

Extension Responds:

Profitable Practices for “Tough Times”

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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. 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 these 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. Below are more specific comments about adjustments.

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1. Analyze, measure, test and monitor. You can't manage what you can't measure.
 2. Review all of your practices – financial, production, etc.
 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 where ever you can whether it is reducing feed spoilage or the avoidance of spilling manure on the road where it does no good, etc.
 7. Use decision making tools such as those provided by UWEX.
 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. This is what has happened to many New England organic dairy farms. Many of these farms gave up their organic certification in 2008 because they didn't raise grain and their price of organic grains was about double the organic price in Wisconsin. They can't regain organic certification without selling their cows and buying certified organic cows. Many can't afford to replace their herds and will miss a price premium that could average \$10/CWT sold higher than conventional price.
 16. 2009 could be a good year to be organic but not a bad year to be converting to organic.
 17. 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, houses, etc.
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