Consistency Essential When Interviewing Potential Employees

As the dairy industry continues to change, many dairy producers are expanding their operations. With this evolution, many farm owners are finding themselves managing people, rather than just cows.

Dr. Chip Hunter, associate professor of management and human resources with the School of Business at UW-Madison, offers some advice to dairy managers needing to conserve time and resources and get the most out of an interview.

Know what you’re looking for

In order to get the right employee for the job, you need to know what knowledge, skills and abilities are required in that position, Hunter explains.

When preparing a job description, the dominant idea is to portray a realistic idea of the job. There is no reason not to communicate the job duties, Hunter explains. A vague or false description of the position will only hinder the process of finding the right employee. On the other hand, Hunter says that information that is hard to explain or may be misinterpreted should be left out of the job description and can be saved for the interview.

The application is a good place to gain objective knowledge about the job applicants. Work history, including where the candidate was employed, the position and the duration, is good objective criteria to consider. Education is another criteria that can help rate applicants.

Hunter warns to be especially sure that any question included on the application be relevant to the job. If the question is not relevant, it shouldn’t be asked because it will likely not be useful anyway. Irrelevant questions can also sometimes bring forth grounds for discrimination.

After reviewing the applications for the open position, choosing how many people to interview can be a challenge. Hunter recommends evaluating how vital the position is to the business. A more important position on a dairy farm, like the herdsman, will likely require hiring someone who can not only just do the job, but also go above and beyond the simple tasks required. This type of position generally should require more interviews, while a less significant job can likely be filled with fewer interviews.

Research has proven that most interviewers are less effective at choosing a great employee than they think they are, Hunter says. Most hirers can effectively weed out the people they don’t want to hire, but struggle with sorting out the best person for the job.

Interviews don’t work well to sort candidates unless you are basing judgment on consistent criteria from candidate to candidate. This criteria should be objective and related to the job, both to protect yourself from a discriminatory situation and to conduct the most effective interview for the value of your time and the open position.

Hunter recommends that the same person or persons conduct all of the interviews to maintain consistency of the questions and the evaluation. It is probably best to have the person who will end up being responsible for the new employee’s performance doing the interview – so long as that person is willing to carryout the proper interviewing steps. If they aren’t willing to do the interview, they should at least meet the applicants and “buy in” on the decision-making, as they will need to work with the new employee. Hunter does recommend allowing the applicant talk with current employees. This allows the applicant to get a better feel for the job and the company, and allows the employer to let his employees evaluate the candidate for any potential “red flags”.

The interview should be held in a professional environment in a room with minimal distractions. However a farm tour is very appropriate, Hunter explains, to allow the applicant to get a good feel for the work environment and the job. It will also allow the interviewer to get a feel for how the applicant handles himself or herself around cattle and in your particular farming operation.

The key part of any sit-down interview or farm tour interview is to maintain consistency. Have a list of questions that pertain to the particular job written down and ask them with the same attitude and purpose for each applicant. Also important, Hunter says, is to have a method of recording the answers, other than by memory. This is especially important, although not always easy, when taking a farm tour with the applicant.

When thinking of questions that will help evaluate the prospective employee, keep them relevant to the job. Building rapport is a good thing, but you shouldn’t judge the candidate on the fly.

See Interview, on Page 8
from the board


Treating animals with respect and compassion is part of every dairy producer’s heritage. We share a common foundation based on care and respect for our cows, and a concern for their comfort and well-being.

As producers, we understand that animal well-being has to be the most important concern on our dairy farms. Taking good care of our cows, ensuring their health and comfort leads to higher production of safe and wholesome milk. Without content and healthy cows, we couldn’t sustain a dairy business. What’s good for the animal is also good for our bottom line. I think that nobody has more concern for the well-being of our animals, than does the producer.

We also have to remember though, that the majority of Americans are at least three generations removed from the farm. People just don’t know anymore how their meat, milk, or eggs are produced. And when they’re exposed to production agriculture, they may view some practices as cruel or unnecessary.

In animal agriculture, we have come to lean heavily on “science,” to prove to those with questions that our practices are good. But customers and consumers don't want data and scientific, jargon-laden explanations. What they really want to know is if we’re doing the right thing. They want to know that we care.

We choose to lead

Society has increasingly come to see animal welfare as a moral issue, not a scientific or economic issue. Dr. Wes Jamison, with the University of Florida, recently told attendees at PDPW’s Dairy Policy Summit. “Animal agriculture has not begun to answer the moral question of why not animal rights,” he said. “The question of the future is why is what you do morally right?”

As producers, we must embrace our moral obligation to care for our animals in a humane manner, treat them with respect, find ways to measure what we’re doing and then be more aggressive in communicating that information to the general public.

