

# The true cost of managing a 1000 plus cow dairy farm through a single cowshed

**Murray Jamieson**

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**ASB**

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## Introduction to the author

I have been dairy farming for 30 years and like many, started off working with small herds and progressing my way up through the sharemilking industry and becoming a partner of an 1150 cow equity partnership. I managed this property for five years and on the 1st of June 2013 stood down as managing director.

Reflecting back over my career in the industry and through my own trials and tribulations, it has, without a doubt, been very good to me. I started sharemilking 180 cows at the age of 20 and was able to purchase my first small block of land at the age of 27. This is one of the great things about our industry. However, through my own experiences there is also another side that we need to consider as well.

From 1995 I have been involved with the running of 800 plus cow farms. Through this time I have seen quite a number of changes in the industry and its very impact on myself. There are huge demands that are placed on individuals like ourselves who work within the industry. Large numbers of cows place enormous pressure on staff. In some cases people are also dealing with corporate farms and the board structures that are becoming more common.

In 2003 I had a marriage separation although the farm was not the sole contributor to this relationship breaking down it did have a part to play in the failure of my relationship. The learning's I took from this I did not want to repeat later on in life. With huge financial pressure (compounded by scale of large herds) the farm always came first and everything else came second including family. This was just one of the many reasons why I decided to stand down from managing the 1150 cow equity partnership farm that myself and my wife are the major shareholders of.

The last six months I have travelled around New Zealand interviewing a large number of farmers as part of my study programme. Included in this body of work is research I have performed for Lincoln University and also the Ministry of Primary Industries. I have met and had discussions with over 100 large herd farmers. This work has given me a very good insight into what a lot of farmers are thinking and feel about the modern farm in New Zealand.

## **What is the true cost of managing 1000+ cow farms?**

Defining what is the true cost of managing a large scale dairy farm in New Zealand is not just about the financial cost but also the social cost and what the perception of the industry is. Through my study I have defined each area into the financial impact and the social impact it has on people in the industry.

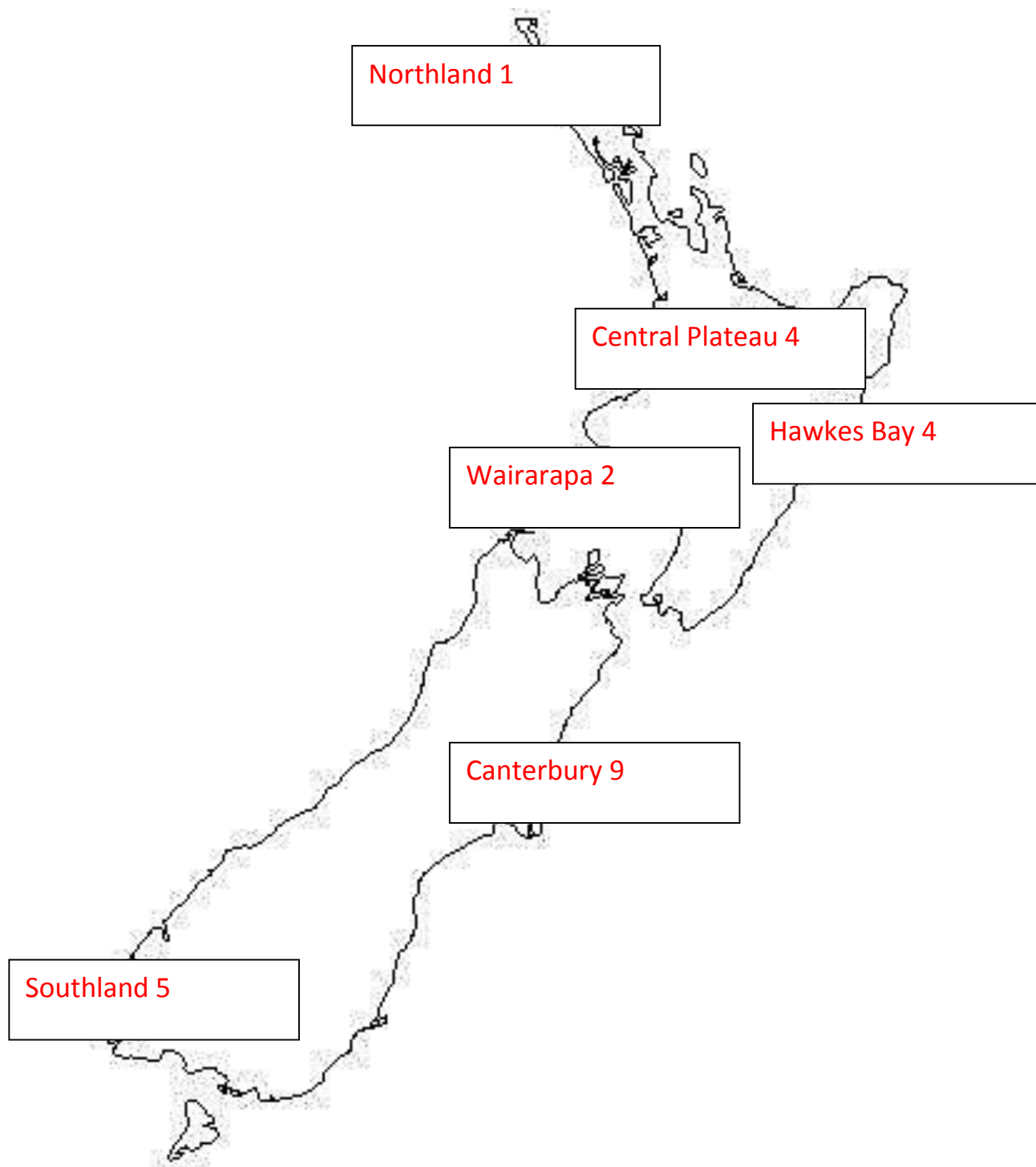
The financial side of running these businesses is not just what we pay for a manager but also the network that is around them or in a corporate scenario above them. This is what I would call the true cost. For example, if a manager is paid \$100,000 and you have a farm consultant that charges \$15,000 then the true cost of managing that farm is \$115,000.

