

THE BUSINESS OF DAIRYING

Who We Are

Greg Squires manages DairyES and has consulted in business and financial planning for hundreds of dairy operations in over 30 states. Through this work and a strong background in production management consulting, Greg has cultivated significant relationships with dairy producers and other industry influencers across the U.S.

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Resources for Today's Dairy Industry

If you believe in managing change and are considering steps to improve the productivity and efficiency of your business, DairyES can help you meet your goals. To learn more about DairyES and how we can help lead your business through the process of managing change, please contact us.

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Why you must develop a passion for information

I've been hearing a lot of conversation recently about the profitability of milking cows. The buzzwords include three-year price cycles, three-year production cycles, market stability, market risk, risk management and a host of others. I am hopeful some of these discussions have caught your attention.

Obviously the year 2009 is a driver of many of these conversations; it was difficult for most dairy producers. Recent milk and feed markets have renewed these concerns over industry profitability. Through all the challenges and negativity which arises from such difficult economic times, I have observed one very significant thread of light: many dairy producers are managing their businesses differently than they did prior to 2009. In a free market economy, tough business cycles are great teachers because we learn (out of necessity) how to produce with fewer inputs and resources, thus becoming more efficient. The resulting efficiency helps us both as individual producers and collectively puts U.S. milk in a more competitive position to supply world markets.

So where does a passion for information fit into all of this? As producers struggle to survive and even thrive among these ongoing business cycles,

I believe we are on the threshold of a new information age in the dairy industry. I'm not talking about a revolutionary new wave of available technology (although technology is advancing rapidly) but rather a suspicion that many more dairy producers are going to begin truly utilizing information systems to more effectively manage their businesses. As a whole, our industry has been relatively slow in adopting information technologies. We still don't have a stellar track record of utilizing basic financial record systems to provide feedback on how we should modify management resources; too many producers are using financial records primarily for tax purposes and not to manage their businesses.

Here's an analogy that depicts why information or analytics is so integral to managing a business. Picture the last time you purchased a brand new piece of equipment such as a tractor, combine or chopper. Now think about this conversation I had with a dairyman:

Dairyman: Greg, I just don't feel like I need to pay a lot of attention to financial reports because Peg takes care of the general ledger and checkbook.

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Me: I see. So what's your take on the weekly production KPI report I suggested we assemble?

Dairyman: Most of that stuff is already in Dairy-Comp, and all I or any of the other managers have to do is look at it. And I certainly still don't see much point in completing the annual budgets you've been talking about for so long. I've been milking cows for 34 years and gut instinct has gotten me to where I am today.

Me (as I'm standing in the drive outside their shop, looking at a brand new Claas chopper): Have you ripped out all of the gauges and idiot lights in that new chopper yet?

Dairyman: What?

Me (with a slightly sarcastic tone to my voice): Haven't you had enough experience operating large equipment that you no longer need the kind of feedback those gauges provide? Doesn't your gut instinct tell you when something isn't quite right with that big, complex machine?

Operating a business is no different than operating a large piece of complex equipment – you need feedback. Many dairy businesses are not going to be able to safely and successfully navigate today's turbulent economic waters without that dashboard, as the margin for error is too small to detect using only gut instincts.

What kind of feedback?

There are several characteristics that make some feedback more valuable and meaningful than others, the most important of which is that they should focus on the operational and financial indicators which significantly impact profitability. Let's call them key performance indicators or KPI's (other common labels include report cards, scorecards and dashboards). The other characteristics include:

Concise The information needs to be very targeted and should minimize the amount of what Steve Eicker of Valley Ag Software refers to as "noise."

Timely Production KPI's should be monitored and reported weekly, and some even perhaps daily. Financial indicators need to be reported and reviewed at least monthly.

Demonstrate trends Remember the phrase "a picture is worth a thousand words." Simple graphs help show not only current performance levels but also demonstrate trends – are we better or worse than last week, month or year?

Show key metrics or standards of measurement against targets and goals Managers and their staffs should always be aware of the relationship between current performance compared to goals and other standards of performance.

Each farm should choose a set of KPI's that are central to its own unique style and priorities of management. The number of different possible KPI's is almost endless and every segment of the business (from day-old calves to the milking parlor) represents an opportunity for monitoring and process improvement. Of course, financial KPI's could be considered the ultimate report card and should be included among each farm's collection and even shared among managers. It always amazes me the number of farms who do not share financial information with their department heads and managers. Do we want those folks to make decisions solely on the basis of production performance or to incorporate practices and manage for maximum profitability?

Report cards aren't just for children. We all need feedback to direct our efforts in improving the efficiency and profitability of our businesses. Developing and utilizing report cards or KPI's helps us identify where to best invest our "improvement" resources by identifying the performance areas which are most out of alignment. As a famous British author once wrote: "It isn't that they can't see the solution. It's that they can't see the problem." 