Models for managing multiple dairy units in Ireland

Profitable dairy expansion

A report for

NUFFIELD IRELAND

Farming Scholarships

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2017 Nuffield Scholar

November 2018

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Executive summary

Ireland’s biggest competitive advantage in agriculture is its ability to grow grass. This is a cost effective, top quality source of energy and protein. Turning grass into milk offers some of the highest returns in Irish agriculture. The disadvantage of Irelands grass based dairy model is that the cows must be able to walk to this grass in order to keep costs as low as possible. This low cost grass based model requires big blocks of land where the cows walking ability is the limiting factor, not the boundary wall.

In Ireland, the average farm comprises of 32 hectares broken into three different blocks. This is one of the main issues facing Irish farmers who are looking to expand and is the main instigator for seeking out a second or subsequent dairy unit.

For some dairy farmers setting up a second unit is the only viable method of expansion. Before this step is taken however, it is crucial that the original farm is performing at a high level and most importantly generating excess cash. If surplus cash is not being generated, then the time is not right.

The expansion of dairy herds in Ireland has seen a huge increase following the removal of quotas in 2015, with one quarter of farmers now milking over 100 cows. The first step in expansion is optimising all of the land farmed and hitting the main key performance indicators. Only then should taking on more land be considered.

Many farmers have and will increase stocking rates, however, this should not be done to the detriment of the farming system. There is a strong correlation between stocking rates and the farming system. More feed is inevitably imported to sustain higher stocking rates. While more litres will be sold, they are produced at a higher cost.

Not all farmers get the opportunity to lease or purchase neighbouring land. Over the course of this scholarship I visited farmers who had expanded through taking on second and subsequent milking units. I wanted to identify the changes this brought, how they managed more than one unit and if there was a right time to make the move. People opted to set up second and multiple dairy units for a wide range of reasons. A key difference was the various models of management that were implemented. This report aims to examine these models in detail and inform Irish farmers of the various management options available.

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Foreword

Farming was all around me as I grew up on the outskirts of Clarinbridge village, on the west coast of Ireland. My earliest memories involved farming beef cattle with my father and my granduncle and milking cows with my grandparents.

I was very fortunate to be exposed to farming very early in life and to this day I cannot explain why I wanted to be a farmer from such a young age. When I was 12 years old my father inherited his uncle's farm and our family moved to the countryside. Looking back this was a very important move as it meant I could walk out the back door and go farming.

After college my father and I managed our suckler beef herd and both maintained full-time off-farm employment. At that time, I believed we didn't own enough land to consider a full time career in farming.

I began my dairy farming career in 2013 when I joined up with a neighbouring dairy farmer to form a milk production partnership. Two years later, milk quotas were removed and we had maximised the potential of our dairy unit. We wanted to milk more cows but did not want to change our farming system by pushing the stocking rate higher than our grass growth allowed.

At that stage we began looking for a second milking unit but didn't know what to look out for. Not many Irish dairy farmers were milking in more than one unit and I could not find much information on the topic in an Irish context.

Much of the research I was reading came from New Zealand. It was quite common there for farmers to have two or three milking units and part of me wondered would Ireland be the same if quotas were never introduced.

The years I spent looking at possible second units formed the foundation for this report. I wanted to produce a document to aid people considering taking on a second unit and answer any questions they might have.

Acknowledgements

First of all I would like to thank Deirdre who's encouragement support and help never wavered from when we put together the scholarship application to finalising this report.

My parents Bartley, Teresa and sisters Maria, Therese and Jane were a massive support and were always there for guidance.

David Neilan, who I farm in partnership with and his family have done an excellent job of keeping the farm running as I completed my travels.

I would like to thank my mentor, Aisling Meehan, for her continued advice and guidance. A special thank you to John Tyrrell who does so much for scholars and indeed Nuffield.

Without these support networks it would not be possible to compete a Nuffield Scholarship while running a farm business.

To the scholars that completed the Africa Global Focus Programme with me. It was a pleasure getting to know you all. I would also like to thank my fellow 2017 Irish scholars. We had a lot of fun and learned from each other over the last two years and I am happy to call you all friends.

A special thanks goes to all the people and businesses that hosted me during my travels. The level of generosity, openness and kindness shown in all my visits was overwhelming and I look forward to returning the favour when you visit Ireland.

I would like to thank Nuffield Ireland for making all this possible and I am very grateful to the scholars that encouraged me to apply for it. Finally, I would like give my sincere thanks to the sponsors of Nuffield Ireland who have made this study possible.

Abbreviations

DH – Dairy Holdings

NZ – New Zealand

Kgms – Kilograms of milk solids

Ha – Hectare

KPI's – Key performance indicators

BW – Breeding worth

CM – Contract milking

SM – Share milking

ROI – Return on Investment

SOP's – Standard operating procedures

2IC's – Second in charge

Objectives

The main objective of this report is to form an information document for Irish dairy farmers who are looking at taking on and managing multiple dairy units. Following months of travel, interviews and research I strived to ask and answer questions to inform Irish farmers who are expanding their businesses.

This report aims to examine:

1. How to take on a second dairy unit.
2. How to manage multiple dairy business while maintaining performance.
3. If there is a right time to make the move?

Chapter 1: Why take on a second unit?

