Creating Consistent Systems Business

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What Systems Do We See?

System 5: Imported feed used all year, throughout lactation & for dry cows

Approximately 25 - 40% (but can be up to 55%) of total feed is imported.
Changes in Systems Since 1999

- **Cows**
  - Proven grazing replacements readily available
  - Fertile and hardy

- **Pasture**
  - Grazing wedge management tool
  - Research and experience with many combinations
  - Examples of tailored systems that are working

- **Business**
  - Examples of success and failure create confidence in robust systems
  - Comparing against other graziers, not confinement systems
  - Risk management as important as theoretical profitability in long run
First Check – Asset Turnover

Formula: \[
\text{Asset Turnover} = \frac{\text{Gross Revenue}}{\text{Total Assets}}
\]

Example: $2,500 \quad $6,000

(Per cow basis)

Asset Turnover = 0.42

Rules of Thumb

Higher is Better!

> 0.40 Preferred (2.5 years to turnover)

< 0.30 Concern (3.0 years to turnover)
If both asset turnover and operating profit are at acceptable levels, then increase size.

Look for ways to increase the revenues generated from existing assets. Re-evaluate:
- Thruput
- Crop Mix/Product Mix
- Marketing Program
- Yields
- Resource Use
- Custom Work Enterprise

Look at cost controls. Look for ways to decrease expenses without reducing revenues. Re-evaluate:
- Production Costs
- Rents
- Capital Spending Plans
- Purchasing Practices
- Family Needs
- Business Organization
- Financing Costs
- Employment
- Inventory Management
- Outsourcing
- Records
- Control Procedures
- Management’s Priorities

Look for non-performing/underperforming assets to cull. Re-evaluate:
- Leasing versus Owning Assets
- Custom Work versus Owning Underutilized Machinery
- Sharing Assets (Partnering)
## Second Check – Breakeven

<table>
<thead>
<tr>
<th>Fixed Costs</th>
<th>Family living (including income taxes) + Depreciation + Interest Expenses = Fixed Costs</th>
<th>$45,000 $35,000 $24,000 $104,000</th>
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**Breakeven Formula**  
(Production per cow basis)  
\[ \frac{\text{Fixed Costs}}{\text{Cow Numbers}} \]  
\[ (\text{Selling Price,}$/\text{cwt.}) – (\text{Variable Costs,}$/\text{cwt.}) \]

\[ \frac{$104,000}{200} = $19.60 - $14.35 \]

**Example**  
(per cow for 200 cow farm)  
The milk production per cow necessary for this system to breakeven  

\[ 99.05 \text{ cwt. or 9,905 lbs. milk/cow} \]
Create Consistent Systems

Consistent systems make the dairy business work too