

Sharemilking in Wisconsin: evaluating a farm entry/exit strategy (Research Brief #34)

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A long-standing New Zealand arrangement that helps beginning farmers build equity and management skills while allowing retiring farmers to ease out of farming offers promise for the Wisconsin dairy industry. Sharemilking has been part of the New Zealand dairy farmer career path since the 1880s, playing a critical role for the industry as a whole. It has survived because it has been able to change with the New Zealand dairy industry.

A tool to help both beginning and retiring farmers is needed for the Wisconsin dairy industry because fewer young people than ever before are starting their own farms. And older farmers are finding few retirement options.

Steve Stevenson, associate director of the Center for Integrated Agricultural Systems (CIAS), and Russell O'Harrow, retired Oconto County dairy farmer, traveled to New Zealand in 1995 to find out more about the New Zealand dairy industry. CIAS Research Briefs [#26](#) and [#33](#) summarize some of their observations. This brief takes a closer look at sharemilking and its current pressures in New Zealand and presents some recent findings on how well it may transfer to Wisconsin.

Sharemilking defined

In a sharemilking agreement, a young farmer operates a farm on behalf of the farm owner for an agreed share of farm income and expenses. The arrangement offers young farmers a way to build assets and dairy management skills without requiring a large amount of capital input at the beginning of their careers. Two types of sharemilking arrangements are common in New Zealand.

In negotiable agreements, non-herd-owning farmers manage a herd of dairy cattle in return for 20 to 30 percent of the farm's income, partially paid in the form of heifer calves. Land-owning farmers provide the land, cows,

machinery, and facilities. Negotiable agreements are usually a year long and often lead to 50-50 agreements.

In 50-50 agreements, the sharemilker provides the dairy herd and machinery needed for farm operation, the land owner provides and maintains the land and milking facilities, and the farm income is split equally. A three-year contract is typical in 50-50 agreements. Sharemilkers accumulate cattle, then cash some in to buy a farm. "Young people don't have the cash resources to start their own farm," says O'Harrow. With a sharemilking agreement, they can build equity early and relatively rapidly through owning cows, rather than through owning buildings and land. "Building equity through cow ownership is a good fit for young farmers because cows are more saleable and easier to add on in smaller increments than land," says Stevenson. But they do require more management and labor than land, making land ownership appropriate for older farmers.

Farm owners see that young sharemilkers bring new ideas and energy to the operation, while releasing them from day-to-day labor. The share-milker allows the landowner to maintain farm income while not being actively engaged in the farming operation. And sharemilkers have an interest in improving the farm's financial performance. For the landowning farmer, contracting with a sharemilker is part of a transition to retirement that is planned well in advance.

Sharemilkers are organized regionally and nationally in New Zealand, with an annual "Share-milker of the Year" competition and a biannual conference. Stevenson and O'Harrow attended a sharemilkers' conference in Palmerston North. "More than 300 young, energetic dairy farmers deliberated optimistically yet critically about their careers and their industry's future. About one-third of the conference attendees were women." Stevenson observes.

"I saw young couples with such determination in fulfilling their vision of farming-you could almost touch it-they could see where they were going," O'Harrow recalls of the conference. Sharemilking is an intense commitment of time and labor for young farm families, involving high levels of stress. Farm family issues as well as production issues were conference topics, and children of all ages were present throughout the conference. Family involvement in the conference shows that farming is a social issue in New Zealand, and that there is a large support network for sharemilking families.

Changes in sharemilking

How well can sharemilking hold up under changing social and economic conditions? New Zealand offers some insights. The value of land there increased dramatically in the 1990s, putting pressure on the sharemilking arrangement. While the value of land has risen, the value of dairy cows has not, changing the dynamics of the cows-for-land equation. In addition, the smaller farms that were traditionally the first land ownership step for sharemilkers are being bought up by larger farms. Stevenson notes, "Sharemilkers we interviewed told us that they need to own 350 to 600 cows debt-free to buy a first farm of 150 to 200 acres, but 15 years ago they would have needed one-third to one-half fewer cows to do so."

As a result, New Zealand farmers are spending more time as sharemilkers before they buy a farm, and are pushing harder to increase their herd size. Some operate more than one sharemilking agreement, using the labor of a contract milker on one of the farms. Others have decided that farm ownership is not their goal, and they plan to sharemilk indefinitely. Both of these strategies result in fewer sharemilking opportunities overall.

