

# Health of the Tasmanian Dairy Industry

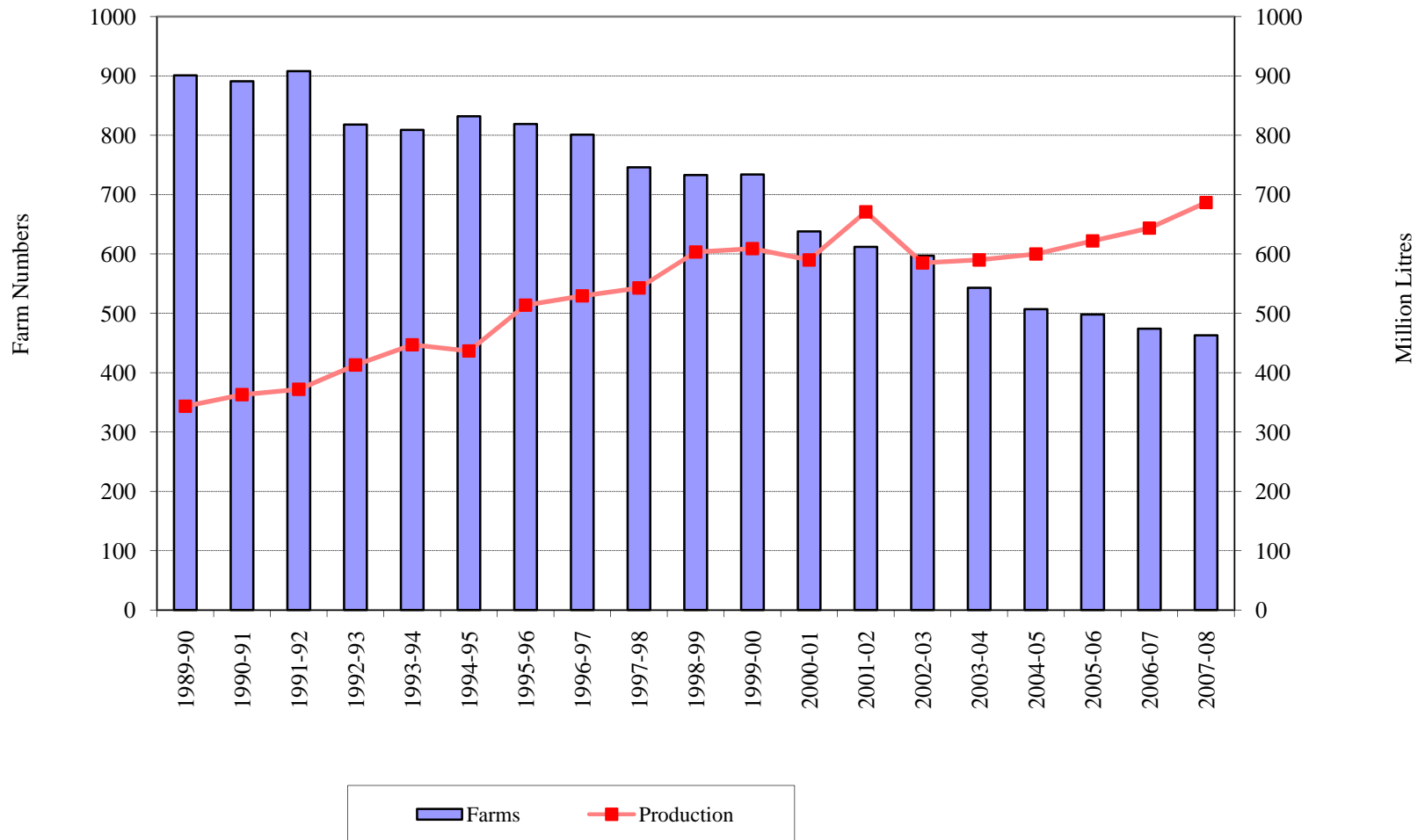
A farm business  
perspective



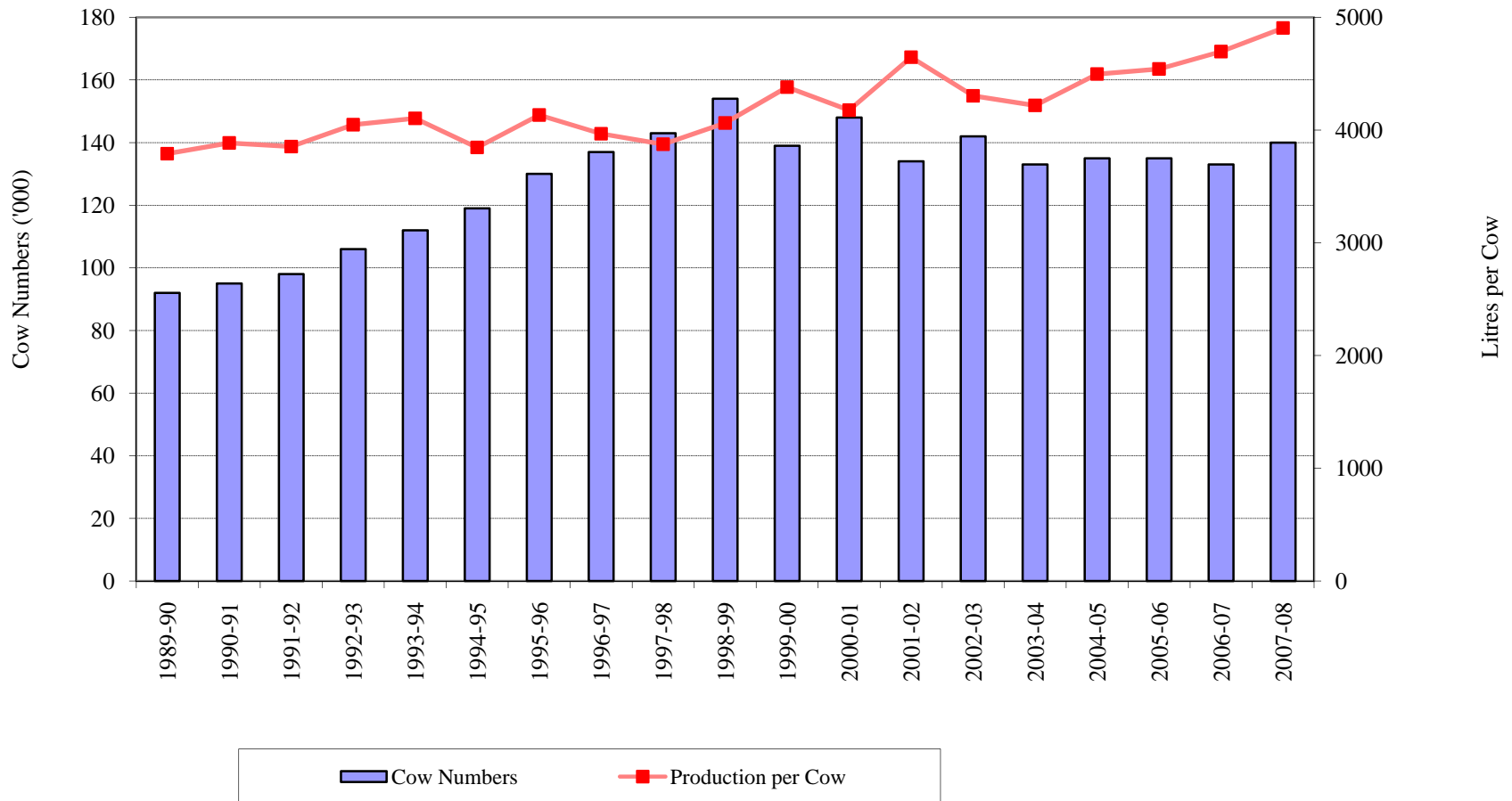
# There are many analogies

- Swine flu might be best
  - We'd never heard of it
    - Midseason step-down
  - It came without warning
    - GFC
  - Immunity is best
  - Prevention next
  - Humanity will survive
    - The industry
  - Individuals will perish
    - The real issue

