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

**Marvin J. Hoekema**
**Manager, Dairy Business Analysis Project**
**Department of Dairy and Poultry Sciences**
**University of Florida**

# 1997 Dairy Business Analysis Project

Russ Giesy
Mary Sowerby
David Solger
Andy Andreasen
Travis Seawright
Chris Vann
Marvin Hoekema
Pat Miller
Bob Tervola
Lane Ely
Patrick Joyce
Michael DeLorenzo

*Florida Dairy Check-Off*

# Overview

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

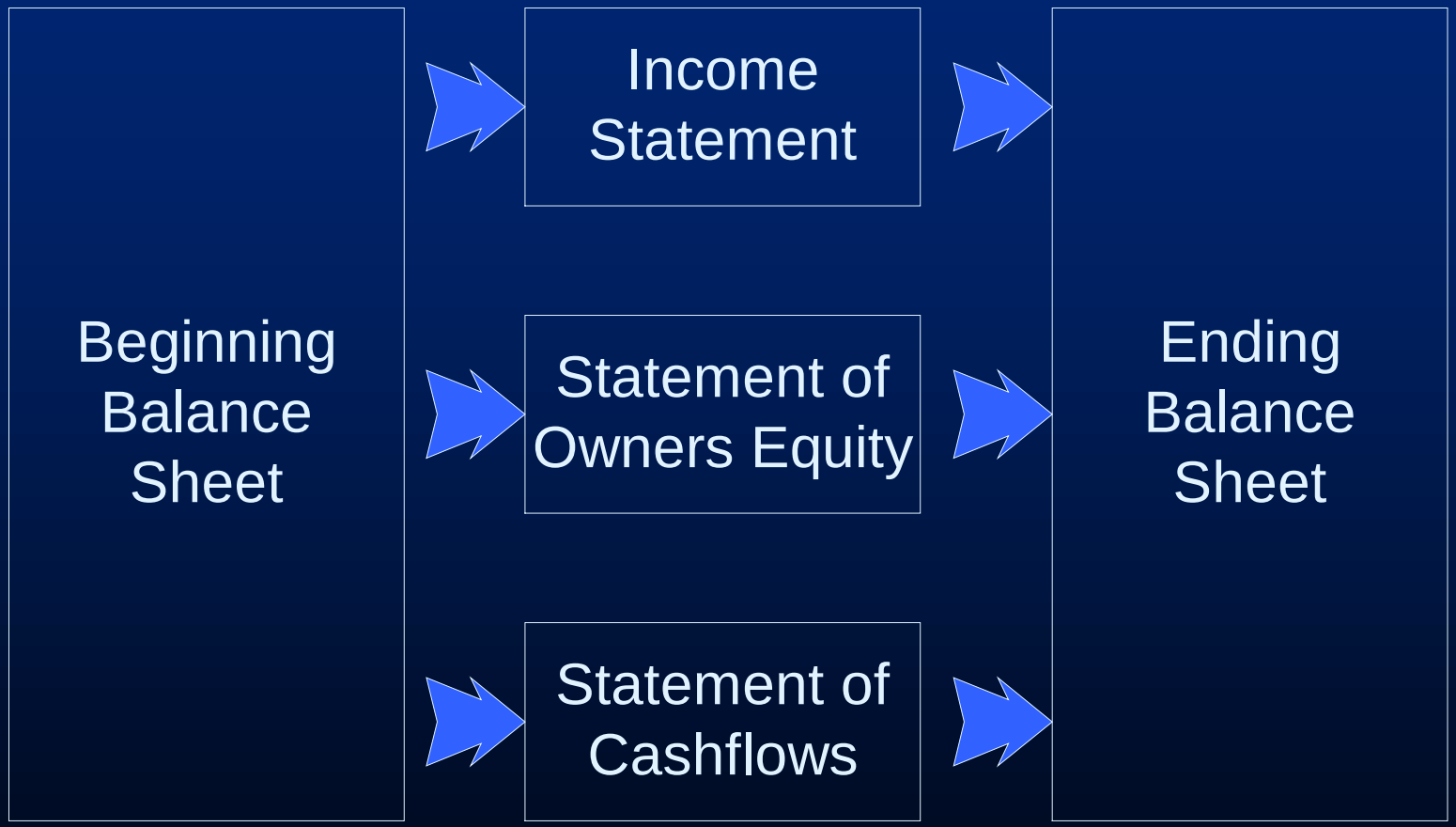
# Dairy Business Analysis Project-Description

