



Dairy Enterprise Services

Resources for today's dairy industry

High Plains Dairy

Friona, Texas

Detailed Planning Makes Success Possible

Many dairy farmers grow up, start farming, and spend their entire career in one county. The operators of High Plains Dairy near Friona, Texas, don't fit that model. Harry and Margret DeWit grew up in Holland, and Harry received his first exposure to dairy farming there, on his father's farm. Nearly 20 years ago Harry moved to Canada. On dairy farms in New Brunswick and later in Ontario, he experienced larger-scale dairy farming than that of his father's 30-cow herd.

The next step was a move to the U.S., where Harry worked as a herdsman for an operation in California, then at a farm in Stephenville, near Waco, Texas. Within a few years, the DeWits had the opportunity to lease space from the Stephenville employer where they could begin to build their own herd. The next move was to their own leased farm near Stephenville, where they started milking their herd in 1992.

Looking for a Place to Grow

By the fall of 1996 the DeWits were milking 750 cows and evaluating alternative locations with the goal to purchase a larger farm. Margret DeWit is a trained accountant and has handled the bookkeeping and records maintenance parts of the operation. As the dairy business grew, this became an increasingly critical function.





Harry notes that they seriously considered relocating to Ohio, but ultimately decided against it. "We were starting to see opposition develop from rural residents who were concerned about the impact of a large-scale dairy operation." He also saw potential problems with Ohio surface water quality rules. "There are many small streams and creeks, and we learned that this can create problems for a large dairy operator." They felt that surface water quality issues would continue to be troublesome and turned their sights on West Texas.

Panhandle Area Has Advantages

Ultimately, they purchased their present 640-acre site near Friona, in Parmer County, Texas, in the western panhandle. This site is about 60 miles southwest of Amarillo, in an area that is very flat and traditionally has been dominated by beef-feeding operations. DeWit notes, "In a lot of ways, this is an ideal location. Land is flat and affordable, and with irrigation, the sandy loam soil grows good corn for silage. There are very few surface water streams, so runoff management is simpler." Harry DeWit also points out that because of the long-standing presence of the beef production industry in the area, government and the public have a better understanding of large-scale cattle agriculture.



"The banker was impressed by the level of detail in the plan, and the contingency planning." - Harry DeWit

The DeWits began the planning process in 2000 and took two years to complete the acquisition, engineer buildings, procure financing, construct facilities, and begin milking. An important part of the process was the planning for the new facility. "It's not just the physical planning, either," says Harry. "The business planning is critical."

Getting Help with Enterprise Planning

To help with this part of the process, the DeWits contacted Greg Squires with Dairy Enterprise Services, a consulting firm affiliated with Purina Mills that specializes in startup and expansion planning for large dairy operations. The DeWits had met Squires some years earlier and were familiar with the services his firm offered. When the DeWits engaged Squires' firm, it began a long process of project evaluation and modeling.

Squires indicates that as dairy operations grow, detailed business planning becomes more critical. He says that he began the process with the DeWits as he normally does, by gathering information and helping them clearly define their goals, resources, and style of operation. "We go through a very rigorous process to make sure all the parties understand the client's goals, and what is needed to get there", Squires stated.

Detailed Plans are Critical

Squires has extensive experience leading this process with over 150 dairy operations in 22 states, and stresses the importance of having all the players on the same page. "It gets especially tricky with multi-generational farm families, because often the goals of the older generation are for stability, capital preservation, and safety, while the younger generation is interested in growth and opportunity, and is more willing to take a risk. It is critical that everyone buys into the objectives of the business."

In the case of DeWits' High Plains Dairy, a critical element was planning for capital needs for the operation, both to finance construction and a supply of working capital to acquire the herd, staff the farm, and to buy feed, equipment and keep the operation going as milk production ramped up. Harry DeWit explains, "Greg has extensive experience in this area of dairy farm startup and was able to give us a lot of help planning and arranging financing." He indicates that the monthly cash flow analysis for construction and cattle stocking was especially helpful.

Having the detailed business plan when they went to the bank for project financing was critical. DeWit says, "The banker was impressed by the level of detail in the plan, and the contingency planning. This material helped us get the financing we needed to commit to construction and operation."

Need for Growth

Squires says that the DeWits had set as a target that they wanted eventually to milk up to 4500 cows, and wanted to mechanize the operation to make it as efficient as possible. "This is quite typical of what is happening in large dairying today. Herds are growing, and a whole new level of enterprise management is required."

High Plains Dairy began milking operations in July 2002, with 2,000 cows. The DeWits purchased additional springing cattle to gradually grow the herd to its present size of 2,800 cows. The all-Holstein cows are housed in curtain-sided barns or outdoor lots. Manure is flushed from the lanes, carried to a sand-separation cell, and then to a lagoon. Lagoon water is recycled for the flush cycle or used during the growing season for fertilizing the corn through the center-pivot irrigation systems. The manure system is designed for no discharge to surface water streams in the area.

Greg Squires (standing) works with another DairyES family.