In addition, landowning farmers are becoming less satisfied with the returns they are receiving from the sharemilking arrangement. Switching to 60-40 agreements and reassigning expenses and income are common modifications that result in lower sharemilker incomes. Stevenson comments, "Reduction in the number of sharemilking opportunities and the increased economic pressure on the sharemilker appear to be pushing New Zealand towards a significant decline in the rate of entry of new farmers."

Sharemilking in Wisconsin

Although model sharemilking materials are available, sharemilking is, so far, little used as an entry strategy in Wisconsin. CIAS's [*School for Beginning Dairy Farmers*](#) at the UW-Madison Farm and Industry Short Course includes classroom work in grass-based dairying and an internship. However, there remains a gap between the internship and having enough grazing know-how to actually run a farm as a sharemilker.

And young people interested in dairying may be hesitant to put in years of training (like an apprenticeship) before sharemilking and waiting to start their own enterprise. They may also feel that they carry a stigma in not owning the land that they farm on. "We've been taught in Wisconsin-maybe it's our European heritage-that non-landowning farmers like tenants or

sharemilkers are lower class. In New Zealand, sharemilkers are elevated to an elite class," O'Harrow observes.

"A major challenge for us in Wisconsin will be to find equivalents to New Zealand's share-milking structures," Stevenson says. He notes that a significant challenge will be to develop sustainable farming enterprises in Wisconsin that can generate income sufficient for both sharemilking and landowning families. Stevenson further explains, "Most grass-based dairies in Wisconsin are not yet large enough to support two families-it's the wrong point in these farmers' careers to be involving a sharemilker."

Entry options

What are the entry options for Wisconsin dairy farmers? "They can form long-term tenancy or share rental agreements with landowners, as are used in Illinois grain farming systems," says Stevenson. A professional-level position on a dairy farm is another stepping stone available to prospective dairy farmers in Wisconsin. So are custom heifer raising or custom crop harvesting, two ways of building enough equity to purchase a farm.

Very few farms are available for rent in New Zealand. But in Wisconsin, a young farmer who has equity and farm management skills can get a loan for cows and rent a dairy farm. Equity can be built up more quickly for a farm renter than a sharemilker, because the renting farmer gets the whole milk check, not just a percentage. But renting puts more responsibility on the shoulders of the young farmer than sharemilking, because they take care of the land and facilities as well as the cattle and their machinery.

Stevenson says, "For young farmers with some management ability but little equity, sharemilking offers a great dairy farm entry strategy. Renting a farm is a strong option for young farmers with management skills and some equity." For retiring farmers, sharemilking arrangements allow them more input and flexibility than a traditional rental agreement.

Farm Link provides entry/exit connection for farmers

Farm Link, a program of the Wisconsin Department of Agriculture, Trade and Consumer Protection that brings retiring and beginning farmers together, can give some clues on what farm entry and exit mechanisms are being used in Wisconsin. Gwen Garvey, Farm Link coordinator, reports, "While our ideal match is one in which the senior farmer stays on the farm and helps the beginning farmer build up skills and equity, our senior applicants range from

those looking to get out of farming immediately to those looking for an employee who can build equity.”

Farm Link receives two to three applications per week; with 100 prospective and 50 retiring farmers on file at any one time. Applications include information about farm size and type and type of transfer desired. Business arrangements for farm transition listed on the application are sale, land contract, share/lease, cash rent, employee/employer (working agreement with future transfer), and lease with option to buy.

While Farm Link has made successful matches between beginning and retiring farmers, none have involved sharemilking.

Developing a sharemilking contract: Help is available

Sharemilking can benefit sharemilkers and land-owning farmers, but both parties must agree to arrangements in writing. The parties must make several decisions besides how to split the milk check. The University of Wisconsin Center for Dairy Profitability has developed an agreement in computer spreadsheet form.

“Since it’s a spreadsheet it is very easy to change things. It’s easy to see what would happen to income if you change any of the variables, such as culling rate,” says Gary Frank, the program’s co-author and a farm economist at the center. “The program, called Sharemlk, allows you to put in realistic numbers and is a good way to take a look at risk,” Frank said.

Sharemlk is available by writing the UW Center for Dairy Profitability, 1675 Observatory Drive, Madison, Wis., 53706. It costs \$10 and is available in Lotus and Microsoft Excel versions. The Lotus version can be used by most spreadsheet programs.

UW-Extension will soon publish a bulletin focusing on how to develop a sharemilking contract. Iowa County UW-Extension farm management agent Larry Tranel, a co-author of Sharemlk, wrote Sharemilking in the Midwest. It covers how to determine a fair sharemilking arrangement and how to draw up the agreement. A sample contract is also part of the bulletin.

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