# FINANCING A SUCCESSFUL DAIRY BUSINESS

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How often have you recognized the skill and work ethic of a dairyman only to watch his business fail? Ability to produce milk efficiently is an important attribute of a successful dairy manager but business acumen and good timing are important as well. Finance is an important and often overlooked part of structuring a dairy business.

Let=s start with a quiz. How many assets does a business need to produce efficiently? What level of debt can be sustained? How should the assets & debts be structured? To make an attempt to answer these questions, let=s look at data from 27 DBAP participating dairies in 1995 and 32 participants in 1996.

ASSETS

Total assets (market value of cattle, real estate, machinery, etc.) of DBAP dairies averaged $4,454 in 1995 and $4,428 in 1996. The range was from about $1800 to more than $8000. The value of cattle was 23% of all assets in 1995, rising to 36% in 1996, indicating a dramatic increase in herd size. Since cows are the assets that generate revenues and profits, it follows that returns to assets would improve as cows become a bigger part of the total. Average DBAP return to assets was -1% in 1995 and 6% in 1996. Most folks would give full credit to the much improved 1996 milk prices, overlooking the affect of improved asset structure.

| **ASSETS** | **1995** | **1996** |
|---|---:|---:|
| Total assets per cow | $4,454 | $4,428 |
| Value of cattle, % of total assets | 23% | 36% |
| Value of real estate, % of total assets | 46% | 39% |
| Value of machinery, % of total assets | 16% | 13% |
| Value of all other assets, % of total assets | 15% | 12% |

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LIABILITIES

Debt per cow levels of DBAP participating dairies averaged $1,605 in 1995 and $1,532 in 1996. The range in debt per cow was from nearly $0 to more than $4,000. Interest costs per cwt. ranged from nearly $0 to more than $3.00. Dairies reduced debt in 1996 from 1995 by making good progress in short term loans. Some dairies reduced payments by refinancing debts, increasing long term commitments.

| LIABILITIES | 1995 | 1996 |
|---|---|---|
| Total debt per cow | $1,605 | $1,532 |
| Long term loans,% of all debt | 48% | 75% |
| Intermediate term loans, % of all debt | 25% | na |
| Short term loans, % of all debt | 15% | 13% |
| Operating loans, % of all debt | 7% | 8% |
| Accounts payable, % of all debt | 4% | 4% |

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## DISCUSSION

Financial structuring is an area of dairy management that probably deserves more focus. Too many assets may increase costs because not all assets are profit generating. Too few assets limits management options and may hinder cow environment and productivity. Too much debt taxes the cow herd=s ability to cover maintenance and ownership costs. Too little debt may mean that the dairy may not be continually modernized and will become less efficient.