

Separating the best from rest

By CARLENE DOWIE

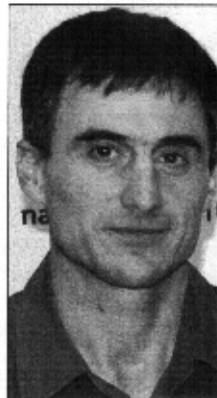
FIVE key factors separate the best dairy farms from the rest, David Beca, from Red Sky Agricultural, told the Dairy Business of the Year (DBOY) award conference in May.

These key profit drivers were:

- higher milk production per hectare;
- higher pasture harvest;
- moderate levels of supplementary feeding and at lower cost;

- higher labour efficiency, and;
- lower core costs.

All entrants in the DBOY competition received an analysis of their farm business based on the Red Sky program. The analysis was also used by judges in identifying the top performing dairy businesses.



David Beca: best farmers are working smarter, not harder.

"The very best manage a way to do all of these five things better in what are quite difficult and complicated businesses to manage," Mr Beca said.

The best dairy farms produced 15-30% more milk/ha than other farms and they did that with both more cows/ha and more milk production per cow. The farms had moderate to high stocking rates and moderate to high milk production per cow, but tended not to be at the extreme for these, particularly per cow milk production.

The farmers also prepared cows well before calving, pushed cows to a high peak and had cows of good quality.

Pasture and a high quality diet were also a factor. The best farms had 15-25% higher pasture harvest and produced pasture of higher quality.

Mr Beca said it allowed higher stocking rate and more milk to be produced per cow.

"Increased pasture harvest reduces the average cost of production," he said.

The feed cost per tonne on the best farms is 5-20% lower than other farms. The best farms most often had more home-grown forages and had good crop yields.

The top farms, despite having higher stocking rates and milk production, bought their concentrate for a similar or lesser amount than other farmers, Mr Beca said.

Labour efficiency was also significant-



KEY POINTS

THE BEST

- ✓ Higher pasture harvest
- ✓ Moderate supplementary feeding
- ✓ Higher labour efficiency
- ✓ Lower core costs



ly better – up to 30% more efficient.

“These people are substantially more productive,” Mr Beca said.

They run the same or more

cows for similar or more milk, produce more money, do the job similarly or better than others, and they do it using less total hours on the place.

For example, in a district where the average farm has 100-120 cows per full-time staff member (50-hours equivalent), the top farms often had 130-150 cows per labour unit and some were as high as 170-190 cows.

“(This is) not because they are working harder; they’re working much smarter,” Mr Beca said.

There were three key areas to improve labour efficiency – milking routine, feeding routine and general organisation, and some of these might require capital expenditure.

Core costs per cow were 5-15% lower on the best farms despite the higher milk production and higher stocking rates. Core cost excluded supplements, nitrogen and irrigation expenses.

Mr Beca said to be highly profitable in dairying, farmers needed to be good at the production/revenue side and have tight control of the cost side.

“And usually those two things are contradictory,” he said.

As dairy businesses had a high proportion of variable costs (costs that changed with the level of production), tight cost control was even more important.

Mr Beca said each dairy business had an optimum production level at which profit was maximised. The key was finding that point and understanding that if something changed – e.g. milk prices increased – the optimum production level also changed.

The optimum point also needed to take into account the risk profile of the farmer – some preferred to maximise profit, taking the risk of a bigger loss if something went against them, while others preferred to take a more moderate level of profit and have a lower risk.

Mr Beca said farmers also needed to be able to manage growth – they needed to produce more milk from a lower cost base over time because the milk price in real terms was likely to fall in the next 15-20 years and costs were certain to increase.

But growth could be misrepresented, he said. There were no economies of scale in dairyfarming. To have economies of scale in an industry, there needed to be a high proportion of fixed costs. For example, a milk processing factory had a lot of costs tied up in the factory plant and equipment, regardless of the level of milk production. So an increase in the amount of milk produced diluted those costs.

Dairy farms were the opposite – costs were highly variable depending on the number of cows. Although the top 10% of farms on most comparisons were bigger than the rest that did not mean there were economies of scale. It was simply a reflection, as it was in most businesses, that those who were successful grew their businesses more rapidly.

Mr Beca said the optimum size for dairy farms was somewhere between 200 and 750 cows.

Farms with fewer than 150 cows were disadvantaged because the labour and machinery costs could not be averaged down much beyond that point.

For farms above 800-900 cows there were losses in labour efficiency because the key operator – the farmer – was no longer at the interface doing things well, and needed to spend more time in the office managing people.