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The AGRI-VATOR

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AB welcomes Trent Lartz, DVM, providing independent consulting in south central PA

SHIPPENSBURG, Pa.—Agri-Basics, Inc. welcomes Trent Lartz, DVM to our team of independent dairy and beef nutrition consultants.

Serving Franklin County and surrounding areas, Dr. Lartz will provide independent consulting, expanding Agri-Basics’ presence in south central Pennsylvania.

Trent and his wife Amy, both veterinarians, operate their Illini Mountain Farms, which is home to their Mountain View Veterinary Services—a mixed practice with four veterinarians serving area dairy farms, the equine industry, deer and alpaca producers, as well as pet owners.

“Trent has good on farm experiences, and because he happens to be a veterinarian with a dairy practice, he is very knowledgeable about cows. This will really benefit his nutrition customers,” says longtime AB nutritionist Tim Rutledge who is working closely with Trent in honing his skills on the nutrition side.

Trent Lartz grew up in a small rural town in Northern Illinois, where he worked on dairy farms and in veterinary clinics since Junior High School.

He went on to earn his veterinary degree at the University of Illinois and then moved to the Bellefonte area of central Pennsylvania in 1999 before settling in the Shippensburg area of Franklin County in 2000. Mountain View Veterinary Services was established here in 2003.

“We built the clinic that spring,” Dr. Lartz recalls. With another dairy veterinarian in the mixed practice now, he has cut back his day-to-day veterinary work and in September, started building his independent farm consulting business with a focus on nutrition.

“Agri-Basics is a natural fit for me,” says Dr. Lartz. “They are an independent group of consultants, and I immediately get the feeling they are very much focused on partnering with their producer clients. This kind of freedom, flexibility and independence allows for teamwork and



Trent Lartz, DVM

solutions tailored to customers.”

Dr. Lartz offers a well rounded package of experience and skills as an independent nutrition consultant.

“Having the veterinary background, along with this new area of nutrition, I can look at things with two different hats—from the nutritional standpoint in the context of total herd health.”

His veterinary practice, for example, is set up for services like milk culture tests for milk quality and udder health. Dr. Lartz plans to use all of the tools around him to focus on the success of his customers.

He sees their success as his purpose. “I like the challenge and I like the problem solving. But the best part is building relationships with customers,” he says.

“The big difference with Agri-Basics, is they are not a big company. Working as independent nutritionists opens a lot of doors for flexibility in feeding dairy cattle, so my focus can be on what works for the farmer. Instead of having a ‘pre-packaged’ program to ‘make work’ on a customer’s farm, I can listen to my customers and use my skills to work with them to identify what will work best on their farms.”

Dr. Lartz resides with his wife Amy and daughter Brianna in Shippensburg, Pa. He can be contacted at 717.532.6953, or by email at: tlartz@yahoo.com.

Power-packed seminar planned for December 10

The 2009 AB Dairy Seminar on December 10th in New Holland will feature Richard Brock, of Brock Associates based in Wisconsin. Brock manages grain sales and purchasing as well as milk sales for dairy producers. He authors the 24-page market analysis newsletter: The Brock Report, and he does a daily commentary for customers to keep them in touch with the markets.

As an expert on commodity markets, Brock will explain the impact of “world chaos” on feed costs and milk prices.

“We’ll start with what’s going on in the world and the general economy,” says Brock. “We’ll look at farmland values and what they mean, and we’ll spend a lot of time on the information producers need, in order to know how to make tough management decisions in an entirely new economic environment.”

Producers won’t want to miss Brock’s price forecasts for 2010.

Also on tap at the Dec. 10 Dairy Seminar is speaker Dr. Stephen Emanuele, dairy business development manager for Quality Liquid Feeds (QLF). Emanuele will discuss the interaction of different nutrients that affect the amount of energy and protein available to the cow, from feedstuffs in the ration.

“The energy values that we assign to different feedstuffs are calculated or estimated values, but the real energy and real protein depends on how these feedstuffs are fermented in the rumen,” says Emanuele. “We’ll talk about how different ingredients interact with each other for a positive effect.”

Emanuele will focus on how to make the cow more efficient, to feed more forage and “get more bang for your buck.”

“Milk margins are difficult right now despite significant price increases in the past two months,” he says. “Feeding cows more efficiently can increase the protein and fat content of milk, which increases its value.”

Join us on Dec. 10 for our annual customer appreciation dinner and Dairy Seminar. RSVP your AB nutritionist or call 800-361-9265

Managing market volatility

A combination of unique factors several years ago contributed to pushing milk prices to record levels last year. Changes in European Union CAP policies and difficult weather in Australia and New Zealand shrunk global milk product supplies, specifically skim milk powder supplies, and the United States was one of the few countries able to meet strong international demand, explains Ohio State University extension economist Cameron Thraen.

