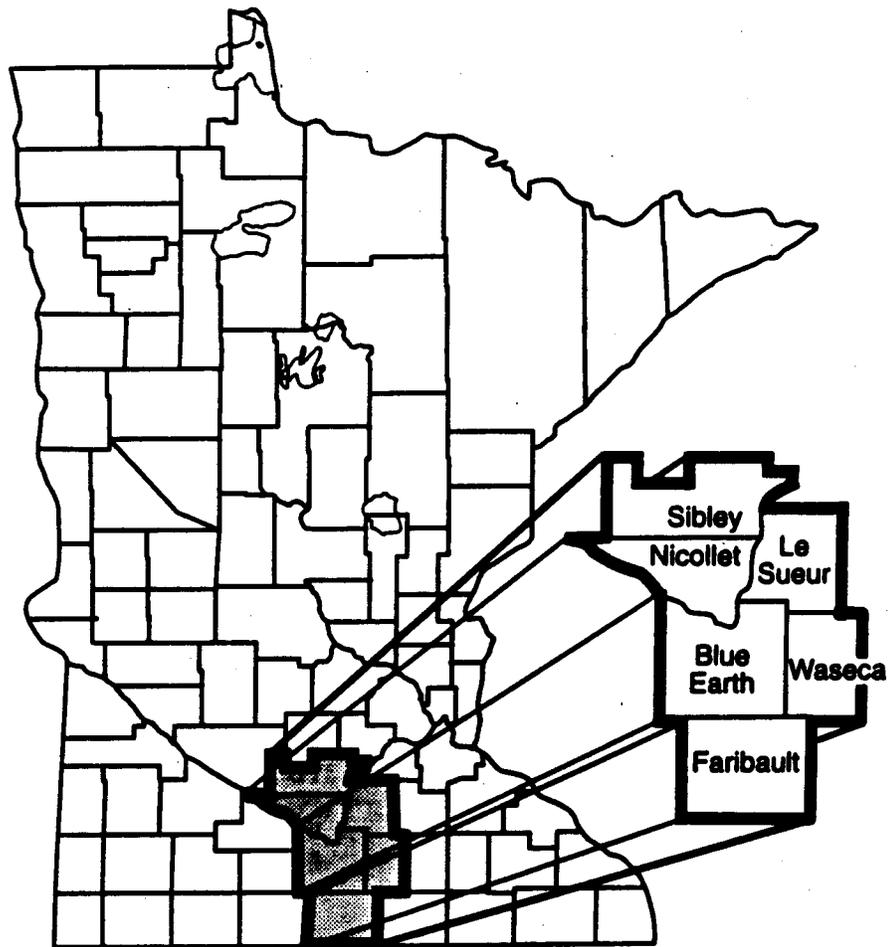


Executive Summary

South Central Minnesota Swine Industry Business Retention and Enhancement Strategies Program January 1995

Including: Blue Earth, Faribault, Le Sueur,
Nicollet, Sibley and Waseca Counties



State Sponsors:

Minnesota Extension Service/University of Minnesota
Minnesota Pork Producers

Local Sponsors:

Minnesota Extension Service of Blue Earth, Faribault,
Le Sueur, Nicollet, Sibley and Waseca counties

**South Central Minnesota Swine Industry
Business Retention and Enhancement Strategies Program
1994-95.**

EXECUTIVE SUMMARY

This program was sponsored locally by the Minnesota Extension Service in Blue Earth, Faribault, Le Sueur, Nicollet, Sibley and Waseca counties. 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 65 pork producers in the fall of 1994 by a team of 66 community leaders. Each team member completed a two-hour orientation on effective interview procedures to ensure high quality data. The South Central Minnesota Swine Industry BR&E Leadership team included:

Sue Engelmann, Extension Educator,
Sibley County
Keith Stoltzman, County
Commissioner, Blue Earth County
Kent Thiesse, Extension Educator,
Blue Earth County
David Werner, Extension Educator,
Waseca County
Tom Wetzell, Veterinarian,
South Central Vet Clinic
Charlie Woehler, County Commissioner
Minnesota Pork Producers

