



Feed Shortage 2018/19

## Dairy farm costs

Having an efficient cost of production (COP) is important for farm business financial performance.

This fact sheet breaks down the costs in your business.

### Farm working expenses (FWE)

FWE includes the cash variable and overhead costs incurred in operating your business. FWE is a useful measure to identify the cash costs of production and to show the effects of change in input costs.

FWE are all the direct or cash costs that have been incurred during the year, including cash variable costs and cash overhead costs.

**Cash variable costs** which are separated into herd, shed and feed costs:

- › Herd costs include AI and herd test, animal health and calf rearing
- › Shed costs include shed power and dairy supplies
- › Feed costs include fertiliser, irrigation, hay/silage making, pasture and cropping, fuel and oil and purchased feed costs

Adding herd, shed and feed costs together gives you total variable costs.

**Cash overhead costs** are separated into employed labour, repairs and maintenance and other.

- › Employed labour include wages, work cover, protective clothing, superannuation, training and development
- › Repairs and maintenance include buildings, fencing and track repairs
- › Other include administration, motor vehicle expenses, miscellaneous and overheads

This also enables conversion to a regular cash flow and can be utilised for calculating your FWE and income.

### Calculating FWE

**FWE** = Variable costs + cash overhead costs

**FWE** in \$ per kg milk solids =  $\text{FWE} \div \text{total milk solids}$

### Calculating COP

= FWE  
 + imputed labour  
 + depreciation  
 = **COP**  
 (excluding inventory changes)  
 +/- livestock inventory changes  
 +/- water/feed inventory changes  
 = **COP**  
 (including inventory changes)

### Cost of production (COP)

Cost of production is relative to your farm system. A low cost of production is achieved by ensuring all inputs are used efficiently in the production process and that this investment is directed at improving production efficiency and reducing COP.

**Cost of production, including inventory change**, is the most accurate measure of COP as it takes into account the impact on costs caused by significant inventory change. This is particularly relevant for farms that are in a state of change.

**Table 1** Case study example farm

Example farm	\$	C/L	per kg MS
AI & herd test	21,106	0.8	0.11
Animal health	25,340	1.0	0.13
Calf rearing	9,377	0.3	0.04
<b>Total herd costs</b>	<b>55,824</b>	<b>2.1</b>	<b>0.28</b>
Shed power	19,266	0.8	0.10
Dairy supplies	17,226	0.6	0.08
<b>Total shed costs</b>	<b>36,492</b>	<b>1.4</b>	<b>0.18</b>
Feeds purchased	259,987	10.2	1.31
Hay & silage making	35,996	1.3	0.16
Agistment	20,143	0.8	0.10
Fertiliser	77,925	2.8	0.36
Water purchases	3,515	0.2	0.02
Other irrigation costs	11,769	0.5	0.06
Pasture & crop costs	30,132	1.2	0.15
Fuel and oil	12,718	0.5	0.06
Other feed costs	11,690	0.3	0.05
<b>Total feed costs</b>	<b>463,877</b>	<b>17.7</b>	<b>2.28</b>
Employed labour	120,404	4.7	0.60
Farm insurance	13,358	0.6	0.07
Repairs & maintenance	54,280	2.0	0.26
Other overhead costs	32,558	1.1	0.15
<b>Total cash overhead costs</b>	<b>220,600</b>	<b>8.5</b>	<b>1.06</b>
<b>Farm working expenses</b>	<b>776,792</b>	<b>29.8</b>	<b>3.81</b>
Imputed labour	103,895	4.5	0.57
Depreciation	34,307	1.2	0.15
<b>Cost of production (exc. inventory changes)</b>	<b>914,994</b>	<b>35.4</b>	<b>4.53</b>
+/- Livestock inventory changes	-18,923	-0.6	-0.09
+/- Water/feed inventory changes	-31,687	-1.2	-0.15
<b>Cost of production (inc. inventory changes)</b>	<b>864,384</b>	<b>33.6</b>	<b>4.32</b>

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## What to leave out

Finance costs, leasing costs, principal repayments, capital purchases, personal drawings and tax payments are not included in COP.

## Caution with average costs

It is important to understand that the COP in a DairyBase report is an average of all costs spread across all the units of production for the year. Average figures give a useful summary of whole farm costs, and give a ballpark picture of farm performance. However, average figures should not be used to predict what the implications would be for making changes to the business operation, such as increasing or decreasing milk production. These decisions need to consider a marginal analysis using marginal cost of production, rather than average cost.

## Tools

For information on workshops and resources about farm working expenses and cost of production, contact your local RDP.

For all farm business management tools go to [dairyaustralia.com.au/fbm](http://dairyaustralia.com.au/fbm).

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