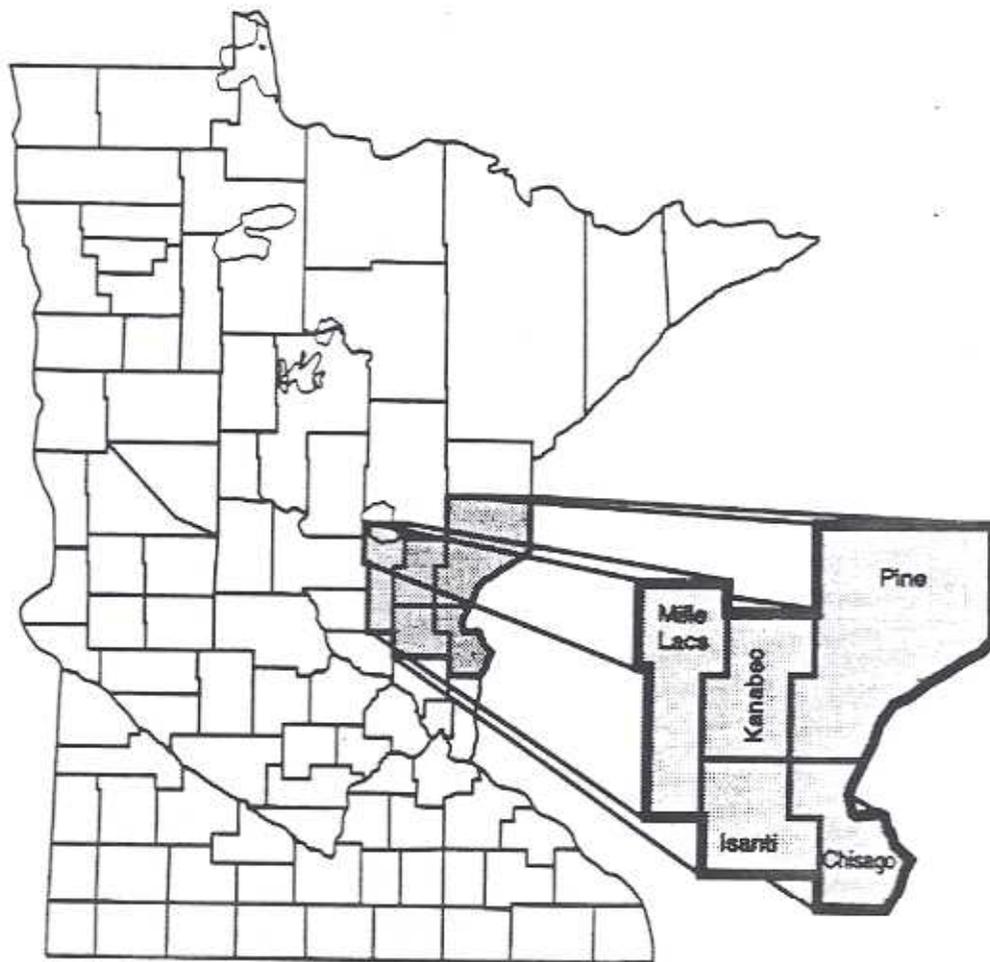


Summary Report

March, 1995

East Central Minnesota Dairy Industry
Business Retention and Enhancement Strategies Program



SUMMARY REPORT

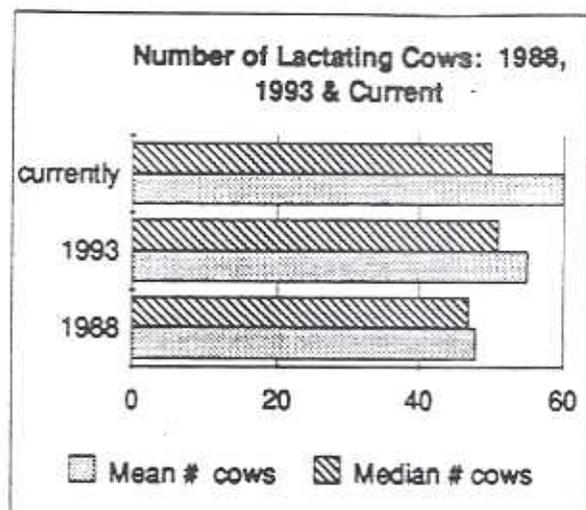
East Central Minnesota Dairy Industry
Business Retention and Enhancement Strategies Program
For: Pine, Isanti, Chisago, Kanabec,
and Mille Lacs counties
March - 1995

