

Budgeting a “Must” for Today’s Dairymen

Keeping track of farm financials can be overwhelming. Money continually coming in from milk checks, cull cows and crops. Money constantly going out for feed, labor, bedding, veterinary services... the list goes on.

Sometimes cash flow statements can look more like Egyptian hieroglyphics than helpful record keeping tools, making deciphering a farm’s current financial situation intimidating and, occasionally, frustrating.

But, Barb Dartt, partner at GROW: The Family Business Advisors, reminds dairy farmers, “Contrary to popular belief, starting the budgeting process might not be as difficult as you’d expect. Keeping in mind a few easy tips, every operation, regardless of size or scope, can get started and begin charting their own path toward long-term profitability.”

Barb has over 14 years of experience providing management, financial and organizational consulting services to Michigan dairymen and agriculturalists. A numbers woman by trade, she’s helped a variety of dairy producers – big and small – gauge their progress and set a course for meeting long-term goals through accurate record keeping, goal setting and benchmarking. As margins have tightened and competition has grown, vigilant on-farm financial management has



Above: Jeff and Mike Halfman (left to right) gather around the kitchen table to discuss their operation’s progress toward the targeted budget.

become less of an option and more of a necessity. Barb offers insight on industry trends, the purpose of budgeting and “getting started” tips to make the budgeting process less daunting.

The Industry Today

“I’m really seeing three trends throughout the agricultural sector, primarily dairy,” Barb shares. “The first, farms are embarking on expansion efforts – for the right reasons. Second, producers are beginning to beef-up their record keeping, going above and beyond what regulations mandate. And third, everyone is trying to focus more on marketing to reduce price volatility.”

While growth is not a new dairy trend, Barb notes today’s

expansion efforts seem to be markedly different. “They’re very deliberate and planned in detail, as opposed to the more reactive growth projects of 2007 and 2008,” she comments. As producers are starting to recover from the economic shock of 2009, farms are growing for two calculated, appropriate reasons – preparing for successors and spreading overhead – consistent with each operation’s long-term plans.

The second trend comes from a major shift of mindset; dairy producers formerly kept records for compliance reasons, but now realize additional efforts are needed to enhance their profitability and efficiency. Steve Cary, owner of Cary Dairy in Battle Creek, explains, “I have to keep some records for compliance reasons. But those

Continued on page 16

Continued from page 15

records often don't include all the information we need to best manage our operation. I have to admit, I run off-the-cuff a lot, making decisions based on emotions or my 'gut.' Often it is because the records are not as extensive or current as they should be. That's why we gather more information, to have more points of reference as we plan for the future."

Finally, in an effort to buffer margins against the harsh, volatile dairy product and input markets, many modern producers have improved their knowledge of marketing. A large percentage of MMPA members have realized the power and importance of forward contracting feed, crop inputs and, in some cases, milk to lock in as many pricing variables as possible.

These three industry trends have necessitated a renewed focus on a tried-and-true farm financial management tool: budgeting.

The Case for Budgeting

"Effective budgeting requires detailed records. On our farm, it's important to be able to track how the business is doing as the year progresses, keeping track of small things that may have changed from the previous year or looking at the bottom line to determine if we're on track (or not)," Mike Halfman, co-owner of T & H Dairy II in St. Johns, relays. "Watching individual line items helps us notice when something is out of line. It allows us to dig into the item and either say, 'Man that's working,' or, 'What's going wrong there?'"

While the obvious advantage is helping track a farm's current position and progress towards financial goals, another tangible budgeting benefit is keeping all of the farm's leaders apprised of the farm's current operations and future trajectory.

Barb adds, "Budgeting and benchmarking can provide an opportunity for knowledge transfer between multiple generations involved in an operation. By taking the time to meet two to four times a year and using the actual-to-budget review as a 'ready-made' agenda for a big picture discussion about the farm's direction, experience and knowledge are passed on to partners who may otherwise be left out of the decision making process."

Budgeting Tips to Get you Off on the Right Foot

Doug Chapin, co-owner of Chapin Family Farm in Remus, offers simple advice to producers beginning the budgeting process for the first time, saying, "Set goals, keep good records and keep the communication lines open to those involved on the farm. Understand budgeting in the dairy business is not an exact science. Prices are volatile and variables change. But a well thought out budget can help a farm weather the storm of a low price swing."

Insuring Your Farm's Protection

Hastings Mutual has specialized in insuring farms since 1885. Plus, you receive a 10% farm policy discount with your MMPA membership!

In addition to our standard farm policy, we offer an optional Parlor Pak to meet the needs of your dairy farm.

Parlor Pak Endorsement:

- **\$20,000 Milk Spoilage**
- **\$5,000 Reproductive Material**
- **\$50,000 Sudden and Accidental Pollution**
- **\$50,000 Farm Business Income and Extra Expense**
- **Special All Risk Parlor Peril Coverage**



Contact your local
Hastings Mutual
agent today!

