



profitable

Practices+Strategies

for a
NEW GENERATION

Case studies prepared by the **CENTER FOR RURAL AFFAIRS** for the
North Central Initiative for Small Farm Profitability, a USDA-funded project

***Profitable Practices and
Strategies for a
New Generation***

published by the
CENTER *for* RURAL AFFAIRS



VALUES. WORTH. ACTION.

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Table of Contents

- i* Introduction
- 1** **Alternative Practices & Marketing**
 - 2* *Letting Pigs Be Pigs: Building a Better Hog Operation*
 - 6* *Less Land, More Profits: Organic Crop Production Makes a Stand*
 - 10* *Buttering Up Your Customers: Direct-Market Dairy Products Keep Profits on the Farm*
 - 14* *Tarbox Hollow: A Home on the Range*
 - 18* *Can Smaller Be Better? A Comparison of Grass-Based and Conventional Dairy Farming*
 - 22* *Summer Calving: A Practice to Improve Profits*
- 27** **Capital Transfer**
 - 28* *Growing a Farmer: Passing on Assets and Experience*
 - 30* *Going Home: Taking Over the Family Farm*
 - 34* *Generational Transfer: A Tale of Four Brothers*
 - 38* *A Farm for the Future: Using Innovative Programs to Pass on the Farm*
 - 42* *A Good Start: Investing in a Beginning Farmer*
 - 46* *Locally Grown: Neighbors Working Together*
 - 50* *Working Dreams: A Transfer in Progress*
 - 54* *A Thriving Dairy: Cooperating for Success*
- 57** **Equipment Sharing**
 - 58* *Bruegman Grass-Based Dairy: Simply a Better Product*
 - 60* *North Star Neighbors: Neighbors and Friends Working Together*
 - 64* *Small Farm Cooperative: Quality and Innovation*
 - 68* *From Wheat to the Web: Changing the Way Farmers Buy Equipment*

Introduction

Wyatt Frass

Assistant Program Leader, Rural Opportunities and Stewardship Program, Center for Rural Affairs

This booklet, *Profitable Practices and Strategies for a New Generation*, brings you stories of people making a difference in rural America. These people have endured record low prices and a rural economy mired just short of depression. They have seen their neighbors move away and their home town businesses boarded up.

But they have not become victims of the times.

The people we introduce you to here have the vision and courage to try something new, despite the risks. They have taken control of their fate and are working to make things better. “Better” not just for themselves, but for their communities, their neighbors, their children.

The first six stories profile strategies to increase profits in producing or selling crops and farm products. What is most amazing about these six stories is not the producers’ unusual ideas or unique skills. It is how they express their values and ethics through their farming. You’ll find that these profitable farmers and ranchers are far more concerned with being good stewards, neighbors and friends.

Next you’ll find eight stories of how beginning farmers found land and resources to start farming. They share their strategies for using programs and resources for a profitable start. In many cases, these beginners found more than the tangible assets of land and buildings. They also found mentors who care enough about them to help them get through the tough startup years. They show how important it is for beginners and landowners to share their dreams for the land that means so much them.

The final section outlines strategies used for reducing equipment costs. The last study in that section highlights MachineryLink.com, an online company founded by a Kansas wheat farmer who used his experiences to help other farmers across the country share new equipment, or buy and sell used equipment.

The remaining three stories highlight groups that share their equipment—and more. These groups have put together marketing strategies that pool raw materials and resources to bring high-quality products to their customers. The trust and cooperation demonstrated here are time-honored rural traditions, traditions that expect each to contribute his strengths and good reputation for the benefit of all.

These stories are sometimes technical, as many of you farmers will want to know the details. They are sometimes rather vague, too, to protect privacy or fragile new markets.

Yet these people are overwhelmingly generous with their knowledge, advice, hospitality and encouragement. You’d be hard-pressed to buy food, share equipment, shake hands over an agreement or just be neighbors with better people.

In the spirit that these stories are offered, share them, along with your own insights, with a neighbor who could use some encouragement or a new idea.

February 8, 2002

Hartington, Nebraska

Alternative Practices & Marketing

Martin Kleinschmit, Research Associate, Center for Rural Affairs

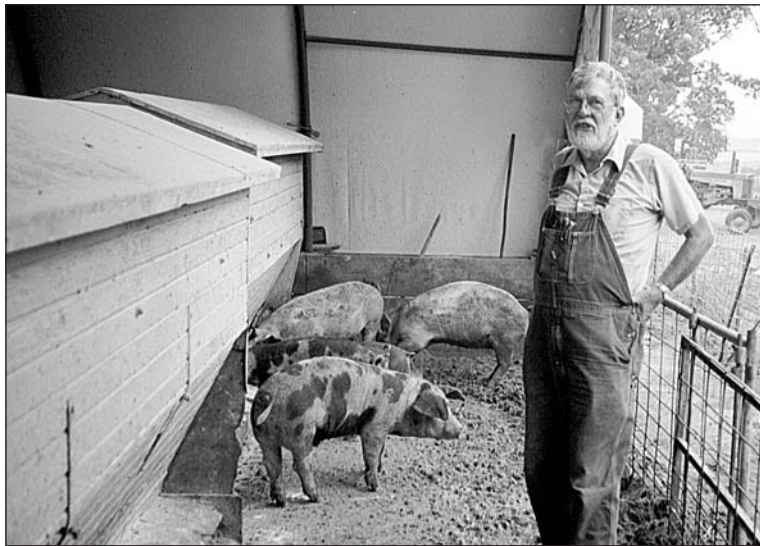
These case studies of profitable practices are presented to show how management adjustments can affect the bottom line. Profit is defined as price minus expenses. Adjustments that farmers and ranchers make to lower expenses or raise the selling price affect profits.

Cutting costs is the easiest way to raise profits with commodity production. Each dollar saved is a dollar that does not have to be paid back or taxed. The operators illustrated here cut costs by matching their operations to nature's cycle and by taking advantage of the resources they control in order to reduce inputs in money and labor. Cutting costs should not seriously reduce production, in order to maintain sufficient volume to generate enough income to meet your needs.

Increasing the selling price means operating out of the commodity system realm. It means raising different things or raising the same things differently. In the commodity production system, all products are considered the same and so sell for the same price. A specialty product can demand a higher price because it is unique. That difference can be either real or perceived. It is still different.

Cutting costs and selling specialty products does not come without extra investment. The new investment is in the form of knowledge and skills gained. Unlike conventional farming investments, however, these assets can be passed down to future generations and sideways to neighbors without capital outlay or depreciation schedules.





Dwight Ault moves from a conventional confinement hog operation to using hoop structures for finishing hogs. The change significantly reduces animal stress, improves working conditions and increases profit for this southeastern Minnesota farm.

Letting Pigs Be Pigs: Building a Better Hog Operation

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State-of-the-Art Thirty Years Ago

Dwight Ault purchased his farm in 1970. The farm had an old 40 by 60-foot dairy barn on the premises that Dwight converted into a farrowing barn for hogs. To complete the hog finishing cycle, he built a 40 by 80-foot insulated confinement finishing barn, complete with slats and a good manure pit. "It was state-of-the-art at the time," says Dwight.

The finishing barn did what it was supposed to do, but after 30 years of use it needed repair. The concrete slats were breaking down, the building needed to be rewired and the maintenance was just getting to be a nightmare.

Swedish Pigs and Open Pens

Around the same time that the barn needed extensive repairs, Dwight decided that he wanted to reconsider the way he raised hogs. He had worked on a committee with animal welfare activist Marlene Halverson for 12 years, and those twelve years of discussion and conversation had planted some ideas about new ways to run his operation. He also noticed some behaviors that seemed to be the result of stress. Says Dwight, "It was really unnerving to go in the confinement barn and hear pigs fighting and see blood splattered all over the place from tail biting or ear biting."

Dwight and his wife were invited to visit Sweden to see how hogs are raised in an animal-friendly, deep-bedded system. This style of raising pigs considers the social needs of the animals, providing something for them to

chew on and allowing them to move around and interact with each other. At the time, Dwight thought the Swedish system a bit too technical for him, but he did change the way he farrowed pigs by replacing the crates with open pens.

Hoop Houses: Simple, Inexpensive and Flexible

Dwight began considering hoop structures for finishing hogs in 1996, after attending a workshop put on by Iowa State. Hoop structures are buildings that look a lot like greenhouses. Tubular arches, or hoops, are placed on top of four to six foot wooden side walls. The hoops are covered with an opaque, UV-resistant, polyvinyl tarp. The end walls have tarps that can be raised or lowered to accommodate changes in weather conditions.

Most hoop structures have a fourth of the floor covered with concrete for the feeders and waterers. The rest is earthen

put up. Dwight put up his first 30 by 84-foot hoop structure in 1997, which accommodates between 180 and 230 pigs. The structure was ready for hogs only two weeks after he decided to build it. He thinks farmers can do the building themselves and save even more on construction, because the skills required are not as sophisticated as those needed to build confinement barns.

Repeating a Good Thing

He liked the hoop house so well he put up another one three years later, and is now in the process of modifying his old confinement finishing barn to operate like a hoop structure so he can finish all the pigs his 300 sows produce.

"Hoop structures cost less per pig to purchase and build, but do require a little more work," according to Dwight. One area that needs a different approach is environmental management prac-

"THE REAL VALUE OF HOOP STRUCTURES IS THE MENTAL & PHYSICAL ENVIRONMENT THE ANIMALS HAVE TO LIVE IN, AND THE FARMER HAS TO WORK IN."

floor covered with straw or crop residue, and bedding is added as needed.

The Agriculture Engineers Digest (AED 41), published in 1997 by the Midwest Plan Service, Iowa State University, lists hoop construction cost per pig at \$125 less than a confinement system.

Hoop structures are also fast to

tices. The Midwest Plan Service says that farmers who convert to hoop structures need to change from warm to cold barn air management, where body heat rather than heaters keep the animals warm. The key to a successful cold barn is a ventilation system that allows enough air to escape to remove excess moisture, but not enough to chill the hogs.

Are Hoop Houses for You? Chart #1: Hoop Houses v. Conventional

Use this comparison to decide if hoop structures will work for your hog operation.

	Confinement	Hoop
Building costs (investments) per unit	\$64.29	\$19.64
Fixed costs per unit	10.18	5.36
Feed	43.40	46.20
Labor	1.58	3.00
Fixed and operating costs	\$55.16	\$54.56

This table, which was excerpted from the Midwest Plan Service document *Agricultural Engineers Digest*, indicates that the total cost of producing hogs is about the same in both operations. The big difference between the two is in building costs. The investment for a hoop structure is figured at 10 years, and confinement units at 15 years. Your figures may vary. Building investment is the costs of building and interior systems (feed, water, ventilation, manure, etc.) needed per unit of production.

If you like what you see here, the complete comparison is available for \$4 plus \$1 postage from: Midwest Plan Service's *Agriculture Engineers Digest* (AED 41), by Michael C. Brumm, Jay D. Harmon, Mark C. Honeyman, James B. Kliebenstein; copyright 1997 by Iowa State University, Ames, Iowa 50011-3080, (515-294-4337).

Good ventilation is also necessary in warm weather in order to allow heat to escape while still providing protection from the sun.

The need for bedding is another major consideration when using hoop structures. Most operators change the bedding when a new group of hogs are added, and stockpile it until it can be spread on the fields. Dwight needed to replace his honey wagon with a manure spreader able to handle solid waste, but he already had both a front-end loader and tractor to load and haul the material.

An advantage of the need for bedding, according to Dwight, is that it, "can help diversify your farming operation. The need for bedding may encourage growing more forage or small grain crops." Products that would normally go to waste can be used for bedding. Corn and bean stover are commonly used, and poor quality alfalfa is also a good

source for bedding.

Dwight thinks that the system allows him more flexibility in his management practices, and notes that, "You can mix pigs of different sizes with more success than in a confinement unit."

Letting Pigs Be Pigs

"There are a lot of other unidentified advantages with hoop structures that can't always be measured in dollars," says Dwight, "The real value of hoop structures for hogs is the mental and physical environment the animals have to live in, and the farmer has to work in."

Dwight thinks there is a lot less stress on his hogs now that they are in a hoop structure. He notes that, "The pigs don't intimidate each other as much because they have something to chew on and keep busy and occupied." Dwight doesn't even clip tails—something he would never even consider if the animals were in confinement. Dwight likes that

hoop structures "let pigs act like pigs."

The Up Side and the Down Side

The *Pork Industry Handbook* (PIH 138) lists these advantages and disadvantages. Some will be more important than others, depending on individual needs and resources.

Hoop structures are an advantage if you:

- Want facilities with versatility to match a rapidly changing swine industry.
- Need a short-term structure that can be removed after use or that can be adapted for other uses.
- Want to keep fixed costs down.
- Have limited capital.
- Are not interested in accepting the additional financial risk associated with a large capital investment.

- Prefer to handle solid manure and have the capability to do so.
- Want a working environment with lower levels of manure gases.
- Have the equipment and land resources to harvest crop residue for bedding.
- Prefer a system of production that is less automated and requires more specialized husbandry skills.
- Believes pigs should be reared in an environment with bedding.
- Need a structure built quickly.

These are some disadvantages:

- More difficult to observe

individual animals if they are in a large group.

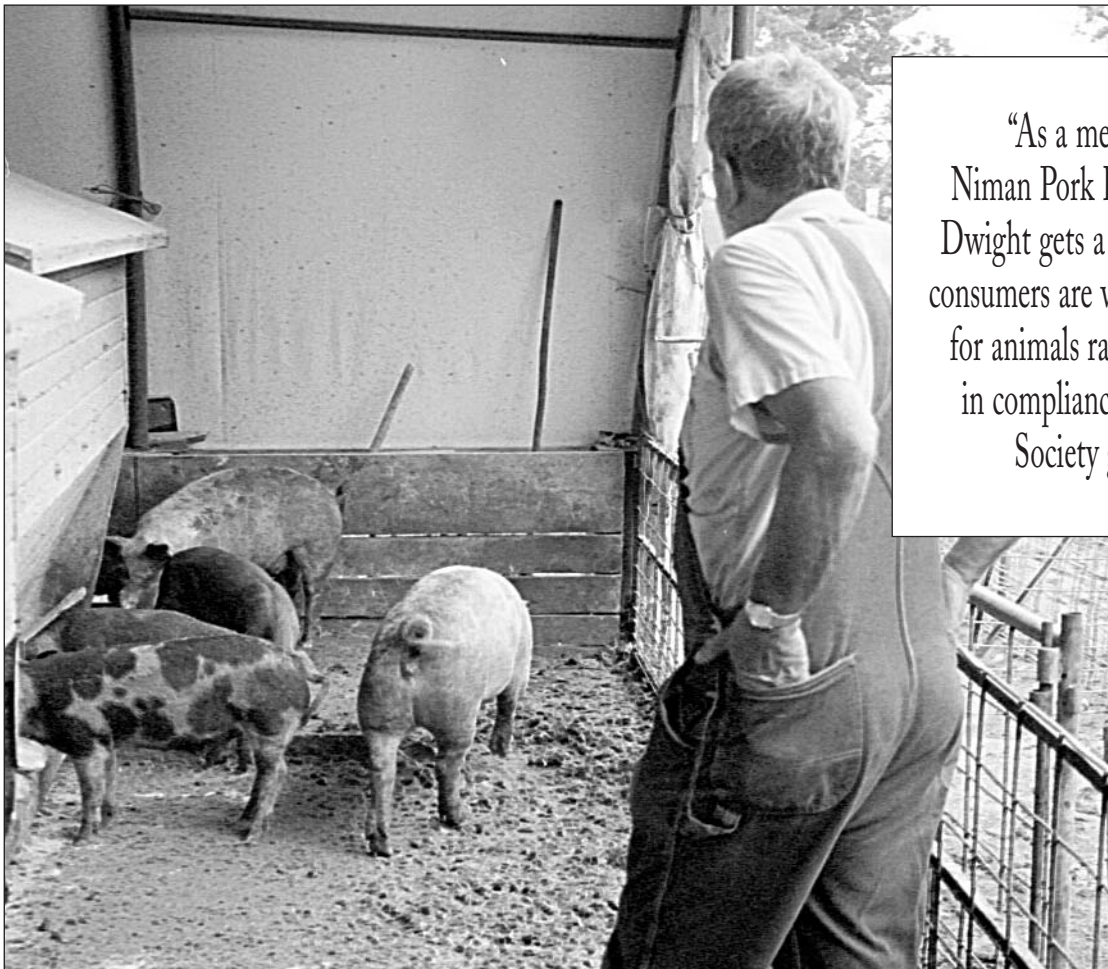
- Hoop pigs have less feed efficiency.
- Less favorable labor environment during inclement weather.
- Hoop pigs have slightly less lean than confinement pigs.
- More labor is needed with hoop structures.
- Hoops need large amounts of bedding.
- Since hoops are open, birds may carry diseases in.

