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## G94-1234 Should You Consider Expanding Your Dairy Herd?

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## Should You Consider Expanding Your Dairy Herd?

**This NebGuide discusses both the benefits and possible drawbacks from expanding an existing dairy operation.**

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*Jeffrey F. Keown, Extension Dairy Specialist*

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Nebraska's dairy industry is going through a transition. Producers are beginning to ask the question, "Should I expand, and if so, how large should my herd become?" Before considering this issue, the producer should first ask, "Do I really want to expand?" Expansion can be, and in many cases is, a traumatic experience, not only to the producer, but also to the producer's family. Every segment of the dairy enterprise should be consulted before making a decision. Call a family gathering and discuss this question openly. All employees also should be included in this discussion.

First, define the objective for the dairy enterprise in a few sentences. If the major objective of the dairy operation is to generate income for college educations and other occupational pursuits, or if the farm will be sold when the current owner retires, expansion is probably not a viable alternative. If one plans to expand, the dairy should be considered as a production unit for the long run. Good reasons for expanding a well-run operation include children returning to the dairy or the inclusion of new partners.

The second question to discuss is -- "Can we get better rather than getting bigger?" Take an objective look at your current management program. Are there areas that could be changed that would increase the production and profitability of your current group of cattle? Check areas such as ration formulation, feed quality, reproductive parameters, herd health, and somatic cell count. By increasing the management level, you may be able to increase income sufficiently without expanding. A producer with a herd average below 18,000 pounds should think twice about expanding. A good way to pinpoint areas of management in need of attention is to request the quarterly Dairy Herd Analyzer from the Dairy Records Processing Center. If you are not on Dairy Herd Improvement testing, contact the Animal Science Department and we can send you the information needed for us to run the Analyzer on your herd. There are also several NebGuides available outlining ways to generate additional income through changing management practices.

If you feel your management level is appropriate, consider the option of additional cows but not adding facilities. Can your milking parlor efficiently milk 50 to 100 or more additional cows? Remember, the best use of equipment is to use it on as many producing units (cows) as possible. Is your parlor only used 6 or 7 hours per day? If so, consider adding additional cows until it is used 16 to 18 hours per day.

Hiring additional milkers is much cheaper than building a new parlor. A good rule of thumb is to add cows until you hit a stumbling block, such as limited freestall space or inadequate feed supplies. Once a block is identified objectively look at the blockage and see if you can change it and still manage to make a profit. You may decide the added expense for additional cows will not substantially add to the cash flow. It is better to determine this before planning an expansion.

Once a producer has decided to expand an operation, structural questions need to be considered. Sometimes attempting to retrofit an inefficient operation only causes greater problems. Can current buildings be used to house heifers, springers and dry cows and a new facility built to better accommodate the milking herd? In many cases building a new milking barn and converting the current barn to other dairy animal uses is a viable alternative. A poorly designed renovation is sometimes worse than remaining in the existing facility.

Now that you have decided to expand, it is time to talk with your banker. Be prepared -- you'll probably need three years of detailed business records to share with the banker, as well as an estimated cash flow for the next two years. Projecting beyond two years is guess work; therefore, two years is reasonable. Don't plan cash flow projections using unreasonable milk prices. It is better to project near existing levels, not at \$14 to \$15/cwt milk prices. In other words, be reasonable and open with your banker. Once you have discussed the expansion with your banker, you may need to downsize your expansion to be more in-line with a loan you can carry. If your loan amount is considerably less than requested, you have two options -- downsize your expansion or wait a few years until your equity has increased or you have saved additional money.

After you and your family, partners, and employees decide to expand, spend time looking at other facilities in your area. Talk with others who have expanded or built new facilities. Ask about any changes they would have made in the design or construction of their facility. **Don't be timid about asking questions!** Get a list of builders in your area and ask them for references. Visit each, look, listen, and ask questions. It may also be helpful to look at designs available in national publications.

Don't get taken in with all the "extras" available. These may be nice additions, but ask will they add to the efficiency and profitability of the operation or to the aesthetics?

Environmental responsibility means one step that must be considered is the Department of Environmental Quality requirements for manure disposal. Any designs submitted must be according to their procedures. DEQ in Nebraska is willing to work with producers, but lead time to get all permits approved is needed. For a listing of DEQ procedures, please contact the DEQ office or the Department of Animal Science, P.O. Box 830908, University of Nebraska-Lincoln, Lincoln, NE 68583-0908.

There are many questions to ask before considering a major dairy expansion. Following a logical, step-by-step approach to the expansion process can help avoid many pitfalls. Finally, don't hesitate to ask questions. The future of your dairy operation rests on your knowledge and ability to make an informed decision.

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