

Cost of Milk Production – Know It and Use It
Jack McAllister
Extension Dairy Specialist
University of Kentucky

If you owned a company that made widgets would you think it would be important to know what it cost to make each widget? Certainly knowing your cost of production would be helpful information when deciding what to charge for each widget. It would also come in handy when you tried to project the cash flow of the business or to apply for a line of credit. A dairy farm business enterprise is exactly the same.

We have a program in which Kentucky farmers can have a full of business records by enrolling in the Kentucky Farm Business Management program. For an annual fee they receive visits from a qualified farm management advisor, monthly reports and a set of year-end reports, a schedule F and the information they require for making important decisions about their business.

From 1991 and 2001, between 59 and 31 dairy farmers have been enrolled in the program. Because they have a verified full set of financial records, I believe they offer the best information available to give us a good idea what the real cost of dairy production is. The only records that would be better for the individual farmer would be their records if they had been kept to the same standard.

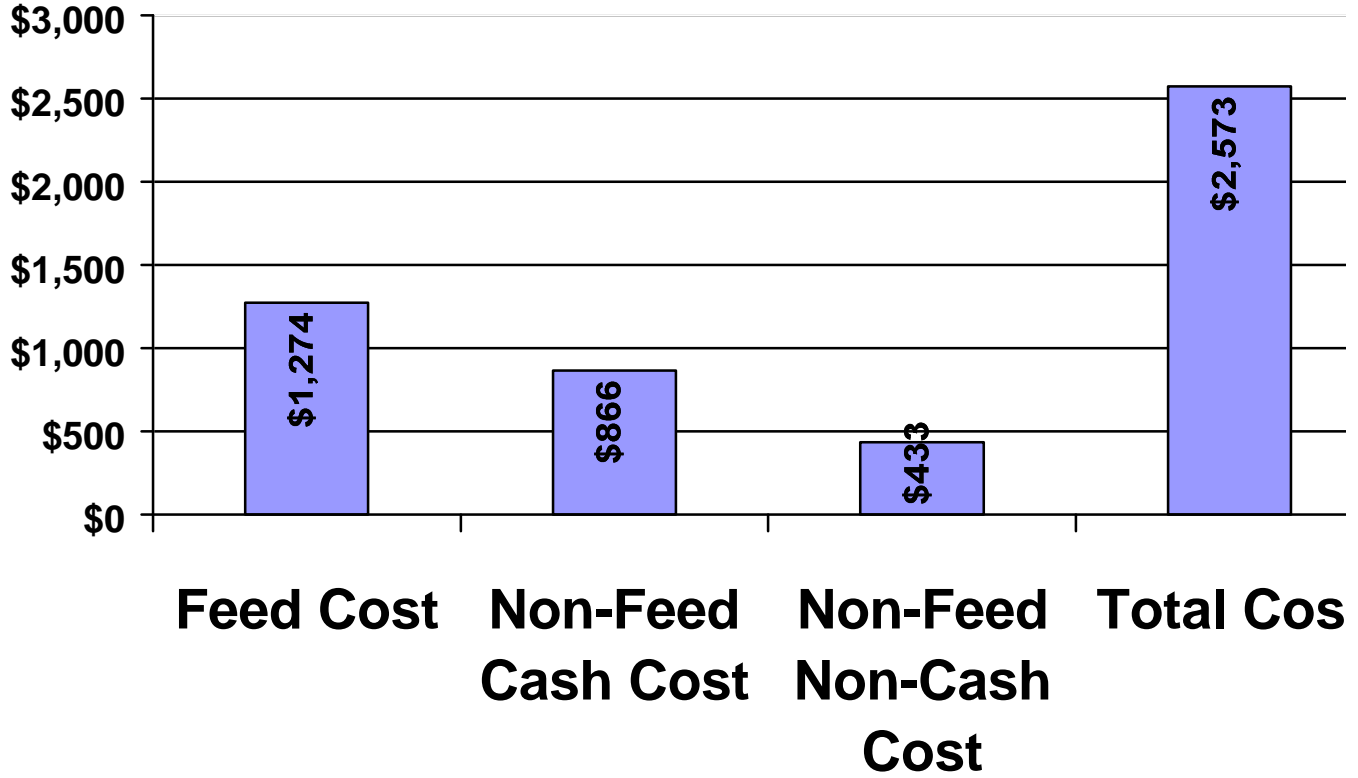
The chart shows the breakdown of total costs per cow per year into feed costs, non-feed cash costs and non-feed non-cash costs. Feed costs which include purchased feed and home-grown feed account for 50% of the total cost. The other cash costs other than feed account for 34% of the total cost. Non-feed non-cash costs make up the remaining 16% of costs. Feed and other cash costs were \$2140. If milk sold per cow per year were 17,000 pounds that would make the cash cost of production \$12.58 per hundredweight.

The costs can be broken down further into several expense categories. The diagram below gives that breakdown on a percentage basis. As pointed out earlier feed cost is the single greatest cost. It is followed by: Labor (hired and unpaid labor) – 16%, Machinery and equipment (repair and depreciation) – 13%, Interest (cash and non-cash) – 9%, Livestock supplies and veterinary – 8% and other costs – 4%.

Tracking these costs on a monthly basis can provide information on which costs are getting out of line and trigger questions about what options are available to lower them.

**Dairy Cost Of Production Per Cow Per Year,
1991 -2001**

Kentucky Farm Business Management Program



Annual Costs by Expense Category

