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NAVIGATING YOUR DAIRY BUSINESS

Red sky at night...

Before the invention of the compass or other early navigation instruments, sailors used familiarity with coastal features as their primary method of getting to and from destinations safely. Over time, navigators learned and passed down to their apprentices a record of courses steered and distances sailed. A position obtained from such a record was a "dead reckoning." In the early 15th century, when the Portuguese began exploration of the open ocean, "dead reckoning" was recognized as hopelessly inadequate and new technology was eventually invented to meet the needs of circum-global navigators.

Primitive compasses, sextants and other navigator tools weren't always perfect solutions for ocean-going travelers. Imagine for yourself the inaccuracy in trying to measure the exact angle between the horizon and the north star with a hand held instrument - in gale force winds and mountainous waves.

Managing a business is comparable to navigating a ship in many ways. The manager, as navigator of the business, must find a way to get from point A to point B. To do this successfully, some requirements must be met.

First, points A and B need to be defined. If point A is where your business is at now, it needs to be well defined. Point "B" - where you want to be sometime in the future is not only a financial destination. It also embraces your personal hopes, dreams and ambitions. Your business is only a vessel that helps you get there.

Points A and B are entwined. You can't get to "B" if you don't know where "A" is, and if your destination "B" is not clearly defined, how can you

hope to reach it? Could you imagine the expression on the Portuguese navigator's face when the captain tells him to set sail without giving him a destination. "Don't worry Poncé, we'll get there eventually!"

The **balance sheet** is your business's point "A". It tells you exactly where you're at, so let's make it as accurate as possible. When we help you put your balance sheet together this year, take the time to gather all your information accurately. No "ought-to-be" guesses on inventories. Have your nutritionist help estimate silage inventories if necessary. Round all accounts payable balances to the nearest dollar and don't ask if it's okay to leave out all the "small" bills - it's not.

The next step for a successful journey is to develop your **budget** and cash flow projections. The route that you want to take to get from A to B is in the budget. It contains the details of how you expect the business to perform during the coming year.

When we work with you to develop your budget for 1999, please feel free to provide as much detail as possible. For example when developing the monthly feed budget, instead of simply taking last year's total and dividing by 12, get your nutritionist involved and estimate what types and how much of the various commodities you will need. We can help make estimates of usage and price by month in the budget. Similar attention to details for livestock supplies, labor, insurance, crop inputs and other categories gives you the opportunity to reflect and think about better ways of operating your dairy farm. The budget itself is not the most important part of this step. The real value to your business is the process you must go through to develop the budget.

Lastly on budgets, the better you know the course you want to take, the more prepared you'll be to adjust to changing conditions once the journey is underway. Understanding the details of the workings of your business gives you the knowledge to know how and where to make adjustments when outside forces such as price and weather don't turn out to be "average."

After beginning and ending destinations have been determined, a route planned out, and the journey started, it's time to start monitoring progress. The key to precise navigation is accurate and timely information regarding location, speed and heading. Monthly **Actual-To-Budget and Dehm Dairy Benchmark** reports provide this level of information. *Dead reckoning* is hopelessly inadequate for the farm equivalent of supertankers.

At Dehm Associates, we are continually looking for solutions to make collecting your financial and production information more accurate, less intrusive and less time consuming. Sometimes we walk a thin line about gently reminding clients that information is needed. If we can help you make this process easier, please let us know. Happy sailing in 1999!

Thank-you! It's not said enough. John, Marci, Louie and Bruce want to thank all our clients for helping us make 1998 a successful year. We hope you have enjoyed the improvements we made last year to our reports. We have more changes underway that we think you'll like. As usual, keep giving us your thoughts and suggestions for improvements.