

Efficiency – not size – is key to mini

# Does herd

The latest figures from DairyCo show that average herd size continued to increase between 2012 and 2013 – from 125 to 126 cows. This compares to an average herd size of 95 cows in 2003. But is bigger always better and can small herds continue to survive?

text Rachael Porter

*Big risk: there's more at stake if things go wrong when managing a large herd*

**H**erds are, undoubtedly, growing larger every year and 'expansion' has been the mantra for many producers during the past decade. But, that said, the majority of UK herds – around 6,865 – comprise fewer than 100 cows. Just 6,400 herds have more than 100 cows, so there is a place for smaller herds in today's dairy industry – and in many cases a position of strength – according to DairyCo's economic analyst Mark Topliff.

"The data says that any herd size can be efficient and make a good margin," he says. "It's all about cost control and, particularly, having a tight handle on

costs when there's volatility in the market. And I think that there are many smaller dairy herds that are doing just that and will be in business for many years to come."

So, it's efficiency and not size that matters. And if producers want to improve their milk output and bottom line then there are plenty of options to examine and consider before they look at increasing herd size.

"Whatever your herd size, step back and ask: do we need to increase cow numbers? Do we need to increase yields, or do we need to look at the structure of the business or herd facilities and buildings?

"Many units could see improved productivity and profitability if they expand herd size, but the key is to 'get better' first", Mr Topliff adds.

## Maximise efficiency

"Efficiency is what truly matters – not size," says Profeed Nutrition Consultancy's Hefin Richards. "Greater size and economies of scale are a given. But too many herds expand before ensuring that the management of their existing herd size is spot on. Maximising efficiency with a smaller herd size will yield extra productivity and profitability and also



minimising risk and maximising success

# size matter?

provide a firm foundation on which to expand. Technical efficiency – whatever the size of the herd – is key.”

He adds that herds will continue to get bigger: “Critical mass is important and expansion will continue. But I don’t think there will be a magic herd-size number. I think steady growth with a tight rein on management and wary eye on costs are essential.

“If they’re not technically tight and in a good financial position, larger herds can struggle more than smaller herds at coping with the volatility that the dairy industry is prone to.”

Mr Richards believes that ‘small’ herds and family-run units are resilient and many will ‘tick along quite nicely’. “The problem comes when there’s a significant change, usually within the family, such as a marriage or succession. Expansion may be necessary if a business is going to be large enough to support two families, for example.

“Sometimes it’s legislation or a lack of continued investment in facilities that can force ‘expand or get out’ decisions. Investing in slurry storage facilities, for example, can be extremely challenging for smaller units. The cost of investment in



Mark Topliff



Hefin Richards



James Dunn

mechanisation can be relatively high and a larger herd is better able to cope with that due to economies of scale.”

Those family run units that do take the expansion route can also run into difficulties with man management.

“Producers shouldn’t underestimate the difficulty in managing people – rather than cows. Producers may be good at communicating with other family members in the business, but dealing with people and staff from outside the family is a skill and one that some have difficulty with.

“This leads to issues with recruiting and retaining



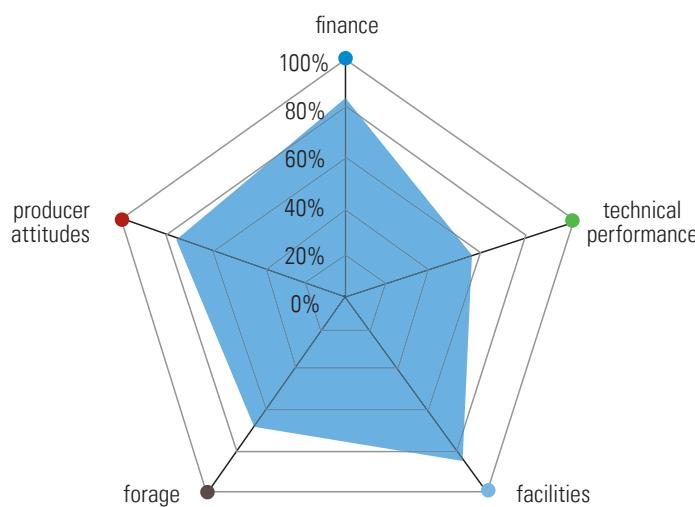


Figure 1: Radar – Promar's business analysis tool

good staff, as well as slippage in herd management and efficiency," says Mr Richards.

Economies of scale can also mean that the margin for error is very slim. So expanding producers also need to put management protocols and robust systems in place. "If you're running an 800-cow herd and things go wrong, they go wrong in a big way. If there's a 10% drop in milk yield, that can easily equate to £800 a day – that's about £24,000 a month. We're talking bigger figures and a bigger risk. The rewards can be bigger, but so can the losses."

Mark Topliff has data that shows that some large herds are making considerable losses. "There are producers who have

increased cow number to get them out of a financial hole and it's just not worked. They're looking at losses, on average, of around £94,000 per unit. "Smaller herds that are struggling financially tend to make losses of around £50,000. Still a big sum, but the difference is something for producers of all sizes to think about."

### Improving performance

Promar's managing director James Dunn says that to avoid financial difficulties, producers should 'get better before they get bigger'. "More cows mean more pressure on technical performance, so any problems need to be ironed out before cow numbers are increased. If not, they're magnified and the production

and profitability repercussions can be enormous."

Promar has launched a business analysis tool, called Radar, which focuses on five key aspects of the dairy business (see Figure 1).

This serves to highlight where any herd – regardless of size – is on the business 'radar' and also shows where improvements can be made. These are finance, forage management, facilities, technical performance, and staff management.

"Producers need to check that they have covered all five points of the radar and, if not, work towards that before they even think about increasing herd size. If they were to expand, they'd probably be pulled back by the limiting factor, be it inadequate cow housing or technical performance. Or there could be stocking rate or staff pressures."

He adds that producers need to focus on efficiency first – not increasing cow numbers – if they want their business to survive and thrive.

"If they can get performance in those five areas as good as they possibly can then yes, they're in a position to expand."

"The skill is in making the right decision and in ensuring that costs of production are managed to allow the business to absorb as much volatility in milk prices as possible – whatever your herd size."

He stresses that producers who do expand should keep a close eye on the five points. "It's vital that they don't lose focus and that they maintain efficiency." |

*Spot on: technical performance must be good before producers even consider expanding cow numbers*

