

Ag Banking SOLUTIONS



Tips & information for the ag industry from Investors Community Bank / Volume 5, Issue 1, 2019

LET'S GET PERSONAL



Many of you know our ag team on a professional level, but how much do you know about them personally? Each issue we spotlight a different team member and share some fun facts!

Name: Steve Fleming
Title: Vice President -
Ag Banking Officer
Education: UW-River Falls

- **Years banking experience:** 31
- **What was your favorite food when you were a child?** Mom's butter burgers, long before Craig Culver figured out they were a thing.
- **What's the most played song on your iPod?** My go-to is the Bourne Supremacy movie soundtrack, but my workout music is Iron Maiden.
- **What is one of your favorite quotes?** "Every man's greatest strength is his weakness and every man's greatest weakness is his strength."
- **Which celebrity do you get mistaken for?** William Zabka...the bad guy in the Karate Kid.
- **When you have 30 minutes of free-time, how do you spend it?** Daydreaming about work.

Keep Your Farm Focused in Today's Economy

By: Tony Betley, Vice President - Senior Ag Banking Officer, Investors Community Bank

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We are in a fourth year of depressed milk prices, the longest span we've experienced in the last 20 years. Dairy farmers must concentrate more than ever on expense reduction and enhanced profitability.

For a long time, the industry has focused on production, sometimes regardless of cost. We have all heard, "Did they buy their milk?" In this income-depressed dairy economy, the producer's focus must be on farm profitability, seeking to shave expenses without cannibalizing income.

Where are you generating income?

While dairy farmers have endured repeated cycles of milk price fluctuations, the one constant was that dairies always had access to a milk market. Farmers now need to ensure they have a consistent milkshed to ensure market availability.

Second, they need to evaluate to whom they're marketing their milk. There is a large disparity between what farmers are being paid for milk, depending if they go to plant A or plant B. 2018 comparisons showed upwards of \$2.50 to \$3 per hundredweight difference among milk processors buying milk in the same area. While not a simple undertaking, it's worthwhile. Take five minutes to make the phone call. There hasn't been a lot of activity, but some milk plants are beginning to seek additional sources of milk. While you may not have immediate access to a better market, more than likely you will be on the list for the future.

Take a team approach to evaluate key expenses

It is important to review the major items on the operation's expense column: feed, labor, raising heifers and loan repayment. Review these expenses and operations with your management team; tap them for their expertise. While you are one operation, your consultants (including your lender, veterinarian, nutritionist, agronomist and business specialist) work with many different farms. "Mine" their wealth of knowledge. Ask about measurable results they've achieved elsewhere, and measure your own results. Nothing measured equals nothing managed.

Take a critical look at each expense category:

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Keep Your Farm Focused in Today's Economy (cont.)

Feed costs (cropping and purchased feed) make up the single largest production cost, representing more than 50 percent of a dairy farm's operational expenses. Have regular, organized meetings with your nutritionist and agronomist, looking at your cows' nutritional needs to make the best quality and quantity of milk.

The farmer in this scenario needs to say, "This is what I need for milk," and it's up to the nutritionist and agronomist to recommend what to plant or buy to reach that target. Dealing with substandard or inadequate feed supplies can make the difference between good quality, profitable milk and the alternative.

Due to shortages, labor is already a top-of-mind issue for many dairy farmers. Labor costs in low-margin situations compound the challenge. Maneuvers include reducing costs or making do with fewer people. In terms of labor efficiency, it's equally important to evaluate if you have the right people – including family members – working.

Is the person you're paying \$13 per hour doing half or two-thirds the work as the person earning \$15 an hour? I frequently see this on the farms I visit, and it doesn't matter what type of farm it is. By their nature, some employees are more productive and contribute more to the business. You may be better off having three \$15-per-hour employees who produce versus four \$11-per-hour employees.

Just because someone is born and raised on a farm doesn't mean he or she is a productive labor unit. If "Johnny" comes home from college and wants to work on the family farm – especially if he's bringing along his own family – the parent or owner must evaluate if the farm is big enough to support that additional family. From a business perspective, do they bring enough value with regard to profitability? This needs to be measured in an unbiased fashion. Family members must be challenged to bring new skills and ideas to the farm to support your operation's bottom line.

Raising youngstock is no small expense, whether they are raised at home or sent to a custom grower. Evaluate costs to raise a heifer from birth to milking age: Is it \$1,700 or \$1,300? While I acknowledge cost is not the only factor, the difference of \$400 per animal per year is significant for any size herd.

Miscellaneous expenses also need to be on your radar. These include supplies, whether it's machinery supplies, milking parlor supplies or veterinary and pharmaceutical expenses. Bid these out at least annually; it's too easy to get comfortable working with one vendor. Dairy service industries are now looking to expand their sales and may be more willing to be competitive.

Monitor cash flow more frequently

While many operators perform annual profit and loss statements and take the time to plan their cropping or other operational schedules, more frequent analysis can be beneficial. A regular, monthly review of your profit and loss statement is an important tool to understand where shortfalls are. Top producers know their numbers monthly versus quarterly. Combine this with creating forward-looking budgets with your consulting team.

Look forward and communicate

Yes, the industry is in a challenging time right now. Looking backward and learning from your mistakes is important, but spend the majority of your time looking forward.

I can't emphasize enough how important it is to lean into your consultancy team, and to vocalize your challenges. The more the team understands your challenges, the more apt they are to find solutions. My experience as a lender is those farmers who communicate with me the best are the ones I can best help. Your entire consultancy team's goals should be to help you solve problems and attain goals.

On a lighter note...

If you have teenagers, you know how important it is to be aware of what they're texting. Here's how you can tell if your teen may be texting about...sustainable farming.



OMG - Organic Mushroom Gardening
LOL - Lots of Lettuce
WYD - Weed Your Dandelions
LMAO - Left My Axe Outside
WTF - Where's the Fertilizer?
SMH - Share My Harvest
ILY - Increased Land Yield
BTW - Bring the Wheelbarrow



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