The Fruiterers' Company Newsletter
April 2019
John Giles

View from Overseas

What will change the produce World in 2019?

2019 is set to be a year full of change in the UK and international produce sector. Liveryman John Giles, from Promar International, reviews some of the factors that will impact on the industry over the next 12 months.

- **BREXIT** – this is the biggest change facing the UK economy *per se*, let alone just the produce sector. At the time of writing, no one is still sure what sort of Brexit we will end up with, but many are now planning for a 'No Deal' scenario or a situation of "what is the worst that can happen"? Either of these are bound to see a change in the structure of the supply chain. The best prepared being able to survive, having taken into account potential impacts on supply, labour and customers. Those that have not, will be in for a hard time. Exporters in the rest of Europe will carry on doing business in the UK and might well look to set up more joint ventures and/or programmes of inward investment to access the UK market. At the same time, they will be tempted to look at other international opportunities to compensate for any down turn in business they experience in the UK
- **Investment in robotics will increase** –the issue of labour availability in the UK has been building for some time but this is not just an issue in this country, but seems to be impacting on many other areas of the world too. Looking at the opportunities that can be achieved by the use or robotics in areas such as planting, picking, packing and distribution of fruit and vegetables surely must come more to the fore if this problem is to be tackled meaningfully. In the UK, the issue will come in to sharper focus if labour supply from other European countries will be restricted in the future. In many cases, the technology already exists to do this but the cost of uptake has often proved to be a barrier. This is likely to change in the future
- **Consolidation in the supply chain** – it looks as if the merger of Sainsbury and ASDA could possibly go ahead at some stage in 2019. This will create a situation whereby the two largest retail chains (Tesco and the JS/ASDA merger) will now have a combined market share of around 60%. There will inevitably be a knock on impact on the supply base both for UK and international suppliers
- **Ongoing growth of the discount sector** – over the last 5 years, the German discounters have shaken the UK market up beyond all recognition. Both Aldi and Lidl still have ambitious plans for more store openings over the next few years. This will only add to the level of competition in the retail market *per se*. The Co-operative has also announced a programme of new store renovations

- **Increased focus on sustainability issues** – pressure from a combination of customers, NGOs and government will see additional demands made on companies at all stages of the supply chain to demonstrate good practise in areas such as the use of water, reducing the use of plastics, mitigating the impact of climate change and reducing carbon footprint levels. This has been building for some time now and show no signs of diminishing in the next 12 months
- **Use of Big Data and block chain technology** – these developments have again been building in the supply chain for some time now, but have yet to see wide scale uptake in the produce sector. The use of block chain technology has seen uptake in other sectors of the economy, such as financial services, but some retailers in the US are starting to experiment with this in the agri food sector as an alternative to existing traceability systems. Big data projects have so far focused on production based issues, linking together information on soils, water, climate and yields with relatively little development of models in the post-harvest sector. This still presents a big opportunity to add value to both products and services for produce companies both internally and to customers
- **Booming demand in Asia will continue** – no one needs reminding of the fact that there will be 9 billion consumers in the world within a generation and much of this growth will be in Asia. Population growth in the mega countries such as India and China has probably peaked, but in these countries, there will be hundreds of millions of consumers entering the middle classes in the next 10 years. This will continue to drive demand for high quality imported fruits and vegetables. Suppliers such as Chile, Peru, South Africa, New Zealand, the US and in some EU countries will continue to make inroads into Asian markets. They will also need to balance the effort needed to build new business with maintaining hard won markets over many years in the likes of Europe and North America. Asian markets are just not all about India and China though – Indonesia, the Philippines, Malaysia and a host of other countries will all offer opportunities for well informed and export savvy produce companies

Together, these factors will produce what we at Promar have referred to in the past as a "heady cocktail" of influences that will continue to shape the future direction of the market for fresh produce. We see no reason why these will be diminished in the next 12 months and beyond.

European Fruitgrowers Market
April 2019
John Giles

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The UK – an attractive, challenging and changing market, regardless of Brexit?

Info

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Regardless of the outcome of the BREXIT discussions, the UK market for apples and other fruit products is going through a period of fundamental change. This presents an environment of opportunity for some – and threats for others.

These changes have seen the rise of the discount chains over the last five to eight years, the growth of online shopping, the rapid development of the convenience sector and ongoing consolidation in the supply chain. Consumer interest in the provenance of produce, environmental factors and social responsibility has also increased. Price and value for money have always been important, of course, but are even more so now than in the past. Apple growers and exporters, wherever they are based, should make the upmost effort to understand what is happening in the UK market on a regular basis because of this.

A new industry strategy

The UK apple market has, like many other horticultural products, seen a relatively low level of self-sufficiency. As a result, it has been dependent on imports from a combination of other EU countries and the Southern Hemisphere. The UK is a small scale producer of apples compared to the likes of Poland, Italy, Germany and France and accounts for just 2% of EU apple production. Production has begun to re-increase in the UK, however, in the last few years, not least due to the development of a new industry strategy, spearheaded by the main sector body, English Apples & Pears. The overall objective here is to increase the proportion of the UK apple market supplied by the domestic crop from its current level of c. 40% to 60% by 2030.

There has also been the ongoing trend for consumers in the UK to "buy British". Shutterstock

Buy British

There has also been the ongoing trend for consumers in the UK to "buy British" which has boosted UK production and been led by the buying strategies of the leading supermarkets. At the same time, the ongoing consolidation of the UK producer base has seen arguably the emergence of a fitter, leaner industry per se.

While there is a good deal of talk about the opportunity to develop exports of UK apples in a post BREXIT world, these are likely to remain very much niche in their nature and mainly focused on areas of the world such as the Middle East and some parts of SE Asia.

UK exports are not "the industry answer" though and, in our experience, the most successful exporters in the fruit, and even wider agri food sector, start by dominating their own domestic market. This is something that the UK apple sector over an extended period has clearly been unable to do. Replacing some of the historical imports seems to be a more realistic objective, although will still require a good deal of hard work to achieve.

Exports of produce or agri tech?

While it seems unlikely that the UK will be exporting significant volumes of produce, there are, we believe, good opportunities in the provision of technical skills/services and educational/training services, where the UK is inherently strong. This is all part of an estimated US$ 400 billion global "agri tech" market, covering the need to find solutions to complex problems/challenges surrounding the need for more "resilience" in the supply chain, use of water, climate change, the environment, labour and the opportunities brought about by the move towards a digital economy.

This strength in the UK is not least because UK supermarkets have demanded that our produce companies are well resourced in these areas in the drive to develop highly efficient supply chains. And this is where countries, especially in emerging markets are eventually heading.

Soft fruit industry as a success story

Despite the encouraging development of the UK apple market in recent years, it has also been put under pressure from the growth of the other fruit sectors in the UK, such as the soft fruit industry. This has been one of the huge success stories of the wider UK agricultural sector over the last 10 years. This can be attributed to the emergence of a highly consolidated production sector with two leading players dominating the UK supply side.