# Farm Numbers & Production



# Cow Numbers and Production per Cow

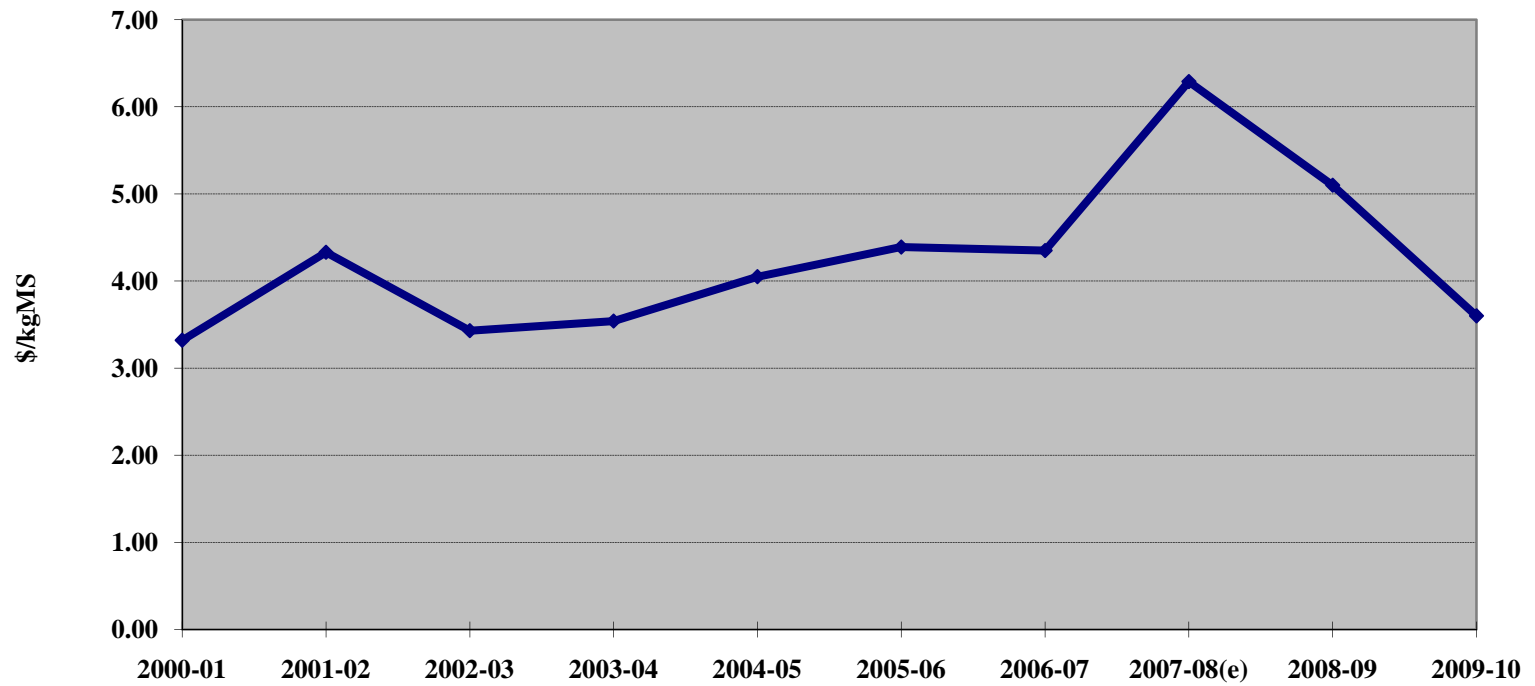


# The industry will survive

- The industry has a runny nose
  - Its been through it before
  - There are enough resilient individuals
  - Economic pressure will prevail
- Individuals will suffer
  - Where the real problem lies
  - Can we survive within these parameters

*“Its cold comfort to you that the industry will survive if you are part of the fallout”*

