



Key Management Areas Impacting Profitability

Jason Karszes
Senior Extension Associate

Thomas R. Overton, Ph.D.
Associate Professor

B47 Morrision Hall
Ithaca, NY 14853
Phone: 607.255.3809
FAX: 607.255-1335
jk57@cornell.edu

272 Morrision Hall
Ithaca, NY 14853
phone: 607.255.2878
FAX: 607.255.1335
tro2@cornell.edu

Department of Animal Science
College of Agriculture and Life Sciences
Cornell University



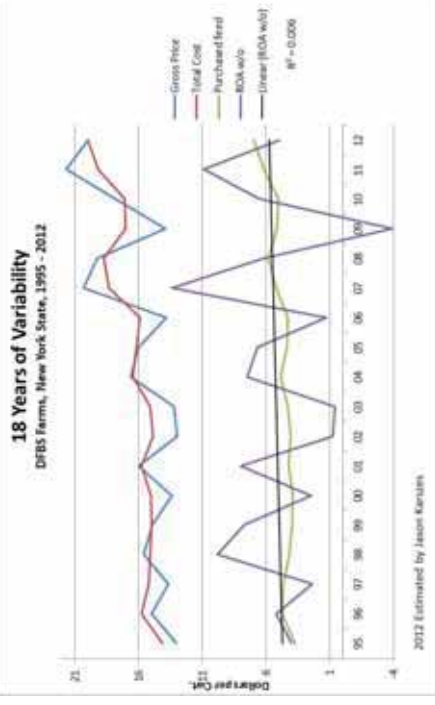
Key Points

- ⌘ Variability
- ⌘ Milk Production
- ⌘ Cost Control
- ⌘ People
- ⌘ Investment Balance
- ⌘ Continuous Improvement
- ⌘ Decision Making
- ⌘ Prepared for Opportunities



Variability

- ⌘ Have been on cycles for some time
- ⌘ Previous poor years
 - ☑ 1997
 - ☑ 2000
 - ☑ 2002-2003
 - ☑ 2006
 - ☑ 2009
 - ☑ 2012?





Management Implications

- ⌘ What is done during good years?
- ⌘ What is done during poor years?
- ⌘ How is the business positioned?
- ⌘ Self insurance vs risk management plans
 - ☑ Working Capital
 - ☑ Debt Level



6 Year Trend Numbers

- ⌘ 107 farms participating in Dairy Farm Business Summary for six years.
- ⌘ 2006 – 2011
- ⌘ Capture two 3-year cycles
- ⌘ Top 20% of farms by ROA w/o appreciation vs remaining 80% of farms



Same Farms, 2006-2011

Working Capital as Percent of Expenses		2006		2011		Percent Change	
Top 20%	Remaining 80%	16%	24%	21%	14%	14%	27%
		9%	22%	17%	12%	17%	19%
Debt Per Cow, End of Year		2006	2011	Change	Percent Change	Percent Difference in 2006 in 2011	
Top 20%		\$2,473	\$2,698	\$225.00	9.1%	-18%	-17%
80%		\$3,010	\$3,256	\$246.00	8.2%		
Net Worth, Beginning of 2006 to End of 2011							
Top 20%		\$3,334,439	\$6,615,642	\$3,281,203	98.4%	55%	89%
80%		\$2,147,064	\$3,494,306	\$1,347,242	62.7%		

