



Habits of Successful Dairy Business Managers

AgStar Financial Services, ACA
Matt Lange
Dairy Business Consultant



Successful Habits

- Keys to managing margins require knowing and understanding:
 1. Cash and Accrual Costs of the Business
 2. Cash Flow Needs
 3. Inventory Management
 4. Capital Purchase Budgeting & Management
 5. Risk Management
 6. Margin Management
 7. Added Value



Accrual Cost of Production

- Feed Cost
- Labor Cost
- Replacement – Cull Revenue
- Capital Cost
- Other Production Costs
- Overhead – Other Income



Feed Cost

- Homegrown Forages
- Purchased Feeds
- Feed Efficiency
- Target: \$.125 / lb. of Dry Matter



➤ IOFC

- The cheapest ration does not always mean the most profitable ration.
- Is the ration a recipe or a shopping list? Review ingredients with a keen eye.
- Optimizing feed efficiency.
- Target: \$8.50 +



Income Over Feed Cost

- Forage Quality
 - Manage for target quality
 - Bunker management
 - Minimize shrink
- Feed Refusal
 - What do you do with it?
 - How much do you for?
- Production grouping strategy
- Percentage of herd not in the tank



Labor Cost/ cwt.

- Labor Cost
 - Hired Labor
 - Family Living
 - \$3.48/cwt. £0.05200/litre in 2014. + \$.35 over 2013.
 - Target \$3.00/cwt.
- Defined roles for every position on the operation.
- Regular reviews, target semi-annually, with employees.
- Employee development. Is labor a cost or an investment?

AgStar
Financial Services LLC

Replacement Cost/ cwt.

- Replacement Cost
 - Number of Heifers Needed
 - Total Milking & Target Cull Rate
 - Age at First Calving & % Loss of Heifers
 - \$2.50/cwt. £0.039/litre
 - Less Cull Revenue
 - 1.53 in 2014. £0.0195/litre
 - Early Lactation Removals
 - Cow Comfort



AgStar
Financial Services LLC

Net Herd Replacement Cost

- Net herd replacement cost/cwt is the difference between the cull cow income and the value of the replaced cull cow represented on a cwt milk basis.
 - Increasing milk production,
 - Obtaining higher cull revenue,
 - Reducing death loss, and
 - Limiting margin loss through optimum heifer raising decisions.
 - 2014 Average: \$.98, £0.0195
 - Target \$1.00

AgStar
Financial Services LLC

Cost of Production / cwt.

- Capital Cost
 - Depreciation
 - Interest
 - Leases
- Other Production Costs
 - Expenses that directly contribute to milk production, i.e. Animal Health, Bedding, Breeding, Repairs
- Overhead
 - General expenses to run business, i.e. Admin, Fuel, Taxes, Repairs...
 - Less Other Income



AgStar
Financial Services LLC

Cost of Production / cwt.

	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

AgStar
Financial Services LLC

Cash Flow Breakeven /cwt.

- Operating Expense
 - All cash expenses – labor
 - Seasonality of cash outflow and inflow
- Labor
 - Full-time & Seasonal
- Term P&I
 - Debt service
- Cash Capital Expenditures
 - Replace outdated equipment
 - Improve efficiency
 - Aid in Expansion



AgStar
Financial Services LLC

Inventory Management

- Assess feed needs
 - Quantity and Quality
 - 2 – 3 months of carryover
- Take stock of animals and herd performance
 - Heifer inventory vs. needs
- Evaluate human resources
 - Conduct employee performance review
- Conduct a financial inventory
 - Monthly cash needs
 - Changes in expected costs



Capital Budgeting

1. Is the purchase to replace poor performing, existing equipment?
2. Will the purchase increase efficiency within the operation?
3. Or, is this purchase part of an expansion project enabling you to meet growing needs?



Capital Budgeting

- Identify and prioritize needs and wants.
- Determine when the purchase will be made.
- Evaluate financing options.
- Managing the Asset.
 - How much use requires a gain in the business?
 - When do we trade-in?
- Replacement ranges between 12% - 15% of balance sheet machinery value each year.



Capital Budgeting

D. Requires More Investigation			A. URGENT & IMPORTANT (Next 12 months)		
Item	Date	\$ Amount	Item	Date	\$ Amount
1			1		
2			2		
3			3		
4			4		
5			5		
6			6		
7			7		
8			8		
9			9		
10			10		
TOTAL		\$0.00	TOTAL		\$0.00

C. IMPORTANT, BUT NOT URGENT (24 MONTHS TO 48 MONTHS)			B. IMPORTANT, BUT NOT URGENT (12 months to 24 months)		
Item	Date	\$ Amount	Item	Date	\$ Amount
1			1		
2			2		
3			3		
4			4		
5			5		
6			6		
7			7		
8			8		
9			9		
10			10		
TOTAL		\$0.00	TOTAL		\$0.00



Technology

- Accessibility
 - Who, What, Where, and How?
 - Paperless = Remote Access
- Data Management
 - Searchable PDF files
 - Electronic reporting
- Empowering Your Team
 - Online reporting tools
 - Online calendar and scheduling



Margin Management

Which one would you rather have?

Case A	1000 Cow Herd	Case B
2.23 million lbs.	Lbs. Shipped in Month	2.23 million lbs.
\$20.15	Price Received/CWT.	\$17.64
\$7.00	Price of Corn	\$5.00
\$14.00	Price of Soybeans	\$11.00
\$300	Price of Hay	\$225
\$8.16	Total DM Feed Cost / Cow	\$6.02
\$8.97	Margin / Cow	\$8.97



Managing the Margins

Keys to managing margins require knowing and understanding

- Operating + Interest → Cash Breakeven
- Principal + Cash Capital Expenses → Cash Breakeven
- Returns to the Business → Cost of Production
- The direction of production and financial performance in the business
- Means to increasing opportunities and flexibility



Added Value

Additional Components of Successful Managers

- Open and ongoing dialogue with lenders.
- Succession plan in place or being put into place.
- A managers place and time to manage.
- Annual & regular meetings with owners – action items.
- Well-developed strategic plan with designated goal, actions, & responsibilities.



Matt Lange

Matt.Lange@agstar.com

www.AgStar.com/Edge

[@DevelopingDairy](#)

AgStar Consulting
540 Baldwin Plaza Dr.
Baldwin, WI 54002
United States

TotalDairy 2015