Future Of Dairy Industry

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Wolff opened the meeting.

Hood likened the planning for the forum as "putting down a lot of hay over the last several years" and said it's now time to take some acton or "make some hay." "If we don't get this hay in the barn, our dairy industry is not going to have any feed in the future," Hood said allegorically.

Wolff said that holding the first dairy forum on the first day of dairy month (June) was appropriate. He emphasized need for marketing, management, and cooperation. "We need to find a way to relieve the squeeze on the spread between costs and prices," Wolff said.

Dr. Ronald Knutson, Ag Economics, Texas A & M University, used their large number of study herds in many different parts of the U.S. to illustrate facts about the diversity of the dairy industry. For example, herd size vairies from 50 cows to 1,000 cows. Output per cow also varies and is critical to the profitability of individual herds. He showed wide differences regionally and among individual farms within the regions.

While many people think the milk price is better in California, Knutson said it is actually lower. But he said they are very efficient and produce milk on smaller margins.

Another factor in regional dairy farm problems is the enforcement of EPA regulations. While federal laws are standard, EPA delegates authority to states that have at least as stringent laws as federal requirements. But many "dairy" states are not enforcing the laws, and other states are enforcing laws much more stringent.

"It takes a large investment to meet the requirements of managing dairy waste," Knutson said. "When dairy farmers are forced to make these investments, they begin to ask other questions about their involvement in the dairy business and the timeliness of an update to their operation. These kinds of decisions are coming in the next five years for all those farmers who are not already facing them.

"This doesn't affect the dairy that is making a lot of money," Knutson said. "But if a dairy is already on the margin, a large investment is going to be tough."

A more important factor is the unlevel playing field that exists across the states. Technically, all states have the same EPA regulations, but not every state is following the regulations. This has an adverse impact on dairy farmers in states that are cracking down.

On the subject of BST, Knutson said research on their model dairy farms across the nation show that its use is profitable on every one of these farms. "I'm not saying it is profitable on your farm," Knutson said. "But on every one of our test farms it is. Technology is an integral part of successful dairying."

Knutson said analysis studies indicate that the downhill movement of the dairy industry in Wisconsin, Minnesota, and east Texas is set to also happen in the Northeast if adjustments are not taken. He said extra debt load will take a dairy farm down the tubes. He said this presents a real challenge to lenders and dairy farmers who have a son or daughter who wants to take over the farm.

"Large, well-managed dairy farms are realizing favorable returns," Knutson said. "Not everyone is losing money. But many moderate size dairy farms are experiencing considerable stress. Many are making the decision to grow or get out."

Dr. Terry Smith, dairy science, University of Wisconsin, said the dairy industry is competing for "stomach space" but has some optimism because 15 of the top 50 selling items in the grocery store come from the dairy case. New supermarkets have 10 to 15 percent more dairy case space because dairy items represent double the profit of the next best selling item—frozen foods.

"We are going in the right direction and should look at it as a positive indication of the future (of dairying)," Smith said. "You shouldn't be surprised that the retailer is excited about marketing dairy products. He likes the relative profitability of that space in the store and it's the number one reason consumers come into the store. That's why the retailer puts the milk and dairy products at the rear of the store so you pass the soft drinks and junk foods on the way there."

Smith said management represents the key issue in the dairy industry. This applies to dairy farmers as well as to other industries. "With all the dairies in the land, a few are making double the money on their cows than others are," Smith said. "What causes this difference? Simply the exchange of better thought, better knowledge and more energy. The many who refuse to believe this business requires intelligence are severely punished over the years by this skepticism." Smith was quoting what W. D. Hoard had said 105 years ago.

Robert Taylor, Pennwest Farm Credit said that when farmers shift into neutral, their income base deteriorates. The average size dairy in Pennsylvania is 64 cows but the top performance group is 146 cows.

"Lack of adequate scale is a disadvantage," Taylor said. "Business is business. Farmers need to plan, to organize, to lead, and to control.

"Cattle are living things and the emotional factor plays a roll. But decisions must focus on management goals. A lot of our farms today are not geared for the size of dairy herds we have now. Many are add-on affairs. Lanes built for horses and buggies must now accommodate tractor-trailor trucks.

"Farmers must learn to manage their own money, and the money of others. You need to budget and you need to do comparison shopping. Many operations are managing in reverse. They look for production without consideration of the cost of production. Today, farmers need to focus on returns."

Taylor also said debt must be used properly. He suggested that a $2,000 to $2,500 debt per cow is as high as you should go in long-term debt. "Work with lenders," Taylor said. "Have a business plan. Have liquidity for emergencies.

"In some areas of Pennsylvania multiple land-use possibilities has kept land values high. But generally a farmer is no longer going to be able to farm to retirement and liquidate. The opportunity (buyer) may not be there in the future," Taylor said.

Ronald Denker, retired Kraft General Foods executive, explained how a large processing company decides where to locate plants. He said the objective was always sales with saving money also important but secondary. No one reason is responsible for a facility to get closed or a new facility to be built. "If you are making a high quality product at a competive price that the marketing people can take and run with, you will get benefit," Denker said.

"New technology does influence new facilities.. It takes a lot more room. That's why a lot of small plants are gone. Increased productivity is also possible with new technology."

Denker said labor availablilty is not so much an issue as trained labor and labor that wants to work. Also environmental concerns sometimes close plants.

"Things change—the price of inputs or distribution patterns change," Denker said. "But cost and availability is a primary reason. The cheaper milk in California of $2.00 per hundred equates to 20 cents per pound of cheese. it costs 10 cents a pound to ship cheese to Boston so that's an 8 to 10 cent per pound saving. On millions of pounds produced you can see why you can close a plant in the East and go to California."

Denker said planning is started five to 10 years in advance of the opening of a new plant and state governments or organizations that know about this planning can have some effect on where the plant will

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