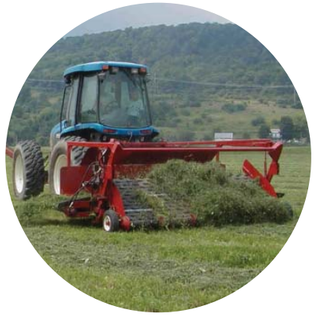
Current Status Dairy Farm Business Assessment Tool



PRO-DAIRY

Will a New Barn and/or Parlor Improve our Lot in Life?

More than a rhetorical question! What is the probability that your current status (interaction between management, cow numbers, current facilities and equipment and ability to turn adequate operating margin) is indeed holding you back?

This “Current Status Dairy Farm Business Assessment Tool” is designed to either score and scale (sections 1 – 3) or provide a visual picture (remaining sections) of where the weak links in your business may be. Additionally, each measured term offers a “don’t know”. You may want to turn the most critical unknowns into a reliable number.

The purpose of taking the time to do this assessment with all stakeholders involved is to look at the weak links and ask the question “will this new barn and/or parlor improve this?” If the answer is “yes” to many of the weak links your confidence to forge ahead will be high. Contrarily, if the answer is often “no”, you may want to shore up management in these areas before committing to a major building project.

This assessment tool is divided into these sections and subsections with scoring type noted to the right:

Does Dairying Fit Your Lifestyle?	Score & Scale
Management Skills and Preferences	Score & Scale
Measuring the Business Financially	Score & Scale
Measuring and Managing the Farm’s Profitability	Visual (3,2, or 1 “weak links”)
Business Viability Factors	Visual (3,2, or 1 “weak links”)
Measuring and Managing the Farm’s Production Capacity	
■ Crop Management	Visual (3,2, or 1 “weak links”)
■ Facilities & Environment	Visual (3,2, or 1 “weak links”)
■ Animal Productivity	Visual (3,2, or 1 “weak links”)
■ Nutrition and Feeding	Visual (3,2, or 1 “weak links”)
■ Milking Management	Visual (3,2, or 1 “weak links”)
■ Reproductive Management and Herd Health	Visual (3,2, or 1 “weak links”)

The back section includes an article offering some sage advice on building and maintaining your own “consulting team” (also known as “Dairy Profit Teams”).

Please note that the first two sections “Does Dairying Fit Your Lifestyle?” and “Management Skills and Preferences” pertain to individuals. You might want to copy these sections off and distribute to all stakeholders in the business.

Good luck! We look forward to seeing you at one of the Dairy Modernization Workshops.

Make the Connection

Most successful businesses have their own advisory boards. Listed below are the kinds of people from the diary support and supply industries who want you to succeed and are eager to be part of your advisory team. They have expertise to lend. In today's environment we depend on one another more than ever before. Take the Initiative to put together a consulting team that meets your needs.

Deeper Analysis of Farm Business	**Expansion**	**Diversification**	**Specialization (custom cropping, etc.)**	**Leaving Dairy Production**
Lenders	Lenders	Lenders	Consultants	Lenders
Financial Consultants	Veterinarians	Consultants	Extension Educators	Accountants
Veterinarians	Extension Educators	Other Producers	Lenders	NY FarmNet
Nutritionists	Contractors	Farming Alternatives Program	NY FarmNet	Attorneys
Crop Consultants	Milk Handlers	Extension Educators	Other Producers	Extension Educators
Extension Educators	Other Producers			
Other Producers				

Our Advisory Team

Does Dairying Fit Your Lifestyle?

Change is inevitable. Challenges may simply be new opportunities. Your response to meeting personal needs must be as rapid as the pace of change affecting your business. The questions below will stimulate discussion among family members and develop a true yardstick for the other evaluations to follow, so take your time.

Circle the number below the response that best reflects your current situation. Add up the numbers you circled. Compare your total with the scoring table below.

