PD EXCLUSIVE

Could benchmarking and a dairy peer group improve your profitability?

Roger Mills for *Progressive Dairyman*

My goal as a dairy producer was always to achieve economical milk production, while at the same time adopting sustainable crop, land and herd management practices. I still think primarily as a dairy producer. My aim in my present role as a business consultant is to pass on my experience by helping producers to improve their profitability through being better, more efficient business managers.

One way to achieve this, is to generate an analysis report to highlight the strengths and weaknesses of each business.

By benchmarking your results against previous years, the group average or other individuals, it is possible for producers to improve their own efficiency.

I am not an economist, nor am I an accountant, but I do understand the economics, environmental and marketing challenges facing the dairy industry. I also have access to an excellent benchmarking program and a strong support and network system.

I am a great advocate of "group" participation. Whether it is a group set up solely for discussion or for benchmarking financial and production data, that is the producer's choice. I benefited from such experiences for 30 years, which led me to gain knowledge and a definite financial advantage to my business.

The Agricultural Management Institute in Ontario invited me a couple of years ago to participate in a brainstorming session to discuss the value of such groups in agriculture. The institute then developed a booklet outlining the benefits of group participation to further advance the business skills of all their producers – from horticulture to grain, livestock and machinery groups.

Group concept

As farmers, we are often content to work alone, not always seeking advice that can be, more often than not, free. Farmers have valuable expertise as to what actually works on the farm. So, being part of a small group for discussion and maybe benchmarking purposes is making good use of resources that other farmers possess. You can trade experiences, strategize and problem- solve together.

Farm businesses that have been part of management groups for a number of years show an operating profit of up to 43 percent higher, return on assets 2.25 percent higher and a greater net worth.

What are the advantages of being part of a group?

1. Access the "real-life" experts: Farmers trust the experience and knowledge of other farmers who deal with the same experience.

2. Improve operations: Enabling producers to keep up with the latest industry trends, new technologies and management techniques.

3. Increase knowledge: Enables producers to share with other producers or seek outside expertise that bring different sets of knowledge and experience together for group problem-solving.

4. Find quality of life: Providing for personal and family time has become a management issue for producers, so many groups include this in their discussions.

5. Last, but not least, it's an enjoyable networking experience. Groups provide farmers with a much-needed opportunity for social interaction and support from like-minded people.

Benchmarking

To improve profitability, producers need to improve the efficiency of their operation. That means either increasing the revenue or reducing the costs – or both.

By discussing production benchmarks, producers are scrutinizing their own results to see where they can improve their efficiency. They need to know their cost of production and in what area they can add potential revenue and make savings.

Feed is the single, biggest expense and so ensuring quality forage and using a feed specialist to formulate a least-cost ration and a diet to optimize milk components can add to revenue potential. This will also lead to an improved feed efficiency – more milk from forage.

High-quality forage will optimize the pounds of milk from every ton of purchased concentrate, thus reducing feed cost and improving the return.

Members of the Manitoba Dairy Farm Management Group have recently received their 12th Annual Analysis Report.

Results from 2008 reports show that despite a cost of production milk price increase it was not enough to offset the average increased feed cost of $80 per ton, coupled with higher fertilizer and fuel costs. The outcome shows that producers' margin was more than $1.00 per hectolitre (.44 cents per hundredweight) lower than the previous year.

Producers are encouraged to look at debt per pound of milk, debt service ratio and their operating expense ratio, amongst other numbers. Higher expenses impacted all of these ratios, but as feed, fuel and fertilizer costs all recede somewhat. It is hoped that the purchased concentrate feed expense that represented 40 percent of the variable costs in '08, can return to the '07 level of 36 percent.

I spend much of my time building business plans and proposals for expansions, culminating in financial projections. Some producers tend to think they can expand their way out of a negative cash flow. From my experience, it has always been very important to be totally efficient at your present herd size before considering an expansion. If you are losing money with 100 cows, it's a near certainty that you will lose more than double that amount, when moving to 200 cows.

The other consideration is that managing employees is totally different from managing cows. The more cows you have, the less time you will likely spend with them. That time will be spent managing, scheduling and training your employees.

Summary

Economics, environmental issues and availability of labor are likely to be the main proponents for producers exiting the industry. Those remaining will need to improve their business management skills to ensure a reasonable level of profitability after debt repayment. It will be especially necessary for them to learn how to delegate responsibilities as the size of their operation continues to grow. ***PD***

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