



What Drives

Cash Flow

on a Dairy?



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Resources for today's dairy industry



What Drives Cash Flow on a Dairy? ◆

Efficiency!



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What Drives Cash Flow on a Dairy?

Efficiency:

*Effective operation as measured
by a comparison of production
with costs (as in energy, time,
and money)*



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What Drives Cash Flow on a Dairy?

What affects efficiency?

- ◆ **Scale/Size**
- ◆ **Scope/Level of Specialization**
- ◆ **Resource Allocation**

(a.k.a. MANAGEMENT)



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What Drives Cash Flow on a Dairy?

Key Economic Drivers in a Dairy Operation:

- ◆ **Variable Cost Structure**
- ◆ **Fixed Cost Structure**
(Capital Investment)
- ◆ **Productivity**
- ◆ **Price**



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What Drives Cash Flow on a Dairy? ◆

Let's use this example dairy:

- ◆ Total Assets = \$2.2M
- ◆ 200 Cows
- ◆ 70 lbs. Production
- ◆ Springers = \$1,500
- ◆ 35% Cull Rate
- ◆ 4.5 People (FTE's)
- ◆ \$25,000 / FTE





What Drives Cash Flow on a Dairy?

Price



What impact would a 1% change in milk price have on cash flow?



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What Drives Cash Flow on a Dairy?

Price

1% of \$13.50 = \$.135

217 cwt. X \$.135 = **\$29** / cow

a \$.25 change = **\$54** / cow

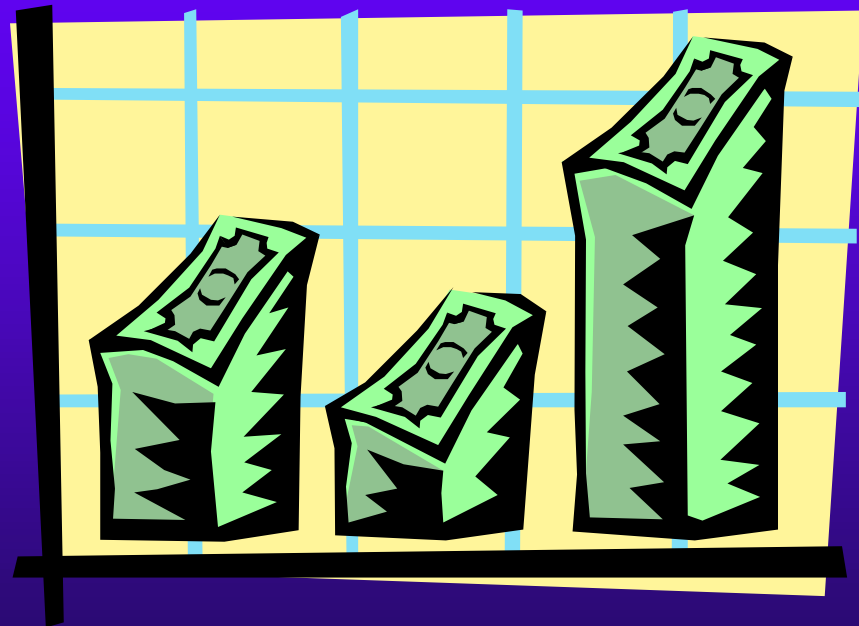


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What Drives Cash Flow on a Dairy?

Variable Cost Structure



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What Drives Cash Flow on a Dairy?

Variable Cost Structure

BsT **Replacements** **Repairs**
Herd Turnover **Bedding** **Utilities**
Veterinary **Reproduction**
Cropping **Milk Quality** **Supplies**
Administrative



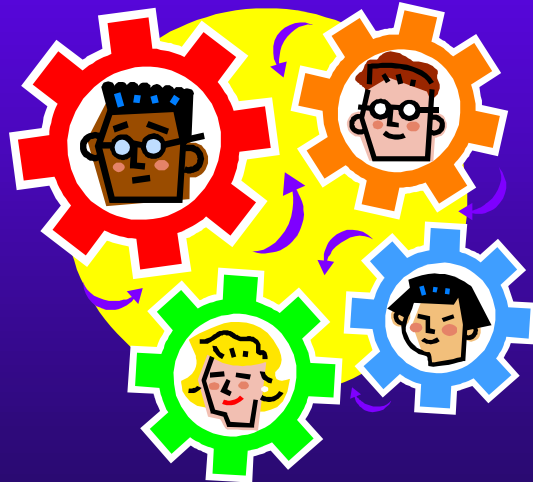
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What Drives Cash Flow on a Dairy?

Variable Cost Structure - LABOR

What impact would a 10% improvement in labor efficiency have on cash flow?



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What Drives Cash Flow on a Dairy?

Variable Cost Structure - LABOR

$$4.5 \text{ FTE's} \times 10\% = .45 \text{ FTE}$$

$$.45 \text{ FTE} \times \$25,000 = \$11,250$$

$$\$11,250 / 200 \text{ cows}$$

$$= \$56/\text{Cow}$$





What Drives Cash Flow on a Dairy?

Variable Costs – HERD TURNOVER



What impact
would a 10%
change in cull
rate have on cash
flow?



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What Drives Cash Flow on a Dairy?

Variable Costs – HERD TURNOVER

$$35\% \times 10\% = 3.5\%$$

$$= \$42 / \text{cow}$$



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What Drives Cash Flow on a Dairy?

Fixed Cost Structure – CAPITAL INVESTMENT



What impact would purchasing a \$20,000 piece of equipment have on cash flow?



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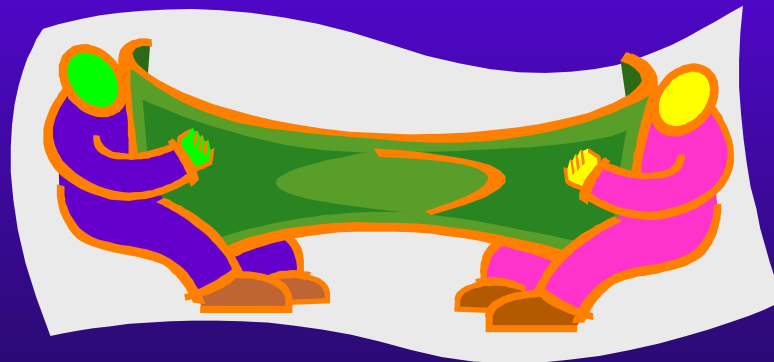


What Drives Cash Flow on a Dairy?

Fixed Cost Structure – CAPITAL INVESTMENT

\$20,000 financed over 5 years @ 8%

P & I = \$5,196/yr = **\$24** / cow



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What Drives Cash Flow on a Dairy?

Fixed Cost Structure

Typical Investment Areas

- ◆ **Harvesting Milk**
- ◆ **Replacement Heifers**
- ◆ **Cropping**
- ◆ **Facilities?**



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What Drives Cash Flow on a Dairy?

Fixed Cost Structure

If we can all agree that 1) “size/scale” generally has a beneficial impact on efficiency and 2) capital is limited in any business enterprise then:

Capital Efficiency has a significant impact on dairy cash flow!



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What Drives Cash Flow on a Dairy?

Today and in the Future



How do we
find the
efficiency
leaks in our
operation?



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What Drives Cash Flow on a Dairy?

Today and in the Future

Develop a culture of
information.

The first step to creating
greater operating efficiency is
to identify areas of
inefficiency.



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