Top Ten Keys To Building A Profitable Dairy Business

Bradley J. Hilty
Sr. Ext. Associate
Penn State Dairy Alliance

Dairy businesses are affected by both local and global events, many of which cannot be controlled. Future prices indicate a severe challenge to dairy profits in the year to come.

By focusing on ten key management practices dairymen can build a profitable business and insure they will survive the tough times and prosper when times are good. Those ten keys are listed below, in reverse order.

10. Manage Your Expenses

Some experts may argue that managing expenses should be at the top of the list. However, in most instances the costs of inputs are beyond our control, as is the price of milk. A good benchmark to follow is to manage expenses (less interest and depreciation) to 65 percent of income.

If an operation is not achieving this benchmark, evaluate the areas where improvement is needed to attain this benchmark. Evaluate the cost-benefit ratio of each purchase. Spend money on productive expenses and minimize non-productive expenses. Manage inventories to minimize carrying charges and control overhead expenses.

9. Emphasize Your Strengths

Dairy producers don't have to be a jack-of-all-trades to manage a profitable dairy. In fact, the challenge for producers is to identify and emphasize their strengths. Labor and/or capital constraints often lead to the "do-it-all" approach to managing a business.

Identifying the jobs that the dairy producer enjoys doing and, therefore, will do well, can lighten the workload and enable the dairyman to focus on the aspects of the business that will make the most money.

8. Enterprise Analysis

Identify the varióus profit centers of the business. Determine which are profitable and to what degree. What changes should be made to improve the profitability of the money losers and what investment would those changes require?

Would that money, if invested in the more profitable enterprises of the business, generate a higher return? Are there alternatives that would allow the producer to out-source those enterprises that are not making money or are providing minimal returns for the resources required by those enterprises?

7. Make Wise Investments

Evaluate each investment and why it is important to the business. Analyze every investment made to determine the return it will generate for the business. What is the payback period? Prioritize investments on the basis of their perspective payback periods; one to two years first, then three to five years. Larger investments (major expansions) should have a payback period of less than 10 years (seven-eight years preferably).

Implement A Management Team

Consider implementing a management team, consisting of the key advisors of the dairy operation. This team can help to develop strategies that will help improve the profitability of the business. They can help monitor trends in key production indicators and help to prevent small problems from turning into major catastrophes.

Team members may include: the veterinarian, nutritionist, agronomist, dairy consultant, lender, accountant or financial advisor, dairy field person and/or extension personnel.

5. Information Management: Know Your Cost of Production

Use the records that are available to make management decisions. Evaluate the accounting system. If it does not allow the producer to easily calculate the cost of production, and perform enterprise analysis, consider changing to a system that does. A good accounting system will help spot weaknesses in the production system.

Compare production costs and figures for other key indicators to those of the top ten percent of profitable dairies. The business should also have a good production récord system in place. Production records, if used correctly, will indicate where efforts should be focused to improve profitability.

4. Cow Comfort

Evaluate the facilities in terms of cow comfort. Are the majority of animals lying down when not eating? Do animals have trouble getting in and out of stalls? Are bedding levels adequate? Are cows waiting in the holding area too long? Is the ventilation system providing a good source of high quality air? Do the cows walk around comfortably without slipping?

Poor cow comfort levels can lead to poor profitability, through reduced production, poor reproductive performance, higher cull rates and higher feed costs. Blood flow to the udder increases significantly when cows are lying down. This promotes more efficient utilization of the nutrients the cow has ingested. Higher cull rates will significantly reduce profitability, by increasing overhead costs.

'3. Maximize Forage Quality/Feed A Balanced Ration

From the field to the feed bunk, this is a key area where many dairies can make improvements to their bottom line. Poor forage quality can cost a 100-cow dairy from $20,000 to over $100,000 per year in increased feed costs and lost production. Manage forage supplies to minimize drastic changes in the forage makeup of the animal's ration. Constantly changing forages or feeding forage that has not completely fermented will lead to reduced production and lower profits.

Latest research is indicating corn silage may not reach a stable state until two-three months after harvest. If storage facilities prevent the producer from feeding fully fermented forage throughout the year, he should consider putting up a bag or two for use during next years' harvest period. Forage quality should be monitored frequently and the ration balanced to ensure the cows are getting adequate nutrients to match their production level, without over feeding nutrients.

Control The Controllables: (Production, Efficiency And Marketing)

There are many factors of the dairy industry that producers cannot control. Concentrating on those areas will only drain a producer of the energy needed to address the areas they can control. Although producers have little control over the price they receive for their product, controlling some key items can contribute to higher prices. Controlling mastitis in the herd reduces somatic cell counts, which can lead to considerable bonuses with some of the milk quality incentives now offered.

Ensuring that the ration is properly balanced not only leads to better production and a more cost-effective feeding program, it helps to maintain milk components (fat and protein), which contribute to higher prices. Addressing many of the items previously discussed can lead to higher production levels, which improve profitability.

Make an effort to become more informed about the marketing side of the business. Developing a good marketing strategy, using the risk management tools available, is another way to build a profitable operation. In doing so you begin to take more control of your operation.

1. Develop A Strategic Business Plan

The topic of this discussion is "Building A Profitable Dairy." No dairy producer would build a new dairy facility without having a set of blueprints. Yet many may not have taken the time to develop a set of blue prints for building a profitable dairy business.

Developing a plan forces the producer to look into the future and visualize where they would like to be in five to 10 years. A plan will help producers determine where their business is today and what they must do to reach the goals they have set for the business.

This is a time-consuming process, but the effort put into it will pay big dividends in the future. Enlisting the help of a professional can expedite the process, and will provide additional insight as to where the operation is now and how to achieve the goals.

In conclusion, dairymen will always be faced with adversities of one sort or another. However, by addressing the key items listed above, dairymen can take major steps to building profitable dairy businesses and ensure that they will survive and thrive well into the future.