

Agricultural Newsletter

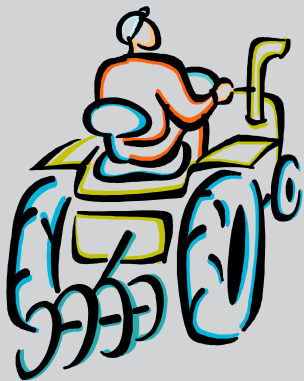
UW-Madison College of Ag & Life Science
University of Wisconsin-Extension



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Managing in Difficult Times

This is a series of articles produced by University of Wisconsin-Extension agents and specialists to address farming in difficult times. More articles can be found on the Extension Responds website at: www.uwex.edu/ces/ag/farmingindifficulttimes.html

Commodity Storage

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You may have recently read recommendations of “consider increasing on-farm fuel storage capacity to take advantage of current prices” and “consider adding feed storage, so that as feed prices drop, you can stock up on supplies.” These recommendations should be considered very carefully according to University of Wisconsin-Extension specialists and agriculture agents.

William Edwards, Agricultural Economist from Iowa State University in an article “Managing Through a Recession: Options for Farm Operators” on their Ag Decision Maker web site recommends, “Defer capital purchases. When margins are narrower, replacing machinery, putting up new storage bins, or bidding on more land may have to wait. Replacement parts and overhauls are cheaper in the short run.”

UW-Extension specialists note that building storage generally requires large expenditures of capital, which should be budgeted over a long period. In many cases, these investments do not pencil out with a one-time price opportunity. For the one-time price opportunity, consider using existing storage or low cost storage alternatives. Renting space at the coop or from a neighbor can also be considered. Another opportunity is to purchase futures contracts or buy options (to reduce price risk) for the commodity.

Remember one important cost of storage is loss of quantity (shrink) and/or quality while in storage. Care must also be taken to assure you are getting a high quality commodity when buying in bulk at a “reduced price.”

Since commodities represent a major component of input costs, increasing management to minimize the loss of quantity and/or quality of these inputs can pay big dividends. For example, improved management of forage in storage can reduce the losses of dry matter and feed quality. Managing grain in storage helps maintain quality. This extra care of what you have can reduce the quantity of feed

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that must be purchased to replace that which is lost. Often times, the extra management has a relatively low cost to implement with a high return on investment.

Knowing your current supplies of forage, grain, and fuel as compared to your future needs can provide opportunities. Doing a periodic inventory of stocks shows what commodities are in excess and what need to be purchased. Knowing this in advance allows you to sell the excess, generating cash, and purchasing needed supplies when the opportunity is right. Even though cash may be tight, paying cash can also reduce the purchase price depending on your supplier's discounts.

If you had been considering a new storage structure and are in a financial position to do so, then now may be a good time to buy. Interest rates are low, and prices may be attractive.

Farm Succession

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With margins in agriculture shrinking, 2009 may not seem like the year or the economic circumstances to consider transferring the farm to the next generation of farmers. However, depending on the goals of everyone involved and how far the farm transfer has progressed, there might be opportunities to consider in 2009 and 2010 regarding the transfer of assets to the next generation. In any case, changing circumstances should trigger a review of the plan and a discussion with the farming partners to review financial concerns, personal and business goals, and timelines for the process according to University of Wisconsin-Extension specialists.

The current economic conditions may warrant a review of the business's ability to meet the family living needs of the farming partners. If the farm's financial carrying capacity is reduced, the entering generation may need to keep the off-farm job or jobs longer than anticipated. On the other hand, because this economic crisis is widespread and affects more than just agriculture, the entering generation's off-farm job may disappear. This may provide an opportunity to incorporate much needed labor and management into the operation, giving the exiting generation fewer responsibilities and a chance to have time away from the business. Both situations call for a review of the numbers and clear, honest communication of the farm's financial situation and each partner's expectations.

If the succession plan calls for the incoming generation to purchase livestock or other assets from the current owners, there may be opportunities to minimize or eliminate taxes on those transfers in 2009 and 2010. For example, the exiting generation may be able to take advantage of the zero percent income tax rate on certain capital gains that are still available in 2009 and 2010 if the seller's taxable income is low enough. Low milk prices may reduce the exiting generation's taxable income to the point that part or all of the capital gain on the sale of raised breeding or dairy livestock qualifies for the zero percent income tax rate. Accelerating sales of livestock into 2009 and/or 2010 could save some income taxes but should be done only if those sales are consistent with the farm succession plan.

