

# Farm Management

**RISK MANAGEMENT**  
 Glenn A. Shirk  
 Extension Dairy Agent  
 Lancaster County

In the business of farming, there is no shortage of risks and opportunities. When we think of risk management, all too often our focus is primarily on market volatility and the use of futures, options, and contracts, but risk management is much broader than that.

In addition to market volatility, there are the risks of adverse weather conditions, diseases, insect damage, health problems with people and animals, labor shortages, adverse public reactions, and more.

The important question is — how can we protect ourselves from some of these risks? Let's discuss some possibilities.

One of the best risk management strategies is overall good management. It generates more profit and it is less expensive than some of the risk management tools being sold.

The other challenge is to capitalize on risks and turn them into opportunities. For example, we say we enjoy price stability, but if feed prices never fluctuated we would have a fewer opportunities to pick up a good buy when prices drop or to make a good sale when prices escalate.

**Managing Feed Inventories**  
 Feed is a necessity on a dairy farm and one of the largest expense items, especially in times of shortages. To help avoid shortfalls and high prices, consider some of the following options:

- Maintain sufficient feed inventories to carry you through

periods of shortages, feeding off some of the old inventory and replenishing it to help keep it fresh.

- If you expect upcoming shortages, act early to lock in sufficient quantities of good quality feed before prices escalate, using lines of credit and other available means, such as contracts, futures, and options to take advantage of good buys.

- Reduce herd size to more closely match feed inventories. Cull excess heifers and poorer cows to stretch feed supplies and to make more feed available for the more profitable cows. Avoid the temptation to shortchange cows, especially the good cows, of the feed they need. An alternative to culling cows is to contract them out for someone else to feed until you have enough feed to take them back.

- Avoid the temptation of overgrazing pastures, it can really set pasture productivity back for a long time. A better alternative is to offer cattle supplemental feeds.

- Start early to use forage extenders and alternative feeds to help stretch feed supplies and minimize the need for making major ration adjustments.

**Herd Health And Injuries**  
 Losses from disease outbreaks, toxicities, and injuries can be devastating.

- Boost the immune status of the herd with good vaccination and colostrum feeding programs.

- Adopt strict biosecurity measures to reduce the spread of diseases. Maintain a sanitary environment for cattle. Don't let calves come in contact with manure from older cattle. Maintain clean, dry rest areas for cows and

protect them from wet, sloppy areas. Insist that visitors and service people sanitize their footwear before entering your dairy facilities, and provide a wash station to help them do this. Keep your herd records in a "safe" area so service people don't have to walk through feeding areas to get to them. Use single-service disposable needles or sanitize needles before reusing them. Maintain a closed herd and minimize the movement of cattle onto and off the farm. Dispose of dead animals in a quick and sanitary manner. Protect cows from streams which can carry organisms and pollutants from farms, businesses and other sources upstream. Control potential disease carrying vectors such as flies, stray dogs, birds, etc.

- Avoid residues and injuries by protecting cows from exposure to toxins and poisons. Store chemicals and drugs properly and comply with label instructions.

- Reduce the risk of mycotoxins. Adopt good ensiling and feeding practices, such as ensiling at proper moistures and chop length, rapid filling and good packing into an air-tight storage, proper feed-out rates, good bunk management, good disease and insect control of crops in the field, proper use of preservatives to enhance good fermentation, screening feeds for mycotoxins, etc.

- Prevent metabolic problems such as laminitis, DAs, ketosis, etc. with proper nutrition, good feeding practices, and proper care of transition cows prior to and after calving.

- Reduce injuries by providing cattle with a safe, comfortable environment which includes good footing, sole-friendly surfaces, proper stall design, removing potential hazards from cattle areas, gentle handling, etc.

**Adequate Labor**  
 There's no shortage of work on a dairy farm! Cows need to be fed and milked several times a day — every day. A lot of these tasks require experience — something that can be hard to find in many farm workers.

