

Dairy Digest

Newsletter of the Arkansas Dairy Improvement Program

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Upcoming in the Arkansas legislature – House Bill 1451, the Dairy Stabilization Bill, passed the House of Representatives' Agriculture, Forestry and Economic Development Committee meeting on February 20.

Top Ten Keys to Surviving in 2009

*Brad Hilty, Business and Information Management Specialist,
Penn State Dairy Alliance*

2009 is going to be a challenging year for dairy producers. And yes, milk prices will increase again. In fact, the rolling five-year average has been increasing about 18.5 cents per year since 1990. Focusing your efforts on the factors you can control will help minimize losses and ensure that you will survive. Consider these ten keys to surviving this downturn in milk prices.

1. Assess, plan and communicate. Although you may not like the results you see, a monthly cash flow budget will give you an idea of when the business will generate a surplus and when it will generate a deficit. Be realistic!

2. It is all about CASH FLOW right now; MANAGE accordingly! Implement a chart of accounts that will provide you with management reports that help pinpoint weaknesses in your production systems. Compare your production costs to those of the top 10 to 20 percent of profitable dairies. Also, utilize production records, such as DHI records, to evaluate herd performance and keep cows performing at optimal levels. Stay up on culling decisions to

avoid keeping cows around that are costing, not making, you money. If you don't measure it, you can't manage it.

3. Analyze your cost centers.

On many dairies the primary, and in most cases the only, profit center is milk production. However, all dairies have multiple cost and support centers that flow up through to the profit center. Are operations being run as efficiently as they should be? Are you using multiple operators to run a milking center that could be operated by one person? Is feeding being done accurately?

4. Implement a management team.

Assemble key advisers periodically to help develop strategies to improve cash flow and profitability. Team members may include your veterinarian, nutritionist, agronomist, dairy consultant, extension educator, lender, accountant or financial adviser. By communicating, the team can help monitor trends in key production indicators and help prevent small problems from turning into major catastrophes.

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Including your lenders will give them a better sense of how the business is performing and increase their comfort level with any requests you might need to make in terms of loan servicing. **LENDERS DON'T LIKE SURPRISES!** If you think you will have trouble making loan payments and maintaining sufficient CASH FLOW to effectively run your operation, approach your lender with a plan that may include increasing a line of credit, having loans put on interest only or possibly restructured. Be sure to include how you plan to catch up on your payments when milk prices increase.

5. **Control the "controllables."** These include milk production, operational efficiency and marketing. Control what you must to get that next five pounds of milk out of your cows. It is the cheapest milk they will produce, as business overhead and the cows' maintenance costs are already covered. Those five pounds will decrease your cost of production and provide a much needed boost to CASH FLOW. Control mastitis to reduce somatic cell counts and earn milk quality bonuses. Properly balance rations to maximize production while controlling feed costs, and maintain the milk component levels (fat and protein) that influence your milk check. Look for marketing opportunities, but beware, as many producers have gotten burned by getting their feet wet in hedging at the wrong time.
6. **Manage expenses.** Realizing that many input costs lie outside of your control, look for areas where you can realize possible cost savings. This does not mean blindly cutting costs as many are prone to do in tough times. It means gathering information to see if there are areas where inputs are not providing the returns they did when milk prices were high. Evaluate the cost-to-benefit ratio of each potential purchase,

investment or management practice shift. If the marginal cost of a feed additive or management practice exceeds its marginal return, **DROP IT!**

Invest in areas with quick paybacks that contribute additional CASH FLOW immediately through increased revenue or reduced costs. Put off any investment that requires a considerable time lapse before returns are realized. Although profitability drives cash flow over the long run, in tough times your primary focus must be maintaining CASH FLOW. Manage inventories to minimize carrying charges and control overhead. Examine your labor needs. If you are providing benefits to your employees, ask key employees if they would consider working overtime so the total number of employees can be reduced, thus decreasing your labor overhead costs.

