



**A Nuffield Farming Scholarships Trust
Report**

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**Reducing dairy farm costs to prosper
in a global market**

Jason Vickery

July 2014

NUFFIELD UK

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A Nuffield (UK) Farming Scholarships Trust Report



Date of report: July 2014

*"Leading positive change in agriculture.
Inspiring passion and potential in people."*

Title	Reducing dairy farm costs to prosper in a global market
Scholar	Jason Vickery
Sponsor	The Trehane Trust and The Dartington Cattle Breeders' Trust
Objectives of Study Tour	To study the practices of the best dairy farmers to establish common traits in controlling costs to ensure these farmers consistently make a profit even during economic downturns.
Countries Visited	Australia : New Zealand : China : Ireland
Findings	<p>The most successful farmers:</p> <ul style="list-style-type: none">• Are usually 1st and 2nd generation businesses: they are hungry for success. Others can tend to rest on their laurels• Are always planning and budgeting: dairy farming benefits from being approached in a business-minded way• Follow good business principles: there is a need to emulate profitable business models• Invest for the long term: the most effective farmers have re-invested and grown in the good times.• Are open to new ideas about learning: are prepared to adapt to change - for example with new technology - to capitalise on opportunities that will help survival and profitability when times are hard.• Are very optimistic: their determined and forthright attitudes allowed them to see opportunities• Did not succumb to marketing hype: by sorting the wheat from the chaff, they only purchased on a need (not a want) basis.

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DISCLAIMER

The opinions expressed in this report are my own and not necessarily those of the Nuffield Farming Scholarships Trust, or of my sponsor, or of any other sponsoring body.

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1. Introduction

About Me

My name is Jason Vickery. I am 47 years old and married to Nicki. We have four children Robert (11), Henry (13), Polly (18) and Gemma (20). My family have a long tradition of dairy farming. Having left school at 16, I went to work on the family farm. When my father sold the business in 1991, I became a dairyman until I'd built enough funds to take on the tenancy of a Dorset County farm of 70 acres with 30 cows.



Me, Jason Vickery

About my farm/my business

In partnership with my wife, Nicki, I am now a tenant on the Duchy Estate at North Lawn Farm, near Gillingham in Dorset's Blackmore Vale - referred to by Thomas Hardy, the county's most famous poet and author, as 'The Vale of the Little Dairies'. With a herd of 350 cows, we operate a simple system of turning grass into milk.

I make no excuses for the fact that I have copied systems and approaches to dairy farming which I believe will allow my business to run more efficiently and ultimately prosper. Until I took a trip to Ireland in 2001 I had a very traditional approach to running my farm using all year round calving.

Reducing dairy farm costs to prosper in a global market ... by Jason Vickery

A Nuffield Farming Scholarships Trust report ... generously sponsored by The Trehance Trust and the Dartington Cattle Breeders' Trust



Impressed by the level of profits small dairy farms in Ireland were achieving, I came home and modelled my system on what I had seen in Ireland which was an altogether more professional approach. It was simple and, as I had the skill set already, the transformation to a spring calving system and paddock grazing was simple. Cow tracks were installed, I cross-bred my cows and put in a new water system. The system soon became profitable. This released cash, freed up time and gave me the opportunity to set up two new partnerships with young farmers in two additional farm units milking a further 700 cows.

Since 2001, I have been a member of 'The Gillingham Grazers' which is a group of local dairy farmers who meet every month on farm for lively discussions about our issues, as well as new ideas. These discussion groups are well structured, facilitated by an outside consultant and provide all of us with valuable business and personal support.

1a. Reasons for my topic choice:

'Reducing dairy farm costs to prosper in a global market'

1. There has been much negative press in the UK about dairy farming, which I believe is unfounded.
2. I believe that UK dairy farming has become over-technical, whereas with careful overall management and an eye on the 'bigger picture', a much more down-to-earth and practical approach would lower the cost of production.
3. I am passionate about our industry and feel it is important that in the UK we as dairy farmers make the most of what we've got. I hope through this study to prove that UK dairy farming can be profitable in a global market and to put forward the argument that there is no reason why we cannot be cost efficient in our long term future.
4. It has been shown that to rationalise costs in dairy farming there is a greater percentage chance of returning a profit (up to 70% greater) than following a plan to increase yield (which gives just a 5% a chance to increase profits). (Source: Dairy NZ). These statistics helped inspire my study topic to focus on controlling costs for greater profitability.

It has been shown that to rationalise costs in dairy farming there is a greater percentage chance of returning a profit (up to 70% greater) than following a plan to increase yield (which gives just a 5% a chance to increase profits). (Source: Dairy NZ)



2. Countries Visited

Country	Date	Reason for choice
Australia	September 2013	Dairy farmers here operate in the face of much adversity. This is climate-related as well as financial: there are no government subsidies and poor trade tariffs compared to New Zealand. How do dairy farmers cope and indeed operate effectively under such limiting conditions?
New Zealand	October 2013	The country has a long history of profitable dairy farming, growing consistently using a pasture based system, yet this has been unsubsidised since the 1980s. How do they maintain a low cost operating system and achieve a healthy growth in dairy farms and milk production?
China	September 2013	China is well respected for their cost efficiencies in manufacturing. Why is the country so good at it and what are the transferable skills from this for dairy farming?
Ireland	July 2013	After 2015 there will be no more European quotas for milk and the country is looking to double its current milk production output. How do they intend to manage this cost effectively and will this represent competition for UK milk production?



3. Australia

In my quest to find out the best ways of “**Reducing dairy farm costs to prosper in a global market**” I visited fourteen farms in Victoria, South Australia and New South Wales over a period of two weeks in September 2013. Visits were also made to the longest established cheese factory in Victoria, the largest veterinary farm practice in Australia and a biological composting company.

