Smart Money Management: Accept the "Business" of Dairy

MAY 11, 2012

Why do many dairymen keep poor money management records? Accurate, timely financial records will improve your monetary rewards and ease your worrying.

By Bob Matlick, Frazer LLP

As the average size dairy gets larger and larger, and hopefully more efficient, a completely new level of management is entering into the dairy world.

I have clients with $30 million (and larger) per annum in gross sales. While your operation may not be that large, many dairies still average in the $2 million to $4 million range. I would argue that this would define your dairy farm as at least a mid-sized business, if not greater.

I see many producers who keep immaculate herd, reproductive and production records; however, many of those same producers have poor quality financial and money management records that may in turn lead to poor business decisions. I will many times drive home asking myself this very simple question, "Why?"

Why do many dairymen keep poor money management records? Is it because producers are part of an agricultural community that just accepts they are a small business (or at least perceive that thought process)?

On the other hand, maybe it is because there has always been an adequate (again perceived) profit margin. Maybe the reason is dairymen have been price takers, not price makers -- in the fact the product is perishable and the co-ops or processors took care of the processing, marketing and receivables. Perhaps it is a little of each.

The bottom line: The need for financial records both historically and looking forward is critical to manage the mid-sized business.

In my opinion, every producer should have cash flow projections for 6-12 months into the future. These are developed from historical data, input from the nutritionist, commodity brokers, veterinarians and perhaps business consultants. They should include all cash outflows and inflows, including capital improvements, living expenses, risk management strategies, principal reduction, and multi-month feed inventory purchases (silage, hay). These should be updated monthly (and timely) with actual numbers and variances in excess of an established amount researched.

The last step is to add one month to the projection and make any alterations to upcoming months with new information that has been learned in the recent past. You should also have an inventory management system in place to measure feed that comes into the business (whether purchased and/or grown) and feed actually fed and consumed. Remember, more than 50% of your cost structure is feed.

Granted, this may not be a task that can be heaped onto the current management team and or individual owner; however, it is vital, so whether this information is sourced within or through outside or newly hired personnel, you will most likely find the monetary rewards great and be able to sleep a little better each night.

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