



A CHALLENGING SEASON – WHAT’S YOUR PLAN?



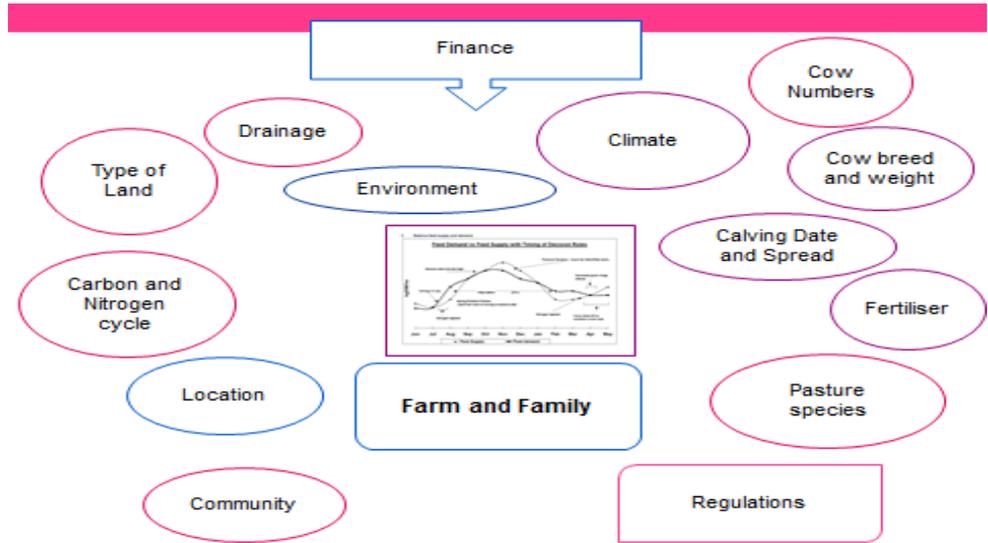
Material compiled by Julie Pirie, sourced from Dairy NZ and DairyBase, and Dairy Women’s Network
Pirie Farm Consultancy Ltd

Farm Systems Management revisited

The Importance of Basic Farm Systems Management

Our farms are part of a system. In order to make the most of the farm, all parts need to be functioning and the basics set up correctly.

The basics are stocking rate, mean calving date and drying off date. Operators that get these basics right within the constraints of their environment, location and budgets operate at the best profit.



What are the pressure points?

- Weather
- Milk price
- Global situation
- Environmental constraints
- Other things unique to your business

What can you do to control these:

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What needs more work/study?

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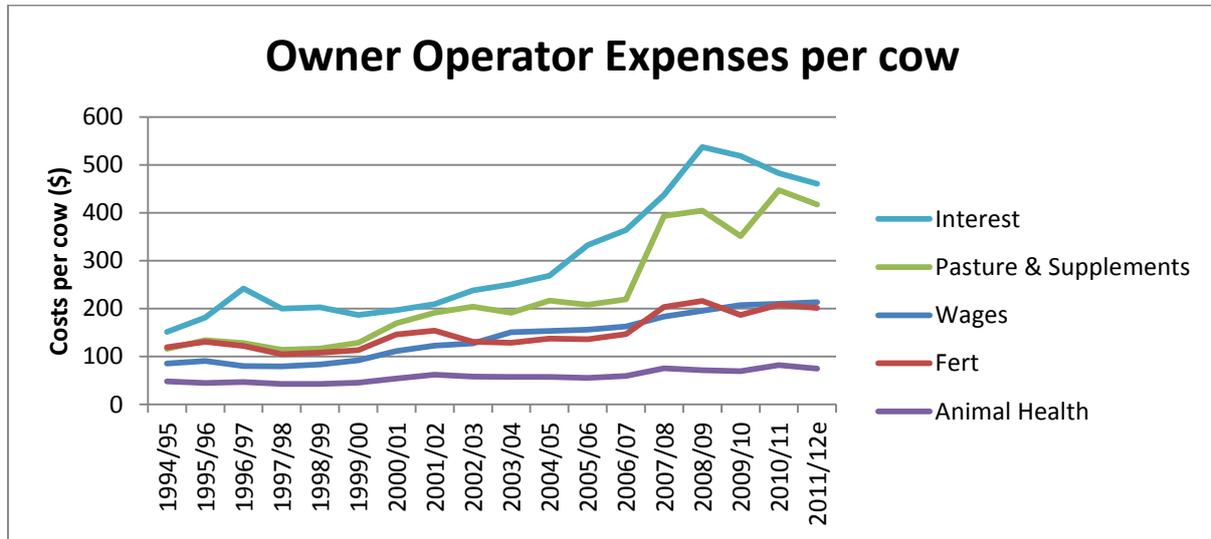
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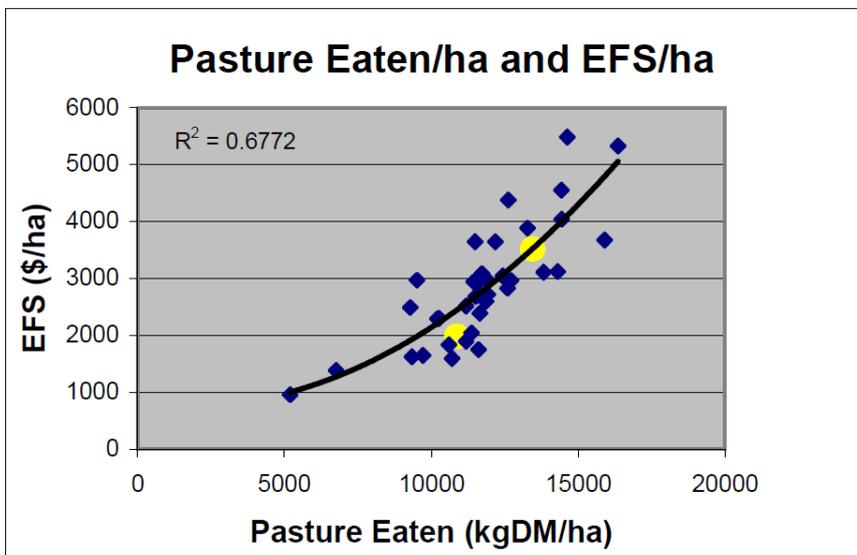
Profitability