PDPW has been working on the issue of dairy animal welfare strategy for over a year now. Participants at the 2005 PDPW Manager’s Academy identified dairy animal welfare as a critical matter. This national, high-level conference is attended by CEOs who are producers, dairy managers, industry directors, processors, marketers and distributors throughout the food chain. An overwhelming majority of these industry leaders identified animal welfare as the most important issue the dairy industry needs to address.

PDPW has taken the lead on animal welfare efforts in Wisconsin by developing a pilot project to help producers position our industry as proactive in managing the health and well-being of their animals.

PDPW is also serving as an industry catalyst and facilitator on a national level and last October convened an animal welfare stakeholder strategy meeting. At the meeting the stakeholders, in agreement with the PDPW Board of Directors, agreed that animal welfare is not a state or even regional issue, it is a national issue and we must work together for the long term good.

While we are encouraged by the interest and willingness of other dairy industry leaders across the country to work together, we’ve entered our leadership on this issue with some apprehension. My worrysome side asks questions like, “what if animal welfare in the dairy industry really isn’t an issue?” “What will an initiative like this cost?” “Could this just blow over if we ignore it, or pretend it is not out there?”

And then reality sinks in. While it would be wonderful if every consumer had the good fortune to grow up on a dairy farm, where animal care was the center of everyday activities, that’s not reality. Most consumers have no idea what good, humane care involves.

Today more consumers form their opinions on animal care and treatment by watching (sometimes activist-fueled and not accurate) story on the nightly news rather than through actual experiences. As an industry we can’t turn away from the realities of activism and growing consumer questions. We must work quickly and effectively within the food system with partners to help define animal well-being for our industry.

In January, the second national discussion on develop- See Welfare, on Page 26
Dolph’s Educational Efforts Extend Beyond Ag Classroom

Gwen Dolph believes in Wisconsin agriculture and is going “above and beyond” to shape its future by educating both the non-farm public and tomorrow’s leaders in the industry.

Dolph, a second-year ag instructor at DeForest High School, says she wouldn’t be the person she is if it weren’t for a strong work ethic instilled on her home farm near Lake Mills. Today, she’s driven by that on-farm work ethic coupled with an excitement “about the food industry in general” to contribute in multiple ways to the well-being of her beloved industry.

For instance, she stepped forward to host the Professional Dairy Producers of Wisconsin Youth Leadership Derby in November at DeForest High School. At the weekend lock-in, students from all over the state, as well as other states, gained self-confidence, honed leadership skills and explored careers within the dairy industry. There were hands-on labs, workshops by industry personnel and a motivational speaker.

Equally important, this high school teacher says they got a chance to meet other students also looking forward to careers in production agriculture. Friendships forged during the PDPW Youth Derby are apt to result in what will possibly become key career-long contacts within the industry. She was impressed how some students who find it difficult to “step out of the box” not only met new people but were “discussing and brainstorming ideas” for their futures in farming.

Dolph willingly went the extra mile to secure a site for the PDPW Youth Derby in November at DeForest High School. At the weekend lock-in, students from all over the state, as well as other states, gained self-confidence, honed leadership skills and explored careers within the dairy industry. There were hands-on labs, workshops by industry personnel and a motivational speaker.

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Producer Profile

Draxler Enjoys Conference

One of the six founding members of PDPW, Joe Draxler, 53, Glenwood City, has seen the organization grow to great strengths. Although Draxler, a fourth generation farmer, recently sold the 600 cow farm he bought from his dad in 1982 to two of his sons, he plans to stay an active part of the dairy farm. Draxler is employed by Indianhead Insurance Agency, Inc. in Menomonie as a crop and farm insurance agent. The Annual Business Conference is Draxler’s favorite PDPW event. “There are good speakers, lots of displays,” he says. “PDPW is deep rooted, with a lot of resources. I think we’ve really just touched the tip of the iceberg.”

Dairy’s Bottom Line photo by Sarah Watson

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Human Resource Seminar  Madison  Jan. 23
A one-day interactive seminar focusing on attracting, hiring, growing and motivating employees for increased productivity and retention.

Financial & Transition Mngt. Symposium  Madison  Feb. 13 & 14
A two-day interactive conference that focuses on financial and transition management and how they add up to helping your business achieve superior performance.

Annual Business Conference  Alliant Center, Madison  March 13 & 14
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Interview

Continued from Page 1

first on how comfortable the
interviewer is with that per-
son, Hunter says. However,
be careful what kinds of
questions are casually
brought up as certain ques-
tions that you may not think
are offensive can potentially
offend the applicant and lead
to discriminatory problems.

