



## Are You Preparing for a Brighter Future on Your Dairy?

By John Frey, Executive Director,  
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**Editor's Note:** This is a special feature from the Center for Dairy Excellence exclusively for the Farmshine newspaper.

Dairy commodity markets have been exciting to watch over the past month. Since January 14, the Class III milk price for March has risen more than \$3.50 from \$15.02 to \$18.61 per hundredweight. Class III prices for all of 2011 have gone from an average of \$15.41 to \$17.08 per hundredweight.

Tightening domestic supplies, especially in the butter and powder markets, along with increasing global demand and severe flooding in Australia, are driving the increased prices. Higher commodity prices, with April and July futures prices for corn above \$7, will still limit potential profit margins.

However, there's no doubt that the increasing dairy prices paint a much brighter future for dairy farms than we were seeing even just two months ago.

When dairy prices increase and margins get better, it's easy to get caught up in the excitement and believe they're there to stay. In fact, just last week, Andrew Ferrier, the CEO of Fonterra, the world's largest dairy cooperative, was quoted saying that "higher prices are the new normal."

The reality is that dairy is a commodity market, with prices highly vulnerable to even the slightest change in supply and demand. Said another way, what goes up will more than likely at some point inevitably come back down.

Volatility in the marketplace is nothing new. Two years ago, we saw Class III milk prices fall from \$15.28 in December 2008 to \$10.78 in January 2009. Many people said back in 2008 that

\$20 milk was the new normal. Unfortunately, that wasn't the case.

With higher prices emerging, now is the opportunity for all dairy farmers to evaluate their risk management plan and consider protecting their business from being vulnerable if and when prices do return to lower levels.

The Livestock Gross Margins for Dairy milk insurance program allows farms to secure a minimum price margin on the dairy without limiting the upside potential. It's one of several options dairy farmers have to protect themselves against risks.

In this week's CDE page in the Farmshine, we interviewed two dairy producers on what 2011 margins will mean for their business and how they're looking at protecting themselves against future risks.

### DAVID HUNSBERGER Happy Hollow Dairy Mifflintown, Juniata County

David Hunsberger and his wife Tina milk 140 cows and farm 400 acres. Their milk is marketed through the Maryland & Virginia Milk Producers Cooperative Assoc. Hunsberger is the regional coordinator for King's AgriSeeds in Pennsylvania.

**How are you working to strengthen 2011 profit margins?** "Input costs and milk prices are chasing each other, with diesel, corn, soy and electric all very high," Hunsberger said. "That means I have to manage more aggressively than I did before."

"I've joined an alternative electric buying group to get my kilowatt per hour cost in the 8 - 9¢

range. I also moved my forage to grain ratio to 70 percent forage."

**How are you protecting margins?** "I've begun to be a more regular participant in LGM for Dairy," he said. "I purchase a policy each quarter, and cover about one-third of my production each time, with about a \$1 per hundredweight deductible."

"I've also been in conversations with Stewart Peterson out of Wisconsin on how to use broker-based programs like their 'Market 360' program. I'm not sure if it will fit my sized dairy, but I am exploring that option."



### ZACK MECK Meck Brothers Dairy Womelsdorf, Berks County

Zack Meck and his brother Jeremy are partners in Meck Brothers Farm, where they milk 150 cows and farm 340 acres. Meck Brothers market their milk through Land O'Lakes, and Zack is an active member of the Dairy Policy Action Coalition.

**How are you working to strengthen 2011 profit margins?** "We are splitting milk cows into three feeding groups — low, middle and high — to use energy as best we can," he said.

"We're looking at different energy commodities, like molasses, corn distillers and corn gluten, and we're pulverizing our corn to get the best utilization out of it. We're using brewer's grain as an

alternative to soybeans, and we're planning to harvest the best quality alfalfa we can, sacrificing some tonnage for quality because I can buy fiber cheaper than protein."

**How are you protecting margins?** I am purchasing puts through Land O'Lakes for the short-term, with reasonable put costs in the 20-cent range.

"For months farther out, I am purchasing a LGM for Dairy policy," Meck said. "It is a cheaper option because put options through the cooperative get more expensive the farther out you go, and I like to keep the top side open."



### A look at your risk management options:

To protect your business from falling milk prices and/or escalating feed costs, dairy producers have several options available to them. Those options include:

**1 Using LGM for Dairy insurance:** The LGM for Dairy program is made available through the USDA Risk Management Agency. A policy must be purchased through an approved insurance agency.

Producers should contact the insurance agent prior to the sales date to start the process. To find agents, call the center at 717-346-0849 or ask your crop insurance provider about the program.

**2 Contracting milk and feed through a cooperative and/or company:** Many milk and feed cooperatives, as well as privately-owned feed companies, offer opportunities to protect a price for your milk and feed. Contact the companies you work with to find out the options available to you.

**3 Contracting milk and feed on the Chicago Mercantile Exchange:** This option usually involves the use of a brokerage company and requires greater volumes of milk and/or grain.

Producers who want to learn more about this option and potential brokers to work with can contact the center at 717-346-0849 to find additional resources.

### Get help to plan your risk management strategy

As the Risk Management Program Coordinator of the Center for Dairy Excellence, Alan Zepp is available to sit down with individual farmers or with farmer groups to review risk management options. Zepp can help a farm management team assess their risks and identify the options that would work most appropriately for that farm.

Zepp's services are provided at no cost

by the Center for Dairy Excellence to help family-owned dairy farms become stronger, more viable long-term businesses.

Contact Zepp at 717-346-0849 or at [azepp@centerfordairyexcellence.org](mailto:azepp@centerfordairyexcellence.org).