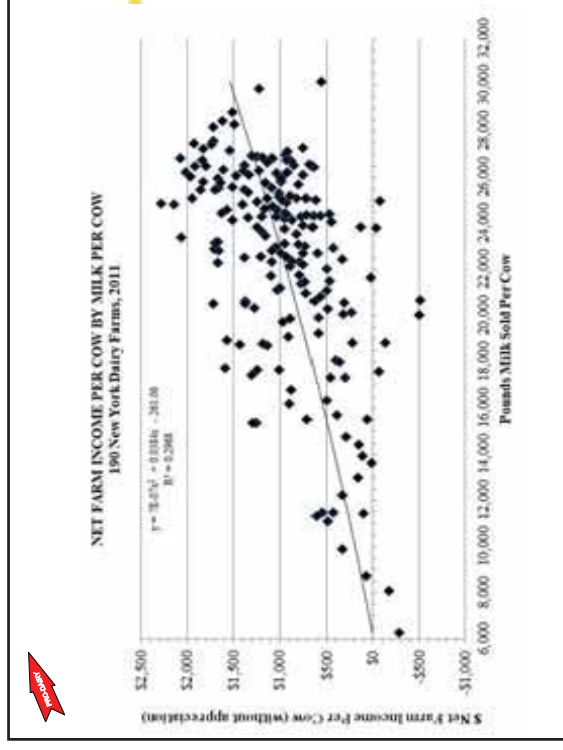


Milk Production

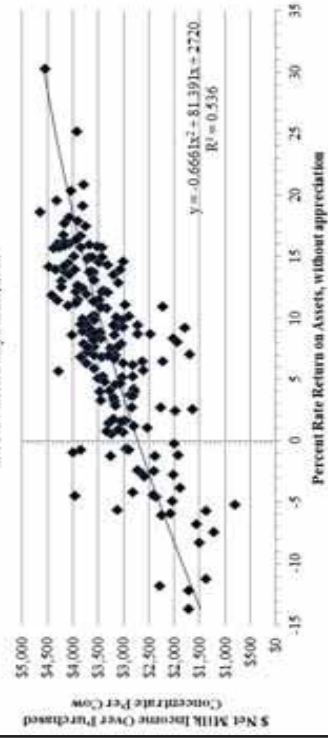
- ⌘ What is the trend?
- ⌘ How fast is it changing?
- ⌘ Never comfortable
 - ☑ Component level
 - ☑ Feed conversion
- ⌘ Forage Quality
- ⌘ Cow Comfort
- ⌘ Others?

Milk Production

- ⌘ Top Farms – average 5% higher milk production per cow over the 6 years
- ⌘ Dairy Profit Monitor Data – 70 Farms July 2012 - Range
 - ☑ Components per cow per day: 3.32 – 6.38
 - ☑ Feed conversion: Lbs. of FCM per lb. of dry matter: 1.20 – 1.77



NET MILK INCOME OVER PURCHASED CONCENTRATE PER COW BY RETURN ON ASSETS

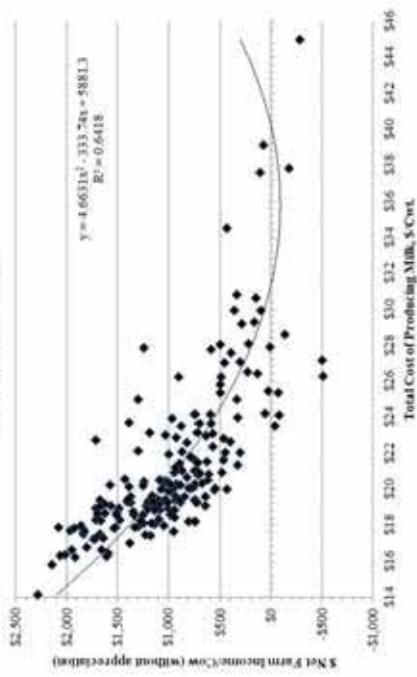


Cost Control

- ⌘ Know numbers
- ⌘ Question everything
 - ☑ Will it work on this farm?
 - ☑ How will you know?
 - ☑ When will you know?
- ⌘ Slippage



NET FARM INCOME PER COW BY TOTAL COST OF PRODUCING MILK PER HUNDREDWEIGHT
190 New York Dairy Farms, 2011



Same Farms, 2006-2011

Operating Cost to Produce Milk per Cwt.					
Top 20%	\$11.41	\$12.91	\$14.13	\$12.77	\$12.61
Remaining 80%	\$12.44	\$13.88	\$15.67	\$13.95	\$14.17
Total Cost to Produce Milk per Cwt.					
	\$14.29	\$15.82	\$17.32	\$15.88	\$15.69
	\$15.58	\$17.29	\$19.22	\$17.31	\$17.47
Net Farm Income Per Cow					
	\$337	\$1,608	\$995	\$30	\$1,064
	\$20	\$1,169	\$520	-\$346	\$527
					\$942



