

THE NEW VETERINARY COLLEGE AND ITS
SUPPORTING ROLE TO THE DAIRY INDUSTRY

Dr. Charles E. Cornelius
Dean
University of Florida
Gainesville, Florida

Present Status of Planning:
College of Veterinary Medicine

Planning funds for the College of Veterinary Medicine were included in the University Budget for this next year. The legislature gave the College a strong mandate to proceed. I want to personally thank all the officers and members of the Florida Dairy Industry who so diligently supported our program this year. By our presenting our state's many needs for a college at your local level, it was quite convincing to all that a college is a vital need in our growing state.

Preliminary construction plans should be complete by next spring and submitted to HEW in June 1973. By October of next year, a construction grant could be forthcoming. This would be followed by a matching state appropriation in the spring of 1974 with construction commencing soon thereafter.

The College of Veterinary Medicine can help the Dairy Industry in many ways. The numerous subtropical diseases affecting our industry in most cases are unique in Florida and research will be needed to find the answers. There is also a great need to learn more about and ultimately solve our "old enemies" of calf scours, calf pneumonia, pink eye, ketosis, milk fever and mastitis.

In addition, the study of many animal diseases such as leukemia, congenital porphyria, prolonged gestation, a multitude of tetanias, eye disorders and neonatal diseases in dairy cattle will in turn serve as animal models to inform us more about human diseases.

I feel we have made good progress this year. The support of agricultural and urban groups was overwhelming. I look forward to working closely with the Dairy Industry in future years.

MERGER AND CONSOLIDATION OF FLORIDA DAIRY COOPERATIVES REVISITED¹

Dr. Ralph Eastwood
Extension Economist
University of Florida
Gainesville, Florida

This is a report of impressions gathered in a number of personal interviews with knowledgeable people, and of my ideas concerning the involved factors. You should not consider it the product of careful research. Rather, it is a highly subjective, conscientious effort to put this topic into perspective for members of the dairy industry of Florida, researchers, and other interested persons.

Premises

The context for these remarks includes:

1. The number of Florida dairy farms is likely to continue at about the present level for five to ten years. They are likely to increase in size, at least in milk output, during that time period.
2. Producer-handlers are likely virtually to disappear from the business scene because of their price disadvantages when they function as producer-handlers and when they pool their surplus.
3. Florida's federal orders may be consolidated in the next few years, but they will continue performing approximately the same functions they do at this time.
4. There will be no critical changes in laws regulating farmer cooperatives in the next few years.
5. The market structure for farm labor will increasingly include group labor management, probably by labor unions and farmer cooperatives.

There still is time for farmer cooperatives to increase services to their members by expansion in group farm labor management.

Needs for Merged Cooperatives

Sound, substantial economic need is the only safe basis for the development of a commercial dairy marketing cooperative. Accordingly, it is well to review possible needs that Florida dairy farmers express or may

¹ Prepared by Dr. Ralph A. Eastwood, Economist, Marketing, Institute of Food and Agricultural Sciences, University of Florida, for presentation to the Ninth Florida Dairy Production Conference, J. Wayne Reitz Auditorium, 1:45-2:15 p.m., May 10, 1972.

have which they could solve by merger, consolidation, or organization of cooperatives. One way to list these needs is to divide them into deferred and current needs. Major and minor needs seem useful subdivisions of the deferred group. None of the current needs ranks in importance with the major deferred needs, so perhaps it is well to subdivide the current group into larger and smaller current needs:

Deferred Needs

Major

1. The possible competition from out-of-state milk for Florida fluid milk markets.
2. National milk supply management as some visualize it would result in substantial business hardship to Florida dairy farmers.
3. Bargaining cooperatives may require handling facilities at some time to reinforce their bargaining and to provide handlers and consumers a larger number of services.
4. Consolidation of three or more federal orders into one in Florida seems likely. This should present no serious problem because the last two were planned to facilitate eventual consolidation without disruptive events.
5. Florida dairy farmers prefer that their federal order milk prices be sufficient that bargaining for premiums is not necessary. This policy might change. If so, it would be a major encouragement to consolidation of bargaining cooperatives.
6. Florida dairy farmers have paid little attention to the possibility of supplying some of their hired farm labor through cooperatives. A change in this policy could encourage stronger farmer cooperatives.

