

# Dairy Career Paths

## 2009 Missouri Dairy Grazing Conference

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Funding for the Grant Project Provided by:



An established and attractive career path for people wanting to dairy is critical to the future growth of grazing dairies in the U.S. A viable pathway to ownership enables people to overcome exiting barriers to entry and exit.

In New Zealand, and to a lesser extent Australia, the special characteristics of pasture-based dairies have led to the successful establishment of career paths that assure a steady flow of motivated young dairy producers eager and able to manage and buy dairy farms. This same career path mechanism has allowed older dairy producers to get full benefit out of their lifetime's investment in their dairy.

A traditional dairy labor dilemma often voiced by producers in the U.S. is as follows:

### Dairy Owner

- Cannot find and keep good workers on the dairy
- No desire to reinvest in facilities after age 50 because of looming retirement

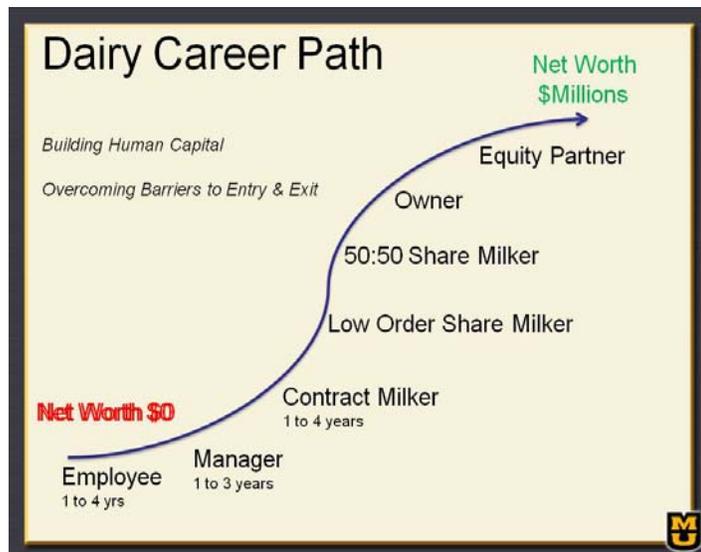
### Potential Young Dairy Farmer

- Cannot find financing to start dairying
- Lump size of equity necessary to leverage and create a minimal sized dairy is beyond most people in their 20's and 30's.

In contrast, a typical dairy career path in New Zealand is depicted in the graph to the right.

Starting as employees with no background in dairy, many people climb through the career ladder.

As their skills and equity position permit, people take on ownership of cows via sharemilking, then purchase the farm later.



Because grazing dairies use reduced purchased inputs, they are often able to operate profitably when other dairy operations cannot. That difference allows grazing dairy owners to survive when milk prices may be low or feed prices may be high.

In addition, since grazing dairies typically focus investments in land and cows rather than machinery and buildings, the capital on grazing farms tends to appreciate or at least hold its value. Lenders may be more willing to finance new dairymen whose hard assets are more saleable than the specialized structures typical of confinement dairy farms because dairy specific facilities may not hold their value in liquidation. As a result of these investment characteristics, the lure of the grazing dairy operation is attractive to beginning dairy farmers.

Individuals begin their careers anywhere on the path depending on their own farm and financial situation. The beginning level of the career path is as a farm employee. The farm employee works a given number of hours doing various farm tasks under the direction of the owner or manager. The next level in the career path is farm manager. The farm manager is typically responsible for the daily operation of the dairy and the decisions that impact the operations. The farm manager answers to the farm owner and is seldom responsible for the finances of the farm.

As one moves through the career path after becoming a farm manager and gaining additional skills and management abilities they may become either a contract milker or sharemilker.

Contract milkers are individuals who contract with the farm owner to perform specific duties, typically the milking chores, for the farm. The income is determined by the contract and there are few opportunities for the contract milker to benefit from increased production or milk price changes. They manage the cows through the dairy parlor harvesting the milk and seldom have additional responsibilities.

Sharemilking provides additional opportunities and responsibilities for the employee. As a sharemilker, the employee provides much of the labor and management duties for the farm in exchange for a portion of the dairy income. Since the sharemilker receives a portion of the farm income there is incentive to improve performance of the farm. The highest level of the dairy career path is that of farm owner or equity partner. Today's environment provides opportunities to own a farm outright or pool resources with others to form an equity partnership where the partnership develops the farm and hires a farm manager to operate the dairy.