Why would anyone want to step outside their own farm gate and comfort zone to set up a second dairy unit? While there are various reasons why people might choose this method of expansion, it must be acknowledged that this option has become a lot simpler since milk quotas were removed in April 2015. Until then, farmers in the European Union were restricted by milk quotas, with fines imposed for over production. This stagnated Ireland's dairy industry which only saw a marginal increase in milk supply from 1984 to 2015. During these years a small number of pioneering Irish farmers managed to put together multiple dairy units.

The removal of milk quotas has offered Irish dairy farmers opportunities which had not been seen for a generation. The first step is to harness the full potential from the home farm. This low hanging fruit will generate the simplest and highest return.

Looking at taking on a second unit can only be contemplated if the home farm is running smoothly, efficiently, hitting key performance indicators and generating excess cash,

Four main reasons for setting up multiple dairy units were identified.

- Managerial role: Some people want to take on a managerial role. Running multiple units allows them to maximise their skillset by increasing scale and subsequently reducing the amount of physical work undertaken.
- Expansion: Some farmers feel limited by their home block and see the setting up of a new unit as their only method of expansion. They do not see, or are unwilling to wait for opportunities surrounding the home farm.
- Building a business: Many farmers have built big dairy businesses on the back of multiple dairy units. They have created high levels of equity growth, investing in what they feel comfortable investing in. Some opt to purchase land, while others prefer to lease.
- Offer opportunities: Some farmers enjoy being able to offer other people opportunities. This may be in the form of offering managerial opportunities or assisting staff to grow their own equity. Welsh dairy farmer Rhys Williams, who runs five dairy units, said "I often ask myself do I need more farms? I don't. But I really do like developing people. That is my kick now – watching people grow."

These are the reasons that people opted for second and subsequent dairy units. What differed was how they chose to manage them. This report aims to examine these models in detail and inform Irish farmers of the various management options available.

Some people want to maintain full control and ownership. These farmers generally try and manage all units themselves by getting out of the physical work or employing farm managers. This method is discussed in Chapter Two. Chapter Three focuses on employing share and contract milkers, while Chapter Four examines partnerships.

Chapter 2: Managers

Due to the size of Irish dairy farms (76 cows average), Irish farmers are generally heavily involved in the physical day to day running of their farms (Teagasc, 2017). If and when a second unit is taken on, the owner may opt to take control of this also, but will not be able to do all of the work. This could be the first time that they are required to employ a full-time staff member and may still want to retain as much control as possible.

New Zealand dairy farmer Jim Van Der Poel (2018) explained that this scenario is quite common as we start off with a view that the only person that can do it properly is yourself. "That is your mindset, so even though you are employing someone, you can keep an eye on them and make sure they are getting on alright. If I went away for a weekend or a holiday, when I came back inevitably something has not gone the way it should have gone. I convinced myself that I was the only person that could do it properly. What I have learned since, is that there are a lot of really good people out there, and most people do not wake up in the morning to do a bad job. Most people want to know that what they are doing matters. Once we grasped that, it is a whole different approach, because what we started to do was try and figure out how to get people to take responsibility and skill them up and get them to a high level. When you are on farm with them you let them do the job. You mentor them and show them. Once they can do the job you can pull back."

Farm owner manages all units

In this scenario the owner is crucial to the everyday running of all their units. When a second unit is acquired, the owner decides to manage the new unit as well as the old. Farmers can manage up to five units using this system provided they can get out of 90% of the physical jobs, according to farm practice advisor with New Zealand's Dairy Holdings Adrian Van Bysterveldt (2018). He explained that you still require very skilled operators in both units. "You have to pay well. You need someone that has the skills to run their own farm but is risk adverse," he said.

Many people employ assistant farm managers to run multiple units and they maintain the managers role themselves. "You are employing them, but you are really the manager. The owner is not the doer. They have got to step away from the home farm and basically run around actively developing management plans for each farm every week. The people operating the farms need good stockmanship and problem solving skills," said Adrian.

James Stewart runs two dairy units in close proximity in New Zealand. Both farms are run by herd managers and James explained that one of the biggest challenges with multiple units is that you are running around and you still do not know what is going on. "Sometimes people don't have to be good at everything. My job is to make sure they have the tools to do the job," he said.

In this system farm owners can sometimes feel a bit like a fire brigade running from farm to farm putting out fires. Preventing fires is much easier than putting them out. For this system to work the owner must be the teacher not the doer. They must implement simple farm practices that they learned farming on one unit and implement them across all farms.

Advantages

- Owner retains control of all units.
- Managers can be employed internally as they step up to the plate.
- You know what is going on in every unit.
- Not paying manager wages.

Disadvantages

- People are not always prepared to pay enough to employ skilled people on all units.
- Farm owner may not have the skill to empower their staff.
- It is difficult to get everyone to feel part of the team.
- You are micromanaging people and farms. Some staff will like this guidance at the start, but some can come to resent it.
- Staff progression is difficult because you are always in charge.
- Staff motivation can be a problem.
- Although wages paid are not as high, there is an argument that the output and profitability of the farm is not as high either.

Relevance to Ireland

Managing all units may suit Irish farmers who take on a second unit, particularly where scale is on the low side. It offers farmers the potential to manage both units to a high standard, provided good help is available.

Employing a farm manager to manage one of the units

In this scenario a farm manager is employed to look after one of the units while the owner maintains control of the other. This is one of the most common ways people manage multiple units. The manager must have the capability to run one of the units by themselves. Responsibility levels can vary, but managers generally have complete control of the farm. They are in charge of the day to day decisions and herd management.

