

Characteristics of top performing farms

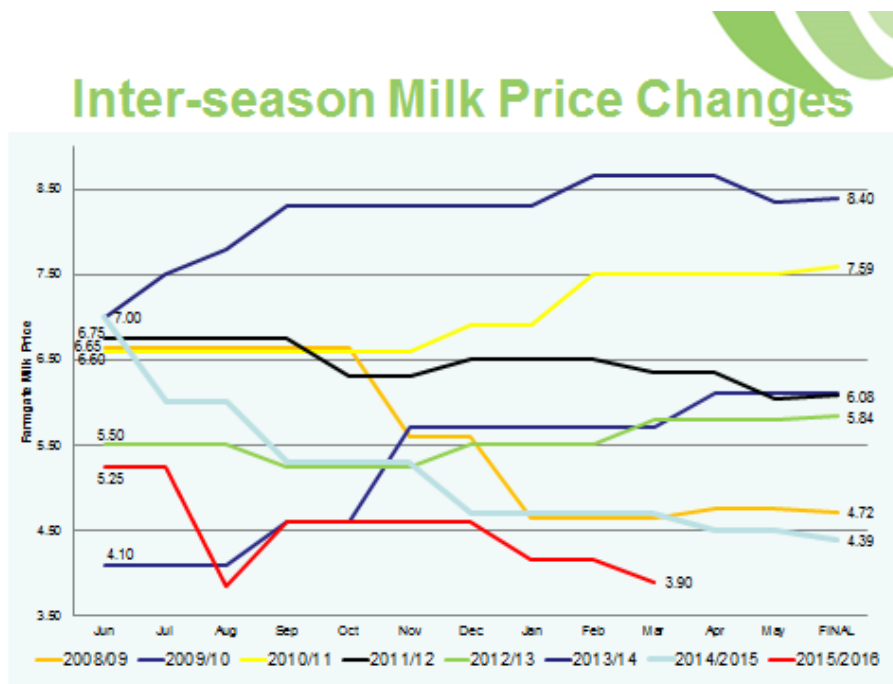
SMASH Fieldday 10th March 2016 – Angie Fisher DairyNZ Economist

Uncertainty is a big challenge. In 2012 DairyNZ surveyed a group of farmers in the Waikato and Canterbury and found the top performing farms, the top 25% based on operating profit, had more control over their finances and were confident with their decisions. By controlling what they could this top group had more options, more choices they could make during the season and felt secure in their financial position.

The seven characteristics of these farmers are the key findings from the Valuing People Productivity report and these characteristics have never been more relevant than today. Although termed characteristics there are several practices by these farmers that are simple to get started for your farm business. Those practices make the top quartile group more agile and able to respond to changing conditions. Today we will drill into one of those practices.

Managing payout fluctuations – how do you plan for uncertainty?

While there is no question current milk prices are at an all-time low, dairy farmers are used to dealing with fluctuations in payout from one season to the next and payout announcements changing during the season. The graph below shows how variable those announcements can be. Milk prices change during the season and where the final payout ends up is anyone's guess.

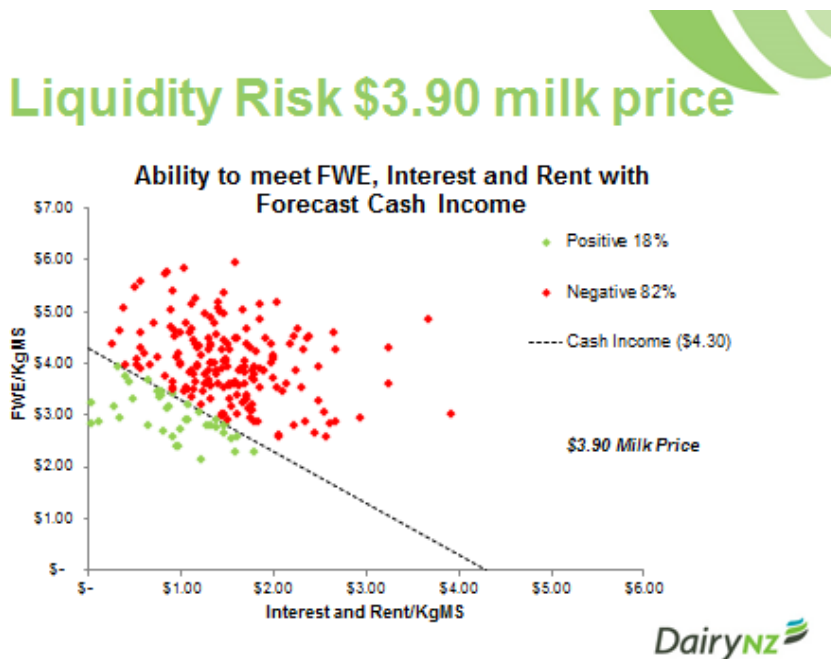


Planning and budgeting for the season is difficult, so what are your options?