- 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



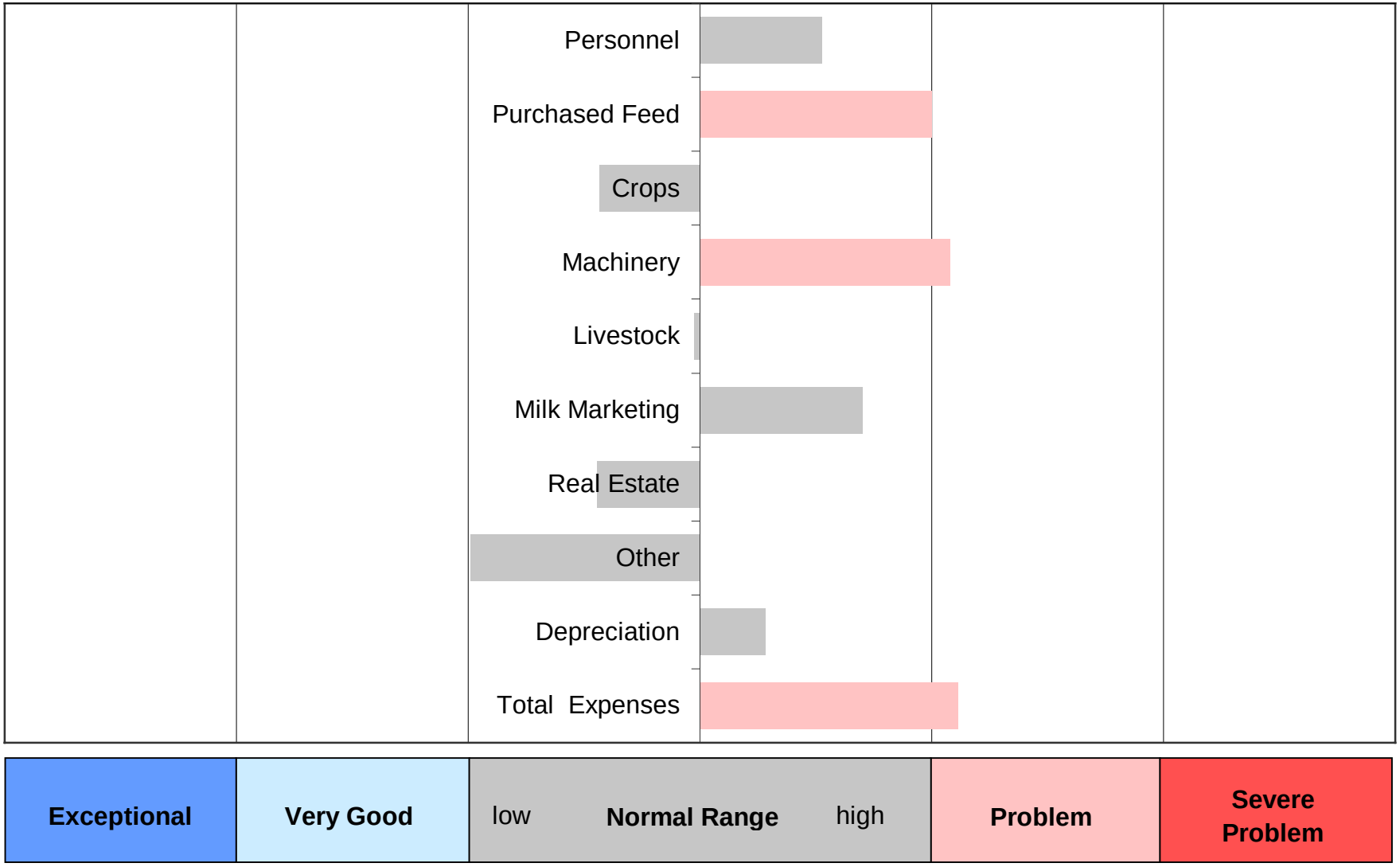
# Dairy analysis reports

- 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.



