What Are Strategies Of Successful Dairies?

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GRANTVILLE (Dauphin Co.) — More than 30 industry representatives involved in helping producers make financial decisions came to a meeting about farm economics at the Holiday Inn, Grantville, Tuesday.

Normand St-Pierre, department of animal sciences, the Ohio State University, profiled successful dairies in his discussion.

He opened by discussing U.S. production of milk.

"Pennsylvania is the only state east of the Mississippi River that has outpaced the growth of the national average," said St-Pierre. "Every other state east of the Mississippi, if you held your own, you did pretty well. The growth has been out West. We're fast approaching the time when the West and the Southwest will be 50 percent of the milk production in the U.S.

"This is not just a little blip, a little trend, it's a massive change," he said.

St-Pierre also discussed several facts about the dairy industry. The per-cow net return on a large farm is substantially higher than small farms, he said. Larger farms have the advantage of automation in their operations. Also, large farms are more labor efficient, according to St-Pierre.

"On small farms, the same person wears about 20 different hats on any given day. One thing that we have learned in labor is that people end up doing better if you give them one small slice of something to do. You lose efficiency as you keep changing jobs."

He defined small farms as 40-55 cows, medium farms as 100-150 cows, and large farms as 300-plus cows.

The statistics and ideas that he presented do not sound the death knell for small farms, however, he pointed out.

"Farm size, by itself, does not guarantee success, but it does increase the odds," he said. "The top 20-30 percent of small farms actually do quite well. They are doing things differently than the average small farm," he said.

Four models of successful dairies include the "Uncle Scrooge," "Olympian Producer," "Tight-rope Walker," and the "Family Affair."

The "Uncle Scrooge" dairy manager focuses on control of expenses, and although the farm is not fancy it is functional, the cows are in good shape, and it has good, though not outstanding production.

The "Olympian Producer" focuses on extraordinary production (more than 28,000 pounds per cow). The competitive costs of production are achieved by maintaining the fixed costs but shipping more milk. The Olympian Producer's cows first freshen at 22-24 months and produce good milk components.

The "Tight-rope Walker" focuses on keeping all systems in balance and is in the top third of all production and financial benchmarks. Their nutrition and breeding programs are simple and they are an active marketer of milk, he said.

With the "Family Affair," "these are the people who decide, 'it's not just my job, it's my life, it's my hobby, it's how the family is defined,'" he said. "The kids are not dragged into this (helping at the dairy)," but share their parents' passion.

Since the family members value things other than money — namely, the farming lifestyle — they pour profits from the dairy into purchasing other farms.

"Essentially that's how Pennsylvania has managed to outpace the nation" in growth, said St-Pierre.

He encouraged the audience that the small farms that are profitable are "not an exclusive club — everyone can do this and be successful."

However "the world has changed, some will have to change a little, some change a lot. Some of the old ways of guaranteeing your sustainability probably will not work for the future," he said.

"Long term, there's only four things that can be done," he said. The operator can get out of the dairy business, liquidating all assets. St-Pierre believes that he would recommend this strategy for 10 percent of operators in the eastern dairy industry.

If the operator is advanced in age and the facilities are in disrepair and losing equity, this is the best option, he believes.

The next option is to "milk it out," a plan which St-Pierre would recommend to 60 percent of operators. This calls for planning an exit 10-15 years down the road. "Stop pouring concrete" and building any more facilities with this option, he said.

The third choice is to "throw money at it," which he would advise for five percent of operators. This calls for a major expansion, and the owner must have the characteristics to have a successful expansion, he said.

"Getting off the trail" is the next option and includes specializing. "This may mean that you don't grow your own corn," he said.

On another note, to illustrate the analysis of alternative farm investments, St-Pierre offered a case study of a farm in New York.

The farm, which received $120,000 from timber on the farm, had four choices for the money: pay down debt, buy 100 cows, install milk yield recording, or build new heifer facilities.

To assess the situation, four tools were used the balance sheet and profit and loss statement, which proved to be the most useful, said St-Pierre, and the cash flow statement, along with the statement of owner's equity.

Analyzing the farm's cropping program and dairy program showed the operation to be "pretty efficient" and "overall, good dairy producers," he said.

Further analysis took into consideration liquidity, solvency, and profitability, and repayment capacity.

Looking at all the options, "put the cows in," said St-Pierre. "It generates the cash, generates the profitability."

However, with the help of a revenue-generating quarry owned by the farm family, in October 1996 the farm put in a new heifer facility and later, with the help of a loan, purchased a 100-head herd.

"It is easier to get a lender to agree to more cows," said St-Pierre, so the farm put the $120,000 toward the heifers, then got a loan to buy the cows. Later they also worked a deal with an equipment manufacturer to put in a milk yield recording system.

The case study was meant "to illustrate the impact of farm finances, and how to evaluate" a farm's financial options, he said. Although historically farmers tend to shy away from managing numbers, "the successful people will have to get control of this" because of finance's impact on profitability, said St-Pierre.

Also during the meeting Jeffrey Brose, DVM, technical service specialist for Monsanto Dairy Business, discussed heat stress on cows.

A high-producing cow may produce more than 6,000 BTUs of energy per hour, according to Brose. In addition, heat production increases as milk production increases.

Look for more of Brose's information about heat stress in the next issue of *Dairy Plus* in the June 28 issue of *Lancaster Farming.*

The seminar was sponsored by Monsanto Dairy Business.

Speakers at the recent seminar included Normand St-Pierre, Ohio State University, left, and Jeffrey Brose, Monsanto Dairy Business.