

How to Survive Tough Economic Times

Gary Sipiorski
Vita Plus, Madison, WI
gsipiorski@vitaplus.com

It certainly goes without say that the last 4 ½ years have been the most trying times in the business of milking cows. Many farmers remember 2009 as a very difficult year. However, it was only one year then margins got better. The landscape of the industry going forward will continue to consolidate and look much different. It appears a \$15 to \$17 milk price may be the range dairy farmers may have to live with.

If points in time can be marked which accelerated the new unknown period, it began with the elimination of the EU milk quota which unleashed the production of 23 million dairy cows to the world market 2015. Followed by the implementation of the Canadian Class 7 milk policy in February of 2017 which closed the door on the shipping condensed milk from the US to Canada. Many dairy farms in Wisconsin and New York found themselves scrambling for a place to go with their milk.

US milk plants now found their capacity to process milk at a maximum level. Between a worldwide abundance of milk and US manufactures unable to handle more raw milk the farm mailbox price of milk remained under the cost of producing it for 80% of dairy farmers.

The purpose of this paper is to outline how to survive and continue to operate a dairy farm in difficult and tough times. These comments will mirror many of the strategies that the top 20% of dairy producers do to obtain a profitable bottom line when others find it difficult to make ends meet. There are 100 difference things successful dairy farmers do every day. This paper highlights some of those key items.

1. The starting point always must be to have a thorough understanding of the total financial picture of the dairy. In the past working hard by taking care of the cows and growing crops was mostly all that mattered. Today, working hard continues alongside of thinking hard. Getting the financials in order first, then discussing the numbers, thinking through the numbers and planning must take place before decisions are made. Financial items needed are as follows:
 - a. Yearend Balance Sheets must be accurately completed with detailed numbers.
 - b. A 3-year Income Statement must show Accrual adjusted figures.

- c. A projected Cash Flow must be done before the end of the current year or shortly after the new year begins.
 - d. A written business plan must reflect the projected Cash Flow.
 - e. The projected Cash Flow and Business Plan is reviewed quarterly at team meetings with the family, key employees that need to know, lender, veterinarian and other professionals when input is necessary.
2. Key Ratios are calculated and monitored to achieve the following ranges:
 - a. Ownership Equity +50%
 - b. Current Ratio 2:1
 - c. Term-debt and Lease repayment ratio 1.5
 - d. Principal and Interest as a % of Gross Income 15%
 - e. Debt/Cow \$5,000
 - f. Debt/CWT Milk \$15
 - g. Debt to Revenue 1:1
 - h. Operation Expense as a % of Gross Income 70%
 - i. Feed Cost as a % of Gross Income 20% to 45% (depends on growing or buying forage)
 - j. Feed and Cropping Cost as a % of Gross Income 20% to 45% (see h)
 - k. Cost of Producing 100 Pounds of Milk \$15 - \$17
3. Communicating with your primary lender is more important than ever. Banks are facing mergers and acquisitions (M&A). The Farm Credit system has gone through consolidations. Each time there is a change in ownership or management the personal relationship with a lender is at risk. Generally, the loan officer is the link between the lender and the farm. If a change occurs at the lender the long-time relationship may change as well. The regulators of all lenders are becoming more stringent regarding the auditing of dairy farm loans. The tougher rules will boil down to the farm level. If the lender seems to becoming more difficult it may be the regulator that is adding to the mix. It will be more important in the future to survive by having an open communication with the lender. It is equally important to have a thorough understanding of all of the financial information on point #1 so your lender knows you know.

