

Modern Management as a Road to Profit

Louis Longo,
Glastonbury, Connecticut

Introduction by Dr. Jarrett:

The next speaker is Mr. Lou Longo, Glastonbury, Connecticut. I am sure that those of you dairy practitioners who are familiar with Hoard's Dairyman do not need any introduction to Mr. Longo. He is one of the outstanding dairy farmers of our country, and a regular contributor to Hoard's Dairyman on the business side of dairying. He is president of the Yankee Milk Producers, Inc., a cooperative marketing organization in his area. He is vice chairman of the National Dairy Council. He is on the executive committee of the National Milk Producers Federation and without taking further time from his presentation, Mr. Lou Longo from Connecticut.



Thank you very much, Dr. Jarrett. Mr. Secretary, ladies and gentlemen, it is a pleasure to be here. You know I try to make it a point over the years to make sure I do not get on after a smart politician and I failed today. You know I have been to Aberdeen, Texas and the first thought that came to my mind when I was in Aberdeen, Texas, was that if I lived in this town I would sure love to go to town! I guess that is the way it happens. Dr. Jarrett, you will have to excuse me if I speak with an accent. As you know, lately any that come from north of the Mason Dixon line sound as though we are speaking with an accent. I want to apologize for that, though I know that you have a new business in Georgia now. I understand that Billy Carter and Bert Lance have gone into the beer-making business. They are calling it "Overdraft." You know, Connecticut was the first state to go Republican and you will have to excuse what the veterinarians are doing up there. They have started a factory. They are making the front end of horses and they are sending them to Washington to get the other end finished off.

The American Association of Bovine Practitioners. What a title! You are the guys that were the high percentage in your class. The guys that beat me out so I had to go farming. I want to express my appreciation to you. You know, I could see you guys working hard to get your marks in school, college, so you could get up into that 3% so you could get into veterinary school. You got into veterinary schools and you broke your backsides to get through veterinary school. You mortgaged everything you had to start a practice. When you got out there, what did you find? Biting horses, kicking cows, scratching cats, retained placentas that were two weeks old, hoof rot and so forth. You know my veterinarian? I was helping him

one morning at 2 o'clock to pull a breech-birth calf. You know, one of those 150 lb. calves in a 800-900 lb. heifer. That is quite a job you know. We were working away and he was in his rubber suit and sweating away in really a messy job. And I said, "Doc, you fought to go through school to do this?" And he said, "Yes, I did." So I am glad to be here in St. Louis. You know, the last time I was here in St. Louis, I had a broken leg. I had a speaking engagement at the Ralston Purina farm and I came in on crutches. Now this is a true story. I had broken my leg. My heifers got out one night and I broke my leg while chasing them, trying to get them back in again and I had this walking cast on from the hip down and I could get by pretty well so I kept my speaking engagement. As I used to hang around in the airports waiting for transfer to planes, these young stewardesses used to come down and show sympathy. Here I was with crutches. "What happened to you, sir?" And I'd say that I broke my leg while chasing heifers at night! If you want to get a queer look from an airline hostess, you want to say that!

I am here to talk to you today about the management side of business. I am going to talk in the area of dairying. Now, what I will say will apply to other factors in business. It will apply to practically every business. I want you to approach this with an open mind today. You know, we all have fixed opinions and we get kind of stereo when we hear a speaker and we don't agree with him, we turn him off. But I would like to have you feel that these men are making a tremendous contribution to our society. I will be referring to dairying, but these are good basic factors in business. I will be slamming dairy farmers, but I want you to understand there is no one that I have greater respect for than a dairy farmer. These men are

making a tremendous contribution to our society and I have a tremendous respect for them. There are areas involved with dairying where good management practices are necessary. It is quite obvious as we look around right now that the dairy business does face a tremendous number of problems. We have a national production of 124 billion pounds of milk estimated for the year 1977. We can get by very well with about 113-114 billion. But we have moved this production up. The government has purchased, so far, nearly 700 million pounds of skim milk powder. It is going to go to a billion as production is increasing right now. And we are involved with a misguided consumerism that is walking through the halls of our Congress and through the offices in Washington that is really intimidating.

