



ARE YOU ON THE
RIGHT BIKE??
IS IT BALANCED?

Profitable Feeding and Business Principles

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How's your level of confidence in the external environment?

- # Will milk prices stay volatile?
- # Will seasonal conditions continue to vary?
- # Are you willing to punt on more stable input prices?

*Three strikes indicates the need for balance
resilience and performance!*

Is your milk special?

- # Unfortunately... no!
- # When the water's removed it's all the same - kg of milk solids.
- # So the major impact on profit will be when and how you produce milk.

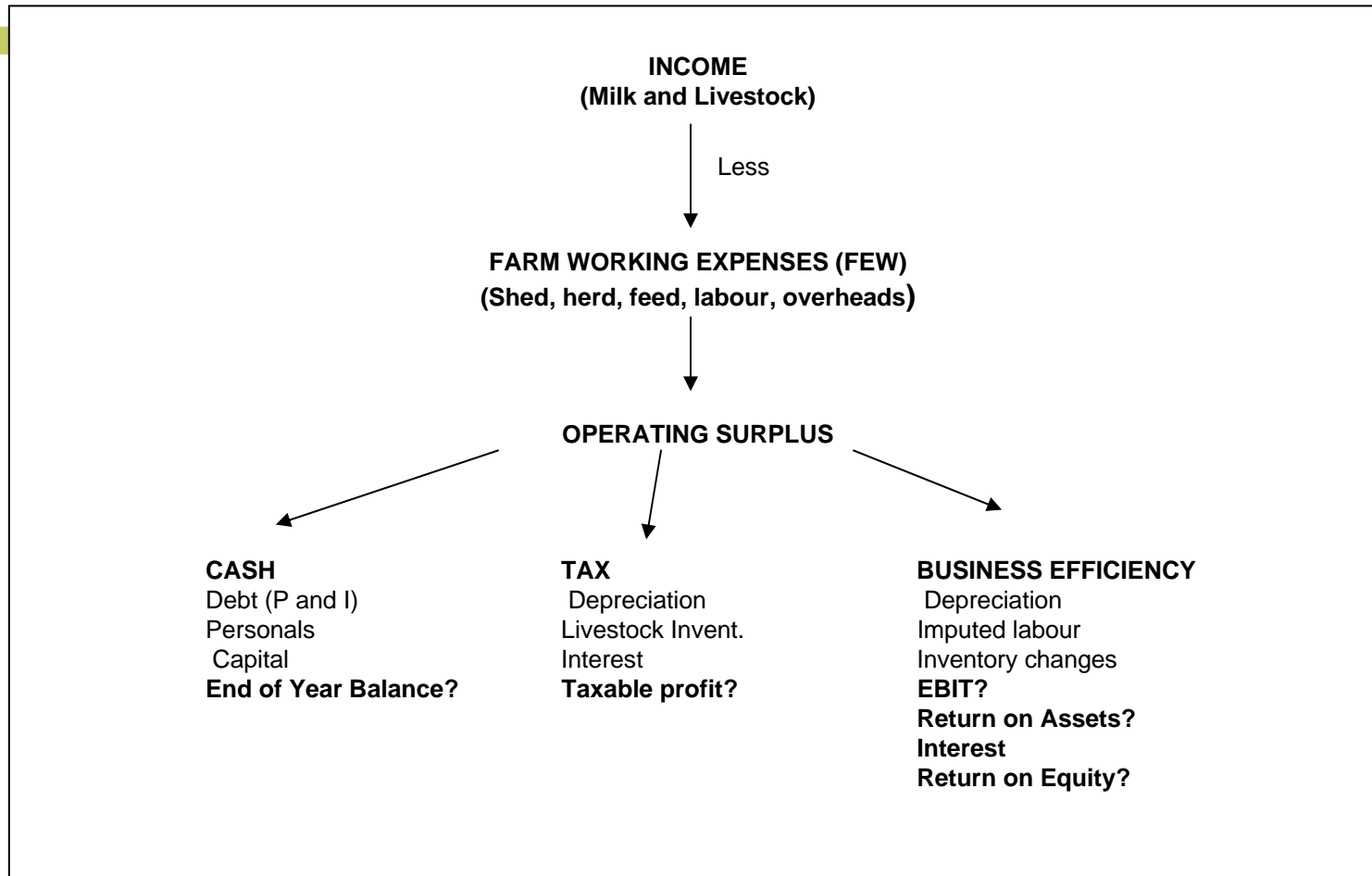
Why do advisors who've been around a while constantly harp on about the basics?