“Rapidly rising milk prices encouraged dairy farmers to expand their herds, increasing the national dairy herd by 349,000 head over the 2004 to 2008 period. During this period, net income on dairy farms soared to levels not observed in the last decade,” he says. “Net income over feed cost exceeded \$12 per hundredweight at its peak, when normal values would be \$7 to \$8 per hundredweight.”

Then the global recession hit.

“Everything was going along pretty well and then in December of 2008, the bottom fell out of the U.S. cheese market and the international demand side of the U.S. skim milk market evaporated. A lot of that demand was financed through commercial credit markets and when you can't get credit, you can't buy the product. Suddenly the demand that supported the high milk prices went away and we dropped back to the domestic-supported \$10 price,” Thraen observes. “At that point, dairy farmers had too many cows in the barn. Almost overnight they saw a 50% reduction in dairy prices.”

While they can't magically change \$10 milk into \$20 milk, dairy producers can concentrate on factors they can influence.

During World Dairy Expo at Madison Wisconsin in October, business consultant Tim Swenson, Lookout Ridge Consulting, talked about taking control in volatile times.

He identified the “spread” between high prices and low prices in a given year as one particular challenge.

For example, during 2007, the price spread was \$7.82 per hundredweight. The high that year was \$21.38, and the low was at \$13.56. In 2008, the spread was smaller, at \$4.97/cwt., with the high price at \$20.25 and the low at \$15.28.

In 2009, the price spread is projected at \$5.13—based on the summer low of \$9.31, and a projected Class III high of \$14.44 (which hasn't yet happened). The Class III milk price for October was \$12.82, and the Class III futures contracts as of November 23 peg November's price at \$14.04 and December at a possible \$14.70.

Swenson contrasted the price spreads of 2007, 2008 and 2009 with the spreads of the

past, which were much narrower: \$1.61 in 1992, \$2.59 in 1997, and \$2.54 in 2002.

With volatile price spreads, Swenson said that, “Lots of planning and a lot more discipline are needed.” He gave an example of how planning can help a dairy farm. He said he knows of a producer who is being paid \$17.70 for his Class III milk. That producer knew his cost of production, and he knew the price he needed in order to generate a profit. Then he locked that price in when it was available on the futures markets.

Swenson said a Class III futures price in the \$19 range was available as recently as July of 2008. But taking advantage of those opportunities means knowing your cost of production and developing a marketing plan ahead of time. (Right now, the market is in the low part of the cycle, so the opportunities for hedging risk are limited.)

Thraen, too, encourages producers to think differently in the future when the market swings higher. “When you see milk prices move up quickly, you need to be prudent with what you do with that extra income,” Thraen suggests. In fact, producers can manage their risk of market volatility by developing a plan for the extra income when prices are high.

“The first thing is get your financial house in order,” Thraen suggests, cautioning dairy producers not to look at eventual high prices as if they will last “because they don't. You are going to have these boom and bust periods, and during the boom periods, you should follow sound financial advice, pay down debt, and build a cash-flow cushion.”

Lenders used to believe \$300 per cow in cash reserves was enough. After the crisis of 2009, they are revising this advice. Going forward into the next upturn, once things are caught up on the farm, future cash reserves to build up will be more in the neighborhood of \$500 to \$1000 per cow.

Swenson also urged producers to learn how to structure their debt. “Work with your lenders to get the right mix of debt.” For example, think about converting operating loans that carry losses from prior years to term debt. “But make sure term debt is amortized for the appropriate life cycle of the assets. Don't pay 20 years for a machine that will be worn out in five years.”

In working with lenders to defer principal payments for a period of time, Swenson urged producers to remember that, “Unless the loan is reamortized, payments will be larger when principal payments return.”

On a final note, Swenson said: “Your cows don't know if it's \$10 or \$24 milk. Treat them like the queens they are. There's no silver bullet. I know we're all searching for it.”

Corn silage

for performance and budget

During the Dairy Forage Tool Box seminars at World Dairy Expo in Wisconsin in October, Randy Shaver, UW-Extension dairy nutrition specialist talked about how to best utilize corn silage to decrease dependence on corn.

“Feeding one-quarter to one-third of forage dry matter as corn silage has a proven lactation performance benefit,” said Shaver, adding that this benefit continues when two-thirds of dry matter forage is corn silage.

He cautioned that when the forage dry matter ratio approaches three-quarters or more from corn silage, there are challenges to consider.

