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Knowledge is power: Tap these timely opportunities

By SHERRY BUNTING
Special for Farmshine

BELLEFONTE, Pa.—When the PDMP board of directors sat down last December to choose topics for the 2009 Dairy Industry Issue Forums, their selections could not have been more timely. The family relationships topic in June benefited more than 200 producers who attended. The August topic on environmental opportunities revitalized the outlook of more than 100 producers who participated.

For November, the topic on Dairy's Place in the World Market will be an eye-opening Forum, where producers will learn about the global impact of dairy ingredient markets and the many ways their milk is used to meet consumer demand for new products.

The Fall Forum, organized by the Professional Dairy Managers of Pennsylvania (PDMP) will be in Cumberland County on Thursday, November 5. After the morning session, attendees will tour the Giant Distribution Center in Carlisle.

A portion of the program will be devoted to a practical understanding of the milk check.

"Dairy farmers have to understand their

milk check," says Potter County dairyman and PDMP Vice-President Dale Hoffman. "It's complicated, but we all need to know how our milk is priced and to understand how the milk classes are priced and how the system works."

Knowledge is power. Today, more than ever, dairy producers need to stay informed about their milk market. What are the trends in product development? What is the world market? How is the U.S. dairy industry positioning itself to deliver the products the world wants? How do American producers begin to capture the value of the new frontier in dairy ingredients?

As global economic indicators suggest a turn toward economic recovery, U.S. dairy exports are a key ingredient to milk price recovery here at home. The Forum's global look at dairy will be quite relevant to the many ongoing discussions throughout the dairy industry today as this period of low milk prices has renewed the call for milk pricing reforms and as USDA, just this week, announced it will begin forming the advisory board Congress authorized in the 2008 Farm Bill to review the current Federal Order system and make recommendations.

While the November Forum will not be focused on the particulars of milk pricing, it will give producers a better understanding of how their milk is used and priced in the marketplace and how this translates back to understanding their milk check and how they are currently paid for their milk. The tour of the Giant Distribution Center in Carlisle will also offer insight about retail markets and dairy product distribution here at home.

Mark your calendars for November 5 to take part in this useful PDMP Dairy Issue Forum, which will be relevant to understanding the current economics as well as the future potential of dairy's place in the world market.

Another terrific educational opportunity to be thinking about is the Spring Dairy Tour planned for March 23-26, 2010 in Vermont.

While March is seven months away, it's not too soon to start making plans since registration will begin this fall, and only one bus will be available for this tour to some of Vermont's most interesting dairy farms.

The Tour includes a visit to Pleasant Valley Farm, Richmond, Vermont, owned and operated by the St. Pierre family. The St. Pierres are

active members of the Vermont-based Dairy Farmers Working Together (DFWT).

"On Wednesday night of the tour, we'll have dinner with members of DFWT," says Bradford County dairy producer Glenn Gorrell, who chairs the PDMP tour committee. "We have a great lineup of dairies to visit over the three days of touring. We focused on choosing farms that have 'value added' enterprises. We'll see dairies with methane digesters bringing in extra income to the farm, and we'll see what producers are doing with bottling milk and making cheese."

As for the PDMP educational opportunities, Gorrell notes that, "We pick these topics with timeliness in mind, giving people the chance to learn something useful for their dairy business," he says. "We constantly need to stay informed about what is going on around us. The world is a big place, but it can seem small at home if we don't take advantage of opportunities to learn and meet together with our peers."

For more information about the November Issue Forum and the March Dairy Tour, contact PDMP at 877-326-5993 or visit www.pdmp.org.

Performance enhanced with professional analysis

from page 15

whittled away at their labor efficiencies to shave some cost of production there.

"The take home message for us is we need to know our costs," says Todd. "We need to include depreciation, taxes, interest – things we don't necessarily think about when we think about cost of production. Those numbers are important to our business. The key is to lower those costs without hurting production or cow health."

Setting up budgets has really helped them analyze their business through this tough time of low milk prices because the budgets give them a point of comparison.

"This process is making us better. We can see the actual costs in comparison to the budget," Todd explains. "We budgeted for a cost of production of \$19.74 per hundredweight, but we've been able to lower that. Of course we also budgeted for a higher milk price, and that's not what we have right now. During the two months that we were eligible for MILC payments, we cash-flowed."



Partners Rick Van Etten (left) and Todd Welty look over their Farm Credit Dairy Profit Analyzer spreadsheets and talk about how this tool has helped them find ways to trim cost of production.

"We're at the point now where we're mortgaging land to cover the operating losses we will continue to have (on the milk price)," Rick

explains. "That budget deficit we mortgaged for is a scary number, but the Dairy Profit Analyzer is a powerful tool for us and for showing to the banker."

Looking at the sheet, Rick notes that the 12-month rolling average price of milk for July 2008 through July 2009, is \$15.18, but as the months go on and more of the "rotten months" make up that 12-month average, that number keeps dropping and the loss of milk price income starts to really show up.

"As we've been able to get cost of production down, it has helped some. That's what we try to do," he said. "This shows us where the holes are. It's our report card and we rely on it heavily. If you don't know where to trim, then you can't trim."

"We try not to get down in the dumps," adds Todd. "These numbers show us what we have the ability to change by looking at our efficiencies."

He notes that the more money dairy farms have to borrow to cover operating costs right

now, the higher their break-even will be when the milk price eventually turns higher. It's possible, says Rick, that a dairy with an \$18 cost of production right now could be at \$24 cost of production when this is all over because of the additional operating debt that's incurred. That's why he and Todd joined the Dairy Benchmarking program and use the Dairy Profit Analyzer – so they could stay on top of these numbers and know where they stand.

They've been through good times and bad together, and they stress that when they made money milking, they have reinvested it in the business.

"We've been adding cows here since I got out of high school," Rick reports. "All businesses have to have some sort of growth to keep going."

"It's stressful right now," says Todd. "But we're still fighting with some cards in our hand. We like to farm. We like to dairy. And we like the cows. We're determined to stay as positive as we can."

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Resources for weighing options in difficult times

◆ Brad Hilty from Penn State Dairy Alliance has published an article offering his insights on factors to consider when evaluating the options for the dairy farm business. The article is published at: <http://www.das.psu.edu/dairy-alliance/pdf/exitingdairybusiness.pdf>.

◆ Producers dealing with negative profit margins may also be challenged by overwhelming levels of stress. For those producers who are looking for assistance in this area, The University of Maine Cooperative Extension has two good sources of help:

- ◆ The University recently published a website to provide "Resources for Farmers Under Stress." It is available at: <http://www.extension.umaine.edu/FarmersUnderStress/default.htm>.

- ◆ The University is also hosting a Webinar on Thursday, September 3, from 2 - 4 pm with Dr. Robert Fetsch, Extension Specialist and Professor of Human Development with the Colorado State University. The Webinar is designed to help farm families recognize the signs of stress and know what to do next. Any ag service provider or farmer can attend. Information is available at: <http://www.extension.umaine.edu/FarmersUnderStress/default.htm>.