If you are running a corporate farm the same equation would apply but also the cost of governance and in some cases a central desk would be added to that cost. If the entire board is paid \$10,000 per farm and a central desk is charged at \$40,000 per farm then the true cost could be between \$150,000 and \$175,000.

I found the social impact side of my interviews the most trying and difficult of the process. The willingness and just how open my fellow farmers were with me was very humbling. The emotional journey that I went on through this process was incredible. From meeting farmers that did not have a worry in the world nor did they have any significant stress levels nor frustration around their business to then drive down the road and interview another farmer that had actually attempted suicide or had a serious relationship breakdown.

## **Demographic spread of farmers interviewed.**

In total I formally interviewed 25 farmers across New Zealand. Fourteen of these in the South Island and 11 in the North Island. DairyNZ statistics state that in the 2011/ 2012 dairy season there were 493 dairy herds over 1000 cows. The majority of these being based in the Canterbury/ North Otago region. The extreme large herds were generally based in the central North Island. These were the 2000 to 4000 cow herds.



## **Farm brief.**

The farmers that I interviewed in the South Island were generally on average farms of 380 ha milking 1300 cows with five staff plus the manager and were milked through a 60 bail rotary cowshed with cup removers. These farms were generally flat and had all been converted from sheep farms in the last 12 years with good infrastructure and very good layout and laneways and good water reticulation. Housing on these farms seemed of a higher quality than what I saw in the rest of the country. This observation was only made on a drive by and not a close personal inspection. Most of these farms were stocked at a higher stocking rate of close to 4 cows per hectare and were purely used as a milking platform only with all young stock grazed off and additional to this cows were wintered off the platform as well.

The farms I interviewed in the North Island were a lot larger scale with the average farm being 525 ha milking 1600 cows with eight staff plus the manager and were milked through a 70 bail rotary shed but cup removers were not a popular choice here. These farms were a real mixture, from the flat land to rolling to steeper country that have been converted in the last 22 years from the dry stock farms or in recent times, forestry.

Half the farms that I interviewed were self-contained and grazed their own youngstock on the property and 80% of the farms wintered all cows on the property.

## **New Zealand Herd Size.**

- 1974 - Number of herds 18,540 with the average herd size 112 cows.
- 2000 - Number of herds 13,892 with the average herd size 236 cows.
- 2012 - Number of herds 11,798 with the average herd size 393 cows

The total number of dairy cows in New Zealand is 4.6 million with only 4% of the national herd being milked in a herd of over 1000 cows

reference DairyNZ statistics book 2012.