The PICKM Dairy BR&E Strategies Program was a joint effort conducted by the East Central Minnesota Dairy Task Force, the Minnesota Extension Services in the counties of Pine, Isanti, Chisago, Kanabec, and Mille Lacs, and endorsed by the Minnesota Dairy Leaders Roundtable. The goals of the program were to: (1) develop an understanding of the business climate for dairy producers in East Central Minnesota; (2) help dairy farmers with local business concerns and opportunities; (3) develop action plans to retain and enhance dairy farm business; and (4) assess the need for a dairy business community network. These goals were achieved by a team of 59 volunteer visitors conducting individual interviews with 45 area producers. Volunteers were trained in conducting the interviews to ensure high quality data. After the surveys were completed, the results were compiled by University of Minnesota staff, followed by a review of the results with a team of experts in dairy and BR&E programs. This committee then presented their suggested recommendations for consideration by local leaders and dairy farmers.

SURVEY RESULTS

Highlights of the survey are presented below. A report with full details is available for loan from the PICKM County Extension offices of Minnesota Extension Service.

Size of Operations: The median farm owned 200 acres of land and rented another 90 acres. Thus, half of the farms were smaller than this and half larger. In 1994 the median number of cows (dry and lactating) was 50, up from 47 in 1988.

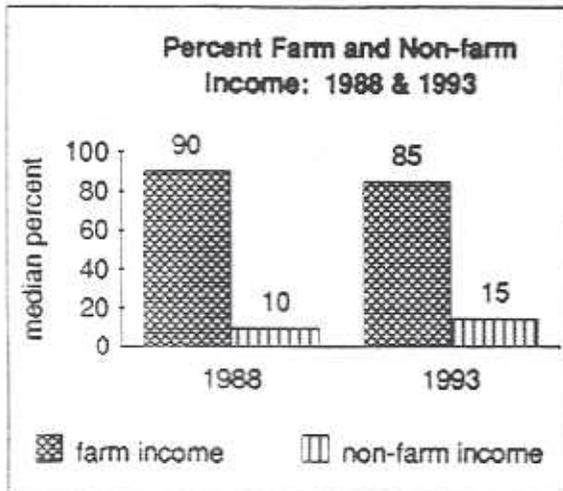


Rotational Grazing: Currently 22% of the sample practices rotational grazing with their milking herd. Another 22% are considering practicing this within the next three years. When comparison were made between the characteristics of the rotational grazing herds and the non-rotational herds, there were no major differences. Rotational grazing herds averaged (mean value) 61 cows while the non-rotational herds had 58 cows. The total land farmed average 363 acres for rotational grazers versus 395 for non-rotational herds. Generally,