## **Farm Employee**

People wanting to dairy, might want to consider working as an employee of a dairy farm. As an employee, it is your responsibility to work hard providing your employer the opportunity to profit from your labors. The farm employee will benefit from the work experience and knowledge of the manager or owner. It is important to communicate with the manager or owner your desire to eventually become a manager and owner of a dairy farm.

An employee will typically start as a milker or on the feed wagon, performing many of the daily chores. During this time, it is expected that the employee will learn good work habits, a variety of farm skills and learn basic animal care techniques. This takes concentration on a number of tasks and the ability to observe and learn basic care of the animals. After some period of time, a good employee might be responsible for feeding, caring for the calves, helping with the breeding, grass or paddock management or other farm tasks.

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It is imperative to remember the importance of learning as much as possible about each segment of the dairy. As the employee is exposed to each segment of the dairy farm, more knowledge and skill can be gained that will better prepare them for future promotions. An employee who has aspirations of following a career path that might eventually lead to farm ownership will typically remain as an employee for one to four year working his way up to an assistant farm manager or second in command.

As a prospective new employee, it is important to realize that it is a good business practice for the farm to have an employment contract and not to be concerned if you are asked to sign a contract. The contract protects you and the farm from any misunderstandings. The employment contract opens a communication between the employee and the manager or owner. Open and free discussion about expectations and concerns is a great way for everybody to fully understand the expectations and requirements of both parties. The employment contract should include, but not be limited to the following items:

*Name of parties involved both the employer and employee.* The name should not be the name of the farm manager but the actual employer.

*A description of the work performed.* Now realize this description cannot be all inclusive but a brief description of the type of work. This description should also include any special or different tasks required by the farm.

*Expected number of work hours.* Nobody, farm employee, farm manager or owner should be expected to work all of the time. When you are hired, you become one of the team members and working as a team you look out for each other. When stating the

expected hours of work, the total needs to be as accurate as possible. The potential employee should have a lengthy discussion making sure there is no misunderstanding about what is expected. It is important to remember that some seasons of the year will be busier than others. Calving and breeding season may be much busier than the rest of the year. The contract may also state when the employee is expected to be at work. This too clears up any misunderstanding as to what is expected (schedule of days off and pay adjustments for unplanned extra hours.)

*Wage rate or salary.* This should include an explanation, how often wages will be paid, when they will be paid and how they will be paid. Included in this section should also be any other allowances such as housing, if provided, rubber boots and other provided work wear.

*Grievance Procedure.* Farms with several employees might include a grievance procedure. A simple explanation of how employment problems will be resolved. This may outline the employee's right to take up a grievance, a given timeline and the steps the employer will take to ensure that any employment problems are dealt with in a timely and efficient manner. It should also explain what options are available to both parties should internal procedures fail to deliver a satisfactory solution. Many farms feel they are too small for a grievance procedure and may not include this in the hiring documents.

*Duration of the agreement.* Is the agreement for a given time, a season, a year or is it open ended? The employee has the right to have full understanding as to how long they can expect to be employed. If the employment period is to be a short time frame the employee should be told so they can work to become a full-time employee to understand at a stated date they know they need to be looking for another job.

Make sure time is taken to review all hiring documents at the time of hiring so any questions and concerns can be expressed at that time. Employees who fail to completely review the documents may not fully understand job expectations and requirements. The day of hire is the time to raise issues not several days or weeks later.

Other items that might be in an employment agreement:

- Annual and sick leave policy.
- Performance review policies including a clear listing of expectations, probations and other possible performance concerns.
- Security and confidentiality agreement.
- Processes for dealing with termination of employment.

## **Farm Manager**

The next logical step for the employee is to become a farm manager. To accomplish this employee might have to move to a different farm. This move allows the employee to fine tune skills and increase farm management knowledge base. It is important to remember this move makes the manager the responsible one. Fortunately with that increased responsibility the salary also increases. Often, farms will even provide living quarters for the manager and his family. This allows the manager and family to focus on saving money so they can purchase livestock and equipment thus allowing them to move up to a sharemilker or equity owner status.

