

Taking a step back may reveal the bigger – and better – picture

# Time to take control

Assessing the precise position of your business with a detailed – and honest – dig down into your financial and physical data will allow you to make sure you're on the best path. So say two leading dairy business consultants.

text **Phil Eades & Rachael Porter**

**T**he tough market conditions faced by producers during the past two years have taken their toll on even the most efficient and enterprising business. And there's also been a personal price to pay for many, with extended working days and sleepless nights.

"Hard as it may be to find the time – and the energy – producers need to step back to critically appraise their businesses and decide where they want to be and how they plan to get there," says Promar consultant Emma Thompson. "The prospect of rising milk prices must not be allowed to become a reason to put off asking some fundamental questions about your business – and your personal goals."

These questions, according to Mrs Thompson, must include, do you know where your business will be in two, five and 10 years' time? Do you know what you want to achieve and how? "And what are your personal goals and objectives? In the vast majority of cases, personal and business objectives are intertwined."

She says that, although no two dairy units are the same, the strategic options boil down to four – to get better, to get bigger, to diversify to increase the number of income streams and spread risk or to manage an exit from the industry.

"It may be that more than one option will apply to your business. The skill is in deciding the most robust direction for your specific set up and situation."



*Charles Holt: "Decisions are easier to make – and act on – when you know your position"*



*Emma Thompson: "Step back and take time to appraise your business"*

But no decisions can be made until producers are 100% 'in the picture' as far as their business is concerned. Charles Holt says that producers have been so busy and bogged down in the day-to-day management of their herds, particularly on units where they've had to lay off staff to save costs, that they haven't had time to come up for air.

"And, for many of these 'tired' and 'stressed' producers, their view of their business and its future may seem bleak, particularly if they've had a refusal of a request for an additional overdraft from their bank or are having similar cash-flow struggles."

### **Positive impact**

"Taking a step back and getting a fresh pair of eyes to look at your accounts and figures may feel like the last thing you want to do, but with so many producers working hard to reduce costs and increase efficiency during the past two years or so, many could be in for a pleasant surprise," says Mr Holt.

He cites one client who came to see him as a last resort, following a rebuttal from his bank. "He was desperate and despondent, not least because he thought his business was failing and he had no control," he says.

But 'thought' is the key word here. By actually taking a detached and detailed look at his books, it became apparent that the steps he'd taken to cut costs had made a significant positive impact on his business. He'd managed to save more than £50,000 during the past 12 months alone.

"No one had taken the time to sit and work that out. It was a huge boost to his morale and he began to see that there was some light at the end of the tunnel. He felt better. And armed with that information, and more, in a report format that showed there was the potential to save another £40,000, he was able to go back to the bank and win that overdraft increase," he adds.

Mr Holt believes that there are many more



*Digging deep: a close examination of the books and discussing options casted light on future strategies*



## Dairy directions – what are your options?

This is the first in a series of six articles that sets out to examine the possible routes for producers who are looking to build and manage a dairy business that's better equipped to survive – and thrive – in a volatile market. And we'll also take a look at how to plan a positive and strategic exit from the industry.

We ask: what options would work best for individual producers? The key choices that we'll look at are on-going efforts to increase efficiency, greater economies of scales, or diversifying to harness an additional stream of income. Which of these options could add security and stability to help 'future proof' your business?

**Continued...**



*Fresh eyes: take a look at every aspect of the business – from feed through to finance*

beleaguered producers out there, labouring under a weight of financial worries but not knowing exactly what their position is.

"For some it may be worse than they think and for others it may be better. But, either way, if you're going to make decisions about the future – be that go to your bank for additional support or make management changes to further improve efficiency – you need to know where you and your business stand."

### **Fear factor**

He says he knows that there's a lot of fear out there: "But facing that fear will mean that you're in a position to take control and make good, clear decisions that will be good for you, personally, and your business."

Increasing efficiency and 'getting better' are not new goals but they must be considered by producers, going forward, as a 'foundation option' irrespective of whatever else has been and is being done. "If, following a detailed assessment, producers decide to stay in milk production then management has to be as efficient as possible," says Mrs Thompson.

