

Management Strategies During Challenging Times

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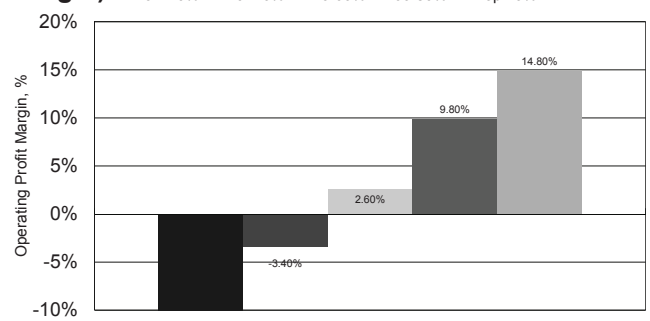
Management strategies during challenging times

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High profit farms keep a higher percent of every dollar of income!!! (Operating profit margin)

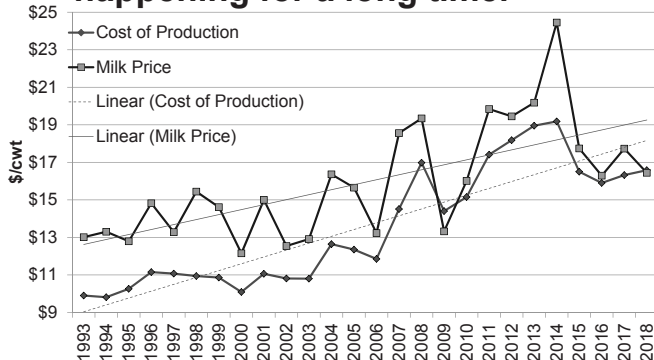


Data from 2015-2018
Data source: FINBIN (2019), Center for Farm Financial Management: University of Minnesota. Retrieved from <http://finbin.umn.edu>



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Margin compression has been happening for a long time.

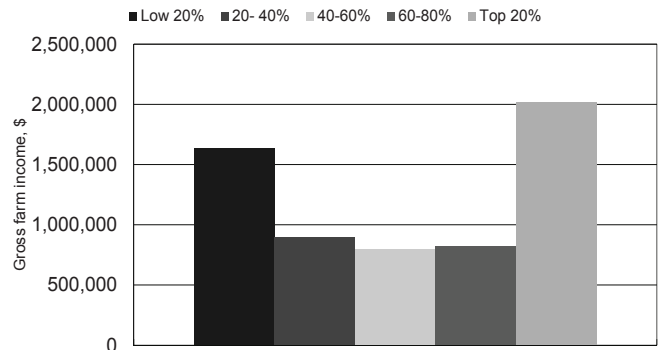


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Large farms tend to be the most and least profitable farms.

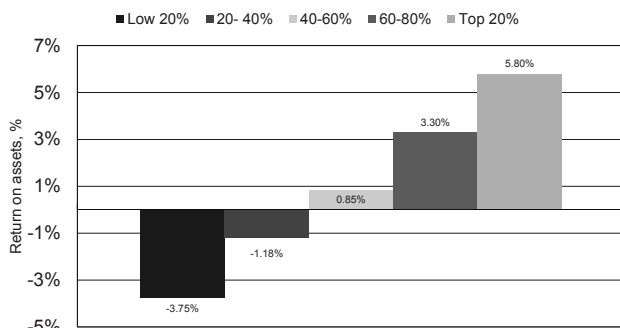


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Return on assets for Midwest dairy farms in 2015-2018

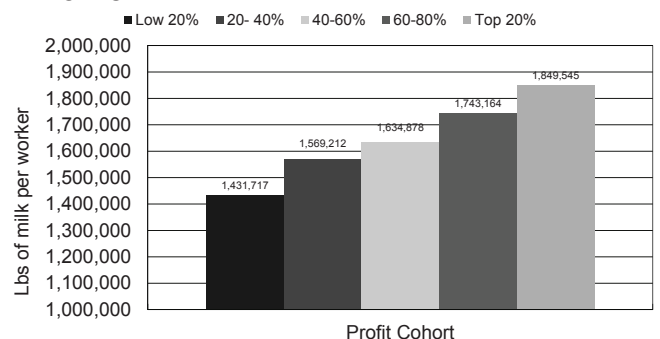


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High profit herds sell more milk per worker

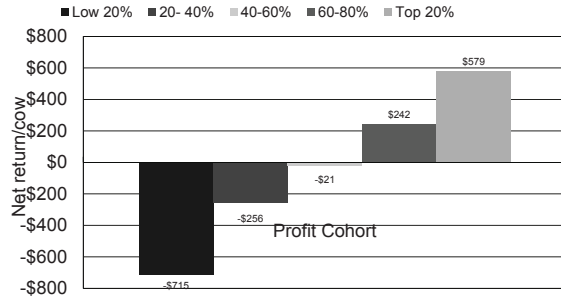


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Net return per cow was negative for three cohorts in 2018