Because...

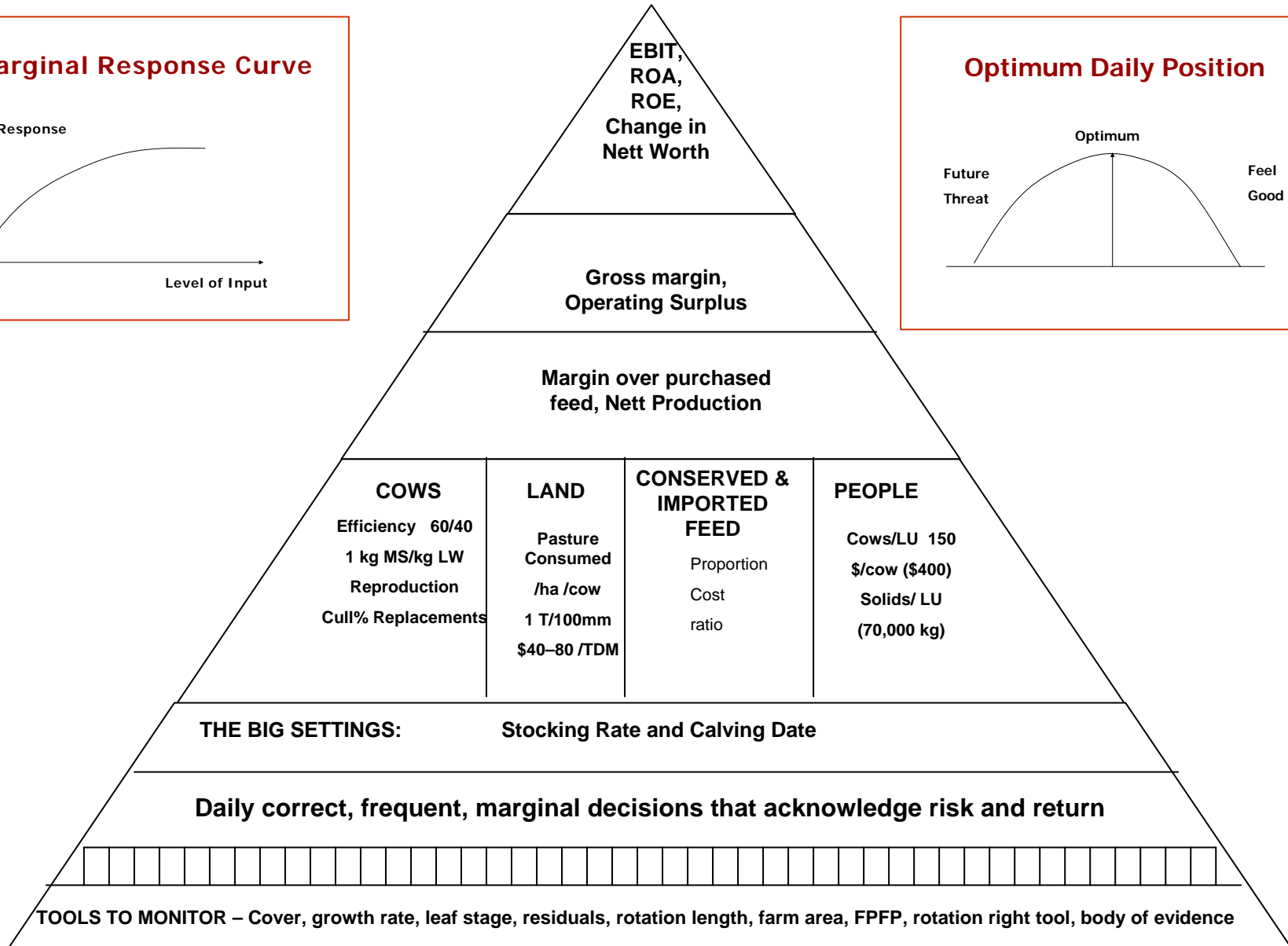
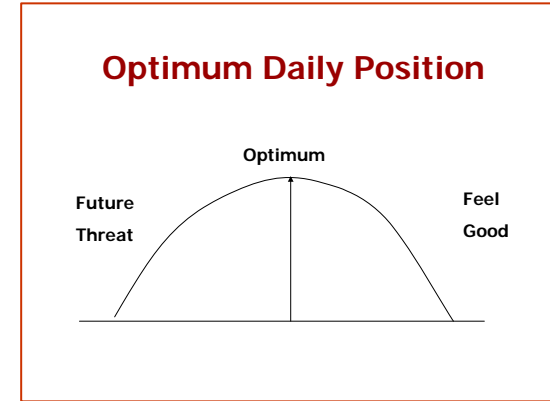
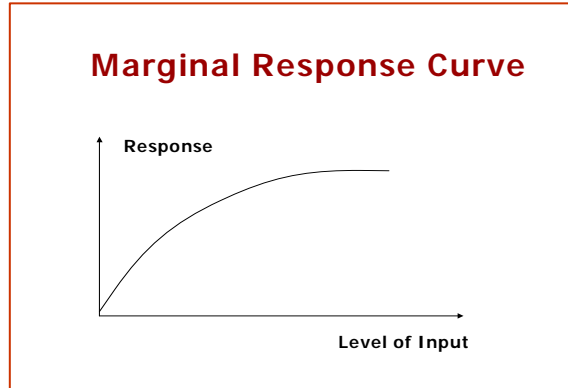
- Achieving the basics successfully is still what drives farm business performance
- There are still sectors in the industry who view increased production as proof of progress, performance and profit e.g. A quote from a Gippsland rural paper "... Litres drive profit and feed intake drives litres..."

