

Unleashing The Power of Your Business:

Benchmarking and the 2009 Blue Book

Mastering the Dairy Business Series
Pennsylvania Center for Dairy Excellence

Joanna Samuelson
Northeast Dairy Farm Summary, Author
Director of Knowledge Exchange, Farm Credit East, ACA

The 2009 Northeast Dairy Farm Summary

- Year-end financial statements from 544 dairy farms
- New York, New England and New Jersey
- Joint project with Maine & Yankee Farm Credit
- 2009 completes our 31st year
- Depreciation calculated on an economic basis
- Where does your business stack up?

Profile of 'Average' Dairy Farmer

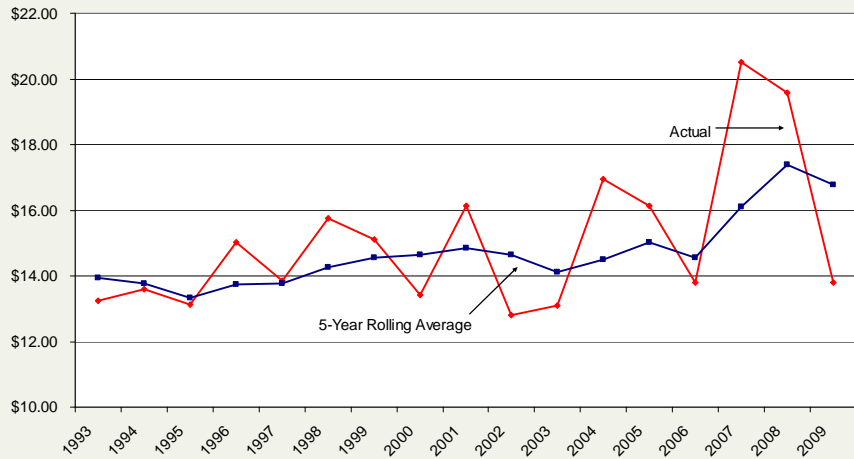
	2009	2008
Number of Cows	277	272
Milk Sold per Cow	22,219 lbs.	22,300 lbs.
Milk Sold per Worker	1,025,783 lbs.	1,010,917 lbs.
Milk Price per Cwt.	\$13.80	\$19.59
Net Cost of Production per Cwt.	\$15.53	\$17.88
Percent Net Worth	68%	72%
Net Earnings per Cow	(\$386)	\$383
Return on Assets	(2.6%)	5.1%

A Single Year is not a Good Indicator in a Volatile Industry

	3-Year Average	5-Year Average	10-Year Average
Net Earnings per Cow	\$302	\$236	\$225
Return on Assets	4.7%	4.2%	4.5%
Return on Equity	4.5%	3.6%	3.8%

However, your management plan must still account for the cycles of the dairy business.

Actual Milk Price vs. 5-Year Rolling Average



Production Expenses*

	2005	2006	2007	2008	2009
	<i>Dollars per Cwt.</i>				
Feed	\$ 4.23	\$ 4.25	\$ 5.29	\$ 6.19	\$ 5.58
Labor	2.72	2.71	2.87	2.94	2.88
Interest	0.60	0.78	0.84	0.59	0.55
Marketing	0.82	0.87	0.89	0.98	0.93
Crop	0.97	0.88	1.11	1.30	1.12
Other	5.74	5.56	6.44	6.92	5.78
Adjusted Cash Operating Expenses	\$15.08	\$15.05	\$17.44	\$18.92	\$16.84

*Adjusted to show one year of expenses.