A business owner may consider selling non-productive or underused assets to infuse capital into the operation and pay off some bills. The income tax impact of

these sales can be minimized by selling assets with the highest income tax basis relative to the sale price. For example, land that was purchased or inherited when land values were high will trigger less capital gain than land that was purchased or inherited when the value of land was low. Machinery that was depreciated rapidly is likely to trigger more gain when it is sold than machinery that was depreciated more slowly.

Minimizing taxes should not be the only or even the most important goal driving a farm succession plan. A succession plan addresses the transfer of labor, management and assets of the farming business. A well-developed plan begins with each person involved developing his or her own vision and goals of the transfer and the farming business. These are used to develop the mission, vision, and goals of the business as it moves forward with all the farming partners involved. Once these steps are completed it becomes easier to choose the business structure and asset transfer methods, which leads to strategies to minimizing taxes. Above all, open, honest communication among the farming partners and with non-farming family members is the foundation for a solid farm succession plan.

Following are some resources about farm succession:

* UW-Extension FARM Team Farm Succession Resources

www.uwex.edu/ces/farmsuccession/

* AgVentures Business Arrangements and Farm Transfers www.cdp.wisc.edu/BusinessArrangements.htm

* Family Estate Planning in Wisconsin (B1442) learningstore.uwex.edu/pdf/B1442.PDF

* Who Will Get Grandpa's Farm – Communicating about Farm Transfer (Purdue) www.ces.purdue.edu/farmtransfer/index.htm.

Using Cost of Production in Management Decisions

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Income is down and input prices are high. Times like these are enough to cause stress in the most seasoned of farm managers. This is also when producers are asking what they can do to minimize costs and maximize income to improve margin.

While it is impossible to cover every option in one article, many farm management experts agree that determining the Cost of Production (COP), at a minimum, for your farm's major production enterprise is the first step, according to University of Wisconsin-Extension specialists.

Knowing your COP offers several opportunities to control cost and open up narrow margins. Using this knowledge in management decision-making will put you in a position to stay in business in the short run while identifying longer-term opportunities for business success. Immediately, knowing your COP places you in the driver's seat in taking advantage of competitive and even alternative purchased inputs. It also forms the foundation for decisions about whether current and future commodity prices represent "good" prices and, they are *specific* to you and your business.

Determining your COP sets you up to compare both the total as well as individual cost categories to your past business performance as well as others in your industry. Doing so identifies where you're competitive, where you're not and allows you to ask the most important question of the day; "Why?" Once this most critical of all business questions is answered you are in prime position to act on both input and market price opportunities. Use this information to reduce cost, obtain a better price for what you sell, produce more/less or restructure debt.

Where do I get the numbers to do a COP? The same place you find the input figures to file a tax return; your farm records. While the most representative numbers come from a business financial analysis and specifically the "Income" or "Farm Earnings Statement" an alternative summary is the IRS Schedule F and Schedule 4797 forms. Keep in mind that each source has an associated intent; business management or tax management respectively. A Balance Sheet is the business statement source for determining the investment in fixed assets if you take the COP to that extent.

Where do you start? Options are available! If you or someone you hire are already performing an annual business analysis with your records you already have or can easily produce a "Whole Farm" COP for your major enterprise.

The COP can be based on several alternative units. For dairy, COP is often calculated on a per cow, per CWT sold, per hundred weight equivalent (per CWT EQ) or per dollar of income basis. Each of these methods has pros and cons.

An important reason for calculating the COP is to compare one's economic competitiveness. The "per CWT sold" method can be used when estimating the price of milk that a producer might contract for. The costs calculated using the "per CWT sold" method cannot be compared to the milk price. They must be compared to the "Income per CWT sold." The "Income per CWT sold" is calculated by dividing all non-milk income by the CWT sold and adding that value to the milk price.

The per dollar of income and "per CWT EQ" methods are similar to each other and are needed to compare the performance of one farm or year to another. The costs on a "per CWT EQ" basis can be compared directly to the U.S. average all milk price. Indexing by the U.S. average all milk price for all farms in a comparison allows fair comparisons to occur between farms that have widely different prices.

Regardless of which of the above units are used, the higher the percent of total farm income that is represented by milk sales, the more useful the COP information is. Especially when using the per cow or per CWT sold unit, the non-dairy income and expenses should be carefully sorted out anytime non-milk income represents more than 30% of the total farm income.

The COP for crops are often calculated on a per acre, per bushel or per ton basis. Since very few farms in Wisconsin only raise one crop and no livestock, it is necessary to sort out the costs and expenses associated with that crop to calculate the COP for the crop

regardless of the unit that is used. If this is done on a dairy farm, then the sorting could be part of a process in which the entire farm operation is sorted into enterprises – one for each crop and at least one for dairy (large dairy farms sometimes sort dairy into enterprises for the milking and separately for raising replacements). The purpose of an enterprise is to determine whether that entire business activity is profitable or not. An enterprise can tell you if the enterprise is profitable but may not tell you what makes it profitable.