Some farm owners want to be involved in some of the day to day decisions while others are happy to let the manager have a free reign. These manager jobs are ideal for farm mangers who are looking for the opportunity to learn the running of a business without taking on any debt themselves. It is important for the farm owner to recognise ambition in these managers however, as they have the potential to drive on the business in a short space of time.

Staff progression and retention can become difficult if the farm manager has ambitions to carve out their own career as a dairy farmer. These managers generally look to progress past management and want a piece of the pie and some cows. This is where people can find it difficult to hold onto managers after a certain length of time.

Incentivising farm managers is difficult and can become dangerous territory. Having clear targets every year is the best way to keep everyone on the same page. An example of some of these targets include:

- Milk solids to be produced
- Grass to be grown
- Meal to be fed
- Fertility performance
- Calf and heifer weights

These simple targets keep everyone on the same page and can be benchmarked each month or every quarter. Difficulties can arise if these targets are not being achieved consistently. This is where managers with a share in the business win out, because they are getting a percentage of the spoils.

New Zealand dairy farmer John Hopkins (2018) ran multiple units using share farmers until he found them difficult to attract. Now he has opted to employ managers and incentivises them with a bonus based on production.

All managers are now on a profit share arrangement. John explained that they want to get more production and milk more cows. “Managers are on 10% of profit. Any increase in profit over the previous year they get 20% of it. We get the 80% so everybody is happy. A few years ago managers made $120,000 to $200,000 on bonuses. If your system doesn’t incentivise others it will fail”.

Caution must be advised on production related bonuses as production can be achieved in the short-term by feeding increased amounts of concentrate and leaving higher grazing residuals.

Canterbury dairy farmer Aidan O’Leary (2018) stated that running multiple units requires excellent leadership skills. “You need to empower people to make good decisions. You need to make yourself redundant of the physical work. An ability to delegate and relinquish control is very important. However, you are still responsible and bear the burden of outcomes.”

Case study

Doug Dolan (2018), Production manager at Bel Group in New Zealand.

Bel group own 9,500 cows on nine dairy farms and run eight support blocks in Central Hawkes Bay in New Zealand’s North Island. All farms are run by managers and have individual management plans and annual feed budgets. Managers are not paid on performance, but they are judged on performance, explained production manager Doug Dolan. Bel group's slogan is 'People, production, profit and pride'. "There is a reason people are first. Without people there is no production, profit or pride. At this scale it's about managing people, not cows."

Doug's role as production manager means that he is in constant communication with all farm managers and is a soundboard for most decisions made. He explains that he can regularly get phone calls every 10 minutes. Often it is only a small issue, but they make the call to keep Doug in the loop. Doug is a fan of thorough human resource training and spends a lot of time getting to know staff and what motivates them.

To aid communication between and within farms, Bel Group designed a weekly dashboard that colour codes the main indicators that they target. Every manager must fill out a detailed Excel sheet and send it to an analysist before Sunday night. Graphs are produced which adopt traffic light colours to grade actual farm performance against targeted performance. Green represents good, amber is satisfactory and red is lower than target. The easily read visual representation of all the farms encourages benchmarking and inspires competition.

Doug believes that "you have got to identify the things that really matter. If you are running around solving small issues you will miss the big stuff." He explained that manager retention used to be a big problem but it is improving. Three years ago 90% of their managers stayed for one year. Currently managers have been in their positions between one and four years. Doug has put this improved retention simply down to listening to their managers more closely. If managers feel they need a new tractor, to feed more meal, or spread more fertilizer they can now make a case for doing so. They put the figures together along with their reasoning and send their proposals to the board of directors. Doug believes that this approach has worked very well and it gives the managers a sense of ownership when they receive what they requested. A great deal is also learned when proposals are rejected as mangers learn that it just wasn't viable and work on other solutions.

Attracting top quality managers is proving difficult as there is no profit share or chance of cow ownership within the company. "We are getting very few young ambitious guys. It is also very difficult to get second in charge (2ICs)," he said.

Bel Group used to operate all 'system one farms' (no feed imported) producing 200 to 240 kgs Milk Solids per cow. Now rather than being so cost focused they are trying to increase production. If managers need more feed, fertilizer or a new tractor it is approved if it is profitable. Managers are now taking more control and ownership.

Last year Bel Group looked into giving some of their managers contract milking opportunities. While the managers were interested, Bel Group did not feel they could make money. It was feared that they could harm the brand's image when control over hiring staff, for example, was lost. "I am on farms every day. You can tell how a farm is doing on the drive up to the yard."

Advantages

- The owner does not have to be involved in the day to day running of the farm.
- Maintain ownership of the full business including profits and decision making.
- Owners have time to ensure that targets are being hit.

Disadvantages

- Farms can stagnate and struggle to achieve top performance.
- It can be difficult to attract and retain good managers.
- Managers can feel that they get the cows the owner doesn't want to milk.

Relevance to Ireland

Employing a farm manager on one of the units while the farm owner manages the other allows the farm owner increase herd size while not increasing workload to the same degree. This model is dependent on employing a top class manager that is fully capable of running the farm to a high standard. If this is not the case, then standards can slip on the home farm as the farm owner tries to aid the farm manager.

Stepping back and employing managers for all units

As units get bigger and perhaps more plentiful, some owners decide that they need to step back completely from the operational running of their farms. The owner's role in this case is to ensure performance on all units. Technology is a great aid in this regard and improves efficiency when farm owners do not have to visit farms to know what is going on.