Enjoying Pigs and Profits

By raising hogs in open pens and using hoop structures, Dwight's more humane produc-

tion practices bring in an extra four to five dollars premium per cwt. for his hogs—which more than offsets the extra cost of feed and labor. As a member of the Niman Pork Ranch Company, he gets a premium because consumers are willing to pay more for animals raised and harvested in compliance with Humane Society guidelines.

Dwight sums it up this way, “If you love technology and have to have everything automatic, you won’t like hoop structures. If you enjoy hogs and like to see them enjoy life, you’ll like hoop structures for hogs.”



“As a member of the Niman Pork Ranch Company, Dwight gets a premium because consumers are willing to pay more for animals raised & harvested in compliance with Humane Society guidelines.”



Tim and Krisanne Cada convert to organic production on the family farm, increasing profits while maintaining their farm's manageable size and their quality of life.

Less Land, More Profits: Organic Crop Production Makes a Stand

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How They Started

1983 saw a change of operators on the Cada farm in northern Nebraska's Colfax county when Tim and Krisanne Cada took over the farm from Tim's grandfather. For the next nine years Tim farmed those 400 acres a lot like his neighbors, rotating corn, soybeans, alfalfa, and pasture.

Life was fairly easy for the young couple. They'd plant the crops and spray for weeds in the spring, play softball in the summer, and harvest the crop in the fall. The farm supported the young couple well enough, but Tim bought a grain-vac to earn extra cash. That piece of machinery was responsible for introducing Tim to a whole new way to farm.

Soybeans, a Grain-vac and a New Pick-up Truck

In early 1994, Tim was hired to move a bin of organic soybeans. He wasn't too impressed by what he saw until he found out that those soybeans were selling for \$9.50 a bushel. "The quality didn't impress me, but the price did!" said Tim.

He talked to a couple of organic farmers to learn more, and decided to try organic soybeans on 45 acres of alfalfa land. Those 45 acres had been chemical-free for at least three years, and qualified for organic certification immediately.

Tim was pretty high on the learning curve that first year. He expected low weed pressure because the field had been in alfalfa. He drilled the beans on 27 acres of the field and planted the rest in 36-inch rows. Weeds

took over the drilled section, reducing the yield and eye appeal of the field.

To his surprise, with less than a 30 bushel per acre yield, the 1,500 total bushels still generated \$24,000. Tim said "WOW!" and went out and bought a new pick-up truck.

rent conventions. Tim's strategy, organic farming, combines traditional respect for natural systems with current technologies to manage and support those systems.

Unlike the conventional farmer who attempts to feed the crop, organic farmers improve the quality of the soil to accept

"I ALWAYS STRIVE TO PRODUCE A QUALITY PRODUCT, BUT BUYERS WEREN'T WILLING TO PAY FOR IT. NOW I GET PAID FOR THE QUALITY."

A New Way to Farm, a New Way to Think

Within five years the whole farm was certified organic, and the crop rotation had been expanded to include small grains. Making that switch required a change in Tim's attitude as well as his farming practices.

The conventional model that most farmers follow relies on purchased inputs to support high production levels of a few commodity crops. The emphasis on a few agricultural products has created oversupplies and lower prices for those crops. With declining profit margins, many farmers need to get bigger, find off-farm employment to supplement farm income, or get out. Farmers and ranchers who have expanded acres to preserve their income level found that increased acres require more time and labor unless they buy inputs—fertilizers, pesticides and herbicides—to minimize their time in the fields.

Another way to stay on the farm is to think outside the cur-

and hold more water and nutrients, reducing the need for irrigation and fertilization. The focus is on conservation and enhancement of the soil and the life systems it supports. You could say the organic farmer's real crop is the soil.

Tim uses tillage to replace herbicides and manure instead of commercial fertilizer—time and equipment not required by conventional farmers. Because organic farmers invest more in time and labor than purchased inputs, organic farmers have fewer or lower out-of-pocket expenses to recover. The crop diversity that they incorporate to manage pests minimizes the risk of a crop failure since there are more than one or two crops.

Less Land + Intensive Management = Profits for Farmers and Benefits to Rural Communities

Higher prices paid per unit for organic grains and livestock means organic farmers can con-

tinue to make a living on fewer acres than the conventional farmer, keeping more farmers on the land and more families in rural communities. Those families tend to spend money right in their communities, contributing to a vital local economy.

The Cadas continue to plant 80-100 acres each of corn and soybeans. "That's enough to live on if the crops do well," says Tim. "If I make money on the remaining acres, that's just extra money in the bank and allows me to experiment with other crops and practices, focusing on improving the quality of the soil." Tim also diversifies the types of corn and beans varieties he plants, often two to three types of soybeans and two or more kinds of corn.

Organic farming does require more equipment and labor than conventional farming, which replaces labor with herbicides, but controlling weeds is expensive in either farming system. It's just a matter of where you choose to put your investments. Investments in labor or equipment stay in the local economy, rather than profiting a distant corporation.

Since Tim puts in about 500 hours a year in the tractor seat, it made economic sense for him to invest in a new tractor this year. He began his farming career with four-row equipment but is now using eight-row machines to cover the fields faster. Tim notes, "If all farmers in the country were 'organic,' the chemical dealers may suffer, but the equipment

dealers would surely prosper."

Says Tim, "A piece of tillage equipment may be expensive to buy, but that equipment will be around year after year for me to use. The farm chemicals the neighbors buy are usually gone after one season."

A Growing Market

Marketing has changed for the Cadas—for the better. Tim remembers trying to get a local

"WE SHOULD BE WORKING TOGETHER TO IMPROVE OUR RETURNS AND CUT EXPENSES."

feedlot to buy his conventional corn. "They found every reason in the book to dock me on price. I felt as if I was begging them to take it," he says. "Since switching to organic, the buyers call me and compete for my product." Growing organic makes it possible for Tim to sell for a premium, but the quality of his product makes customers more likely to come back year after year. "I always strive to produce a quality product, but buyers weren't willing to pay for it. Now I get paid for the quality," Tim states.

Organic food production is the fastest growing agricultural food sector in the world. It has grown by about 20 percent annually for the last nine years, while conventionally-grown grains have continued to lose value.

What Will the Neighbors Say?

As an organic farmer surrounded by conventional farmers, Tim

faces some unique challenges. One is the risk of contamination by spray and pollen from adjacent land. Tim explains the problem to his neighbors and asks them to "Keep your spray and pollen on your side of the fence. As long as you don't jeopardize what I'm doing on my farm, I don't care what you do on yours."

It is a challenge to manage with the least amount of field operations and still get the optimum weed control. "I now tolerate a few weeds to earn the organic premium," says Tim, although he thinks some

neighbors may have resented the organic caution signs (posted to ward off accidental spraying) because the Cada crops looked as good as the adjacent chemical-treated fields.

Tim recalls the time a hunter stopped to ask permission to hunt the neighboring CRP field. Tim couldn't grant permission because the land didn't belong to him, but he did tell the man that the field wasn't enrolled in CRP. It was a soybean field where the herbicide hadn't worked!

At first, the neighbors thought Tim was crazy for going organic. Not only did he take over his grandfather's farm, which limited their ability to expand, but now he was growing corn and beans without chemicals! Some said it was just plain stupid.

Now most neighbors accept and respect the way Tim farms and say, "He certainly works for the premium he gets."

Chart #2:

Organic v. Conventional Net Return/Acre

SOYBEANS

	CADA'S ORGANIC FARM	NEIGHBOR'S CONVENTIONAL FARM
Seed	\$20	\$22
Planting	6	6
Spray twice (includes product)		30
Disc	6	
Field cultivate		6
Rotary hoe twice x 4 each	8	
Cultivate twice x 6 each	12	6
Harvest	20	20
Hand weeding	13	
Total direct expenses	\$91	\$84
Yield (bu./acre)	30	38
Price/bu.	\$16	\$4.50
Gross return/acre	\$480	\$171
Total direct expenses	<\$91>	<\$84>
Net return/acre	\$389	\$87

CORN

Disc	6	
Field cultivate		6
Manure hauling	20	
Seed	25	25
Planting	6	6
Fertilizer		30
Crop chemicals		27
Rotary Hoeing (\$4 each)	8	
Cultivate (\$6/acre each)	12	6
Hand weeding	5	
Combining (harvest)	16	16
Total direct expenses	\$104	\$110
Yield (bu./acre)	136	154
Price/bu.	\$3.45	\$1.80
Gross receipts/acre	\$469	\$277
Total direct expenses	<\$104>	<\$110>
Net return/acre	\$365	\$167

In this comparison, the organic farm generated an average of \$377/acre compared to the conventional model at \$127/acre. A difference in profit of \$250/acre supports Tim's statement that the return from 200 acres (200 X \$377 = \$75,400) is enough for a family to live on.

That's the Story. Here's the Numbers.

The cropping patterns and costs associated with them are typical for Tim's operation. Some years the number of Tim's field practices change, depending on the weather and the previous crop. The prices are what Tim received in 2000, and are also typical, even though the farm suffered last year from drought conditions.

Organic yields are usually within 90 percent of conventional crops. Organic farmers often grow low yielding specialty crops to maximize prices.

For purposes of this study, we are using a semi-no-till farming system as a comparison. Chemicals replace tillage operations and the crop is sold at the local elevator. These figures reflect the production costs in Tim's region, according to numbers in the *2000 Nebraska Custom Rates* published by University of Nebraska-Lincoln (EC00-823-A), and correlate closely with the figures for conventional farming in the *Nebraska Farm/Ranch Business Management 2000 Annual Report*.

Government payments, land payments/rent, interest, buildings, hired labor or insurance expenses were not included in this comparison. When assigning costs we used the local custom rate, even though Tim and the conventional farmer contribute the labor and provide most of the machinery. Both include no charges for personal labor or hired labor because both are single-family operations.

Prices given here are for cleaned grain. The clean-out percent varies from year to year, but even poorer quality grain normally sells for more than double the conventional grain price. The organic price is normally contracted before harvest, and delivery is usually three to six months after harvest. No expenses were allotted to the conventional farm for hauling the grain out. Organic growers normally price their grain FOB the farm, so incur no transportation expenses.

More Than Profit

Like any comparison, these figures are a guide, not gospel. That said, the profit figures Tim provides make organic farming look very attractive. Tim embraces organic agriculture because of the philosophy as well as the profits. He sees organic agriculture as an alternative to the "cannibalism" in conventional agriculture, where farmers feed on each other to survive. "Instead," he says, "we should be working together to improve our returns and cut expenses."



A group of grass-based dairy farmers in southeastern Minnesota decide to set their price by marketing and distributing premium quality, specialty dairy products themselves.

Buttering Up Your Customers: Direct-Market Dairy Products Keep Profits on the Farm

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Taking Back the Profit

Dan and Muriel French are grass-based dairy farmers just south of Minneapolis and St. Paul, Minnesota. They began management-intensive grazing about 15 years ago to cut costs and improve profits. But, like most dairy farmers, they were prisoners of market price. They could cut their costs, but were stuck with the price.

And they had no control over that price. The pitfall of commodity prices is that as costs to the producer go down, the price of the commodity goes down, too. The average dairy farmer, it seems, can never get ahead. Even very efficient farmers watch their potential profits drive off the farm with the milk truck.

After years of talking about it, a group of six grass-based dairy farmers, including Dan, decided they would try to get around that market bias.

Instead of taking what was left of the profits after everyone else took their share out, they would take control of processing, distribution and marketing in order to keep more of that profit on the farm.

Unlike most current milk cooperatives, this group focuses on getting profits to the farmers rather than building equity for the organization. Although they're now a formal co-op with rules and bylaws, the six families that comprise PastureLand Farms still make decisions by consensus at their bi-weekly meetings. They're committed to that decision-making process, and feel that if they can't reach consensus about an issue, then it probably needs more discussion.

First Things First

The first step was to decide what the group wanted to produce and market. There is currently a successful niche market for organic milk, but that didn't seem feasible in this situation because fluid milk has a limited shelf life and processors have a 500-gallon minimum batch.

The group chose to start with cheese and butter. These easily movable and storable products have a long shelf life, which makes it easier to match supply to demand. PastureLand plans to add ice cream in the future, and will consider adding fluid milk as the co-op gets bigger.

Next, they needed to find processors able to make quality specialty products. Small dairy processors have been disappearing all over the country, but Minnesota has more than most states. They used the state business directory to find processors, calling around until they found good prospects—often through

PastureLand decided to focus on the high-end specialty market. The higher premiums are needed to pay the farm-gate price and cover operating and processing expenses.

But if they were going to ask for more money for their product, there had to be a real difference that would attract consumers to PastureLand products. The market for organics is growing, but they wanted to go beyond organic to pioneer the next step in quality food.

Grass is Better

The farmers found the answer right at home. Milk from ruminants that graze fresh grass is rich in conjugated linoleic acid (CLA), as much as five times as much as is found in the milk of grainfed animals. Research suggests CLA can reduce cancerous tumors (Ip, C, J.A. Scimeca, et al. (1994) "Conjugated linoleic acid. A powerful anti-carcinogen from animal fat sources," p. 1053.

**"THE BIGGEST PROBLEM MOST START-UP BUSINESSES
HAVE IS NOT FIGURING A LARGE ENOUGH PROFIT."**

leads from processors that were too small or busy for their needs.

Once they had a product and a processor, they were ready to start marketing. But why would consumers pick PastureLand's cheese and butter?

Standing Out in a Crowd

Recognizing they couldn't compete with generic and mainstream products on price,

Cancer 74 (3 suppl):1050-4.)

Other health benefits that may be associated with CLA consumption are decreased obesity and heart-attack rates. (For more information on CLA and the benefits of grass-based agriculture, go to www.eatwild.com, or read *Why Grassfed Is Best!* by Jo Robinson.)

The health benefits of CLA make PastureLand products

unique in a crowded specialty market. To enhance that difference, the group sought out specialty cheese and butter makers to give their product a unique taste. In addition to butter, they currently offer gouda, herb gouda, tomato-basil gouda, cheddar, and fresh cheddar curds, and anticipate adding more cheese varieties in coming months.

PastureLand's "Points of Difference" are emphasized on their brochure, packaging and promotional material:

- * The milk comes from family farms in southeastern Minnesota.
- * The farms are grass-based, which, in addition to providing a humane environment for their animals, prevents erosion and provides habitat for wildlife.
- * Their products are high in CLA and Omega-3 acids.
- * No growth or production-enhancing hormones, antibiotics, or medications are used in their herds.
- * Supplementary feed is free of GMO grain.

Additional research is underway investigating other human health benefits of dairy and meat products from grass-fed animals, but customers already tell Dan that there's something unique about PastureLand cheese. Customers with milk and cheese allergies are able to digest PastureLand cheese with no problems. Dan says, "There must be more things different about our product than we know now."

Now Just Find Some Customers

To spread the word, group members promote their product with brochures, in food co-op letters, and with press releases. They go to farmers markets, buying clubs, specialty stores, and health and nutrition meetings. Their products are listed on websites for natural food campaigners Sally Fallon's Weston A Price Foundation, westonaprice.org, and Jo Robinson's eatwild.com. Word of mouth is also a strong marketing tool.

Member farmers make deliveries to stores and buying clubs. Other direct marketers offer PastureLand cheeses and butter in order to expand their own product offerings—called piggyback sales.

Making the Numbers Work

Dan says, "The biggest problem most start-up businesses have is not figuring a large enough profit." A new business need to compensate for higher initial costs and a lack of the economy of scale enjoyed by established businesses.

