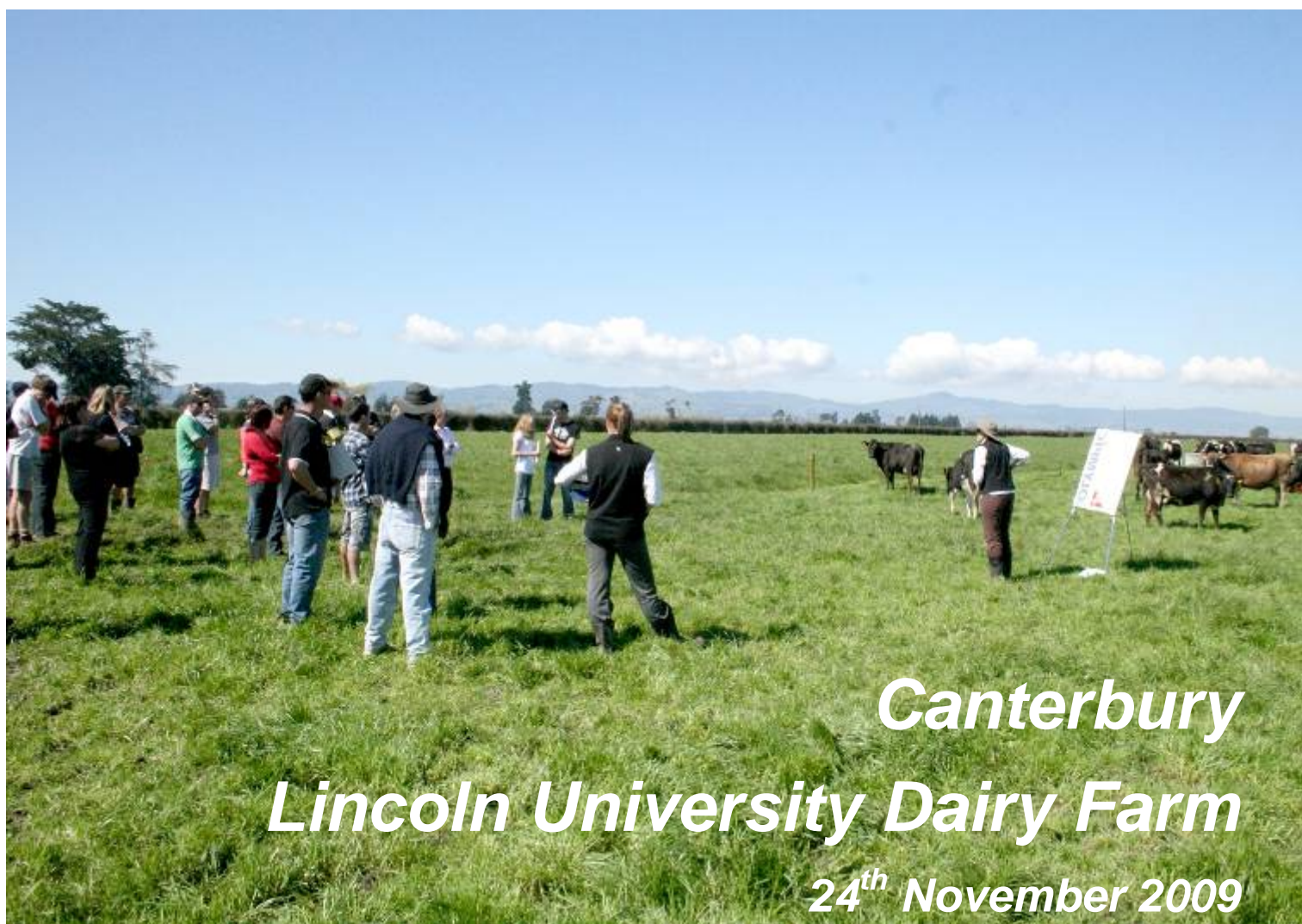


# ***Tight Management***

*tactics for tight times*



***Canterbury  
Lincoln University Dairy Farm  
24<sup>th</sup> November 2009***

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***DairyNZ*** 

Profitability. Sustainability. Competitiveness.

## Tight Management still as important as ever

Sound management decisions are as important as ever if farmers want to maximise the gains from the increased Fonterra forecast payout to \$6.05.

