



Benchmarking to Gauge Performance in Tight Economic Times

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Philosophy of Benchmarking

Benchmarking Limitations

- Misinterpretation of trends and unsubstantiated impact can occur.
- May create a false sense of security or angst regarding business performance.
- Does not necessarily lead to a competitive advantage.



Philosophy of Benchmarking

Benchmarking Benefits

- Provides insight into past performance levels of your business as well as others.
- May lead to operational efficiency & productivity.
- May lay foundation for innovation & improvement.
- Measurement against targets.



Philosophy of Benchmarking



Benchmarking is the evaluation or comparison of performance metrics against another entity(s) within a standard system.



Purpose for Benchmarking

The purpose of benchmarking is to analyze similarities and differences between a business and its comparison. The result of this analysis is to identify key drivers of performance success and determine the areas for possible improvement



Evaluate Production Performance



Understanding of Financial Implications



Drive Innovation & Improvement



Purpose for Benchmarking

Who are we Benchmarking?	<ul style="list-style-type: none"> • Industry • Ourselves
What is included in the Benchmark?	<ul style="list-style-type: none"> • Production • Financial
When is the Benchmark Performed?	<ul style="list-style-type: none"> • Quarterly, Annually • Consistently
How do we Benchmark?	<ul style="list-style-type: none"> • Create a Standard System



Consistent Monitoring

- Performance-based record-keeping.
- Chart-of-accounts.
- Quarterly analysis accounting for seasonality.
- Tracking systems approach.

Sample Dairy (Figures in thousands)

Category	Income Statement by Category				
	2012	2013	2014	Top 25%	St. Dev.
Revenue	1,250,000	1,300,000	1,350,000	1,280,000	1,310,000
Cost of Sales	(800,000)	(820,000)	(840,000)	(810,000)	(830,000)
Operating Profit	450,000	480,000	510,000	470,000	480,000
Interest Expense	(20,000)	(25,000)	(30,000)	(15,000)	(20,000)
Income Before Tax	430,000	455,000	480,000	455,000	460,000
Tax Expense	(100,000)	(110,000)	(120,000)	(90,000)	(100,000)
Net Income	330,000	345,000	360,000	365,000	360,000

Cows and Springers

	2012	2013	2014	Top 25%	St. Dev.
Average # Lactating Cows	1,173	1,160	1,127	1,216	673
Average # Dry Cows	137	143	134	144	77
Average # Total Cows	1310	1302	1261	1360	748
% Cows Lactating	89.3%	88.8%	89.1%	89.3%	1.3%
% Culls	32.1%	33.4%	32.4%	32.9%	5.5%
% Dead	6.8%	6.5%	6.6%	6.0%	2.2%
Replacement Rate %	39.0%	39.8%	39.0%	38.8%	5.1%
Cull Cow Income - £/hd.	£616.85	£628.55	£845.00	£873.60	£129.35
Average # of Springers on hand	138	122	120	153	86
Total # of Heifers Calving	513	501	507	560	318

Milk Shipped & Milk Value

	2012	2013	2014	Top 25%	St. Dev.
Total Litres Sold	15,636,872	15,673,085	15,390,480	17149233	9300530
Total Litres Sold*(Energy corrected, ECM)	15,890,884	16,037,046	15,794,504	17635271	9496696
Milk Shipped /Lact. Cow/Day - Litres	36.7	37.4	37.4	38.52252	3.44103
Milk Shipped /Lact. Cow/Day - Litres *(ECM)	37.3	38.4	38.5	39.67564	3.078256
Milk Shipped /Cow (All) / Yr	11,943.2	12,119.6	12,162.1	12550.87	1115.479
Milk Shipped /Cow (All) / Year *(Energy corrected)	12,170.7	12,445.5	12,521.1	12925.72	1007.784
Cheese Milk Price/Litre	£0.26	£0.27	£0.33	£0.33	£0.00
Milk Marketing /Litre.	-£0.01	£0.00	-£0.02	-£0.01	£0.02
Basis (Before Trucking)	£0.03	£0.04	£0.04	£0.04	£0.02
Total Milk Price /Litre	£0.29	£0.31	£0.35	£0.36	£0.02

Interpretation & Results

- Cows in milk
 - Treated cows?
- Replacement rates
 - Inventory management.
 - Cull cow value?
- Milk Production & Value
 - Are you maximizing your potential?
 - What are your risk management strategies?



