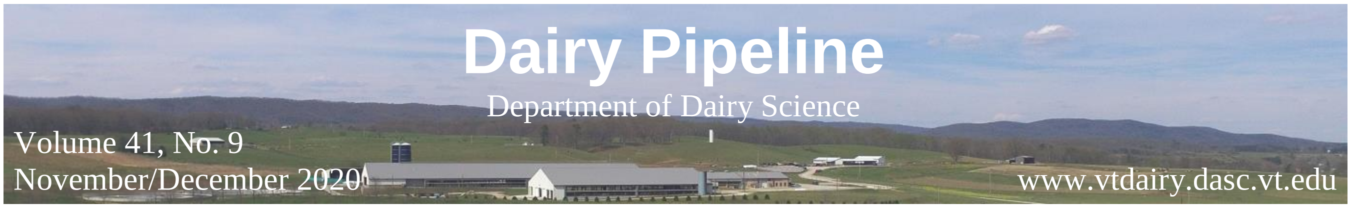
Virginia Cooperative Extension
Virginia Tech • Virginia State University
www.ext.vt.edu



Dairy Pipeline
Department of Dairy Science
Volume 41, No. 9
November/December 2020
www.vtdairy.dasc.vt.edu

Financial Lessons from a Pandemic

Authored by Alex White, Ph.D., Department of Dairy Science, Virginia Tech; axwhite@vt.edu

We've learned, or relearned, a lot from this pandemic. Major takeaways include: wash your hands; statistics can mean whatever the analyst wants them to mean; air quality (as measured by CO2 and NO2) seems to have improved dramatically even though the number of cows hasn't significantly changed (that'll start some fights!); and you can't accurately predict the future, no matter how hard you try. But when we take a step back, we can see several financial lessons lurking in the shadows. Here's what the pandemic has taught Doc White.

1. **Savings & liquidity are crucial for businesses and households.** I preach to households about having 3-6 months of living expenses in savings, and to businesses about having 6-9 months of liquidity (cash, working capital, operating credit). You know, that old "Use the Good Times to Prepare for the Bad Times" adage. Great advice Doc, but how do I build my savings? Great question – here are some tips:
    - Develop a **household living budget**. Get a handle on your household living expenses. Track your expenses to where money is leaking out of your household. If nothing else, it gets everyone in the household to thinking about their spending habits for a little while.
    - Start building your **farm/business cash flow budget** for 2021. Plan your cash inflows and outflows for the upcoming year so you won't be blindsided with cash deficits. Determine your need for operating lines – trust me, your lender will be impressed! Plan your capital expenditures based on your liquidity instead of tax-minimizing strategies.

As for those tax-minimizing strategies, remember that **you need to spend roughly $3-$5 to save $1 in taxes**. That can dramatically drain your checking account. As an example, let's look at a farm with $100,000 of net farm income (before taxes). With no tax moves (Plan A), they will owe roughly $30,000 in federal income and self-employment taxes. But, Doc, if I buy $100,000 of equipment or prepay $100,000 of expenses (Plan B), I won't owe a single dollar in taxes! Take a step back and look at what happens to your cash position.

- With Plan A, your cash position improved by over $70,000 (remember, depreciation is a non-cash expense). You can use this cash to build your savings, pay down your loans, invest for other goals, or spend a little more on your family (vacation?)
- With Plan B, your cash position decreased by roughly $70,000 – you spent $100,000 to save $30,000 in taxes, or you spent $3.33 to save $1.00 in taxes. You have less cash, decreased liquidity, less management flexibility, and no vacation funds.

But Doc, I know I'm going to use that $100,000 of feed or supplies next year. True, but what if next year is a bad year and you don't have money to prepay expenses? You either have to increase your operating line or not make the prepayment. And guess what, if you don't make the prepayment your income taxes will be about $30,000 <u>higher</u> because you already expensed that prepaid feed. All I'm saying is think about the big picture – there are worse things than paying taxes.

2. **Prior Planning Prevents Poor Performance**. The future is unpredictable, but we need to plan for it as best we can. Take time from your busy schedule to plan for the future of your business

and your family. EVERY farm & business should have a **written business plan** outlining the goals and strategies, risk management, marketing, financial, and labor plans. If you hear the phrase, "we don't have time to do a business plan, we've got work to do," that is a sign of a reactive business that will be critically impacted by relatively manageable situations.

Gimme an example, Doc. Okay, what if that situation is the death of a business partner? With no plans, that business is going to face an uphill battle to just stay afloat over the next year. But, if there is a written business plan and a **written transition plan**, the business has much better odds of survival. Manage the things you can control, but plan ahead to minimize the impacts of the things you cannot control.

Another example is to help your family plan for the time when you are not available or not alive. A little bit of estate planning can save your survivors a tremendous amount of stress (and money). Think about how spending a little time to create a Power of Attorney, and Advance Medical Directive, and a Will can ease the burden on your family.