Grants from the Minnesota Department of Agriculture and other organizations helped with start-up costs and organizational development. To fully capitalize the start-up phase in 1999, PastureLand's six dairy farmers received \$11 per hundredweight, which was the market price at the time. Milk prices have increased since 1999, but the cheese price has remained the same.

Since their milk was priced at \$15 per hundredweight, the \$4 difference was the investment

equity contributed by the farmers. Transportation and processing costs of about \$2 per hundredweight were added to the milk price, making the take-home price \$17 per hundredweight.

The farmers' contribution is smaller this year, and once the business gets going, the farmers' initial investment will be returned. Last year the group moved about three percent of its milk through the co-op, and the goal this year is 15 percent.

Every Silver Lining Has a Dark Cloud

Since the industry is moving to larger scale all the time, the cost to process small volumes is high. To get their milk to the processor, the group rents a truck that is capable of delivering 45,000 pounds of milk although they currently only deliver only 4,800 pounds, enough for one batch of cheese. The transportation costs are the same for a full or partial truckload of milk. The yield is about 500 pounds a week, which is processed, cut, wrapped and transported to the warehouse at the French farm.

Volume is also a problem for making butter. It takes about 23 pounds of milk to produce a pound of butter. The milk is taken to the cheese plant to be separated, and then the cream is transported to the butter plant. PastureLand currently can provide one truckload a week, the minimum amount of cream needed to make the churn work. That's only half the capacity of the churn, though, and their costs are higher per pound than if they

could provide enough cream to process a full batch.

Many processors don't even want to handle small volumes. After finding a processor that is willing to work with you, says Dan, a plant can merge or be bought out. You either have to find another processor, or re-educate the key people and management to keep production steady, and both options take a lot of time. It's a challenge to keep up with the dynamics of the industry.

Maintaining brand identity is critical in a specialty market, but packaging can be expensive. Small lots of packaging materials cost more to print than larger runs, and different packaging machines use different paper or film. PastureLand originally used plain paper to wrap its butter, but the farmers realized that it didn't make sense to ask premium prices for butter wrapped in generic paper. They spent nine

months developing their own packaging paper with their logo and marketing information on it.

Costs per pound will go down as volume increases. Dan figures the ideal size for the co-op is 25 farms, which will minimize many of the costs associated with low volume.

So You Wanna' Sell Cheese? (or butter, or beef, or...)

Dan says the first step in direct marketing any product is to evaluate your resources. Make sure you have the support system you need to get your product to market, and find a market that can bear the expenses you need covered. PastureLand entered the premium, high-end deli cheese market for just those reasons. Dan notes, "The milk price and generic cheese price fluctuate widely, but the deli cheese price is relatively constant."

Anyone starting this type of business needs to understand

that it is a long process that requires time, work, planning, and money. In the early stages it's a huge added workload. Besides managing your existing business (in Dan's case, his dairy farm), you also have to take on the marketing and delivery.

The success of this kind of enterprise is dependent on the people involved. Dan says, "It takes people with passion and vision to get something like this started, but without someone who can organize to minimize costs and fill orders, it is not going to succeed."

Dan and the other farmers used grant programs to get started, but he thinks others can start up with different funding sources. Thanks to this group, there will be a model to follow. Is this idea profitable? "It's too early to tell, but it feels real good!" says Dan.



"It takes people with passion and vision to get something like this started, but without someone who can organize to minimize costs & fill orders, it is not going to succeed."



An alternative product, alternative marketing and clear goals enable Larry, Rose and Monty Mason to come back to the home farm to take care of their parents, restore the prairie and build a profitable and growing agricultural enterprise.

Tarbox Hollow: A Home on the Range

This case study was prepared for the North Central Initiative for Small Farm Profitability by Martin Kleinschmit, Research Associate, Center for Rural Affairs. Written by Rebecca S. Kilde.

Additional information is available through the Center for Applied Rural Innovation and Food Processing Center, University of Nebraska, 58 H. C. Filley Hall, Lincoln, NE 68583-0947 or online at www.farmprofitability.org.

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Back to the Home Place

Larry and Monty Mason's parents needed more help as they grew older, and so Larry, his wife Rose and Monty all returned to the quarter section farm near Dixon, Nebraska, where they grew up.

The farm had 320 acres enrolled in CRP to provide income for the elder Masons, but that income wouldn't support the whole family. The CRP contract was about to expire, so the Masons began to explore their options.

Pioneers on a New Frontier

The obvious choice was to put the land back into crops.

But considering how unprofitable cropping had been, what it did to the land, the huge cost of buying equipment for crop production, and the fact that they didn't really like tractor driving all that much anyway, the Masons kept looking.

They wanted an enterprise that combined the resources available on the farm and their own passions. The Masons, who are very interested in reconstructing native prairie on their land, recognized that the farm's biggest resource is grass.

They discovered that buffalo could use that abundant grass to generate enough money to support the lifestyle they wanted. Buffalo are easy to care for and do a good job of utilizing even poor quality forage.

In addition, the consumer market for buffalo meat was emerging and showing signs of improving at a good rate.

But they still needed capital to get started.

Financing the Start:

A Buffalo in Sheep's Clothing

Raising buffalo was uncommon in Nebraska and few lenders knew much about it, so the Masons began their buffalo

rather cheaply. They sold some of their mature animals at premium prices before the end of the lucrative breeders market.

With their buffalo gaining in market value they didn't have

“IDENTIFYING YOUR RESOURCES IS THE MOST IMPORTANT THING A PERSON STARTING A NEW BUSINESS SHOULD DO. MAKING THE BEST USE OF THE RESOURCES YOU HAVE WILL MINIMIZE YOUR INVESTMENT AND CAPITALIZE ON YOUR ADVANTAGE.”

enterprise by feeding sheep—something that would cash flow and lenders understood. By repaying their initial loan on time or early, they built equity while cultivating a good relationship with their banker. After a couple of years of feeding sheep they approached the banker with figures and cash flow projections on raising buffalo. The banker went along with the plan.

The first year, 1993, they purchased 60 yearling female buffalo calves. Buffalo heifers don't breed until they're two years old, so after one year of feeding their investment had doubled its worth. They sold a few animals to make the bank payments but bred most of them, which further increased their value.

Fortune would have it that 1993 saw the beginning of a breeding market surge so they benefited from good timing. Since the Masons entered this market relatively early they were able to build animal inventory

much trouble financing the purchase of more animals and more land. The Masons purchased an additional 200 acres of CRP land in 1996 and rented 200 more acres in 1999.

There's More Than One Way to Sell a Buffalo

The Masons diversified their wholesale operation with services such as tours, buffalo hunts, a “cowboy shoot” timed pistol accuracy competition, and black powder shooting activities.

The tours featured an educational presentation followed by a wagon ride to the pasture. The buffalo were conditioned to recognize people as the source of range cake, a protein supplement for cattle, and a few could even be hand-fed. Visitors were encouraged to purchase souvenirs and packages of frozen buffalo meat.

The pistol and black powder shooting events were intended as outreach to the community and

didn't generate profit, but the tours supplied a big portion of their income. In 2000, the sixth year of the enterprise, over 4,000 visitors brought in \$20,000. But this year they ran into a snag.

Transforming a Roadblock...

New government regulations come into effect this year that apply to farms that give public tours, and have made it very difficult to continue tours at Tarbox Hollow. "The typical, one-size-fits-all mentality of the regulations do not fit the needs of buffalo," says Larry.

For example, obligatory health inspections necessitate running the animals through a working chute—a stressful process for any animal, but especially the free-roaming buffalo. They fight the enclosure, often to the point of self-injury. The Masons feel the process is one of the most dangerous for animals and humans alike, and should be used only when absolutely necessary.

The regulations, compounded with the threat of Foot and Mouth Disease, shut down the tours.

But how would the family compensate for the lost tour income?

...into a Short Detour on the Way to the Goal

While the tours did provide a major portion of the farm's income, they were also very time-consuming. The Masons always intended to cash flow their operation with meat sales, and it seemed like a good time to start.

Larry, Rose and Monty's active family partnership uses a consensus process to identify strategies

that fit their long-term goal. They worked out a plan to include education and more aggressive marketing to insure the success of the business.

The Masons' existing customer base is primarily people looking for a unique food. They will begin to promote lean and tasty buffalo meat as a regular item on the average consumer's grocery list as well, taking their product from specialty to mainstream markets.

They also plan to expand on another familiar specialty market: health-conscious consumers. They currently sell through a Natural Meat Co-op, and regularly supply two alternative medical institutions with fresh, unfrozen buffalo meat. Buffalo meat has a high level of conjugated linoleic acid (CLA), which some studies suggest fights cancer and reduces cholesterol. CLA is found only in animals that eat fresh grass.

The environmental benefit of raising buffalo on prairie is another strong selling point.

They'll get the word out locally by speaking to clubs and organizations, and actively seek out other marketing opportunities. To reach a broader audience, Tarbox Hollow has developed a web page (tarboxbuffalo.com) where browsers can see pictures of the farm, learn about the health benefits of eating buffalo meat, order meat packages, register for a buffalo hunt, and get directions to the farm. The site also gives links to related web resources.

Consumer education has benefits beyond simply increasing

current sales. False information is the specialty meat producer's biggest enemy, and education is the best tool to combat it. Most of the Mason's sales are directly to customers, and they believe that developing an educated consumer base will improve long-term customer loyalty as well as sales.

The "cowboy shoot" (a timed pistol accuracy competition) and black powder shooting activities will continue at Tarbox Hollow. The Masons enjoy providing a popular service—a location for shooting enthusiasts to enjoy their sport—at no charge. The increased traffic may have the added side effect of bringing in new sales.

The Bottom Line

What started with 60 yearlings on 160 acres is now 300 buffalo running on 700 acres, 200 of which are rented. Annual buffalo sales now include 50-60 head of breeding stock and 52 for meat. The buffalo hunts bring in another \$5,000 annually. There are no plans to increase the size of the herd, but the Masons do want to increase the volume of the buffalo meat sales.

Because expenses are minimal, the profit margin is 50 percent. They sell an animal for double what they have invested in it. Margins are high in part because they market directly, bypassing a middle-man and keeping more profit on the farm. They also sell most of the animal, including the skull, hide, and sometimes even the internal organs.

If the Masons sell the hide and other products as well as the

meat, they need to sell only 50 mature animals per year. A 1,000 pound animal will gross about \$2,500-3,000 with a net of about \$2,400. If the animals are calves (under one year) for the breeding or feeder market, they need to sell 125-150 annually. Typically buffalo breeding stock sells for about \$800 a head, similar to the price for beef calves.

Their primary expense is purchased winter feed for the buffalo, although Tarbox Hollow buffalo rack up about a 25 percent lower feed bill than cattle. Since feed is a major portion of either a beef or buffalo operation's fixed costs, this translates into a 25 to 30 percent savings over beef production.

The Masons don't raise winter-feed, because haying equipment is expensive to buy and it takes too much time and land. They figure they can buy the feed eight out of ten years for less than it would cost them to put it up themselves.

Adding to the profitability of the breed, a buffalo cow's productive life is much longer

than cattle. It is not unusual for a buffalo cow to produce calves for 20 years. The low culling rate allows buffalo producers to sell more female calves than the beef producer, who typically culls at eight to ten percent or more annually.

Other major expenses are land taxes and rent. The veterinary bill is usually insignificant.

Challenges

There is no local facility to process the animals. Larry says, "Buffalo harvest should be done under field conditions to minimize stress and lower injury. Most buffalo meat now is processed in North Dakota using animals that are fed in cattle-type feedlots."

Feedlot buffalo producers are the biggest competitors for the kind of grass-fed operation the Masons run. They have found allies in other grass-fed buffalo producers, and through the Nebraska State Buffalo Association the Masons learn new techniques and help direct public policy that could affect their operation.

There seems to be a relationship between the cattle and buffalo markets. Larry Mason thinks that when cattle producers get sick of low prices for cattle,

some switch to buffalo, driving up the price. As the cattle market recovers, cattlemen switch back to beef.

These Tools Travel Well

Although the Masons started this business only six years ago, they feel they have achieved their goals of caring for their parents and supporting themselves in Dixon County, Nebraska, and restoring a native prairie plant community on the farm. As Larry says, "We're able to support ourselves in the lifestyle we want."

Larry, Rose and Monty have capitalized on the unique resources of their particular location, but they have also recognized their unique human resources and talents. Rose does the bookkeeping, greets visitors, and gives presentations about the diversity of products available from the buffalo. Monty, who likes to write, takes care of much of the communications, press releases, and brochure editing. Larry is active in the Nebraska State Buffalo Association, and does public policy work. All three promote the farm through public speaking.

Even if you're not interested in buffalo production, the principles the Masons use to achieve their goal are sound for any new business. The first step is to identify your goal, and decide how to achieve it. Then do your homework. Learn as much as you can about your product before you start.

Larry says, "Identifying your resources is the most important thing a person starting a new business should do." He adds, "Making the best use of the resources you have will minimize your investment and capitalize on your advantage."



"We're able to support ourselves in the lifestyle we want."



Making a change from a conventional dairy to a management intensive grass-based one lets this Nebraska farmer run a profitable operation milking 90 cows. This manageably-sized farm provides a viable alternative to the large-scale confinement model.

Can Smaller Be Better?

A Comparison of Grass-Based and Conventional Dairy Farming

This case study was prepared for the North Central Initiative for Small Farm Profitability by Martin Kleinschmit, Sustainable Agriculture Specialist, Center for Rural Affairs. Written by Rebecca S. Kilde.

Additional information is available through the Center for Applied Rural Innovation and Food Processing Center, University of Nebraska, 58 H.C. Filley Hall, Lincoln NE 68583-0947 or online at www.farmprofitability.org.

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The Mike Wichman Dairy Farm

After 12 years of milking Mike Wichman was in a situation familiar to many dairy farmers. His old stanchion barn was run down and in need of repair. The continuously grazed native-grass pastures did fine when the grass was growing, but the cost of winter feed and grain diminished profits enough to prevent him from rebuilding. In 1985 he decided to participate in the federal government's Dairy Buyout Program, and quit the dairy business.

During the next seven years Mike read about managed grazing systems and followed the Holistic Management course guidelines for identifying resources, choosing landscapes and improving quality of life. (See the case "Summer Calving" for more details about Holistic Management.) What he read inspired him to try a seasonal, grass-based dairy system.

What Mike Left Behind

The conventional approach to dairying in the U.S. is a confinement system where the cows don't move much—they just eat and produce milk. Feed is processed and brought to the cattle. Facilities are built to protect the animals (and the farmers) from the elements, to harvest the milk, to process and deliver feed, and to catch and manage manure and other animal waste. Production per cow is maximized to offset the high investment.

University of Nebraska-Lincoln (UNL) animal science dairy specialists estimate this modern dairy model requires an investment of

\$3,000 per cow. Because of the small profit margins per cow, a herd size of 1,500 animals is considered the minimum today. That's up from 1,000 five years ago.

That low profit margin per cow also mandates high production per cow, and many animals are culled early in their milking career because of low or substandard milk production. Stress and disease also take their toll, making it necessary for many confinement systems to replace over a third of their animals each year.

“GOOD FOR THE ENVIRONMENT AS WELL AS THE COWS, A WELL-MANAGED SYSTEM OF CONTINUOUS GRASS PRODUCTION REDUCES EROSION, ENCOURAGES WATER INFILTRATION, BUILDS SOIL ORGANIC MATTER LEVELS, AND RECYCLES MANURE.”

The milk processing industry favors large confinement systems because they produce larger volumes of milk on a consistent basis.

Let the Cows Do Some of the Work

In a grass-based dairy the animals typically walk to the pasture, eat grass and walk back to the barn to be milked. The pasture is managed intensively by quickly rotating cows through small paddocks. This allows the grass to recover before the cows graze it again, increasing the quality and quantity of forage produced. The high quality forage replaces purchased feeds, and the cows become their own feed delivery system.

This model focuses on maximizing natural resources and profits

while making a minimum financial investment. Optimum, rather than maximum, production goals reduce the number of cows that need to be culled for low production or health reasons. Each cow's productive life is longer, which minimizes the number of replacements needed to maintain the herd. Excess heifers can be sold for two to three times as much as a mature culled cow.

Good for the environment as well as the cows, a well-managed system of continuous grass production reduces erosion, encourages water

infiltration, builds soil organic matter levels, and recycles manure.

