Standard Bank

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Future proofing your dairy business for the 2020's

Presenter: David Beca (Australia)

New date: Tuesday, 10 November 2020

Time: 9:30am morning tea for 10:00am start – 4:00pm

Location: Nanaga Farm Stall, Nanaga, N2 Hwy & R72, Alexandria, 6185

Free entry with lunch included

Bookings to be confirmed by 29th October

Registration options to be confirmed

*** Numbers limited so please register early to avoid disappointment**

Agenda

Theme: "If increasing pasture harvest has been the key strategy to improvements in profitability over the last 15-20 years, what will be the key strategies for the next 10 years?"

9:30 – 10:00 Morning tea

10:00 – 10:15: Karel Jordaan, Standard Bank

10:15 – 11:50 Session 1

Evolution of dairy production systems in leading exporting countries plus South Africa, and what can be forecast for the next 5 years. What are the implications for South Africa, and could the future include becoming an exporting country?

11:50 – 12:05: Rob Walker, Barenbrug SA

12:05 – 1:05 Lunch

1:05 – 2:40 Session 2

Which are the critical dairy business performance characteristics that will provide profitability and sustainability for the next 5-10 years, and which production systems will underpin the most secure future.

2:40 – 3:05 Afternoon tea

3:05 – 4:00 Session 3

What might be the impact on South African farmers profitability from changing their production system to include a higher percentage of pasture in the diet.

4:00pm Finish

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Session 1 – Presentation outline

"Evolution of dairy production systems in leading exporting countries plus South Africa, and what can be forecast for the next 5 years. What are the implications for South Africa and could the future include becoming an exporting country?"

This presentation covers the following areas:

- ❑ **Reviewing and comparing South Africa with New Zealand, Australia, Argentina, Uruguay and United States.**
- ❑ **Reviewing the trends for a group of ratios over the last 17 years; from 2002/03 to 2018/19.**
- ❑ **Forecasting the trends for the next 5 years through to 2023/24.**
- ❑ **Analysing South Africa's strengths and weaknesses, and the opportunities to develop into an milk exporting country.**

SHORT SUMMARY

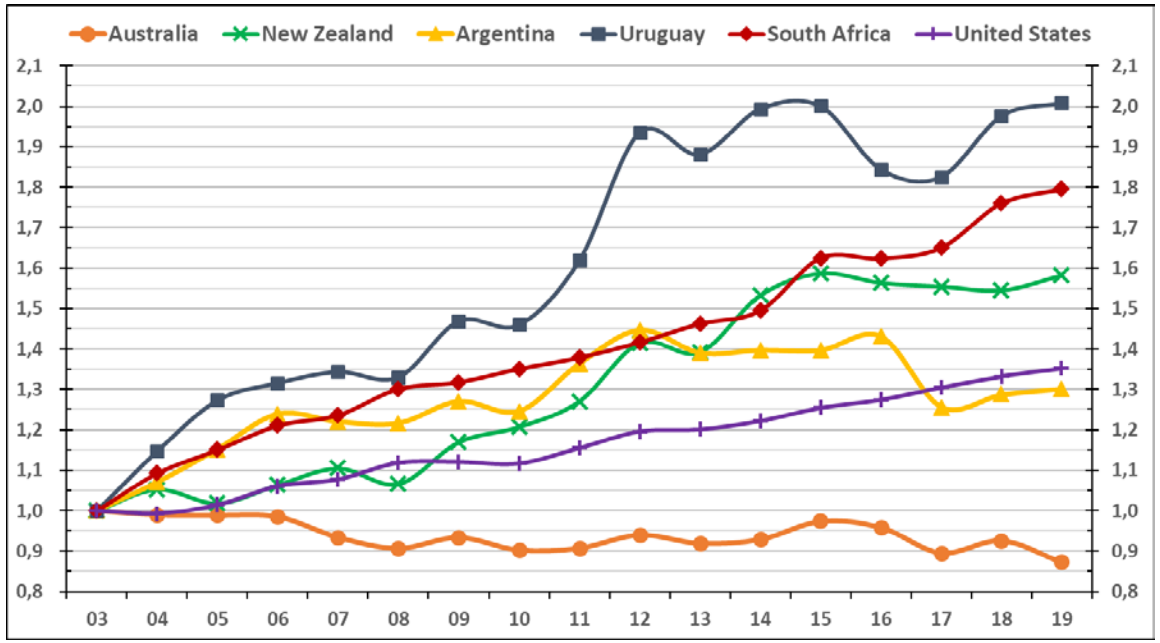
These comparisons provide a clear and concise 'picture' of what has been happening in these six countries, including which countries are well established to continue to prosper and grow over the next 5+ years, and which countries are struggling and why. The comparisons between New Zealand as the leading low cost of production industry and United States as the most 'biologically efficient' industry provides insights into what the key business principles are that can be adopted by other industries like South Africa.