7. **Maximize forage quality and feed a balanced ration.** High-quality forages significantly improve dairy farm profitability and CASH FLOW by reducing the amount of grain that must be fed (reduced feed costs) and providing the foundation for higher production (increased revenue).
8. **Keep cows comfortable.** Walk through your facilities. Are cows lying down when not eating? Do they have trouble getting up? Do cows wait too long in the holding area? Do they get plenty of fresh air, feed and water? Can they walk without slipping? Can a simple and cheap investment in improved ventilation and cooling keep cows milking better during the summer months? Poor cow comfort levels can lead to poor profitability through reduced production, poor reproductive performance, higher cull rates and higher feed costs.

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Dairy Situation and Tips for Profit

*Jodie Pennington, University of Arkansas Dairy Specialist, and
Geoff Benson, Extension Economist, North Carolina State University*

Once again in 2009 (February 16), dairy farmers will be struggling to cope with the downside of milk price volatility, with farm prices down sharply from 2008. In addition, cost of production will be higher than in years past but somewhat lower overall than in 2008. The result will be a very difficult year from a cash flow standpoint.

A U.S. All Milk price is projected in the range of \$10.95 to \$11.65 per cwt, with a mid-point of \$11.30, down \$7.02/100 lb from 2008. These forecasts are based on normal weather and projected feed costs.

The USDA price forecast is dire indeed. However, as of mid-February, futures market prices for Class III milk are higher than the USDA forecast at an annual average of around \$12.30/100 lb, which implies a U.S. All Milk price of close to \$14.00/100 lb. Because of the way the Class I mover is calculated, the monthly futures prices

imply an average mover that is closer to \$14.00/100 lb. The difference in these two price scenarios likely hinges mainly upon the speed with which production responds to the financial pressures caused by low milk prices and higher production costs. By this we mean that a large number of dairy cows will need to be culled to restore the balance between supply and demand. We find it hard to believe this adjustment will be as slow as the current USDA forecast because of the financial stress on dairy farmer incomes, and we lean towards the higher prices that the futures market is indicating.

No MILC payments were made in 2008 or in January 2009. However, substantial payments are expected for February through fall. Because feed prices have moderated, the feed cost adjuster is not expected to generate large changes in the price trigger. The National Milk

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Producers Federation provides MILC payment projections based on current futures prices on their website at www.nmpf.org. Current (mid-February) payment rates are projected to be \$1.34 in February, increasing to \$1.77 in March before decreasing gradually through September. Farms are eligible for MILC payments on up to 2.985 million lb of milk sold per fiscal year. For farms under the payment cap, MILC payments will be around \$0.75 per 100 lb on average.