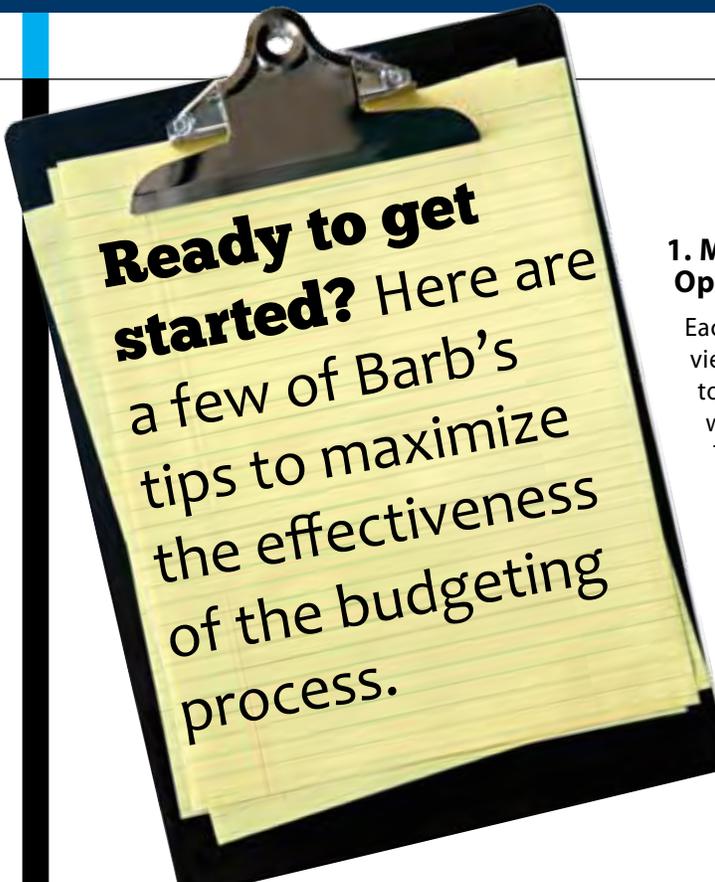
Ayres Insurance
(Southwest Michigan)
www.theayres-group.com
269-651-1761

Clevenger Insurance Agency, Inc.
(South Central/Eastern Michigan)
www.clevengerinsuranceagency.com
517-368-5771

Liebler Agency, Inc.
(Eastern Michigan/Thumb)
www.liebleragency.com
810-346-2738

Barnich Kavanaugh & Cooper, BKC Ins.
(Northern Michigan)
www.bkcinsurance.com
231-627-4381

Since
Hastings Mutual
INSURANCE COMPANY
1885 www.hastingsmutual.com



Ready to get started? Here are a few of Barb's tips to maximize the effectiveness of the budgeting process.

1. Make Budgeting a Joint Exercise, Starting with Operations

Each on-farm manager has his/her own specialty area and viewpoint. Ask everyone involved in the budgeting process to bring their own piece of the financial puzzle by sharing what they think is expected during next year's operations. That might be planned acres for each crop, expected yields, volume and cost of getting the manure hauled or how much the cows will milk. This gets a broader group involved in the process. And the process is almost more important than the outcome. Just providing the format for a meeting a few times a year can really foster strong family and/or management communications on the businesses' progress toward meeting goals. In addition, it starts a budget based on production data, not just what happened last year.

2. Have an Accounting and Operational Champion

Numbers without hands-on knowledge of the dairy tells only one side of the story and vice versa. Barb explains, "You have to have someone who's passionate, committed and knowledgeable about the financial side of the business. Likewise, you need someone equally as passionate, dedicated and experienced with the day-to-day operation of the farm. When these two minds meet, that's when the most accurate and effective budgets are created."

3. Fostering Trust is a Must

Budgeting is only as effective as the level of trust all parties possess in regards to the accuracy and intentions of those formulating the budget. Mike elaborates, "In our operation, it's very important for everyone involved to feel like they have the same access to information. Finances are a touchy thing, especially when it's inside the same family. Everyone needs to know the truth about how things are going, good or bad, to eliminate as many surprises as possible and keep trust and order."

4. Don't Get Hung Up on the How

The act of actually starting some sort of detailed record keeping and budgeting protocol is far more important than what brand is utilized. Barb recommends checking out resources offered by the Pennsylvania State Dairy Alliance and Michigan State University, but comments even a simple spreadsheet will do. An effective budgeting tool has the ability to trace line items back to production assumptions. For example, within feed cost, you might start by looking at the total actual line item compared to budget. However, if actual is over budget, you will want to dig a bit deeper to determine why. That's why the assumptions you used to build the budget are critical. Was the assumption simply a dollars per cow per year or was total feed cost built by using representative rations and pricing by feed ingredient? More detail makes it easier to determine a farm's progress toward budgeting goals and identify differences from year to year.

5. Use Accrual Budgets

Cash might be king in the short run. But an operation's longevity depends on profitability in the long run. Unless cash is tight (less than \$400 of working capital per cow) and there's low liquidity, opt for income statements to better project and set goals for profitability in the long run.