Interestingly, they have very different operating structures, with one being a growers co-operative and the other, a private company. The common feature is that they are both very good at what they do, can source from a combination of local and imported supply on an all year round basis, have invested in the development of new varieties and are very customer focused.

Competition and the need to benchmark

The UK fruit market has also seen the growth in the import of more exotic fruits, such as mango and avocado, both of which have enjoyed increased demand over the last five years. All this makes for a very competitive market and the constant need for investment in production, post harvest technology and marketing to survive, let alone thrive.

And at the same time, apple growers in the UK are competing against many other suppliers from the likes of France, Germany, Chile, South Africa and New Zealand in particular. As a result, they need to be as efficient as they possibly can. Engaging in benchmarking against other countries in terms of varietal mix, costs of production, storage and logistics, as well as marketing and promotional activity needs to be carried out on a regular basis against other suppliers, as well as any internal activity.

Lots of change and opportunity ahead

This all adds up to a fast changing market environment for those supplying the UK market, be they home based or from the other side of the world. Change is happening at a pace not seen before in the UK produce sector. There is a need to be better informed about the threats that these might well bring, as well as in many cases, the opportunities too. Where will we be by the end of 2019 – in some cases, it is difficult to tell but in other areas, the evidence for the direction of change is compelling. Keeping on top of all this moreover is a demanding task, and not least, is where companies, such as Promar, can help.

Still an attractive market

The UK can be characterised by a number of factors that contribute to making it an attractive market whatever the final outcome of BREXIT might be. These include:

- 68 million relatively wealthy consumers
- a high degree of concentration at the Point of Sale, with five supermarkets accounting for c. 75% of sales
- at the same time, other opportunities in alternative routes to market, including the foodservice sector and more niche customers in farmers markets and shops, on line sales and home delivery, etc.
- a large demand for apples per se and a wide range of consumer types
- good physical infrastructure
- established demand for a wide range of varieties and pack sizes
- opportunities for premium varieties, as evidenced by the success of Pink Lady® apples and to a less extent other Club varieties
- an ongoing need for imports
- an acceptance of new varieties and need for innovation
- high levels of good agricultural practise required to supply the key customers, which in effect, means that if you can supply the UK market, you can supply any one

The Perishable Products Export Control Board
9th April 2019
John Giles

10 THINGS TO DO FOR BREXIT FOR SOUTH AFRICAN FRUIT EXPORTERS

John Giles, Divisional Director, Promar International

This article has been prepared on the eve of the decision for the UK to leave the EU. Even at this relatively late stage, it is not fully clear as to what sort of BREXIT we might end up with. There will almost certainly be several more twists and turns in the negotiating process before we get to the final deadline of March 29th.

In these circumstances, it can be difficult for South African fruit export businesses to know what to do, but at the same time, "doing nothing" does not seem to be an option either.

In these circumstances, difficult and unpalatable though it might be, preparing for a situation of "what might be the worst thing that can happen" seems sensible and taking the appropriate action as a result.

There are several things that all businesses should be thinking about, regardless of what the outcome of BREXIT might be. Some of these are to be done in the very short term and some might need a more mid to long term perspective but still need to be factored in to the overall equation.

A "check list" of some areas that South African fresh produce firms should be taking into consideration should probably include as follows:

- **Lobby government** – the situation regarding market access to the UK could well change post March. In a worst case scenario, WTO type tariffs could be imposed soon afterwards. If a deal can be achieved, then there might well be a transition period of up to two years, which would take some of the immediate heat off SA fruit exporters. The South African government needs to be lobbied to ensure that the best possible access to the UK is continued for SA, whatever the outcome is. On a more positive note, the fact the UK will, in time, be able to negotiate its own trade deals, might mean there is an opportunity for SA to gain even better access than it now has.

- **Think about currency** – it is quite likely that in the build up to 29th March and afterwards, the £ could fluctuate against key currencies such as the € and the US$, with knock on impacts on the SA Rand. In an industry with tight operating margins, an adverse movement could have a negative impact of profits. Thinking about hedging funds over the short and medium term to protect these would seem sensible, even if it is expensive to do.

- **Talk to customers** – sharing future plans for the UK market with customers and supply chain partners seems an obvious thing to do. They will probably be thinking about the same sort of things and might also be able to share what is emerging as best practice from other supply chains.

- **Talk to staff** – share what your plans are for the business in what might be this "worst case scenario" and gain their buy in and support. The UK is a key export market for many SA growers and exporters. Be open and frank with staff about what plans are being made for this.

- **Understand tariffs and customs clearance procedures** – these could all easily change after 29th March. Lots of information is being produced by the UK government on this. Keeping abreast of this is essential if SA companies are not to be caught out. Not least, in a very worst case scenario, produce being trans shipped via other EU markets might attract a tariff. SA exporters should be checking on logistics to supply the UK market on a direct basis.

- **Update UK export strategy** – the next few years will almost certainly see a more changeable trading environment in the UK with the possibility of new tariff and non-tariff barriers in place and the general economy being more uncertain. This is a good a time as any to review the real core competencies of the business and identify key trends in the UK that will impact it over the next three to five years, regardless of BREXIT. A well developed view of what the UK customer base will look like in the future and how it will be supplied will be useful.

- **Understand consumer and customer behaviour** – even aside from the BREXIT process, the UK market has gone through a fundamental change in the last five – eight years. This has seen the rise of the discount chains, the growth of online shopping, the growth of the convenience sector and ongoing consolidation in the supply chain. Consumer interest in the provenance of produce, environmental factors and social responsibility has increased. Price and value for money have always been important, of course, but are even more so now than in the past. SA growers and exporters should make the upmost effort to understand what is happening in the UK market on a regular basis.

- **Consider other markets** – the UK market has been at the very heart of the South African fruit export effort for many years. While there are still many factors that will make the UK an attractive market for SA based exporters, this might be also an opportunity to assess where the UK fits into an overall export portfolio. Building new markets takes time and effort, and as a result, this sort of review should be carried out on a regular basis.

- **Benchmark –** regardless of what sort of BREXIT prevails, SA based exporters are competing against many other suppliers from the likes of Chile, Peru, India, Argentina, Mexico and the US, to name a few. SA growers and exporters need to be as efficient as they possibly can, and not just to supply the UK. Engaging in benchmarking against other countries in terms of varietal mix, costs of production, export logistics and marketing and promotional activity should be carried out on a regular basis against other suppliers, as well as any internal activity.

- **Talk to the bank** – many of these actions will have a financial impact on the business, be it in the short to medium and even longer term. Talking to the bank is essential to plan for what might happen to the business in the immediate period after 29th March and for the period beyond this. Banks are there to help and advise and are also dealing with lots of other businesses in a similar situation vis a vis BREXIT. Talking to them and sharing ideas can only be positive.

