

INFORMATION FLYER

What is Profit Profiler?

Profit Profiler is a dairy financial analysis service that combines both the financial and physical aspects of managing a dairy business and provides three simple benchmark reports that rank your dairy business against a peer group of your choosing. The analysis looks at things from an overall financial perspective, cost of production for both livestock and crops as well as physical numbers you are used to seeing. In addition it uses research based factors along with your costs and returns and will project expected results to changes in production parameters.

The service will evaluate a period of one year that corresponds with your financial fiscal year end. Projections will use that base and show the impact of change for another year.

The analysis takes about two to three hours to complete and a certified DHI representative or independent advisor will help you through collecting and recording the information and interpreting the results. You can compare your business to peers by size, production or geographic location.

The program was designed to do four things:

- Compare an individual business with other progressive dairymen including PCTL ranking for over 40 measures
- Show costs and returns for four enterprises: Dairy Cows, Replacements, Forage and Grain Production
- Use your own costs and management measures to project the financial effect of a change in production parameters.
- Allows us to identify the measures of progressive profitable dairymen

The reports show your business from those four viewpoints.

Participants are asked to provide financial and production information and break down this information as it applies to the four enterprises. This is so actual costs and returns of each enterprise will allow more accurate projections.

Interested in More Information?

Profit Profiler Dairy Financial Analysis Service is available to all dairymen. You do not have to be on a DHI testing program to use this service. For more details, visit www.profitprofiler.ca or contact Bill Grexton, CanWest DHI, at (800) 549-4373 ext 254.

Key Measures in the Reports

There are three evaluation reports plus "What if I changed...".

Report 1 is an overview comparison of your business to the other businesses in the group. Whole farm profitability and economic ratios are compared. Some measures are:

- Total variable cost
- Total fixed cost
- Cash available for debt and depreciation
- Costs and returns over costs expressed as per HL milk or fat sold and per person
- Milk sold per person
- Debt per kg fat sold
- Principle and interest payments per kg fat
- Financial ratios

Report 2 shows cost of production for Cows, Replacements, Forages and Grains. In addition you can compare the profitability of your "Dairy" business with your "Whole Farm" business. Some measures are:

- Forage cost per acre
- Grain cost per acre
- Cost to raise a heifer
- Cow cost per HL sold
- Cow cost per kg fat sold
- Actual homegrown feed cost
- Cow and Replacement feed, health and labor cost as % of milk sales
- Return over cost per HL
- Return over cost per kg fat
- Total milk cow and replacement cost as % of milk sales

Report 3 compares physical production numbers for each enterprise, investment, labor efficiency and shows you what % of your expenses is spent in crops, livestock, labor or debt. Some measures are:

- Acres fed per cow
- Forage cost per cow
- % of feed purchased
- Performance of 1st lactation cows
- Milk and fat SOLD per cow
- Milk revenue per person
- Labor cost 1kg fat sold
- Return per cow or kg fat from milk cows only

It allows you to compare your machinery, building and quota investment per cow to see how your peers have invested compared to you.

Report 4 uses your production, costs and sales information to allow you to measure the financial impact of changing:

- Production
- Reproduction
- Cost of Production
- Udder Health
- Replacement Management
- Changes in price cost

You can see the net effect of each change, the combined effect of multiple changes and the debt servicing impact of additional quota needs due to production changes.

Where does all the money go?

One of the goals of Profit Profiler is to determine an accurate cost of production for the four main enterprises in a dairy business: cows, heifers, forages and grains. Now that almost 100 herds have completed the analysis, we have an idea how much of the income is used by the various parts of the dairy business. Below is a table that shows a partial breakdown of those progressive dairymen.