Ideally, production should match natural cycles. Breeding, calving, milking and animal development are synchronized, which simplifies management. For instance, group calving facilitates herd replacements. Mistakes, however, can affect large groups of animals.

Grass doesn't grow year round in Nebraska, but cows don't give milk for 12 months either. Matching the cows' lactation period to the forage growth cycle takes advantage of high quality forage when it's available. Ideally, the cows are dry in the winter. This reduces feed costs and gives the farmer a break in the winter, but milk income isn't available to cover winter costs.

Surfing that Learning Curve

After the seven-year absence mandated by the Dairy Buyout Program, Mike purchased a 160-acre, light-soiled farm and re-entered the milking business. He converted an existing calving barn into a milk parlor, and installed a pivot irrigation system to maintain native grass production and quality.

He divided the farm into small paddocks with high tensile fences. White clover was frost seeded into the native grass to increase the energy of the forage, and nitrogen fertilizer was added to increase forage production.

Mike was one of a select few in his area using management intensive grazing for dairy. “There just isn’t a lot of help out there for the grass-based dairy farmer,” Mike notes, “We have to learn by ourselves or from each other, and we are a small group.” He was pretty high on the learning curve, and found himself with a high debt load that was keeping him from investing in the production end of the business. He sold the land and equipment to an investor and leased it back, giving him some working capital.

20/20 Hindsight

Mike is a pioneer in grass-based dairying. “I guess I am and I have made all the mistakes possible to prove it,” he responds.

Knowing what he knows after 15 years in this location, Mike would have picked land with better soil. He would prefer to have his operation located on sub-irrigated meadows instead of the sandy soil he now uses for grazing. The pivot, which is necessary for the light soils, costs too much to operate and maintain. And the extra fertilizer needed is not just expensive—it may be causing health and breeding problems for the herd.

The application of nitrogen fertilizer has caused a copper deficiency in his animals. The symptoms include lack of cycling and foot problems. Because of the breeding problems, Mike is milking year-round, but he now supplements copper and hopes to return to seasonal milking in the future.

“With a better soil base,” Mike notes, “I could avoid a lot of irrigation and fertilizer expenses.”

Cutting costs goes a long way to increase profits, but sufficient milk

production is also critical. Milk prices have rebounded, so Mike decided to invest the extra money to supplement with grain to increase milk production per cow, rather than increasing herd size.

Mike started with Holsteins, the standard of the confinement-dairy industry, but thinks other breeds of cattle are better suited for grazing. He’d recommend Jerseys or a Jersey/Holstein-cross. The crossbreeds are cheaper and produce more milk than purebred Jerseys.

Fine-tuning & Experimentation

Mike continues to explore options to increase his profit and improve his business. He plans to harvest all the winter feed for the cows instead of buying it. Getting the herd back to a spring calving period will also improve his profitability because more animals will be producing milk while the grass quality is at its prime. Growing calves out to sell them as yearlings or feeders, instead of selling them as newborns is too labor and time intensive right now, but is an option for the future.

Mike has experimented with different milking schedules. Earlier

“There just isn’t a lot of help out there for the grass-based dairy farmer. We have to learn by ourselves or from each other, and we are a small group.”



this spring he tried once-a-day milking, then switched to milking every 16 hours. He has returned to twice-a-day milking.

He'd like to get into a specialty market, and says, "I'm afraid that being small in an area with little competition for my milk, the processor will abandon us small producers for the sake of the larger herds. We need to be thinking of ways we can compete without adding large investments in cows to raise volume."

The Bottom Line

These 1999 figures provided in the table below are the latest numbers for comparison with a conventional operation from *Nebraska*

Farm and Ranch Business Management Annual Report.

With relatively high milk prices (\$13.96 per hundredweight) in 1999, the dairy operation was quite profitable for Mike.

This isn't a comprehensive outline of income and profit, but just gives an idea of how the operations differ.

Interest expense was not included because Mike leases his farm. Neither includes family labor or management

A couple of entries need some explanation. The calf and vet expense almost looks like a mistake, but Mike's expenses for vet services since he began his grass-based operation are practically nothing each year. Feeding expenses include purchased feed and

grain on the UNL side; Mike's side includes seed, fertilizer and irrigation expenses. Mike's hired labor and machine expenses covered help with feed production, while the UNL's entry covered help with milking.

While milk sales per cow were lower for Mike, his expenses were considerably lower. With about 90 cows on pasture, Mike's total milk production was 12,437 hundredweight at a cost of \$97,221, which works out to \$7.81 in costs per hundredweight. The conventional herd average listed in the *UNL Farm and Ranch Business Management Report* is \$13.73 per hundredweight. With production costs of almost \$6 less, Mike is better able to with-

stand a low-priced period than conventionally managed herds.

The most compelling numbers are the profits. The average for the UNL farms listed was \$3,136.61 per cow gross income, minus \$2,785.02 in expenses, for a total profit of \$351.59 per cow. Compare that with Mike's operation: \$2,192.82 gross income less \$1,086.26 in expenses, for a total of **\$1,112.56 profit per cow**. Mike grossed \$197,354 in 1999, with a net income of \$100,133.

These numbers reflect well on Mike's management, but also show that small-scale grass-based dairy farms can be more profitable than the current model of large-scale confinement operations.

Comparison of Managed Grazing with Confinement

	Mike's Operation (\$ per cow)	Confinement Operation (\$ per cow)
Income:		
Milk Sales	1,993.13	2,925.39
Calf & Cull Cow Sales	199.69	211.22
Total Income	\$ 2,192.82	\$ 3,136.61
Expenses:		
Feeding	664.37	1,238.23
Breeding, Calf & Vet	76.78	215.82
Utilities	26.28	95.39
Insurance	14.07	33.63
Hired Labor & Machine	93.96	229.69
Supplies	39.97	209.25
Power & Machinery	--	346.01
Building Repairs & Misc.	--	120.46
Land Charge (Rent/Taxes)	164.83	25.69
Depreciation (Mach. & Bldg)	--	270.85
Total Expenses	\$ 1,080.26	\$ 2,785.02
Profit Per Cow	\$ 1,112.56	\$ 351.59



A traditional cattle ranch operation in the Nebraska Sandhills changes its management practices from March calving to May/June calving. Matching the nutritional needs of the cattle to the forage available can cut production costs and improve profitability. Focus on long-term goals encourages creative solutions to management challenges.

Summer Calving: A Practice to Improve Profits

This case study was prepared for the North Central Initiative for Small Farm Profitability by Martin Kleinschmit, Research Associate, Center for Rural Affairs. Written by Rebecca S. Kilde.

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The Ravenscroft Ranch

In the Sandhills just west of Valentine, Nebraska, is John Ravenscroft's fourth generation, 30,000-acre cattle ranch. This ranch, with its rolling hills covered with grass, may look like many other ranches in the region, but it's different in ways that make it more profitable. It has fewer expenses and more cattle per acre.

John's father and grandfather purchased the farm in 1959. Prior to 1985, the Ravenscrofts operated their ranch like most ranches. They spent much of the summer putting up hay for winter feeding, and much of their time in the winter feeding that hay to the cows.

The Ravenscroft ranch hired as many as 12 summer laborers to put up hay for winter feed. In addition to that seasonal help, John and his brother, James, hired four full-time hands to care for and feed the pregnant cow herd, which calved in March.

The Ravenscrofts invested in haying technology in 1982 to reduce labor expenses, but 5,000-6,000 bales of hay, each weighing 1,600 pounds, were still harvested and fed to maintain the nutrition level of the herd through the winter. Despite the reductions in hired labor the ranch did well to break even in a good year, and lost as much as \$20,000 in a poor year.

Big Changes

In 1985 John and his brother and partner, James, joined the Holistic Management (see sidebar on page 24) group in western Nebraska. They joined the group to learn more about grass management, and hoped to improve how

they used the ranch's resources. At one training session, Holistic Management originator Allan Savory challenged them to match calving time to the natural growth cycle of the grass.

That idea radically changed the way the Ravenscrofts managed their ranch.

Because of the nutritional drain on a cow's body from calving and milk production, a high energy ration is critical for at least 30 days prior to calving.

Cows also need to be in good physical condition at the time of calving if they are expected to re-breed and calf again on their anniversary date. For these

Big Results

The plan worked. According to John, since 1986 "...things only improved." Hay requirements and workload dropped immediately and dramatically. The normal 4,000 ton hay requirement now dwindled to 1,000 tons. "Over the years we evolved to where we were working for the cows. Now the mature cows work for us. Cows find their own feed on the open range of the ranch [at a cost of only \$4/month]," John notes. Only once since 1986 have John's cows needed hay during the winter.

Moving to a later calving date saved a lot of money for the

"OVER THE YEARS WE EVOLVED TO WHERE WE WERE WORKING FOR THE COWS. NOW THE MATURE COWS WORK FOR US. COWS FIND THEIR OWN FEED ON THE OPEN RANGE."

reasons, the Ravenscrofts were investing a lot of money in high-quality feed for their pregnant cows all winter.

If the high-energy diet period coincides with the natural grass production period, nature can provide that high-quality feed at a lower price. In the commodity market, ranchers have very little control over prices, so those who incorporate cost-cutting practices can increase profits in a good marketing year and minimize losses in a poor marketing year.

The Ravenscrofts changed their calving schedule the following season.

Ravenscrofts, but good grass management is critical to the success of that breeding schedule. "Our grass management has to insure there is grass enough for them to eat," says John.

Management Adjustments

The switch to later calving came with other adjustments. The Ravenscrofts needed to do some major culling the first few years after converting to summer calving. Because the summer-freshened cows were now eating lush grass instead of stored hay, they produced more milk. Cows with poor udders soon developed problems and had to be culled. John

Holistic Management

Holistic Management is a decision-making process that is a practical framework for developing a clear, focused vision for your future, and enables you to plan how to get there in the most economically, environmentally and socially sound way.

After establishing a long-term, comprehensive set of goals, a process is established to monitor your progress toward those goals that considers all aspects of an operation—economic, environmental and social—and offers opportunities to adjust decisions or management practices to achieve the stated goals.

While applicable to a broad range of situations, Holistic Management is a valuable tool for farmers and ranchers who are interested in improving their bottom line while enhancing their quality of life and improving the environment.

To learn more about Holistic Management, contact:

The Allan Savory Center for
Holistic Management
1010 Tijeras NW
Albuquerque, NM 87102
(505) 842-5252
www.holisticmanagement.org



says the hay feeding probably allowed these weaker cows to go undetected before.

On a positive note, Dystocia (calving difficulties), is now almost non-existent at the Ravenscroft ranch. John credits culling, winter exercise and exposure to fresh grass for nearly eliminating this once-routine complication on the ranch.

John feels they have recaptured some of the natural abilities of the beef cow. Calving on the range makes the cows better mothers, in John's opinion. "They have the opportunity to have their calf with some privacy, which seems to make them bond better with the calf," he says.

Weaknesses still exist. Even though some of their 1,600 cows remain productive at 13-14 years of age, the Ravenscrofts learned that summer-born heifers have difficulty breeding back unless they have extra feed during the winter. Unwilling to change their winter feeding program, they now buy all their replacement cows from another ranch that still calves in March.

While calves born on fresh grass are significantly more healthy, some problems crop up. For example, the calves born in May have few problems with scours (diarrhea), but beginning in June calves need to be treated. John thinks the May calves' natural scouring creates too much exposure for the June calves to overcome naturally. Segregating the herd would probably eliminate much of the problem, but sorting the herd would be too much work, and keeping the herd as a unit fits the ranch's grazing plan. The

Ravenscrofts choose to treat the affected calves.

Finishing

The calves are usually weaned at 400-450 pounds in November or December. The younger end of the calf crop is combined with about 3,500 head of purchased spayed heifers, and fed a ration of hay, protein and corn through the winter. The calves gain about two pounds a day until spring, when they are put back on fresh grass and are sold as feeders in August-September.

Larger calves are also fed through the winter, but the Ravenscrofts retain ownership of these animals all the way to slaughter. The calves, weighing 600-700 pounds in May-June, are shipped to the feedlot as true yearlings and sold for slaughter in November.

The Economics of Innovation

The Ravenscrofts say they are more profitable since they switched to summer calving, which encourages better grass management and reduces costs. More intensive grass management cuts the winter feed costs because the cows have forage in the hills during the winter. John estimates savings of \$80 per cow: \$60 for winter feed, and \$20 in labor charges.

Intensive grass management also allows John and his sons to support more cattle per acre. Most ranches in the area need 12 acres per cow for summer pasture. Because John uses the hay meadows for summer grass, he is able to feed cows on an average of five acres each. The ranch grows enough grass for more

than 1,600 cows. More cows per acre producing calves with fewer expenses spells profits in the cattle industry.

Other advantages includes better early weight gains and the flexibility to time the sale of fat cattle in November, which is historically a higher priced market.

Since adopting the change in management, the ranch has made a profit every year for the last 16 years. At one point the ranch was debt-free. Profits bought another 12,000-acre ranch three years ago, allowing both John and James to own and operate a ranch with their immediate families.

John now manages the ranch with his three sons: one works with John, one is in college and

the other is in high school. John makes most management decisions alone, based on how they will affect his family, the ranch, the balance sheet and the environment. He realizes these decisions should be made more often at family meetings. John revisits his financial plan two to three times a year to make sure he is on track with his goals.

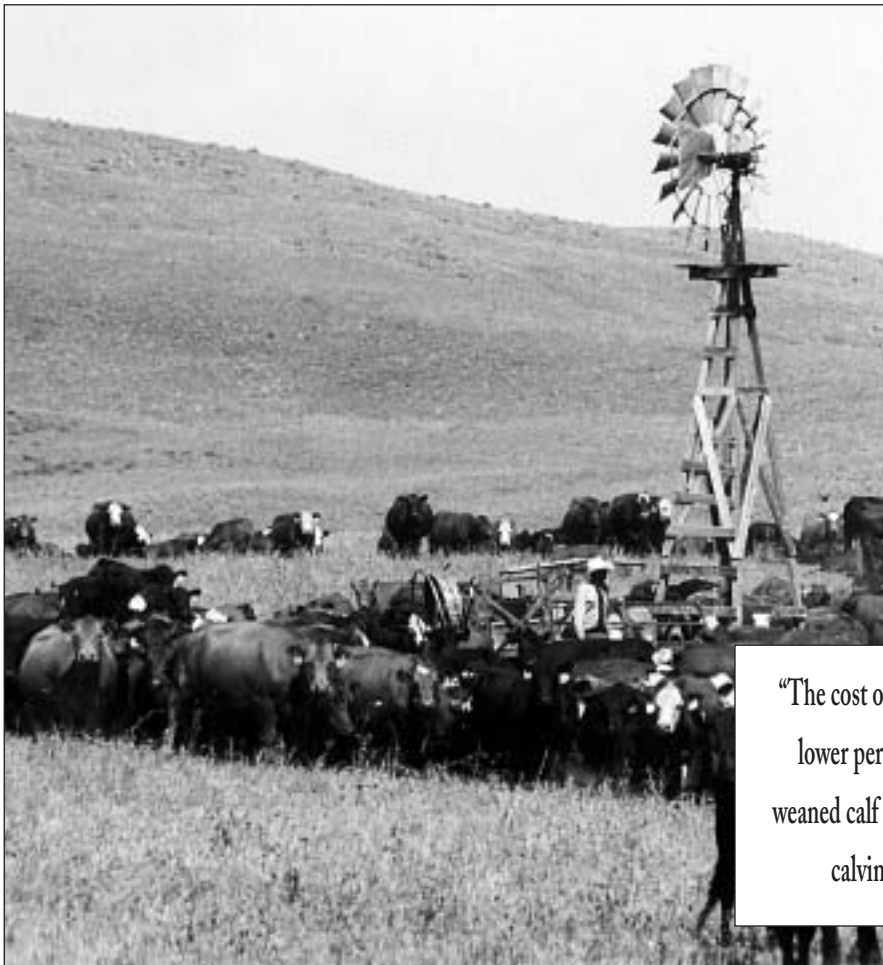
Looks Good on Paper, Too

Economic data from research comparing a March vs. a June calving herd done by the Gudmundsen Sandhills Laboratory in Whitman, Nebraska, supports John's experience. The four-year study, conducted by Dick Clark, University of Nebraska-Lincoln Agriculture

Economist, showed a June-born, weaned calf cost \$74-79 less. The study's findings, published in *Nebraska 2001 Beef Cattle Report*^{*}, attributed the cost reduction to hay and calving labor savings.

