

DAIRY COMPANY SATISFACTION

AND DEBT SERVICING

SURVEY

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NOVEMBER 1990

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AND DEBT SERVICING
SURVEY

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SURVEY UNDERTAKEN IN
AUGUST 1990

SECTION ONE - SATISFACTION SURVEY

SECTION TWO - DEBT SERVICING

CONTENTS

Introduction

Background on Moa-Nui Dairy Company

Copy of Survey

Survey Results

Dairy Company Satisfaction

Age Groups
Farm Sizes
Debt Servicing
Communication
Public Relations
Community Involvement
Social Responsibility
Commercial Involvement
Accountability
Farmer Assistance (Financial)
Farmer Information
Farmer Education
Labour Relations
Research and Development
Director Accessibility
Director Communication
Payout
Company Direction
Environment
Comments
Summary

Debt Servicing

Level of Debt
Level of Debt By Age
Loss Situation
Level of Debt By Farm Size
Summary

Appreciation

INTRODUCTION

The survey was taken over the Moa-Nui Dairy Co-operative supply area. The questionnaire was sent to all Shareholding farmers and also to all Sharemilkers. 1039 farm owners and 260 sharemilkers received the questionnaires. There was a 22 percent response. Actual numbers that responded were 226 owners and 57 sharemilkers.

The reasons for undertaking the survey were to ascertain how farmers viewed their company and to see if there was any particular area in the companies performance where they believed it did not perform up to their expectations.

Farmers were not asked to identify themselves. Questions asked of them were:-

- whether they were sharemilker or owner
- what age group they were in
- no of cows milked
- level of debt servicing measured in cents per kilo milkfat

They were then asked to rank from one to five (one being dismal, five being excellent) areas of the companies performance as they saw it.

They were also asked whether they

- had any communication with their ward directors
- judged the company solely on the basis of payout
- believed the company should be involved in commercial areas other than dairy product manufacture.
- thought that the company was moving in the right direction

and what they expect of their company directors

BACKGROUND ON THE MOA-NUI COMPANY

Moa-Nui is one of two Dairy Companies in Taranaki. Its supply is drawn from north and coastal Taranaki. It has 1039 supplying shareholders.

Head Office is at Inglewood, with manufacturing sites at Brixton (cheese), Opunake (cheese), Pungarehu (casein) and at Inglewood (butter and milk powder).

Turnover is approximately \$230 million of which approximately \$165 million is paid out to suppliers.

Average production is 25 000 Kilos per supplier.

Taranaki is a traditional dairy area with a favourable climate suited to this type of farming.

DAIRY COMPANY SATISFACTION SURVEY

Could you please give your answer from personal viewpoint so the survey produces a true result. Feel free to add comments.

Please circle

- | | | | | | | |
|---|-----------------------------------------------------------------------------------------------|----------------|-------------------|-------------|-----------|------------|
| 1 | Are you | Owner | Sharemilker | | | |
| 2 | Age Group | 25 or under | 25-35 | 35-45 | 45-55 | 55 or over |
| 3 | Farm Size | up to 100 cows | 100 - 125 cows | | | |
| | | 125 - 150 cows | 150 - 175 cows | | | |
| | | 175 - 200 cows | 200 - 250 cows | | | |
| | | 250 - 300 cows | 300 and over cows | | | |
| 4 | How many cents per Kilo do you require to service your interest and principle loan repayments | 0 | 0 - 50 | 50 - 100 | 100 - 150 | |
| | | 150 -200 | 200 - 250 | 250 or over | | |

Please indicate your level of satisfaction with your Dairy Company performance concerning the following by placing a circle around the appropriate number.

	DISMAL		AVERAGE		EXCELLENT
	1	2	3	4	5
Communication with suppliers	1	2	3	4	5
Relationship with public at large	1	2	3	4	5
Environmental concerns	1	2	3	4	5
Community involvement	1	2	3	4	5
Social responsibility	1	2	3	4	5
Accountability	1	2	3	4	5
Farmer assistance (financial)	1	2	3	4	5
Farmer information	1	2	3	4	5
Farmer education	1	2	3	4	5

Labour relations	1	2	3	4	5
Director accessibility	1	2	3	4	5
Involvement in research & development	1	2	3	4	5

Do you have any communication with your Ward Directors . YES NO

Do you judge your Dairy Company solely on the basis of final payout YES NO

Do you believe your Dairy Company should become involved in Commercial areas other than dairy product manufacture YES NO

What do you expect of your Directors?

Comments.....

Do you believe your Company is moving in the right direction YES NO

Any further comments you may have

DAIRY

COMPANY

SATISFACTION

SURVEY RESULTS

Of the replies received 80% were from owners and 20% from sharemilkers.

