

This months contributors

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WELCOME James Dunn, Managing Director of Promar International



Welcome to the August edition of Promar Matters. Last month we talked

about the possible scenario of floods turning into drought, who would have thought that it would play out that way.

Although most areas of the country have now seen rain, some with catastrophic consequences where hail has been involved, forage stocks have been eroded.

In this month's Promar Matters, Nigel Davies considers the challenges that reduced forage stocks and a declining milk

price:feed price ratio will have on dairy farmers margins this autumn/winter. Grass growth could return in the coming weeks but the focus on efficient milk production over the long term should remain the goal.

Benchmarking is one of the most effective ways of improving efficiency and as the age old adage states "you can't manage something that you can't measure". Hence, I would encourage you all to heed the message that Jonathan Hill refers to in his article. It matters little in terms of which sector you operate but to be the best that you can be would be the over-riding factor that drives improvement and leads to profitability. Profit is something that we, at Promar, are passionate about – more of that in future!

Please get in touch if you require more information.

NEWS IN BRIEF

- For the first time in 2018, the FAO Food Price Index fell in June due to rising tensions in international trade relations dampening most markets, one symptom of which is the stated intention of the US Administration to pay out up to \$12bn dollars to help its farmers
- Globally, there is an increasing volatility in the movement of dairy commodities. For example, during recent weeks butter prices have fallen at a rate of 4% per week, and are effectively circa 25% lower than the peaks reached last autumn. More locally, the longer the dry weather continues, the greater the impact it will have on production. However, as evidenced recently, not all domestic UK milk contracts are impacted in the same way by the above forces

CONCENTRATE PRICES UP AND MILK TO FEED PRICE RATIO DOWN



The National Milkminster matched sample for May 2018 shows

uncanny consistency between almost all parameters as for the same month in 2017, other than one key aspect.

Promar's National Consultancy Manager, Nigel Davies, explains that the number of heifers and cows calving, as well as culls, were exactly the same for May 2018 as they were for May 2017.

"There is also little difference in the total number of cows in the herd, and yield per cow in milk per day is level at 27.2 litres, while the average milk price received is just 0.38ppl higher," he adds.

"All of which represents a relative slow down compared to gains achieved in recent months."

However, Nigel points to one stand-out difference in the May Milkminster figures which merits consideration.

"Average concentrate price per tonne fed in May 2018 was £231 per tonne, compared to

£215 per tonne in May 2017," he explains.

"Irrespective of the understandable stress and challenge presented by the ongoing dry weather during June and July, this parameter alone will focus the attention of producers, especially those who are feeding additional amounts of concentrate as part of their strategy in response to the prolonged dry summer."

Nigel notes the resultant impact that increased concentrate prices have had on the milk to feed price ratio.

"The May Milkminster sample indicates that the milk to feed price ratio has fallen from 1.26 in May 2017 to 1.19 in May 2018.

"This is down to a level which is well below the average reported over the last five years

as demonstrated by the Milk to Feed Price Tracker (see the table below), and down to a level where in normal circumstances, it starts to be questionable how much additional profit is being achieved as a result of feeding more.

"In some individual farm scenarios, this performance parameter will not be the most important or most pressing aspect to consider. For others, while forage shortages continue, feeding some additional concentrate now will be the right thing to do as although it will negatively impact short term margins, it will safeguard longer term profits.

"But in a more general sense, the recent trend in the weakening of the ratio makes sustaining a growth in margins more challenging for all, even after we get back to normal rainfall patterns and forage stocks."

Milk to feed price ratio	May 18	Apr 18	m-o-m change	May 17	y-o-y change
GB average	1.18	1.23	-0.05	1.27	-0.09
5 year average	1.26	1.26	0.00	1.23	0.04
Change between 5 year	-0.08	-0.03		0.05	

Source: Defra, Kingshay/Promar, AHDB Dairy

BENCHMARKING KEY TO FUTURE SUCCESS



Dairy farmers looking to reduce their cost of production to help maximise profitability are being encouraged to conduct on-

farm benchmarking. Promar's Jonathan Hill believes this management step is key to producers taking greater control of their long-term business sustainability.

"With volatility set to continue to affect the British dairy industry, it's important that producers take steps to help them understand how their business is performing. This will allow them to make better informed decisions to help future-proof their businesses," says Jonathan.

"Benchmarking allows you to take a more tailored approach to identifying key areas of strength and opportunity, and then plan to seize on those opportunities."

In order to make the most of the benchmarking process, Jonathan recommends following a three-step process.

1. Know your numbers

It is important that all businesses know how their business is performing, says Jonathan. "If you don't measure then you cannot analyse performance and make informed decisions on where to take the business next.

"Understanding your cost of production as pence per litre, is vital. This not only gives you a quick snapshot of business performance should milk prices change, but is also the easiest measure to compare directly with other businesses.

"You can then look at more in-depth figures such as herd gross margin and overhead costs to develop a wider picture."

2. Analyse, compare and identify

Analysing and comparing your businesses data against others is the next step.

"Whether it's against your peers, those in a working group, or other Promar Farm Business Accounts (FBA) clients, the important thing is to compare yourself with multiple businesses, to gain a full picture of how your business stacks up," says Jonathan.

"Comparing your business with those running a similar system allows you to fully evaluate your cost of production and identify whether, and how, things can be done better.

"This isn't just about looking at the negatives, you should also be looking to identify your areas of strength, so you can continue to drive these areas."

3. Action plan

Jonathan adds that knowledge without action will not benefit your business. "It's all well and good identifying your areas of strength to build on, and weaknesses that could provide opportunities, but you need to develop a plan to gain from any analysis.

Example report

Costs of production 2016/17				
Pence per litre	Your data	Average	TOP 25% by milk yield (litres per cow)	TOP 25% Net Margin (£ per cow)
Milk Output		24.73	24.66	25.96
Total Output:		26.58	26.19	27.86
Feed:		7.86	8.70	7.59
Forage:		1.17	0.92	1.09
Vet and Med:		0.97	0.95	0.86
AI and Semen:		0.43	0.42	0.37
Herd Replacement Cost:		3.16	2.73	2.59
Bedding:		0.62	0.70	0.65
Other:		1.02	0.94	0.95
Total Variable Costs:		15.22	15.36	14.10
Gross Margin:		11.36	10.83	13.75
Paid labour:		2.37	2.44	2.17
Power and machinery:		3.43	3.11	2.81
Administration:		0.87	0.74	0.68
Property:		0.70	0.57	0.59
Rent:		0.92	0.80	0.85
Depreciation:		1.67	1.59	1.47
Finance:		0.83	0.71	0.53
Total overhead costs:		10.79	9.97	9.10
Total costs of production:		26.01	25.33	23.20
Net margin:		0.57	0.86	4.65

"You will likely have a number of areas where improvements could be made, but it's important to analyse the data and then focus on just one or two areas that the data indicates will help generate the best return on your investment of time and resources."

Once the key areas of focus have been identified, Jonathan recommends developing an action plan that includes short, medium and long-term goals, and a timeline for making them happen.

"Not everything can be changed at once, and some areas of focus may be a continual process of improvement. However, setting yourself goals with a clearly defined time frame to achieve them in gives you and your staff a drive to achieve what could otherwise seem like a daunting list of tasks.

"Continual improvement is vital for all businesses to survive, and benchmarking is one of the most important and influential management tools that a farmer can use in order to take control of their business."

KEY DATES

Promar will be attending UK Dairy Day on 12 September. Don't forget to come and see us if you're at the show.

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Published by: Promar International, Alpha Building, London Road, Stapeley, Nantwich, Cheshire, CW5 7JW.
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