In many cases managers report to central office daily and farms are visited on weekly and monthly cycles or as problems arise. Managers are working within certain parameters and report everything up the chain. This information is seen by a supervisor who forms a plan with the manager if action is required on any areas.

Case Study

Andrew Fletcher (2017), Grasslands, Cheshire, England.

In the year 2000 Andrew Fletcher was milking 250 cows on 250 acres. Fast forward 10 years and he was milking 2,300 cows on seven milking units. "We were one of the first to do multiple units but we were crap at it. We knew what system we wanted, knew what we wanted to do but we couldn't do it. We were living the dream but the wheels were falling off".

This expansion was done through leasing farms with good land and infrastructure. Many were underperforming dairy farms. “Multiple units - it becomes drug like. You have to find the next one. The solution to the problem was always get another farm. We kept thinking the profit will come next year. We had too many people at management level. We had the bus, but everyone was sitting in the wrong place. We were haemorrhaging money. The culture, systems, processes and people were all wrong”, explained Andrew.

In 2010 something had to change or they were going to go out of business. Grasslands introduced standard operating procedures (SOPS) for every job on the farm, from tubing a calf to milking a cow. Andrew began visiting each farm for a meeting with the manager every two weeks. On the visit they would go through a set agenda and a list of questions. This pre-compiled list of questions would include anything from winter feed budgets to the number of lame cows. “Once someone says a figure, it doesn’t get personal. We look at what actions are needed if any”.

Managers began sending detailed weekly reports and this data collection slowly started to transform the business. Grasslands set parameters and there was flexibility built into the system provided people were within these parameters. Andrew tried to set up systems that were simple and easily replicated. Mangers must measure grass every week and cows are condition and mobility scored every two weeks. Calves are weighed every three weeks. These changes brought much improved performance and accountability. Now Andrew can monitor every aspect of his farms from his office as information is constantly being sent back via drop box.

Contractors do all the machinery work on the farm. Farms range from 200 to 500 cows and each one has a loader and scraper tractor. Every year managers build their own budgets from a template. “We need the systems that people work with to give them answers. Everything we do is trying to shove the decision making process away from me. If you want to divert decision making to other people then they need all the information. Where we are today maybe is not perfect, maybe it is a bit extreme,” said Andrew.

Initially Andrew took on a second unit because he didn’t want to work for nothing. “I didn’t want to work hard all my life for no money. I don’t know why I should buy a farm. There are better returns using someone else’s asset. Rent is usually around 1.5% of land value,” he said.

While Andrew is getting excellent results and runs a very tight ship, I felt there was perhaps too much reporting required from the managers. I acknowledge that when Andrew and his management team did not have such a tight control of records the farms were struggling. However, I feel there is a happy middle ground between the two.

Advantages

- Owner does not have to be involved in the day to day running of the farm.
- Keep ownership of the full business.
- Keep control of all farms.
- Can budget and plan for farms from head-quarters.
- Farms can be easily benchmarked.

Disadvantages

- Managers can spend more time at paperwork than managing the farm.
- Motivating staff can be an issue.
- Filling out detailed paperwork can be resented after a while.

Relevance to Ireland

Currently there are not many Irish farmers in this category. For this to be implemented there must be access to scale, and often more than two dairy units. As expansion continues in Ireland, this management model will become more common.

Chapter 3: 'Skin in the game'

Skin in the game is a phrase made popular by Warren Buffett who used it to describe high-ranking employees that use their own money to purchase stock in the company they are running. Farm structures that offer people 'skin in the game' (a percentage of sales in return for financial investment) such as share milking, contract milking, equity partnerships and farm partnerships tend to attract the best people to work for them. Where farm operators and managers have a share in the business or profit, farm owners can take more of a back seat as their farm is being run by someone who will make all decisions with the financial end point in mind.

Equity partnerships are particularly unique whereby the equity partner has a vested interest in both the cows and the land. This management model is the only method of farming that I have identified where the farm manager has a financial interest in both cows and land. In share milking and contract milking the operator's main thoughts are on the cow. If they do too much damage to the paddocks or cut back on lime, phosphorus or potassium for a year during low milk price, they might never see the implications. In equity partnerships the operator owns a percentage of both the cows and the land. Every decision they make will have an impact on their short and long-term profitability.

Some owners opt for the share farming and contract milking model's methods of managing multiple units. The farm owner and share farmer are basically sharing all assets including land, cows and labour. Because the share farmer is driven by farm profit they are generally highly driven and run profitable units. The real advantage for the landowner is that they are getting a highly motivated person that has a vested interest in the business to manage their farm. While they are giving away some of the pie, there is an argument that the share farmer is making the pie bigger.

Share farming

In share farming both income and operating costs are split between the land owner and share farmer. The percentage is based on what each party brings, such as cows, land and labour. Generally, the farm owner supplies the land, infrastructure and perhaps some cows. The share farmer supplies the management and labour. They also pay a proportion of the farm's running costs such as feed and fertilizer depending on the agreed percentage split. One of the big advantages of using share farmers to run dairy units is that the everyday decisions they make effects their own pocket. This leads to better management and accountability.

Share farming offers excellent opportunities for skilled young people to get into the industry. It is one of the lower risk ways to commence dairy farming, as share farmers are investing in areas of high return. Land owners using the share farmer model generally attract the best people because they offer progression and the opportunity to milk their own cows. One of the main advantages for the share farmer is that they do not have to invest in land or infrastructure. They can concentrate on what gives them the best return on investment (ROI) – cows. Generally after a couple of years they have their own cows coming into the herd and they can expand their herd size and look to secure a higher percentage of the milk cheque.

