

## Vet's Corner: Making Marginal Financial Decisions

Every day, herd health veterinarians make recommendations that affect the financial state of their dairy clients' farms. Some decisions are easy, such as recommending teat dipping, cutting a DA on a high producer, and advocating E. coli mastitis vaccination. Others are hard to decide like, making an expensive building design improvement or switching from 2x to 3x milking. On what basis are these decisions made?

In the past two weeks, our practice has performed 3 successful umbilical hernia operations. These were cases that did not respond to the more conservative, less expensive approach of wrapping, so the producer was faced with the decision of investing a surgery fee to retain a potential herd addition.

If the calf is killed, the farm receives very little compensation and has no further expense. If surgery is elected and we assume a modest 90% success rate, the cost of surgery could exceed the difference in average raising cost against the common purchase price of an unaffected replacement heifer. So were these three hernia operations a bad idea?

NO, these surgeries are a good idea, because these are not average calves. They are marginal calves. When asked the value of the calf, the producer usually answers with the amount that would be paid to purchase the calf, not the raising expenses. So for argument's sake, let's assume that the calves are being raised for sale. By doing the surgery, there would be 50 calves to sell this year instead of 49. The farm has the same fixed expenses for the calf raising enterprise such as mortgage, utilities, insurances, manure removal, etc. with or without the hernia operation calf. The highest rate of profit is made on the sale of that last surgery calf raised.

Overall, a farm's financial averages are made up of the outcome of a series of these marginal decisions. Expanding milking herd size to the most profitable stocking density or pushing up TMR once more daily to encourage one more pound of DMI are examples of adding more profitable marginal output. For a Veterinarian, our most rewarding work is done while improving your margin.

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