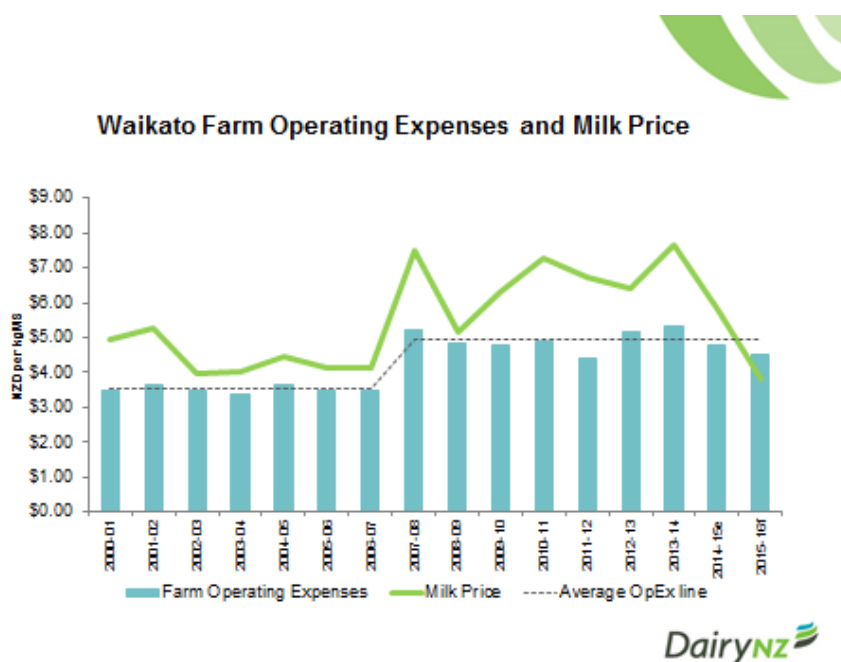
- You could run a conservative budget and see if your farm will meet any financial targets you have.
- Use sensitivity analysis to help you see how well the farm business will cope with changes to milk price, production and farm working expenses. DairyNZ budget templates have built-in sensitivity tables.
- Use your breakeven milk price as a starting point.
- Budget backwards by calculating all the expenditure you need to meet – DairyBase can help with this by summarising multiple seasons of farm expenditure.
- Update your budget as payout changes during the season, remember it is a living document and not set in stone.

Risks to the farm and people

With the recent milk price announcement at \$3.90 the Economics group at DairyNZ estimate 82% of Owner Operators may have difficulty in meeting their cash farm working expenses, interest payments and rent. The graph below shows the risk in farmers meeting those expenses – not providing for family living. Cash income for the average New Zealand Owner Operator currently could be around \$4.30 with livestock sales and other dairy income. Many farmers will be supplementing income with non-dairy sources, off-farm income and drawing on income equalisation.



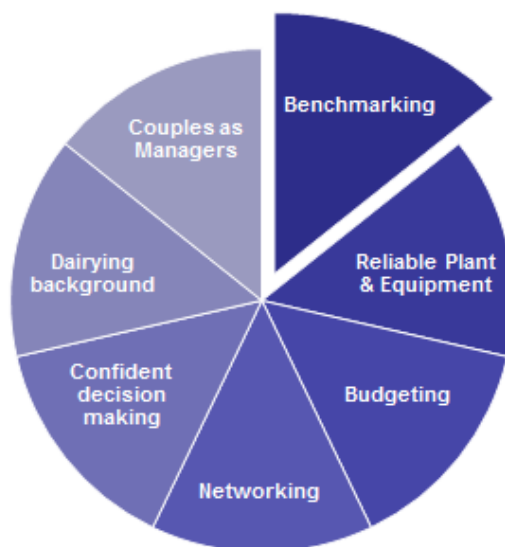
In the Waikato, operating expenses moved from an average of \$3.50 for the period 2000-01 to 2006-07 and then increased to a new average of around \$4.95. It can be difficult to remove some of these costs and be agile in the current environment. What is required is a review of the whole farm business, taking into account pasture management, animals and stocking rate, people, infrastructure for example.



Characteristics of Top Performing farms

The Valuing People Productivity study interviewed 70 farmers from Waikato and Canterbury, the managers and employees on the farms, and then financial and physical data was entered into DairyBase. The farms were divided into quartiles based on Operating Profit per hectare by region and then analysis carried out to look for characteristics or reasons why these farms were in the top profit group. We identified seven characteristics of the top quartile group. Some of these characteristics are practices which you can incorporate into your farm business.