These conditions focus on the topic of my subject today. Modern business management as a road to profit. There is a tremendous opening here for dairy farmers even though we have improved our production tremendously on the average over the years. You know the average is the worst of the best and the best of the worse, so I do not go by averages. We have an industry that has to remain competitive and the only way that we can remain competitive is through modern business administration. Even though we have problems, I believe in the dairy business. I believe that the dairy business is the best vocation that a young man could go into today, providing he is willing to apply modern business administration to his business. He has to get away from what dairy farmers are all bogged down with today and that is that area of superstition and tradition. Even in this modern day and age we have a number of dairy farmers that are bogged down with the superstition and tradition of the way things were done in the past. They will not move off center on that and there were some things done in the past that do not have modern business application.

Now, what do we talk about when we talk about modern business administration. It is the area of establishing certain goals in business that we have to adhere to. We have had a tremendous advancement through the technological and scientific revolution that we have experienced over the last 35 years in agriculture in general. A tremendous advancement as far as dairy farmers and an advantage as far as the American dairy farmer is concerned. We are now involved with all the past 10 years already. We are right in the midst of a tremendously dynamic management revolution. Greater in scope and greater in magnitude than that revolution we have been through for the last 35 years. But in the past 35 years in the scientific and technological revolution we had our extension services that had the personnel that could transfer that information over to us and we could apply it to our business almost immediately. Today we do not have that modern business management intelligence that is necessary in the agricultural extension services throughout the country. It is not there. So it cannot be applied as fast and farmers have to be aware of it.

Dairy farmers are very reluctant to establish goals. I say that the only goal that you can establish for any business is profit. Everything else stems from profit and I do not care what any man may want to contradict me with. Oh, I know. Some of the young people around tell me, "I want to farm because I love animals" or "I love the outdoors." Oh, hogwash. If you love animals, why don't you get out and be a curator of a zoo. You have a greater variety, you do not have to milk them twice a day and you do not have to smell like manure all day long. If you like the outdoors, you can be a forest ranger of some kind. The whole idea of going into this business is to make a profit. Profit it is and profit it must be. Now this may sound cruel and cold. Oh, money is not everything. You know I had a friend of mine who wrote a book once, "How to Enjoy Life Without Money." He charged \$25 for the book. You know it is a funny country if you are able to pay your way. Many of us do not understand that. People tell me that money is not everything. But, it is the vital and most important factor in business. But the man who makes a profit and affords to serve his community can afford to serve his country, his church, his family. The man that is lying on a park bench cannot do these things. Why farmers fight me when I make this statement I cannot understand. The goal must be profit. Otherwise our business cannot perpetuate. It cannot go on. Our families cannot go on in that business.

The main responsibility of every business owner is management. We have a lot of farmers that think that milking cows is their main responsibility. No. Management is the main responsibility and again, after the goal of profit is established, that second point is the main responsibility of management. We work from that point. Once we have established those two points in our own mind, then in the dairy business there are five items that apply to this. Every business has its own certain items that apply in order to obtain ultimate profit. Remember that word, ultimate profit, that I am talking about. I am not talking about a degree of profit. I am talking about getting all there is in it out of it. What do we have to have then in the dairy business? First off, we have established four objectives. There are four objectives involved and one is the highest volume of production per man employed. The highest possible. Second is the most profitable volume per unit. The unit being the cow and the acre of land in a dairy business. Beyond the unit is the lowest possible capital investment. And the fourth point is a calculated proper margin of net return. Apply that to any business and you will come out with a profit. You will come out with ultimate profit with those four objectives towards that goal of ultimate profit. How do you obtain it in the dairy business? These five points that I said before, which are: number one, milking parlor; number two, free stalls; number three, corn silage; number four, bunker silos; and number five, registered cattle. If you find a dairy farmer that is missing one of those, he is missing a percentage of ul-

timate profit. If he is missing all of them, he has not a chance of making ultimate profit. He is a long ways from it.

Farmers get a little disturbed when I mention those five points. If you know of another way I would like to have you tell me, or if they know of another way, have them tell you so you can relay it to me. There is no other way to get ultimate profit. Those four objectives are vital. Every school of administration will tell you that. They come from the best classes of business administration. Production per man, profit per unit, low capitalization, calculated proper margin of net return. All right, how do these five things apply. Let us put together the milking parlor and free stalls. No dairy farmer can walk away from the mobility of a cow. We have to take advantage of that mobility of that cow and the only way that you can take advantage of the mobility of that cow is to put her in a free stall system, bring her through a milking parlor. Free stall systems are cheap to build, the lowest possible capital investment. You can milk a lot of cows per man, highest volume of production per man employed. They will milk high, giving you a profitable volume per unit on it which in turn gives you a calculated profit margin of net return. You cannot ignore that. I said of the stanchion barn, and many people want to contradict me, that it is still back in the Model A days. That man with a stanchion barn, he is driving a 1977 modern car but still milking in the 1929 era. Yet, we will argue that we see some good family farms, but again those family farms are willing to accept something less than ultimate profit. We are talking ultimate profit. Go beyond that to corn silage. We cannot ignore the productivity of corn. No dairy farmer involved with agriculture, that is involved with feeding livestock that has land that is capable of growing good corn, can ignore the productivity of corn. On my farm I can grow 12,500 therms of net energy per acre. To me it means 34,000 lbs. of milk with additives, 34,000 lbs. of milk per acre, it means \$3,500 per acre. You cannot do that with anything else. If it is profitable volume per unit and the acre of land is a unit, then you cannot get away from that unit in the productivity of corn. You cannot walk away from it. I have been on an all-corn silage system for 14 years. I can see the veterinarians smiling. You know, twisted abomasums and so forth. No. It can be done. I have a single-phase roughage system. If it is the lowest possible capital investment that you want, I have it. And other farmers can do it. It cannot be done on a "look as you go basis." It has to be done on exact valuations and the experimental process that has taken place beyond and behind all-corn silage systems. What do I need in equipment? All I need is a plow, harrow, corn planter, wheat sprayer, forage harvester. I do not need all of those systems that are needed for a three-phase feed system that we find on some dairy farms. The capitalization involved with that is prohibitive. It cannot be done. The corn silage will give you production and farmers have got to look at this. Even under the high protein

prices that we had here a couple of years ago. The best that you can get on energy per acre with alfalfa hay at its best is 6,200 therms net energy. Even though you do get more protein, the opportunity costs involved with raising alfalfa versus raising corn silage does not bring you the most profitable return per acre. Argue with me later on that one.

Bunker silos. This is when farmers do a somersault. I say to you today that the greatest innovation as far as feed storages of this century was the bunker silo. There is no system on the farm that applies itself more to modern business administration than the bunker silo, yet we have farmers who walk away from it. You say, well, farmers have to use what they have. Why, there were 120,000 upright silos sold last year, that is how impressive I have been in writing columns for *Hoard's Dairyman*. But let us look at the bunker silo for a minute now. You know, I looked at these things a number of years ago and the last thing I wanted was a bunker silo. I did not like the looks of them. As a matter of fact, when the University of Connecticut was experimenting with them in the late '40s, I built one in the back of a hill on my farm so my neighbors wouldn't see it! That is how convinced I was. But the thing showed me that I could have the lowest possible capital investment with the highest production per man employed and I had a calculated margin of net return. I was looking for storage systems. An upright system I looked at for 5,000 tons. I wanted to store 5,000 tons of silage. These fancy metal ones that were blue and beautiful, they were up in the area of \$155-160 thousand at that time, mind you. This is in the late '40s. I looked at a concrete system, upright. That one was in the area of \$100-110 thousand. My farm stands as evidence and the University of Connecticut stands as evidence because they have watched this right from the beginning. I spent \$4,850 for 5,000 tons of storage and I am doing the same job that someone would do with these other systems. I did take the difference between that bunker silo and the upright system and invested it into land at that time. The average cost of my land in Glastonbury, Connecticut, is \$110 per acre, nine miles out of Hartford.

Just imagine if I had gone to an upright system. Bunker silos are a proven method of storage. When you drive through the countryside and see an upright system, it is a monument that documents the inability of the dairy farmer to understand modern business administration. That if you were to look at all of these systems that I talked about, the corn silage and the bunker silo end of it, do you realize that on my farm alone, that is milking around 200 cows, that I could have invested today—if I were to go to only half hay and corn and an upright system—I could have invested a third of a million dollars more on my farm than I have today and not get one cent more of gross income? Does everyone understand that? That you are able to achieve with these systems that high volume of production per man employed, the most profitable volume per unit, the lowest possible capital

investment, which in turn gives you a calculated proper margin of net return. Oh, I know. You know cows have to have a little hay. You guys tell that to everybody. Sure. But hay keeps you from studying a lot. You give them a little hay and it cures a lot of problems that you do not know about, that you do not know how to cure with a straight system.

