

Small Dairy Farms – Waikato Farmers Plans for the Future

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The average size of New Zealand's dairy herds has been rapidly increasing and is now approaching 400 cows per herd. Yet well over a third (36%) of herds are considered small with less than 250 cows (DairyNZ 2012). These farms are important as they support over 4000 farming families.

What does the future hold for these small farms?

In the 1990s', a small farm was considered to be 40ha, with high performance and moderate debts levels these farms were thought to have a good chance of survival (Allen 1998). Future business options for these farming businesses, such as increasing productivity, moving to a larger farm, diversifying or eroding equity in the business were suggested (Allen 1998). High performance small farms today, again with moderate levels of debt, could also have a good chance of future survival. Which future business option suits a particular farmer will depend on their own situation, also, some strategies may result in better financial and non-financial outcomes than others.

The first step in understanding which strategies may best suit individual small farmers is to appreciate the farmers' own objectives, long term plans and preferred farming systems. This article reports the key findings from interviews with thirteen Waikato farmers, at different stages in their ownership career, with less than 250 cows.

Objectives of smaller farmers

The small farmers interviewed had two main objectives, firstly to have sufficient time and flexibility of time for non-farm activities and secondly to achieve sufficient cash for family and business needs. These two objectives were not surprising, many farmers and non-farmers have the same aim.

Non-farming activities were of particular importance to farmers interviewed. These activities included involvement in the local community, church, school, family and the wider industry. One farmer explained his view;

There are other things to do apart from milking; its lifestyle first, cows give security of income, although I'm not passionate about the cows.

Many farmers were uncomfortable with, or joked about the term 'lifestyle'. Lifestyle implied being very relaxed or even lazy. One farmer preferred to use the term 'values system', explaining that she placed a very high value on other, non-farming aspects of her life.

The second objective was to achieve sufficient cash for both the family and business needs. What was notable was that farmers mentioned sufficient rather than maximising returns or wealth creation. One farmer commented

if we can make good money on a small farm, why have the hassles of going bigger, its fairly simple.

Farmers' long term aims

Long term, the majority of the farmers interviewed wanted to remain on their property when retired from active milking, with a staff member to manage the farm day-to-day and milk. To be able to achieve this, farmers aimed to have very low to zero debt, or be in an equivalent financial position. Their plan was to use funds previously used to repay debt to pay a full-time staff member. One farmer explained

If we do put a labour unit on I feel we need to be mortgage free

The main risk to this long term plan was the farmers own health. Most of those farmers, who now employed a staff member to milk, had done so due to health reasons. Health also included weariness or fatigue, as one farmer explained.

I got tired, I've milked cows for 40 years now, never known anything else, done it every year.....so really [my son] coming home was pretty timely really because I'd had enough.

The farmers' health became the time frame for the long term plan. Those in the mid stage of their career had a time at which they felt that they would need to stop milk due to health or fatigue. The majority of farmers considered that the farm was to fund their own retirement and was not necessarily to be handed on to the next generation.

Farmers' business strategies

The business strategies were similar across the farmers interviewed. The strategies focused on generating a cash surplus even in difficult years, cost control, debt reduction and then either expansion, intensification or diversification depending on farmers' situation and personal preferences.

In the early stages of the interviewees careers, debt levels had been high and cost control and debt repayment were key survival business strategies. At the same time most farmers had had to bring basic farm infrastructure, such as fencing, up to a level where the farm could run efficiently. This balancing of debt repayment with on-farm spending was explained by one farmer

We prioritised everything.... if we couldn't afford it we didn't do it.

The focus on generating a cash surplus and cost control remained throughout the farmers careers. For most farmers the capital gain of their properties was secondary to the cash returns.

The focus on debt varied across those interviewed. One group of interviewees focused on getting debt levels to zero or very low before they would seriously consider alternative business options. While a second group concentrated on getting the mortgage down to an acceptable level and then actively looked at alternatives. Very few farmers interviewed were not planning to significantly reduce debt levels.

Intensification

Intensification has been suggested as a way small farmers could lift production and hopefully profitability (Parker et al 2000). Most farmers interviewed, however, were not interested in significant capital investment to lift production, for two main reasons. Firstly, repaying debt was considered lower risk than investing in increasing production. One farmer ex-

plained how good the returns would have to be from lifting production before it would be considered before debt repayment.

...almost double... so I try to have as little risk as possible.

Reducing debt also met the majority of farmers' long term goal of very low debt levels to be in a position to employ a staff member. Secondly, some farmers believed they could get a higher return investing off farm. One farmer explained

I don't want to do any marginal spending here because I would sooner put it all in the Port of Tauranga or Auckland airport.

