

Dairy Split Session I

Veterinarians and the Dairyman's Bottomline

Co-sponsored by The Academy of Dairy
Veterinary Consultants

Dr. Donald J. Klingborg, *Presiding*

For Whom Will You Be Working in the Year 2000

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Moderator: Our first speaker today is Dr. John Siebert. John is a Petaluma, California boy who got his Masters and Ph.D. at the University of California, Berkley. He was an extension economist at Purdue University from 1978 to 1981. He became the extension economist at U.C. Davis from 1981 to 1985, and presently is the economist with the California Cooperative Creamery in Petaluma. His special recognition according to John is that he has put his foot in his mouth in almost every county in Indiana and California and so now he wants to spread it to Arizona.

Dr. Siebert: I used to be an expert in the dairy industry when I was an extension economist at U.C. Davis. Now that I work for Creamery and I have the title economist, I'm not sure if I am an expert or qualified to educate anyone. I am so busy trying to solve the problems that we have at California Coop it is almost impossible for me to sit down and think about some general industry problems. I'm too busy trying to move the load of milk that was supposed to be at one grocery store today to another one that it went to by mistake or something like that. You know every day there is a "fire" and I decided if I get a new set of business cards printed up that would say John W. Siebert, restrooms, carpets, windows. I remember when I used to work in extension a lot of times it required a lot of travel. I remember one Monday morning I kissed my little three year old son goodbye and he looked up at me with a straight face and said, "okay Dad, I'll see you next weekend." Well, I don't have that problem anymore, I'm home a lot more now than I used to be and I'm thankful for that but when I went to work for the Creamery they gave me a set of whites and they put me out in the cheese plant for two months and I made cheese. You know I worked all the different shifts and I remember the first day when I came home from the cheese plant I was covered with rennet and vegetable color and my son was in the tub, the same little guy. I stuck my head in the door and he looked up at me and

he said "Oh Dad, you look so cool." Does anybody know what he meant when he said that? But what he really meant was after all this time, Dad, you finally got a job. I don't think he knew what I did before then, but when I had my uniform and my helmet, he knew what I did.

I want to take a look at these guys that you and I both work with, dairymen. I want to talk about ten basic characteristics that I see your future customer, the dairyman, having. Ten things, some of which are very different from the way that the dairyman behaves today. I want also in the process to review a limited amount, very limited amount, of economic data about the California and the U.S. dairy industry. I did not bring a lot of statistics. I have a large supply of statistics in my office and if you'd like I can mail you some.

Family Owned. Number one the first basic thing that I see in the future family owned farms is going to be the source of milk. We talk a lot about corporate farms but I feel that milk production is too complicated and too demanding for successful outside management. It has to be done by the actual entrepreneur, the owner of the business, to be successful. I don't see that changing. Almost all types of animal agriculture are still run by a closely held company. They may be very large companies but they are still closely held with a key personality involved in running the business. This means to me when I look at your business or when I think about my business, my own future, a very simple thing that we sometimes forget that you can never overstate it and that is that I feel that your personality is going to remain every bit as important as your service or your price when these dairymen are thinking about dealing with you. Your personality is going to be very important. It means, and I know it sound very basic, that the little things you do are going to be extremely important. That is never going to change. If you remember somebody likes a certain thing, he

likes you to take care of a certain problem with their cows, and that's what you've got to take care of with them. Personality is important. That's the first thing I see. I see the whole concept on a dairy due to the size of one key decision maker. I don't see that changing. There's still going to be one key decision maker on the whole farm and I feel that if you are going to be successful, you've got to know and respond to that person's wants even if his wants are not the characteristics that are going to make them the most money. Even if those things aren't very important to you when you look at their operation, they're important to them and that person is in control. That person is going to stay in control and you've got to address those problems. I see this a lot of time when we deliver milk to different companies that are proprietorships and we do sell to quite a large number of proprietorship type companies. You are dealing with proprietorship type companies and you have to really watch it when the torch is passed from one generation to the next. The second generation may be coming up and have lots of new ideas about the service they want you to provide. Maybe in my case it is a different dairy product and in your case it is a different way to examine the animals. Or maybe you're not even going to examine the animals at all. Until that torch is passed, you can't make any changes or you will lose the business. When it is passed then you have to be careful and note it. If papa just goes on vacation to Brazil for a month that doesn't mean too much, but if he moves off the dairy down the road about two miles, that means something.