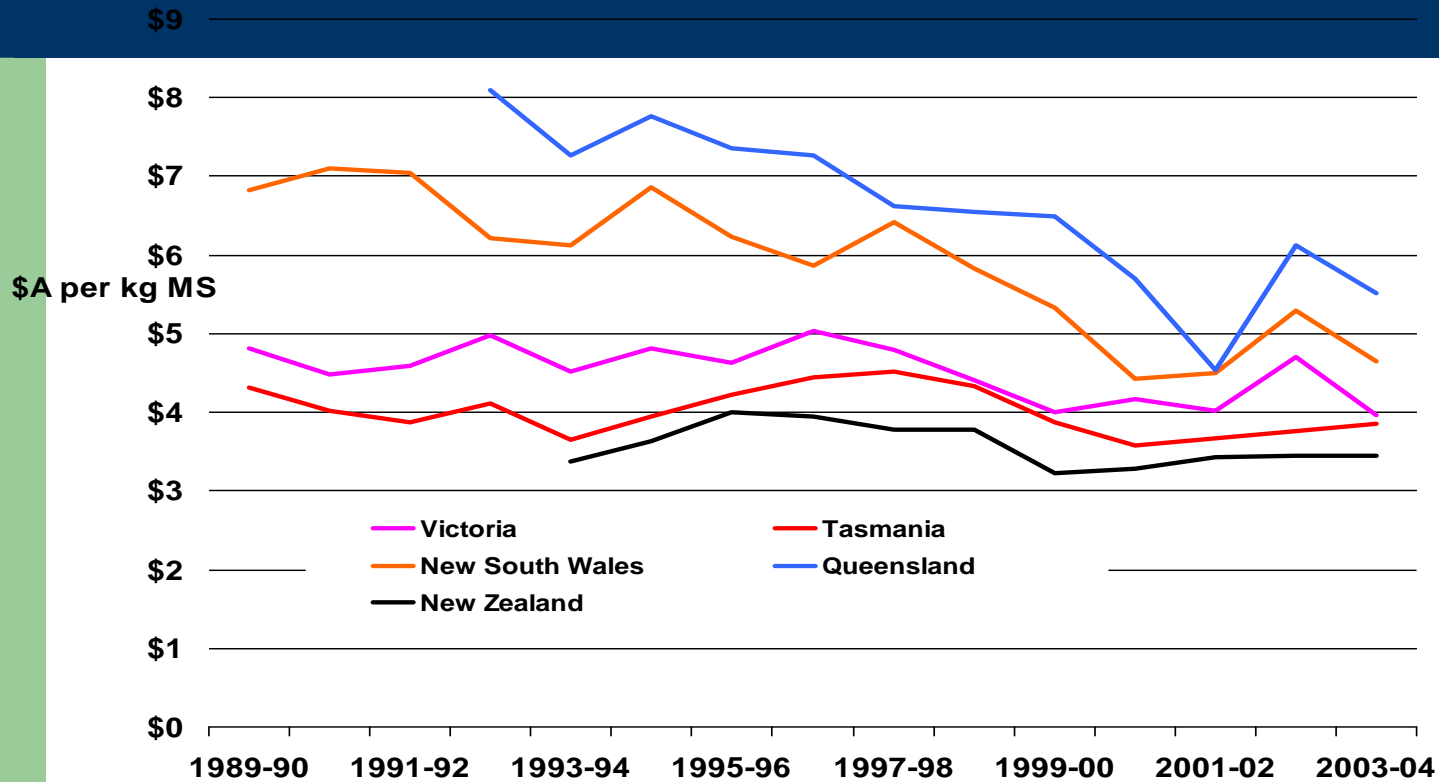
# Milk Price - \$/kgMS



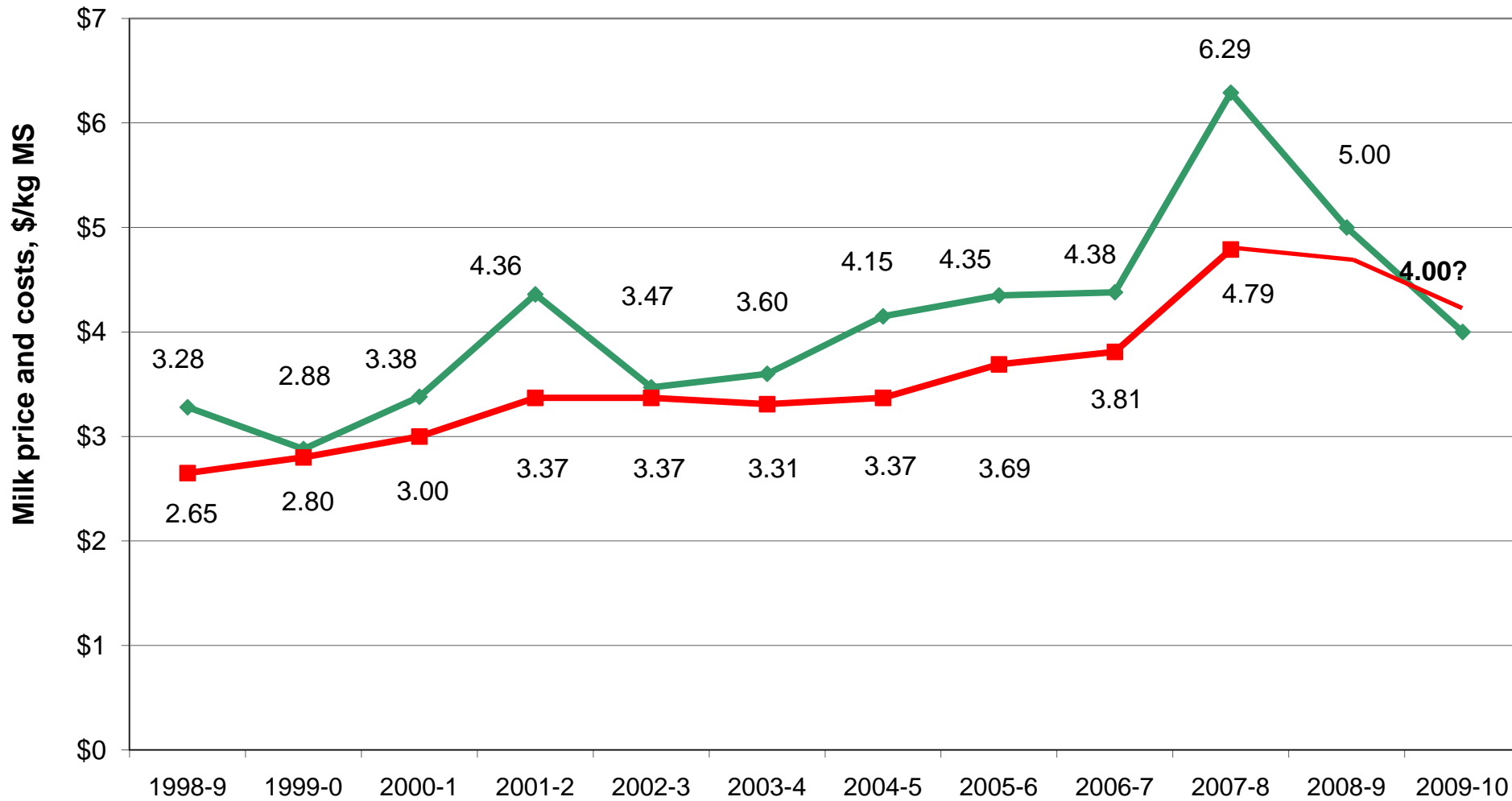
Dairy Australia, Australian Dairy Industry in Focus 2006