PERCENTAGE OF SUPPLIERS IN EACH AGE GROUP

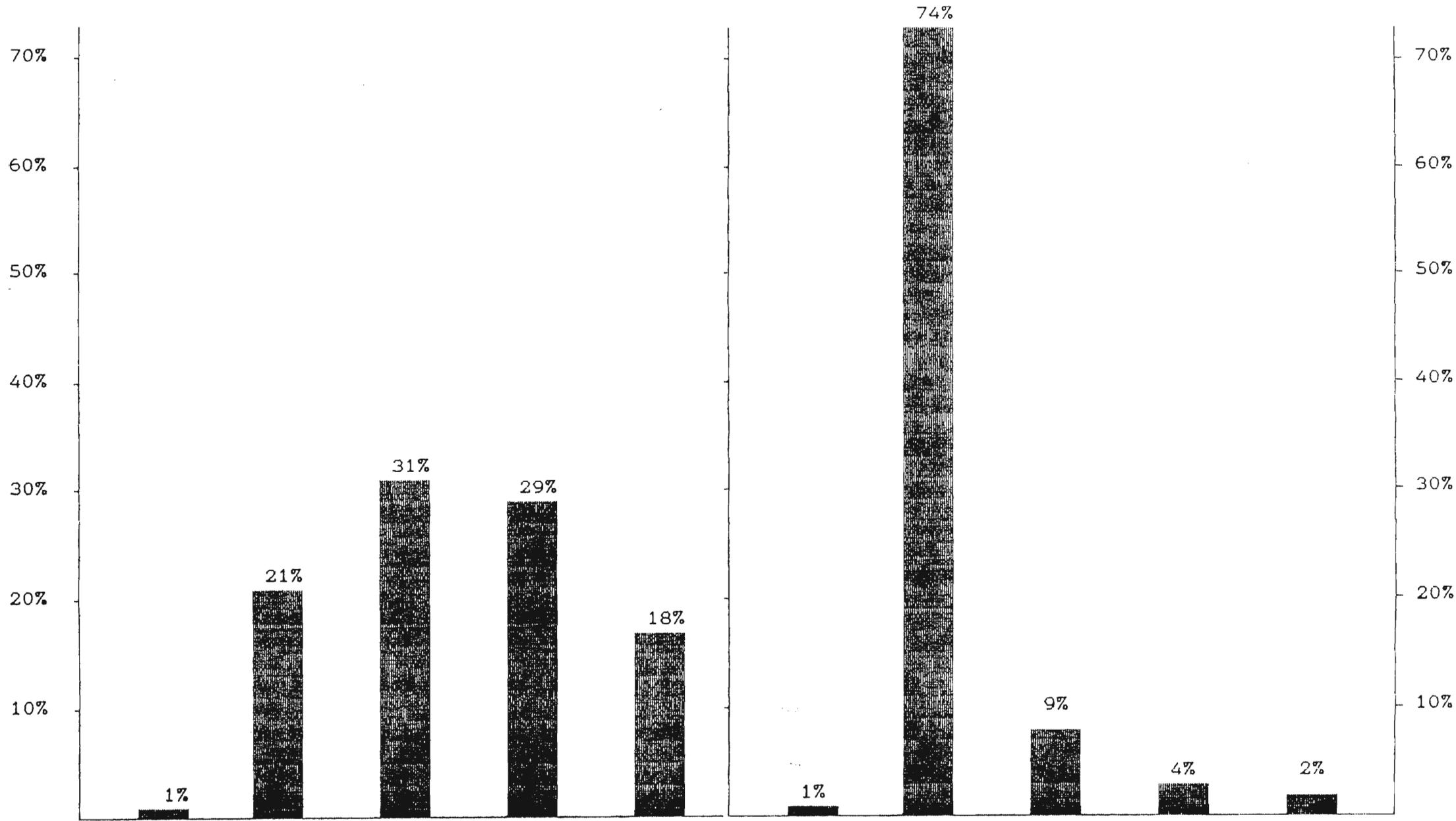
Owners

Under 25	1 %
25 to 35	21 %
35 to 45	31 %
45 to 55	29 %
55 and over	18 %

Sharemilkers

Under 25	11 %
25 to 35	74 %
35 to 45	9 %
45 to 55	4 %
55 and over	2 %

Farm owners were evenly spread from age group 25-35 upward, where as the majority of sharemilkers were in the 25 to 35 age group.