I uncovered the following background facts about Australian dairy farming, which exists without any subsidy:

3a. Australian dairy farm facts (2012/2013)

Registered dairy farms	6,770
Average herd size	235 (85 in 1980)
Total dairy cows	approx. 1,600,000
Annual milk production	litres 9,479,000
Percentage of production exported	36%

- Victoria has the largest concentration of dairy farms (67%) followed by New South Wales (11.5%)
- New Zealand is their main competitor
- Farming systems are similar to the UK although cows are kept outside more often
- Financial hardship and bank insolvency are not uncommon
- However, those that get it right have made the most of scale

IT TAKES DISCIPLINE TO SAVE

IT TAKES COURAGE TO INVEST

IT TAKES TENACITY & DETERMINATION TO SEE
YOU THROUGH THE HARD TIMES

(Mark Townsend, NZ)



The above observations were made as a result of the visits I made to Australian dairy farmers. These included:

3a.i. Shaun Durcan (Mount Gambier)

Shaun is a young, 26 year old farmer who had moved with his parents from their farm in New Zealand for better opportunities in Australia. His irrigated land (300 ha in total) was growing 18 tonnes DM per hectare from grass. Calving was in 3 blocks with 600 cows producing 6,100 litres per cow per annum.

His approach was very flexible and profit focused, and he was taking advantage of leased land in the area to grow his business. Shaun's younger brother had taken up cattle dealing, exporting Holsteins to China, an opportunity not available to him in New Zealand where this business is much more competitive. The family was inspirational and their brave move to another country was paying off for them.

3a.ii. Peter Kaylock: NSW (Moulamein)

I didn't confine myself to visits to dairy farmers. Peter is an arable farmer farming 7,000 hectares - 3,000 hectares of it irrigated. He grew 1000 hectares of rice, with the remainder being wheat and canola. Peter had also diversified into 16 hectares of stone fruit (peaches). He lived with the constant unpredictability of limiting factors e.g. drought, plagues of pests (locusts/mice) and flooding.

He had a strong core business which remained unaffected by the poor performance of his diversification into stone fruit. Excellent cash flow management plus his assessment of risk and returns were the keys to his success.



Peter Kaylock and his son Aaron



3a.iii. Peter Best: (2002 Nuffield Farming Scholar)

Peter is a consultant with a business trimming cows' feet in Australia and he also co-ordinates 5 dairy farms. All 5 farms run a similar system of grazing grass, feeding 3-4 tonnes of grain in parlour and producing 9-10,000 litres per cow p.a. These farms have all adopted 'biologically farming' techniques and were branding their milk as 'biological' selling at a 15 to 20% premium at local supermarkets.

3a.iv. Camperdown Composting, Victoria (Director, Tony Evans)

A very interesting morning was spent with Tony Evans's biological farming company which specialises in composting organic matter*. Tony was passionate about his subject, employs 15 staff and supplies 100 local farms with product and advice. I was impressed with the quality of the compost which was made up of FYM, chicken manure, green waste, woodchip, waste milk, blood and gut lining from the local abattoir, and grease trap waste. This compost is spread on the land to improve the efficiency of the soil.

*(www.campcompco.com).



Camperdown Compost Company

3a.v. Warrnambool Cheese & Butter, Victoria (Bill Slater, Director)

Warrnambool is the oldest dairy processor in Australia, established in 1888 and one of the largest employers in Victoria with 480 people across 3 sites processing 1 billion litres of milk p.a. They produce a range of dairy products for domestic and export markets including cheese, butter, butter blends, high grade milk powder and other cream and dairy ingredients, exporting 50% of production (mainly to Asia and the



Middle East with some to US, Europe and South America). The greatest turnover was from Mature Cheddar with 500 million dollars of cheese in store at any one time. Bill was a 'typical' Aussie, full on and very proud of his factory. (www.wcbf.com.au)

3a.vi. The Vet Group (Tim Walsh)

Tim, a qualified vet, is a partner in the largest veterinary group in Australia, as well as being a qualified accountant, and owns two dairy farms. This gave Tim a unique insight into dairy farming. He preferred a low tech parlour, grass fed cows and a high stocking rate to maximise output, only feeding when there was a grass deficiency. He minimised his risk by operating a very simple system. Hybrid vigour from cross bred cows was important to him.

His practice has produced a very practical guide to calf rearing and the importance of getting it right. He is passionate about calf rearing, outlining the importance of getting all the factors right (see Calf Plus Field Guide www.thevetgroup.com.au).

It was interesting to have discussions with individual vets as they returned from farm visits and realising their issues are similar to those we have in the UK.



Warrnambool cheese and butter factory



4. New Zealand

I visited 28 farms over three weeks in October/November 2013. I was travelling as part of the Blackwater Farm Discussion Group, the members of which were mostly Irish. The group is run by Mike Murphy, an Irish dairy farmer who owns farms in Ireland, New Zealand and America as well as several companies outside agriculture. He now voluntarily dedicates about a third of his time to mentoring and helping others.

4a. New Zealand dairy farm facts (2012/2013)

Registered dairy farms		12,000
Average herd size		393
Total dairy cows	approx.	4,630,000
Annual milk per head	litres	4,100
Annual milk production		litres 19 bn
		75% in North Island
Percentage of production exported		96%

- Herds in New Zealand are expanding with 25% having more than 500 cows (490 of these have over 1,000 cows)
- Growth since 1990 has been from 2.4 million to 4.63 million cows
- 65% dairy farmers are owner-operators (35% part share or equity partnerships)
- 1 litre of milk in 5 produced is exported to China
- The whole dairy farming industry is co-ordinated
- There is a national database including:
 - records of breeding
 - calf/mother ID records (DNA testing)
 - TB control
- The industry as a whole is more organised and cost effective than the UK's.

4b. The success of the New Zealand dairy industry

There is no doubt that the New Zealand dairy industry is “tougher” and more cost and management focused than that of the UK.

I have put this down to the reasons highlighted on the next page:



Focused: New Zealand farmers are highly focused on profit. They have high borrowing but employ rapid expansion.

