



Group uses business info to lift performance

A northern Victorian discussion group is using business analysis information to improve its performance and to plan for the drought. Each entrant in the new Dairy Business of the Year competition will receive the same type of analysis to help them improve their business.

BASED between Nathalia and Cobram in northern Victoria and well into its second year of meetings, the NAB Agribusiness sponsored Whymilkamooocow business discussion group has in a relatively short period of time established itself as an industry leading discussion group in the region.

Group facilitator and Intelact consultant, Andrew Wright, said: "It's the make-up of the group and their common desire to improve farm business performance that

sets this group apart from most others in the region."

Every farm business involved in Whymilkamooocow has had a Red Sky farm performance analysis completed.

For each monthly meeting each farm business has their data updated with any significant changes, and this is used to help assess the individual farm business whose turn it is to be the focus of the group.

One of the founding group members, Daryl Hoey, said: "It can be quite chal-

lenging to be the focus of the meeting, but we're all on the same footing and at the end of the day it's all about helping each other improve our businesses.

"Being well into our second year you can sense the collective pride when we return to a group member's farm and see the improvements and changes that have been implemented."

Another of the founding group members Murray Dairy chairman, Ian Cobble-dick, is even more forthright.

"There is so much misinformation ▶

KEY POINTS

DISCUSSION GROUP

- ✓ Business focus
- ✓ Red Sky data updated and compared monthly
- ✓ Drought planning based on each farm's financial performance



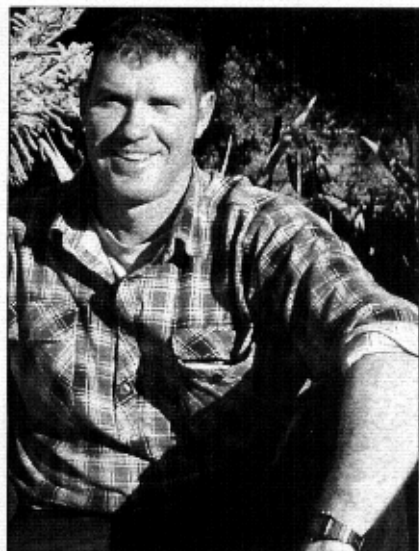
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ABOVE: Ian Cobbledick: understanding the key profit drivers of the business is critical.

LEFT: Kelvin Bruce: Using the business performance analysis really gives confidence that we can come out the other side of this drought with our business assets in tact.

floating around the dairy industry as to what drives profitability. Likewise there can be a reluctance at an industry, farmer and advisory level (private and government) to grasp the issue of how to genuinely calculate operating profit and return on assets as measures of farm profitability.

"Given that we are entering our second severe drought within the last four years, understanding the key profit drivers of the business is critical."

More than ever these severe drought seasons highlight that the only common factors shared between farmers are that they need accurate and relevant information on their business, and then they need to use this information.

Group member, Kelvin Bruce, said: "Using Red Sky we are able collate the

physical resources that we have available (water, cows, feed reserves) plus those we can purchase (concentrates, fodder, water) and construct and assess various strategies.

"As members of the group focused on farm business performance we have assessed all the resources that are available to us. By testing various management strategies through Andrew's use of Red Sky, and then drawing on the collective experience and skills of the group, we have been able to formulate a plan that allows us to move forward with confidence.

"This really gives us confidence that we can come out the other side of this drought with our business assets intact and in a position to move forward once seasonal conditions improve.

"This is not just about surviving the current season, it's also about keeping the business in a state where it can progress once our operating environment improves."

Mr Wright said one of the primary objectives in establishing the group was to create an open environment to discuss, question and learn about farm business performance.

"To the groups' credit this has been more than achieved with every farm business willing and able to identify the strengths and weaknesses in their business and set about implementing a plan to address the weaknesses. In almost all cases this has been achieved without compromising the strengths of the business," he said.

"For instance, a number of the group members have strong performance in pasture consumption and milk production but needed to reduce their core per cow costs [see box story next page].

"By focusing primarily on the profit per cow report the group members are able to examine expense codes item by item to identify and question specifically where core costs could be reduced."

Mr Hoey said that not only had the group created a culture of business focus within the group, it also seemed to be rubbing off on their farming friends and acquaintances.

"It's additionally satisfying that the feedback we're hearing is that groups like the Whymilkamooocow discussion group are doing their bit to improve the way dairyfarmers are addressing business performance on their farms," he said. **D**

Strong cost control key to profits

Every entrant in the Dairy Business of the Year competition will receive a bound report with the results of an analysis of their farm business and detailing the strengths and weaknesses and key opportunities for improvement. Here we look at how Victorian dairyfarmers Rob and Marita Pandolfo have used such analysis to improve their dairy farm business.

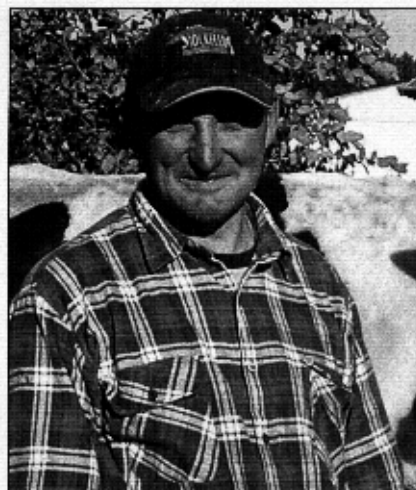
HAVING had their farming business fully analysed, Gippsland, Vic, farmers Rob and Marita Pandolfo now have added confidence that they have chosen a farming style that is working for them and a better understanding of why. All of

which allows them to approach the impending drought with a clear plan.