FARM OWNERS AGE PERCENTAGE

SHAREMILKERS AGE PERCENTAGE

PERCENTAGE OF SUPPLIERS IN EACH FARM SIZE

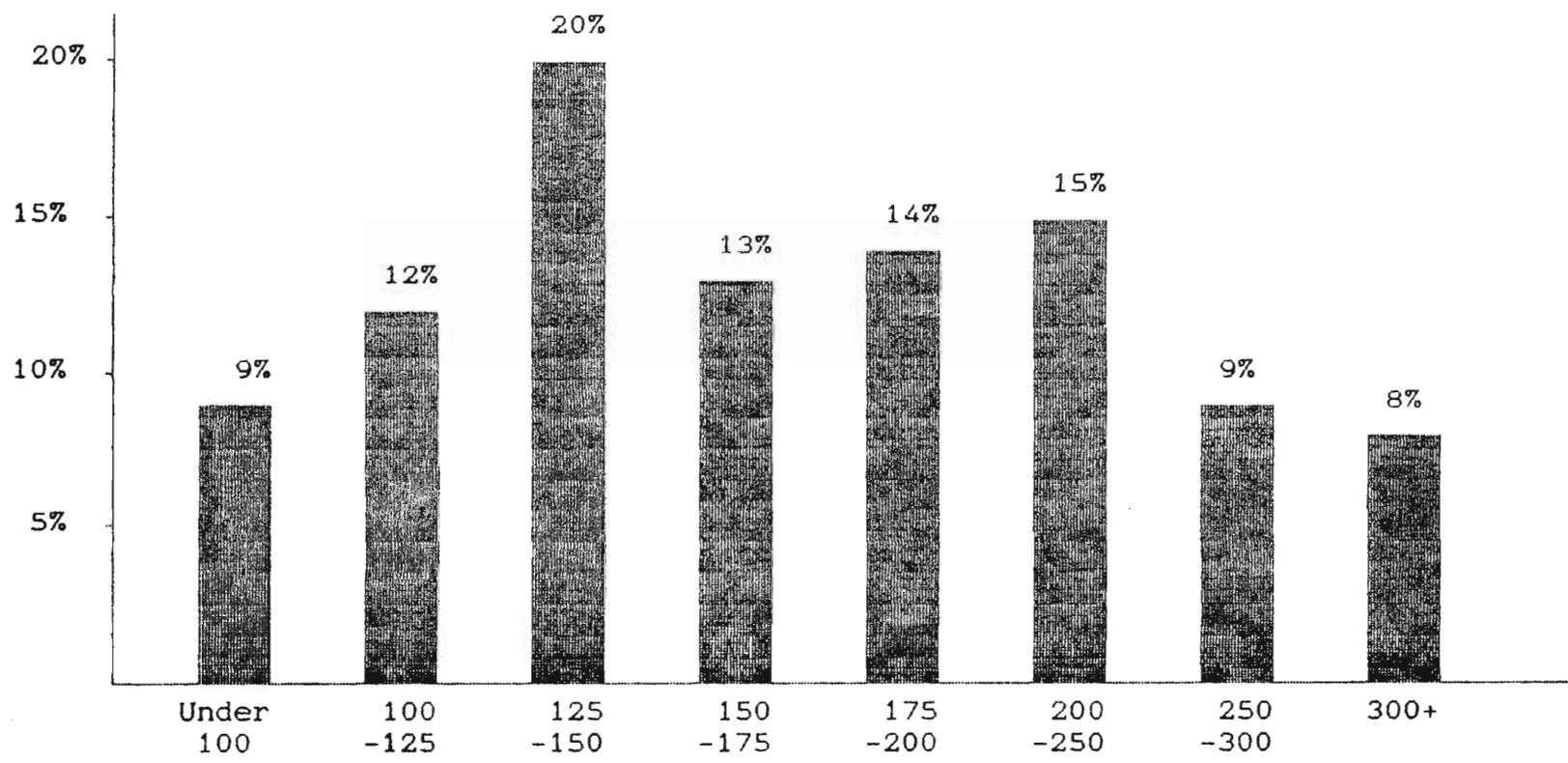
Owners

Up to 100 cows	9 %
100 to 125 cows	12 %
125 to 150 cows	20 %
150 to 175 cows	13 %
175 to 200 cows	14 %
200 to 250 cows	15 %
250 to 300 cows	9 %
300 and over cows	8 %

Sharemilkers

Up to 100 cows	5 %
100 to 125 cows	9 %
125 to 150 cows	23 %
150 to 175 cows	7 %
175 to 200 cows	26 %
200 to 250 cows	18 %
250 to 300 cows	5 %
300 and over	7 %

The replies gave an even spread over all sizes for owners, but sharemilkers were more predominate in the larger herds.



PERCENTAGE OF SUPPLIERS IN HERD SIZE

DEBT SERVICING MEASURED IN CENTS PER KILO OF MILKFAT

Owners

No debt	9	%
0 - 50 cents	18	%
50 - 100 cents	18	%
100 - 150 cents	23	%
150 - 200 cents	15	%
200 - 250 cents	10	%
250 cents and over	7	%

Sharemilkers

No debt	16	%
0 - 50 cents	27	%
50 - 100 cents	16	%
100 - 150 cents	14	%
150 - 200 cents	14	%
200 - 250 cents	0	%
250 cents and over	13	%

Debt servicing will be covered in greater detail in Section Two.

