Strategies to optimise cashflow in 2016

Dairy farmers must continue to focus sharply on cost control this year

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Knowledge transfer

Current indications are that 2015 has been a reasonable year for dairy farmers. On average, dairy farmers responded to the removal of EU milk quotas by producing more milk. This helped reduce the impact of the downward trend in milk prices on overall farm profit.

However, 2016 looks like being another challenging year when it comes to milk price. Unless farmers continue to focus on cost control in 2016, there is a risk that individuals, other than the farmer actually producing the milk, will be the ones who benefit.

If you want to have positive cashflow at the end of the year – and this will be a big challenge for many dairy farmers this year – you must make decisions and take action now. Change will be needed, which will require you to think and act differently. Beware of the loopholes or excuses that you use to postpone change.

Make 2016 the year that you stop procrastinating. Choose a new habit and make consistent progress in pursuing it. One habit that every dairy farmer should develop for 2016 is to monitor cashflow on a monthly basis. Your first step towards this habit is to be set up for online banking.

While this article will largely focus on cost reduction strategies, there will also be opportunities to increase revenue during 2016. Options will include the sale of surplus or non-performing stock; increased milk solids output (but must be from grass); and avoiding penalties.

The year 2016 will not be one to carry too many cows for the farm's grass growth potential, nor to carry underperforming cows. Louis Kurriger, speaking at the 2009 Teagasc National Dairy Conference, suggested that "running your farm at 90% of its potential production may be more profitable than attempting to get to 100% and spending more than 10% to get there". The business cliché, "Turnover is vanity, Profit is sanity", applies to dairy businesses too.

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In relation to cost savings, there is no silver bullet or magic solution to suit all situations. It really is a case of saving €100 here and €200 there. Cumulatively, all the savings will add up. In general, identify what you must have (costs which are critical to your business success), shop around for the best value available, avail of discounts/special offers/cash deals of benefit to you and eliminate all discretionary spending. Remember that your costs are usually somebody else's profit.

Grass is key

Meal feeding is typically one of the bigger costs on dairy farms (accounting for almost one fifth of costs on a per litre basis). It seems obvious, but including more grass in a cow's diet will reduce this cost.

This will require you to be more focused on grassland management. For most herds on grass full-time during March, 3kg to 4kg meal should be adequate; aim for 1kg to 2kg/cow/day

TIP

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during April and no meal at all from mid-May onwards.

You can decide in the autumn whether meal feeding is justified or not. In general, there is a bigger saving to be made by focussing on reducing quantities fed than on the price per tonne. Nonetheless, shop around for best value but do not compromise on ration quality.

Fertiliser costs typically account for 12% of total costs on a per litre basis. Surprisingly, many farmers underspend on this cost but this is, in most cases, a false economy. Lime is the first thing to get right before one should consider building either soil P or K. Soil test so that P and K fertiliser isn't wasted. Focus on maintenance dressings of P and K early in the year and on buildup later in the year. Use slurry/soiled water to replace some purchased nitrogen, especially in spring. Match N application to stocking rate. Use urea rather than CAN (30% cheaper per kg N) until end of April. Spread sulphur (20 kg/ha; 16 units/acre) on dry farms from April.

Breeding costs

While AI/breeding costs are not usually one of the bigger expenses, there is often potential for savings. Firstly, this investment must be made, but make sure that you select the right team of AI sires for your herd.

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Use the maximum number of GeneIreland test bulls for your herd. Minimise AI costs by working hard to increase conception rates. Increasing conception rate to first service from 45% to 55% in a 100-cow herd will result in 20 less AI straws used over nine weeks (and at €20 per straw, a saving of €400).

Ensure that heifers are at target weight at bulling time. Thin cows and late calvers must be milked once a day to allow them to gain necessary body condition and increase the likelihood of conception. Match the number of AI straws to be used to the number of heifers required to enter the herd in 2018, then use lower cost beef AI straws (must be short gestation length and easy calving). Problem cows should be seen by a vet, otherwise veterinary interventions should be kept to a minimum. Heifers should be synchronised. Scanning is useful, especially where herd infertility is an issue; otherwise it is questionable. Tail paint is the cheapest heat detection aid available and must be used. Alternatives are available but may be more expensive.

Vet bills

Controlling veterinary costs is not about simply cutting costs, it can also be about ensuring that you are getting a good return on your investment in animal health. Firstly, you must spend money on protecting and maintaining the health of your herd. A really useful first step is to consult with your veterinary surgeon so as to develop an animal health plan for your farm.

Prevention will always be better than cure. What are you doing to reduce the risk of a disease outbreak or an animal health issue that requires costly treatment?

Knowing what the disease challenges on your farm are, and the health status of your animals, helps in this regard.

Savings can be made by challenging the cost of products, the number of treatments and the cost of various services.

By having an idea of your main veterinary supplies needed for 2015 (list of all vaccines, doses etc), you may be able to get a better deal from your supplier (an example of bulk purchasing).

Contractor costs

Managing contractor costs is not about simply cutting costs. It may make sense to have a bigger spend in this area, provided that you can reduce your overall fixed costs. Consequently, it is important to examine this figure in tandem with both the machinery operating/deprecation figures and the labour figures.

In order to ensure that your contractor can meet your needs, you will have to plan out the work that you need done and communicate this with your contractor. Prompt payment may allow you to negotiate favourable rates.

Spontaneous purchases

Watch out for the small additional items (sundries) which are picked up on a whim or because the salesperson recommends it. You must question every expense and justify how it adds value to your business.

Fixed costs

Fixed costs can creep into a business over time and can be difficult, but not impossible, to shift. Particularly for expanding dairy businesses, it is vital to carefully consider decisions which will commit the business to fixed costs for 10 to 20 years.

There are options available from ESB/electricity, phone and insurance providers. Check out the different price plans and identify one which best suits your business. Labour costs and machinery costs can be tackled – even in the short term. Regular maintenance can save on expensive repairs.

2016 looks set to be a challenging year when it comes to milk price.

Summary

In summary, the best way to effectively cut costs is to ruthlessly penny-pinch. When you have little money, you are forced to be frugal with all expenses. But with growth, it is easy to lose track of expenses.

Adopt a thrifty mindset to ensure that your business is successful in 2016.

Finally, lessons can be learned from the previous year's business performance. Take the time during January to examine 2015 cashflow records and to use these to plan/budget for 2016. Involve your wife/partner or other family members.

Talk to your adviser, accountant and bank manager. Completing the Teagasc Profit Monitor analysis can be extremely useful. Contact your Teagasc dairy adviser to arrange for this analysis.