimated life. The budget value is based on a total investment of buildings and improvements of $5,225 per cow and an investment of $715 per cow for equipment. The useful life is assumed to be 15 years for buildings and improvements and 10 years for equipment. A salvage value of 10 percent is assumed on buildings and improvements and equipment.
19. **Interest on land, buildings, and equipment**: interest is charged on the land investment at a rate of 5 percent and one-half the average investment [(initial cost + salvage value) ÷ 2] for buildings and improvements and equipment at a rate of 6.5 percent.
20. **Insurance and taxes on land, buildings and equipment**: insurance on buildings and equipment is based on the original cost times 0.25 percent, taxes are based on 1.5 percent of the original cost for buildings and improvements and 0.35 percent for land.
21. **Interest on operating costs**: calculated on one-twelfth of operating costs at a rate of 6.5 percent.

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Average</th>
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<td>Kansas</td>
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<td>21,683</td>
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<td>23,143</td>
<td>22,787</td>
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<td>18,885</td>
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<td>19,482</td>
<td>19,909</td>
<td>20,239</td>
<td>19,552</td>
</tr>
<tr>
<td>Bottom 25%</td>
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<td>15,273</td>
<td>15,157</td>
<td>15,627</td>
<td>15,165</td>
<td>15,321</td>
</tr>
</tbody>
</table>

1. Average of the top 25% of the continental states (12-state average)
2. Average of the middle 25% of the continental states (24-state average)
3. Average of the bottom 25% of the continental states (12-state average)
### COST-RETURN PROJECTION — 600 LACTATING COW FREESTALL DAIRY
(REPLACEMENTS PURCHASED)

**Production Level (lbs milk sold)**

<table>
<thead>
<tr>
<th></th>
<th>21,000</th>
<th>Per cow</th>
<th>Per cwt</th>
<th>25,000</th>
<th>Per cow</th>
<th>Per cwt</th>
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<tr>
<td>Your Farm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### RETURNS PER COW:

1. Milk sales @ $20.27/cwt .......................... $ 4,256.70 $ 20.27 $ 5,067.50 $ 20.27
2. Volume premium ........................................ 105.00 0.50 125.00 0.50
3. Government payment (MILC) ..........................
4. Calves sold: 95% × $180/head .......................... 170.81 0.81 170.81 0.68
5. Cull cows sold: 1,350 lbs × 27.5% × $81.41/cwt .. 301.60 1.44 301.60 1.21
6. Manure credit ........................................... 34.14 0.16 33.59 0.13
7. Milk sales ............................................... $ 7.70 $ 0.04 $ 9.00 $ 0.04
8. Volume premium ........................................... 1.50 0.01 1.73 0.01
9. Government payment (MILC) ..........................
10. Calves sold: 95% × $180/head .......................... 170.81 0.81 170.81 0.68
11. Cull cows sold: 1,350 lbs × 27.5% × $81.41/cwt .. 301.60 1.44 301.60 1.21
12. Manure credit ........................................... 34.14 0.16 33.59 0.13

