

HIGHLY PROFITABLE CANTERBURY FARM SYSTEMS - A FARMER'S PERSPECTIVE

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Key summary points

- Generating profit has to be the main objective of the business.
- Top farm performance should be based on proven farming principles that can be easily implemented by people on farm
- High performing farms require exceptional people. Strategies to attract and retain the best people within the farm business are paramount.
- Flexibility is required to adapt to a changing environment
- Monitoring, monitoring and monitoring are three key components of successful farm operations. This includes aspects such as pasture, cows and cashflows.
- Grass is King!! The well known grazing principles well implemented are a key component to achieve high profit
- Attention to detail and proactive decision making separates the top farmers from the average ones.

Introduction

The gap in farm profitability among farmers is significant. This variability can be seen year after year independently of external factors such as milk price, weather conditions or input prices. So what explains this variability? Often variability is explained by different farm resources e.g. soil type, irrigation (quantity and reliability) location, farm layout among others. However the **biggest** factor affecting the difference in farm performance is the managerial skills of the people running it. This is seen in the farming community where we have two neighbouring

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properties with similar resources and running similar production system, but achieving completely different physical and financial performance.

Similarly, some external factors such as milk price or weather conditions affect all farmers the same but the decisions made by each individual farmer as a response to these external influences is different and this is what generate complete different outcomes.

Even the type of production system run (e.g. low/high feed input) is of less importance in determining farm profitability than how the system is operated. High and low profits can be achieved at all types of production systems.

Different production systems have different level of risks (e.g. to milk price, supplement price or weather conditions) and skills required to run them well, but the implementation of the system is more important in determine its profitability than they type of system run (Kolver and Hedley, 2006).

There have been several analyses of financial and physical data from farms in Canterbury identifying the key drivers of profitability on dairy farms. As presented at the “Lincoln University Dairy Farm” focus day in July 2010 an analysis of top operators in Canterbury showed that Operating Expenses/kg MS and Pasture Eaten /ha were two of the main factors explaining Operating Profit/ha. Similarly, at the SIDE conference Newman and Savage, (2010), presented an analysis of the drivers for profit in Canterbury from a different data set. They also stated that Operating Expenses/kg MS and Pasture Eaten /ha were two of the most important drivers for profitability. Numbers can explain part of the story in what drives profit on farm but it is only half the story.

This paper will look beyond the numbers to understand what makes some farm businesses highly profitable by analysing the key farming principles, decision making process and management strategies of three successful and profitable farmers in Canterbury, namely, Alan and Sharon Davie-Martin (Culverden), Leo Donkers (Te Pirita) and David Lister (Temuka). These three farm business were part of the Tight Management for Tight Times Campaign run by DairyNZ during the season 2009/10.

This paper aim to answer the following questions:

- How much profit do top farmers achieve in Canterbury?
- What makes a profitable farm production system?
- What are their key farming philosophies?
- What are the non–negotiables of their businesses?
- How do they undertake decision making?
- What has been their response to milk price volatility?
- What have been/will be the main changes in the system?
- What are their main risk management strategies?

The farms – general description

Alan and Sharon Davie-Martin milk 500 crossbreed cows on 141 ha effective in Top Pahau Road in Culverden. Originally from Northland, this is their 6th season in the area. The farm employs 2 FTE (Full Time Equivalent). Alan manages the farm and Sharon is in charge of calf rearing and record keeping. Alan is not on the milking roster and spends significant amount of time off farm.

The farm is fully irrigated with 2 rotorainers and 12 sprinkles with 9-10 day irrigation return interval. The farm has good availability of water. Production system is “System 3”. Supplements used are PKE and grass silage at approximately 600 kg DM/cow (200 kg DM in the spring and 400 kg DM in the autumn). The farm is run following the “Lincoln University Dairy Farm principles”, of grazing to low consistent residuals, pasture monitoring and strategic use of supplements. They do not have a support block. All stock are grazed off the milking platform in winter from the end of May (for 67 days) at a graziers’ property. Young stock are grazed in Ashburton all year.

Last year, Alan and Sharon won the "BNZ Partners, Dairy Business of the Year" Medium supplement Winners and Canterbury Regional Winner; LIC Sire proving farm of year and Dairy section Canterbury Environment award.