Now back on the farm...

THREE WAYS OF LOOKING AT FINANCES



Profit Pyramid



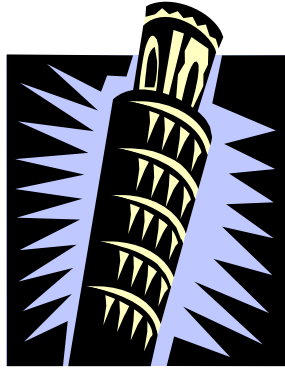
"Secures" vs "Crackers"

	"Secures"	"Crackers"
Stocking rate	2.1	2.9
Solids per cow	429	557
Litres per cow	5593	7293
Grain fed per cow (T)	0.88	1.80
% Energy imported	25%	42%
Pasture consumed (T/ha)	7.6	11.0
Operating Surplus/cow*	\$808	\$1123
Operating surplus/milking ha*	\$1697	\$3256
EBIT /cow **	\$450	\$502
EBIT /ha **	\$945	\$1456
% Income on production costs	50%	51%
Cash costs / cow	\$802	\$1150
Equity	55%	39%

* Operating Surplus = milk and stock income less production costs (shed, herd, feed, labour, overheads)

**EBIT = Earnings before interest and tax

The Crackers are "risking" an extra \$348/cow but in their case it generates additional income of \$663/cow - Australian Dairyfarmer article 2004!



THE DAIRY BUSINESS TOWER

It's about balance - not right and
wrong!