Change is happening at a pace not seen before in the UK produce sector. There is a need to be better informed about the threats that these might well bring, as well as in many cases, the opportunities too. Where will we be by the end of 2019? In some cases, it is difficult to tell but in other areas, the evidence for the direction of change is compelling. Keeping on top of all this moreover is a demanding task, and not least, is where companies such as Promar can help.

Fresh Produce Journal (online)
10th April 2019
Emma Gough

Eastern berry promise

China presents massive opportunities to global berry suppliers as consumers there get richer and demand healthier food

China presents massive opportunities to global berry suppliers as consumers there get richer and demand healthier food, according to Promar International's Emma Gough and Hortifrut Chile's David Smith, who told the Global Berry Congress (GBC) last month that China's growing middle classes and increased health consciousness spelled great news for berry exporters.

Blueberries, in particular, are in demand thanks to their sweet taste and well-publicised health-giving properties, Gough revealed; while fresh raspberries and blackberries remain niche items due to their tangy taste.

Demand for blueberry imports has risen 70 per cent in the last five years, Gough said, with consumers prefer very large berries that are firm to the touch with good bloom. Domestic Chinese blueberry production, meanwhile, is rapidly improving and has gone up by 40 per cent in four years.

Smith, meanwhile, said that by 2022, China's upper-middle class will account for 54 per cent of the population – some 431m people, and its mass-middle class 22 per cent, or 175m consumers.

This demographic change presents massive fruit export opportunities, he said, because when the poor move up to the middle class, they "buy more stuff", and when they go from mass middle to upper middle, "they buy more expensive stuff".

"The rising middle class will change everything in China," he told GBC delegates.

Smith said the prevalent consumer trend among China's middle classes is for healthy snacks and nutritional food, and that recent surveys showed that more consumers than ever (51 per cent) are willing to pay more for premium food products.

At the same time, China is experiencing a 20 per cent sales growth in organic products, he said, and is predicted to become the world's largest importer of organic foods.

Meanwhile, the advent of mobile phone payments and new retail systems emerging in China is also revolutionising the way consumers shop.

Alibaba's Hema online-offline stores which can only be accessed and used with a mobile Hema app, for example, are creating a new retail experience and establishing a new set of expectations for consumers, Smith said.

Other companies are following suit, he added, such as JD.com with 7Fresh, and Tencent and Carrefour's Le Marché.

David Smith is based in China for Chilean berry supplier Hortifrut.

Emma Gough is senior consultant at UK headquartered Promar International, an agricultral consultancy company.

The Global Berry Congress was held in Rotterdam on 25-27 March.

Farmers Guardian
19th April 2019
Nigel Davies

Efficiency was the key theme at this year's National Herdsmans Conference, organised by LKL and held at Harper Adams University. **Katie Jones** reports.

Key to improving performance is to start by measuring it, says Nigel Davies.

Nine habits of the most efficient dairy farmers

Nigel Davies

Benchmarking and trust key to gains

EFFICIENCY undoubtedly has different meanings for different people, but improving efficiency was not necessarily just about 'big gains'.

That was the message from Nigel Davies, Promar national consultancy manager, who said greater efficiency was about 'little gains' and he encouraged farmers to look at how 'habits' were important to overall efficiency.

"I have identified nine habits which can help on the journey to becoming more efficient.

"The first of these is the ability to fight unproductivity.

"For this you need to know what or who represents the bottom 10 per cent. This might be the bottom 10 per cent [of] cows, fields, or even staff. But, ultimately, it is about understanding what you need to do with this group to improve performance.

"It does not necessarily mean getting rid, it is about working out how to improve performance. The key is to measure in the first place."

Performance

Mr Davies said another habit was to have clear goals which could easily be translated into a few easily understood key performance indicators.

While Mr Davies conceded benchmarking was nothing new, he said it was commonly a habit of the most efficient.

"However, make sure you are benchmarking like against like.

"I often advise benchmarking in comparison with what the business did last year, rather than against other people's businesses," he said.

Mr Davies also encouraged the delegates to take time away from the business to spend with family and on leisure activities. "A lot of studies show us efficiency actually improves when time is spent away from the business."

He said it was also important to take time to reflect on the positives of the business and look at how you were operating in terms of your priorities.

He advised the delegates to assess which category they normally operated in when working – important and urgent, important but not urgent, urgent but not important, or not urgent and not important.

"You should be operating in the 'important, not urgent' category as much as possible as, if you deal with issues when they are this category, they will never get to the important and urgent one."

He also said it was a good habit to give staff responsibility, recognise improvement would not be pain free and be able to say 'no' in order to control your time.

"My advice is to 'do, plan, eliminate or delegate'. Planning is key to this, and these habits will establish themselves best when you are well informed and can occasionally step away from the business."

The nine habits identified by Nigel Davies

- Fight unproductivity – identify the bottom 10 per cent
- Have clear goals
- Benchmark
- Give staff responsibility and trust
- Recognise that improvement might be coupled with some pain
- Say no in order to control time
- Take time out for family and leisure
- Give gratitude
- Address important issues before they also become urgent

SPEND ON PREVENTION NOT TREATMENT

VET Dave Gilbert, Horizon Vets, said a key driver to a herd's efficiency was animal health.

"Herd health investments can be seen just as a cost, or as an investment.

"I like to see a big spend on preventative medicines, as this shows investment is being made.

"As a vet, you will expect me to say this, but what I do not want to see is a big spend on antibiotics as this is just cost."

Investment

He said it was not always more efficient to spend less on vet and medicine costs, and instead it was important to focus on return on investment.

"However, you need to be realistic; it takes time to get to where you want to be in terms of herd health and to reduce vet and medicine spend."

Dairy Farmer
April 2019
Mark Wheeler

With another round of Countryside Productivity Small Grants Scheme (CPSGS) due to be confirmed shortly, **Mark Wheeler**, of Promar International, advises farmers to plan ahead so they are ready to take advantage of the opportunity.

Care needed with grant form

> “Grants covered up to 40% of the eligible costs per applicant with the ability to bundle together several items from the list of eligible items

The next round of the CPSGS is expected to open shortly. This gives farmers time to assess the opportunity and to get the details together prior to application as last year the application window was relatively short.

Defra commented late last year that it had committed £30 million for further rounds of the scheme which helps farmers buy equipment to boost productivity and increase yields. Farmers from the livestock, dairy, arable and the horticultural sectors are expected to be eligible to apply for the next round of this grant.

The 2018 grant round, which was launched in February, was for a minimum of £3,000, up to a maximum of £12,000.

Grants covered up to 40% of the eligible costs per applicant with the ability to bundle together several items from the list of eligible items. This meant the maximum cost that could be grant aided was £30,000.

You can only apply for specified types of equipment, geared at improving productivity. If based on similar principles to round one last year, the items included in this scheme will have been identified as helping achieve improvements in either animal welfare, resource efficiency or nutrient management.

Expert opinion

▸▸You can buy an item that at least meets the minimum specification, but you will only receive a grant based on the standard cost.