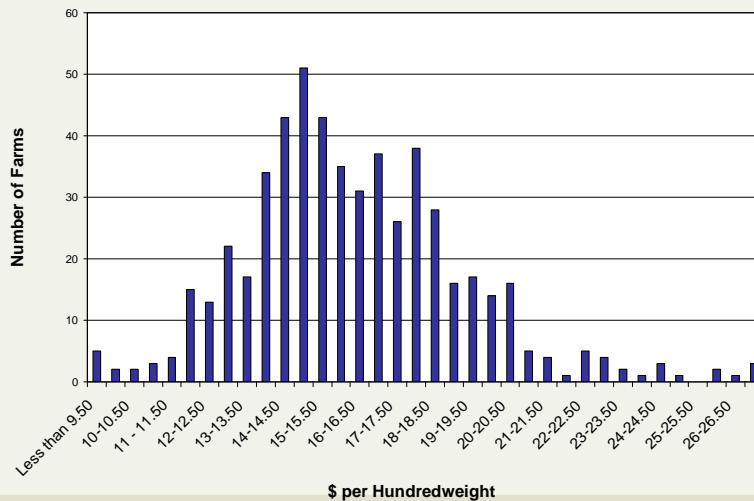
Net Cost of Production – Accrual Basis

	2005	2006	2007	2008	2009
	<i>Dollars per Cwt.</i>				
Adjusted Cash Operating Expenses	\$15.08	\$15.05	\$17.44	\$18.92	\$16.84
+ Depreciation	1.27	1.24	1.25	1.40	1.32
+ Family Living	0.89	0.79	0.76	0.87	0.74
Total Costs	\$17.24	\$17.09	\$19.45	\$21.19	\$18.90
- Non-milk Income	2.69	2.99	3.15	3.31	3.37
Net Cost of Production	\$14.55	\$14.10	\$16.30	\$17.88	\$15.53
Net Cost of Production w/o Gov't Payments	\$15.11	\$14.77	\$16.70	\$18.14	\$16.62



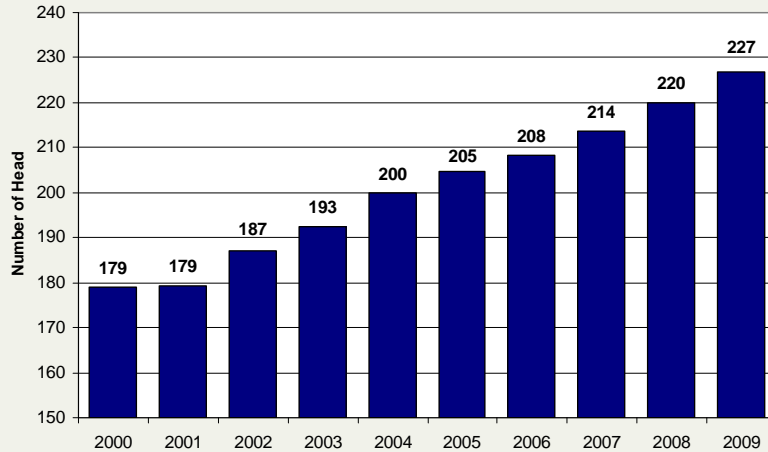
6

Distribution of Net Cost of Production



7

Herd Growth in Same Farms, 2000-2009



Cash Flow Analysis/Breakeven

	2005	2006	2007	2008	2009
	<i>Dollars per Cwt.</i>				
Adjusted Cash Operating Expenses	\$15.08	\$15.05	\$17.44	\$18.92	\$16.84
+ Family Living	0.89	0.79	0.76	0.87	0.74
+ Scheduled Debt Pmts.	1.19	1.32	1.27	1.31	1.56
Total Costs	\$17.16	\$17.17	\$19.53	\$21.09	\$19.14
- Non-milk Cash Income	2.78	3.04	3.15	3.19	3.12
Breakeven Milk Price	\$14.38	\$14.13	\$16.38	\$17.90	\$16.02

Cash Margin Analysis

	2005	2006	2007	2008	2009
	<i>Dollars per Cwt.</i>				
Actual Milk Price	\$16.13	\$13.81	\$20.52	\$19.59	\$13.80
- Breakeven Milk Price	14.38	14.13	16.38	17.90	16.02
Cash Margin	\$ 1.75	\$(0.32)	\$ 4.14	\$ 1.69	\$(2.22)

Debt Capacity Measures a Business' Ability to Repay from Cash Earnings

1. Cash flow first pays operating expenses and family living
2. Leftover is "available" to repay debt: interest + principal
3. Back into point where farm is no longer able to repay debt
4. Aka establishing repayment capacity
5. Heavily dependent on profitability, interest rates, and payment terms