Rob, Marita and their four boys Daniel, Leigh, Michael and Jack, aged between 13 and seven, farm at Lardner in the heart of West Gippsland. Applying a less trodden path than most, during the past 3-4 years

Mr Pandolfo has developed a farming style that combines strong cost control and high labour efficiency without comprising milk production.

The results were highlighted when Mr Pandolfo completed a full Red Sky physical and financial analysis as part of his **▶**



Rob Pandolfo said Red Sky business analysis showed that cost control was excellent in their business but that they could continue to lift pasture consumption and milk solids production per hectare.

participation in a Westpac-sponsored financial discussion group run by Intellect consultant Neil Lane.

"I've seen many sets of numbers processed through Red Sky and Rob's level of cost control is as good as any we've seen," Mr Lane said.

"However, what is particularly impressive about Rob's numbers is that even though stocking rate and production per cow are closer to the average Red Sky benchmark results rather than the top 10%, it's being achieved while spending \$800-\$1000/ha less than either the average or top 10% benchmarks. The result is an operating profit per hectare that is clearly top 10%".

Return on assets is slightly below top 10% which is a reflection on land prices in this part of Gippsland being consistently higher than the benchmark dairying land prices.

When asked how he achieves such tight cost control Mr Pandolfo said "it's not so much about least cost but more about obtaining the best value for money and minimising waste". After sharefarming for five years, the Pandolfos returned home to buy Mr Pandolfo's parents' 55 hectare farm nine years ago and over this period have expanded the effective grazing area to 134ha (including 14ha leased). "As we've continued to grow the farm size and the milking herd it's taken a while to strike the right balance between increasing milk production and controlling costs," Mr Pandolfo said.

Mr Lane said as would be expected with such a low level of core per cow costs (see box story), almost all cost categories are lower than the benchmarks with a number significantly lower. "What Rob

Table 1: The Pandolfos' performance

	2004/05 Actual Results	2005/06 Actual Results	2006/07 Budget	Red Sky 2004/05 Gippsland Average	Red Sky 2004/05 Gippsland Top 10%
Operating Profit/ha	\$1825	\$2167	\$2272	\$1223	\$2220
Return on Assets	9.2%	10.7%	11.2%	7.2%	13.9%
Milk solids per Cow	448	460	469	422	471
Milk solids per ha	934	1032	1093	988	1244
Pasture Consumption/ha	7.3	8.1	8.7	7.9	9.5
Operating Profit Margin	42%	44%	45%	26%	37%
Cost of Production (\$/kgMS)	\$2.61	\$2.51	\$2.49	\$3.09	\$2.62
Core per Cow Costs	\$258	\$260	\$263	\$353	\$330
Labour Efficiency (cows per full-time staff equivalent)	154	174	161	113	138

has achieved over the past three years is to steadily increase milk production/ha with both stocking rate and production per cow increasing, while keeping costs under control. Operating profit/ha and return on assets have both continued to rise while operating profit margin has been held at a healthy 42%-45%," Mr Lane said.

What this means in a drought year when purchased feed prices are heading skywards and the milk price looks like softening is that a business such as this with lower requirements for purchased feeds, a high level of profitability, and a high profit margin is able to absorb these changes and still maintain a sound profit. When a 10% drop in milk price and a 50% increase in grain prices is factored in, the Pandolfos should still be able to generate an operating profit of \$1400/ha with an operating profit margin of 32%.

Mr Pandolfo readily acknowledges that "steady improvement in farm business performance is important if we are to stay viable in the long term and also to be in a

position to maintain a reasonable level of profit in these tough years.

"As a result of completing the Red Sky analysis we know that we don't have a lot more to achieve in cost control but we can continue to lift pasture consumption and milk solids production per hectare. So this year we've focused more on pasture management. If we can continue to improve physical performance without losing cost control then we're confident we can achieve the results outlined in this year's budget."

There are several key messages that are highlighted when a business like the Pandolfos' is analysed. Firstly the final profit result is the important number. The Pandolfos have a business that generates a high level of profit with a low level of risk. Secondly without good information it would be easy for farmers, or those advising them, to focus on areas which either aren't directly related to profit or where the majority of gains have already been made. **D**

What are core per cow costs?

Red Sky founder and managing director David Beca said in determining core per cow costs Red Sky set out to group together all costs not directly related to either the number of hectares being farmed or the feeding of cows. Management and staff costs are also excluded as there are more relevant ratios for determining performance in this area.

These core per cow costs could individually appear to have minimal impact on overall business performance, but collectively their impact is significant. Furthermore what becomes evident is that a farmer's attitude to cost control pervades all aspects of their farming business,

and having tight cost control is an essential outcome if farmers want to have high-profit businesses.

The Pandolfos are an excellent case in point. Almost every expense code is lower than the benchmarks and this is also reflected in their approach to feed costs and capital expenditure.

If Red Sky characterises farms that feature in the top 10% of performance, then they almost always combine high pasture consumption and comparatively high levels of milk production per hectare with tight cost control, effectively driving a wedge between revenue and expenses.