The farm manager makes many of the decisions and is often required to decide when and how to conduct many of the farm activities, feeding, breeding, grass management and of course handling farm personnel. The manager may be responsible to hire and fire personnel and conduct some of the human resource functions. When talking to farm managers it is not the cows, the feeding, the breeding responsibilities or even the winter weather they dread, it is the dealing with people and the issues and concerns each employee brings with them. Efficiently handling people and the issues they bring can determine the future success of the farm.

One area of difficulty and frustration that managers face is maintaining a reasonable and fair work schedule for the employees while making sure they have time off. It is important for the manager to be flexible, while also protecting his time away from the farm. It is too often the manager who feels like he cannot afford time away from the farm. After a few successful years as farm manager there may be opportunities for the manager to buy or build a dairy farm or invest in an equity partnership.

When hired as a farm manager it is not unusual to be asked to sign an employment contract. The manager needs to fully understand the expectations in this role. Some farms require the manager to be responsible for the operation of the entire farm, while others have specific jobs performed by the farm manager while others may be performed by the owner or other personnel. The expectations need to be clearly explained in a written form. The employment contract may require more detail than for the employee position. Clear job requirements and expectations should be shared so there is no misunderstanding. If there is a system to reward the manager for superior performance then it is particularly important the expectations and rewards are clearly defined. The rewards might be based on milk production, cost containment or simple profitability. This can and should be determined before the employment contract is signed.

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## **Contract Milking Agreements**

Contract milkers, low order sharemilkers or other sharemilker agreements are available and offer someone the opportunity to increase income while increasing responsibilities. The difference between each agreement is the level of responsibility, risk exposure and of course payment.

Contract milkers are just what the name implies. The contract milker agrees to provide the labor and management for a given price. This type of agreement gives the milker an opportunity to increase income without much of the risk of an owner or sharemilker.

A contract milker provides all of the labor for the farm, hiring and firing employees, handling all of the human resource functions, the paperwork and so forth. The contract milker is responsible for milking and milk quality, grazing management typically in consultation with the owner and staff management including work rosters.

The contract milker in return receives a given amount of income to cover his costs for labor and management. The owner benefits or suffers, from fluctuations in milk production, feed costs, weather, milk prices and other production and income variables. The owner typically bears all of the risk in the agreement.

The contract milker agreement is a fixed rate contract agreement where the fixed payment may be based on pounds or cwt of production. In their simplest form they cover:

- 1) Labor; stating the responsibilities of the contract milker in clear, concise language.
- 2) All dairy parlor operating costs including utilities and consumables like teat dip and other items used in the daily operation of the milk parlor.

A risk factor for employing staff including any required employment tax collections. The contract milker position allows the contract milker to better fine-tune their management skills under the careful eyes of the owner. This position is a great opportunity as a training position giving limited responsibility to the contract milker while allowing their management knowledge and skills to improve.

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## **Sharemilking**

Sharemilking can be the first step to farm ownership. Sharemilking involves operating a farm on behalf of the farm owner for an agreed share of the farm receipts (as opposed to a set wage as the contract milker). The sharemilker is responsible for providing the labor required for harvesting the milk and other farm duties set out in the agreement.

Any agreement can be created, but typically there are two types. A variable agreement, sometimes called a low order share milking agreement and a 50/50 share milking agreement.

Under a low order or variable sharemilker agreement the owner may have little to do with milking and parlor management. Both agreements often see the owner heavily involved in managing the rest of the farm. The low order or variable order sharemilking agreement involves the farm owner retaining ownership of the herd and bearing more of the farm costs, such as hay-making and animal health. The amount of farm work required by the sharemilker is determined by the individual agreement, with the responsibility ranging from herd management only, to carrying out all farm work. The sharemiker shares some of the production and price risk as it relates to the milk check. This allows someone who is not physically able, to continue owning and managing the farm while giving a sharemilker the opportunity to increase their management skill and potential income. A sharemilker agreement is a great tool allowing the owner to still be involved in the farm while creating an opportunity for someone else to learn and improve their management skills and knowledge. Agreements could range from 35% up to 65% of the income going to the sharemilker depending on the responsibility and risk being taken by the sharemilker versus the risk and responsibility being taken by the owner.