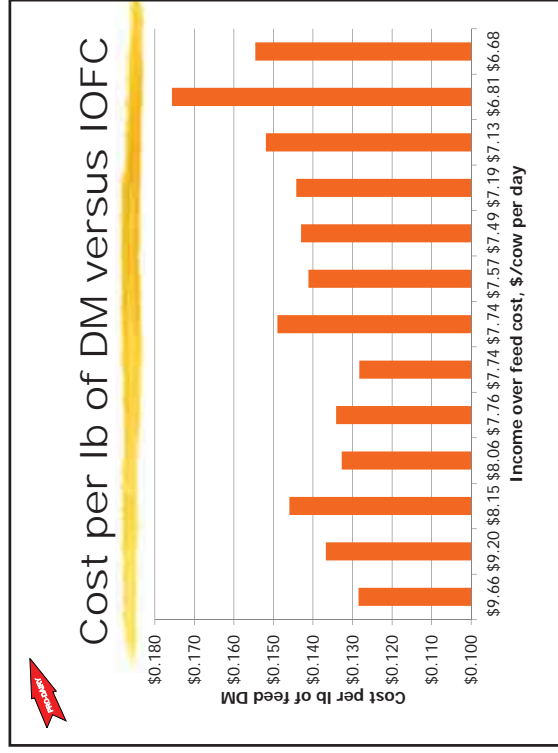
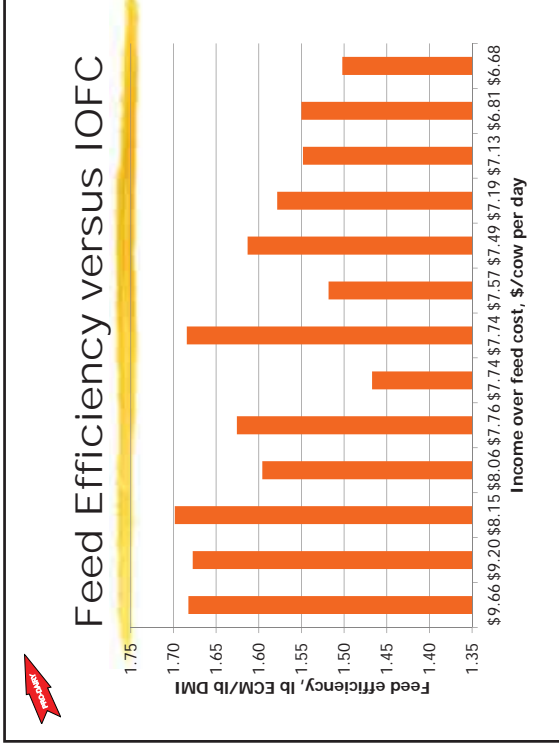
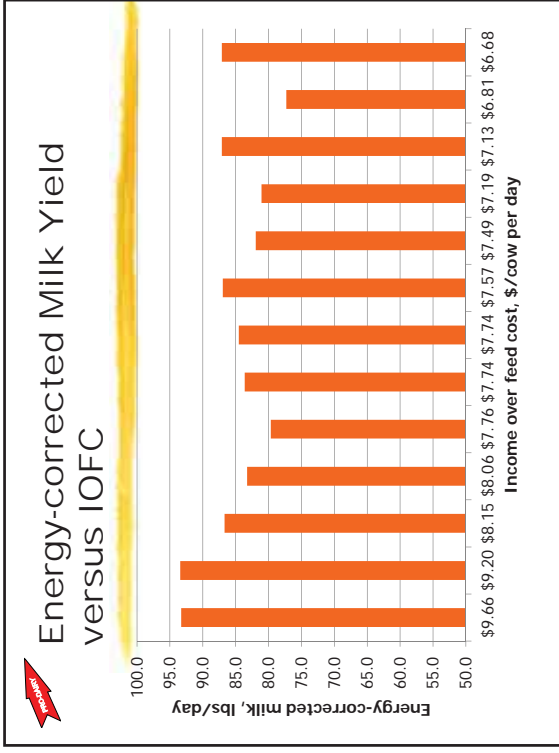
Ration/Feeding Program Evaluation

- ⌘ Discussion group topic
- ⌘ Information collected for September 2012
 - ☑ Group production and DMI information (# cows, milk, components, DIM, % heifers) for all lactating groups in herd
 - ☑ Rations, forage analyses, costs of purchased ingredients
 - ☑ Forages and homegrown feeds given standardized costs
 - ☑ \$1.21/pt DM haylage; \$1.23/pt DM corn silage (+ 10% for BMR); \$200/ton HMSC; \$185/ton grass hay; \$175/ton straw



Approach

- ⌘ All information used to calculate an aggregated single value for each farm for each metrics
 - ☑ Performance and efficiency/cost metrics
- ⌘ All rations run through CNCPS
 - ☑ Elizabeth Martens and TO
 - ☑ Selected parameters extracted and used to calculate an aggregated single value for each farm
 - ☑ Most cases captured key data reasonably well
- ⌘ Herds employed a variety of overall feeding strategies without apparent relationship to IOFC
 - ☑ 1 to 4 different rations for lactating herd
 - ☑ 0 to 5% targeted refusal



Statistical analysis

- ⌘ Multiple linear regression analysis conducted using SAS
- ⌘ Outcome variable – IOFC
- ⌘ Input variables
 - ☑ ECM yield, feed efficiency, cost per lb of DM
- ⌘ All three input variables were statistically significant and remained in final model
- ⌘ Model accounted for 85% of variation in IOFC



