The South CAN Rise Again

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The South CAN rise again?

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Is this the perfect market?

This market actually exists:
• 2,000 miles from nearest competitor—California
• $3.50 milk price, but $4.20 QOP
• Five days of transport time for competitors' products to reach your market
Would you consider this the ideal market?

Is this the perfect market?

Hawaii has the following dairy market conditions:
• 2,000 miles from nearest competitor—California
• $3.50 milk price, but $4.20 QOP
• Five days of transport time for California milk to reach Honolulu via super-super refrigerated containers where it must be re-purposed and processed
Is this the perfect market?

In the past 10 years, Hawaii's domestic dairy industry has collapsed:
- Cow numbers: -44%
- Milk production: -32%
- Milk per cow: -2% (14.200)
- Dairy farm #: -36% (5 commercial herds remain)

Is this the perfect market?

Why has it collapsed?
- Constant heat stress, perhaps even more challenging than in the Southeast
- Poor forage quality, insect and plant disease pressure constant
- Virtually all grains must be imported
- Labor, milk/breeding/abale to pay better and offer better working conditions/hours
- Urbanization and increasing land values

Is this the perfect market?

What's the problem?
- $2.00 Hawaiian milk price isn't high enough
- Hawaiian production problems overwhelms ability to compete
- California's milk price is too low (thus California markets are seeking alternative markets)
- Tourism, surfing, beaches too distracting
- All of the above
Expansion intentions

Florida & GA vs. U.S. expansion intentions

- 1-400 cows
  - FL & GA = 23%, 1%
  - U.S. = 27%, 2%
- >500 cows
  - FL & GA = 20%, 0%
  - U.S. = 30%, 0%
Expansion intentions

Florida & GA vs. U.S. expansion intentions
- >500 cows = 43 years of age
  - FL & GA = 34%, 4%
  - U.S. = 52%, 2%
- >500 cows = 45 years of age
  - FL & GA = 33%, 3%
  - U.S. = 41%, 2%

Cargill’s Seven Principles
1. Face reality as it is, not as you wish it to be
2. If you don’t have a competitive advantage, don’t compete
3. Change before you are forced to change
4. Learn more than you are taught
5. Be candid—with everyone
6. Manage things, lead people
7. Eliminate delays

Cargill’s Seven Principles
1. Face reality as it is, not as you wish it to be
   - For Florida producers:
     - Past milk production down 17% since 2000
     - Licensed dairy herd down to 140 (from 165 in 2004)
     - Cow numbers fell 27% since 2002, milk production down 23% since 2002
     - Total numbers over southern states, much of Georgia is still holding its own.
Cargill's Seven Principles

1. Face reality as it is, not as you wish it to be:
   - For dairy producers:
     - Milk price: $1.90/lb. (average)
     - Milk price: $0.90/lb. (average)
     - Soybean meal: $950 per ton
     - Soybean meal: $850 per ton
     - Corn: $3.50 per bushel
     - Corn: $3.00 per bushel
     - Wheat: $5.00 per bushel
     - Wheat: $4.00 per bushel
     - Dairy cows: $1,500 per cow
     - Dairy cows: $1,250 per cow
     - Cows: $1,000 per cow
     - Cows: $750 per cow

2. If you don’t have a competitive advantage, don’t compete:
   - For dairy producers, what is your competitive advantage here in the Southeast?
   - How is your production compared to others?
   - Cost of production: Are you above or below the national average?
   - What is your milk production, i.e., how much milk do you produce?

3. Change before you are forced to change:
   - For dairy producers, what is your biggest challenge and what will you do about it this year?
   - Heat stress: Tunnel ventilation?
   - Milk quality: Wiping down, arsenic, and barriers?
   - Forage quality: Here’s one strategy: Purchased-dairy quality feed?
Cargill’s Seven Principles

4. Learn more than you are taught.
   • For dairy producers, apply and adapt what you have learned at meetings to your operation. Network with other producers to learn what has worked on their operations—and more importantly, what hasn’t and why it hasn’t.
   • Do more on or off the farm make sense on your dairy?
   • Do alternative calf feeding strategies make sense?

Cargill’s Seven Principles

5. Be candid with everyone.
   • With yourself.
   • Your spouse.
   • Your employees.
   • Your partners and consultants.
   • Your lender.

