The New Northeast Model

There is no easy solution to the present market situation, however there are some strategies that might help take the sting out of the current dilemma.

Production perspective

In thirty plus years working in the dairy industry, this is the first time we have witnessed penalties on milk volume produced and/or not having a market for our commodity in the northeast. This has been a game changer when developing cash flow plans to maintain a breakeven cost of production that is sustainable over time. There is no easy solution to this present market situation, however there are some strategies that might help take the sting out of the current dilemma.

The common recommendation when trying to improve cash surplus is to increase milk income, either by altering the cow numbers or improving milk production. If an operation has a base that limits the amount of milk produced then it comes down to components and efficiency. On the expense side of the equation, feed costs still rank number one in this area.

Trying to find the balance to maintain high components along with the maximum amount of milk allowed can be tricky. Components can help improve the milk price/cwt but a positive cash flow still relies on milk income (milk price and milk production). To optimize milk fat and protein, attention to the ration carbohydrate profile is critical. Management practices that impact forage quality and precision feeding are essential. So far in 2017, if producers could maintain a milk fat around 3.80 to 3.90% and milk protein between 3.0 and 3.1%, on average over $1/cwt could be achieved on top of the uniform price at 3.5%.

Over the years the word “efficiency” has had a negative connotation. Producers often believe they are already efficient and there is no more room for improvement. There are usually management opportunities to fine-tune on a dairy. In geographic areas that have obtained adequate rainfall, discussion has ensued about high chopping corn for silage. Theoretically this would provide a highly digestible forage and with ample ear development, a higher starch content in the silage. If inventories are not a limiting factor, corn silage could be fed at higher levels to potentially reduce purchased feed costs.

On the cow side, if overcrowding is occurring then it may be time to reduce cow numbers by culling animals that have reproductive or milk quality problems. In the past overcrowding was a strategy to help milk income by utilizing current facilities and generating additional income. Now may be the time to focus on fewer cows while maintaining the allotted base. With improvements in components this could generate adequate income with fewer resources (on the expense side). It’s best to run numbers on this strategy before implementing it to be sure the expense adjustments are not overwhelmed by the reduction in pounds of milk sold as this may raise the breakeven cost of production.

Generating income from alternative enterprises could help improve cash flow. Sexed semen has changed the dynamics on many farms by providing a lot of additional replacements. Selecting the healthiest and genetically superior animals to remain in the herd and diversifying into dairy beef might be an option. If feed and facilities are available this could be another source of income. If the herd size is adjusted to accommodate the allotted milk production, excess forages and/or grain might be available for sale.

The new northeast model will probably be in place until supply and demand stabilizes. In the meantime, now more than ever, cash flow planning is needed to examine alternatives and options to maintain a breakeven margin for the whole farm and the dairy enterprise.
**Action plan for determining the farm’s breakeven margin**

**Goal** – Develop a cash flow plan including the operation’s breakeven IOFC and cost of production for both the dairy enterprise and the whole farm. Monitor the actual IOFC monthly.

Step 1: Work with a consultant to develop a cash flow plan. Have a completed balance sheet and income statement available.

Step 2: After the herd’s breakeven IOFC is determined, monitor the actual against the breakeven on a monthly basis.

Step 3: Working with a profit team share results to determine if the cash flow is meeting expectations or if adjustments are needed.

**Economic perspective**

Monitoring must include an economic component to determine if a management strategy is working or not. For the lactating cows income over feed costs is a good way to check that feed costs are in line for the level of milk production. Starting with July 2014’s milk price, income over feed costs was calculated using average intake and production for the last six years from the Penn State dairy herd. The ration contained 63% forage consisting of corn silage, haylage and hay. The concentrate portion included corn grain, candy meal, sugar, canola meal, roasted soybeans, Optigen and a mineral vitamin mix. All market prices were used.

Also included are the feed costs for dry cows, springing heifers, pregnant heifers and growing heifers. The rations reflect what has been fed to these animal groups at the Penn State dairy herd. All market prices were used.

**Income over feed cost using standardized rations and production data from the Penn State dairy herd:**

![Graph showing income over feed cost](image)

Note: August's Penn State University milk price: $18.76/cwt; feed cost/cow: $5.31; average milk production: 79.0 lbs.

**Feed cost/non-lactating animal/day:**

![Graph showing feed cost for non-lactating animals](image)

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