Describe your level of satisfaction with the financial rewards your farm business currently provides.	Satisfactory. **4**	OK. But would like it to be higher. **3**	Unsatisfactory. With changes it could become satisfactory. **2**	Unsatisfactory. Little or no hope it can become satisfactory. **1**
Describe your level of satisfaction with the time you have for family and personal interests.	Adequate. **4**	OK, but more time would be better. **3**	Do not have enough personal/family time. With changes it could be satisfactory. **2**	Do not have enough personal/family time. Little or no hope it could be satisfactory. **1**
Describe the level of stress you and your family experience from owning and operating a farm.	Farm-related problems do not affect personal or family life. **4**	Problems carry over. Stress is tolerable, but could be reduced. **3**	Problems carry over. Stress too much, but could be reduced with changes. **2**	Problems carry over. Stress is too much. Have little or no hope for change. **1**
Describe your level of satisfaction with your progress toward providing for retirement or transfer of the business.	Satisfactory. **4**	Progress OK, but could be faster, cleaner. **3**	Unsatisfactory. With changes it could become satisfactory. **2**	Unsatisfactory. Little or no hope it could be satisfactory. **1**

Scoring:

14 or more: You're meeting the needs of yourself and family.

9 to 13: You may benefit from working with professional family business counselors, or pull together your own analysis team.

8 or less: You will likely benefit from investing time with experienced family business counselors.

Score

Management Skills and Preferences Assessment

For each statement below circle the number closest to your level of agreement. Add up the numbers you circled. Compare your total with the scoring table below.

The big picture and the details are very clear to us. We know where we're going and how to get there.

Strongly Disagree — Strongly Agree

1 2 3 4 5

We always take time to first figure out the details of a project, large or small.

Strongly Disagree — Strongly Agree

1 2 3 4 5

We tend to be very creative and can easily come up with 10 ideas to solve any problem.

Strongly Disagree — Strongly Agree

1 2 3 4 5

We assess regularly (daily) what is accomplished on the farm.

Strongly Disagree — Strongly Agree

1 2 3 4 5

Our records keep us well informed of progress toward our goals.

Strongly Disagree — Strongly Agree

1 2 3 4 5

Everyone on the farm understands the standards that have been set and strives to live up to them.

Strongly Disagree — Strongly Agree

1 2 3 4 5

Everyone on the farm has very clear roles and responsibilities, which are written down.

Strongly Disagree — Strongly Agree

1 2 3 4 5

People working for us are responsible and accountable for what they do.

Strongly Disagree — Strongly Agree

1 2 3 4 5

We do not fear being away from the farm. If something goes wrong on the farm it is viewed as our problem and everyone pulls together to set things right.

Strongly Disagree — Strongly Agree

1 2 3 4 5

Build a Consulting Team that Works

By Bruce Dehm
Dehm Associates, Geneseo, New York

"Knowing in part may make a fine tale, but wisdom comes from seeing the whole."
-Seven Blind Mice

Anyone who has read the fine children's book Seven Blind Mice can understand the value of correctly identifying a problem before applying a solution. In this tale, seven blind mice explore something strange they discovered at their pond. One discovers a leg and pronounces it a pillar. Another finds a tusk and claims it is a spear. A third arrives at the tail and says it is nothing but a rope. Only the seventh blind mouse takes the time to explore from top to bottom and from end to end. He correctly identifies the object as an elephant.

A dairy farm is a complex system. To operate one successfully, you must understand biology, psychology, mechanics, economics, and politics. Dairy producers depend on expert advice from the professionals they hire. Veterinarians, nutritionists, agronomists, lenders, business consultants, and accountants, among others, are hired to provide information and advice. Most professionals are specialists rather than generalists. They need to be, given the complexity of today's environment. The drawback is that specialists are much like the first six blind mice. One may understand the leg and another the tail, but very few have the ability of the seventh mouse.

When you take advice from several consultants, you must decide which advice will provide the most benefit for your money. For example, a nutritionist recommends a new TMR mixer for improved milk response, a crop consultant recommends a major liming program to improve crop yields, a veterinarian asks you to upgrade dry cow facilities for a better pre-fresh program, a business consultant wants improved cash flow. In most cases, the "golden rule" prevails (the person with gold makes the rules), and there will be one frustrated dairy farm and four frustrated consultants. Don't blame the banker, though, because based on his or her knowledge of the situation the decision not to fund more capital investment is perfectly correct.