- excellent business governance
- clear business strategies
- good people management skills
- clear working routines and monitoring
- very disciplined saving

Optimising what they have: i.e. cheap grazed grass. They only feed supplements (concentrate or silage) when grass is short

Keeping it Simple: they adopt the principle of keeping the system simple

Clarity, Positivity and Engagement: they ensure they have the right people for the task, often managing large numbers of staff with a positive 'open' policy which promotes understanding of the running costs of a farm and how staff can contribute to controlling these. *"Managing people successfully is more satisfying than managing grass and cows"* said Ken Bartlett. (Ken travelled with us for most of our trip. He is a New Zealand farm consultant and very knowledgeable. He was an invaluable asset to our tour).

Frugality and Measured Austerity: since the doldrums of the late 1980s and early '90s when New Zealand agriculture was in poor shape, a new generation of dairy farmers has emerged with a more entrepreneurial outlook. The removal of subsidies and surviving during hard times has given them an enterprising and determined attitude.

During my trip to New Zealand, I came across Mark Townshend's twelve commandments for success in running a business. I would like to include them here as an excellent guide to developing and maintaining prosperity. They are:

(see overleaf)



The Twelve Commandments

1. **DESIRE**
Be single minded and focused on targets
Avoid time consuming and expensive distractions
2. **ABILITY TO SAVE**
Learn to budget....then, borrow (get the order right!)
3. **RESISTANCE TO MARKETEERS**
Work out...what is essential... what is nice to have.... what is downright extravagant
4. **INVESTMENT RETURNS (RULE OF 72)**
Divide 72 by the return you expect on your investment = number of years it will take for your investment to double
5. **MENTORS**
Take advice...but make sure it's up to date!
6. **SORT OUT WHAT APPRECIATES IN VALUE AND WHAT RUSTS**
Create real wealth by investing in land or livestock (look after them/cash flow them)
Only spend what you need on anything needing petrol, diesel or grease!
7. **CHOOSE YOUR PARTNER WISELY**
Have common goals on achievement and a shared discipline on spending and saving ... otherwise BEWARE!
8. **EAT AN ELEPHANT IN SMALL PIECES**
Have a step by step plan with set goals and commit to it
Always have a rolling 2 year plan in front of you
Avoid despair or over exuberance and all will even out over time
9. **RIDE THE WAVES**
Treat volatility as a positive. 'Volatility is the friend of the entrepreneur'
Accept the cyclical nature of business.... go with the flow
10. **EDUCATION, EDUCATION, EDUCATION**
Regular reviews to identify need for knowledge and improvement
11. **EMPLOY HONESTY**
A black and white issue...there is no room for grey!
12. **GRAB OPPORTUNITIES**
Nothing ventured.....

Source: Mark Townshend, a colleague of Mike Murphy, dairy farming in New Zealand & overseas (see Appendix at end of this report for the full version)

In other words, apply the principles and disciplines of managing a business, as used by large corporations, to small farming businesses. So often, many UK dairy farmers are not doing the simple practical things that should be part of managing any business. There is a need to develop skills and experience to handle more complex business situations.



My own business is a perfect example of a good business without proper governance. This could be a recipe for disaster! So, I'd like to devote a section on this important aspect on managing a dairy farm business – an aspect that top New Zealanders do so well and that I will be adopting myself.

In order to contain costs and prosper, the New Zealand dairy farms visited were showing good governance of their business.

'A well run dairy farming business is one that is consistently profitable, continuing to grow, operates in a sustainable way and delivers a high degree of satisfaction to the owners, managers and staff'.

4c. Good governance

So, what is good governance and how can I apply this to my dairy farming business ?

Governance is about standing back from the day to day operation and management of a business and taking a forward looking picture view of the business to determine the path to a desired set of outcomes.

This requires me to:

- set objectives and goals for the business
- monitor and review operational performance
- make changes at a strategic level where performance is not aligned with goals
- understand my business risk and account for this

Practically speaking this could mean:

- having a planning weekend every 4 to 6 months to go away and discuss the business and record conclusions reached. e.g. about how the business is going, what is/isn't working, what needs to be changed.
- using the first Monday of each month for office time to complete a monthly financial review, annual forecasts, risks/limitations to reaching targets. Writing a report with action points to discuss with my partner/manager/bank manager
- carrying my 'plan' with me (the big goal/half a dozen areas of my business to improve with a goal for each, projects to complete to help achieve my goals etc.)
- using discussion group format with a few people I trust and respect to hold me accountable to my goals and plans (and me to theirs!)



- investing in professionals and involving them in my business. Planning my business with them (talking about the wider ‘world picture and how it affects me, discuss current structure, tax implications, etc.)
- taking time off. At least once a month take an evening to check in with my spouse and family.

4c.i. Time spent on good governance

Where good governance time is spent:

	Governance Function	%age of governance time spent over the year
F	Future focus	30%
I	Issues and risk	30%
C	Compliance	15%
K	KPI monitoring	15%
S	Skills and succession	10%

Source: DairyNZ/FICKS copyright of 2012 Westlake Governance

4c.ii. The benefits of good governance

BETTER DECISION MAKING

Agreement on a Common Purpose

- clear values, purpose and objectives
- strategy plans for 3 to 5 years ahead
- annual business objectives, targets and operational plans
- clarity of leadership and clear delegation of roles and responsibilities
- transparent, timely system of accountability (reporting and benchmarking)



LEADS TO EXTRA VALUE

Look to improve the performance of the business

- focus of business shifts to wealth creation and resilience
- the business now has disciplines/principles e.g. bills paid on time; staff opportunities
- allows ‘thinking’ space e.g. to identify business opportunities
- access to support for problem solving
- recognition of successful performance
- improved assessment and management of risk





LEADS TO OVERALL IMPROVEMENTS

in
**Finances . Relationships. Confidence.
Enjoyment and Satisfaction (of a well-run
business!)**

Above all, time for management is freed up

My visits to some outstanding New Zealand farmers included:

4d. Colin and Dale Armer:

They have 55,000 cows on 100 farms.