One of the downsides to share farming is that there is a level of scale required to make it viable for both parties. Looking into the future, I would put this figure at 150 to 200 cows. A big advantage is the fact that the share farmer takes on their own staff, if required, so the land owner is not managing any staff.

Case study

Rhys Williams (2017), North Wales.

Rhys Williams has share milkers running three of his units in Wales. His management style could be defined as 'relaxed'. Although he does not have set structured meetings with his share farmers, he visits them every week or two. He explained that going on a grass walk with the share milker is a great time to discuss what is going on. His philosophy is to give them as much responsibility as possible. "I want to give them ownership. I like them to own some of the cows. That is the way forward. Make sure they have some debt. It makes them think twice. I want to develop farmers, not farms. In the end they should be milking their own cows."

Rhys explained that for his system to work he needs bright people that can think on their feet. He wants them to own at least 10% of the cows and ideally borrow money to purchase these. "That is the way forward. Make sure they have some debt. It makes them think twice about spending," he said

Rhys stated the importance of building a brand and reputation. People need to know what you are about. That encourages the right people to apply for jobs. "I often ask myself do I need more farms. I don't. But I really do like developing people. That's my kick now – watching people grow. It is important to have continuation of growth so people can see scope in the system for them to move up as the top people move on. They do not have to stay with us".

Rhys' system aims to achieve over 450kg of milk solids per cow stocked at 4 cows per hectare on the milking block. He warns that people who want to run multiple units must have a passion for cows and people.

Advantages

- Attracts highly skilled and motivated people.
- Provides opportunities for ambitious farmers.
- Farms will perform well.
- No staff employed by owner. That is the share farmer's responsibility.

Disadvantages

- The system can struggle on poor milk price years.

Relevance to Ireland

Share milking offers huge potential to the Irish dairy industry. As Rhys Williams illustrates it is a very simple method of managing multiple units. It takes pressure off the farm owner as the share milker's decisions effect their own pocket. Offering share milking opportunities will also help attract some of the brightest young farmers as they will get an opportunity to milk some of their own cows. This allows the farm owner step back from the day to day running of the farms.

Contract milking

Contract milking is similar to share milking except the milker receives an agreed fixed payment on every kilogram of milk solids or litre sold. The contract milker manages the farm and provides all of the labour. Depending on the agreement, they also pay a fixed percentage of agreed costs. This must be clearly set out when drawing up the contract.

Regular reporting is very important between the contract milker and farm owner. This means that rising issues are spotted early and there are less surprises for both parties. Usually people spend a few years contract milking while they save cash or build cow numbers for the next step.

In 2015, some share farmers in New Zealand made a temporary switch to contract milking when the milk price dipped in 2014/15 (New Zealand Herald, 2015). This changed how the profits were split for an agreed period of time. In the new scenario, the farm owner carried all the risk and benefit as milk price increased or decreased, as the contract milker was getting a set amount per kilogram of milk solids.

Case Study

Dairy Holdings, New Zealand. 49,000 cows

New Zealand based Dairy Holdings operates 59 dairy units milking 49,000 cows on over 14,000 hectares. Forty six of the farms are run by contract milkers with share milking also taking place. Dairy Holdings owns the land and supplies the infrastructure, while contract milkers supply the labour and machinery.

They are supported by three farm operations managers and four farm supervisors who oversee ten farms each. These supervisors are there to support the farmers and five of the current supervisors either run their own dairy units or share milk for Dairy Holdings. They sit down at the start of each year and complete all farm budgets for the next twelve months. Supervisors set production targets and monitor these targets on a monthly basis with the farmers. They are always contactable by phone if assistance is required. These experienced supervisors work closely with the farmers to set budgets and monitor performance. They help the farmers to work through any issues and assist in planning ahead.

While some people will say that Dairy Holding's payment per kilogram of milk solids is on the low side, the contract milkers did not complain. They are encouraged to build stock numbers by rearing their own calves in the herd. Dairy Holdings expect them to produce a 25% replacement rate in weaned heifers. They can rear every calf themselves after that for a standard payment of $60 to help cover rearing costs. Farm practice advisor Adrian Van Bysterveldt (2018) explained that "you don't get ahead in farming by saving cash. This is not the engine. The driver of becoming a farmer is equity growth. Cash in the bank is too easy to spend". This was a common theme in all Dairy Holding farms. The people involved are highly driven to build their own herds of cows and Dairy Holdings encourages this.

Dairy Holdings often leases cows back from contract milkers. Two rates are determined by her breeding worth (BW). The lease payment more than covers the interest cost and pays off some capital of the cow. Despite culls and death they always own their cows. If they lease in 400 they walk away with 400. This is a good deal for the contract milker who can grow their herd without an animal dying or being culled.

During the year share and contract milkers are paid on achieving 85% of budgeted production. If this is achieved at year end they receive a bonus. Dairy Holdings believe that the sweet spot is to have 750 to 900 cows for contract milkers. Three staff in addition to the contract milker is sufficient for this size of operation. Dairy Holdings looks to set up dairy farms where the best dairy farmers want to operate. "Layout is more important than bells and whistles. The biggest thing that engages people is how they are treated," said Adrian.

