

Dairy Details

August 2018

Editor: Lindsey Borst DVM

NORTHERN VALLEY DAIRY PRODUCTION MEDICINE CENTER

Are Net Herd Replacement Costs Getting in the Way of Your Financial Success?

What Drives Financial Success on Dairies?

In today's dairy economy, many dairy producers find themselves analyzing their financials in more detail than ever to try and find any money that is being left on the table. A couple years ago, Compeer Financial and Zoetis released a financial analysis that included 11 years of dairy herd data from 489 year end financial and production record summaries. From this data they generated a list of six key drivers of profitability on dairies based on net farm income. These six drivers starting most correlated with profitability were:

1. Net Herd Replacement Cost
2. 21 Day Pregnancy Rate
3. Heifer Survival Rate
4. Pounds of Energy Corrected Milk Shipped
5. Somatic Cell Count
6. Death Loss

What is Net Herd Replacement Cost?

The formula used to calculate Net Herd Replacement Cost is:

$$\frac{(\#Cows Sold + \#Cows Died) \times \text{Replacement Cost}}{\text{CWT's of Milk Sold}} - (\#Cows Sold \times \text{Cull Cow Value})$$

CWT's of Milk Sold

So, as you can see from this formula, replacement cost is not just the cost raising a heifer into the milking string, but it is the difference between the cost of a replacement heifer and the value of the replaced cull cow. Many producers don't realize how big of a cash flow drain a high net herd replacement cost can be and this is why it is an important number to monitor. In order to monitor NHRC, one needs to break down all the components that go into this value.



CHECK US OUT ON [FACEBOOK](#) AND [DAIRYMED.COM!](#)

Northern Valley Dairy Production Medicine Center

NHRC Broken Down

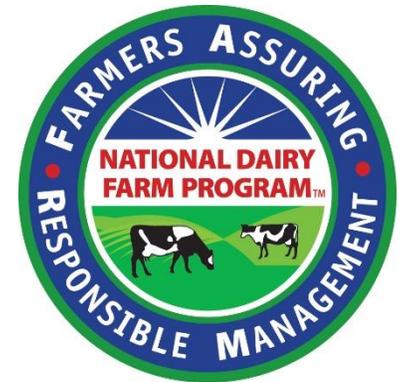
Having a higher turnover rate (number of cows that are sold and died) will increase your NHRC. There is value in keeping older cows around longer. First lactation cows produce 15% less milk than second lactation cows and 25% less milk than third lactation cows. Having a more mature herd should increase your overall milk production, which will in turn decrease your NHRC. Unmanaged cow turnover rates can be a huge drain on profits. High cull cow values will decrease your NHRC. However, as we all know, cull cow prices fluctuate (with them being very low currently), so the best strategy is to establish sound voluntary cull protocols.

Don't Let Net Herd Replacement Costs Drain Your Cash Flow

In the Zoetis/Compeer financial analysis the difference in profit between the highest third profitable herds and lowest third (based on NHRC) was \$2.04/cwt or ~\$61,000 per year. In the past, dairy herds needed to produce as many replacement heifers as possible to keep a steady herd size. With the advancements we've made in reproduction and better management, many herds no longer need to make as many heifers, nor do they need to keep every heifer that is born. Keeping more heifers than you need will increase your replacement cost and can be a drain on performance and profitability. Most of our dairy clients receive a benchmarking packet every year and this year we've included NHRC cost in this packet. Any of our veterinarians would be more than happy to discuss your NHRC with you!

Stay on Top of FARM Program Requirements!

FARM 3.0 was instituted on January 1, 2017 and had many new requirements including new regulations and required on farm protocols. Dr. Bennett recently wrote a Dairy Star article going over all the new requirements. You can find this article on the Dairy Star website or there is a link to it on our Facebook page. Feel free to contact any of our veterinarians with any questions about these requirements. Our goal is that all our clients are up to date and ready for their next FARM inspection.



CHECK US OUT ON [FACEBOOK](#) AND [DAIRYMED.COM!](#)

Northern Valley Dairy Production Medicine Center

CHECK US OUT ON [FACEBOOK](#) AND [DAIRYMED.COM!](#)

Northern Valley Dairy Production Medicine Center

CHECK US OUT ON [FACEBOOK](#) AND [DAIRYMED.COM!](#)

4

Northern Valley Dairy Production Medicine Center

900 N Wabasha, Plainview, MN 55964

507-534-4356

northernvalley900@gmail.com