

# Dairy Financial Consultation for the Banking Industry

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In the area our practice services it is a common belief among the dairy community that lenders are no longer interested in making loans to dairy operations. This is not entirely accurate. Volatile milk prices coupled with non-inflating asset values have resulted in much more conservative lending practices. In the past, it was not uncommon to find lenders who routinely approached prospective clients about borrowing money. In fact many would generate much of the documentation required to meet loan approval. This attitude has changed.

A recent article in the Dairy Profit Weekly reads "as lending standards return to more traditional norms and the value of old style dairies decreases... credit may become more difficult to obtain for the unprepared." The article goes on to state that lenders are requiring more liquidity and concludes by stating "bankers don't rely too much on performance of a farm, they rely more on the balance sheet." While it is certainly true that lenders standards are changing I am not sure that the concluding statement has been well tested. Lenders do rely on balance sheet but are also, in my experience, very interested in management ability. There is, however, little organized information available on most farms from which to form objective conclusions about management ability.

Non-agricultural businesses take for granted that they will have to actively market themselves to obtain outside financing. This is a concept which is only beginning to be realized in the dairy industry. Formal business planning is an uncommon practice in the dairy industry today. It will become increasingly necessary not just to secure financing but, more importantly, to ensure the successful performance of the dairy enterprise as a whole.

As a production management advisor there are several reasons to involve yourself in your clients business planning process. A growing number of veterinarians are already involved in the organization and presentation of production records. This information, when presented properly, can have significant influence on lender decisions as well as "on-farm" management decisions. When this information is combined with well organized financial information one can present a more

complete view of a dairy enterprise's true potential. When additional historic and strategic planning information are presented in a formal document the dairyman has created a powerful tool which, among other things, can function as a marketing tool to prospective lenders.

As I become more involved in dairy production management I am increasingly committed to the position that formal business planning based on accurate, organized financial and production information, form the basis for success on any dairy. In the past this idea was enthusiastically embraced by only a few of the dairies I work with. Attitudes are changing. Increasingly, dairy operators are realizing that decisions must be made on the basis of good information and with long term goals in mind. Often, initial exposure to this attitude comes when the banker insists on more extensive information than has been provided in the past. Assisting a client in organizing this information for his banker provides an opportunity to demonstrate the value of having accurate, well organized records for reference when making management decisions.

My involvement with the banking industry, at this point, is almost completely by client request. Most clients ask for help organizing their information for presentation to prospective lenders. This includes organization of production information, cash flow statements, and partial budgets. In some cases I am asked to assist in the presentation of proposals which involve recommendations I have made for production related changes when they involve added financing.

In some instances I have been asked to assist dairies that are experiencing financial difficulty. Many times simply helping to improve production on these farms is not enough. If debt levels are a limiting factor to a farms continued operation then this needs to be demonstrated clearly to all parties involved.

When working with financial information one of the greatest frustrations involves the general lack of regularly summarized information. As the "on-farm" use of computers becomes more prevalent this is becoming less of a problem. As is common with DHIA information, availability does not necessarily result in constructive use. I view my involvement in developing documen-

tation for lenders as a stepping stone towards the regular organization and presentation of information for routine use in the farm decision making process.

Monitoring production information can be a valuable service, but one needs to realize that the relationship between production and profit is becoming less direct. The one true measure of total farm health is profit. Successful dairy managers realize this. As management advisors we need to be advocating strongly for this attitude amongst all our dairy clients. A profit-oriented attitude is the key to transforming a business which survives into one that thrives.

Collection and summarization of financial information is at least as important to an operations success as production records. It is a logical step for a production management advisor to become increasingly involved

with this information.

Currently, I am working with an agricultural economics specialist to create a service which will more fully integrate financial and production information into a common decision-making tool. Probably our greatest stumbling block so far has been the availability of accurate financial information which can be efficiently summarized.

Formalizing the business planning process is one of the most fundamental elements for business success. Successful dairy managers will be those that are strongly profit oriented and have good information management systems. As production management advisors we must define our services in profit oriented terms. This means increased involvement in your clients financial and production information.

