

**Fairbury, Illinois** — As the next generation looked to join the operation, the Kilgus family faced a choice.

With 120 cows, the long-term future didn't look bright for selling to a commercial milk market. So the family explored expanding to 1,000 cows.

But room for such an expansion was limited, and the Kilguses had no desire to spend the entire day in a milking parlor. They started looking at other options.

“We felt like we had to do something pretty different if we were going to maintain a small family farm atmosphere,” says Paul Kilgus, whose two sons and a nephew were ready to join the farming enterprise.

So instead they built a niche market for their milk. Today this central Illinois dairy grazes 150 Jerseys that provide fluid milk for wholesale and retail customers.

After 11 years in business, the Kilgus Farmstead enterprise is doing well. But by definition this was a leap of faith, and the effort has had its challenges.

For two years the family did their research, visiting niche processors of cheese, yogurt, fluid milk and ice cream, learning about the pros and cons of equipment and enterprises.

They decided to go with fluid milk, as another Jersey dairy in the region was already working on small-scale cheese production. The Kilguses took a few classes on different related topics, connected with a financial consultant, and worked with professionals on things like a brand name and legal matters, which Paul said “made a huge difference.”

With some family labor involved, processing plant construction took six to eight months. Equipment was custom-made by Darlington Dairy Supply, a Wisconsin company catering to smaller processors. Total cost for starting up came in between \$600,000 and \$700,000, including the purchase of two refrigerated trucks for hauling product not handled by their wholesalers.

Paul says if they had to do it over again, his son, Justin, and nephew, Matt, would have gone to work in someone else's bottling plant before starting their own instead of dealing with the trial and error they confronted in learning from scratch.

Bottling began in June 2009. The goal was to sell all the milk that 80 Jerseys could produce.

The family felt that size of market was there if they could survive the start-up period. “We were pretty confident we'd researched enough that we could make a go of it,” Paul says.

They had been told to expect three hard years, and the first one was indeed difficult. The milking herd had been reduced to about 70 head by culling and drying off early, but in the beginning there was still surplus milk.

The Kilguses searched for customers, providing many free milk samples to stores and offering “buy-one-get-one-free” deals. Paul says such deals paid off in the long haul, as they were really

helpful in establishing the market over time while providing them with confidence that their products were a step above the competition.

Still, there was surplus milk, so they bought some pigs. This eventually grew into a thriving direct pork business, although the milk market has grown so much that the pigs don't get milk anymore.

In the second year the business started picking up speed. The farm started having customers come to them. The third year brought even smoother sailing.

The increased demand prompted expansion to the current 150 cows, with all milk going to bottling beyond the small percentage fed to the calves.

Cows are milked twice daily with two people working in the double-10 parallel parlor. Milk is pumped into the plant for bottling on Monday, Wednesday and Friday.

Bottling, loading, and filling orders on Mondays requires six or seven hours, while the other two days take four to five hours each with three people working in the plant and two filling orders.

The raw milk is separated into skim and cream and quick-pasteurized for 15 seconds before being pumped into the bottler. The facility bottles to order depending on demand and is capable of producing heavy cream, half-and-half and both soft serve and hard pack ice cream mix, as well as various butterfat milks ranging from skim to whole. The milk is not homogenized.

With limited interest in this area, organic certification just didn't seem worth the hassle and added input costs. And the farm's focus on marketing Jersey genetics would suffer if the best cows had to be culled with the move to organic. Their price point is between organic and conventional, a place the family targeted as a sweet spot without much competition.

Weekly sales average about 6,500 gallons, with roughly 75% going to foodservice/wholesale buyers and the remainder going to retail customers. Kilgus Farmstead milk products are sold at Whole Foods and health food stores, coffee shops in Chicago and central Illinois towns, and in rural stores in between.

Paul says the general public still goes for skim milk. However, he adds that people who drink the Jersey skim say it tastes like 2% commercial milk due to the higher protein component that provides flavor and body.

Different markets demand different butterfat content: restaurants like heavy cream for cooking, and coffee chains use whole milk.

They sell products through several wholesalers, including Natural Direct, that pick up milk at the farm and sell it elsewhere. It's a good way to clear a lot of product, and Paul says you just can't care how much they're marking up the price of your milk in the city if you're making enough profit at the wholesale price.

The Covid-19 pandemic meant the loss of foodservice sales, and the Kilguses had to dump some milk the first week of the shutdown. But new, local customers and USDA food boxes kept product moving. Downstate Illinois is opening back up, but Chicago foodservice markets have not recovered much yet.

They're also licensed by the state of Illinois to bottle and sell raw milk in the farm store, and in June they sold about 300 gallons. Paul says this market continues to grow.

With the aid of video cameras, milk and meat products are sold on the honor system from the on-farm store. In 11 years, the Kilguses have had only one problem with failure to pay. The store carries a large variety of other regional farm products and has a soft-serve ice cream machine that sells 125 cones per day in the summer using the dairy's ice cream mix.

Paul says grazing is a key part of their milk marketing that sets them apart from commercial milk. The Jerseys in lush pasture pictured on their milk bottle logo point to the real herd that grazes the fields by the road leading to the farm store, where passersby will stop and take pictures.

However, Paul started grazing before the family started the bottling venture, and it was actually part of the reason they thought to start marketing their own milk.

