Murray County Swine Industry Business Retention and Enhancement Program - 1994

EXECUTIVE SUMMARY

State Sponsors:

Minnesota Department of Trade and Economic Development
Minnesota Extension Service, University of Minnesota
Minnesota Pork Producers

Local Sponsors:

Murray County Pork Producers
Minnesota Extension Service, Murray County
Murray County Economic Development Office
Murray County Swine Industry
Business Retention and Enhancement Program - 1994

EXECUTIVE SUMMARY

Goals of the Murray County Swine Industry Business Retention and Expansion (BR&E) Program: This program was sponsored locally by the Murray County Pork Producers, the Minnesota Extension Service-Murray County, and the Murray County Economic Development Office. The goal of the program was to help pork producers, community leaders, and agribusiness leaders develop action plans to strengthen the county's swine industry. This was done by visiting a sample of 84 pork producers in the spring of 1994 by a team of 75 community leaders. Each team completed a two-hour orientation on effective interview procedures to ensure high quality of data. The Murray County swine BR&E leadership team included:

Jerry Blankers, pork producer
Larry Henderson, banker
Bob Klinge, economic development director
Bob Koehler, extension educator
Lennen Nelson, pork producer and county commissioner
Karen Tommeraasen, extension educator
Clayton Torbert, veterinarian

Country Host Restaurant in Slayton. After reviewing the research results and discussing the suggested recommendations, the task force developed the recommendations shown in this Executive Summary. The BR&E task force included:

Roger Aspin, Slayton
Brad Bergerson, Slayton
Jerry Blankers, Lake Wilson
Jim Bose, Slayton
Gary Brinks, Garvin
Karen Bruxvoort, Chandler
Charles Casey, Downay
Craig Christensen, Slayton
Joe Diedrich, Iona
Nels Forsberg, Slayton
Arnie Guild, Slayton
Loren Heintz, Fulda
Larry Henderson, Slayton
Lynn Herrmann, Avoca
Bill Hunter, Slayton
Randy Jorgenson, Slayton
Bob Klinge, Slayton
Bob Koehler, Slayton
Howard Konkol, Jr., Slayton
Larry Laleman, Currie
Tom Mesner, Chandler
Rick Miller, Garvin
Bob Moline, Garvin
George Morse, St. Paul
Lennen Nelson, Balaton
Brad Oeltjenbruns, Hadley
Tim Ramerth, Pipestone
Dave Rentschler, Slayton
Hub Sandman, Slayton
Doug Schmitz, Slayton
Scott Schwartz, Garvin
Dave Schreiber, Slayton
Matt Surprenant, Tracy
Ralph Surprenant, Jr., Tracy
Jay Takle, Westbrook
Karen Tommeraasen, Slayton
Clayton Torbert, Slayton
Kevin Vickerman, Tracy
Case Vos, Hadley
Gordon Vosberg, Westbrook

After the data was collected, the results were compiled by George Morse and William Lazarus, extension economists at the University of Minnesota. Then a team of industry specialists reviewed the results and developed suggested recommendations for the local task force. This suggested recommendations panel included:

Brian Buhr, Dept. of Agricultural and Applied Economics, University of Minnesota
John Goihi, president, Agr/Nutrition Services
Theresa Heiland, BR&E Strategies Program, University of Minnesota
Bob Koehler, MES - Murray County
Wayne Marzolf, MN Rural Finance Authority
Bruce Montgomery, MN Dept. of Agriculture
Gerald Shurson, Dept. of Animal Science, University of Minnesota
Karen Tommeraasen, MES - Murray County

The Murray County BR&E task force held a four-hour retreat on August 23, 1994, at the
SURVEY RESULTS

Highlights of the survey are presented below. Full details are available in a workbook available for loan from the Murray County office of the Minnesota Extension Service.

Average Size by Enterprise Type: As shown in Table 1, over half (57%) of the producers were farrow to finish operations. These farms averaged 105 sows. Finishing operations accounted for 25 percent of the producers in the survey, with an average size of 890 hogs. Generally, the farrow to finish and the farrow to feeder pig enterprises were a little larger than the average operation in the county, while the finishing operations surveyed were a little smaller than those in the county.

