

MORE THAN A WAY OF LIFE...

If I think about my 34 years in agriculture finance and consulting, I realize running a dairy is now a business, and not just a way of life. To be competitive, producers must understand air and water regulations, labor



FYI

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laws, cash flow projections, hedging on futures exchanges, and how international markets affect local markets.

The “average” size of a dairy continues to rise on an annual basis with the average California exceeding 1,000 for the first time as compared to an average herd size of approximately 275 cows when I began my career in 1978. It is common for dairies to be 4,000-6,000 (plus replacements) and with larger operations,

the issues of running a business becomes more burdensome, expending the energy and time of the owner/operator.

The days when a lender would come to a dairyman’s house to discuss the issues at hand, borrowing needs for the upcoming year and assisting in the preparation of a two-page balance sheet are gone. Lenders now require quarterly or semi-annual accrual basis financial statements prepared by accountants, monthly borrowing base reports, not to mention answers to borrowing covenants that are out of compliance. These tasks require understanding the information, being able to assemble information, and in times of economic distress, being able to handle lengthy negotiations. Additionally, there are multitudes of various interest rate options that can change over a short period of time that need be tracked, evaluated, and acted upon. The days of Prime plus 1% as the annual rate are gone.

Air and water regulations on a state and federal basis are in a constant state of fluctuation, influenced by the political authorities and special interest groups. Ongoing reports must be completed on a timely basis in an effort to stay within today’s compliance terms. Various mitigation solutions must be evaluated for efficiency and cost. All of the reporting and evaluating takes considerable time and energy from the day-to-day operations of the dairy. I

don’t remember dairy operators dealing with these issues in the early 1980’s.

The Class III milk price for the period from 1980 to 1990 ranged from a high of \$12.57 per cwt (on an annual basis) to a low of \$11.03 per cwt or a range of \$1.54 per cwt. For the period of 2000 to 2008 the Class III price ranged from a high of \$18.04 per cwt. (on an annual basis) to a low of \$9.74 per cwt or a range of \$8.30 per cwt. Obviously, a dairyman could project income for a 12-month period with a much larger degree of accuracy as compared to current markets. To make matters worse the volatility has become even more severe. The July Class III 2011 contract traded around \$17.23 per cwt in early April 2011. Today, the July contract is trading at \$14.27. Therefore, the need for cash flow and risk management projections was minimal to non-existent.

That is just the income side of the equation, couple the income volatility with the large swings in corn (in excess of \$7 per bushel to \$4 per bushel) and fuel and the ability to forecast a 12-month period has become a very difficult and time consuming task on each dairy. A dairyman has had to become familiar with terms like “burn rate,” “puts,” “options,” etc. In other words, understanding a new language is expected in the industry.

BST, sexed semen, TMR, and RoundUp Ready Corn, to name a few, were terms not heard in the 1980’s. Today, they are commonplace in the dairy vocabulary. Each new practice, product or technique requires evaluation and devotion of owner/management time and energy. In some cases the time expended is large with uncertain outcomes making decision-making difficult. Couple the additional management challenges with the “instant” flow of information provided by via cell phones and iPads, and the dairy manager can be quickly overwhelmed.

While the average herd size has grown tremendously in the past three decades, the drain on management time, energy and expertise has far surpassed the herd growth. Dairying has become a business and an owner/manager must decide on where their skills are most beneficial to the operation as a whole. Is it with the cows, is it in the office collecting and analyzing information or is it overseeing a group of managers and professionals that provide input and guidance and then making the best decision possible with the best and timely information possible. Just my thoughts. □