They are farm investors.

Colin started farming at the age of 16 with nothing. He is now in his 50s with a business portfolio worth almost a billion New Zealand dollars.

'Unconstrained by quotas and unprotected by subsidies, we dairy farmers live and die on our ability to make a profit on the world market' said Colin Armer

Colin set up his dairy farm business with a low cost structure creating free cash to expand to other units. His farms have still been profitable in down cycles putting him in a very strong position to exploit all opportunities. The Armers have made farming their business and have grown that business to capitalise on economies of scale. They believe there is no secret formula.

'It's all a matter of profit... dairy farming is a simple process... grow as much grass as we can and turn most of that grass into milk!'

Colin and Dale have a few key principles about growth and maintaining costs:

GROW GRASS : a renewable resource!

- do not underperform this most basic procedure
- optimise the soil's nutrient levels
- contour, drain, re-grass as needed to support intensive grazing
- remove limiting steps e.g. nutrient deficiency, unsuitable grass types, water-logged land
- don't delay in applying fertiliser



GROW COWS

- reduce animal wastage - maximise herd growth
- retain as many cows as possible and achieve high pregnancy rates

GROW PRODUCTIVITY:

- by growing more grass!
- match grass production to grass consumption (Armer's cows eat 85% of their grass) and negate the need to buy-in expensive food

GROW DEBT

- accelerate improvement by borrowing – don't wait for years
- *'we convert farms by using as much of the bank's money as we can and as little as possible of our own cash'*
- stock new farms with their own cows

GROW BUSINESS

- keep It simple!
- concentrate on your core business and make the process as efficient as possible
- keep a tight rein on debt (financial controls)
- spend money where it will make money
- if it works...use it/ if it doesn't...hire it!/ if you can't hire it buy the cheapest option
- *'less from wheeled vehicles ... more from 4-legged animals'*
- apply simple cost efficient criteria to animal health
- look beyond the farm e.g. Armer's using centralised young stock farms which saves pasture for milk production
- control labour costs and keep staff motivated/communicate clear lines of responsibility/consider stakeholding for staff/educate!

continued on next page



Discussion Group visit to Billy and Sharn Roskham – NZ Sharemilkers of the year

4e. Controlling costs

The whole structure of the New Zealand dairy industry is based on a strict control of costs.

The final piece of wisdom I brought back from New Zealand was to discipline myself by continually applying the questioning shown in the chart shown below:

CONTROLLING COSTS BY CONTINUAL QUESTIONING!

Q. Do I really need (to do) this?

Apply simple cost/benefit criteria every time money is spent on the herd

Q. Will this make money?

Only spend money on capital improvements where it counts

Q. Am I getting the best out of my people?

Keep labour costs under control- look for economies of scale / added value

Q. Could I be doing this better/more cost effectively?

Don't stand still. Look for alternatives

Q. Where do I need help?

Fill in knowledge gaps with experts/train and educate



5. China : Shanghai (September 2013 for 1 week)

By 2030 the Chinese economy is expected to be larger than the US economy. The country is building in effect two and a half new Londons every year in the shape of either new or expanded cities.

China's increasing wealth and the desire for a western diet is resulting in increasing demand for whey protein products, baby foods etc. It is predicted that the largest hike in prices globally by 2020 is likely to come from beef and milk (*Source CUN Food and Agriculture Organisation*)

It appears that the future of the European dairy industry will be driven by world milk price levels as governed especially by China and Russia where the dairy power lies. Predictions from IFCN suggest in the next 15 to 20 years China will be responsible for buying about 60% of the world's traded dairy products.

5a. China dairy farm facts (2012/2013)

Total dairy cows	approx.	14,300,000
Annual milk production		litres 36 bn.
Percentage of production exported		1%
Consumption per capita	growing @	4.2% p.a.
Population growth		0.5% p.a.

- There are over 1,000 farms with more than 1,000 cows each
- Large dairies with 5,000+ cows are now being built and supported by the government. Between 100,000 and 200,000 head of cattle are being imported every year
- Last year, dairy imports totalled 1.83 million tonnes worth 7.14 billion dollars.
- 20 million new babies are born every year, set to rise after 2015 to 22million
- By 2030, 80% of the population will live in Chinese cities. This urbanisation is driving dairy consumption. 24 million tonnes of milk were drunk last year (from 14.6m tonnes in 2006)
- The Chinese government is encouraging dairy companies to buy land and companies abroad to secure global resources

5b. Overall summary of visit to China

My travelling companion was a Dorset businessman (Gordon Clowery) with a small factory making medical equipment which outsources production to factories in China. We visited several of these, all of which had quality as a given. Competition was



relentless and so professionalism and price were key to attracting and maintaining business.

- We also visited a textile factory. There were rigorous inspections of Health and Safety amongst workers as well as working procedures. Chinese standards are some of the highest in the world.
- Many migrant workers had come to the towns and worked very hard for their money, most of which they sent home. Most had now moved permanently to the towns and saw educating their children well as a key to a better life.
- This has made for a very highly skilled and motivated workforce with a strong work ethic which drives the efficiency of manufacturing.
- There were many challenges facing businesses in China but they made the most of all their advantages and opportunities.
- It was a truly inspirational week and left me feeling that UK dairy farming is in a good place to capitalise on the many positives we enjoy, but we have to adopt a 'hungrier' attitude to see this through to a profitable conclusion.



Visiting factory in China with Gordon Clowery and his secretary Rosen



6. Ireland

6a. Ireland dairy farm facts (2102/2013)

Average herd size	60
Total dairy cows	approx. 1,100,000
Annual milk production	litres 6,000,000,000
Average yield	litres per cow 5,000

I have travelled to Ireland several times and have learnt much about their grassland management and low cost systems.

