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[Return to Current Issue](#)

Challenges and Opportunities for New and Beginning Dairy Producers: A Pennsylvania Perspective

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Abstract: New and beginning dairy producers have challenges in building equity and developing strategies for sound succession plans. Dairy farm businesses are capital intensive, and an aging dairy farm owner population means that transition of these operations will be critical in the future. Focus groups with both senior farm owners and new dairy producers were used to better understand these challenges and to enable Extension professionals to create educational opportunities to meet the needs of new and beginning dairy producers. Keys for success that were identified included sound financial planning and purchasing animals as a strategy to grow equity.

Introduction

Dairy farm businesses are highly capital-intensive operations, and entry into the industry by new producers requires sound strategies for building equity. Stokes (2006), in evaluating trends in the Pennsylvania dairy industry, noted that it is increasingly difficult for new entrants to the dairy industry due to the capital-intensive nature of the business. With an aging population of dairy farm owners, it is imperative for the continuation of the

industry as a whole that individual operations have some sound strategies for succession planning. Recent Pennsylvania data (2008 Pennsylvania Dairy Survey) indicated that less than 16% of the farms completing the survey had invested in formal business planning and even fewer had formally explored succession planning. Fetsch (1999) noted that transition planning is one of the riskiest, most stressful, and under-researched issues of critical importance to farm families. Better understanding the challenges and opportunities faced by new and beginning dairy producers in building equity and developing sound succession plans is key to the design and delivery of appropriate extension education to aid this group of clientele.

Gamon (1992) described the use of focus groups for needs assessment, especially when gathering information about new extension programming. If Extension educators are to develop useful programming and tools for new and beginning dairy producers, data about succession planning, growing equity, and educational needs will be critical. The objective of the project reported here was to develop a better understanding of how new and beginning producers were building equity and participating in successful dairy farm transitions. The study used focus group methodology with a trained facilitator and both beginning and senior dairy producers in focus groups.

Methods and Procedures

Two geographic locations (Central and Southeastern Pennsylvania) with high concentrations of dairy farms were targeted for identifying focus group participants. Names and addresses from the Penn State Dairy Alliance database of past educational program participants and the Pennsylvania state list of licensed milk producers were combined within each geographic area to yield between 20 and 40 producers per region who were either beginning to dairy or who had completed a transition. A letter of invitation was sent to these producers in each geographic area inviting them to participate in a focus group designed to gather information about the limitations for and needs of new and beginning dairy producers. The letter invited those producers who had successfully managed a transition (senior producers) as well as those new and beginning producers who had started dairying either on their own or in a partnership in the past 3 years. Participants from both family and non-family partnerships were invited to attend. Other than a meal, no direct compensation was provided for participation in the focus groups.

Focus group methodology (Krueger & Casey, 2000) was used along specialized software <<http://www.groupsystems.com>> that allowed for anonymous responses by participants to a series of questions. Each participant had a laptop computer with all of the questions for the focus group on the screen. As participants anonymously answered questions, the results were projected on the large screen for the room. A trained facilitator conducted each of the focus groups and provided guidance about using the software and encouraging maximum levels of response. Participants were encouraged to view each question and add their answers, then review others' answers and make additional comments about specific responses. In this way, the discussion component of focus groups was captured but still allowed participant comments to remain anonymous.

The questions were designed to gain understanding about key steps needed for successful farm business succession, strategies for building equity for new and beginning dairy producers, and areas of need where further resources or training and education could be of benefit to new and beginning producers.

Results

Two focus groups were held in separate geographic locations, with six participants in the first group and five participants in the second group. The targeted number of participants was between 8 and 12, so the groups had less-than-desired numbers. Participants were a mix between established, senior dairy producers who had successfully transitioned their businesses and new dairy producers who were in the process of either starting a new business or taking over an established dairy. Demographic information about participants and farm

characteristics is shown in Table 1. Because the number of participants was lower than expected, all data for both focus groups are combined and presented as a single set of results. Herd size, education level, and type of business structure of the participants varied, but most were family businesses with only one participant being part of a non-family operation.

Table 1.

Summary of Demographic Information About Types of Participants and Types of Businesses from Focus Groups (n=11)

Participant Type	Senior Owner/Manager	New or Beginning Producer	
	7	4	
Participant Education	College Graduate	High School Graduate	Technical or Trade School Graduate
	6	4	1
Business Type	Family Business	Non-Family Business	
	10	1	
Type of legal entity	S corporation	Formal, legal partnership	Sole proprietorship or "other"
	5	3	3
Herd size *	Less than 75 cows	151 to 600 cows	Greater than 600 cows
	3	5	3
*Note: No participants had herd sizes between 76 and 151 cows.			