The next basic trend I see is one that you read about a lot. I want to talk about why it's happening to fewer and larger farms. This is definitely the case. I think we are going to see fewer and larger farms because, as successful operations are able to raise more heifers than they need which should be the case on every successful dairy you deal with, in my mind that's the most single basic way to tell whether the dairy you are servicing is going to stay in business or go out of business. They should be able to raise more heifers than they need for cost and production, so they grow. And growth is definitely one way these dairies can deal with a reduced milk price. If you look at national statistics on the number of heifers that are out there, there's an enormous number. I could quote all these numbers and I'll mail you some if you want them but believe me, there's a tremendous supply out there. So any dairy farm that's being successful now is probably one that's going to be doing some growth. Now growth for the sake of growth is idiotic. If you go down the road and buy some heifers, that's a good way to tell if a dairyman is going broke, because generally speaking, successful dairymen grow from within; losers grow by buying other people's animals.

Operations in my opinion which do not grow are going to die. I've never seen a dairy farm going broke being too small. I'm not saying a small farm can't be successful. A small farm can be really successful. Seventeen cows, twenty-four cows, fifty cows, and I'm from the west so I think of that as a small farm. I'm not saying they can't be successful, I'm just saying if they're doing a good job they should be raising more

heifers than they need so they should be able to grow. And if they are not growing, if they're staying constant in cow numbers, they should be selling some cows as milk cows to their neighbors and making lots of money on that. I think small farms are definitely still going to exist but I think they are mainly going to be the result of new entry. As I see it, people don't get in the dairy business today unless their papas are in it; they don't get in the dairy business today any different than how they got in the dairy business 50 or 100 years ago. They start off with a few animals, no hired help, and they work like a dog. That's not going to change and those small farms are still going to be there. By and large though, your customers are going to grow. And as they get larger, then you're going to have a lot of specialization of tasks and you'll advise a lot more different people than you've ever advised before. Out in California this isn't news, but all of a sudden you're going to have the boss, and then there's the herdsman, and then there's maybe a breeder and a calf raiser all there on one dairy. Each of these persons is responsible for a totally different task, one person won't do all this work. The number of farms in California went from 5,170 down to 2,531 from 1968 to 1986. This is just some arbitrary 15 year period I picked, or a little longer than 15 years. Down by 51%. That same time, milk production went up 95% and the average production per farm went from 543 gallons per farm to 2,161 gallons per farm. On most of our routes, milk is picked up in California in maybe three stops and then we have a full 50,000 pound load to go into the creamery. Those types of farms have a lot of specialization.

So, as I look at your work, and dairymen tell me this, maybe I'm not telling you anything you don't know, but you're definitely being transformed from work where you perform tasks to a job where you advise others and the larger the farm, the more you become just a consultant and not a hands-on employee. You might still get your hands dirty to save the owner's favorite registered cow, that he's already spent \$30,000 of good money, but most of your work is not going to be hands-on. Dairy farmers are doing more and more things for themselves and less and less relying on commodities brought in by others. You know they have their own feed mills now, their own feed production and they have their own person to breed the cows. In these western areas, this is what you have and so your job isn't going to be to touch things anymore, it's just going to be to come in and tell somebody else how to get the job done. I think one of the things that has been interesting to watch is the number of specialties that have come up as you hang around the dairy industry. As dairy farms grow, veterinarians and others, not just veterinarians, everybody tends to get specialized. I'm convinced the only successful specialization happens by accident. If you want to be a specialist, you are not going to get into it by saying in your mind, gee, I want to be a specialist, you're going to get in to it by accident. What's going to happen is that you will get a request for something that maybe never excited you to begin with but you get a request and the guy making the request,