There is a solution to this dilemma, and it is as simple as bringing your individual consultants together as a team at least once a year. In this meeting, you, the farm manager, must lay out the mission and goals for your farm business. Within that framework your consultants need to identify problem areas that may keep you from meeting your goals. They should propose solutions to the problems. After all the goals, problems, and possible solutions have been identified, you and your team can rank solutions according to need. The result becomes your business plan, the blueprint for meeting your goals.

The role of the business consultant n this process is threefold. First, the consultant should see to it that the financial information of the farm is of sufficient quality to both describe the current financial situation and measure the results of any significant changes on profitability, cash flow, or other measures of financial efficiency. Second, the consultant should be able to reveal strengths and weaknesses of the farm business as compared to similar farm businesses and help the team determine the best alternatives for meeting farm goals. Finally, the consultant should be able to skillfully communicate to you and the other team members the effect of implementing the new farm business plan.

An advisory or consulting team can help you make decisions to achieve what you want for your farm and family. After you summarize your assessment scores on pages 12 and 13, consider where your farm is headed and the makeup of a team that can help you reach your goals. Some suggestions for team members are inside the back cover. Set up a meeting of your team to discuss this assessment and determine what areas of the business you should work on first.

Reproductive Management and Herd Health

Heat Detection Rate, percent of all possible heats that are observed after voluntary waiting period

30 40 50 60 70 Don't Know

Conception Rate, successful breedings as a percent of all breedings

30 40 50 60 70 Don't Know

Percent First Calf Heifers in Herd

45 40 35 30 25 Don't Know

Calving Risk; animals with milk fever, ketosis, D.A., or retained placenta as a percent of all calvings

40 30 20 15 10 Don't Know

Teat Injuries, percent of cows with one or more injured teats per year

35 30 25 20 10 Don't Know

Body Condition; average score loss from freshening to 80 days in milk

2 1.5 1 0.75 0.5 Don't Know

We can clearly tell when someone is doing a good job and why he or she is doing it well.

Strongly Disagree Strongly Agree

1 2 3 4 5

We plan and carry out excellent training for everyone on the farm.

Strongly Disagree Strongly Agree

1 2 3 4 5

We know just what to pay people, and recruiting new people is relatively easy.

Strongly Disagree Strongly Agree

1 2 3 4 5

Everyone on the farm knows what is going on and stays informed of problems and successes.

Strongly Disagree Strongly Agree

1 2 3 4 5

People on the farm give a 110 percent effort to get the job done.

Strongly Disagree Strongly Agree

1 2 3 4 5

We know when it's time to let someone else take over a job and do it a different way.

Strongly Disagree Strongly Agree

1 2 3 4 5

Scoring:

Score

65 or more: Excellent, well-balanced management skills.

55 to 64: Growing as a manager, may be out of balance.*

54 or less: Plenty of room for management growth, check balance.*

*If scores for statements 1-6 (above the line) tend to be higher than those below, you may be inclined to manage technology rather than people. Balance pays!

Measuring the Business Financially

Are the Dollars there for Family Needs Today and Tomorrow?

In the first evaluation you made a qualitative statement about your business. The second evaluation cast some light on your strengths and weaknesses as a manager. The following evaluation will disclose areas of opportunity in the financial arena.

The chart below, when filled in with numbers from the following worksheet, will indicate whether you are meeting family wants and needs, if you are current on financial obligations (interest and principal), and if you are able to invest capital back into the business or salt away some funds for retirement.

Distributing the Operating Margin

Making it now? Anchored for the Future?

