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Managing for Success: Common Challenges and Suggested Practices for Value-Added Dairy Businesses

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From 2022 to 2024, the Kentucky Center for Agriculture and Rural Development (KCARD) staff completed in-depth business evaluations for eight value-added cow dairy businesses in Kentucky, North Carolina and Tennessee which had been in business at least three years. Through these evaluations, KCARD staff identified six areas commonly presenting challenges for value-added dairy operations including:

1. Employee Communication and Training
2. Financial Monitoring and Inventory Controls
3. Quality Controls—Standard Operating Procedures and Recipes
4. Business Vision and Long-Term Planning
5. Fluid Milk Supply and Quality
6. Target Marketing

This publication describes the six challenges commonly encountered in value-added dairy operations and offers suggested practices to help prevent or overcome them. The challenges are presented in order, starting with the ones perceived as having the greatest impact on businesses. Value-added dairy producers and other value-added agriculture entrepreneurs may use this information to analyze, identify and correct issues limiting their potential for success.

It is important to note that every value-added business is unique. Priorities may differ significantly depending on the size, scale, resources, market situation and specific goals of the business. The challenges and order of prioritization presented here should be used as a general guide rather than a one-size-fits-all roadmap.

CHALLENGE #1: EMPLOYEE COMMUNICATION AND TRAINING

The quality of employee communication and training directly impacts efficiency, productivity, customer service and overall potential for the success of a business. Challenges related to employee training and competency include:

- Lack of or inconsistent onboarding or training
- Lack of training about the farm's history, mission, values and products
- Blurred roles or expectations
- The inability of business owners to share knowledge or control of essential business functions

Onboarding and training processes for new employees were found to be inconsistent or nonexistent. The absence of feedback from more experienced employees to new hires was also a hurdle for most of the value-added businesses evaluated.

Among the farms evaluated, employees often had difficulty providing adequate detail about the farm business's history and values. While it is impossible for an employee to know every detail regarding the operation, it is important for employees to be able to recount the core aspects of the farm family's story to customers and share core values to cultivate a positive customer experience. When visiting a value-added dairy business, the customer's experience often includes learning about the family and farm history and developing a connection with that specific farm's story.

Additionally, as a small business adds employees, the roles, responsibilities and chain of command are often not adequately defined or conveyed. Several of the operations had a very basic organizational chart but mentioned that it needed to be updated. When interviewed, employees were often confused about who their direct supervisor was. In addition, employees expressed confusion as to who they needed to approach with issues, concerns or ideas. This confusion can lead to unnecessary tension between employees and convey an inconsistent message to consumers. The absence of a clear chain of command can make resolving customer concerns difficult. It can also lead to complications with crisis communication, resulting in safety concerns during an emergency situation.

"Founder Syndrome," or the inability of a business owner to relinquish control, is often another consideration when working with small or family-owned businesses. This can make it difficult for the owner to delegate key tasks or to train additional staff in key operating procedures. This can especially cause issues if an owner or key staff person is indisposed for any length of time, for instance, due to injury or illness.

Suggested Practices for Effective Employee Communication and Training

The following practices may be helpful in developing and maintaining effective employee communication and training:

- Develop and maintain a written human resources manual that includes detailed information for owners and managers involved in recruiting, hiring, evaluating, disciplining and terminating employees. The manual may include:
  - Steps for recruiting and hiring employees
  - Processes for onboarding employees
  - Detailed job description and training protocol for each position
  - Performance review criteria and processes
  - When and how to create a Professional Improvement Plan (PIP)
  - Procedures for disciplinary actions and termination
  - Method to track employee training requirements and completion
  - Employee benefits
  - System for managing human resources records
- Develop an employee handbook to provide written guidance for employees communicating business history, policies, procedures and expectations. The handbook may include:
  - A brief overview or summary of the operation, including key facts about the history of the business for employees, mission, vision and values
  - An organizational chart detailing the “chain of command” based on roles or departments
  - Employee Code of Conduct outlining expectations for dress code, technology use, social media usage, attendance, time off and related employee behaviors
  - Emergency contacts for each area of the operation (department, team or shift)
  - Procedures in case of a medical emergency, fire, natural disaster or other hazard
  - Emergency evacuation information or map of the facility
  - Employee benefits
  - Guidelines for employee evaluations, disciplinary action and termination
  - Channels for employees to submit feedback or ideas to management (either by name or anonymously)
- Develop and implement an employee training program
  - Develop sessions where experienced employees demonstrate proper standard operating procedures (SOPs) and discuss why procedures are in place before allowing new/less experienced employees to practice those procedures under supervision
  - Include a program to periodically test understanding and proper implementation
  - Develop methods to track and maintain training records including training received, date received, signature of employee receiving training and signature of the supervisor and/or trainer.

