



## January Digest

Traditionally I've used January's article for review/soul searching. 2009 provides an abundance of material for rumination. Where have we been, and where are we going? The most "in-your-face" issue to arise from 2009 is VOLATILITY; mostly in milk price, but to a lesser affect financially, grain and fertilizer. An exceedingly new bench mark has been set, and probably should have arisen prior to now, as we've had nine years of farming in a deregulated market. Welcome to the new "norm".

As I read the opinions of overseas dairy commentators, there is a scary resonance in their writings. Unanimously, they predict not just volatility, but violent volatility as the economic environment in which we must produce milk profitably in the future. The well bandied phrase, "Risk Management", has taken on a whole new meaning; something the dairy industry, with monthly payment system, has not developed well.

This may appear a fairly dumb question, but, "What will we do when milk price goes up?" The variations across the industry will be massive, but without doubt, our responses to this question will determine how well we fare the next milk price dump. As with most things in life, smart money management will be a major.

Immediate issues will press themselves upon us: re-establishing credibility with monthly account suppliers, overdrafts etc, but a longer term plan needs to be in place to establish liquidity as a shock absorber in future downturns. The use of Farm Deposits is common in cropping enterprises, but grossly underutilized by the dairy industry. Although they are usually fixed term deposits, they provide excellent security to short term borrowing. How we finance our businesses is emerging as a bigger issue than the actual finance itself. Although it is not an area I dare enter, I'm aware the gate is wide. Seek very sound and professional advice.

Another area is maintenance. Although we have claimed depreciation on assets, very little in recent years, of this non-cash expense has been re-invested to sustain productivity of infrastructure and machinery.

Some recent data released in the USA by a farm credit organisation shows some dramatic variations in not just cow earnings over the last decade, but alarming differences between farms in profit performance. Some farms make profit and some lose money irrespective of milk price. The data highlighted that only 46% of profit could be explained by operating costs. This means there are significant factors affecting profit aside from keeping costs low.

Obviously management is a major player in profit, and my observations in Australian dairy farming would verify this as a similar scenario here too.

We need to review the year: parameters such as lactation litre total, tonnes of dry matter harvested per hectare are the two most important numbers in production profit, and of course the subject I touched on last month 'pregnancy hard count'. There is a direct correlation between all three, and a synergy producing rapidly escalating profit when there is a symphony of excellence in all three.

We need to separate the land and cows. I've often suggested we should run two separate businesses: a cropping enterprise (pasture and fodder crops) which sells feed to the conversion factory – the cows. It would certainly change some dairy farming practices. I've tried to head in this direction in previous articles by costing feed in terms of energy in the cow's mouth. Under our current milk price, which has unveiled some dramatic feed conversion inefficiencies, there are now commonly fed feeds on farms that we lose money on (hay for one), at 22c/lt.

We are very 'hardwired' to react to price per tonne rather than any given feed's potential to be converted to milk dollars. Perhaps the greatest of these kneejerk responses has been in fertilizer investment. Silage harvest for 2009 has revealed extremes in bales/tonnes DM harvested/ha like I've not seen before. The lack of maintaining fertilizer application was not so apparent until spring. The range is from cows eating pasture faster than it could grow and no silage was harvested, to high performing dairy businesses with record silage harvests.

Many farms are going to need considerable recovery time when milk price rises. We must plan now for the next crunch as part of that recovery plan. Increasing productivity is the key – litres/cow and dry matter/ha (not forsaking the above financial planning). Neither involves 'rocket science'; just planning to make it happen. Although genes for higher milk production have been identified with causing lower fertility, I remain resolutely convinced this is secondary to overall nutrition management both before and after calving. A subject I'll address over the next three articles, and often a legacy of the same, a potentially productive calf in the fourth.

Another subject to muse over whilst lying on the beach this summer, is the future of our industry. There is a grave shortage of young potential dairy farmers to start with, due, I think to the negative perceptions inherited from their reasonably comfortable parents, but there has also been some exodus and a culture of gloom as to their aspirations of farm ownership, or at least, farm business ownership, amongst young dairy people. With current farm ownership being largely in the hands of people approaching retirement age, the doubtful continuity of investment ownership, someone is going to have to be able financially to take over our farms.

Now is the time to find sound young enthusiasts, offer a definite plan to enable transfer of at least the business (cows/machinery) over a specified period, similar to succession planning without the 'gifting'. Imagination and mutual respect for each other's needs in this can facilitate a most rewarding experience, both financially and emotionally, for all concerned.