Feed Compounder
January 2017
Promar

PROMAR APPOINTS THREE EXPERIENCED CONSULTANTS

Promar International, the farm and agri-food division of Genus plc, has made three appointments which will bring considerable industry experience and expertise to its consulting team.

Neil Adams has been appointed Regional Consultancy Manager – South and will be responsible for the delivery of Promar services across the south of England, managing a team of N consultants. Having started his career with Promar, he left to develop broader experience with EFFP and OMSCo. Since returning to Promar in December 2012 he has been working in the Special Projects Team and has a proven track record in delivery of large commercial projects.

Experienced consultant **Matt Sheehan** has re-joined Promar as a Principal Consultant in the Midlands, having previously been with Promar from 1994-2004. He brings with him a wealth of experience from a career in consulting and business management services in the food and farming sectors. Matt has held various roles in the Dairy industry, including working for Dairy Farmers of Britain, Dairy Crest and NSF International..

Also re- joining the farm consultancy team is **Nigel Davies** from Colwyn Bay. Nigel was a regional consultant with Promar for five years in the late 1990s and has been with HSBC since then, carrying out a variety of roles. A Welsh speaker, Nigel, brings considerable experience to the Promar team and is challenged with growing Promar's consultancy offering in Wales, in addition to involvement with training and developing the company's supply chain contacts.

Continued…

DON'T BANK ON IMMEDIATE TURNAROUND IN DAIRY PROSPECTS

Dairy farmers were warned it will take more than the current increases in milk prices to rebuild dairy farm finances and they need to continue to review every facet of their business.

Announcing the results of the analysis of company's Farm Business Accounts (FBA) to March 2016, Promar National Consultancy Manager Nigel Davies says the results show the extent of the milk downturn and the challenges that all businesses have faced, as well as how farmers have reacted and the decisions they have taken.

"The FBA results give the most in depth analysis of dairy farm profitability and financial structures," Mr Davies comments. "Not unexpectedly, in the year to March 2016, milk price was one dominant factor and many farmers sought to reduce costs wherever possible.

"The physical nature of dairy businesses in the sample stayed relatively constant, with small increases in herd size and milk yield per cow being achieved alongside continued gains in technical efficiency with concentrate use per litre continuing to decrease.

Output has decreased compared to previous years leading to reduced profits. Both variable and overhead costs have fallen at a comparable rate as a proportion of that output, so margins and profit as a percent of output remain unchanged.

Mr Davies says that where farmers have made most significant strides is in reducing their discretionary non-trading capital expenditure, with a 34% reduction in capital investment and a 10% cut in private drawings.

"However, despite these considerable economies and responses, the average farm in the sample remains cash negative with the funds generated from trading being inadequate to cover total financial commitments. This has resulted in an increase in overall farm borrowings, which is increasingly being structured over a longer term."

Using the 2016 accounts as a base, Mr Davies says that while the milk price increases should be welcomed, they will not, on their own, lead to an immediate rebuilding of farm finances.

"Although milk prices are rising now, they are only in effect making up for lost ground compared to previous years. With evidence of poorer quality forages and increasing feed prices, dairy margins will probably only hold in this year but with prospects improving into the next financial year.

"Overhead costs are likely to be affected by increasing fuel prices and labour costs making it more challenging to implement further economies.

"Furthermore, there is a residual impact on cost structures on such areas as loan repayments and depreciation, reflecting decisions made in previous years. The economies made last year will take a while to work through fully to the reported financial bottom line.

"Farmers in the sample have reacted to the economic environment, continuing to pursue technical efficiency and taken tough decisions. Given the long term nature of dairying and the ongoing residual effect of previous decisions on many components of their finances, then this twin strategy is undoubtedly an approach that they will continue to benefit from. The best will plan ahead not just on the basis of this year's expectations, but also the year's beyond and the associated twists and turns of volatility."

Dale Farm View (Formerley United News)
December 2016/January 2017
Fiona McGhee

Andrew wins Promar Dairy Farmer of the Year award

The Promar Dairy Farmer of the Year for 2016 is Andrew Chestnutt from Ballymoney. The award is made annually to the member of Dale Farm whose farm management results, as recorded by Promar, have shown the most improvement in the last 12 months.

Andrew farms in partnership with his father, Samuel, and uncle, Wallace, where the main enterprise on the farm is the 160 cow herd of Holsteins. The calving pattern is heavily weighted towards autumn calving, with 110 cows calving between September and November. The aim is to make three cuts of high quality silage, with this year's first cut silage analysing at 38% DM, D value of 70.7%, ME of 11.3 and 16.4% Protein. The first cut silage is predominantly fed to the freshly calved cows and heifers, with the second and third cuts for young stock and bales being made to feed the dry cows. Whole crop wheat is also grown on the farm, which gives some variation to the diet and helps to maintain cow condition whilst in turn supporting good fertility.

