

Successful Business Management on Dairy Farms

Kathy Lee

**Extension Dairy Agent, Northwest Lower Michigan
Michigan State University**

Operating a dairy farm is a challenging business and offers many rewards. We have seen many changes in the dairy and other agricultural industries in recent years. Milk prices are more volatile. Costs of the various inputs continue to rise. As herd sizes increase, more dairy producers are hiring employees to provide needed labor. To succeed in this business, dairy producers must be willing to consider new ways of doing business.

Successful management of a dairy farm business involves optimum use of available resources – land, labor and capital. How to make best use of the business's resources will vary because each farm has its own unique set of resources. Dairy producers must be willing to consider some non-traditional or innovative alternatives in handling various aspects of their business.

Many factors contribute to the success of dairy farms. I would like to focus on several characteristics that many successful dairy farms share.

Goal Setting

Establishing goals is an important first step for a dairy farm business. Goals are used to guide the decisions made for the business and to measure their results. Goals are considered when deciding the most appropriate use of the farm's resources.

Many of the farm's goals will focus on profitability of the business. However, other goals may be just as important as earning money. Dairy producers want to be well respected by their family, friends and neighbors. They also want to make a positive contribution to their communities, including using environmentally sound farming practices and being good stewards of the land.

Who should be involved in the goal setting process? All family members actively involved in the dairy operation need to work together in determining the long-term goals of the business. Short-term goals may be developed by those individuals who have direct responsibilities for a specific aspect of the operation (e.g., crop production, milking herd, or heifers) with a review by all family members before the goals are finalized. Involving key employees in establishing short-term goals and communicating the business goals to all farm employees will help them to understand the business and be more committed to their jobs.

Decision Making Process

Dairy producers make many decisions throughout the year about their business. Some require minimal effort while others represent significant consequences to the farm. For these major decisions, considerable time is spent gathering information and analyzing the options. Following a systematic approach to decision-making will ensure that the manager makes logical, information-based decisions. The steps in the decision-making process are:

1. Specify an objective or goal
2. Identify and define the problem(s)
3. Collect data and information
4. Analyze various options for taking action
5. Make the decision -- select the best option
6. Implement the decision
7. Monitor and evaluate the results of the decision
8. Accept the consequences of the decision

Effective Utilization of Information

This is the information age. A multitude of information is available from many sources. Avoiding information overload can be a challenge. During the decision making process dairy producers also may wonder if they have the most appropriate information.

Some dairy producers are working with management or advisory teams to improve farm productivity and meet their goals. Producers bring together various people who already work with the farm, such as the veterinarian, feed consultant, lender, milk cooperative representative, crop consultant, and extension agent. By working as a team these individuals offer different perspectives in evaluating a problem and determining the alternative solutions. Many times more viable alternatives are identified than would have been considered by any one of the team members alone.

Cost of Production

Most dairy farm businesses have several enterprises within the operation, such as the milking herd, replacement heifers, forage production, and other crop production used as feed. By keeping detailed financial records, producers can determine the costs associated with each enterprise and decide the most profitable alternative. In recent years some dairy producers have decided to contract services associated with all or part of a specific enterprise.

Two examples are:

1. Contract heifer raising: Contracting with someone else to raise the farm's heifers may be a desirable alternative when the resources in the form of facilities, labor, feed and(or) management time are limited. Heifer-raising costs typically account for 15 to 20% of the expenses associated with producing milk.
2. Custom forage harvesting: Timely forage harvest requires considerable investment in equipment. When forage equipment must be replaced, dairy producers need to determine

the most cost effective alternative for harvesting forages. Hiring a custom harvester may be the best option, for the use of available capital and for harvesting forage at optimum quality.

Human Resource Management

Employees are the most important asset on dairy farms. Employee management may represent the greatest challenge on dairy farms. Different skills are needed to effectively work with employees compared to overseeing the milking herd or cropping program. Dairy producers must possess or develop excellent communication skills to be successful employee managers.

Frequent communication with employees is critical. Employees need to clearly understand the expectations of their jobs. They want to know how they are doing in their jobs. They also need to express any concerns or suggestions about their work.

Many effective forms of communications exist on dairy farms. On farms with one or two employees, one-on-one informal visits may be most beneficial. Some farms are holding regular staff meetings to update employees and obtain feedback.

Summary

Successful dairy farm management relies on effective and efficient use of available resources. Although there are differences among these profitable operations, they also have some common characteristics. Successful dairy producers set realistic goals and use a systemic process for decision-making. They know their cost of production and have good record-keeping systems for evaluating alternatives and monitoring the outcome of decisions. Management or advisory teams help dairy producers integrate information from various sources. Frequent communication occurs on these farms among family members and employees.

You are to be congratulated for participating in the 2000 Kentucky Dairy Conference. Through your participation you have made a commitment to improve your management skills and learn from other dairy producers and agribusiness personnel.

References

- Jones, Bruce L. How Do I Decide What is Right for Me? Center for Dairy Profitability, University of Wisconsin.
- Kay, Ronald D. and William M. Edwards. Farm Management. McGraw-Hill, Inc. New York. 1994.