The cost of feed inputs is often a determining factor, along with the quality and yield of the corn silage crop. High corn and low to moderate soybean meal prices favor higher corn silage diets, he said, while low corn and high soybean meal prices favor higher alfalfa silage diets.

But the major economic factor that favors corn silage to alfalfa silage is the dry matter yield per acre.

Comparing 50% forage dry matter in corn silage versus 25%, Shaver noted that corn grain reduction is about 4.5% or 2.5 pounds of corn per cow per day. A 75% forage dry matter in corn silage versus 25% equates to a 9% reduction in corn grain or 5 pounds of corn per cow per day.

These diet examples are based on a 50 pound dry matter intake and assume there are 25% more units of starch in the corn silage compared with alfalfa haylage.

He talked about the variability in corn silage, quoting an average NDF (neutral detergent fiber) content of 43% as reported by Dairyland Labs and 44% by Dairy One Forage Laboratory. The average starch content was reported as 30 and 31%, respectively.

“Analyzing for starch is very critical,” he said. If NDF is higher, then there is a decrease in starch. The opposite is true if the NDF is lower: Corn starch increases.

Shaver listed the potential reduction in feed costs. At \$3 corn: Decreasing corn grain in the ration by 1.5 pounds equals a \$1.02 reduction per cow per month; decreasing corn grain by 2.5 pounds equals a \$2.04 reduction per cow per month; and reducing corn grain by 5 pounds equates to a \$3.41 savings per cow per month. At \$4 corn: The savings are \$1.36, \$2.73 and \$4.54 per cow per month, respectively. And at \$5 corn, he noted savings of \$1.70, \$3.41 and \$5.68.

Dealing with the stress

The steep milk price drop in February was expected, but by June or July many believed prices would return to breakeven. That didn't happen.

As we are well aware, the milk price flat-lined at \$10 to \$12 all summer. Even the gains this fall have been small and gradual. The most recent USDA market forecast pegs the 2009 all-milk average at \$12.70. The USDA Outlook report also raised the forecast for the 2010 all-milk price by 90 cents to \$16.95 as a result of signals that global demand is improving and global stocks of dairy products have declined.

"The milk price has started to come up, to about \$14 per hundredweight, but it still isn't covering farms' production costs," says Jerry Bertoldo, Cornell Extension dairy specialist working with farms in nine New York counties, adding that many farms have already maxed out their borrowing.

During the March time frame, producers did a lot of restructuring of debt, started mobilizing cash reserves, and added lines of credit. By mid-September, lenders observe these additional lines of working capital were exhausted, and producers moved from 'hunkering-down' to the next stage: Realizing this thing is sticking around for awhile.

Stage two is now presenting a whole new set of challenges, say lenders and accountants, and they are concerned about the financial stress on dairies heading into the spring planting season.

"Spring planting requires a big infusion of cash," adds Bertoldo. "That's the big issue looming on the horizon because that's a big chunk of change they'll need in the spring."

Financial stress and emotional stress go hand in hand. From dairy producers to suppliers and service providers, everyone is feeling it.

Financial stress

The different levels of capital debt load coming into this recession have produced different degrees of financial and emotional stress. This is a nationwide problem affecting all dairy producers.

"We are finally reaching the end of the most disastrous year in dairy history that I can remember," notes Gary Genske, a dairy accountant with Genske Mulder & Co. Since 1972, he has been doing the books for dairies across the U.S.—including Pennsylvania—and his firm represents 12% of the milk supply. Genske is also a producer as a partner in three dairies in Virginia and New Mexico.

"We continue to lose dairy families every day, either through the CWT program, foreclosures and pressure from banks due to non-renewal of operating loans, ever growing payables to vendors or just

voluntarily leaving the industry because of sheer exhaustion," Genske relates.

Through September 2009, he projects producers lost \$705 per cow as an average across the U.S. Furthermore, in looking at asset value for just the first half of 2009, Genske states that, "The dairy industry has lost nearly 12 billion dollars of equity in six months due to the decline in value of all dairy cows and heifers. Never in the history of our company accumulating dairy financial records have we seen such losses that dairy farmers are experiencing today."

To really understand the severity, Genske says: "You must relate them to the measurements which are pretty standard throughout the industry. A commercial bank or the Farm Credit System will loan a dairyman approximately \$900 per cow. If a dairy farmer started out the year with absolutely no debt on his cows, at June 30th he would have nearly \$500-plus debt on his cows. He would have had to borrow money on his cows just to put food on the table, and make payments to his vendors."