Eligible

Last year, items eligible for grant included fixed cattle handling systems, cattle crushes, specialist foot trimming crushes, electronic weigh systems, Auto ID shedding gates, cluster flushers, heat detection systems, calf milk pasteurisers, heat recovery units and plate coolers, robotic silage pushers, electric scraper systems, trailing shoe slurry systems including macerators, dribble bar or shallow injection slurry systems, direct or strip till drill, and variable rate controller for sprayers and fertiliser spreaders.

As an example, last year you could have bundled together an application for a weigh crush, an electronic weigher and a hand-held EID reader to improve management of heifer growth rates.

Alternatively, you could have applied for heat detection collars and a base unit.

Whatever you decide to apply for, each item is likely to have a minimum specification and will be given a standard cost, which is the maximum fixed price the grant will be paid towards. This means there will be no need to provide quotes for any item. You can buy an item that at least meets the minimum specification, but you will only receive a grant based on the standard cost.

The application is likely to be an online process with a form requiring full details about the business and sets out the items you can apply for funding towards. It is not a short form, so you need to make sure you have all the details required and set aside the time to do it. It is well worth seeking professional assistance, as small errors can result in rejection.

Full details of how to apply will be available in the application handbook, which is essential reading before you apply. There are specific criteria that must be adhered to and, as always, the devil is in the detail.

For example, you must be registered with the Rural Payments Agency (RPA) to apply and have both a single basis identifier (SBI) number and a customer registration number. Last year, a significant number of applications were turned down due to minor errors.

Issues experienced included incorrectly filling in the application form, such as not entering the SBI number correctly, or such things as where the business name or email address were not the same as those registered with RPA.

Taking professional advice will help ensure the form is completed correctly, and that items are of the proposed quality for grant funding.

While the availability of grants is always welcome, there is no obligation to invest simply because there is a grant available. Before applying take the time to review how the item or items fit your business and investment plan.

It is important to determine if the investment will add value to the business and if it is the most important investment if funds are tight. Look closely at your ongoing investment needs and, most importantly, plan now, so you are ready to take advantage of whatever the next round might offer.

British Dairying
April 2019
Mark Wheeler

Plan ahead for grant application

With another round of Countryside Productivity Small Grants Scheme (CPSGS) due to be confirmed shortly, farmers are being advised to plan ahead so they are ready to take advantage of the opportunity.

"Another round of the CPSGS is expected shortly," explains Promar senior consultant Mark Wheeler. "Defra announced late last year that they had committed £30 million for further rounds of the scheme which helps farmers buy equipment to boost productivity and increase yields.

"Farmers from the livestock, dairy, arable and horticultural sectors are expected to be eligible to apply for the next round of this grant."

Funds available to farmers

The 2018 grant round, launched in February, was for a minimum of £3,000, up to a maximum of £12,000. Grants covered up to 40% of the eligible costs per applicant with the ability to bundle together several items from the list of eligible items.

"If based on similar principles to round one last year, the items included in this scheme will have been identified as helping achieve improvements in either animal welfare, resource efficiency or nutrient management," Mr Wheeler explains.

"Each item is likely to have a minimum specification and will be given a standard cost which is the maximum fixed price which the grant will be paid towards. This means there will be no need to provide quotes for any item.

"You can buy an item that at least meets the minimum specification, but you will only receive a grant based on the standard cost."

Eligible items for grant

Last year, items eligible for grant included fixed cattle handling systems, cattle crushes, specialist foot trimming crushes, electronic weigh systems, Auto ID shedding gates, cluster flushers, heat detection systems, calf milk pasteurisers, heat recovery units and plate coolers, robotic silage pushers, electric scraper systems, trailing shoe slurry systems including macerators, dribble bar or shallow injection slurry systems, direct or strip till drill and variable rate controller for sprayers and fertiliser spreaders.

Mr Wheeler says the application is likely to be an online process with a form requiring full details about the business and sets out the items you can apply for funding towards.

"We strongly recommend reading the application handbook in full. There are specific criteria that must be adhered to, and as always the devil is in the detail.

Rejected applications

"Last year a significant number of applications were turned down due to minor errors.

"Issues experienced included incorrectly filling in the application form, such as including not entering the SBI number correctly. Taking professional advice will help ensure the form is completed correctly and that items proposed quality for grant funding."

Plan investment carefully

However, he urges farmers not to invest simply because there is a grant available—but advises they review how the item or items fit their business and investment plan.

"Will the investment add value to the business and is it the most important investment if funds are tight? We advise looking closely at your ongoing investment needs and to plan now so you are ready to take advantage of whatever round two might offer," he adds

British Dairying
May 2019
Nigel Davies

The 9th National Herdsmans' Conference, organised by LKL Services, took place at Harper Adams University recently and covered a wide range of topics. Caroline Stocks reports.

Focus on fewer priority breeding goals

Being clearer about breeding goals and choosing a small number of breeding factors to focus on could help the UK dairy herd make significant improvements to productivity in just a few years.

Bess Jowsey, LIC pasture to profit consultant, said too few farmers had honed in on breeding goals as a way to drive efficiencies and improvements in their businesses.

But by focusing on just three breeding factors—which could be different on each farm—producers could make considerable genetic gains in a short amount of time.

"Considering breeding and genetics is a fundamental part of the dairy system. I'm not convinced farmers build factors into breeding decisions and understand the selection pressures they can apply," she told delegates at the Herdsmans' Conference.

Herdsman Conference delegates visited the Furnival Family's New Grange Farm for a series of practical sessions. Managed by Dan Lovatt, an equity partner, the unit runs 650 spring block calving cows, all crossbreds

Making genetic gains

"Making genetic gains boils down to a few things—the calves we're rearing, sire selection, and the cows you chose to cull or breed as replacements.

"By having clarity around breeding goals and focusing on gain, the faster the genetic improvement will be."

When it comes to breeding calves, Ms Jowsey said it was important to understand why certain cows were being selected to breed from, and to acknowledge that some poorer cows might be making the grade. "Is it because fertility performance is poor, so you have to breed from any cows, or are you using sexed semen and you need to be more selective? If you can apply more pressure to what you rear, your genetic gain will be faster."

To help with selection, Ms Jowsey said farmers should use a profitability index to monitor which cows are the most productive, healthy and long-lived. "Often the best cows are the ones you don't notice, so having data to help you make decisions is important."

When it comes to bull selection, understanding the traits farmers want for their farm or milk contract was critical, she noted. "There are obvious things, but there will also be limiting factors which will be specific for your business. Whether it's fertility, days in calf or days in heat, focus on three things and decide wha[t] you need to do to make improvements. If you focus on ten trait[s] your selection pressure reduces."

Driving out inefficiencies from dairy businesses

Adopting simple habits to improve efficiency could help dairy farms add tens of thousands of pounds to their bottom line every year, suggested dairy consultant, Nigel Davies.