At the previous Fonterra forecast of \$4.55, approximately half of all dairy farmers were expected to incur a cash loss and this was before drawings and principal payments. The increase in payout means that most dairy farmers now have the potential to generate a cash surplus.

The Tight Management campaign aims to ensure farmers improve profitability and the principles are relevant regardless of whether the payout is high or low

## Tight Management farms lead the way

As part of the DairyNZ campaign, local Tight Management farms will help illustrate cost effective farming methods and management techniques successfully used on-farm. DairyNZ will work alongside 30 farmers across New Zealand who excel in cost control and maximising the amount of pasture eaten, two of the most important profitability drivers identified by DairyBase data.

These farms will provide a forum for dairy farmers to discuss tactical decisions at a local level, with host farmers describing the monitoring systems in place which ensure their businesses remain profitable. Monthly on-farm forums will discuss key management decisions, along with regular updates through community newspapers and email.

### Get involved:

- Attend each of your regular local Tight Management Farm events
- Register to receive the regular email update from your local Tight Management Farm
- Use the information to make the best possible decisions on-farm this season

[www.dairynz.co.nz/tightmanagement](http://www.dairynz.co.nz/tightmanagement)



## Tight Management Farm Details

For a detailed farm description please see green handout

Table1: LUDF – Farm Information Summary

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10*
Effective ha	161	161	161	161	161	159	159
Peak cows milked	644	651	651	670	680	683	660
Cows /ha	4.0	4.0	4.0	4.2	4.2	4.3	4.15
Total kg MS	271,971	277,634	286,115	274,965	281,670	261,138	277,630
kg MS/ha	1,689	1,724	1,777	1,708	1,750	1,642	1,746
kg MS/cow	422	426	440	410	414	382	421
kg DM supp purchased /cow	385	300	315	266	415	342	200
kg DM supp made on MP /cow	98	220	365	93	95	64	110

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10*
FWE/kgMS	2.64	2.64	2.63	2.8	3.37	3.9	3.29
Operating Profit /ha	2,008	2,768	2,357	3,002	8,284	2,143	2,874

\*Based on targets for the season

### Production System at LUDF:

- System 3 – Grass based system with most cows wintered off the milking platform. Most imported supplement (baleage) is fed in the autumn. Some supplement is used in early spring and throughout the season as required to cover feed deficits.
- Imported supplement use has varied from 550 kg DM/cow/year in 2002/03 to 266 kg DM/cow/year in 2006/07. Target for 2009/10 is 200 kg DM/cow/year.
- Grazing decisions are based on a weekly farm walk with a proactive strategy to deal with surplus and deficits in the system.
- Surplus situations in spring are dealt with an aggressive silage making policy. As soon as the surplus is identified baleage is cut from the paddock. Usually these paddocks are available to be grazed again within 3 weeks. Regrassing is also done in periods of grass surpluses (mid summer).
- Deficits are managed by manipulating round length when possible or by feeding supplements (baleage in the paddocks).
- Pastures are grazed to even and consistent post-grazing residuals of 7 clicks in the rising platemeter.
- Pasture Eaten/ha ranges from 15.5 to 16.5 t DM/ha (back calculated with DairyBase).
- Reproductive performance at the LUDF remains below targets for the system despite the significant progress in this area.