CHALLENGE #2: FINANCIAL MONITORING AND INVENTORY CONTROLS

While it may be challenging to find time to monitor financial well-being within a small business, it is critical for the long-term health of the business. Regularly monitoring the financial status of a value-added dairy business helps owners make well-informed decisions, prepare for upcoming challenges and adjust as customer preferences change or markets fluctuate. Maintaining production records and managing inventory were significant hurdles for most businesses evaluated and had a big impact on the overall financial well-being of the business.

Several businesses evaluated did not have easily accessible financial information, production records or inventory records. This includes profit and loss statements, cash flow statements, weekly production records, up to date inventory, etc. KCARD staff also found that the information businesses did have was not always up-to-date, leading to an incomplete assessment of business activities at the time of the evaluation. Some businesses evaluated were unaware that they were or had been previously operating at a financial loss.

Businesses utilizing an inventory system often only had one employee in charge of maintaining inventory logs. Other businesses mentioned that regular inventory audits were not conducted, leading to outdated or incorrect inventory logs. This can lead to missed product expiration dates, an unnecessary surplus of ingredients, or a shortage of key items needed to keep the business in operation. Production records were not often kept, were hard to update quickly by employees or did not always match current inventory records (if available).

Poor inventory management increases the risk of product shrinkage, the loss of inventory or a discrepancy in the actual and recorded value of inventory. Utilizing only one trained employee to manage inventory logs and production records can lead to challenges within the business if the employee leaves or is unable to maintain records. The lack of a functioning or utilized inventory system can make controlling costs difficult for value-added businesses. This issue also makes it difficult for businesses to ensure that losses from product shrinkage and/or improper use of ingredients are minimized.

Suggested Practices for Effective Financial Monitoring and Inventory Controls

The financial well-being of a value-added dairy business should be closely monitored. Business owners and management personnel should implement a process in order to closely monitor financial status, inventory and logistics. Suggestions for ways to implement monitoring tactics include:

- Develop a process to monitor inventory levels and assess when new inputs should be acquired (this may include the adoption and use of supply chain management software)
- Adopt customer relationship management (CRM) and point-of-sale (POS) software to manage financial data and sales volume
- Involve more than one person in maintaining inventory and financial documents
- Involve multiple people in the financial review and know where financial documents are kept and how they are maintained
- Have more than one person involved in approving payments. Having multiple employees verify payments to outside businesses can prevent errors and minimize the risk of mistakes or theft
- Include multiple team members in a regular review of financial statements to identify potential concerns or to take advantage of missed opportunities

Producers have access to financial analysis services provided by third parties, such as the University of Tennessee's MANAGE Program.