Dairy Holdings CEO Colins Glass' main key performance indicator (KPI) is how much cash comes from each farm to contribute to the business. The biggest driver of this is cost control. Being low cost is second nature to Dairy Holdings so they are now looking for maximum production from minimum inputs. Essentially, grass is their main driver. Farms are budgeted to produce 900 kilograms of milk solids per hectare (KG/MS/HA) from zero or very little bought in supplement. Testament to the contract milking model they are achieving 1100 to 1400 KG/MS/HA.

Advantages

- Top performance levels achieved.
- Motivated milkers.
- Little risk for the owner.
- Attract top operators.
- Steady income stream even when milk price drops.

Disadvantages

- The land owner can lose out on years of poor milk price as the contract milker is paid a fixed rate on each kilogram of milk solids produced.

Relevance to Ireland

Similar to share milking, contract milking offers huge potential in Ireland. It is an excellent way to ensure performance targets are met as the contract milker is paid a set amount per kilogram of milk solids sold. This payment method attracts top class young farmers that are willing to back themselves.

Chapter 4: Joining Forces

Share milking, contract milking, farm partnerships and equity partnerships are four of the most common structures used to allow two or more people expand together. All of these structures are about attracting the right people, which is more important than giving up some of the business. People join forces with other farmers for a variety of reasons, but they must bring something to the table to improve the business. The models outlined above have the potential to create the best farming atmospheres, performance and profitability as everyone involved is invested.

Yes, the landowner is giving away some control and perceived profit, however, I have not found this to be the case. They are in fact gaining someone that has the potential to drive the business forward. Over time, these units attract some of the best young farmers as they know that opportunities will come down the line if they prove themselves.

Equity partnership

Equity partnership is where two or more people combine their capital and skills to grow their business greater and faster than what they could have achieved individually. Its popularity is increasing because there is shared risk for all parties and everyone is equally invested regardless of the percentage ownership. All parties invest in stock, land and infrastructure. The whole farm business is valued prior to the equity partnership being set up.

Essentially it boils down to ownership. Some young farmers will be happy to share-milk or contract-milk forever. Others will do it until they can afford their first farm, which is sometimes too small for them. Instead of flying solo some prefer to enter an equity partnership on a larger scale farm and obtain a smaller share of the pie. Equity partnerships can also enable investors from other sectors to invest in farming

This is the only method of farming that allows the milker to have ownership of the cows, land and infrastructure. In equity partnerships the decision making processes can be slow due to the level of investors. Some may want a high dividend while others can take a long term view and push expansion. On the plus side, issues are looked at from different angles diminishing the margin of error.

Case study

Carlos and Jasila Cuadrado (2018), Canterbury, New Zealand

Argentinian dairy farmer Carlos Luis Cuadrado first visited New Zealand in 1998 for three months for college placement. He loved his time there and learned a lot. It took him three years and a financial crisis in Argentina to convince his wife Jasila to go to New Zealand. On arrival in 2002 they took on a farm assistants job in Tauranga. The following year they moved to Canterbury to a farm with two units and took charge of one. In 2004, Carlos got a second in charge (2IC) job on a 1,350 cow farm and Jasila milked and looked after the calves.

Following a year of working as farm managers Carlos and Jasilia returned home to Argentina in 2006, where they took on a manager position, milking 800 cows through a 40 unit herringbone parlour. They increased numbers to 1,300 but struggled with the infrastructure and dirt roads. After two years they returned to New Zealand where they took on a lower order share milking job receiving 20% of the milk cheque in return for supplying all the labour. Milk price was good and they invested in youngstock. In 2010 the couple had 70 yearlings for breeding and they asked the farm owner if they could buy 200 or 300 cows. This did not suit the owners business at the time.

The following year a neighbouring dairy farmer asked the couple if they would be interested in purchasing a farm that came up for sale beside his dairy unit. This purchased land was adjacent to the neighbour's dairy unit and it was amalgamated following purchase. This gave the couple an opportunity to enter into an equity partnership with their neighbours, on a dairy business entitled Winters Farm Limited. Greg Roadley and his wife Rachel owned 63%, while Carlos and Jasila gathered enough capital for a 25% share. Carlos was given responsibility of overseeing the farm and reporting to the board.

"When we invested in a second farm there was lots of pressure to get new farm to perform while maintaining performance on the original farm. I had the responsibility of overseeing the farm and reporting to board. We have a production advisory committee that meets once a month to discuss cows, grass growth, supplements, feed, budgets and make decisions. If we want something on the farm we make proposal to board. It will then be looked at from different points of view."

"With multiple units and owners who love what they do we must be careful not to say too much and confuse the manager. I am the only one who talks to the farm manager. By having things very clear you can have an accountability," said Carlos.

In 2016 Carlos and Jasila increased their share in Winters Farm to 31%. With the business doing well and making money, no one wanted to sell shares so it was going to be difficult to share up any further. The couple were not finished expanding however. The same year they purchased a 10% share of a 120 ha irrigated dairy unit in Pamaru, 190km south of Ashburton where the couple live. This unit has its own board of directors and they decided to put contract milkers on the new farm. "To get them to commit we had to make them owners. We guaranteed their debt. People paid a fixed wage can contribute to a drop in performance. I want people to aim higher and higher. Managers generally don't have the push to give extra and don't understand when things get tough. If you want to grow your business you have to work hard. It is a skill to find out what motivates each person," said Carlos.