COMMUNICATION WITH SUPPLIERS

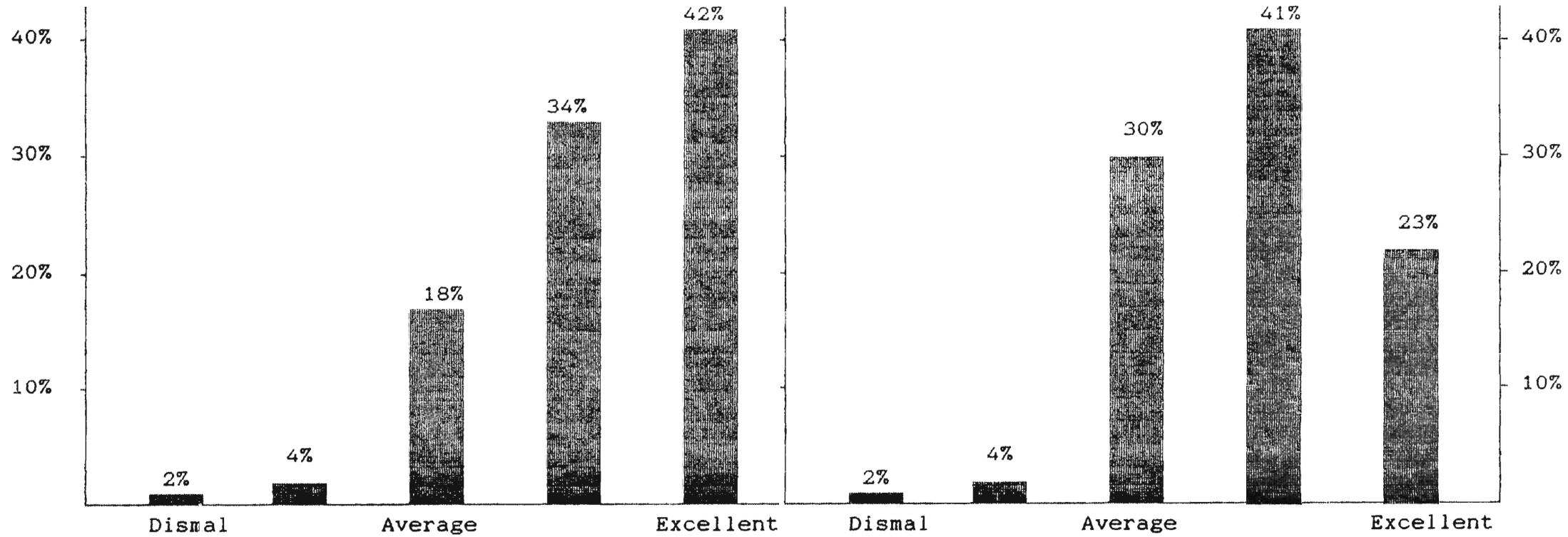
1 Dismal	2 %
2	4 %
3 Average	18 %
4	34 %
5 Excellent	42 %

Regarding the question of communication with suppliers there was no marked difference of opinion between owner or sharemilker, even when other factors such as size, age and debt servicing was taken into account.

PUBLIC RELATIONS

1 Dismal	2 %
2	4 %
3 Average	30 %
4	41 %
5 Excellent	23 %

A significant proportion of the company suppliers (36%) are of the opinion that the companies public relations are only average or below average.



COMMUNICATIONS WITH SUPPLIERS RATING

PUBLIC RELATIONS RATING

COMMUNITY INVOLVEMENT

1 Dismal	4 %
2	12 %
3 Average	37 %
4	35 %
5 Excellent	12 %

Age Group

25-35 years

1 Dismal	4 %
2	19 %
3 Average	29 %
4	38 %
5 Excellent	10 %

55 years and over

1 Dismal	3 %
2	8 %
3 Average	33 %
4	36 %
5 Excellent	20 %

With community involvement, it appears that farmers could possibly expect the company to become more involved in, and with, the local communities. When the answers were further broken down it shows that farmers in the age group 55 plus are far more satisfied with the company in this respect than the farmers in the 25-35 age group.

SOCIAL RESPONSIBILITY

1 Dismal	3 %
2	10 %
3 Average	29 %
4	43 %
5 Excellent	15 %

The replies to this question followed along similar lines to the question on community involvement with the company was rating a little higher in this area.

COMMERCIAL INVOLVEMENT OTHER THAN DAIRY MANUFACTURE

Yes	62 %
No	38 %

Owners

% that believe the company should diversify 64 %

Sharemilkers

% that believe the company should diversify 65 %

A considerable number that believe that the company should not be involved in commercial ventures other than Dairy Manufacture.

ACCOUNTABILITY

1 Dismal	2 %
2	10 %
3 Average	23 %
4	41 %
5 Excellent	24 %

The replies were then broken down into two further sections, those that had said Yes, they judged the company only on the basis of final payout, and into those that took other factors into account.

Judged Company Solely on Payout (24%)

1 Dismal	6 %
2	14 %
3 Average	34 %
4	30 %
5 Excellent	16 %

Those Who Took Other Factors Into Account (76%)

1 Dismal	1 %
2	8 %
3 Average	22 %
4	43 %
5 Excellent	26 %

The farmers that judged the company solely on the basis of payout were far more critical of the accountability of the company than those who did not.

