Douglas Green Consulting Ltd

WINTER NEWSLETTER

Included in this issue:

- Benchmarking your business
- Market Report
- Straights Buying Strategies

Welcome to the winter edition of the Douglas Green Consulting Ltd newsletter.

In what looks to be a challenging, but exciting 2019, we look forward to working with all of our clients to ensure sustainable and viable businesses long term.

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Newsletter Issue 19.01 **January 2019**

Benchmarking your Business and Future Prospects

THE DGCL BENCHMARKING FIGURES FOR 2017/18

With January well under way, now is a good time to take stock of your business over the last 12 months. We run an annual dairy benchmarking survey that aims to compare a range of dairy businesses with March 2018 year ends. This enables us to update our comparison data to present the group average and top 25% results, so we can then compare this with your individual data.

If you sent your data in to be analysed, please find a copy attached showing your data compared to the average and top 25% group data. We look forward to discussing the findings and implications for your business with you at your next consultancy visit.

KEY FINDINGS

The table below outlines the findings from the benchmarking survey.

	Average 2016/17 ppl	Average 2017/18 ppl	Top 25% 2017/18 ppl
Output [(1)]	30.19	32.92	33.46
Variable Costs	14.54	14.31	13.28
Overheads	13.97	14.75	11.72
Comparable Farm Profit	1.68	3.87	8.46
Comparable CoP	28.51	29.05	25.00

[(1)] **Output excludes BPS and non-dairy related income**

- Strong profit per litre is being achieved by farmers, regardless of the system they use.
- A huge variation in the range of costs, regardless of yield level.
- Profit is achieved via consistent cost control and maximising efficiency within the business.

- Output alone is not the answer!
- Maximising resources to reduce input costs is crucial – good quality forage stocks will reduce not only feed costs, but will improve overall cow health as well.
- Production costs rather than profit is the best measure when comparing businesses, as there is a significant range in milk price, which distorts the overall picture.
- Total variable costs range from 9.52ppl to 17.44ppl.
- Total overhead costs range from 9.61ppl to 22.33ppl.
- Total comparable cost of production ranges from 23.45ppl to 32.86ppl.

INTERPRETING THE FIGURES

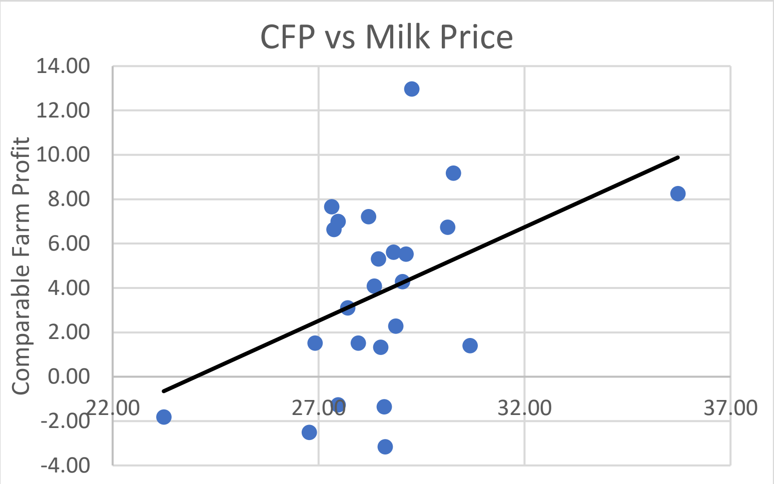
A thorough discussion of your results is important to ensure a clear plan going forwards can be drawn up. When interpreting the results it is important to look at the overall picture for the business rather than just looking at individual costs. Many individual costs will have an influence on other input costs and it is important to understand these links and the impact they have on your business.

For example, contractor costs may be substantially higher than the group data, but this maybe because all operations are contracted out and as such machinery repairs and labour costs may be significantly lower. The same can be said for depreciation; higher depreciation rates may be a reflection of recent investment rather than a high machinery replacement cost.

It is also important to note that cost of production should not be confused with affordability. It is easy to compare milk price and production costs and conclude that most dairy farmers aren't viable.

