

[What should I do with a healthy milk check?](#)



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Thursday, 06 March 2014 14:13

*Milk checks in 2014 look like they will more than cover my feed and operating expenses.*

*Since this hasn't happened for some time, and since I'm still gun-shy after 2009, how much cash should I hold liquid in a bank account after I pay some bills and build back a little equity? What should I do?*



**Bob Matlick**  
Partner  
Frazer, LLP

The answer to this question will vary as to each operation and that operation's debt levels. If the operation has little or no debt, they are most likely in a position that enables them to borrow on their existing lines of credit should the volatility in income and expenses cause for a negative margin.

Therefore, those types of operations would have little need to build a cash position. I would encourage them to look at building inventories or perhaps diversifying into other agriculture commodities that have volatility cycles that may run counter to dairy cycles. Even investments into other assets outside of agriculture may be worth considering.

If the operation has moderate to heavy leverage, the ability to borrow on their existing lines of credit or utilize collateral not encumbered becomes limited when margins turn negative.

A \$3-per-hundredweight negative margin on a 2,500-cow dairy is approximately \$160,000 per month with gross monthly income of approximately \$1 million. A six-month reserve for that negative margin would be a \$1 million reserve in cash or assets readily convertible to cash (feed).

As an alternative to reserving cash, I would encourage a producer to work on efficiencies within the operation to lower cost of production for a pound of milk and establish a strong working relationship with their lender including documented contingency plans for negative margins, inventorying feed at an adequate level and keeping vendors current.

I would also avoid any large-scale expansion or capital improvements and develop a strong risk management plan for both inputs and outputs.