FARMER ASSISTANCE (FINANCIAL)

All Farmers

1 Dismal	5 %
2	6 %
3 Average	25 %
4	43 %
5 Excellent	21 %

Owners with \$1.00 or less debt

1 Dismal	4 %
2	6 %
3 Average	26 %
4	38 %
5 Excellent	26 %

Owners with more than \$1.00 debt

1 Dismal	4 %
2	8 %
3 Average	25 %
4	45 %
5 Excellent	18 %

As can be seen from the figures there is very little difference between those farmers that have debt servicing of less than a \$1.00 per kilo and those who have more. While the majority rate the company as average or a little better in this department only approximately 20 % give a top mark.

FARMER INFORMATION

1 Dismal	1 %
2	5 %
3 Average	10 %
4	39 %
5 Excellent	45 %

This is the area where the company was given the highest rating, just ahead of communication. It appears that the farmers are well satisfied with the quality and quantity of information that is being given them.

FARMER EDUCATION

1 Dismal	2 %
2	5 %
3 Average	24 %
4	39 %
5 Excellent	30 %

Over recent years the company has run seminars, and this year has set up the Focus Farm concept. With the company becoming more involved in farmer education it would be of interest to see how these would compare to results from a survey sometime in the future.

LABOUR RELATIONS

1 Dismal	1 %
2	4 %
3 Average	20 %
4	51 %
5 Excellent	24 %

Company rated well with majority falling in average to excellent range.

INVOLVEMENT IN RESEARCH AND DEVELOPMENT

1 Dismal	4 %
2	7 %
3 Average	21 %
4	48 %
5 Excellent	20 %

The 32% that believe the company performance is average, or worse. This is a significant number. Perhaps the company should keep the supplier better informed on what its activities in this regard.

DIRECTOR ACCESSIBILITY

1 Dismal	4 %
2	6 %
3 Average	18 %
4	33 %
5 Excellent	39 %

With the increase in company size there is a much larger supplier base for each Director to communicate with. A Supplier Representative system that has been put in place recently to improve the performance of the company in this area.

COMMUNICATION WITH WARD DIRECTORS

Yes	65 %
No	35 %

A very high proportion had some communication with their Ward Director, especially considering the many who commented that they only saw their Director at election times. Perhaps they have included that contact in the figures.

DO YOU JUDGE THE COMPANY SOLELY ON PAYOUT

Yes	24 %
No	76 %

Owners

% that judge solely on payout	27 %
% that take other factors into account	73 %

Sharemilkers

% that judge solely on payout	15 %
% that take other factors into account	85 %

A surprisingly high percent said they do not judge the company solely on payout. This was also born out in the comments with the company having a high proportion of supplier loyalty.

DO YOU BELIEVE YOUR COMPANY IS MOVING IN THE RIGHT DIRECTION

Yes	91 %
No	9 %

Owners 90 %

Sharemilkers 84 %

A large majority believe the company is on the right track.

ENVIRONMENTAL CONCERNS

1 Dismal	1 %
2	4 %
3 Average	32 %
4	43 %
5 Excellent	20 %

There was no marked difference on the company performance regarding environmental concerns even when the replies were broken down into age groups. Most farmers believe the company performs reasonably well in this area.

COMMENTS

In the survey room was left for any comments farmers may wish to make. They were asked what they expected of their Directors and also for any general comments.

Over 80 percent took the opportunity to state what they expected of their Directors.

The most frequent comment was that Directors must maintain good communication between company and supplier and vice-versa. They also expected them to have good business and management skills. Accountability also featured predominately. Directors were also expected to be honest and truthful and show integrity in all their dealings. They were expected to be independent, show commonsense, be innovative and to do their best for both company and supplier.

Suppliers wished to be kept informed whether the news was good or bad.

In the general comments section, 42 percent took the opportunity. The comments ranged from a few words to half a page or more.

By far the most common comment was that bigger is not better and there should not be any further amalgamations. The reasons they gave were many and varied, but the most common was as companies grew larger farmers lost control and the company became more remote. They pointed out that one of the smallest companies in New Zealand also had the highest payout.

The subject of supply contracts was also a popular topic, with a considerable proportion believing that companies with stable milk supplies perform better.

Many also made the point that the investments that were being made and the assets that were being built up by the Dairy Board were being paid for by them, but with the system as it is now they would not necessarily receive the benefit from these investments before they left farming. There was also concern that the single seller principle may be lost. Many also wanted some form of stabilization.

A large number of sharemilkers wanted more of a say in the running of the company and were quite prepared to purchase shares to do so. They believe their investment qualifies them to have fair representation.

