

# Feasibility Plan

### Situation Overview:

- A. *Why did the farm need a feasibility study?* Our farm needed a feasibility study to explore the idea of a building a free-stall barn and robotics. Three years ago, I attended a presentation by Mason Dixon Farms at a Women's Conference. They shared slides of their robotic milkers. Excited at the prospect, I told Bill about the robotics, and while he wasn't as keen to the idea as me, the dream of more comfort for our cows, and quality of life for our family, remained through the years.
- B. *Where did the farm turn for help in developing the plan?* Our local loan officer also was the feasibility project person. At that time, our plan included robotics. It was hard to know where to start when considering such a drastic change in our operation. At times, it seemed easier to gain information from someone 100 miles away, than from a close neighbor.
- C. *What peripheral resource people did the team use to build the plan?* Our local loan officer, through our Center for Dairy Excellence (CDE) Profit Team, was a resource person because he started tackling the important numbers. We paid our bills and taxes, but didn't know the other key numbers which were critical for the study.

### Challenges and Opportunities:

- D. *What challenges, if any, developed during the feasibility study process?* The cost of the building was a challenge. We had to build a new barn, at a new site, across the road from our old barn including space for a lagoon. Adding onto the existing barn was determined to not be an option.
- E. *How did the team overcome those challenges?* Ultimately, we had to "tone down" our dream of robotics. We were able to apply grant money to help fund the lagoon costs. We previously had no manure storage. We now have a parlor and our herd size is 200 cows, increased from 60 cows.
- Another challenge for us was the financial optimism of our loan officer. He felt we could accomplish all our goals, and "do it all," but it left little room for error. When the bank viewed the plan, they were not willing to accept it or fund it. They didn't want to lend maximum dollars to a start-up robotic operation. Our bank wanted a different solution. It left us frustrated with the feasibility study and the process.
- Our loan officer went to the First Industries Fund to help back our project. During the two month wait, grain prices soared and we decided we wanted to re-examine our plan. Although the First Industries Fund approved our robotic plan, we decided that we didn't want to go down that road because it was too risky. We took a step back, and looked at a parlor option.

## Feasibility Plan...continued

With a decision to go the parlor route, we had to begin the process again with our loan officer, gathering new prices for the barn, excavating and other contractor bids. All that information was incorporated into a new feasibility study.

Communication also was a struggle for us. We felt the loan officer wasn't happy with us because we changed course, but in retrospect, we wish we would have had a more realistic feasibility study, initially, for the project. We would not have wasted the time of contractors and others, if we had asked the right questions.

### Actions:

F. *What are the key components to the feasibility study?* Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), debt per cow, and income over feed cost (IOFC).

G. *Approximately how much did the feasibility study cost?* \$6,000. As noted in this case study, we made several variations to the initial study that all resulted in a higher cost than initially planned.

### Results:

I. *How did the feasibility study help the farm move forward and make better decisions?* Over time, we completed six variations to the feasibility study for this project. Today, we now really understand the study's 39 pages, and we know the key takeaway items. Before we started, a financial class probably would have been beneficial to understand what's important in the process. Our perspective on both the information and our business changed when we started down the robotics path. We kept following others' advice, without asking the tough financial questions. We bought cows and feed, ramping up for the new barn and robotics planned for the fall of 2011. We also rented a neighbor's facility to milk those additional cows and took out two loans.

Today, we have our hands firmly around the operation and make more decisions based on profit. We can't make as many mistakes as we grow.

J. *Did the feasibility study reveal any surprising information about various scenarios?* We realized the margins were too tight in the robotics scenario for our family. Once we reached that conclusion, we seriously considered the parlor and barn scenario that we operate today.

K. *What might you have done differently in regards to the feasibility study?* Despite our struggles, we would do a feasibility study again. We would agree to a price, and ask how the price is impacted by any scenario changes. We would ask for better explanations so we fully understand the feasibility study conclusions. If we ask more questions in the beginning, we can save everyone's time, and arrive at the important decisions for the business.