

The Dairy Business

By
Newton Bair



Financial Stability

In the course of my duties as a trouble shooter for the Farmers Home Administration, I find that the debt is the biggest obstacle to success. Pure and simple, the farms that are under stress financially are the ones that are carrying more debt than the farm itself can support. And it is not too hard to find the limits of debt that a farm can assume. The problem is finding a way to bring the debts within the limits imposed by the income ability of the farm.

Several techniques can be employed to determine the financial stability of a farm operation. All of them require the use of good financial records, whether they are obtained from the IRS 1040F, or more intensive Farm Analysis Records like PFA, or Federal Land Bank Analysis. In some instances, the figures are so obviously disheartening that no analysis is needed to see that the system can't work. Sometimes it takes a little digging and probing to see where the weaknesses lie, and if they can be corrected.

One of the easiest and first techniques that I use is the Debt-to-

Asset ratio. It is figured by dividing the total farm debt by the total value of farm assets. The result is a decimal percentage figure called the D:A ratio.

Suppose that the total farm debt is \$300,000. The total value of the farm assets is currently \$350,000. The D:A is .857, or 85.7 percent. Farm Economists have been telling us that anything over 40 percent is too high, and flags a warning.

For a young family starting out with little or no assets above what they borrow, it is impossible to have a D:A with an acceptable range. Many are actually negative, with debts totalling more than the assets.

Another simple test is Debt per cow. If the above farm has 52 milking animals, the Debt per cow is \$300,000/52 or \$5769 per cow. Economists figure that \$4000 per

cow should be tops, for survival. This is a second warning flag. It can't be improved by simply adding cows, because the debt would also have to be increased, with no net reduction in the Debt per cow.

I have also used several different types of analysis, including the Farm Mini-analysis developed by the Extension service.

If good sound figures can be obtained, this type of analysis gives a good picture of the financial health of a farm business. It also provides projections of what might happen if certain goals are increased.

When we play "what if?" with these computerized formulas, we can quickly see what the effect would be if production per cow is increased 5 or 10 percent, crop production is increased, feed quality stepped up, and any or all combinations of those factors. We can also project some altered figures reflecting lower expenses, higher (or lower) milk prices, and lower family income.

However, this is a dangerous game, and can blind us to reality, leading to bad miscalculation.

The fact of life is that the times in which we are presently living are NOT the same as we had 15 or 20 years ago. The success achieved by dad in the last 25 years will be very hard to duplicate by the son. Even with some reduction in land prices from several years ago, the price may still be too high to afford.

Some young farmers are in many ways better dairy managers than their fathers were. But the times have changed so drastically that they will be hard pressed to duplicate what their parents have done.

I have spent many hours trying to convince good young farmers that they are much better off renting a good farm, and spending their talents and resources in developing a good herd.

The only way to start in farming and survive is by keeping the total debts within the debt-paying ability of the business. That figure can be calculated accurately within the known limits of income and expenses. If total debts equal or exceed the debt-paying ability of a business, it is nearly impossible to survive, let alone succeed.

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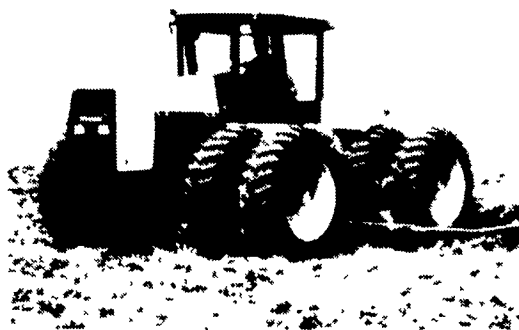
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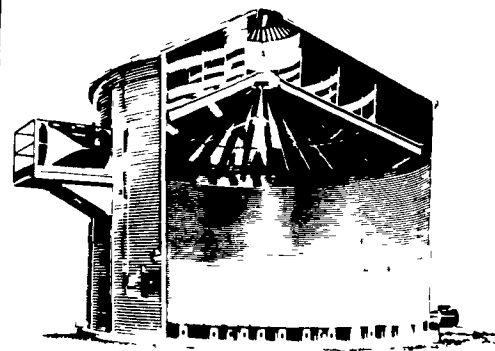
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