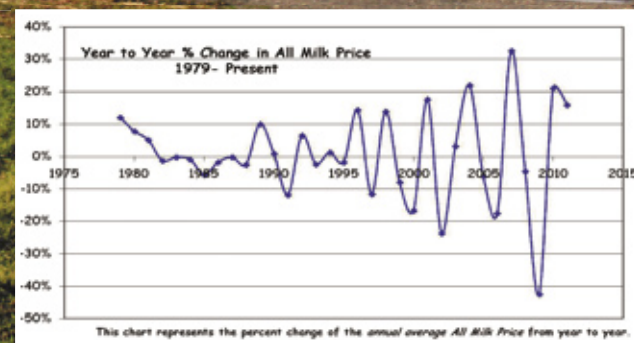
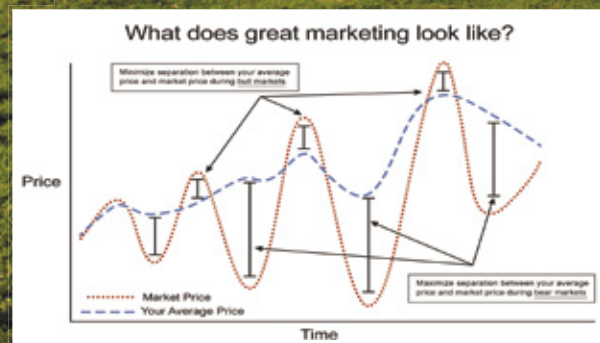


Professional approach to marketing fits goals



By SHERRY BUNTING
Special for Farmshine

MOUNT JOY, Pa.—Brothers Tony and Mike Brubaker share a passion for the dairy business. Tony focuses more on the cattle side of the dairy, while Mike manages the crops. They are both keenly aware of how price volatility in milk and feed commodities affects the way they manage the dairy.

Because they take a professional approach to managing the farm and dairy, the brothers value their PDMP membership, which brings opportunities to learn from—and with—fellow dairy producers who are forward-thinking.

They’ve realized volatility is not going away. So, they recently took a more professional approach to marketing the milk produced at Brubaker Farms, Mount Joy, Lancaster County.

“We both were watching the commodity futures markets and learning about it,” Tony relates.

“We were doing some things on our own, but realized we didn’t have the time to devote to it,” adds Mike. “The more we learned, the more we realized we didn’t know. We aren’t able to predict the future of the markets.”

Tony and Mike realized they needed help from people who know what they are doing and have a track record for doing it. In September, they enrolled in Stewart-Peterson’s Market360 service, which helps producers create a goal-oriented and disciplined approach for managing risk and opportunity for both feed inputs and milk output.

Stewart-Peterson Inc. is a consulting firm that offers strategic opportunity and risk management services for farmers nationwide. The company became a PDMP Premier Partner in 2011 and helped put together the June 2011 Dairy Industry Issue Forum on risk management, where producers learned what great marketing looks like from the firsthand experiences of a Wisconsin dairyman who has used the Market360 service for several years.

“It really begins with taking that first step, doing the marketing assessment profile, and then following through and sharing their goals with us,” says Matt Strelow in business development for Stewart-Peterson.

He says five constraints keep producers from getting the most out of their marketing. Having spent nearly 30 years in the commodity business, company founder Scott Stewart discovered five key factors impacting marketing performance: 1) Knowledge, 2) Time, 3) Risk tolerance, 4) Discipline, 5) Experience.

“Through the marketing assessment profile, we can identify what that big constraint is,” Strelow explains. “When you fix the big thing first, then you’re on your way to success.”

It’s a cycle of continuous improvement, and for the Brubakers the constraint was “time.”

“They (Stewart-Peterson) are able to watch a lot more things than we can,” Tony notes. “We watch milk futures. We can watch corn futures. We can watch oil. But trying to figure out how the markets are all going to react to each other and knowing which direction to take—plus removing our emotion—is not always easy. Sometimes you see a high price and it gets exciting, but it doesn’t mean the price isn’t going



to be better. It’s hard to step back and look at it when you’re doing it on your own.”

With Market360, the Brubakers can remove the emotion and make decisions to act on advice, based on market-scenario planning.

Strelow points out that dairy producers can do their own marketing, but they may not have the time or the desire, and they may not know what constraints hold them back from getting positive results on their own.

A key difference in using a service like Market360 is the assessment.

“We go through the assessment and then we can be scientific about it and look at the numbers,” Strelow explains. “It’s a pretty in depth analysis and from there, we’re trained to provide results and pick out the key constraint or two, which are usually a lack of time and/or a lack of knowledge.”

When Tony and Mike decided to get serious about managing risk, they sat down with Stewart-Peterson to do the assessment and look at different options.

“We liked their scientific, systematic approach that they have laid out for their marketing strategies,” Tony explains. “It can be very predictable, where if we do ‘x,’ then ‘y’ will be the result. I like having several options to choose from. It’s a nice place to start. They’ve obviously put a lot of good thought into this, and it makes a lot of sense to us.”

What appeals to Mike is that the service enables them to use different tools to manage the farm’s milk price risk—from working with the cooperative and forward contracting, to working with futures and options on the Chicago Mercantile Exchange (CME).

“Stewart-Peterson is not just a firm brokering trades,” Mike relates. “They are looking at the big picture, advising us as a consultant.”

So, if markets are not predictable, per-se, then how can a marketing service make things more predictable for the producer?

“The predictable part is if they make a recommendation for us to take a strategy, we can know what our price will be if the market goes this way, and we can know what our price will be if the market goes that way,” says Tony.

Thus, the market risk becomes more of a calculated risk.

“It doesn’t give us a guaranteed milk price, but when you do a strategy, it’s easy to understand what risk we are taking,” Tony adds.

“We call this market-scenario planning,” says Strelow. “It basically prepares the client for whatever the market does, in a mathematical sense. It really eases the decision-making for them if they know what each strategy is going to do in a different market-scenario.”

The key, he says, is this process allows the advisor and the producer to have that discussion prior to the market going up or down. This helps to manage the emotions in the decision-making so that when the market-move actually happens, the stress is not there in having to make a decision. It’s been pre-thought-out and pre-discussed and perhaps just adjusted.

The Brubakers have gone through the marketing assessment profile. Their Stewart-Peterson advisor, Warren Wagner, knows their goals, what they’re looking to accomplish. And they have learned and identified strategies through market-scenario planning.

They are addressing marketing in their dairy operation to “take the lows out of the lows.”

“Instead of setting the farm back like a lot of farms were set back in 2009, we want to minimize the risk of the low market,” Mike notes. “We may not hit quite the highs of the high market either, but the goal is to keep the farm

(Top) Brubaker Farms is home to a milking herd of 900 cows. (Inset, left) The illustration shows what good marketing looks like, where the separation between the market price and one’s weighted average price is minimized in bull markets and maximized in bear markets. (Inset, center) Milk is loaded on a tanker for shipment at Brubaker Farms. (Inset, right) This graph shows the increase in volatility from 1979 through 2011.

(At left) Tony (left) and Mike Brubaker (right) talk over marketing strategies with Stewart-Peterson business development advisor Matt Strelow. They work with market advisor Warren Wagner on a regular basis. Photos by Sherry Bunting

(Below) Stewart-Peterson’s Market360 team of advisors helps dairy producers understand possible market directions for feed and milk and prepares producers with strategies for multiple price possibilities. Photo provided.

going forward through good and bad years, and at the same time focus on other important things around the farm and let the experts take care of the milk pricing.”

For Tony, stabilizing the revenue affects their profitability and long term sustainability. “When you have a year like 2009, you take on debt to keep the farm operating,” he explains. “For every dollar you borrow to make it through the year, it’s going to cost you a dollar-thirty until you make the money back, and pay taxes and interest on it. It’s more expensive to lose money and try to get back in position than to stay at a positive cash-flowing position all—or most—of the time.”

While Market360 focuses most on the milk pricing advice, and the consulting fee is based on milk production, the advisor also provides tools and advice for managing risk in corn and protein, even propane.

Getting started, the Brubakers realize it’s an investment. They are investing now to set up strategies for the future and take a disciplined approach to implementing those strategies, particularly as they learn and become more comfortable with how these strategies “play through” in different market-scenarios.

“Just today, I learned a new strategy,” Mike says. “We are learning and absorbing. And we’re starting to look further out into the future on how to protect ourselves.”

“We’re also learning how to manage a hedge account,” Tony adds.

“It’s extremely important that everyone is on the same page—the producer, the lender, and the advisor,” Strelow emphasizes. “There are lenders who embrace marketing and are becoming more knowledgeable about it.”

“This is dynamic,” he says, “because marketing is dynamic and has to be tended to.”

The Brubakers realize it’s not about hitting a specific market “high,” it’s more about setting up strategies based on weighted averages.

“We want consistency for the long term,” says Mike. “We’re realizing more and more that we need to forget about those blips. Let’s be in the business for a long time, not just celebrate a high now and then.”

Through assessment, education, a variety of strategies and market-scenario planning, Stewart-Peterson’s Market360 helps position dairy producers, like the Brubakers, for the dairy business marathon, not a market sprint.