The farmers interested in spending to increase productivity tended to be the newer entrants to farm ownership. These farmers planned or had paid for the infrastructure through cash-flow rather than borrowing.

Workload was a key consideration when farmers were thinking of investing in capital to lift productivity. Investment in new infrastructure, such as in-shed meal feeders, could depend on whether it was thought to reduce workload or not.

Farmers said they would consider intensifying if it would allow the business to support a returning family member, or was considered essential for their business to survive.

Expansion

Despite being small, many farms had increased in size, with the purchase of adjoining blocks of land. These purchases had to be financially viable under the owners' conservative criteria and were not automatic. In addition, several of the farmers interviewed were involved in equity partnerships, and many mid-career farm owners had investigated moving to the South Island during the 1990's. Farmers were not against expansion *per se*, but it had to meet their objectives, of having sufficient time and flexibility and generating sufficient cash. One farmer commented

It's [the small farm] already a gold mine, why go larger?

The quote above explains the challenge facing farmers considering expansion to allow the next generation to be included in the business. The majority of these Waikato small farms were on highly productive, high-value land. Purchasing a sizable adjoining block of land, would require significant capital, and most likely a high level of debt, which would be risky. The alternative was to sell the home farm and use the equity to purchase a larger farm of cheaper land. This would mean moving from the local community and amenities. Farmers' were also concerned that the larger property could be less profitable than their current farm. Many farmers would consider equity partnerships as this would allow business expansion without moving from the home farm or milking more cows.

Diversification

No farmers interviewed were either running or contemplating running businesses that diversified their dairy, for example operating holiday cottages or a contracting business. Farmers were interested, however, in diversifying their non-farm income. Two farmers were working full time off-farm, with a farm manager employed to run the home farm. This was financially advantageous, and allowed the farmers to follow their interest, but the farmers considered the challenge was to maintain the focus and profitability on the home

farm. This was also a reason many of the farmers interviewed did not want to run a non-dairy farming business.

The most popular means of diversification were investing in commercial property or shares and equities. Approximately a third of farmers interviewed had significant funds in one of these investments, and other farmers said they would consider these options when in a financial position to do so. The farmers' choice of off-farm investment depended on their own preference, skills, and the potential to work with a group, which was often family based.

Future farming systems

The preferred future farming systems had to fit with objectives of providing time and flexibility as well as generating sufficient funds for the family and business. While farmers did not want in general to be people-managers, those contemplating expansion would consider a farm with one employee. Future options mentioned by those interviewed were once-a-day milking (OAD), adjusting the stocking rate and the level and method of feeding supplementary feed.

OAD was a popular option among smaller dairy farmers; those interviewed mainly used OAD in the latter half of the season. The most obvious benefit was freeing up time for other activities, as one farmer put it:

... but that is what pushes my buttons, milking the cows doesn't, its developing this place.

Those not using OAD commented that the milk production losses would be too great, or they feared losing milk quality bonuses due to the lift in somatic cell count with OAD. However, even those farmers not in favour of OAD would seriously consider the option if staff were not available and it allowed them to remain on their farm.

In terms of cow numbers, half of the interviewed farmers had reduced the stocking rate on their farm to improve cow feeding. This same result could have been achieved by importing more feed, although few farmers were interested in this option, as one farmer commented:

I think the whole system was being pushed too hard and wasn't working and it was either than or bring in extra feed and I wasn't interested in that.

The method of feeding supplements was an important consideration. The method chosen depended mainly on the workload and capital requirement. Other considerations were the flexibility of the system. For example, whether meal feeders could be 'turned-off', some farmers felt this was difficult as cows became unsettled without meal, thus more meal would be fed, and expense incurred than intended. Few farmers were interested in investing in bunkers and feed pads, due to the capital cost and workload reasons, as one farmer explained:

I would have to spend capital, and we are firmly focused on debt reduction, plus then we have to buy machinery and then I would have to go and do it.

Implications for future business strategies

The farm businesses involved in this study, with plans to reduce debt, have a good chance of supporting the current generation of farmers, which was the timeframe that interviewees were concentrating on.

Future business strategies need to focus on achieving a 'work life balance' and cash returns for the current farming generation. Capital development and the cost of increasing productivity need to be very carefully compared to the low risk return from repaying debt. Research and extension programs could focus on equity partnerships and off-farm investments for those farmers in a financial position and the inclination to increase the overall business or wealth. Finally, the farmers own health and fatigue levels are critical and need to be allowed for in any future business strategies.

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