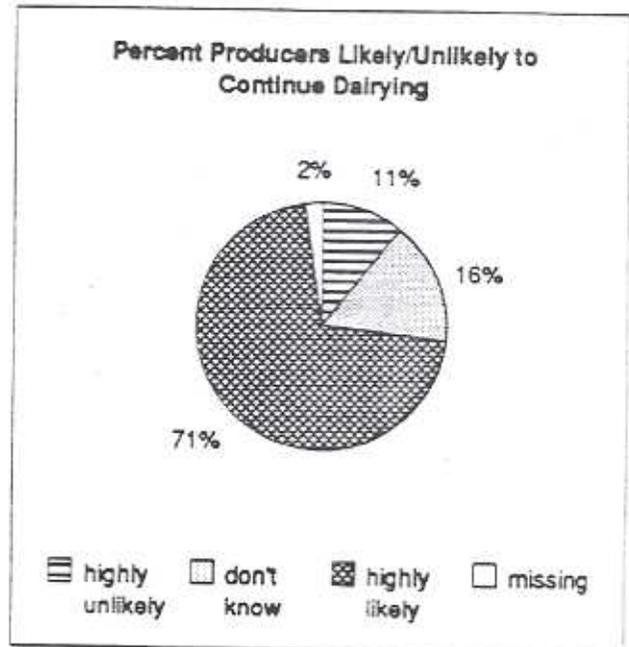
the rotational grazing operations had been in operation for four years less than the non-rotational grazers (16 vs. 20 years). Also there were slightly more partnerships and fewer sole proprietorships with the rotational grazers than with the non-grazers.

Hours Per Day of Labor: The total time spent on the farm ranged from 11 hours per day in February to 19 hours per day in May. Generally about half of this time was spent on the dairy operation. The results show the median response, meaning that half of the producers reported less than this and half reported more.

Off-Farm Work: While less than one-fourth of the operators reported off-farm jobs, nearly fifty percent of the spouse had off-farm jobs. The median hours worked off the farm was 15 for operators and 35 for spouses. For the median operation 15% of the family income came from the non-farm sources, up from 10% in 1988.



Plans for Continuing in Dairying: Over two-thirds reported that they were highly likely to continue in dairying, with another 16% that were uncertain. Only 11% of the respondents indicated they were highly unlikely to continue.



STRATEGY ONE: IMPROVE INCOMES BY ENCOURAGING USE OF BETTER PRODUCTION AND BUSINESS MANAGEMENT PRACTICES

Overview: While dairying is Minnesota's leading source of farm income, it has changed dramatically during the past 50 years. The number of farms selling milk has dropped by 90% since 1945, but the total milk produced has grown by about 12 percent. Since 1960 Minnesota has slipped from the third largest dairy producer to the fifth, following Wisconsin, California, New York, and Pennsylvania.

Minnesota's future in the dairy industry depends on maintaining

dairy farm incomes high enough to compete with non-farm jobs and other farm enterprises. Net dairy farm incomes depend upon both profits per cwt of milk and herd size. The top 20% of dairy farms average \$13.11 per cwt in milk production costs compared to \$18.00 per cwt for the bottom 20% of farms.

One means for dairy farmers to improve their disposable family income is to improve their profits by using new production techniques and better management practices.

Research Results Related to Strategy One: Dairy farmers value many different aspects of their business. Yet, when asked about the importance of different characteristics of dairy farming, only 6% of the respondents said that "economic rewards from farming" were not important. Further, 80 percent of the respondents felt that the "increased costs to raise a family" were a threat to their dairy businesses. For the 16% of the respondents that "don't know" whether or not they are likely to continue producing milk over the next three years, low profits from dairying was the most important reason for possibly exiting.

Almost half (48%) of those that expect to continue in dairy farming over the next three years report that they are likely (18%) or very likely (30%) to expand. Surprisingly, however, the percent definitely planning other management changes was relatively small. Only three of the 12 practices had 25% or more likely or very likely to make changes. These three were: 1) increase the use of hired labor (33%), 2) switch to total mixed ration feeding (29%), and 3) contract purchases of grains.

Management Changes Expected

Management practice	% likely/ unlikely	% uncertain
expand dairy herd	48	18
increase use of hired labor	33	9
switch to total mixed rations	29	29
contract purchases of grain	28	22
change manure handling	24	9
add partner	24	6
expand manure storage	21	21
drop one or more crops	15	24

When looking at the next 1 to 2 years, the most pressing information needs are: housing (31%), forage feeding systems (29%), milking systems (22%), manure handling (18%), financial records, record keeping (18%), business planning (18%), and estate planning (18%). For each of the 17 topics, several producers wanted information during the next 1-2 years. Yet for 15 of the 17 information items in question 14, over two-thirds of the producers reported not needing any information.