A very popular type of
question in interviews today
is a situational question,
Hunter explains. This type of
question poses a certain cir-
cumstance to the applicant,
like “You noticed a cow hav-
ing difficulty calving,” and
then asks the applicant,
“What would you do?” The
interviewer can also ask the
applicant to give an example
of a job related situation they
were in and how they han-
dled it. When asking this type
of question, Hunter recom-
mends that the interviewer
scale the answers from one
to five, with some notes
about what kind of answer
represents each score, so
comparing all of the candi-
dates is simple.

Hunter recommends that
the interviewer doesn’t ask
anything that is not job relat-
ed. It is a waste of time and
can brush with the equal
employment laws. He says to
be especially careful of ques-
tions that are related to pro-
tected groups, such as race,
religion, sex, sexual orienta-
tion and age.

Oftentimes dairy produc-
ers have immigrants applying
for jobs on their dairy farms.
Hunter explains that the
employer is responsible for
not discriminating, but needs
to have people eligible for
employment in the United
States. Some smaller busi-
nesses may be exempt from
these kinds of laws, but
Hunter recommends being
safe and following them any-
way. He adds that it is per-
fectly legal and wise to ask,
“Are you legally able to work
in this country and are their
any restrictions I should
know about?”

It is illegal to directly ask
job candidates about disabili-
ties. However, it is wise to
inquire about the candidate’s
ability to perform key job
tasks. It is also okay for
employers to say something
general like “any individual
with a disability may request
an accommodation in
advance of any interviews or
tests,” but this is not legally
required. Generally, the dis-
abled person is responsible
for informing the employer
that accommodations are
needed. Hunter also notes
that while this question is
allowed, it’s not necessarily
going to be all that effective.

If the interviewer is con-
cerned about an applicant
that may have an alcohol or
drug problem, he/she can ask
every candidate a question
like “Do you think it is okay
to drink alcohol at work?” If
asked to every candidate, this
avoids accusation, but gives
the interviewer an opportu-
nity to evaluate the applicant’s
values of the job. This type of
question is especially valu-
able for a job that requires
operating heavy equipment.
Hunter also says that a drug
screening of applicants is
much easier to do than test-
ing those already employed.

The applicant will likely
ask questions of the inter-
viewer during the interview-
ing process. Hunter says that
the interviewer should
answer questions like those
regarding the success of the
company and potential to
move up, as honestly as pos-
sible and don’t make any
promises. However, ques-
tions regarding the number of
people that applied for the
open position and their
chances at gaining the posi-
tion should be left answered
only in very general terms,
Hunter adds.

Salary can be a challenging
issue when hiring a new
employee. Hunter says that
the employer should have a
good idea of what the job
should pay going into the
interview. Typically when
asked the interviewer should
throw out the lowest amount
they are willing to pay for the
job, but also add that they are
willing to pay a higher range
based on ability and experi-
ence.

Hunter recommends that
the process of hiring a new
employee, from posting the
job to hiring, should be as
compressed as possible. The
more the situation drags out,
the more chance the appli-
cants have to find another
job somewhere else. However,
the employer should be courteous and
expect about two weeks for
the new hire to wrap up
things with their current
employer.

Hire Right, Get Results

Overall, Hunter recom-
mends maintaining consisten-
cy throughout the interview-
ing process. Also, don’t use
the interview to do too much;
use it to choose who is best
for the job.

The Professional Dairy
Producers of Wisconsin are
hosting a human resources
training seminar with Hunter
on Jan. 23. This daylong sem-
in will provide advice not
only for establishing job
requirements and interview-
ing effectively, but also for
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PDPW Broadens Horizons

Long-standing PDPW members, Bill and Mona Averbeck are passing along a family tradition from one generation to the next. Their Fond du Lac farm, which has been in the family for over 150 years now, consists of 220 milk cows that boast a 24,000-pound herd average at twice-a-day milking. Bill and Mona think PDPW is a forward, progressive organization that helps “broaden your horizons,” Mona says. Bill especially benefited from the Franklin Covey business courses this summer. “It keyed me into what a good manager does,” he says, noting it helped him prioritize his goals.

Dairy’s Bottom Line photo by Karen Topel
'Living the Mission'

Transition Planning Starts the Year Right

The holiday season heralds thoughts of peace, goodwill and family gatherings. Now that many of you have come together to celebrate the blessings of the past year, discussions of how the dairy business will operate in the future may be pertinent.

Transition planning is often put on the “back burner” because it can be complicated and emotional. Despite this, a transition plan is extremely important because it clearly identifies a strategy, transfer process and timetable for all those involved. Having a written plan in place, and knowing that everyone understands this plan, increases the likelihood that the transition will go smoothly and successfully.