Imported feed less than 30 - 40 %

3 - 4 T DM off milking area and no more than 20 - 30 %
"re-processed"

Paid labour less than 30 - 40% of total labour used

Equity greater than 65% and no more than 20% of debt
short term; debt servicing less than \$400 - 500 per
cow or \$1.00/kg MS

Good management

Now look at two towers...

Two "Crackers" in vastly different Victorian dairy areas

	Dryland North East	High Rainfall Gipps
Cow Nos	380	360
Stocking rate/ha	1.32 (288 ha)	2.9
Calving date	1 st April	1 st July
Solids per cow	555	539
Concentrate /cow	1.75	1.90
Imported hay/silage per cow	0.48	0.20
% Imported energy	33.3%	32.9%
Pasture consumed /ha	5.8	11.2
Pasture consumed /cow	4.4 (32% silage)	3.9 (17% silage)
\$ /T consumed	\$66	\$72
Equity %	65%	52%
Total Debt	1.39 M	1.857 M
% Short term debt	4% (60 K)	5% (99K)
Debt servicing	\$631/cow (\$1.14/kg MS)	\$627/cow(\$1.16/kg MS)
Paid labour	42% (\$0.38 / kg MS)	31% (\$0.26 / kg MS)
Farm Working Expenses/kg MS*	\$3.20 (24 c/L)	\$3.08 (23 c/L)
Operating Surplus*	\$448,887(\$1181/cow)	\$409,044(\$1136/cow)
ROA	8.0%	7.0%

*At 6 yr av. milk and input prices

NE Focus: Early lactation, direct harvest, then silaged crops@ \$50/T DM; Gipps. Focus: No crops, direct harvest, per. rye

What justifies describing these as “well managed” businesses?

Physical Profile

- Big settings are appropriate enabling manipulation in the tough times (resilience)
- 67% of the total feed utilised is “home grown” and of this 17 - 32% is conserved and re-fed (resilience)
- Efficient hectares, cows, people (performance)

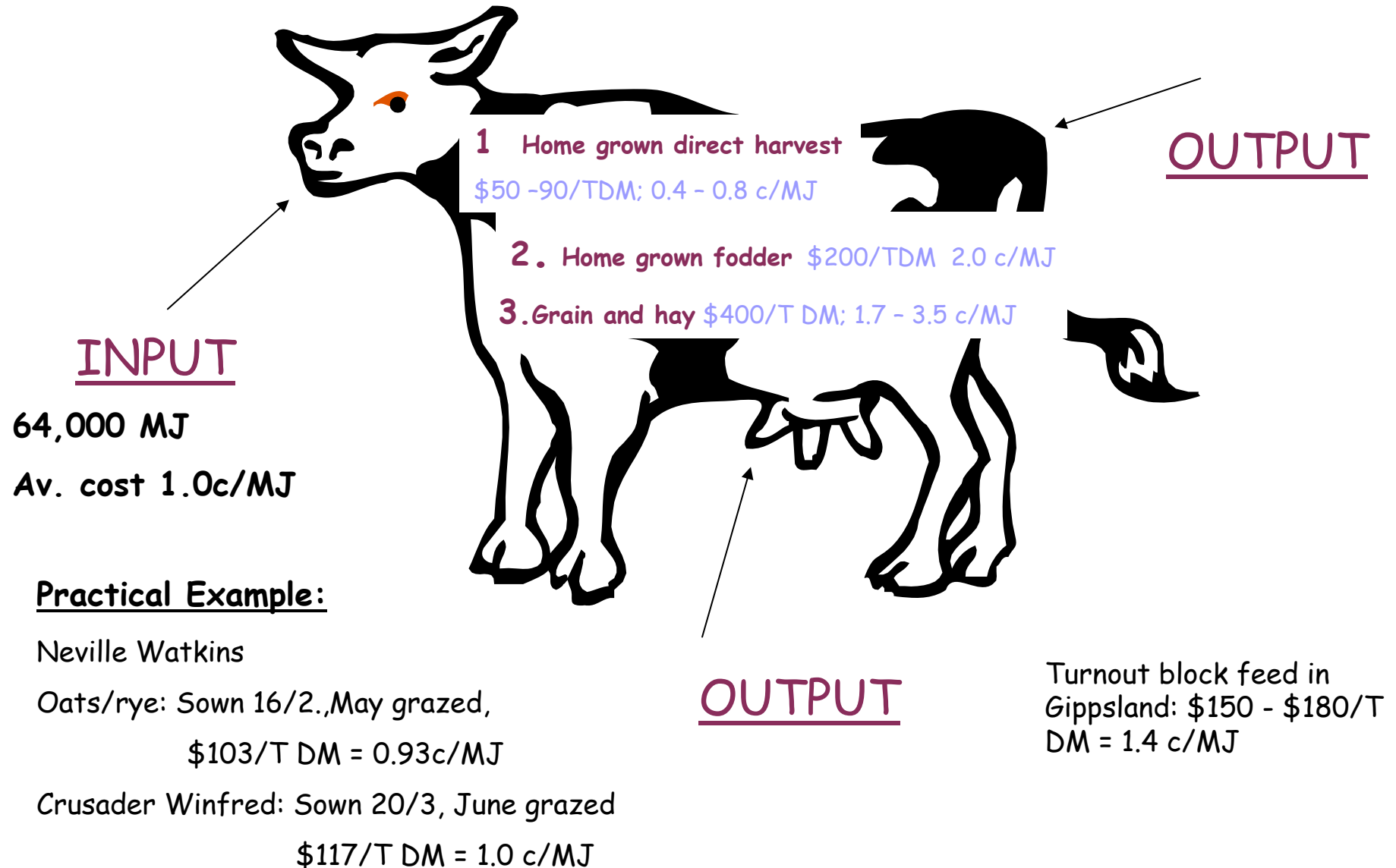
What justifies describing these as “well managed” businesses?