CHALLENGE #3: QUALITY CONTROLS - STANDARD OPERATING PROCEDURES AND RECIPES

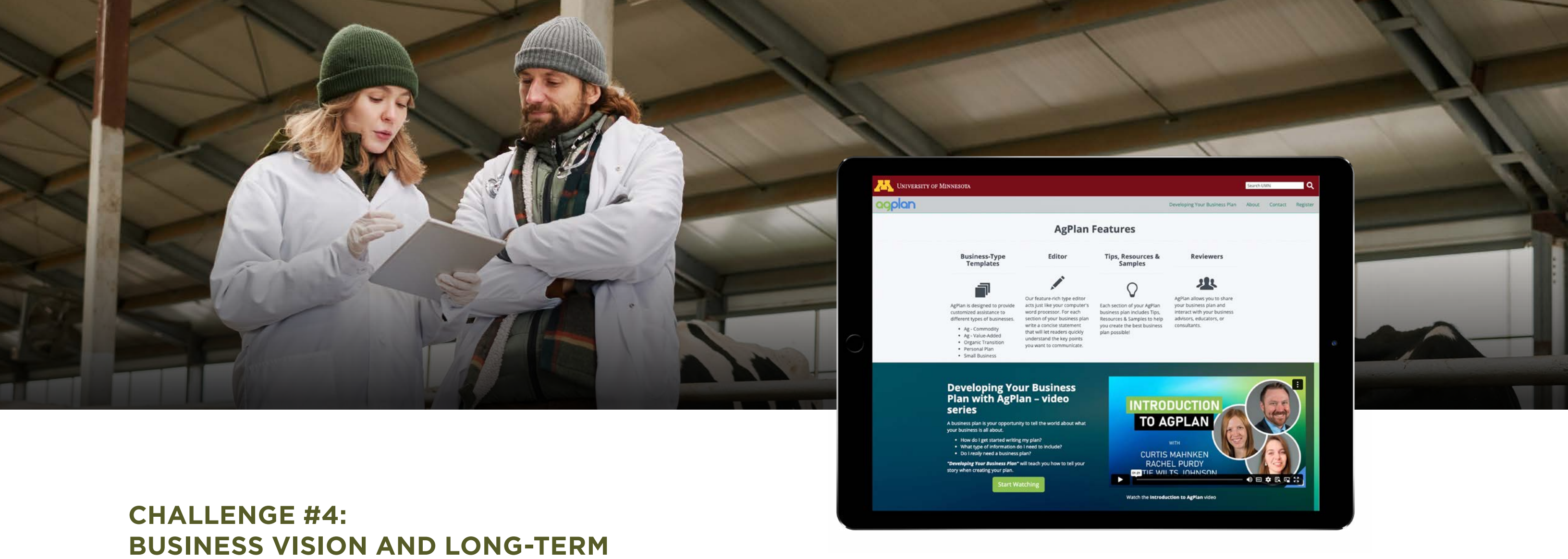
Developing and implementing standard operating procedures (SOPs) is essential for ensuring consistent, high-quality products in a value-added dairy operation. Well-designed quality control protocols help reduce waste, minimize product returns or recalls, enhance customer satisfaction and protect the business's reputation. The dairy businesses evaluated by KCARD produce an array of value-added products including bottled milk, ice cream, milkshakes, sandwiches and cheese. Typically, business owners perform a detailed analysis of the cost of producing a product before beginning production. One component of this cost analysis includes accurate recipe formulations.

It was discovered, however, that employees often incorporate slight variations into recipes. This could be due to a lack of instruction or poor training, as well as the absence of measurements or directions posted in the processing facility or kitchen. For example, it was common for employees to use different amounts of ice cream in a milkshake recipe, leading to an inconsistent end product. This can affect the true cost of goods sold as the estimated amount of raw ingredient is different from the actual ingredient used. It can lead to product inconsistency and therefore an inconsistent customer experience.

Suggested Practices for Implementing Effective Quality Control Measures

Value-added dairy businesses can implement strategies to enhance quality control and minimize negative financial impacts. These include:

- Creating official product recipes and Standard Operating Procedures (SOPs) for each item manufactured. Once finalized, these recipes or SOPs can be posted or made easily accessible to employees.
- Providing official training to new employees, demonstrating how to follow recipes and utilize SOPs
- Providing periodic training to existing employees (for example, quarterly or biannually) to ensure compliance with recipes and SOPs
- Regularly evaluating production processes to address quality concerns



CHALLENGE #4: BUSINESS VISION AND LONG-TERM PLANNING

Developing a vision and a long-term plan for a business can feel daunting. It can be challenging to know where to start. Differences in opinions, business goals and lifestyle expectations can lead to tense discussions and prevent owners from reaching a consensus. However, not having a shared vision can be detrimental, as owners and key employees make conflicting decisions that hurt the long-term goals of the business. Overall, only four businesses evaluated had a written business plan with only two having a plan for implementing or navigating the transition of ownership and management.

Consistent effective communication is key to ensure all members of the management team understand the current and future goals for the business. It also ensures that all members of management understand what happens if one of the key stakeholders is no longer able to perform their role. A few of the value-added businesses evaluated held management meetings; however, they were usually held only once. The others only met when necessary. This can lead to several issues, including inconsistent vision between owners, conflicting project priorities and different long-term or short-term business goals. All of these can impact the employees' morale and decrease the business's financial performance.