he has one thing that's important, and it is what's in his wallet—money. You listen to that request and start to get interested in it and if you are successful, then you have a speciality. It may not be glamorous but that's the way I see specialities developing and I do think you know if you don't have a speciality, if you don't have a request, you can't have a speciality. You're very isolated as a business person and you tend to hire new people not by generally doing the smart thing which is to advertise in the paper and really search around and look at a lot of people, you tend to hire the first person that is there. If this brown chair were a person and I had a task to be done I'd probably hire him because I know him, the brown chair doesn't use drugs and it's calm and you know it will do the job for me in my office. Dairy farmers are the same way. They hire their people the same way. When you go out to a dairy here in California, let's say they have a bunch of people that are from south of the border who do their labor, have you ever noticed how all those people are related? There's Manuel and his brother Hosea and his brother so and so...they're all related. Well the reason is that the dairy farmer was kind of familiar with that family and kept hiring those people. You are a veterinarian, you come in there with your degrees, your credibility and everything is really high, a lot higher than I think any of you realize. You have a chance to branch out into a lot of different services for this dairyman and as I see it, as I see dairy farms getting larger and I know probably some of you from the midwest think I'm totally crazy, but as I see dairy farmers getting larger, some of you are going to be put into a situation I can easily see a veterinarian going to work for a dairyman full time. You know those are the kind of changes that we have taking place. It's certainly happened in a lot of other animal agriculture industries where the farm sizes have become quite large.

I think feedstuffs are still going to be raised on the dairy. The reason why I feel that is because roughages are really costly to transport. We do it but it's a lot nicer if you can buy hay off the farm next door or off your own farm than if you have to transport it a thousand miles. So that's one reason and the second reason is, as farms get larger they have more and more problems getting rid of their manure and wash water.

I think that byproducts and concentrates are still going to be obtained from other sources quite often. I definitely feel very strongly that the current situation where dairy farms that don't grow their own feed make more than dairy farms that do is temporary. I don't see this as being sustained in the long run, it may still continue to be the case this coming year where you're off maybe to buy your feed from your suffering grower next door or one you know in the next state, but in the long run, in the next two or three years eventually these government programs are going to get straightened out and the one that grows his own feed is going to make more money than the dairyman that does not. I think that is important.

There was a recent article in *Hoard's Dairyman*, about a

dairy farm I believe in Vermont where suddenly these two brothers had discovered that they could make more money by renting some crop land and they either sold their land or they rented it out and they sold their equipment and now they are just milking cows and they are making more money. You know that since this concept is out now that this is the thing to do. That means that a lot of your dairymen realized this a few years back and you know the magazine is picking up on it as a trend and felt like they should feature it which is good. The fact is, you know dairymen are not stupid and they have been making this transition. When you have a case where you can ship milk from California back to the east, bulk cream or buttermilk, you better believe that somebody can milk the cows there at a profit so now we see people expanding without an emphasis on crop land but it's not going to last long. You know if you're in an area that's fairly well endowed and can grow crops and if you have a lot of manure to get rid of, if everything is going to point in the direction of a good long term dairyman, he's going to be growing some of his own feed. My feeling is to a certain extent the more they can grow the better. I feel specialized dairy regions will grow and other dairy regions will continue to shrink. This is a hot topic now.