# We were a very low cost producer

Source: ABARE



### Milk prices and operating costs, \$/kg milksolids



# Profitability

(ABARE Survey - Return on Capital - Before Capital Appreciation)

Year	Tas	Australia
00-01	4.4%	3.1%
01-02	7.2%	5.7%
02-03	2.2%	-1.7%
03-04	1.1%	1.0%
04-05	1.4%	3.1%
05-06	2.3%	2.6%
06-07	1.4%	-1.2%
07-08	5.5%	4.0%
08-09	2.5%	1.2%
<b>Average</b>	<b>3.1%</b>	<b>2.0%</b>

# Trends of the best

## Comparison of the Top 10% and the Average participants DBOY (2007-08)

	<b>Top 10%</b>	<b>Average</b>
Herd size	458	466
Production/cow (kg MS)	439	373
Production/ha (Kg MS)	1,449	1,073
Purchased feed (t/cow)	1.4	0.92
Nitrogen (kg/ha)	320	212
Pasture utilisation (t/ha)	11.3	9.3
Stocking rate (DCE/ha)	3.6	2.9
Irrigated area (%)	47	25
Cows/labour unit	101	105
Return on capital (%)	16	8

# To try to be the best.....

- We've done what the best do
  - more cows
  - more grain
  - More purchased fodder
  - more nitrogen
  - bigger farms
  - more irrigation
  - milking platforms
- And we've had the cash to pursue these

# Unfortunately.....

- These are associative not causal
  - That is, these are *traits of* the better farmers
  - They are not the *cause of* their success

# Done a good job in this area

## Trends in Tasmanian dairy farming systems

	2003-04	2007-08
Herd size	294	466
Production/cow (kg MS)	368	373
Production/ha (Kg MS)	630	1,073
Purchased feed (t/cow)	0.57	0.92
Nitrogen (kg/ha)	115	212
Pasture utilisation (t/ha)	8.2	9.3
Stocking rate (DCE/ha)	2.0	2.9
Irrigated area (%)	28	25
Cows/labour unit	81	105
Return on capital (%)	4.8 (4.1)	8 (4.2)