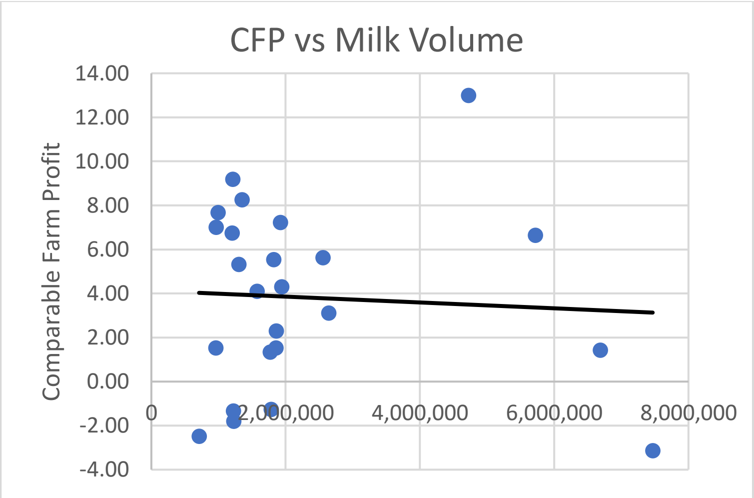
The model we use in this exercise allows us to compare production costs and dairy enterprise profits. When considering affordability of debt servicing requirements it is important to consider all income streams and costs in the business. The EBITDA model is a much more useful tool to use to assess a business's ability to service its debt. (EBITDA is calculated as total business profit adding back investment, tax and depreciation).

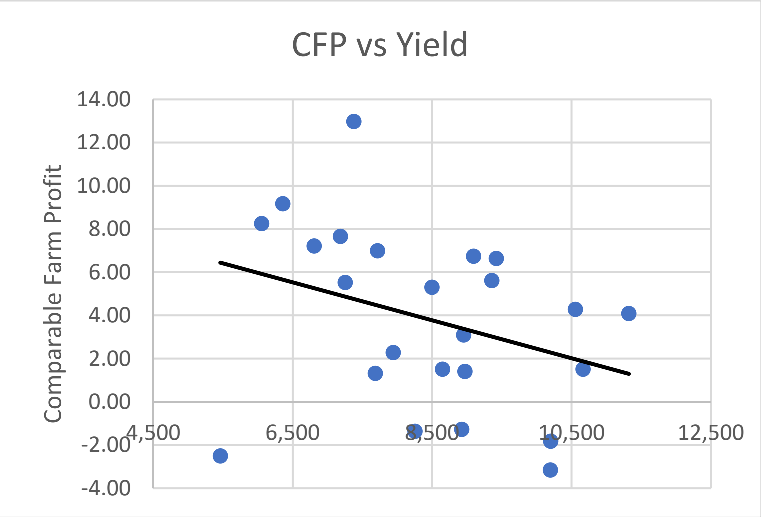
INTERACTIONS EXPLORED



While milk price has a notable impact on profit at the extremes, it is the input cost structure which has a bigger part to play, as seen in the range of profits achieved across the range in price.

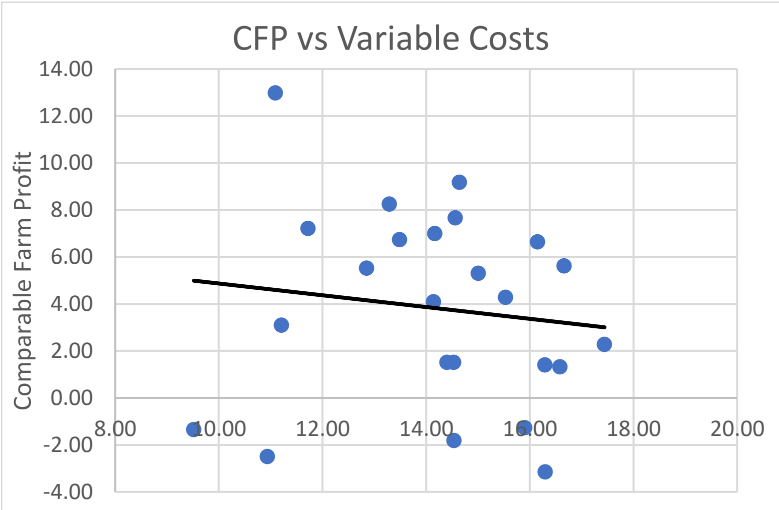
Milk volume did influence profit, but the range in profit for a given total yield shows efficiency and cost control is more important than scale.

