

# Robert Ferris – Piriaka Farms Business Re-Calibration



I went to Victoria University in Wellington from 2004 – 2006. I left with a degree in commerce and was ready to rule the world. Unfortunately, the philosophy through university was that “C’s” get degrees (which they did) but unfortunately that they don’t get good jobs in a GFC.

There was, however, an opportunity sitting right in front of me and ticked most boxes (medium scale business, opportunity to invest and grow, and an opportunity to learn and gain business acumen). So, with that the family business was carried on into another generation.

Together we’ve grown the family farm to about 5 times the size it was when Marc (my brother) and I came home. Three generations are now living on the farm with Nana still being involved and always interested in what’s going on.

Palm Kernel was introduced into the system in 2009 with the first 300 ton being shovelled into trailers. This restricted how much went out and cows were never over fed on it. In 2010 we brought a bit of machinery to make the feeding out more efficient and with it came an increase in the amount fed out.

We were slowly losing our way and slipping into a system 3 farming system.

The 13/14 season we got paid \$8 and fed 1.2 ton a cow, mainly due to drought, but at \$8 you can’t lose money, right? Not entirely. When all financials were dissected and reviewed at the end of the season, we had made a 10% return on the supplement investment, at \$7 that return was turning negative. The system had to change.

14/15 season we committed to no supplement. Did our research, talked to the right people already doing it and made the change, took a 15% drop in production but dropped OPEX by well over \$1 per MS

2015 as part of growing the business and understanding it better we attended the dairyNZ governance course. This opened our eyes further to what and why we were doing what we were doing, but also gave the business a clearer strategic direction going forward

### **In the past the business had become too complicated**

- Too many moving parts, very little policy in place to keep things structured
- Busy – seat of pants decisions. Far too often decisions are made on the run or on some workings in the dairy shed on the dairy diary. There was little consideration to how this may affect other parts of the business – generally the decision is too late anyway
- Too worried about the dollar we may miss out on and not looking after the 2 dollars we had already made. You're often guilty of being worried what the neighbour is doing and miss what you do well.
- Average financial understanding – we didn't understand truly what affected EBIT, how and what capital was adding value. You need to know what the top 10% are achieving and then find out how they are doing it. We didn't understand what marginal return was and how it affected our profit.
- The worst of all - Production focussed

### **The business now is:**

- Clear and focused – Very clear understanding of what we are trying to achieve as a business and the plan that is to be implemented to achieve this. We focus on the controllable grass harvest, cow condition, costs and try not to sweat the uncontrollable weather, payout, Fonterra, government policy etc.
- Simple – policy-based decisions. We now have policies that give boundaries to most decisions that need to be made on farm, Culling, round speed, fert, drying off etc.
- Profit driven – better financial understanding. This is simple but too often over looked on farm. Know what your EBIT is. How does it compare? How does it line up with your goals at a business and personal level?
- Focused – Pasture, people, profit, production is a by-product of getting this right.

Whenever I heard about an all grass farmer I immediately pre-judged them as having poor per cow production and therefore all other aspects of their business must be suffering from the same fate.

Through arrogance and ignorance, I had never really bothered to actually listen and find out for myself how these farmers were operating and what they were achieving.

When I did get off my high horse and stop listening to the naysayers, what I found out was quite amazing. Not only were these farms financially very profitable, they were also some of the best run farms in every other aspect of the business.

The following **KPI's** are what our business is now achieving. Although room for improvement in some parts, most are now above industry standards.

- 13-14 Ton pasture harvest was our highest priority when we moved to an All grass system. This has the highest correlation to profit from all dairy base data.
- All cows wintered on

- 5% of farm in winter crop
- 150kg winter supplement imported (plan to half this to eventually being nil)
- BCS 5 target at calving – no cows under 4.5
- 2300 APC 1st June – 1st August eat what we grow through winter
- 1000 MS/ha

**Animal health** is one area grass farmers I feel are constantly getting a bad name over. Yes, our cows are only fully fed for short periods of the season, but they are well fed most of the time and adequately fed all of the time. Here's the proof that our animals are very healthy.

- \$40 per cow animal health bill
- 50% of herd has dry cow each season no teat seal we aim to manage hfr mastitis and cull heavily on cows that have mastitis through the season.
- SCC average 120-140 with 6% of herd treated
- Zero intervention at mating but a very strong importance is put on getting grass right, so they are always heading into a rising plan of nutrition.
- 5-7% empty rates over the past 3 seasons.

**Staff and ourselves** have really enjoyed the shift with it being very rare that someone arrives home after 5:30 in the evening, rosters are set and generally stuck to.

- Staff are working 2150-2300 hours a year
- 8.4 hours a day on average
- 210 cows per FTE
- \$0.95/MS wages on farm plus management
- All people involved in the business are important, and as such are treated that way.

**The financial** side of the business are where the most impressive gains have happened

- \$3.20-\$3.50 Farm OPEX is able to be achieved on a sustainable basis this includes grazing out hfrs to the runoff block at market rates
- 7.6% return on capital is being achieved on the home farm with assuming a 0% increase in capital land values.
- 12% cash return on equity on the home farm last season.
- 14% compounding ROE over the entire business has largely been driven by converting lower value drystock land to dairy.

**Being environmentally sustainable** and following the grass curve, setting calving dates and stocking rates to fully utilise what nature has to offer, has also had a huge benefit to the environment.

We utilise all our spring growth with no plan to cut silage. This in turn leads to OAD milking in summer, early culling of cows in summer and progressively drying off cows in late summer through Autumn, with all cows dried off in April. This reduces our N loss to water at a particularly sensitive time of the year.