That \$500 figure, he says, is only for the first six months of the year. "What will the third quarter reports look like . . . \$900 per cow losses?" he asks. "If that is the case, you will no longer own your cows, and the bank will. The question is 'who will buy them?'"

While all dairies are affected, financially, this year, the most vulnerable sector appears to be the young and beginning farmers as well as multi-generational farms who have recently expanded.

Lenders and financial advisors expect some tough decisions will be made by the end of 2009 and into the first quarter of 2010 in the current milk price environment.

Emotional stress

"Even though producers have little control over the price of their milk, it is extremely important for them to take control of their stress," says former clinical psychologist and family therapist Dennis Morris of Integrated Behavioral Resources. Today, Morris is an executive coach working with companies, associations, and universities. With Farm Credit as a significant customer, Morris has done many training sessions this year for loan officers and portfolio managers on how to deal with and recognize subtle signs of extreme stress. Know where you stand...

The first step is to identify where you stand, financially. Pencil out the assumptions on milk price and input costs for the coming year. Then find your 'stake in the road' and talk through your options.

"Clearly outline the problems you face. Be honest. And don't avoid any issues, even

if they seem threatening," advises Morris. "Producers have an intuitive feel for their situation. Being able to confirm what your 'gut' is telling you actually helps put the situation in financial terms you can understand and work with."

Put everything on the table...

A critical step for taking control of the stress is to prepare for the tough decisions, whether or not you have to make them. "It's important to put everything on the table. Don't rule anything out," says Morris. "Remember that every problem has a solution."

He encourages farmers to list all of their alternatives, strengths, threats and deficits, and to think of these as "opportunities to use to your advantage."

"It's important to consider what might happen to you and your family if you don't take any action," he explains. "This means staying open to any possible change by focusing on the best short-term and long-term alternatives."

Lenders say the end result should be to preserve as much of your hard-earned equity as you can by determining at what point you decide not to allow the equity to erode any further.

"That can be difficult in a multi-generational family, but talking it through is very important," says Mike Peachey, with Acuity Advisors and CPAs, LLP. "Identifying that 'stake in the road' helps the farm family start thinking about being mentally prepared for a decision they may or may not have to make. While talking this through may seem to add to the stress, it actually helps you gain control over the situation."

Keep communicating...

If producers are at a point of having a hard decision to make and they don't know what to do, Morris urges them to talk it through with farm advisors and look for assistance.

"Communication is absolutely critical," he says. Don't let the stress of unpaid bills "shut you down, mentally. Don't quit communicating. Talk with your lenders, suppliers, and service providers. And communicate with your family and your faith group.

Lenders and financial advisors agree: "Make that phone call."

"If you are the one initiating that communication—even though it may be a very difficult phone call—it puts you in control of the situation of when that call gets made instead of avoiding it and having the anxiety of thinking about that call," notes Peachey. Map out a plan...

Morris encourages producers to develop a written action plan that will be "your map to help you get through this."

An action plan includes a list of goals, tasks and specific steps you will take within definite time frames. *continued on page 4*

Dealing with the stress...

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"It's important to make sure you do something every day to achieve your goals," says Morris. "The action plan is your ally and guide to resolve your current predicament. Have a realistic perspective..."

This is a national situation, and producers here are not alone. Morris urges them to have a "realistic perspective" of the problem, to "think with your head versus your heart," and to have a "realistic assessment of your own capabilities—what you can and can't do."

Seek encouragement, support...

On the emotional side: It's important for dairy farmers to get support from family, other farmers, pastors and trusted advisors. Lenders and financial advisors agree that

having a support system of trusted consultants is imperative.

Having another set of eyes on the situation really helps the producer hone in on weaknesses to improve cost of production or to evaluate their situation and weigh all options.

Having a good track record for managing stress, in general throughout life, is another way dairymen can evaluate their own levels of tolerance for stress. Having balance in the family's life activities also helps mediate the stress in business.

Take action...

"Be engaged in doing something to change your situation," says Morris. "If we challenge ourselves to take action and do our best, we don't end up thinking of ourselves as a victim or as powerless in the situation."

"There's a lot of fierce determination, and

a sense of urgency among dairy producers, to get better," he says, adding that stress can be greatly reduced when producers take action to influence what they can influence and to control what they can control.

"Learning is critical," says Morris. "If we look at this situation to see what we can learn about ourselves and how we can come out of this as a stronger person, we engage the situation—the stressor—in a more positive way. If people see the situation as threatening, they feel more anxious about it. If they see it as loss, then they feel sadness and grief," he explains. "But if we see the situation as a challenge, we end up working toward improving the situation, and our relationships, and we learn something new. There is some anxiety attached to that, but also a more positive level of excitement."

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