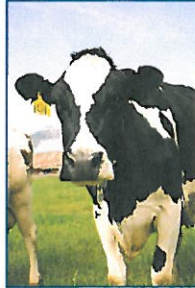


A Study into Dairy Profitability

MSC Business Services
2006 – 2009
July 2010



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MSC Business Services

- RFD Tax
- PFA FACCTS®
- Consulting Services
- REAP Credit Resale
- Payroll Service Program
- Dairy Benchmark Program
- **Farm Management Service**



Study into Dairy Profitability

- Philosophy

MSC Business Services goes beyond accounting by supplying management aides/ideas and planning information to all of our clients. This presentation will end with key study interpretation.

But first the Study...



Study into Dairy Profitability

Why was the Study Undertaken?

- High Price Volatility in Recent Years
- Price Collapse in 2009
- Noted a Number of Profitable Farms in 2009 (19%)
- Why were they Profitable in such a Poor Price Year?
- Thought answer would be Obvious

WAS NOT!



Study into Dairy Profitability

• About the Data:

- Started with **85 Profitable Farms** in 2009
 - Decided that they must be profitable in all years 2006 – 2009
 - Must have used MSC in all years
 - Solid Data in all Years
 - No Extraordinary Events in any of the years

- **24 Farms met all Criteria**



Study into Dairy Profitability

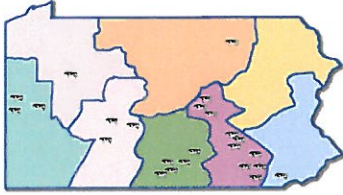
About the Data:

- Source of the Data is MSC Business Services Analysis:
 - Accrual Data (Income & Expenses)
 - Economic Depreciation
 - Charge for Management Labor
 - Account of Cattle and Crop Inventory Change

- Farms Chosen based on:
Net Margin (Profit) per CWT



Study into Dairy Profitability



Study into Dairy Profitability

- Financial Results

	ROA	Assets/Cow	ROE	EBITD/Cow
Study Group	7.45%	\$11,920	10.84%	\$1,447
Avg. Farms	0.67%	\$13,153	-9.45%	\$ 974
Advantage	+6.78%	-\$ 1,233	+20.29%	+\$ 473



Study into Dairy Profitability

- Financial Results

	Int/Cow	Depr/Cow	Debt/Cow
Study Group	\$ 80	\$240	\$1,454
Avg. Farms	\$179	\$297	\$2,829
Advantage	-\$ 99	-\$ 57	-\$1,375



Study into Dairy Profitability

- Financial Results

Study Group Clearly Outperformed the Average Farms

But Why and How?



Study into Dairy Profitability

- Operator Profile

– Could the Study Group have an Advantage?

- Age?

- 47 vs. 50

- Multigenerational?

- Sole Proprietorships 67% vs. 73%

– 2 Groups have a Similar Profile.



Study into Dairy Profitability

- Net Margin (Profits) Results per CWT

	Net Margin	Milk Price	LvsLk Revenue	Other	Total Revenue
Study Group	\$3.04	\$17.04	\$1.27	\$1.48	\$19.79
Avg. Farms	-\$0.13	\$17.16	\$0.93	\$1.71	\$19.80
Advantage	+\$3.17	-\$ 0.12	+\$0.34	-\$0.23	-\$ 0.01

** The \$3.17 Profit Advantage did not come from Revenue, although there was a substantial Livestock Income Advantage!



Study into Dairy Profitability

- Expense Results
 - If Superior Results are not from an Income Advantage, it must be from an Expense Advantage
 - MSC Business Services Analysis looks at:
 - Interest Costs
 - Sale/Administrative Costs
 - Production Costs



Study into Dairy Profitability

- Expense Results

	In/CWT	S & A/CWT	Prod/CWT
Study Group	\$0.36	\$4.73	\$11.58
Avg. Farms	\$0.85	\$5.38	\$13.70
Advantage	-\$0.49	-\$0.65	-\$ 2.12



Study into Dairy Profitability

- Expense Results – Interest / CWT
 - \$0.49/CWT is an Important Advantage
 - Study Group LOWERED Interest Cost in all Years
 - Avg. Farms INCREASED Interest Cost in 2007 (?)