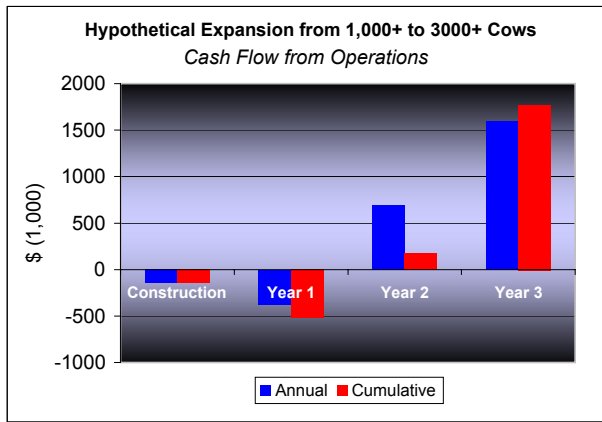
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Cattle are fed a seasonally-adjusted mix of corn silage, wheat silage and alfalfa hay. About 40% of the corn silage is grown on the farm, and the rest is purchased, though Harry DeWit notes that these percentages can be adjusted based on market prices and availability. Currently one of the barns is being used as a maternity and veterinary treatment area, as well as a rehabilitation housing area for sick or injured animals.

Need for Large Staff

The DeWits currently have 32 employees. Of these, 10 moved with them from the Stephenville area in 2002, and the rest were hired locally. There is a seven-person barn and livestock crew, and because they milk three times daily, there are three separate milking supervisors and three, six-person milking teams. DeWit feels that the 3X milking approach makes the most sense now, while they have adequate milking capacity. If they make the expansion to 4500 cows, they probably would step back to two milkings daily.

DeWit indicates that in his experience, there are modest increases in milk production through milking three times, and it doesn't appear to have any negative impacts on livestock health or milking lifetime. He is



Cash Flow Graph

currently expecting to realize from three to five lactations from each cow. The decision to cull animals from the herd is based on their general health and their DHIA-measured milk production trends. Replacement heifers are acquired from local producers. Harry DeWit says in evaluating animals he looks for a solid build, good feet and a normal, healthy udder.

Large Rotary Milking System

Milking is done in a 72-cow rotary milking system, with a new cow stepping onto the rotary every seven seconds. There are five worker stations on the rotary, and the workers rotate stations regularly to maintain their skills in all of the operations. Milk is piped to a central collection point and filtered and sent through a plate cooler before going to storage tanks. The DeWits are members of Select Milk Producers, Inc, a large cooperative that operates in Texas and New Mexico. Select produces and markets 3.3 billion pounds of milk annually. Much is sold as fluid milk, and some for powder and cheese. Select picks up milk daily at High Plains Dairy.

Now that the dairy farm has been in operation more than two years, the DeWits recently sat down with Greg Squires to evaluate their planning. Harry says that, remarkably, over the two-year period the total cash flow was almost exactly what was predicted.

He smiles, "Just after we started milking, the milk prices plummeted and it was a cause for concern. Then last year it headed in the other direction and for while was way above the average figure we used." Averaged out, the milk revenue was very close to what was used in the plan. "But," Harry remarks, "I would have been a lot more comfortable if it had just stayed on a middle ground. That's farming, though."

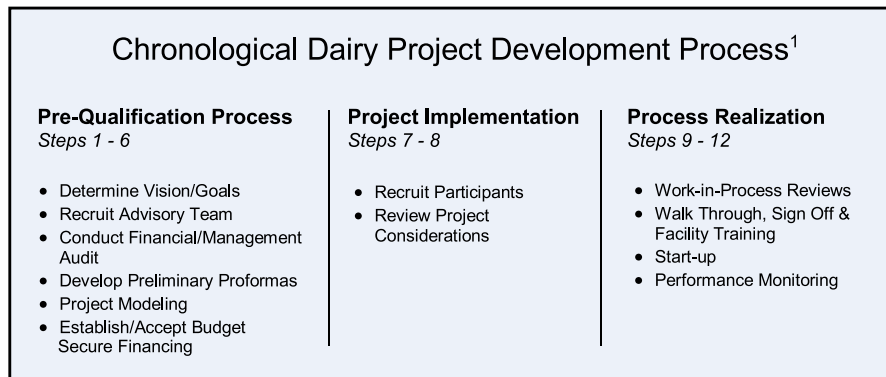
Careful Planning Key to Success

Greg Squires points out that these fluctuations in market prices

make careful planning critical. "I encourage people entering new dairy enterprises to plan their milk income on the conservative side, and to be prepared for extended periods of low prices. That kind of planning will let them sleep at night."

With two years of operating experience, the DeWits are pleased with what they've accomplished. Harry DeWit says, "I'm not doing this just to make a lot of money. I love dairying and I want to see this operation grow and succeed. I want my children to have an opportunity to take it over, if they wish to do that."

Judging by their first two years of operation in a challenging market, it seems that High Plains Dairy is poised to succeed. The owners credit the results to hard work, timing, and having a complete and detailed business plan. Harry says, "We'd do it this way again. We are excited about the results we are achieving."



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