You know California, you could put it on the east coast and it would stretch from New York to Florida. In our cooperative, we're about 650 miles long from our northern most producer to our southern most producer and probably about 300 miles wide. We go from Nindeceno down to Santa Barbara and from San Francisco area out to Fallon, Nevada. So some of our dairymen are wearing tank tops and shorts when the other ones are wearing parkas. I mean we cover a lot of ground, a lot of territory. I do feel that we see regions growing and and we see regions sinking but competing enterprises are one thing I see happening in some areas of the country. Maybe it's houses, driving out dairies, or it's vegetable crops real estate development, something like that, driving dairies out of one region while they are growing in another. When you have new markets opening, population growth, this is one of the fastest growing cities in the country. There are tract dairies. When you have an area that has a critical mass of services they've got creameries who I'm not paying \$1.00 a hundred weight to haul my milk, they have veterinarians, equipment dealers, several that I can choose from as I'm a picky, picky dairyman. All those things are important to me. I feel if your area is dying then you shouldn't sit there and wait for it to turn around or wait for the dairy industry to turn around. You know you ought to start studying cats or you ought to move, because some areas are just definitely dying and in our own sphere, our own cooperative, you can see it. If your area is growing, I think that's an opportunity for you to make a lot more money so you know, good luck.

In the mountain and Pacific area which is basically Colorado, Washington, New Mexico, Oregon, California, Arizona, milk production grew 44% from 1977 to 1986. I just pulled these periods out of my hat. The southern plains, the

lake states and the northeast, the southern plains are Texas and Oklahoma, the lake states Minnesota, Michigan and Wisconsin, and the northeast are from Delaware on up. Those areas have grown at around 17%, one or two percent higher or lower but they're right in there at 17%. The rest of the U.S. has grown at under 5%, for whatever reason. The U.S. average is at 17%. Some areas are just not as well endowed with the abilities to produce milk as other areas. As transportation becomes cheaper and as these dairies tend to grow, hay and a lot of commodities, like eggs, will be shipped 2,000 miles. A thousand miles is typical.

Another change I see coming in the dairy industry is going to be a dramatic departure from what we've had. Namely, a greater emphasis on privacy and a greater emphasis on competition. I don't mean friendly competition. I don't mean DHI records and looking down and saying the Van so and sos beat the VanHusens by ten pounds of fat per cow per year. That's not what I'm talking about. I'm talking about the Van so and sos took away VanHusen's market for 10¢ a hundred weight. I'm assuming there's no base plan. I think as economics become tougher, people's desire to share is going to be suppressed and I think that they're going to become a lot more private so you must become more private in what you communicate between farms. I feel in the lifetime of most of the people here you are going to see that you are not going to be able to work for farmer A and for farmer B. If they hate each other's guts and if both are producing an enormous quantity of milk, you are not going to be able to work with both of them.

I wanted to just talk a little bit about politics and milk sales. As the industry becomes more competitive, people are going to have less and less things in common about what they want to do. You're going to be able to talk about things like milk sales and milk politics less and less to the extent that you do. It's just going to be a non-topic. I've got some topics for you coming up later but that's going to be a non-topic. I think dairy farms are going to allow fewer and fewer visitors and fewer and fewer tours. I just think you are going to see that disappear.

I think you're going to need to be better informed. That is a trend that is going to have to happen and you know it was interesting at lunch. I talked to a couple of people and I realize this is a really practical association. This is not the type of association where you have become active so that you can write lengthy journal articles about some disease of fleas. I think the type of information you get from this type of association is what you're going to need as economics become tougher. The reason why you are going to need to be informed is that people are going to need to be helped a lot faster than they have been in the past. Your only ticket to someone's attention is going to be that you have the answer to the problem already, you can get the answer without looking it up or you can solve the problem before it costs money. I really feel that the things you know about how farms can save money are going to be your only ticket to survival. That's all that is going to matter.