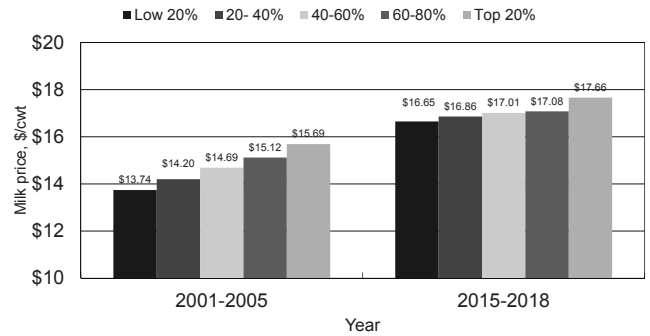
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Higher profit farms produce higher value milk



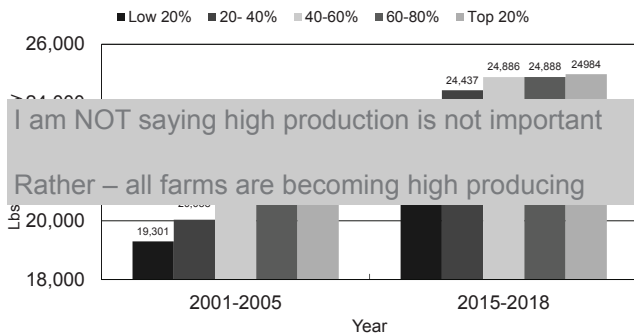
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Has pounds of milk per cow become less important to maximize profit?



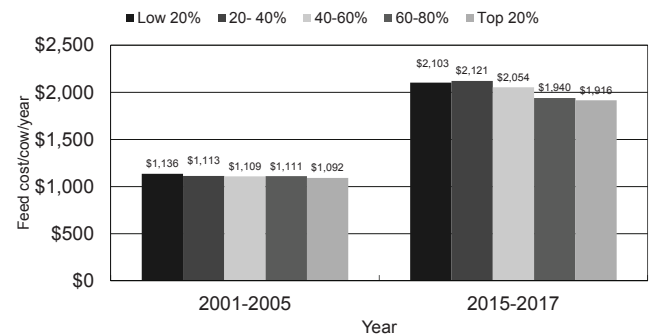
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High profit farms have lower feed cost



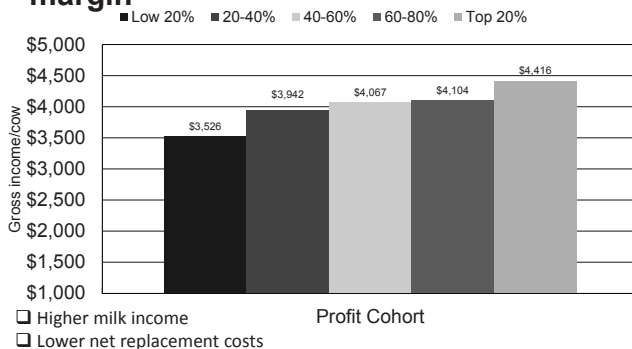
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High profit farms have higher gross margin



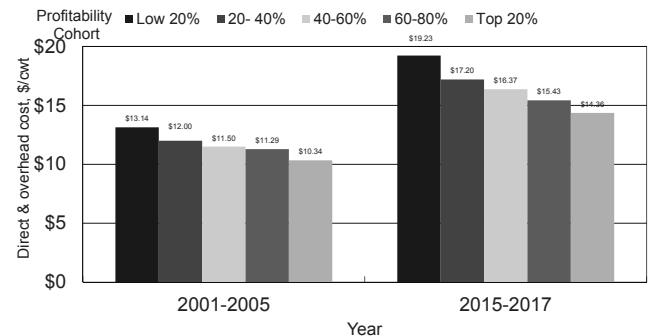
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High profit farms do a better job of controlling all costs



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Have the rules for profit changed?

- 1960's - Focus: Hard work
 - 1980's - Focus: High quality forage
 - 1990's - Focus: Milk quality
 - 2000's - Focus Cow comfort
 - 2010's - Focus: Reproduction
- Future profit: Will it be driven by efficiencies?
Labor: (Family and hired)
- Moving to a knowledge/tech based economy
- Business acumen/Asset use

Traditional Dairies

- Less than 600 cows? (most smaller than 200 cows)
- Owner/family managed
- Multifamily or some hired labor
- Forage production and some grain or cash crops
- Intend to compete from an established base of facilities and equity
- Must be good at asset use
- What is your strategic advantage?

Need to have high margins per cow

What will be your strategy?

Every farm has one.... even if you don't know it.

- Be the best?
- Diversify?
- Be more nimble?
- Value added?

Staying the same is likely not an option

Niche-adapted Dairies

Have found a specialty niche that sets them apart from most dairies, for example:

- Grazing
 - Suitable land base
 - Low cost of production
 - Advantage with increasing input costs??
- On farm processing
- Organic
- Specialty markets (e.g. sale of genetics)

Intend to compete by significantly expanding the margin between income and expenses

Scale-adapted Dairies

- Herd sizes in excess of 1200 cows??
- Freestalls, TMRs, parlors
- Often contract forage production and heifer rearing
- Significant hired labor force
- Intend to compete by economies of scale and volume in the face of tightening margins
- Must be good at labor management