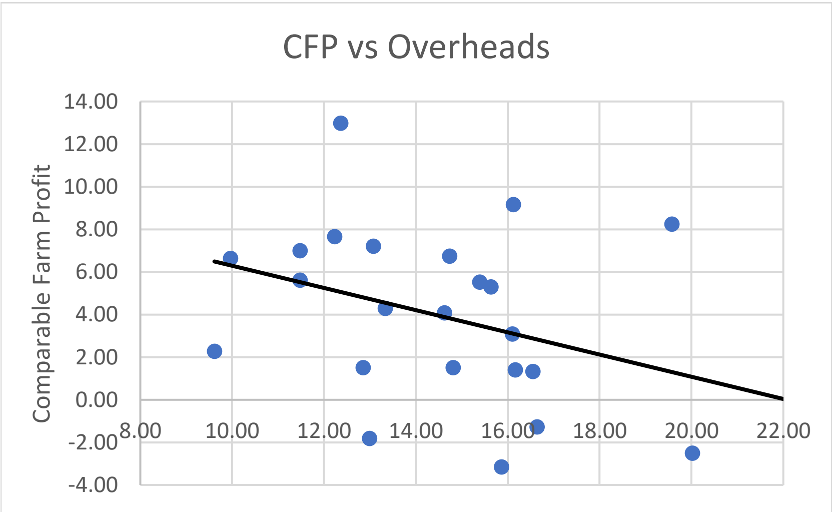




Yield is not the key influencing factor. Whilst it will help dilute overhead costs, maximising efficiency and ensuring a good buying strategy when considering variable inputs will have a bigger influence on profit per litre.

The range of variable costs across the sample is massive and will have a notable influence on business profitability. Strategic buying is key to reducing variable costs, as is efficient use of inputs, particularly when considering spending more to boost output.





The range of total overhead costs is prominent across this sample. Output will help to dilute these costs. Simpler systems tend to have lower power and machinery costs.

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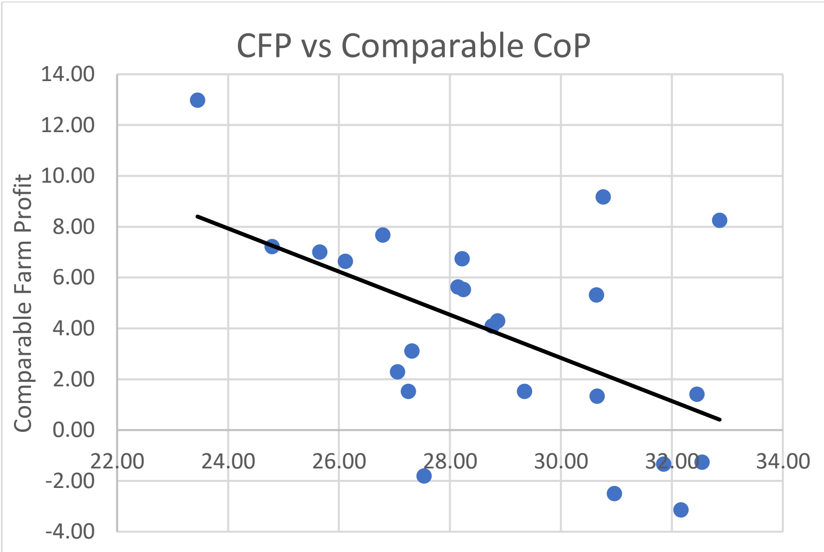
Total costs impacted heavily on profits. The range at any given price is down to output and cost control. In order to maximise profit the aim should be to improve income, whilst ensuring good cost control on variable costs. A good balance between overheads and output will help reduce costs.



Want To Explore Your Business Results?

Benchmarking is just one step towards building profits. We have huge experience developing dairy businesses by combining technical and business solutions.

Don't hesitate to get in touch. We would be delighted to help.

