

The “DAIRY AIR” Program

Breathing New Life into the NE Iowa Dairy Industry

The Iowa dairy industry continues to age and modernize. Dairy families entering the business are becoming fewer and this issue has been identified as a priority issue. This “Dairy Air” program provides information regarding some of the most popular paths for new dairy family aspirants to gain entry into the industry.

Sharemilking

Sharemilking has been a popular part of the Iowa dairy industry for decades as dairy producers and/or land owners share labor, resources, income and expenses on a percentage of their respective resource contribution.

This topic is of extreme popularity in New Zealand and Australia and has increased applicability to the Iowa dairy industry. Interested producers are encouraged to consult University of Wisconsin-Extension publication, A3670 “Sharemilking in the Midwest” for more detailed information on the sharemilking concept.

Sharemilking is a contractual arrangement between a landlord/lessor/employer and a tenant/lessee/employee that combines the management, labor, cattle and/or machinery in a multi-party dairy enterprise without forming a more formal arrangement such as a limited liability company, partnership or corporation. The overall goal is to build career bridges for beginning, mid-career and retiring farmers.

A major hurdle for beginning sharemilkers is to garner equity in cattle along with experience. Creative financial arrangements and receiving a percentage of the herd growth in the sharemilker’s beginning positions are paramount for stepping up the dairy farm career ladder in a reasonable amount of years. Most dairy producers begin their dairy career in some basic stage of the “sharemilking” concept.

Stage 1: Hired and/or Intern Labor

On-farm training as labor for experience and/or and hourly wage is an important first step (in conjunction with formal training). Here the prospective sharemilker works side by side with producers (hopefully more than 2) to learn the day to day management of dairy operations.

Stage 2: Working for a Percentage Wage

After building trust as an employee, the relationship can build to receiving increased incentives based on milk price premiums and assuming risk in the ups and downs of milk price variations. For, example, providing the milking, feeding, manure scraping, calf and herd health roles for 10%-20% of the milk check is quite common. This phase often lasts about a year and is a good “testing” time to see if parties are compatible for a more involved sharemilking relationship.

Stage 3: Owning Cattle

A crucial incentive to building a dairy career is cattle ownership. This is accomplished

by outright purchase or lease of new or existing herd animals by the sharemilker. Ownership of 10%-20% is often a good first step. This step begins to complicate things so parties need the above testing stage prior to getting involved in this stage.

The sharemilker is often compensated for their investment in the herd either by an increased percentage of the income; assistance in the cost of raising their heifers; or a lease payment made to them (\$1-\$1.45/day) by the senior producer. Consult "Leasing Dairy Cows" publication by ISU Extension.

Contractual arrangements are encouraged for all steps but become increasingly important from this stage onward.

Stage 4: Sharing of Income and Expenses

The sharing of expenses can begin in any of the above stages as it goes hand-in-hand with the varied ways of sharing income. The goal is judicious and responsible use of farm resources with the incentive to develop the total enterprise. This is often done by giving parties incentive to assure that resources are not under or over utilized increasing the profit for themselves while reducing it for the other party.

An overriding goal of this sharing is "fairness" as an unfair sharing often invites its own destruction. Thus, it is in the interest of both parties to do what's fair, which often may go against the custom of the community from past sharemilking arrangements. It is important to realize times have changed and each farm is unique in management and resource base.

For decision-making assistance on equitable sharing, consult the Sharemilking Arrangement worksheet available from ISU Extension (also part of the Sharemilking in the Midwest Publication).

Where Does the Sharemilker Go From Here?

Option 1: Continued Sharemilking Models

Stages 3 and 4 can take on many varied and creative forms too numerous to name here. However, many successful dairy producers spend many years in a sharemilking model as an alternative to farm ownership to build equity realizing cattle and labor often return more than land and machinery.

Option 2: Cash Rent/Buy Feed Dairying

High capital and labor requirements for dairying even after acquiring cattle encourage some producers to continue the sharemilking concept by renting facilities and possibly some land to facilitate economic efficiency on the dairy, especially if the labor needs of the dairy farm are multi-person or multi-family.

Rent and buy feed dairying is a means by which one party does just that--rents the facilities, owns the cattle and buys the feed from the other party who owns the machinery and land. This arrangement works well for both parties for several reasons. First, the owner can take the cash rents received as unearned income--saving the self-employment

taxes. Thus, the owner can have the minimal material participation into the dairy necessary for this option to work. Second, the owner can remove his or herself from the twice a day demands of milking, livestock feeding and concerns of any dairy related costs to focus on working the land to produce the feed. Furthermore, the renter need not be concerned with any cropping expenses as a straight fee is paid per bushel or ton, etc.

Several variations of the rent and buy feed dairying have emerged. One economical variation receiving more attention is for the renter to own the cows and rent the facilities and an acre per cow for management intensive grazing to reduce summertime forage demands for both parties.

The renter reduces the purchased feed and labor cost to an acceptable level which might allow the milking of a few more cows than the barn would hold in a somewhat seasonal system (i.e. milking 70 in the spring, summer and fall and 50 in winter in a 50 stall barn). This also allows the renter to put management resources where he or she has the most responsibility--the cows and youngstock.

The owner, then, would continue to own both the land and most machinery depending upon the wishes of the parties. If the owner wanted to remain involved with year round farming, the owner might consider the duties of providing custom feed grinding for the renter which would be included in the cost of the feed when purchased. Also, custom manure hauling might be considered by the owner for a fee minus the value of the manure as fertilizer for the owner's crops. Quite conceivably, the rent and buy feed dairy producer could operate the dairy herd and begin with a minimal amount of machinery.

