

How Big is Too Big?

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Introduction

The Dairy Industry; why has it survived the last 100 years in New Zealand to be one of New Zealand's biggest industries? Given that the domestic market only consumes 10% of its product and given the hours and conditions that farmers have to work in at times and the changes in weather, economy and politics; why has the industry got stronger and stronger each year?

Is it the co-operative nature of the industry? Is it the technical, innovative people that keep us one step ahead of our competitors and the infrastructure we have, giving farmer support in all aspects of their business? Is it because we can produce the raw product at a lower cost than other countries? Or is it the opportunity and structure the industry offers people, to start at the bottom and work their way through to the top, building their business and equity as they go? And is it the lifestyle that it gives people and young families, giving mum and dad the opportunity to be their own boss and the chance to include their kids in the family business, teaching them about work ethics? And the chance to employ staff and teach them the skills required to get ahead and survive in this industry?

We don't think anyone can argue that these are not all good reasons why the industry is where it is today. But if we look at these reasons and ask the question, "Why did we enter the dairy industry?", then which reasons would best answer this question?

Goals

We think most of us would find that the answers come from within the farm gate. But what are *your* reasons for deciding on this career: family environment; own boss; flexibility; enjoying the life; challenges; investment opportunity; equity growth; financial freedom; farm ownership; early retirement?

Whatever your reasons, how are you going to use the dairy industry as a vehicle to achieve these goals, what is the time frame you have set, is it sustainable for you now and is it going to continue to be so for you and your family?

Reader's Notes:

For me (Dylan), I already knew that I loved dairy farming, I knew that it was a great environment for family but what really attracted me to the industry was the structure. Going from farm worker to manager to sharemilker to farm owner, and being able to achieve this without any other financial backing. I wanted to be my own boss and have the financial freedom to live a lifestyle that my family and I would enjoy.

So on your career path, in each step you take, you will have to make some major decisions like, how many cows do you want to milk and for how long, and is this the best way to achieve your goals?

So finally we've come to what we are supposed to be talking about, *scale!*

Scale categories

We have chosen three main categories of scale: less than 300 cows; between 300 and 650 cows; and over 650 cows. We believe there are different types of management roles, skills and structures required to effectively and efficiently run each type of unit.

Less than 300 cows

The manager is able to (within reason) plan, budget, organise and carry out the work involved to effectively operate a dairy farm of this scale sustainably. He or she may employ casual labour at times, but generally full time labour is not needed.

This is a one man or one couple unit and the buck stops with them.

Between 300 and 650 cows

Generally, it would take one manager and between one to three full time labour units to operate a dairy farm of this scale sustainably. The manager would still be required to plan, budget and organise the work involved to operate the unit, but would only be able to be hands on with 30 to 50% of the workload. Because he or she is still hands on, they are able to keep their finger on the pulse, and this makes it easier to have this size unit perform at a high level. However the performance can still be influenced by how well the manager is able to manage his or her staff. Skills like communication, delegation, time management, planning and organising staff are quite important to running a cost effective unit.

Over 650

As we get over 650 to 1000 plus cows we are entering into what we would define as large-scale dairy units. Skills needed to operate units of this size are actually very different to the previous two. You are now stepping up from being a farm manager to a people manager. You are basically managing people to manage the farm. This means that the performance of this type of dairy unit is related directly to staff performance and indirectly to how well you can

manage the staff. In theory if you have the people skills, the unit could still perform at a high level even if you have minimal or no dairy farming experience.

Key principles and skills

Communication

The manager needs to communicate regularly with all staff and have all staff communicate regularly between themselves. Staff weekly meetings are a must. Breakdown in communication creates at least 95% of all non-performance issues.

Monitoring

On smaller units the manager is hands on, therefore he or she can continually monitor performance while they're amongst it. On larger units, close and regular monitoring of staff and their responsibilities, production, costs, and any personal and in house issues that maybe concerning them is vital as they do not have the time for hands on. It needs to be stressed that the manager needs to allocate time on a daily basis to monitor performance.

Systems

Need to be simple, able to be easily understood by all staff and have clearly identifiable objectives and targets. These systems need to be used to objectively monitor performance of key areas within the business, for example staff, production, feed, costs etc.

Staff training

This is something that can be quite easily over looked because on smaller units the manager is often working one on one with the staff while on the job (train while you work) and staff on smaller units are normally getting experience in a wider range of work areas. Managers on larger units simply do not have the time to be one on one with all the staff, let alone be hands on. Therefore off farm training, training herd managers to train their team and some theory work in weekly meetings are good ways to upskill your team.

Time management and prioritising

If these areas are mismanaged on smaller units, they can be overcome by working harder to get through it. If the manager on a large scale unit cannot prioritise the areas where he or she

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or staff should be focusing their time and effort, then they may lose sight of the big picture or targets they are working towards. This can quickly create a snowball effect and be very costly.

Structures

It is vital to have a structure within your team, giving everyone a clear chain of command. Each individual has a title with clear boundaries and responsibilities because it is important to staff that they know where they stand and whom they are to answer to.

If these key principles and skills are implemented on a large-scale dairy operation, then this will definitely assist you to run it cost effectively and efficiently. The manager needs to be disciplined with regard to the application of these principles. If you are task oriented and are managing a large scale unit, a good way to monitor yourself is to ask yourself the question, “Do you feel like you have done a good days work?” when you come home each day. If your answer is “yes”, then you have not performed as per your position description. However if you come home and feel that you have not achieved anything that day, then you are a lot closer to performing as per your position description, in managing people.

