FARMAX® growing confidence, growing business news

The way forward to 2010

Article No. 8

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Every day I feel more comfortable the sheep and beef industry is on the right track. We are going to learn a fair bit in the coming year and I think it will surprise us just how much improvement can come out of adversity. While input prices have soared our commodity prices have also improved even against a very high NZ dollar. From here a slight easing in the dollar, further gains to commodity prices and perhaps the megamerger will deliver the $100 lamb. The challenge will be ours to produce it.

Last year we were in the midst of the Hawkes Bay drought. We featured an example of how farmers could use our feed budget, Farmax Lite to plan forward. Many of course didn't plan and they carried stock into a poor spring and had to bale out before it started raining. The drought spread to new areas and many other farmers were faced with the same choice.

The discussion I heard creep in was 'what is the use; Plan A and Plan B have both gone out the window?' The answer of course was it was time for Plans C and D - you will always do better with a plan. For those who planned well in the Hawkes Bay drought they may have been down $80,000. For those who didn't plan and got further into trouble it was probably $150,000 – and given another dry year it will be the farm. The margins for error are now tight and the answer to the question above is simple - a plan may assist you to retain enough equity in your business to be farming in 2010 when the sun will start shining on our industry again.

Farmax produces planning tools and these are designed to make decisions about feeding livestock easy. This season feeding was the challenge, product prices were not – prices achieved or exceeded what was anticipated. Far more could be achieved with the feed budget than the financial budget.

In this newsletter we feature the results of the 2006/07 Annual Report. I think it sums up the decisions that turn an average farm into a great farm. We also invite you to get on board and attend a Farmax Lite training course – become an expert feed planner and make a real difference to your business.

The Farmax Annual Report

How useful is benchmarking really? Every agribusiness professional seems to be intimate with an astounding bunch called the top 20%. But to suggest the average can move into this exclusive club under their tutelage seems to lack credibility. It is tempting to conclude benchmarking has no real value at all. To do so however is to isolate you from insights into the industry - there is never a good argument for this. Benchmarking is credible where:

- The dataset is large enough (more than 35)
- Farm systems are similar
- The information has been validated by someone who visits the property
- The properties are largely the same each year

If you have always considered benchmarking against yourself as the only valid comparison then you must contend with different seasonal and market conditions; a drought this year, a flood the year before, $45 lambs this year, $80 lambs the year before. A better approach is how you compare against a good standard group average and the top 20% within the same year.

Farmax benchmarking is a unique journey that starts with Farmax models which are used to track performance and calculate productivity as the season progresses – all the farms will have been visited by a consultant at least once but more likely two to three times within the year. They are then cross checked by Farmax and inaccurate data excluded from any comparison.

In this article we highlight North Island hill country. There are both expected and some surprising results, particularly in comparing average with the top. In our database the top farms have been ranked on their farm gross margin per kg of potential pasture production. Therefore the performances are based on what the top earning farms are doing (rather than the top weaning percentage of survival rate). This is important, for example the farm with the top fawning % may not necessarily be earning the most revenue – in fact our top 20% happen to have no deer at all.

Interestingly the 2006/07 data shows top farms in the North Island do not have a greater potential to produce pasture, that is they don't farm better land - but they do make $232/ha more. On an average farm of 500ha this equates to $116,000.

	Group Average	Top 20%
Potential Pasture Production (tDM/ha)	7.07	6.85
Nitrogen Boost (tDM/ha)	0.29	0.45
Pasture loss percent of total production	19.8	18.1
Net Pasture Production (tDM/ha)	5.94	6.02
Per kg of Potential Pasture Production (c/kg)	4.8	8.9
Per kg of Dry Matter Eaten (c/kg DM Eaten)	5.6	9.8
Gross Margin Per hectare ($/ha)	378	610

The top 20% have a slightly higher stocking rate (and greater liveweight carried through winter) and produce slightly more product per hectare. They also loose slightly less pasture to decay (this difference is probably greater in years without drought). They have either:

- More efficient breeding policies that produce more from less pasture eaten, or
- They make more revenue per kg of product sold from finishing enterprises

And this makes up much of the $116,000 difference!