Income £ /Cow

	2012	2013	2014	Top 25%	St. Dev.
Crop Production (Harvest)	£843.17	£871.87	£878.83	£976.80	£398.65
Value Added - Crop Purchase	£15.49	£10.74	£0.66	£2.83	£23.17
Calves	£158.59	£157.96	£193.62	£217.58	£38.86
Heifer Appreciation	£308.05	£326.31	£321.84	£335.61	£89.52
Livestock Sales	£41.69	£34.48	£52.27	£17.53	£87.13
Cows	£195.51	£208.94	£276.72	£287.87	£59.82
Milk (Includes MILC pymt)	£3,425.23	£3,684.77	£4,298.33	£4,525.75	£393.52
Contracting	£15.70	£15.84	£34.48	£16.39	£113.43
Dividends	£45.53	£46.26	£53.85	£66.22	£40.63
Gains	£4.88	£12.76	£4.64	-£0.72	£25.69
Government Receipts	£18.97	£15.48	£10.21	£8.26	£20.14
Misc. - Total	£64.94	£117.11	£77.69	£112.12	£86.18
TOTAL INCOME	£5,137.74	£5,502.52	£6,203.16	£6,566.24	£856.59

Interpretation & Results

- Income drivers
 - Crop Production Value
 - Milk Income (Market vs. Management)
 - Animal Sales
- What is your income balance?
- In what ways can this business improve earnings from income?

Expenses £ /Cow

	2012	2013	2014	Top 25%	St. Dev.
Administration	£28.46	£26.67	£30.17	£28.91	£18.67
Animal Health--Total	£117.99	£119.93	£121.17	£108.83	£34.98
Bedding	£42.71	£45.54	£53.64	£48.27	£38.25
Breeding	£39.64	£46.02	£48.05	£41.62	£23.34
Crop Chemical Expense	£34.70	£36.56	£40.42	£37.79	£32.73
Contracting Exp.-Total	£75.13	£78.27	£95.24	£100.75	£86.89
Depreciation Expense	£204.82	£223.80	£248.45	£241.62	£84.73
Drying Expense	£2.02	£14.93	£23.28	£7.79	£97.33
Feed Expense	£1,944.55	£2,198.04	£2,206.11	£2,179.94	£226.56
Fuel Expense	£119.90	£120.83	£130.17	£135.28	£60.12
Custom Raise \$	£174.51	£191.22	£182.70	£214.73	£175.95
Herd Replacement Cost	£423.57	£439.73	£450.20	£431.62	£88.20
Insurance Expense	£45.91	£46.32	£49.44	£58.03	£26.46
Interest Expense: All	£143.21	£135.57	£136.86	£100.89	£53.50
Labor Expense--Total	£549.13	£561.18	£619.10	£592.32	£160.67
Marketing Expense	£33.72	£35.13	£34.11	£35.81	£6.48
Fertilizer	£90.86	£86.73	£84.79	£91.72	£60.65
Nutrient Management Expense	£138.41	£144.92	£151.71	£182.38	£85.49

Expenses £ /Cow

	2012	2013	2014	Top 25%	St. Dev.
Production Enhancer Expense	£62.19	£63.93	£64.51	£71.66	£38.90
Production Services Expense	£36.87	£38.19	£38.45	£35.05	£22.35
Rent / Lease Exp.-Total	£45.08	£40.33	£41.30	£23.06	£42.57
Rent--Land	£112.42	£142.71	£161.71	£238.30	£136.53
Repairs / Maintenance Expense	£142.06	£152.70	£176.71	£170.20	£68.27
Seed / Plants Expense	£68.48	£91.03	£96.04	£105.18	£56.05
Supplies Expense	£83.81	£93.51	£107.84	£110.19	£38.76
RE Taxes	£17.73	£19.23	£22.63	£17.66	£17.00
Other Taxes Expense	£19.80	£19.92	£24.06	£18.23	£18.34
Trucking & Freight Expense	£44.85	£43.52	£53.12	£56.03	£40.40
Utilities Expense	£74.52	£78.03	£87.76	£69.36	£28.67
Car & Pickup	£0.70	£0.66	£0.56	£0.03	£2.44
Other Expense	£12.34	£6.05	£9.20	£6.45	£21.26
Total Expenses (pretax)	£4,820.84	£5,231.03	£5,481.94	£5,450.30	£790.23
Net Income (pretax)	£316.90	£271.49	£721.21	£1,115.94	£336.86