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The 50% agreement may offer someone the opportunity to get into the dairy business or maintain an existing dairy if the owner is not able or does not desire provide all of the labor and management necessary for a successful operation. At this point, the owner treats the farm as an investment and desires a fair return on the assets. The sharemilker will often take the responsibility for maintaining the existing systems including waste management, feed and of course including but not limited to the milk harvesting system. Negotiations between the owners and sharemilker will need to be sure to include fertility maintenance, equipment, lane and other facility maintenance concerns. Both parties need to understand the financial impact of a drought, rapid price change for inputs or milk produced. The key to success is again finding the right person for the position. The owner can take advantage of any price increase in the farmland value.

### **Areas of Concern and Contention in Sharemilking Agreements**

In most cases, conflict between owners and sharemilkers do not normally arise out of just one difference of opinion. Rather, they appear to stem from an accumulation of differences that finally reach a breaking point where a disagreement causes a termination in the milking contract. It is important to remember the sharemilking agreement can and should be a win-win agreement. The sharemilking agreement should include:

- The names of parties involved.
- Termination dates.
- Property description including the land and any dwellings available to the sharemilker or other staff.
- Cow numbers and stocking rates.
- Young stock arrangements including bulls and domestic consumption.

The sharemilker benefits from the owners assets and the owner benefits from the sharemilkers cows, labor, management skills and knowledge. Below is a checklist or points for consideration for owners and sharemilkers that both need to ask and have answered before they sign an agreement. It also includes some of the items both parties need to check when viewing any potential sharemilking proposal. Farmwise, a consulting group in New Zealand has developed the following list of considerations that Geoff Campbell delivered at the LexisNexis Rural Professionals Seminar in Queenstown, New Zealand in 2007.

Considerations for owners and sharemilkers who want to avoid potential problems when looking at a sharemilking agreement.

- Always remember the Low Order or Variable Order Sharemilking Agreement provides the minimum standard for which to operate under. It contains at least a minimum standard or operation laying out what is expected from each party.
- Be willing to hire the necessary expertise to create a mutually beneficial agreement. Knowledgeable attorneys, accountants and other advisors can help ensure the success of the agreement.
- Sharemilkers are not general staff. They are INDEPENDENT CONTRACTORS running their own business. Sharemilkers need not be on the farm all day as do some

farm employees. As long as the farm is maintained and the dairy stock are well cared for, they may be meeting the requirements of the contract.

- Ensure the farm has a sound infrastructure including, but without exception, good housing and dairy parlor, adequate new pastures with adequate water, good lanes, high standard of fencing, minimal weeds, good soil fertility and reliable winter paddocks, preferably owned by the farm owner. The intention here is to remove any chance that the Sharemilker might bring up an excuse that production was not up to target or that costs were higher than predicted because farm maintenance wasn't up to an acceptable standard.
- Ensure there are good monitoring systems set up for recording pasture cover, numbers of cows milking and regular herd testing. These systems allow the Sharemilker to have an active interest in their herd and farm assets.
- An inventory of available pasture and supplements of total available feed on hand at changeover. It should be clearly stated that adequate feed be available for the following year on hand on termination date.
- Poor cow body condition score (or condition score) due to the herd either being milked for too long before calving or not fed well over the winter. Light cows at drying off increases feed costs during the dry period and can negatively impact milk production the following season.
- Over/Understating production and/or milk income. Check the average per cow milk production for the farm (Sharemilker) over the previous three to four seasons. If the history is not good, changing either the Sharemilker or the herd may not solve the issue as it could be due to a problem with pasture, stock water, or milking parlor. Both parties can benefit from making sure the other is being completely honest concerning expected performance.
- Substandard facilities. Good facilities make it easier to attract and retain top sharemilkers and staff. Milk parlor equipment and arrangement is important as the impact milking times. The less time staff spends milking the better.
- Staffing Levels. It is important to communicate the number of necessary staff to effectively run the farm. Past experience is the best teacher. This information needs to be communicated to the sharemilker at the same time the agreement is being discussed. If the sharemilker can run the farm with fewer staff, that is his responsibility. Quality can be more important than quantity.

