



Department of Agriculture
PHILIPPINE CARABAO CENTER

CERTIFIED: ISO 9001 ISO 14001 OHSAS 18001

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ISSN: 2507-864x
Series No.: F-01-2017

ASSESSING THE BUSINESS PERFORMANCE OF A BUFFALO DAIRY FARM

ROI is the simplest yet all-encompassing financial performance indicator, as it does not just consider Net Income but how this figure relates to Total Expenses, thereby measuring efficiency in the use of resources.

To become a viable enterprise, dairying should be a business where the manager closely studies the interplay of earnings as a result of production performance, and costs as means to achieve them, as a basis for decision-making. The volume of milk produced alone does not define dairying as a business. Neither do other production indicators such as calving interval, rolling herd average, pregnancy rate and average daily gain. However, it is essential to understand these indicators. Hence, all dairy raisers are businessmen who seek reaping further wealth, not just more calves and more milk.

To make full sense, these dairying indicators have to be translated to Income and Return on Investment (ROI). Business sense requires an understanding of Income and ROI potential and a mechanism to assess real performance.

To be consistent, templates developed by the PCC's Business Development and Commercialization Unit (BDCU) are used here for illustrative purposes. Assuming these templates were competently filled out, the next step would be to perform analyses on them. This will identify the distribution of earnings and expenses, the ratio of specific accounts towards a base account, the changes across different time periods, and the business

efficiency as indicated by the ROI.

The BDCU's exposure to dairy herds of different sizes and types has rendered 25 percent as the minimum acceptable ROI for a dairy business with a minimum 10-cow herd size from its third year of operation and beyond.

1. Assessing Financial Performance

- **Return on Investment (ROI)** - An overall measure of profitability. Net Income only tells whether there is a positive result while ROI tells how efficiently we achieved that Net Income by comparing it directly with the total expenses we incurred. ROI is computed as follows:

$$ROI (\%) = \frac{\text{Net Income}}{\text{Total Expenses}} \times 100$$

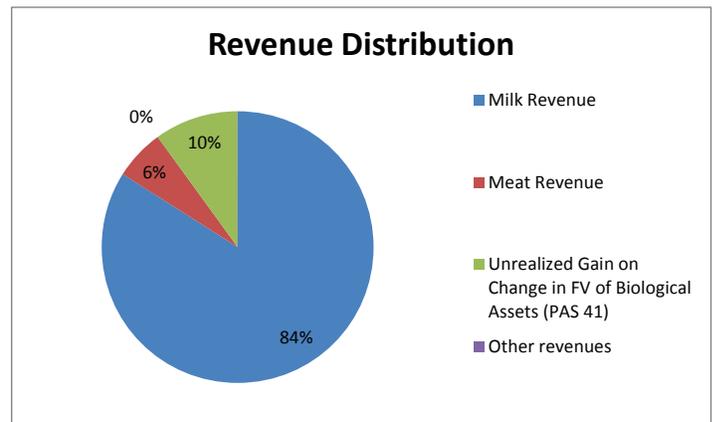
Rule of thumb: ROI must be at least 25% to reasonably presume that the dairy farming business is already viable.

- **Common Size Statements**- For Balance Sheets, all items are expressed as a percent (%) of Total Assets to see how big the portion of that account was relative to the total. For Income Statements, all items are expressed as a % of Total Revenues to see how big the portion of that account was relative to the total.

Rule of thumb: Maximum acceptable rate for Total Liabilities is 40 percent. Current Assets should be at least twice the amount of Current Liability to be sure the farm can pay immediately maturing obligations. Operating Expenses must be at a maximum rate of 70 percent. Direct Labor must not exceed 40 percent.

- **Revenue Distribution**- all revenue items will be expressed as a % of total revenues to see what revenues serve as the bulk source of income.

