Tremendous opportunities await dairies that increase efficiencies

Special to *Progressive Dairyman* from **Mary Grace Erickson**

Dairy producers must be efficiency experts at every phase of the game. And while it is "all about the cows," dairy operations that focus on improving economic efficiencies as they manage their books have a competitive advantage. In the dairy industry's unique market, streamlining operations goes a long way to ensure long-run viability.

This was the primary message Greg Bethard, chief financial officer of Pagel's Ponderosa Dairy, Kewaunee, Wisconsin, delivered to participants in last year's Dairy Efficiency Summit, sponsored by Papillon Agricultural Company.

"Most of us in the U.S. dairy industry sell a commodity product," Bethard said. "If we increase our output, the market will bear the additional production at the same price. However, without much ability to differentiate, cost control is the main driver of profitability. Successful dairies produce milk as cheaply as possible so they have more flexibility to respond to market changes.

"Market globalization is creating tremendous opportunities. Demand for high-quality protein continues to rise overseas, and projected population increases promise to sustain growth in the coming decades," Bethard added. "However, the consequence of expanding to serve international buyers is increasingly volatile market conditions. With milk prices now tied closely to exports, ups and downs have become frustratingly unpredictable."

In the past decade, dairy producers have experienced firsthand what these price fluctuations mean. Those who suffered through 2009's bottomed-out prices and soared in the "black swan" year of 2014 learned efficiency is what separates the winners from the losers. Farms managed efficiently can survive the low points and capitalize on the high points.

Bethard added that many producers use feed efficiency and cost per hundredweight to measure efficiency. However, these ratios do not give a complete picture because they ignore differences in milk income. It may cost more to produce milk of higher value.

Another problem with using feed efficiency is it is a biological measure: fat-corrected milk produced per pound of dry matter intake. The more comprehensive and practical indicators of farm-level performance are economic measures of efficiency.

Improving financial performance begins with choosing the right way to quantify efficiency. When it comes to measuring farm-level efficiency, margins are what matter, and income over feed costs (IOFC) is king, Bethard said. To get a full picture of farm performance, Bethard recommended producers start by examining these key numbers:

1 Money-corrected milk per cow and total production (dollars per cow per day). Money-corrected milk is the value of milk produced relative to 3.5 percent fat and 3 percent protein with component values held constant over time. This makes it a useful way to track efficiency and compare across herds, time and component prices.

2 Static IOFC per cow and total production (dollars per cow per day). IOFC is the value of milk generated relative to the cost of feed. Dairies should make it a goal to drive IOFC higher for the whole facility each year.

3 Percent of capacity over a 12-month period. Strive to operate at 98 percent or higher capacity to ensure resources are fully utilized in producing output.

4 Margin per hundredweight. In the long term, try to generate at least $2 over costs for every 100 pounds milk shipped.

5 Replacement costs per hundredweight. Make it a goal to cut replacement costs to less than $1.50 per hundredweight.

6 Actual IOFC per hundredweight (dollars per cow per day). If actual IOFC per hundredweight can be kept above $9 to $10 per cow per day, farms should be highly profitable. At levels lower than $7, losses will most likely occur.

7 Labor cost per hundredweight. Target keeping labor costs below $1.50 per hundredweight.

8 Non-"Big Three" (and hauling) costs per hundredweight. The big three costs are feed, labor and replacement costs. Costs per hundredweight excluding these three costs and hauling costs should not exceed $4 per hundredweight.

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9 Milk per stall per hour. Parallel parlors should be able to produce over 150 pounds per stall per hour, and rotary parlors should aim for milk production of 200 pounds per stall per hour or more.

10 Residual dry matter intake. Less than 1 pound dry matter intake left after refusals is the goal.

The first way to begin improving efficiency is simply to ship more milk. Regardless of land or capital constraints, shipping more milk dilutes fixed costs over more income. Realizing quality premiums can also give income a boost, particularly when milk prices are low.

"Feeding efficiently is important, too," Bethard said. "Try to increase income over feed costs. Any ingredient put into the ration must have a return associated with it. We've gotten more aggressive with amino acid balance, which resulted in higher milk protein than ever. We're paid on pounds of protein and get a premium for more. Thus, optimal amino acid inclusion meets the cows' needs and helps our balance sheet. This works on any dairy, no matter its herd size."

On the cost side, focus on keeping fresh cows healthy and minimizing replacement costs. With a strong stream of replacements coming in, inefficient cows in the milking herd can more easily be traded out. Maintaining good lactation demographics by removing stale cows from the milking herd can have a massive impact on overall efficiency.

"A good pregnancy rate can also be a game-changer to cow flow on dairies. Between saving on breeding costs and reducing involuntary culling, a high pregnancy rate can have a ripple effect on overall efficiency. As an added benefit, getting cows bred successfully means they can be dried off at a reasonable days in milk and will have fewer fresh cow issues," Bethard concluded.

There are many additional services and tools available to dairy producers seeking to increase efficiency, from advisers to accountants to apps. By tracking key indicators, managers can identify areas of opportunity and set goals. Investing time and energy in keeping the farm finances as healthy as the herd can help your farm thrive no matter what the future brings.

Mary Grace Erickson is an Indiana-based agricultural journalist. She is providing exclusive reporting for Progressive Dairyman *about the Dairy Efficiency Summit, presented by Papillon Agricultural Company last year in Green Bay and Madison, Wisconsin.*