## Financial management

Table 2: Budget 2009/10 & Actual 2008/09

Financial Comparison	Budget 2009/10	Actual 2008/09	Budget-Actual
Effective milking ( ha)	159	159	0
Peak cows milked	660	680	-20
Milk production (kg MS)	277,630	261,711	15,919
kg MS/ha	1,746	1,646	100
kg MS/cow	421	385	36
<b>Payout (\$/kg MS)</b>	<b>5.1</b>	<b>5.2</b>	<b>-0.1</b>
<b>INCOME</b>	<b>Budget 2009/10</b>	<b>Actual 2008/09</b>	<b>Budget-Actual</b>
Milksolids	1,415,913	1,360,897	55,016
Dairy stock Sales	29,100	55,519	- 26,419
Other stock sales	58,518	68,139	- 9,621
Stock Purchased	-22,400	-15,400	- 7,000
<b>GROSS FARM INCOME</b>	<b>1,481,131</b>	<b>1,469,155</b>	<b>11,976</b>
<b>EXPENSES</b>	<b>Budget 2009/10</b>	<b>Actual 2008/09</b>	<b>Budget-Actual</b>
Administration	27,250	22,066	5,184
Animal health	41,922	47,041	- 5,119
Breeding expenses	32,027	46,120	- 14,093
Electricity -farm	14,500	12,051	2,449
Employment	203,712	220,392	- 16,680
Grass Silage Purchased	26,219	52,985	- 26,766
Silage making & delivery	40,943	49,690	- 8,747
Grazing & meal (replacements)	109,044	123,703	- 14,659
Winter grazing (herd)	138,000	120,815	17,185
Nitrogen & eco-n	67,580	91,993	- 24,413
Fertilizer & lime	37,341	60,085	- 22,744
Freight & cartage	800	3,222	- 2,422
Irrigation -all costs	57,751	47,183	10,568
Rates & insurance	15,864	14,883	981
Regrassing	5,810	14,887	- 9,077
R&M	47,500	42,861	4,639
Shed expenses	8,200	10,148	- 1,948
Vehicle expenses	18,300	20,093	- 1,793
Weed & pests	1,400	1,177	223
Accommodation allowance	20,000	20,000	-
<b>Total Farm Working Expenses (FWE)</b>	<b>914,163</b>	<b>1,021,395</b>	<b>- 107,232</b>
<b>FWE/kg MS</b>	<b>3.29</b>	<b>3.90</b>	<b>- 0.61</b>
Depreciation	110,000	107,000	3,000
<b>Total Operating Expenses (OE)</b>	<b>1,024,163</b>	<b>1,128,395</b>	<b>- 104,232</b>
<b>OE/kg MS</b>	<b>3.69</b>	<b>4.31</b>	<b>- 0.62</b>
<b>Dairy Operating Profit (DOP)</b>	<b>456,968</b>	<b>340,760</b>	<b>116,208</b>
<b>DOP/ha (ex EFS)</b>	<b>2,874</b>	<b>2,143</b>	<b>731</b>

### Budgets 2009/10 & Actuals 2008/09 - Key Points from Comparison

- 20 less cows milked
- Cash expenses are budgeted to be \$107,232 (\$0.61/kgMS) lower than 2008/09 season
- 1 less full time member (difference \$16,680 – difference is use of part time / relief staff)
- Feed expenses budgeted to be \$32,987 lower than previous season.
  - Budgeted Silage purchased is half the amount used other years (200 kg DM/cow/year). More baleage to be made on the milking platform(- \$35,530). Season to date 84TDM has been harvested from the milking platform compared to 8TDM YTD last year. Total silage made last year was 44.7 TDM.
  - 30 less R2 all year (saving -\$14,659)
  - Winter grazing cost was budgeted \$17,185 higher than the actuals for the previous season.
- Nitrogen and eco-n budget for the year is \$24,413 lower than spent last season and fertilizer is \$22,744 less. Most of the difference is from price falls
- Regrassing is budgeted \$9,077 lower than last years actual, as only one paddock was originally planned to be renewed. The revised payout projection is likely to result in regrassing of two paddocks this season (as normally occurs to maintain 10%/year).
- Breeding (-\$14,093 budgeted lower than spent last season)
  - Natural mate heifers with no synchronisation
  - Budget to use only 30CIDR compared to 150 used last season (None have been used)
  - AB mate for a shorter period

**(Please note that the budget for 2009/10 presented here is with 5.10 \$/kg MS payout)**

#### **Non-negotiables for the business**

- Feeding and management of the herd to achieve cow condition targets at calving.
- BW is important, replacements will be retained from the best genetics we can obtain and will be well grown.
- Calve heifers prior to the main herd.
- The grazing management protocols.
- Eco-n will be used.
- Inducing cows to calve before full term is not an option.
- Teat seal for first calvers.
- If it is a profitable idea we will seriously look at it.
- We will consider ideas that makes life easier for the cows and the people on farm – even if they are profit neutral.

