Dairy economist

(Continued from Page 1)

described as a realist. He predicts good months ahead for the industry, but he is cautious about it. And he would never go as far as to say that dairy cooperatives have corrected their respective financial structuring to the point of being immune from problems in the future. "The situations are such that you can't predict them," he explained.

But Hand is convinced that a cooperative can operate in ways to minimize monetary problems. His cooperative, which has a growing membership of close to 3000, is commonly considered to be the most stable in the area, a success story which is attributable to first-class professional management and a dedicated, aggressive board of directors.

Sharing his philosophy on how to stay on top in business, Hand emphasizes the necessity of a good capital base. If it isn't there, then something should be done about it right away, he stresses. "Don't let the cash flow deteriorate to the point that you have to borrow money just to operate," he continued. He speculates that some of the problems experienced by some cooperatives may have been worsened by the management's failure to face problems as they surfaced. "When you have a financial problem, it's important to act promptly to correct it," Hand advised.

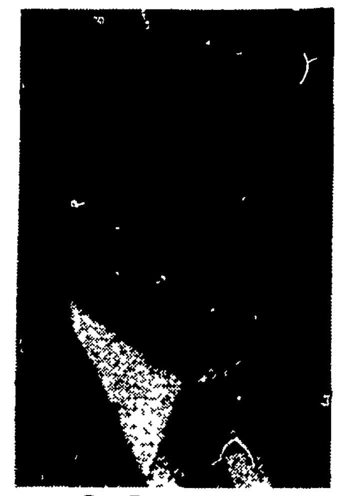
For a cooperative that is governed by a board of directors, (as all of them are) that may be easier said than done, since few men would want to bring unwelcome news to the membership. But if that's what the figures show, it should be brought out, Hand emphasized.

Inter-State's economist stresses the necessity of having sound analyses of business activities in order to stay ahead of upcoming financial situations. "It's a matter of philosophy and living with the dictates of sound business practices," he explained. "As for the board, let them think about the situations and air their views - you've got to have that kind of atmosphere," he advised.

Although Inter-State operates at a good profit and it boasts a sizeable cash reserve, it has not been without problems. A year ago, for example, it was burdened with unusually high marketing costs, because milk production in the Northeast exceeded handling capacities. Inter-State, like many other cooperatives, had to find alternate outlets. It was expensive.

The delays experienced at Holly Milk Cooperative, a butter and powder manufacturing plant near Carlisle, which is owned jointly by Inter-State and Maryland Cooperative Milk Producers, represents a current drag on operations.

Holly Milk was originally to have been in full operation a year ago. It opened on a limited basis six months behind schedule and then suffered a fire April 21 when things were just getting ready to go full-throttle. The ultra-modern plant is still in partial operation, however, since damage was limited to the powder drying area. The butter churns are operating in full force and condensed skim milk is shipped to other plants for further processing.



Dr. Paul Hand

'Some problems we can foresee. Others we can't. You have to be pragmatic.'

Despite these set-backs, Inter-State is on sound footing, analysts agree. Dr. Hand notes that the Holly plant is contributing substantially to saving transportation costs, despite its partially crippled condition

Renovations at Holly are underway, although no date is being set as to when full oparations might resume.

"The problems - you can't predict them," Hand commented. He notes that the area is experiencing a continual loss of milk buyers, for example. And he points to the changes that have taken place during the past decade, such as changing marketing structures and distribution patterns. "And what about the milk price freeze imposed by President Nixon a few years ago?" he asked. "Some problems we can foresee. The accumulated effects of all of the changes can feel as though they happened overnight," he continued.

"You have to be pragmatic," he encouraged.

Dr. Hand is confident that the new farm bill will provide for a dairy support price based on 80 per cent of parity. "That's a foregone conclusion at this point. There is no question about it," the economist assured.

Hand bases his conclusion on what's happening in the Midwest and Congress. Hence, he predicts the $1.00 per hundredweight increase for manufacturing milk. The full impact of that action won't be felt on Class I prices until about December, the economist noted, adding that there may be some impact on Class I sales as well.

Hand hopes that dairy farmers will continue to be cautious with their milk production levels. He points out that production geared to consumption will keep sales and prices favorable. Overproduction, as in some previous years, will hurt the dairy economy.

"Close culling is good business - it always is - especially now. That's one way to maintain a little check on production," he commented.

To keep sales favorable and strong, Hand and many other dairy leaders are requesting that the advertising funds be increase. Presently, a deduction of seven cents per hundredweight is deducted from producers' milk checks on a voluntary basis. Inter-State and its sister cooperatives in the Middle Atlantic area are asking for advertising deductions amounting to one per cent of the Class I milk price. Presently that would calculate out to about 12 cents per hundredweight, which represents a 71 per cent increase. Hand justifies the raise, explaining that inflation has had a considerable eroding effect on the funds since the 7-cent program was put into effect on Jan. 1, 1977. The new program, if adopted, will go into effect on Jan. 1, 1980. USDA will hold hearings on the matter in July or August, Hand revealed.

The economist, while strong on the promotion end, isn't particularly bothered by imitation dairy products, claiming that most such preparations are for industrial rather than home use, and some use dairy ingredients anyway. Imitation cheeses have pretty good sales now, where they're an ingredient with other food components, Hand pointed out. He does not believe that such products will catch on with housewives. Nevertheless, the words of advice are to stay alert and prepared to meet the challenges

What about the future of dairy cooperatives and milk marketing orders?

Hand is reluctant to make specific predictions. "We will see a lot of things happen in our life time, it's just a matter of how and when," he began. Acknowledging that there has been talk of one federal milk order for the Northeast and Middle Atlantic area combined, he opinionizes it's not in the near future. "There are too many differences between the two regions," he explained.

Among the differences are hauling rate structures, production plans, and marketing fees. Hand says it isn't likely that these and other differences will be resolved in the near future. Cooperatives in the area are working in closer harmony, however.

What about the overall dairy economy?

Hand says it's good, but not best. "All they're doing is trading dollars with less value. Bigger numbers - on the average it's not that great," he concluded.

Inflation is the problem. To meet the rising hauling costs, for example, Inter-State has negotiated fees that are tied to fuel prices. The automatic adjuster clause allows for a ½-cent increase per hundredweight in hauling rates for every 5-cent increase per gallon of fuel.

In conclusion, the dairy business is on an even keel. For it to stay that way, producers and co-op managers will have to be pragmatic.