Communication is key

Open, honest and up-front family communication is essential to a successful farm transition. It can help maintain goodwill and cooperation among family members and others for generations to come. Although it may be difficult to discuss the farm’s future, it is important to get issues out into the open before a plan is made. Open and frank discussions can be extremely helpful in understanding why certain decisions are being considered and how best to reach a reasonable compromise.

If disagreements are likely, consider inviting a farm consultant or other professional to help mediate. Another option is to hold the meeting in a neutral location, which helps limit interruptions. The bottom line is that everyone involved in a transition process needs to have patience, an open mind and a solid commitment to the continuation of the farming operation.

Developing a plan

The first step in developing any farm transition plan is a discussion between the farm’s current owners about things such as: when/if they plan to retire; the type of retirement they want; what they believe should happen to the farm; if they want to live on the farm after retiring; the cash flow needed during retirement years; goals for their children; and what should be gifted versus what should be sold.

The next step is to have a meeting to learn the wishes, desires and expectations of all those involved, family and otherwise. Transition meetings are a key element in making a transition plan work since they allow owners to determine if the others have the same goals as they do. For example, although the children may be interested in running the farm, they may not want the main focus to be dairy and milking cows. Or a child whom the parents assumed would be the main successor may admit that he/she does not want to operate the farm and wishes to pursue another career. Although these things may be hard to hear, it is better to have a realistic understanding of the situation in advance. This allows for development of a transition plan that works well for all parties.

Once everyone has settled on a plan of action, a written transition plan should be drafted and signed. While many transition plans concentrate heavily on legal and economic requirements and tax ramifications, they should not be the main driving force. It is important to consider the emotional aspects of farm transitioning, as well. Failure to do so can jeopardize even the best transition plans. Often a farm advisor, accountant or attorney can provide helpful analysis of the plan. It may also help to have these individuals attend the initial farm transition meeting. He/she will ask the right questions, address the topics everyone is trying to avoid and help to focus the discussion on the topic at hand.

Finally, the transition plan needs to be implemented. If it requires transferring real estate to a trust, changing the will and cooperation among family members and others for generations to come. Although it may be difficult to discuss the farm’s future, it is important to get issues out into the open before a plan is made. Open and frank discussions can be extremely helpful in understanding why certain decisions are being considered and how best to reach a reasonable compromise.

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Dennis Schopf
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- Ration Fit Select™ hybrids offer flexibility for silage or grain harvest

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<table>
<thead>
<tr>
<th>Hybrid</th>
<th>Silage RM</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>N33-H6</td>
<td>RM 93</td>
<td>NutriCrop® hybrid tops for dairy, Unique forage quality, Outstanding agronomics, Conventional hybrid</td>
</tr>
<tr>
<td>N49-E3</td>
<td>RM 97</td>
<td>NutriCrop® hybrid for high NDF, Unique forage quality, Use in higher plant populations, Conventional hybrid</td>
</tr>
<tr>
<td>N58-L8</td>
<td>RM 100</td>
<td>High-yielding Ration Fit Select hybrid, Good silage quality, Excellent drought tolerance, Agrisure GT hybrid</td>
</tr>
</tbody>
</table>

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Dolph

Continued from Page 3

the recent Derby because she also “strongly believes in PDPW,” its “goals and programming.” “PDPW does an excellent job of dairy education,” she remarks. Dolph herself has gone through PDPW communications training and attended its annual conference, where she sources some of the same speakers to address her ag classes. She’s also used PDPW-generated material on risk management in those classes.

Her home farm is an active PDPW member, with family members serving on producer panels. Dolph Dairy LLC is operated by her folks, Donald and Patricia Dolph, and her brother and sister-in-law, Chet and Patty Dolph. They’re milking 350 Holsteins (registered and grade cattle) following a recent expansion from 250 last year. The goal is to go to 450 milking. The farm has five full-time and six part-time employees and operates 800 acres (owned and rented). Dolph fills in for milking and does communications work and neighbor relations for the farm.

She graduated from Lake Mills High School and was active in FFA. She was profoundly influenced by the late Lyle Wallace, who was her ag teacher her first year in high school. Wallace was killed in a car accident. He opened her eyes to “what I could do” and “inspired” her to teach agriculture.

In 2005, Dolph graduated from UW-Madison with degrees in ag education and life sciences communication (also known as ag journalism). While in college, she was active with the Association for Women in Agriculture (AWA), Badger Dairy Club, NAMA (National Agri-Marketing Association), and Collegiate FFA. She was also on the Wisconsin Alumni Student Board, linking past, present and future students, planning university-wide non-alcohol events, recruiting perspective students and the like.