For more detailed information read LUDF Focus Day handouts (July and October 2009) on the SIDDC website ([www.siddc.org.nz](http://www.siddc.org.nz))

**Table 3: Change in Operating Profit with change in payout**

	Milk Payout (\$/kg MS)		
	4.55	5.1	6.05
<b>Dairy Operating Profit (DOP)</b>	304,272	456,968	720,717
<b>DOP/ha</b>	1,914	2,874	4,533

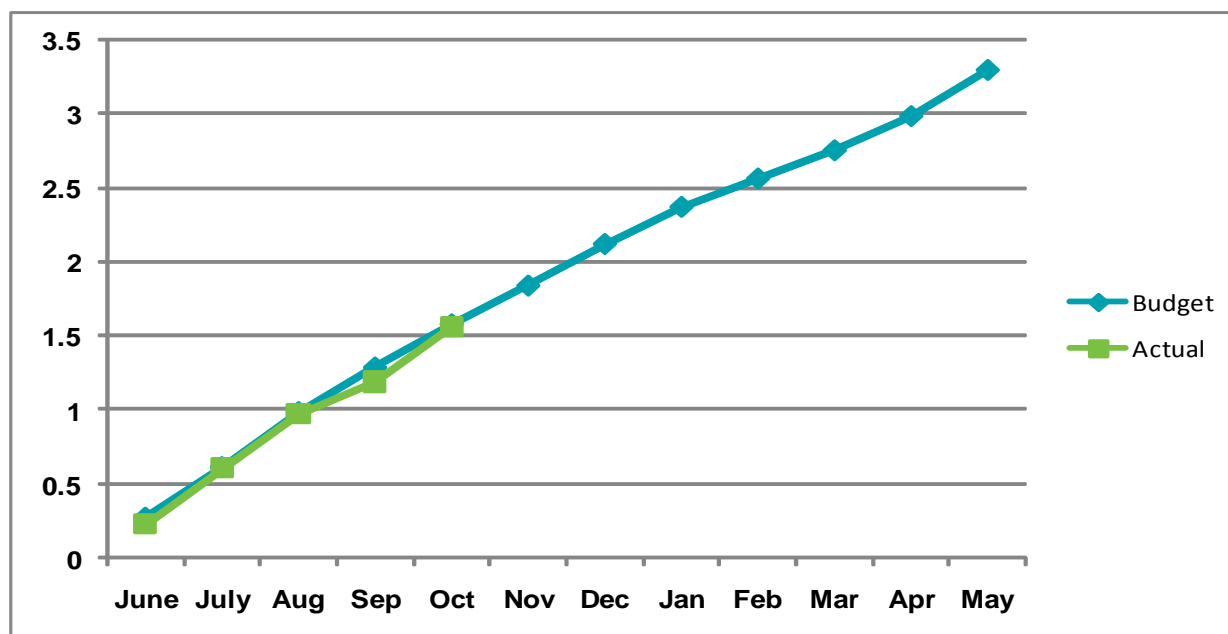
As shown in table 3 Operating profit can increase significantly if we achieve milk production targets, keep costs as budgeted and just “**capture the cash**”.

### **Current Financial Monitoring**

- Annual detailed budget prepared previous Autumn and confirmed in June
- Budget entered in Concept Cash Manager
- Invoices are entered as bills are passed for payment
- Actual & Budget variance report reviewed monthly and discussed with Farm Business Consultant and SIDDC

## Cashflow tracker for 2009/10 season

Table 4: Farm working expenses target for the season-: \$3.29/kg MS based on 277,630kg MS]



	Budget	Actual
<b>June</b>	0.28	0.23
<b>July</b>	0.62	0.61
<b>Aug</b>	0.99	0.97
<b>Sep</b>	1.29	1.19
<b>Oct</b>	1.58	1.56
<b>Nov</b>	1.84	
<b>Dec</b>	2.12	
<b>Jan</b>	2.37	
<b>Feb</b>	2.56	
<b>Mar</b>	2.75	
<b>Apr</b>	2.98	
<b>May</b>	3.29	

Total expenses are on track but as can be seen in table 5 below we spent more in some areas and less in others. The main areas where the actual expenses were higher than budgeted were animal health and feed. The detail of these two areas are shown in Table 6 and 7.

