

Benchmarking Financial and Production Progress Allows More Effective Decisions

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Introduction

Dairymen are making management decisions with insufficient understanding of the financial impact of each decision to the overall business. In addition, not knowing the level of the individual's business's performance compared to other progressive similar businesses means that strategic decisions are being made that may not improve the business's ranking amongst competitors. In addition, inaccurate or incomplete data are being used to make these decisions and comparisons are being made using different parameters. All in all it means less than optimum decisions ending in less than optimum profitability. Benchmarking analysis, the term to describe comparative financial and production performance, has been adopted by the most progressive dairying areas to improve dairy farm performance (Stokes et al., 2007).

Creation of a Canadian benchmarking model for dairies, that brings into play all the production and cost of production factors necessary to make optimum decisions and provide comparison with a peer group to assess strengths and opportunities for improvement was the objective of this project.

Methods

CanWest DHI developed the Profit Profiler Dairy Financial Analysis Service, which is available to all Canadian dairymen. Dairymen subscribe to a confidential service and in return receive an analysis of their dairy business in the following areas; cow and replacement management, cost of production for cows, replacements, labor efficiencies, forage production and grain production. In total over 150 benchmarks are defined and compared. Both actual production and actual financial information is used to create the benchmarks.

In addition, the dairymen can choose to compare their values to a peer group of their choosing, based on milk production, herd size, geographic location and other management parameters. This peer group is dynamic and changes as additional dairies complete their individual analysis and are added to the database. The software program also allows the dairyman to project realistic expected outcomes – based on his own numbers and research-based parameters – for proposed changes to a number of everyday management decisions.

Over 80 Canadian dairies have used the service to date. The majority are from Ontario but there have been dairies from Nova Scotia, Quebec and Alberta participating.

Participants provide financial information for the previous fiscal year along with animal production, replacement, cropping, labor and other measures. All costs are allocated to one of 4 enterprises based on actual usage of the cost. Certified advisors meet with the dairyman to verify that the data has been gathered correctly and to explain the resulting reports. The dairyman receives over 150 benchmark measures, is ranked against their peer group for over 50 of them and has the option to compare the business against multiple group averages. Once the analysis is completed, the dairyman can use the "What If" feature to project a number of changes and evaluate which is the best course of action.

Results

Tables below are based on the data collected from Canadian dairies to December, 2009.

Table 1. Farm Business Results:

Analysis Category	Average	Range (25 - 90PCTL)
Total Cow Costs (% Milk Revenue)	52.1%	42 – 58%
Total Replacement Cost (% Milk Revenue)	11.2%	7 - 13%
Total Forage Cost (/acre)	\$419	\$255 - \$516
Total Grain Cost (/Acre)	\$364	\$290 - \$586
Net Return to Business (% Total Revenue)	19.6%	14% - 30%
Labor + Management Cost (% Total Revenue)	13.2%	7% - 17%
Total Revenue generated per person	\$408,406	\$266,000 - \$627,000

Table 2. Dairy Cow Enterprise Results:

Analysis Category	Average	Range (25 - 90PCTL)	Range (as % of avg)
Avg # Cows	185	91 - 323	125%
Avg Milk Sold/Cow (kg)	9,330	8,560 -10,745	23.4%
<i>Unless otherwise noted, costs are expressed as % of Milk Revenue</i>			
Total Cow Costs	52.1%	42 - 58%	30.7%
Purchased Feed (cows)	13.2%	9.0 – 15.8%	51.5%
Home Grown Feed (cows)	10.7%	7.2 – 12.9%	53.3%
Dairy Cow Labor	7.5%	3.8 - 9.4%	74.6%
Health & Breeding	3.3%	1.8 – 3.8%	60.6%
Other Dairy Exp	2.8%	1.5 - 3.3%	64.2%
Fuel & Machinery Repairs	2.3%	0.4 - 3.0%	113%

** all values are based on actual costs as spent in the fiscal year

Conclusions

For 100 cow size dairy (with approximately \$700,000 dairy revenue), there was \$112,000 variation in net farm revenue. Each individual expense had a range that was in excess of 50% of the average. This means that there is much opportunity to make adjustments in an individual operation that can add significantly to the profitability of the business. Using this analysis, dairymen can identify their strengths and opportunities against a current progressive dairy benchmark and see which opportunities can have the greatest potential improvements – before committing down that road.

In order to prosper in the future, all progressive dairymen will be using this or similar model to verify strengths, opportunities and project the “next move” rather than the current “hit and miss” method.

References

Stokes, J.R., P.R. Tozer and J. Hyde. 2007. Identifying efficient dairy producers using data envelope analysis. J. Dairy Sci. 90: 2555-2562.