She’s still recruiting for agriculture. “I want students to know the opportunities they have” in the industry, says Dolph, and “be proud” if farming is their chosen path. She’s doing her part to close the rural/urban knowledge-of-farming gap by attracting students who typically wouldn’t take an ag course. For instance, she provides a course focused on equine science and companion animals. She emphasizes veterinary science, as well as natural resources, conservation and forestry.

Dolph is working on securing an advanced placement course in environmental sciences for students at DeForest, so they might earn college credits while still in high school. Already, students can earn electives at Madison Area Technical College’s vet tech program while learning about veterinary science in DeForest’s ag program.

Outside the classroom, Dolph does her part to educate the public about agriculture and “bridge the gap we have between the general public and the dairy industry” by serving on the “Cows on the Concourse” committee overseeing vendors and event sponsor exhibits. This is the third year she’s been working on that June Dairy Month-related event on Madison’s Capitol Square. She gets her high school students involved, too, both volunteering at the event and stuffing 7,000 some bags of dairy promotional literature handed out to people who attend.

Dolph also continues to work with the Dairy Business Innovation Center (DBIC), housed within the Wisconsin Department of Agriculture, Trade and Consumer Protection in Madison. She interned there in college, and now does consultant-type work for the center, which concentrates on helping the cheese and processing side of the industry grow and modernize. Start-up ventures are also fostered.

As part of her work with DBIC, Dolph is writing a cheese processing curriculum in conjunction with a movie titled, “Living On the Wedge.” That hour-long documentary features Wisconsin cheesemakers and on-farm processors. (See www.livingonthewedge.com for more information). Early in 2007, all high school ag programs in the state will receive a free DVD and curriculum for a two-week unit on Wisconsin’s dairy processing industry.

She says that facet of the dairy industry is “not well understood” by students. This effort shows the “care and science” that goes into making cheese, and how there’s a growing market for locally grown foods, including niche cheese and other dairy products.

At her own high school, Dolph is one of two ag instructors. There are 120 high school FFA members and nearly 210 students taking ag classes. She’s working on establishing an advisory council of industry professionals, including producers, which will analyze and evaluate ag programming at the high school to make sure students are receiving what they need to go onto further education or directly into the workplace. She wants to better meet their educational needs as future university or vocational students or employees.

Dolph worries that “so many people are losing touch with this industry” and that there’s misunderstanding regarding farming today, evidenced in part by non-farm neighbor complaints about sound farming practices.

“So many people don’t understand agriculture — that how we treat our animals and soil is directly correlated to our profits,” she remarks. Rest assured, Dolph is diligently working to increase their understanding and narrow the educational chasm. While educating agriculture’s own youth, this young woman is going above and beyond to inform non-farmers about the industry she loves.

By Jane Fyksen
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The PDPW Annual Business Conference, March 13-14, is the place to be if you are in the dairy business! Be one of the dairy producers and industry leaders who are brave enough to step out of the box, explore a new generation of ideas, and grow their business skills and professional networks.
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When I talk about nutrient management planning a few questions usually come up. These questions include: when do I need a plan; what happens if I don't have one; and who is qualified to write a plan? We just finished a set of classes with county staff who work with producers and consultants on writing and implementing nutrient management plans. I would like to try and provide an answer to at least some of these questions.

I can't think of a single operation that doesn't have some type of fertilizer program already in place. Okay, it's not documented in a three ring binder or on a computer somewhere, but there is a system in place that outlines how many pounds of fertilizer or manure are applied to fields going into various cropping systems. A sound nutrient management plan simply accounts for the nutrient needs of a crop and credits the various sources (soil, manure, legumes, etc.). Just like balancing your checkbook, this accounting insures that you don't over apply nutrients; it saves you money and reduces the risk of nutrients negatively impacting the environment. The fact is that not everyone balances their checkbook, but I think we can agree that it's a good idea.

So, everyone probably has a nutrient management plan of some sort, but it might not comply with state requirements or be the most organized plan in the world. As you're implementing your New Year's resolutions, maybe one of your goals should be to evaluate the use of nutrients on your farm to determine if your application rates, methods and timing are appropriate based on crop needs. You should also check to insure that you have identified critical sites and locations on your operation where the potential for loss is high (sink holes, shallow soils, near streams, lakes etc.).

Will someone come to your door demanding to see your plan? That depends on how you apply manure and other nutrients to your fields and whether there is a significant runoff event. If you apply manure that runs off a field and impacts a stream or lake, then I wouldn't be surprised if someone asks for your plan. If you have one and can document that you are following it you will be able to determine whether or not your management practices were appropriate. Some runoff events are caused by producer error and others by unforeseen weather events. Without documentation you have nothing to justify your management decisions.

