

PRO-DAIRY

By Jason Karszes

PROFIT MANAGEMENT

This year's changes in milk price, feed costs and earnings continue a long-running trend of variability in earnings on dairy farms. Here are ideas on how to manage.

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Use profits to manage variability

So far, 2011 is shaping up as a year where dairy industry profits, on average, will be strong. For the first two quarters of the year, milk prices increased over 2010. Though as of this writing there are indications that prices might start to decline, 2011 still shapes up to be a year of strong milk prices. That doesn't necessarily mean strong earnings.

Unfortunately, strong milk prices have been offset somewhat by increases in feed costs and challenging growing conditions. Consequently, it's uncertain if 2011 will be an average or above average year for dairy producers.

Nothing new

Changes in the milk prices, feed costs and earnings this year continue a longstanding trend of variability in profits and earnings on dairy farms between and over years. The graph highlights this variability for the average dairy participating in the Cornell University Dairy Farm Business Summary for the last 16 years, from 1995 through 2010.

With the changes in milk prices and total costs to produce milk, the earnings, as measured by return on assets without appreciation, show significant variability between years. Notice that those swings have grown greater over time.

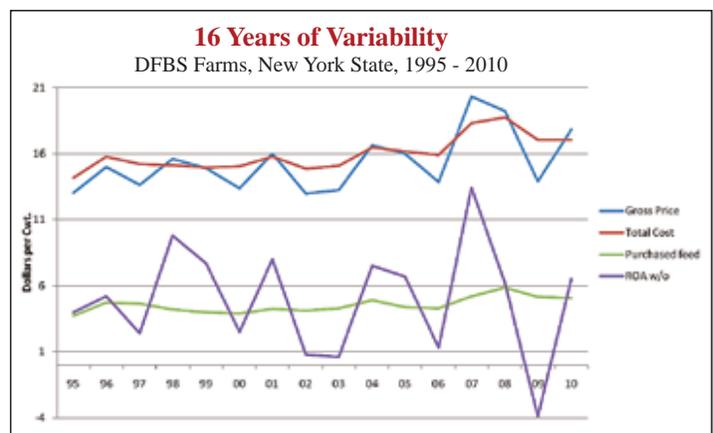
Different groups are attempting to change how milk is priced and regulated to address some of this variability. But the success of these efforts and their ultimate impact won't be known for a number of years. Under the current pricing system, the variability in earnings is likely to continue, presenting a management challenge for dairy producers. How do they approach

and manage earnings over time to move their business forward and continue to meet their family's goals and desires?

If the current trend continues, at some point in the future dairy producers can expect another earnings downturn. That's why it's critical for them to have a plan for their earnings during positive cycles. It impacts a dairy's ability to successfully ride out the down cycles and to move the business forward.

This month's PRO-DAIRY The Manager focuses on different management areas and strategies that dairies can use to manage profits to improve their business' ability to address the variability in earnings. These management areas include: Tax management strategies for good and poor years, identifying and making changes to current operations, strategic decision making, budgeting and planning changes, paying down debt and building working capital.

During the last two months of this year and into 2012, a key focus of your management efforts should be how best to use profits to move your business ahead and improve its ability to handle any drop in earnings. □



The Manager, a special section prepared by PRO-DAIRY specialists, is sponsored by Pfizer Animal Health and appears in *Eastern DairyBusiness* four times a year. In keeping with the PRO-DAIRY mission, The Manager helps strengthen the management skills of dairy producers and increase the profitability of the dairy industry. PRO-DAIRY, an educational program begun in 1988, is a joint venture of the New York State Department of Agriculture and Markets, Cornell University's College of Agriculture and Life Sciences, and Northeast agriservice organizations. For reprints of PRO-DAIRY's The Manager, contact Heather Howland, 272 Morrison Hall, Cornell University, Ithaca, NY 14853. Phone: 607. 255.4478 Email: hh96@cornell.edu