For example, the best producers assessed by yield from forage on Promar Farm Business Accounts (FBA) produced more than 40% of production from forage, compared to the average at less than 30%. "The saving in purchased feed use is significant. So ask why some units are so much better and what can be learned from them."

She says that similar questions can be

asked about all activities and cost areas.

"Reviewing all aspects of the business and identifying efficiency gains should be a fundamental activity on all businesses."

For many years, prior to the milk-price drop, expansion and 'getting bigger' was the way to go for many producers. More cows and higher yields meant greater economies of scale – spreading costs across greater production to reduce cost per litre. Mrs Thompson says that while this has undoubtedly been a successful strategy for many, it has not been the case for all. And if extra cows lead to reduced performance, any benefits of running a larger herd can be eroded.

"Interestingly, we are now seeing more herds looking seriously at reducing scale and complexity, and challenging their businesses in a new way.

"Data repeatedly shows that the marginal response to additional feed is low. In other words, if it costs more in additional feed than the value of the extra litres produced then the financial contribution to the business of this action is reduced. So are they worth producing?

"Might it pay to reduce yield per cow and make sure that the litres produced make a good margin? If the extra litres come from three-times-a-day milking, is this cost effective?

"Similarly, what would be the impact of reducing herd size by, say, 10%? If the cows culled are poor breeders, or are more prone to lameness or have high cell counts, then other costs could reduce too. And, in addition to possibly lowering production costs, a smaller and simpler business can also offer personal benefits."

She's all too aware that many producers have been 'living to work' for the past few years, rather than 'working to live'. Mr Holt agrees the lines between 'work' and 'having a life' have merged for many producers and their health and welfare has come a poor second to that of their herds and businesses.

"That balance certainly needs to be redressed. No one can run a successful, thriving dairy business if they're unwell or their family relationships have broken down. You – your needs, wants and aspirations – should be an important part of your business assessment and any future plans."

### **Careful planning**

Diversification is another option for relieving the pressure of milk price volatility – both now and in the future. Mrs Thompson says that diversification can be a viable option for some businesses, but needs careful planning.

"It is vital to understand the market for the product and who the competitors are. It should support the dairy business – not become another drain on resources."

Where a business plan, that's based on increasing efficiency, scale and, where appropriate, diversification, fails to allow dairy businesses and personal objectives to be achieved, Mrs Thompson says a fourth option might be to manage a strategic exit from the industry.

"This takes planning," she explains, stressing that rushing to get out should be avoided because it involves so many factors. "Ask when is the best time to sell up to maximise the value of the herd? What are the tax implications and how does this affect timing? What will happen to the land?

"If you will stay in farming, what enterprise mix will you run? If you are leaving the industry altogether, where will you live and how will you get the best return on the asset value realised?" One final thought, echoed by Mrs Thompsons and Mr Holt, is that exiting is by no means a failure.

"It's a reflection of the market place – not your drive or ability to manage a dairy business. Rationalisation has been going on for decades but this period of extremely low prices, coupled with the volatile market place that we're now operating in, has served to accelerate the rate at which producers are leaving the industry," says Mr Holt.

"There is life after dairying. But there's also plenty of life left in UK dairy herds and businesses yet." |

# Adding value 'only answer'



Inspirational dairy farmer, Jenni Hobbs

## By Anita Howells

"MOTIVATED" females are being invited to regular meetings of a newly launched Women in Dairy Group for the Three Counties.

There are plenty who fit the bill and amongst those who have signed up is inspirational dairy farmer, Jenni Hobbs.

She has plenty to say about the industry, describing the last 18 months as the "biggest nightmare" that's hit dairy farming in the 23 years she and her husband, Jerry, who farm at Barhouse Farm, Elmore, Gloucestershire, have been in the industry.

With milk prices struggling she and her family are trying everything they can to stay afloat.

This year they focused on adding value to the milk produced by their 200-strong herd.