In contrast, a partial budget can tell you what parts of the enterprise contribute to or decreases profitability. A partial budget focuses more narrowly upon the financial impact of a specific business decision. A partial budget comparison allows you to identify options like the lowest cost ration or the maximum Income Over Feed Cost (IOFC).

Let's suppose that a group of cows are currently fed 20.9 lb of corn and 6.0 lb of soybean meal. With this diet, each cow in the group would have an average \$5.20 per day of income over feed supplement cost (IOFSC) using February 2009 feed and milk prices: \$9.40/cwt milk, \$3.54/bu corn and \$300/ton soybean meal.

However, under the same price structure, this IOFSC could be as much as \$5.54 a day if the sources and proportions of supplemental feeds are fine-tuned. This \$0.34 additional IOFSC could be realized if the supplements are 17.6 lb of corn, 4.2 lb of soybean meal, and 5 lb of corn distiller grains (at \$140/ton).

These results were found using the IOFSC tool available at the UW dairy management website. However,

results will vary depending on the availability of feed supplements, your own feed costs and price received for milk. Here's the bottom line. Choose the one that fits your needs as any COP figure is better than none! Fine tuning can always be done in the future if indicated. The important thing is to calculate and use your COP now!

So, choose your weapon! UW-Extension offers the "Wisconsin Dairy Enterprise Budget" (Excel), "COP per CWT Equivalent" (Excel and Word) both available at cdp.wisc.edu/DecisionMakingTools.htm, Corn and Soybean budgets (Excel) at www.uwex.edu/ces/farmteam/budgets/fieldcrop.cfm and the "IOFSC®" (on-line) at www.uwex.edu/ces/dairymgt/ programs free of charge!

Assistance with accessing, choosing or completing your COP using these tools is available by contacting your local UW-Extension agricultural agent.

Be sure to examine the many other decision-making aids available on each of these sites when you're visiting the programs mentioned above. And remember; "If you can measure it you *can* manage it!"

To access more information and/or tools to help analyze your situation, link to the Extension Responds web page at: www.uwex.edu/ces/ag/farmingindifficulttimes.html

For assistance in making these tough decisions, contact your UW-Extension county agent, your Farm Business and Production Management Instructor in the Technical College or the DATCP Farm Center at 1-800-942-2474.

Cow-calf meeting features Registered Shorthorns

Otto Wiegand
Area Ag Agent
Burnett, Sawyer, & Washburn Counties

Be sure to attend this year's spring beef cow-calf meeting on Wednesday, April 22 sponsored by the UW-Extension Livestock Team. The meeting will be held at T & J Shorthorns, owned by Tim and Julie Kessler, W9199 Dock Lake Road, Spooner, WI. The Kesslers rotationally graze 44 registered Shorthorn beef cattle on 55 acres supplemented with hay. They are raising some Simmental crosses this year. The Kesslers breed for smaller birth weights, but with the higher milk production of Shorthorns, wean larger calves. They sell breeding stock and market local beef. The Kesslers represent the northern-most members of the Wisconsin Shorthorn Association in the state.

The program begins at 5:00 with a farm tour followed by a beef supper at 5:30. Seminars presented by UW-Extension Specialists and Ag Agents will begin at 6:00. Topics are likely to include: Cost Control for Feed and Fertilizer, Country of Origin Labeling (COOL) and Beef Quality Assurance (BQA), Dealing with The Market for Heavier Feeders, and The Economic Value of Crossbreeding.

To get to the farm, take Hwy 70 west from Spooner 6 miles, turn right (north) on Perch Lake Road and go 3 miles, then turn left (west) on Dock Lake Road and proceed ¾ mile. The farm is on the left with a white house. Watch for the signs.

The cost of the program is \$10 for the meal. Please register by April 20. For registration or questions, contact UW-Extension Ag Agents

Otto Wiegand or Kevin Schoessow at the Spooner Ag Research Station by calling 800-528-1914, 715-635-3506 or 715-416-0513.