Looking at the individual farms involved in the top 20% very few have breeding cows. Their stock policies are quite complex and most enterprises are earning good revenue per kg of dry matter eaten. They have either high performing bull finishing systems, winter finished steers that receive a premium, dairy grazers, carry over cows, stud stock or have been doing some interesting trading manoeuvres (that worked). 'Keeping it simple' is not part of the mantra of the top 20%. Their policies reflect innovation, relationship building and must therefore involve effective communication.

[1] Amount of extra pasture grown because of nitrogen applications

[2] This is the percentage of potential pasture growth lost due to sub-optimal pasture height and pasture lost through decay

[3] Net Pasture production is Potential plus N boost less losses

[4] Gross farm income (sales less purchases) less animal health, shearing, freight and interest on livestock.

	Group Ave.	*Top 20%*
Standardised Stocking Rate (SU/ha)[5]	11.1	11.5
Live weight wintered (kg/ha)[6]	700	780
Net product produced (kg/ha)	213	258
Feed conversion efficiency[7]	29.9	25.4
Conversion efficiency - sheep	29.5	28.0
Conversion efficiency - beef	33.7	24.9
Gross Sheep Income per kg of product (c/kg)	2.88	3.25
Gross Cattle Income per kg of product (c/kg)	2.96	3.69
Sheep: Cattle : Deer Ratio[8]	61:39:0	47:51:1

The gross margin earned per kg of dry matter eaten for sheep breeding is similar to 2005/06 (7.0 cents) as is the gross margin for lamb trading; 17.7 cents (17.6 cents in 2005/06). The top 20% has maintained a fantastic margin of 25.3 cents (versus 28.5 cents in 2005/06).

	GROSS MARGIN PER KGDM		GROSS MARGIN PER KG PRODUCT		KGDM/KG PRODUCT	
Enterprise	Group Ave.	Top 20%	Group Ave.	Top 20%	Group Ave.	Top 20%
Beef Breeding	6.2	8.6	2.23	2.70	36.0	31.3
Beef Finishing	8.4	17.2	1.80	4.08	21.5	23.8
Cattle Grazers	8.4	13.2	2.57	2.95	30.7	22.4
Sheep Breeding	7.1	10.3	2.12	2.70	29.7	26.2
Lamb Trading	17.7	25.3	3.73	5.61	21.1	22.2

Properties that have traded lambs may not have always made more revenue than breeding ewes. You can see from Figure 1 the rollercoaster ride that the lamb market has been on in the past two years. The average seasonal trend shows a steep drop-off from November to reach its lowest level in March. In the past two years this has dropped sharper and stayed lower for longer.

[5] Total stock demand divided by 550 kgDM/SU

[6] Live weight at the 1st of July based on effective area

[7] Dry matter intake divided by the total production of wool, carcass and velvet

[8] Calculated from the total annual intake of each species.

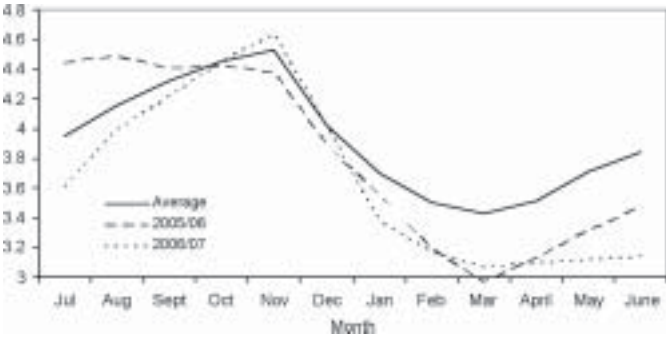

Figure 1. Average schedule price and the 2005/06 and 2006/07 years for 15kg lamb in North Island.

Those who traded lambs in early summer made a negative gross margin by buying at a high price and selling at a low schedule. Of course store operators made the same loss, whilst they didn't buy the lambs the purchase cost was locked in through the cost of their breeding flock. Buying late January and selling in autumn made a gross margin of 10 to 12 cents (per kgDM eaten) while late summer purchase and autumn/winter selling made 16 to 28 cents.

An interesting result is the lower efficiency of the top 20% of both beef and lamb finishing compared with the average – that is, they use more grass to produce the same amount of product. This is because they have taken on stock which they have grown at a slow rate while they wait for the increase in schedule (stock become less efficient as they approach maintenance). However, look at their revenue per kg of product – it is higher than the product sale price. This is because they have not just made the product price but they have also increased the value of the meat initially purchased.