## Variations in management systems

The 25 farms that I interviewed were made up of a cross-section of management systems with managers on a salary, 50-50 sharemilkers through to farm owner operators.

- 6 owner operators.
- 5 50-50 sharemilkers.
- 1 variable order sharemilker.
- 13 salary based managers/equity managers.

In the 2011/ 2012 season the DairyNZ statistics stated that there were 493 herds that are over 1000 cows in New Zealand. The various management styles of these herds were:

- 47 50-50 sharemilking jobs.
- 75 variable order sharemilking jobs.
- 361 owner operators/managers/equity managers.

## Individual earnings

The range of income was vast, from \$65,000-\$200,000. This was purely a cash income and did not include any perks or bonuses. The \$65,000 income earner was a lower order sharemilker that was growing asset on the farm by rearing stock and this was not taken into account when measuring his salary.

The \$200,000 income earner was an owner operator who had several large-scale properties and valued his time and would not compromise his time off with his family. Given the workload that this individual was taking on I believe this is a very fair indication of what his time was worth. It was refreshing to see somebody who valued their time at a real commercial rate.

The majority of salaries were between \$135,000 and \$165,000 with the average being \$142,000 across the 25 farmers that I interviewed. The owner operators or 50-50 sharemilkers, when assessing their salaries, I would interview them as a couple and asked the question. What would it cost to replace the main decision maker of the business? This was a fascinating question in the way that each party would answer. In most cases the husband would value himself lower than what his wife would value him.

One of the discussions I had with all the people that were on a salary basis was around bonus payments. This was on the effectiveness of them and how they were measured and how their KPI's were set. Did they make decisions around their bonus payment and what percentage of the bonus payment was of their salary?

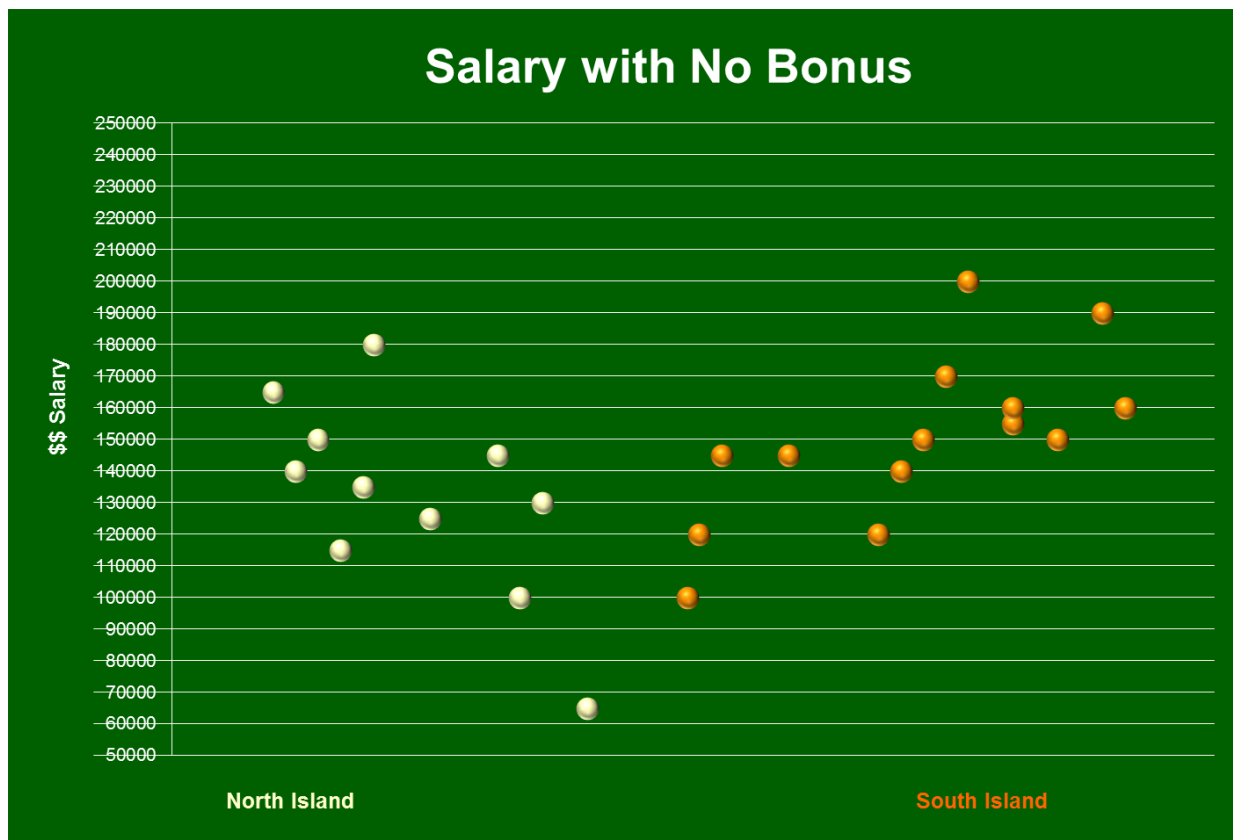
No, was the unanimous answer. They did not make decisions based on their bonus payment. There was a lot of discussion around KPI's and how quickly they can change through the season with weather and payout the two things that nobody has control over. How this would affect the bonus payment and whether they had performed an exceptionally good job of managing the farm.

