



# Strategies for Dairy Producers to Weather the Economic Downturn



Wisconsin dairy producers caught in the current dairy price downturn can take a number of steps to ensure their operations remain viable in the long term, including knowing their farm's cost of production and scrutinizing all operating expenses. The Wisconsin Farm Center at the Wisconsin Department of Agriculture, Trade and Consumer Protection provides farmers with a wide range of information and serves as a resource to connect you with state and federal programs. Our staff is also available to provide guidance and information assistance to you and your family in this time of need.

The Wisconsin Farm Center recommends the following strategies for dairy farmers in 2009:

## Financial Management Strategies

- **Calculate your cost of producing a hundredweight of milk.** Don't rely on estimates or benchmark numbers. Many factors determine the cost of production, and the cost of producing milk can vary widely from one dairy to another. A good tool to use in figuring your cost is Gary Frank's "Cost of Producing Milk per Hundredweight Equivalent." (Available on the Center for Dairy Profitability web site <http://cdp.wisc.edu/pdf/costcwt00.pdf>). If you need help running the numbers, talk to your county Extension agent, technical college farm management instructor, or call us at the Farm Center 1-800-942-2474.
- **Talk to your lender at the first indication of a cash flow crunch.** Most lenders want to help their producers thrive and will be willing to work with you to find solutions to your challenges. However, the longer the problems exists the fewer options they will have available to use.
- **Take advantage of current low interest rates.** Refinance existing debt if it makes sense to do so. Lock interest rates at these historic lows if possible.
- **Establish (or increase) a line of credit.** Avoid falling into an 18% interest trap with credit cards or supplier credit plans.
- **You may need to capitalize short term debt to ease cash flow crunch.** This should be considered only when no other good options exist.
- **Examine your balance sheet and make sure debt is structured correctly.** Amortization on each loan should correspond to the life of the underlying asset.
- **You may want consider changing loan terms.** Your lender may be willing to temporarily change a loan to interest-only or stretch the amortization period to ease cash flow.
- **With asset values declining, this would be a great time to transfer assets to the next generation.** For instance, a producer could likely transfer twice as many cows in Jan. 2009 under the annual exclusion as they could have in Jan. 2008.

- **Examine all farm insurance costs.** Consider higher deductibles if the operation can handle the owner's portion of the cost in the event of a loss. If you aren't already taking Crop Revenue Coverage (CRC) insurance, you need to consider it. Yes, the premiums seem expensive but with current price volatility, it could pay off well.
- **Look at how labor is used on the farm.** Examine both hired labor and family labor. What can be done to improve labor efficiency? Are there people who are less than fully employed on the farm that could be doing more or could be working somewhere else on a part-time basis? Could you or your employees be doing some custom work off of the farm?
- **Don't count on the MILC program for much help.** There is no MILC payment for January and it isn't projected to exceed \$2/cwt in any month in 2009.
- **Make sure that all capital assets are being used efficiently.** For example, if you have machinery sitting around that isn't used much, it's costing you money by tying up dollars that could be put to better use. Get rid of it.
- **Compare the costs of owning machinery versus renting machinery or custom hire.** Are there operations you'd be better off hiring someone to do?
- **Take the car instead of the truck when you have to run to town.** The increase in miles per gallon will save money over time. Also consider increasing on-farm fuel storage capacity to take advantage of current fuel prices.
- **Consider adding feed storage so that if prices drop, you can stock up.** FSA has a low-interest loan program for crop storage facilities, including hay storage structures, and the program isn't based on the farmer's financial condition.
- **If you've been thinking of expanding, and have the financial capacity to do it, now might be a good time.** Building material costs are significantly lower now than in the past few years, interest rates are low, contractors are looking for work, and cow prices have dropped.
- **Get an energy audit.** There may be areas of the operation where energy is being wasted or an opportunity exists to cut utility costs.

## Dairy Management Strategies

- **Use your calculated cost of producing milk to make culling decisions.** Cull any cow who isn't earning her keep.
- **Scrutinize all operating expenses, especially the biggest dairy expense: Purchased feed cost.** Make cuts where you can without sacrificing production or animal health. Shaving 5-10% off of each category of operating expense can have a big impact on the bottom line.