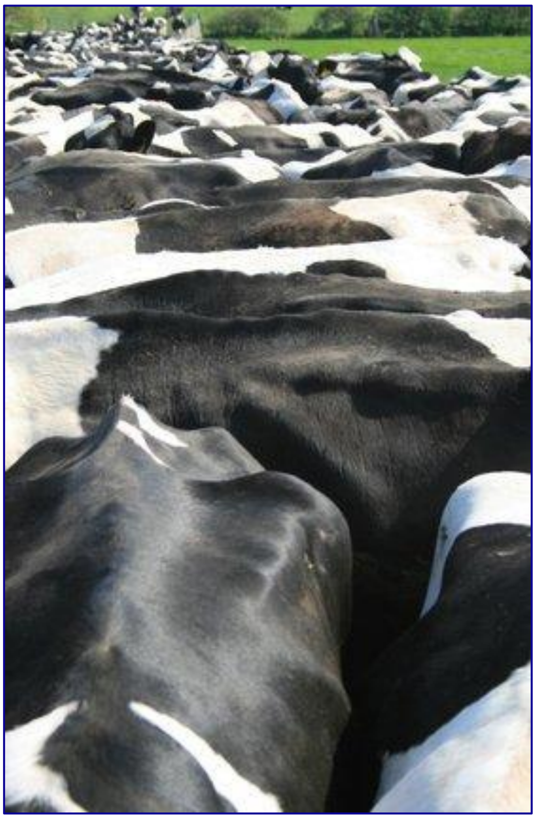
100% independent, 100% for you.

Call Douglas Green on 07970 942666

douglas@douglasgreenconsulting.co.uk

Find out more at:

www.douglasgreenconsulting.co.uk

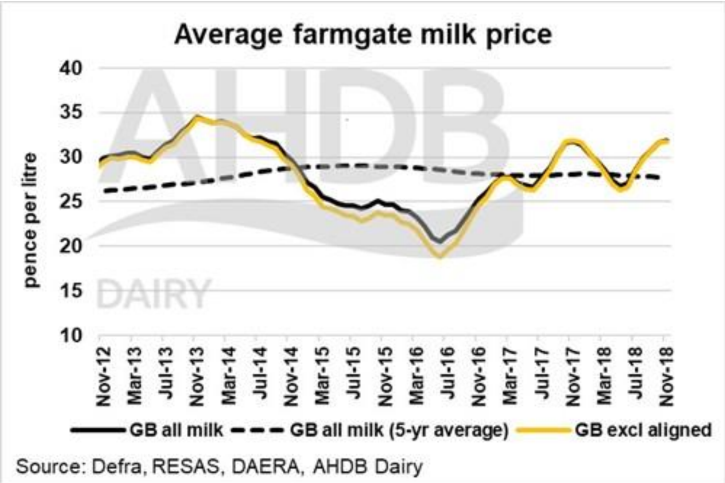


MARKET REPORT

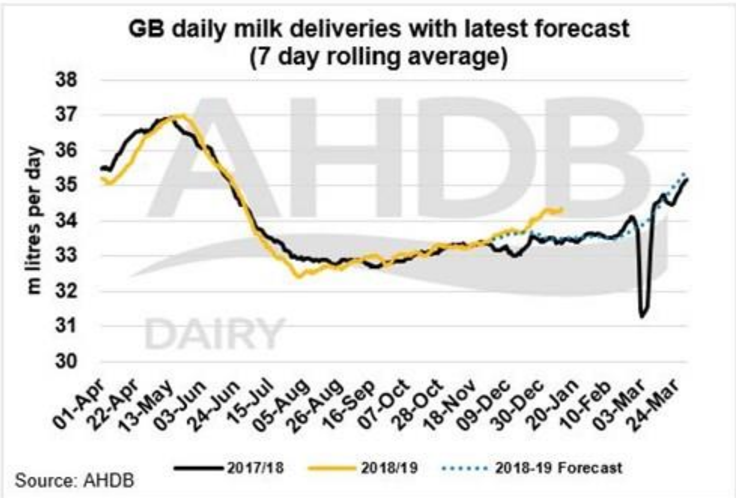
MILK

In this feature we present data provided by AHDB dairy. All information can be found on their website, which is regularly updated. We recommend this as an excellent source of market intelligence for all in the industry.