Dylan’s experience and view of the different scales

North Island

Prior to sharemilking in Southland I had worked on, or managed 200, 300 and 500 cow dairy farms in the Bay of Plenty and Waikato areas. It was there that I developed my career and passion for dairying and I found these sized units in this area enjoyable, satisfying and sustainable long term.

Sharemilking in Southland

On shifting to Southland after an 18 month overseas experience, Sheree and I took on a 150 cow sharemilking position at Edendale. With Sheree working full time off farm, I was able to manage and operate this size unit comfortably myself. I was totally responsible for all aspects of the running of the unit and found this extremely satisfying when seeing the results of my work. The only downside I found on this size unit was justifying time out on a regular basis, as the employment of relief staff would have had a significant effect on the bottom line.

From here we moved on to a 500 cow sharemilking position at Wendonside (Northern Southland). Because of the arrival of our first child and the value of Sheree’s input to this size unit, she let go of her off farm work to be more involved on farm. For the first time, we employed staff, two full time assistants. This presented new challenges in itself. As we stumbled through this new position as employers, not all aspects or results were completely satisfying and we were starting to realise that the performance of this unit had become partially reliant on staff performance. Over the two years in this position we learnt a lot about what makes people tick

and we were comfortably satisfied that while this sized unit did not always give us the 100% result that we were looking for, we could address any issues quite quickly as I was still at the coalface with my finger on the pulse. Importantly for us as a family, it also gave us rostered and regular time out.

Management in large scale

In the year 2000, we moved into an equity partnership milking over 1000 cows in Riversdale.

We initially went into this position totally blind, thinking that we could operate this size unit in the same way as we had managed the previous position, but with just a few more staff on board. It took us until about the middle of the first calving to work out that we were in a whole new ball game and that we needed to implement some simple systems and structures fairly smartly before Sheree and I were left to milk 1000 cows by ourselves with two kids under three.

In the two years we were operating the large-scale unit, we implemented a number of different systems and structures, some worked better than others. What we found was that regardless of which structures or systems we implemented, the staffing issues never went away.

We had come to realise that as a young family, running a large-scale unit as we were, was not sustainable and we needed to make some changes. We thought that if we reduced the workload of the management position, there would be more time for the manager to create a more positive working environment for staff. So Sheree and I stepped back, taking on the accounts, budgeting and overseeing role and introduced a new equity manager for the staff management role. But the manager was faced with the same issues that required a lot of constant effort with little regular time out.

We believe one of the reasons that these constant issues exist is the fact that a lot of employees are not interested in working on large dairy farms, therefore the labour pool we have to draw on is reduced making it difficult to find top quality staff. Hence the constant effort with personality clashes, low performance etc.

However, if you want a challenge, then we believe that people management in a large-scale dairy operation is the job for you.

Reader's Notes:

Summary

It would be easy to conclude that the message we are trying to send is, “I wouldn’t touch large scale dairy units with a barge pole.” But the fact is that there are some large scale farms running very well and showing very good profits, and with the New Zealand herd size increasing each year we suspect they will be around for many seasons to come.

What we believe we are trying to do is make you more aware of what is involved in managing dairy units of different scale and the skills required. What we are also wanting to show you is that milking more and more cows thinking “bigger is better” isn’t necessarily going to generate you more profit and better returns on your investment. Then, with this knowledge you will be able to make a more informed decision about your next step in your career path to achieving your medium and long term goals.

If there was one phrase that summed our message up, it would be, “Its not how big it is that matters, its how you choose to use it!”

Owners Farm Statistics 2003

Average Cows Milked	650+	300-650	300-
PRODUCTION DATA			
Effective milking area (ha)	358	163	79
Average number of cows milked (mid January)	1039	478	197
Average cows per milked area	3.02	3.02	2.62
Milksolids production (kg)	392910	179358	84174
Milksolids production per average cow milked (kg)	380	376	417
Milksolids production per milked hectare (kg)	1151	1118	1076
INCOME DATA			
Milk sales income	1504005	3083668	353830
Average price per kg of milksolids	3.84	3.95	4.15
Milk income as % of GFI	93	89	87
Gross farm income (GFI)	1573462	799923	401512
Gross farm income per milked area	4597	4942	5131
Gross farm income per average cow	1512	1667	2008
EXPENSES DATA			
Farm working expenses (FWE) (direct working expenses excl standing charges & depreciation)	1044423	488387	280589
Wages per kgms	0.63	0.47	0.59
Animal health per kgms	0.16	0.17	0.21
Breeding expenses per kgms	0.07	0.09	0.10
Dairyshed expenses per kgms	0.04	0.05	0.09
Stockfood costs per kgms	0.58	0.54	0.74
Fertiliser per kgms	0.41	0.39	0.35
Vehicle costs per kgms	0.11	0.14	0.22
Repairs & maintenance per kgms	0.21	0.23	0.41
sub total	2.21	2.08	2.70
Other Expenses	0.56	0.63	0.73
Farm working expenses per kg of milksolids	2.77	2.71	3.44
Farm working expenses as % of GFI	64	61	70
Farm working expenses per milked area	3065	3012	3545
Farm working expenses per average cow milked	1006	1014	1417
Operating surplus per ha (GFI less FWE)	1532	1930	1586
Operating Surplus Less WOM(per ha)	1226	1565	976
PROFITABILITY & OTHER DATA			
Total farm capital (land, stock & plant)	8.36m	4.49m	2.64m
Interest earned on total farm capital (excl interest paid, but incl an allowance for managerial salary)	3.63	4.22	2.84

Profitability peaks at the 300 - 650 cow category.

Figure 1 Farm statistics for different scale farms

Reader's Notes: