

## **The Business of Dairying**

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Dairying, like all other sectors of the agricultural industry, is now more than just a way of life. Gone are the days when milking 30 cows would give a good enough income to provide a living and raise a family, that is unless debt is very low or non-existent, or there is an income from an outside source. During the last ten years in Manitoba the face of dairying has changed considerably. The value of quota has trebled and the number of producers has decreased by over 40%. There have been a number of factors which explain why so many producers have chosen to quit. Retirement, inefficient operators and producers with older facilities have taken the opportunity to realize their assets as the price of quota has risen and chosen to pursue a different sector of the industry or a complete career change rather than be held to the 24/7 regime of milking and managing dairy cows. Of course, with producers exiting, there are others that are expanding and whereas 10 years ago there were only a couple of producers milking 400+ cows, there are now several with some at 600 cows. With these expansions has come a swing toward more freestall operations, but with much progress being made towards improved tiestall facilities, there are producers who still favour the latter, with cow comfort being a very important issue in any new or improved facility.

Quality assurance and environmental regulations play a big part in everyday dairying practice today and, together with labour and the availability of labour, can be a factor in determining whether a producer continues at his/her present level, plans an expansion or exits the industry. Quality of life for employers and employees is a very important consideration as people see their friends working a regular eight hour day with many having free weekends. Also there are producers who can manage a small herd exceptionally well but when they have to deal with hired help and delegate responsibility they cannot always cope successfully with the shifting responsibilities. Dairying can be a very rewarding occupation and a good environment to raise a family, but failure to take time off away from this specific business scenario can cause premature burn-out, just as soon as working too many long hours in an office.

For those producers who choose the expansion mode, it goes without saying that it becomes increasingly important, with the present quota value, to have a feasibility study and budgets prepared to ensure that the plans will generate the necessary income to service the increased debt and provide a living. But it is also becoming increasingly important to maintain constant attention to the business portion of the operation.

To this end, in 1996, a number of progressive producers in Manitoba looked to form a group whereby, through the help of a consultant, their financial and production data would be collected, processed and an analysis report generated. That report would highlight strengths and weaknesses in the business, providing an opportunity to improve profitability. After looking at various options, the Manitoba Dairy Farm Management Group [MDFMG], as it became known, selected the Agritel program from Federation des Syndicats de Gestion Agricole du Quebec [FSGAQ] which has been very successfully used by 2200 farmers in groups set up in Quebec and Eastern Ontario over 20 years ago. This program can be used for virtually any sector of the industry, but in Manitoba it was decided to specifically adhere to the dairy sector. The MDFMG is a producer run organization with an elected board of directors, putting on a series of winter meetings focusing on current topics in the industry, wherever possible, looking at them from a business aspect. Notices to these meetings, although held in the south east, are circulated province-wide, giving producers and members of the service industry the chance to discuss and network together. A significant grant to

start the project was provided by the Canadian Farm Business Management Council [CFBMC], an English version of the software was made available and despite some early teething problems, the last 3 years has seen a sizeable increase in the number of producers wanting to improve their knowledge on how their business is performing. This program is a very useful management tool and serves to provide a full financial report and amongst other reports, shows returns on capital and net worth, financial efficiencies and ratios and a detailed report on how well the business is servicing debt. There is also useful information on the efficiencies relating to the dairy herd. Equally importantly it allows members the opportunity to benchmark their own results against those of other like-minded producers. Ensuing discussion between members can be very helpful in cost-cutting or income boosting decisions and this is a very positive way for producers to improve herd performance and ultimately profitability.

Producers in Canada receive one of the highest milk prices globally and justifiably so, as due to long winters and short summers these prices are necessary to offset the higher costs of production, but even so, profitability has a hard time keeping up with rising costs. Supply management is an essential element of the Canadian dairy industry and producers must, as one body, fight to preserve this system. In a free market, Canada would be at a distinct disadvantage by the higher cost of production and then, once supply exceeded demand, it is likely that a freefall situation could occur. It would be very difficult, if not impossible, to restore the present day price thereafter.

The MDFMG is not the only organization providing analysis reports in the dairy sector, but the opportunity to benchmark against other forward thinking producers is a benefit that many find very useful. The message is to ensure that your business is well poised to be able to cope with any decisions that may in the future be directed against the dairy industry in World Trade negotiations.

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