I also accompanied a group of Irish farmers around New Zealand on a "Mike Murphy" tour. They were all very positive about the future and looking to expand their businesses. They seemed to have fewer alternatives than UK farmers which concentrated their minds on dairy farming.

The Irish dairy farmers have a brilliant source of independent research from Moorepark - a facility which is sadly lacking in the UK

Ireland is particularly well placed to grab a share of the world market.

The average cost of production in Ireland is below that of the UK. So if world markets are tough then there will be pressure on UK prices but, put into context, Irish milk will only account for 1% of traded milk globally.

There could be short term pressure on milk price so that UK farmers must get their cost of production down.

"To bring supply and demand back into balance the laws of economics suggest that, for a time, prices have to fall below the cost of production ". (FAO – The Agricultural Food and Marketing Dept.)



7. Overall findings from countries visited

Having studied many different farming systems, no one particular system stood out as being the best overall, albeit a grass based system seemed the most common sense approach.

At one end of the scale, high input/high output systems seemed the most profitable achieving the equivalent of £1,000 per cow p.a. on a consistent basis. However, these take a great deal of skill to operate.

No one system stood out as being best overall it is difficult to be categorical about which system is right.

At the other end of the scale, well-run grass based systems made the equivalent of £600-700 per cow p.a. These simple systems are easily replicated and the lower operating costs make this system more robust in economic down cycles. In Ireland, the best small operators were achieving as much as €1200 per cow taxable profit.

In between there were a lot of other systems which were profitable and so it is difficult to be categorical about which system is right. Nevertheless, a grass-based system has a lower capital cost and will still leave a margin of profit when the milk price cycle is at its lowest.

There was a high level of management and commitment to their business by the farming families visited, compared to corporate farm businesses.

Cost control together with a determined attitude were critical elements needed to return healthy profits. The best farmers could make any system work. They relentlessly managed their chosen system and were excellent at controlling their costs.

They appeared to have an innate ability to make money go further. This was supported by:

- good relationships with trusted contractors
- often project-managing new ventures themselves
- very clear business plans with good projections and accurate budgeting
- well-researched ideas for expansion and start-up projects
- Farm staff were highly valued in 24/7 businesses which depend on reliable employees
- staff training was key to minimising high staff turnover
- staff were given a greater sense of responsibility on the farm with encouragement for staff to take 'ownership' in some areas
- farm owners realised that 'their way is not the only way' and allowed their staff freedom of expression
- the image of the farm is promoted to attract best employees
- thought was given to how to protect the continuity of employment in a positive way
- value given to earning respect of staff whilst also being firm and fair

*'If you have a high turnover of staff, the chances are that **you** are the problem not the staff!'*



8. Summary of main findings

During my study, I tried to identify those businesses that had a lower cost of production. They invariably had higher profits. The best dairy farmers share many common traits for achieving and maintaining a successful business:

8a. Common traits for achieving and maintaining a successful business

1. They are usually 1st and 2nd generation businesses: the owners are hungry for success. Others can tend to rest on their laurels
2. They are always planning and budgeting: dairy farming benefits from being approached in a business-minded way
3. They follow good business principles: there is a need to emulate profitable business models.
4. They invest for the long term; the most effective farmers have re-invested and grown in the good times.
5. They are open to new ideas about learning: being prepared to adapt to change, for example with new technology, and to capitalise on opportunities which will help survival and profitability when times are hard.
6. They were very optimistic: their determined and forthright attitudes allowed them to see opportunities.
7. They did not succumb to marketing hype: by sorting the wheat from the chaff, they only purchased on a need (not a want) basis.

With the UK's temperate climate and skill level, the country's dairy farming industry has as much opportunity as anywhere to be cost effective. However, subsidisation (SFP) in the UK can create a false utopia and hinder further expansion in business.

8b. Getting the basics right

These provide a strong foundation on which to build and maintain the business and were evidenced in five key practical areas:

1. Soil fertility
2. Nutrition
3. Animal health
4. Herd replacements
5. Staff

8c. Soil fertility:

'Despite mankind's lofty aspirations and many notable achievements, our survival depends on six inches of top soil and the fact that it rains' Anon

It's essential to get the basics right!:

- Drainage on wetter clay soil
- Regular soil testing
- Sward lifting and ground aeration to oxygenate the soil



8c.i. Composting

UK dairy farms have huge amounts of resources and material to compost and, at very little cost, can employ a simple system which will be cost effective within 2 years and over the long term. Australian farmers who are adopting biological techniques have seen benefits within two years and are reducing inputs year on year with similar yields and improved soil and animal health.

In addition, there are also environmental benefits as good soil stores carbon, and is a good carbon sink.

In the UK, we are apt to be too casual about the care of our soil with a good rainfall masking poor soil management. A more structured approach is needed which will also pre-empt problems as well as improve the productivity of the soil. Over time this will reap huge benefits including cutting production costs.

Camperdown Composting (Australia) believes the maintenance of a good quality soil is often overlooked yet the decline in soil quality has a huge effect on pasture production, crop quality, food quality and animal health. Without good soil management, moisture retention and nutrients are lost in the soil and production costs rise.

It can then take considerable effort in time and money to correct!

Tony Evans of Camperdown Composting accepts that soil science can be daunting but he believes that employing the basics of biological farming goes a long way to improve soil quality

Biological farming improves the soil's Brix level (which is a measure of minerals, vitamins & amino acids) and looks underground as opposed to looking at the crop to determine soil health.

8d. Nutrition

Feed represents the single highest cost in producing a litre of milk and it is very easy to over-complicate this important aspect of dairy farming.

The best farms visited kept the rations simple and didn't get bogged down over feed.

Grazed grass was always the cheapest form of feed but not always a practical option if the farm had only a limited grazing platform. However, it is a simple mathematical exercise to work out the returns from the various feed sources taking care to calculate the extra costs of labour, machinery and the extra workload on the cow.

8e. Animal health

A good relationship with the vet is essential for any dairy farm. A standard requirement on most of the dairy farms visited was a good 'Herd Health Plan' drawn up with the vet. This needs constant monitoring of stock with a skilled stockman to maintain high herd health.

