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NOTE to editor: This is one in a series of articles produced by University of Wisconsin-Extension agents and specialists to address farming through difficult times. More articles can be found on the Extension Responds website at:
www.uwex.edu/ces/ag/farmingindifficulttimes.html

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Contact: Tom Kriegl, 608-263-5665, tskriegl@wisc.edu

Managing through Difficult Times: Profitable Practices for Tough Times

Madison, Wis. – When times are tough -- when commodity prices are low, when there is drought or a shortage of feed, for example -- farmers often ask: “What are the most profitable practices under these conditions?”

The answer usually disappoints those who ask it because practices that maximize profitability when “times are good” are the same practices that help maximize profits (or in many cases minimize losses) when “times are tough.”

“I think this surprises people because, when times are good, one can achieve a satisfactory profit level without using all of the profit maximizing practices,” said Tom Kriegl, Farm Financial Analyst, Center for Dairy Profitability, University of Wisconsin-Madison/Extension. “When times are good and profit margins are generous, people may become complacent and adopt practices that seem convenient or appealing even though the practices reduce profitability. When these practices become routine, it is easy to think of these less profitable practices as essential.”

It’s also important to recognize that the components of a practice that contributes to profitability can change.

For example, feeding the least cost-balanced ration (compared with feeding an unbalanced ration and without regard to cost) is a practice that helps maximize profits or minimize losses under all conditions except one -- when revenue fails to equal or exceed variable cost. However, the components of the least cost-balanced ration can vary radically as prices of the ingredients and the product change.

We must also recognize that tools that maximize profit can be underused. For example, feed testing, milk testing, soil testing, and record keeping and analysis are all tools that can help

maximize profits. Yet, some managers pay for these tools but ignore the information the tools provide. Misusing or not using such tools will actually detract from profitability.

In summary, the practices and tools that contribute to profitability are similar in both good economic times and bad. However, the way managers implement these practices and tools may change. To maximize profitability, managers must pay attention to details and make adjustments to these practices to fit their circumstances. Following are more specific comments about adjustments.

1. Analyze, measure, test and monitor. You can't manage what you can't measure.
2. Review all of your practices – including financial and production.
3. Return to the basics – the practices that serve best in most conditions.
4. Focus on input-output relationships.
5. Pay attention to details.
6. Eliminate wastage wherever you can whether it is reducing feed spoilage or the avoidance of spilling manure on the road where it does no good.
7. Use decision making tools such as those provided by UW-Extension.
8. Monitor your cost of production on a regular basis. On many farms it should be done monthly.
9. Focus on the controllable larger expense items first. Even among dairy farms that raise much of their feed, purchased feed is usually the largest cost item. Other cost items that rank high for most dairy systems in most years include depreciation, labor, repairs and interest. When costs are categorized in a different way, the cost of raising or buying replacements is also a very large cost. The same is true for all the costs associated with raising feed. Don't get over focused on the smaller costs without having these larger costs under control.
10. Defer or pass up capital investments unless they are really needed now. However, if your debt is low, you intend to farm for several years, and you have cash reserves or a good credit rating, you might find bargains for capital items and interest rates. Even then, limit capital purchases to items that really are needed in the long run. An item like a low cost labor efficient milking parlor could fit into the need category even now.
11. It is appropriate to time capital investments for tax management purposes, but few if any capital investments can be justified on tax benefits alone.
12. Make sure your debt is productive debt—debt that supports investments that will pay for themselves in a reasonable time frame.

13. Check opportunities to refinance for lower interest rates but make sure that refinancing costs don't nullify the reduced interest rate. If refinancing converts your interest rate from fixed to variable, be aware of what that could mean.
14. Take advantage of government programs such as MILC.
15. While one needs to survive the short run to have a long run, don't lose sight of the long run.
16. While many farm families routinely minimize family living costs, that isn't the case for everyone. Consequently 2009 would be a good year to reduce or defer large discretionary family living expenses such as new cars or houses.
17. Maintain adequate two way communication with your farm staff (whether paid or unpaid) to ensure proper training and functioning of and to minimize turnover of the labor force.

To access more information and/or tools to help analyze your situation, link to the Extension Responds web page at: www.uwex.edu/ces/ag/farmingindifficulttimes.html

For assistance in making these tough decisions, contact your UW-Extension county agent, your Farm Business and Production Management Instructor in the Technical College or the DATCP Farm Center at 1-800-942-2474.

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