Table 2 shows a summary of answers to the question about "key steps" needed to complete a successful farm business transition. Not unexpectedly, items like PLANNING, GOALS, FINANCING, and RELATIONSHIPS were common elements at both focus groups. The "key steps" suggested agree with results from Fetsch (1999). A short summary of responses is listed with each key step needed. Written documentation was recommended for several items to improve clarity and communication. These "key steps" were identified by participants as absolutely necessary for success. Additional discussion around the issues of financing and relationships/controlling interests can be summarized as follows.

- Businesses must have sufficient capital for both the new and beginning producer and the senior generation producer to allow for adequate income for both partners.
- There must be a substantial shift in controlling interest in the business and the partnership with the new and beginning producers taking over business decision making, not just day-to-day operations.

Table 2.

Focus Group Question—Based on Your Experience with Transitioning Ownership of a Dairy farm Business,

What Are Some Critical Steps That Must Be Followed?

PLANNING	Hire a business consultant Develop an advisory team Spend time necessary, but establish a timeline and endpoint.
GOALS	Everyone must have similar goals Have clear, written goals Must have a goal of continuing to farm Need new goals for the new entity Include non-farm children when setting goals Set time to discuss goals for EACH person involved.
FINANCES	Good solid income and expense numbers Need sufficient dollars on both sides Need to be flexible Enough income from business to make transition realistic Enough capital to make it work All parties need to have enough income post-transition Use professionals - banks, accountants, consultants, attorneys. Plan for non-farm children to avoid hard feelings. Line of credit will be essential
CONTROL/PARTNERSHIPS /RELATIONSHIPS	Both parties willing to give and take Husband and wife agreement as well as partners Hard for senior owner to accept not making all decisions. Must happen. Must be willing to "take a back seat." Written operating agreements help. Be completely open and honest (both parties) Problems will come up; need an understanding of how they will be handled. Be willing to leave the problems at the barn and not bring them to the house.

Table 3 presents answers to the question about how new and beginning producers can best build equity during and after the transition. Investing in cows was a common theme among participants in both focus groups, followed closely by purchasing land or acquiring land through family inheritance and/or gifting. There was considerable discussion about the need for the beginning producer to focus on and invest in animals through a variety of methods. because cows were considered the "productive units" of the operation, there was clear preference to building equity first through animals. Responses beyond simply "cows" and "land" differed greatly depending on family and business situations of the participants involved in the focus groups. Rent to own and different types of business shares to capture equity, both through family and non-family businesses were also discussed.

Table 3.

Focus Group Question—Based on Your Experience, What Are Some Sound Methods for Building Equity in the

Dairy Business, Both Over the Long Run and for New and Beginning Producers? (n=11).

Strategy (in order of importance)	Potential Component of Strategy
Purchase Cows	Invest in cows. Invest in a share of larger operation (to gain cows). Purchase calves and raise them. Rent farm with cows. Keep every stall in barn full. Build cow numbers as fast as possible. Have more heifer calves (sexed semen use).
Rent Land/ Partnerships with Labor for Equity	Rent from retiring producer Talk to neighboring farmers about working into land purchase. Serve as an apprentice. "Sweat Equity" - reduce work load of older generation and build equity for younger generation
Purchase land	Start with small land purchases in younger partners' names. Invest in cattle first, then land. Once more established, invest in land. Don't borrow more than you can pay back (need good plan.)
Gifts/Bonuses	Family can gift cows, land, partnership shares. Bonuses can be given to non-family partners for services.

Another question asked of the participants was "What are the current limitations in Pennsylvania's business climate or dairy industry for new and beginning producers?" Most of the answers included some aspect of the capital-intensive nature of the industry as discussed by Stokes (2006). Responses included:

- Cost of getting started (land, equipment, other expenses)

- High cost of land/land prices

- Finding land and other resources at low enough value to cash flow the operation

- Borrowing capacity and availability of start up capital

- Tax and inheritance laws can impede transfer.

One of the last questions asked was "What are some key state wide resources that are needed to encourage more successful dairy farm business transfers?" Again, answers varied across participants but several themes emerged

including:

- Affordable attorney and accounting services
- Help with tax accounting, incentives and legal aspects of transfers
- Good relationships with advisors and use of advisory teams
- Business planning expertise and programming.

Conclusions

New and beginning producers are faced with challenges of accessing capital and building equity for new partnerships and operations. Keys to success outlined by the focus groups in the study reported here were effective planning, including financial planning, setting goals, and developing sound relationships that allow for transfer of operational management. New and beginning producers in the study focused on building equity, first through animal ownership, then through land ownership. Due to the low numbers of participants in the focus groups, results may not be representative of a larger population; however, it is reasonable that new and beginning producers could benefit from Extension programming that provides information about succession strategies, especially in the areas of business and tax planning.

The research reported here benefits Extension professionals because it provides practical strategies that have been successfully implemented by transitioning producers. Results also suggest that the use of legal and accounting experts and peer-to-peer producer knowledge transfer in delivering Extension programs could be useful. These educational partners provide an experienced perspective that can add value to the education that Extension offers.

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