Paul had always been intrigued by the idea of grazing. He was fighting feet and leg problems on concrete. After years of milking Holsteins in a freestall barn, the cows were getting too big for the stalls, and his milk market started paying on components. So he started moving to Jerseys.

About a dozen years ago he started with a managed grazing program with daily herd moves to new pasture. "I would never go back to confinement," Paul says.

The milking herd grazes half the day and spends the other half in the barn — in summer they go out after late afternoon milking so they can graze in the cool part of the day. During the spring flush, Paul estimates that 65% of dry matter comes from pasture. That drops to closer to 50% by mid-summer.

The home farm has 60 acres of pasture with permanent paddocks of red and white clover, soft-leaf fescue and Italian and perennial ryegrass. These stands last four or five years before being renovated, and sometimes they will get a few years of a summer annual before going back into perennial pasture.

Pearl millet is Paul's summer annual of choice, as for him it performs better than other species like sorghum-sudangrass. Cows grazing the millet don't suffer a production drop in mid-summer. Paul says it produces well in dry conditions, and with rain it produces extremely well. The millet doesn't have prussic acid concerns as would be the case with sorghum-sudangrass, so it can be grazed after frost.

He plants millet at the end of May if it's warm enough, meaning a consistent 65 degrees F air temperature.

First grazing is generally 40-45 days after planting when it's 10 to 12 inches tall. Cows will graze the millet up to three times a week when it's growing really well with ample rain and heat. The 75-cow groups get a full, three-acre paddock to graze half-days for two days if it's growing well. If growth is less, they'll only graze for one, 12-hour stretch.

Paul also plants pearl millet after wheat harvest on crop ground to make baleage for dry cows and heifers, often getting two cuttings and about five tons dry matter per acre. He says the earlier-planted millet the cows graze makes a substantial amount more than that.

"We feel like the tonnage is excellent," Paul says.

A supplemental TMR of homegrown, non-GMO corn silage, baleage and linseed meal complements the pasture. "Depending on what they're pulling off from pasture, we adjust the TMR according to that," Paul says. "And that seems like it's worked out really well."

He says the linseed meal is fed instead of soybeans because soy changes the flavor of their non-homogenized milk. The linseed has the added benefit of raising the omega-3 content of the milk.

The TMR is fed in the airy, open compost barn bedded with sawdust added weekly and tilled 10 inches deep every day with a homemade cultivator. Paul says it's time to add sawdust when it is tilled and doesn't steam anymore, as the sawdust is fuel and the pack must heat to 135 degrees to compost correctly. Otherwise the cows can get dirty and have mastitis problems. Overhead fans and open north- and south-facing sides keep the cows comfortable in addition to helping the compost.

Paul loves the compost barn, as the cows stay clean and the fertilizer value when he cleans out the barns once a year is excellent. Sawdust can be expensive, but Paul has a good local supplier.

Cows adapt better to it when coming off pasture as opposed to having to re-learn how to lie down in a freestall, and Paul says the compost barn looks better to the visiting public.

It hasn't been an easy road creating the widely diversified farm operation, but today the family is happy with where they're at. Paul says they feel they're in a more stable position than if they had decided to greatly expand the dairy.

With the entire family and hired help pitching in, there's enough labor and flexibility to allow everyone to take vacations as needed and not be too tied down to the farm.

Paul's wife Carmen does the bookkeeping. Son Justin does sales and meat marketing and helps with bottling, while Paul's other son, Trent, works with Paul in managing the dairy and does cattle registration. Nephew Matt is the bottling plant manager, and Matt's wife, Jenna, runs the bottling office.

Three full-time employees and six part-timers contribute to a farming operation that also includes 2,500 acres of corn, soybean, wheat and alfalfa crop land, along with raising and marketing beef, pork and meat goats for direct and wholesale markets that include high-end

urban restaurants. The meat is not grassfed, although the hogs are raised outdoors because of market demand.

Paul says it's rewarding to be helping the community, both by creating jobs and having a farm destination people can visit.

With the direct marketing comes public interaction, which Paul says is a totally different mindset from commodity farming. They host school tours and give tours by appointment to anyone who asks. Families bring their children and grandchildren, and Paul says getting to explain what they do on the farm helps both the farm and the public's general perception of agriculture.

The Kilgus family likes telling the story of the farm, and they think it's important to be open and willing to share.

Paul says it's much more rewarding working with customers than just selling commodities. He gets to see the customer satisfaction with the farm's products. While there's the flip side of seeing unsatisfied customers, in Paul's view the good outweighs the bad.

The next generation is being brought into the operation in steps. Paul's sons did not buy into the corporation at the beginning, instead working as employees for the first few years.

"I felt like it was important that they worked as employees to make sure that's what they really wanted to do before buying into it," Paul explains. About five years ago they decided they did want this, so they bought into the farm. Paul's nephew had bought in earlier.

"There was that turning point that they needed to have a vested interest in it," Paul adds.

With the younger generation taking a large role in the operation, Paul says it's vital that each family member has an area of specialization, doing most of the management and having decision-making control after discussions with the entire team. After abruptly being handed the reins of the operation in his early 20s following his father's farm accident, Paul knows firsthand the need to give young people more management experience rather than having them function solely as employees.

Looking ahead, Paul sees expansion coming mainly through diversification rather than size. The Kilguses want to keep the family farm atmosphere and not become a mega-farm. There's potential for making more value-added milk products, like yogurt.

"You always have to be looking for new opportunities," Paul says.