SUMMARY

In Taranaki in recent years there has developed a tendency for farmers to transfer their milk from one company to another. This is a new concept for Taranaki although it is not uncommon elsewhere in New Zealand. The Dairy Companies that served Taranaki had observed gentlemens agreements over boundaries. This system appeared to serve the province well, Companies were able to plan their future capital expenditure with the knowledge that they had a secure milk supply. This could possibly be one of the main reasons why the Taranaki Dairy Companies have always been in the forefront of returns to the farmer when compared to the rest of New Zealand. Even though there never was direct competition for supply there was healthy competition between companies in the payout stakes which must have a positive effect on individual company performance.

It was originally intended that the survey would cover all Taranaki dairy farmers but unfortunately it was not possible to survey Kiwi Dairy Company suppliers.

A large majority wish to retain two dairy companies in Taranaki. This seems to follow from the 73 percent that take other factors, as well as final payout, when judging the companies performance.

With only 64 percent of suppliers believing that the company should diversify into areas other than dairy product manufacture it would appear the reasons for the company diversifying are not possibly agreed with or maybe understood.

One area where the company did score reasonably well was in the area of communication where 42 percent of the suppliers classed it as excellent.

On the question of community involvement it would appear suppliers could possibly expect the company to take a more active role.

Farmer information was the area where the company received the highest rating with 45 percent classing it as excellent.

Consistently in the replies to the question in the survey there were a small but significant percentage who classed the company performance as dismal. While the percentage is small when converted to actual numbers of suppliers it could be of concern.

DEBT

SERVICING

DEBT SERVICING

As the replies to the survey were returned it became obvious that a large proportion of dairy farmers were going to be in serious financial difficulties with the announced reduction in the basic price from last years \$5.80 to \$4.00.

On the third of November the Dairy Board announced that there will be a further reduction to \$3.60, retrospective to the beginning of the season. This latest announcement compounds an already difficult situation.

From the results of of the survey I have attempted to assess the number that will have difficulty surviving under this level of payout.

The following graphs and diagrams will attempt to show the magnitude of the problem.

All the figures used in this section are farm owners only.

Owners Levels of Debt in Cents Per Kilogram

No debt	9 %
0 - 50 cents per kilogram	17 %
50 - 100 cents per kilogram	17 %
100 - 150 cents per kilogram	24 %
150 - 200 cents per kilogram	15 %
200 - 250 cents per kilogram	10 %
250 and over cents per kilogram	8 %

The following are generally accepted average costs for a 25 000 kilogram farm in Taranaki.

The average debt of those who responded to the question on debt servicing appears to be in the region of \$1.10 per kilo gram of milkfat.

Farm costs	\$2.40 per kilo
Allowance for Living (before tax)	\$1.00 per kilo or \$25 000

These two figures plus the average debt servicing total up to \$4.50 per kilo of milkfat.

After combining the announced basic price of \$3.60 allowing:-

25 cents/Kg for bobby calves
25 cents/Kg for cull cows
50 cents/Kg for dairy company manufacturing efficiencies

it adds up to a total of \$4.60 cents/Kg of milkfat. This leaves the so-called average farmer only just breaking even.

LEVEL OF DEBT BY AGE GROUPING

Age Group	Debt Percentage						
	0	0-50	50-100	100-150	150-200	200-250	250+
25 and under					100		
25 - 35	0	5	9	18	32	20	16
35 - 45	0	23	17	35	12	8	5
45 - 55	15	13	24	24	9	8	7
55 and over	28	31	17	11	6	3	4