I had an old fellow sit down in one of the audiences that I was talking to a number of years ago and he said, "I'll bet your cows haven't got a tooth in their mouth from eating all of that acidic corn silage." Well, I had a 17,800 lb. herd average. And I said, "Mister, for a bunch of gummars they are doing well."

In the area of registered cattle, I speak with full respect to the grade cow and there are a lot of good grade cows around. But really, we all know that milk production is an inherited quality of a cow. It just does not come from anywhere. And that genetic progress has to be tabulated and the best way that it can be tabulated is through registration. That registration does lend a capital gain to farmers. If it is a calculated proper margin of net return that we want, we cannot turn away from registered cattle, because of the fact that we in effect are building an estate for ourselves. You know, we start out with four, and it is geometric progression that we are involved with, you know, it is not doubling. It geometrically goes up from year to year. You start with four, you go to eight, you go to sixteen and then thirty-two and so forth, and by the time that you are fifty years old, you own 400 head of cattle. If you were to liquidate that and want to retire, at that time you retire the gain from it is only taxable in the capital gains area. Now, with grade, you know, it is like a merry-go-round. You get on, you get a nice ride while you are in there, but you get off somewhere about where you got on. Where, in the registered business, can you go out? You get a cow that produces a thousand pounds of fat five years in a row. You know, and you raise a couple of bulls from her and a bunch of heifers, you get a family line involved there and she is registered and the breeding institution comes in and you classify and you move up. Sure, what goes on from there? It is a capital gain. You sell that bull for \$100,000 to a breeding institution or on a per-service basis, or you have someone from Guatemala or other place come in that wants a bunch of cattle. They do not want grade cattle. They want cattle that have value, that you can tabulate the genetic progress involved with that cow. The registered business cannot be ignored by anyone involved with the dairy business.

Those that do not want to go into this business are depriving themselves of a tremendous value in their estates. And I know that grade cows give as much milk as purebred cows but there is a much greater value in that purebred cow at that point, and a young man has to look at that. And beyond that, it focuses attention on that area of production. You know, we have been able to accomplish a million pounds of milk per man employed. No, I really believe that

many dairy farmers can do this. And can you imagine what the production would be then, nationally? But, you know, we would have to weed out some. But a million pounds of milk per man employed, why could I do it? With a near 18,000 lb. production per cow, all I needed was 54 cows per man. Whereas, if I only had 12,000 lbs. of milk per cow, I would need 85 cows per man and that is impossible. You cannot do it. So if it is production per man employed that you are involved with as far as good business administration and modern management, then the purebred cow at the bottom makes a contribution towards that end. I think it is quite important that we look at those. Dairy farmers have to look at it. And I can get into more arguments with dairy farmers in regards to purebred versus the grade cow. I do not mean to condemn them, but we are involved in this dairy business like the Indianapolis 500. We are really in one strong race and you need strong motors to run that race. You cannot do it with weak little bicycles. You have to build that motor from year to year and the only way that you can build that motor is through registration of that cow. And while you are building that, it gives you a value of production all the while you are building a capital value involved with your own estate.

Now, I can tell by the pleasant look on your faces that you all agree with my five criteria for modern business management. Well, if you do not and you agree to the first one of the objectives involved with all of the profit, you are going to have to agree with these five if you are a dairyman—and dairy farmers really laugh me down when I ask them to agree with me. But really, what they do when they agree to the five objectives, they agree to the bright light, the bright light of business progress, they agree to that. But this is the way to do it, get production per man, you know, and profit per unit and low capital investment with a net return. You have got that bright shining light of progress. But they do not want to agree to that wire that goes up to it. And the wiring to it is most important if you are going to get the light. They do not have the wiring. They just have to come down less. Now, some farmers tell me they do not have a farm that they can grow corn on. I sympathize with them in many ways because corn is a very productive plant. But they have to accept a little less in ultimate profit if they do not have these things.