Family Living*

Desired $ _____

Actual $ _____

Loan Interest/Principal

Desired $ _____

Actual $ _____

Business Growth/Personal Savings

Desired $ _____

Actual $ _____

*Assumes no salary taken as farm expense and the house is expensed as an asset of the farm

Nutrition and Feeding

	1	2	3	4	5	
Frequency of Forage Testing	Never Test	Once/year	3-4 times/year or only when feed changes	8-10 times/year	Monthly and anytime feed changes	Don't Know
DMI- Frequency of Measuring	Never Measured	>1, but <12 times/year	Monthly	2x/week	Daily	Don't Know
Feed Dry Matter Determination on the farm- Frequency of Measuring	Never Measured	When needed	Monthly	At least weekly	Daily	Don't Know
Percent of Ration that is Homegrown Feed	<45%	45-50%	50-55%	55-60%	>60%	Don't Know
Forage NDF Intake, % of Body Weight	<.07	0.7-0.8	0.8-0.9	0.9-1	>1	Don't Know
Ration CP Level for Milking Cows	>19	18-19	17-18	16-17	<16	Don't Know
Ration P Level for Milking Cows	>0.5	0.45-0.5	0.4-0.45	0.35-0.4	<0.35	Don't Know

Milking Management

	1	2	3	4	5	
Herd Somatic Cell Count	750,000	500,000	300,000	200,000	100,000	Don't Know
Bacteria Count, standard plate count	750,000	25,000	10,000	5,000	1,000	Don't Know
Mastitis-related Cull Rate, cows shipped primarily for clinical or subclinical mastitis as a percent of all cows	20	15	10	5	2	Don't Know

Facilities & Environment

1 2 3 4 5

Stocking Density (bedded pack guidelines do not include manure alley)

>40% overstock (<50 ft.2)	30-40% overstock (50-75 ft.2)	20–30% overstock (75-100 ft.2)	10-20% Overstock (100-125 ft.2)	0% Overstock (125-150 ft.2)	Don't Know

Bunk Space

<18"/hd.	18"-21"/hd.	21"-24"/hd.	24"min./hd. with 1st calf in group	24"min./hd. with 1st calf separate group	Don't Know

Watering Space & Availability

<1"/hd.1 source/pen wait refill, off part day	<1"/hd. 1 source/pen wait refill, always on	1-1.5"/hd.1 source/pen wait refill, always on	1.5-2"/hd2+ srces./pen <80-100 ft. apart, adequate refill	>2"/hd.2+ srces./ pen<80-100 ft. apart, fast refill	Don't Know

Parlor Holding Time (if applicable)

>3 hrs. last cow	140-180 min. last cow	100-140 min. last cow	60-100 min last cow	<1 hr. last cow	Don't Know

Animal Productivity

1 2 3 4 5

Milk Sold per Cow per Year, in pounds (Holsteins; conventional pricing and production systems)

16,000	19,000	22,000	25,000	28,000	Don't Know

Average Age at First Calving in Months

32	28	26	24	22	Don't Know

Percent of Individual Heifers hitting the above average or younger

75%	80%	85%	90%	95%	Don't Know

Percent of First Calf Heifers Achieving 82-85% of Expected Mature Weight at Freshening

70%	75%	80%	85%	90%	Don't Know

Percent of Heifers Achieving 55% of Expected Mature Weight at Breeding

70%	75%	80%	85%	90%	Don't Know

Percent of Baby Calves Doubling Birth Weight by 56 Days of Life

70%	75%	80%	85%	90%	Don't Know

Worksheet

Gross Income From Schedule F + cull cow sales form 4797 $_____

Total Schedule F Expenses -$_____

Schedule F Interest +$_____

Schedule F Depreciation +$_____

Operating Margin =$_____

Distribution of Last Year's Operating Margin

Family Living $_____

Interest and Principal Paid on Loans $_____

Business Growth/ Personal Savings $_____

(Transfer these figures to the triangle at top)

Example

100 Cows

$300,000 gross income

$200,000 expenses
(with interest and depreciation taken out)

$100,000 operating margin

If Dispersed Equitably within the Triangle

$30,000 to Family Living

$45,000 to Loan Interest and Principal Payments

$25,000 to Business Growth / Personal Savings

Some Common Sense

Financial management is a weak link for many dairy farm businesses. This simple evaluation does not describe which factors are limiting the potential of your business.

When assembling your own Analysis Team (see page 11), consider hiring a financial management professional who can help you prepare a more-detailed and more-revealing financial assessment.

Remember that financial measures are the only quantitative link between family needs and wants and the production enterprises.