The presentation will outline what might need to change for some countries to recover their international competitiveness, and what all pasture-based countries will need to do to sustain sound levels of profitability and growth. This will include commentary on what 'strengths' need to be retained by farmers and what new 'opportunities' and 'threats' may be imminent.

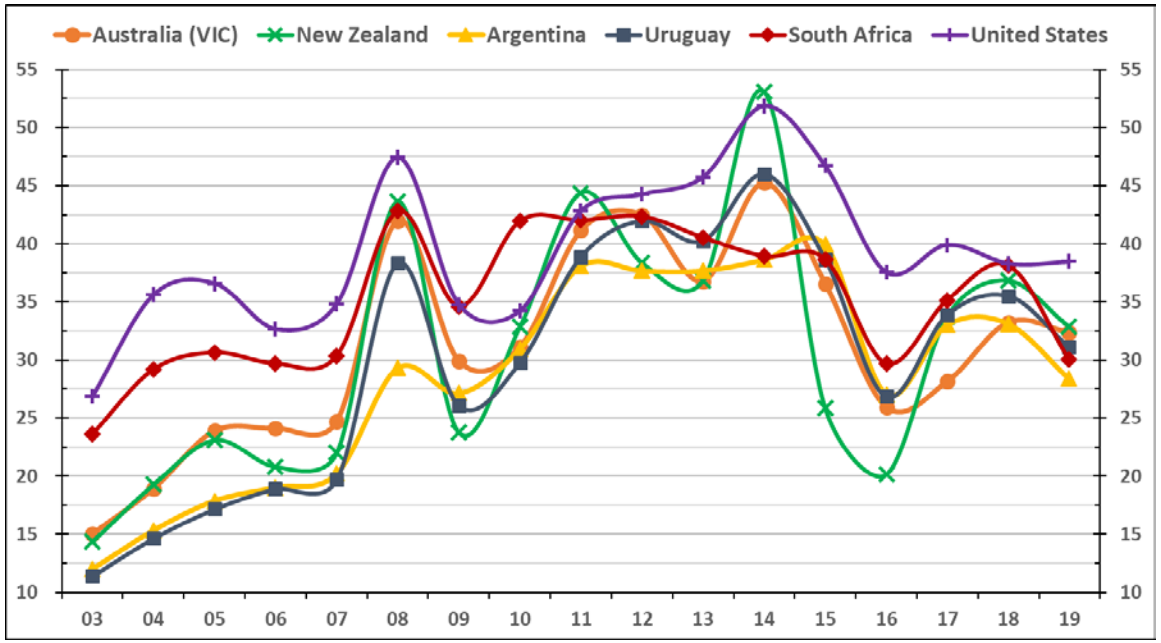
The inclusion of United States in these comparisons provides a range of insights, from what the impact is of adopting US production systems on a full range of economic indicators, to highlighting the "elephant in the room" impact from huge increases in their export milk volumes.

The presentation will identify where the South African industry is strong and more critically, where the industry has weaknesses and how these could be addresses. In addition there will be an answer to the question "Could South Africa be a competitive milk exporting country" and some commentary on how this could become a reality.