**Table 5: Cash Expenses June – October 2009**

EXPENSES	June to October			November
	BUDGET	ACTUAL	VARIANCE	Next Month Budget
Administration	9,181	7,300	- 1,881	3,737
Animal Health	19,287	25,700	6,413	2,398
Breeding Expenses	15,278	6,505	- 8,773	8,350
Electricity Total	13,770	10,137	- 3,633	10,330
Feed Total	186,665	202,711	16,046	20,457
Fertilizer total	62,845	57,601	- 5,244	4,000
Regrassing Total	-	375	375	
Rates & Insurance	-	-	-	
R&M	30,036	30,823	787	3,172
Shed Expenses	2,200	2,578	378	175
Vehicle Expenses	6,652	6,547	- 105	1,757
Wages & Employment	88,490	83,478	- 5,012	16,798
Weed & Pest	592	440	- 152	117
Freight	4,700	3,533	- 1,167	50
<b>TOTAL EXPENSES</b>	<b>439,696</b>	<b>437,728</b>	<b>1,968</b>	<b>71,341</b>

Breeding expenses have been lower than budgeted (Savings so far \$3,762 CIDR and AI \$4,560).

**Table 6: Detail of Feed Expenses June – October 2009**

Feed Total	June to October			November
	BUDGET	ACTUAL	VARIANCE	Next Month Budget
Winter Grazing	105,786	129,338	23,552	-
Hay/Straw Purchase	-	-	-	-
Silage Purchase	30,000	30,000	-	8,760
Calf Feed	5,940	4,979	- 961	-
Grazing R1	13,274	12,906	- 368	-
Grazing R2	19,665	19,178	- 487	6,514
Silage Making	12,000	6,310	- 5,690	5,183
<b>Feed Total</b>	<b>186,665</b>	<b>202,711</b>	<b>16,046</b>	<b>20,457</b>

**Table 7: Detail of Animal Health Expenses June- October 2009**



Animal Health Expenses	June to October			November
	BUDGET	ACTUAL	VARIANCE	Next Month Budget
Vet Fees	620	2,167	1,547	155
Drench	1,000	406	594	-
Trace Minerals	2,204	2,069	135	551
Other Drugs	360	377	17	120
Mastitis	4,000	3,621	379	-
Bloat	950	990	40	-
Teatspray	1,080	1,814	734	1,042
Calving Expenses	1,000	2,199	1,199	-
Teat Seal R2	1,448	1,410	38	-
Vaccine Young Stock	350	1,155	805	-
Debud Calves	850	1,024	174	-
Milk Fever	640	632	8	-
Magnesium	4,600	4,092	508	500
BVD Vaccines	-	3,338	3,338	-
Other	190	406	216	30
<b>Animal Health Total</b>	<b>19,292</b>	<b>25,700</b>	<b>6,408</b>	<b>2,398</b>

The main overrun of the budget was due to the BVD vaccination of the main herd. There were also some extra expenses such as teats for calves and some extra troughs and a new milk pump which are included under calving expenses and were not included in the budget.

## Future Decisions – Capturing the Cash

Table 8: % Increase in DOP Without any Changes in the System and Achieving Targets

	Milk Payout (\$/kg MS)	
	4.55	6.05
FWE/kg MS	3.29	3.29
kg MS/ha	1,746	1,746
Dairy Operating Profit (DOP)	304,272	720,717
DOP/ha	1,914	4,533
% increase in Profit		<b>237%</b>

In the 2007/08 season LUDF management team decided to maintain the production system on the farm without any major changes in feeding levels and not introducing any extra inputs in the system despite the expected higher payout. That strategy was very profitable. That season the Operating Profit was 8,224 \$/ha.