People



Labor Efficiency

- ☑ What milk is being producer per worker
- ☑ Cost per worker
- ☑ Cost per cwt



MILK SOLD PER WORKER AND NET FARM INCOME

190 New York Dairy Farms, 2011

Pounds of Milk Sold Per Worker	No. of Farms	No. of Cows	Pounds of Milk Per Cow	Net Farm Income (without appreciation)	Labor & Management Income Per Operator
Under 500,000	22	107	20,515	\$68,951	\$12,887
500,000 to 699,999	31	125	19,152	94,106	24,672
700,000 to 899,999	27	288	23,007	257,453	88,241
900,000 to 1,099,999	48	611	23,834	613,725	217,514
1,100,000 & over	62	931	25,804	1,199,265	393,260

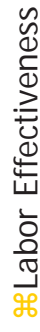


Same Farms, 2006-2011

Hired Labor Cost per Cwt	Top 20% 80%	2006		2011		Percent Difference in 2006 in 2011	
		\$2.58	\$2.71	\$2.65	\$2.85	-5%	-7%
Cost per Hired Worker	Top 20% 80%	\$36,511	\$34,786	\$40,260	\$37,232	10.3%	7.0%
						5%	8%



People



Labor Effectiveness

- ☑ How good a job are people doing?
 - ☑ How are they impacting output?
 - ☑ How are they impacting costs?
- ☘ Impact on Slippage
- ☘ How to manage



People

- ⌘ Not just employee's
- ⌘ Service providers
 - ☑ Part of the team
 - ☑ Ask for input
 - ☑ Evaluate advice



People

- ⌘ The Owners/Operators
 - ☑ Interacting with others that are positive
 - ☑ Surrounding themselves with others trying to accomplish similar things
 - ☑ Setting the culture of the business
 - ☑ Continuous professional development



Investment

- ⌘ Balance
- ⌘ Capacity
- ⌘ Growth in earnings



ASSET TURNOVER AND PROFITABILITY 190 New York Dairy Farms, 2011

Ratio	Number of Farms	Number of Cows	Farm Capital (average for year)		Labor & Management Income Per Operator	Net Farm Income (without appreciation)
			Per Cow	Per Worker		
≥ .70	49	815	\$7,908	\$345,916	\$359,664	\$892,138
.60 to .69	48	745	9,889	435,159	339,585	921,774
.50 to .59	41	408	11,377	508,642	163,943	521,831
Less than .50	52	200	12,399	514,680	43,064	170,969

Top 20% of Farms vs Remaining 80% of Farms

Selected Measures, Six Year Comparison

Same 107 Farms, 2006 - 2011

Dairy Farm Business Summary, New York State

	2006	2007	2008	2009	2010	2011
Net Investment Per Cow						
Top 20%	\$654	\$953	\$994	\$510	\$581	\$1,334
Remaining 80%	\$626	\$647	\$976	\$430	\$530	\$797
Farm Capital per Cow						
	\$7,528	\$8,063	\$8,888	\$8,641	\$8,315	\$9,229
	\$7,626	\$8,282	\$9,022	\$9,065	\$9,051	\$9,627



Same Farms, 2006-2011

	2006	2011	Change	Percent Change	Percent Difference in 2006	in 2011
Herd Size, Milking & Dry	671	911	240.91	35.9%	48%	77%
Top 20% 80%	453	516	63.11	13.9%		

	2006	2011	Change	Percent Change	Percent Difference in 2006	in 2011
Tillable Acres per Cow	1.78	1.87	1.95	1.91	1.79	1.84
	1.98	1.99	2.06	2.04	2.08	2.08
Com. Grain Acres per Cow	0.15	0.15	0.25	0.20	0.18	0.17
	0.15	0.20	0.24	0.21	0.25	0.25

Continuous Improvement

- ⌘ Never complacent
- ⌘ What to improve next
- ⌘ Set goals
- ⌘ Asking questions
 - ☑ What is new that we should be doing?
 - ☑ What is holding us back?
 - ☑ What are the next opportunities?



Decision Making

- ⌘ How are decisions made?
- ⌘ How fast is change made?
- ⌘ Type 1 error vs Type 2 error
- ⌘ What is done when a mistake was made?



Prepared for Opportunities

- ⌘ Earnings
- ⌘ Bank relationships
- ⌘ People
- ⌘ Working capital
- ⌘ Ability to make a decision



Questions

Thank You!