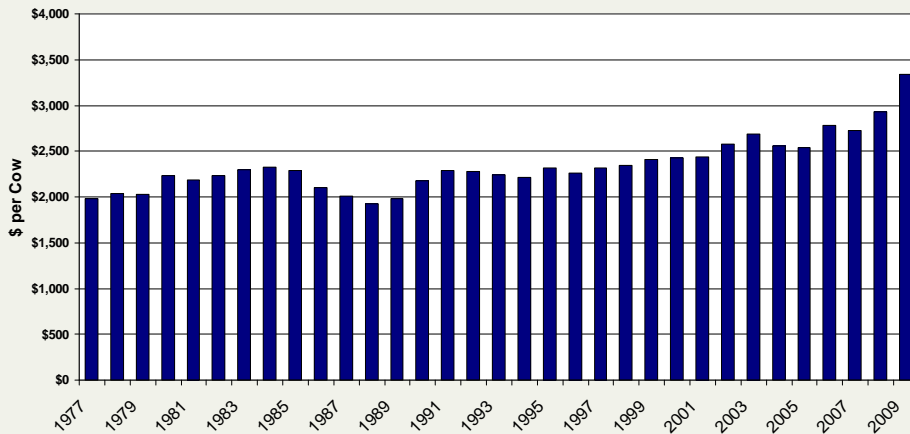
Debt Capacity and Reserve Debt Capacity

	2005	2006	2007	2008	2009
	<i>Dollars per Cow</i>				
Debt Capacity	\$4,448	\$1,851	\$7,617	\$4,837	\$ (383)
- Capital Debt	2,369	2,575	2,530	2,691	3,038
Reserve Debt Capacity	\$2,079	\$ (724)	\$5,087	\$2,146	\$(3,421)
5-Yr Ave Reserve Debt Capacity	\$1,522	\$ 903	\$2,458	\$2,347	\$ 1,033

What Did Dairy Producers Do in 2009?

- Shut down discretionary spending
- Drew down accumulated liquidity
- Budgeted/planned for worst
- Tough cost control
- Sold unnecessary assets
- Significantly increased credit
- Relied on supplier terms

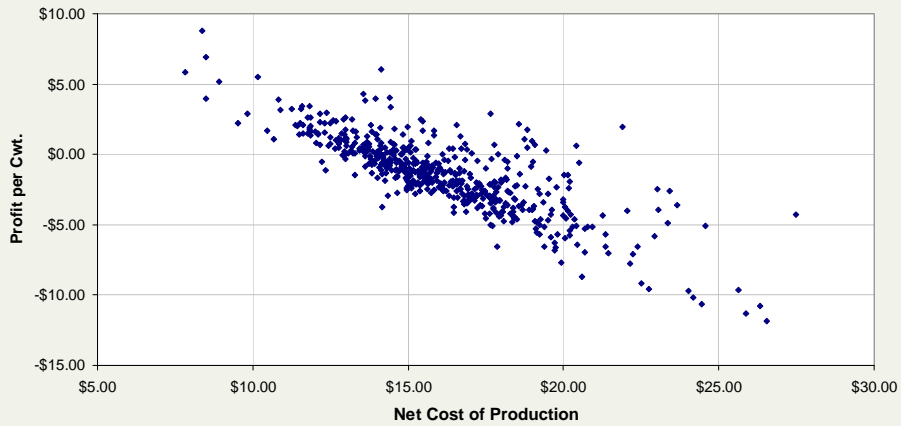
Debt per Cow Surged in 2009



Range of Profitability

	Bottom 25%	All-Farm Average	Top 25%
Number of Cows	257	277	272
Milk Sold per Cow	22,095	22,219	22,374
Milk Sold per Worker	946,400	1,025,783	1,014,267
Net Earnings per Farm	\$(256,229)	\$(106,922)	\$47,328
Net Earnings per Cow	\$(997)	\$(386)	\$174
Net Earnings per Cwt.	\$(4.51)	\$(1.74)	\$0.78
Return on Assets	(8.1%)	(2.6%)	2.9%
Return on Equity	(13.6%)	(5.4%)	2.4%
Net Cost of Production	\$18.22	\$15.53	\$13.12

Interaction of Factors is Why a Dairy May be More Profitable than Another



Winning Management Styles of Top 25%

	Great with Cows – 28	Labor Efficient – 29	Good Milk Price – 32	Tight with a Buck – 27	Balanced – 20
Number of Cows	316	451	230	156	179
Milk Sold per Cow	25,514	22,450	20,846	21,848	20,901
Milk Sold per Worker	1,153,678	1,415,251	941,382	928,914	952,813
Net Cost of Production	\$13.49	\$12.90	\$14.95	\$11.40	\$13.74
Milk Price per Cwt.	\$13.86	\$13.43	\$15.25	\$13.11	\$13.65
Net Earnings per Cow	\$154	\$140	\$139	\$406	\$169
Net Earnings per Cwt.	\$0.61	\$0.63	\$0.69	\$1.82	\$0.76
Return on Assets	2.9%	2.6%	3.2%	4.7%	3.1%
Percent Net Worth	63%	67%	65%	66%	76%