8f. Herd replacements

It is important to calve at 24 months old whatever system is used. Keeping costs under control and achieving growth rates is a juggling act and is a very difficult skill. Anyone can rear a heifer, but can they do it on budget? As farms get larger and heifers get moved away from the farm,



this becomes even more of a challenge. Contract rearing can work well – but it's a steep learning curve to manage your cattle in addition to the contract rearer. Many farms visited during my study had taken heifer rearing back under their own control to ensure optimum replacement into the herd.

8f.i. A typical New Zealand protocol for a heifer rearing farm

Shown below is the protocol employed by a large NZ dairy farm. As larger numbers of livestock become reared in bigger groups, it is very important to get protocols in place. This protocol was followed for a large heifer unit of 6,500 animals

1. Weigh every 3 weeks
2. Oral wormer/pour on wormer in rotation
3. Move fence every day/every other day for fresh grass
4. 1550 residuals (*i.e.* 1550 kilos of dry matter per hectare left after grazing = a grass height of 35 mm)
5. Put bottom 5 to 10% of small animals in separate group
6. Tetravet antibiotic powder in trough water
7. Vaccinate for pink eye and black leg
8. Perform blood test 4 times per year on market animals
9. 7 in 1 vaccination programme
10. Bull rate 1:10

Exceptional targets were being achieved:

- under 3% had failed to conceive
- mortality rate 0.3%
- growth rate of 0.6kg per day from arrival to leaving farm (18 months)

It is important to have a vet planner for the year showing expected use

8g. Staff

All the countries visited had problems with staff, even in China. Workers had a varied choice for employment and factories were having to think about better conditions and pay structures to retain their staff

Australian agriculture has to compete with the high salaries of the mining industry to attract labour. The only way some farmers could compete was to offer attractive housing close to good schools and offer a whole way of life. Thus, it is important to promote the farm's business image to attract staff.

New Zealand has an enviable system of share milking. There is part ownership of cows and other joint ventures between farm owners and farm workers that has always attracted a vibrant workforce. This is a key reason for the success of its dairy industry. Even in New Zealand, farmers are having to source migrant workers but they are treated well to ensure they are retained. Simple systems are put in place, farmers work well with their employees, giving them pride in their work together with good pay and conditions.



8h. In conclusion

In the UK, dairy farming is often perceived as an old fashioned industry in which it is difficult to attract high quality staff.

The successful farm businesses I have visited had several key areas in common. All had structure, were organised with sound working routines, good rota system, excellent staff motivation and retention. They operated simple and easy farm working systems and good governance of their business filtered down through the business to daily routines.

The three weeks in New Zealand were the most beneficial to my study as well as to my own personal farming business. Although most of the farms visited were in the top 5%, which meant they were not necessarily typical, they were the right farms to assess in terms of learning how to improve farm profit.

New Zealand farms abandoned subsidies in the 80s and, after the initial hardship, have become more profitable than ever. Australian farmers were inspirational in their attitude to adversity, but the highlight for me was to spend a week in China to see how they are expanding in everything they do with a resourcefulness, discipline and attitude that was awe-inspiring.

New Zealand farms ...have become more profitable than ever. Australian farmers were inspirational in their attitude to adversity, but the highlight for me was to spend a week in China to see how they are expanding in everything they do with a resourcefulness, discipline and attitude that was awe-inspiring.



9. Conclusions and Recommendations

Conclusions

1. Farmers must discipline themselves to control cost, spend wisely and not fall into the trap of over-managing and over-spending on their farms.
2. Over-spending and over-managing do not necessarily lead to higher profits or efficiencies, albeit they can improve things at a superficial aesthetic level.
3. Controlling costs, as opposed to increasing output, is proven to have a much greater chance of improving profit.
4. Seeing the benefits of applying the principles of governance to the business has been an important learning curve for me and one which enables a tight control over development and costs.
5. Above all, learning from success, that of others as well as your own, and adapting the business to emulate successful models and practices is a beneficial approach and earns no shame. My study tour has highlighted some simple changes which can be made to my own business for more effective cost control and thus greater profit.

Recommendations

UK dairy farmers need to:

1. Examine all aspects of their business and go 'Back to Basics'
2. Focus on their core business and concentrate on the basics
3. Employ 'governance' as a key guiding principle
4. Maximise the effectiveness of what they already have
5. Use discussion groups as a tool for support and improvement
6. Consider biological alternatives
7. Consistently monitor and review their business
8. Maintain a diligent and positive attitude



10. My Nuffield Farming Scholarship is an ongoing experience.....

I believed when I began this study that dairy farmers in the UK have as much opportunity as anywhere else in the world to take advantage of the climate, skills and processes they have learnt.

I now firmly maintain that everything is in place for the UK dairy industry to do so, but we have to concentrate on profitable models. A dairy business that can be profitable at the bottom of the milk price cycle, or at least break even, will be able to re-invest and grow.

In particular, there are two things which I am now adopting for my own farm

- governance to make the farm more sustainable
- biological techniques using existing resources – this stood out as a very cost-effective way to improve soil and ultimately lower costs.

The Nuffield Farming experience has given me the necessary motivation to further improve my business. The many successful people that I have met have given me extra confidence in my own future.

I hope this report can help other farmers improve certain aspects of their business.

Jason Vickery



At home with our first batch of compost



10. Executive summary

I believe that UK dairy farming has become over-technical, whereas with careful overall management and an eye on the 'bigger picture', a much more down to earth and practical approach would lower the cost of production and be far more sustainable. Via my study tour I wanted to prove that UK dairy farming can be profitable in a global market and to prove the argument that there is no reason why we cannot be cost efficient in our long term future.