Leo Donkers is the General Manager and a shareholder of Camden Group. With his brother John, they set up this Equity Share Dairy business 18 years ago. The Camden Group owns 3 dairy farms and 2 dairy support farms, totalling 1,550 ha and milking 2,800 cows. They and their key staff are involved in 2 Equity Share 50/50 sharemilking businesses, milking 1,600 cows.

The farms are operated by managers. Leo oversees the farm business and John, provides consultant services to the farms and strategic and financial advice to the business.

The dairy farms, support blocks and sharemilking businesses are all stand alone companies and are operated as separate cost centres, which allows for critical analysis on the efficiency of the different operations.

The information presented in this paper refers to one of the Dairy Farms, Willsden Farm Ltd, situated in Te Pirita. Willsden’s Operation Manager is Terry Kilday, who has been working

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with Leo for 8 years. Production system is “System 3” using 500 kg DM/cow of Supplement per year (350 kg DM silage and 150 kg grain). All cows are wintered off farm and supplements are used to fill in deficits mainly in early spring, late summer and autumn. It farm milks 1,080 cows on 306 ha milking platform. The farm is fully irrigated with 3 rotorainers (7 day return) and a 700 m centre pivot, the irrigation water is obtained thru 300 mm bores (depth 110-201 m).

David Lister milks 550 cows on 143 ha effective milking platform. David converted this farm 6 years ago in 2006 after being a cropping farmer for 17 years. During the first three years David had a manager running the farm while he was learning to be a dairy farmer working as a “Farm Assistant”. Over the last 2 seasons David has managed the farm himself employing 2 FTE plus relief staff to rear calves in the spring. The cowshed has Automatic Cup Removers so only one person is required to milk. The farm is fully irrigated with 2 rotorainers (10 days return), 1 pivot (applying 12 mm over 2 days) and 33 sprinklers.

Production systems is “System 3” with all cows wintered off at graziers properties and supplement use is approximately 450 kg DM/cow (350 kg DM/cow of this is grain and the rest PKE and grass silage) feed mainly at the shoulders of the season. David does not own a run off block and young stock is off the platform all year at a graziers’ property.

Last year David was a runner up for the BNZ Partners, Dairy Business of the Year for Canterbury. This year he is a finalist again.

These three farms are all located in different geographic areas and have different set of advantages and challenges that are likely to affect the final performance of the farms. A summary of the main strengths and weaknesses for the farms are listed in table 1 below.

Table 1. Farms’ Strengths and Weaknesses

| | Farm Strengths | Farm Weaknesses |
|---------------------|--|---|
| Davie-Martin | <ul style="list-style-type: none"> • Size-attractive to staff • Low staff turn-over • Cheap irrigation water • Farm layout • Area available to stand cows off | <ul style="list-style-type: none"> • Lack economy of scale • Location-limited winter grazing and supplement availability, extra freight costs • Lower pasture growth rates at start and end of the season and huge variability throughout the season |
| Donkers | <ul style="list-style-type: none"> • Management team • Information stream • Economy of scale | <ul style="list-style-type: none"> • Deep well irrigation • Exposed to climate extremes • Farm scale, location-negative perception in attracting staff |
| Lister | <ul style="list-style-type: none"> • Irrigation system • Farm layout • Attractive to staff • Good location-spoilt for choice (winter grazing and supplements) | <ul style="list-style-type: none"> • Heavy soils • Water restrictions • Pastures, bloat has been a big problem |

How profitable are these farms? What do the numbers tell us?

This Table 2 summarizes the performance of these three farms for the last 3 seasons and compares it with the average for farms in Canterbury. This information was extracted from DairyBase which provides consistency for comparing this data. For the season 2007/08 there were 73 farms in the benchmarking group for the Canterbury area, and 65 and 52 farms for the season 2008/2009 and 2009/10 respectively. For the three seasons represented in the table below, the performance of these three farms was significantly higher than the average farm in Canterbury. These farms have higher gross farm income per ha and a lower cost of production than the average for the group.

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Table 2. Summary of Financial Performance

| Financial Results | 07-08 | | | | 08-09 | | | | 09-10 | | | |
|--|--------------|--------------|--------------|---------------------|--------------|--------------|-------------|---------------------|--------------|--------------|--------------|---------------------|
| | D-M | LD | DL | Cant av. (73 farms) | D-M | LD | DL | Cant av. (65 farms) | D-M | LD | DL | Cant av. (52 Farms) |
| Gross Farm Revenue (\$/Kg MS) | 7.84 | 7.91 | 8.48 | 8.12 | 5.71 | 5.75 | 5.41 | 5.52 | 6.59 | 6.61 | 6.76 | 6.40 |
| Operating Expenses (\$/kg MS) | 4.19 | 3.21 | 4.56 | 4.44 | 4.58 | 4.38 | 4.85 | 5.11 | 3.68 | 3.60 | 3.94 | 4.40 |
| Operating Profit (\$/ kg MS) | 3.65 | 4.70 | 3.93 | 3.69 | 1.13 | 1.37 | 0.56 | 0.41 | 2.91 | 3.01 | 2.82 | 2.00 |
| Gross Farm Revenue (\$/ha) | 12,979 | 12,293 | 13,169 | 11,652 | 8,932 | 7,766 | 8,760 | 7,843 | 11,012 | 9,907 | 11,732 | 9,496 |
| Operating Expenses (\$/ha) | 6,938 | 4,990 | 7,071 | 6,366 | 7,165 | 5,920 | 7,857 | 7,255 | 6,144 | 5,401 | 6,831 | 6,528 |
| Operating Profit (\$/ha) | 6,041 | 7,303 | 6,098 | 5,285 | 1,767 | 1,846 | 903 | 587 | 4,867 | 4,506 | 4,900 | 2,968 |
| Operating Return on Assets (%) (excluding Capital appreciation) | 14.5% | 15% | 10.2% | 12% | 3.4% | 3.1% | 1.4% | 1.3% | 5.4% | 8.7% | 8.2% | 6.5% |

D-M: Davie Martin / LD: Leo Donkers / DL: David Lister

- Operating Profit = Gross Farm Income – Operating Expenses
- Operating Expenses= Farm Working Expenses + Labour Adjustment + Run off Adjustment+ /- Feed Inventory Adjustment + Depreciation
- Gross Farm Income = Milk Income + Stock Income + Other Income
- Milk Income= Net of DairyNZ levy
- Stock Income: Sales - Purchase +/- Stock Adjustment
- Stock Adjustment= (Stock Number at Closing – Stock Number at Opening)* set value per head

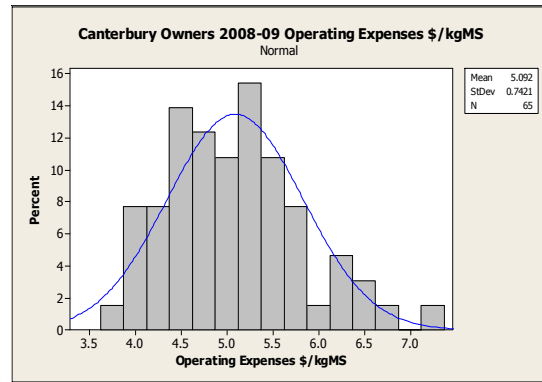
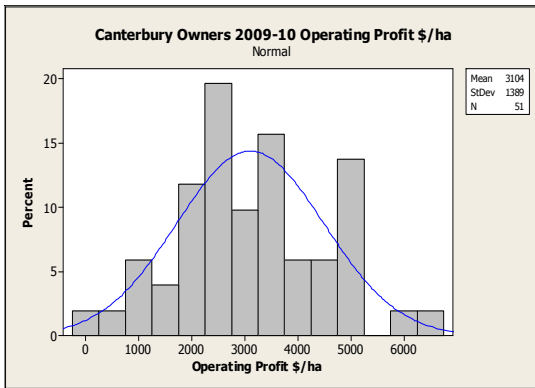
Each year farm operating profit is affected by external factors such as milk price, weather condition, or cost of some specific expenses. For example, the season 2007/08 had a relatively high milk payout and (in most situations) cost of production was kept relatively under control. As a consequence good profits were achieved on many farm operations. The following season (2008/2009), cost of production increased significantly as a consequence of increased price of inputs (e.g. grazing, supplement) and also due to farmers increasing expenditure as a response to the high payout the previous season (many farmers spent unwisely trying to capture profit from the high milk price). The final milk payout was lower than the 2007/2008 season before and coupled with a wet spring and autumn meant that production was lower than the year before as well. As a consequence profit plummeted.