#### A. GROSS RETURNS ............................................. $ 4,868.25 $ 23.18 $ 5,698.50 $ 22.79

#### COSTS PER COW:

7. Feed ......................................................... $ 2,401.04 $ 11.43 $ 2,671.61 $ 10.69
8. Labor ......................................................... 439.83 2.09 439.83 1.76
9. Veterinary, drugs, and supplies .......................... 135.00 0.64 150.00 0.60
10. Somatotropin (rbST) ........................................ 93.74 0.44 93.74 0.37
11. Utilities and water ......................................... 132.53 0.63 135.52 0.54
12. Fuel, oil, and auto expense ................................ 76.87 0.37 76.87 0.31
13. Milk hauling and promotion cost .......................... 252.00 1.20 300.00 1.20
14. Building and equipment repairs .......................... 148.50 0.71 148.50 0.59
15. Breeding/genetic charge:
   a. Capital replacement: 32% × $1,310/head ...... 419.20 2.00 419.20 1.68
   b. Semen, A.I. services, and supplies .............. 42.00 0.20 56.00 0.22
   c. Interest ................................................... 85.15 0.41 85.15 0.34
   d. Insurance .................................................. 13.10 0.06 13.10 0.05
16. Professional fees (legal, accounting, etc.) .......... 18.64 0.09 18.64 0.07
17. Miscellaneous .............................................. 22.25 0.11 27.25 0.11
18. Depreciation on buildings and equipment .............. 299.48 1.43 299.48 1.20
19. Interest on land, buildings, and equipment ........... 223.09 1.06 223.09 0.89
20. Insurance & taxes on land, buildings, & equipment .... 93.97 0.45 93.97 0.38

#### B. SUB TOTAL ...................................................... $ 4,802.66 $ 22.87 $ 5,251.96 $ 21.01

21. Interest on ½ operating costs @ 6.5% ................. 19.09 0.09 21.26 0.09

#### C. TOTAL COSTS PER COW ................................. $ 4,821.75 $ 22.96 $ 5,273.22 $ 21.09

#### D. RETURNS OVER TOTAL COST (A-C) .................. $ 46.50 $ 0.22 $ 425.28 $ 1.70

#### E. BREAK-EVEN MILK PRICE, $/cwt .................... $ 20.05 $ 0.95 $ 18.57

22. Lactating cow feed cost, $/head/day ..................... 6.94 0.33 7.80 0.34
23. Dry cow feed cost, $/head/day .......................... 3.16 0.15 3.16 0.15

#### F. ASSET TURNOVER (A ÷ Assets)².......................... 65.2% 76.3%

#### G. NET RETURN ON ASSETS

[(D + 15c + 19 + 21) ÷ Assets]² .......................... 5.01% 10.11%

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1 For cost of raising replacement heifers see MF399.
2 Assets equal total value of breeding herd and land, buildings and equipment.
### Table 2. Sensitivity of Return on Investment (Line G) to Milk Price and Feed Price

<table>
<thead>
<tr>
<th>Gross Milk price**</th>
<th>Lactating cow feed price, $/cwt of DM*</th>
<th>Production level (lbs milk sold/cow/year) = 21,000</th>
<th>Production level (lbs milk sold/cow/year) = 25,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>$18.27</td>
<td>$14.22</td>
<td>1.45% 0.41% -0.62% -1.65% -2.68%</td>
<td>5.72% 4.56% 3.41% 2.26% 1.11%</td>
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<tr>
<td>$19.27</td>
<td>$14.72</td>
<td>4.26% 3.23% 2.19% 1.16% 0.13%</td>
<td>9.06% 7.91% 6.76% 5.61% 4.46%</td>
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<tr>
<td>$20.27</td>
<td>$15.22</td>
<td>7.07% 6.04% 5.01% 3.98% 2.94%</td>
<td>12.41% 11.26% 10.11% 8.96% 7.81%</td>
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<tr>
<td>$21.27</td>
<td>$15.72</td>
<td>9.89% 8.85% 7.82% 6.79% 5.76%</td>
<td>15.76% 14.61% 13.46% 12.31% 11.16%</td>
</tr>
<tr>
<td>$22.27</td>
<td>$16.22</td>
<td>12.70% 11.67% 10.63% 9.60% 8.57%</td>
<td>19.11% 17.96% 16.81% 15.66% 14.51%</td>
</tr>
</tbody>
</table>

* Dry cow feed price equals 69.2% of lactating cow feed price.  
** Gross milk price includes hauling and promotion costs