<table>
<thead>
<tr>
<th>Enterprise Type</th>
<th>Farm</th>
<th>Swine</th>
<th>Total Enterprise % of Total Farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time workers</td>
<td>228</td>
<td>222</td>
<td>97</td>
</tr>
<tr>
<td>Part-time workers</td>
<td>201</td>
<td>187</td>
<td>93</td>
</tr>
<tr>
<td>Total</td>
<td>429</td>
<td>409</td>
<td>95</td>
</tr>
</tbody>
</table>

Source: Question 8.

STRATEGY ONE: ASSIST PORK PRODUCERS IN GAINING ACCESS TO FINANCING

Overview: In order to remain competitive, Murray County producers will probably need to make major new capital investments in facilities in order to utilize technologies such as all-in, all-out pig flow, and split sex feeding. In most cases, new financing will be required for such investments. The BR&E task force will explore the availability of existing financing and programs to help producers understand which might be most advantageous.

Research Results Related to Strategy One:
During the past three years, more local producers have expanded their operations than have declined. Forty-three percent of the farrow-finish and feeder pig producers expanded their sows versus 10 percent declined. Fifty-two percent expanded the number of feeders, compared to only 9 percent that cut back. Further, 40 percent reported that they were not satisfied with the current size of their operation. Over 42 percent of the producers plan to expand their operations during the next five years.

Of those planning to expand, 91 percent see pork production as a better opportunity than crops or other enterprises. Almost three-fourths of those planning to expand are upgrading their facilities so that they can reduce their costs of production. Not quite half (42%) of those planning to expand are doing this so that they can add/bring another person into the operation.
Insufficient capital was viewed as a problem by 91 percent of those planning to expand during the next five years (Table 3). Thus, it is not surprising that 85 percent of the producers planning to expand listed this as an obstacle. The next concern is "feedlot regulations or odor complaints," with about half mentioning this.

Table 3. Obstacles for Expansions Among Producers that Plan to Expand During Next Five Years, Murray County, 1994

<table>
<thead>
<tr>
<th>Obstacles to Expansion</th>
<th>Percent of Producers Planning to Expand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient capital</td>
<td>91</td>
</tr>
<tr>
<td>Limited capacity of facilities</td>
<td>85</td>
</tr>
<tr>
<td>Feedlot regulations or odor complaints</td>
<td>48</td>
</tr>
<tr>
<td>Difficulty recruiting labor</td>
<td>9</td>
</tr>
<tr>
<td>Insufficient land for manure</td>
<td>6</td>
</tr>
<tr>
<td>Don't want to manage more employees</td>
<td>6</td>
</tr>
</tbody>
</table>

Task Force Recommendation 1. Encourage producers to improve their record systems.

Successful pork producers of the future will likely see themselves more as managers and less as laborers than in the past. Just as the three most important factors in real estate are "location!, location!, and location!," the three most important keys to running a modern swine operation are probably "records!, records!, and records!"

Records are essential to producers themselves, for planning and control. Records are also essential for documenting repayment capacity to lenders.

Only 38 percent of the producers rate their production and financial records as strengths of their operations. Apparently, producers already see the need for improvements in this area.

The task force will explore several means of encouraging producers to improve their records. The task force will explore the availability and adequacy of educational programs on record systems and other aspects of business and financial management, such as the existing adult farm management programs.

Task Force Recommendation 2. Explore the possibility of longer term fixed rates on capital financing loans.

One of the primary obstacles facing producers borrowing for long-term capital loans is that the terms are often for only five years. To provide greater certainty, the producers would like to see a longer term (say ten years).

To achieve this goal, it might be necessary to use some of the government loan programs. Thus, pork producers will need good records and be willing to complete some of the paperwork involved. A related suggestion which will be considered is that producers that complete the "Pork College" or similar educational programs would receive better terms than those that do not. The rationale for this is that there is likely to be less risk when the producer has a stronger background.

The task force could explore ways to publicize these sources and the major criteria used by each.

