



Agriculture and Natural Resources
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NOTE to editor: This is one in a series of articles produced by University of Wisconsin-Extension agents and specialists to address farming in difficult times. More articles can be found on the Extension Responds website at:
www.uwex.edu/ces/ag/farmingindifficulttimes.html

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Managing in Difficult Times: Budgets and Budgeting – Partial Budgets

Madison, Wis. – A budget is an attempt to predict financial performance for a specified time. Budgets are useful tools for planning and measuring performance according to University of Wisconsin-Extension specialists.

At least three types or levels of budgets are useful in the farm business. A farm manager will find a combination of all three - not necessarily at the same time - to be useful since each one has different characteristics. These three types of budgets are the total farm budget, the enterprise budget and the partial budget.

The total farm budget is the most familiar of the three. It is also the most complete in that it includes all income and expenses in the farm business. The bottom line of the total farm budget is profitability (or lack thereof) for the entire farm as one unit. The total farm budget is extremely useful to project profitability. However, the total farm budget is less effective than the enterprise budget in determining which operation enterprises are the most profitable and which are the least profitable.

In the enterprise budget each segment or enterprise of the total operation is an independent business. Each enterprise can then be examined for its contribution to profitability.

The partial budget is extremely useful to determine how to change profitability. It is a shortcut procedure that compares profitability before and after a managerial change. Consequently, the partial budget can be an extremely useful tool for determining whether a specific change will

make an operation better off than before. The managerial change is examined to see the net effect of the following four possible changes:

- increased income (+)
- reduced costs (+)
- added costs (-)
- reduced income (-)

The sum of these four factors should show whether the change will improve or diminish profitability. If income added by the change exceeds costs added by the change, making the change should add to profitability. A partial budget can be an effective way to test potential strategic changes in your farm that could help you in the decision-making.

Here is an example of a partial budget: Under these difficult economic times farmers are looking for ways to widen thinner margins. One specific managerial decision they could contemplate is the possibility of increasing the milking frequency in a day. The question: is it worth to switch from 2 (2X) to 3 (3X) milking times a day? Evidence supports that higher milk production is realized when this managerial change is performed. However, along with additional milk production, additional expenses are incurred. Therefore is it really worth it? The short and quick answer is it depends on many factors. Among those factors, some are easily measured such as the price of milk and the cost of labor. However, other factors are more difficult to estimate such as the expected increase in milk production and the amount of additional labor required.

Using the University of Wisconsin-Extension 3X milking decision making tool we found that switching from 2X to 3X could be a profitable practice. We estimated that the net revenue of switching from 2X to 3X will be \$44/cow per year when milk price is \$12/cwt, the cost of labor is \$12/hr, the expected increase in milk is 8 lb/d per cow, the estimated additional cost of feed is \$0.06/lb of milk and the additional requirement for labor is 3 hr/day for every 100 cows.

As you can see this will greatly depend on your own conditions and because of that we have created a tool that would allow you to perform your own analysis quickly and efficiently. The tool is called "Economic analysis of switching from 2X to 3X milking" and it is available at the following website <http://www.uwex.edu/ces/dairymgt/tools/Milk3X.swf>

Along with the 3X milking tool, UW-Extension has available many other decision making tools, using the partial budget technique that could help you to make informed decisions.

These tools include:

- LEASEVBUY.XLS: Provides cost information needed to determine whether it is less or more costly to lease an asset. See also, Leasing as an Option for Acquiring Assets: an explanation of the concepts of leasing. <http://cdp.wisc.edu/wk1/leasevbuy.xls>
- COWVAL.XLS: Calculates how much you can afford to pay for a cow if she does not add to overhead costs. <http://cdp.wisc.edu/wk1/cowval.xls>

Additional decision making tools using partial and other budgeting techniques can be found at the following website http://cdp.wisc.edu/Decision_Making_Tools.htm and <http://www.uwex.edu/ces/dairymgt/tools>.

To access more information and/or tools to help analyze your situation, link to the Extension Responds web page at: www.uwex.edu/ces/ag/farmingindifficulttimes.html

For assistance in making these tough decisions, contact your UW-Extension county agent, your Farm Business and Production Management Instructor in the Technical College or the DATCP Farm Center at 1-800-942-2474.

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