That leaves the question of what is a qualified Nutrient Management Plan and who is qualified to write one? A qualified plan is one that meets the requirements outlined in the Nutrient Management Plan Checklist in ATCP 50. You can get copies of this checklist from your local conservation office or online at the DATCP website under nutrient management planning. Here is the website: [www.datcp.state.wi.us/ arm/agriculture/land-water/con servation/nutrient-mngmt/planning.jsp](http://www.datcp.state.wi.us/arm/agriculture/land-water/conservation/nutrient-mngmt/planning.jsp). The key is that a plan is qualified if it meets the requirement on this checklist. A plan developed by a professional that has training or certification may not be qualified if the recommendations are outside of requirements on the checklist.

What about producer written plans? Producers can develop...
Let the Numbers Do the Talking

The following is a quick primer discussing the dollars and sense of the business by the numbers. Financial ratios can be useful tools for management in decision-making, goal setting and benchmarking. Lenders and other creditors can use the same information to evaluate credit risk.

The Farm Financial Standards Council identified the following five critical areas for analyzing financial performance:

- Repayment ability or capacity
- Liquidity
- Solvency and collateral
- Profitability
- Financial efficiency

Five common ratios will be detailed and the corresponding benchmarks presented in terms of green, yellow and red lights. A green light represents low risk, a yellow light corresponds to moderate risk, and a red light means high risk. A green light doesn’t guarantee success, nor does a red light imply failure. A weakness in one area may be overcome by strengths in other areas.

**Repayment analysis**

The essence of repayment analysis is comparing the earnings available to meet debt obligations to the total of annual debt payments and capital investments. A common benchmark used to examine repayment ability is the term debt and lease coverage ratio. Exhibit 1 shows the data needed and procedure used to calculate the ratio. Experience indicates the greater the net earnings to cover debt payments, the easier an operation can handle unforeseen expenses, which lowers the risk. Thus, a ratio greater than 150 percent is a low risk, or green light. A ratio between 110 percent and 150 percent is acceptable, but riskier, and is a yellow light. A ratio less than 110 percent is a high risk and a red light. The lower the coverage ratio, the more important risk management tools become, such as crop insurances, hedging, options, or contracted production.

**Exhibit 1. Repayment Analysis**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net Farm Income From Operations</td>
<td>$ 43,750</td>
</tr>
<tr>
<td>2. Plus: Non-Farm Earnings</td>
<td>+ 36,500</td>
</tr>
<tr>
<td>3. Subtotal</td>
<td>= 80,250</td>
</tr>
<tr>
<td>4. Plus: Depreciation Expense &amp; Interest Paid on Term Debt and Capital Leases</td>
<td>+ 59,000</td>
</tr>
<tr>
<td>5. Earnings Available for Family Living, Income Taxes, Interest &amp; Principal Payments and New Investments</td>
<td>= 139,250</td>
</tr>
<tr>
<td>6. Minus: Family Living Withdrawals and Income Taxes</td>
<td>- 58,000</td>
</tr>
<tr>
<td>7. Capacity Available for Interest, Principal Payments and New Investments</td>
<td>= 81,250</td>
</tr>
<tr>
<td>8. Scheduled Interest and Principal Payments on Term Debt and Capital Leases</td>
<td>$ 60,700</td>
</tr>
<tr>
<td>9. Term Debt and Lease Coverage Ratio (Line 7/Line 8)</td>
<td>134%</td>
</tr>
</tbody>
</table>

See Numbers, on Page 23
THE MARKETPLACE

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**PDPW Energizes Binversie**

Jay Binversie milks 580 cows and farms 1,350 acres of land near Kiel. He also raises all of their wet calves, including bulls; and 500 steers. Binversie is one of six partners in Heifer Authority. His heifers, ages 5 to 18 months, are raised by this group in Colorado. He enjoys meeting other producers in similar situations through PDPW. He likes sharing ideas at the Annual Business Conference and feeding off of the high energy that sends him back to the farm motivated. Binversie says the optimism and positive attitude even shine in a year of bad milk prices.

*Dairy's Bottom Line photo by Karen Topel*
Liquidity analysis

Liquidity is defined as the availability of cash and near-cash assets to cover short-term obligations without disrupting normal business operations. This measure is particularly important in the volatile dairy industry.

The Working Capital Rule expresses working capital as a percent of business expenses (Exhibit 2). This ratio allows an operation to assess the adequacy of its working capital that can be generated internally. A benchmark to strive for is to have working capital equivalent to at least 20 percent of total annual operating expenses. Less than 10 percent is a sign that any business adversity needs to be offset by risk management tools such as insurances and marketing practices.