Around half is Brown Swiss, chosen for its higher protein, good butterfat levels, easy calving and good feet. The rest of the herd is an interesting mix of Holsteins, British Friesians, Fleckvieh and Norwegian Reds.

It hints at the family's open minded approach to dairying and why Jenni has been short-listed for farmer of the year in

the Taste of Gloucestershire Food and Farming Awards.

"We try out these different breeds and see what works for us. It's not so unusual now to have so many different breeds. With milk prices struggling as they are people are looking at everything. Anyone who wants to progress in dairy farming now needs to look at the future," said Jenni.

The farm sits in the naturally grassy Severn Vale and they have been able to add value by utilising the grass, selling their milk under the Free Range Dairy Network Pasture Promise label to Cotteswold Dairy based in Tewkesbury.

The label was launched two years ago by Neil Darwent from Whitminster, Gloucestershire and offers an alternative vision of the future of the industry founded on value rather than volume.

It's an ethos Jenni shares and is happy to talk about at Women in Dairy meetings where innovation and the need for change is high on the agenda.

"Neil is trying to protect the family farm and add value to milk. Cotteswold Dairy took the label on at the beginning of the year. It's a label that's regulated to separate milk from grass-fed cattle in

# Women in Dairy is ideal as network



The Hobbs family is adding value to the milk from their cattle, including the Brown Swiss, pictured, by utilising their grass and selling under the Free Range Dairy Network Pasture Promise label.

healthier. It's high in CLA a linoleic acid which is cancer beating and omega three.

"It's about adding value to the milk, which we will through Cotteswold. They are a really nice family business who have embraced the Free Range Dairy Pasture Promise," said Jenni.

She continued: "Adding value is what this year has been about for us and how we utilise the grass."

"All year people have been coming here looking at the end user. Coffee shops and big buyers are looking at free range dairy. Countryfile was also filming here, looking at animals utilising grass."

"We can only add value and process on the farm. Even now I am terrified for the future of British dairy because there are no quotas. There's nothing to protect us going forward with the milk price."

Jenni is one of tens of women who are finding extra strength through the new Three Counties Women in Dairy Group.

Tellingly, it's the 18th set up since the launch of the national network last summer, following a feasibility study by Promar International, which gained support from RAHDF's Foundation for Collaboration, the initiative funded by the Government's Dairy Fund package.

Like all the others, the group for women in Herefordshire, Worcestershire and Gloucestershire is an opportunity to exchange ideas and experiences, develop skills, innovative thinking and to network.

It's facilitated by Caroline Groves, a senior consultant for Promar International.

She said she got involved after hearing about the successful groups colleagues had started in Cheshire.

A provisional date for the next meeting of the Three Counties Women in Dairy group is Tuesday, November 22, at Gloucester Farmers Club.

Topics are the TB Advantage and Breeding Profitable Cows with speakers, Andy Dodd, a technical manager at AHDB Dairy and Andrew Rutter, the breeding programme manager of Genus ABS.

Caroline Groves can be contacted on 07772227892 or e-mail [caroline.groves@genus.plc.com](mailto:caroline.groves@genus.plc.com). To book a place at the meeting contact the Promar office on 01276616800.

**Women in Dairy Conference**  
**September 2016**  
**Promar**

# Women in Dairy share solutions to challenges facing the sector

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More than 100 delegates were challenged and inspired at the second annual Women in Dairy conference, staged at Sixways Stadium, Worcester on 28 September.

Themed Resilience in Adversity, chaired by RABDF council member, Di Wastnage and organised by RABDF and **Promar International a Genus plc company**, with support from AHDB Dairy, a high profile line up of speakers shared some of their solutions to managing the raft of challenges within the sector.

Do you have that true grit and resilience to continue when times become difficult and it appears that everything is against you? Do you know who you are and where you want to be? More importantly, how are you going to get there? came the questions from Saviour Associates, Heather Wildman.

"I was bowled over by the stark difference in the attitudes and pride in our UK farmers compared with those I met whilst studying influencing and motivating change on my 2012 Nuffield Farming Scholarship travels across the Americas, Europe, Australia and New Zealand," she said.