STRATEGY TWO: HELP PORK PRODUCERS EARN HIGHER INCOMES BY LEARNING NEW PRODUCTION AND MANAGEMENT TECHNIQUES

Overview: Murray County pork producers are facing increasing competition by expanded production in other parts of the nation. As this increases, the location of processors is shifting to those areas. To maintain the regional processors, producers are facing increasing pressures to reduce their costs of production. On the demand side, consumer trends toward leaner meats is promoting processors to offer premiums for high quality lean carcasses. A number of agencies have educational programs which can help producers adopt new production and management techniques to reduce their costs and improve their net incomes. The BR&G task force can facilitate the use of these programs by making local producers aware of them.

Research Results Related to Strategy Two: Past Changes in Operations - Murray County producers have been changing their operations over the past three years. With the exception of the number of employees, less than
half of the producers surveyed stayed the same on other key business factors (see full report for details).

Weaknesses in Operations - Producers felt there were a number of ways that their operations could be further improved. When asked to list the strengths and weaknesses of their current operations, they listed facilities and site engineering, size, production and financial records, business planning, marketing, and finishing as the six weakest areas (Table 4).

<table>
<thead>
<tr>
<th>Production Aspect</th>
<th>Weaknesses</th>
<th>Fair</th>
<th>Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relatively strong aspects:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boar selection</td>
<td>3</td>
<td>19</td>
<td>78</td>
</tr>
<tr>
<td>Farrowing</td>
<td>7</td>
<td>17</td>
<td>75</td>
</tr>
<tr>
<td>Feeding and nutrition</td>
<td>6</td>
<td>21</td>
<td>73</td>
</tr>
<tr>
<td>Gilt selection/purchase</td>
<td>6</td>
<td>21</td>
<td>73</td>
</tr>
<tr>
<td>Disease reduction</td>
<td>10</td>
<td>24</td>
<td>66</td>
</tr>
<tr>
<td>Moderately weak aspects:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nursery</td>
<td>13</td>
<td>23</td>
<td>64</td>
</tr>
<tr>
<td>Finishing</td>
<td>16</td>
<td>24</td>
<td>60</td>
</tr>
<tr>
<td>Manure handling and storage</td>
<td>10</td>
<td>36</td>
<td>54</td>
</tr>
<tr>
<td>Labor and time management</td>
<td>12</td>
<td>35</td>
<td>53</td>
</tr>
<tr>
<td>Business planning</td>
<td>20</td>
<td>29</td>
<td>51</td>
</tr>
<tr>
<td>Marketing</td>
<td>19</td>
<td>30</td>
<td>51</td>
</tr>
<tr>
<td>Pig flow planning</td>
<td>9</td>
<td>41</td>
<td>50</td>
</tr>
<tr>
<td>Weak aspects:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Input purchasing</td>
<td>11</td>
<td>42</td>
<td>47</td>
</tr>
<tr>
<td>Breeding</td>
<td>10</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Prod. and financial records</td>
<td>25</td>
<td>37</td>
<td>38</td>
</tr>
<tr>
<td>Size</td>
<td>35</td>
<td>31</td>
<td>34</td>
</tr>
<tr>
<td>Facilities and site eng.</td>
<td>34</td>
<td>35</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Question 15.

Task Force Recommendation 1. Encourage pork producer participation in educational programs to enhance production and management techniques.

The task force will encourage participation by Murray County producers in the "Pork College." The "Pork College" is an intensive training session that helps producers build their management expertise. The task force will also explore means of delivering educational programs on facilities and site engineering.

STRATEGY THREE: INCREASE COMMUNITY'S ABILITY TO SUSTAIN STRONG SWINE INDUSTRY

Overview: The public's understanding and support of the swine industry can make an important difference in Murray County's ability to sustain a strong swine industry. There are three major aspects to the community's ability to help this industry. First, the public needs to understand the market forces and technological changes facing local swine producers and the implications for both those producers and the local economy. Second, the public needs to understand environmental issues related to the swine industry so that there are realistic expectations and regulations. Third, local governments need to appreciate the public service concerns of pork producers. Thus, local governments need to demonstrate that they appreciate the economic contributions of the swine industry and are responsive to their public service needs.

Research Results Related to Strategy Three: Murray County lost over 16 percent of its population from 1980 to 1990, one of the largest losses in southwestern Minnesota (Rural Investment Guide, 1993). Due to the county's location, agriculture is likely to be a key to its economic growth.

