

This project is part of the Dairy Australia Tactics for Tight Times program. DairySA developed this project in response to Fleurieu region dairy farmers seeking a detailed process to assist them in assessing business viability and help with planning in tough financial times.



Your Levy at Work

Business Planning for Dairy Farms

Hope is not a plan!

Business planning does not need to be as complex as many may think... some 'meeting structure' to follow with 'key people' in your business and the 'minutes' of your business planning meeting can become your business plan!

The business planning framework focuses on 3 stages—“NOW” (or your 'resource' stocktake), “WHERE” are you going (or your preferred business future) and “HOW” (the strategies) do you plan to get from “NOW” to “WHERE”)—see below.



For success, your business planning meeting should involve all of the 'key people' involved in your business. More heads are better than one and when later it comes to 'implementation' if they are only 'your ideas' it may well be harder to implement than if they were 'our ideas'. 'Key people' could even include your bank manager, accountant and/or your farm consultant!

At your business planning meeting, realistically define the present situation (“Now”), past history and how past business performance compares with against industry benchmarks (a role for your bank manager, accountant and/or farm consultant?).

As with all businesses in agriculture, the 'target' (“Where” you are going) is influenced by 'forces' beyond your control—milk prices, seasons, \$A, fodder prices and processor requirements for example. A simple tool (SWOT analysis) that takes into account these constantly changing business variables, can help to create 'new thinking' (new strategies) at your business planning meeting just as it may confirm 'existing thinking'.

Good business plans are practical and may not only be used just for loan applications, starting a new business or attracting investment. They can also be useful for:

- Reviewing the business' direction, and setting goals and responsibilities to guide it. Defining agreements between partners.
- Evaluation of new ideas towards enterprises, capital expenditure and expansion.
- Assign actions, measure and track implementation
- Succession planning.

There should be time set aside for regular review of your business plan. In past years 'forces' beyond your control—milk prices, seasons, \$A, fodder prices and processor requirements for example have affected the dairy industry in such dramatic ways that a regularly 'revised' business plan could help to build 'business resilience'. Therefore it is important to keep it simple as nobody likes reading a long business plan.

The business plan is not the endpoint but merely a means of communicating future plans. The end point is discussion and communication.

Business Planning Case Study #1

“Exiting on Your Terms”

(Michael & Julie WEATHERALD, “Glen Lamond”, Delamere)

“Glen Lamond” at Delamere, is a family owned dairy business running on 210 acres. It has operated since 1983 with family labour, that is now grown up and with their own careers and families.

“Now” (stocktake of resources)

- Strong equity position.
- Low staffing levels (labour heavily reliant on Michael’s time and energy).
- Scale of dairy farm—too small for viable share farming as a method of exit; too expensive for beef operator to purchase outright.
- Mature workforce, was mostly family which have now sourced own careers.
- Dairy business supported by off farm income.
- Lots of talking about succession/estate planning.

“Where” (are you going?)

- Minimising Michael’s time in the ‘operational’ side of the business:
 - Employing shed staff in order to decrease Michael’s work hours.
 - Capital expenditure on new irrigation system to decrease labour/time input during irrigation season.
- Transitioning to retirement (‘freedom’) when we desire.
- Financial plan (living & income), ‘an income plan’ to begin to work towards that meets our needs.
- Health of ourselves (monitoring, taking care of ourselves).
- Life and lifestyle outside dairying.

“How” (to get from “Now” to “Where”)

- Employ more shed staff.
- How to exit... determine pathways/strategies for different scenarios:
 - Best case scenario.
 - Worst case scenario.
 - Average scenario.
- Ride out dairy crisis and erode equity.

New actions/thinking/outcomes

1. Employed labour:

- Michael shifted out of the shed into farm improvements/management.
- Michael: different work, different outlook!
- Not pushed for time (“ahead of the bushfire, not fighting fires”).

2. Beef & Lease not an option:

- Not viable to lease out.
- Leasing ruled out due to land degradation.

3. Share farming:

- Not viable for outside share farmer (timing).
- Maybe consider family members.

How did business planning affect decision-making now:

- The business planning process clarified which options that have been running through our heads are viable, and available to us.
- It makes me feel irritated that there aren’t any other enterprise options which would be viable that are less labour intensive that suit our property.
- It cleared the ‘thought process’ of what options are left and which direction we will have to aim towards for the future.
- We’ve begun planning (a ‘concrete plan’) with agreed decisions.



Business Planning Case Study #2

“Expanding with Limited Capital”

(Jason STEINBORNE, David and Rosemary SMITH, “Hermitage Meadows”, Hope Forrest)

“Hermitage Meadows” at Hope Forrest, is a family owned dairy business that has just entered the dairy industry— since July 2012. Currently building cows numbers, it runs 139 jersey cows. The business and land have been purchased on vendor finance terms.

