

Taking a step back may reveal

Time to ta

Assessing the precise position of your business with a detailed – and honest – dig down into your financial and physical data will allow you to make sure you're on the best path. So say two leading dairy business consultants.

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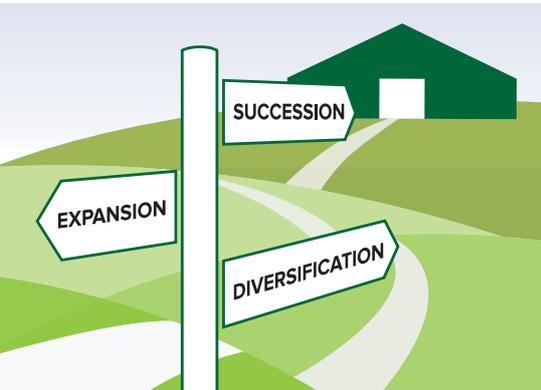
The tough market conditions faced by producers during the past two years have taken their toll on even the most efficient and enterprising business. And there's also been a personal price to pay for many, with extended working days and sleepless nights.

“Hard as it may be to find the time – and the energy – producers need to step back to critically appraise their businesses and decide where they want to be and how they plan to get there,” says Promar consultant Emma Thompson. “The prospect of rising milk prices must not be allowed to become a reason to put off asking some fundamental questions about your business – and your personal goals.”

These questions, according to Mrs Thompson, must include, do you know where your business will be in two, five and 10 years' time? Do you know what you want to achieve and how? “And what are your personal goals and objectives? In the vast majority of cases, personal and business objectives are intertwined.”

She says that, although no two dairy units are the same, the strategic options boil down to four – to get better, to get bigger, to diversify to increase the number of income streams and spread risk or to manage an exit from the industry.

“It may be that more than one option will apply to your business. The skill is in deciding the most robust direction for your specific set up and situation.”



Dairy directions – what are your options?

This is the first in a series of six articles that sets out to examine the possible routes for producers who are looking to build and manage a dairy business that's better equipped to survive – and thrive – in a volatile market. And we'll also take a look at how to plan a positive and strategic exit from the industry.

We ask: what options would work best for individual producers? The key choices that we'll look at are on-going efforts to increase efficiency, greater economies of scales, or diversifying to harness an additional stream of income. Which of these options could add security and stability to help 'future proof' your business?

the bigger – and better – picture

take control



Digging deep: a close examination of the books and discussing options can shed light on future strategies



Charles Holt: "Decisions are easier to make – and act on – when you know your position"



Emma Thompson: "Step back and take time to appraise your business"

But no decisions can be made until producers are 100% 'in the picture' as far as their business is concerned. Charles Holt says that producers have been so busy and bogged down in the day-to-day management of their herds, particularly on units where they've had to lay off staff to save costs, that they haven't had time to come up for air.

"And, for many of these 'tired' and 'stressed' producers, their view of their business and its future may seem bleak, particularly if they've had a refusal of a request for an additional overdraft from their bank or are having similar cash-flow struggles."

Positive impact

"Taking a step back and getting a fresh pair of eyes to look at your accounts and figures may feel like the last thing you want to do, but with so many producers working hard to reduce costs and increase efficiency during the past two years or so, many could be in for a pleasant surprise," says Mr Holt.

He cites one client who came to see him as a last resort, following a rebuttal from his bank. "He was desperate and despondent, not least because he thought his business was failing and he had no control," he says.

But 'thought' is the key word here. By actually taking a detached and detailed look at his books, it became apparent that the steps he'd taken to cut costs had made a significant positive impact on his business. He'd managed to save more than £50,000 during the past 12 months alone.

"No one had taken the time to sit and work that out. It was a huge boost to his morale and he began to see that there was some light at the end of the tunnel. He felt better. And armed with that information, and more, in a report format that showed there was the potential to save another £40,000, he was able to go back to the bank and win that overdraft increase," he adds.