Many will have stocked up (as our liveweight per hectare shows) with cheap lambs from the Hawkes Bay drought even though their covers were moderate banking on reliable winter/spring growth and a good response to Nitrogen. This emphasises how the top 20% did not stop thinking when market and climatic adversity started to bite. It is interesting that the better margin more than covered the cost of nitrogen boosted feed (12 to 14 cents in that year) and perhaps why our top farmers applied 55% more nitrogen.

What characterises the top farmers breeding ewe enterprises? As we should expect they have a higher breeding efficiency. That is they produce a high total lamb weight at weaning compared to their ewe weight. While their ewes were slightly heavier they are more fertile, and even though they would have had more multiple births as a result they weaned lambs at a slightly higher weight.

Scanning indexes over 2.8 really require a specific sheep breeding program. It seems slightly larger sheep are also required to wean a better multiple birth lamb. It is also heartening and logical to see that those who are achieving better hogget weaning percentages are also those who are in the top 20%.

Sheep		Group Ave.	Top 20%
Tupping Body Weight (kg)[9]		60.3	62.0
Average Birth Date[9]		08 Sep	08 Sep
Scanning %[9]		167	183
Scanning Index[9]		2.8	3.0
Losses - scanning to tailing (%)[9]		21	23
Tailing %[9]		133	142
Losses - tailing to weaning (%)[13]		1.4	0.6
Weaning %	Overall[10]	140	146
	Ewes tailing[11]	132	141
	Hogget tailing[12]	58	78
Survival - scanning to weaning (%)[9]		79	77
90 Day Weaning Weight[9]		27.3	28.7
Average Growth Rate to weaning (g/d)		251	266
Ewe Efficiency[13]		59	66

When it comes to breeding cows the top farmers tend to avoid them. However, the few that do have them achieve a better breeding efficiency though higher survival and weaning weight. Given the low number (2) I am reluctant to read much into this performance.

Cattle	Group Average	Top 20%
Cow weaning weight	499	510
Average Birth Date	04 Oct	17 Sep
Weaning % (of cows wintered)	86	92
200-day Wean Wt (kg)	222	238
Growth to Weaning (kg/d)	1.0	1.0
Cow Efficiency (%)	38	41

[9]A weighted average of ewes mobs only (hoggets not included)

[10]All lambs (including lambs from hoggets) weaned divided by ewes only

[11]Lambs from ewe mobs only divided by ewes only

[12]Lambs weaned from hogget mobs only divided by all ewe hoggets

[13]kg lamb weaned per kg ewe mated for ewe mobs only

Summary

What are some of the things you can take out of this? Farmax benchmarking provides a way for you to observe the performance of the industry for the same year you measured your own performance. We can only deduce what propels farmers into the top 20 % but I'll put my money on the following. They are not producing any more grass but they are being more innovative about how they use it. They do not have large enterprises generating modest revenues – every enterprise earns well or it becomes a challenge to phase it out. They have taken calculated risks with finishing stock and have breeding programmes that lock in sheep fertility and generally feed their sheep better year round.

Clip and post to:
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Farmax Lite comes of age

We have been flat out running Farmax Lite training workshops through New Zealand. It's been a great opportunity to meet farmers, find out what they need to understand feed budgeting and get their farms set up with a feed budget. My view – they've been incredibly successful with plenty of discussion, learning and transfer of ideas. Here are some of the comments we have received in our survey of workshop attendees:

'Farmax Lite is a great program, working on getting onto the full Farmax but for now I'm rapped with Farmax Lite!'

'An excellent tutor who fully understood the content of the course and put all info across in an easily understood manner'

'It's a good investment to move forward with some formalised information'

'Got the demo disk but learned a lot more by doing the workshop'

'This has inspired me to get back up into feed budgeting'

Register Now

If you would like to attend a Farmax Lite workshop it is not too late! Simply fill in this form and return in the postage paid envelope

We will organise workshops where ever we can organise five or more farms. If you are interested simply fill in the following and we will contact you to discuss the location options.

Name .....

Address .....

.....

.....

Phone.....e-mail.....

Workshops run from 9.00 am to 4.30 pm. They are designed for you to get your farm up and running with a feed budget before you leave!

They will include training material, lunch and refreshment breaks (you will need to bring your own computer).

Costs		
	Software	$295/annum
	Workshop	$245
	Total Cost	$540 (Software and training workshop)

FARMAX LITE