Minor

1. Florida dairy farmer cooperatives are concerned primarily with bargaining, federal milk marketing order service, and quality control of milk on the farms of their members. Some believe that additional farm supply or input services might be worth consideration, there does not appear to be enough need felt to make this a substantial project at this time.
2. Some of the present milk marketing alignments in Florida could encourage the movement northward within Florida of milk produced in the state. This could change conventional trade practices. It might suggest consolidation of one or more marketing services by two or more cooperatives.

3. There is some thought that centralized payroll accounting for the dairy farmers who are members of Florida milk marketing cooperatives may be of importance. There is not enough interest in this to warrant careful analysis at this time.

Current Needs

Larger

1. The legal structure under which certain joint activities are conducted should be reviewed.
2. A primary function of a bargaining cooperative in Florida is to service the federal order in its bargaining area. No attempt is made to bargain for premiums above the federal order prices. So long as this policy continues, there will be little reason to consolidate bargaining cooperatives to strengthen their milk bargaining power.
3. Labor management for members has been largely confined to experimental recruitment and training in the Tampa Bay Area.
4. Hauling of milk for members is one of the more costly bargaining activities.
5. Advertising and promotion are conducted by all dairy farmers in Florida.
6. Milk bases are valuable property rights in Florida. They constitute an intangible asset having an indeterminate useful life. Accordingly, the cost of the milk is not allowable as a business expense, and payments for bases are to be capitalized and are not subject to amortization or depreciation for purposes of federal income tax treatment. Furthermore, the cash liquidity of these base values is of substantial consequence to Florida dairy farmers.
7. A current procedure is for adjacent cooperatives to provide one or more cooperative services, rather than for all cooperatives to merge to perform all services.
8. There seems to be a substantial opportunity for collective insurance programs for farm workers and farm family members.
9. Upon occasion, the problem of collections from handlers and payments to producers has been remarkable. Fortunately, this does not occur often, or specifically inconvenience many dairy farmers. However, it is a continuing latent challenge to the cash flow structure of dairy farmer cooperatives and their members.

10. Cooperatives feel a continuing need for more political education.
11. Member service, including membership information concerning operation of cooperatives, is a continuing urgent need.

Smaller

1. The present cooperatives appear sufficiently efficient in most of their operations so that one would not expect great savings from merging their present services. On the other hand, there appear to be some possible savings from expanding some of the present services conducted by the individual cooperatives to all the dairy farmers presently served by cooperatives in Florida.
2. Opinions vary concerning the possible improvement in milk quality to be expected from a rigid centralized quality control program.
3. Pooling for price is a current need, being quite well served.
4. Information about supply management is a current need. This is being served.

Cooperative Experience

Florida dairy farmers have at least 50 years of experience in farm business cooperation. They have organized dozens of locals, have tried numerous mergers and consolidations, and have initiated implicit or explicit dissolutions of substantial numbers of farmer cooperatives.

A dairy farmer is in a dilemma between his natural inclination to analyze production and marketing situations with the intention of maximizing his own short-run benefits rather than from the point of view of group action to maximize his long-run benefits. This dilemma is as old as people deciding whether to perform services for themselves by individual or group action. It is especially depicted among dairy farmers in the classical question of individual handler versus marketwide pooling. The advent of Federal order marketing in Florida marked the end of most individual handler pooling in this state.

Organizational progress among Florida dairy farmers has taken the special problems of producer-distributors into account. These considerations continue, although on almost a vestigial basis at this time.

Florida dairy farmers have moved toward lasting merger and consolidation primarily by membership drives to combine services such as handling, financing, transfer and diversion, base plans, pooling, and advertising and promotion.

Competition

Interstate. There is a vast potential supply of northern milk qualified for fluid markets. Dairy farmers throughout the nation accord this its rightful amount of attention and planning. The potential threat seems enormous, but the large milk marketing cooperatives which seem most likely to move the milk into Florida also seem preoccupied with internal organizational and consolidation problems at this time.