Information Needs

Topic	Within	
	6 months	In 1-2 years
housing system	13	31
forage feeding system	7	29
milking system	4	22
financial records	4	18
business planning	18	18
estate planning	16	18
grain feeding system	11	16
cropping system	9	16
herd health system	16	13
raising replacements	16	13
balancing work & family	18	13

The 44 percent of the producers planning to expand expect a number of challenges. The four most likely challenges to expansion are: difficulty managing employees required for expansion (43%), the risks of capital investments for expansion (37%), banks unwilling to finance dairy expansion (35%), and difficulty recruiting labor (35%).

<i>Top Four Challenges to Expansion</i>	
	<i>% producers</i>
difficulty managing additional employees	43
risks of capital investments	37
banks unwilling to finance expansion	35
difficulty recruiting labor	35

Suggested Recommendations for Strategy One

(Note: For all strategies, the "suggested recommendations" presented following each strategy were developed by a team of dairy and BR&E specialists after they reviewed the survey results from the dairy producers in this region. You other local leaders will decide which of these to keep and which to drop. You can also modify any of the suggestions or add completely new ones. All decisions about these are local ones).

Recommendation #1: Develop Dairy Diagnostic Teams. The types of information varies widely. This suggests the need for a system that helps individual farmers with their concerns. In this program, each farm works with a Diagnostic Team that helps the farmer improve their operation. This team includes a veterinarian, feed dealer or nutritionist, agricultural lender, Minnesota Extension Service livestock educator, and other dairy

professionals. This team, including the farmer, takes a whole farm approach to the identification of opportunities for improving the farms profits and income.

This approach can help producers examine their individual concerns and opportunities. A number of Minnesota counties have worked with this type of program and can provide valuable lessons on the most effective means of organizing it. To initiate the program, a local group might first visit with producers and Diagnostic Team members from 2 or 3 of the areas using this program to learn the most effective approaches.

Recommendation #2: Encourage Use of Computer Models for Management Enhancement. Another alternative for individuals to evaluate their own operations and develop plans for improved profitability is to use computer programs that give them an individual assessment of their operation. Two potential models are: "Dairy Management Consultant" and the "Manure Applications Planner" available through the Minnesota Extension Service livestock extension educator. The "Dairy Management Consultant" is a package of 12 different specific programs which help a producer look at most aspects of the operations.

Recommendation #3: Development of Dairy Producers' Discussion Groups. Often the best ideas for improvements in an operation come from other farmers that are experimenting with new approaches. A weekly (bi-weekly, or monthly) coffee group to discuss new approaches in production and management would facilitate the trading of ideas. Speakers could be brought in to some of the sessions

to learn what is being done in other areas or about the latest research on the topic. A group of 3 to 4 local agricultural professionals could develop the plans for the initial sessions.

Recommendation # 4: Encourage Active Participation in Dairy Events. There are seven events dealing with dairy issues between January and July 1995. These were developed by the BR&E Task Force based on the "Red Flag" review of individual surveys. The objective was to attempt to focus on those issues that appear to be of most immediate concern to producers. The topics include: forage issues, agricultural trends, enterprise analysis, facility tours, dairy heifer contract raising opportunities, rotational grazing, and seasonal milking.

STRATEGY TWO: INCREASE REGION'S ABILITY TO SUSTAIN A STRONG DAIRY INDUSTRY

Overview: The ability of the region to sustain a strong dairy industry depends on the industry being able to retain enough farmers and milk production to support milk processors. The retention of farmers depends upon both economic factors and life style questions.

Dairy farm families are increasingly concerned about whether they can participate in their children's school and athletic events as well as other community activities. Yet the economic issues and rewards are not irrelevant. Naturally, these economic rewards are influenced by both demand and supply factors.