Interpretation & Results

- Operating, investment, and ownership costs...what's the difference
- Will cutting a cost necessarily improve return?
- Offsetting cost categorization?
- "Loud Three"
 - Feed Cost
 - Labor Cost
 - Net Herd Replacement Cost
- "Silent Three"
 - Capital
 - Overhead
 - Other



Financial Analysis

- Cash Flow
 - Distribution of cash in management
 - Past, Present & Future (Payables, Operating, Prepayments)
 - Timing of cash outlay

	2012	2013	2014	Top 25%	St. Dev.
Expense Rate	£0.20	£0.21	£0.23	£0.23	£0.03
Labor Cost /Litre	£0.05	£0.05	£0.05	£0.05	£0.01
Term P&I /Litre	£0.03	£0.03	£0.04	£0.03	£0.01
Capital Expenditures (Cash)/Litre	£0.01	£0.01	£0.02	£0.03	£0.02
Milk \$ /Litre - Cash	£0.29	£0.31	£0.34	£0.34	£0.03

Financial Analysis

- Cost of Production
 - Accrual vs. Cash

	2012	2013	2014	Top 25%	St. Dev.
Feed Cost /Litre	£0.16	£0.18	£0.18	£0.17	£0.02
Labor Cost /Litre	£0.05	£0.05	£0.05	£0.05	£0.01
Replacement Cost /Litre	£0.03	£0.04	£0.04	£0.03	£0.01
Less Cull Revenue /Litre	£0.02	£0.02	£0.02	£0.02	£0.01
Capital Cost /Litre (Depr., interest, leases)	£0.03	£0.03	£0.03	£0.03	£0.01
Other Production Cost /Litre	£0.03	£0.03	£0.03	£0.03	£0.01
Overhead Cost /Litre	£0.09	£0.10	£0.11	£0.12	£0.03
Less Other Income /Litre	-£0.12	-£0.13	-£0.14	-£0.14	£0.05
Whole business /Litre	£0.26	£0.28	£0.29	£0.27	£0.03

Financial Analysis

- Liquidity
 - Working Capital – Current Assets less Current Liabilities
 - Current Ratio – Current Assets / Current Liabilities
 - Owners Equity – Equity / Total Assets

	2012	2013	2014	Top 25%	St. Dev.
Working Capital /Cow	£485.55	£552.50	£836.55	£1,353.30	£546.65
Current Ratio	1.93	2.18	2.94	4.85	2.27
Owner's Equity	48%	52%	57%	68%	13%

Financial Analysis

- Profitability
 - Planned & Unplanned Results
 - Return to YOUR business = Period-Over-Period Improvement

	2012	2013	2014	Top 25%	St. Dev.
Return On Equity (ROE)	12.9%	7.0%	18.8%	23.5%	11.3%
Return On Assets (ROA)	6.5%	6.0%	11.5%	16.3%	4.4%
Operating Profit Margin Ratio	8.4%	7.3%	13.7%	18.6%	4.7%
Asset Turnover Ratio	0.79	0.81	0.85	0.87	0.22
Net Profit / Litre.	£0.03	£0.02	£0.06	£0.09	£0.03
Net Profit / Cow	£316.90	£271.49	£721.21	£1,115.94	£336.86

Interpretation & Results

- Key Drivers
 - Value Creators
 - The “Why” questions
- Margin Management
 - Income Over Feed Cost
 - Net Herd Replacement Cost
- Trends Analysis
 - Influencers - Management vs. Market
 - Distribution/Standard Deviation
 - Year-Over-Year Performance, “Benchmarking Yourself”



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TotalDairy Seminar 2015