Floridians ship some milk out-of-state. Data are not available in the public domain to determine whether this exceeds amounts shipped in. Certainly the quantities are not large in terms of the percent of total milk consumed in Florida or in absolute terms. The propensity of Floridians to produce milk far exceeds the interstate markets at this time, but the potential retaliation by out-of-state farm cooperatives is of sufficient presence to discourage Florida production for out-of-state markets.

Florida dairy farmers and others may desire to buy, or start, milk companies for possible protection. This does not appear to be necessary at this time, although one or more surplus handling plants always are under consideration.

Intra-state. Questions are ever present concerning the effects of dissolution of some cooperatives upon the levels of prices. Bargaining reinforcement probably is not a strong question so long as Florida dairy farm policy is to encourage minimum federal milk marketing order prices rather than bargain for premiums over federal order minima. The merger or consolidation of producer-handlers and others may be desirable from time to time if these outlets seem to reduce bargaining effectiveness. Likewise the buying or building of fluid facilities and the provision of a full line of plant services to handlers within the state are live questions. So far, farmers have limited themselves to ownership of a small number of handler cooperatives and the buying of at least one generic producer-handler.

Membership Relations

The fundamental question of the percentage of emphasis a dairy farmer should put upon individual and group action to solve his production and marketing problems is of continuing importance. It is especially important among highly specialized and technically sophisticated dairy farmers with large farm operations. Florida dairy farm members want, and can afford, close attention. They want access to the top decision maker. The business consequences of their decisions are of such magnitude that they desire all the information they can get as quickly as possible when they think it is time for a decision. This context increases their desires to deal directly with the top decision maker in any organization. This would have substantial implications in consolidating dairy farmer cooperatives in Florida because each level of organization would remove the dairy farmer (or, equally likely, the manager of the local department

supposedly serving the farmer) from the decision-making process between the individual member and the top decision maker in the cooperative. They appear to desire a great number of cooperative directorships for group decision making, distribution of business information to the directors concerned, and the social values of frequent peer-group conferences.

One would be hard pressed to determine the cash value of the membership relations services contributed by these many directors compared with the cash cost a federated cooperative would incur in informing members, and the changes in farm income which might result from less attendance by dairy farmers of meetings off their farms. The costs of membership relations programs are observed to rise (geometrically) as geographical and numerical sizes of a cooperative increases. This cost estimate probably would be increased more because of the reduction in membership relations expenses borne in kind by the forty or fifty directors who now frequently attend meetings.

Industrial Relations

Location of the headquarters of a consolidated cooperative would be important. Questions of centrality, transportation convenience, and locations of important allied trades would control. The federal milk marketing order probably would draw the general headquarters to its neighborhood. Branch headquarters and local department headquarters probably would be located in major milk marketing centers in Florida, much as now.

Relationships with full supply contractees probably would change little as a result of merger or consolidation. Servicing the contracts likewise would change little, if at all.

Milk handling might change to some extent if a consolidated milk hauling program would save an appreciable amount of money.

Employee Relations

Any reorganization interjects uncertainties into the planning employees do for their own welfare. Preliminary observations indicate that there would be very few terminations initiated by employers or employees in a merged milk marketing cooperative situation. All of the tasks now performed by the cooperatives would continue to be performed. Probably some new ones would be added. Headquarters would remain in approximately the positions they are, with the possible exception that the general headquarters might be in Ft. Lauderdale rather than in Orlando. There undoubtedly would be some new job classifications. Wages and salaries would be greater in some and smaller in others. Some employees might choose not to relocate if asked. There would be some other attrition. On balance, there would appear to be a requirement for new job classifications, new hirings and new structures of salaries, wages and fringe benefits to employees.

Finance

No good estimates are available concerning the financing of a merged or consolidated cooperative. Of course, this should be one of the earliest detailed studies before a decision is made.

Perhaps no other group of Florida farmers is in as good a position to provide equity capital for a cooperative as are dairy farmers. They can finance whatever they believe to be in their best interests.

Pooling provisions always will be among the most critical questions in the organization of a cooperative. Present coordinated and consolidated pooling activities would be a model for a mature cooperative. Few changes would be expected from the present situation, although adjustment might be necessary between South Florida and the remainder of the state.