Solvency analysis

The equity-to-asset ratio, which is calculated by dividing total equity by total assets, measures the owner’s investment level in the business. Factors, such as management skill and debt structure, impact how ratios should be interpreted. The reasons for equity growth should also be examined. For example, growth through earnings is looked upon more favorably than growth from inflation or inheritance. Growth generated from the profits should be identified to accurately gauge the real progress of a business and its future potential. A ratio above 70 percent is strong, while less than 33 percent is a cause for concern.

Profitability analysis

Profitability compares business revenues against all economic costs and evaluates how productively a business is utilizing its resources, both capital and human. The most common ratio used to accomplish this is the return on assets (ROA) measure. This ratio, which indicates how well capital and human assets are producing profits, is calculated by dividing net farm income from operations, adjusted for interest and family living expenses, by average total farm assets (see Exhibit 4).

Benchmarks for operations with mostly owned assets show ROA ratios of greater than 8 percent to be very good, or a green light, ratios from 1 percent to 7 percent as average, or a yellow light, and ratios less than 1 percent are very weak, or a red light. Businesses that mostly rent production assets require higher ROA ratios in each category to remain competitive. At a minimum, ROA

See Analysis, on Page 24
Analysis

Continued from Page 23

should be higher than the interest rate on debt.

Financial efficiency analysis

The key ratio used to measure financial efficiency is the operating expense/revenue ratio. This ratio answers the question, “How much does it cost this operation to generate $1.00 of revenue?” The ratio is calculated by dividing total operating expenses (excluding total interest costs and depreciation) by gross revenue (see Exhibit 5). A very efficient operation would have a ratio of less than 65 percent for a green light. An average operation would have a ratio of 65 percent to 80 percent for a yellow light and less efficient operations would have a ratio above 80 percent for a red light. A higher ratio is acceptable if a large portion of the operation is rented or leased, as lease payments are a trade-off for principal and interest payments.

In summary, financial ratios and benchmarks are tools that management and others can use to analyze a business’ financial condition and past financial performance. By using multiple years of consistent balance sheet and earnings figures, trends in key ratios can be observed, and management strategies can be developed for improvement.

By Dr. David Kohl

<table>
<thead>
<tr>
<th>Operating Expense / Revenue Ratio</th>
<th>177,250</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Total Operating Expense Excluding Interest and Depreciation / Gross Revenues)</td>
<td>280,000</td>
</tr>
<tr>
<td></td>
<td>63%</td>
</tr>
</tbody>
</table>

Exhibit 5. Financial Efficiency

Plans

Continued from Page 18

op their own nutrient management plans if they have been through a training program and the plans they developed meet the checklist. This doesn’t mean that you need a license to spread manure or nutrients on your farm, it means that if you attend a training program offered you can become qualified to write your own nutrient management plan.

Which is better, writing your own plans or working with a consultant to develop a plan for your operation? That’s up to you, but the best plan is one that you understand and can implement on your farm without having to call someone every time something changes on your operation. Whether you go to the training program to become qualified to write a plan or attend so that you understand the importance of implementing a nutrient management plan that someone else develops for you, it’s a great idea to participate in the training program.

By Dennis Frame

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- Welfare
Continued from Page 2
ing an animal welfare strategy is scheduled with a broad range of stakeholders. In addition to producers, leading restaurants and retailers; food companies, processors and other critical stakeholders will engage in the dairy industry's animal welfare discussion. The ultimate goal is to develop solutions that are acceptable to customers, consumers and producers. We must agree to: 1) embrace the moral obligation of animal welfare for the dairy industry; 2) begin a process to establish meaningful standards for dairy cow care, and create a system to measure performance against these standards; and 3) aggressively communicate the value of this system to all segments of the food chain, including consumers.

Dairy producers must take the lead the animal welfare discus-

- Transition
Continued from Page 11
beneficiary on a life insurance plan or opening a checking account for a newly created Partnership, Corporation or LLC, these tasks need to be completed in a timely fashion. Many excellent transition plans have been rendered useless because the family members or their advisors failed to effectively implement the plan. In these instances, the time and money invested to develop the transition plan are all for naught.

Keep in mind the transition plan should be reexamined whenever there is a change in circumstances, i.e. birth, marriage, divorce, death, serious illness or unforeseen opportunity. Also, when a major tax or farm law is passed the plan should be revisited to determine if terms of the plan are greatly affected. In the event that a plan needs alteration, an amendment to the document or an attachment to a Will called a “Codicil” can update the plan easily and inexpen-
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PDPW Offers Financial, Business Transition Symposium Feb. 13-14

Drs. Kohl and Ionovic make a Wisconsin “house call” and draw upon their combined half-century of expertise working in the agricultural field. Join PDPW for a high level management session that provides business management training at a MBA level you can utilize on your dairy. The symposium is highly interactive using case-study scenarios that carry throughout both dynamic days. It will be held Feb. 13-14 at the Crowne Plaza in Madison. The symposium starts at 8:45 a.m. with registration on Tuesday and concludes at 4 p.m. on Wednesday.

