Know Your Own Dairy’s Numbers

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In benchmarking, evaluate and challenge each category – reproduction, nutrition, finance, feed shrink – and seek the unvarnished truth.

By Robert Matlick, partner, Frazer, LLP

Being a partner in a dairy niche accounting firm, I am often asked, "What makes one dairy more profitable than another?"

Many dairy operators want to look at benchmarking or peer-group statistics to indentify weak spots in their own operations. Ten years ago, I was a huge proponent of benchmarking and embarked on the gathering and standardizing of financial and production information from clients. Then reality set in. After scouring through stacks of data, I realized benchmarking is great in stimulating discussion within peer groups, but chasing the ideal income and cost structure through benchmarking will most likely end in failure.

One may ask, "Why does benchmarking leave so much to be desired?" The answers are numerous. To begin with, no two facilities are identical. There are nuances with every facility (for example, cow flow, acres farmed, cow comfort, the age of the facility, various depreciation calculations, etc.).

Secondly, no two herds are exactly the same because of variables such as the herd’s age, genetic make-up, milking frequency, nutrition philosophy, milk components, and so forth. A third major issue is debt structure: Is it long term or short term? What are the interest rates on the various pieces of debt?

While these issues may just be the tip of the iceberg, it quickly becomes apparent that it is impossible to standardize all the raw data enough to provide statistically sound information on which to make management decisions.

So does this mean a dairy operator should not benchmark? My answer is no. A dairy owner/operator should diligently benchmark against his/her own operation monthly, annually, and further into the future. In other words, understand your individual operation as it currently stands and then attempt to make improvements in efficiencies, cost structure, and overall profitability on a monthly basis. Develop a monthly budget/cash flow for your operation and then track the actual performance.

There will be variances. Take the time to identify what those variances are. For example, is milk income less than projected because of number of cows milking, production per cow, milk price (basis)? Is feed expense higher than projected? Research the root cause (e.g., building up of inventory, shrink, change in dry matter intake, etc.). Evaluate and challenge each category with the appropriate personnel or professionals.

One of the greatest assets to a dairy’s operations is a team of experienced, knowledgeable and involved consultants. Dairy consulting professionals should be asked to be blatantly candid in their assessment of the individual operation. If there is a reproductive issue in the herd, the owner needs to be counseled in the matter, and a discussion should be had to determine the cause and the cost to remediate the issue. The same would hold true in regard to nutrition and finance.

Often, while working through a cash-flow projection with a client, I find there are problem areas on the dairy that were not addressed or even communicated to the operator. Consultants, nutritionists, veterinarians and the like should feel comfortable bringing up the issues they see. By bringing the issue to light, the matter can be addressed and remedied, and the herd (and production) will benefit.

Pay careful attention to the income-over-feed cost projections. In preparing cash flow projections for clients, I find dry matter intakes and shrink can wreak havoc on monthly cash flow. On a 5,000-cow dairy, a 2% point fluctuation in shrink can affect the monthly cash flow by as much as $300,000 per year.

Close attention should be given to components and how they affect your overall pay price. Just as you understand every other aspect of your operations, you should understand what drives your milk price. If you are farming a large portion of roughages, understand the monthly outflows and how it will affect the monthly cash flows of the dairy (for example, large harvesting bills incurred at harvest time). I encourage clients to sell the harvested crops to the dairy at fair market value in order to evaluate the overall farming operation.

With tight margins and large operations, all income and expense items need to be continually scrutinized. I know from experience that each month presents a different cash-flow challenge to an individual operation, so it is imperative to understand and plan for those variances. Gone are the days of preparing an annual cash flow in order to renew the bank loan.

As mentioned above, benchmarking can provide for stimulating conversation within peer groups, but a dairy manager must benchmark against his/her operation to make continual improvements.

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