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Minnesota Department of Agriculture

April 14, 2000

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

Dear Senator Sams:

I am writing to provide the third 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 will 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)

MDA and FarmConnect closed on a \$250,000 grant contract on January 11, 2000. 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. 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. 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 grant is payable in three installments. The first \$125,000 was disbursed by MDA in February 2000. 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. 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 initiated a membership drive on February 11, 2000. Meetings were held in 40 locations across the state describing the vision of FarmConnect. Approximately 1,600 farmers attended these meetings. The membership drive concluded on March 16, 2000 and resulted in 630 farmers investing \$500 each to join the coop. Appendix A of this report provides a preliminary report of the coop's activities under terms of the grant contract.

Risk Management

During November and December, MDA co-sponsored a series of seminars titled "How to Develop a Marketing Plan" in cooperation with the University of Minnesota Extension Service and various commodity organizations. The seminars were held at 12 locations around the state with over 1,100 producers attending. Evaluations indicate that the program "exceeded expectations" while survey results reveal that producers rated the following six topics as priorities out of twelve choices: (1) Use of puts, calls and other marketing tools; (2) Advanced futures and options strategies; (3) Elements of a commodity marketing plan; (4) Difference between market outlook and strategies; (5) Development of a farm business plan; and (6) use of contracts in farming. The producer education questionnaire is included as Appendix B of this report.

The MDA is evaluating a risk management educational program that meets the unique needs of producers. Survey results of a pilot program with the Northland Community College and the Minnesota Wheat Council reveal the value of marketing clubs to producer participants. Key findings of the survey include:

- To the question "I would, without hesitation, recommend this class to others in my profession", 79 out of 80 respondents replied "Yes".
- 42 percent of the respondents indicated that they implemented a written marketing plan for the first time as a result of the marketing club.
- Because of the knowledge gained through the marketing club, 29 respondents indicated that they increased their gross product revenue by an average of \$7,608 or an average of 7.5 percent.

The success of this pilot project offers strong support to partner with the Minnesota State College and Universities (MnSCU) as the delivery system for the Regional Risk Management Specialist program. MDA is planning a network of Regional Risk Management Specialists and Certified Farm Management Consultants and has allocated \$240,000 (\$40,000 for each of the six farm management regions) to initiate six pilot risk management programs. The overall goal of the partnership is to develop a curriculum and infrastructure for a professional farm risk management certification program within the State of Minnesota

From May 22 through May 26, 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 the pilot program in each of the six regional farm management programs throughout the state.

State Meat Marketing

Minnesota's State Meat Inspection Program was established by the MDA in November of 1998. The program is designed to maximize food safety while also making it easier for producers to sell their homegrown beef, pork and poultry directly to consumers. The State Meat Inspection Program continues to facilitate growth in small to medium-sized processors in rural communities.

Lorenz Meats in Cannon Falls tested a successful model for direct market/custom processing of meats through the Market Maker program developed by Land-O-Lakes. 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.

The Agricultural Utilization Research Institute (AURI) is undertaking a survey of the state's processors to determine industry needs. Findings of the survey will be published in May 2000. MDA will evaluate data from the survey of the state meat inspected facilities in designing a program to assist custom processors in developing new markets.

Minnesota Certified Pork (MnCEP) and Minnesota Certified (MnCERt)

A group of pork producers has implemented a certification process in an effort to introduce quality assurance and food safety production practices to produce certified food products. Dr. Thomas Blaha, University of Minnesota, Leman Chair and David Starner, former President of the Minnesota Pork Producers developed the concept called Minnesota Certified Pork (MNCEP).

Quality standards will be outlined in a producer handbook. Checklists and internal audit procedures will be implemented on nine farms that are part of an initial pilot program. Additional farms will be added to the program over the year and a third-party certification will be provided through "Minnesota Certified" (MnCERT), by the end of year 2000.