Mr Davies, national consultancy manager for Promar International, said poor organisation and basic inefficiencies was costing the UK dairy businesses huge amounts every year.

However by making small improvements in a number of areas, farmers could increase their productivity significantly.

Discussing the results of Promar's Farm Business Accounts service, which collects information on more than 500 producers across the UK, Mr Davies said the top 25% of producers made an average of £864 profit/cow in 2018.

Meanwhile, the bottom 25% of producers made just £457/cow—a difference of more than £85,000 when this was multiplied across the average herd size of 210 cows.

"That difference isn't because they have a significantly better milk price, as the top 25% had a 0.1p/litre better milk price than the others," he told the conference. "And it isn't that they had larger herds, as the top 25% actually had an average of 201 cows.

"The difference is they had slightly higher yields—8,580 litres compared to an overall average of 8,498 litres—and better all-round efficiency."

Rather than focusing on making one single—and often costly—improvement to their business, Mr Davies said the most successful operations were the ones that were making small gains across numerous areas.

By improving everything from bedding costs to electricity prices and staff management, those farms were able to better manage increases in overhead costs, as well as invest more per cow on capital expenditure.

To help farmers take steps to improve productivity, Mr Davies said they should adopt 'habits of efficiency' to drive chance.

These include regularly thinking about where potential inefficiencies lie, ensuring everyone on the farm understands the business' goals, and measuring and benchmarking.

Giving responsibility to staff, being strict on your time and what you want to achieve by a certain point, and making time for yourself and your family were also steps to making more productive, efficient businesses, he added.

"Achieving these things is what will give you the profit improvement," he said. "Planning is a key part of this, but it's important to remember that efficiency is a journey rather than a destination, so what you focus on to drive efficiency will change as you progress."

British Dairying
May 2019
Andrew Suddes

Planning business strategy

In the first of an occasional series where Promar consultants consider aspects of cost management and sustainable production, regional manager Andrew Suddes looks at the importance of developing the best strategy for your business.

Milk production in the UK has reached an almost unprecedented level, with 14.84 billion litres being produced in the 2018-19 year. With the UK dairy herd size remaining static over the last two years with 1,879,000 dairy cows in December 2018 according to Defra statistics, Mr Suddes says the question has been asked about where is all of the milk coming from?

"The simple truth is that the remaining UK Dairy farmers are operating at higher levels of technical performance, driving milk yield per cow through more advanced management techniques," he explains. "Genetic improvement, better fertility management, more precise nutrition and increased efficiency of youngstock rearing are all part of the success story in recent years.

"Eventually, better management will force greater returns from businesses, notwithstanding milk price fluctuations. But the key question is what is the most appropriate strategy for an individual business given there is no one-size fits all formula for success?"

Strategy is often confused with business structure, management style or long-term goal setting. However, in dairy production he says that Promar advocate that business success is fundamentally about economics and profitability.

Every farm business has a potential optimal level of production at any moment in time. The optimum point is the sweet spot where output is at its highest level while average cost of production is minimised (see figure below). The precise level is difficult to pinpoint and it will also fluctuate depending on the market, input costs and resource constraints—but the goal must be to understand what this optimum level is.

Andrew Suddes.

"If a farm is to the left of the graph, it is producing below the optimal productive potential of the business," he explains. "We call this sub-optimal production. If you are operating in this zone you are not producing as much as you could be and this has an impact on costs of production as they are spread over fewer litres. You are likely to benefit by spending more on production as the main set of resources including cows, buildings, land and money are not being pushed hard enough.

"If, however, you are producing more than the optimal level of production and are on the right of the graph then the marginal additional cost is greater than the marginal additional value, meaning overall returns are being lowered. These unprofitable litres eat away at the margin made by hitting the sweet spot level of production. We call this sub optimal cost of production. If you are in this zone you are likely to benefit from focussing on cost reduction ahead of increasing output further."

He says that typically producers in the sub-optimal income category believe the way to make money is to keep costs down to a minimum, but in reality are not achieving as much as they could. Conversely, farmers in the sub-optimal cost group believe the way to make money is to maximise income, but often end up with a higher cost structures.

"Conceptually, to maximise the profitable potential of your business you need to operate at the optimal point or somewhere close to it. So the question is how do you go about doing this?

Analysis of key data

Mr Suddes says that to determine your sweet spot requires analysis of data and of your wider business to identify the key constraints to growth. He says a constraint could be land, buildings, cow numbers but could also be more esoteric areas such as cost base, staff performance or even something like the operating performance of equipment, such as the milking parlour.

Once you know the key constraints you can begin to formulate a strong strategy. It may be that producing more milk sustainably is the answer for your business. This may require investment—for

The optimal production point is where output is at it's highest and where average cost of production is minimised.

Management tactics	Sub optimal production	Sub optimal costs
Breeding	Increase replacement rate Use more productive sires	Reduce replacement rate Use higher longevity sires
Feeding	Produce more ,better forage Increased feed rate	Reduce forage unit cost Lower feed rate Challenge use of feed additives
Youngstock	Reduce age at calving Increase numbers reared	Heifer optimisation Use sexed semen
Herd health and fertility	Reduce calving index Reduce not in calf %	Increase pregnancy rate
Housing and infrastructure	Space utilisation	Cow flow and work flow

example automation may be part of the answer—so this needs to be carefully planned.

Equally, if the direction of the business is to reduce production and costs, then this will have financial implications so again, consideration needs to be given to the effect on business performance and the time it might take to achieve your goal.

"It is important to acknowledge that changing the system, for example moving to block calving, milking three times a day or expanding the herd, need not necessarily be the solution.

"There is merit, in the right circumstance for all of these approaches not least because they offer a reference model that experience and analysis has proven to be feasible. The choice of system is important but every system of production can be done well or badly and more often than not this is because the level of resource is not optimised for the system.

"Sadly, in many cases system get changed at great expense because it isn't working when it would be easier and less disruptive to try to optimise the level of cost and production from the current system."

Once you have determined the sweet spot, and where you are in relation to it, it is possible to break this down into a series of management tactics, so that your efforts are focussed (see table above).

Choosing best actions

"Depending on whether you are trying to increase output or control costs, you can choose the best actions. For example, if you are trying to boost output you will want to breed more replacements while if the aim is to control costs then reducing youngstock numbers and keeping cows longer will be a higher priority."

Mr Suddes emphasises that while this may all seem complicated and, perhaps overly academic, the reality is there is a lot of data and information that can be used to work out the optimal level of production for any dairy farm business. Providing good records are maintained it is possible to model and benchmark data to breakdown what is happening and forecast the potential gains to be made from optimisation.

"There is no doubt that as customer requirements intensify and productions systems become more complex it is becoming harder to optimise all of the various inputs that are required. Because of this it is tempting to carry on working harder and just trying to do more of what has worked in the past.

"Unfortunately doing more of the same rarely produces a different result. Investing time in planning and analysing your system is the first step towards building a resilient and sustainable business.

