

# Top 10 Keys to Building a Profitable Dairy Business

**Operating a successful dairy business can be quite challenging in today's agribusiness environment. Volatile markets, droughts and other weather-related disasters, labor issues, and tight profit margins are challenges all dairy producers have faced at one time or another. Each can adversely affect the bottom line of a dairy business. However, by focusing on the ten key management practices in this publication, dairy producers can build a profitable business and ensure they will survive the tough times and prosper when times are good.**

## 10. Manage Your Expenses

Managing your expenses is not the same as cutting expenses. The key is to know the difference between productive and unproductive expenses. Some experts may argue that managing expenses should be at the top of this list, but in most instances the costs of inputs, such as feed, are beyond your control. Although this is an area where most dairy producers can improve, the most profitable improvements can be achieved by addressing the items at the top of this list. A good benchmark to follow is to manage expenses (after interest and depreciation) to 65 percent of income. If an operation is not achieving this benchmark, evaluate the areas where improvements are needed to do so. Evaluate the cost-benefit ratio of each purchase. *Spend money on productive expenses and minimize unproductive expenses.* Manage inventories to minimize carrying charges and control overhead expenses.

## 9. Emphasize Your Strengths

A dairy producer does not have to be a jack-of-all-trades to manage a profitable dairy. In fact, the challenge for producers is to identify their strengths and emphasize them. Labor and/or capital constraints often lead to the “do-it-all” approach to managing a business. Identifying the jobs that you enjoy doing, and therefore will do well, can lighten your workload and enable you to focus on the aspects of the business that will make the most money.

## 8. Analyze Your Enterprise

Identify the various profit centers of the business. Determine which are profitable and to what degree. What changes could you make to improve the profitability of the money losers, and what investment would those changes require? Would that money, if invested in the more profitable enterprises of your business, generate a higher return? Are there alternatives that would allow you to outsource those enterprises that are not making money or are providing only minimal returns?

## 7. Make Wise Investments

Evaluate each investment and why it is important to the business. Analyze every investment made to determine the return it will generate for the business. What is the payback period? Prioritize investments on the basis of their prospective payback periods: one to two years first, then three to five years. Larger investments, such as major expansions, should have a payback period of less than a decade, preferably seven to eight years.

## 6. Implement a Management Team

Consider creating a management team that consists of your dairy operation's key advisers. This team can help you develop strategies to improve the profitability of your business. They can help monitor trends in key production indicators and help prevent small problems from turning into major catastrophes. Team members may include a veterinarian, nutritionist, agronomist, dairy consultant, lender, accountant or financial adviser, dairy field person, and extension personnel.

## 5. Know YOUR Cost of Production

Use records and information to make sound business decisions. Evaluate your accounting system. If it does not enable you to *easily* calculate *your* cost of production and do enterprise analysis, consider changing to a system that does. A good accounting system will help you spot weaknesses in the production system. Compare production costs and figures for other key indicators to those of the top 10 percent of profitable dairies. Your business also should have a good production record system in place for both animal and cropping enterprises. Whether you use Dairy Herd Improvement Association (DHIA) records or you have a computer system, good production records—if used correctly—will indicate where you should focus your efforts to improve profitability. Enterprise analysis cannot be done without accurate crop records.

## 4. Keep Cows Comfortable

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Evaluate your facilities in terms of cow comfort. Are the majority of animals lying down when they are not eating? Blood flow to the udder increases significantly when cows are lying down, promoting more efficient utilization of the nutrients they ingest. Do cows have trouble getting in and out of stalls? Are bedding levels adequate? Are cows waiting in the holding area too long? Does the ventilation system provide a good supply of high-quality air? Do the cows walk around comfortably without slipping? Do they have constant access to feed and good water? Poor cow comfort levels can lead to poor profitability through lower production, poor reproductive performance, increased cull rates, and higher feed costs. Higher cull rates will significantly reduce profitability by increasing overhead costs.

## 3. Maximize Forage Quality and Feed a Balanced Ration

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From the field to the feed bunk, this is a key area that many dairies can adjust to improve their profitability. Poor forage quality can cost a 100-cow dairy from \$20,000 to over \$100,000 per year in increased feed costs and lost production. Manage forage supplies to minimize drastic changes in the forage makeup of the animals' ration. Changing forages constantly or feeding forage that has not completely fermented will lead to reduced production and lower profits. The latest research indicates that corn silage may not reach a stable state until six to eight weeks after harvest. If storage facilities prevent you from feeding fully fermented forage throughout the year, consider putting up a bag or two for use during next year's harvest period. Forage quality should be monitored frequently and the ration balanced to ensure that the cows are getting adequate nutrients to match their production level, without overfeeding nutrients.

## 2. Control the Controllables: Production, Efficiency, and Marketing

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Many factors in the dairy industry are beyond a producer's control. Concentrating on those areas will only drain you of energy you need to address the areas you can control. Although producers have little control over the price they receive for their product, controlling some key factors can contribute to higher prices. Controlling mastitis in your herd reduces somatic cell counts, which can lead to considerable bonuses under some of the milk quality incentives now offered. Ensuring that the ration is properly balanced not only leads to better production and a more cost-effective feeding program, it also helps to maintain milk components (fat and protein) that contribute to higher prices. Addressing the items discussed earlier can lead to higher production levels, which improve profitability. Also, make an effort to become better informed about the marketing side of your business. Developing a good marketing strategy, using available risk-management tools, is another way to build a profitable operation. By doing so, you begin to take more control of your operation.

## 1. Develop a Strategic Business Plan

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A strategic business plan is the blueprint for building a profitable dairy business. No dairy producer would build a new dairy facility without a blueprint, yet many may not have taken the time to develop a set of blueprints for building a profitable dairy business. Developing a plan will force you to look into the future and visualize where you want to be in five to ten years. It will help you determine where your business is today and what you must do to reach the goals you have set for the business. This is a time-consuming process, but the effort you put into it will pay big dividends in the future. Enlisting the help of a professional can expedite the process and provide additional insight into where your operation is now and how to achieve your goals.

Dairy producers will always face adversities of one sort or another. However, by addressing these 10 key items, producers can take major steps to build profitable dairy businesses and ensure that they survive and thrive well into the future.



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Penn State College of Agricultural Sciences research, extension, and resident education programs are funded in part by Pennsylvania counties, the Commonwealth of Pennsylvania, and the U.S. Department of Agriculture.

This publication is available from the Publications Distribution Center, The Pennsylvania State University, 112 Agricultural Administration Building, University Park, PA 16802. For information telephone (814) 865-6713.

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Issued in furtherance of Cooperative Extension Work, Acts of Congress May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture and the Pennsylvania Legislature. T. R. Alter, Director of Cooperative Extension, The Pennsylvania State University.

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