After the data was collected, the results were compiled by George Morse, William Lazarus, extension economists, and Theresa Heiland, research fellow 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, U of M Extension
Marketing Economist,
Vern Eidman, Professor, Dept. U of
M Ag & Applied Economics,
John Goihl, President,
Agr/Nutrition Services
Theresa Heiland, Research Fellow,
BR&E Strategies Program,
Bob Koehler, Livestock Extension
Educator, Murray County
Bill Lazarus, U of M Livestock
Extension Economist
Wayne Marzolf, Finance Specialist,
Rural Finance Authority

Doris Mold, User Services
Specialist, U of M Clinical &
Popul. Sci.
George Morse, U of M Extension
Economist
Richard Nicolai, Community Program
Specialist, Dept. Agr.
Engineering,
Michael Schmitt, U of M Dept. of
Soil Sciences
Gerald Shurson, U of M Extension
Animal Scientist
David Werner, Livestock Extension
Educator, Waseca County
Chris Allanach, Graduate Student
Greg Massaro, Graduate Student
Charlie Wu, Graduate Student

The South Central Minnesota BR&E task force held a retreat on December 19th at the Happy Chef in North Mankato. After reviewing the research results and discussing the suggested recommendations, the task force developed the recommendations shown in this Executive Summary. Members of the BR&E task force are listed at the end of this summary report.

SURVEY RESULTS

Highlights of the survey are presented below. Full details are available in a report available for loan from the participating Minnesota Extension Service county offices.

The sample was selected at random from a list of all producers in the region. Over half (62%) of the producers were farrow-to-finish operations, with an average of 363 sows. Finishing operations accounted for 26 percent of the producers in the survey, with an average size of 1,747 hogs finished in 1993.

Farms with between 1-199 and 200-499 sows each make up 31 percent of total farrow-finish operations. Twenty-eight percent of the operations have 1-99 sows. Approximately 6 percent have large operations with 1,000 or more sows, and 3 percent have between 500-999 sows.

The median employment on the South Central Minnesota's swine enterprises

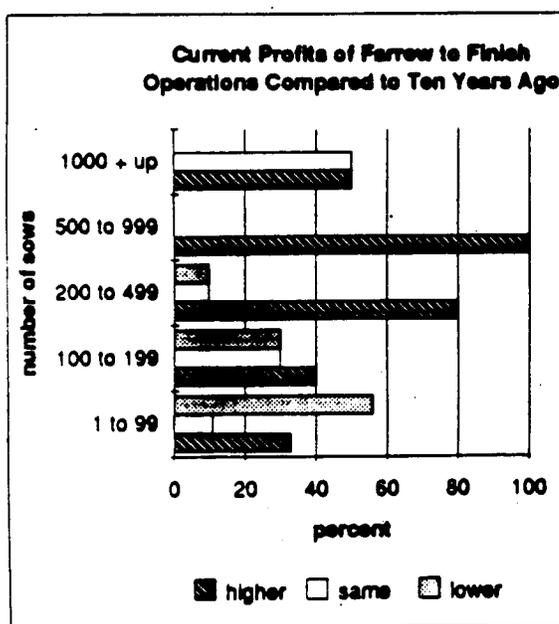
was 1 person full-time as compared with 2.0 full-time persons on total farm enterprises.

STRATEGY ONE: IMPROVE PROFITS WITH BETTER MANAGEMENT AND PRODUCTION PRACTICES

Overview: As national trends in pork production lead to greater competition between regions, south central Minnesota producers will need to reduce their costs of production to remain viable through improved management and production practices. The B&E task force could explore the availability of existing programs to help producers develop better management skills. Since each of these programs has different requirements and different benefits and costs, the B&E task force could help producers understand which might be most advantageous for different individual situations.

Research Results on Strategy One

Profits have grown for roughly half the producers in the past ten years, but stayed the same or declined for the other half. In fact, approximately one-fourth have seen lower profits in the past ten years. Smaller operators were more likely to report lower profits than the larger operators.



Fifty percent of the farrow-finish and farrow-feeder pig producers plan to increase the number of sows and 50 percent plan to stay the same. Sixty-three percent of the finishing only operators plan to stay the same, while 31 percent will expand. Only 6 percent will reduce the size of their operations.

