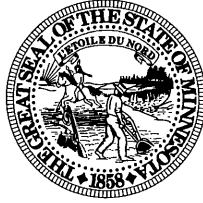


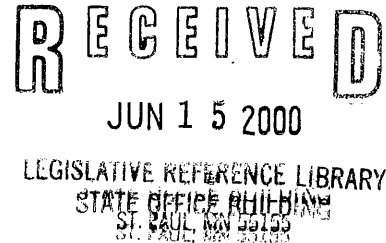
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## Minnesota Department of Agriculture

January 18, 2000

The Honorable Dallas Sams  
328 Capitol Building  
75 Constitution Avenue  
St. Paul, MN 55155



Dear Senator Sams:

I am writing to provide the second quarterly report on the progress of the marketing funds appropriated to the Minnesota Department of Agriculture (MDA) for the 2000-2001 biennium. The 1999 Legislature appropriated \$480,000 for the first year and \$420,000 for 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 directed the Commissioner to provide quarterly reports to the Senate and House committees with jurisdiction over agriculture policy and funding. These reports would inform committee members about MDA's progress in accomplishing the goals of the appropriation. MDA intends to direct the appropriation to initiatives with the following objectives:

- Assisting producers in developing alliances with processors;
- Promoting value-added and agricultural processing initiatives;
- Improving producers ability to manage risk associated with production agriculture;
- Facilitating needs of the new state meat inspection program;
- Aggressively promoting Minnesota agricultural products so farmers and processors can benefit from domestic and international markets.

The following summarizes MDA's activities regarding these objectives.

### **FarmConnect (previously known as Minnesota Marketplace)**

Agriculture continues to undergo a transition toward greater competition and consolidation. The FarmConnect strategic plan references a report from the Federal Reserve Bank of Kansas City, which states that supply-chain consolidation is driven by a desire to build innovative alliances. According to the report, supply chains are formed to ensure high-quality consumer products. Production, processing, and distribution are tied together to ensure reliable, efficient delivery of high-quality products.

The Federal Reserve Bank of Kansas City reports that supply chains mark a clear shift from commodity markets to product markets. However, the report goes on to state that most farmers still see themselves in the commodity business. "The key to staying in the game for many producers may be cooperatives that can either become part of a supply chain, or be the integrator in a new chain".

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

Last week, MDA and FarmConnect closed on a \$250,000 grant contract. The state appropriation is available to the extent that each dollar of state funds is matched by one dollar of non-state funds. Up to \$125,000 of the non-state funds may be from in-kind contributions. To date, the cooperative has received \$70,000 in cash from the Minnesota Corn Growers and \$19,000 in cash contributions from the Minnesota Wheat Growers. The grant is designed to enable the cooperative to establish a membership base of 2,000 farmers and establish an escrow account to develop product and market opportunities.

The grant is payable in three installments. The first \$125,000 will be disbursed by MDA for the purposes and amounts authorized in the annual budget of the grantee upon receipt of the following documentation: Certificate of Good Standing filed with the Secretary of State, Corporate Articles of Incorporation, and Board Resolution granting signature authority to sign contracts on behalf of FarmConnect. The next \$100,000 will be disbursed by the state upon receiving a detailed annual budget and monthly cash flow of FarmConnect approved by the Board of Directors. Half of the membership dues collected must be deposited into an escrow account that the cooperative may use for product development and market opportunities. The final installment of \$25,000 will be disbursed by the state upon receiving evidence that the cooperative has achieved a membership goal of 2,000 producers or achieved an escrow account of \$500,000.

The cooperative has five board members representing numerous commodity groups. They are: Art Brandli, Chair; Gene Fynboh, Vice Chair; Dick Johnson, Secretary-Treasurer; Tim Dufault, member; and Jim Quackenbush, member.

### **Risk Management**

MDA's Risk Management Program is designed to assist farmers with analyzing risks related to production, marketing, and finance. Farmers are increasingly faced with a wide array of risk management tools such as revenue insurance, trade options, crop insurance, forward contracts, futures, and options. The Risk Management Program at MDA will enable producers to evaluate this wide array of tools within a total farm setting.

