

DAIRY FARMERS MUST APPRECIATE WHERE PROFIT COMES FROM

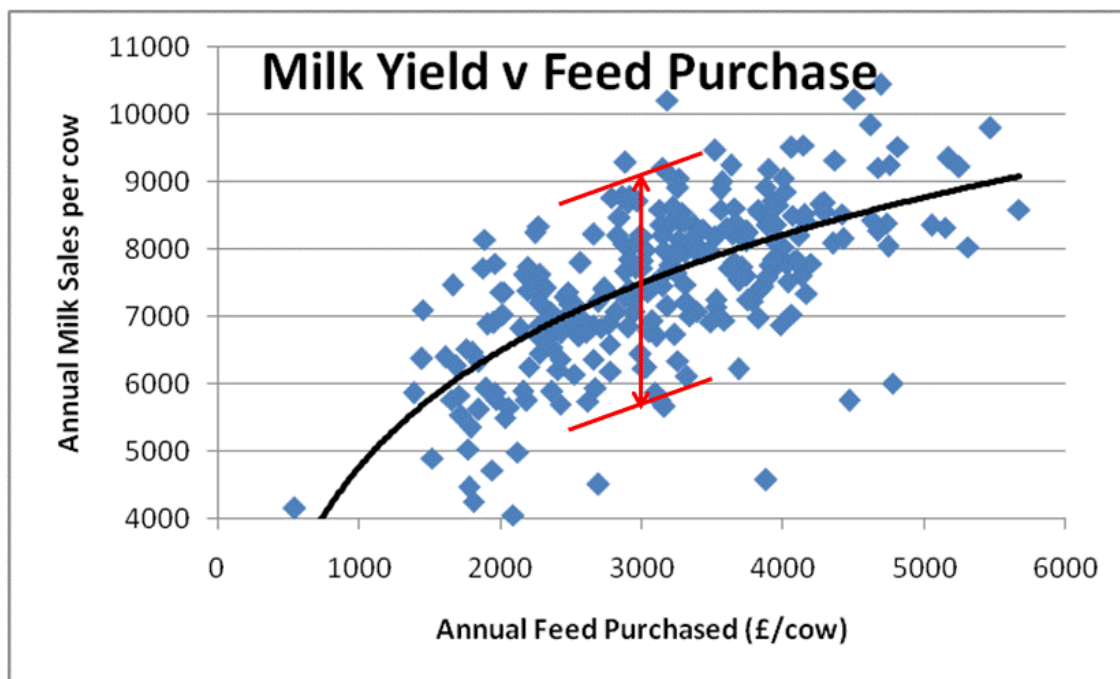
Successful dairy farmers better understand the appropriate strategy in relation to their milk contract and then focus on its delivery.

Speaking at a joint Promar International/HSBC meeting in Ripon, Promar National Dairy Consultant Derek Gardner stressed that profit is not about chasing yields, especially when feed, forage and youngstock rearing costs account for 48% of the cash cost of dairy farming.

Using data from the Promar Farm Business Accounts service, Mr Gardner pointed out that the difference between the average and top 25% of dairy farmers when selected about profit does not come down to just one factor, nor does it come down to a factor of farm size.

“The most profitable businesses do tend to be bigger but there is more to their success than just this,” he explained. “They retain a higher proportion of turnover as gross margin suggesting better technical skills and also have lower direct overheads which indicates higher output per man and machine. The net result is they make almost double the profit, at 22.5% of turnover compared to the average of 11.9%.”

According to Mr Gardner the data shows a huge range of efficiency of feed use (see graph). The response curve to additional feed is curvilinear and he stresses that while at low levels of feed use the response to extra feed is around 0.4kg/litre, it is considerably less at high feed levels.



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“Before deciding whether it will pay to feed more to push for yield you must know the feed and milk prices and make a judgement about how they may move. At high levels of feed use it will only pay to considering feeding more if feed costs are very low or milk price is high.

“And in many cases extra feed isn’t the answer. There is a staggering range in milk yield achieved for any given feed input. For example in our sample farmers feeding 3000kg of purchased feed produced anywhere from 5,800 to 9,000 litres per cow. If you are at the lower end of this scale, it is more sensible to work out why and do something about it rather than continuing trying to buy extra litres.

“The successful farmers are getting the basics right, are driving turnover through more cows rather than just higher yields, focus on getting the most from their contract and then ensure everyone is focussed on the same profit objective. They understand their cost levels, how they compare to average and then aim to do better than before.”

York based HSBC Agriculture Banking Manager Robbie Jones told the meeting that another attribute of profitable farmers was the ability to manage risk and he believes farmers will need to make two important risk management decisions shortly.

“We have been in a period of sustained low interest rates with base rate at an historic low level. Fixed loan rates are also at all time lows,” Mr Jones explains. “Market expectations are that interest rates can only go one way from here, although the timing and extent is less clear cut. Businesses need to consider whether the time is right to fix a proportion of the borrowing to provide certainty.”

The other area where Mr Jones believes farmers need to think carefully is about the exchange rate used to calculate the SFP. “Sterling is particularly weak against the Euro and again the expectation is that it will strengthen. This will have the effect of reducing the value of the SFP and it may pay farmers to arrange with their bank to fix the exchange rate now to protect the current value of their 2010 payment.”