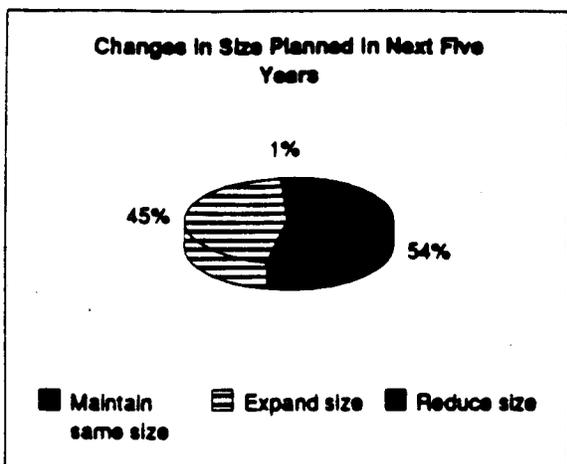
Currently, all of the farrow-finish and farrow-feeder producers with 500 or more sows plan to expand. Smaller producers will expand or stay the same, with 83 percent of the smallest operations (1-99) planning to stay the same.

In the past three years, pork producers have made a number of changes in their businesses. The number of sows increased for nearly 40 percent (38%) of the producers, and the number of feeders increased for over half (52%) of the finishing operations. During the same time, only 13 percent of those with sows had declines, and only 19 percent with finishing operations had fewer feeders. All three measures of efficiency showed marked improvements. Nearly two-thirds of the producers increased the number of pigs/sows (64%), the number of pigs/crate (66%), and the feed efficiency (62%). Employment by producers remained relatively stable. While slightly more producers increased jobs than cut them, over two-thirds kept their employment levels the same.

Most producers viewed their operations as relatively strong in boar selection, feeding and nutrition, gilt selection, farrowing, and nursery. However, many producers reported that they were moderately weak in the following topics: finishing, health status, breeding, pig flow planning, marketing, and manure handling and storage. The weakest aspects of the operation, when considering the responses of all producers are: production and financial records, labor and time management, input purchasing, business planning, facilities and site engineering, and size. In general, the smaller operations felt that they were weaker on these management issues than the larger ones.

Forty-five percent of the producers plan to expand their operations in the next five years, while 53 percent will stay the same. Only 1 percent will reduce their operations.

Of those planning to expand, 89 percent see pork production as a better opportunity than crops or other enterprises. More than three-fourths of those planning to expand are upgrading their facilities so that they can reduce their costs of production. Not quite half (43%) of those planning to expand are doing this so that they can bring another person into the operation.



"Feedlot regulations or odor complaints" and "don't want added risk" were obstacles to expansion cited among 64 percent and 50 percent of the producers, respectively. Insufficient information on rates of return (39%), banks unwilling to assume risk (32%) and difficulty recruiting labor (32%) were also key obstacles to expansion.

Obstacles for Expansion Among Producers	
Feedlot regulations or odor complaints	64
Don't want added risk	50
Future rates of return (w/insufficient info.)	39
Banks' unwilling to assume risk	32
Difficulty recruiting labor	32
Don't want to manage more employees	29
Insufficient land for manure	21
Costs of production (w/insufficient info.)	14

Task Force Recommendation #1: Establish Task Force on New Ways to Remove Obstacles to Profitability

Since about half of the producers, especially the smaller ones did not have increasing profits, the Task Force recommends that additional efforts be put into helping pork producers increase their margins or profits.

Several alternative approaches will be explored by a working group from the Task Force. These options include: inviting the Minnesota Pork Producers and the Minnesota Extension Service to develop new educational programs for producers; initiating a "demonstrations farm" program similar to that used in the dairy industry; and encouraging more producers to use the "SWINEPRO" program to evaluate their strengths and weaknesses.

Expansion is one means of capturing economies of scale and increasing family income. Over 30 percent of the finishing only operations and over 50 percent of the others wish to expand. Yet, over 30 percent of those considering expansion mentioned five different obstacles to doing this. This working group would explore educational programs that would help these producers explore ways to overcome these obstacles.

Task Force Recommendation # 2: Promote Participation in the Pork College

Producers see their primary weaknesses as business planning, input purchasing, labor management, and production and financial records.

The Pork College is an intensive training session that helps producers build their management expertise. The task force could provide additional details on this program to local producers and encourage their participation. The Minnesota Pork Producers is encouraging participation.

STRATEGY TWO: INCREASE REGION'S UNDERSTANDING AND SUPPORT OF PORK INDUSTRY

Overview: As public concern about the environment increases nationally and locally, the South Central Minnesota Pork Industry faces both opportunities and threats. Concerns about pollution and odors from pork operations can lead to feedlot ordinances that restrict the growth of the industry or require new investments and manure management practices. While these changes are a threat to producers in that they require new production practices and higher costs, they are also an opportunity. The entire nation is facing similar pollution and odor concerns. Regions that learn how to help producers deal with these in a low-cost fashion will have a competitive advantage over other regions.