Some differences between John's operation and those in the study are due to variations in specific resources and experiences. For example, John decided on May as the principal calving season because he experienced difficulty getting the cows to rebreed on a June calving schedule. He feels the quality of the grass in September does not provide the nutrition his cows need to conceive.

The practices and logic John uses can fit most parts of the



* The UNL research is listed in the **Nebraska 2001 Beef Cattle Report** (publication number MP 76-A) is available through the UNL Cooperative Extension Institute of Agriculture and Natural Resources, University of Nebraska, 202 Ag Hall, Lincoln, NE 68583-0708. Research title: June versus March Calving for the Nebraska Sandhills: Economic Comparisons by Gordon Carriker, Dick Clark, Don Adams, and Russ Sandberg.

"The cost of producing a June-born weaned calf was \$74-79 lower per calf than the cost of producing a March-born weaned calf due to reduced harvested forage and feeding and calving labor expenses." -*Nebraska 2001 Beef Cattle Report*

country. Although the hills of western Nebraska are frequently covered with snow during the winter and early spring, the wind usually blows them clean enough for cattle to continue to graze the nutritional dormant warm season grasses. Locations without this option need to look for other feed stuffs, such as corn stover, stockpiled grass or windrowed hay.

The technologies of managed grazing and timely calving can be passed on to future generations and throughout communities at little or no cost. It also fits the formula for profitable ranching: $PRICE-COSTS=PROFIT$.

Looking to the Future

Thinking and planning differently is difficult to do alone. The

HRM group in the Sandhills provided positive peer support for John and James to abandon conventional logic and begin thinking creatively. They were able to look at their resources and design a system that fit those resources, rather than trying to make the ranch fit inappropriate or out-dated production standards. John and his family began to think more about what they wanted for the ranch, for themselves and for their community, and less about weaning weights and production goals. John says, "The biggest hang up (ranchers have) is weaning weight. Cost is more important."

These days, John is working to increase the herd. While more cows would spread the indirect costs of running the ranch over

more cattle, the initial investment of buying and raising calves uses up the extra feed and increases the financial risk to the family.

Cattle purchases can be adjusted to fit the feed resources and take advantage of variable profit margins in the cattle market. The purchased cattle help utilize grass and hay resources without locking the Ravenscrofts into feeding a specific number of cattle

The principle of matching the nutritional needs of the animal to grass production will continue to save money and boost profits. John said, "I'd have a hard time going back to the way things used to be."

"I'd have a hard time going back to the way things used to be."



Capital Transfer

Joy Johnson, Farm Transition Specialist and Land Link Realty Broker
Rural Opportunities and Stewardship Program, Center for Rural Affairs

Today's beginning farmers have the same vision, drive and fortitude that were the foundations of rural America during the last two centuries. They are faced with a different set of obstacles, however, and need to pioneer new approaches to start out in farming today.

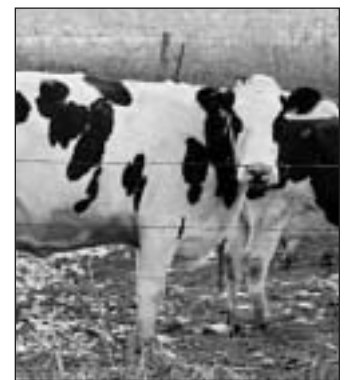
An array of financial strategies and instruments are available to facilitate farm transfer to beginning farmers, including:

- crop share rental agreements
- lease purchase arrangements
- tax credit programs
- cash financing,
- little or no down payment financing
- seller financing
- purchase of development rights
- aggie bond programs

Sole proprietorship, informal partnerships, and corporations are legal structures that can assist the transfer of assets.

As important as formal financial and legal agreements is the cooperation between the new and retiring farmers. Communication and relationship building are an essential part of completing a successful farm ownership transfer.

The following eight case studies demonstrate successful transfers of farm operations to nine beginning farmers from Iowa, Nebraska, New York, Pennsylvania and Wisconsin. The beginning farmers have anywhere from three to 10 years of farming experience. While their goals and the details of their individual agreements vary, they all have some common strategies and characteristics.





With a three-year plan, a ten-year plan and an informal partnership, Dave and Dan Bean are transferring their 1,800-acre, 120-cow farm operation to 30-year-old Mark Groth. Progressive purchases of equipment and cows, and 50-50 crop share rental arrangements are facilitating the transfer of assets.

Growing a Farmer: Passing on Assets and Experience

This case study was prepared for the North Central Initiative for Small Farm Profitability by Joy Johnson, Farm Transition Specialist and Land Link Realty Broker, Center for Rural Affairs. Written by Rebecca S. Kilde.

Additional information is available through the Center for Applied Rural Innovation and Food Processing Center, University of Nebraska, 58 H. C. Filley Hall, Lincoln, NE 68583-0947 or online at www.farmprofitability.org.

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Good Help Wanted

Dave and Dan Bean, brothers, ran a 1,800-acre, 120-cow farm in Garwin, Iowa. As they got older, they realized they wanted to divert some of their energies away from the farm to pursue missionary work, and needed someone to take over some of the farm's operation. They also wanted to maintain more control of the farm's stewardship than is customary with a cash rental arrangement. They started looking for someone to fit the bill.

Mark Groth had returned to the area after completing college. He had worked as an agronomist at the local elevator, but he really wanted to get into active farming. Dan and Dave liked what they saw of this intelligent 30 year old's work at the elevator, and decided this was the right man for the job. They presented him with a plan.

Planning for Success

The brothers carefully developed three-year and 10-year plans that would transfer equipment and livestock to Mark. The percentage of the business that Mark can own is tied to the percentage of crop ground that Mark farms. Labor is shared. Input costs are paid cooperatively for all acres farmed, and crops are marketed cooperatively as well. The plans, and later the strategies to achieve the goals of the partnership, are written out so that expectations and responsibilities are clearly understood.

How did it Work?

During the first year Mark rented 300 of the 1,800 acres owned by Dave and Dan on a 50-50 basis, and rented equipment from Dan and Dave. That 300 acres is 16

percent of the total number of acres Mark and the brothers farmed collectively.

The second year Mark was required to purchase 15 percent of the equipment owned by the brothers through a chapter S corporation. He purchased the equipment rather than shares of the corporation. The bank required that they identify at least one piece of machinery to use as security on this initial investment. He also bought 18 stock cows, which is 15 percent of the 120-animal total. Those percentages are based on the 15 percent of total acres Mark farmed in the previous year.

The third year Mark purchased an additional five percent of both stock cows and equipment, which gave him 20 percent ownership in the farm operation. That year he also rented 22 percent of the total crop acres.

Fostering a Bright Future

Dave and Dan are committed to improving Mark's management skills, and have given him responsibility for purchases and marketing. Mark develops a plan each fall for marketing the crops, using a combination of strategies: grain is sold out of the field or using forward contracts, or is stored until a target price is available on the cash market. Both types of management decisions are presented to Dave and Dan during business meetings for a consensus before being employed.

Formal meetings were established from the beginning. During the first six months they met monthly. Mark states, "Dave and Dan were up-front on what they liked and didn't like," and adds

that, "they were probably more patient with me than with their own kids." They continue to meet formally twice a year after sharing supper. Dan takes notes and shares written copies with both Dave and Mark.

This regular communication has established an honest and constructive communication style, which is a strong foundation for a sound business. Mark places a great deal of value on that business relationship, as well as the informal relationship that has been so helpful in making this a successful transition.

Opportunities to increase profits

The plans are flexible enough to allow Mark to increase his own income. Mark has purchased bottle calves for the last two years, and last year he farmed an additional 140 acres nearby, rented from another farmer, and used the operation's equipment to do the work. He is exploring adding custom spraying next year.

Best of Both Worlds

This arrangement provides Mark with an income and the opportunity to build and expand a business. He's the youngest farmer in the county, and says he may be looking for a partner down the line.

Dan can take extended time away from the farm to pursue missionary work in Kenya, Africa, throughout the year. Dave is able to focus on missionary work closer to home during the winter months. The rental agreement allows risk to be shared while Dan and Dave still retain significant control of stewardship practices.



Trudy and Ronald Buxenbaum pass on their farm, a dairy operation with 180 tillable acres in New York's Cayuga County, to daughter and son-in-law Amy and Terry Torea. An informal purchase agreement, spread out over 15 years, transfers cattle, equipment and land to the next generation.

Going Home: Taking Over the Family Farm

This case study was prepared for the North Central Initiative for Small Farm Profitability by Joy Johnson, Farm Transition Specialist and Land Link Realty Broker, Center for Rural Affairs. Written by Rebecca S. Kilde.

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There's No Place Like Home

Amy and Terry Torea wanted to move back to Amy's home farm to raise their children. The quality of life in that rural setting was a major motivation for them to make the move.

When Amy told her parents, Trudy and Ronald Buxenbaum, that they wanted to take over the family farm, Trudy and Ronald were happy to welcome them home. The younger couple's farming backgrounds gave them a step up starting out, and the Buxenbaums were ready to help. Amy's siblings were also supportive of the move.

Fulfilling their long-time dream, Amy and Terry moved to Cayuga County, New York, in 1990 to raise their family and begin farming. They started the purchase agreement in 1991.

Turning Over the Reins

The older couple turned the reins of the farm over to the young family with an informal agreement to purchase the cattle during the first five years, followed by the equipment in the next five years. An independent appraiser established the value of both the cows and the equipment prior to the purchases. The Buxenbaums financed the sales.

The final five-year phase, buying the land, will begin in 2001, the tenth year of the agreement. The amount is based on an appraised sale price, and they plan to finance this with a seller contract as well.

How it Worked

During the first year the dairy was completely run by the

younger couple. From the start, all dairy expenses were theirs and have been covered with income from the milk.

They overcame a challenge that first year when the local cheese processor, which had been purchasing the Torea's milk, went out of business. They successfully

dusting and providing flight instruction services with a small plane that he owns. Trudy continues to teach school on a regular basis and helps out on the farm by caring for her grandchildren when Amy's attention is needed elsewhere.

Amy and Terry's current debt-

“THE QUALITY OF LIFE IN THAT RURAL SETTING WAS A MAJOR MOTIVATION FOR THEM TO MAKE THE MOVE.”

found a new processor, and were back on track.

Ronald provided mentoring on a limited, on-call basis in the beginning. He remained active in the crop production during the first two years, providing up to half of the labor while Terry concentrated on animal husbandry.

There have been only minor changes in the farm operation so far. The Torea's invested in a few additional pieces of equipment and have plans to expand the number of acres used for grazing.

Financially Speaking

Farm income to the older couple is from wheat and oat sales on a cropshare basis, and cash rent on the corn and alfalfa acres. The older couple also receives regular income from cattle sales, and charges enough rent on the facilities to cover taxes and insurance on the farm. Amy and Terry reimburse the Buxenbaums for expenses related to crops and equipment repair.

Lately, Ronald has shifted his energy from farming to crop

to-asset ratio, as well as other financial indicators, place them in the top level of farm operations. That's about to change as they move ahead with the land purchase. Maintaining low operating expenses would be a fiscal strength for the young couple during that transition.

In addition, successfully implementing their plans to increase grazing could minimize expenses even more. (For more detailed descriptions of grazing operations, see the case study *Can Smaller Be Better?* on page 18 of this publication.)

Amy and Terry Torea are making great strides in building their dairy farm.

Chart #4: Small Family Farm U.S. Averages (1998)

	low sales	high sales	limited resource
Net worth (in dollars)	522,151	654,547	66,838
Solvency—debt to asset ratio	6.8%	15.2%	12.2%
Asset turnover ratio	0.07%	0.22%	0.13%
Operating expense ratio	0.97%	0.77%	1.34%

Chart #5: Amy & Terry Torea financial information for comparison

	2001	2000	1999	1998
Net worth (in dollars)	288,900	278,900	261,900	251,900
Solvency—debt to asset ratio		3%	7%	11%
Asset turnover ratio		44%	46%	38%
Operating expense ratio		67%	67%	7%

Amy and Terry Torea are making great strides in building their dairy farm. Currently their debt to asset, and other ratios fall into the top level of farm operations. However, that picture is on the verge of changing as they follow through with their plans to purchase the farm real estate. Their strength will remain with the operating expense ratio with possible improvements within this area should their vision of improving grazing methods.



Two brothers rent 620 acres from their father and uncle through a combination of crop share and cash rent arrangements, with a goal of taking over and expanding the farm over time. Cash-based financing and the generational transfer of land, livestock and equipment are the strategies used to make this transfer possible.

Generational Transfer: A Tale of Four Brothers

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Farming Runs in This Family

The 620-acre Nelsen farm is nestled in the Loess Hills of northeast Nebraska. Scott and Wally Nelsen maintain about 140 acres of pasture, 40 acres of hay and 30 acres of oats. The remaining acres are in a corn and soybean rotation. The crop and livestock diversity of this farm remains typical of the area, although a few larger operators limit themselves to a corn and soybean rotation.

For many years, Scott and Wally's father and uncle ran a successful farm on this land. The partnership between the two younger men emulates their father and uncle's long-time relationship, a successful model for them to follow. Their father retired in 1995. Their uncle John David currently works primarily off the farm, although he continues to maintain a small piece of land which he hires Scott and Wally to custom farm.

Scott and Wally's younger brother is not involved in the farm, but lives nearby. He has expressed an interest in farming, but all agree that the income available from current acreage wouldn't be sufficient to include him in the farm operation. He is pursuing another occupation, at least for now. John David has a son and a daughter, both living in the area. They are not involved in agriculture.

Getting Ready to Succeed

These days, many parents are discouraging their children from coming back to the farm.

Scott and Wally's parents are an exception. Since the boys were

young their parents clearly outlined their requirements and expectations for them. The priority was for Scott and Wally to have the education, financing and skills to be successful.

Education beyond high school was expected, and would give them the skills to be either good farm managers or to support themselves with another profession. Mr. and Mrs. Nelsen also felt that it was important for Scott and Wally to experience life away from the farm to help them

transfer. Both agree that having a mentor like their father is important, and have adopted his philosophy of working hard and avoiding debt. When their father retired they missed some of the direction he brought to the table. Scott smiles as he says, "Dad still offers advice now and then, that we sometimes do and sometimes don't follow."

The Specifics

The older generation's working relationship is the model for the

**"THE PRIORITY WAS FOR SCOTT AND WALLY
TO HAVE THE EDUCATION, FINANCING AND SKILLS
TO BE SUCCESSFUL."**

decide if they really wanted to pursue farming as a career.

Scott and Wally began developing strong farming skills early. They set their goals for farming and began raising some hogs in high school, and pitched in at the home farm.

They both worked at area farms and used wages to begin investing in livestock and building equity in their farm. Profits from their livestock also helped put them through college. The children were encouraged to make as much of an investment in themselves as their parents made in them.

Making the Move

Scott and Wally have been sharing the operation of the farm since 1995, and there's no set time-frame to complete the

younger's. An informal partnership has been established that includes a combination of clear, simple and straightforward arrangements.

Part 1. 300 acres owned by their father are rented on a 50/50 crop share basis. In other words, the younger partnership splits expenses and income 50/50 with their father. The remaining 50 percent of total income and expenses are split evenly between the two brothers.

Part 2. 120 acres owned jointly by their father and uncle are rented on a cash basis, and the rent is split 50/50 between the older generation. The income from this parcel is split 50/50 between Scott and Wally.

Part 3. 160 acres owned jointly by their father and uncle are rented on a combination of crop share and cash. Uncle John David receives cash rent for his ownership, while their father accepts a 60/40 crop share for his ownership interest.

Part 4. Scott and Wally custom plant and harvest 100 acres for their uncle.

Part 5. Their father owns approximately two-thirds of the cows that are leased to the partnership, with the calf income split 60/40. The boys split the 60 percent and dad gets 40 percent.

Part 6. Facilities for the hog operation and cattle working facilities are rented from their father on a cash basis.

While there are numerous arrangements, they have provided both flexibility and income. Scott and Wally both agreed the arrangements have helped when cash was running short.