In the season 2009/10 most farmers prepared a very lean budget at the beginning of the season after the \$4.55 /kg MS payout was announced. The theme was “tight management for tight times”. Many farmers maintained this approach and only made small changes to the farm system after the further increases in forecasted payout were announced. Feed prices for most of the season were lower level than usual (especially grain and PKE at the first half of the season). In addition, weather conditions were favourable for most of the season with a reasonably dry early spring and good grass growing conditions across the majority of the Canterbury plains. The cooler than average summer with more overcast days benefited many dairy farms, especially those located in more extreme environments and with below optimum irrigation systems. This situation was particularly evident in areas such as Culverden in North Canterbury. As a consequence, profit for the 2009/10 season was up again but not to the level of the season 2007/08. The price increase for some expenses never came back even when payout dropped.

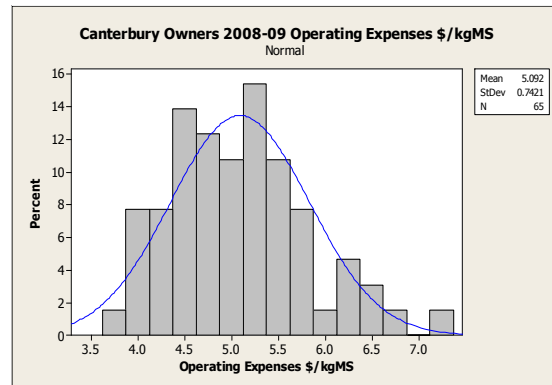
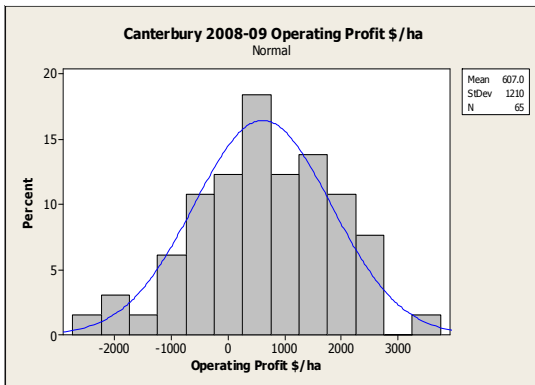
However, within seasons there is even a bigger variability in the performance achieved by different farm operations in the Canterbury area. The graph 1-6 present the range in performance for the last 3 years for Operating Expenses \$ / Kg MS and Operating Profit \$ /ha for all the farms with data on DairyBase. The performance of the case study farms analysed in this paper are in the top quartile of performance for each of these years.

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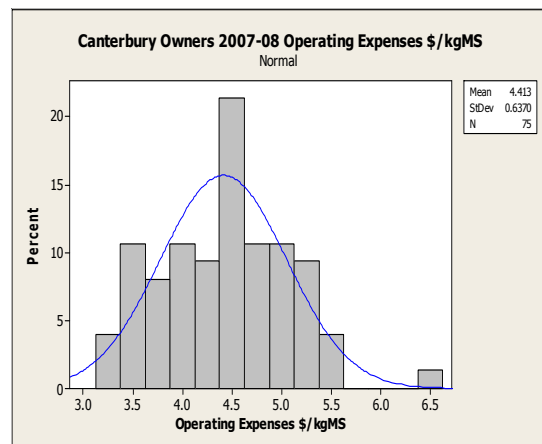
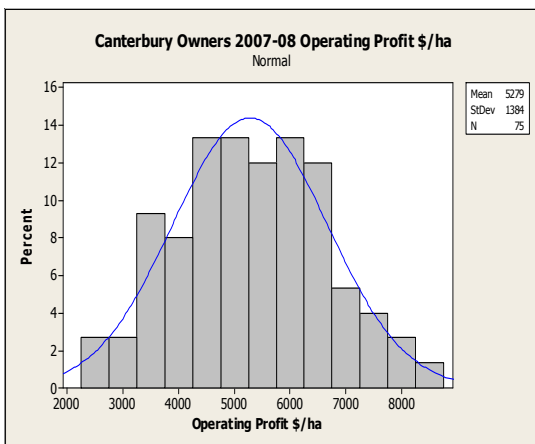
Season 2009/2010