4. Milk Marketing and utilizing government milk marketing opportunities: Taking a position with a broker on a portion of milk can make the overall monthly income look more positive in tough times. A thorough understanding of the mechanisms and tools must be gained through education. A number of government milk programs have come into existence. They are not the total answer to low milk prices however they can add to the farm's income. Once again educating oneself is the key to understanding. The USDA FSA office personnel in many cases can be a big help in this area as well.
5. 100,000 SCC along with 6-7 pounds of components are going to be keys in selling milk in the future. Regardless of the milk plant, indirectly consumers will demand to know that their milk comes from farms with high standards. It is also important to get on the list of a High Paying Milk Plant. Some milk plants are selling high quality end products at a premium price. These same plants are paying additional premiums for the raw milk they take in. In tough times a dollar or two dollars over what others are being paid goes a long way toward profitability. It is important to let high paying milk plants know who you are.
6. SOP or Standard Operating Procedures are another way to help farms stay profitable in tough times. The SOP are a proper and approved way to do certain jobs on a farm as "effectively" as possible. They lay out the proper way to assist a cow during calving. There is a step by step check lists of how to care for a calf when it is born. Care of the dairy cows 30 days before calving and 30 days after have specific actions. There are SOPs for each job on the farm. This way there are no assumptions made that everyone should know how to do a job. SOP are in writing. Training and follow up is practiced daily.
7. Vision and Mission statements are real documents that hang where owners and employees can see them daily. The statements are short, clear and meaningful. Written in two languages.
8. Cow comfort is always at the top of everyone's mind each day. Top Dairy Producers question cow comfort and ask themselves every morning as they walk up to the dairy, "What can be done better to make the cows more comfortable?" Is the milking parlor comfortable for the cows as well as for the milkers? Is the holding area kept cool until the last cow enters the parlor? Do cows have plenty of water to drink as they return to the free stall? Is there fresh feed waiting for the returning cows? Are the stalls large enough? Does the bedding material keep the cows in their stalls for 10 to 12 hours a day? Are there enough stalls?
9. Producing more milk is a goal of dairy producers that survive. They understand at times there is a worldwide glut of milk. However, they think about their "Barnyard" and what they need to do to be profitable. Their cows produce 1,500 more pounds of milk every year. Breeding programs select productive sires. Some use genomic testing and use the information to select the youngstock that will lead their herds in the future.
10. Forage programs are outlined in the winter months. There are team meetings with crop consultants, nutritionist, lenders and veterinarians. Seeds are selected, planting times and harvest times are set. Custom operators and manure custom operators join the meetings at times to learn what is expected of them and the importance of the timing of their work.
11. Enterprising is done to know the true costs of certain areas of the dairy. The true costs of producing forage is divided out from other expenses. Seeds, rent, the costs of owning land, tillage, spraying, harvest, trucking, inoculating, packing, and labor are all factored in. The costs of renting or owning machinery is separated out including functional depreciation. Joint ownership of some pieces of equipment may make sense to some.
12. Evaluating the cost of raising heifers is kept separate. Evaluations are made regarding where the youngstock should be reared. Housing near the dairy? Raised by a local heifer grower or animals sent away at 3 days of age to a western climate. Getting the right size and correctly raised animals returning to the dairy is critical. With the costs of raising heifers, surviving farm strategies grow only the heifers they need. Older cows that are paid for and have 1 or 2 more years of productive life are kept longer. Older cows will produce 20 to 30 pounds more milk than a first calf heifer. The number of incoming heifer are at the right number so there is no reason to force older productive cows out of the barns. Some cows and heifers are bred to beef bulls to limit the number of replacement heifers. The beef crosses are commanding a higher calf price currently. Future markets will determine if this strategy will continue.
13. Other diverse enterprises are considered. Further processing of milk in a partner owned plant may

be considered by some. The list of other types of enterprises are many in light of the concentrated business of milking cows. Owning a shared "Feed Facility" where 3 farms deliver and truck TMRs from may be considered. A great deal of research and number crunching must be completed before money is spent on a new enterprise.

14. Transition planning is at some point in an ongoing process. As the balance sheets continue to grow the zeros add up behind the numbers. Partial or total farm transfers take 10 years or more to achieve. Transfers may be with blood relatives or those outside of the family. Professional consultants, accountants and attorneys are always involved in the process.
15. Those that survive tough economic times see their dairy as the Business of Milking Cows. It is a "Business" and needs to be operated that way!