Suggested Practices for Successful Business Vision and Long-Term Planning

Business planning is a vital process for identifying goals and strategies to reach them. KCARD staff recommend that long-term business plans include sections on succession planning to help with any transition of management or ownership – planned or unexpected. While developing business plans that all owners are satisfied with can feel like an uphill battle, it is much easier to work on these matters before external pressures force actions to be taken or transition is needed. Tips for effective long-term business planning that encompasses transition planning include:

- Develop a written business plan and update it regularly. AgPlan is a free online business planning tool offered by the University of Minnesota that can be helpful in this process. It allows multiple people to access, edit, review and comment on a plan as it is developed.
- Include legal and financial representatives in discussions concerning business and succession planning to ensure compliance with legal or financial regulations and implications. The Farmers' Guide to Business Structures publication developed by the Sustainable Agriculture Research and Education (SARE) program provides information about various business structures such as LLCs, Corporations, Partnerships and others.
- Hold regularly scheduled meetings with key personnel and business owners to ensure stakeholders are on the same page with significant business decisions
- Before the scheduled meetings, management should meet with key staff to identify topics that need to be discussed. Business goals, upcoming production and event schedules, employee recognition, and areas of concern are some key items to include in each meeting.
- Develop an agenda prior to each meeting that can be shared with attendees in order to help the meeting flow and stay on track and for attendees to be prepared with needed information for productive discussion.
- Take and store meeting notes in a centralized location so that key personnel can verify decisions made as needed and review.

CHALLENGE #5: FLUID MILK SUPPLY AND QUALITY

Securing a reliable, consistent, high-quality milk supply is critical for value-added dairy businesses. This directly affects all production areas: product quality, product quantity, product consistency, cost of production and profit margin.

The businesses evaluated sourced milk from a variety of suppliers. Some relied solely on milk from their own herd or utilized a single dairy. Others relied on multiple sources for the milk needed for processing.

Value-added businesses that did not milk their own cows were concerned about the long-term commitment of their independent suppliers and expressed fears of not having enough fluid milk to make their value-added products. One value-added business also reported quality concerns with their current milk supplier but did not have another option locally.

Consistent supply was also a concern for producer-processor dairies that sourced milk from their farm to use in on-farm processing. The relatively low volume of milk produced per cow and the quality of milk produced were areas of concern for two dairies that were evaluated. This not only led to inconsistencies in the value-added dairy product but also impacted the profit margin for these businesses as it increased the overall cost of production.

Suggested Practices for Effective Fluid Milk Supply and Quality

Value-added dairy businesses have a variety of options available to source fluid milk for their production needs. To ensure the quality and quantity of fluid milk used by a value-added dairy business, owners may consider these tips:

- Producers using milk from their own herds should closely monitor milk production. If supply quantity or milk quality becomes a concern, it is important to address the issue quickly. Resources available through cooperative Extension programming or other third parties, such as the Kentucky Dairy Development Council, may be able to help address factors negatively impacting milk quality.
- If possible, utilize multiple suppliers for fluid milk. Work to establish a clear line of communication with those suppliers regarding forecasted volume. This may help value-added businesses prepare for supply chain disruptions. This may not be feasible for operations with small volume of need or even possible due to contractual limitations between some milk suppliers and milk buyers.
- Implement the use of contracts with outside milk suppliers that outline required milk quality parameters.

Photo credit: Flowers Creamery

Photo credit: Chaney's Dairy Barn

Photo credit: Sweetwater Valley Farm

CHALLENGE #6: TARGET MARKETING

Successful marketing depends largely upon the ability of a business to identify target customers and develop products, prices, distribution methods, promotional messages, promotional strategies and customer service to reach those specific customers. Businesses should seek to identify customers that have a need their business can fulfill, a willingness to purchase the product and an ability to purchase the product. Understand as much about that target audience as possible including the benefits the customers are seeking from a product, their willingness to pay for a product, their needs related to convenience (where they can purchase, when they can purchase, how they can purchase, services desired) and communication needs (what information do they need to make purchase decisions, where are they looking for information). The business evaluations performed by KCARD revealed that most value-added dairy business owners recognize the importance of marketing. However, they often did not follow or possess a formal marketing plan. Some value-added businesses had worked with, or were currently working with, a marketing firm to design or run their promotional campaigns, while others utilized in-house staff. All business owners agreed that they needed to be more strategic with their marketing campaigns.

The majority of the businesses evaluated serve both retail and wholesale customers. These two customer bases require different marketing approaches, and owners found it difficult to tailor their strategies to two audiences.

When business owners and employees were asked why customers visit or support their businesses, a variety of answers were provided. It can be easy to lose focus on what the customer actually wants as opposed to perceived wants and needs. Inviting customer-facing employees, especially in a retail business, to share customer insights with business owners or decision makers who are not always on-site can lead to positive changes based on real-time customer feedback.