Changes in Market and Technology - Swine production, while an important part of Murray County's agriculture, has not grown over the past decade. Yet, Murray County producers are changing their production methods in a number of ways. Over half of the producers see the following trends as threats to swine production in Murray County: growing concern with the environment and land use planning, new pork production outside the corn belt, growth in larger sized operations, increasing average age of producers, competition from the poultry industry, and changes in the packing industry. Yet, at the time of the survey, over 40 percent of the producers wanted to expand the size of their operations.

Public Attitudes Toward Swine Industry - The survey provides pork producers' perceptions of the public's attitude toward their industry. These perceptions, whether accurate or not, are likely to have some influence on young people deciding...
whether or not to go into the industry. As shown in Table 5, the majority of local businesses, local government officials, and non-pork producing farmers are perceived as positive toward the swine industry. Yet, fairly large numbers of these groups are indifferent to the industry. About one-fourth of the rural non-farm residents and city residents are negative toward the industry and nearly half are indifferent.

Table 5. Attitudes Toward the Swine Industry, Murray County Pork Producers, 1993

<table>
<thead>
<tr>
<th>Community Group</th>
<th>Negative</th>
<th>Indiff</th>
<th>Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main street businesses</td>
<td>15</td>
<td>23</td>
<td>60</td>
</tr>
<tr>
<td>Local government officials</td>
<td>11</td>
<td>39</td>
<td>50</td>
</tr>
<tr>
<td>Farmers (not pork producers)</td>
<td>13</td>
<td>35</td>
<td>52</td>
</tr>
<tr>
<td>Rural non-farm residents</td>
<td>25</td>
<td>47</td>
<td>28</td>
</tr>
<tr>
<td>City residents</td>
<td>29</td>
<td>46</td>
<td>25</td>
</tr>
</tbody>
</table>


Community Services - In general, pork producers in Murray County rated community services very high. Yet, five aspects had less than 60 percent of the producers rating them as excellent to good (day care, road maintenance, building codes, recreational facilities, and planning and zoning).

Task Force Recommendation 1. Build a community consensus to support the Murray County swine industry.

Given Murray County's location and other economic development opportunities, the swine industry might be one of its better economic development options. Unlike areas nearer larger urban areas and recreational areas, Murray County has ample open space. Due to this space, there is less likely to be a problem with odors than in other areas. Yet, pork production will probably always result in some odors, even under the best manure management systems. The community needs to reach a consensus on whether it would like to encourage this industry and is willing to tolerate some odors in order to capture the economic development benefits.

Two specific steps will be explored as a means of achieving a better understanding of the industry. First, a monthly "Ham/Eggs and Issues" breakfast will be held for community leaders working in economic development, local government, education, and the pork industry. This group will hear from a series of speakers on changes in the swine industry and explore the implications for Murray County. The concerns of local producers will also be discussed with community leaders not working directly in the industry.

Second, a series of tours to other major hog producing areas will be developed. The purpose of these tours would be to help both community leaders and producers see the changes that are happening in those areas that are the major competitors for Murray County. This would provide a background for community leaders to make informed decisions on zoning and feedlot ordinances and other programs to sustain a strong industry. It would also provide producers with additional information on new technologies they are considering.

Potential places to visit could range from the more rapidly growing counties in Minnesota (Blue Earth, Nicollet, Rice, Martin, and Jackson) to communities in northern Missouri, Colorado, or North Carolina.

Task Force Recommendation 2. Develop a county plan on environmental issues.

Currently pork producers face a confusing picture about proper procedures and practices in manure handling. The regulatory and educational agencies need to communicate more so that farmers can hear the same message from both groups. This would remove some uncertainty on what is required and probably encourage more rapid adoption of approved practices. The development of a county plan on environmental issues would give producers a clearer picture of the requirements that they face and, at the same time, provide the public with some assurances about the environment.

The task force will invite representatives from a variety of agencies to meet to discuss how the development of such a plan would proceed.
STRATEGY FOUR: HELP MURRAY COUNTY PORK PRODUCERS EARN HIGHER INCOMES THROUGH NETWORKING

Overview: Farmers working together to accomplish things that cannot be done as well individually is a long tradition in agriculture. "Networking" is a modern term for various ways in which pork producers are working together.