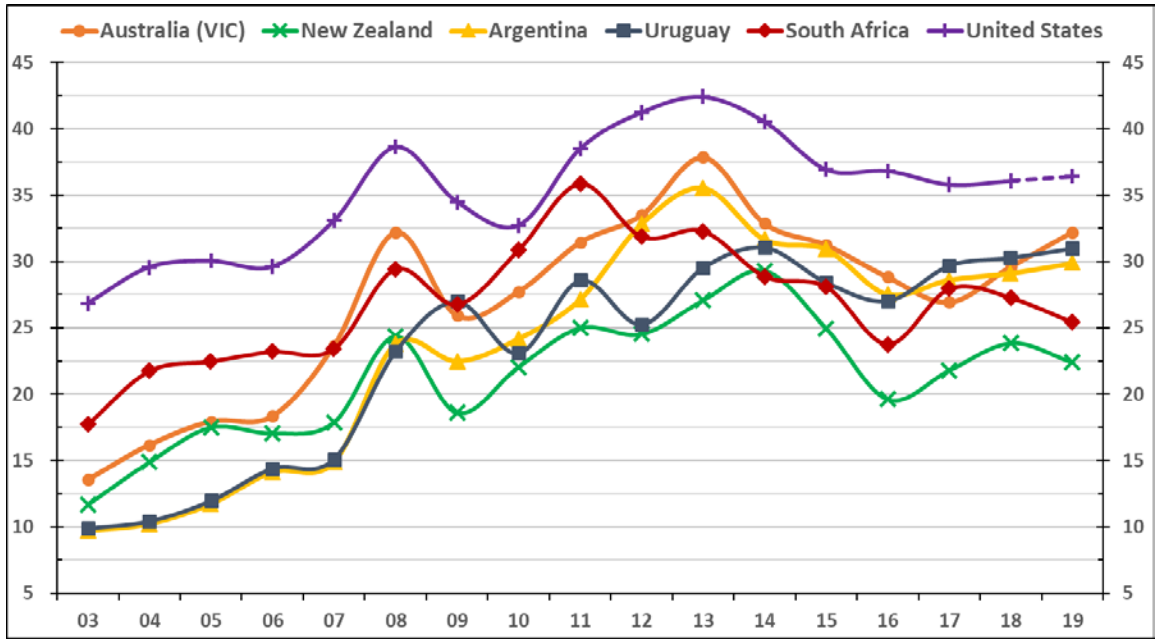
Growth in solids corrected milk from base of 1,0 in 2002/03



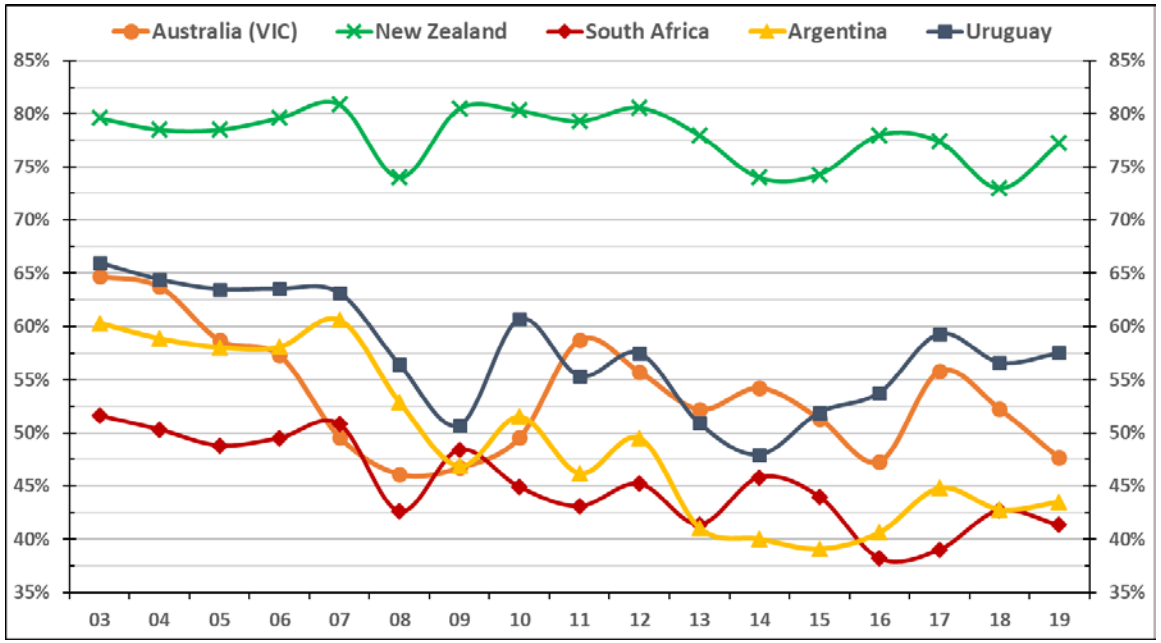
Milk price in USD cents/litre and ECM (4,0% fat, 3,3% protein)



Cost of production in USD cents/litre and ECM



Pasture as percentage of cows' diet



Session 2 – Presentation outline

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"Which are the critical dairy business performance characteristics that will provide profitability and sustainability for the next 5-10 years, and which production systems will underpin the most secure future."