A number of other demographic changes can provide opportunities for new markets or threats to continued production. Regions that take a proactive approach for maximizing the opportunities and minimizing the threats will see additional growth in their pork industry.

Research Results On Strategy Two

Most south central Minnesota pork producers believe the greatest potential opportunities are: growth in exports (97%), growing interest in lean meats (83%), and networking between pork producers (77%). They see the greatest potential threats to the industry as growing concern with environment (83%), new pork outside corn belt (78%), growth in rural non-farm homes (77%), and growth in larger-sized operations (74%).

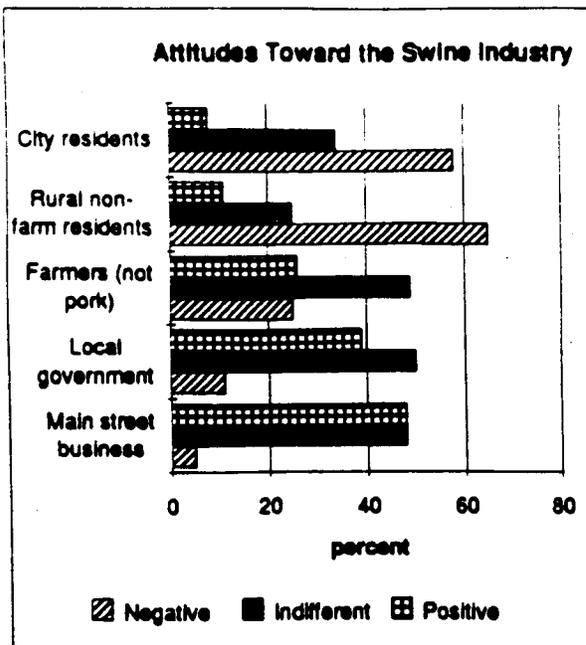
Producers perceive the attitudes of citizens in the region as largely either negative or indifferent. Furthermore, producers perceive that rural non-farm residents (65%) and city residents (58%) have the most negative attitudes toward the industry. Main street businesses, local government officials, and other farmers (non-pork producers), however, view the industry with indifference or a positive attitude.

Potential Threats or Opportunities

	Threats/ Opportunities	
	percent	
Growing concern with environment	83	6
New pork outside corn belt	78	8
Growth in rural non-farm homes	77	3
Growth in larger sized operations	74	6
Changes in packing industry	66	28
Out-migration of rural youth	64	3
Competition from poultry industry	52	0
Increasing ave. age of hog producer	41	22
Changes in county population	38	6
Growing interest in lean meats	8	83
Networking between pork producers	6	77
Potential growth in exports	2	97

For the most part, producers were positive about services in their community. Elementary and secondary schools were rated excellent or good by 88 percent of the producers. Access to vocational school and access to higher education were also rated excellent or good by 78 percent and 77 percent of the producers, respectively. Eighty-five percent of the producers gave excellent or good ratings to fire protection and ambulance services. Conversely, planning and zoning, and recreational facilities were given very poor or poor ratings by 14 percent and 12 percent of the producers, respectively. Eleven percent rated health care/hospitals and building codes very poor or poor. While these ratings reflect a smaller percentage of producers, planning and zoning, building codes, and health care issues are likely to be critical issues in the future.

Producers were asked what percent of the pork producers in their county test their soil's fertility at least every three years. Almost two-thirds (64%) of the producers felt that less than 75 percent of the producers did these soil tests every three years. Over two-thirds (70%) reported that feed ordinances were much more restrictive over the past three year, and another 25 percent felt they were somewhat more restrictive. Only 5 percent felt enforcement on feedlots had not changed over the past three years.



With odor such a major concern for hog producers, almost all producers consider the wind when locating facilities. Over 90 percent considered the prevailing wind direction when building new facilities. Yet, on the average, the producer felt it was best if new housing subdivisions were one mile from pork units. Further, 45 percent felt that there should be two miles or more between housing and pork operations.