During November and December, MDA sponsored a series of seminars titled "How to Develop a Marketing Plan" in cooperation with the University of Minnesota Extension Service and commodity organizations. The seminars were held at 12 locations around the state. MDA Risk Management Specialist David Bullock met with producer groups, agricultural lenders, and extension and farm management leaders to determine effective methods of providing Minnesota farmers with educational opportunities in the area of risk management.

Extension is offering Master Marketing Programs at Albert Lea, Willmar, and Moorhead in the first quarter of 2000. Each program will involve three two-day sessions held biweekly from January to March. MDA is co-sponsoring these workshops. The Master Marketer Program is designed first to offer an intensive education program to improve marketing skills and increase farm revenues, and second, to encourage the development of management clubs to strengthen these skills. At these workshops, David Bullock will be teaching a session on crop and revenue insurance.

The agency also conducted a survey of farmers to identify needs and determine educational activities. MDA proposes the creation of a network of Regional Risk Management Specialists and Certified Farm Management Consultants, with the following objectives:

- Providing basic risk management education to Minnesota producers;
- Providing advanced risk management education to professionals (bank loan officers, rural appraisers, crop insurance agents, etc.) who will offer consultations services to Minnesota producers;
- Providing an identifiable brand name that Minnesota producers can trust in acquiring the services of a risk management professional;
- Offering continuing education and certification to ensure ongoing professional service.

In May 2000, MDA will conduct a one-week workshop to train Regional Risk Management Specialists (RRMS). The course will be open to interested individuals throughout the state. Top students from the workshop will be selected to develop a pilot program in each of the six regional farm management programs throughout the state. The RRMS will serve as a regional resource to help Minnesota producers develop comprehensive business risk management plans. The regional specialist will also assist MDA in coordinating risk management education for producers and agribusinesses.

David Bullock and I met with the regional farm management deans on January 14, 2000 to outline the pilot program. MDA has allocated \$240,000 (\$40,000 for each of the six farm management regions) to initiate and evaluate the pilot risk management program.

### **State Meat Marketing**

The State Meat Inspection Program offers an excellent opportunity to strengthen rural meat processing businesses. Currently, 15 plants are under inspection with another 25 plants expressing an interest. These plants represent a \$3 million investment, and have already created dozens of new jobs. Program Manager Kevin Elfering reports that locally inspected facilities are experiencing rapid growth in their local markets. Many facilities have recently completed an expansion or remodeling, and are not ready to develop retail markets.

A successful model of direct market/custom processing of meats is the Market Maker program developed and tested by Lorenz Meats in Cannon Falls. Farmers and processors participate in a workshop teaching them how to develop and retain a customer base. This model can be applied throughout the state with minimum competition for sales directed to a local market.

MDA is evaluating two approaches to further develop local and retail markets. One approach is to contract with a consultant to establish a test market from which to evaluate brand development of Minnesota meats. Another option is to contract with Minnesota Extension Service to carry out activities related to direct marketing. Activities may include a series of seminars around the state

for custom processors and livestock producers using the "Market Maker" concept. MDA has set aside \$100,000 to assist custom processors in securing sales in local markets or developing retail sales in other in-state markets.

### **Increase Marketing Opportunities**

Commissioner Hugoson has participated in trade missions and had discussions with export consulting firms to further develop trade opportunities for Minnesota products. The department is conducting an agency strategic plan to better understand needs of stakeholders. Customers have stressed that it is vital for both the producer and processor to understand the requirements of the end-user, whether domestic or foreign. MDA will propose a strategic planning process with the Minnesota Trade Office and the entire Department of Trade and Economic Development to outline a strategy for aggressively promoting Minnesota agricultural products so farmers and processors can benefit from growing domestic and international markets.

Within each of these initiatives, the MDA will continue to seek private funds to match or partially match the state appropriation. Please feel free to contact me with any questions.

Sincerely,

Jim Boerboom  
Assistant Commissioner

cc Commissioner Gene Hugoson