Dairy Today Healthline Blog

'Top Line' Management Impacts Bottom Line

When the checkbook gets tight, try evaluating your income rather than your expenses.

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July 12, 2013

Dairy Today Fiscal Fitness

When the checkbook gets tight, I have seen many of my dairy farmer clients negotiate hard on feed and supply purchases—sometimes down to what seems like pennies. They have squeezed, skimped, or just plain dropped many expense items.

Rarely, however, do I have a client react to the 'top line' of the income statement when finances are a struggle. By 'top line' I am referring to income/inflows (milk proceeds, culling income, and calf income). Most dairy farmers feel they can only control the expenses of the operation, but that is not always the case.

While many dairy farmers participate in risk management to limit the volatile price risk in both milk and feed prices, there's more that can be done. They need to evaluate where they receive efficiencies within their operation. When meeting with a new client I often begin with two questions:

1. **How much milk does the dairy ship daily (not how much milk per cow)?**
2. **What kind of components are you producing?**

The answer to these two questions will give me a good idea of the monthly income of the dairy.

In order to avoid being a price-taker, I ask my clients to look at total milk production and what makes up that production. Is it the number of cows milking or production per cow? Is the production being influenced by breeding or feed programs? If so, what is the impact of those programs? Is the herd being influenced by the climate (heat or cold) and what effect is it having on the overall production? Is the dairy using Posilac? If so, what are the protocols and expenses?

Most expenses on a dairy operation tend to fit more in a fixed expense category than a variable expense category with the exception of feed. Labor, electricity, supplies, accounting, and principal and interest do not vary much if a 2,000-cow herd produces 140,000 lbs. per day or 160,000 lbs. per day. These expenses will not vary if the protein component is 2.9% or 3.2%.

My point is that the 160,000 lb. herd with a 3.2% protein will most likely produce more income than the 140,000 lb. herd with 2.9% protein. This extra income can help cover the fixed expenses mentioned above. (Note: I use the words "most likely" due to the fact that, occasionally, I have seen milk and components "bought." In other words, the variable costs [usually feed] outweigh the income increase.)

But if better ration balancing, bunk management and dry matter intake can yield more milk and higher components, income differences can be dramatic. When milk protein was $3/lb. or more this spring, those differences added up to more than $3,000 per day in more income in the example above.

With the tight and volatile financial times we are in, it is imperative for a dairy farmer to create monthly budgets and evaluate various scenarios while also tracking actual performance. Special attention in the budgeting/evaluating process must be given to the income and costs related to various levels of milk production, component makeup, ability to receive volume of milk, quality premiums, etc.

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