"This difference led me to questioning why? Was it the extra hours of sunlight? No, at the time they were all in severe drought and experiencing extreme hardship and were very envious of our guaranteed rain. Did they receive more public, industry and government support? No, many received little if any at all and all equally were having to address the increasing gap between farming and consumer awareness, knowledge and respect.

"So what was the difference? They had chosen to farm, it was not an expectation. Before taking over the family business they travelled, they worked and learnt in different businesses and industries - accountants, vets, lawyers, computer programmers, milk companies with most working on at least two other farms before coming back home.

"So why did this make them more resilient? They had new skills, they had built up capital and generally owned a property in their own name. They had built up a network of skilled professional people. They understood business. They also knew how long they would be managing the farm for before handing over to the next generation.

"They had a vision, they had a plan, the skill set and the network to make it happen, so when times became hard through either drought, disease, debt, death or divorce they still felt the pain but they never complained, moaned, blamed others or gave up.

"They revisited the vision, reviewed the strategy and started again, heads up, smiling and focused, knowing where they were going, how they were going to get there and who and what they needed to help them achieve it."

Women particularly can offer so much more to the industry, said AHDB chief executive, Jane King. "You have a positive, can do attitude, are prepared to think outside the box, challenge the status quo by asking the difficult questions, and are prepared to learn the lessons from the past but are certainly not bound and constrained by the legacy of the past.

"I see groups like Women in Dairy and individuals as 'agents of change'. What we have here are multi skilled, agile, flexible people, entrepreneurs, collaborators, communicators with the confidence to be decisive, to take risks and to do it what you do with the consumer at the forefront in your mind.

"It's been proven time and again that women make superb leaders, able to set the direction for others to follow, to be positive role models. Good leaders know how to create the right lens through which their teams view the world. The emotional intelligence, personal awareness and social skills of many farming women is making a huge difference every day on farm and within the wider industry.

"More gender diversity is coming in to the industry via new entrants. The younger generation are looking to their role models like you and can see this is a dynamic industry with lots to offer in terms of careers and jobs. There is a richness of routes in from milking with the latest technology, managing a herd or a team, working as a vet or within the wider supply chain.

"Women currently make up 28% of the British agricultural workforce and the number of women running farms has steadily increased to just over 25,000. Women are undoubtedly on the rise in senior positions within key farming organisations too like the NFU with Minette Batters as deputy president."

She added: "I'm really excited by the fact that with Brexit the industry is on the brink of some pivotal moments. We can shrink from it and not grab the moment or we can seize the opportunities and make the most of it. Don't give in to self-doubt. Continue to be strong, be different and stand out from the crowd."

Setting out a vision, ambition and strategy is crucial for any business and AHDB Dairy's was done with significant input from staff and importantly informed by views from dairy farmers and the industry, explained its strategy director, Amanda Ball. "We're

currently finalising our strategy to take us to 2020, which subject to board approval will go out for consultation early December.

“Last year we heard about a desire for more market development activity and earlier this year our board agreed to upweight our investment to help develop a strategy for long term sustainable consumption in the domestic and international markets, where AHDB has significant expertise.

“Another clear message from our last consultation was around duplication of effort. So if we as AHDB Dairy, reduce resource in some areas to provide headroom for market development work, we will need others to champion areas we back off from and embrace the help of those who fed back to us.

“So what would be different this year? We would see a broadening of our horizons in market development and a narrowing of our focus in technical and farm business performance. Continuing to equip levy payers with the information and tools to grow, compete and be sustainable will remain at the heart of our strategy.”

Amanda concluded: “It’s in dairy farmers’ best interests to get best return from their levy investment. Women in Dairy can help realise this by connecting with their AHDB team, seeking out levy funded work and inspiring others to do the same.”

Dairy business profitability is down to efficiency, not yield per cow, said Barclays national agricultural strategy director, Oliver McEntyre. “The industry is yield obsessed when in fact producers should be focusing on margin, not yield.