Scoring the Financial Evaluation

Looking at your numbers in the triangle on the previous page, rate your financial performance with a 3, 2, or 1 as defined below.

3 Meeting family living goals, current on all debt, and investing dollars back into business or retirement.

2 Meeting family living goals, current on all debt, little or no reinvestment or retirement funding.

1 Not meeting family living goals.

Score

Measuring and Managing the Farm's Profitability

1 2 3 4 5

Business has meetings to discuss financial progress

Never | Only at crisis | For lenders | Quarterly | Monthly | Don't Know

Financial records are used for decisions

Never | Tax planning | Big changes | Yearly | Monthly | Don't Know

Accounts are kept up to date

Never | High profit years | If checkbook has enough | Most of the time | Always | Don't Know

Analysis of capital purchases

Never | What lender Requires | Only on facilities | Anything above $20,000 | Always | Don't Know

Have an employee training program

None | On first day | When time allows | Monthly | Continual | Don't Know

Profitability of the business compared with other dairy farms

Bottom 40% | Bottom 20% | Average 40-60% | Top 40% | Top 20% | Don't Know

Business Viability Factors

1 2 3 4 5

Management transition plans are in place

Never discussed | Wait for retirement | Wait until New Year | Many/most areas | Across the board | Don't Know

Next generation responsible for daily decision making

Never | Limited | Specific areas | Major part of business | All | Don't Know

Next generation involved in financial aspects of business

They're not interested | Only if forced to | Take lead Financial analysis | They have checkbook | Responsible for all | Don't Know

Will and Estate Plan have been completed

None | Internet will | Professional will never reviewed | Occasional review | Yearly review and update | Don't Know

Family members aware of estate plan

Don't share | Know lawyer to call | Know where it is filed | Have a copy | Understand and agree with plan | Don't Know

Measuring and Managing the Farm's Production Capacity

It's tough to argue with the well-worn business maxim, "If you can't measure it, you can't manage it." You know why you're in business and what you need from it financially. You have an idea of your strengths as a business manager. You also have a reasonable measure of the farm's financial performance. The dairy and crop production enterprises are your arenas for creating financial gain. Circle your answer to each statement below, scored 1 through 5.

1 2 3 4 5

Crop Management

Soil Test Individual Fields and Follow Fertilizer Recommendations, in years

Never | Every 10 | Every 5 | Every 3 | Every 1 | Don't Know

Starting Date, Mechanically Harvested Fields Managed as Grass

June 10+ | June 3 | May 27 | May 20 | May 15 | Don't Know

Ending Date, Mechanically Harvested Fields Managed as Grass

June 20+ | June 13 | June 6 | May 30 | May 23 | Don't Know

Starting Date, Mechanically Harvested Fields Managed as Alfalfa

June 20 | June 13 | June 6 | May 30 | May 23 | Don't Know

Ending Date, Mechanically Harvested Fields Managed as Alfalfa

June 29 | June 22 | June 15 | June 8 | June 1 | Don't Know

Starting Date, Pasture System

May 21 | May 15 | May 8 | May 1 | April 25 | Don't Know

Frequency of Pasture Rotation in the spring

4 days | 7 days | 3 days | 1 day | 12 hrs | Don't Know

Alfalfa and/or Grass Yields as Dry Hay (haylage) in tons per acre

1 (2.5) | 2 (5.5) | 3 (8.5) | 4 (11) | 5 (14) | Don't Know

Corn Silage, as harvested tons per acre

10 | 13 | 15 | 17 | 20 | Don't Know

Bunker Silos / Drive Over Piles, Average Density Achieved (Grass), in dry matter lbs./cu.ft.

8 | 10 | 12 | 14 | 16 | Don't Know

Bunker Silos / Drive Over Piles, Average Density Achieved (Alfalfa), in dry matter lbs./cu.ft.

9 | 12 | 15 | 17 | 20 | Don't Know

Bunker Silos / Drive Over Piles, Average Density Achieved (Corn Silage), in dry matter lbs./cu.ft.

8 | 11 | 14 | 16 | 19 | Don't Know