

Large Herd Manager

Where to Next?

Kellogg Project 2003

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The aim of this project is to create discussion, about the issue's confronting the people who are in management positions on the large dairy units in Canterbury. Once they have reached this position what is the next step for them.

- a) Do they continue on as a career Manager in the Dairy Industry?
- b) Do they take the skills that they have and move into the urban sector?
- c) Do they look at the sharemilking system and build their asset base up this way?
- d) Do they enter into some form of Equity Partnership?

These are real issues that are facing these people and they will have ramifications on the future of the New Zealand Dairy Industry because these people are the future.

There is a need for these people to be progressing in the industry because they are the people that create the demand for Dairy Farms; this ultimately sets the perceived value of our Dairy Farms.

The owners of the larger farms in Canterbury and ultimately the whole of the industry, as the farms grow larger have to constantly look outside of the square to ensure that these people have a career path to be able to own all or part of a farm.

What are the options available to the people that manage these large farms?

- 1) They can continue on and be Professional Farm Managers.
 - a) Salary levels
 - b) Housing standards
 - c) Flexible hours
 - d) Positions available to progress with more staff and responsibilities.
 - e) Opportunities for spouse to work off farm depending upon location.

- 2) They can take their skills and move in to the Urban sector and manage a business in the same manner that they have in the rural sector

- 3) Move into share milking and build an asset base

- 4) Enter into an Equity partnership once they have the required amount of capital.

- 5) Enter into a profit share with employer

Skills needed to manage a large Dairy Unit in Canterbury.

1) Pasture Management

- a) Understanding of Grass plant physiology
- b) Understanding of plant nutrient requirements
- c) Feed budgeting skills
- d) Nitrogen use and environmental effects
- e) Growth rates of Grass
- f) Grass types and uses
- g) Re – grassing techniques and costs.

2) Staff Management

- a) All legal obligations as per Employment Agreement Act
- b) Interviewing techniques
- c) Termination Issues
- d) O.S.H. Obligations
- e) Ability to manage and lead people from a positive position.

3) Stock Management

- a) Nutritional Requirements for all classes of stock
- b) Understanding of the physiology of cows as it pertains for calving and mating.
- c) Mineral requirement and status levels
- d) Feed balancing to avoid digestive upsets

4) Irrigation Management

- a) Soil Moisture holding levels and water budgeting
- b) Basic engineering ability to effect repairs

5) Repairs and Maintenance

- a) Ability to do basic repairs and understand how most machinery works so that they can decide if or who has to repair the plant.

6) Financial Management

- a) Ability to cost all inputs that they have control over.
- b) Able to budget for a Million Dollar business.
- c) Able to understand both the short and long term financial implication of their decisions.

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This graph re-enforces that there is a high calibre of person managing the larger farms when you note the per cow production.

- 30% of herds have 300 or more cows
- Herds with between 950 and 999 cows have highest production per cow

Twenty-one percent (2,823) of herds have between 150 and 199 cows (see Table 2.4). Almost 75% of all herds average between 100 and 350 cows. In 2001/02, 4,154 herds (30.4%) had 300 or more cows, and 1,256 (9.2%) had 500 or more cows. Average milk fat, protein and milk solids per cow by herd size are also included in Table 2.4. Average milk solids per cow varies between 189 kg (herds with 10-49 cows) and 331 kg (herds with 950-999 cows).

Table 2.4: Average production per cow by herd size in 2001/02

<i>Herd size</i>	<i>Number of herds</i>	<i>Percentage of herds</i>	<i>Average kg milk fat per cow</i>	<i>Average kg milk protein per cow</i>	<i>Average kg milk solids per cow</i>
10-49	93	0.7	107	82	189
50-99	625	4.6	159	120	279
100-149	1,964	14.4	170	127	298
150-199	2,823	20.7	175	130	305
200-249	2,442	17.9	178	133	312
250-299	1,548	11.3	177	132	309
300-349	1,247	9.1	180	135	315
350-399	642	4.7	179	134	313
400-449	598	4.4	179	135	314
450-499	411	3.0	181	138	319
500-549	318	2.3	185	141	327
550-599	188	1.4	181	138	319
600-649	176	1.3	183	140	322
650-699	128	0.9	180	138	317
700-749	103	0.8	183	141	324
750-799	52	0.4	177	135	312
800-849	64	0.5	180	138	318
850-899	35	0.3	181	140	321
900-949	38	0.3	179	138	317
950-999	36	0.3	187	144	331
1000+	118	0.9	179	138	316
Total	13,649	100			

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This graph highlights the size of the herds in the Canterbury region with Banks Peninsula showing up as the smallest herds due to the steepness and lack of irrigation. The average of the herds in the Waimakariri, Christchurch City and Selwyn districts are lowered due the smaller than average Town Supply herds.

