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dvm Practice Management

Make yourself more valuable

Financial review leads the way; use the following calculations to gauge operation health

“What is the most valuable thing I do for you?”

I asked this question of a good client several years ago. His was a herd where I worked hard to be proactive in his management plans and where I thought I had made a difference. After a few minutes of standing with a wrinkled brow, he responded, “You dehorn my calves when they are small.”

I stood aghast for a few seconds, and my mind made the connection. Going back still further in time, I recalled one day when he called to schedule the annual dehorning, where all of the calves born in the past 12 months were dehorned. I performed the bloody task but also told him that in the future, we would dehorn newborn calves at each monthly herd check. I now learned he really valued that policy. And while I was a bit disappointed that this client did not perceive more value in my herd-management input, I realized I had still done the right thing on his farm by providing a service he did find important.

Add services

The key to growing your practice is to find new ways of providing value to your clients. This is challenging because different clients have different value orientations. Some value the ability to diagnose pregnancies at 28 days, while others will value your review of their Dairy Herd Improvement Association records. Some will value a cheerful voice and attitude from your receptionist, and others will value you coming to the farm with clean coveralls. Almost all will value you showing that you care about them and their farm.

With this in mind, spend some time reviewing your list of clients, and consider them as individuals. What new product or service can you offer them that

they will consider valuable and, in turn, pay you to provide it? Some producers really will appreciate help in evaluating their business operations.

Calculations for business health

To help you provide this service, you might want to get some copies of a publication produced by Dairy Alliance at Pennsylvania State University entitled, “Analyzing Your Dairy Business.” To obtain copies, contact the Dairy Alliance at (888) 373-7232 or www.dairyalliance.org. The key to providing value will be helping your clients determine the following financial indicators, and then decide what to do to improve them. Here’s a quick lesson:

■ Profitability is measured by return on assets, using the following formula:

$$\frac{(\text{Net farm income} + \text{interest} - \text{return to owner \& unpaid family labor})}{\text{Total farm assets}}$$

Average = 2% to 4%, Superior = 12% to 15%

■ Cash flow assesses your ability to cover your debt and lease payments. It is evaluated via the term debt and lease coverage ratio:

$$\frac{(\text{Net farm income} + \text{depreciation} + \text{interest} + \text{non-farm income} - \text{owner draws})}{\text{Principal} + \text{interest payments} + \text{capital lease payments}}$$

Average = 1.0 to 1.15, Superior = >1.5

■ Solvency considers how much of your assets you own. It is measured by percent equity and indicates financial security.

$$\frac{\text{Assets} - \text{liabilities}}{\text{Assets}}$$

Average = 50% to 55%, Superior = 55% to 60%; goal depends on situation.

■ Financial efficiency looks at how effectively you spend money to make money. It is calculated using the operating expense ratio.

$$\frac{(\text{Total expenses} - \text{interest} - \text{depreciation})}{\text{Total income}}$$

Average = 74% to 78%, Superior = < 65%

■ Capital efficiency assesses how efficiently you use your assets to generate income.

$$\frac{\text{Gross income}}{\text{Total assets}}$$

Average = 40% to 45%, Superior = >65%

Performance definitions

These following numbers probably are more familiar to you. The goals listed are for typical operations, and exceptions certainly exist. The important point is to know they are for your clients, and you can help them manage these values to reach their goals.

■ **Milk per cow per day:** The main source of income is milk sales. Maximizing this number while controlling expenses and animal health will help the bottom line. A reasonable goal for most herds is 70 pounds to 85 pounds per day.

■ **Days in milk:** Cows obviously milk more in early lactation. Good reproduction and a good source of replacements help keep the herd fresh. Goal is 170 to 185.

■ **Pregnancy rate:** The best indicator of breeding performance combines heat detection and conception rate. More than 20 percent is a reasonable objective.

■ **Somatic cell count:** This number reflects the level of udder infection, which, in turn, impacts production, culling and bonus payments. A goal is 200,000 or below.

■ **Cull rate:** The term “forced cull rate” might be more appropriate here. How many cows leave the herd due to disease or poor performance? The goal is 25 percent to 35 percent.

Long-term value

Not every client will value your involvement in this endeavor, but some will, and those who do will become more and more dependent on you to help them manage their businesses. These same clients also are likely to be in business 10 years from now. Investing in your relationship with them helps secure your own future as well. ■

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