

Producers confident in real-time margin projections

Progressive Dairyman Editor Walt Cooley

Two dairymen who are test-driving web-based margin projection software both say the program is giving them increased confidence in their management decisions. One of the two is even taking steps to lock in his margin up to one quarter in advance.

Dan Brick of Brickstead Dairy in Greenleaf, Wisconsin, and Jack Pirtle of P7 Dairy in Roswell, New Mexico, began using a one-year free license to MarginSmart from Wisconsin-based Dairy Analyzer LLC in January. Since that time, they've calibrated the software's real-time margin projections to be representative for each of their operations.

In return for their free use of the software, a \$10,000 value, the producers have agreed to ongoing interviews about their experience. *Progressive Dairyman* recently interviewed both producers to find out how they are using the margin projections.

Dan Brick

*Brickstead Dairy
Greenleaf, Wisconsin*

"I don't forever anticipate seeing a \$4 margin on my phone," says 800-cow dairy operator Dan Brick. "However, it does make it easier when you are doing contracts to know that you've got a good margin to lock in."

As of early August, Brick had contracted much of his milk production through October. He has his feed needs contracted out well beyond that; most of his corn is booked through March 2015, and half of his soybean needs are on contract through the same time period.

“ Before I was thinking that I was making money, or I was hoping that I was making money, or it felt like I was making money. Now with Margin Smart, I know in my mind realistically where my margin is at. ”

Brick has been active in forward contracting on and off for the past 10 years. He uses Wisconsin-based Stewart-Peterson as his broker. Whatever marketing strategy he decides to pursue with his broker he mirrors in the margin projection software. In essence, they may give him the playbook, but he's still very much the quarterback when it comes to real-time decision-making.

Brick's brokerage doesn't know his cost of production or ask for it, and he sets the margin projection software to send him text messages when specific margin targets for his marketing plan are met. The program tracks monthly milk futures and can subtract his real-time cost of production projections for those same months. Brick has been taking action to secure at least a \$4-per-hundredweight (cwt) margin as far in advance as one quarter ahead when the opportunities present themselves.

"It's really nice to see your margins, and it helps to make more marketing decisions and pull the trigger," Brick says.

Brick is "very confident" with the margin projections predicted for the next three months. He's a bit more skeptical of the projections for next summer's margins, which have been just \$0.10 above or below breakeven, a

stark contrast to the margins available for most of this year.

"It's a good year to be in MarginSmart because we can be off by \$0.50 and still make \$3.50," Brick says. "It does change things if you have a \$0.25 margin and you're off by \$0.50. It's tougher to make a marketing move on a \$0.25 margin or even on a negative \$0.10 margin."

Brick senses that he'll soon have to consider a different marketing strategy, one that could hedge losses.

"I'm not exactly sure how I'm going to handle [negative margins] yet. I'm just trying to ride out the good prices here and now," Brick says.

MarginSmart's developer Mark Linzmeier says that Brick's use of risk management strategies is about average among all of his clientele. Some of the software's customers are using risk management more heavily than Brick, but a portion aren't doing any long-term contracting.

"Dan is really the model of how we would like to see someone use the program in that he utilizes its projections to help him make informed decisions," Linzmeier says.

Linzmeier continues to input most of the ration changes and feed and milk forward contract purchases that impact Brick's margin projections. At the outset, Brick was doing

more of that input himself. He acknowledges now that going forward he'll just let Linzmeier continue to make changes into the software.

"My schedule just doesn't permit it right now," Brick says. "As my business grows, I hope to be able to spend more time on margin management or to have a person who could spend more time on that."

In the past few months, Brick has been playing with a new feature of the software released in May that creates a duplicate "model farm" of a user's real-time data and margin projection. Linzmeier says the purpose of the feature is to consider "what-if" scenarios.

"Let's say a customer is considering a change to their feed ration or adding additional cattle or some other operational change. The user can make those changes in a second farm so they don't disrupt their 'real' farm and 'real' data. Then in the scenario farm, they can immediately see what those alternative options that they might pursue do to their bottom-line numbers," Linzmeier explains.

That scenario or second farm's numbers can be reset at any time and match the real farm's margin projections again. The feature could be useful

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to Brick in the future as he considers alternative feeds that may be cheaper and how they might impact milk production if he were to switch.