Our Nitrogen fertiliser policy is now under review. We are currently using 10-15% less than historically has been applied (an aim to decrease this further over time). To counter this we have applied more Potassium fertiliser to encourage clover growth. There is good science suggesting we will grow at least the same, if not more, grass with a better-quality pasture throughout the year.

## How do we get on in the future if the capital gains of the past are unachievable?

Over the past decade capital gain on dairy farms has been .2% more than inflation, the decade before that it was 5.5%- you could say the older generation had it easy?

To deliver a 15 % ROE and double equity every 5 years (which has to be the ultimate goal) with only slightly rising land values, we need to drive EBIT to the point where it is 10% of our capital value and that's no easy feat! Because at this point in time capital gain is not doing a lot to help us.

Policies on farm are now fundamental to our success. The following few are an example of how the business is able to function at a high level all of the time.

- We know when these events or decisions are going as do the staff – only the detail needs to be worked out.
- SRP – no ifs, buts, whys or maybes. It's stuck to!
- Round speed and dates these occur the same most years you can write it in a calendar
- Fertiliser – One of a farms biggest costs. Research this and get it right. Your business is grass!
- APC- pre/post grazing covers this is the farms bank account when there are no other options you need to know this, it sets a lot of decisions on farm.
- Culling – generally we do this early, milking culls too long only effects next years spring.

The farming system is simple which creates less chance of failure and also the ability to replicate the same model over different farms

This is evaluated each season and with the benefit of hindsight, tweaking to the system is made.

## Equity is quite simply all of your assets minus all of your liabilities

The following table shows how equity can grow overtime. It ensured myself that investing in the family business after leaving university was the right thing to do, and both myself and my future family would be able to grow equity, enjoy being involved in a larger scale business giving us financial freedom, but also time to spend with future children should we have them.

Table 1: compounding equity growth over time:

	Reinvestment \$60,000 pa		
Years	10%	15%	25%
0	\$50,000	\$50,000	\$50,000
5	\$390,000	\$450,000	\$590,000
10	\$1,000,000	\$1,400,000	\$2,400,000
15	\$2,100,000	\$3,200,000	\$7,900,000
20	\$3,700,000	\$6,900,000	\$25,000,000
25	\$6,400,000	\$14,000,000	\$76,000,000

Everyone involved in the business gets a wage just like any employee working for a company. The wage reflects the job title that you have been employed to do. What an individual chooses to do with that wage is up to them, the business must employ a person to do that role regardless.

Jess and I have chosen to reinvest a portion of that back in the business. This gives us a compounding return on our investment over time. The first 5 – 10 years are by far the slowest, after that the acceleration really starts to happen, so hold on tight.

Over time the difference between 10 and 15% is quite staggering. At year 20, you've doubled your equity, this is probably the difference between being an average farmer (or business person) and a good farmer

## Why be involved with a family or equity partnership?

Creates an opportunity to invest and keep on investing. You've seen it there, compounding equity is your best friend, you can also capture growth on top of an already established business.

Can accelerate personal wealth with the right set up and understanding – there is a thousand different ways to set this up.

There is a responsibility on yourself to at least maintain, but expectation to grow that same equity base

Creates strict financial disciplines when answerable to other shareholders, family members or a board.

## Lessons/Disciplines we have learnt:

### **Always make a profit:**

This lesson came as we headed from an \$8 payout into a \$4 payout.

In the 13/14 season our dairy business was running about average, as far as opex was concerned. So profit was about average as well. Our goal was to push the business to get nearer the pointy end of the field. Through a change in farm system from a higher system 3 to a low system 2, strict rules and disciplines were put in place and implemented.

We made a profit throughout both low payout years of FY15 and FY16. We reduced total borrowings by \$1.50 per MS not affected the business going forward nor sold any capital items. We made a profit in the most testing of times.

It was reported that most dairy businesses had incurred an extra \$1.50-\$2.50 per MS of debt through this time. Our business was \$4 per MS better off through this time and set up to keep the business growing should an opportunity present itself.

### **A budget is a budget is a budget:**

This lesson came as a direct result of the DairyNZ governance course. Governance requires discipline, these same disciplines need to be practised right throughout a business.

Spend time with this get it right -revisit it, evaluate it but always stick to it!

### **Science not sales:**

SRP a simple but fascinating piece of research that has been proven all over New Zealand and overseas. Use it, it will ensure enough grass, and well-fed cows throughout the busy spring period.

M2 per cow – simple on farm daily science that all staff can be involved in, that ensures cows are always well fed.

Rye grass and clover – scientifically proven that with this diet year-round, cows will be wanting for nothing. They will milk well, reproduce and meet all BCS targets along the way with adequate management.

### **Don't give your money away**

You work hard for it – many people are trying to extract it from you.

Only spend money if it adds to the bottom line and remember the 15% rule

### **Everything you need and nothing you don't**

The question you should ask every time you spend money

To build equity there are 2 ways - decrease your liabilities or invest in assets that will add to your bottom line

Distraction will try its hardest to stop you achieving this - what the neighbour is doing, the latest glossy pamphlet.

Every farmer in this room can class themselves as a pasture farmer – not many are able to say they have mastered it, our business most certainly hasn't.

There are many other things on a dairy farm to distract us from pasture. Some arguably more exciting, but none of these will give the long-term profits and equity growth the simple ryegrass or clover leaf will give us.

Always keep in the back of your mind why you're doing what you're doing. Success can have many different meanings.

Yesterday's farmers have created a great industry for us. Let us as the next generation, grow it to greater heights.

Thanks for your time today

Robert Ferris