

Low-cost system key to profit in drought

By CARLENE DOWIE

KEY POINTS

DANNY AND NIKKI EVERINGHAM and ERIC WARD
Deniliquin, NSW
DAIRY BUSINESS OF YEAR AWARDS
Southern NSW
*7.2% return on asset in drought
*Low cost system
*Maximising milk over total feed costs

TIGHT cost control and aiming to maximise total margin over total feed costs allowed Deniliquin, New South Wales, share farmers Danny and Nikki Everingham to make a profit in one of the worst droughts on record in 2006-07. The Everinghams and farm owner Eric Ward won the Southern Riverina NSW section of the 2008 Dairy Business of the Year (DBOY) competition (based on the 2006-07 season), following up on the Everinghams' win in the share-farmer section of the 2007 competition (based on 2005-06).

The business produced a remarkable 7.2% return on assets in 2006-07 – in a year when most dairy farms in southern NSW and northern Victoria recorded a loss. The operating profit margin was 19.7%.

This season the Everinghams have moved from the sharefarming arrangement with Mr Ward to leasing the farm.

And despite a succession of extremely tough seasons in southern NSW with no irrigation allocation from the Murray system in 2006-07 or 2007-08 and the likelihood of no irrigation allocation this season, Danny Everingham is happy to keep farming in that region.

"Other dairying areas aren't necessarily more attractive," Mr Everingham said. "They are if you want a capital gain. But we don't actually want capital gain on country."

"We'd rather cheap country so that we can own more of it and provide more opportunities for our kids to get into farming if they want."

The Everinghams are also not locked into dairyfarming and consider other options such as fattening and cropping when they are more lucrative.

Mr Everingham said he also liked the wide open spaces and distance from neighbours of the southern NSW dairying



Nikki and Danny Everingham with their daughter Abby. The Everinghams like dairy-farming in the Riverina because they see the area as providing opportunities for their children to farm.

Table 1: Key performance indicators for two award years (2006-07 and 2005-06)

| Indicator | 2006-07 | 2005-06 |
|------------------------------|---------|---------|
| Effective milking area (ha): | 336 | 336 |
| Cows: | 740 | 920 |
| Production (kg MS/ha): | 879 | 1043 |
| Production (kg MS/cow): | 399 | 380 |
| Return on assets: | 7.2% | 14.7% |
| Operating profit margin: | 19.7% | 35.1% |
| Cost/kg milk solids: | \$3.90 | \$2.98 |
| Pasture harvest (t DM/ha): | 5.1 | 7.7 |
| Core per cow costs: | \$151 | \$181 |

region – something few other dairy areas offered.

"We're as far away from town as my wife can handle and as close to town as I can handle," he said.

Mr Everingham's low cost system and simple approach seems a perfect fit for the region. Even though like most in the region he has been forced to increase the amount of bought-in feed for his herd, he has maintained the low cost structure.

His feeding system consists of about 30 7.2-metre modular home-made feed troughs in a row that cost about \$8000. He uses a silage cart behind a 60-kilowatt tractor to fill the troughs.

He estimates labour involved in feeding out is about two hours a day – time that in a normal season would be spent on pasture or irrigation work. There is increased fuel

cost in feeding out, but fertiliser costs have been reduced.

His tight cost control is reflected in his attitude to buying tractors. "I don't like anything that has wheels instead of legs," he said.

Mr Everingham said with his low cost system as a base, the next step for making a profit was to maximise total milk income over total feed costs at every point in the season.

In addition to the irrigation allocation from the Murray system, the property has irrigation from a deep bore.

Even in the drought years this has provided a limited pasture base, which has made it easier to balancing the feed ration and allowed the sourcing of cheaper feeds.

Mr Everingham is constantly assessing and looking for cheap feed sources. In a



Danny Everingham sees pasture as the basis for his low cost system but has adapted to having to use more bought-in feed as a result of the drought.



The rotary dairy on the farm the Everinghams now lease from Danny Ward.

◀ normal season he would feed about 3500 tonnes dry matter of home-grown pasture, 1000 tonne of grain and 1000 tonne of other feed. Last season the home-grown pasture was reduced to 1500 tonnes (off the spear point irrigated land), 500 tonnes of grain and 3000 tonnes of other feed.

In June this year the Everinghams bought a 980-hectare block about six kilometres away to increase their capacity to grow feed themselves irrespective of irrigation allocations. They have planted barley and wheat on it (partly because of the time of year when they bought it meant they were late planting it) and plan to cut it for silage if they can and take the rest as grain. But this season is still shaping up as a tough one with the area having received just on 200 millimetres of rain for the year to date (compared with 300mm average) and only 140mm of growing season rainfall compared with a 270mm average.

The higher milk price last season and this season has been critical in allowing the operation to make a profit despite the high prices for grain and feed.

Mr Everingham switched processors in

September last year – becoming the sixth United Dairy Power (UDP) supplier in the southern Riverina region. “We like that UDP sets the price up front and we know what we’ve got in the pocket,” he said. The increased competition for milk was also good for the region.

One interesting aspect of the Everingham operation – particularly given that until last season they were sharefarming – is that they don’t rear their own replacements.

They buy in about 200 springing heifers annually (about 20%) over winter. The herd is joined to beef bulls (although last year they contract joined some to Friesians for another dairyfarmer) and calves are sold as soon after birth as possible.

This was in part because their sharefarming arrangement had specified that they not raise young stock on the property, so it would have entailed an extra expense to have them on agistment elsewhere.

It was also because they were looking to maximise their total net margin over every sector of the business.

But Mr Everingham is considering his

Chance to hear winners' secrets

FIELD days will be held on the farms of Dairy Business of the Year finalists in the coming months. These field days are a great opportunity for others farmers to see these excellent operations and listen to how the farmers manage their businesses.

The first field day was held in July on the property of northern Victorian section winners Dion and Kate Silich. It also featured Southern NSW Riverina winner Danny Everingham. Both explained their low-cost systems and how they managed to make a profit in drought.

Dates for forthcoming field days are:

Western Australia (September 19): Dale and Leanne Hanks, Government Road, Harvey.

South Australia (October 15): James and Rachael Stacey, Meechi Road, Bletchley.

South West Victoria (November 6): Barry and Vicki Philp, 220 Sampsons Ford Road, Garvoc.

Gippsland (November 11): Guy and Leanne Gallatly, 121 Nordens Lane, Maffra.

South East South Australia (November 13): Charles and Stacey Wallis, Megaw Road, Compton, Mt Gambier.

options in this part of his business now that he is leasing the land and has joined 350 autumn-calving cows to artificial insemination with a plan to rear the calves as replacements or to sell them as contract calves.

Like many of the finalists in DBOY, Mr Everingham is a member of a dairy business discussion group. The group allows him to benchmark his business against others in the district.

He said DBOY had allowed him to see some of the figures from other regions and assess the key factors that made their area competitive with other areas. The southern Riverina had more uncertain seasonal conditions, but it also had lower asset values which we can use to our advantage, he said.

The retreat for finalists in the DBOY competition had been a valuable experience in both years of the competition, he said.

Mr Everingham is concerned about the recent changes in water policy and the impact they could have on the region. The buying of water rights for the environment could “gut the valley”, he said. **D**