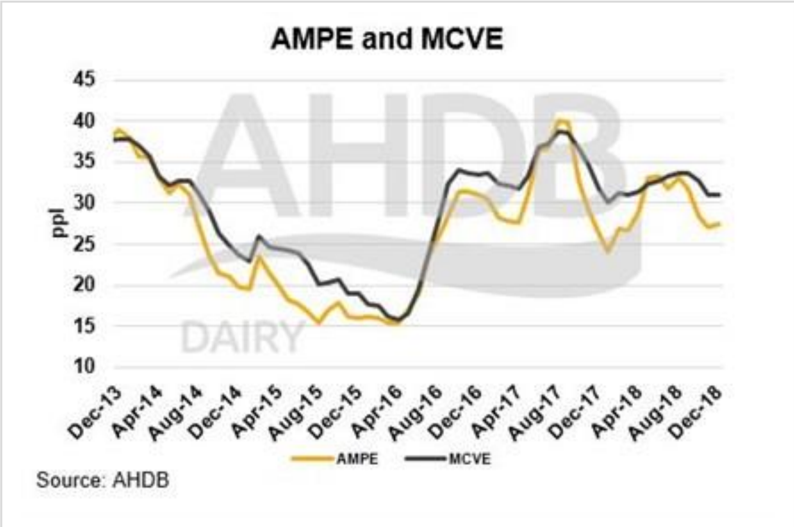
Below we have shared our views based on the market information supplied by AHDB.



Milk price has seen a steady rise throughout most of 2018, but started to dip in winter 2019 on the back of reduced commodity prices and strong supply.



UK supplies recovered from the drought conditions during the summer and were relatively strong going into the New Year.



Source: AHDB

AMPE: Actual Milk Price Equivalent - is used for following movements in commodity butter and Skimmed Milk Powder (SMP) prices as they translate back to a milk equivalent.

MCVE: Milk for Cheese Value Equivalent - provides a similar indicator to AMPE for milk used for cheese making.

Prices were strong through 2018 and whilst lower now, both are well above a 4 year average. Early indications are for a maintenance of prices into summer 2019 and a strengthening beyond then.

Date	Milk Market Value[1] change from prev month	Date (+3 mos)	Projected farmgate price movements GB average	Liquid milk (non-aligned)	Manufacturing milk
Sep-18	-0.3	Dec-18	-0.2	-0.1	-0.2
Oct-18	-1.5	Jan-19	-0.9	-0.8	-0.9
Nov-18	-1.5	Feb-19	-0.9	-0.9	-0.9
Dec-18	0.1	Mar-19	0.0	0.0	0.0
cumulative change (latest 3 months)*			-1.7	-1.7	-1.8
	influence of MMV change		59%	57%	61%

AHDBs projected farm gate price movements mirror the decline in prices announced in autumn 2018, but predicts no further price decline in March 2019.

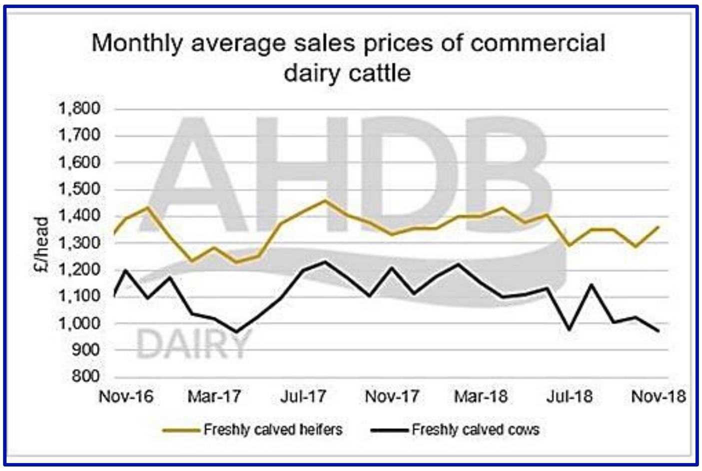
For regular updates on dairy markets we recommend you access the AHDB markets via the following link:

https://dairy.ahdb.org.uk/resources-library/market-information/monthly-reports

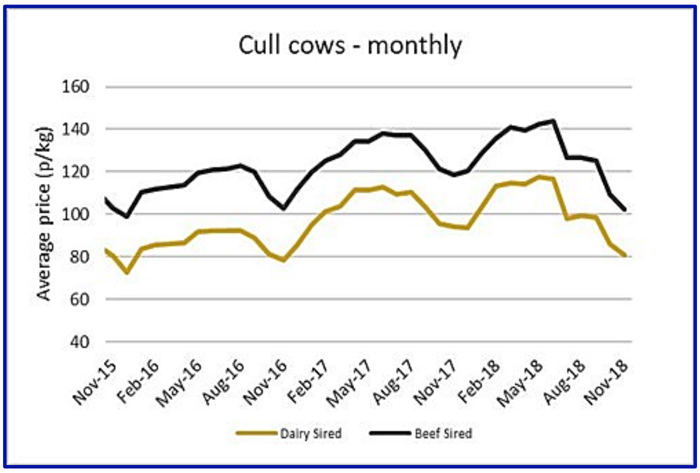
For a more in depth analysis of the dairy market for 2019, the following link will take you to the AHDB market review:

https://dairy.ahdb.org.uk/news/news-articles/january-2019/what-will-happen-with-dairy-markets-in-2019

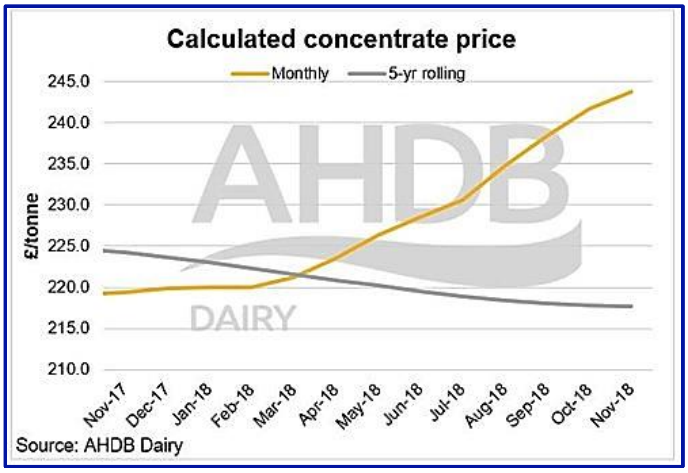
INPUT COSTS (source: AHDB Dairy)



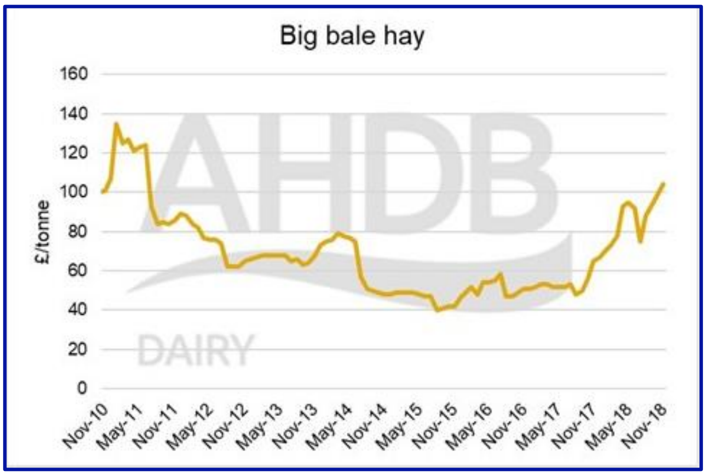
Freshly calved heifer prices remained stable throughout 2018 and sales in the last few months suggest a strong trade currently. Freshly calved cow prices fell, reflecting the forage supplies available on farm following the very dry summer.



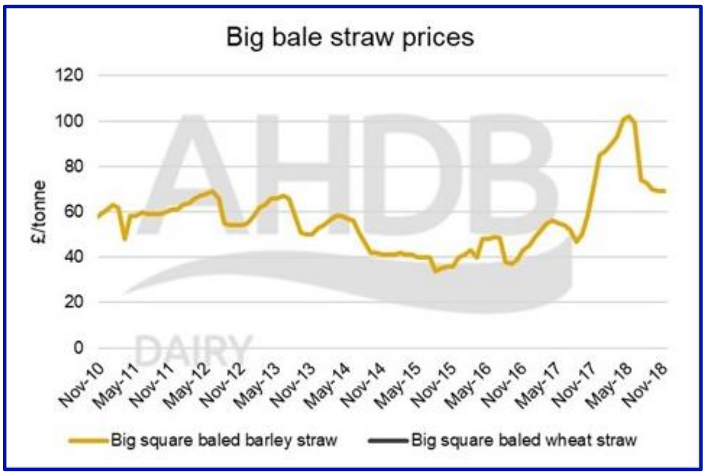
Cull cows prices saw a sharp dip towards the end of 2018, following a glut throughout the autumn as farmers assessed forage stocks prior to winter. With many farms still not having sold their cull cows (due to oversupply pressure in the abattoirs) the depressed price is likely to remain, certainly into the first quarter of 2019.



