Dairy Business Analysis Project:
Understanding and Interpreting
Dairy Financial Performance
Information

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**1997 Dairy Business Analysis Project**

<table>
<thead>
<tr>
<th>Name</th>
<th>Name</th>
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</thead>
<tbody>
<tr>
<td>Russ Giesy</td>
<td>Marvin Hoekema</td>
</tr>
<tr>
<td>Mary Sowerby</td>
<td>Pat Miller</td>
</tr>
<tr>
<td>David Solger</td>
<td>Bob Tervola</td>
</tr>
<tr>
<td>Andy Andreasen</td>
<td>Lane Ely</td>
</tr>
<tr>
<td>Travis Seawright</td>
<td>Patrick Joyce</td>
</tr>
<tr>
<td>Chris Vann</td>
<td>Michael DeLorenzo</td>
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*Florida Dairy Check-Off*
Overview

- Project description
- Dairy analysis reports
- Variation in financial performance
- Implications of nutrition decisions on financial performance
Dairy Business Analysis Project Description

- **Purpose**: Improve the financial performance of participating dairies.
- **Scope**: Collect complete information which includes balance sheet, income statement, statement of owner’s equity, and statement of cashflows. Data is validated and verified.
- **Participants**: 47 dairies submitted 1997 fiscal year information.
- **Outlook**: A large increase in participants is anticipated due to collaboration efforts in both Florida and Georgia.
Objectives of dairy analysis reports

• Collect complete financial data (balance sheet, income statement, cashflow, equity).
• Information is verified and analyzed for completeness.
• Each dairy receives a report comparing performance to other project dairies.
• Opportunity areas are identified which are specific to each business.
• Follow-up consulting is encouraged.
• All information is kept in strict confidence.
Accrual Adjusted Accounting

- **Beginning Balance Sheet**
- **Income Statement**
- **Statement of Owners Equity**
- **Statement of Cashflows**
- **Ending Balance Sheet**

**Beginning of accounting period**

**Receipts, expenses, inventory**

**End of accounting period**
# Dairy analysis reports

- Report Description and Statement of Confidence
- Executive Summary
- Critical Success Factors
- Improving Business Performance
- Formal Financial Statements
- Appendix
Improving Business Performance

- DuPont profitability expansion
- Benchmark charts

- Operating: Comparisons of financial and physical performance measures
  - Purchased feed
  - Labor
  - Crop
  - Livestock
  - Machinery and equipment
  - Other

- Financing: liability level and activity
- Investing: asset level and activity

- Revenue summary
- Expense summary
Your expenses benchmarked to other DBAP dairies.
### Purchased Feed

<table>
<thead>
<tr>
<th>Line item expenses</th>
<th>Your dairy Total</th>
<th>$/cwt.</th>
<th>Top 25%*</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain and concentrate</td>
<td>1,797,198</td>
<td>6.05</td>
<td>6.90</td>
<td>6.57</td>
</tr>
<tr>
<td>Forage</td>
<td>950,931</td>
<td>3.20</td>
<td>0.53</td>
<td>0.42</td>
</tr>
<tr>
<td>Complete ration</td>
<td>0</td>
<td>0.00</td>
<td>0.96</td>
<td>1.34</td>
</tr>
<tr>
<td>Other feed</td>
<td>0</td>
<td>0.00</td>
<td>0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>Total feed</td>
<td>2,748,129</td>
<td>9.26</td>
<td>8.40</td>
<td>8.37</td>
</tr>
</tbody>
</table>

### Feed Performance

<table>
<thead>
<tr>
<th>Factors</th>
<th>Your dairy</th>
<th>Top 25%*</th>
<th>All dairies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pounds milk sold per cow</td>
<td>19,115</td>
<td>17,053</td>
<td>17,014</td>
</tr>
<tr>
<td>Purchased feed expense per cow</td>
<td>1,770</td>
<td>1,433</td>
<td>1,426</td>
</tr>
<tr>
<td>Purchased feed exp. % of total revenues</td>
<td>49</td>
<td>43</td>
<td>46</td>
</tr>
</tbody>
</table>
### Adjusted Feed Expense

<table>
<thead>
<tr>
<th>Factors</th>
<th>Your dairy</th>
<th>Top 25%*</th>
<th>All dairies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total purchased feed expense per cwt.</td>
<td>9.26</td>
<td>8.40</td>
<td>8.37</td>
</tr>
<tr>
<td>Plus: crop expense per cwt.</td>
<td>0.00</td>
<td>0.55</td>
<td>0.33</td>
</tr>
<tr>
<td>Less: crop revenues</td>
<td>0.00</td>
<td>0.90</td>
<td>0.17</td>
</tr>
<tr>
<td>Total adjusted feed expense</td>
<td>9.26</td>
<td>8.04</td>
<td>8.53</td>
</tr>
</tbody>
</table>

### Analysis

Total adjusted feed expense of $9.26 per cwt. milk sold was 9% above the DBAP average of $8.53. While milk sold per cow of 19,115 pounds was 12% above the DBAP average of 17,014, purchased feed expense of $1,770 per cow was 24% above the DBAP average of $1,426. This was driven by extremely high forage expense of $3.20 per cwt. milk sold.

### Recommendations/Actions

Look for ways to increase the efficiency of rations and improve feed efficiency. This is the largest problem on the dairy and severely constrained profitability.
Observations

- Substantial variation in net farm income (profit) suggests that much progress needs to be made in financial performance on most Florida dairies.

- By themselves, factors such as pounds milk sold per cow and purchased feed expense were *not accurate* profit predictors.

- Both revenues and expenses affect net farm income so there is a need to understand what drives both in order to improve performance.
Nutrition implications

- Recommendations which improve the net margin of milk production (i.e. net farm income) will boost business profitability.
- An understanding of the financial performance of the business is necessary in order to make sound recommendations.
- Control of purchased feed expense is important because it is the largest component of farm expenses (DBAP average 45%).
- Feed expenses must be monitored by both percent of total expenses and per cwt. milk sold.
Take home messages

- Financial performance is *difficult* to measure and manage given many driving factors.
- Margin management ensures profits.
- More dairies and features will be added to the 1998 reports.
- We hope the reports are helpful to anyone working with the business.
Current Project Plans

- Enrolling new dairies and collecting 1998 financial data. Scheduled to begin reporting in June.
- Encourage the use of the project to enhance services of consultants and allied industries.
- If you are interested in enrolling your clients or want more information about how to work with the project, please contact myself or Russ Giesy.
For more information

This and other information is available on the Dairy Business Analysis Project website located at:

http://dps.ufl.edu/DBAP