Overall, Brick believes his margin projections are within \$0.10 to \$0.20 per cwt of being accurate. He's sure the milk and feed numbers are spot-on, but he's not sure if other expense categories, such as fuel and energy use, are completely dialed in. Brick believes \$0.05 to \$0.10 per cwt of margin projection improvement might be possible by more accurately estimating these costs. However, it may take using the program for an entire year to know for sure.

"I don't think margin projecting is ever going to be perfect," Brick says. "But I think you've got to be happy if you've got it within \$0.10 to \$0.20 per cwt."

Jack Pirtle

P7 Dairy

Roswell, New Mexico

"I knew our margin projections were a little low a couple of months ago by looking at the bank account and what came in and what went out," says 3,000-cow dairy operator Jack Pirtle. "After we changed and removed depreciation from the margin projections, I can tell we're a lot closer to what we're actually doing on the dairy now."

When Pirtle began his free trial of Linzmeier's margin projection software earlier this year, he thought the best way

to test whether it was accurate was to try to have the software mimic his quarterly financial reports. A few months into the trial, Pirtle realized that while the projection was accurate, it wasn't very helpful at making management decisions.

"I wanted to get the projection as true and accurate to daily operations so that when I look at it, it can help me make decisions, such as do I need to sell some cattle or milk some more cows," Pirtle says.

Eventually Pirtle got his dad, who is still very active in the family's other farming and agriculture activities, involved in conversations with Linzmeier. They all determined the software's margin projections would be more practical if depreciation for facilities and livestock, which were included from the family's tax-prepared financial statements, were removed. Pirtle says after making the switch, his margin projection improved by about \$0.60 and now shows "real expenses and profits."

"My two facilities were both built in 1980. There is only so much you can in reality depreciate them. I think they are worth what they are going to be worth as a working dairy now or five years from now, if you keep them up regularly. To include tax-appropriate depreciation into a real-time margin, I didn't think was accurate."

Now that he has observed the newly modified margin

projections for a few months, Pirtle says he's more confident in using them to make management decisions. And Linzmeier agrees.

"Every time we have a meeting, I can see that he's able to utilize the margin projections in a lot better fashion than when we started," Linzmeier says.

For instance, their every-three-week check-in meetings have decreased from 90-minute sessions to just 30 minutes.

Recently, Pirtle has resumed making feed purchases in advance, which he was regularly doing before the software trial but had paused for a season after he saw the program's first margin projections. He uses Spokane, Washington-based Commodities Plus as his broker.

"When my commodity broker calls and asks, 'If corn gets to \$3.50 per bushel, are you ready to pull the trigger on a contract?' Now I look at my profit projections from September through next October, and I say, 'Yeah, that's a good target,'" Pirtle says. "Before I was thinking that I was making money, or I was hoping that I was making money, or it felt like I was making money. Now with MarginSmart, I know in my mind realistically where my margin is at."

Pirtle says the software's margin projections give him more confidence to act independently.

Pirtle says he still hasn't sold any future milk production. It's something he still wants to do during the trial.

"I can tell that in the near future, or at least within the next year, that is going to be a good part of the program that I have yet to take advantage of," Pirtle says.

One of the software's newer features is proving valuable to Pirtle and his operation. A particular ration ingredient may now have different costs

mapped to different months' margin projections.

For example, if Pirtle bought three months' worth of alfalfa hay for \$250 a ton and then later purchased another batch of alfalfa hay for \$240 a ton, he could keep alfalfa hay as one entry in the software but assign the different costs for the hay to future months. Previously, the software would have required Pirtle to have two different entries for the same ration ingredient to account for the waiting-to-be-fed hay that was purchased at different prices.

Pirtle continues to let Linzmeier make any changes to rations or enter new feed contracts into the software. He calls or emails him when changes are necessary. He admits he doesn't himself much "tinker" with the software's web interface and instead watches his phone twice daily for its morning and afternoon margin updates.

"When my free trial runs out, I'm pretty sure I'm just going to stay with the same level of service as I have now," Pirtle says. "I'm not going to say, 'Hmmm, for a few thousand dollars less, I can enter it in.'"

Pirtle believes his current margin projection is within \$0.25 to \$0.50 of being accurate. He's less concerned with immediately improving the accuracy, saying that estimating "nickels and dimes get lost when today's volatile market moves up or down in quarters and dollars."

Over time, Pirtle seems comfortable the margin projections will continue to refine themselves.

"Once we have used it for a 12-month period, we'll be able to tell if this or that is accurate," Pirtle says. **PD**

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