

# ISU Dairy Team Helps Producers and Agri-business Respond to Dairy Financial Crisis

## A.S. Leaflet R2517

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### Summary and Implications

As a result of a global recession that lowered milk product demand and cut farm milk prices 50%, as well as other market factors (higher feed and other cost inputs) during late 2008-2009, dairy producers faced eroding equity and the toughest dairy financial situation in this century. The ISU Dairy Team and Extension partners planned and delivered 10 workshops entitled “Dealing with Tough Times: The Dairy Financial Situation” through-out the state during summer 2009. Workshops provided education on the current situation and discussed key financial, legal, and stress management strategies to help dairy producers and lenders through these critical decision-making processes. The meetings resulted in excellent materials/ presentations also archived for future use, and its success was evidenced by greatly enhanced knowledge by participants (post meeting surveys) as well as national media attention.

### Introduction

The time period of 2007-2008 was a good year for US dairy producers. Increased global demand for dairy products, increased international markets for whey protein, and a shortage of milk in international markets due to drought-caused lower production in New Zealand were factors that caused milk prices to rise to record levels (\$18-20/cwt). This scenario encouraged some US dairy growth and higher production. However, in late Fall 2008 a global recession led to opposite trends involving lower global consumption, lower demand for US milk, and return of milk supply from New Zealand to international markets. These factors combined to create a rapid drop of milk prices to lows in \$10/cwt range. Given costs of production at \$15-17/cwt, a long period of low milk prices in the face of high cost of production put pressure on all dairy producers nationwide, and created a scenario where many dairies were losing money and losing equity position.

### ISU Dairy Team Programmatic Response

Aware of the current economic crunch as well as concerns that the impending costs of harvest and manure-hauling season could put producers at a critical decision point to stay in business or exit, the ISU Dairy Team and Extension partners planned and delivered 10 workshops

entitled “Dealing with Tough Times: The Dairy Financial Situation” through-out the state during July and August 2009. The purpose of each workshop was to provide education on the current situation and discuss key financial, legal, and stress management strategies to help dairy producers and lenders through these critical decision-making processes.

To meet those educational needs, the dairy specialists pulled together the extension team of John Baker, Iowa Concerns attorney at law; Donna Andrusyk, extension family life specialist; and Erin Herbold, Center for Agriculture Law and Taxation legal consultant. Topics included were explanations of the current dairy industry economic situation, financial options and strategies, communications needed to talk to lenders, legal options and strategies, tips and resources to make good decisions during stressful times, and how to talk to family members about the financial situation.

“We wanted to make sure producers knew there was nothing they could have done that would have changed the financial situation they were finding themselves in,” said John Baker, Iowa Concerns attorney. “They need to understand that market forces created this situation, not errors in management on their part. They also need to know how to communicate in new ways, how to communicate as they deal with the added stress caused by this situation.”

### Result and Discussion

Across the state, the 10 workshops drew in not only dairy producers but also bankers, FSA lenders, accountants, and attorneys who work with dairy clients, as well as other agribusiness partners. A good publicity campaign not only promoted the meetings, but also resulted in reports and articles that were posted widely throughout the state and in some national dairy publications, thus spreading the key messages to a broad audience throughout and beyond Iowa.

Immediate short-term results in the form of increased knowledge and awareness were measured either by pre-post quizzes or post-meeting surveys. At the 3 sites that used a short 6-question pre-post quiz, 100% of attendees improved their score by marking 4 or more correct answers, indicating a change in knowledge level on financial, legal, or stress management strategies. At sites that used an end-of-meeting survey, dairy producers rated their increase in knowledge gained as 6.48 or above (10 point scale). Survey details and summaries are shown below.

### Dairy Financial Post Meeting Survey Results

Rate increased knowledge of each of the following topics:

# Iowa State University Animal Industry Report 2010

## Level of Knowledge Increase

(little increase) 1 2 3 4 5 6 7 8 9 10 (large increase)

### 1. Dairy Situation Update: Dale Thoreson +7.37

I learned...A very nice review of what is occurring with dairy prices; milk price will come up; some opinions and outlook for future; it is not a local problem; that this "perfect storm" has many sides; cull cow rate doesn't affect market.