Task Force Recommendation #3: Build a Regional Consensus on the Swine Industry

The task force could encourage community leaders to learn about the economic contributions of the swine industry and its spin-offs and then to develop a clear consensus on the nature of the industry that the community is going to encourage. This new understanding might be done holding a monthly "Ham and Issues" breakfast for community leaders working in economic development, local government, education, and the pork industry. The group would hear from a series of speakers on changes in the swine industry and explore the implications for the region. An alternative means of encouraging

better understanding among community leaders is to encourage tours of regions with alternative types of swine operations.

STRATEGY THREE: IMPROVE PROFITS 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. Networking can take several different forms. It might be simply information sharing. It might be arrangements to coordinate hog marketing or input purchases in volume. Or, it might involve sharing management expertise. However, some networking arrangements involve facilities and other assets owned by groups of producers. Because of liability concerns, such assets are usually held in a corporate form of ownership. Also, networking arrangements often involve long-term contracts among producers and/or with packers and input suppliers. Such contracts imply some loss of independence and fall under the general category of integration. The terms "corporation," "contract," and "integration" are emotional red flags to many people in the farming community.

Research Results on Strategy Three

Seventy-seven percent of the respondents view networking between pork producers as a potential opportunity for their industry. In addition, the trends posing a threat to the industry build an even stronger case for establishing networks for strengthening a producer's ability to maintain a viable, profitable operation.

With the exception of breeding herd replacement, producers obtain most of their inputs or services within a 30-mile radius from their farms. For approximately 50 percent to 90 percent of the producers, the single most important factor for selecting a primary supplier over price and location is the supplier's track record. Only household, general farm, and building supplies are the

exception, where price and location are more important.

Producers gave excellent or good quality ratings to veterinary services (88%), feed supplement suppliers (86%), and complete feeds suppliers (85%).

Accounting and banking services and general suppliers were also given excellent to good ratings by approximately 73 percent of the producers. Only one-third of the producers gave excellent or good quality ratings to breeding herd replacement suppliers. It should be noted, however, that only 46 out of 65 producers gave this service a rating.

Quality Ratings for Suppliers

<i>Input or service</i>	<i>Excellent or good</i>
Breeding herd replacement	30
Hog equipment	54
Accounting services	75
Building supplies	52
Building contractor	52
Complete feeds	85
Banking services	71
Feed supplements	86
Veterinary services	88
General supplies	72

**Task Force Recommendation #4:
Collect Information on Networking Arrangements**

The task force will select a committee to gather information on how pork producers can share resources and work together on networking arrangements that go beyond information sharing. For example, a farrow-to-finish producer with good finishing facilities but poor gestation facilities may wish to operate a nursery and finishing operations for someone else who does the farrowing. Case studies on how to set up such arrangements, including economic feasibility, sharing of returns and risks, financing, and legal aspects might help such producers. Guest speakers

from successful networks will be invited to speak on how the process works for them.

The group will also study the Minnesota Pork Producers efforts to establish a Pork Producer Network Coordinator for Minnesota. Assuming that the proposal appears reasonable, the group will explore ways to support this effort.

STRATEGIES AT A GLANCE

STRATEGY ONE:

IMPROVE PROFITS WITH BETTER MANAGEMENT AND PRODUCTION PRACTICES

Task Force Recommendation #1:

Establish Task Force on New Ways to Remove Obstacles to Profitability

Task Force Recommendation # 2:

Promote Participation in the Pork College

STRATEGY TWO:

INCREASE REGION'S UNDERSTANDING AND SUPPORT OF PORK INDUSTRY

Task Force Recommendation #3:

Build a Regional Consensus on the Swine Industry

STRATEGY THREE:

IMPROVE PROFITS THROUGH NETWORKING

Task Force Recommendation #4:

Collect Information on Networking Arrangements

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Mike Anderson, Mapleton
Willis Anthony, St. Peter
Dave Arnold, Arnold Implement
Cindy Arnevik, Faribault County
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Gary Bushlack, New Richmond
Lowell Busman, Waseca
Arnold Carlson, Wells
Kevin Connolly, Le Center
Tim Dolan, Gaylord
Ron Elbert, Fairfax
Roy Engel, First State Bank,
Le Center
Jerry Floren, Blue Earth Co.
Shelli Grover, Farm Credit Services
Rich Hoelmer, Farm Credit Services
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Jerry Kopel, Norwest Bank
Doug Krenik, Cleveland
Pat Kuck, Arlington
Dennis Langstratt, New Ulm Vet
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