This presentation covers the following areas:

- ❑ **Reviewing the statistical analysis for a wide group of farm performance ratios that impact on dairy profitability in Australia and South Africa (including actual South African data)**
- ❑ **Proposing a group of questions about these ratios including why there might be differences between the Australian and South African data, and how the impact might change year-on-year**
- ❑ **Developing conclusions to questions with support from the available data and confirm key dairy business characteristics for sustainable profits over the next 10 years**

SHORT SUMMARY

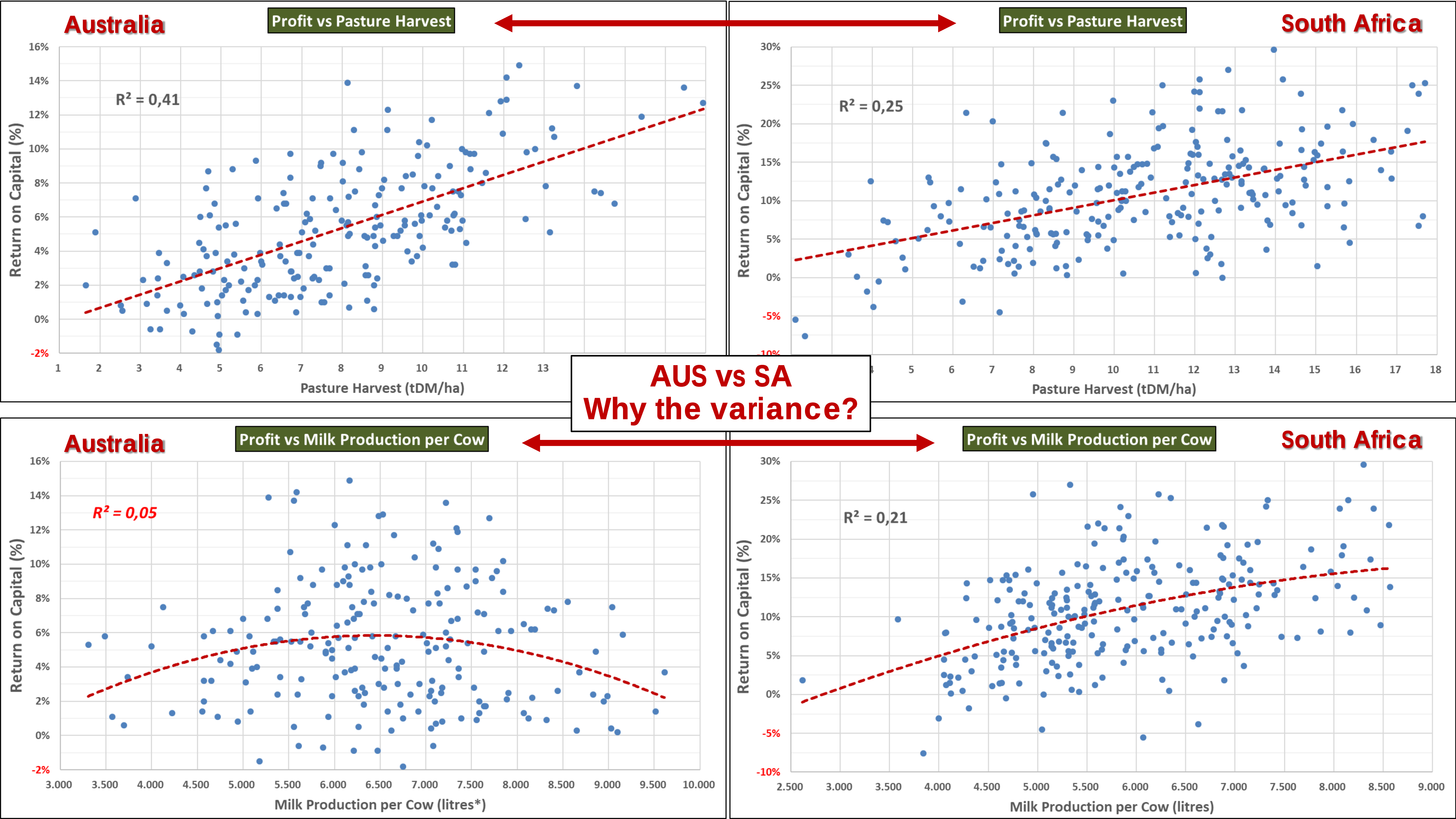
This presentation is based on the full statistical analysis of two substantial datasets; 1) 207 Australian dairy farms from a unique unbiased dataset of a single year; and 2) 244 South African dairy farm datasets across 4 years from 2014/15 to 2017/18.