To do this I studied the practices of the world's best dairy farmers to establish common traits in controlling costs: controls that ensure these farmers consistently make a profit even during economic downturns. I visited farms and businesses in Australia, New Zealand, Ireland and China. The New Zealand farmers have now undoubtedly become more profitable and efficient than ever. Australian farmers were inspirational in their attitude to adversity, but the highlight for me was to spend a week in China to see how they are expanding in everything they do with a resourcefulness, discipline and attitude that was awe-inspiring. There are many systems of dairy farming – intensive, extensive, low cost, high cost. With proper management all can be made to work – there is no single “right” system or “wrong” system. But what is certain is that, with the increasing volatility in world markets, UK dairy farmers must keep their cost of production down in order to prosper in a global market.

Certain criteria must apply to enable successful, profitable dairy farming.

My chief finding was that farmers must discipline themselves to control costs and spend wisely. Over-spending and over-managing do not necessarily lead to higher profits or efficiencies. Controlling costs, as opposed to increasing output, is proven to have a much greater chance of improving profit. But it requires the application of rigid self-discipline on the part of the farmer.

The most important learning curve for me was seeing the benefits of applying the principles of governance to farm businesses. Governance is about standing back from the day to day operation and management of a business and taking a forward looking picture view of the business to determine the path to a desired set of outcomes. I shall certainly be adopting this principle in my own farming business in future. I shall also adopt biological techniques using existing resources. This is a very cost effective way to improve one's soil – the basic raw material of any farming enterprise - and ultimately lower costs. Adapting one's own business to emulate successful models and practices seen elsewhere is a wholly beneficial approach.

The challenge for me now is to make these new principles and methods work and further improve my bottom line.



11. Acknowledgements/Thanks

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12. Appendix

Full version of 'The Twelve Commandments' by Mark Townshend

Wealth Creation for Progression in Agriculture

The Twelve Commandments

Mark Townshend talking:

I want to walk you through my 12 Commandments to farm ownership. It may be unfair to say they are *my* 12 commandments. Everything I know I have learnt from others. In fact when I first put this list together it was 10 commandments and grew to 12 on the suggestions of others.

While I will refer to these 12 commandments in a farming sense, they are equally applicable if you are trying to build a farming enterprise or other forms of business. They apply in NZ, and I would suggest in Ireland.

The Twelve Commandments

Commandment No.1 - Desire

Farm ownership will not just happen. It will take focused targets and some sacrifices will need to be made. If you have an ambitious target it needs to be almost a single minded focus. For an initial period anyway, apart from being extremely disciplined about your growth, have no more than one of these distractions on your mind as well:

- Regular and expensive holidays
- Extensive time consuming community projects e.g. schools, churches, service clubs etc. This does not mean that you should not get involved in the community for the benefit of both the community and yourself, just make sure you have the balance right.
- A thirst for a particular sport that takes time whether it be golf, hurling, rugby or any other (if it is something like motor sport you probably have 2 strikes against you as it takes time and costs plenty as well)
- Being the ultimate family person – do not take me wrong, parenting is perhaps the most important job we all have – but I see so many cases where people hit two strikes in one where they spend a lot of time with their kids and spend a lot of money on them as well. Your kids always need your time but sometimes it is better for them to learn the values of hard work and saving as well.

Summary

Your desire to build a business probably cannot have more than one significant distraction; at least for an establishment period.



Commandment No. 2 – Ability to Save

If you want to succeed financially there is little choice but to learn to save. There is no option other than material things in moderation.

Is someone happier if they:

- Have two dozen beers a week rather than half a dozen
- Hire DVD's to watch when there are free movies on TV
- Smoke
- Put \$500 tyres on their car rather than \$200 ones
- Eat out more than once per week

How long would you like me to make that list?

Summary

Learn to budget then borrow – get the order right

Commandment No. 3 – Resistance to marketers

Some people are natural at selling. Those who are professionally trained and are trying to sell you things you do not really need are just downright dangerous. If they get to you they are likely to be more damaging to your business than climatic events, animal disease or bad labour.

Your business is to convert grass to milk as efficiently as you can – their business and training is to get you to part with your money – they are likely to be financially incentivised to be successful.

Watch for blow-waved hair and sporty cars.

In NZ each month I receive more than 100 free pamphlets, magazines or brochures through a rural delivery box - all indirectly paid for by those who buy. Perhaps seek out those good quality products that do not have to support glossies – they should be cheaper.

Summary

- Work out what is essential
- What is nice to have
- What is just downright extravagant

Commandment No. 4 – Investment returns

The Rule of 72 is very simple – why is it then that so few people know it?

Divide 72 by the return you expect to get on your investment and that tells you how many years it will take for your investment to double.

If you are getting a 6% return and re-investing then your equity will double in 12 years

At 12% your equity will double every 6 years

At 18% your equity will double every 4 years



An investment of \$100,000 today, in 24 years time at a 6% return will be worth \$400,000

The same investment of \$100,000 today, in 24 years, time at an 18% return will be worth \$5.3m.

Summary

If you understand this rule of 72 you will start ahead of 90% of the population – I do not know why, but in NZ those who do understand it are unlikely to have learnt it at school.

Commandment No. 5 – Mentors

Successful people in farming have generally worked hard, saved hard and had the courage to invest when opportunities appeared. I would be very surprised if those who have succeeded over the last twenty years did not attribute some of their success to two or three mentors who would have helped them with free or paid advice. And, those providers of advice would have felt some satisfaction from helping someone.

Here though lies the challenge. Line up ten grey haired farmers who have succeeded in their time, the chances are only one out of the ten will be able to steer you in the direction to succeed in today's environment. The other nine, as good as their intentions may be, will give you very good advice that just happens to be 20 years out of date.

I consider that I was privileged by the mentoring I received from my parents and grandparents. It was forward thinking. I have used other people as well for mentors. Today I still have mentors but for different things than what I used to require them for.