### Autumn Feeding

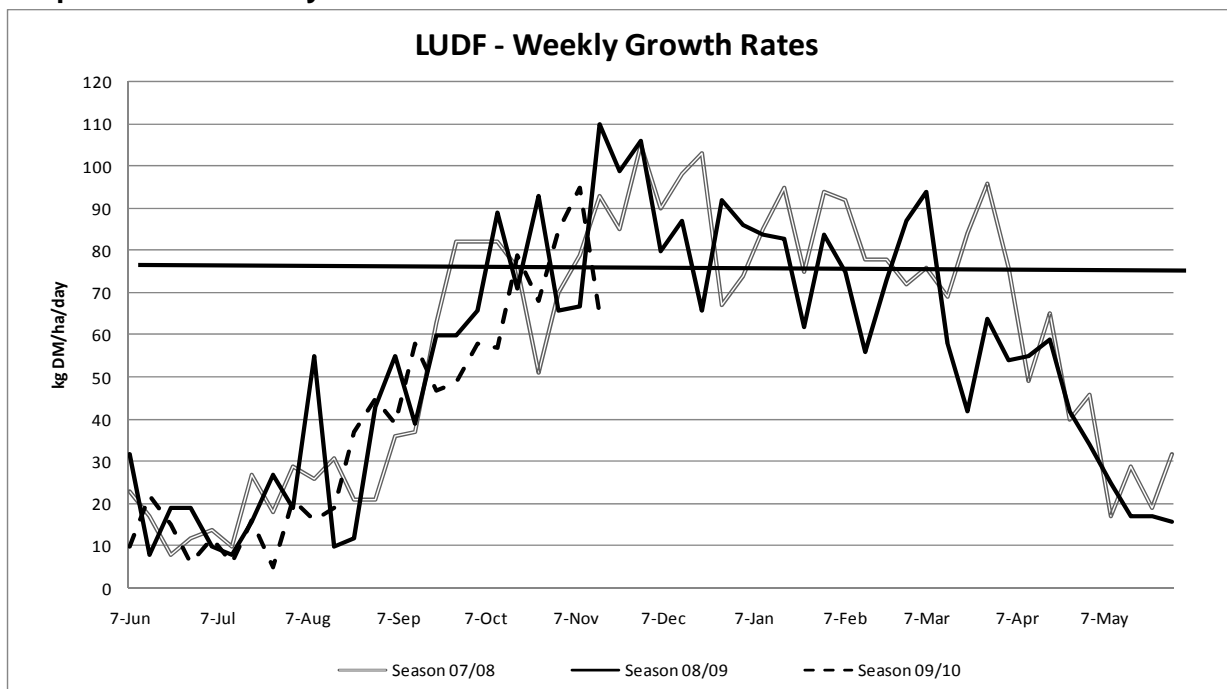
- **Should we buy any extra supplements to extend lactation?**
- **Which supplement?**

The budget allowed for the purchase of 200 kg DM/cow/year (200x600=132tDM) of baled silage, plus any silage made on the milking platform. The farm has currently purchased 100 tDM of silage so will need to source another 32 tDM to achieve the budgeted purchased feed volume. To date, we have made 84 TDM and anticipate harvesting another 20-30 tDM (depending on pasture growth rates). 132 tDM purchased plus 110 tDM harvested on farm will give about 242 tDM to feed in the autumn, considerably more than fed in past autumns, as in the table below .

**Table 9: kg DM Silage Fed (made and purchased)**

Season	Autumn	Total	% fed Autumn
2006/07	134,670	226,420	59%
2007/08	176,800	341,360	52%
2008/09	165,920	242,760	68%

**Graph 1: LUDF Weekly Pasture Growth**



Key points to consider in the decision making process:

- Growth rates are very variable in the autumn (as they are the rest of the season).
- In most seasons growth rates are above cows' demand up to March.
- A feed budget sets the scene about how much supplement will be required for autumn. At the moment it is very close to what we already have on hand.

- Drying off decision rules to achieve the target cow condition at calving are a key priority in the autumn and we will not compromise cow condition for extra production.
- Achieving APC targets at drying off is also important and will not be compromised by milking longer.
- Risk management:
  - Buying any extra feed now to capture the benefits in autumn has the risk of not knowing what growth rates are going to be and if any extra supplements are going to be required or not.
  - Waiting and buying supplements later as needed in the autumn can lead to buying them at a higher price.
  - Buying an alternative type of supplement to Baleage (such as PKE) has the extra risk of requiring Capital expenditure for an event that may be a one off.

Other considerations:

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

### **Mating and Breeding**

AB period: We have budgeted for 800 Straws which is about 6 weeks of AB.

Mating length: We will stay with 10 weeks of mating as a compact calving is crucial for the system. Extending the mating period would result in the sale of late in-calf cows with an uncertain price.

Other considerations:

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

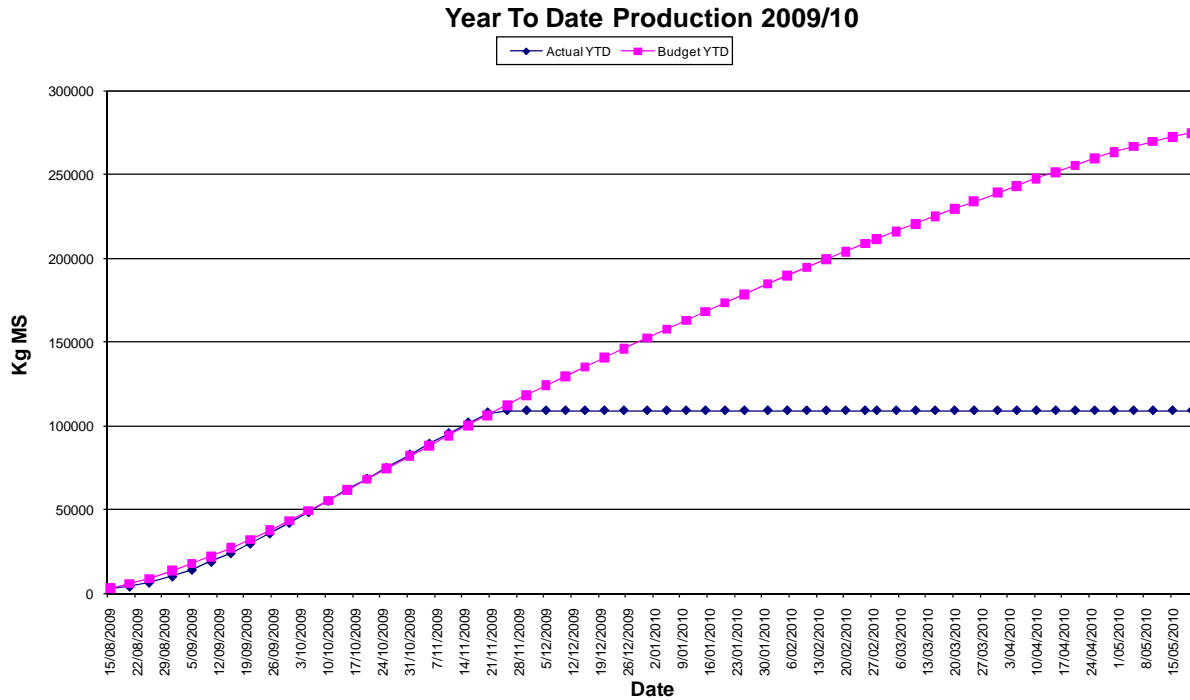
### **Staff Recruitment**

We need to replace one staff member that is leaving the farm and we have an advertisement in the paper at the moment. We will have a past staff member working for us for a few weeks which gives us more time to find the right applicant.

### **Deferred Expenditure or “nice to have items”**

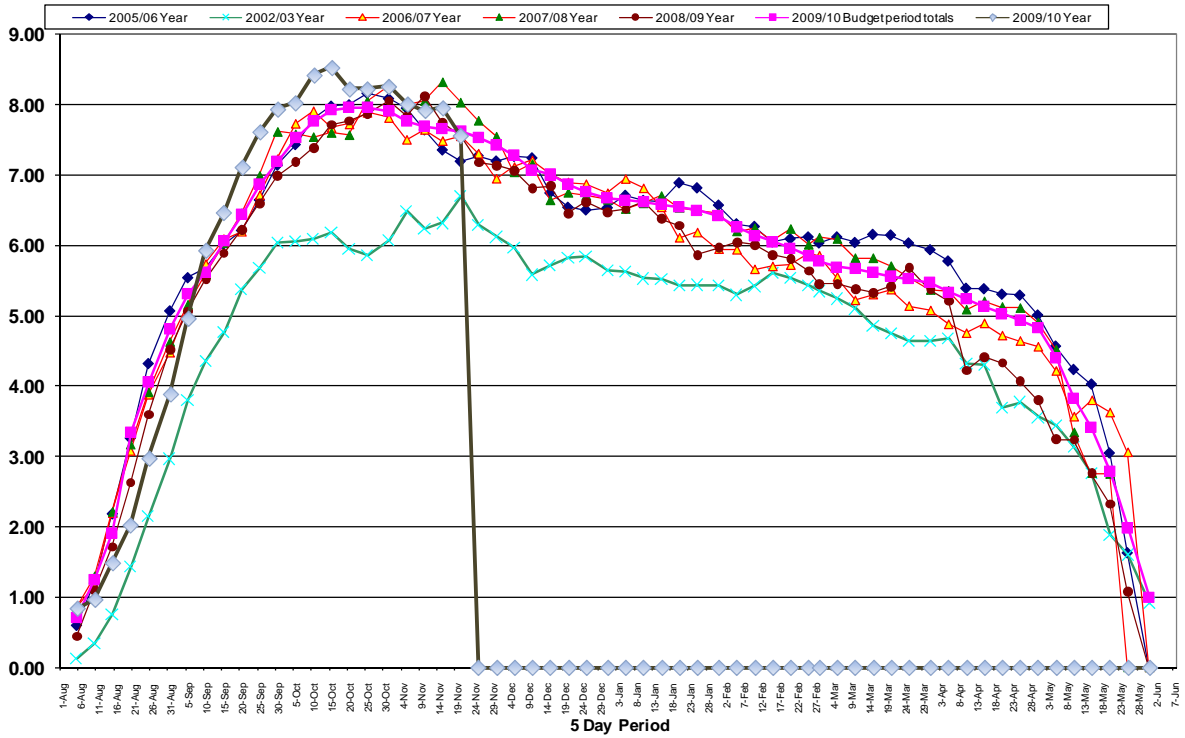
	<b>Comment – Decision Process</b>
<b>R&amp;M</b>	
<b>Regrassing</b>	
<b>Calf Trace GeneMark</b>	
<b>Races</b>	
<b>New Mower</b>	
<b>Cup Removers</b>	
<b>Any Other?</b>	