Dairy Farmer
May 2019
Nigel Davies

Continual improvement in margins should be a goal of all serious dairy producers, but can be a delicate balancing act. In the first of a new series on farm costings, we look at monthly factors affecting dairy margins with Promar national consultancy manager Nigel Davies, who will consider what we need to be on the look out for.

National viewpoint: Feed costs per litre up

In the last full financial year to March 2018, Nigel Davies says many farmers were able to control their rise in the cost of production per litre by the dilution effect of producing more milk.

He says: "Promar Farm Business Account results for the financial year ending March 2018 showed that the average farms produced 4.3% more milk than they did in the year before. This was through a combination of keeping four more cows and increasing yield by 188 litres/cow compared to 2017.

"Despite total variable costs and overhead costs in absolute terms increasing well in excess of inflation by 6.9% and 5.6% respectively, this 'dilution effect' effectively reduced the upward pressure on costs to just 2.1%. Unit costs would have been markedly higher if it were not for increased production."

Output

Mr Davies says increasing milk output can be an effective strategy to reduce costs and increase margins, but warns the increased output must be sustainable.

"Producing more milk offers a chance to dilute costs, but marginal litres need to be profitable. Very often, we see farms where more cows are kept but the result is that other factors affect how well additional cows perform.

"For example, feed space becomes too tight, standing times increase, fertility slips due to reduced attention, and extra cows do not produce as expected.

"It is vital to ensure extra cows do not overstretch the system. In addition, producing more milk can push up feed costs.

"The marginal response can be as low as 1kg milk per kg concentrates so the milk price to feed price ratio is important, as is the quantity and quality of forage available."

Looking ahead to this year, Mr Davies says on many individual farms forage supply has contributed to a decline in output growth over the last winter, commenting that the latest Promar Milkminder year-on-year averages suggest production only increased by 2.7% over the 12 months to January.

> **"It is vital to ensure extra cows do not overstretch the system**
>
> NIGEL DAVIES

He says there has also been a slowing down in the rate of growth of herd size as a consequence of reduced total forage stocks. However, milk yield has continued to increase by another 153 litres/cow.

Culling cows

"Many farmers took the decision to cull cows to help extend forage stocks, and this is the major reason for the dampening in herd growth. Yield increases could have been tempered by the need to feed more concentrate and a rising feed price.

"Our latest Milkminder sample indicates the average herd fed 80kg/head more concentrate, with concentrate price rising by £18/tonne over the last 12-month period.

"They also fed £7/cow more purchased feeds, such as brewers grains, to make up for less forage.

"Consequently, the combined effect for these farms is that the feed costs per litre rose by 0.78ppl [10%] over the last year, increasing the feed bill by £77/cow.

"Looking at the top 20% of Milkminder farmers, ranked on margin over purchased feed, shows a comparable but more accentuated picture, with greater yield increases, but more concentrate fed."

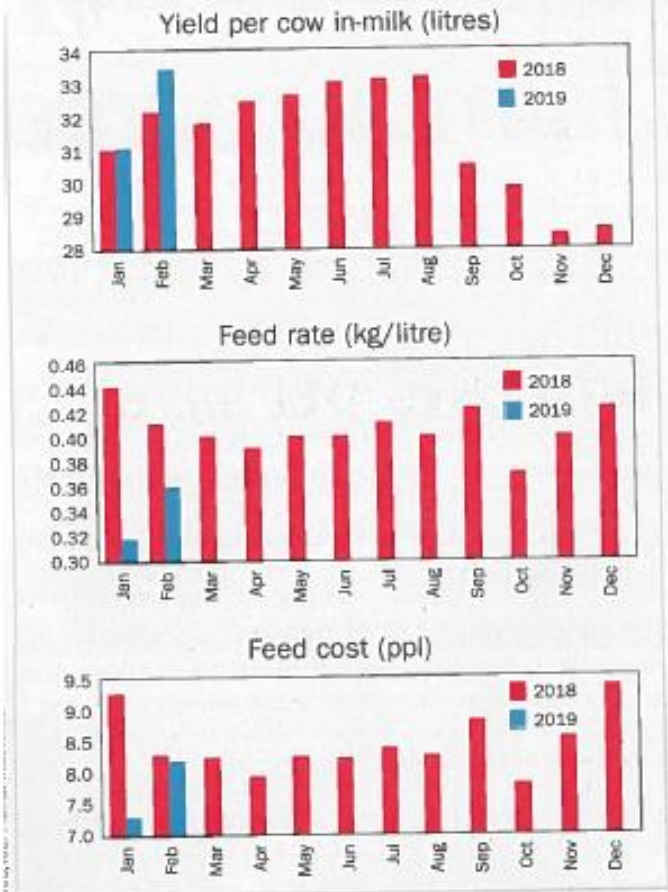
Mr Davies says that all dairy farmers will need to keep a close eye on feed costs. (See Fairy's Lodge charts).

Part of that equation will be costs associated with rebuilding forage stocks, stressing that farmers need to be planning to produce enough forage, not just for winter but also for buffer-feeding next spring too, i.e. always looking and managing for 12 months ahead.

He says: "More better quality forage will increase the opportunity to either reduce purchased feeds per cow or facilitate an increase in herd size to allow cost dilution.

"Hopefully we will also see feed prices easing back. Currency volatility is keeping

Key performance data at Fairy's Lodge Farm



downward pressure on cereal prices, while new crop cereals have eased considerably as good yields are expected.

"South America is anticipated to produce a large soya crop, while the US is predicted to plant a bigger soya area, which would build on their large stocks from this year. Soya hulls and wheatfeed have eased for summer. All these could check feed prices."

But he stresses the importance of monitoring all costs closely. He says oil, labour and general inflation costs are all tracking higher than for the same period last year.

Mr Davies says: "For farms which can plan to accommodate and manage extra cows and produce marginal litres at a profit, cost dilution will be an important part of the strategy.

Budgets

"Increased output will need to be carefully budgeted and based on a realistic assessment of milk price, and performance must be closely monitored to ensure extra cows deliver as expected.

"Whether milking more, the same number or fewer cows, the objective is to produce every litre efficiently, monitoring margins over feed monthly and all costs regularly."

Dairy Farmer
May 2019
Emma Thompson

Having no history in dairy farming allows Oliver Williams to take a fresh look at all aspects of milk production, unconstrained by prior experiences. Here, we look at his farm strategy.

Oliver Williams' three times-a-day milked herd has continued to expand steadily and now numbers 450 cows.

Moving into milking

Until five years ago, Fairy's Lodge Farm, near Kettering, was a suckler and arable unit, but is now home to 450 dairy cows. And with no dairy herds within a 10-mile radius, Oliver Williams, the fifth generation on the family farm, is having to follow a steep learning curve.

He says: "Having worked on dairy farms, I was always interested in going into milk production.

"In 2014, we were running 120 sucklers and growing 150 acres of arable. We felt we needed to diversify and, with the milk price looking good, we made the move into dairying."