Zero grazing has been carried out since 2012. This enables Andrew to cut some paddocks up to seven times during the grazing season which normally runs from early April to early November. This has allowed the trio to reduce their reliance on conacre with significant financial savings. Further savings have been made due to the reduced use of fertiliser on the farm as 1,000 gallons (4,546 litres) of slurry and 50kg of Nitrogen fertiliser is all that is required for an 18-21 day rotation. Great emphasis is placed on trying to re-seed 30 acres each year as Andrew feels 'young grass is vital for zero grazing and good quality silage.'

The Chestnutts use a diet feeder to boost intakes and high yielding cows are now consuming 32kg of forage, 8-10kg of whole crop and 6.5kg of concentrate. A cow remains on this ration until she reaches 180 days calved and is in calf again. Fresh calved cows are grouped with the stale cows for up to 10 days after calving before being grouped with the high yielders. Over the last few years more emphasis has been put on selective breeding with an increase in the use of sexed semen to ensure there are a good number of high genetic merit heifers available to enter the herd in the future. Current service sires in the herd include Punch, Nolan, Closeup and Mogul.

Andrew's sister Linda plays a vital role in rearing the calves on the farm as 'heifer rearing is paramount to getting heifers to calve down at 22-23 months of age.' From birth to weaning, calves are fed up to 6 litres of milk a day. It only takes 38 kg of powder per calf from birth to weaning. From 3 months they are fed a TMR which consists of a haylage mix with 2.5kg of heifer blend. In the spring the calves are fed solely on fresh zero grazed grass with no concentrates.

An extra cut of silage being harvested, frequent reseeding and the introduction of zero grazing and selective breeding, has seen milk yields on the farm increase by over 1,000 litres on last year with yield per cow now averaging 9,351kg. This has been achieved through an impressive 3,803 litres from forage leading to an increase of nearly 850kg per cow. Milk solids are currently 4.02% butterfat and 3.20% protein. Significant cost savings have also been made with a decrease in concentrate use per litre of 0.02kg down to 0.27kg per day. This combination of more feed from forage and decreased concentrate use has resulted in feed costs falling by £46 per cow.

A new slurry tank and dry cow house are currently under construction. This will provide an additional 60 cubicles which will enable Andrew to have two batches of dry cows and therefore allow better dry cow management as 'a longer dry period will give cows a better start to their lactation.' A vet is on farm every month carrying out pregnancy checks which provides Andrew with vital information to maintain a tight calving pattern and correct any fertility issues that may arise. Selective dry cow therapy has been used over the last few years with cows that have a SCC below 50 for the last two milk recordings only being administered teat sealants.

The heifers are introduced to the dry cows three weeks prior to calving with post-dipping being carried out for 2-3 days through the parlour. All milking cows are pre- dipped and then dry wiped after 30-40 seconds followed with post-dipping after milking. All these factors have contributed to exceptional milk quality with a current SCC of 70 and Bacto count of 17.

Andrew is always glad to receive management and nutritional advice to help improve the farm performance and is grateful to all those who have helped him and his family to develop the farm business including dairy consultant Ian Carrick.

John Dunlop, Chairman of Dale Farm presents Andrew and Samuel Chestnutt the Promar Shield with Fiona McGhee, Promar

Dairy Farmer
January 2017
Nigel Davies

The latest Promar dairy costings for the year to March 2016 show profit for the year (before subsidies) slashed by half to £17k on the previous year, and this was alongside an increase in total so-called commitments (HP, loan, mortgage) of £10k to £74k. **Peter Hollinshead** talks to National Consultancy Manager Nigel Davies about the figures.

It will take time for confidence to return

You say milk production is 10% down year on year, why is this and when is it going to recover?

It was a difficult and very challenging spring and this would have impacted on production at the time and now as the winter progresses we see the effect on the quality of grass silage that is about.

Also, people were thinking hard about putting replacement heifers on or spending more on new stock because their overdraft position may be under pressure, and they are very reluctant to add that cost in until they are absolutely convinced it is going to make them money in the long term, and they are not yet sufficiently convinced to really press on the gas.


Nigel Davies

So it is a lack of confidence about the future... when do you think there will be a turnaround in this decline in production?

That confidence will take time to rebuild and will only rebuild when people feel they have that cash in their pockets, and perhaps we are looking at this spring before we really see any significant upturn.

To what extent do you feel that this decline in production has just been a normal reaction to the absolutely disastrous time producers have been through in the last six months and is a lag effect following that rather than anything else?

That is a significant element but I wouldn't want to underplay the weather last spring, but you are right confidence has taken a real, real knock.

If milk prices have been down as low as the mid-teens maybe hovering around the 20's latterly, and the cost of production is 28p, why should people keep producing milk?

The key point is for them to understand where they are in that equation. It is materially different if someone is getting 20p and the cost of production is 28p than if they are getting 24p and the cost of production is 23p, so the first step is to work out where you are.

Have we got enough replacements in the pipeline if people have been turning to beef inseminations as a short-term solution to their cash flow problems?

It is a justifiable concern not just for this year but for two or three years hence as it takes time for those animals to become mature milk producers, and the danger is where will we be in the volatility cycle then.