# Example report- Purchased feed expense

## Purchased Feed

| | Your dairy | | All dairies | |
|---|---|---|---|---|
| **Line item expenses** | **Total** | **$/cwt.** | **Top 25%*** | **Average** |
| Grain and concentrate | 1,797,198 | 6.05 | 6.90 | 6.57 |
| Forage | 950,931 | 3.20 | 0.53 | 0.42 |
| Complete ration | 0 | 0.00 | 0.96 | 1.34 |
| Other feed | 0 | 0.00 | 0.01 | 0.03 |
| Total feed | 2,748,129 | 9.26 | 8.40 | 8.37 |

## Feed Performance

| **Factors** | **Your dairy** | **Top 25%*** | **All dairies** |
|---|---|---|---|
| Pounds milk sold per cow | 19,115 | 17,053 | 17,014 |
| Purchased feed expense per cow | 1,770 | 1,433 | 1,426 |
| Purchased feed exp. % of total revenues | 49 | 43 | 46 |

# Example Report-Continued

## Adjusted Feed Expense

| Factors | Your dairy | Top 25%* | All dairies |
|---|---|---|---|
| Total purchased feed expense per cwt. | 9.26 | 8.40 | 8.37 |
| Plus: crop expense per cwt. | 0.00 | 0.55 | 0.33 |
| Less: crop revenues | 0.00 | 0.90 | 0.17 |
| Total adjusted feed expense | 9.26 | 8.04 | 8.53 |

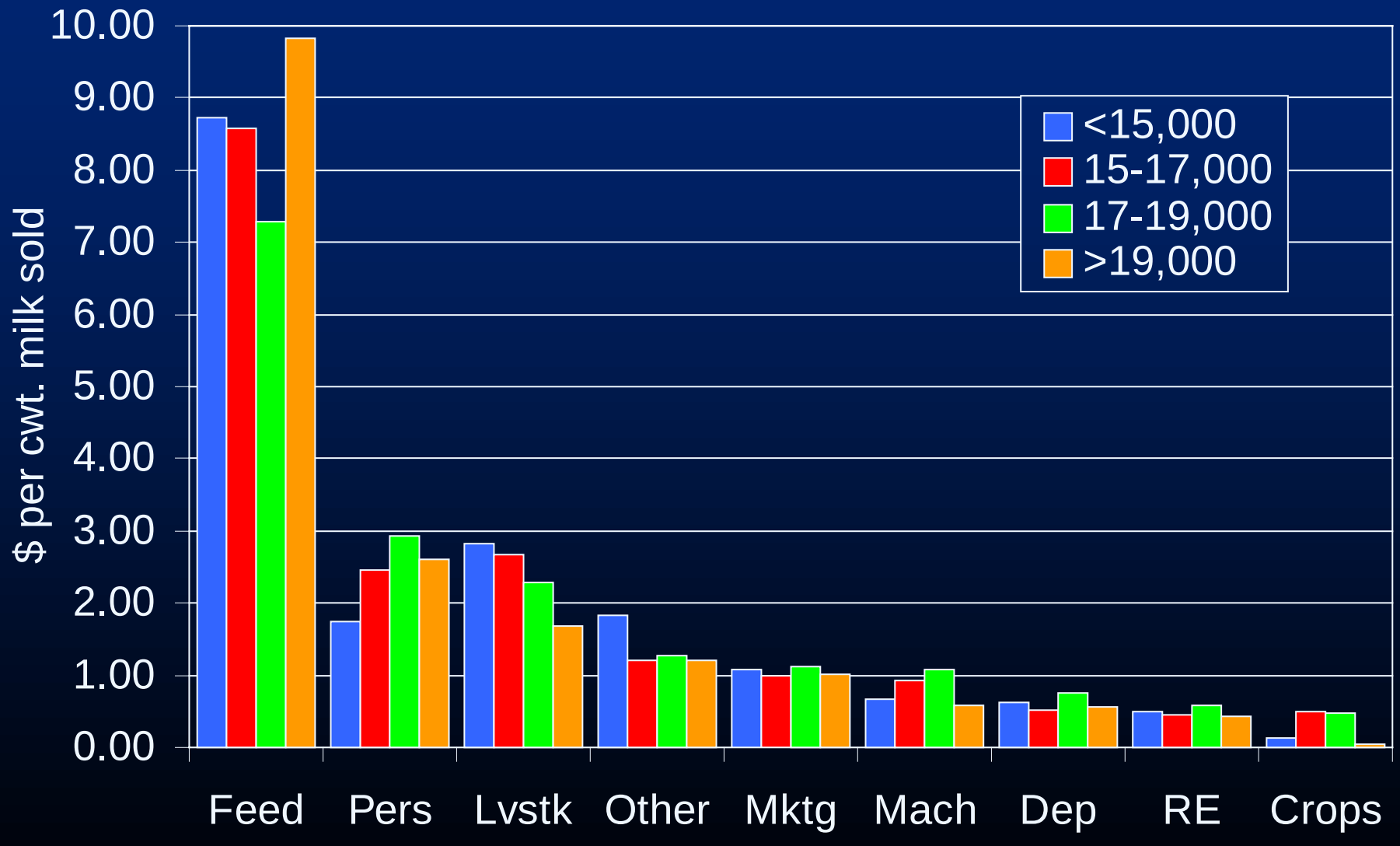
## Analysis

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.