When the weather had an adverse effect or the payout was low it had a major impact on the business the feeling was that the pressure was greater on them and the attention to detail and intensity was at a higher level than in a normal season but they got no reward for this or sometimes they were penalized.

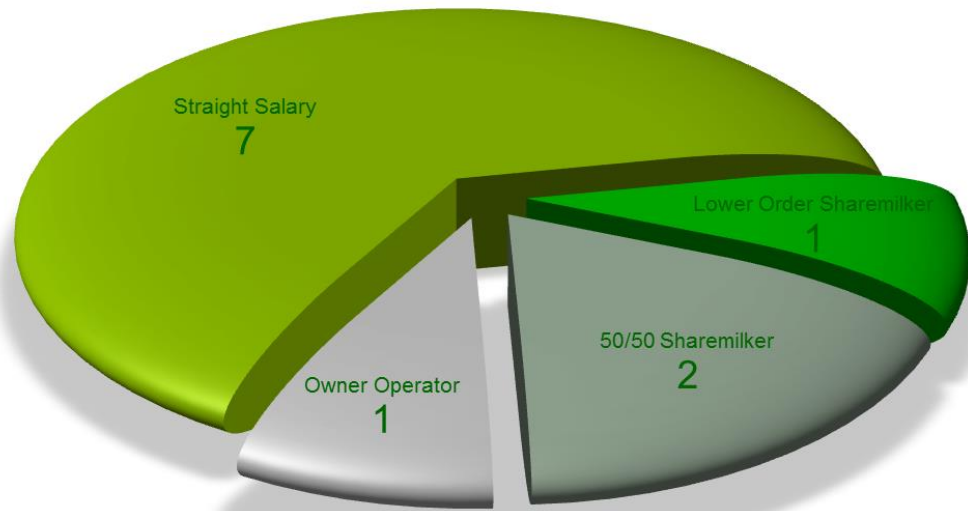


Bonus payments were in the range of 10% to 20% of salary but most people were only receiving between 50% and 75% of their bonuses because of these two fluctuations with payout and weather.

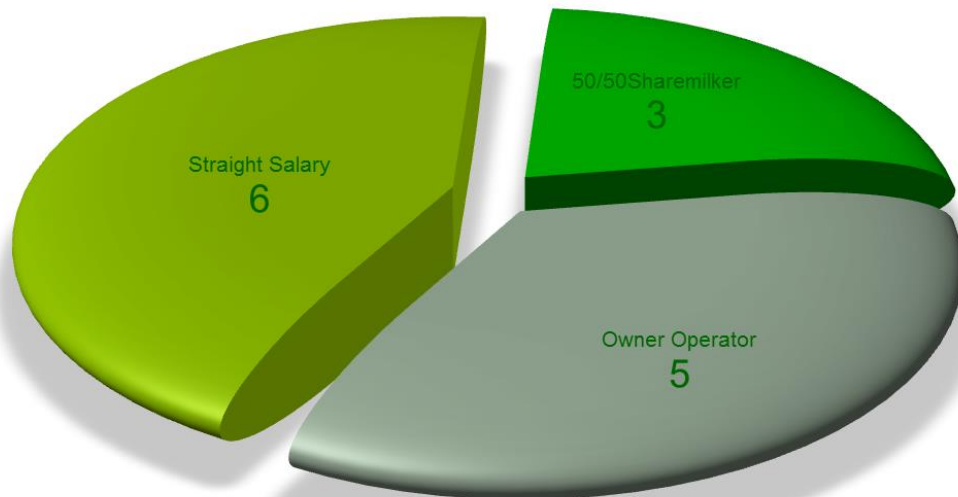
Every single person stated that they always make the best decision for the farm and not necessarily for their own financial gain when it came to bonus payments. This was reiterated several times when I went through my questionnaire with them that the farm always came first.