<i>Region</i>	<i>District</i>	<i>Total herds</i>	<i>Total cows</i>	<i>Average herd size</i>	<i>Average effective hectares</i>	<i>Average cows per hectare</i>
Nelson/Marlborough	Marlborough	85	18,401	216	87	2.46
	Kaukauna	31	9,469	305	115	2.73
	Nelson City	6	1,000	167	77	2.24
	Tasman	222	54,580	246	96	2.60
West Coast	Buller	129	33,766	262	114	2.32
	Grey	73	24,354	334	158	2.13
	Westland	163	40,154	246	131	1.97
North Canterbury	Hurunui	49	28,310	578	204	2.85
	Waimakariri	74	22,279	301	120	2.49
	Christchurch City	10	2,712	271	93	2.67
	Banks Peninsula	13	1,728	133	76	1.79
	Selwyn	163	75,922	466	157	2.82
	Ashburton	166	103,480	623	206	3.03
South Canterbury	Timaru/MacKenzie	92	43,401	472	167	2.82
	Waimate	47	31,544	671	240	2.82
Otago	Waitaki/Central Otago	89	46,897	527	196	2.72
	Dunedin City	89	22,699	255	104	2.44
	Clutha	153	67,222	439	164	2.72
Southland	Gore	91	42,610	468	176	2.67
	Invercargill	49	20,375	416	161	2.51
	Southland	462	197,147	427	166	2.58
South Island		2,256	888,050	394	151	2.58
New Zealand		13,649	3,692,703	271	103	2.67

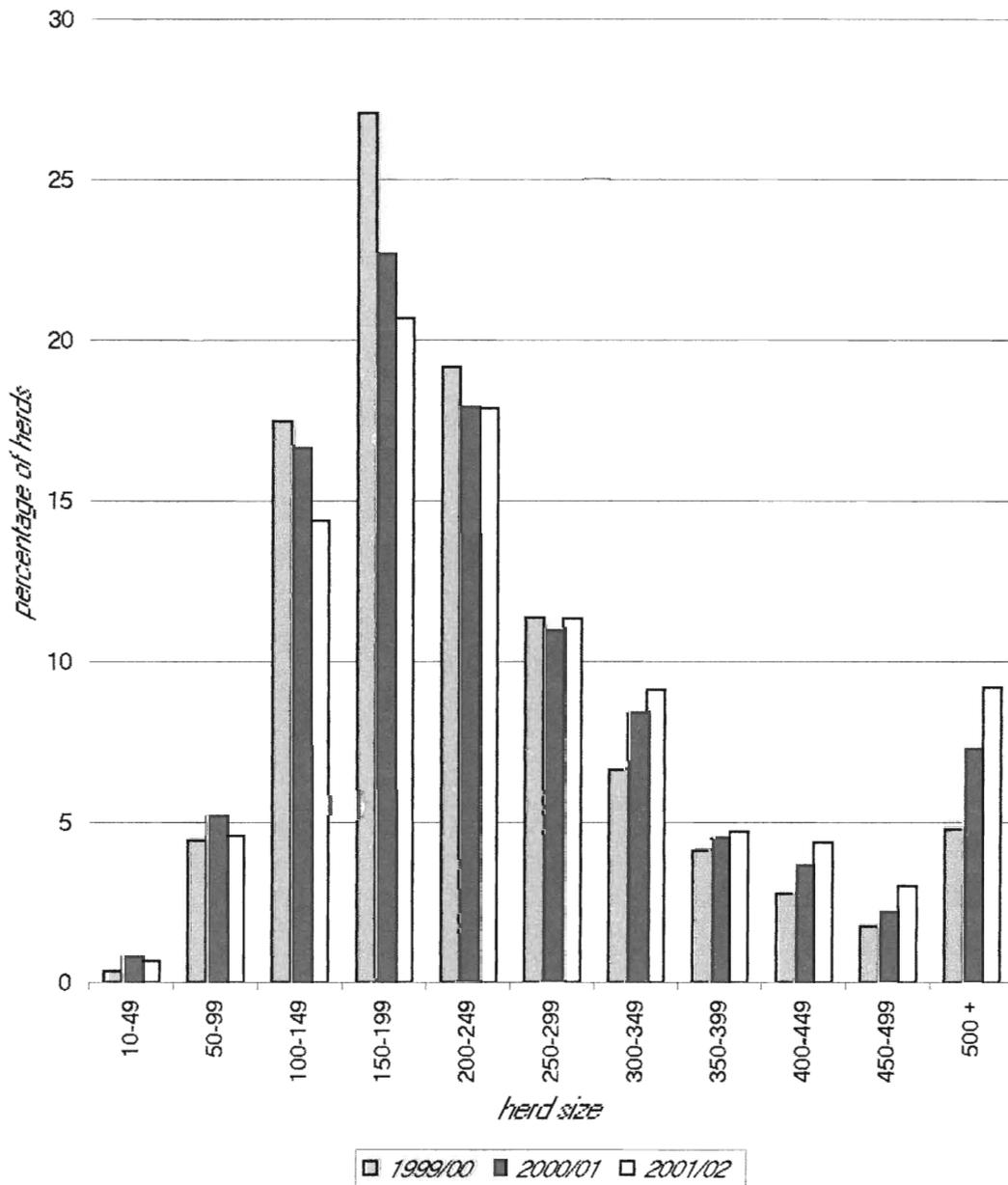
Note: Districts with fewer than five farms have been added to a neighbouring district to preserve the anonymity of the farms