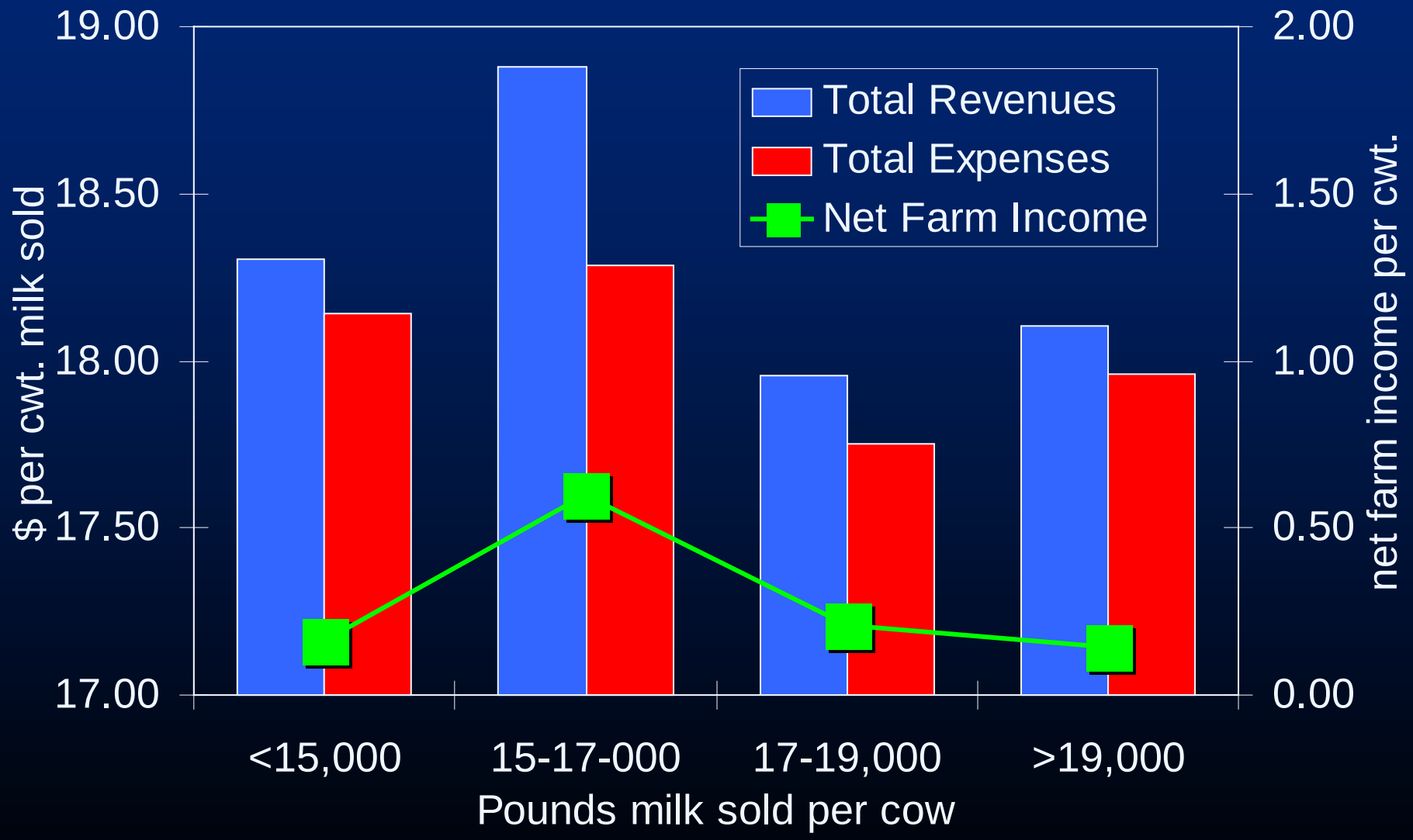
## Recommendations/Actions

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.

# Expense categories by milk sold per cow group for 1997



# Revenues, expenses, and net farm income by group



# 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**