

Some timely advice in an extremely tough economic climate

Cost-cutting know how

As producers are forced to tighten their belts ever further, with the continued squeeze on milk prices, we spoke to a leading agricultural consultant for a 'how to' guide to cutting costs with care and generating extra cash.

text **Rachael Porter**

Times are extremely lean and, on many units, there's a feeling that there's simply no more 'fat' to be trimmed from their business. But there's usually some room to cut costs – it's a case of knowing where from and how.

Labour, feed, and rent and finance are the three key areas for consideration, according to the Farm Consultancy Group's Charles Holt. "There are others but these are the biggest costs and, therefore, warrant further and considered scrutiny."

Feed costs savings are possible, although any changes to the ration mid-way through winter should be made with great care. "Many producers feed relatively expensive 'additives' in their ration, such as yeasts and rumen conditioners, and it's well worth getting a second opinion on these ingredients." Producers trust their nutritionists implicitly, but feed is one of the biggest costs and seeking a second opinion should not insult your nutritionist – particularly in these tough times.

Marginal litres

"Ask if you're right to be feeding to produce extra litres. Will a slight reduction in milk yield impact on profitability if these extra litres are marginal? Remember, output is vanity – profit is sanity.

"The key is to tweak the ration to reduce costs and to avoid massive changes that will cause a dive in milk yields. It's a fine line and that's why producers must do this with the help of a nutritionist. If that's a different nutritionist, then producers shouldn't be afraid to ask." Feed waste is something else that producers should take a close look at and it should, obviously, be avoided. "What do you do with feed rejected by the

milking herd? Is it given to the dry cows or young stock? There will be expensive concentrate in this stale feed, so don't waste it."

Benchmarking can also give producers an idea of how they're doing with regard to feed costs. "Compare your results against those of similar dairy systems and remember you're looking for profitability here – not maximising productivity. If other units are performing better, find out why and see if you can adopt some of their practices," says Mr Holt.

Labour savings

Labour is another large 'input' on dairy units and, therefore, often yields cost saving opportunities. But this, too, can be fraught with difficulties and needs to be done with care to avoid affecting efficiency. "If staff are paid on an hourly rate basis, the first thing to do is to introduce an overtime ban," says Charles. "And explain to staff that this is a short-term arrangement, until things improve. It's not permanent."

He urges producers to reassess jobs being carried out on farm and ask if they're really necessary. "I'm not talking about day-to-day essential work, but tidying and painting and general sprucing up jobs normally tackled in winter. Would it really hurt to defer them for a year or so?

He cites calf rearing is a good example. Charles has a client who was feeding all his bull calves on saleable whole milk for a month before selling them. "He's an organic producer, so the milk was worth around 40ppl and he was selling the calves for around £70 a head. Feeding whole milk was cheaper than buying in organic calf milk replacer, but the cost of feeding the calves for a month was still much greater than the value of the



Charles Holt: "Output is vanity, profit is sanity"



calves. He was wasting a lot of money.” Switching to contract heifer rearing is another area, albeit a more long-term consideration, where time and money can be saved. “There are many ex dairy producers who want to do it and will do it well. They’ll follow a set rearing protocol and rear heifers to calve when you want them to calve.”

He stresses that producers should avoid cutting all extra labour – relief staff are still important. “Some producers will be tempted to save money by doing everything themselves. They run the risk of making themselves physically ill or clinically depressed. It’s important to strike a balance and, if you do decide to take on a little extra work to save money, make sure it’s a short-term, not long-term, solution. Using contractors where ever possible can be a cost-effective option too.”

Rent and finance are huge sources of stress in difficult economic times and again there are solutions and savings to be made here. Now may be the time to approach the banks to see if you can get a better deal – perhaps a lower borrowing rate or more at the same rate, according to Mr Holt.

Better deal

“If a bank other than your existing bank makes you a better offer, your existing bank will often match that offer, rather than lose your business. So look closely at re-financing, or additional financing, as a way to save money and/or generate some additional capital to aid a poor cash flow.”

As for rent, it’s a case of if you don’t ask then you don’t get. “There’s no harm in asking for a rent reduction or a rent ‘holiday’. The worst they can say is no.”

He also urges producers to take a closer look at their assets and see if there’s anything that could be sold off to generate some cash. “Carry out an inventory of all the kit you have on farm and ask yourself, do I really need it all? What could you sell off, share with a neighbour or hire in when necessary?”

“It’s vital to take a step back and take the view of an outsider looking in. It may even be worth investing in a consultant to come in for a day. A pair of fresh and impartial eyes can really help here, even as a one-off visit.”

In fact, for the busy producer, Mr Holt says this final factor may be best coming top of the list. “It’s vital to put the time aside to take a look, either with their adviser or a new consultant, at the overall business, set some priorities and question what they are doing and where savings could be made.” |



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