Approximately 140 relationships were statistically reviewed to determine what underpins profitability in these countries, as well as where there may be differences between the countries. The presentation will also endeavour to explain why there may be differences in key relationships and how this might be interpreted for farm management.

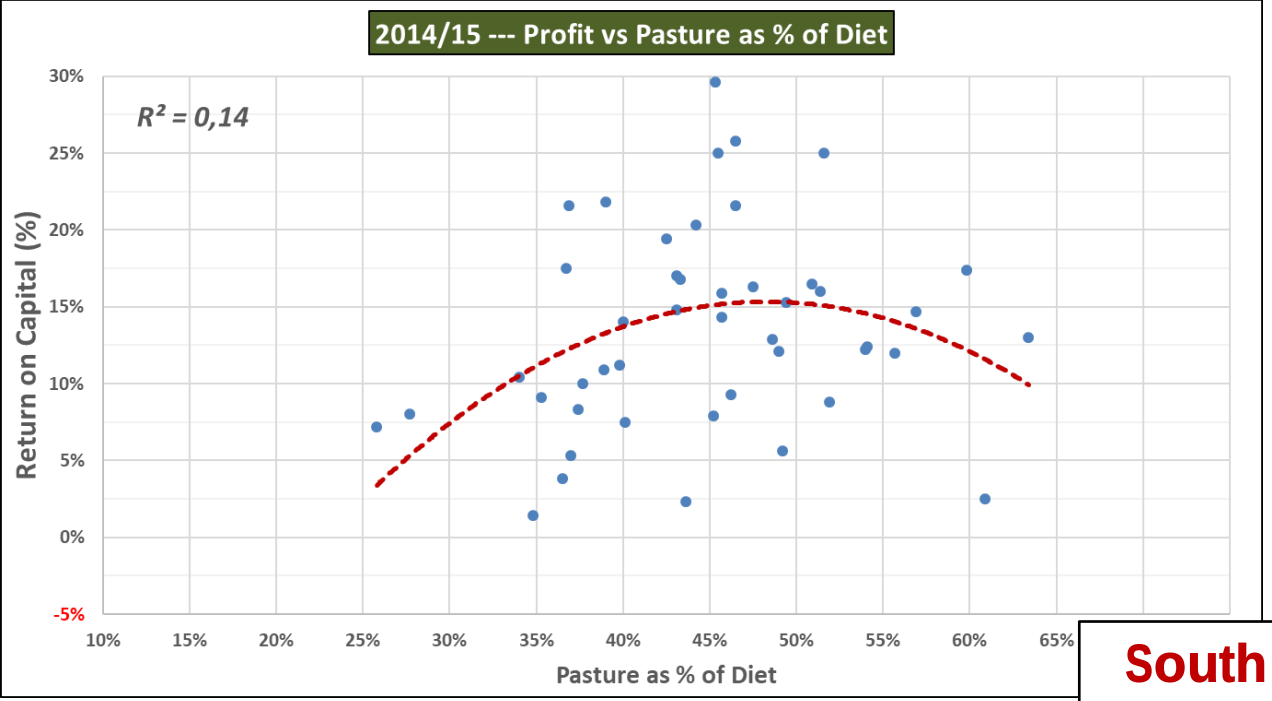
One outcome from the analysis is a list of key ratios that farmers should be monitoring to maximise profitability, along with confirming which commonly used ratios farmers should cease to use given they have no causal correlation with profitability.