While all this was happening Carlos and Jasila held onto their original share milking job. The owner did not mind as long as performance was maintained. Reporting is essential to the couple's business. Reports are compiled each week and every month a detailed report is compiled incorporating production, stock numbers etc. They need to have a clear picture of what is happening. When looking at weekly figures they do not look at production. "We mainly look to see that our costs are in line with budget. If we keep costs under control the rest will be alright. Having good people is number one. You want people on the ground to have the same views as board members. The key with partnerships is to find people that are looking to go the same way as you. People generally don't think hard enough on how not to spend money. Saying no is the first policy. Sometimes people on the ground can feel a bit unsupported for not getting a new tractor for example. It takes time to show them the advantages of other investments. Be patient and you will see," said Carlos.

Carlos and Jasilia offered the following advice:

- Supervisors need to spend time explaining the motives of their actions.
- Changing staff is expensive in both time and mistakes.
- Time must be spent with family. Divorce is not good for business.
- It is best to perfect before you replicate.
- Break expansion into mini wins. Go out and celebrate. It is good to reward yourself and important to enjoy your rewards and success.
- Keep your bank informed. They want to know what is happening with their money.

Advantages

- Everyone is invested in all aspects of the business.
- It allows people to pool resources.
- Enables access to large scale.
- Ability to attract outside investors.

Disadvantages

- People can have contrasting views.
- Decision making processes can be slow.
- They are cash hungry to set up.

Relevance to Ireland

While this is a relatively new concept to Irish farmers there are a small number of equity partnerships operating in Ireland. It offers farmers the opportunity to co-invest in a farm business venture. They may wish to purchase a milking unit but cannot afford it on their own.

Chapter 5: Making the move

The right time

Is there a right time to make the move to take on an additional dairy unit? Yes, is the answer, but it can take years for everything to align. Firstly, the home farm must be 'humming' and hitting top physical and financial barometers. You must be ready to step back from the running of the home farm and be looking at options.

Milk price is one of the most important factors in the timing of setting up a unit. Most of the best operators I met chose to make their move on years of poor milk prices. The theory is that land, stock and even infrastructure can be got cheaper than in years of high milk prices. A simple case of supply and demand. New Zealand dairy farmer, Jim Van Der Poel (2018) explained that "a lot of people look at what's in front of them. If the milk price is low they think it's going to stay low and they do not see the opportunity. When the milk price is high everyone is confident and they want to grow. If you have the ability to look through those things it gives you a distinct advantage. That is often when the best opportunities are out there, because you can negotiate and do deals. That is how we purchased our first farm."

A common tactic is to take on a heifer farm that one day has the potential to become a dairy farm in it's own right. This farm would rear heifers and winter cows with the surplus grass and silage. As heifer numbers begin to exceed requirements on the home farm, the option of setting up a milking block is explored. The advantage of this system is that stock numbers are in place to make the move. The heifer block will have been improved through reseeding, fencing and you will know the farms potential. A parlour is usually the largest investment on these properties. The downside is that farmers lose their heifer block, but its profitability potential is greatly enhanced. The vast majority of farmers that I visited chose to rear their own heifers over contract rearing.

Sometimes the timing might not feel 100% right but a good opportunity presents itself.

Leasing a second milking unit - Evaluating opportunities

Size

There is no ideal size when looking for a new unit, but size is strongly linked to location. The closer the proposed unit is to the home farm the smaller you can go. If travelling over an hour, units must be stand alone and be a minimum of 150 to 200 cow dairy.

Lease length

The longer the lease the better. On my travels, I did not meet anyone who regretted leasing a farm for too long. The longer the lease the more your fixed costs are diluted.

Location

This is a personal choice. While some people want to be able to commute to the home farm, others are willing to move across the country. Ideally, location would not be a barrier, however, it is for many. People are willing to set up units 200 km away in New Zealand. In general, Irish farmers are not willing to look so far away. English farmer Joe Delves (2017) argued that the new unit should be quite a distance away so you set it up right from the start and do not need to be there yourself every day. ”The further away the better. Employ a good manager and let them get on with it,” he said.

Land type

Free draining and fertile soil is key. You generally don’t get to pick your soil type for your first unit, but it is your choice from then on so be fussy. Many of the people I visited ended up farming on similar soil types because they were comfortable that they would know how to manage it.

Current infrastructure

Current infrastructure on the farm has a strong link to the length of the lease and the price that the lessee can pay. Grass based dairy farming requires a milking parlour, cow roads, ryegrass pastures, adequate water supply, cow housing and slurry storage. If one or two of there are missing it can easily be overcome. Lease length is the most important factor on greenfield sites, where a lease length of 25 years is required.

Investment required

A certain level of investment will always be required. The amount of investment is linked to the lease length and where the investment is required. Cows, grass, grazing infrastructure and a simple parlour give the quickest returns. Sheds and slurry storage do not. When walking a potential unit some of the less obvious aspects to look out for include:

- Power – Is the current power enough? How close is three phase?
- Water – Is there a well? What is the pipe size and is there water troughs?
- Collection yard – Is it big enough and can it be expanded easily and cheaply?
- Calf sheds – Is there sufficient of adequate accommodation for calves?

People

Some of the most successful multiple unit operators insisted that you must have the right person to manage it before you take on a second unit. This illustrates the importance of getting the right people involved in your business.