“The top 25% of dairy farmers achieve 45% higher gross margins per cow than the bottom 25%. Even with current milk prices, that’s an average £450 more per cow per year.

“Yes times are tough, however try not to worry about the milk price,” he said. “Instead be proactive and try to focus on the things that you can control,” he said.

“Move out from being what’s termed a ‘survivor’ or a ‘doer’, people who have a hands on role, day to day focus and either regard higher prices or working harder as a solution to improving profitability. Move in to being a ‘manager’. There operators see increasing scale and efficiency as a solution to improving profitability, they take professional advice for example from vets and breeding companies, they have a higher engagement with primary buyers and have an evolving focus as skilled managers, then finance managers and finally people managers.”

Turning to succession just 40% of farmers have a plan. “It’s a very tough subject to broach yet it is vital. Put together a five, 10 and 15-year strategic plan and introduce an independent person around the table to open up the discussion. Succession provides that vital empowerment, demonstrates to the next generation they are trusted, allows the current generation to step back and the next one to step forward.”



# How a Cornish dairy farm uses business accounts data for benchmarking

Suzie Horne

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Data from his own and other farm businesses is helping Cornish dairy farmer Philip Ward make informed decisions.

Mr Ward milks 130 cows at Tempellow Farm near Liskeard and contributes to the Farm Business Survey (FBS – see details below).

“I send information from my Promar Farm Business Accounts package to FBS. They standardise it to make all the information comparable. I then receive a copy of the standardised accounts with comments, which is useful,” he says.

The comments put changes in inputs in perspective and show the impact on different areas of the accounts.

As well as comments on the performance of the sector in general, the reports pinpoint the strengths and weaknesses of the individual business in the context of top 25% performance/cow and /litre.

Mr Ward says the reports allow him to benchmark and compare profitability and output not only with other dairy farms similar to his 81ha owner-occupied holding, but also on a more strategic basis with different types of farm business, to assess whether he is committing his resources to the right enterprises.

## Tempellow Farm – data for decision making

- Contributes to and uses Farm Business Survey to monitor and compare business performance
- **Farm accounts on Promar's Farms Business Accounts**
- Margins benchmarked monthly on The Dairy Group's MCi service
- Herd records (for example, calving, drying off, service dates, fortnightly vet visits, medicine recording) on NMR Interherd

- Field records (for example, fertiliser, slurry, lime, soil analysis, reseeding) kept on home-made spreadsheet – packages have been tried but proved too time-consuming and complicated
- Many water meters positioned around the farm to check for leaks and monitor use – recorded manually

## **Benchmarking**

The accounts information also goes to consultancy The Dairy Group to be included in its MCI monthly margin benchmarking system.

For practical production planning and costing, the information Mr Ward gets back from this helps him to benchmark and set targets for improvement.

Most recently, assessing the cost of marginal milk production has been the focus.

“For example, when the milk price goes down, we want to reduce the marginal feed rate to get those extra litres and this helps us calculate how much those marginal litres will cost to produce, it helps us set a target and to monitor how we’re doing against that target.

“The comparative data allows you to judge what’s likely to happen if you reduce the feed rate. It’s more accurate than just relying on what’s happened in the past – you can get more [of an] idea of the likely result and have confidence in your target. It also allows you to be more self-critical.

“It’s even more important to have information like this when milk prices are more volatile, as they have been.”

## **Farm Business Survey**

- The [FBS](#) collects farm management accounts data from individual businesses through the universities of Nottingham, Newcastle-Upon-Tyne and Reading, as well as Askham Bryan and Duchy Colleges.
- The FBS is conducted on behalf of Defra to provide information on the physical and economic performance of farm businesses in England, to inform policy decisions affecting farm businesses.
- It is free and offers farm benchmarking, regional reports, enterprise reports and an online farm costings projection calculator.
- FBS is at Rural Business Unit, University of Cambridge, 19 Silver Street, CB3 9EP, UK. Telephone 01223 337 166 or email [mar58@cam.ac.uk](mailto:mar58@cam.ac.uk)