I will...be able to express to producers they are not in this alone; discuss with farmers that it is not their fault.

### 2. Iowa Mediation Law--Mediating with Your Lender

John Baker +7.24

I learned...John always brings renewed information; how mediation works; law requirements; a lot about mediation; that we have rights too.

I will...be able to follow; keep in mind available options.

### 3. Managing Dairy Farm Finances in Tough Times

Larry Tranel +7.66

I learned...keep records for financial profitability; about Dairy Trans; different financial tools to use; what are the key ingredients to farm gauging of assets; what financial statements are important to use;

I will...be able to give to my customers; help farmers get a handle on finances; prepare statements on Jan. 1 and Dec. 31 contact Larry for review; get more financial info done;

### 4. Iowa Bankruptcy Law: Erin Herbold +6.48

I learned...probably could have used a few more details; different types of bankruptcy; secured/unsecured creditors, a lot about bankruptcy; new changes in Chapter 12; about reorganization plans; about bankruptcy and what the difference is; good information, thought the presentation could have been more professional.

I will...hopefully not have to use; pass along info; hopefully avoid this; try not to go bankrupt;

### 5. Farm Stress: John Baker +7.3

I learned...useful; problems have solutions; was reminded about how to communicate and deal with things during stressful times; steps in solving stress; being stressed is ok; SOCS – don't use "but", use "and";

I will...be able to use these when needed and also how to negotiate; help people deal with stress, say "and" not "but"; try to use SOCS method in everyday life; negotiate and understand myself better;

### 6. What Do You Tell the Kids? Larry Tranel 7.15

I learned...again useful; communicate with others; ideas on communicating with kids and others in the situation; how to communicate and solve problems; bad things can develop resiliency;

I will...be able to help my customers; age appropriate challenge my kids; keep kids informed at an age appropriate relationship;

## 7. Has this seminar been of high value for you?

Yes - 26 No - 0

One young dairy couple said during a follow-up meeting with a dairy specialist, "That seminar was kind of a downer with talk about mitigations, negotiations and different types of bankruptcy. But it was all information that we didn't understand before, and now we feel like we know what options and rights we have." The young couple was working through a Dairy TRANS financial analysis with the extension specialist, in preparation of meeting with lenders.

During one local meeting a banker helped the producers understand his view of the economic situation, "Please understand that I am not out to get you," he said. "I'm trying to protect the community's money – your family's, your friend's, your neighbor's money."

Baker says the reach of the seminar is going beyond the people that attended. He receives calls at Iowa Concern Hotline from seminar participants and from people participants have talked to about the seminar information. Dale Thoreson and Larry Tranel are conducting Dairy TRANS financial analysis with producers and referring others to advisors that offer FinPAK services. They feel lenders and producers both have a better understanding of the communication skills and challenges that come with this downturn in the economy. Materials and presentations from the workshops are also available from the ISU Dairy Team.

"Our Oelwein seminar had the most questions and comments," said Thoreson. "That group included many people who had been through the farm crisis of the 80's. They had very specific questions about what was going on in the industry – and they had the attitude that they could get through this." It was Thoreson's experiences with producers during the 80s that prompted him to include Donna Andrusyk, extension family life specialist, on the agenda. He asked her to discuss open family communications and talking to children.

Tom Quaife, editor of Dairy Herd Management – a publication read by most dairy families in the country, attended the Nashua meeting and took copious notes during Andrusyk's presentation. His editorial the next day focused on the family communication aspect because, as he told Andrusyk, this was information related to the dairy financial crisis that hadn't been talked about and it was important that farm families know it.

Even though the dairy financial situation was the main focus for the dairy specialists and their colleagues during July and August, the dairy team knows that many producers have the desire to stay in the dairy industry for the long haul. Producers see the current situation as part of a cycle, a phase they must work through. "The production side of things continues," said Mondak. "There still remain questions of nutrition, reproduction, robotic milking systems to be answered and we are here for those too." And with that, the dairy team continues providing timely information producers use to make decisions effecting their efficiency and productivity.