Tips for Tough Economic Times

- Spend wisely. There are always things you have to buy, but spend as little as possible, hunker down and spend only what you need. However, you don't want to cut down on feed and semen and other items that can cost you in the future.
- When spending, calculate what the return on investment is and prioritize accordingly. Always keep good records so you know what your return on investment is. Put a pencil to any expenditures and see what return on investment you will get. Review your equipment, facilities and feedstuffs to see where you will have to spend money and plan accordingly.
- Have a good association with your banker. As one producer said, the belt is out of notches and can't be tightened any more. You may need to borrow money. Tell your banker the good and the bad. Don't borrow your last dollar so that if you have to sell cows or other items to make it, your cows and facilities are in such bad shape that they don't bring anything. Make sure you have enough reserves to keep everything in acceptable condition. If necessary, restructure your debt payments and possibly borrow more operating funds if you will be able to pay them back.
- From a personal standpoint, you can consider (not usually recommended) selling nonfarm assets, e.g., timber and items used purely for recreation. In some cases, it might make sense for family members to seek off-farm income to aid in paying the bills. Family living expenses should be minimized.
- Emphasize cleanliness and health prevention for the dairy, since these are small out-of-pocket costs but can prevent or minimize much greater costs if animals get sick from mastitis and other illnesses. Review your operation to make sure that cow comfort is not limiting milk production. Try to minimize the cows' contact with mud. Make sure that cows have shelter when the weather is cold and have dry place to rest all of the time.
- Make sure your ration is balanced for your level of production. Do not cut back on your feed in the milking parlor or grain in the TMR to the point that you end up with thin cows.
- Feed cows according to their level of production. High-producing cows require more energy and a greater concentration of energy in the diet in order to consume enough nutrients to produce large quantities of milk.
- If you are in a situation where pasture is available, it is usually more economical to provide the cows with high-quality forage now to ensure their milk production level is maintained rather than allowing them to lose their body condition. Plant annuals in a timely manner in order to maximize yield.
- Ensure that fresh feed and water are available to cows at all times. Too often producers who are short on money will cut feed for cows, cows become thin and then they can't produce large quantities of milk when milk prices rise. Make sure water is not frozen in very cold weather.
- Check limiting nutrients in the soil with soil tests, which are of no cost to you. Always consider the advantages of manure as an economical source of fertilizer for forages.
- Watch feet health while pastures are wet. Rotate pastures often so feet are not damaged in the muddy areas. Give the muddy, chewed-up areas time to dry out and heal so forages will grow better. Rotating pastures also decreases the likelihood of udders being contaminated with organisms that cause mastitis. Consider a chelated mineral that improves both udder health and feet if high SCC and/or feet are a problem.
- Plan now for next summer. Consider adding fans and sprinklers in your holding pen before summer heat is here – if you don't have them.
- Plan forages for next summer. Since grain prices are expected to be high, plan for as many high-quality forages as possible in order to reduce grain feeding.
- Rotate pastures to keep cows out of the mud and reduce mastitis in cows. Environmental, mastitis-causing bacteria produce toxins and other irritants that damage milk-producing cells and then cause a loss in milk production. If destruction occurs, the cells are replaced permanently by scar tissue. A single quarter that is infected for one lactation may reduce milk production by 10 to 12 percent. Therefore, when wet, muddy weather arises, a barrier teat dip may decrease the incidence of new infections in the udder. Discuss these more expensive teat dips with your veterinarian and/or supply salesperson.
- Make use of your county agent. He/she can help you balance rations, conduct soil testing, conduct forage testing, review your dairy management and many other things.

Don't hesitate to contact your local FSA office to see what programs they have available. Everyone should sign up for the MILC program – although the timing may vary if you produce more than three million pounds of milk.

Don't change a lot of things at one time. Put a pencil to any change and see how it affects your long-term profits. If you need assistance on specifics, contact your local county extension agent and he/she will be glad to provide assistance to you.

Top Ten Keys *(cont. from page 2)*

- 9. Invest wisely.** You will likely have to put off making any capital investments during this downturn. However, there will be situations where that is not possible. Analyze every investment you make to determine the return it will generate for your business, keeping in mind that CASH FLOW is your major priority right now.
- 10. Manage information and know your cost of production.** Base your decisions on facts, not emotions. Having accurate information on which to base management decisions is critical when managing in crisis mode. If your record system does not allow you to easily calculate your cost of production and conduct cost center analyses, consider changing to a system that does.

Available from your county extension office is MP469, *Dairy Cattle Evaluation*, and a video, *Fitting and Showing Your Dairy Animal . . . A Winning Experience*.

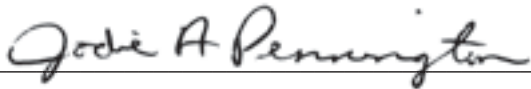
Upcoming Events

March 11, 7 p.m. – Area Dairy Meeting, Western Sizzlin', east of I-540 on north side of Highway 412 in Springdale. Topics include dairy legislation, milk prices and sexed semen.

March 12, 10:30 a.m. – Area Dairy Meeting, Faulkner County Extension Office, Natural Resources Building, Conway. Topics include use of probiotics, panel with tips to survive the next months, dairy legislation, milk prices, sexed semen and genomics.

June 12-13 – Four State Dairy Days, Benton County Fairgrounds, Bentonville.

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