## North Island



## South Island



## **Governance structures.**

From conducting my survey 80% of the farms that I visited were running a form of governance. The most common was three directors but there were some exceptions with up to 20.

There seemed to be a very strong link between the stability of the managers on the farm and the relationship with either the chairman or one key person on the board. Where I observed this happening the managers seemed to feel more appreciated and felt that they were part of the team and not just a worker and saw a future in the business they were running.

This made them feel that they were part of the board even though they did not have a financial stake in the business or a voting right yet they were treated as an equal around the board table.

The multiple farm ownership structures were slightly different. They had a farm supervisor which fitted in between the board and farm managers. This still gave a key person relationship with the farm management on a weekly or monthly basis. I believe that this galvanised the executive management team on these properties.

Communication was the key factor. This being a two-way street with the board receiving accurate information from the manager and the board being totally open with the manager. I often heard the phrase 'no surprises' from both board members and the farm managers. The farms that I did see some issues on was generally where the board or some members of the board would interfere with day to day management decisions.

## Total management financial cost.

What I have tried to establish is the true cost of the intellectual property to run these large-scale businesses. These are the average costs that I have found through this process.

• Farm manager.	\$142,000.00
• Supervisor/consultant	\$ 15,000.00
• Central desk	\$ 40,000.00
• Board of Directors	\$ 10,000.00
Total	\$207,000.00

This is what I deem the true financial cost to manage a large scale dairy business. These figures I have used are the average of the 25 farms that I interviewed. When interviewing 50-50 sharemilkers I did not account for the partners contributing to the business. In most cases they did contribute and I believe that the central desk cost of \$40,000 would be a fair indication of their contribution to the business.

## **Social impact.**

### **Time off.**

In establishing this question I needed to get a clearer understanding of the comparison between CEO's of similar size businesses and the managers that are running these large-scale dairy farms.

44 days was the average time off that the farm managers were taking. Most of the managers would not leave the property for more than seven days at a time. Compare this to the CEO counterparts which are averaging 105 days a year.

90% of the managers are on call 24/seven and when they went away they would still leave their phones on and take phone calls from staff whether they were in New Zealand or overseas. Only one manager said that he had the confidence in his staff to be able to deal with any issue that arose. He would only turn his phone on every couple of days and when overseas it was purely by email. In total he was taking 130 days a year away from the farm, six weeks of this was a European winter holiday. This was his reward for working 15 hour days for the rest of the year.

### **Future in the industry.**

Considering the minimal amount of time off that the managers take, 90% of them saw themselves doing exactly the same role for the next 3 to 5 years. The other 10% saw themselves moving into more of a supervisory role or farm advisory role. No one was planning on exiting the industry. All had a passion with the large herd systems and did want to see the industry progress.

## Stress and frustration.

In establishing a system where I could understand and measure these levels with all my interviews I used a scale of 1 to 10. (When possible I always tried to interview couples together and get them to contribute towards the score of the main decision maker).

Score 1 to 5 - would be classed as frustration on a day-to-day basis. For example this could be workers leaving tape gates laying on the ground or not checking water troughs or procedures at the cowshed not being correctly followed.

Score 6 to 10 - this is more of a stress indicator. When explaining this to them I would always state that six would be the point where you may get angry once a week and 9 or 10 was at the point that you felt you would have to remove yourself from the property or seek medical help or something even worse.

20% of the people that I interviewed had either attempted suicide or had suffered serious levels of depression while managing these large farms.

10% of the people that I interviewed had a frustration level of 1 to 2.