How to Survive Tough Economic Times

Gary Sipiorski
 Vita Plus, Madison, WI
 gspiorski@vitaplus.com

How To Survive Through Tough Economic Times

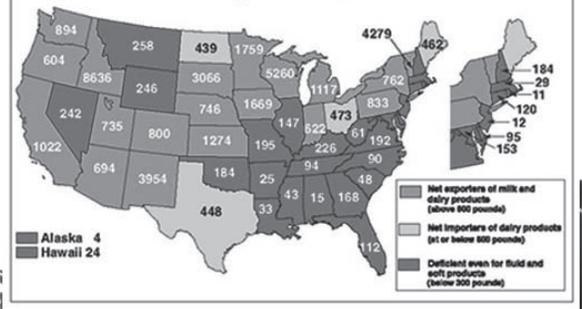
4 State Dairy Nutrition and Management Conference



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334



Milk produced per person averaged 665 pounds



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334

9 months 2018, Genske, Mulder & Co (CPAs) per farm, loss of 65 cents)/day/cow

State	Margin	Profit or loss
Arizona	- 15.2%	- \$1,348,019
California	- 8.1%	- \$714,463
Colorado	- 9.3%	- \$807,032
Idaho	- 8.3%	- \$786,114
Texas	- 7.7%	- \$690,376
Washington	- 6.8%	- \$934,264
Upper Midwest	- 11.4%	- \$781,761
Lower Midwest	- 7.0%	- \$629,954
Northeast	- 21.4%	- \$803,243

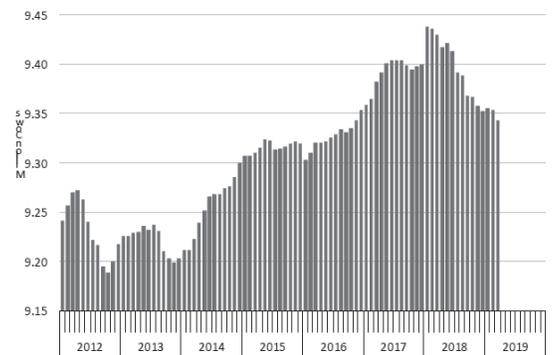


An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334



Monthly Inventory of US Milk Cows. Million Head

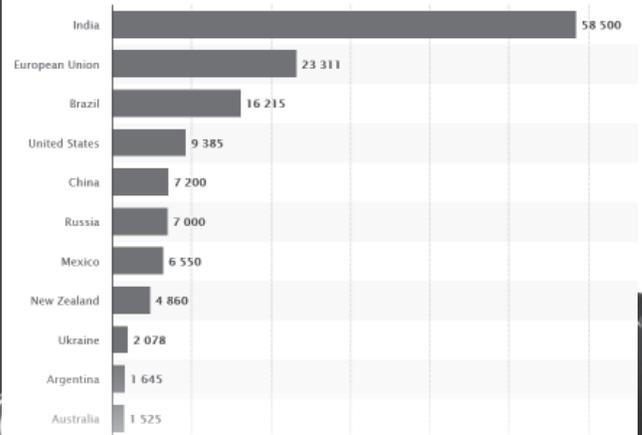
Source: USDA-NASS



YOY Change in Dairy Herd Numbers

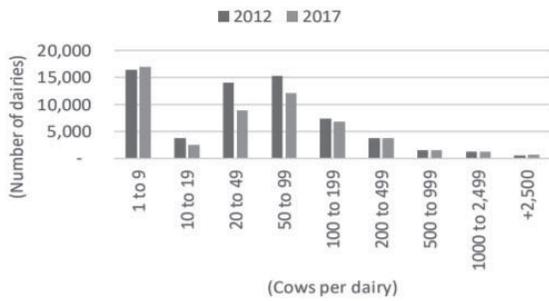


An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334

U.S. Dairies by Category



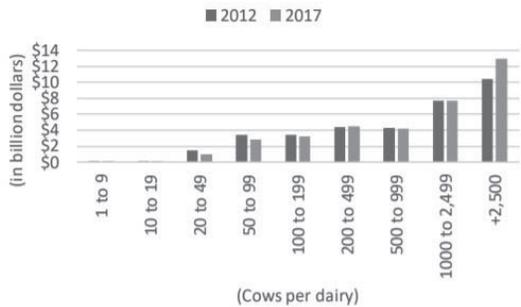
An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334

Figure 2. Cost of production for the most efficient Wisconsin dairy farms by herd size (2016)