Regional and national trends for the demand for dairy products has been static since 1987. The value of

dairy products sold increased by only 2 percent (after adjusting for inflation) from 1987 to 1993. Consumers are now spending a smaller percent of their food budget on dairy products than in 1975 and the amount of fluid milk purchased has dropped by 11% during the past 20 years. However, the value of non-fluid milk has increased by 9% from 1987 to 1993.

On the supply or production side, the average costs of production tend to be higher in Minnesota compared to western states. Minnesota's higher production costs are due to the lower average production per cow, with Minnesota trailing major competitors in average production by about 4,000 lb per cow. While over 2,000 Minnesota dairy herds are producing above the average of our competitors, 85% of the herds are below these averages.

Disposable family incomes depend upon the profit per pound of milk times the volume of milk sold. While higher prices might increase profits, the states in which dairy production has grown most rapidly have lower milk prices than Minnesota. Their higher profits are due to lower production costs. The higher disposable family incomes are due to both the higher profits and the larger herd sizes.

Minnesota's butter and cheese plants have dropped from 845 in 1945 to only 27 in 1993. Approximately 85% of the state's milk goes into processed dairy products. Many of the state's processors report difficulty in securing adequate milk for efficient operations.

Community, regional and state policy makers will need to better understand the dairy industry and its economic outlook in order to

evaluate proposals which impact on its future viability. The Task Force can encourage these groups to build this understanding.

As with any business, the quality of local services influences both the costs of doing business and the quality of life for the family. While dairy farmers are not as likely to move as some industries, poor local services can be one additional factor that leads a family to abandon farming and move. Consequently, it is important to examine how producers evaluate local services and to explore ways to improve those with major problems.

Research Results Related to Strategy

Two: Some of the most important characteristics of dairy farming and dairy farm life are family and work style issues. However, only 6% of the respondents said that economic rewards of farming were either not at all important or not important to them.

Almost half (48%) of the producers indicated that they were likely or very likely to expand. This desire to expand probably stems from the perception of 80% of the producers that it costs more to raise a family.

The producers planning to expand reported the following major challenges to these potential expansions: difficulty managing new employees (43%); risk from capital investments (37%); banks unwilling to finance expansions (35%); difficulty recruiting labor (35%); facility design (35%), development of business plan (34%); and site engineering (34%).

Environmental issues were not expected to be challenges to potential expansion by over two-

thirds of the producers. However, one-third were either uncertain (19%) or felt it was very likely (14%) that they would have problems with feedlot regulations. Likewise, 44% were either uncertain (24%) or felt it was likely (10%), or very likely (10%) that there would be problems with odor complaints if they expanded. However, almost nine of ten (87%) felt they had sufficient land for manure disposal.

Challenges for Expansion

<i>Challenge</i>	<i>% likely</i>
insufficient land for manure disposal	5
problems with feedlot regulations	14
problems with odor complaints	10
difficulty managing employees required for expansion	43
development of a business plan	34
site planning and engineering	34
the risk of capital investments for expansion	37
banks unwilling to finance expansion	35
difficulty recruiting labor	35
facility design	35

*N = 20 producers

Potential Threats or Opportunities

Dairy producers see a number of trends as potential threats to their businesses. These range from changes in consumer preferences to greater local growth.

Two thirds of the producers saw changes in the dairy infrastructure as a potential threat. Health care access and cost was seen as a potential threat by three-quarters of the producers.

Note that trend toward larger sized operations, while seen as a

potential threat by over half of the producers, was rated lower than eight other factors.

<i>Potential Threats or Opportunities</i>		
<i>Trend</i>	<i>Potential threat</i>	<i>Potential opportunity</i>
changes in county's population	36	23
growing concerns about dietary fat	82	5
increased consumption of soft drinks	88	0
changes in the dairy industry	66	7
new milk production in other regions	84	2
potential growth in export markets	11	75
growing public concern with environment	82	2
increasing ave. age of dairy producers	45	14
growth in rural non-farm homes	65	14
cost and access to health care	75	2
growth in larger sized operations	56	9
increased costs to raise your family	80	0

N varied from 41 to 44

Community Services

In general the producers rated the community services well. For only four services did over 10% of the producers rate them poor or very poor. These were: planning and zoning (21% poor or very poor), access to higher education (21%), road maintenance (11%), and day care (11%). However, ten of the twelve services had less than 85% of the respondents rating them as good or excellent. This suggests opportunities for improvements in nearly all of the services.