# Other significant changes

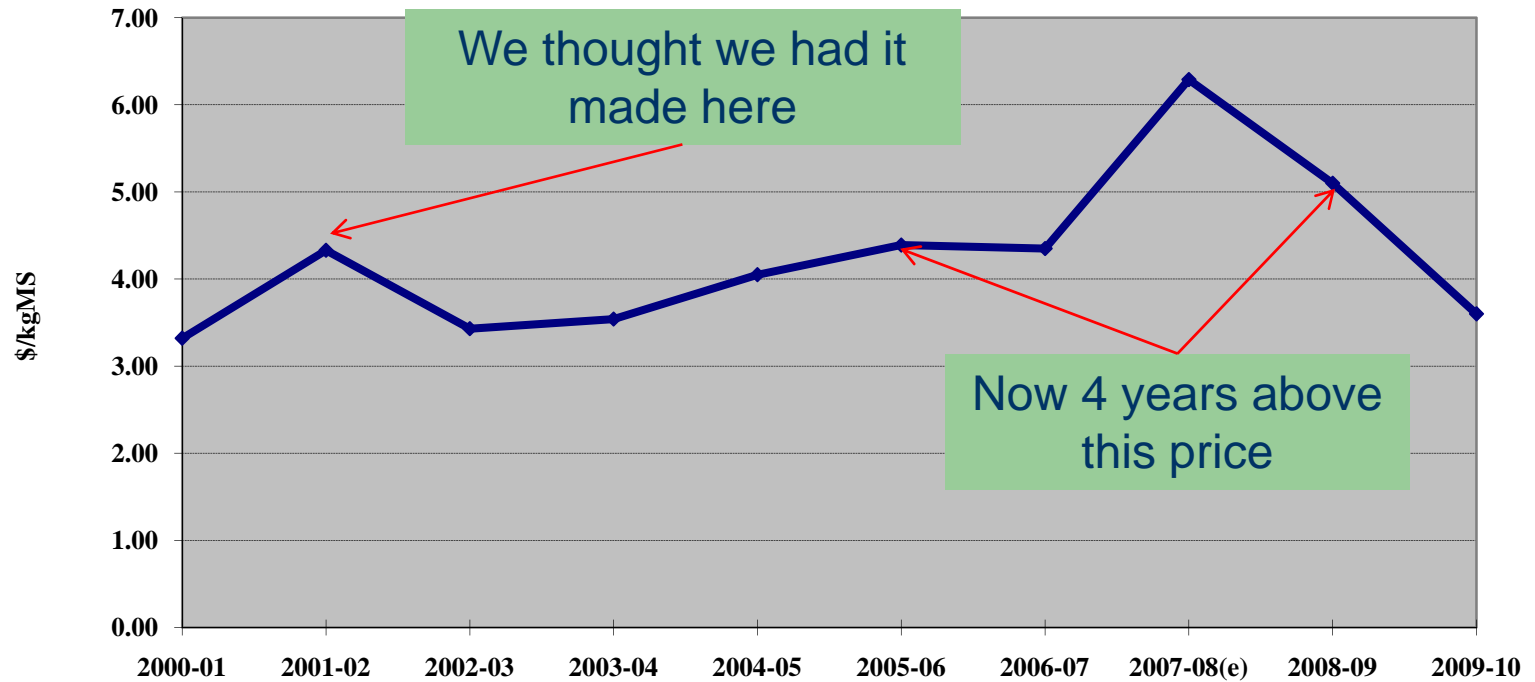
	2004	2008
Labour (paid)/ha	\$800	\$1,100
Liabilities (debt)	\$385,000	\$1,559,236
Fixed interest rates		9-10%

# With a higher price

- We bid up our cost structure
  - Compete for scarce resources
- We farm the way we want to
  - Rather than the way we should
- We are not as frugal
  - Substitute paid labour for owner
- We chase the price through production
- We catch up on expenditure
- Expand