A Look at the Numbers

The operating expense ratio, which is determined by dividing total cash operating expenses by gross cash farm income, is within reasonable limits compared to the national average for farms with low sales. The lower the number,

the better for operating expense ratios, but with ratios in the 80 to 90 percent range these brothers are certainly competitive with larger more experienced farmers. Low hog prices in late 1998 and 1999 made it difficult to build net worth. Despite low income, they are managing to make some progress.

Turning a Corner

Last year Scott and Wally began the process of purchasing their own equipment through a unique partnership arrangement. When equipment is replaced, the older implement will be traded in—in this case, it was a tractor.

Chart #6: Small Family Farm U.S. Averages (1998)

	low sales	high sales	limited resource
Net worth (in dollars)	522,151	654,547	66,838
Solvency—debt to asset ratio	6.8%	15.2%	12.2%
Asset turnover ratio	0.07%	0.22%	0.13%
Operating expense ratio	0.97%	0.77%	1.34%

Chart #7: Scott Nelson

	2001	2000	1999	1998
Net worth (in dollars)	136,120	136,120		
Solvency—debt to asset ratio	16%	16%		
Asset turnover ratio		34%	263%	
Operating expense ratio		93%	74%	87%

Chart #8: Wally Nelson

	2001	2000	1999	1998
Net worth	137,029	137,029		
Solvency—debt to asset ratio	14%	14%		
Asset turnover ratio		36%	263%	
Operating expense ratio		92%	87%	86%

Scott and Wally used savings to purchase the new implement, and paid their father the trade-in value stated by the implement dealer.

This arrangement has its pros and cons. On the pro side, Scott and Wally's cash outlay is minimized and stretched out over time, which allows them to save and prepare for large purchases. On the con side, they are acquiring older equipment that will require more frequent repair and maintenance, or early replacement—whether the bank account is ready or not.

Exploring Options for the Future

Scott and Wally want to expand the operation by another 320 acres within five years. One

hundred and sixty acres owned by their father will come out of CRP in five years and will help them meet their expansion goal. While they look forward to the loan deficiency payments associated with this additional acreage, they don't depend on them in their cash flow projections.

Where marketing is concerned, Wally explained that they feel a need to stay flexible with their plans and be proactive whenever possible. As an example, he talked about the time hog prices were 11 cents per pound on the open market. They made a few calls and let people know that they would sell market hogs at \$75 a head.

They were amazed at the number of people who were willing to

drive out to the farm and slaughter their own hogs. The brothers were able to more than double their earnings per animal, and in the process learned a lot about the preferences of different ethnic groups.

After the market rebounded, people wanting more hogs called Scott and Wally, but they were unwilling to pay the market rate. While it probably won't be possible to double the market price often, it sure helped in that case.

With hard work, time and persistence, they plan to double the farm's current size. With support and flexibility from their family and an eye to their goals, they have a good chance of making it.



“WITH HARD WORK, TIME AND PERSISTENCE, THEY PLAN TO DOUBLE THE FARM'S CURRENT SIZE. WITH SUPPORT AND FLEXIBILITY FROM THEIR FAMILY AND AN EYE TO THEIR GOALS, THEY HAVE A GOOD CHANCE OF MAKING IT.”



A unique sale agreement takes advantage of two new programs available in Pennsylvania to provide a manageable purchase price for the buyers and an equitable return for the sellers.

A Farm for the Future: Using Innovative Programs to Pass on the Farm

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A Return to Farming

Patty Huff grew up on a dairy farm in Chester County, Pennsylvania. Although she left the area for a number of years, she maintained ownership of some 4-H dairy cattle with help from her former neighbors, who cared for the animals at their farm.

Patty and her husband, Brian, decided to move from New Jersey to Pennsylvania in 1992. They rented a dairy farm on a turn key lease that included the real estate and equipment. The equipment turned out to be inadequate, and the situation was aggravated by a poor relationship with the owners. "We couldn't get out of there fast enough," says Brian.

While on that farm, the Huffs used USDA Farm Service Agency (FSA) financing for operating expenses. The good relationship they cultivated with the FSA allowed them to move and invest in equipment on a larger dairy.

They ended up taking over a dairy operation from a farmer facing foreclosure, which turned out well for everyone involved.

The Huff's rent payments allowed the owners to make good on outstanding loans, and the stable arrangement allowed Brian and Patty to build equity in cows and equipment while working the farm for the next seven years.

Making Connections

Back in 1992 Patty won a dairy cattle show. Suzanne and George Lamborn saw an article about the event, which mentioned Patty and Brian's interest in getting into farming in the area. Suzanne and George have kids Patty's age, and remembered her as a teenager.

The Lamborns offered to rent their farm, which they had run from 1965-90, to the Huffs. The Huffs decided to decline that offer, but they kept in touch.

In 1999, the Lamborns decided to sell their farm. They had learned about the Pennsylvania Bureau of Farmland Protection program (see box below) that would allow them to get the development value from their land and at the same time ensure that it would continue to be farmed. The Lamborns' three children don't farm, and only one was interested in building on the site. Their current tenants weren't interested in buying the farm. The Lamborns called the Huffs.

Weighing the Options

Brian and Patty carefully weighed their options with the Lamborns' purchase offer. This was an opportunity to finally own their own farm, but the 155 acres with its 32-tie stall barn, was half the size of the one they were currently renting. Despite that, the Huffs decided it would be a good move for them if they could arrange the financing.

The Details of the Deal

Using a mix of farmland protection programs available in Pennsylvania, the Lamborns were able to sell their farm to the Huffs at its farmland value, considerably less than its development value. They figured the selling price by using the appraised value of the land for development, established by the Chester County Agricultural Preserve Board, less the development rights purchase price received from the Pennsylvania Bureau of Farmland Protection program (see box below). The Lamborns financed the remaining amount—the farmland value—on a contract for deed to the Huffs.

With the equity the Huffs had gained over the last eight years in their cows and equipment they secured financing from the Farm Service Agency. This financing allowed them to expand the milking facility from 32 head to 72 head, add a six-month manure storage facility, build a silo and complete soil conservation measures including new stream-bank fencing.

The Huffs also participated in

Farmland Protection Programs

For more information about **Pennsylvania's Bureau of Farmland Protection**, go to their website:

http://sites.state.pa.us/PA_Exec/Agriculture/bureaus/farmland_protection/ or contact the Pennsylvania Department of Agriculture, 2301 North Cameron Street, Harrisburg, PA 17110-9408; telephone 717-787-4737.

Nationally, two organizations provide in-depth information regarding farmland and conservation trusts for saving open space and farmland. **The Land Trust Alliance** can be reached at 1331 H St. NW, Suite 400, Washington, DC 20005-4734; telephone 202-638-4730; website at www.lta.org. Find the **American Farmland Trust** at 120018th St. NW, Suite 800, Washington, DC 20036; telephone 202-331-7300; or go to www.farmland.org.

the aggie bond program available in Pennsylvania, which provided an additional return on the interest to the Lamborns. (See the sidebar at right.)

A Manageable Financial Challenge

Brian and Patty share responsibilities on the farm, with Patty providing a major portion of the herd management. Her background and experience as a licensed veterinary technician helps them maintain a quality herd on a tight budget.

Average figures for small farms in the U.S.* indicate that the Huff's net worth, slightly under \$297,000, is between the "limited resource" and "low sales" categories. Their solvency has fluctuated in the last few years, moving from a 25 percent debt to asset ratio in 1998 (prior to their land purchase), to 64 percent in 2001.

Their budget is tight, but the Huffs are able to make their payments, although there isn't room for much else. They try to keep their long-term goals in mind, and keep their perspective by frequently reminding themselves of "how much debt we are paying off."

This arrangement has been so successful that the Lamborns are looking at investing in additional farmland to help another young farm family get a start.

* based on the USDA Economic Research Service's *Structural and Financial Characteristics of U.S. Farms: 2001 Family Farm Report* (ERS Ag Information Bulletin #768 dated May 2001)

Aggie Bonds

Beginning Farmer Loan Programs

Beginning farmer loans are financed by participating lending institutions or contract sellers with the issuance of federal tax-exempt bonds offered by state authorities. Interest received on contract sales or direct loans by individuals is also exempt from state income taxes in most states.

Aggie bonds provide an effective means for state and federal government and industry partnerships to maximize government funds in order to help first-time farmers purchase land, farm equipment, farm buildings and breeding livestock. The bonds offer limited tax incentives, and local lending institutions still make credit decisions and determine levels of financial risk.

The tax-exempt interest income earned by lenders and contract sellers enables them to charge borrowers a lower interest rate. Beginning farmer loans typically carry interest rates from one to four percentage points below market rates.

Under federal law enacted in August 1996, these beginning farmer loans can be used for transactions between parents, grandparents and siblings. Such transactions can only be financed through third-party lenders, because Internal Revenue Service rules prohibit this type of contract sale between close relatives.

To find out if your state has a program contact your state's Department of Agriculture, or call Joy Johnson at the Center for Rural Affairs (402) 846-5428.





Martin Schmidt uses a series of rental agreements to transfer his farm to 25-year-old Ryan Malcom, of Minden, Nebraska. The Schmidt property, augmented by another 80 acres at another location, complements Ryan's investment in cattle.

A Good Start: Investing in a Beginning Farmer

This case study was prepared for the North Central Initiative for Small Farm Profitability by Joy Johnson, Farm Transition Specialist and Land Link Realty Broker, Center for Rural Affairs. Written by Rebecca S. Kilde.

Additional information is available through the Center for Applied Rural Innovation and Food Processing Center, University of Nebraska, 58 H. C. Filley Hall, Lincoln, NE 68583-0947 or online at www.farmprofitability.org.

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Good Work and Enthusiasm a Selling Combination

In 1997 Ryan Malcom met Martin Schmidt. “Ryan helped lay irrigation pipe one summer and, unbeknownst to him, he was selling himself to us,” says Martin. Ryan shared his desire to farm and demonstrated a remarkable enthusiasm for the occupation.

Martin was so impressed by the combination of good work and enthusiasm that he initiated a transfer deal. That has led to a series of one-year lease agreements on 230 acres to Ryan, and most recently renewed as a three-year lease agreement. The three-year lease allows Schmidt an opportunity to begin slowing down, and also gives him time to assess Ryan’s abilities before renting him the entire farm.

Martin knew that Ryan would be able to access equipment from his father’s operation during this initial phase. Ryan’s father is also

helping Ryan build assets by allowing him to invest in 20 percent of the cattle finished on their farm each year. Ryan and his father also began a small cow-calf operation in 2000, consisting of 43 head. Ryan owns 20 percent of that venture as well.

Building on a Good Thing

In 2000 Martin rented another 170 acres to Ryan, and plans to rent the remaining 200 acres to him in 2002. Ryan is investing in one or two pieces of equipment each year, filling the gaps with his father’s equipment. After 2002, Ryan will begin to rent and/or purchase various pieces of farm equipment from Martin. This will allow him to build a line of equipment independent of his father.

Maximizing Resources

Ryan Malcom had heard something about the Nebraska Beginning Farmer Tax Credit program

(see page 44), a program designed to help beginning farmers get started. During the fall of 2000, he asked his accountant to find out more. Ryan says, “She took it from there and got the forms.” They completed the application forms and became the first in the state to receive the credit. Ryan plans to continue to use the tax credit program on the new land rented and on any equipment he rents from Martin.

Fiscally Speaking

Like most new businesses, Ryan’s financial status is in an initial state of flux. This should be taken into consideration when reviewing the comparison below.

While the asset turnover ratio appears outstanding when looking at that measure alone, this can be somewhat misleading. Ryan’s is a cash-grain and cattle-feeding operation. Any farm that includes a cow/calf operation requiring more than six

Chart #9: Small Family Farm U.S. Averages (1998)

	low sales	high sales	limited resource
Net worth (in dollars)	522,151	654,547	66,838
Solvency—debt to asset ratio	6.8%	15.2%	12.2%
Asset turnover ratio	0.07%	0.22%	0.13%
Operating expense ratio	0.97%	0.77%	1.34%

Chart #10: Ryan Malcolm’s Operation

	2001	2000	1999	1998
Solvency—debt to asset ratio	41%	2%	0%	
Asset turnover ratio		177%	263%	
Operating expense ratio		101%	89%	86%

months to realize a sale would have a lower asset turnover but an increased net worth.

Depressed grain markets might make it a challenge for Ryan to build equity while maintaining cash flow, but a low debt to asset ratio minimizes interest expenses and provides a credit “cushion” if more loans are needed.

A sound financial and business plan are essential during the start-up phase of a business, and help make a good case when looking for credit or investors.

As Ryan begins to increase his crop acres, he’ll become more independent of his father. The support that Ryan is receiving from his parents now, with the

shared use of equipment, will provide him stability to make this operation work on into the future.

Nebraska’s Beginning Farmer Tax Credit Program

The Beginning Farmer Tax Credit Act was passed by the Nebraska Legislature and approved by the Governor of Nebraska on May 26, 1999. This act developed a program to encourage present farmers and ranchers to offer beginning farmers and ranchers the needed support to start out in the industry.

When the owner of agricultural assets—such as land, facilities, machinery or livestock—rents or leases an asset for three years to a beginning farmer or rancher, the owner is eligible for a tax credit. The rental arrangement is flexible, and can include cash rent, sharecrop or livestock shares. Beginning January 1, 2001, owners receive a refundable tax credit equal to five percent of the amount of rent received each year, for three years, on each rented asset.





A five-year buyout plan for livestock and a long-term land lease are two of the tools used to accomplish this intergenerational transfer. Bob Warrick and beginner Todd Stewart also used a transitional employment arrangement to make it possible for both to reach their personal goals.

Locally Grown: Neighbors Working Together

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The Answer Was Right Down the Road

Todd Stewart had a goal. He wanted to own a ranch or farm, with an emphasis on cattle. After spending time as an agricultural instructor, he took the plunge. He began by farming part-time and working at the local co-op.

He was faced with losing the results of all his hard work, though, when his landlord passed away. Like many beginning farmers, Todd assumed that the only way to get into farming was to rent the land and facilities and buy equipment and livestock. With the death of his landlord, Todd realized he needed to find a different approach.

At the same time, Bob Warrick, who farmed the land that his family homesteaded in the nineteenth century, was dealing with some health issues and began considering options for his retirement. He really wanted to pass on his farm operation to a family farmer who shared his passion for the environment—a person who would appreciate and continue his careful stewardship of the land.

Both Todd and Bob contacted the Center for Rural Affairs' Land Link program, a program that brings together retiring farmers and beginning farmers.

Although Todd and Bob were neighbors, they didn't know that they each had what the other needed. Todd wanted access to land and facilities. Bob wanted labor and someone capable of buying him out within five years. Bob was willing to serve as a mentor to someone wanting guidance. Once they had talked and realized how well their plans and

ideals dovetailed, they moved quickly into the transfer process. Todd says, "All it took was two willing people."

Trading Places

To meet Bob's five-year timetable, and provide an income for Todd during the transitional phase, Bob employed Todd full-time for the first year. This provided the additional labor that Bob needed, and provided a chance to set up a baseline for income flow to set the stage for the second year.

In the first year the pair also entered into a written five-year lease/purchase agreement on the

purchased another one-fifth share of the cattle. He'll purchase the rest of the cattle in the fifth year, along with some of the equipment. They used the best equipment from both operations during the first three years, and plan to sell duplicate machinery near the end of the fifth year. They purchased a hay processor together during the third year.

Now in the fourth year of the transfer, Bob is retired, but still likes to help out occasionally. The transfer is running smoothly for both men.

Timing and Finances

Just prior to this arrangement

“ONCE BOB AND TODD REALIZED THEIR IDEALS DOVETAILED, THEY MOVED QUICKLY INTO THE TRANSFER PROCESS. TODD SAYS, ‘ALL IT TOOK WAS TWO WILLING PEOPLE.’”

cattle, with one-fifth of the ownership transferring each year. The price was based on consultation with the local sale barn.

Both Bob and Todd are interested in organic production, and began the process of organic certification on crop acres in that first year of the partnership.

The second year Todd hired Bob full-time. Todd got an FSA guarantee on the loan he received from his local bank for operating costs and for purchasing gilts from Bob based on the market hog price. Todd leased the farm acres from Bob and his family.