Financial Profile

- Low to moderate equity (58%), but this is offset by 5% of debt being short term
- Debt servicing is high at \$629/cow (\$1.14/ kg MS) but this is offset (possible) because of high performance creating a high surplus from additional expenditure.
- At 5 yr average input prices, Farm Working Expenses (cash costs of producing milk but not debt personals or capital) are \$3.14/kg MS, of which \$0.32/kg is paid labour (resilience)
- Paid labour is 36% of the total labour required (flexible)

A very good set of tools and understanding of the levers of the business!

It's all about the "balance of feed"!



As new feeds appear on the smorgasbord...

- # Yield
- # Cost of feed (establishment, NPKS, pests) in \$/T DM and c /MJ
- # When is it available? (13 MJME and 20% protein is more valuable in autumn than in spring)
- # Direct harvest vs conserved (conservation costs, losses, costs of feeding)
- # Loss of other feed e.g pasture

Example: Spraying out spring pastures to sow chicory in Gippsland

The future for the two "Crackers"?

- # Marginal cows
- # Marginal kilograms

Hopefully consolidation!



And we haven't even talked about the greatest driver of the business... the characteristics of the manager. What is good management?

"...There is little doubt that the key variable and driver of profit is management skill..."

Ian Gibb, Farmanco

- # Identification of critical variables
- # Experience, observation and a comprehensive world view
- # Ability to act quickly and decisively
- # Timing often more important than getting it exact

So is it just about having the right system??

- No. There is no one right system
- The right system for you is the one that fits your resources, constraints, skills
- There are principles that apply to all systems but success is mainly about management skill (as long as external factors allow profit)

What are the main risks?

External - limited control

- Milk price
- Season (climate change, drought, water allocations)

Internal - some control

- Knowing where you stand - your tower (cost structure, cash flow, equity, debt)
- Managing feed inputs (skill needed to get the mix right and manage margins - FPPF)



Hopefully, you're on the right bike for the speed you want to travel and the level of risk you want to take!