The BR&E task force could perform an educational role in helping pork producers look at various aspects of different networking arrangements. For example, how would a particular type of arrangement improve profitability for participants? What are the capital requirements and risks? Is there a loss of independence? Would market access for others in the region be affected? Some possible networking arrangements are hog marketing pools, purchasing cooperatives, breeding stock multiplier units, feeder pig cooperatives, and information sharing arrangements such as farm business management associations.

Research Results Related to Strategy Three: Services Purchased Outside Murray County - Breeding herd replacements are the type of input least often purchased in Murray County. Hog equipment is another type of input where Murray County suppliers are rated poorly. Several producers listed access to breeding stock and feeder pigs locally as specific concerns. Other producers, however, expressed concerns about larger operations, expansion by coops and other corporations, and outside investors.

The most common change made in the past few years was to build or change nurseries. Related to this, one type of networking arrangement that seems to be attracting quite a bit of attention is for individual producers to build nurseries and contract for newly weaned pigs to be received from a jointly owned central farrowing unit.

A significant number of producers currently buy key inputs and services outside Murray County. Over half of the breeding herd replacement, hog equipment, and accounting services are purchased outside the county. For six of the ten key items, the track record of the supplier (defined as the supplier's reputation for giving high quality products or service) was the most important factor to producers as they selected their primary supplier. This was particularly important for breeding herd replacement, accounting, feed supplements, complete feeds, and veterinary services. Price was the primary factor for only two items: hog equipment and building supplies. While more than half of the producers rated eight of the ten inputs/services available in Murray County as excellent or good, there is room for improvement in the quality of all of the services. For example, the highest rated item was feed supplements, which received a rating of 86 percent. This means that 14 percent of the producers would rate the quality of feed supplements available in Murray County as fair or lower.

Task Force Recommendation 1. Encourage formation of informal pork producer information-sharing groups.

A local pork producer group could share information on a variety of topics, such as computer use, records, genetic evaluation and hedging. Much of the learning would come from sharing information among the group, but outside speakers could also be invited. In addition to personal appearances, outside speakers could be brought in through interactive video, satellite broadcasts, and electronic mail-based conferencing.
POK PRODUCERS INTERVIEWED

Steve Anderson
Richard Andert
George Andert, Jr.
Terry Appel
Mike Arens
Leon Balster
Paul Beech
Mark Beek
Randy Beek
Steven Beek
James Berglund
Dale Bergman
Jerry Blankers
Elay Blau
Jeff Bonnstetter
Russell Bonnstetter
Tony Bonnstetter, Jr.
Jim Bose
David Bundy
Duane and Karl Campbell
Steve Cohrs
Brian Crowley
Paul DeGreeff
Jay Dekker
Dennis Dierks
Keith Doeden
Andrew Edmundson
Gordon Edwards
Carroll Erickson
Junior Estum
John Fransen
Vernon Galles
Jim and Tom Gervais
Phil Gervais
Bruce and Branch Haken
Loren Heintz
Ed Herrmann
Leo Hofstadter, Jr.
Lynn Huge
Gerald Janssen
Tom Keller
Farryl Kluis

Larry Laleman
Dean Lanners
Stanley Larson
Larry Leysen
Michael McCoy
Tom and Ron Mesner
Dan Mihin
Dennis Miller
Jim Moline
Robert Moline
Lennen and Bill Nelson
Eldon Nelson
John Nelson
Todd Nelson
Gary Olson
Dave Overman
Les Overman
Marlin Peterson
Raymond Priebe
Melvin Reith
Loren Richardson
John and Joe Risacher
Clint Rolland
Kerry Ruppert
Verlin Rylaarsdam
Steve Salentiny
Melvin Schreier
Scott and Roger Schwartz
Larry Smith
Roy Spielman
Curt Strampe
Dennis Swan
Jay Talke
Raymond Talsma
Roger Talsma
Luther Tostengard
Robert Van Essen
Ron Vander Lught
Henry Vanderlinden
Kevin Vickerman
David Wagner
Rick Ziemke

The University of Minnesota is committed to the policy that all persons shall have equal access to its programs, facilities, and employment without regard to race, color, creed, religion, national origin, sex, age, marital status, disability, public assistance status, veteran status, or sexual orientation.