### Table 3. Sensitivity of Return on Investment (Line G) to Milk Price and Facility Investment

<table>
<thead>
<tr>
<th>Gross Milk price**</th>
<th>Total investment in facilities and equipment, $/lactating cow*</th>
<th>Production level (lbs milk sold/cow/year) = 21,000</th>
<th>Production level (lbs milk sold/cow/year) = 25,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>$18.27</td>
<td>$6,009</td>
<td>0.47% -0.11% -0.62% -1.07% -1.48%</td>
<td>5.02% 4.17% 3.41% 2.74% 2.14%</td>
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<td>$19.27</td>
<td>$6,509</td>
<td>3.64% 2.88% 2.19% 1.59% 1.04%</td>
<td>8.80% 7.72% 6.76% 5.91% 5.14%</td>
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<tr>
<td>$20.27</td>
<td>$7,009</td>
<td>6.82% 5.86% 5.01% 4.25% 3.57%</td>
<td>12.57% 11.27% 10.11% 9.08% 8.15%</td>
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<tr>
<td>$21.27</td>
<td>$7,509</td>
<td>9.99% 8.84% 7.82% 6.91% 6.09%</td>
<td>16.35% 14.82% 13.46% 12.25% 11.16%</td>
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<tr>
<td>$22.27</td>
<td>$8,009</td>
<td>13.16% 11.82% 10.63% 9.57% 8.62%</td>
<td>20.13% 18.37% 16.81% 15.42% 14.17%</td>
</tr>
</tbody>
</table>

* Investment per cow in herd equals investment per lactating cow times 84.7%.  
** Gross milk price includes hauling and promotion costs

### Table 4. Sensitivity of Return on Investment (Line G) to Production and Facility Investment

<table>
<thead>
<tr>
<th>Milk production</th>
<th>Total investment in facilities and equipment, $/lactating cow*</th>
<th>Production level (lbs milk sold/cow/year) = 21,000**</th>
<th>Production level (lbs milk sold/cow/year) = 25,000**</th>
</tr>
</thead>
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<tr>
<td>19,000</td>
<td>$6,009</td>
<td>2.95% 2.22% 1.58% 1.00% 0.49%</td>
<td>10.99% 9.50% 8.44% 7.50% 6.65%</td>
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<tr>
<td>20,000</td>
<td>$6,509</td>
<td>4.88% 4.04% 3.29% 2.63% 2.03%</td>
<td>15.75% 13.96% 12.87% 11.78% 10.68%</td>
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<tr>
<td>21,000</td>
<td>$7,009</td>
<td>6.82% 5.86% 5.01% 4.25% 3.57%</td>
<td>20.51% 18.62% 17.73% 16.64% 15.55%</td>
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<td>22,000</td>
<td>$7,509</td>
<td>8.75% 7.68% 6.72% 5.87% 5.11%</td>
<td>25.27% 23.38% 22.49% 21.50% 20.61%</td>
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<tr>
<td>23,000</td>
<td>$8,009</td>
<td>10.69% 9.50% 8.44% 7.50% 6.65%</td>
<td>30.03% 28.14% 27.25% 26.36% 25.47%</td>
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<tr>
<td>24,000</td>
<td>$6,009</td>
<td>8.70% 7.63% 6.68% 5.83% 5.07%</td>
<td>19.00% 17.02% 15.04% 13.06% 11.08%</td>
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<tr>
<td>25,000</td>
<td>$6,509</td>
<td>10.64% 9.45% 8.40% 7.46% 6.61%</td>
<td>23.76% 21.78% 20.80% 18.86% 17.02%</td>
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<tr>
<td>26,000</td>
<td>$7,009</td>
<td>12.57% 11.27% 10.11% 9.08% 8.15%</td>
<td>28.52% 26.54% 24.56% 22.62% 20.78%</td>
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<tr>
<td>27,000</td>
<td>$7,509</td>
<td>14.51% 13.09% 11.83% 10.70% 9.69%</td>
<td>33.28% 31.30% 29.32% 27.38% 25.35%</td>
</tr>
</tbody>
</table>

* Investment per cow in herd equals investment per lactating cow times 84.7%.  
** Costs vary by production level due to varying feed and hauling and promotion costs.

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