Cargill’s Seven Principles

6. Manage things, lead people.
   • Manage your cows well.
     • The right feed
     • The right environment and housing
     • The right health care
   • Lead people by
     • Being optimistic
     • Being honest
     • Being fair and equitable
Cargill’s Seven Principles

7. Eliminate delays
   • Do it now
   • Be aggressive
   • Take the high road, not the shortcut

California

- In last 10 years, production has grown 24% or 1.2 billion lb, doubling the production of North Carolina in each of those years.
- In last 10 years, cow # has grown 40% or 600,000 cows – all the cows in Louisiana in each of those years
- Annual growth of 6.5% over last decade (14% of Florida’s annual production)
- If California grows just 3% over next decade, it will add another 1.0 billion lb (more than twice Florida)

California

- 10-15 years ago, California faced major problem with urban congestion in Chino.
- Chino Ag Reserve was broken, allowing producers to sell land (by square foot)
- Re-invested in the San Joaquin Valley
- Learned lessons of El Nino, invested in freestall barns.
- Much of the incremental growth has been financed by 4a and 4b milk prices (butter/powder and cheese, not fluid)
California

- Producers have not relied on government programs to subsidize growth per se.
- Producers have used the California pricing system to make their processing industry competitive, often at the expense of fair market prices.
- Also instituted dairy checkoff to raise $75,000 for lobbying. Once goal is reached, checkoff ends until more funds needed.
- Producers seek to fight for livable air regs.

Wisconsin

- Holding its own in milk production over the last decade at 22 billion lb.
- Milk production and cow numbers have dropped 18% (385,000) head and farm numbers have declined 20%.
- Has held production by re-enrollment in large farms. Wisconsin has most 200+ cow dairies in the country.
- Milk per cow has been key, up 4% last year and cow # down 5,000 (-0.4%).

Wisconsin

- Producers have led the way.
- Ten years, 85% of producers are members of the Professional Dairy Producers of Wisconsin 14 years ago.
- PDPM provides educational forums, everyone welcome regardless of herd size.
- Producers learn from ag agents, IC, TPAC, and speakers.
- Bring in industry critics to hear other side.
Wisconsin

- Producers have led the way.
- Subset of POPP in Wisconsin Dairy Business Association to lobby on behalf of commercial dairy operations.
- Pass out by law numbers.
- Successfully led four-year effort using legislation that creates uniform egg statewide. Brought in FS, INFO, TV as well as county and township associations.

Texas

- Producers have led the way.
- Stephenville/Delmar area in decline because downstream Haco has declared no new dairies.
- Pan handle of Texas is new hot spot, with Stephenville/Delmar producers re-locating to area. (Since 2005, 36 dairies built to-date, 190,000 cows.)
- Dairy by 40,000 cows under construction with permits pending on another 75,000.
What has worked in CA, WI, TX

- Producers have led the change
- Producers have been willing to work together, bringing everyone to the table
- Producers have been willing to risk investing in their own stability for the long-term; willing to move and cluster
- Producers have not seen government as the solution, but they have worked to make government part of the solution

The South can rise again, if it’s willing to face the issues:

1. Seasonality of milk supply. How big a problem?
   a. Diflutan/delayed to import, 30%/wet to export - that’s 5-6% of your gross
   b. Is shelf stable milk a possibility? Especially Hispanic market?
   c. Reconstituted milk? We use it for (please...)
   d. Promote year-round school, off-season tourism (Sky Zone)

The South can rise again, if it’s willing to face the issues:

1. Production per cow? Milk quality? Improving productivity decreases costs of imports and spreads fixed costs of exports.
2. Environmental issues? Legal defense fund?
3. Turn environmental negative into positive—mitigate digester and compost credits
4. Immigration reform? ??
5. Product innovation—be careful not to block innovation with strong resistance on retaining dairy product standards of identity
The South can rise again, if

1. Producers willing to honestly face up to Cargill’s seven principles
2. Producers willing to take leadership
3. Producers willing to work together bringing everyone possible to the table to find workable solutions
4. Producers willing to risk investing their own dollars in their industry’s long-term
5. And answer must be “yes” to all of the above