3. **The future isn't guaranteed, so let's take time to do the "little things".** Like what, Doc? From a financial standpoint, let's take time to
    - Review and revise your insurance policies. Make sure the coverages are appropriate and the beneficiaries are up-to-date.
    - Check your credit report (www.AnnualCreditReport.com) at least once per year to check for identity theft, fraud, and "potentially damaging information" that can torpedo your credit score.
    - Create a Year-End Balance Sheet. This will help you and your lender make accrual adjustments to your financial statements and dramatically improve the quality of your decisions. This will also force you to take time to walk around the farm to see all of your assets, and maybe enjoy the view, and maybe wave to the neighbors, and relax a little, and appreciate all of the non-financial aspects of life.

Evaluating Transition Cow Management

Authored by David R. Winston, Extension Dairy Scientist, Youth; Department of Dairy Science, Virginia Tech; dwinston@vt.edu

The dairy cow's transition period is generally defined as the three weeks prior to calving through the first three weeks after calving. This period is critical in setting the stage for how well the cow will produce during her lactation. Management of the transition cow impacts milk production; metabolic, reproductive, and udder health; and survival. A sound nutrition program for the close-up dry cows and fresh cows, preventative health measures (vaccinations and sanitation), cow comfort, and good body condition are all important to successfully transition cows into lactation.

The desired outcome from a successful transition period is for the cow to peak at her potential and produce high quality milk. Peak milk is an important determinant of how much milk a cow will produce during her lactation. Total lactation yield is expected to increase by 200-300 pounds for each additional pound of peak milk.

Dairy Herd Information Association (DHIA) records measure peak milk using two parameters – peak milk and summit milk. Peak milk is defined as the highest test day milk production between 7 and 150 days in milk. Summit milk is the average milk weight of the highest two of the first three test days in a lactation. Mature cows are expected to peak higher than first and second lactation cows. Peak and summit milk averages for Holstein and Jersey cows in the Dairy Records Management System (DRMS) are shown in the table below.

Table 1. DRMS East Region Averages for Peak and Summit Milk – October 2020

Breed	Peak Milk (lb)			Summit Milk (lb)		
	1st Lact.	2nd Lact.	3rd+ Lact.	1st Lact.	2nd Lact.	3rd+ Lact.
Holsteins	79	99	107	74	94	102
Jerseys	56	67	72	52	63	68

Fresh cow milk can also be used as an indicator of transition cow management. It is defined as the milk weight at first test from 5 to 40 days in milk. For Holstein cows, the goal is for the percentage of first calf heifers producing less than 40 pounds per day to be 0 and for the percentage of cows producing less than 50 pounds per day to be 0. If too many cows are missing this target, it is a call for a review of the transition cow program.

Tracking disease occurrences during the transition period can provide valuable data for evaluation of transition cow management. Incidence of milk fever (clinical and subclinical), ketosis (clinical and subclinical), displaced abomasum, retained placenta, metritis, and mastitis (clinical and subclinical) can be used to help pinpoint areas for improvement.

One of DRMS' executive summaries called the DHI-403 Transition Cow Management, an optional report, provides a detailed analysis of a dairy herd's transition cow program. It considers the following questions: 1) Which elements of transition cow management are working well? 2) Were dry periods the proper length? 3) Are fresh cows producing well? 4) Is the fat to protein ratio appropriate on the first test? 5) What percent of the herd does not have an SCC infection on the first test? 6) Are cows ready to breed soon enough? 7) Are cows surviving to 60 days in milk? 8) What percent of cows were not distressed during transition period? This report can be a useful, periodic tool to review the transition program.

The transition period paves the way for a successful lactation. Monitoring and making adjustments to the program has the potential to generate more income through higher milk production and reduce costs associated with disease treatment. Attention to details during the transition period can pay big dividends.

Upcoming Events

November 5, 12, 19, 24, 2020
Pesticide Recertification Classes
RSVP required this year, online options also available. Rockingham County Extension Office

November TBA
Pasture Grazing Group Fall Meeting
Topic: How to prevent seasonal crashing in milk production; Franklin County: contact cmartel@vt.edu

November 21, 2020
Hokie Dairy Day - Virtual educational event hosted by the Dairy Club at Virginia Tech and VCE

Dec/Jan TBA
Winter Farm Finance small group team work
Franklin County: contact cmartel@vt.edu

Women in Ag Gathering 2021
Date and Details TBA

If you are a person with a disability and require any auxiliary aids, services or other accommodations for any Extension event, please discuss your accommodation needs with the Extension staff at your local Extension office at least 1 week prior to the event.

DAIRY SCIENCE

For more information on Dairy Extension or to learn about current programs, visit us at VTDairy—Home of the Dairy Extension Program online at www.vtdairy.dasc.vt.edu.

Dr. Christina Petersson-Wolfe,
Dairy Extension Coordinator &
Extension Dairy Scientist,
Milk Quality & Milking Management

Visit Virginia Cooperative Extension: ext.vt.edu

2020 DASC-140NP