In addition, the owner would benefit greatly having a very local market for the crops grown allowing more efficient utilization of silage and grain storage structures already on the farm. This would reduce labor, marketing, transportation and related costs. It would also grant an owner who only wants to semi-retire the less demanding tasks of working with the crops (tractor work) rather than the more demanding livestock (physical work).

An incentive for both parties is that each party has its own business to run and enjoys the fruits of their more specialized individual labor. Thus, rent and buy feed dairying has advantages to offer both the owner and prospective renter in terms of total farm economic efficiency by way of specialization of dairy, crops and labor

**Please refer to Millionaire Model Farm Budget, Data and sample contracts for renting facilities and purchasing feed.

Option 3: Whole Scale Sole Proprietor or Partnership Dairy Operation.

Again, with options to numerous to name, the next step is to move out on one's own as a sole proprietor or partnering resources with another producer to further develop economies of scale, specialization and net worth. This step is heavily dependent on individual goals and aspirations within the dairy industry.

ISU Extension has prepared model farm budgets based on existing actual farm operations.

Example Only Model Farm #1

This dairy producer is a grazer in the cash rent mode. The dairy producer looks for an efficient farm with an owner willing to incorporate an efficient grazing operation for 60-80 dairy cows on 60-80 acres of land that can be tilled or grazed. The operation owns a tractor, manure spreader, skid steer and four-wheeler with a machinery budget of less than \$10,000. The cows in this example are mostly Jersey-Holstein crosses.

The cow/feed budget and plan looks like this:

- Each cow produces 13,000 lbs of milk per year and weighs 1,100 pounds. The average heifer weighs 600 pounds. The feed wastage rate is 20% and the herd cull rate is 25%. The dry matter intake for the cow is 8.79 tons (with replacement included).
- The 70 acres of alfalfa/pasture is in permanent forage averaging 3.75 tons dry matter per acre. In addition, 21 acres of corn silage is purchased as standing corn and manure is reapplied to the land. **Thumbrule is 1/3 acre per cow for holsteins and 1/4 acre per cow for Jersey or Jersey-Holstein crosses.
- Purchased feed is 75 tons of good quality alfalfa hay for early in calving season before pasture is ready and 263 tons of a grain/mineral/protein supplement averaged at 18 pounds per cow per day (includes heifers).

ISU Fact Sheet LT-201, Larry Tranel, Extension Dairy Field Specialist

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Sample "Dairy Air" Startup

YEAR 1: Year 1 begins with working for a percentage wage. This wage is most often a percentage of the milk check with incentive to fulfill this one year contract. It is often figured by determining a fair wage based on average annual production and milk prices.

Consider the following example:

80 cows at 18,000 lbs with a \$13.00 mailbox milk price = \$187,200 of milk sales

60 hours/week at \$8 per hour = \$24,960

The anticipated wage is 13.33 percent of milk sales to be paid directly from the milk plant.

Note: If milk is \$13.50, the income is \$25,913 but if \$12.50, the income is \$23,994.

In addition, if heifer calf death loss is below 5% for the year, one out of every 15 heifers born on the farm accrue to the sharemilker IF the one-year contract is fulfilled. Typically, this would be 2 or 3 heifer calves in the first year.

YEARS 2 and 3: Year 2 begins with a purchase of a certain number of cattle to make

the overall ownership 20% of the total herd. Thus, the above 80 cow herd would buy 20 cows for 100 total and the sharemilker would own his 20%. He would receive his 20% of cull cow sales but would need to replace 20% of the replacements for this two year period due to the two-year lag of replacements from his share of the cows.

The heifers which begin to accumulate need discussion to where they are raised and who bears the cost in raising. One example would be to allow the heifers to be raised with the senior partners heifers but the sharemilker would pay \$750 for feed and general expenses in raising the heifer.

The percentage income of year one might stay the same or increase to 25% or so to allow a sharing in the expenses as well by an estimated off-setting amount.

YEAR 4:

Year 4 in the above examples would begin with the sharemilker now owning 20% of the total cattle inventory and hopefully possess at least 50% equity in them. This level would give the sharemilker leverage ability to make a larger leap in cattle inventory on the present farm or to be able to move out on their own rented farm. The above example would give the sharemilker approximately 20 cows, 10 bred/breeding age heifers and 10 smaller heifers to be able to build a herd with presumed access to additional investment capital.

Year 4 and 5 could also be used to increase the ownership percentage to 40% or 50%, depending on the need for family living dollars. In this example, that would be 32-40 cows with the corresponding issue of needing to purchase replacements for the increased cows. In addition, the need to compensate the senior party for general heifer rearing costs would be necessary if raised together.

The Overall Goal after the 3 year period is to give the sharemilker a base of 20 cows with youngstock in which there is hopefully 50% equity. This would allow them to take the next step on the dairy career ladder to becoming an established dairy producer.

The Overall Goal after the 5 year period is to give the sharemilker a base of 40 cows with youngstock in which there is hopefully 50% equity. This would allow them to take the next step on the dairy career ladder to becoming an established dairy producer.

The next step on the dairy career ladder may be in a rent/buy feed agreement, a more involved sharemilking arrangement which would presumably lead to farm ownership.

Please note the above example, admittedly not perfect, is to provide example ideas to consider for breathing new life into the Iowa dairy industry.

The "Dairy Air" Program, Designed by Larry Tranel, Dairy Field Specialist, ISU Extension, has led into the Millionaire Model Dairy Farm Project, 2002, 2004.