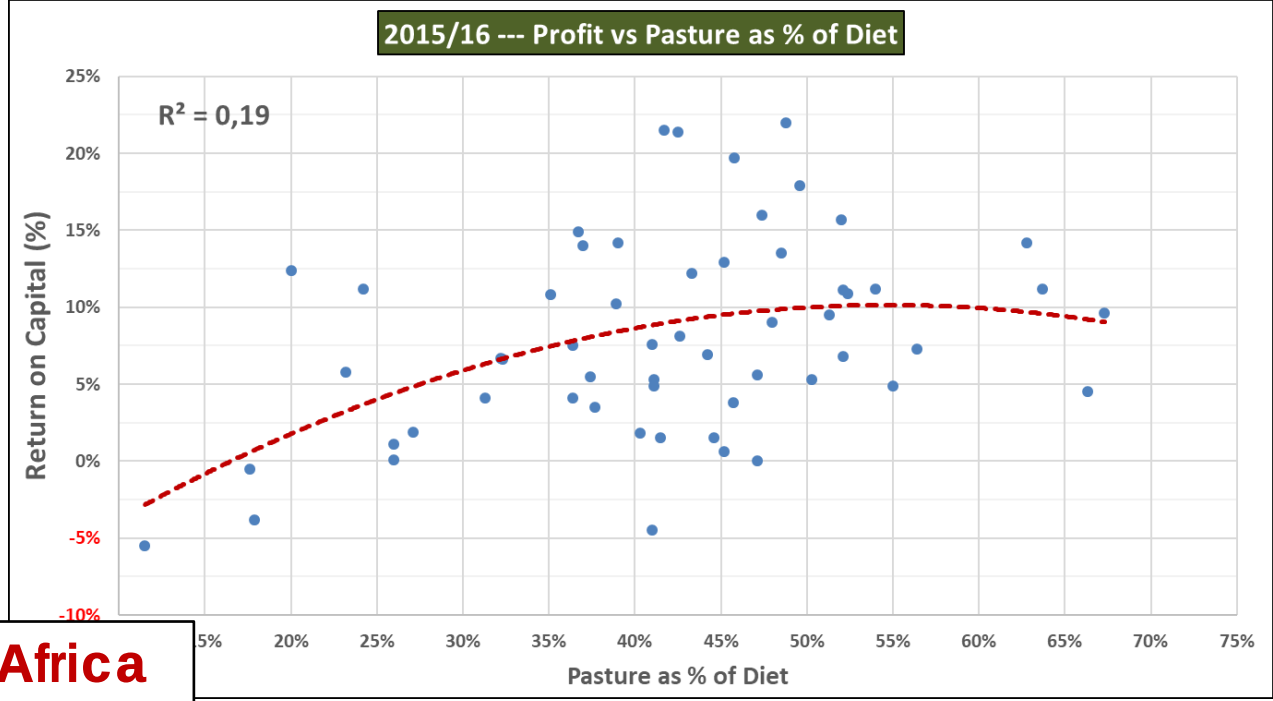
The presentation also analyses how and why some of the high level ratios have an impact on profitability and business performance. This includes ratios such as pasture harvest, milk production per cow and pasture as a percentage of the total diet.

A large number of financial and physical ratios are presented including farm size, milk price, milk production per hectare, stocking rate, livestock revenue, concentrate and forage price, supplement cost per litre, pasture cost per tDM, labour cost and efficiency, grams concentrate per litre, income over feed costs, milk production per cow as % of liveweight, and many more.

