

Mike Kruger Remarks – Minnesota Dairy Growth Summit

February 9, 2015

Thank you so much, Dr. Kaler, for the inspiring remarks. You stated so well the continued commitment of the University of Minnesota to advancing the dairy industry in our state, and we all appreciate it.

Our dairy farmers are always better off if they are a part of an industry that is thriving and growing. The vitality of the dairy industry starts at the farm...we all depend on it...and, we all need to contribute to it. That's why we're all here today.

24 years ago, another University leader, Dr. Dick Goodrich, who was then the head of the Animal Science Department, approached me about getting involved in a similar industry wide effort on dairy development that turned into the Dairy Leaders Roundtable. I was excited to join in that effort then and I'm just as excited to be a part of this effort here today. And, here's why.

Back at the start of the Dairy Leaders Roundtable the dairy industry came together and did great work! For our part in the checkoff, we did a study...we created a video called "Milk and Main Street"...we gave presentations to 75 Chambers and other civic groups all over the state...we ran this print ad...twice!...we spent over \$200,000 promoting the impact of dairy in our state. It was good stuff. All of us involved in the Dairy Leaders Roundtable did great work. But, unfortunately, we obviously didn't achieve the outcome that we were hoping for. As Marin will show in a few minutes, milk production continued to decline in Minnesota for another 10 years. We lost over 200,000 cows in our state...and literally thousands of dairy farms.

So, how can I be excited about being here today? Haven't we already "been there, done that" on dairy development in Minnesota? You know what? Not really, because 24 years ago is kind of "ancient history" in this fast paced world. Everything today is hugely different than it was in 1992...literally everything!

Look at this ad. This was a great ad! But, look at it...no computer on the desk. No cell phone. Last week I heard that today many of us reference our smart phones between 150 and 200 times a day! Look at the ad ...Who has a rolodex on their desk anymore? And the ad says ADA of Minnesota.

We're a very different organization today then we were back then. Today we represent 10 states with 20% of all the dairy farmers in the country. And we do things very differently than we did 20 years ago.

Frankly, in conjunction with DMI, USDEC, and the Innovation Center for US Dairy, I think we're doing our best work right now.

Our products are different.....none of these products were even on the radar 24 years ago...

Our markets are different... one day's production out of every week is now sold offshore...and over time that number is going to go up from here.

Our farms are different... 24 years ago, rotaries and robots didn't even exist. Rotational grazing...organic...artisanal farms were all in their infancy. We do things very differently today.

Back then, our leadership and our vision of the future was very different than those of you sitting in this room today. This is a picture of most of my board back then. They killed a lot of polyesters to make these sport coats.

24 years ago, frankly the dairy industry was a little torn between merits of prolonging the traditions of the past versus getting ready for the future. We aren't torn about that today. I'm as much a product of those traditions and institutions as anybody, but I've learned that the best way to support them is to be forward looking and innovative!

Our world is different. The point of the slide is that, over time, global demand for dairy is going to grow substantially. The US is best prepared to meet this demand...but we will need to secure the US public's support for the safety and nutrition of our products and the merits of our production practices. There might be a little ebb and flow from year to year, but there continues to be industry wide consensus around these assumptions.

At Midwest Dairy, the question that we have been wrestling with is whether the Midwest, and particularly Minnesota, is prepared to compete for its share of this 30 billion pound demand opportunity. 5 years out...10 years out...do we know what products consumers are going to be demanding? Will we have the processing capacity to make these products? And, will we have the milk supply to fill that processing capacity? Maybe most importantly, will we have the public's support for the dairy industry to thrive and grow across the entire value chain?

Look at what's happened over the past ten years. This map was produced by Dr. Mark Stephenson of the University of Wisconsin. The green blobs are the areas around the country that have grown their production and processing the most. There are obviously some traditional areas of big growth like California, and maybe Idaho, but there are also some big surprises. I don't think 24 years ago, most of us would have identified Dalhart, Texas or Clovis, New Mexico as future centers for dairy production and manufacturing.

I think the most relevant areas for us to look at are Eastern Wisconsin and Michigan which are far more comparable to Minnesota than the "desert dairies" of the southwest. So, what's going on in these areas closer to home?

A guy who knows is Dr. Maynard Hogberg, who recently retired as Chair of the Animal Science Department at Iowa State. (Have Maynard) Earlier in his career, Maynard held that same position at Michigan State and was there during the development years when growth in dairy in Michigan really took off. Dr. Hogberg is here today representing Dairy Iowa, an initiative very similar to what we are starting here today in Minnesota. The foundation that Dr. Hogberg and others laid in Michigan 20 years ago is just now hitting its peak impact today.

The Upper Midwest is kind of a mixed bag. There's lots of "green" along the I29 corridor, but there's also shades of "red" along our more traditional Mississippi Valley milk shed.