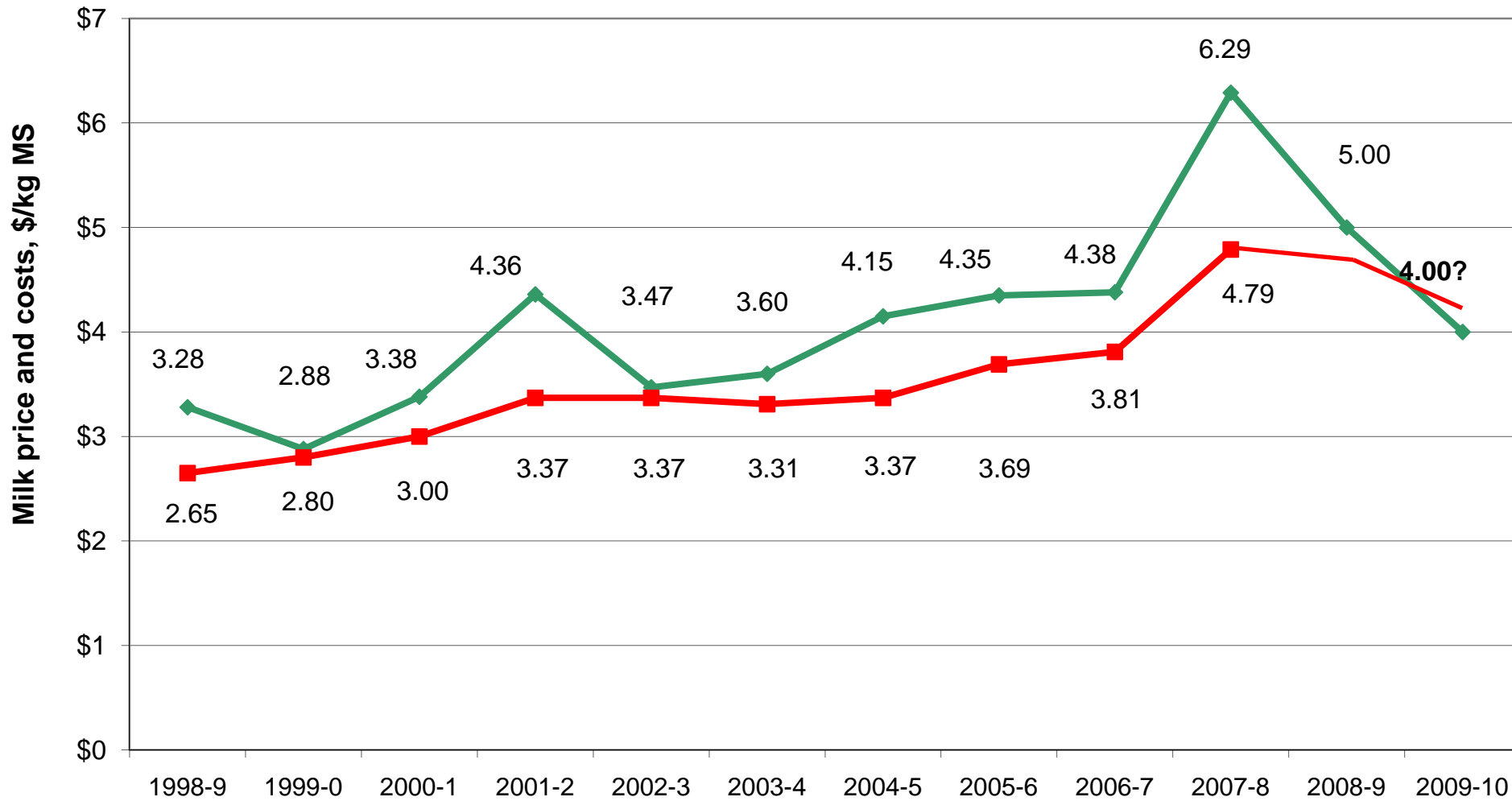
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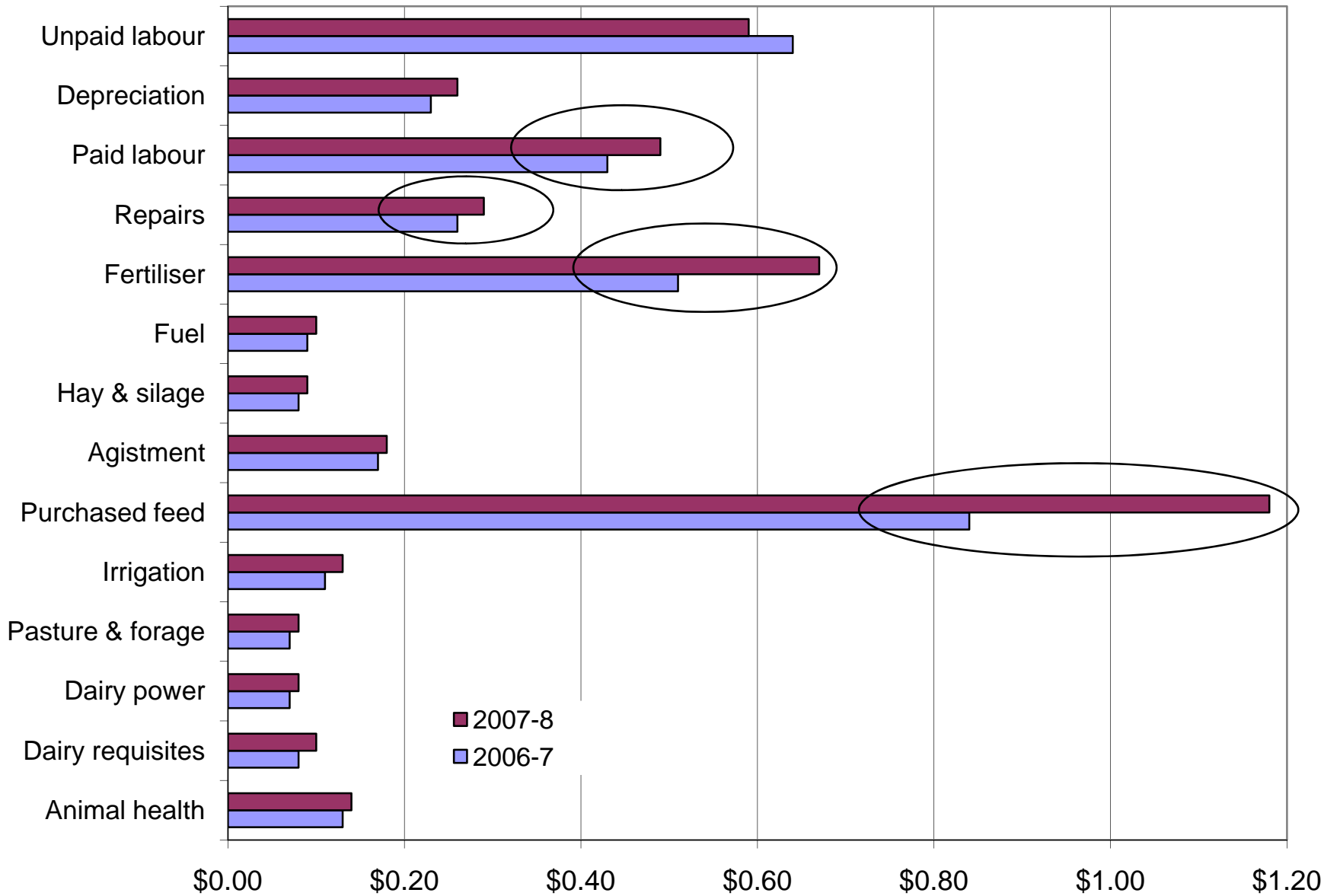
# The “new plane”

