

MARKET WATCH

FALL 2011 IOFC UPDATE

Scott Druker
Senior Business Manager
Arm & Hammer
Animal Nutrition



Identifying areas of financial opportunity is especially important for dairy producers to maximize profitability. One financial metric that can help identify where potential opportunities exist is Income Over Feed Cost (IOFC), which is calculated by subtracting feed costs from milk production income. As they are the largest expense for your dairy operation, having a grasp of your feed costs allows you to make business-minded decisions on which ingredients are having profitable impacts. Knowing how to calculate IOFC can also help you identify the performance improvements needed to make an initial investment profitable.

The figure to the right depicts IOFC per cow per day over the past three years in Wisconsin. The feed cost represents the cost to produce 65 pounds of milk, using regional prices of corn, soybean and alfalfa hay. The all-milk price is used as the milk income.

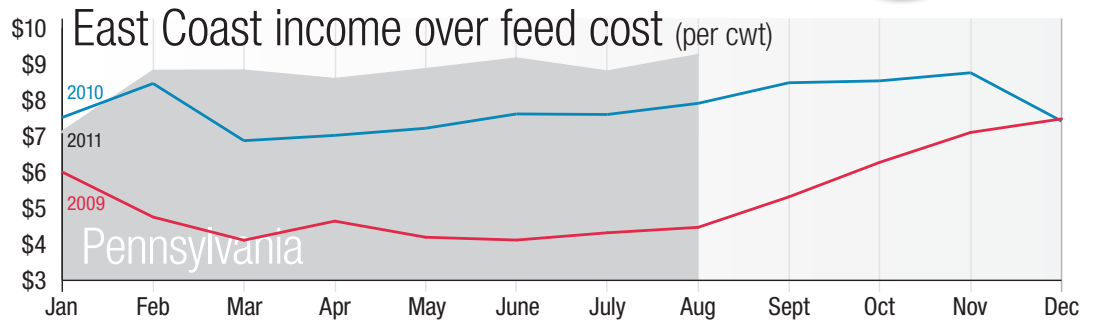
Using this data we can identify two opportunities:

◆ Focus on marginal income. While much conversation has taken place related to rising input costs, the margin between milk and feed is the highest it's been in two years. When we look beyond milk price and more specifically focus on marginal income, trends are positive and offer opportunity for financial improvements to be made. Make sure you capitalize on these.

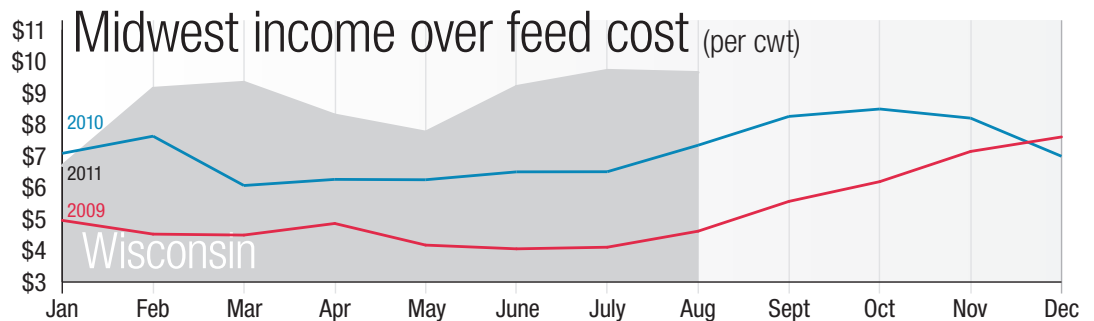
◆ Identify areas for additional income generation. When IOFC is favorable, as we have seen in 2011, look for ways to invest the additional margin to increase IOFC to even greater heights. For example, make investments in the ration that are proven to increase milk volume and component production. This will translate to incremental benefits and optimized herd IOFC. **PD**



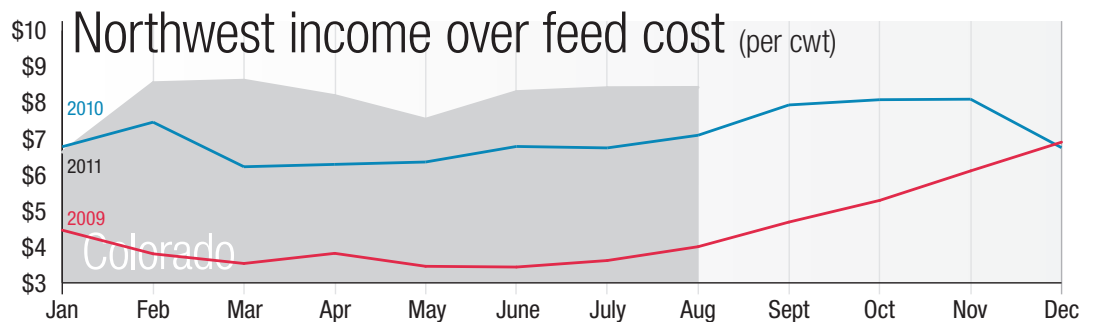
Reprinted from Oct. 12, 2011



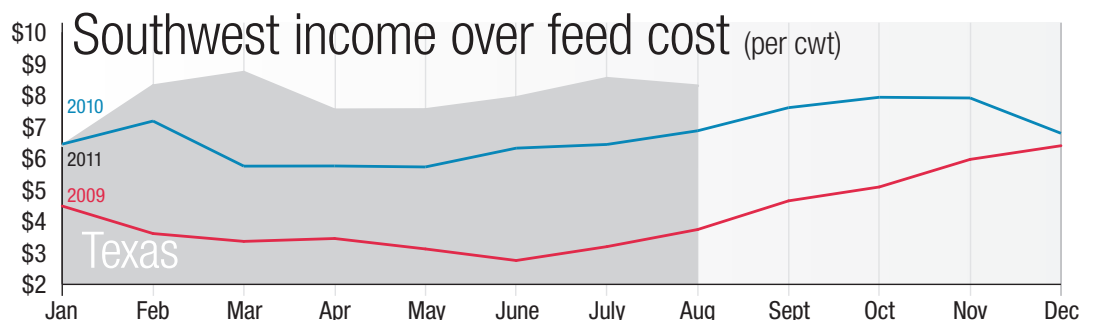
Source: Data taken from http://future.aae.wisc.edu/data/monthly_values/by_area/2403?area=US&tab=costs&yoy=true. Accessed: September 20, 2011.



Source: Data taken from http://future.aae.wisc.edu/data/monthly_values/by_area/2403?area=US&tab=costs&yoy=true. Accessed: September 20, 2011.



Source: Data taken from http://future.aae.wisc.edu/data/monthly_values/by_area/2403?area=US&tab=costs&yoy=true. Accessed: September 20, 2011.



Source: Data taken from http://future.aae.wisc.edu/data/monthly_values/by_area/2403?area=US&tab=costs&yoy=true. Accessed: September 20, 2011.