Base values accrue in markets in which farmers believe there is effective exercise of market power. The absence of uncertainty should increase the value of base in such a market. The presence of surplus milk would increase it even more if farmers produce milk in excess of Class I needs. My opinion is that base values would tend to increase in Florida so long as Florida dairy farmers continue to be virtually the only source of Class I milk supplies. These increases may be hard to estimate, and even harder to measure. Nevertheless, base values are likely for a long time. Milk base values in Florida now seem to approximate \$12 per pound of daily production or, approximately \$60 million of intangible property having an indeterminate useful life. Each increase of \$1 per pound in the value of daily base equals about \$5 million of intangible property values to dairy farmers. This is exceedingly difficult to measure, but everyone understands the direction of thrust of these numbers.

Assessment of desirability of merging or consolidating involves pricing the tradeoffs in costs and benefits which may result. The assessments indicated for membership relations would be the most difficult. Less difficult, but probably of much greater significance, are estimates of costs and savings from consolidating quality control, hauling, and bargaining.

Precise analysis is warranted of changes which might be expected in blend prices if consolidations or mergers came about. Assessment of these impacts will be relatively easy any time a change is evaluated, but are extremely difficult to project for more than one or two years. Conventional wisdom suggests that such changes might aggregate 20 cents per hundred — weight. This testifies to the importance of analyzing this factor with great care before a decision is reached. The magnitude of this factor is apparent when one recalls that a change of 1 cent in the blend price for Florida will approximate \$180,000 per year at production levels soon to be reached in the state.

Conclusions

In assessing possible trade-offs, we may list possible losses and gains from consolidation:

Possible losses

1. Employee morale would be disturbed to some extent because of the uncertainties of employment.
2. Membership relations would be disturbed because the localness of attention might be modified. Directorships probably would be reduced in number with loss of aggregate prestige and direct information sources. Cash costs of membership relations and leadership training probably would increase to make up for the costs now borne in kind by the directors.
3. Other costs undoubtedly would accrue because of a larger organization. However, these very well may be offset by additional efficiencies and additional services.

Possible gains

1. Effectiveness perhaps could be increased for a number of reasons. Authority would flow from one central board. Coordination of activities of the milk marketing organizations would be much more centralized, and presumably more effective.
2. Economy and efficiency appear possible in a number of service areas. Highly tentative estimates of the savings in advertising costs, at present levels of advertising intensity, range in the area of \$50-60,000 per year. Informed preliminary estimates of the savings Florida dairy farmers might enjoy from consolidated insurance programs range to \$250,000 per year. Present intangible property values of milk base are on the order of \$12 per pound per day, or \$60 million. These would change approximately \$5 million for each \$1 change in base values per pound per day. Consolidation hauling activities are thought to possibly save 2 cents per hundred - weight per year, or \$360,000 per year for present levels of production. Slight utilization improvements seem possible. Each cent improvements in the blend price will approximate \$180,000 per year.
3. Bargaining strength would be increased, because of the additional authority and coordination from a central source. Quality control probably would be more effective throughout the state, although this is questionable in at least some areas.
4. The political presence of dairy farmers as a coordinated force probably would be somewhat greater than at present, although the present arrangements are highly visible and audible.

Suggestions

Suggestions which may be inferred include:

1. Substantial research appears indicated to determine the feasibility of important mergers and consolidations.
2. Director leadership training programs would seem appropriate considering the number of directors involved in Florida dairy farmer cooperatives.
3. Managerial audits of present dairy farmer cooperatives might be beneficial regardless of whether the cooperatives are consolidated or merged.
4. The phasing of consolidation now underway seems appropriate. It involves internal phasing among individual cooperatives. This takes the form of dissolutions, and the management of long term commitments which exist as a result of spinoffs from previous arrangements and services. Discussion by adjacent cooperatives is underway concerning handlers who operate in two markets and concerning producer-handlers. Other services such as federal order service and advertising and pooling are consolidated or coordinated in meaningful ways.
5. BE READY TO CONSOLIDATE FULLY AT ANY TIME.