The third year continued much the same as the second. Todd

Todd had applied for FSA financing to buy the 320 acres he had been renting, and was waiting for available funding, so timing was definitely a factor as Todd and Bob began their transfer. If Todd took on too much debt as a part of his new arrangement with Bob prior to the FSA loan closing, the shift in his cash flow could have jeopardized his eligibility for the FSA loan.

To Market To Market to Sell a Fat Hog

Low market prices have caused some tension on the financial end for Todd, but the diversification of his operation is beginning to pan

out. While he has sold soybeans and some hay through the local elevator, the corn is now being sold on the organic market at a premium.

Because the hogs aren't raised in confinement, Todd is able to market from 85 to 90 percent of them through an environmental marketing group at a premium. Cattle are primarily sold as 700 to 800-pound feeders through a sale barn, but Todd hopes to use the same environmental marketing group to capture a premium on the beef next year.

Todd and his wife, Julie, also raise a few sheep on the farm for meat. A few head of livestock are sold directly to consumers.

Experience + Clear Goals = A Successful Alliance

Todd's eight years of farming experience gave him a maturity that helps in the transfer process. The long-term lease on the Warrick land supplements Todd's 320 acres, making it possible for him to farm full-time. It may even be possible for Julie to join her husband full-time on the

farm as well—a working arrangement they would both like.

You could call this transfer an alliance as much as a partnership. Both Bob and Todd continue a nearly daily dialogue that includes sharing ideas for planning, as well as prioritizing the immediate work. This regular communication has been important first as the two merged management of the operation, and then as Bob handed over the reigns of his life's work to a dedicated young farmer.

Chart #11: Small Family Farm U.S. Averages (1998)

	low sales	high sales	limited resource
Net worth (in dollars)	522,151	654,547	66,838
Solvency—debt to asset ratio	6.8%	15.2%	12.2%
Asset turnover ratio	0.07%	0.22%	0.13%
Operating expense ratio	0.97%	0.77%	1.34%

Chart #12: Todd and Julie Stewart

	2001	2000	1999	1998
Net worth (in dollars)	260,000	231,000	47,000	70,000
Solvency—debt to asset ratio	61%	65%	5%	23%
Asset turnover ratio		18%	52%	66%
Operating expense ratio		84%	171%	118%





After looking around for someone to take over his 2,500-acre crop and cattle operation in Nebraska's panhandle, Don Tisdale found the best candidate right on his own farm. A partnership and incorporation are the legal tools that complement good communication and flexible income sharing to achieve Don's 10 to 14-year plan to transfer all but the land to employee Kevin Walker.

Working Dreams: A Transfer in Progress

This case study was prepared for the North Central Initiative for Small Farm Profitability by Joy Johnson, Farm Transition Specialist and Land Link Realty Broker, Center for Rural Affairs. Written by Rebecca S. Kilde.

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Looking for a Good Farmer

When Don Tisdale was about 60 years old he started thinking about retirement and began looking for someone to take over his 2,500-acre crop and cattle farm near Dix, Nebraska. A family discussion with Dan and Belva's two daughters made it clear that neither of them would be taking over the reins. He talked with a few other potential candidates, but didn't have any luck. He finally approached his employee, Kevin Walker, with the idea of a partnership arrangement to buy into the farm.

Kevin had lived in the area all his life, and had worked for Don since 1989. Don knew he was a good employee, but had never heard him express an interest in owning his own farm. At age 33, Kevin had equity in a house and little else. He calls this opportunity "a dream that I didn't think could come true." He jumped at the offer.

Taking the First Steps

Because of their long-standing working relationship, start-up requirements for Kevin were pretty straightforward: He had to be willing to accept the risks of farming, take on debt, and increase the amount of time he devoted to the farm. Kevin's practical knowledge and skills learned on the job would serve him well.

Debt included annual operating expenses and livestock purchases. Expenses would be virtually unchanged during this transition.

The original plan allowed for Kevin to gain 50 to 75 percent

ownership within five to seven years with no up-front investment. To achieve that goal, the labor contribution would shift right away, with Kevin moving from a 10-hour day six days a week to more like a seven day work week of 10 or more hours each day.

The Implementation

During the first three years the business structure was a partnership. Don had used a line of credit for operating costs on the farm before Kevin became a partner, and that line of credit

The S-Corporation offers a means to transfer either shares or assets. Beginning farmers can buy units based on the share value, allowing them to break down high-cost items into manageable pieces.

Current Events

The transfer is now in its sixth year, and both men still draw a wage from the farm, although this is Don's last year. Don's hours are now 50 percent less than he worked at the beginning. The operation needs two full-time workers, however, and

**"BECAUSE OF THEIR LONG-STANDING WORKING
RELATIONSHIP, START-UP REQUIREMENTS FOR
KEVIN WERE PRETTY STRAIGHTFORWARD."**

became available to the partnership. All operating expenses were borrowed each year on that line of credit, including wages and the purchase of feeder cattle.

This arrangement allowed Kevin to draw what was once his salary to cover family living expenses. Any farm income was used to cover the debt from operating expenses first, and then the amount remaining was divided 50/50. Kevin's remaining income, after deducting his wages, was used to purchase pre-identified pieces of equipment at a mutually agreed price.

During the third year of the arrangement they adopted an S-Corporation structure to better serve the transfer process.

Kevin is looking for an employee to replace Don.

Don continues to purchase cattle in the fall. This allows Don to continue something he enjoys, and Kevin can concentrate on the harvest at this busy time of year. They work together on sales. Kevin is now responsible for the management of the farm.

At this time, income is split with two-thirds going to the corporation, and the remaining one-third paid as rent to Don. A binding agreement with the corporation names Kevin as the farm manager, and he will continue to receive a wage. Residual corporate income is split based on the ownership structure, which varies each year. As Kevin

S-Corporation Can Be a Useful Tool

“S-Corporation” is a term that describes a profit-making corporation organized under state law whose shareholders have applied for and received subchapter S-Corporation status from the Internal Revenue Service. Electing to do business as an S-Corporation lets shareholders enjoy limited liability status, as would be true of any corporation, but be taxed like a partnership or sole proprietor. That is, instead of being taxed as a separate entity as would be the case with a regular or C-Corporation, an S-Corporation is a pass-through tax entity. Income taxes are reported and paid by the shareholders, not the S-Corporation. To qualify as an S-Corporation a number of IRS rules must be met, such as a limit of 75 shareholders and citizenship requirements.

invests more in the farm operation, a larger percentage of income will go back to the corporation. Kevin now pays between \$20,000 and \$25,000 annually to increase his ownership percentage.

It Works

Lower commodity prices have slowed the transfer process from the original plan, but otherwise the transfer is working well for both men. Kevin appreciates the opportunity Don afforded him, as well as the on-going mentoring Don provides. They continue to meet daily in the shop to go over details of the daily operation and talk about future plans.





A young couple moves from a rented dairy farm in southern Minnesota to a 250-acre dairy operation in Stratford, Wisconsin. A flexible transfer program and mutual cooperation make this intergenerational transfer a success.

A Thriving Dairy: Cooperating for Success

This case study was prepared for the North Central Initiative for Small Farm Profitability by Kara Heideman, intern, Center for Rural Affairs. Written by Rebecca S. Kilde.

Additional information is available through the Center for Applied Rural Innovation and Food Processing Center, University of Nebraska, 58 H. C. Filley Hall, Lincoln, NE 68583-0947 or online at www.farmprofitability.org.

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Finding the Link

In 1996 Lucy and Scott Adank were operating a dairy farm near Rochester, Minnesota, but they were looking for a change. Rent on the land was high, and they wanted to be closer to Scott's parents. A local banker told them about the Wisconsin Farm Link* and they decided to give it a try.

The Wisconsin Farm Link program matches prospective and retiring farmers. The program sends profiles of potential matches to both those looking for land and those looking to pass on a farm. Pursuing the contacts is each individual's responsibility. In this case, the Adanks received 15 applications, among them Eugene Nikolai's.

Eugene Nikolai was looking for someone to take over his 250-acre dairy operation in central Wisconsin. He had tried working with his children to maintain the family operation without success. The land could have been split up and sold to nearby farmers, but Eugene didn't want that to happen. He'd been on that farm for 35 years and wanted it to continue as a dairy.

Eugene also contacted Wisconsin Farm Link, and received 30 applications. The Adanks were among three families that Eugene interviewed, and

he decided Scott and Lucy were a good fit.

Making the Numbers Work

After making the decision to move to Wisconsin, the Adanks sold their equipment and all but 27 cows from their Minnesota farm and headed east.

Eugene had the land and equipment appraised and offered

in a region with a strong emphasis on dairy. They were able to work with the local bank to borrow money for the operation. They also qualified for an FSA guaranteed loan, but haven't used it yet.

The Old and the New

The Adanks have switched to rotational grazing. According to

“EUGENE’S SUPPORT HAS BEEN A TREMENDOUS HELP TO SCOTT AND LUCY AS THEY TAKE OVER THE OPERATION. SCOTT FEELS THAT THEIR SHARED GOAL—MAINTAINING A THRIVING DAIRY OPERATION ON THIS FARM—IS A LARGE PART OF THE SUCCESS OF THE TRANSFER.”

them both to the Adanks at the lower end of the appraised value. They purchased the Nikolai's home, 80 acres and 50 cows. They hired custom fieldwork instead of buying the equipment. They rent the remaining 170 acres and have the first option to buy within five to ten years. Eugene maintains a low rate for the rent compared with other farms in the area.

Scott and Lucy are happy to be

Scott, this is one of the most important factors in the success of the dairy. (For more on grazing, see *Can Smaller Be Better?* on page 18 of this publication.)

Eugene maintains a kind of hands-off policy with the Adanks, but is very supportive. He lives close by and often drops in for social visits with Scott and Lucy, but doesn't offer advice on the farm unless it is requested. He's willing to help out around

*The Wisconsin Department of Agriculture's Farm Link Services is one of the more successful programs of its kind operating in the U.S. An outstanding program manager coordinates a strong volunteer support network, and the state kicks in financial support for the program. Their publication, ***Farm Transfers in Wisconsin: A Guide for Farmers***, walks readers through the transfer process from start to finish. Although the tax information is outdated, it's still a good resource for both the beginning and retiring farmer, and it's free of charge. Also free from the Wisconsin Department of Agriculture is a newer publication, ***Retirement and Estate Planning: A Guide for Wisconsin Farmers***. Call 800-942-2474 for those publications. You can also find out more about the program by visiting <http://datcp.state.wi.us>, clicking on the Agriculture link, and going to the Farm Center page.

the farm if his help is needed. While it's no longer his farm, he still wants to see it succeed.

Eugene's support has been a tremendous help to Scott and Lucy as they take over the operation. Scott feels that their shared goal—maintaining a thriving dairy operation on this farm—is a large part of the success of the transfer.

The Financial Picture

The Adanks, like many beginning farmers, have dangerously high solvency measures. They're moving in the right direction, though, by building net worth and improving their debt-to-asset ratio. The chart below compares their expenses with those figures in the USDA Economic Research Service's *Structural and*

Financial Characteristics of U.S. Farms: 2001 Family Farm Report.

Chart #13: Small Family Farm U.S. Averages (1998)

	low sales	high sales	limited resource
Net worth (in dollars)	522,151	654,547	66,838
Solvency—debt to asset ratio	6.8%	15.2%	12.2%
Asset turnover ratio	0.07%	0.22%	0.13%
Operating expense ratio	0.97%	0.77%	1.34%

Chart #14: Scott & Lucy Adank's financial information for comparison

	2001	2000	1999	1998
Net worth (in dollars)	72,993	54,175	25,571	4,124
Solvency—debt to asset ratio	84%	87%	92%	98%
Asset turnover ratio		42%	60%	59%
Operating expense ratio		79%	81%	82%

Equipment Sharing

Mike Heavrin, Project Leader, Marketing Alliance Project

The following case studies describe how four small marketing cooperatives purchase and use various types of machinery, resources and facilities. Four cooperatives are featured here: Small Farms Cooperative (30 families), North Star Neighbors Cooperative (seven families), Main Bow Farms Cooperative (six families) and Bruegman's Grass-Based Dairy (two families). All four of these groups are located in Nebraska.

These four groups have developed unique ways to share equipment, resources or facilities. Trust and reliability are the foundations for the success of

these ventures. Although none of the co-ops currently use legal contracts, they all acknowledge that formal, binding documents might be needed in the future.

A fifth example, MachineLink.com, outlines one farmer's online business to help agricultural producers reduce their equipment costs by sharing major equipment or buying used equipment.

All five examples focus on increasing profitability for the producer by sharing costs associated with major equipment and facilities purchases.





A family-based initiative to market milk and dairy products directly to health-conscious consumers shares equipment and costs to move toward their goal.

Bruegman Grass-Based Dairy: Simply a Better Product

This case study was prepared for the North Central Initiative for Small Farm Profitability by Mike Heavrin, Project Leader, Marketing Alliances Project, Center for Rural Affairs.
Written by Rebecca S. Kilde.

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Home Grown

Eric and Iver Bruegman were born and raised in the Bloomfield community. After their parents moved to town, Eric took over the farming operation on the “home” place, about two miles southeast of the farm Eric had purchased earlier.

Eric’s brother, Iver, who worked in the construction industry for many years, has recently returned to the Bloomfield area in order to get back to his roots. He’s renting some land just west of Eric’s place. Eric and Iver each have their own herd of grass-fed dairy cows.

Got Milk?

The year 2001 saw the realization of a dream. The Bruegman brothers built an outdoor milking facility in a pasture on Eric’s farm south of Bloomfield, Nebraska. Eric and his wife, Paula, and Iver and his wife, Kim, are now putting the finishing touches on their milking parlor.

The outdoor milking parlor is located on Eric’s farm, in a pasture just southwest of the house. A building was purchased from another area farmer and moved onto the Bruegman farm.

Eric, Paula, Iver and Kim all worked together in remodeling the building, which houses storage tanks and most of the other equipment needed in the milking operation. A large, mostly concrete, open-sided milking area was added to the west and north of the enclosed building.

Family members or friends provided most of the labor. Actual cash outlay has been minimal compared to the cost of having a contractor complete the work.

With his background in construction, Iver’s talents have really been put to good use.

Yup, Got (Good and Healthy) Milk

The Bruegmans hope to market their milk and dairy products to the segment of society that is concerned about human health as it relates to the food supply. The brothers have been involved in several seminars in northeast Nebraska featuring health and nutritional experts speaking about the attributes of “grass-fed” animal products.

Recent studies have shown that milk and other dairy products that come from grass-fed cows is higher in conjugated linoleic acid (CLA) and omega-3s than dairy products from grain-fed animals. Food products that have high levels of CLA and omega-3s may fight certain types of cancer and heart disease. The brothers hope to develop their own line of “healthier” dairy products and liquid milk.

Eric and Iver have been working closely with another grass-based dairy, the Bruns Dairy Farm, located northwest of Bloomfield. They have shared discussions and problem-solving on issues such as management of cows and pasture, the benefits of dairy products from grass-fed cows, and marketing those products.

A Simple Agreement

The agreement between Eric and Iver is simple. Eric places the milking parlor on his farm. Both brothers share in the cost of completing the facilities. In exchange for his labor, Iver will use the milking facilities and some of

Eric’s grazing land for his cows.

The Bruegman brothers have not put any of their equipment and cost share arrangements in writing. Neither couple feels the need to formalize their business relationship at this time.

Eric, Paula, Iver and Kim share in the daily chores, as well as Eric and Paula’s two children. No one draws a salary. Instead, income from the sale of milk and other dairy products will be divided in proportion to the number of cows being milked.

According to Iver, the Bruegman partnership may eventually need to be formalized in writing due to, among other things, the fact that the capital facilities are located on Eric’s land. They see some value in having things clearly outlined in writing, rather than relying on probable court action, in case of death.

The Family that Milks Together...

In a visit with Iver and Paula, neither family representative could point to any one particular challenge. Trying to complete a major capital project while farming is sometimes a very difficult thing. Timing the completion of the facility has been a minor problem, as has timing the work to be completed for scheduled inspections. Remodeling the building and constructing the outdoor parlor, while trying to take care of their dairy herds (moving animals, milking animals, etc.) has been a problem at times.

With continued support from each other and their community, this innovative team has a bright future.



