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Why business planning is so important on the dairy

This is the first in a series of articles about PDMP's Premier Partners.

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Special for Farmshine**

MERCERSBURG, Pa.—If AgChoice Farm Credit CEO Allyn Lamb had to choose only one piece of advice for Pennsylvania dairy farm families, it would be to “start younger in planning for the future.” He has seen first-hand the difficulties families can have in transferring their farm. He has observed situations where in order to move the business forward to the next generation—and at the same time make enough income for the present generation—portions of the farm would be sold to raise the necessary funds.

Generational transfer is just one reason why AgChoice offers business management services. In addition, these services fulfill an array of needs—from developing business and transition plans, facilitating management team meetings and conducting feasibility studies to helping farm businesses develop wealth management strategies, establishing financial strategies for children’s college expenses, consulting with benchmark participants and serving on profit teams across the Commonwealth.

Mike Hosterman is one of the division’s Ag Business Consultants, and many of his clients are dairy producers. He brings to the process his own family farm background as well as the experiences of his 17 years as a loan officer in York and Cumberland Valley.

“With unprecedented high input prices and volatile milk prices, as well as regulatory constraints, business planning has never been more important than it is today,” Hosterman relates. “Dairy businesses are getting larger and more complex, with multiple owners and business structures, requiring good business skills to be successful.”

That’s “business-speak” for what third generation dairyman Rod Hissong calls “looking at the big picture.”

“It’s easy to get caught up in the dairy’s day-to-day details that can consume our time,” Hissong observes. “But the big picture needs to be paid attention to. We hire and train good people to manage the cows, which allows us to focus more time and energy on the business side.”

Rod and his brother Rick and their father Ron operate Mercer-Vu Farms near Mercersburg, Franklin County, Pa. Ten years ago, the herd size was 200 to 250 cows. Since 1996, they have grown in phases, today milking 1400 cows three times a day with a rolling herd average of 25,000 pounds. Last year, they increased their rented acreage to supply more of their own feed, now farming 1500 total acres growing double crop rye and corn silage as well as alfalfa haylage. Five years ago, they began hauling their own milk and even more recently, they have gone back to raising most all of their own heifers.

“This is a marathon,” Hissong says about the family’s dairy business. “It doesn’t all come at once. It takes time, and it takes planning. And it’s not something you can do alone.”

For Mercer-Vu, the process really began with the Business Planning Assistance Program, offered by the Pa. Dairy Stakeholders, and it has continued with the support of their lender, AgChoice, and the advice of consultants, like Hosterman. But while the Hissongs consider the ideas, advice and guidance from others, they ultimately make their own decisions.

“AgChoice has always been supportive with us—through the ups and downs, droughts, low milk prices and everything in between,” Rod Hissong confirms. “As a lender, the biggest thing is they understand the ups and downs in the dairy industry, and they have people with expertise. People who really know dairy.”

On the business side, AgChoice also brings tools to the table—tools that have helped dairies like Mercer-Vu manage their dairy business and make decisions to improve profitability.

“Mike (Hosterman) was our loan officer until he took on the position as business management consultant,” Hissong explains. “He’s helped us participate in their large herd benchmarking program, which has allowed us to evaluate ourselves—to compare our dairy to others and to the top 20.”

“This program allows dairies to benchmark themselves against others but also against their own five-year average,” Hosterman explains. “It includes the production side—the crops and cows—but also the business side, the financials.”

Lamb and Hosterman note that good business managers are “goal oriented. They know where they are and where they are going, and can develop a plan to get there.”

Some of the skills that fall under this umbrella include:

- 1) having a vision and mission,
- 2) doing strategic planning and benchmarking,
- 3) cultivating good people skills,
- 4) growing the business,
- 5) belonging to professional trade organizations, like PDMP, and
- 6) being an advocate for their industry.

Business management is a blend of evaluating the past, managing the present and planning the future. It starts with good records—both cash basis and accrual—and it puts a strong emphasis on managing the margins in the business, say Lamb and Hosterman. But business management also includes having an advisory team or ‘board of directors’ and doing annual strategic planning that involves key employees in the process.

Hosterman emphasizes the need for family members and advisors to work together, to use the aspects of business management as a framework for planning and decision-making. “By working with advisory teams, decisions are better informed and dairies are able to better leverage their available resources,” he notes. “Keys to success revolve around the farm’s capacity, volume, efficiency, cost control, and growth.”

Today, dairies are becoming more aware of business planning, developing plans that set forth a capital replacement budget, cash flow plan and growth goals that are the farm’s pathway to sustainability for the business and the family farm.

At the customer level, AgChoice contributes to this process by providing dairy consulting, wealth management strategies, transition planning, grant writing and dairy profit team participation. At the industry level, they support Pennsylvania’s dairy farm business by investing time and financial support in the Professional Dairy Managers of Pennsylvania (PDMP) as a trade organization. They also help fund other programs that provide education to producers.

“More dairies are focusing on budgeting and business planning, but often they are looking for guidance,” Hosterman observes. “These activities take time, but successful dairies build the time for this into their schedules on a regular basis.”

AgChoice is willing to help, he adds. “Budgeting and planning are keys to success and we have the expertise to help producers bring it together, implement it, and follow up on it.”

“There are so many good dairy management tools available today—through Penn State University and the University of Pennsylvania,” Lamb adds. “With better software programs available for accounting and production, and more education occurring for farm managers in this area, we see not only unprecedented challenges in the dairy industry, but also unprecedented opportunities for those who use sound business practices to excel.”

For Lamb, the most rewarding aspect of his leadership at AgChoice is coming out to the farms and being part of an organization that over the last 10 years has made a difference for 14,000 farms in Pennsylvania, many of them dairy farms. “These are exciting times to be in agriculture,” he says. “And we’re committed to agriculture and agri-business for the long term.”

“It’s what we know,” adds Hosterman. “We can’t just jump in and out of agriculture because agriculture is what we do. It’s what we are here for.”