Gut

Stand back and judge the farm on its own merit. Jim Van Der Poel (2018) said, “It’s a matter of looking at opportunities and knowing what you can do and be prepared to walk away if you don’t think it’s the right thing to do. You can buy any farm in the country as long as you pay more than anybody else but that's not a recipe for success. It's about finding the right farm, getting it for the right price and getting performance off it."

Landlord

Maintaining good relationships is key to leasing land in Ireland. A good relationship with the landlord is crucial. It is important to remember that they will continue to own the land and can be a big help. They generally have a great knowledge of the land, water systems and general local knowledge. Good relationships is key to dairy expansion in Ireland. With the average Irish field selling once every 400 years, leasing land will become an even more common way to expand. NZ farm consultant Adrian Van Bysterveldt (2018) who spent time as a farm consultant in Ireland explained that "it is crucial for Irish farmers to invest in relationships. This is not as important in New Zealand where farmers can get access to land without relationships".

Team

You must have a good support network and team around you. This includes agricultural contractors, advisors, accountants, bank manager and solicitor. They must understand your vision.

Price

This comes last for a reason. Obviously it has a massive bearing on the viability of a unit, however, it is often the last item to be finalised. I firmly believe that the price must be fair and a good tenant that will add value to a farm is a better option that someone willing to pay unrealistic high rents and make very few improvements.

Conclusion

Ultimately, running multiple dairy units is not for everyone. It does however, offer huge potential to Irish farmers who are willing to go down the route. It allows them 'replicate rather than complicate' their farming system. Managing these new units involves incorporating a range of skillsets. Irish farmers need to become excellent people managers not just a farm managers.

This report outlines the wide range of management models available to maximise production and performance. They range from the farm owner managing all units, to joint investments such as equity partnerships. All models work and are viable methods of expansion. The situation, mind-set and scale involved are important factors in determining the most suitable model for each individual farmer.

People are the most vital aspect of every business. In farming you cannot do everything yourself. This is especially true when you take on a second unit, as you physically and mentally cannot cover the workload. This is when you need good people you can trust to manage a farm or farms and milk the cows. Before making the move to a second unit, it is of the upmost importance to have built a strong team including solicitors, accountants and farm advisors as they will play a much larger role in your business at it gets bigger. It is more important to have the right person to run the unit than getting the unit. When you are visiting a potential new unit you should already know who is going to manage it.

After spending two years studying multiple units during this scholarship and many more years looking at potential units, one theme runs through – simplicity. The less day-to-day decisions that need to be made, the better. Systems must be simple and easy to follow for everyone.

Without doubt the best farms I visited incorporated management models where the main operator had a financial stake in the business. These models work very well, because management decisions affect their bottom line. They give the operator the opportunity to obtain substantial financial rewards for good management decisions. The advantage for the owner is that they have someone who has a vested interest running their farm. They also help to attract top young farmers as they know there is opportunity for progression within the business.

In conclusion, multiple dairy units offer huge potential but require a different management skillset to running a single unit. It is crucial to pick the management model that suits you and your farms.

Recommendations

Have the home farm humming

Expanding through multiple units is not to be taken lightly and it is crucial that the home farm is hitting all physical and financial key performance indicators before the move is made. Running multiple units does not automatically mean more profit.

Help required

Before making the decision to take on a second dairy unit, it must be acknowledged that you will not be able to do it all yourself. This can be a significant factor for farmers who do most of the work and make all the decisions on their home farm.

Know who will manage new unit

Before evaluating a possible new dairy unit, it is crucial to know who will manage it. They may currently be working on the home farm or could be someone you know who is suitable. This reduces stress levels and helps ensure good farm performance from the start.

Team of professionals

Solicitors, accountants and farm advisors play an instrumental role in aiding the setting up and managing multiple units. They should understand you and your business. This knowledge and advice is invaluable as the business expands.

Bring people into your business

Farming models such as share milking, contract milking and equity partnerships offer the potential attract and retain highly skilled people. Given ‘skin in the game’, these operators can take control of a unit and run it like it is their own. This sense of ownership is invaluable and means that the decisions they make affects their own pockets. This allows the farm owner to look after the home farm, or in many cases they take on extra units as their time is not being spent running them. Irish attitudes towards these models of farming must change. Farm organisations, Teagasc, Department of Agriculture and the Government must back these concepts in an effort to attract young people into the industry and provide expansion opportunities for active farmers.

Advice on managing multiple units

Currently there is no specialist advisory unit for people running or looking to set up multiple dairy units. There is a discussion group of ‘multi-unit’ operators in the UK but none in Ireland. As more farmers will begin to seek information in this area, Teagasc have a role to play in the development of these discussion groups and should conduct research in this area.

Attractive career

Irish dairying must put itself in a position to attract the greatest people and minds into the industry. We must be able to compete both in salary and time off with other occupations. These conditions are crucial to attract young people into the industry.

Recognise ambition

As a sector we must strive to recognise ambition in students and anyone working on our farms. If someone is showing good potential it is our job to nurture this and give them an opportunity to stay in the sector. Acting as a mentor for these young people could change their lives.

Training

On my travels within Ireland many people lamented on the old farm apprenticeship scheme and questioned whether we needed something similar today. We need to ensure that our agricultural students are finishing education with the knowledge and skills to manage a farm or set up their own farm. Host farmers also have a very important role to play in this regard. Students should be shown financial information, be brought to discussion group meetings and given responsibility on the farm. Time spent with these host farmers can shape a young persons career and has the potential to put them off dairying as a career if the experience is not positive.

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