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The following graph shows how the size of herds has grown since 1999 until the 2001 especially the extreme growth that has occurred with the larger herds.

It should be noted that the 300+ herd size has grown from 20.9% of the total herds in 1999 to 30.43% in 2001.



OPTIONS

The key to the people that are being reviewed by this project is the ability of the Dairy Industry to keep them “**Motivated**” and thus create the options in the future. I will work through the options that are available to Managers in the Canterbury area.

Career Managers

They are able to continue on as **Career Managers**, which for the people involved has some real advantages in that;

- a) The salary levels are reasonably high in the area of seventy to one hundred and twenty thousand dollars per annum
- b) Houses are provided at a high standard because of the recent conversions and they are charged at a nominal rental.
- c) Staff number's are normally at a level that allows the manger flexibility with their time off. This allows the manager to spend time with the family during the day.
- d) There are larger positions to progress to with more staff allowing the manager to progress up the ladder.
- e) In most of the areas there is the ability for the partner to either work on or off farm depending upon their skills.

The biggest single factor that faces a career manager is the on set of middle ages in that ‘the ability of the body to handle the workload without the motivation of owning the property’.

Urban Sector

Because they have a multiple range of skills they are able to move into the **urban sector** and utilise their abilities.

Using the skills as outlined on Page 5, I approached Mr Doug Marsh of “Management Resource” to ascertain the position and level of remuneration that could be obtained by the managers, if they applied for a position in the urban sector.

Mr Marsh is a Canterbury based “Chairman, Director, Management/Governance Specialist and Business Advisor”.
He is a Life Fellow of the New Zealand Institute of Management and a member of the New Zealand Institute of Directors.
He currently holds Eight Chairmanships, Nine Directorships and retired as the C.E.O of Donahy’s Industries.

His report concluded that a person with the skills as per Page 5 could apply for a C.E.O position with a pay scale as follows:

Maximum	-	\$152,300
Median	-	\$133,000
Minimum	-	\$122,700

All the above would be plus benefits of Car, Car Allowance, Telephone, Medical Insurance and Superannuation.

Moving into the urban sector can also have a positive effect in that they take their rural empathy and it helps bridge the gap between the urban and rural sector. They may in fact come back to the rural sector at a later date as investors, depending upon their success.

This section has the ability to generate a topic on its own as to the comparisons between the pay scales of the rural and urban sector.

Sharemilking

The next option is to move into a **sharemilking or percentage position**, depending upon their financial position.

This option will more than likely mean a shift out of the Canterbury region because the availability of these sorts of positions is not abundant.

One of the major issues that they have to face with this decision is the lower net income after having moved from the larger salaries of the Management position whilst they initially build up their assets in the form of cows.

Also the realisation that they will have to work twelve hours per day seven days of the week for three hundred and sixty five days of the year for at least ten years.

They then also face this decision again when they move from the sharemilking system into farm ownership, if they are not in a position to purchase a property that is capable of employing staff.