Top ten ways to cope with high dairy feed prices

Dr. Randy Shaver, UW-Dairy Science Nutritionist
Ryan Sterry, UW-Extension Polk County

- 1) **High quality forages help** - Producing lower NDF forage or greater NDF digestibility can save up to \$1.40/cow/day in grain costs.
- 2) **Feed conversion matters** - Many dairies have yet to calculate the rate at which they convert feed to milk. If the average herd, which is 1.4, improved to just 1.6 they would make \$1.60 more/cow/day.
- 3) **Check on alternative feed options** - By calculating the corn:soybean mix equivalent of alternative feeds, you have a basis to compare prices and determine if they are a good buy.
- 4) **Do not supplement protein beyond requirements** - With modern ration balancing techniques for amino acids, high producing herds have dropped ration CP to 16-17% with no effect on production.
- 5) **Do not supplement P beyond requirements** - High producing cows (120lb/day) only require 0.38% P in the ration. Contrary to popular belief, adding extra P to the ration does not improve reproductive performance.
- 6) **Scrutinize feed additive usage** - Feed additives can be important components of the dairy ration, but the economics of their use need to be watched closely. When margins get tight, your money is best spent on products that deliver a consistent, positive result.
- 7) **Lower starch diets may be possible** - While 24-30% starch diets have been the industry norm, success has been achieved with levels as low as 21%. The key to making these diets work is highly digestible starch.
- 8) **Carefully evaluate the potential for higher corn silage diets and the costs of raised vs. purchased feeds** - Corn silage has a big advantage over alfalfa in DM yield per acre, and feeding up to 2/3 of forage DM as corn silage has proven successful. Be cautious when corn prices are low and soybeans are high, since the value of alfalfa is much greater in those circumstances.
- 9) **Be responsive to price changes** - It seems like the only certainty in today's markets is price volatility. Take some time to plan what you will do when the milk price recovers and feed inputs go up or down.
- 10) **Watch price relationships** - While lower milk prices are discouraging, now may be the time to find good buys for fuel, feed, and other inputs. Out of balance price ratios (i.e. high milk and low corn) present both great opportunity and risk for profit or losses. Make good decisions in these times!

Designing a low-labor forage-livestock system

Adapted from Jim Gerrish
American GrazingLands Services LLC, May, Idaho

Introduction: The first step in designing a low-labor management system is to know what jobs require the most labor on the farm. Where beef cattle are the main enterprise, jobs usually requiring the most labor are making hay, feeding hay, calving, and fence construction and maintenance. Irrigation, if used, rounds out the top five.

To get a good idea on where your labor goes, keep a detailed labor record for a year. Set up an easy to use, daily record sheet and then spend some winter evenings determining where your labor went. Then figure out how to reduce the labor required for each operation. If a job is not essential, quit doing it. If it is essential, consider alternative ways of getting to the desired end point.

Alternatives to making hay: The fastest way to reduce labor allocated to making hay is to quit making hay. In most cow-calf operations, winter hay is the largest single item in the budget. Labor and machinery are the biggest costs of making hay. If you don't own the equipment, you save purchase and operating labor costs.

If your operation requires hay, you have three basic options - make your own hay, have your hay custom harvested, or buy your hay. When you make your own hay, it requires either your labor or hired labor. You need to decide what is the best use of your time and money. Using a custom operator allows you to use your labor elsewhere but requires a cash outlay.

Studies at Missouri indicate the most profitable cow-calf scenario is one that stocks the ranch to its grazing capacity and purchases all hay. In the eastern half of the US, the market price of hay is almost always below the cost of production, so it makes sense to purchase hay. Where hay production becomes dependent on irrigation, the market price of hay often exceeds cost of production. You especially need to consider equipment and labor overhead associated with hay making, not just out-of-pocket variable costs. On most farms, equipment overhead makes hay making unprofitable.

Alternatives to feeding hay: Farmers tend to feed hay to the extent they can make hay. If you get into the habit of producing enough hay to feed five months, you will probably feed for five months. Much of our hay feeding is nothing more than a habit.

Cow-calf producers in Minnesota, Missouri, and Mississippi all feed roughly the same amount of hay each year even though they have very different environments. Producer records from each state show about 130 days of hay feeding. So why do those producers feed the same amount of hay? Because they all have the same bad habit. In contrast, there are producers in each of these states who routinely feed little or no hay. In almost all environments, there is plenty of room for reducing hay feeding. Going from feeding three tons of hay per cow to feeding less than a ton is not something you will accomplish in a single

season. Pasture management must change to ensure there is standing forage at the end of the growing season to provide winter grazing. The type of livestock may need to change and calving season be adjusted to better match animal needs to forage supply.

Winter grazing is a product of careful planning and superior pasture and range management. Extending the grazing season through or into the winter is the fastest way to put profitability into a cow-calf operation. Crop residues, annual pastures, and stockpiled perennial pasture are all options for extending the grazing season. One of the keys to getting the most out of winter forage supplies is tight feed budgeting to minimize wasted forage.