**Graph2: Milk Production Season to Date (Kg MS total)**



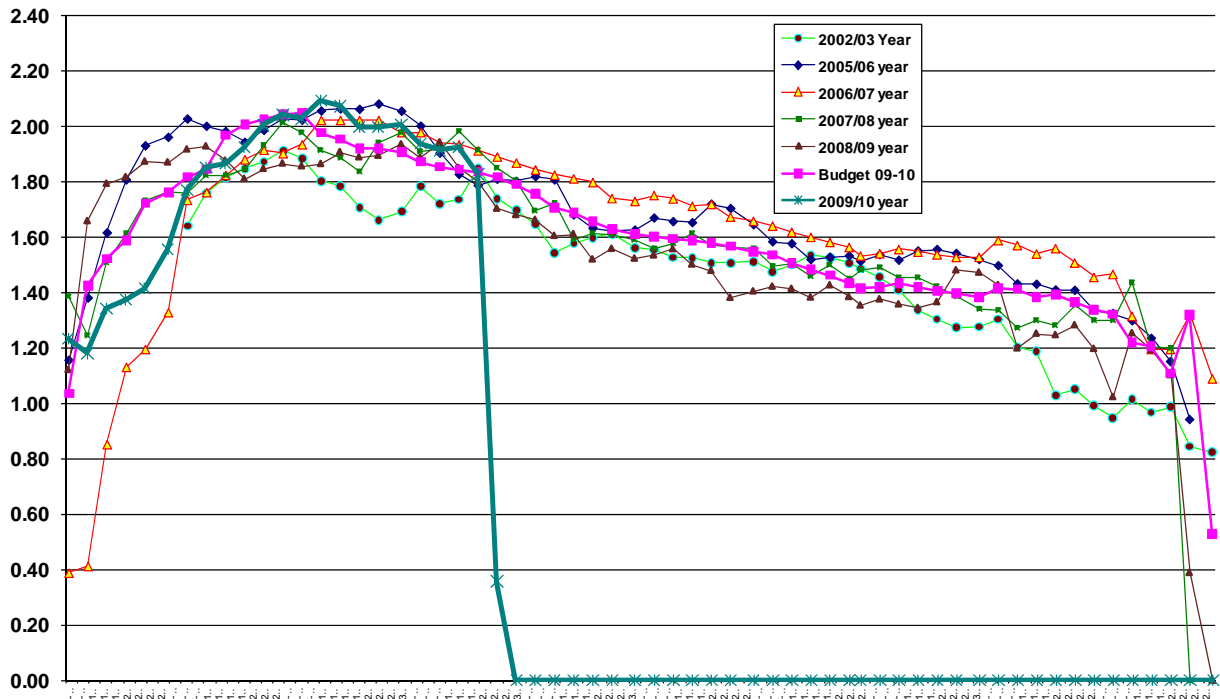
**Graph 3: LUDF Milk Production per ha**

**LUDF - kg MS Production / Ha / Day**



**Graph 4: Milk Production per Cow**

**LUDF Kg MS Production / Cow / Day**



**Attendee's Notes**

*Take home messages and reminders for my farm business:*

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