The MSC Standard for where Interest Cost becomes an issue is \$1.00/CWT. Avg. Farms are just about there.



Study into Dairy Profitability

- Expense Results – Sales & Administrative Cost / CWT
 - Includes Milk Marketing, Insurance, Business Taxes, Mgt. Labor, Depreciation, etc.
 - \$0.65/CWT is an Important Advantage
 - Milk Marketing (\$0.94 vs. \$0.95)
 - Insurance (\$0.33 vs. \$0.41)
 - Business Taxes (\$0.17 vs. \$0.23)
 - Management Labor (\$2.05 vs. \$2.20)
 - Depreciation (\$1.08 vs. \$1.41)



Study into Dairy Profitability

- Expense Results – Depreciation
 - Study looked at “Why the Depreciation Advantage”
 - Not due to Vastly Different Purchasing (\$276/Cow vs. \$269/Cow)
 - Avg. Farms actually have an Advantage

Something else going on!



Study into Dairy Profitability

- Expense Results – Production Cost / CWT
 - \$2.12/CWT Advantage is Huge!
 - Over the 4 Years:
 - Study Group Adjusted Quickly
 - Study Group never let Costs get “Out of Control”
 - Range of Production Cost Variation (high to low year):
 - Study Group \$2.64
 - Avg. Farms \$3.14
 - Advantage +\$0.50



Study into Dairy Profitability

- Key Performance Factors

	Milk/Cow	SCC	Pur Feed & Crop Exp/CWT	Crop A/Cow	Value All Feed Harv/Acre
Study Group	21,523	243	\$6.40	2.61	\$813
Avg. Farms	19,850	292	\$9.76	3.26	\$648
Advantage	+1,673	- 49	-\$3.36	-0.65	+\$165



Study into Dairy Profitability

- Cow Performance Factors

	Milk/Cow	# Cows	IHG	Cull %	Animal Husbandry Costs
Study Group	21,523	164	4.74%	29%	\$5.63
Avg. Farms	19,850	120	-0.32%	29%	\$6.67
Advantage	+1,673	+44	+5.06%	-	-\$1.04



Study into Dairy Profitability

- Labor Performance Factors

	Total Labor/CWT	Milk/Worker	Cows/Worker	Labor Prod_Ratio
Study Group	\$3.42	1,130,172	52	5.98
Avg. Farms	\$3.79	893,566	44	5.45
Advantage	-\$0.37	+236,606	+8	+0.53



Study into Dairy Profitability

- Conclusions

- Study Group:

- Earned \$3.17/CWT more, with a LOWER Milk Price
 - Exhibited Superior Animal Husbandry (Conception through Production) and Cropping Practices
 - Made more Milk/Cow; at a LOWER Cost
 - Reacted and made Changes based on the Volatile Dairy Environment Faster and more Decisively
 - Grew Cow Numbers INTERNALLY!



Study into Dairy Profitability

- Great! But what are the Producer Takeaways?

- Forget the “Magic Bullet Theory”, and

- Understand that a PA Model Dairy Operation is a Business based on the Relationship Between:

- Excellent Animal Husbandry Practices (Conception to Slaughter),
 - Efficient, Productive and High Quality Cropping Practices,
 - Profit Driven Capital and Labor Management,
 - Dairy, Crop and overall Market Knowledge, and
 - A Commitment to Constant Operational Improvement in all areas of their Operation.



Study into Dairy Profitability

To get a copy of the Full Study

<http://Dairy.PFB.COM>

** Site also contains other useful resources, most at no cost.