

DO THE ORDINARY THINGS EXTRAORDINARILY WELL

The UK dairy industry is probably facing more opportunities that it has for many years. The challenge is to make the most of those opportunities according to Promar International's Managing Director Andrew Thompson.

Milk prices continue to be a hot topic of debate. While the average price on farms recorded by Promar International's Milkfinder is 24.4ppl, an increase of 32% over the last 10 years, the range is from 21-28ppl. For some farmers at the lower end these prices are unsustainable as costs could not be bought in line, and even when this was achieved, the scale of the business meant that the returns did not allow a sufficient profit overall.

This has made for some very difficult decision making and we have seen producer numbers in the UK decline from 30,000 in 1999 to barely 16,000 now. At Promar, we have worked with many farmers to determine the best future for their businesses and for some this has regrettably meant leaving the industry.

We are starting to see signs of more stable milk prices, driven in part by an increasing number of producers in dedicated milk fields for companies like Waitrose, M&S, Sainsburys and Tesco. These offer an opportunity of less volatile milk prices based on a partnership approach which can only help producer confidence. At the same time demand for food will help underpin global prices.

Milk prices however are only part of the equation and an undue focus on them can potentially mask the scope to improve business performance. We have recently carried out some detailed research into input costs and what strikes me when I look at the results is that there is very little correlation between spending per litre on feed and vet and med costs, and the milk output which these herds achieve. At any level of input there is a considerable range in yields, and consequently margin and profit.

When we looked at feed, which accounts for the largest proportion of the cash costs of dairy farming, we saw a huge variation in the yield achieved at any particular level of feed input. For example, there was over 3,000 litres difference in the yields being recorded from a feed input of 3,000kg of concentrates. That's £730 extra income per cow from the same feed input.

The question has to be why we see such a wide range in performance and what can be done to increase performance levels? It used to be acceptable to aim to be average but the truth is that aiming to be average is to accept lost opportunities.

The rather glib answer is that the range in performance comes down to management but in the end this is the inevitable answer. Getting the best from cows requires a whole host of things to be done well. As one farmer said to me at a recent meeting, 'I try to get the basics right all the time and do the ordinary things extraordinarily well'.

It is not necessarily about huge investment but about real focus on the little things that add up.

It has always been true that businesses with a high turnover can be better placed to cope with unexpected costs. As Barry Wilson commented last month, herd size has been a driving force in global dairying as more cows allow overheads to be spread and furthermore many costs do not increase pro rata with more cows.

In the last 10 years the average herd costed by Promar has increased from 130 to 171 cows. The key point, however, is that while those who can control overheads relative to output are more likely to succeed, it is clear now that gross margin performance is becoming more important and this is where getting the basics right will show. As someone once told me, a larger herd can just give more cows over which to lose more money more quickly.

The businesses that are succeeding really understand the performance of their cows and their business. They will have a low calving index and as new data from Genus ABS shows, extra pregnancies can really create significant additional profits.

They will be producing more from forage through a combination of better and higher quality silage and grazing. Data from a major study by Frank Wright shows that silage quality has been declining over the last 16 years despite all the developments and improvements in silage making techniques. The top silage makers have, however, been able to produce forages capable of producing at extra four litres per cow per day over the winter which is worth around £200 per cow.

These businesses have a lower incidence of mastitis and lameness through the adoption of a range of preventative measures and by working proactively with their vet will often have lower vet costs per litre as well as reducing disease related losses.

The key here is that the successful businesses by focusing on detail are giving themselves the chance to achieve a higher gross margin. This combined with a larger herd size allows overheads to be spread leaving a higher level of cash available for profit and reinvestment.

Milk price levels are still a major driver of profits but the challenge is to understand the costs of production and how they compare to price and then identify ways to increase the margin. Benchmarking performance against the top 10% of producers is a good place to start. Don't aim to be average, aim instead for Dairy Excellence. In the end however, farmers must be prepared to change as the saying goes 'change nothing and nothing will change'.