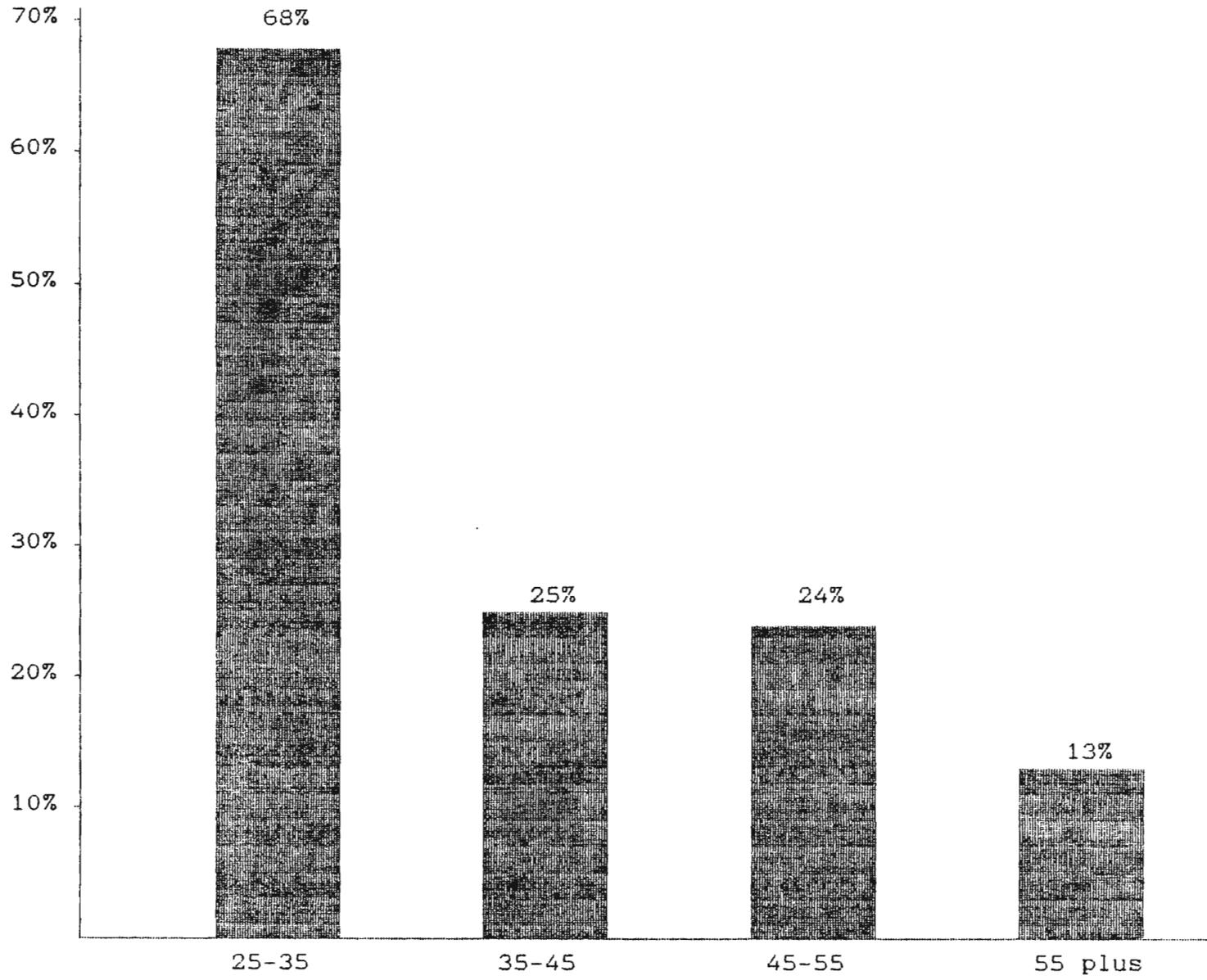
It is reasonable to assume that any farmer with a debt of \$1.50 or more is in a difficult position unless there is income provided from other sources.

This puts 68 percent of farmers in the 25-35 year age group in the at risk position. These farmers make up 21 percent of Moa-Nui Dairy Companies supply.

This group also contains the majority of recent farm purchasers. Also this group traditionally contains the most progressive farmers.

The 35-45 age group have 25 percent with a debt of \$1.50 cent/Kg or more. This group makes up 31 percent of Moa-Nui supply

It can be seen from these figures that the Dairy Industry stands to lose far more than a few farmers. It could lose nearly half of its young progressive farmers and probably never again be the same as we know it.



PERCENTAGE OF FARMERS WITH A DEBT LEVEL OF MORE THAN \$1.50 CENTS PER KILO
IN AGE GROUPS

PERCENTAGE IN LOSS SITUATION

From the following figures taken from the Dairy Farmer Survey it will be shown how many farmers will be in a deficit situation.

The first line in each section will show levels of debt with percentage of farmers at each level shown below.

Average production has been estimated for each farm size.

The maximum debt servicing will show maximum debt in cents per kilogram that can be serviced.

Percentage in loss situation. This will show the percentage that will run a deficit.

Those in a deficit situation as a percentage of the whole company.