> "I think inevitably in the next five-six-seven years there will be another down turn and possibly another upturn as well
> **Nigel Davies**

Now you are management consultants, when do you expect we will see another volatility downturn?

I think inevitably in the next five-six-seven years there will be another down turn and possibly another upturn as well. The best one can do is manage one's business on a four to five-year cycle and look at one's costs and build that in as your average cost for any one given year.

As production has gone down,

Continued…

Costings – year on year comparison

2014-15 (all £ per year)	Average	%	2015-16 (all £ per year)	Average	%
Gross Output	642,960	100	Gross Output	598,509	100
- Variable costs	313,767	49	- Variable costs	295,070	49
= Gross Margin	329,193	51	= Gross Margin	303,439	51
- Direct overheads	186,718	29	- Direct overheads	174,449	29
= Operating Profit	142,475	22	= Operating Profit	128,990	22
- Depreciation - Rent + interest	39,339 37,489	6 6	- Depreciation - Rent + interest	42,756 39,208	7 7
= PROFIT	65,647	10	= PROFIT	47,026	8
Less subsidies	32,069	5	Less subsidies	29,832	5
= PROFIT no subs	33,578	5.2	= PROFIT no subs	17,194	2.8

feed costs have been going up and since the referendum the pound has fallen 16-17% against the dollar and nearly as much against the euro. Is the margin going to be there to encourage milk production?

There will be a downward pressure on margins, but I think the gains we will see coming down the track in terms of milk price will outweigh that, and I expect net margins to be more favourable this year (2017) and going forwards until we come to the next turn of the cycle.

Are margins sufficient now to encourage people to produce?

Some will be crossing that threshold now and getting into positive territory and their outlook will be quite different to those who have some way to go to get over that cost of production threshold.

And has bank borrowing increased over this last year or so as we have been through this dramatic downturn in the industry?

It has increased and it has tended to be on a longer term basis, but overall liabilities have certainly increased over the last 12 months.

Can you tell me by how much?

It would be of the order of 4-5%.

Give me an example typically how much dairy farms will be indebted to the banks now.

What we have seen over this last year is an additional £10,000 of repayment they will have to make and I expect that to increase again this year, partly as a result of decisions they have taken in the past on increased expenditure but also because of the financial pressures everyone has suffered this last year.

And bank borrowing now to a typical dairy farm would be how much?

In our sample it is of the order of £545,000 total liabilities and that includes ongoing trading creditors compared with £520,000 the year before.

So it is going up... have farmers' drawings gone down in terms of their own salary?

Yes, what they take out of the business for their own private drawings has decreased from £35,000 to £32,000, so quite a significant decrease there.

But if you look at the overall trading profit which has decreased from £65,000 to £47,000, then it is clearly only part of that overall equation.

Dairy farms have been particularly challenged in the last year and that manifests itself in terms of drawings. But we haven't talked about how much less cash they have spent on capital items in the last year which was £62,000 compared to £94,000 in the previous year, which at some point will inevitably have a knock on effect on the efficiency of their businesses down the line.

And how long is that approach sustainable for?

Certainly not for ever as intensive business needs re-investment for ongoing efficiency, and we would certainly have concern if that pattern continued for beyond two or three years.

Dairy farmers have been constantly urged to cut costs but there must be a limit to that, mustn't there?

There is a limit, but if you look at the sub-sample of the top 25% most profitable, they do achieve almost twice as much profit per cow as the average of the sample.

Now you cost about 1000 dairy farms in England, Wales and Scotland... how representative are your farmers of the industry as a whole?

We pride ourselves on the accuracy and robustness of our farmers, so I think it is the best in the marketplace in terms of being representative.

So with feed price going up, milk prices going up but production going down, how should producers respond to that?

If they have a positive margin then they should really be looking at being proactive as to how they can take advantage of that... if that is getting existing animals to perform more efficiently or additional animals, it is recognising where they are in that turn in the road – if they are coming out of that bend then it is time to press on the accelerator and make the most of it.

> “If they have a positive margin they should really be looking at being proactive as to how they can take advantage of that
> **Nigel Davies**

Top quartile on per cow basis (2015-2016)

£/cow	Average	Top 25% by yield	Top 25% by Operating Profit	Top25% by variable cost ppl
Total Returns	2,277	2,720	2,530	2,002
Total Variable Costs (ppl)	(1,272) (15.6)	(1,589) (16.2)	(1,284) (14.9)	(977) (12.7)
Gross Margin	1,005	1,131	1,246	1,192
Operating Profit/cow	440	541	980	649
Operating profit/litre (p)	5.4	5.5	11.4	8.5
Operating Profit/cow if paid the same "average" milk price	440	536	859	640

Change in cash requirements ('15 v '16)

Reward, to live from, re-invest and meet existing commitments - cash requirement after profit:

- Private drawings: down from £35,040 to £32,877
- Total commitments (HP, loan, mortgage): up from £64,744 to £74,075
- Capital spend (machinery, fixtures, buildings): down from £94,393 to £62,165.