Prospects for the Average Northeast Producer in 2010

- Above breakeven, but not a recovery
- Start with substantially increased debt payments
- Lines of credit & supplier credit may be maxed out
- Increased capital replacement
- Not much prospect for reduced operating costs
- Interest rates at historical lows

2009 DFS Recorded a Landmark Year

- Most responded as best they could
- Increased volatility painfully obvious
- Most northeast farms will survive and move ahead
- Farm Credit East is proud to continue to serve the dairy industry
- Use the Blue Book to help map your way through 2010 and beyond

Maximize the Benchmarking Process

- Analysis
- Comparison
- Benchmark report
- Improvement
- Follow up
- A plan for the future

**Good* records are completely necessary for effective comparison.*

Standardization is Critical: Understand What You Are Looking At

- Read foot notes / fine print
- Accrual numbers
- Full-Time Equivalent worker (FTE)
 - **One FTE = 57 hours per year**
- Key financial & production data is collected
 - Income & Expense
 - Balance Sheet
 - Milk production, number employees, acres, etc.

Using Benchmarks Effectively

- Start with the big picture
- Start at the bottom of the income statement
- Use data to drill down
- Develop an action plan for improvement

Key Analysis is Up to You

- Trends – Business, Industry
- Per unit comparisons
 - Per Cow
 - Per Cwt.
 - Per Gallon
- Data Groups for comparison:
 - Top & bottom
 - Herd size
 - Regional

Compare to Top Profit Group

	Your Numbers	Top 25%	All-Farm Average
Cash Operating Expenses		\$15.45	\$16.84
Total Costs		\$17.50	\$18.90
Net Cost of Production		\$13.12	\$15.53
Breakeven Milk Price		\$14.13	\$16.02
Milk Price		\$13.90	\$13.80

Prefer per cow numbers? Multiply \$ per Cwt by Herd Ave/100.



24

Compare to Size Group

	Your Numbers	90-149 Cows	All-Farm Average
Cash Operating Expenses		\$16.60	\$16.84
Total Costs		\$20.15	\$18.90
Net Cost of Production		\$15.71	\$15.53
Breakeven Milk Price			\$16.02
Milk Price		\$13.51	\$13.80

Prefer per cow numbers? Multiply \$ per Cwt by Herd Ave/100.



25

Compare to Regional Group

	Your Numbers	New York	All-Farm Average
Cash Operating Expenses		\$16.43	\$16.84
Total Costs		\$18.52	\$18.90
Net Cost of Production		\$15.30	\$15.53
Breakeven Milk Price		\$16.08	\$16.02
Milk Price		\$13.59	\$13.80

Prefer per cow numbers? Multiply \$ per Cwt by Herd Ave/100.

Identify and Consider Major Cost Categories

	Your Numbers	Top 25%	All-Farm Average
Feed		\$1,155	\$1,239
Crop (Chem + Fert + Seed)		\$227	\$249
Labor		\$562	\$640
<i>Overhead:</i>			
Depreciation		\$280	\$294
Interest		\$126	\$123
Repairs		\$215	\$223
Taxes		\$57	\$58
Insurance		\$55	\$58
Supplies		\$211	\$234

Use Multi-Year Averages to Bridge Price Cycles

	2009	3-Year Average	5-Year Average	10-Year Average
Net Earnings per Cow	\$(386)	\$302	\$236	\$225
Return on Assets	(2.6%)	4.7%	4.2%	4.5%
Return on Equity	(5.4%)	4.5%	3.6%	3.8%

We traditionally use five-year averages.

How Do Five-Year Averages Stack Up?

	2009	5-Year Average
Net Cost of Production per Cwt.	\$15.53	\$15.67
Breakeven Milk Price per Cwt.	\$18.25	\$16.21
Milk Price per Cwt.	\$13.80	\$16.77
Reserve Debt Capacity per Cow	(\$3,421)	\$1,033
Capital Purchases per Cow	\$444	\$619
Capital Purchases as % Total Assets	4.3%	6.3%

Now What?

- Develop an action plan on your identified area for improvement
- Be focused
- Be disciplined
- Measure your progress
- Tweak

Want to dig deeper? Create a 5-line income statement to monitor your financial results.



30

*“When placed in command, take charge.”
- Norman Schwarzkopf*

Joanna.Samuelson@FarmCreditEast.com
Knowledge Exchange, FarmCreditEast.com
800/562-2235



31