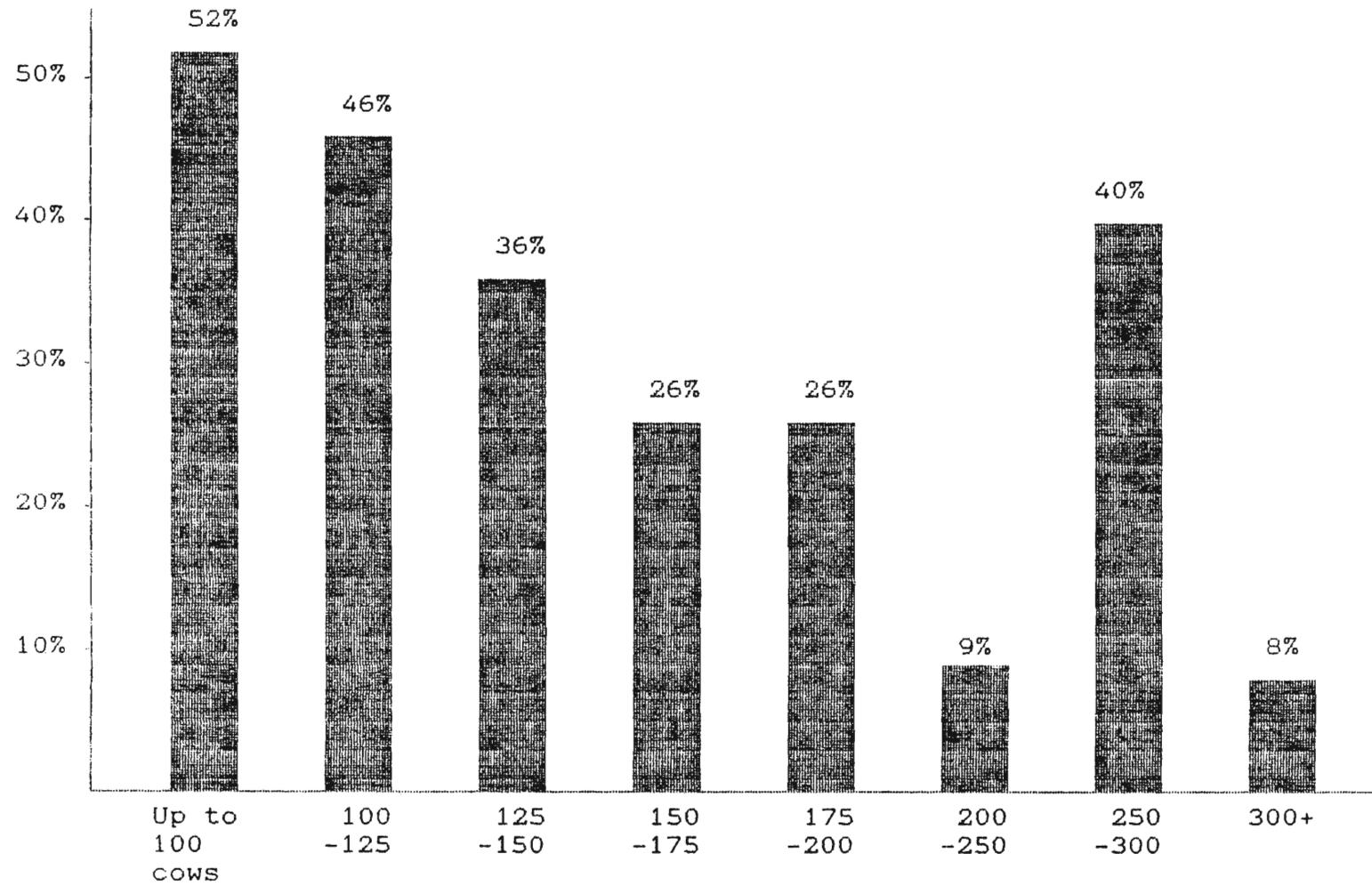
See next page for charts

FARM SIZE AND CENTS PER KILOGRAM DEBT

Cents per Kg	0 %	0-50 %	50-100 %	100-150 %	150-200 %	200-250 %	250+ %	Max Debt c/kg	% with Deficit %	Number Deficit as % of Company %
Up to 100 cows Production 16 600 Kgs est	12	24	12	28	6	12	6	70	52	9
100 to 125 cows Production 18 600 Kgs est	18	9	27	14	18	9	5	85	46	11
125 to 150 cows Production 22 750 Kgs est	3	21	16	24	18	5	13	110	36	14
150 to 175 cows Production 26 900 Kgs est	13	22	13	26	9	13	4	127	26	6

FARM SIZE AND CENTS PER KILOGRAM DEBT cont

Cents per Kg	0 %	0-50 %	50-100 %	100-150 %	150-200 %	200-250 %	250+ %	Max Debt c/kg	% with Deficit %	Number Deficit as % of Company %
175 to 200 cows Production 31 400 Kgs est	10	14	17	21	14	10	14	140	26	8
200 to 250 cows Production 37 400 Kgs est	9	13	25	22	22	9	0	153	9	3
250 to 300 cows Production 45 650 Kgs est	5	15	10	15	15	20	20	165	40	8
300 plus cows Production 49 800 Kgs est	8	38	8	38	0	8	0	170	8	1
										----- 60% -----



PERCENTAGE IN EACH FARM SIZE WHICH WILL RUN A DEFICIT AT \$3.60 BASIC PRICE

SUMMARY

The figures used in this section are for owner operated farms, if a sharemilker is employed the level of debt that can be sustained and the farm still remain solvent is reduced even further.

If the results of this survey are taken as a true indication of the Moa-Nui Dairy Company it shows that a \$3.60 basic price will put 60 percent of farmers in a deficit situation.

Many of those included in this 60 percent could be placed in a position that prevents them from continuing in dairy farming.

Sharemilkers

With sharemilkers it would appear that more than 50 percent will be in deficit at a \$3.60 cents per kilogram basic price.

APPRECIATION

I would like to express my appreciation to the following

Moa-Nui Dairy Company

For photo-copying and distributing the survey

The suppliers of Moa-Nui, without whose co-operation it would not have been possible to complete my project.

The John Newsome Memorial Trust

Guy and Wayne

Anne

Richard Jordan

KELLOGG SCHOLAR 1990