Mr Holt believes that there are many more



Fresh eyes: take a look at every aspect of the business – from feed through to finance

beleaguered producers out there, labouring under a weight of financial worries but not knowing exactly what their position is.

“For some it may be worse than they think and for others it may be better. But, either way, if you’re going to make decisions about the future – be that go to your bank for additional support or make management changes to further improve efficiency – you need to know where you and your business stand.”

Fear factor

He says he knows that there’s a lot of fear out there: “But facing that fear will mean that you’re in a position to take control and make good, clear decisions that will be good for you, personally, and your business.”

Increasing efficiency and ‘getting better’ are not new goals but they must be considered by producers, going forward, as a ‘foundation option’ irrespective of whatever else has been and is being done. “If, following a detailed assessment, producers decide to stay in milk production then management has to be as efficient as possible,” says Mrs Thompson.

For example, the best producers assessed by yield from forage on Promar Farm Business Accounts (FBA) produced more than 40% of production from forage, compared to the average at less than 30%. “The saving in purchased feed use is significant. So ask why some units are so much better and what can be learned from them.”

She says that similar questions can be

asked about all activities and cost areas. “Reviewing all aspects of the business and identifying efficiency gains should be a fundamental activity on all businesses.” For many years, prior to the milk-price drop, expansion and ‘getting bigger’ was the way to go for many producers. More cows and higher yields meant greater economies of scale – spreading costs across greater production to reduce cost per litre. Mrs Thompson says that while this has undoubtedly been a successful strategy for many, it has not been the case for all. And if extra cows lead to reduced performance, any benefits of running a larger herd can be eroded.

“Interestingly, we are now seeing more herds looking seriously at reducing scale and complexity, and challenging their businesses in a new way.

“Data repeatedly shows that the marginal response to additional feed is low. In other words, if it costs more in additional feed than the value of the extra litres produced then the financial contribution to the business of this action is reduced. So are they worth producing?

“Might it pay to reduce yield per cow and make sure that the litres produced make a good margin? If the extra litres come from three-times-a-day milking, is this cost effective?

“Similarly, what would be the impact of reducing herd size by, say, 10%? If the cows culled are poor breeders, or are more prone to lameness or have high cell counts, then other costs could reduce too. And, in addition to possibly lowering production costs, a smaller and simpler business can also offer personal benefits.”

She’s all too aware that many producers have been ‘living to work’ for the past few years, rather than ‘working to live’. Mr Holt agrees the lines between ‘work’ and ‘having a life’ have merged for many producers and their health and welfare has come a poor second to that of their herds and businesses.

“That balance certainly needs to be redressed. No one can run a successful, thriving dairy business if they’re unwell or their family relationships have broken down. You – your needs, wants and aspirations – should be an important part of your business assessment and any future plans.”

Careful planning

Diversification is another option for relieving the pressure of milk price volatility – both now and in the future. Mrs Thompson says that diversification can be a viable option for some businesses, but needs careful planning.

“It is vital to understand the market for the product and who the competitors are. It should support the dairy business – not become another drain on resources.”

Where a business plan, that’s based on increasing efficiency, scale and, where appropriate, diversification, fails to allow dairy businesses and personal objectives to be achieved, Mrs Thompson says a fourth option might be to manage a strategic exit from the industry.

“This takes planning,” she explains, stressing that rushing to get out should be avoided because it involves so many factors. “Ask when is the best time to sell up to maximise the value of the herd? What are the tax implications and how does this affect timing? What will happen to the land?

“If you will stay in farming, what enterprise mix will you run? If you are leaving the industry altogether, where will you live and how will you get the best return on the asset value realised?”

One final thought, echoed by Mrs Thompsons and Mr Holt, is that exiting is by no means a failure.

“It’s a reflection of the market place – not your drive or ability to manage a dairy business. Rationalisation has been going on for decades but this period of extremely low prices, coupled with the volatile market place that we’re now operating in, has served to accelerate the rate at which producers are leaving the industry,” says Mr Holt.

“There is life after dairying. But there’s also plenty of life left in UK dairy herds and businesses yet.” |