Suggested Recommendations for Strategy Two

Recommendations #1: Ask Agencies to Develop Local Economic Impact Assessment of Dairy Industry. It is general knowledge that the economic impacts of the dairy industry extends far beyond the farm, input suppliers, and processors. While estimates of these impacts are available at the state level, local estimates could help community leaders and citizens

understand the contributions of the dairy industry to the region. Local leaders could ask the University of Minnesota or other agencies to develop a regional economic model of the dairy industry with the impacts on the rest of the regional economy.

<i>Rating of Community Services</i>	
	<i>good/excellent</i>
elementary and secondary schools	83
access to vocational schools	71
access to higher education	55
day care	55
recreational facilities	65
ambulance services	87
health care/hospitals	71
fire protection	89
police protection	57
road maintenance	63
planning and zoning	26
building code	51

Recommendation #2: Develop a Labor Fair for Dairy Industry. Labor issues were major concerns for many producers. For producers expecting to expand, the most commonly mentioned challenge was the "difficulty managing employees required for expansion" (43% of producers). The third most common expected challenge was "difficulty recruiting labor" (35%). Day care was rated as poor/very poor by 11% and fair by another 34%. A labor fair could acquaint dairy producers with resources available to them for working on these issues. Local leaders could solicit ideas from the Department of Trade and Economic Development, the Bank of Cooperatives, Farm Credit, and Extension Educators.

Recommendation #3: Explore Planning/Zoning and Environmental Issues. While environmental issues do not appear to be a major problem for producers now, 82% of them see the "growing public concern with the environment" as a potential threat. Likewise, nearly two-third (65%) see the "growth in rural non-farm homes" as a potential threat. Planning and zoning received very low marks from the producers with only 26% rating it as excellent/good and 21% rating it as poor/very poor. With only 7 percent of the city residents and 21 percent of the rural non-farm residents perceived as having positive attitudes toward the industry, there is a need to explore these issues in pro-active fashion. Waiting until groups with negative attitudes raise the issue is likely to result in regulations which are unfriendly to the industry.

Recommendation #4: Explore Changes in Dairy Industry Infrastructure and Potential Responses. Changes are occurring at both the farm level and in the processing sector. Eighty-four percent of the producers saw "new milk production in other regions" as a potential threat. Within the last two years, two major processors have moved part of their production to Idaho and California in order to take advantage of the growing supply of milk and lower prices. Yet, over half of the producers see the growth in larger sized operations as a potential threat. An examination of these competing perspectives and their consequences is essential for regional efforts to support the industry.