People always talk about innovations. I stole this line from my friend Don Bath who is a feed nutritionist at UC Davis. You know we always talk about BST and the dramatic new transformation that it's going to make but I don't see it as being a departure from what we have had in the past. Don gave me a list of all the changes that have taken place in the dairy industry, namely artificial insemination, sire proving, balanced cow rations, disease control, milking equipment, forage testing, feeding equipment, computers, somatic cell counters, feed additives, embryo transplants, and more. BST to me is nothing new. I have a slight problem in that the people that buy the milk from the coop don't want it in the milk or don't want milk produced from it but you know they'll come around. I think you've got to be better informed and with those kind of changes you have to be. Now we get a lot of conceptions about what, as time develops, the farms will be like. I feel that the diversity of financial performance between farms is going to remain substantial. I feel that farms will differ in their performance because a cow is an animal and not a machine. Some people are going to know how to take care of that cow better than others. Farms are going to have dramatically different returns because some farmers just have better abilities or different abilities than others and I feel farms are going to continue to be dramatically different as you drive down that dairylane. They are going to be different because some people start off with more than others. They are in a better location, their fathers had more money. Dairies are going to continue to be real diverse. But your job, as I see it is to close the gap. What you really have to concentrate on is financial examples about the value of your service. You cannot present simple examples about what you do too often. If there's money involved, and people can be successful with it, even if it is simple, it is not going to be boring. You know I have not been around many veterinarians but the few I have been, you make it so complicated, I can't tell whether I'm coming or going! I know these dairymen are smarter than me when it comes to animals because the only animal I have is a 14 pound cat nicknamed Holstein. When you look at dairy farmers you are going to find the best dairy farmers probably don't need your help. They can probably do, some of them could probably do your job a lot better than you do. But the fact is they still seek you, don't they? The best ones, they don't need your help, but they still seek it—that's why they are the best. Now there is this other group out there, the worst dairy farmers. They need your help. They don't pay any attention to you, that's why they're the worst. They are still going to be there. I feel your simple examples about how to succeed are going to be your map to success and things like breeding, feeding and milking, when there's money involved, repetition, when success is involved, when money is involved, repetition is never bad. Did you ever watch a good preacher at church on Sunday? Well he might talk about the devil a hundred times in his sermon, but if you're scared about going to Hell, you listen!

Now I'm going to put you to the acid test. You have to be

able to compare, probably on paper, the value of your service to the value offered by other veterinarians if you want to keep these guys' business. You have to be able to have a difference. I don't care if you work twice as hard, you're twice as smart, if you have twice the better idea about what this farmer's problem is, or if you are twice as good at working with dairy farmers in this particular area with these particular types of cows or forage or facilities, or what. You have to be able to illustrate you're better, and I think illustrated in dollars and cents. I really feel that at the farm, differences in economic earnings of \$2.00 a hundred weight are going to continue from now. I don't care how much the dairy industry changes. You are never going to have the situation where every farm is the same. You don't have any agricultural industry like that now—some with technology much more advanced than dairy farming and you're not going to have it in dairy.

The last thing that I always think about dairy farms—there are two types of dairy farms. Every dairy farm falls in one of these categories and it's always interesting to ask which one is this farmer in. There's that dairy farm group that's getting in the business in a more successful way or there's the dairy farmer that is going out. There are only two types of dairy farmers out there. In June and July, a survey of 111 dairy farms in the North San Joaquin valley. 28% of the farms had negative earnings. That does not mean they are all going broke tomorrow because if they had negative earnings they should all get out of business. All it means is they were not paying for all the facilities that they had and they were not getting a good return on their investment. They were maybe consuming their capital, selling the farm to the bank. 28% were negative, 44% were making between 0 to \$1.00 per hundred weight, and 28% were making over \$1.00 per hundred weight. That is a tremendous range and I feel they are going to continue to exist.

The eighth thing is that is going to happen is that varying degrees of service are going to continue to be requested. The reason is that all farmers are different and they will want various service levels. Some like extensive services and are willing to pay for it, others live with a lousy job and they don't mind as long as it's cheap. The calf died, the cow died, but what do I care, he's only charging me \$28 a visit. There's room for all types of veterinarians, I feel but you can't go wrong giving top quality service. Whenever I low ball a customer that I'm selling milk, I always live to regret it.