	Average	Low-Cost Herds
Forages	9.2%	8.1%
Grains	5.1%	4.9%
Heifers	7.0%	6.8%
Cows	37.3%	37.0%
All Labour & Management	13.6%	13.0%
Debt and Depreciation	36.4%	33.0%
Profit (after debt and drawings)	4.9%	10.3%

Costs are expressed as a percentage of total farm revenue

Quick calculations show that for \$600,000 total farm revenue, the difference in profit is \$32,400 per year. That is significant. However, the difference between herds within the group is even greater. Of the 36 herds providing data in 2008, some of the measures are as follows:

	Avg	Range (25-90 PCTL)	Actual Difference (\$/yr)**
Total Cow Costs*	54.8%	47-60%	\$87,750
Total Cow Feed Costs*	24.5%	20-27%	\$47,250
Labour Costs (cows)*	8.3%	4.4-10.3%	\$39,835
Health & breeding*	3.7%	1.9-4.7%	\$18,900
Cost/Heifer/Year	\$944	\$623-\$1,105	\$44,030
Forage Cost/Acre	\$416	\$261-\$512	\$42,921
Cost to Make \$1.00	\$0.821	\$0.726-\$0.876	\$206,585

* Top four measures are expressed as percentage of milk revenue

** Difference is based on 100 cow herd size and range of 25-90 PCTL

We know that there is a large range in management across Canadian dairies. However, the magnitude of these differences as shown (and remember there is still 35% of the herds whose costs are wider than the range shown), means there is a lot of money on the table to be gained by improving some management items on all dairies - anywhere from \$20,000 to \$200,000. So here are some questions to ask yourself:

Do you...

- Know your cost to produce one acre of forage?
- Know what your home-grown feed costs are?
- Know your total cost of feed as a percentage of milk revenue?
- Know your COW costs as a percentage of milk revenue?
- Know what your HEIFER rearing costs are?
- Know what it costs to make \$1.00 of revenue?
- How your labour efficiency is compared to others?

If you are planning to be in the dairy business for any length of time, you should!

What is included in Cost of Production?

The most difficult part of any true cost of production analysis is to allocate the costs to the enterprises as required. However, to get an accurate picture of the true cost to keep cows or grow forages, you need to take into account ALL costs.

For example, most of us think that fuel is a crop cost. However, when you calculate how many tractor hours are spent around the barn mixing feed, or other jobs such as scraping, you may find that more than 30% of total fuel bill could be a COW cost. A number of participants found that to be true. True cost of production for an enterprise needs to include every cost.

The owner's drawings are to compensate him or her for labor, management ability and investment. What portion of your drawings do you allocate as a labor cost to your cows? That is part of the true cost of production.

Building repair may include a forage storage expense. Part of truck expense is to get supplies for the cows. Most of your custom work expense may be relief milkers and not for forages or grains. To get an accurate cost of production, you need to realize where each part of every expense is used.

Why? So you can make better management decisions. For example, if you found that your cost to grow grains was higher than what you could purchase it for and you were planning expansion, this would help you to decide whether to buy more (expensive) land or to buy grain instead.

What about your cost to raise heifers? What is your cost to grow forages? What is your true cost per HL of milk sold? You can not know how you will compete in the world market until you accurately know all your costs.

A major issue is how you record your costs. For some expenses like feed, it is a matter of being more specific when recording them in your bookkeeping system. Virtually all computerized systems allow you to sub-divide expenses and then provide you with sub-totals as well as the overall total at the end of a period. If yours does not, you should consider getting a different program.

For other costs like fuel or labor, you need to decide afterwards how the expense should be allocated (example: based on tractor hours or labor hours) with each enterprise.

Regardless, you need to allocate costs as accurately as possible or your "Cost of Production" value is flawed. Once you have been through the process, you can truly know which enterprise (and which cost within that enterprise) you can change to improve your profitability.

The last point to be made is how often you check your cost of production. Sadly, many people see the totals four months after the year end when it is too late to do anything about it. I recommend you should do it at least quarterly and compare the results to your budget.

What is the benefit of doing this? If you can save just 1% of your cow costs, for a 100 cow herd that would amount to \$7,000 added profit — profit you earned because you did another job well!

For more information, please visit www.profitprofiler.ca

The following companies have personnel trained to offer the Profit Profiler service.

For more information, please visit www.profitprofiler.ca