- **Make sure you're taking full advantage of the value of your manure.** Calibrate your manure spreader, soil test, and apply manure where it will give you the best return.
- **Examine breeding expenses.** Use young sires when it makes sense or use up inventory in the tank before buying more semen. Some dairy producers were using much more expensive bulls last year, which drove breeding expenses up.
- **Feed multiple group TMRs.** Instead of one ration to the entire milking herd, target higher priced rations to groups of cows that will give the best response.
- **Scrutinize feed wastage and take steps to cut losses.** Is there anything you could do to reduce spoilage while feed is in storage? Do your feed bunks need repair, redesign or replacement?
- **Consider feeding to an empty bunk rather than over-feeding.** Scraping excess, high-priced feed out of the cows' bunk and giving it to heifers is expensive.
- **Monitor prices of protein supplements.** Seriously consider switching ingredients in the rations.
- **Reconsider whether it makes economic sense to feed additives.** Additives such as Rumensin or Bovatec can be costly and may not result in any significant yield.

## Crop Management Strategies

- **Don't apply manure to fields coming out of alfalfa.** Take full advantage of the nitrogen fixed by the alfalfa and spread manure where it will give you a better response.
- **Don't topdress alfalfa if potash prices are sky-high.** Response from K is minimal until the last year or two of the stand's life.
- **Shorten crop rotations to minimize fertilizer costs.** A corn-on-corn cropping sequence adds fertilizer and insecticide expense, and may cause a yield lag compared to a corn-soybean rotation.
- **Skip application of P and (probably) K fertilizers for a year or two.** Most soils that have had manure applied over the years are already excessive in P and K.
- **Consider using Variable Rate Technology.** If it can be hired on a custom basis or equipment can be rented.

*For details of how the Wisconsin Farm Center programs can offer assistance see the next page.*



For more information on ways you and your family can endure farm price downturns in a bleak economy, call a professional at the Wisconsin Farm Center at **1-800-942-2474**.

We offer a multitude of programs including:

► **FINANCIAL CONSULTING & ADVISING**

The Wisconsin Farm Center offers financial experts trained in a wide range of farm-related subject areas. Our staff can provide assistance with feasibility analysis, enterprise analysis, along with restructuring and cash flow projections and can personally assist you and answer specific questions.



► **FARM MEDIATION**

The goal of mediation is to help resolve issues by bridging the conflict gap to encourage communication. Mediation involves a neutral individual who helps facilitate negotiation and understanding between conflicting parties. The Wisconsin Farm Mediation and Arbitration Program can mediate farmer disputes ranging from creditor/debtor issues to environmental concerns to farm family conflicts.

► **BEGINNING AND TRANSITIONING FARMER PROGRAM**

We help farmers who want to start their own operation, retiring farmers who want someone to take over their operation, farmers who want to relocate due to urban or environmental pressures, or farmers who want to expand their current businesses. The Farm Center can work with you to assess your present situation, set goals, develop a plan, gather necessary information, and provide support. A coordinated network of resources is available to assist beginning farmers with skills for establishing successful businesses. Our financial experts can provide business plan analysis and assistance and connect you with the resources you need to start successfully.



► **RURAL ELECTRICAL POWER SERVICES**

We provide information about power quality issues, find answers to regulatory questions, and provide on-farm and distribution system investigations to assist farmers in working with a utility or electrician to resolve a power quality concern. REPS staff also works with farmers, their veterinarians and nutritionists to resolve herd health and production problems. REPS is a joint program with Wisconsin Public Service Commission.



*The Wisconsin Farm Center is a bureau within the Division of Agricultural Development at the Wisconsin Department of Agriculture, Trade & Consumer Protection. We are located on the fourth floor of DATCP, 2811 Agriculture Drive, Madison, WI 53718. Learn more on the web at <http://www.datcp.state.wi.us/> keyword "farm center".*

*We would like to thank Doug Marshall, MATC-Reedsburg Farm Management Instructor, for sharing his ideas, which have been incorporated in this fact sheet.*