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STATE OF MINNESOTA

Office Memorandum

DEPARTMENT: Of Agriculture

DATE: October 22, 1999

TO: Representative Bob Ness, Chair, House Agriculture & Rural Finance Committee
Representative Tim Finseth, Chair, House Agriculture Policy Committee
Senator Jane Krentz, Chair, Senate Environment and Agriculture Budget Division
Senator Dallas Sams, Chair, Senate Agriculture Committee

FROM: Perry Aasness, Assistant Commissioner, Minnesota Department of Agriculture PDA

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SUBJECT: Status report by MDA on use of marketing funds

Legislation passed by the 1999 legislature appropriated $480,000 the first year and $420,000 the second year to the commissioner of agriculture for programs to aggressively promote, develop, expand, and enhance the marketing of agricultural products from Minnesota producers and processors. The appropriation language also directed the commissioner to provide quarterly reports to the senate and house committees with jurisdiction over agriculture policy and funding on the progress toward accomplishing the goals of the appropriation. This is the first report from the Department of Agriculture's (MDA) on the progress and objectives of this appropriation.

Without question, we are in a period of transition in agriculture. The ability to adapt to the changing marketplace and to focus on identifying new market opportunities is a top priority and challenge for the MDA. In addition, the ability of producers to manage risk is an increasingly critical component to maintaining profitable operations. There are a number of risk management tools available to producers, which can be beneficial if utilized properly, including futures, options, production contracts, and a variety of crop and revenue insurance products. With this in mind, the MDA has identified the following three initiatives to focus on for the first projects with the marketing appropriation. At the present time, no funds have been allocated as these initiatives are still being finalized.

1) Minnesota Marketplace

The objective of Minnesota Marketplace (MM) is to improve the profitability of producers by aggressively identifying, creating, and meeting market needs through strategic relationships (alliances) with processors and end users. MM is a farmer-owned entity which is seeking to create a system to link producers to the marketplace and create opportunities for producers to receive a higher value for what they produce by meeting the needs of buyers and processors. The MM concept is modeled after a producer-owned cooperative in Kansas called 21st Century Alliance, which has successfully started several companies and ventures on behalf of its members.

The MM steering committee working on this initiative is composed of representatives of several commodity groups including: corn, wheat, soybeans, canola, pork, barley, and sugarbeets. This group has met over the past several months to develop a strategic plan to outline the direction of MM over the next 2-3 years. Several of the organizations involved in the development of MM's strategic plan have committed funds that will be used to match initial MDA funds allocated for this initiative. Financing for MM will also be dependent on their ability to attract producer membership. MDA anticipates providing initial start-up funding for MM, which along with matching contributions from the various commodity groups will allow MM to establish a membership base. Additional funds from MDA for MM would be contingent on meeting pre-established outcomes established by the MDA such as the developing IP grain contracts with processors or developing a joint venture with a viable processor or end user.

2) Livestock/Meat Marketing

a) Promotion of State Inspected Meats – The advent of the new state inspection program provides excellent opportunities to strengthen small meat processing businesses. There are currently 15 plants under inspection with another 25 plants expressing an interest in participating in the program. If all these plants come under state inspection, more than 3 million pounds of meat products will be processed under this program. To be ultimately successful though, the state inspected firms must secure sales in their local markets, develop retail/foodservice sales in other instate markets, prepare for competition from producers outside of the state (once the ban on interstate shipment is lifted by USDA), and ideally market products outside the state as well. In this initiative, MDA proposes to:

A. Meet with every state inspected plant to discuss marketing issues and needs, identify opportunities, and offer to assist in the development of a marketing plan if needed.
B. Assist companies increase distribution instate through trade shows and targeted buyer meetings.
C. Carry out public relations and advertising activities instate to encourage consumers to purchase state produced products.
D. Develop plans for introducing products out-of-state via trade shows and buyer presentations, once the ban on interstate shipment of state inspected meats is lifted.
E. Develop, in conjunction with Minnesota Association of Meat Processors, an on-going program of processor education on marketing, HACCP, and related topics.
F. Carry out surveys to document growth and economic impact of this sector.

b) Direct Marketed Livestock/Custom Processed Meats – The market opportunities for direct marketed meats have grown tremendously in the past five years, currently representing over $43 million in sales. The strength of this sector is that growth automatically bolsters both farm income (sale of livestock) and main street small businesses (almost 300 custom processors in the state). The major opportunity to be realized here lies in showing how processors and farmers can work together to increase sales. One successful model is the Market Maker program developed and tested by Lorenz Meats, where a processor and local farmers go through a curriculum on how to develop and retain customer bases. This model can be rolled out throughout the state with minimal issues of competition because most of the sales come from the local area around the plant.

3) Risk Management Initiatives

Earlier this month, MDA filled the newly created risk management specialist position by hiring David Bullock, former senior economist with the Minneapolis Grain Exchange. Mr. Bullock was hired to provide risk management services and coordinate delivery of those services to Minnesota producers. A priority for this position will be to assist farmers by analyzing risks related to production and marketing and helping producers develop appropriate marketing strategies. MDA proposes to achieve those objectives through the following ways:

a) Risk Management Clubs – The main objective is to organize risk management clubs in each of the major agricultural counties in Minnesota. Plan of action includes conducting a Risk Management Educational Inventory and Needs survey of likely existing providers of risk management education in the state. This survey will form the foundation of a resource base that risk management clubs can draw upon for educational programming needs. It will also assist the Minnesota Department of Agriculture in determining the best uses for departmental resources in this area. Some funding will be used in the administration of this survey.

In addition to the survey, the Minnesota Department of Agriculture, in cooperation with the University of Minnesota Extension Service and various producer organizations, will be cosponsoring a series of seminars titled "How to Develop a Marketing Plan" to be held at twelve locations around Minnesota in November and December. Part of this seminar will address the mechanics of starting a local marketing club. The MDA will use the attendee list from these events as a pool for likely organizers of risk management clubs. Some funding will be used to support this effort.

b) Regional Risk Management Specialist (RRMS) Program – The main objective of this program is to identify and train one Regional Risk Management Specialist (RRMS) for each of the six MnSCU Farm Management regions around Minnesota. Each specialist will serve as a regional resource person to help Minnesota producers develop comprehensive business risk management plants. In addition, each specialist will assist the MDA Agricultural Risk Management Specialist in coordinating risk management education and training for producers and agribusiness. Some funding will be used for the training of each specialist and to purchase risk management software for their use (i.e., @Risk for Excel, AgRisk, etc.).

Within each of these initiatives, the MDA will be seeking to leverage as much private funding to match or partially match state appropriations. In addition to the three initiatives outlined above, MDA will continue to work during the next few months to develop additional marketing initiatives and will provide a progress report in January 2000. Please feel free to contact me if you have questions regarding MDA's activities in this area.

cc: Commissioner Gene Hugoson