For those of you who are on family farms or working with parents, no hard and fast rules here, but the chances are that your parents will steer you down the same course they took. In my opinion, greater than 75% of those who go onto family farms will not fulfil their own potential because they are not allowed to make their own mistakes, are not challenged because their parents are controlling the decision making and so they are robbed of their own sense of self-achievement. How this plays out in an Irish farming environment with family farm succession in some cases many generations deep I do not know.

I notice that many of the young star performers on farms in NZ today were not raised on farms, nor did not leave school and go on farms. No. They educated themselves, learnt different skills and entered farming with no preconceived ideas.

Summary

Some people say you can only get ahead if you have family support. If it were true (and I don't think it is), sort out whether the beneficiaries of the family support get ahead because they are given money or whether it is because they learnt how to save, how to invest and how to go for opportunities when they are there. I suspect if you do not have family support to farm ownership it is not the money you are missing but rather the guidance, the support, the encouragement to take an opportunity or maybe someone to guarantee a loan for a short period of time. With regard to a guarantee it is amazing how many former employers are happy to guarantee a loan for a year or two to worthy recipients.

Commandment No. 6 - Sort out what appreciates in value and what rusts



Diane and I have a beach house in a nice resort town in NZ. Some old family acquaintances have a 2000 acre hill block overlooking the whole of the Bay. In 1950 the grandfather had the choice of buying 2000 acres of, at that time, harsh hill country or, for the same money, a new Ferguson tractor. He chose the farm and today - his grandson approves of his foresight.

Chances are if you buy ten cows today that in ten years their value will be higher and you will have more of them.

- Chances are if you buy land today that in ten years its value will be higher.
- Chances are if you buy a tractor today, in ten years its value will be halved.
- Chances are if you buy a farm motorbike today, in ten years it will be worthless.

Summary

- If you buy land or livestock and look after them, and can cash-flow them, you will create real wealth.
- If you buy anything that needs petrol, diesel, or grease, make sure you spend no more than what is required to efficiently run your business.

Commandment No 7 - Choose your partner wisely

I do not wish to offend anyone here but I see many people start out with the potential to do well in farming.

Perhaps the most defining decision they make is selecting their life partner.

It will be hard, and in fact extremely rare to succeed, unless both partners have a common goal of achievement and a shared discipline to spending and saving.

What I notice is that those who choose their partner wisely keep doubling their assets.

Those who choose poorly keep dividing by two.

Summary

I am no expert on marriage guidance but this is a decision that is worth getting right.

Commandment No. 8 - Eat an elephant in small pieces

When starting out that end goal seems so far away. At the start the perceived lack of progress almost seems depressing, and the answers of how to achieve the end goal are just not there.

Appendix A details a twenty five year plan from zero to self dependence - self dependence being where you work because you want to work, not because you have to. It involves incremental saving and targeting a reasonable return on investment.

- It takes discipline to save.
- It takes courage to invest.
- It takes tenacity and support when things are not going well because at times equity value will stagnate – maybe drop – but time will see good “catch up” increases in good assets



Summary

- The 25 year plan I have illustrated is a guide that you can modify for your own needs. You then need to commit to it and take ownership of it.
- You need to look out no further than the next two years at any point in time. All you need is some idea of:

Can you find the funds?

Can you achieve the year plan in front of you.

- Do not get too cocky if you are well ahead of the target, it may be the stage of a cycle.
- Do not get too down if you fall a bit behind the target, it may be the stage of a cycle.

Commandment No. 9 - Ride the waves

Farming, like most forms of businesses has always been cyclical and will continue to be so.

Look upon volatility as a positive, not a negative - you can't change it anyway.

At any point in time people in all fields and worldwide, are usually overly optimistic or overly pessimistic.

Think about the opportunities that presents.

Every downturn delivers both achievers and victims. The victims are usually those who are asset rich and cash poor, they are usually inheritors of wealth rather than creators of wealth. They are the people who bail out often even before they take a cut in their high and accustomed personal drawings.

The achievers are those with skills, energy and a desire to achieve who have saved and invested wisely and have the courage to move when their instincts are telling them better times are coming.

Those who wait until everything is aligned will miss out.

Summary

- Volatility is the friend of the entrepreneur.
- An entrepreneur can pick what is a cycle, as opposed to a permanent new trend.
- Cyclical downturns make the tough tougher and the wimps bigger wimps.

Commandment No. 10 - Continuing Education

Never stop learning because three things happen.

1. The world continues to change
2. As you move up the equity building ladder you will need different skills.
3. The mentors you have today need to be respected friends of tomorrow. That is because if you are progressing financially and in your own thought processes, you will need to choose new mentors as time goes on.

Summary



Set aside time each month for self education and knowledge improvement. Perhaps diary for the first day of each month to nominate what the self education target for that month would be. Despite a busy stage of life – I try and set aside time each week for my own self education and time to help others. Today, I would be poorer philosophically, socially and financially if it had not been for others investing time in me.

Commandment No 11 - Honesty

Not many people consider themselves dishonest, but how many people do you really trust?

Impeccable honesty opens many doors while dishonesty closes them, maybe not immediately, but people do not forget.

Think about the effects of honesty:

- With your employers
- In never selling stock you would not want to buy
- In being honest with yourself in finishing a work contract with conviction
- In never giving a false impression to someone who is asking your advice on a work reference for some other party.

Think about the doors you open or close for life with regard to honesty.

Summary

Honesty is a black and white issue. There's no room for grey.

Commandment No. 12 - Moving to where opportunities offer themselves

It would be nice never to have to upset family life and move and start again. Strangely enough, though, those who have done it see positive effects for both business and the family.

Consider this:

- Before the evolution of sophisticated society, if ancient man did not move to the next valley where there was food, he starved.
- If the parents, grandparents and great grandparents of New Zealand's successful operators today had not had the drive to shift to New Zealand for better opportunities - would they have been better off?
- Those who saw the farming opportunities in the South Island of NZ when land prices were low have been extremely well rewarded for some short term family inconvenience.

Summary

If an opportunity presents itself and you really want to get ahead, you may have to get off your arse and take the opportunity that is there.



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