The plan was to establish a herd of 120 cows milked through two robots, while retaining 80 sucklers, and Oliver bought a herd of 105 cows to kick-start the unit.

Then the milk price tumbled and he had a system where cost of production was tied, so, in January 2016, he faced the decision to either get out of milk or do things differently. The outcome was to sell the robots and instead install a 30:30 herringbone parlour as a way of reducing financing costs.

The sucklers were sold to finance an additional 80 cows and, by August 2016, he was milking 200 cows.

"Expansion was adopted as the best route to reduce overhead and resource costs, with the goal of reducing cost of production. I work to a simple premise: I will make money so long as I am able to keep costs of production below the average milk price. And having no preconceptions, I am able to challenge everything. If a litre will be profitable, we will produce it. If it will not be profitable, it will not be produced."

Costs are monitored using Promar Farm Business Accounts and Milkminder, and Oliver works closely with regional manager Emma Thompson.

She says: "If you are serious about managing costs you need to understand what drives all your costs and how they compare using realistic benchmarks.

"Currently Oliver's variable costs are 47% of turnover, which is better than the Promar average of 49% but below the top 25% performance of 43%. By knowing where he stands and how each cost compares, we can set plans to reduce costs and monitor progress."

The three times-a-day milked herd has continued to expand steadily and now numbers 450 cows, averaging 10,170 litres at 3.96% fat and 3.39% protein, selling to Arla on a Tesco contract.

Oliver says: "Now we are at our target herd size, it is all about efficiency and cost management.

"We want to tighten everything and challenge each part of the system. For example I was told repeatedly I will not be able to produce enough good quality forage as I am in East Anglia, but why not? We are currently producing about 1,600 litres from forage, which is 60% above the previous year, and I see no reason why I should be targeting less than 4,000 litres."

This year, he will be growing 150 hectares of maize and will be looking for five cuts from the 90ha of grass leys.

Emma Thompson

In a big change, he will be making all the silage using the farm team.

"In previous years, we mowed and tedded, but a contractor picked the crop up.

"This meant we were cutting at the average maturity, as it all had to be forage harvested in one go.

"This meant we were compromising on quality to fit in with the way we harvested the crop. By taking forage procuction in house, we can cut every field at the optimum time and pick it up after the optimum wilt which will increase feed value.

"It will also mean we can get slurry on in a more targeted way.

"If everything is cut in one block, we cannot get round with the slurry quickly enough and we lose the fertiliser benefit.

"Cutting in smaller blocks will mean all fields will get the slurry in time and allow us to go for five cuts while reducing purchased fertiliser costs."

Oliver Williams (right) and the team at Fairy's Lodge Farm.

The forage is the basis of the TMR fed to the all-year-round calving herd which is housed 365 days-a-year.

The target is 70% maize and 30% grass, as Oliver says maize is a less variable forage allowing a more consistent diet.

The rest of the TMR comprises a blend, a bespoke mineral and a fat supplement.

A single milking diet is produced with cows fed twice-a-day.

There are four milking cow groups, two dry cow groups, and a fresh calver group.

Oliver has just rejigged cow grouping to improve efficiency.

He says: "We always used to run as two groups, one of 210 cows and one of 180 with small fresh calved yards. But we found there was too much standing time around milkings, so we decided to move to smaller groups.

"We now have a 90-animal heifer group, a group of 90 open cows and two groups of 105 pregnant cows.

"Reducing group size has reduced standing times and we are seeing increased dry matter intakes as a result.

"Parlour efficiency is maximised as all the groups are sized so we are always milking full sides. What is the point of having a parlour with 15 units per side then setting up groups so you are not filling it? The only group that does not fill the parlour is the fresh calved group."

Looking forward, Oliver accepts herd replacement cost and reproductive performance are prime candidates for attention.

Having purchased cows from various sources, he accepts replacement rate has been high as, inevitably, cows have had to be sorted out while the number of heifers home-bred was fewer than required. Now, with adequate replacements in the pipeline and having moved out cows that did not fit the system, he anticipates being able to reduce the number of heifers required.

"We have used Genus ABS RMS since November 2018 and it is having a big impact on fertility.

"We had been averaging a 20% pregnancy rate with our own staff.

"Now, through a combination of our team, RMS and CowManager, we are targeting a 23% pregnancy rate, and 49% of cows are in-calf within 100 days in-milk. We target eight to 10 calvings a week. Heifers have been coming in at 27 months but are now on target to calve at 24-25 months, which will reduce total replacement costs."

With a drive on efficiency and cost management, Oliver says having a stable team is crucial.

> "I am confident we can continue to increase cost efficiency and performance
>
> OLIVER WILLIAMS

He now has a team of nine full-time staff and two part-time tractor drivers who together are responsible for the 450 cows, youngstock and 380ha of forage and arable crops.

"Finding, attracting and retaining staff has been a challenge.

"But I am fortunate now to have a really good team and together I am confident we can continue to increase cost efficiency and performance," he says.

British Dairying
June 2019
Neil Adams

Tackling labour productivity

In the second in an occasional series where Promar consultants consider aspects of cost management and sustainable production, managing director Neil Adams looks at ways to reduce labour costs by focussing on productivity.

Improving labour efficiency is often seen as a problematic issue of farms but it has a big impact on both financial performance and also work life balance for all working in the business.

"Labour represents the second largest cost on UK dairy farms after feed," Mr Adams observes. "In common with feed costs there is a massive gulf between the best and worst performing farms. The difference between the top third and bottom third farms in feed spend is a massive 3.4 pence per litre. For labour the range is identical, equating to a difference in labour spend of around £50,000 on an average sized farm.

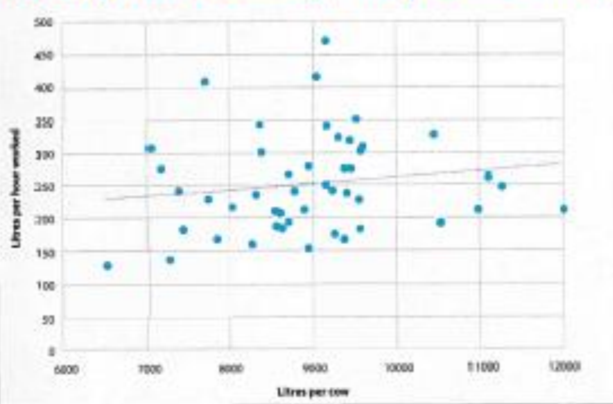
"Working with clients, we regularly experience an ongoing and continuing focus on driving feed efficiency using technology, management effort and external expertise. In contrast, it is less common to see the same attention and effort applied to reducing labour use. So the question is why is this?"

Mr Adams believes a key factor is that labour is unlike all other inputs like feed or equipment, suggesting that while most inputs are about 'things', labour is about people.

"This is where the difficulty starts. Changing things is easy and amounts to little more than picking up the phone. Changing people is hard as it involves dealing with performance, giving instructions, providing feedback and developing ability while also dealing with emotions and aspirations."