What are the most important influences on profitability?



Per Cow costs	1995/96	2010/11
Animal Health	45	82
Wages	91	208
Fertiliser	131	208
Pasture and Supplements	131	447
Interest	181	482
Total of above	579	1427
Production per cow	283	334
Average herd size	198	386





Pay Yourself First (Backwards Budgeting)

We all like to succeed in farming, and often figures are quoted that sound wonderful – 460 kg MS/cow, 1400 kgMS/ha, all grass, high input etc. But is this sustainable? Does what you are doing pay for the lifestyle you want for your family, is it healthy for you and the environment?

Even before analysing your farm system, what does the business need to generate to meet your financial needs for:

1. Profit to invest and grow your net worth and
2. Drawings

There is of course the need to pay your share of tax and interest on funds borrowed!

This is where backwards budgeting comes in – start budgeting from what you want from your business, then work out how to operate your business to meet this profit requirement.

Profit Targets

What is a realistic and achievable profit from farming at a \$5.25/kg MS payout?

From Dairy NZ forecasts received in June, using Dairybase information, the average NZ farm could achieve a profit of \$2014 per hectare:

Ha	142	Production	992/ha
Cows	396		356/cow

Net Dairy Cash Income	\$5.68 per kg MS
Farm Working Expenses	\$3.65 per kg MS
Operating Profit	\$2.03 per kg MS

By budgeting backwards, you may find that the amount you have left to spend on farm working expenses is far less than you currently spend – this will require some analysis of where money is currently spent. This is where zero budgeting comes in.

“Every dollar I spend will increase someone else’s profit by a dollar – can I make a return on that dollar, or do I keep it in my pocket?”



Zero Budgeting

The concept of zero budgeting is to start at zero i.e. no expenditure and build up the budget from planned decisions. To zero budget you need to think through the whole season in each area of your business and analyse each cost separately. This will take a little extra time but can save large sums – making it very good use of your time.

For example Animal Health

Instead of allocating say \$50 per cow to animal health, expenditure is built up by breaking down animal health costs to daily decisions. Before you can do this you need to know what you have spent in the past and break down your vet and other animal health accounts into various categories. When allocating expenditure on this basis you need to ask, will a dollar spent generate two dollars?

Use zero budgeting for all operating costs. Every item in the budget needs to be based on sound management decisions, especially at a low payout if the farm business is to be viable.

A detailed breakdown of costs needs to be completed for any areas of expenditure where there are a lot of items to coded to one area. For example, dairy shed expenses, feed costs, repairs and maintenance and personal expenditure. Ideally this breakdown should be completed when you are coding the accounts on a monthly basis rather than analysing at the end of the season.

Where you employ a herd manager or someone other than yourself who makes the on farm decisions it is important that they complete the budget and you the owner sign the budget off. This way you get ownership of the budget and accountability.

Ideas from Group:

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Talking to a farm advisor can be very useful – they will have seen what other people are trying, and offer practical options.

Talk to your bank about options available – reducing principal payments, or extending overdraft – the earlier this is done the better!

Partial Budgets



These are what are commonly called ‘back of the envelope’ budgets.

It involves looking at one part of the business, and assessing the implications of change. An example might be – grazing the calves on the farm, as opposed to (the usual) grazing them out from November.

Outline of budget scenario **Date:.....**

Increased income	Decreased income
Decreased costs	Increased costs
Total gains \$	Total losses \$
Net gain or loss \$	
Other factors to consider:	
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