So, what's this map going to look like 10 years from now? Are we going to see more green in Minnesota? Can the people sitting in this room make much of a difference? Absolutely, we can! It's obvious that as the economic vitality of the dairy farmer goes, so goes the processing...so goes the jobs...so goes the infrastructure and so goes all the rest. Our competitive position in Minnesota in the future will depend on the actions we take today and the weeks and months ahead to improve our ability to thrive in this new global competition.

Here's what Midwest Dairy has done:

First, we made a long term financial commitment to the University of Minnesota to reestablish a dairy economist in the Upper Midwest.

We wanted the position to be affiliated with our Midwest Dairy Foods Research Center to add economic analysis to product and process research that we are funding here at the U, Iowa State, and South Dakota State.

Dr. Buhr and I had many discussions on how this new position might work and it has worked out beautifully. Dr. Bozic has now been put on a tenure track so that the University covers his salary, and dairy farmers have converted their financial support to covering his research.

As most of you know, our federal statute prohibits checkoff funding for policy or production activity. Putting Marin on the U's payroll broadens Marin's scope of work beyond just checkoff funded activities. That's the way it should be – dairy farmers now have the best of both worlds with this key position.

The Midwest Dairy Foods Research Center is one of the best in the country, and Marin is the "cherry on top of the sundae" so to speak!

The next action we took was to create the Dairy Economic Advisory Council to give Dr. Bozic access to industry advice and counsel on his efforts. At the first meeting of this group, the mission expanded greatly. The group immediately identified the need to re-examine our competitive position ...to look at what's happening along the I29 corridor and in other parts of the

country...and then see if we can duplicate it across our area...to bring a new vitality to our region so to speak.

For our part, the Midwest Dairy Association commissioned Blimling and Associates to compile this report, A Path Forward, Challenges and Opportunities for the Midwest Dairy Industry. As you can see the report is extensive, covering over 200 pages of background and insights on the dairy industry in other parts of the world, other areas of the US, and specifically the Upper Midwest.

We vetted it out individually with each of the major processors in our region; met with multiple dairy farmer leaders...university leaders...bankers...and government officials to get their reaction to the study to make sure it was credible and relevant with industry leaders.

Interestingly, the conclusions and recommendations from these leaders have been pretty consistent. We're grateful to many of you in this room who have seen our presentation and have provided feedback. In summary, it's been pretty straightforward:

There are advantages that we all recognize.

There are challenges we need to address.

There are opportunities we need to prepare for.

It was really rewarding to see that all of you agreed on the following:

- That the opportunities outweigh the challenges.
- Leadership is key.
- We need industry wide support.
- That all dairy farmers need all dairy farmers. Big and small...there's room for everybody if you can figure out how to make it work for you.
- A quick personal story: My grandfather came over from Germany alone as a 17 year old with nothing but the shirt on his back. He bought a farm and ended up with a pretty good herd of registered Holsteins. My dad milked those cows. My brother sold those cows. And, last year my 44 year old nephew put them back! He just filled up a 70 cow tie stall barn that was already on his building site with registered Holsteins. Is it his sole source of income? No. They cash crop and have two hog facilities...and his spouse manages a chain of insurance agencies for the local bank. He just likes cows and they will add a little income! So...everybody agrees...big or small...there's room for everybody. Diversity is good!

- And finally, there's a real sense of optimism that the Upper Midwest and Minnesota specifically is a good place to produce and process dairy products. Sure, there will be challenges, but there are challenges in everything we do.

Later this morning, Marin is going to touch on what we call "Three Big Buckets of Work" that have been identified from all of the industry feedback we have received to help organize our thinking and allocate our efforts. The details included for these "areas of emphasis" are on the backside of the handout in your packet.

Again, Midwest Dairy can't work on policy or production but we can sure do our part in the first two areas.

Our business development team under the leadership of Kevin Stiles has already embarked on Phase II of the Path Forward Study. We have begun work with Blimling on identifying future Midwest markets and products as part of the Market Assessment Bucket. Again, we are asking industry for feedback.

And under the direction of Kathleen Cuddy and our Integrated Communications team, we are working on an industry-wide consumer confidence plan under the Social License Bucket. We're already underway.

So, again, I'm excited to be here! We are in a much different place than we were 24 years ago. But, some of the fundamentals remain the same. We will all be stronger if we work together. It will take an industry wide commitment to leadership. And, it all starts with the cow and the dairy farmer.

So does Minnesota have the capacity to milk more cows, process more milk, and sell more dairy products? You bet we do. We've already done it. Look at our production levels and cow numbers back in 1990 that Marin will show you. So, let's put a computer on that desk. Give her a cell phone. And, let's put her back to work! And, the beauty of it is that dairy farmers...the whole community...the entire state...will benefit. Let's see how!