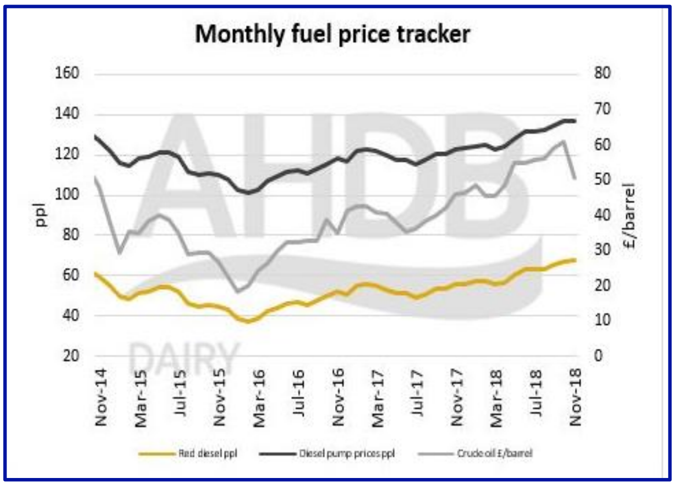
Concentrate prices have seen a radical increase in the last 12 months, with the average price now approaching £245/t. Careful monitoring of markets is required to achieve a sustainable concentrate price, but businesses should be targeting an average price of £220 - £230/t. Group buying can aid in this strategy.



With the unforeseen high temperatures and drought conditions of the summer, there was an increasing amount of pressure on forage stocks. Summer stocks were reduced due to weather and lack of grazing grass, which resulted in a spike in forage costs during summer and autumn 2018. This increase is likely to continue into the spring of 2019 with little surplus forage available to purchase. If we have a kind spring and farmers can get cows out and take an early cut of silage, forage prices will relax. However, if we have a repeat of 2018 we can expect a continued increase in price and therefore higher overall input costs.



With many arable farmers baling straw rather than incorporating, due to soaring straw prices in the autumn, there has been a glut of straw available. This has eased the pressure and resulted in a reduction in straw prices at the end of 2018. The drier autumn also helped to reduce the demand on forage stocks, but there will be many farmers who could find late turnout a challenge this spring.



Overheads have seen a steady increase on the back of increasing oil prices, although a dip at the end of 2018 will ease pressure going into 2019. Oil prices have seen a continued increase year on year since 2016 and although the end of 2018 saw a dip, fuel prices are slow to react to change and so little variation in price has been seen this year. The red diesel price has risen by 8.21ppl since 2017 and now stands at 61.53ppl. Oil saw an increase of 11.56ppl between 2017 and 2018.

STRAIGHTS PRICES

Taking a long term view, buying forward in January/February has tended to be a good business decision. Despite the uncertainty surrounding the Brexit exchange rate, there are opportunities available now to source a proportion of your future feed requirements.

	May – Oct Forward Price (£)	Nov – April Forward Prices (£)	Approximate £/unit Crude Protein
Hipro Soya	304	307	6.14
Rapeseed Meal	200 - 207	207	5.18
Maize Distillers	214 - 218	214	7.64
Beet Pulp	212	206	-
Soya Hulls	148	153	-

*Prices based on 29t tipped (Straights Direct: www.straightsdirect.co.uk/update.html)

Rape will continue to be the primary source of protein based on value, but unless you have a contractual reason not to, soya will feature prominently in diets as a source of quality protein. Given the prices above, it is easy to see that distillers products are out priced.

Beet prices have eased significantly, but look very expensive relative to soya hulls as a source of digestible fibre.

Need advice on diet planning for 2019?

We have a wealth of experience in diet planning and forage budgeting. Should you wish to discuss your herd diets or forage requirements for the coming year in more detail we would be happy to help.

We can also advise on forward buying strategies and cost saving opportunities for feed buying.

100% independent, 100% for you.

Find out more at:

www.douglasgreenconsulting.co.uk