Equity Partnership

Another option is to enter into an **Equity Partnership**, but this again requires a reasonable amount of asset's because the vast majority of positions in Canterbury are of a large scale.

I will list some of the issues that were highlighted by Peter Ormsby at the South Island Dairy event, held at Lincoln University in 2003.

Lessons we have learnt;

- a) **Good Partners**
Partners don't need to be your good friends as long as you are travelling in the same direction.
- b) **Communication**
Communication is paramount
 - Company meetings
 - Monthly reports
 - Everything must be documented
- c) **Business structure**
The robust ownership gives us a basic foundation for our whole business
- d) **Challenges**
Equity partnerships have made us remain committed and focused in our business while creating opportunities for ourselves and our managers to grow their business.

Peter's conclusion was that "Equity partnerships need extra effort to succeed and people have to be prepared to compromise to get what is the right decision for the company. It won't happen by chance.

Peter and his partners would be one of the most successful partnership's operating at the time. But they operate to a strict set of guidelines with like-minded people and this is the greatest challenge to our current generation of Farm managers to ingrate themselves into these groups of people so that they succeed. A very important asset is the ability to "network".

Profit Share

Entering into a **profit share agreement** with our current manager was our way of helping him and his wife grow their assets to allow them to move onto some of the other options that I have previously mentioned.

We explored the options available to us so that our current manager felt that he was part of the management of the property and this then meant that there was an element of motivation to meet our expectations of the property.

The profit that was available to the manager above his yearly salary could be taken as either cash or as stock.

The stock option was in the form of cattle to the value of the dollars available after his salary. These cattle were mixed age cows that were allotted on a total number basis, but not identified individually thus meaning that there was no chance of the manager loosing any stock and also meant that he did not give any individual animal any preference. The only exclusion was the animals that were in the top ten percent of the herd based on their PW and BW. We have operated this scheme for the 2002 – 2003 Season for the first time and have found that it has delivered on some aspects that we wanted, but required very good communication by both parties. We are continuing to refine the agreement.

The next page will list the parts of the farm operating expenses that were included in the agreement; these were the parts that the manager had control. Also shown is the percentage that was allotted to the manager.

The advantage with a profit share over a production bonus is that it stops the manager from loading the expenses onto the employer. The production expenses are shared and this then serves as a training experience for the manager as to the importance of profit.

EXAMPLE FARM PROFIT ASSESSMENT

INCOME

Milk Solids	\$1,000,000	
Net Cattle Sales	\$ 100,000	
Total		<u>\$1,100,000</u>

EXPENSES

Animal Health	\$ 30,000	
Herd Improvement	\$ 10,000	
Shed Expenses	\$ 12,000	
Electricity	\$120,000	
Purchased Feed	\$150,000	
Nitrogen	\$ 25,000	
Weed & Pest	\$ 5,000	
Repairs & Maintenance	\$ 40,000	
Vehicles	\$ 20,000	
Wages	\$160,000	
Total		<u>\$572,000</u>

NET FARM INCOME \$528,000

MANAGER'S SHARE @ 14% **\$73920**

These are the expenses that we believe the manager is able to have control over.

CONCLUSION

The Dairy Industry is always in a state of change due to the fact that the people at the work face are younger people carving out a future for themselves and their families.

This is so evident in Canterbury because the larger units require people that are motivated and physically fit to handle the day-to-day rigours.

The Industry is currently going through a phase of hiring Managers as opposed to employing sharemilkers, which can be attributed to the higher payout, in that the farm owner feels that the sharemilker is getting a better return on their investment. As payout decreases and some of the pitfalls of employing second-rate managers start to surface we will see a shift back to the sharemilking industry, which is the major lifeblood of the dairy industry.

But in the interim there will be the extremely capable managers and all the experience that they possess lost to the industry, because of the lack of opportunity.

This project is not aimed at being negative to the Dairy Industry, I wish to highlight some of the issues that we will and are facing in Canterbury due to the size of our operations. These are real issues that we have to face and solve to safe guard our own and the industry's future.

We must work together to find ways to ensure that the Dairy Industry remains a vibrant and viable path to asset creation for young people.

ACKNOWLEDGEMENTS

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Peter Ormsby’s Paper as printed in the S.I.D.E proceeding of 2003, Page 151.

The Canterbury Managers Forum, held at Rakaia under the auspices of Adrian Van Bysterveld of Dexcel. They allowed me to discuss my ideas with them.

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