Fasten your seat belts and get ready for a power packed two-day MBA-level symposium that will be lecture, case study and discussion based. It will provide you with a format to analyze your business’ future from a financial, management and business transition standpoint.

Day one
Day one will be led by a triple team of speakers including Dr. Kohl, the academic; Sam Miller, who represents the banking and lending side from M&I Bank; and Linda Hodorff, an entrepreneur and dairy producer from Eden, who also has professional financial training background.

Bring your partner, spouse, son or daughter to come hear straight talk and a three-dimensional perspective concerning your finance and business management practices. Through group interaction, networking and information presented you will be given a template for business analysis to launch your strategic, financial and business planning for 2007 and beyond.

Dr. David Kohl is the mastermind behind this symposium. He’s worked closely with PDPW for years and is the most requested resource that PDPW offers. Kohl brings to the table 30 years of experience working with bankers, producers, and other agribusiness leaders. He’ll cover key ratios and financial performance indicators, personal financial benchmarks and investment strategies.

Kohl delivers this upbeat presentation that takes numbers and incorporates them with the psychology of financing. His presentations make you think and are very fast-paced.

Kohl passes to you “beyond the edge” information based upon his many years of academic research and experience of working with commercial banks and agri-lenders throughout the world. He’s traveled over 5.7 million miles throughout his professional career, conducted more than 3,500 agricultural workshops and published four books and over 400 articles on financial and business-related topics in journals and other popular publications.

Sam Miller is the senior vice-president of agribusiness banking for M&I Marshall & Ilsley Bank. He coordinates and leads production agriculture and agribusiness banking activities. M&I is the largest agricultural bank in Wisconsin and the ninth largest in the United States. Miller has 23 years of agricultural banking experience, the past 19 at M&I. He’s a board member of the Wisconsin Dairy 2020 Council; member of the American Bankers Association Agriculture and Rural Affairs Committee; school director for the Wisconsin Bankers Association Ag Banking School; and a board member of the Dairy Business Innovation Center.

Linda Hodorff is a great leader in our industry. Hodorff, from Eden, has proven that she knows cows, knows the number side of dairying, knows how to work with a
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Continued from Page 28

variety of people and knows what it takes to be successful in the dairy business.

Hodorff and husband Doug along with their son, Corey, and his wife Tammy, operate Second-Look Holsteins. Together they have expanded their herd of registered Holsteins from 40 to 800 head. Hodorff has been honored as the Industry Woman of the Year by the World Dairy Expo and is a founding board member of PDPW. Hodorff’s dairy business, financial expertise and experience brings to this symposium a “reality” that only a top-notch professional in the dairy business can offer.

Day two

Now’s the time to dive into serious business transition! This session provides you with the strategies, tools and educational armor for navigating through business governance and transition. Dr. Donald Jonovic, Ph.D., will dive into how you can leave the ultimate legacy. He will focus you on how closely-held and high-performing businesses achieve real purpose and continuity.

Day two will cover the exact moment farm management or ownership transfers occur is more likely to be driven by uncontrollable events than great planning. As business managers, your job is to be sure those “unexpected” transitions are more predictable and go as smoothly as possible.

A successful transition strengthens business (with non-relatives as well as with family) harmony and preserves asset value. Good planning also focuses as much on assuring a high quality of life before, during, and after transition as on minimizing tax. This program focuses on the “what” and “how” of achieving all those goals and on helping you get started, plan, and get the job done.

Jonovic has been a business advisor since 1973. He focuses on the unique issues related to management development, growth and ownership transition in the successful owner-managed business. His professional consulting practice includes industrial and agricultural clients throughout North America ranging in size from one million to one billion with an emphasis on companies transitioning to management teams, including those with significant proportion of non-family key managers.

Jonovic has written seven books about business ownership, family-business transition and the management of change and is president of Jamieson Press. Jonovic has lectured at universities throughout North America.

Registration is limited to the first 100 participants and is due by Feb. 5. Walk-ins will not be permitted.

The enrollment rate for PDPW members is $175. Non-members are also welcome for a enrollment fee of $250.

Register online at www.pdpw.org, call Julie at 800-947-7379 or send your check to PDPW, Financial/Transition Symposium, PO Box 2, Fox Lake, WI 53933.

To reserve a room at the Crowne Plaza, Madison-East Towne, 4402 E. Washington Street, Madison, call Crowne Plaza at 608-244-4703 and ask for the PDPW block.
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