Babysitting cows at calving: There are two main reasons farmers spend time with cows at calving. One is the time of year they choose to calve and the other is dysfunctional cows and poor bull selection. Very successful western ranches expect each hand to take care of about 700 cows. In Australia the national standard is 1500 cows per person. Why is it that 50 to 100 cows seems like a lot to many American farmers? The most successful farmers select cattle for functional reproductive traits, and they calve when weather is more favorable.

Calving in the winter increases feed costs, likelihood of calf sickness, death loss, and human stress levels. All increase cost of production. The only argument that can be made for winter calving is bigger calves in the fall. Yet study after study shows there is little relationship between weaning weight and profitability. Virtually every economic study of the cow-calf business finds feed costs to be the

number one factor determining profitability. Calving in good weather reduces feed cost, risk of sickness, and death loss.

Cows in appropriate body condition should be able to calve on their own without assistance. If you assist more than 1% of cows at calving, you should reevaluate your bull selection criteria and cow type. Heifer assists should be no more than 5% with 0% as a realistic goal.

Fence construction and repair: There are not many farmers who enjoy building fences and even fewer who enjoy fence maintenance, yet it can be a time consuming job. Hi-tensile electric fence offers an alternative to conventional fence that is both lower cost to install and easier to build and maintain. For an experienced fencer, it takes roughly half the time to build a 4-strand hi-tensile fence than a 4-strand barbed wire fence.

What really wears out fences is not wind, rain, and sun, but animal pressure. Electrified fencing removes the animal pressure from the fence and greatly increases longevity. If you want the electric advantage but still prefer the physical barrier of barbed wire, incorporate one hot wire with four or five-strands of barbed wire. The hot wire keeps cattle from rubbing and effectively doubles the life expectancy of the fence. Once animal pressure is removed from the fence, about 80% of your maintenance costs go away.

For portable electric fences, using the right tools saves many hours of work each time a fence is moved. Using polywire or polytape is much less time consuming than working with any kind of steel or aluminum wire. Some reels and step-in posts work

much more efficiently than others. The difference may be as great an hour or more to move fence or just minutes. For polytape, keep lengths under 660 feet. For polywire, keep them less than 1320 feet. Keeping within these bounds keeps your tools to a manageable scale and time required for paddock shifts minimal.

Holman named as new SARS Superintendent

Phil Holman has been named Superintendent of the University of Wisconsin Spooner Ag Research Station. He has been acting superintendent since Yves Berger retired in July. Phil has been at the Spooner Ag Research Station since 2003 as the assistant superintendent and agronomic research program manager.

Mr. Holman is in charge of managing personnel, budgets, facilities, safety, crop production and approximately 20 agronomic research trials at the station. Crops with research trials include: alfalfa, corn, soybeans, oats, barley, wheat, canola, sunflowers, potatoes, switchgrass, hybrid poplars, and wine grapes.

Yves Berger was rehired part-time to manage the sheep research until the sheep research position is approved to be filled. The Spooner Ag Research Station was started in 1909 and will be celebrating its 100 year anniversary later this year. The station looks forward to continuing research in agronomic crop management, determining the success or limitations of new potential crops and/or cropping systems, and researching management systems for the dairy sheep industry.

This Quarter's Events

April 20, Monday – Apple Pruning Demonstration, 1 p.m., W7464 Lonestar Road, Shell Lake; Apple Pruning and Grafting, 5:30 p.m., LCO College Farm, Froemel Road.

April 22, Wednesday, 5:00-8:30 p.m. – Cow-Calf Seminar, Kessler Farm, Spooner – See article for details.

April 25, Saturday, 10 a.m.-4 p.m. – Earth Day, Shell Lake.

April 28, Tuesday, 6 p.m. - 8 p.m., – Wine Grape Vineyard Establishment Field Day - Spooner Ag Research Station.

June 13, Saturday – Spooner, Washburn County Dairy Breakfast – Fairgrounds.

June 15, 16, 18, Monday, Tuesday & Thursday – Spooner, Tractor Safety Training – Spooner Ag Research Station – for youth ages 12-17.

June 20, Saturday – Burnett County Dairy Breakfast – location to be determined.

June 27, Saturday – Hayward, Sawyer County Dairy Breakfast – Fairgrounds.

July 1-4, Wednesday-Saturday – Central Burnett County Fair – Webster.

July 12 – Sustainable Energy Fair

July 21-23, Tuesday-Thursday – Farm Technology Days, Waterloo, WI.



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2009

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Kevin Schoessow
UWEX Area Agricultural Agent