Season 2008/2009



Season 2007/2008



Graph 1-6. Operating Profit (\$/ha) and Operating Expenses (\$/kg MS) – last 3 Seasons

Table 3 and 4 compares the physical and financial performance of the three case study farms with the average farm in Canterbury for the season 2009/10. The financial information benchmarks have 52 farms and the physical information benchmarks farms have 90 farms in the benchmarking group respectively.

Table 3. Detailed Financial Information - Season 2009/10

| SEASON 2009/10 | Davie Martin | Donkers | Lister | Cant Average (52 farms) |
|--|-------------------------|----------------|---------------|--|
| INCOME \$/kg MS | | | | |
| Milk Income | 6.19 | 6.26 | 6.37 | 6.14 |
| Net Stock Income | 0.36 | 0.29 | 0.39 | 0.24 |
| Other Income | 0,04 | 0.05 | 0 | 0.03 |
| GROSS FARM INCOME / kg MS | 6.59 | 6.61 | 6.76 | 6.52 |
| OPERATING EXPENSES \$/kg MS | | | | |
| Labour | 0.69 | 0.64 | 0.73 | 0.75 |
| Animal Health & Breeding | 0.26 | 0.18 | 0.26 | 0.27 |
| Shed Expenses | 0.03 | 0.03 | 0.08 | 0.04 |
| Electricity | 0.06 | 0.03 | 0.11 | 0.09 |
| Irrigation | 0.15 | 0.42 | 0.10 | 0.17 |
| Feed (Made & Purchased) | 0.39 | 0.35 | 0.34 | 0.69 |
| Winter Feed / Young Stock / Calf | 0.85 | 1.04 | 0.86 | 0.66 |
| Fertilizer (including Nitrogen) | 0.35 | 0.36 | 0.38 | 0.46 |
| R&M (Plant & machinery) | 0.28 | 0.27 | 0.10 | 0.24 |
| Vehicle (including Fuel) | 0.16 | 0.06 | 0.09 | 0.12 |
| Regrassing (contracting /w & p) | 0.04 | 0.07 | 0.05 | 0.08 |
| General freight | 0.07 | 0 | 0.08 | 0.05 |
| Admin/Rates/Insurance | 0.20 | 0.18 | 0.15 | 0.22 |
| Depreciation | 0.15 | 0.32 | 0.60 | 0.56 |
| OPERATING EXPENSES /kg MS | 3.68 | 3.60 | 3.94 | 4.40 |
| OPERATING PROFIT / kg MS | 2.91 | 3.01 | 2.82 | 2.00 |
| OPERATING PROFIT / HA | 4,867 | 4,506 | 4,900 | 2,968 |

Notes:

Table 4. Physical Performance - 2009/10

| | A D-M | LD | DL | Av. Cant (90 farms) |
|--|---------|---------------|---------------|------------------------|
| Cows /ha | 3.5 | 3.3 | 3.9 | 3.5 |
| Kg LW/ha | 1,720 | 1,600 | 1,801 | 1,654 |
| MILK PRODUCTION | | | | |
| Kg MS/HA | 1,670 | 1,499 | 1,736 | 1,497 |
| Kg MS/cow | 476 | 450 | 448 | 427 |
| Fat/Protein Ratio | 1.32 | 1.27 | 1.28 | |
| Kg MS/kg LW | 0.97 | 0.94 | 0.96 | 0.9 |
| Peak Production (Kg MS/cow/day) | 2.2 | 2.0 | 2.0 | 2.0 |
| Average monthly drop from peak production to end of December (%) | 6.4% | 7.0% | 5.7% | 7.8 |
| Days in Milk /cow | 270 | 265 | 248 | 259 |
| LABOUR EFFICIENCY | | | | |
| Cows/FTE | 155 | 159 | 182 | 173 |
| Kg MS/FTE | 73,964 | 71,685 | 81,394 | 73,664 |
| FEED EFFICIENCY | | | | |
| kg N/ha | 253 | 226 | 272 | |
| kg suppl. imported t DM eaten /ha | 1.2 | 1.6 | 1.7 | 1.6 |
| Grazing off t DM eaten /ha | 2.2 | 2.2 | 2.5 | 2.4 |
| Pasture & Crop Eaten /ha | 16.5 | 14.1 | 16.3 | 14.3 |
| Main Supplement Type | PKE/GS | Baleage/Grain | Grain/PK E | |
| Area harvested for silage (%) | 29% | 9% | 29% | 20% |
| Topping | Yes | Yes | No | |
| Stock Wastage / Rep/ Animal H | A D-M | LD | DL | Industry Targets |
| cows 1 Dec/ wintered cows (%) | 94% | 96% | 99% | >96% |
| % Heifers on the herd | 23% | 22% | 21% | 18-22% |
| R3 on farm at end of the season | 83% | 92% | 92% | >86% |
| 6 weeks in calf (%) | 73%E | 71%E | 65%A | 78% |
| Mt Rate (%) | 11% | 9% | 9% | 5% |
| Weeks Mating | 15 | 15 | 15 | |
| % Inductions | 0% | 15% | 2% | |
| % CIDRS | 13% | 0% | 0% | |
| % Cows Treated Lameness | 8% | 12% | 4% | <3% |
| % Cows Clinical Mastitis (1-6 wks) | 6% | 18% | 10% | <8% |
| Av SCC for season | 149,000 | 180,000 | 182,000 | <125,000 |

How is performance achieved? Looking beyond the numbers

What are the key farming philosophies?

Davie-Martin - Key farming philosophies

- To run a robust and sustainable production system that can be profitable on current and future scenarios of payout and costs of production
- Profit is first; production is a consequence and profit will not be compromised for chasing it. Every expense is analysed and every item has to add to the bottom line.
- To maintain good systems in place for cost control. Regular monitoring and adjustments of the cash flows is an intrinsic part of the management strategy
- To maximise the pasture eaten per ha by maximising pasture grown and utilization with a strong emphasis on, regrassing, strategic use of Nitrogen, pasture monitoring and timely decisions – “Attention to detail is mandatory to achieve top performance”
- To follow the “Lincoln University Dairy Farm principles”, of grazing to low consistent residuals, pasture monitoring and strategic use of supplements
- To run a simple operation with good systems in place that can operate well when Alan and Sharron are away
- To operate the farm to a high standard -achieving good performance and to lead the way in farming best practices
- To deliver free cash so owners have “choices”.
- To create an environment and culture to make Beechbank a desirable place to work

Donkers - Key farming philosophies:

- To operate a profitable and sustainable business that takes into account the goals and objectives of the different stakeholders
- To invest in the people working on the farm as much as in land and cows
- To operate a system that uses the cheapest feed first (grass grown on farm), and then incorporates good quality supplements strategically.
- To maintain the regrassing policy on the farm since it is one of the best medium term investment

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- To operate a simple system
- Profit is the main driver of the business and the main reason behind every decision on the farm.

Lister - Key farming philosophies:

- Focus on achieving profit per ha not production per cow
- To run a simple system with very clear parameters, policies and decisions rules that are very clear for everybody on farm
- Pastures are always grazed to residuals of 1,500 kg DM/ha to maximize pasture eaten and pasture quality. This is such an important component of the system that it is incorporated into staff contracts and is a measure of their performance. The main driver behind the business is to harvest as much MJME per ha as possible
- Cows are return to paddocks if residuals have not been achieved and this only happens between 4.00 and 8.30 pm.
- Regular monitoring of pastures and tools such as feed wedge and predictive feed wedge are used to make strategic decision on farm. “Monitor and measure are paramount to achieve good results and avoid guess work”.
- Any pasture with average pasture cover higher than 3,300 kg DM/ha are taken out for silage. “Cutting silage on the milking platform is expensive but it is used to maintain quality when needed”. The farm has only topped one paddock once since its conversion.
- Cows are always offered the right pre-grazing so they can achieve the target post-grazing residual.
- To have every m² of the farm growing good quality grass. Sun light touching bare ground is wasteful. Regrassing and under sowing are big part of the system. This is very important especially on a wet season.
- Early on in David’s dairy farming career he learnt that there was a strong negative correlation between profit and Average Pasture Cover in October. Being proactive in taking silage in early spring and avoiding average pasture cover creeping up at this time of the year is crucial to maintain pasture quality thru the season and profit.
- To focus on using one main form of supplement to avoid sinking capital on expensive feeding systems
- To use technology such as Automatic Cups Removers to increase staff efficiency and productivity with more time out of the cowshed.

What are the non–negotiables of the business?

Davie-Martin – Non-negotiables

- Compromising staff quality by paying lower wages. People that work in the business are the key to a successful low stress operation. “Do not take lean times out on staff”.
- Time available to do other things outside farming e.g. family, travel
- Pasture Cover targets at drying off and calving. Not achieving these targets has a huge cost for the business. “We have learnt the hard way that two more weeks of milk in May can sometimes be very expensive in lost production next season”.
- Cows’ health and cow condition.
- Close monitoring of financial performance

Donkers – Non-negotiables

- Staffing levels; more staff more profit.
- Operating with staff numbers that allow adequate time off while not over burdening the remaining staff on farm.
- Ability for staff training and development.
- Offer a variety of farm tasks to add skills and experience.
- No surprises; being organised and planning for all input and system requirements.
- Purchasing supplements when readily available not when the regional demand is high and supply is low, buying on MJME not on Dry Matter.
- Tender all chemical, animal health and capital development requirements.
- Know empty rate before scanning, intensive mating monitoring and tail painting
- Have a plan for debt management for when the market changes and impending debt roll over.
- Data capture; measure monitor manage.
- Soil moisture and temperature monitoring.
- Pasture growth trends and demand using a Feed Wedge.
- Young stock growth rates, focusing on minimum weights not averages.
- Pay period time sheets for staff, to document for both parties the time off taken and allowed.

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- Seasonal paddock cumulative growth to give per paddock performance and regressing information.
- By-monthly budget to variance reports, discussed with senior staff so they have ownership of some cost centres.

Lister - Non-negotiables

- Family time and fun.
- Reputation – “stick to our word – bound by verbal agreement”.
- Fertility in soils.
- Good animal husbandry.
- Pasture management policies and decision rules.
- Only use inputs/ideas that have been scientifically proven.

How do they undertake decision making?

Davie-Martin – Decision making process

- Starts with a clear plan at the start of the season which is reviewed and changed if circumstances change.
- A cash flow budget is prepared at the beginning of the season and followed thru. Cash Manager is used to track actual & budgets during the season.
- The cash flow budget provides an excellent tool to identify the need for extra funds to finance any particular period of the season. If this is the case, arrangements are done in advance and trying to find the best possible outcome for the business e.g. deferred payment (interest free) for fertilisers.
- Any decision big or small is done based on sound analysis with support from rural professionals and independent experts.
- Profit is the key driver of the operation and it is what drives all decision on farm
- Proactive tax planning in consultation with accountant to make the appropriate decisions every season well in advance

Donkers – Decision making process

- Early financial and system planning with John Donkers, Leo Donkers and Manager Terry Kilday.
- Seasonal system planning with Leo, Terry and senior staff.
- Monthly management meetings with John, Leo and Terry and all Camden Group senior staff.
- Weekly meetings with farm staff.

- Daily plan, written down “tabled”.

Lister- Decision making process

- Strategic decisions are discussed with Davids’ father who is an equity partner on the farm.
- Policies and decisions rules are set at the beginning of the season so they are followed through.
- Regular monitor of pastures provides information for proactive decision on pasture and feeding management.

What have been the key responses to milk price volatility?