- Higher costs
- Higher income
- FOREVER

Milk prices and operating costs, \$/kg milksolids



**Costs, \$/kg milksolids, 2006-7 & 2007-8**



# Farm Affordability Index

<b>Year</b>	<b>Land Price</b>	<b>Interest Rate</b>	<b>Loan Payment</b>	<b>Milk Price</b>	<b>Farm Affordability</b>
	(\$/ha)	(%)	(\$/ha)	(\$/KgMS)	(KgMS)
89-90	3,600	17.8%	\$699	2.77	255
94-95	5,100	10.5%	\$690	2.60	270
99-00	5,400	8.4%	\$646	2.62	250
04-05	8,500	8.6%	\$1,027	4.14	250
06-07	10,500	9.4%	\$1,334	4.10	330
07-08	15,500	8.0%	\$1,811	6.40	285
08-09	17,500	7.5%	\$1,983	5.10	390
09-10?	17,500	7.0%	\$1,921	4.00	485

# Our immunity is low

- We started to get sick in February 09
  - It hit without warning
  - We thought it was temporary
- If we didn't react then to build immunity?
  - We are in real danger

# Low immunity businesses

- High debt levels (>40% debt)
  - Growth
- High proportion paid labour
- High purchased feed costs
- Development farms
  - Low fertility
- Low levels management capability
  - Low pasture utilisation

# Essentially

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***Any business that produced any milk  
at a loss in the last 4 years ( $MC > MR$ )***

# Not a case of right and wrong

- Just a case of those businesses now being more exposed to lower prices
  - How quickly they can retreat from this position

## With a lower price

- What do we pull out?
- How much do we pull out?
- When do we pull it out?

***Can only be worked out on a farm by farm basis!***

# What do we produce for (\$)

- Cost of production
  - Includes variable and overhead costs
  - Includes depreciation
- Break-even price
  - Includes the above plus interest

# CoP and break even price

	CoP (/kgMS)	Break even (/kgMS)
Average	\$4.76	\$5.57
Best	\$2.65	\$2.96
Worst	\$6.00	\$7.50

# That's not the cash position

- Unpaid labour
- Depreciation

***We'll need all of these this season***

# CoP and break even price

	CoP (/kgMS)	Break even (/kgMS)
Average	\$4.76	\$5.57
Depreciation	\$0.20	\$0.20
Unpaid labour	\$0.25	\$0.25
<b>Cash position</b>	<b>\$4.31</b>	<b>\$5.12</b>

# With 6 months practice

- Since the price drop
  - Refocussed on cash
  - Decreasing costs
  - Some easing in input costs

# CoP and break even price

	CoP	Break even
Average	\$4.20	\$4.97
Best	\$2.45	\$2.75
Worst	\$5.80	\$7.28

# Next season

- We now know the price
- Some costs have eased

# Sustainable position

- 12 tonnes DM eaten
  - 50% irrigated
- 30% debt
- All paid labour
- Maintenance fertiliser
- 1.2 tonnes grain

	CoP	Break even
Competent	\$3.16	\$3.50

# Can't diagnose health on average

- What's your CoP and BEP?
  - A cashflow has never been more important
- What's your plan?

# Low cost business: Prevention

- Don't do anything silly
  - Don't add costs
- Don't assume there aren't costs to strip
  - Or at least delay

# Higher cost business: Treatment

- Adjust cost centres based on profit
  - $MC=MR$
- Then cash
  - Remove or delay expenditure

# Poor production and growth strategy business: Radical surgery

- Cut off excess limbs
  - Apply a pressure bandage (bank?)
- Hope you don't bleed to death
- Consider getting out while you can

# Summary

- The industry has gotten used to high prices
- We have chased these prices
  - Growth
  - Increased cost structure
- This has exposed businesses to milk price fluctuations
- There will be an input cost lag
  - Delay costs

# Summary (Continued)

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- Volatility will increase
  - Farm owners must manage this
- Some businesses will need to restructure
- The industry will survive and can take care of itself
- Individual businesses must take care of themselves