

8 “Controllables” During Hard Times in the Dairy Business

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All dairy producers are asking tough questions of themselves during this economic downturn. Low milk prices accompanied by high input prices have placed many of you in precarious situations. I empathize with the struggles you are going through, and I maintain concern about your current situations. In discussions with dairy producers, the conversation invariably leads to “what can we do about milk prices?” As we all know, in the short term, there is very little that can be done to influence milk prices. In the long term, most changes in milk price will be influenced by factors affecting both milk supply and demand. Currently, there are multiple pricing policy changes being proposed that may influence future milk prices levels and volatility. These policy changes do hold some promise for improving the long-term situation, but individual dairy producers should be cautious with how much of their time they dedicate to policy concerns.

However, it is important to keep in mind the business principle of “control the controllables” during hard times in the dairy business. This principle suggests that most of a business manager’s energy, time, effort, and thoughts should be focused on the parts of the business over which he/she maintains control. Limited time should be dedicated to parts of the business where the manager has no control because this process is self-defeating and can perpetuate an environment of negativity and despair. What aspects of your dairy business do you have the opportunity to control? These areas represent the biggest opportunity to out-survive the competition. Every dairy producer is facing the same challenges with regard to input and output prices; but, you control your own destiny within the areas you can control. Following are eight “controllables” to consider during hard times in the dairy business.

Controllable 1. Milk yield

Milk revenues=milk price × milk yield. Sometimes, we forget the last part of that equation. In addition to increases in milk price, the other way to increase revenues from milk is to increase production. And, you have more control over milk production than you do milk price. Remember that as milk yield per cow increases, fixed costs generally remain the same with only variable costs increasing. Thus, increased milk yield per cow will generally increase margins. The key is to make sure that increased variable costs (increased feed is one example) don’t exceed increased revenue. In other words, we want to make sure that if we are spending a dollar, we are getting at least a dollar back in return.

Controllable 2. Herd health

Because the effects of changes that have a negative impact on herd health are not always immediate, the temptation exists to cut corners during difficult times that will have negative consequences later. Healthy cows produce more milk, stay in the herd longer, and are more profitable. Keeping cows healthy now will help ensure that they are more productive later when prices improve. Additionally, minimizing mastitis and lowering somatic cell counts help in securing quality bonuses, reducing treatment costs, and increasing production in the

short-term.

Controllable 3. Reproduction

The goal of reproductive management is to maximize the amount of time cows spend in peak lactation. When milk prices are low, the impact of cows with extended days open (and consequently lower production during late lactation) is even greater because the breakeven production level is higher. Moreover, considering the cyclical nature of milk prices, reproductive decisions made today will likely impact production levels during the next period of higher milk prices. Thus, practices to minimize days to first service, maximize conception rates, improve estrus detection rates, and minimize intervals between services are just as critical now as when market conditions are good. Lastly, producers should avoid the temptation to switch to a natural service bull. When all costs are considered, natural service bulls are no less expensive than artificial insemination and the genetic merit of cows from natural service-bulls is always lower.

Controllable 4. Replacement heifer quality

Again, because the effects of decisions in calf and heifer raising are not immediate, some may be tempted to cut corners here too. However, since these animals represent the future of the herd, profitable practices to ensure that they are best prepared for future success is essential for future profitability. Heifer raising costs should still be monitored and scrutinized but not at the expense of future replacement heifer quality. Additionally, producers should strive toward achieving an average age at first calving of 24 months to minimize heifer raising costs.

Controllable 5. Feed costs

Every part of the feed cost equation should be scrutinized with a goal of maximizing income over feed costs. Are you maximizing the use of home-grown feeds and forages? Could you replace some existing purchased feeds with cheaper alternative or byproduct feeds without sacrificing production? Are all feed additives in your ration providing enough production or health benefits to merit their inclusion? Are you minimizing feed losses (shrink) during storage to ensure that feed is not wasted? As the largest single cost for a dairy operation, feed costs represent the variable cost where dairy managers can exert the most control.

Controllable 6. Asset base

Farmers tend to collect too many assets for their business, making it difficult to maintain profitability. Are their non-productive assets on your farm? Do you have machinery, land, or farm toys that are not actively generating revenue? Perhaps now would be a good time to examine your asset base and determine if some assets should be sold. Maybe you would be better off custom-hiring tasks done by machinery that is only used a few days a year. Walk around your farm and critically ask yourself whether each asset is helping generate profit.

Controllable 7. Risk management strategy

What do you do to manage risk in your business? Do you utilize available options to contract future milk and feed prices? Remember that the goal of contracting is to lock in a guaranteed profit, not to always get the highest possible price for milk or the lowest possible price for feed. Have you examined the potential of the Livestock Gross Margin for Dairy Cattle insurance policy? Do you have a "rainy day fund" or operating line of credit to help get

through tough times? The volatility in commodity markets necessitates a well-planned risk management strategy.

Controllable 8. Business strategy

What is your business strategy? What is your source of competitive advantage as compared to other dairy businesses? What are you better at than your neighbor? What is your long-term survival strategy? Would your best business strategy be to exit the dairy business? Though the thought of exiting is rarely pleasant, some producers may find that they will be happier doing something else after selling their cows. Now is an important time to ask these kinds of questions to establish a business strategy that will maximize the chances for success in the future.