Additional concerns might include:

- 1) Waste management.
- 2) Care of cows and young stock.
- 3) Prevention and control of livestock diseases.
- 4) Farm and milk plant equipment care and repairs.
- 5) Care of young stock.
- 6) Care of buildings and other improvements.
- 7) Weed and pest control.
- 8) Water source maintenance and improvements.
- 9) Soil fertility of paddocks.
- 10) General farm repairs.

## **Equity Partnerships**

The final stage of dairy ownership is what is called the equity partnership. In this agreement a group of investors, large or small, pools their resources to provide financing for a dairy farm. Typically the group hires a farm manager and the manager answers to the owners through a board organization. The equity partnership allows the owner to benefit not only from the success of their owned farm but also from the success for the equity farm. The equity partnership also allows the non-dairyman to invest in and benefit from the success of a dairy farm.

There seems to be four primary advantages of forming equity partnerships. An equity partnership enables the partners to pool their capital into a single operation or company. Some groups require a large investment while others a small minimum level of investment. It is important to remember the larger the group the more complex the operational documents. This may also impact the organizational business form and how it operates, requiring several levels of administration.

Forming an equity partnership allows the group to share risk or price fluctuations as well as weather concerns, can create a negative cash flow for many dairies. Several investors pooling their money into a single operation or company can more easily weather the large price and production variability that often plague the dairy industry.

One strategy in forming a successful equity partnership is to involve people with different skills. One investor might be very good at cow health and management, another forage management and a third might know finances. By bringing this group together as an equity partnership the operation can benefit from each set of unique skills.

Building a successful dairy farm can require a significant amount of capital. Creating an equity partnership with others can allow more money to be pooled thus allowing a larger operation to be created. Larger operations are able to achieve higher performance efficiencies of scale for the farm operations and the business.

The equity partnership often hires a farm manager. There are advantages of making the farm manager one of the equity partners. In this case the managing equity partner benefits from ownership with a reduced level of capital input. If the equity partner hires a non-owner farm manager or sharemilker the manager or sharemilker benefit from an

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opportunity to progress to full farm ownership through his investment into the equity partnership, buying or building his own dairy operation. They also can benefit from being exposed to the thoughts, skills and knowledge of the owners.

Retiring farmers can benefit by forming equity partnerships either with existing farmers or someone newer to the industry. The skills and knowledge of older producers can be of great usefulness in starting up a new dairy operation. In this case experience can be the best teacher. Equity partnership is a great way for someone wanting to retire and still be involved in the business without the physical demands of a dairy.

Ownership structure and operational agreements are very important to the success of the equity partnership. Things to consider when setting up an equity partnership include the day to day operation including who and how decisions are made and how the manager is accountable to the owners. Entrance and exit strategies are also very important for the success of the business. This allows additional partners to be brought into the business and allows for a smooth transition between generations and retirements. A good understanding of the basic model is important but finding and hiring the right legal and financial advisors are critical to the overall operation of the business.

Equity partnerships need to be well constructed, and considerable time and effort may be required to organize and complete all of the legal documents. Due diligence is a necessity and can help make the business successful. Good relationships between partners and a common goal for the company are key to success. A shareholders' agreement is recommended to ensure the expected outcomes for the business, authority of the farm manager and owners, responsibility and expectations of the shareholders are identified and well explained.

### **Simple Illustration of a Potential Dairy Career Pathway**

- 1) Early 20s: prefer training at college and/or work on good dairy farm as a farm employee, calf raiser, farm assistant, herd manager.
- 2) Mid-20s to early 30s: move in to management position, milk an owner's herd for a percentage of the milk check (low order or variable sharemilker); work to accumulate own herd.
- 3) 30s: own cattle; farm under a 50-50 sharemilking agreement, accumulating additional cattle and cash.
- 4) Late 30s to early 40s: sell some of their accumulated cattle to generate a down payment for a small farm.
- 5) 40s to early 50s: sell small farm and/or buy larger farm.
- 6) Mid-50s and up: While continuing to own a dairy farm either continue milking own cows or stop milking cows and enter into share agreements with contract milker or sharemilker. May also invest in an equity partnership allowing owner to take advantage of personal cash, investments or equity in existing farm to expand overall dairy business.