

**BusinessSense – Best Management Practices in Information Management
Standardization of Data**

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Participating in a dairy business analysis and benchmark program can shed considerable light on how efficiently a business is performing. However, the information one gets from participating in such a program is only as good as the information that is entered into it. Transforming data into information is a complex process that involves a number of different steps. An important, but often overlooked, step in information management is data organization, which provides structure to the raw data so it can be processed, reported and analyzed. Standardization in data organization is critical to developing uniform and useful benchmarks. Producers participating in the BusinessSense Program learn how to implement this best management practice in information management.

The lack of standardization in how data is organized is particularly prevalent in the dairy industry. While the national Dairy Herd Improvement Association has done a tremendous job in standardizing production records, financial records are another story. The Farm Financial Standards Council has done a sound job in developing guidelines for processing and reporting data for farming businesses in general. However, it has not addressed standardization of data organization for dairy businesses. A prime example of the lack of standardization in financial records and how it can affect benchmarks is BST. Since its introduction in 1995, there has been little consistency in classifying BST expenses. Some producers classify it as feed expenses; others as vet expenses and others as supplies expense. Other producers have set up a separate account for BST. When used as approved, BST expenses will total between \$90-\$100 dollars per cow per year. Vet expenses and supplies expenses often account for similar figures as BST expenses. So business owners who classify BST as vet or supplies expenses might look at a benchmark for these expenses and wonder why they are spending twice as much as other herds.

The chart of accounts used in the accounting program provides structure to the financial data. Developing a standardized chart of accounts for dairy businesses is the initial step in developing better benchmarks. A chart of accounts should be arranged with several goals in mind. First it should be easy to understand and follow for both the person doing the data entry and the person reviewing financial reports. A good chart of accounts should also be well organized with progressing levels of detail. This will enable the accounting program to generate meaningful and easy-to-read reports. Giving your lender or consultant a 6-10 page profit and loss statement only tends to irritate them. They prefer to review a concise one-page summary profit and loss statement. Remember, your advisors work with other farms. You may have time to sift through a multi page P&L, especially since you are familiar with your particular accounting program and how it is set up. Your advisors however, do not. They often work with 40-100 or more farms. It would be nice if they could look at one format and trust that the data is handled in the same manner.

If, while reviewing a one-page P&L, your advisors see something that looks out of line they may ask for more detail. If the chart of accounts is organized correctly, the computer can easily generate reports that provide that detail. A good example to illustrate this progressing level of detail is the feed account. Most dairy farms purchase feed for milking animals, dry cows and replacements. Many also purchase feed in various categories such as forages, grain, protein, minerals and specialty feeds. If all feed is categorized simply as feed, it will be more difficult to troubleshoot a dairy that has high feed expenses. Feed is the primary level account. Secondary level accounts may include purchased forages, purchased protein, minerals, heifer feeds, etc. This additional detail will help determine where the money is being spent and what, if any, costs are above normal.

With the turn of a new year comes an opportunity to review how data is organized in your dairy accounting system. Although standardization should be approached on a national level, individuals at Penn State and Cornell Universities, in consultation with leaders from the dairy financial industry, have developed a standardized chart of accounts

for dairy businesses operating in the Northeast. The standardized chart of accounts is available in several formats, including a paper copy that shows how to set the system up in any accounting program. The standardized chart of accounts is also available to users of QuickBooks and Perception accounting programs. Available on disks, they can be easily restored to your computer. Paper copies and disks can be obtained by sending an email to bhilty@psu.edu or by calling (717) 948-6612.

Producers participating in BusinessSense can learn how implementing better business and information management practices can help improve business performance. BusinessSense is a series of three meetings designed to progressively build participants' knowledge and use of best management practices in information and business management. All participants will analyze their dairy business using the Penn State / Cornell Dairy Farm Business Summary and a systematic approach to business analysis. Having your information well organized through a good chart of accounts makes the process easier to complete.

For additional information about BusinessSense, please call the Dairy Alliance Office at 888-373-PADA or e-mail bhilty@psu.edu.