I think, ladies and gentlemen, that we have to face it as far as dairy farmers are concerned. The day is gone when you place an iron bar around a cow and walk to her and service her like a piece of equipment and try and tell an industry that you are efficient. It cannot happen. I said that the day is gone when we offer a variety of a menu that requires that we establish an amount of machinery that looks like Patton's Third Army, and try and tell an industry that we are efficient. The day is gone when we put our roughages into orbit and operate from the furthest point and try to tell an industry that we are efficient. That cannot go. The day is gone when the dairy

farmer can do business out of institutions that look like Taj Mahal. It cannot be done. Capitalization in ratio to gross income is relevant to profit. And the day is gone, if we are going to be ultimately efficient in our business, of the brindle and the gray cow. We are going to have to look at the purebred aspect of this end of the industry. The American dairy farmer must wake up to the fact that we are involved with a new modern business era. That we can no longer be dependent on government subsidies to support the dairy program. That we have to establish on the market a product that is competitive with other products that are in competition with dairy products.

Many dairy farmers feel milk is everything. It is the white knight of the commodities. That is not true. The soybean meal and a number of other things are taking skim powder right off the market right now and the dairy farmer has to be competitive in that respect. Foreign markets are becoming competitive to us. We cannot compete on foreign markets. If we are going to be competitive, we have to sell our product and we have to sell our product to someone else other than the government. Beyond that, I think that the farmers have to take a good look at themselves when it comes to administrative management.

You know the decision process. I serve on a couple of boards of directors of industries in my town, and I am amazed at what goes into the decision process, as far as management administration is concerned. On farms we talk at the kitchen table and "bango," if we are feeling right the next day, we make a decision. The personal opinion and personal preference can play no part in a business decision. I do not care if you are a veterinarian or farmer or what you are, if you are a business man you cannot let personal opinion and personal preference interfere with that decision. That decision has to be based on knowledge, experience and calculated fact and nothing else. Proven facts. Too many of us are running experiment stations on our farms. I am going to try this, or I am going to try that. You have to adhere to those who have tried it and to the colleges that have proven it. We have the greatest research and experimental system, agriculture has, in this nation of any nation in the world. We have the greatest research and experimental system of any industry in the world. Do we draw on it fully? Do we believe then? Do we look at it? No. A small percentage of farmers look at it. Not enough of them.

In the area of labor management, you fellows know this one better than I do. You are on farms much more than I am. You know all farmers are like I am. The minute you hire a man and he agrees to come to work for you, you start thinking what is wrong with him. And this is what is happening on many dairy farms today. They are not hiring the better man. No, a dairy farmer cannot go out to the barn in the morning, damning the dairy business, damning the mortgage, damning the cows and expect a responsible man to stay on the job. He has to have faith in his business and we need a lot of this on dairy farms. In

the area of labor management, we are very deficient as far as dairy farms are concerned. Very few dairy farmers are able to keep help for quite a long time. Now, many of them have had the labor problem the last 10, 15, 20 years. I cannot sympathize with any of them because I am nine miles from the third largest aircraft plant in the world and the insurance city of the world. And I have had that labor problem on my door for the last 35 years. Yet, I have had the same herdsman for the last 27 years. It does not speak well for me. It speaks well for recognizing the fact that you are going to have to pare your emotions as a dairy farmer and get away from that independent feeling that we have all the time in chastising hired help.

In the area of money management, you know, money is a tool of business. And you know when farmers get a little money they cannot seem to stand progress. I am the president of a cooperative and we have 5,500 members. We market 3.5 billion pounds of milk per year. I can see it—the minute farmers get money they start leaving our cooperative. They want to bargain independently, thinking this is the way to go. They get a couple of pennies more. Or they start buying these big tractors. They almost go insane. They have got to be careful. You know that they say money is not everything. Farmers keep telling me that. "I would like to have that because money is not everything."