Davie-Martin – Response to changes in milk price

Reaction to High Milk Price:

- Reward people – Staff and Owner
- Use high income to position yourself better in a low payout
- Reduce debt
- Be pro-active with R&M and fertilizer
- Look at necessary capital expenditure. “However, it is not an excuse to spend money”
- Plan to hold on to tax money for as long as economically possible. Discuss with accountant.
- Reaction to low payout
- Talk to suppliers regarding timing of payments and negotiate payments to suit cashflow.
- Decide what can be trimmed without compromising profit. Key areas to consider, capital fertilizer, R&M, owners drawings, regrassing , capital expenditure , feed, tax payments.
- Re- establish position by doing a realistic budget. Meet with your rural professionals early on, attack problem head on. “Bankers don’t like surprises, be conservative with situation so things generally come out better than planned”.
- “Bankers like accurate, reliable data in cahflow budgets. They will be more accommodating when times are tough if they are confident that they can trust the budget to be accurate and if they can see that there is a logical path out of trouble”.

Notes:

- “Always think long term, any volatility in income is generally short to medium term so do not over react when taking the axe to the business as rebuilding the business and relationships afterwards will take a long time and will be expensive”.

Donkers – Response to change in milk price

- Follow the budget and focus on cost of production.
- Calculate margin on extra feed input
- All payout increase above budget should be profit.

Lister – Response to change in milk price

High milk price:

- Use extra cash to pay off debt or invest
- Always keep control of cost even if milk price is good.
- Follow the set farm policies. “The aim is to achieve the same or more production every year with similar cost independently of milk price”.
- Resist the temptation of spending more money or changing a very profitable system to chase extra profit – this can be more costly.
- If there is a very clear opportunity to increase profit e.g. good price ratio between milk price and grain – may consider increasing feeding levels if there is opportunity to increase feed demand on farm (more cows), otherwise grass would be wasted.
- Low milk price
- If not profitable to feed grain would de-stock and eat grass only
- Fertilizer cost can be trimmed
- Reduce staff level. The farm can be run with ½ staff less if needed. Current staff level provides good lifestyle for everybody on farm.

What have been/will be the main changes in the system?

Davie-Martin – Changes

Past: In the last few years got more in touch with business and know it inside out. Strive for efficiencies in outcomes, management and resources.

Future: In the next five years to be receptive to changes that are backed by science and that deliver the appropriate outcomes to the business. “Always keep learning”.

Donkers – Changes

Past: Water efficiency monitoring, centre pivot purchased, ACR’s purchased, greater focus on repasturing, greater focus on drying off based on body cow condition.

Future: Cheaper irrigation water via piped scheme, grow young stock out to be >95% of adult live weight at 2 years old, grow more grass.

Lister – Changes

Past: Huge learning curve. Established a simple, sustainable and profitable system

Future: Supply colostrums: it means extra income for the farm but also it is a way of supporting Fonterra's business in this area; install Milk Hub to increase herd management efficiency; feed pad: Will consider the option to reduce pasture damage in wet conditions.

Key risk management strategies

Davie-Martin – Risk management strategies

“Try not to run on empty so aim to have a buffer both for finances and feed.

Regarding feed – try to build that when purchasing options are favourable.

Be flexible and don't lock yourself in a position that you cannot get out”.

Donkers – Risk Management Strategies

Control more of the inputs into the business; the Camden Group has its own winter grazing, young stock grazing, grass supplement and stored feed for adverse weather conditions in house.

- Investing in a piped irrigation scheme
- Investing with key staff in sharemilking ventures; this not only retains staff but also defines a pathway in Dairying for staff within the Camden Group
- Use of business professionals and the information stream into the business.

Lister – Risk Management Strategies

- Have a system that is flexible enough so it can change when conditions change
- Use cash generated when milk price is high to reduce debt if not in a position to expand or invest
- Have good strategies in place to avoid losing cows for bloat
- If wet, cows are grazed on paddock for 2 hours and then go to stand off block (future feed pad).

Notes:

Summary - What do high profitable farms have in common?

- Cost Control
- Any new expense is profit tested
- Big emphasis on regrassing
- Good quality of the staff involved in the running of the farm
- Good grazing management principles are followed
- Simple systems
- Monitoring and measure

References

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