

Dairy Career Paths

Missouri Dairy Grazing Conference

July 8-10, 2009

Moderator

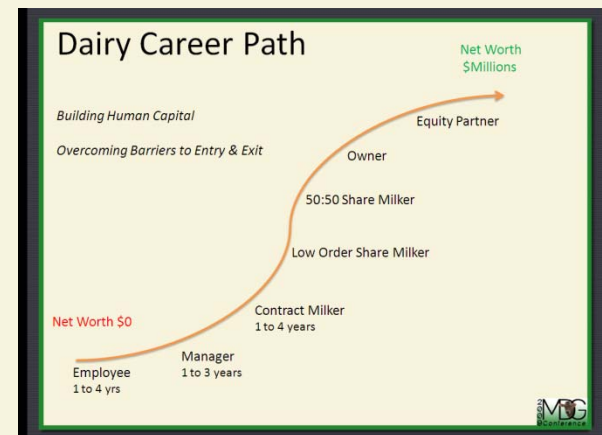
Joe Horner, MU Extension Dairy Economist

Panelists

Larry Tranel, Iowa State Extension, Dairy Owner

Jeff Hayes, Sharemilker – SW Missouri

NORTH CENTRAL
RISK MANAGEMENT
EDUCATION CENTER



Dairy “Labor Problem”

Dairy Owner

- Cannot find and keep good workers on the dairy
- Cannot afford to pay wages and benefits to compete with other employers
- No desire to reinvest in facilities after age 50 because of looming retirement

Dairy “Labor Problem”

Beginning Farmer

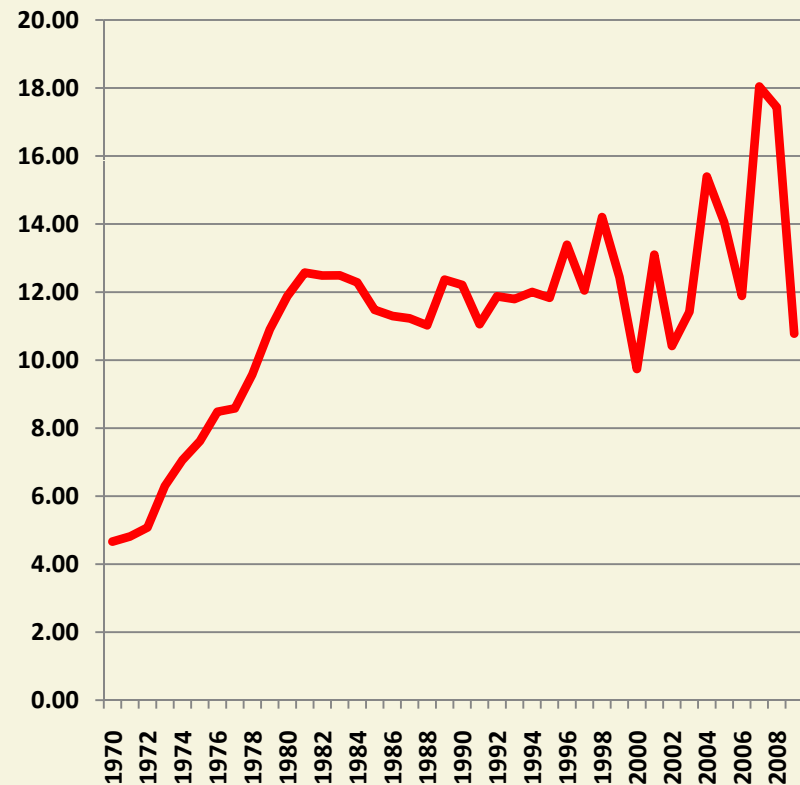
- Cannot find financing to start dairying
- Lump size of equity necessary to leverage and create a minimal sized dairy is beyond most people in 20's and 30's.
- Risks of being highly leveraged are too much

Can We Create a Better Dairy Career Path for the Next Generation?