I had this friend that had a talking dog. And he brought the dog into a tavern and he told the tavern keeper, "Say, would you like to hear my dog talk?" The bartender said, "He can't talk." So he set him up on a stool and sure enough the dog recited the Gettysburg Address. The bartender said, "You're a ventriloquist. I don't believe you." He said, "If he can really talk, why don't you send him down to the post office to get a book of stamps." So, the fellow said, "Sure." So he gave the dog \$3 to go down to get a book of stamps. The dog was gone for an hour, two hours, didn't come back. The bartender said, "See, I told you. He can't talk." "Well," he says, "I'll go and look for him." So he went up and sure enough, right side of the post office, up an alley there was the dog playing around with a bunch of female dogs. And he hollered over to him, "Hey, Spot, come here." And the dog came over. He said, "Boy, you have embarrassed me, you know that? I gave you money to get a book of stamps. You've never done that before." The dog said, "You never gave me any damn money before."

I want to give you an example of money management on dairy farms. A young man in my area approximately 15 years ago decided to go to a Harvest store system. That required that he spend at that time \$55,000 for this system. Down the road from his farm were 100 acres of land, at that time for sale for \$52,000. He decided to go to the harvest store system rather than buying that land. Look at that today. He still has five more years of payment on that harvest store system and with due respect to anyone here sell-

ing harvest stores, he has five more years to pay on that harvest store silo. That land down the road from where he was living at that time for \$52,000, you cannot buy that land today for \$300,000. The borrowing power on that harvest store system today is almost 0. At the end of 20 years let us look at it. He will have paid at the end of 20 years, at \$55,000, compounding the interest that he has paid over the years, \$112,785.52. That land, I will gamble my shirt today, will be worth a half a million dollars in 20 years. For one lousey management decision a young man deprived his estate of a half a million dollars. Why don't they want to listen? When a man invests unnecessarily—the 100 horsepower tractor with a 500 cow herd—the hole on the end of a cow's teat is not big enough to pay for those kind of investments. And that is the only way that you can get it.

May I say to you again today that I believe in the dairy business. I really believe that beyond this administrative management I could go on with production plans that we need to know. We don't have production plans on farms. New York state is the third largest dairy state in the nation, they tell me. And in the survey through their extension service we find that less than a quarter of one percent of dairy farms in New York state have written production plans. If down the road from me there is a little glass factory that does not have \$50,000 invested in their facilities and they have got production plans that they renew every month, why do we tolerate this within our business? Driving a tractor on a capital loan is not the answer. Management is the biggest problem that we have on dairy farms today no matter where we want to look. There are some well-managed dairy farms, but there are many that still have to get away from that area of tradition that have to be looked at. Now, again, I believe in this business. And really, I believe in it as a business, as a vocation, as a profession. It really is a profession. Many say, how could I get started today in the dairy business. Well,

how do you get started in the veterinary business? You need capital. If you were to become a doctor or a veterinarian or an engineer, you have a number of years of school, then beyond that you get involved with the investment. You struggle. The only asset that you have is your ability to work when you are young. But that asset can grow. That asset can grow, as far as the dairy business is concerned, the same as engineering or doctor practice or veterinary practice. Farmers can have the same area, if they look at it with an intellectual aspect of business. If you look at what we have in the dairy business, the three dimensions of profit that we have are not obtainable in any business in the world. They are not obtainable in yours. If I had a 14,500 lb. production per cow in a market anywhere in the United States, with around 550 lbs. of fat, I could make a good living. With a production of near 500,000 lbs. of milk per man I can make a good living out of the production of that cow. Secondly, as I said before, I have a geometric progress that is involved with that. I am building a non-taxable estate. If any young man is going to build an estate of any value in this country today, he has got to do it through the capital gains system. You cannot do it through the net earnings. They are too taxable. We have that available to us in dairying. Beyond that, we have land that grows in value and we have a production for that land. We can grow corn or whatever we want to grow on it. If we were to guard against inflation today, and we should be guarding against inflation today as investors, where would you invest? You would invest in land. We are already investing. Right outside of Hartford it grows in value from year to year. It is stable as the economy moves up and down. Land really reflects the value of the dollar.

Modern management is simple. All it takes is the proper information, the proper calculation and the proper application. That is all it takes. Why in the devil so many dairy farmers want to make it so complicated I cannot understand.

Thank you very much for having me.

“You Can Do Something About It”

Dr. Kenneth McFarland, Topeka, Kansas, rendered an eloquent address, “You Can Do Something About It,” to a large audience on Tuesday evening, December 13.

Dr. McFarland, who is widely known as the Dean of American Speakers, is acknowledged to be the nation's most eloquent and effective exponent of what is commonly known as the “American System.”