These two groups of people have given me a fascinating understanding of the two extremes they were facing as managers.

The fact that these 20% of people were still in the industry and wanted to remain so was some of the most enlightening information that I have reported. They had made significant changes to their lives and were still involved in the extreme large herds. These changes were:

- Knowing yourself and identifying your trigger points was the strongest message.
- A realization that you cannot do everything yourself and mistakes will happen.
- The ability to delegate.
- In all cases a strong relationship with the owner or a member of the board was paramount. This was a minimum of twice weekly contact, generally in person.
- Time off. This was discussed at length that they would not compromise this aspect of their lives from now on.
- Establishing coping mechanisms, such as, having a close friend to talk to or going for a walk in the bush or doing some exercise. (This is backed up by John Kirwan's own experience and is frequently talked about in his book *All Black's Don't Cry*.)

## **Low stress properties.**

The common theme on these properties was the amount of labour that they hired, either directly or indirectly, was the use of contractors. This was some of the things that I found on the farms that may help:

- Labour to cow ratio of 1 to 120.
- The use of contractors to do everything from cropping to the feeding out of supplement.
- The use of contractors to do all repairs and maintenance on the farm.
- No herd identification or herd testing
- The use of contractors to rear all calves.
- Staff only milked cows and measured grass and contractors used for everything else .
- Accepting low production per cow and per Ha.

The depression and suicide number did shock me then on further research I found that this is alarmingly typical in rural New Zealand. An article in the Christchurch press in June 2012 by author Debbie Hart highlighted the suicide rate in rural New Zealand. What this article did not show was the attempted suicides where people spent more than a week in hospital. This was released to Federated farmers under the Official Information Act of 2011. For every suicide that had occurred in rural New Zealand there had been 27 attempts.

## **Black dog.**

This is a collective group that are working to try and raise the awareness of depression and suicide in the rural community. (Federated Farmers, Dairy Woman's Network, Rural Support Trust, Farm Safe, Primary ITO.) The business card slogan is:

When life is a bitch.

If you are down, tired, stressed, anxious, angry ?

Then Speak up, there is a way through.

depression.org.nz free call 0800111757

Rural Support Trust free call 0800787254

Or dial emergency 111

# **For every highly publicised on-farm quad bike death in New Zealand last year, there were 18 generally under-publicised suicides, writes Deborah Hart.**

Christchurch press in June 2012

According to the latest official figures, New Zealand has become a less lethally violent country in recent years - with one distressing exception.

At a time when New Zealanders are committing fewer deadly acts against each other, they are committing more and more violent acts against themselves. Nowhere is this more apparent than in our country's rural sector.

A conference on rural safety in Wellington last month heard specific testimonies and official data on the issue of suicide, both of which offered much gloomy food for thought, but which also, from my vantage, underscored the urgent need for high-quality mediation in this part of New Zealand.

One participant told the gathering that he had chosen to speak out about his own challenges after a farming colleague took his life.

"It shook me to the core," said farmer David Hunt, from central Hawke's Bay.

Hunt said his own struggle with depression "almost cost me my life, and came within a hair's breadth of costing me my marriage". As far as can be told, Hunt had to make do with the situation largely on his own.

The conference also looked at figures from the chief coroner showing 15.9 suicides per 100,000 of population in rural areas compared with 10.8 per 100,000 in urban centres. Mirroring the trend in places such as rural America and Ireland, suicide has become the leading external cause of death among the people who look after the country's economic backbone.

Put another way, for every highly-publicised on-farm quad bike death in New Zealand last year, there were 18 generally under-publicised suicides.

The figures may be official, but the stories behind them remain a subject of considerable debate.

But reported cases, anecdotal evidence and simple common sense suggest that unresolved disputes with neighbours, banks and other institutions are a part of the problem.

The vast majority of rural disputes, of course, never lead to loss of life. But some can.



If the work of the Arbitrators' and Mediators' Institute of New Zealand is anything to go by, such stand-offs are as increasingly common as they are varied, taking in areas such as sharemilking, trust issues, family, employment disputes and contractual issues, all of which can exact a heavy toll on people who for one reason or another are unable to cope with the stress.

Too often these disputes are longstanding, bitter and - putting it mildly - unproductive.

Take a couple of cases.