“Now” (stocktake of resources)

- Good quality Jersey herd (top 5) MN3 status.
- Productivity: eight month growing season, perennial based pastures, rainfall (1050mm).
- New to business management.
- Low equity.
- Cash flow dependant.
- Business expansion reliant on cash flow.
- Structured well for profit (low overheads, good turnover, good gross margins ratios).
- Limited access to future capital.
- Vendor finance (favourable terms, conditions and relationship).
- Requirement for infrastructure upgrade.

“Where” (are you going?)

- David semi-retired.
- Need for work/life balance.
- Profitable business year on year generating cash surpluses = choices.
- Increase equity = business security.
- Achieve short and medium term upgrades.
- Building business resilience.

“How” (to get from “Now” to “Where”)

- Employing part time labour and contractors.
- Maintain/improve herd quality and fertility.
- Improve grazing management.
- Cash flow monitoring, management and cash forecasting.
- Build business resilience:
 - Contact with ‘key business relationships’.
 - Cash in bank or infrastructure.
 - Family business communications through ‘tight times’.
- Develop capital budget; implement those with best return on capital.
- Mitigate ‘key person’ risk (life, trauma insurance policies).

New actions/thinking/outcomes

- Basis for a positive outlook for future (financial nature)—“light at the end of the tunnel”.
- Process to spend scarce capital and see best return on capital (ROC).
- Agreement reached on capital expenditure (farm business \$ before house \$).
- Engaged dairy consultant.
- Invited into Mt Jagged dairy discussion group.
- Renegotiated terms with creditors (successfully) undertook “hard meeting with facts/figures and was ‘easier’ negotiation”.
- Identified ‘key person’ risk—Jason.

Going to do:

- Business monitoring— ‘good business habits’:
 - Cashflow budget (determine a production and cash plan).
 - Cashflow actual vs budget (monitoring performance)
 - Forecasting (managing future cashflow).
 - Communication with family when ‘things change’.
- Capital budget prioritise according to ROC.

How did business planning affect decision-making now:

- The business planning assisted us to determine a ‘priority of capital expenditure’.
- We realised the importance of cash monitoring and to look at it objectively.
- At first, we bought our business for the lifestyle but now it is a business first, lifestyle second.
- Evaluating options and alternatives—beef, exit dairying
- After business planning, we feel the business has now:
 - Focused energy and resources,
 - Renewed commitment.



Business Planning Case Study #3

“Reviewing our Future”

(John & Penelope CROMPTON, Peter & Sarah BARKER, “Rivington Partners”, Back Valley)

“Rivington Partners” at Back Valley, is a family owned dairy business that has been operating since 1923. It is an example of one of the bigger dairies on the Fleurieu Peninsula milking over 350 Friesian cows at high milk volumes. It is also one of the older dairies having started as a dairy in 1923.

“Now” (stocktake of resources)

- In the process of weathering a ‘perfect storm’ of prices, drought, seasonal fluctuations.
- Damaged equity as a result of ‘perfect storm’.
- High value of land. How does one obtain a reasonable return on investment?
- 100 year family history.
- Well-connected and well known in the dairy industry.

“Where” (are you going?)

- Succession planning owing to age of partners and other interests—where do we live? Where/how does future income come from? What will we do? How do we handover?
- Managing business capital expenditure—how do we ‘catch up’ our capital works program.
- Construct a viable, resilient business for future operators.
- Healthy happy people.
- Exit strategy (“line in the sand”)—‘worst case scenario’ and plans don’t go to plan, exit strategy should ensure equity and options are maintained.

“How” (to get from “Now” to “Where”)

- Maintain trust/good relations with strategic alliances.
- Mitigate ‘key person’ risk (life, trauma insurances).
- Investigate and continue to implement pasture species suited to dry land pasture system. Improve pasture production and utilisation = lower cost dairy and less reliant on purchased fodder.
- Build cow numbers to increase cash flow and business profitability.
- Begin succession planning.

New actions/thinking/outcomes

- The business planning helped get partners talking together with the plan as the reference point.
- The process clarified the issues, clarified the thinking—“we’re now all on the same page”.
- Prompted the creation of a ‘plant replacement and infrastructure schedule’ which will feed into budgeted cash flow and borrowings. A useful ‘discussion point’ that will be helpful in discussing replacements.
- Provides a useful basis for ongoing discussions with professional advisers.
- Undertook a thorough analysis of milk supplier prices and timing of payments to determine the best supplier for our milk production.
- Undertook an analysis of calving pattern versus milk supply, prices and fodder costs... resulting in keeping current calving pattern for now.

The Business Review and Planning process was undertaken with the farmers by Chris Scheid and Lachlan Hood from ProAdvice. The information in this publication was prepared by ProAdvice. Contact 08 8552 9641 or cscheid@proadvice.com.au

For further information on business planning go to the *Planning for the Future* section of the Dairy Australia—The People in Dairy website. www.thepeopleindairy.org.au

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