

# LOW MILK PRICES CALL FOR POSITIVE MOVES



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Now is the time for all dairy producers to become very realistic about milk prices. It is the same reality that the world economies have been facing since September 2008. Unfortunately, the economic waves have now reached the barnyard. There will not be any economic stimulus package or bailout for the dairy industry. It is a time to keep a calm business head about you. Now is the time to gather your key financial information; openly talk with your lender, suppliers, trusted consultants, partners, other dairy producers, and, of course, your family.

All businesses have now felt the reality of huge price swings that no one would have imagined just a few years ago. Oil prices from \$140 a barrel to less than \$40. Corn prices from \$7 a bushel to \$3. Milk prices from \$20 per hundred to under \$11. You get the picture. Now we all have to train ourselves to expect the unexpected.

The business of milking cows truly has been and will continue to be a satisfying and financially rewarding enterprise for many. However, more than ever, you must brace yourself to withstand massive negative cash flow months. An immediate action plan is a must. Here is where to start if you haven't already:

1. Complete your current financial statement. It is hard to believe how few dairy producers have a fresh statement and how many times many lenders only ask for collateral information without completed financial statements. If you do not have a

## FARM FINANCIAL STATEMENT

	ASSETS:	LIABILITIES:
<b>Current:</b>	Cash Feed Stored	Bills over 30 days Principle due in the next 12 months Lines of credit due in the next 12 months Credit cards
<b>Intermediate:</b>	Cattle Machinery Vehicles	Loans on cattle Loans on machinery Other personal property loans
<b>Long Term:</b>	Buildings Land	Loans on real estate
<b>Total Value:</b>	\$_____	\$_____

**Total Assets \$\_\_\_\_\_ - Total Liabilities \$\_\_\_\_\_ = Net Worth \$\_\_\_\_\_**

form, ask your lender for a blank copy. Fill it out completely and with realistic values.

The financial statement falls into six key areas bolded in the table. For discussion purposes, I have simplified the financial statement; yours must be more detailed. Please note that Farm Financial Standards groups Intermediate and Long Term values together under Other Assets and Other Liabilities. I like to break them apart for a better understanding. You may want to work with your accountant or a financial advisor to complete your financial statement.

2. Now make an appointment with your lender. Bring in your financial statement, 2008 cash flow and your projected 2009 cash flow. If you have negative months, find out how much operating money you can get. Ask if lower payments, interest only payments, or deferred payments are

possible. Ask about Farm Service Agency loan guarantees or direct loans.

3. Then visit with your key suppliers. If you will need extended credit from them, find out how much they will extend you, at what interest rate, and terms.

4. Next, discuss your meetings with your business partners and family. Fill them in on how your visits went and what options exist.

5. When you come up with a plan, verify it with partners, family, suppliers, and your lender. Then update those involved regularly.

6. Now, the toughest statement to make! If monthly numbers are really negative, you have to decide when enough is enough. Those with the higher-equity positions will fair the best. If you are seeing your equity start disappearing, it may be time to gather your equity before it is gone. Do not wait for your creditors to force you to liquidate.

7. Last, but most important – don't panic. People have to eat; they do like the taste and nutrition of dairy products. The dairy industry will get through this totally unknown period. The sooner you make a plan and don't bury your head in the sand, the better off you will be.

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Accelerated Genetics has a bimonthly newsletter called **REPROconnections**. It is designed for producers interested in the latest reproductive specific information. If you haven't received this highly technical and free newsletter yet, but would like to, please send an email to: [reproconnections@accelgen.com](mailto:reproconnections@accelgen.com) or call 800.451.9275. Also, you can check out [www.accelgen.com](http://www.accelgen.com) for past **REPROconnections** issues.