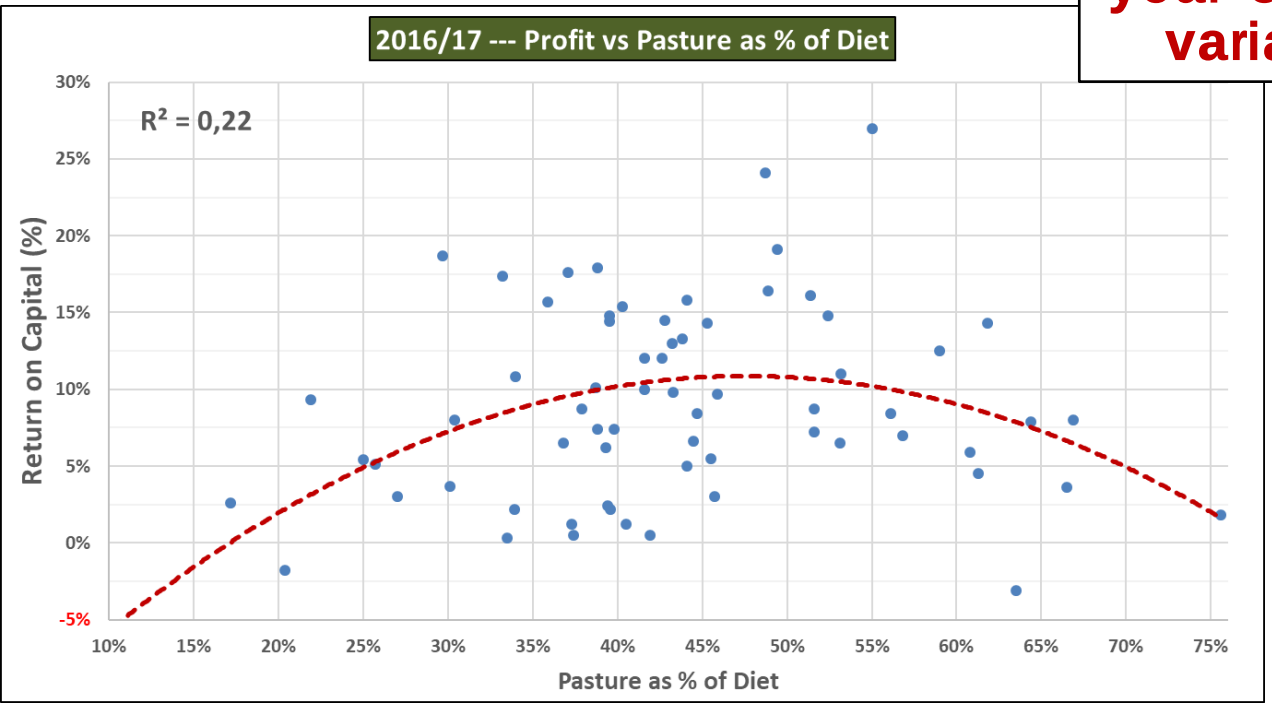


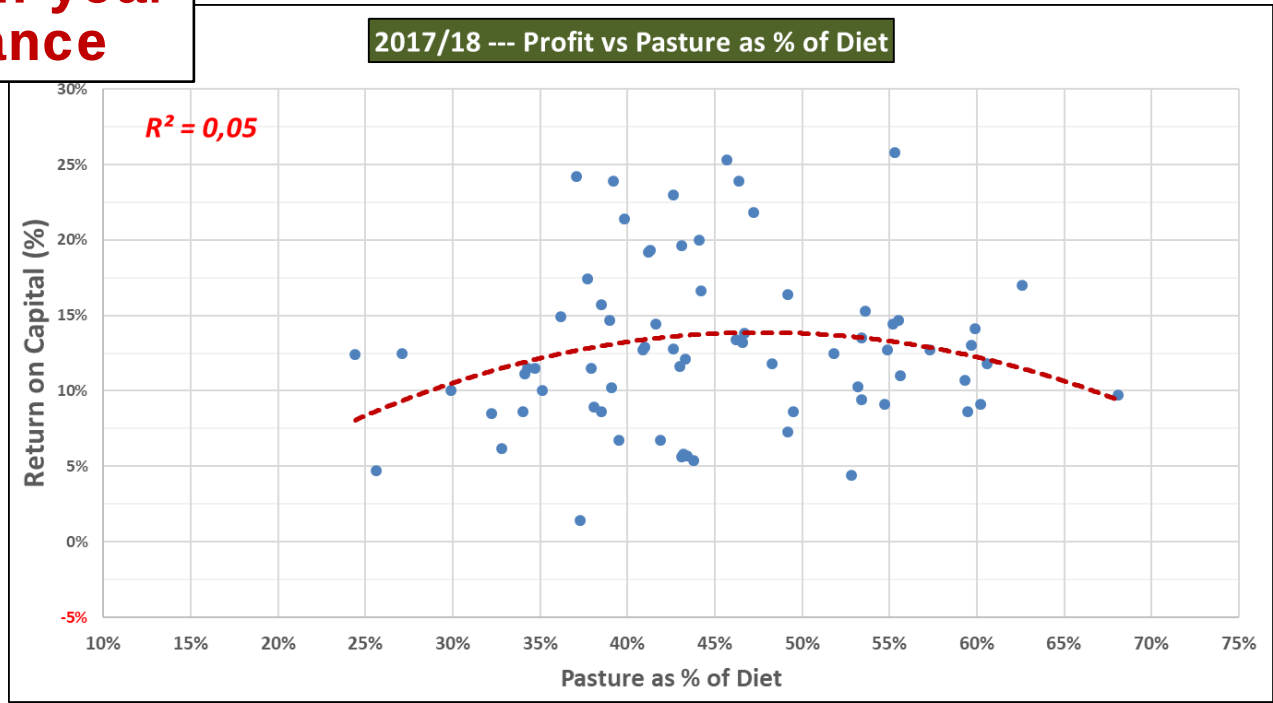
Australia
Profit vs Pasture Harvest
South Africa
Profit vs Pasture Harvest
R² = 0,41
R² = 0,25
Return on Capital (%)
Pasture Harvest (tDM/ha)
AUS vs SA
Why the variance?
Australia
Profit vs Milk Production per Cow
South Africa
Profit vs Milk Production per Cow
R² = 0,05
R² = 0,21
Milk Production per Cow (litres*)
Milk Production per Cow (litres)