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334

U.S. Milk Sales by Category



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334

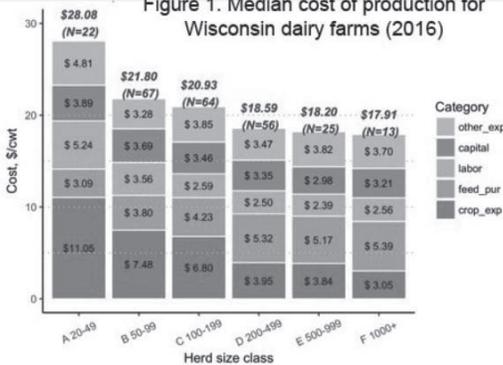
Q3 - 2018 Nietzke & Faupel (48)

	All	<1500	>1500	Top 1/3
Milk	15.24	15.36	15.24	16.24
Lvtk	1.28	1.03	1.29	1.29
Gross	16.95	16.76	16.96	17.99
COP	17.61	17.53	17.61	17.23
Net	(0.66)	(0.77)	(0.65)	0.76



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334

Figure 1. Median cost of production for Wisconsin dairy farms (2016)



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334

Is \$0.76 A Big Deal?

- \$0.76 X 24,000 cwt = \$182.40 /cow/ yr
- \$182.40 X 25 cows = \$ 4,560
- \$182.40 X 50 cows = \$ 9,120
- \$182.40 X 100 cows = \$ 18,240
- \$182.40 X 500 cows = \$ 91,200
- \$182.40 X 1,000 cows = \$ 182,400



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334

Zoetis – Cost of Health Issues

- Mastitis 12-40% \$155-224 32.7 cull rate
- Lameness 10-48% \$177-469 16.0
- Metritis 2-37% \$300-358 17.1
- RP 5-15% \$206-315 31.7
- DA 3-5% \$494 26.9
- Ketosis 5-14% \$117-289 32.5



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334



What TO Do?

- Increase Production 1,500#s
- Take Another Look at Cow Comfort
- Evaluate Labor “Effectiveness”
- Forage Quality Plan
- Milk Marketing
- COP
- Transition



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334

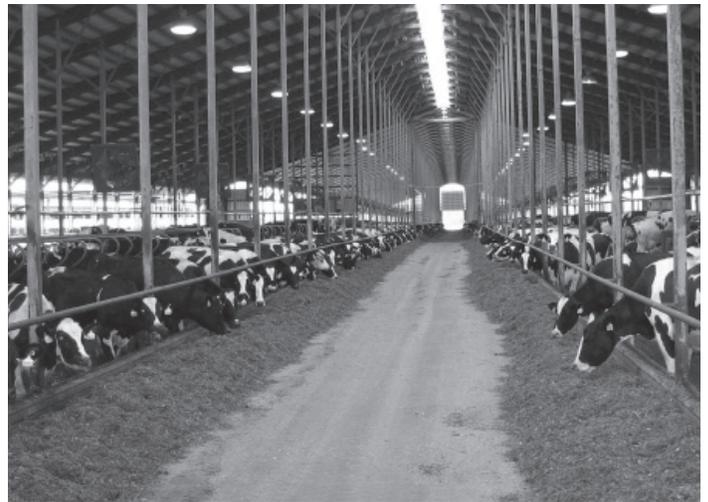


What are Lender’s Thinking?

- | Rating | Equity | D/R | Liquidity |
|-----------|--------|--------|-----------|
| • Ex | +75% | 2:1 | 2:1 |
| • Good | +60% | 1.75:1 | 1.75:1 |
| • Normal | +50% | 1.25:1 | 1.25:1 |
| • Watch | 30% | 1.00:1 | 1.00:1 |
| • Sub Std | <25%> | 0.90:1 | 0.90:1 |



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334



What To Do?

- Balance Sheet
- 3 Years of Income Stmts (Accrual Adjusted)
- 2019 Projection
- Business Plan
- Talk with Lender
- 2019 Cropping needs
- 100,000 SCC, 6-7# Components
- Get on the List of a Higher Paying Plant



An Employee-Owned Company • www.vitaplus.com • 1.800.362.8334