Traditional Dairy Career Path

- A small portion of the children of dairymen attempt to dairy
- Successful families often borrow heavily to grow enough to make a family living and repay debt
- Cycle repeats every generation until risks and rewards make it no longer possible

Cheese Milk Prices since 1970



**Management works in the system
Leadership works on the system**



The conventional definition of management is getting work done through people, but real management is developing people through work

Dairy Career Path

Net Worth
\$Millions

Building Human Capital

Overcoming Barriers to Entry & Exit

Equity Partner

Owner

50:50 Share Milker

Low Order Share Milker

Contract Milker
1 to 4 years

Manager
1 to 3 years

Employee
1 to 4 yrs

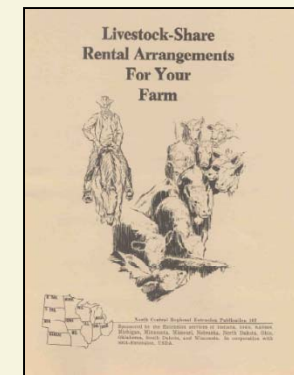
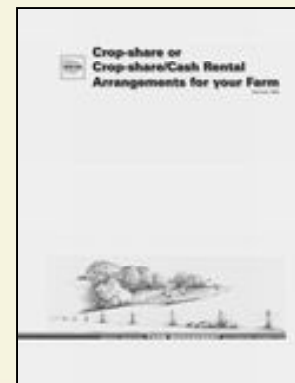
Net Worth \$0

What is Sharemilking?

- Contract between a farm owner and sharemilker
 - Defining roles and responsibilities.
 - Defines how costs and revenues will be split.
- Sharemilking allows new people to gain experience and capital before buying their farm.
- Reduces risks for both parties

Brief History of Sharemilking

- Originated in Scotland
- Imported into New Zealand in 1880's
- 50/50 arrangement increased after 1930's
- Share arrangements are familiar to other segments of U.S. agriculture
- Key – Divide proceeds according to contribution



NZ Dairy Career Path

Building Human Capital

Overcoming Barriers to Entry & Exit

Net Worth \$0

Employee
1 to 4 yrs

Manager
1 to 3 years

Contract Milker
1 to 4 years

Low Order Share Milker

50:50 Share Milker

Owner

Equity Partner

Net Worth
\$Millions

Low Order Sharemilker

Owner provides the land, facilities, equipment, and the milking herd

Sharemilker provides the labor

Milk check and some key operating costs shared approximately

20% sharemilker

80% farm owner

NZ Dairy Career Path

Building Human Capital

Overcoming Barriers to Entry & Exit

Net Worth \$0

Employee
1 to 4 yrs

Manager
1 to 3 years

Contract Milker
1 to 4 years

Low Order Share Milker

50:50 Share Milker

Owner

Equity Partner

Net Worth
\$Millions

50/50 Sharemilker

Owner provides the land and facilities

Sharemilker provides cattle and equipment

Milk check and some key costs shared approximately
50% sharemilker
50% farm owner

NZ Dairy Career Path

Building Human Capital

Overcoming Barriers to Entry & Exit

Net Worth \$0

Employee
1 to 4 yrs

Manager
1 to 3 years

Contract Milker
1 to 4 years

Low Order Share Milker

50:50 Share Milker

Owner

Equity Partner

Net Worth
\$Millions



Equity Partnership

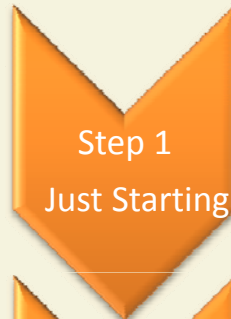
What is it?

- Joint Venture farming business
- An LLC, Corp, or Partnership
- An entry point for insiders/ outsiders

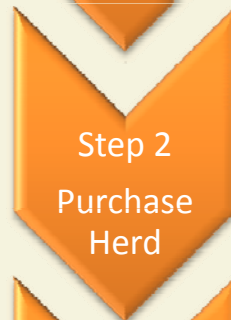
What can it offer?

- Capital and income growth
- Entry point for managers & sharemilkers
- An opportunity for investors
- Flexibility
- Capital (equity) release for landowner

Sharemilking Ladder to Ownership



- Hired labor,
- 20% Sharemilker



- 50% Sharemilker
- Use income to pay off herd



- Sell Herd to Sharemilker
- Use Proceeds to Buy Own Farm



Panelists

Larry Tranel



- 20 years with extension in WI & Iowa
- Low cost parlors
- Dairy Financial Management
- Sharemilking
- Owner of a 70 cow dairy

Jeff Hayes



- Began working for Grasslands LLC in fall 2005
- Became their 1st American sharemilker in January 2008
- Currently milks 550 crossbred cows on seasonal dairy near Wentworth, MO