South Africa year-on-year variance





Session 3 – Presentation outline

"What might be the impact on South African farmers profitability from changing their production system to include a higher percentage of pasture in the diet."

This presentation covers the following areas:

- ❑ **Developing a model that represents an average pasture-based South African dairy farm**
- ❑ **Reviewing the key assumptions that change as pasture as a percentage of the diet changes**
- ❑ **Reviewing the results of progressively increasing pasture as a percentage of the diet from 40%-45% up to 55%-60%**
- ❑ **Developing conclusions as to the impact on profitability, cost of production and international competitiveness of the South African dairy industry**

SHORT SUMMARY

This presentation outlines the basis for developing a model that represents an average South African pasture-based dairy farm utilising Red Sky benchmark data.

Statistical analysis of two substantial Red Sky datasets, one Australian and the other South African, was used to determine how a group of key ratios change as pasture as a percentage of the diet changes. These ratios include pasture harvest per hectare and the following per cow ratios; milk production, animal health, breeding, dairy shed expenses, electricity (excl irrigation), support area expenses, repairs and maintenance, vehicle expenses, labour/staff costs and depreciation.

The base model representing an average South African dairy farm has then been progressively developed in four equal increases of 3%-4% of pasture as a percentage of the total diet, with the impact of these changes outlined on all key ratios. A sensitivity analysis has also been completed in relation to milk price, concentrate price and pasture harvest.

The presentation reviews the impact on profitability and cost of production as pasture increases as a percentage of the diet, and reviews to what degree this could change the position of the South African dairy industry compared to some of the major exporting countries.

As with all presentations, there will be significant time allocated to questions and discussion.

Short bio – David Beca

David started his career in the beef and sheep industry, moving from general farm work to management, and then onto farm ownership with his wife Carlien, and equity partnerships with investors. He then moved into the dairy industry by converting some of the beef land into dairy farms, which subsequently led to him becoming a director of a cooperative dairy company. After this he became a principal in an agricultural consultancy business start-up that developed operations throughout New Zealand, Australia and South Africa. Over this time David developed Red Sky, an agricultural business analysis and benchmarking software application, that had wide use across these three countries.

Over the last 9 years he has held leadership positions in large corporate dairy, beef and cropping businesses with operations based in Australia, New Zealand, Uruguay, Chile, Romania, Poland and Russia. This included 3 years living in Uruguay as CEO of publicly listed NZ Farming Systems Uruguay (now Olam Uruguay), and 2 years in Tasmania as CEO of Australia's largest dairy farming business.

David has specialised in the areas of agribusiness management and production systems, including identifying and reporting on the primary drivers of productivity and profitability. He has co-authored a number of scientific and economic papers in Australia and New Zealand, with these largely based on pasture production, farm production systems, and farm business profitability, as well as completing a range of significant projects and benchmarking studies in relation to dairy, beef and sheep production.

Red Sky www.redskyagri.com

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