In one, a contract milking couple purchased quality young stock with the aim of building up cow numbers to eventually go 50/50 sharemilking.

The cows were then leased out to a farm owner. A formal stock lease agreement was entered into providing for any replacements to be on a "like for like" basis.

Sad to say, when it was time to return the stock it was discovered that some of the stock were not in calf, while other stock had low body condition scores and the replacement stock being offered had body weight significantly lower than the body weight of the cows that had been originally provided.

Here's another example.

A farm owner and sharemilker entered into a 50/50 sharemilking agreement, but the farm owner ended up making a claim against the sharemilker for lost production due to the condition score of the sharemilker's cows being lower than normal dairy farming practice.

Fortunately, help was at hand in both of these cases, because the affected parties understood that the only way to resolve the professional and personal nature of the dispute was by calling in an expert with no personal stake in the simmering differences.

In the first, a conciliation process took place and a settlement agreement was signed on the day, which included a compensation payment being made to the owner of the cows and additional cows being supplied by the person who had done the leasing.

In the other case, a conciliation took place, although agreement was not reached on the day and the conciliator was asked to write a determination on the issues as provided for in the agreement.

No surprises there. The more professionally trained, qualified and credentialled for the job an outsider, the higher the probability of a resolution and a resolution that people can live with. And the better the chance of an attractive resolution, the higher the amount of goodwill that will probably be gained in the process, the happier people will be, not least because of the lessening of associated risks, damage to morale, business life and peace of mind.

Professional dispute resolution can achieve this after an apparent impasse has been reached, but also by finding ways to avoid the impasse altogether, by helping better manage relationships in the first instance.

This in turn can only improve the collective mental health of our rural sector, which will lessen the anguish felt by other New Zealanders watching on in growing alarm.

**Deborah Hart is the executive director of the Arbitrators'**

## **Summary.**

This is a dynamic and innovative part of the industry with some people achieving all-round good results. But as a whole the extreme large herd sustainability, given what I saw through my interviewing process, some changes need to be made. I did not witness the perfect structure but I saw parts from individual farms that I believe collectively would work.

Good governance was a key and where I witnessed this it seemed to be very good rapport with the manager which led to a good financial result. The study was not just purely about the financial return it was also about keeping good people in the industry.

Staffing of these properties was a common theme that every business talked about, from farms that were running a very simple system with no herd testing and no animal identification through to system five intensive farming operations.

One of the properties I visited would only allow his staff to work between 38 and 40 hours a week and was running a cow to staff ratio of one labour unit per 120 cows. They were paid an hourly rate and this would range between \$15 and \$22 per hour depending on their experience. His total labour bill is the same as it used to be he just has more people doing the same work. He commented that the productivity had gone up both in the terms of production and work being achieved on the farm and the repairs and maintenance costs had come down as he felt that people were fresh particularly with machinery breakages, damages had reduced substantially.

## Recommendations.

These are the areas that we need to focus on to make the large scale farming business sustainable in the future.

- People management. Having a higher level and understanding around human resources and understanding employment law so no one is disadvantaged.
- People coming into the rural sector needed formal training or tertiary education to progress the industry. Not necessarily only an Agricultural degree but learning the importance of business acumen.
- Farmers need to follow their urban business counterparts with clear and concise contracts and agreements in all aspects of their business to eliminate all disputes and misunderstandings. A handshake over the farm gate is not good enough. Recording of all communications is essential.
- Good communication and relationships between farmers and their governance entity is paramount to achieving the farms objectives.
- Industry standards and expectations around what is perceived as being efficient. For example: staff to cow ratio number.
- How staff are paid and the hours that is expected of them to work. An issue gaining traction in the media at the moment. The industry needs to be more in line with the urban business sector or they will start to be legally penalized.
- Cowshed design and the use of technology with automatic heat detection, teat spraying and cup removers was a significant move forward for the dairy industry but these tools still needed improvements and further development.
- The well-being of all the people in the rural community. Nurturing relationships or support networks to keep rural people from becoming isolated.

## **Reference. Thank you's and sponsors.**

DairyNZ dairy farm statistics of New Zealand 2012 book.

DairyNZ website.

Deborah Hart. Christchurch press in June 2012.

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All the farmers that I interviewed thank you for your extreme openness and the time you took out of your schedules to talk to me.