7 key characteristics



1. Benchmarking: Number one characteristic of the top quartile group was the use of benchmarking. This was the strongest difference between the top 25% and the other quartiles in the study.
2. Budgeting: 85% of the top quartile had a budget and they were more likely to check actual expenditure against their budget and make on-farm decisions as a result.
3. Networking: more likely to swap ideas with other farmers, to attend discussion groups and fielddays, help others to improve their practices. A lifelong learning mind-set was apparent in the top quartile group as they sought information and shared with others.
4. Reliable plant and equipment: farmers considered their shed and gear as being above average condition for the district.
5. Confident decision-making: this top 25% group found planning easier and were confident with running the farm as they wanted to.
6. Dairying background: the top quartile group were likely to have spent time on a dairy farm in their childhood, generally more than five years' experience.
7. Couples as managers: a greater proportion of the top quartile farms were managed by couples.

Benchmarking and budgeting feature strongly in the top quartile group in comparison to the other quartiles and undoubtedly help that group feel more confident in their decision making as they have financial information at their fingertips.

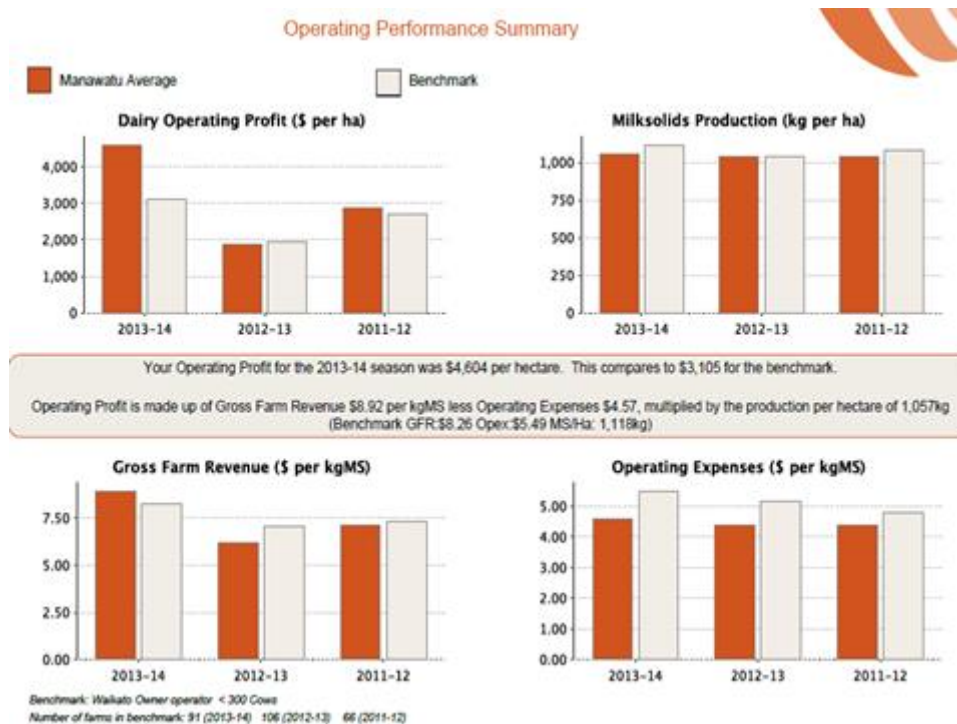
How does benchmarking identify opportunities for improving business performance?

Have you ever wondered how your farm compares with your neighbours?

The top quartile farmers we surveyed had goals and a plan on how to reach them.

If you understand your own farm's performance, physical and financial, it helps you drill into areas that could be improved. Some people compare their farms to other very similar farms, for example herds with less than 300 cows in their district or other system 2 farms in a region. Others track their own farm over time, essentially benchmarking against themselves as they set financial and physical targets (e.g. return on asset). And there's always the option of benchmarking yourself in the top 10% or top 20% group and looking to see where the big differences are between your farm and the average for that group.

Once you have identified some areas on the business where you could make changes you can prioritise and consider how best to do it and what help you might need. Take a look at the Operating Performance Summary of a mock farm below and you'll note the Manawatu average farm is pretty average and in line with the benchmark group. If we put this farm to the test, we could benchmark against the top 20% and would see areas of underperformance where we could then focus on changes.



A DairyBase benchmarking report provides a point of focus for you and your trusted advisers to look at the business once a year and set goals and targets for the future.

The report can help you set budgets for the coming season by giving a summary of past expenditure. DairyBase have a budgeting tool as well where you can have up to three seasons of actual historical data and then set a current season and coming season and coming season forecast budget.

If you want to get started or find out more go to www.dairynz.co.nz/dairybase

For information on the farmer mentoring and support network run by DairyNZ, Dairy Connect, visit www.dairynz.co.nz/dairyconnect

Thank you for your time today. Angie Fisher, DairyNZ angie.fisher@dairynz.co.nz