

Transitions: A perspective on dairy's future here

"Not in his goals but in his transitions is man great." — Ralph Waldo Emerson

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Special for Farmshine

TYRONE, Pa.—When Dave Hileman was considering his options for retirement, he knew the transition would be tough. After all, dairying has been his passion since childhood.

"When you love what you do for a living, you really don't need any hobbies," says Hileman with a smile. And after selling his 450-cow dairy complex, the herd, all of the machinery, and about half his acreage in 2008, he continues to immerse himself in this passion.

As for the transition? "Smooth," says Hileman. "The employees stayed on the farm. That was a major criteria."

With his two grown children following other career paths, Hileman's next concern was for his loyal employees and the herd he had developed over the years.

Enter, Phil Kulp. While the Martinsburg area Kulp Family Dairy is 35 miles from Dave's Hilecrest Farm near Tyrone, Kulp had come to the Sinking Valley in 2007 to buy a heifer farm, which happened to be across the road from Hilecrest. There, Kulp was raising 900 replacements for his dairy.

The timing and synergy were perfect. The two men shared similar philosophies, mutual respect, and the Sinking Valley location of Hilecrest Farm couldn't be more perfect as an integrated satellite dairy for Kulp. It would become the facility where he houses his milking two-year-olds. As they dry off from their first lactation, they are moved to Martinsburg.

And, Hileman still gets to participate in the farm's future. He meets with Kulp every other week, and he facilitates the management team meeting on the weeks in between.

While Hileman's transition of exiting the business is obvious, Kulp's transition is geared toward positioning his business for the future. He and his wife Becky have six children ages three to 11. As they each reach the age of six, Phil and Becky get them involved in calf chores at their renovated bank barn, which he calls "a farm within a farm."

He won't be pushing them into the dairy life. He wants them to have the options he had growing up: To be able to experience the farm as well as other activities, so they can make their choices as they grow.

But he's already thinking about their future in the dairy: What will their challenges be?



PDMP past president and 2009 World Dairy Expo Dairyman of the Year Dave Hileman (left) meets every other week with Phil Kulp, who purchased Dave's Hilecrest dairy herd and facilities in 2008. Phil is co-owner and general manager of Kulp Family Dairy and the new owner of Hilecrest Farm. He will talk about managing and integrating satellite dairies, and other topics, as a speaker at the 2010 Pennsylvania Dairy Summit in February.

How can he work toward positioning the dairy for those challenges?

"When farms are transitioning from one generation to another, it's important for the older generation to take steps to plan for it—a good 10 years previous," Hileman observes. "If the parents don't start planning until they are sure the kids will come back to the farm, by then, chances are, there will not be enough cash flow to bring them back."

Hileman advises taking steps in anticipation of the children wanting to enter the dairy business, then if they don't, the parents can still continue on with the business.

"In each situation, there are unique ways to position the business to bring the next generation in," he explains. "If you want to bring two or three children into the dairy business, then it has to be big enough to cash flow."

In Kulp's case, for example, Hileman observes that, "Phil has six children and if they want to come into the business down the road, he'll want to be positioned so they are not tripping over each other."

One of Hileman's 'pet peeves' is the big versus small farm debate. "Here in Pennsylvania, small family farms can still be very profitable. That's absolutely true. But, if the family wants to bring the next generation along, it will be

difficult to get them involved if the business has not achieved the critical mass to bring the next generation in," Hileman explains.

Taking that step to become larger is what the family needs. "But what is best for the individual dairyman and his business and family is often not what's best for the whole industry," Hileman acknowledges, pointing to the current low price situation after nationwide dairy expansion in 2008.

"Still, people need to do what is best for their business and their family," he adds. "That is to maximize their resources, even if it is counter to what the industry needs or should have happened. This is definitely a challenge."

The other side of the coin is that recent expansions in Pennsylvania (and the East) are actually just filling the voids from previous losses in milk production in order to grow back the region's share of the national milk market and keep a strong dairy industry here in this region.

"I counsel young people that you need to make sure you are positioning your business in the best way possible because your first responsibility is to your family," Hileman relates.

Now that he is retired from the day-to-day intensity of the dairy business, he has more time to work with young dairymen. As the facilitator for seven south central and western Pennsylva-

nia Dairy Discussion Groups (through Penn State Dairy Alliance), he says he is amazed by the number of young people entering the dairy business over the last 10 years.

"They are frustrated by what is going on right now," Hileman observes. "But I'm not hearing them say it's time to leave the business. The tough part for younger dairymen right now is debt load... and the fact that they haven't gone through this before. This is really their first experience with the ups and downs, and they are really struggling with that."

That's what makes the dynamics of discussion groups and organizations like PDMP so beneficial. They provide opportunities for the younger producers to mingle with the older producers and get different perspectives to help them in their businesses.

What concerns Hileman is that as the overall number of families involved in dairy farming declines, there are fewer young people growing up on farms.

"Going forward, this means fewer of our financial professionals, consultants and regulators will be people who have grown up on a farm," Hileman points out. "Now we are getting more people in positions of influence, without having a good farm background. That's a little scary to me. If they did not grow up on a dairy farm, then they do not quite understand what it takes on a day to day basis... the intensity and commitment of running a successful dairy business."

Aside from commitment, the hallmark of a progressive dairy today is knowing cost of production on a "real time" basis.

"I knew what my cost of production was at the end of the year," says Hileman. "And I didn't get that information until three months after the year was over (via the tax records). That's not going to be enough in the future. We need 'real time' cost of production—every quarter—so the dairyman always knows what his cost of production is for the past three months."

Five-year averages are a starting point, he says. It's beneficial to know what happened last year and compare it to the five year average to see if a trend is happening, for example.

"But to me, it's more of a trendline than an average," he says. "The 12-month rolling average is a better indication of where you are than waiting until the end of the year to get that average. We as dairy farmers have a tremendous amount of information at our fingertips. Our problem is finding time to sort through it to detect what is important and what is of value, and then acting on it."

Hileman sees the future as being one where dairymen will need to get better at "anticipating change." One of the biggest obstacles to anticipating change is that dairymen don't understand the system by which their milk is marketed and priced.

"If we don't understand the system, how can we anticipate it?" he adds. "We have to know just what our market is based on and who is our customer: Is it the consumer buying that gallon of milk? Is it Walmart? Is it Dean? Is it someone in China? We need to figure that out."

Hileman's bottom line is that producers and their cooperatives need to be more innovative to capture a larger percentage of the consumer's dollar and in generating more demand.

In these times of unprecedented transition for the dairy industry... for dairy farm families... and for future generations of young dairymen, there are resources available. From risk management tools to discussion groups to profit teams and succession planning, business tools abound.

As for PDMP, Hileman, a past president of the organization, notes that, "Our focus has always been narrow. It has been on producers. That is what has made the organization effective. If we look at what's good for the industry, then we have the differing goals. But if we concentrate on the goals of producers, we stay focused."

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