Study Paints Profitability Picture
by Laura Paine, Grazing and Organic Agriculture Specialist

After seven years of studying the economics of management intensive grazing (MIG), Tom Kriegl has a some unique insights into characteristics that contribute to a profitable grass-based dairy. With funding from the United States Department of Agriculture (USDA), Tom has collected over 400 farm years of data from Wisconsin and other Great Lakes states (a farm year is one year of data from one farm). As a staff member of the University of Wisconsin Center for Dairy Profitability, Tom has had the opportunity to compare grazing farm financial data with that of conventional dairies throughout the region as well. He finds that many features of the most successful grass-based dairies are common to a broader cross-section of successful farmers.

Recently, I asked Tom to summarize what he’s learned, not in numbers but in terms of behaviors and traits that seem to be associated with economically sound operations. Not surprisingly, the farms varied widely in profitability. For comparison, he divided the farms in half by profitability level. By looking at differences between the high profit group and the low profit group, he was able to make some observations about what contributes to financial success.

We’re all aware of the old adage that “money doesn’t buy happiness,” but the most prosperous graziers in Tom’s study have a clear understanding that many personal goals cannot be achieved without a certain level of financial success. Their profitability goals are linked to an equally clear set of personal goals. As Tom puts it, “Maximum profit doesn’t guarantee satisfaction. Minimum profit is less of a guarantee of satisfaction.”

Low input myths. Early on, conversion to MIG was considered a panacea for farmers who were struggling financially. This low input system was supposed to give everyone a chance to succeed by reducing production costs. What quickly became apparent was that converting to grass-based dairying isn’t a cure-all. If poor decision-making caused financial problems under a conventional system, changing the system but not how you make decisions isn’t going to fix things. Lower production costs don’t make up for bad management.

Grass farming does tend to move away from the rolling herd average paradigm. High production per cow isn’t the only key to profitability, but the opposite extreme–minimizing inputs without regard for production–isn’t a guarantee of profitability either. What really counts is the difference between production costs and gross income, and there are a lot of ways to influence that gap.

In fact, Tom and other economists suggest that financial success is dictated by manipulating three factors: income generation, operating expense control, and investment/debt control. Focusing on one or two of them doesn’t work. The most profitable farmers work toward optimizing all three factors. The most successful graziers in Tom’s study realize that there is not a linear relationship between reducing inputs and increasing net profits. And they recognize that spending money carefully contributes more to the bottom line than simply minimizing costs. In fact, Tom’s high group have slightly higher operating expenses per cow and more investment per cow than the least profitable graziers, but they have much more income per cow. They are willing to spend money knowing where to spend it to the best effect.

*Agriculture generates $51.5 billion for Wisconsin*

2811 Agriculture Drive • PO Box 8911 • Madison, WI 53708-8911 • 608-224-5012 • Wisconsin.gov
Another common characteristic among Tom’s high group is consistency in spending habits. They are as careful about capital investments and purchases when milk prices are high as they are when they are low. In general, they tend to have lower amounts of debt per cow. Higher investment, but lower debt per cow suggests that these producers are not afraid to invest because they’re profitable enough to pay off those debts.

Management Skills In Tom’s view, one of the most important characteristics the higher profit graziers share is strong management skills. This is likely true of any successful dairy farmer, indeed farmers of any sort. A good manager can make almost any system work, a bad manager is more likely to struggle in any endeavor he or she undertakes.

Most graziers in Tom’s high group have been at it for several years and perhaps a few years of ‘practice’ is what it takes to gain those management skills. Some find that a good mentor can help them gain those farm management skills more quickly. Whether from experience, mentoring, or intuition, these above average managers tend to figure out the right things to do and the right way to do them. They understand not only what to do but when and why to do it.

Another characteristic of these top managers is a tendency to think about their farming operations as a system. A big-picture, holistic view of the various functions of a farm operation can lead to greater efficiencies among them. This means that they put the appropriate amount of effort in managing pastures and cows. They recognize that attention to soil productivity results in higher pasture forage production and quality, which translates into better milk production. Once again, they realize that timely investments in fertilizer and other pasture inputs pay off.

Quality pasture is not the only factor in feeding cows in grass-based dairies. Tom found his high group of graziers paid equal attention to the quality of non-pasture forage and feed. By targeting a specific production level and balancing forage, feed, and supplemental rations for that level, profitable graziers make the most of all inputs whether purchased or produced on-farm.

Working Smarter Controlling operating expenses means economizing on labor, equipment, forage, and supplies. Top graziers in the study tend to be happy with minimal machinery and make use of older, smaller scale equipment than conventional dairy farms. They find ways to reduce labor requirements and/or make work easier. For example, many have invested in a milking parlor--a substantial expense, but one that often translates into greater efficiency which can contribute to the bottom line. Learning One of Tom’s key observations about the higher profit graziers in his study is the importance they place on learning and creativity in managing their operations. Graziers tend to be willing to change and try new things. It comes with the territory. Converting to a grass-based system requires a willingness to be different, and a lack of concern about ‘what the neighbors will think.’

In general, the most profitable graziers make an art form of thinking outside the box—not just the conventional agriculture box, but also the New Zealand dairy grazing box. Jumping from one rule-book to another isn’t likely to result in success.

Successful graziers realize that there is no single right way to do complex things. They are aware that
profitability requires working with the unique set of resources available and devising a system that optimizes those resources to make the system work to their benefit.

Trying new things involves taking risks which can have economic consequences. Tom’s more profitable graziers tend to avoid expensive experiments. There are lots of ways to reduce the chances of making costly mistakes. These graziers do so by trying to learn from others’ mistakes, gathering information from a variety of sources before making a change, or experimenting with a system change on a small scale before fully implementing it.

How to be successful. In fact, Tom’s observations reinforce the notion that there is no recipe for success in farming, either financial or otherwise. We can only say that financially successful grass-farmers tend to share certain practices and more importantly, certain behaviors and mind-sets. These producers have a well-defined mission and goals and a plan to get themselves there. They’re flexible and responsive to change, but keep their goals in mind as they adapt.

Dan Patenaude put it well when talking to an audience at the Grazing Conference a couple of years ago. He suggested that farmers should take their cap and write on the inside of the bill in big block letters the word “THINK”. Tom Kriegl’s study demonstrates that using that grey matter between your ears is probably the most important key to being a profitable grass-farmer.

Tom Kriegl is a Farm Financial Analyst with the University of Wisconsin Extension Center for Dairy Profitability. He can be reached at 608-263-2685 or via email at tskriegl@wisc.edu. His summaries of the grazing dairy financial research he’s been doing are available at the CDP website under “Papers, Publications, and Presentations” (http://cdp.wisc.edu/Great%20Lakes.htm).

November 19, 2003