



North Country Dairy Viability Initiative FACT SHEET

Benchmarking: A Power Tool in Your Business Management Toolbox

The North Country Dairy Viability Initiative is an on-going grassroots effort committed to increase the understanding and health of all sectors of the dairy supply chain. This fact sheet looks at how benchmarking can help you measure and monitor the success of your dairy operation.

What is Benchmarking?

Two benchmarking tools available to North Country farmers are the Dairy Farm Business Summary and the Milk Check Project.

Benchmarking is the process of determining where one stands in relation to the very best, or the average or any subset of the total. It uses standards against which performance can be measured. It establishes objective measures and then allows for comparison on those measures in order to determine if improvement is possible in performance.

Benchmarks are:

- long used in other industries
- used by banks to assess industry trends and individual business profitability
- used by managers in projections, budgets, strategic plans including SWOT (strengths, weaknesses, opportunities, threats) analysis
- used by managers to analyze and compare standard measures, key ratios like the “sweet sixteen.”

Benchmarking is a highly respected practice in the business world. It is an activity that looks outward to find best practices and high performance. It can be used to set individual business goals and then measure actual business performance against those goals.

Benchmarking is something that has been around for awhile. Banks and other financial institutions use benchmarks in order to evaluate industry trends, as well as evaluating an individual business against industry trends. Managers use them in preparing budgets and strategic plans.

Some businesses only benchmark against businesses in the same industry. Some are willing to look outside that industry. Best practices and business excellence can be found in every industry by looking at common business processes and determining which is the very best.



champions of northern new york's dairy industry

North Country Dairy Viability Initiative
PO Box 72, Outer Stowe Street, Lowville, NY 13367
Peggy Murray, Thriving Dairy Farms Project Manager
315-376-5270, fax: 315-376-5281, mlm40@cornell.edu



Cornell University
Cooperative Extension

**Where Can
One Find
Benchmarking
Tools?**

It is almost impossible to improve business performance without some indicator of where the strength and weaknesses lie in the business. Benchmarking allows managers to identify, understand and adapt best management practices required for high performance. Goals for high performance can then be established with actual performance measured against these goals.

For dairy farm businesses, most land-grant universities in the major dairy states offer benchmarking information and tools. The U.S. Top Dairies program allows dairy farm businesses from all over the country to access information and submit information. A web site providing access to benchmarking tools is the site for Cornell Cooperative Extension's Dairy Farm Business Summary U.S. Top Dairies program: <http://dfbs.cornell.edu/>

An easy way to get involved is to contact your Financial Business Management Educator at Cornell Cooperative Extension for assistance.

**How does the
Dairy Farm
Business
Summary
Process Work?**

How does your business compare from year to year? How can you know if you are doing well compared to industry standards for farms of similar size? What does it cost you to produce a hundredweight of milk? If you cannot answer these questions in real numbers, the voluntary and confidential Dairy Farm Business Summary (DFBS) program will help you benchmark and evaluate your farm's business performance.

At a convenient location in your farm office or home, a trained Cornell Cooperative Extension educator will help you put together the necessary information to complete a Dairy Farm Business Summary for your dairy. The DFBS focuses on six areas: profitability, investment, labor efficiency, production, cost control, and debt. Data is expressed on a per cow or per hundredweight (cwt) basis.

The information you provide is evaluated for accuracy by educators at Cornell University. The result is an individual and confidential report that will help you track the performance of your dairy business over time. Your local Extension educator will help you interpret the data provided in the report.

The report provides you with performance standards that will help you monitor the impact of changes you have made and identify areas for improvement. The report also helps you compare your data to the overall averages of other DFBS participants. For some categories, the comparison data is for the average of the top 10 percent of other participating dairies. A special summary is available for graziers.

"The Dairy Farm Business Summary allows me to stay on top of trends in my business. It is the only way you can determine whether your management decisions are paying off"
- NNY dairyman Dwight Greene



**What are
NNY Farmers
Saying about
Benchmarking?**

How does Lewis County dairyman Bernhard Gohlert of Hilltop Farms evaluate the process of benchmarking?

"I have a growing farm and the Dairy Farm Business Summary is a way to keep track of progress from year to year. The one to three year comparison shows your progress and identifies weak spots. My banker waits for me to complete the Dairy Farm Business Summary and send it to him before he does my annual review. He appreciates the report and the information it gives him," Gohlert says.

Jefferson County dairyman Dwight Greene says, "The Dairy Farm Business Summary allows me to stay on top of trends in my business. It is the only way you can determine whether your management decisions are paying off."

**Benchmarking
and Agricultural
Lenders**

Agricultural lenders have long supported the benchmarking process. Many lenders use benchmarks as a part of their loan analysis process, and do it annually on many revolving loan relationships. When the borrowers do not actively participate in the benchmarking process, some bankers feel that lack of involvement detracts from the management value of the business.

As one loan officer put it, "My borrowers submit the Dairy Farm Business Summary to comply with the year-end requirements of our bank. It is comprehensive and provides me with all the information I need. It is very useful to borrowers who need financial training. It provides an ongoing learning experience with hands-on application. The technical assistance they receive from the (participating) educator is invaluable."

**Steps Toward
Gaining Control
of Your Business
Through
Benchmarking**

What steps can you take to gain control of your business through benchmarking?

- **Set a Goal –**
Determine some measurable standards and appropriate goals for your farm business. Use one or more, but be realistic and practical. Don't try to do everything, at least not all at once.
- **Collect Information –**
Gather the numbers needed to calculate standards or ratios. Obtain benchmark information on other dairy farms in order to make a comparison.
- **Monitor Your Progress –**
Comparison should be timely and ongoing. Consider making different people associated with the business responsible for setting goals, collecting information and monitoring progress in their focus area. Appoint someone who will be responsible and follow through.
- **When Necessary, take Corrective Action –**
Most importantly, when performance is not meeting the goal, identify the problem and take corrective action. This means asking "Why?" until the problem is identified and fully understood and determining a remedy.

Who Can Help?

For more information on how you can use benchmarks to track and build the success of your dairy farm business, contact your local Cornell Cooperative Extension or Farm Credit office.

March 2006, adapted from Ohio State Extension article



 **champions of northern new york's dairy industry**
North Country Dairy Viability Initiative
PO Box 72, Outer Stowe Street, Lowville, NY 13367
Peggy Murray, Thriving Dairy Farms Project Manager
315-376-5270, fax: 315-376-5281, mlm40@cornell.edu



Cornell University
Cooperative Extension