What happens when everyone

is carrying a full load when suddenly one of the farm workers falls victim to an unexpected tragedy or suddenly walks off the job without notice? Where's the experienced backup labor force?

Labor is one of the more crucial things to manage on a dairy farm — both family labor and hired labor. Labor makes things happen, and prevents things from happening.

If you were a hired worker, would you enjoy working for you? Are you and your workers conveying the message that your farm is a good place to work, and do you have job applicants seeking you out for employment opportunities?

If you aren't good with people and can't manage them well and don't enjoy managing them, you are at big risk if you expand your business to a size that depends heavily upon hired help, unless you are able to hire a good labor manager and give them the freedom to manage.

**Public Image**

What kind of image do you and your business convey to the public, and are you at peace with your neighbors and the local power structure? Is your business seen as an asset to the community? Good public relations can be a tremendous business asset.

**Managing Your Finances**

Chances are, a lot of money passes through your accounts in a year's time. The challenge is to hang on to enough of it to support your family, to lay some aside to create an emergency fund, and to have some to invest in your future. To accomplish this you need to generate enough income and have a good handle on operating and overhead expenses.

How much profit do you need or want per year? Let's say you need \$40,000 for family living, and let's assume you ship 2,000,000 pounds (20,000 hundredweight) of milk per year. That means you need \$2 profit per hundredweight of milk shipped. If milk prices drop \$1 per hundredweight, farm profits would drop

from \$40,000 down to \$20,000. Ouch! Can you reduce your standard of living to that level? If not, do you have a reserve fund you can draw from temporarily until you have the opportunity to replenish the funds?

Now, let's say your goal is to clear \$3 profit per hundredweight so you have \$60,000 profit per year. That leaves you with some extra monies to "lay aside for a rainy day." That same \$1 drop in milk prices reduces farm profits from \$60,000 down to \$40,000, which is still enough to live on.

So, to reduce your financial risks, one of your goals should be to maintain a comfortable profit margin per hundredweight of milk shipped. If profit margins are too tight, which can happen when you are heavily indebted, even a slight drop in milk prices can wipe you out.

To maintain this 2 million pounds of milk output (and current income level), the farm needs to ship 5,479 pounds of milk per day (2,000,000 pounds per 365 days). In a 100-cow herd, an average of about 15 cows will be dry and 85 will be in milk. Those 85 milkers will need to maintain an average production of 65 pounds of milk per cow per day (5,479 pounds per 85 cows).

If this were your farm, are you meeting your profit margin per hundredweight, pounds of milk shipped per farm, and pounds of milk shipped per cow per day? Do you know? If you're not meeting these goals, do you know why? Is it because of a shortage of income? Are operating and overhead costs per hundredweight of milk out of control? If so, which ones need to be improved? Do you know?

Good records can help you track performance against the goals you have set for yourself. They can help you track costs and itemize cost per hundredweight of milk shipped, as well as determining which farm enterprises are profitable and which ones are not.

**Contracts, Options, Futures, And Insurance**  
 Contracts, options, futures and insurance are good risk management tools, but they can never replace all of the good management strategies discussed previously.

(Turn to Page A27)

## PREPARE NOW for the FALL HARVEST SEASON

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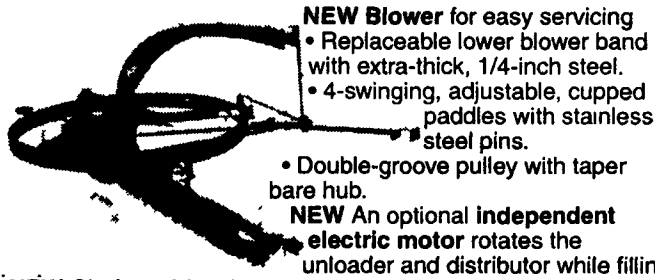
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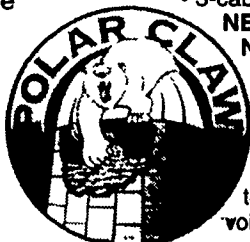
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