This seven-family incorporated cooperative's informal equipment and cost sharing strategies form the basis for a successful partnership that benefits all its members.

North Star Neighbors: Neighbors and Friends Working Together

This case study was prepared for the North Central Initiative for Small Farm Profitability by Mike Heavrin, Project Leader, Marketing Alliances Project, Center for Rural Affairs.
Written by Rebecca S. Kilde.

Additional information is available through the Center for Applied Rural Innovation and Food Processing Center, University of Nebraska, 58 H. C. Filley Hall, Lincoln, NE 68583-0947 or online at www.farmprofitability.org.

Meet the Neighbors

North Star Neighbors is a marketing cooperative that organized in the late 1990's, and formally incorporated in 2000. The cooperative is made up of seven family farms in Nance, Boone and Greeley counties in Nebraska.

Meat products make up the bulk of sales for the co-op. North Star offers a large selection of beef, pork and poultry products.

Some products are designated "natural," which means that the animals are never given antibiotics or growth implants.

"Premium natural" indicates that, in addition to the standards for the "natural" label, none of the grain used as feed is treated with any chemical pesticides, herbicides or synthetic fertilizers. These are the same standards for organic certification, but the group doesn't use a third-party certifier.

North Star Neighbors markets in three main venues: farmers markets in Lincoln and Grand Island, their direct-marketing customer base, and retail grocery outlets in Omaha, Lincoln and Grand Island.

Summer 2000 sales averaged about \$500 per week. Sales in 2001 averaged over \$3,000 per week—a six-fold increase. In fact, North Star product sales have increased so rapidly that the group is now looking for new members.

Sharing the Expense and the Success

Equipment and cost sharing arrangements between members of the cooperative have been two of the keys leading to the success

of North Star Neighbors. Members agree that their greatest challenge has been raising enough money to get North Star Neighbors off the ground. The equipment and cost sharing arrangement was their "only way to get started."

In the beginning, members loaned individually owned equipment to the cooperative. One couple purchased chicken processing equipment; another family purchased the first van used at the farmers markets; and a third family bought the coolers and tables.

As sales increase, income will be used to reimburse members for that equipment, and title will pass to the cooperative. Members don't charge for the use of that equipment, but all maintenance and repair expenses are reimbursed by the cooperative.

Increased sales from meat products have allowed the cooperative to buy some equipment. The wives in the group maintain a schedule for equipment use. Operating, maintenance and repair expenses on equipment owned by NSN are paid out of income from sales.

Big-ticket items have required "advances" by members. For example, a 12 by 18 foot walk-in freezer was recently installed in a machine shed on Jim's farm, and the eastern third of the building was remodeled to accommodate it and an adjacent shipping room. Most of the labor was donated, and the cooperative reimbursed members for costs.

In the past, North Star rented out their chicken processing equipment, but the cooperative

no longer allows the use of the machines by non-members. The expense to repair damaged equipment didn't seem like a good investment to North Star Neighbors members.

Nebraska's Agricultural Opportunities and Value-Added Partnership Program: A Financial Shot-in-the-Arm

North Star Neighbors, in partnership with the Center for Rural Affairs, and two other small meat-marketing cooperatives with non-competing products, received a grant from the State of Nebraska's Agricultural Opportunities and Value-Added Partnership Program in January 2001. North Star's share of the grant was \$25,425. Most of the grant money went toward equipment, marketing and legal expenses.

The grant money paid for three new 7 by 14 by 8-foot trailers to use as "portable stores" at farmers markets. Each of the trailers is equipped with two 72-cubic-foot freezers and one 36-cubic-foot freezer. The trailers' interiors are finished with electrical wiring, lights, painted walls and ceiling, and tile floor. The North Star logo is emblazoned on the outside walls. Customers enter through two large doors at the back of the trailer, and exit through another door to the side. This is a simple and elegant solution to managing customer flow and quality control at the markets, while promoting the cooperative's identity with prominent signage and a high-quality sales environment.

Informal Agreements Work Well for These Neighbors

According to Board President Jim Knopik, the members deal with each other as “neighbors,” and live by the Golden Rule. All members realize that everyone must share in both the risks and the benefits of marketing through the cooperative. No one benefits at the expense of another member.

Jim also notes that the group has never put together any type of contract regarding ownership or use of the equipment. “A handshake and a guy’s word are all that is necessary,” says Jim.

The group has discussed formalizing their equipment and

cost sharing arrangement, but has not taken steps to put the arrangements in writing. They see no reason to “fix something that isn’t broken.”

Talking It Out: Consensus-based Decision Making

Like any group, members of North Star Neighbors sometimes have different points of view on some issues. Jim says that if faced with a problem, members “talk it out.” Discussion, compromise and consensus have solved all problems to date.

When asked how major decisions are made within the organization, Jim repeats that “we talk

it out.” He gives most of the credit for their smooth ride to the wives, who “have a real knack at maintaining good relationships within the group.”

A Success? Members say “Yes”

When asked if they would do it all over again, members responded with a resounding “yes!” If it were not for the agreement to share equipment and start-up costs, North Star Neighbors members say they probably wouldn’t be in business today. Neighbors and friends working together for the common good is the foundation for this resourceful and promising business venture.

Current members of North Star Neighbors are: Jim and Carolyn Knopik, Dan and Karon Horn, Dean and Shirley Johnson, Ron and Brenda Knopik, Tom and Gail Knopik, all residents of Fullerton; Dan and Teri Choat of St. Edward, and Carol Schooley of Wolbach.



For more information about North Star Neighbors, go to www.geocities.com/northstarneighbors



Small Farms Cooperative is a marketing organization made up of thirty small- and medium-sized farms and ranches. The group came together for the first time in June 1999, and has since formed into a marketing cooperative that markets their products with their Nebraska Natural Products label.

Small Farm Cooperative: Quality and Innovation

This case study was prepared for the North Central Initiative for Small Farm Profitability by Mike Heavrin, Project Leader, Marketing Alliances Project, Center for Rural Affairs.

Written by Rebecca S. Kilde.

Additional information is available through the Center for Applied Rural Innovation and Food Processing Center, University of Nebraska, 58 H. C. Filley Hall, Lincoln, NE 68583-0947 or online at www.farmprofitability.org.

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Starting Out on the Right Foot

Members of Small Farms Cooperative value trust, honesty, integrity, cooperation and a willingness to participate, and those values are the cornerstone of their cooperative.

There aren't a lot of formal, written contracts that govern the operation of the business. All of the equipment and labor sharing arrangements are based on a "handshake and the member's word."

In the beginning, however, the steering committee that formed Small Farms Cooperative took some steps to assure the maintenance of the shared values of this trust-based organization by outlining some membership requirements.

No one can become a member of the cooperative unless they share its values.

- Potential members can only be admitted if they are known by a current member of the cooperative.
- All members have agreed to nominate only persons who can be trusted to uphold all standards, primarily production standards, of the cooperative.
- Applications for inclusion need 100 percent approval by members of the cooperative.
- All members must be actively engaged in the day-to-day functions of farming or ranching.
- Each member will supply a portion of the livestock they are currently raising to meet market demands.

- Members must uphold, practice and document production standards for all animals, and pledge not to knowingly allow inferior or unqualified animals to enter the human food chain under their label.

Producer response to the cooperative's objectives is so enthusiastic that, two years into the group's development, fifty-nine additional applicants were on the group's waiting list.

Offering a Quality Product

Small Farms Cooperative offers "natural" meat products raised to humane standards with environmentally sound production practices. These products include beef, pork, bison, sheep and poultry products sold under their NNP label (see page 66).

All animals are raised using Animal Welfare Institute standards (but without AWI certification), without the use of antibiotics or growth implants, and are raised from birth until finish on small- or medium-sized family farms in Nebraska.

One product line is "chemical free," essentially organic but without certification by a neutral third party. Additional product lines emphasize the human health benefits of consuming NNP meat products from animals fed on grass, taking advantage of emerging research on the subject.

The group maintains records, mandated by the USDA, that allow buyers to track products to individual farms and animals, which assures customers of the validity of the group's marketing claims.

Sharing the Burden

By far, the most often-cited challenge to the success of Small Farms Cooperative has been a lack of adequate capital.

Contributions from members (which is a membership requirement) and income from sales have been adequate to cover mainly necessary services such as legal counsel, processing charges, webmaster fees, label approval, printing costs, attendance at a food show in California, product development and testing, frozen storage charges, and so on.

Expenses associated with breaking into the national and international markets have been far higher than estimated, however.

That is where the equipment and cost sharing arrangement has been of the most value. Members have allowed the cooperative to use vehicles, buildings, and equipment in an effort to "share the pain." Member Kevin Robart has donated the use of a building on his farm. Meat and samples are currently shipped from Kevin's "home base," and Kevin also handles all mail orders from his farm. Small Farms Coop rents a freezer from Kevin, and pays a fee to power the unit.

Without the equipment and cost sharing arrangements that have been developed, Small Farms Cooperative would probably not be able to survive without changing their bylaws, which currently do not allow non-farmer/rancher members or outside investors.

Capital Infusion

USDA SARE Producer Grants awarded to the group in 2000

Current members of the group are: Clinton and Diane Becker of Fordyce; Dan and Teri Choat of St. Edward; Marvin DeBlauw of Hartington; Randy and Pam Egbers of Hooper; Kelven Foth of Ord; Steve Foth of Ord; Terry and Connie Gompert of Center; Mike and Ceil Heimes of Hartington; Dan and Linda Huenefeld of Aurora; Paul and Dori Huenefeld of Aurora; Brian Kaczor of O'Neill; Mark and Judy Keck of Crofton; Jim and Carolyn Knopik of Fullerton; Ron and Brenda Knopik of Fullerton; Kevin and Janita Kube of Crofton; Larry and Rose Mason of Dixon; Ray and Sheila Miller of Aurora; Dave and Aggie Ortmeier of West Point; Richard and Mary Rose Pinkelman of Wynot; Bryce and Rose Ritz of Arcadia; Kevin and Janelle Robart of West Point; Ben Schole of Hooper; John and Chihiro Smith of Pender; Richard and Kathleen Sobotka of Inman; Paul and Mary Jo Swanson of Hastings; Jim and Karen Tikalsky of Niobrara; Andrew and Sandy Uhing of Hartington; Kevin and Sandy Uhing of Hartington; Robert and Gudrun Warrick of Meadow Grove (retired members); Todd and Julie Stewart of Meadow Grove; and Ron and Danette Wortmann of Hartington.



and 2001 gave a boost to their progress in organizing expenses and developing their shipping and marketing procedures. Small Farms Cooperative has also applied for Nebraska's Agricultural Opportunities and Value-Added Partnerships grant fund to:

- purchase equipment and facilities, such as Kevin's that are being loaned to the cooperative;
- remodel the retail and shipping building on Kevin's farm; and
- purchase a walk-in freezer for this shipping facility.

These additions would greatly improve the co-op's capacity to store and ship inventory.

All of the equipment, including the frozen storage facility, purchased with grant funds will be owned by the cooperative and use of the equipment will be governed by a written agreement.

The Challenge to Find the Right Market

The niche being targeted by Small Farms Cooperative is the natural meat market, with a focus on the United States' east and west coasts as well as the European Union. Matching their

available supply with a comparable demand in these various markets has been a difficult task. It is also difficult to simultaneously tap the regional market and pursue national and international markets.

While the marketing department searches for the "right" market—the proverbial "home run"—on the coasts and abroad, meat is being offered for sale in retail stores across the state of Nebraska.

Meat from Small Farms is available in a regional supermarket chain in Omaha, Lincoln and Norfolk, as well as several local markets in smaller towns in east central Nebraska. Several health food outlets in Omaha and Lincoln also carry products bearing the NNP label.

Staffing sampling promotions in retail outlets has been a major burden for most members due to the distances and time involved. All members have contributed a lot of time by promoting their brand name, Nebraska Natural Products, directly to shoppers at retail locations carrying their products. Like their cooperative efforts in other areas of the business, members have pitched in to share the work on this important marketing task.

Throwing a Wrench in the Works

A potentially devastating problem has been the inability of the group to pay for most of the animals as they have been processed. Members expect that they will eventually get paid for their animals, although no written contract was drawn up between members and the cooperative. Producers continue to supply animals when needed for samples and sales, despite the delayed payment. Members understand that they are investing in the start-up of the business, and that the cooperative structure needs to be established before the members realize a profit.

Tentatively Optimistic

Members are tentatively optimistic about the future of the cooperative. They agree they wouldn't do anything differently regarding the informal nature of their equipment- and cost-sharing arrangements. Formal agreements will need to be drafted as a requirement of the Nebraska Value-Added grant, however.

The final score isn't in yet, but this group of committed and innovative farmers and ranchers has come a long way toward creating a successful marketing structure for their products.



A Kansas wheat farmer starts a producer-focused online resource to help farmers reduce equipment costs. Two farmers tell you what they think of the program.

From Wheat to the Web: Virtual Neighbors Share Machinery to Cut Real Costs

This case study was prepared for the North Central Initiative for Small Farm Profitability, a USDA-funded project, by Mike Heavrin, Project Leader, Marketing Alliances Project, Center for Rural Affairs.
Written by Rebecca S. Kilde.

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Innovation From the Farm

In 1992, David Govert, a wheat farmer near Cunningham, Kansas, began to price harvesting equipment, and found that a new combine was running between \$150,000 and \$200,000. He thought the equipment was too expensive, and began to consider other options. He finally settled on a plan to purchase the equipment in partnership with one or more other farmers.

He found a corn farmer in Nebraska who was in the same boat, and the two finalized an agreement to purchase a combine as a partnership. The Nebraska farmer used the combine during corn harvest, and then shipped the equipment to David's farm in Kansas in time for David to use it on his wheat harvest.

David's experience, with all its problems and benefits, led him to begin MachineryLink.com, an online resource to help farmers reduce equipment costs. David used his own practical, on-the-ground knowledge to shape this innovative new company.

A Good Experience

Brian Hess, of Perley, Minnesota, ran into MachineryLink.com when he started looking for a new combine. "Most producers can't afford to buy a combine, especially a new one," says Brian. "It'd be fun to own my own combine, but it's not cost-effective." A good alternative for Brian was to sign a three-year lease agreement, starting in 2001, to share a combine with a farmer in Kansas and one in Nebraska.

The combine, new in 2001, is

rarely idle. It starts the season in Kansas, goes to Brian's farm for the August wheat harvest, then travels to Nebraska for the corn and soybean harvest in September. MachineryLink arranges for maintenance and delivery, and takes care of any repairs. "My only real concern about the lease agreement is the reliability of the machine in years two and three. It takes a lot of abuse from normal usage."

MachineryLink does guarantee that you'll have the machine when you need it.

Each farmer still owns his own combine head, but eliminating the upfront investment in a new combine cut Brian's cost per acre to less than seven dollars.

He gives the company a thumbs-up, and would recommend it to anyone.

Fewer Headaches, More Profit

In Bradshaw, Nebraska, Joe Winter and three of his neighbors also decided that a lease agreement to share a combine would be worth a try. The combine is used for the wheat harvest in Oklahoma, then goes to North Dakota for the small-grain harvest. Joe and his neighbors had the combine by Labor Day for the corn and soybean harvest, and kept the equipment until the end of the harvest in the middle of October.

After his first year with the lease arrangement, he says, "It works real well. We saved a lot of money, and I got along real well with the MachineryLink staff." Joe figures his cost per acre was about eight dollars for the combine and fuel.

He especially appreciated using a new piece of equipment that was well maintained at the nearby John Deere dealership—fewer headaches for Joe and his neighbors. MachineryLink takes care of maintenance, repair and transportation of the combine, freeing the producer to make the best use of time and machinery.

"It was a positive experience," says Joe.

The Bottom Line

Agricultural producers in the U.S. should look closely at the bottom line when replacing or adding farming or ranching equipment. The high cost of most modern machinery makes it essential that producers do what they can to minimize their investment in this capital expense. Programs like MachineryLink have the potential to significantly cut costs for producers.

In addition to its Innovation Managed Lease Program, which sets up equipment-share lease agreements, the MachineryLink.com website provides other tools for farmers: a searchable database of used equipment for sale; a listing of tools and resources, including a used tractor price guide, a farm equipment cost calculator, a listing of research and publications; and a farm auction guide.