A task force appointed by Commissioner Hugoson will work over the next several months to create a nonprofit corporation to provide the third-party certification needed for MNCEP. Minnesota Certified, (MnCERT), will be a partnership between the private sector, the Minnesota Department of Agriculture, and the University of Minnesota.

The MDA would contribute governmental oversight of the certification program to insure that certification standards have been implemented on all farms of the agricultural enterprises that has applied for certification. The long-term vision for the certification procedure is that the MDA, instead of conducting every certification, will certify the certifiers for the MnCERT procedure. MDA is evaluating a funding request for the MnCERT project.

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 Gene Hugoson

Appendix A

Appendix A

Report on Market Development Grant

Update on Minnesota Marketplace/FarmConnect

April 5, 2000

**Submitted to:
Gene Hugoson, Commissioner
Minnesota Department of Agriculture**

Report on Market Development Grant

Summary:

FarmConnect is changing the way farmers do business. FarmConnect has connected multiple support organizations with a progressive group of Minnesota farmers that intend to connect their production with the markets for their products. FarmConnect will allow these Minnesota farmers to be active in the supply chain of their products, provide a platform to develop relationships and strategic alliances with those that use their products so they can differentiate themselves from being commodities producers to product suppliers.

Background:

In November of 1998, a group of Minnesota farmers and staff from several support organizations initiated discussions to develop a system to help farmers be aggressive in the marketplace and position themselves as product suppliers instead of commodity producers. These discussions developed into a project called Minnesota Marketplace. The focus of Minnesota Marketplace was to connect producers with the market and to connect agricultural support organizations in Minnesota to help the farmers supply specific quality products. This proactive group of farmers are focused on developing strategic alliances with processors and end users to allow a mechanism for farmers to understand market demands, develop opportunities in the marketplace and be represented in the negotiations for the products they supply.

Development of the project included aligning Minnesota Marketplace with resources in the state of Minnesota to help establish the project. Staff or representatives of the following organizations have worked with us through this process:

- Minnesota Wheat Growers
- Minnesota Corn Growers
- Minnesota Pork Producers
- Minnesota Barley Growers
- Minnesota Canola Growers
- Minnesota Soybean Growers
- Minnesota Department of Agriculture
- Minnesota Trade Office
- Northern Great Plains Initiative for Rural Development
- Red River Trade Council
- Agricultural Utilization Research Institute
- United States Department of Agriculture
- University of Minnesota Crookston Campus
- University of Minnesota St. Paul Campus
- University of Minnesota Extension Service
- Institute for Ag and Trade Policy
- Institute for Local Self Reliance
- Others

Report on Market Development Grant

Minnesota Marketplace and the Northern Great Plains Initiative for Rural Development hosted a conference that was supported by the Northwest Minnesota Foundation in the summer of 1999 called "Trends in Food and Agriculture". The conference pointed out the tremendous changes occurring in the food industry and opportunities for farmers to be involved in a consolidating supply chain that is occurring. It also pointed out the need for farmers to work interdependently to supply those markets. From that conference a steering team was developed to conduct a strategic planning process to establish a focus and direction for the Minnesota Marketplace. The strategic plan was instrumental in laying the groundwork and structure for an organization.

Minnesota Marketplace was incorporated in the state of Minnesota as a cooperative in October 1999. The incorporating board included the following farmers:

- Art Brandli, Warroad
- Gene Fynboh, Brandon
- Dick Johnson, Morris
- Tim Dufault, Crookston
- Jim Quackenbush, Chokio

The interim board was expanded to include:

- Bob Heers, Owatonna
- Brenda Scanlan, Battle Lake
- Warren Formo, Granite Falls
- Ken Winsel, Woodstock
- Randy McMillen, Grygla

The board of directors contracted with the Northern Great Plains Initiative for Rural Development to provide management and office space to carry out the day-to-day operations and prepare for a membership drive. The board of directors decided to have Minnesota Marketplace do business as FarmConnect to more accurately reflect the focus and vision of the cooperative.