STRATEGY THREE: ENHANCE ATTITUDES ABOUT THE DAIRY INDUSTRY AMONG BOTH PRODUCERS AND COMMUNITY CITIZENS

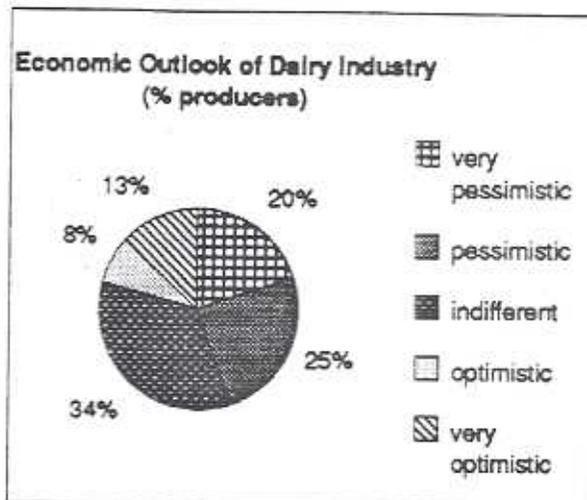
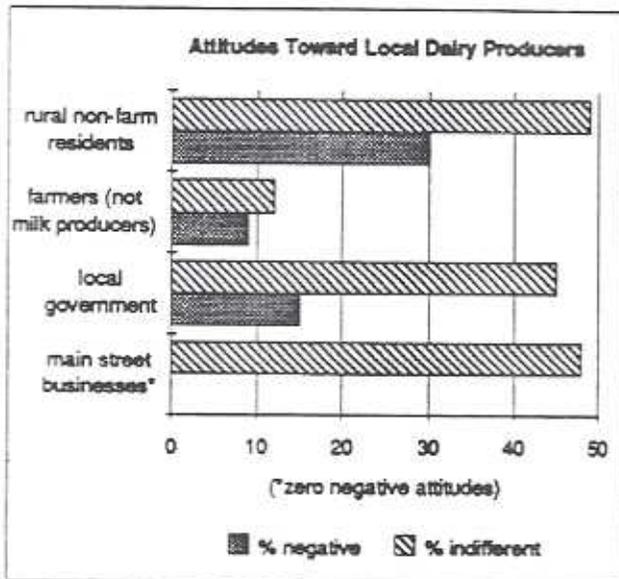
Overview: The dairy industry include not only dairy farmers but also processors, veterinarians, dairy feed dealers, equipment dealers, and other services producers; employs more than 39,000 people in Minnesota; and directly contributes over \$3.5 billion annually to the Minnesota economy. However, many citizens have negative or indifferent attitudes toward the dairy industry. This indifference and negativity can translate into unfriendly regulations in the short run and discourage young people from going into the industry in the long-run.

A team of local agricultural professionals and dairy farmers could help educate the public on the economic and social contributions of the dairy industry to local communities and strengthen positive attitudes about the industry. Several specific means of improving local attitudes toward the dairy industry are listed below.

Research Results Related to Strategy Three: Dairy producers perceive the attitudes of city residents in this region either negative or indifferent. Ninety-three percent of the producers felt that the attitudes of city residents were either negative (39%) or indifferent (54%). None felt that city residents had a very positive attitude toward local dairy producers. Likewise, they feel that rural non-farm residents are also largely negative (30%) or indifferent (49%), with none being very positive. The picture improves with farmers who are not milk producers (80% positive), main

street businesses (53% positive), and local government officials (40% positive). However, they still perceive over half of the local government officials as either negative or indifferent and almost half of the main street businesses as indifferent.

Local leaders could explore ways to ensure that community leaders saw this video and discussed the ramifications of strengthening the local dairy industry. Potential audiences include: church groups, service clubs, cooperatives, chambers of commerce, county commissioners, bankers, township officials.



Only slightly over one-fifth (21%) of the producers reported being optimistic or very optimistic compared to 45% that were pessimistic or very pessimistic about the economic outlook of the dairy industry.

Suggested Recommendations for Strategy Three

Recommendation #1: Public Information Program on Economic Importance of Dairy Industry to Region. The Minnesota Dairy Roundtable is in the process of producing a video on the economic importance of the dairy industry.

Recommendation # 2: Tours to Successful Dairy Operations. Both producers and community leaders could benefit from seeing unique outstanding dairy operations, either within the region or in other regions. People that go on these tours frequently report that "There is so much to learn and see." The Minnesota Dairy Leaders Roundtable has a tour guide that can provide suggested locations. In addition to dairy farmers, other participants might include bankers, feed mill operators, and policy makers at both the local and state level.

Recommendation #3: Establish a Dairy Optimist Club. This might be modeled after the Dairy Optimist Group in Wisconsin. Local leaders could explore this by inviting some of the Wisconsin group over to explain how their program works or by going to visit them.

ACKNOWLEDGEMENTS

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