Another big change I see coming. I know you won't believe me but we are going to see the return of the producer processor. We have already seen it to a certain extent in large dairy areas. The reason is that as farms get bigger they have more marketing opportunities, they can do more things. If I'm producing three loads of milk a day or six loads of milk a day, 6,000 gallons a load, right, 36,000 gallons, enough to feed a family of four for 100 years in one day, I can all of a sudden do some things that I couldn't do when I was only shipping 200 gallons a day. But then again I may not choose to do it until I have to until I am absolutely forced into it

because I am a dairyman. I am not a bottling plant, I'm not a butter powder plant, I am a dairyman. But if you look at other areas of agriculture, we've seen the growth of producer shippers in vegetables both shipped fresh and processed which is a very capital intensive industry when you get into processing tomatoes. We've seen the growth of producer shippers there. We've seen it in vegetables, in eggs and are going to see it again in milk. We already have it to a certain extent in California. I just think it is a transformation of what the industry is going to expect.

The last thing I think that you're going to see is that farmers are going to shift away from investment and towards cost cutting as a means to make money. Maybe this is not new to everyone but gimmicks are going to be tougher and tougher to sell. It's going to be more and more how can I cut costs. The reason is that cost cutting saves money no matter what and I really feel that your knowledge of how to cut costs is the only ticket you have to be successful. I want to say there are only two measures of costs on a dairy. That is your dollar cost per gallon or per pound of milk sold. You want that to be as low as possible and your dollar cost per heifer raised and calved and into the milking barn. Anything you can do for the dairy farmer to show him how he lowers those two costs, that's what your job is. Everything that happens on that dairy, all the crops, all the labor, everything that's there, goes through the cow. Without the cow there's no dairy. Did you ever visit a termination program dairy? You've all seen them. I flew over one. It was full of used cars in the corral. Probably some of you saw it when you flew in. I feel you've got to measure it in out of pocket costs. Cash costs. Don't try to factor in depreciation and all this other stuff. You know, the farmer doesn't care. Make it easy to measure. Your idea of how to do it is probably better than my idea of how to do it because you know that cow better than I do. A cow produces two products, milk and calves.

One question I've been wrestling with for the last period is when you are looking at the economic efficiency of a dairy what the economic unit is. We are used to thinking always in terms of the cow. Yet we see dairymen who are profitably overcrowding which means that their production per cow is probably not maximum but they make more money when they overcrowd. What do you think the economic unit should be that we measure? Is it per stanchion, per hour in the barn, per acre, what do you think it is?

The crowding is a really good point and you do see a lot of that and when the diversion program came along. We saw a lot of dairy farmers that couldn't cull enough cows to get their production down because everytime they removed some cows there was more feed left and the rest of the cows. Whatever it was that was left, they had more elbow room and away they went. A dairy farmer in my opinion should not crowd the cows. A successful dairy farmer would be one that either (a) decided to build some more corrals and expand the milk barn or (b) sold those milk cows to another dairy farmer as milk cows and used the money to do something like put in a setup to feed commodities, set

himself up so that he could feed his cows in strength, do something so he could store silage if he didn't have that before. Buy a contract. In California we have contract and trades between dairies. The smartest dairymen in California right now are the dairy farmers who take the cows out of those crowded corrals, sell them to some other farmer as milk cows, and take the money and buy quota. That is a smart dairyman because he can always grow some more cows, right? Cows are like corn, you know you grow it every year but to think you have to save it this year and keep building it up, you don't have to. You can do something with

that resource. Sell those cows and buy quota, sell those cows and improve your dairy. Figure out some way to get down your cost per gallon. You know one of the most basic things is body maintenance and all those cows have their body maintenance requirements. Dairy farmers love to count heads but those corrals would hold a lot more goats than they would hold cows so if you must count heads, get goats.

Transcribed from a tape recording of Dr. Seibert's presentation.