Membership:

Membership meetings were conducted between February 11 and March 16, 2000. The membership drive included meetings held in 40 locations across the state to describe the vision of FarmConnect. The aggressive meeting schedule was heavily promoted with a paid and non-paid media campaign, by the extension service, farm business management, the commodity groups, and numerous other sources that resulted in approximately 1600 farmers attending the meetings. Additional requests for approximately 1000 brochures and informational materials were sent out as the result of direct mailings that were conducted. As a result of this seven-week membership drive, approximately 630 farmers from across the state joined FarmConnect by purchasing a \$500 membership stock. The board of directors had set the membership deadline as April 1, 2000. FarmConnect will take its initial membership and begin to work with its farmer-owners to understand their production capacities, interests, and capabilities to aggressively move the project forward and begin identifying and addressing new opportunities for the producer-owners.

Report on Market Development Grant**Business Plan Development:**

Development of a business plan began in December with the financial assistance of AURI and the support of several grower associations that include:

- Corn Growers
- Wheat Growers
- Soybean Growers
- Pork Producers
- Field Pea Producers
- Organic Growers and Buyers Association

The plan will be a working document that will provide several options for FarmConnect to evaluate and assess in the marketplace. The business plan will provide strategies to approach different market opportunities, provide estimated cash flow projections, and feasibility analysis to help direct and focus FarmConnect as it moves forward. The business plan will also include an assessment of how the latest communication and business technologies can be used to assist FarmConnect in implementing its plan.

Fund Raising:

Financial assistance to conduct the development and promotion of FarmConnect was obtained from many sources through its development. Table I outlines the grant funds that were provided and the source of those funds and Table II outlines the expenses that have been incurred to develop FarmConnect.

Table I. Funding Sources for FarmConnect

Funding Source	Date	Grant Award	Amount Received
Minnesota Corn Growers	12-99	\$70,000	\$70,000
Minnesota Association of Wheat Growers	12-99	\$19,000	\$19,000
Minnesota Department of Agriculture – Coop Development Grant*	1-00	\$50,000	\$20,000*
Minnesota Department of Agriculture – Special Appropriation Grant	1-00	\$250,000	\$125,000
Minnesota Corn Growers*	2-00	\$100,000	\$75,000*
Total		\$519,000	\$309,000

*Funds have been requested but not received.

Report on Market Development GrantTable II. Summarized expenses for FarmConnect up to 4-1-00

<u>Category</u>	<u>Amount</u>
Contracted Services	\$80,277.00
Staff Travel	\$10,726.07
Board of Directors Meeting Expenses	\$19,373.94
Steering Team meeting expenses	\$3,126.36
Counsel	\$1,110.00
Postage	\$144.80
Market Opportunity Development	\$0.00
Education and Promotion	\$77,867.29
Phone	\$260.36
Membership Meetings	\$12,232.34
Total	\$206,555.93

Next Steps:

Now that FarmConnect has completed its initial membership drive, the next steps are to carry on the mission and vision of the organization. In order to represent the farmer-owners, a number of activities are planned to prepare the organization to develop, present, and execute contracts. These activities include:

- Survey the ownership to determine the current production capacities and abilities and future interests they have in agricultural production, storage, and transportation.
- Use the ownership information to focus market opportunity development efforts.
- Complete and implement the business plan.
 - ✓ Work within the existing network to evaluate opportunities currently available to FarmConnect.
 - ✓ Prepare and educate farmer-owners about supplying specific markets.
 - ✓ Initiate market research, industry contacts, and opportunity development.
 - ✓ Elect a permanent board of directors from the ownership.
 - ✓ Determine the needs for permanent staffing and office requirements
- Identify and conduct fund raising opportunities.

As FarmConnect begins to implement its business plan and prepare to identify opportunities for its farmer-owners to supply, many of these activities need to occur simultaneously to develop FarmConnect. It will be increasingly important to leverage our efforts with the resources that have helped to develop FarmConnect to this point. The strength of this organization is effectively utilizing that network and working interdependently with them.

Minnesota Department of Agriculture

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