Promar have identified several key reasons for a reluctance to address labour efficiency on farms. Mr Adams says the first is that there is no agreed common measure in everyday use, making benchmarking difficult. Secondly, many businesses have difficulty measuring and apportioning labour to the dairy enterprise. Finally, he believes many farmers are uncertain about processes to deliver improvements.

UK Dairy Farm Productivity (Litres per hour worked)



Source: Promar International UK Dairy Farm Sample labour study.

Performance measures

"If inroads are going to be made reducing labour costs, it is important to have a meaningful and reliable measure of performance. Hours per cow or cows per man have commonly been used but aren't particularly helpful. An input of 250 hours is half as efficient on a 6,000 litre herd as on a 12,000 litre herd of the same size.

"Cost per litre is a more useful measure because it reflects differences in productivity and labour rates. However, our experience is that a time based measure delivers a more meaningful reference as it equates to how people think about labour.

"Saving minutes, hours and days is relatable for workers and managers who can measure the time it takes to do jobs and think practically how time can be saved. So we focus on expressing dairy herd labour productivity in terms of litres produced per hour worked and comparing businesses on this basis."

The scatter chart confirms there is a wide range of labour input across all yield levels. Mr Adams observes that while some farms in the 9,000 to 10,000 litre yield range are achieving productivity in excess of 300 litres per hour worked, other farms are achieving half this level of productivity. He says there is slight trend towards higher labour productivity at higher yields but the data also illustrates that high and low productivity can be found at every yield level.

Recording labour inputs

Mr Adams says it is essential to know and manage hours applied to milking, herd work, crop work, office support and any other tasks. He argues it is too easy to dismiss this exercise because of the difficulty of obtaining accurate information. But he urges farmers not to be put off by this as an approximate measure based on common sense analysis of what people do is better than no measure at all and can be a valuable starting point.

"We work with clients to develop consistent ways to record all hours worked on the farm including family labour. "While there can be a difference in wage rates and a difficulty in determining an appropriate rate for family labour there should be no problem in recording hours worked. Next the calculation needs to determine how much total time is spent on herd management and productive activity.

Influencing productivity

He says that once farmers have gone through the exercise, most confronted with the data tend to ask a lot of sensible questions.

"They want to know how their farm compares, where they can make improvements and what information will help them make better decisions. Working with clients we have used the productivity cycle, a simple logical step by step framework to help address these issues. The four stages are productivity measurement, evaluation, planning, productivity improvement and then the cycle starts again.

He explains the measurement step enables the evaluation of any process that takes place in the business. This could be at a high level, for example to consider feeding as a whole. Or it can also be at a more detailed level, such as considering the time it takes to load the feeder wagon.

"Once the evaluation is complete time can be spent planning improvements, ideally with all the relevant team members involved.

"Often the people doing the task will spot how productivity can be improved and time saved. Seconds saved can add up to many hours over the course of year. The improvement in productivity allows either less hours to be employed—perhaps as shorter working days—or for more production with the same level of labour input."

Neil Adams.

As milking will generally account for around a third of the hours consumed on most dairy farms Mr Adams says this is a good place to start. He suggests most inefficiency is related to the periods of time when cows are not being milked but advises using data analysis to identify the real bottlenecks in the milking process.

He says time spent feeding is heavily influenced by transport, loading times and number of mixes. "Many feeding systems are overly complex and time consuming. We work with farms who are successfully running above average sized herd without a feeder wagon, putting feed direct into troughs and then relying on parlour feeding. The trade-off here is that the higher feed price per tonne will be offset by overall much higher savings in labour and equipment costs.

Mr Adams says the greatest labour saving practice on dairy farms is grazing. Feed is harvested by the animal and manures are returned to pasture without any mechanical intervention. Any trade off in lower yield can easily be overcome by labour savings.

"Labour savings need not be limited to outside tasks," he suggests. "We can all be submerged with paperwork and administration.

Getting rid of clutter, simplifying workflows and a good filing system are the building blocks of an efficient office.

Planning ahead

"The other big time stealer on farms is dealing with the unexpected, the events which deviate from the norm. Animals escaping, illness, breakdowns, shortage of materials are just a few of the types of event that produce inefficiency. Preventative measures and planning will help to reduce the time lost to these events.

"A positive approach to labour productivity backed with measurement, planning and engagement can transform farm performance. It is not something to be ignored but should be right at the top of the list for building a successful and sustainable dairy business," Mr Adams concludes.

Dairy Farmer
June 2019
Nigel Davies

Continual improvement in margins is a challenge and a discipline required by all dairy producers. In the second of our series on farm costings, we look at monthly factors affecting dairy margins with Promar national consultancy manager Nigel Davies.

National viewpoint: DIY and outsourcing are about much more than just costs

Nigel Davies says many farming businesses, large and small, regularly outsource several key tasks and use contractors to complete jobs they might otherwise do themselves. But why is this? And is it the best way for the business to get particular tasks completed?

Mr Davies says: "If it has become an ingrained habit to contract everything out, or do it all yourself, rather than a considered business decision, it is worthwhile periodically re-assessing which approach is best.

"After all, since the last serious review, the relative price of fuel, labour, machinery and personal circumstances, might have markedly changed, as could your business objectives for the task."

He says the key tasks outsourced for dairy businesses are often labour, management, herd reproduction performance, field work, office work and youngstock rearing.

Mr Davies adds: "When we look at some of these costs recorded in the Promar Farm Business Accounts sample to March 2018, a number of them show a marked difference between the top 25% performing businesses by profit and the average businesses by profit. *[See table]*.

"However, there is no discernible pattern in the sample that the top 25% outsource or use contractors more than the average group. What they are more likely to be doing is continually re-assessing the costs of whichever option they choose and assessing if it is the most effective way for them. Interestingly, both labour and contracting charges are lower in the top 25% group."

He says a good example of a task often contracted out, which may now be better done in-house, is silage-making, especially if a multi-cut system is being considered.

"While using a contractor may allow the crop to be harvested more quickly and leave your staff to focus on managing cows, you may have less control over when the crop will be cut, which will affect feed value. You can also lose out if the contractor is delayed getting to you.

"Conversely, doing the silaging yourself will allow you to be more focused, cutting and wilting each field at the optimum time to boost feed value and allowing more efficient use of manure, but will require greater investment in machinery, bringing with it the associated cost risk of breakdowns and potentially a higher wages bill.

"The skill is to weigh up all factors, not just headline costs, when making the decision."

Table: Variation in costs that could be impacted by outsourcing

Parameter	Top 25% by profit (March 18)	Av business by profit (March 18)
Total wages	3.03ppl	3.78ppl
Machinery repairs	1.15ppl	1.30ppl
Machinery contracting	1.60ppl	1.99ppl
Office overhead costs	0.73ppl	0.64ppl

SOURCE: Promar Farm Business Accounts