Suggested Practices for Effective Target Marketing

Through the development, implementation and evaluation of a marketing plan, value-added dairy entrepreneurs can begin to understand and make decisions based on customer needs, values and preferences. Owners and managers may:

- Gather information about and invite feedback from existing customers and key employees using POS data, polls, surveys or focus groups
- Seek out industry studies to gain insight into consumer trends and potential target customers
- Develop written marketing goals and methods to evaluate progress
- Develop target customer personas to help focus marketing efforts to their needs, values and preferences
- Develop product, price, distribution, positioning, promotion and service strategies to meet the needs, values and preferences of the target customers. Consider the benefits they are seeking, the cost they are willing to pay, and convenience and communication preferences
- Craft a farm brand. Refer to UT Extension publication PB1930: Branding Essentials for Value-Added Agriculture Enterprises
- Monitor the effectiveness of marketing efforts and consumer trends. Make adjustments to the marketing plan as needed.

SUMMARY

While every business experiences its own unique issues, six common challenges are often experienced by value-added dairy businesses including:

1. Employee Communication and Training
2. Financial Monitoring and Inventory Controls
3. Quality Controls—Standard Operating Procedures and Recipes
4. Business Vision and Long-Term Planning
5. Fluid Milk Supply and Quality
6. Target Marketing

By proactively addressing these challenges, businesses may increase their potential for growth, profitability and long-term sustainability, while ensuring a reliable and competent workforce and a consistent product for their target customers. Value-added dairy owners and operators may significantly enhance their operations by strategically developing business, succession and marketing plans; carefully developing human resource and employee training materials and processes; implementing financial and inventory recordkeeping and review processes; and proactively monitoring milk supply and quality. Resources exist through KCARD, Extension and other industry partners to support entrepreneurs in their endeavors to manage for success.

About the Dairy Business Evaluations

The Southeast Dairy Business Innovation Initiative (SDBII) provides resources to dairy producers and processors in the Southeastern United States to support modernization and diversification through the production and marketing of value-added dairy products. With funding provided through the United States Department of Agriculture (USDA) Agriculture Marketing Service (AMS), the program offers research results, educational materials, educational programs, individual technical assistance and grant opportunities for producers in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia and Puerto Rico.

One facet of SDBII's technical assistance offered to value-added dairy producers with food or beverage manufacturing permits is the opportunity for an in-depth business evaluation conducted by the Kentucky Center for Agriculture and Rural Development (KCARD). These in-depth business evaluations provide a comprehensive snapshot of a business's current situation, identify areas of the operation that need attention to increase their potential for success and provide suggested practices for improvement.

To gather information to conduct their analysis of the businesses, KCARD staff interview business owners, managers, employees, distributors and customers as well as review business plans, financial records and production records. Staff also tour each facility and observe operations.

KCARD staff members deliver a verbal report to the business owners at the conclusion of the onsite visit. They later provide an in-depth written report summarizing their findings and offering suggestions for next steps.

About KCARD

The Kentucky Center for Agriculture and Rural Development is a non-profit organization established to facilitate agricultural and rural businesses in Kentucky. KCARD is supported primarily through grants provided by the United States Department of Agriculture (USDA) and the Kentucky Agricultural Development Board. Support for the program providing value-added dairy operation evaluations was provided by the Southeast Dairy Business Innovation Initiative (SDBII), with funding from the USDA Agricultural Marketing Service.

Learn more about KCARD at kcard.info/.

About the CPA

The Center for Profitable Agriculture is a partnership between the University of Tennessee Institute of Agriculture and the Tennessee Farm Bureau Federation. As part of UT Extension, Center staff work to help farmers analyze and develop value-added agriculture enterprises through technical assistance, educational materials and educational programs.

Learn more about the CPA at cpa.tennessee.edu.

Online Resources

University of Tennessee MANAGE Program: farmmanagement.tennessee.edu/the-manage-program/

Dairy Gauge: utdairy.tennessee.edu/dairy-gauge-program/

University of Minnesota AgPlan: agplan.umn.edu

The Farmers' Guide to Business Structures: sare.org/wp-content/uploads/Farmers-Guide-to-Business-Structures.pdf

UT Extension publication PB1930: Branding Essentials for Value-Added Agriculture Enterprises: tiny.utk.edu/brand

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