SAMPLE REVENUE DISTRIBUTION		
Revenue	Amount (Php)	Common Size (%)
Milk Revenue	810,227.50	84.11
Meat Revenue	56,000.00	5.81
Other Revenues	-	-
Unrealized Gain on Change in FV of Biological Assets (PAS 41)	97,035.56	10.07
Total or Gross Farm Revenues	963,263.06	100.00

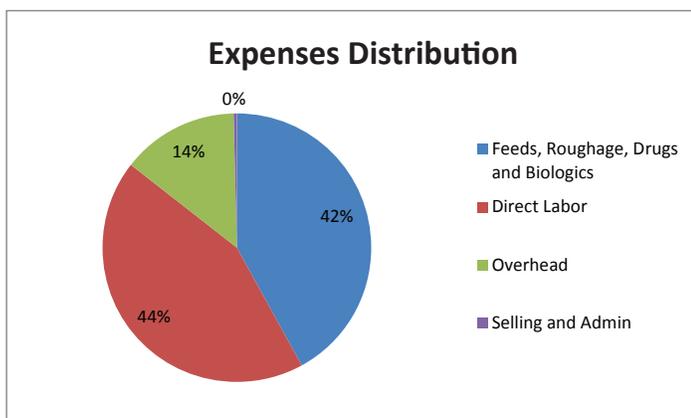


Rule of thumb: At least 60 percent of revenues should come from milk production. Unrealized Gain on Change on Fair Value (FV) of Biological Assets must be a POSITIVE amount.

- **Feeds Distribution Schedule** - This will give a preview of the comparative consumption of each type of feed and observe whether they are justified as reflected by the revenues figures. For example, if dairy concentrates are high, then there must be an observable high figure for milk revenues while if grower feeds are high, then there is an expected positive amount on unrealized gain on changes in FV of biological assets.

- **Expense Distribution Schedule** – Like the revenue distribution schedule, expense distribution schedule expresses each expense item as a % of the total expenses to see what type of expense the farm is quite spending much and see whether they are acceptable or not.

SAMPLE FARM EXPENSES DISTRIBUTION SCHEDULE		
Expense Summary	Amount (Php)	%
Feeds, Roughage, Drugs and Biologics	258,622.27	42.01
Direct Labor	268,200.00	43.57
Overhead	86,408.50	14.04
Selling and Admin	2,400.00	0.39
Total	615,630.77	100.00



Rule of thumb: Overhead Expenses should not be above 40 percent. Direct Labor and Direct Materials should be at a gap within 10 percent. There must be one laborer for at least 15 animals.

• **Performing Horizontal Analysis-** This technique will assess the movement of a specific indicator in sequential period. One example is looking at ROI from 2011 to 2015 to see whether the farm is relatively improving or implying an operational problem that has to be addressed.

Rule of thumb: After getting stable enough, ROI should move at a pace of not exceeding at least minus or plus five percent annually.

Lesson Learned

ROI is the simplest yet all-encompassing financial performance indicator as it does not just consider Net Income but how this figure relates to Total Expenses, thereby measuring efficiency in the use of resources.

There are only two ways to increase income – either you **increase sales** or you **reduce costs**. Some ways to do achieve these include the following:

(1) Increase Sales

- Increase selling price
- Increase volume of milk production (assuming there is an available market)

(2) Reduce Costs

- Use milk replacer for feeding new born calves. Milk replacer is cheaper and does not compromise animals' average daily gain while dam's (female breeding carabao) milk that is not fed to calves could be sold.
- Find cheaper alternative feeds like silage, legumes, and corn or other crop by-products.
- Ensure feed consumption is appropriate and wastes are minimized.
- Hire only needed people and strategize their work service to maximize their labor cost.
- Institute all health-related necessities to avoid sickness or even death, which could not just incur additional costs but could also lead to irrecoverable losses.
- Find costs that could be reduced by control mechanisms in electricity and fuel consumptions.

Keywords: return on investment, dairy buffalo farm



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ABOUT THE MATERIAL

iASK, an acronym for innovative answers, solutions, and knowledge, is a type of knowledge product packaged and produced by the Philippine Carabao Center with the Southeast Asian Regional Center for Graduate Study and Research in Agriculture. This iASK issue is intended for dairy farmers in assessing the business performance of their dairy buffalo farms.

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