MILK VALUE MONITOR

Luke and Stacey Madden

CASE STUDY

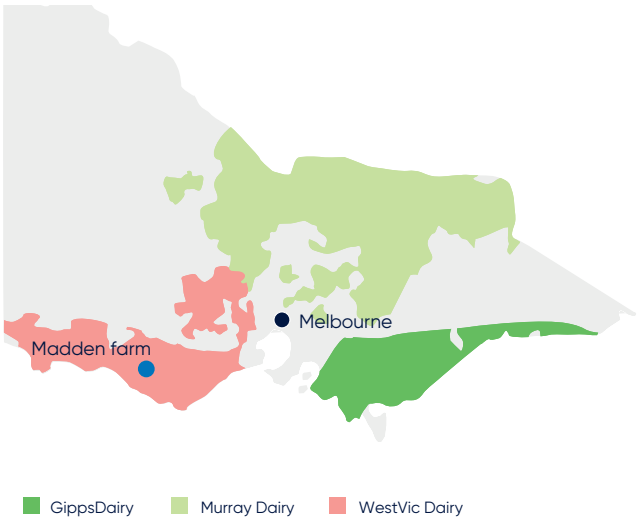
Farm background – the people

Luke and Stacey Madden (and their young children) operate their 156 hectare farm (76 owned, 80 leased), 220 cow dairy farm located in Victoria at Naringal East (just east of Warrnambool). They purchased their property 11 years ago and ran beef cattle until converting to a dairy enterprise seven years ago.

Luke grew up on a small beef property near Warrnambool and had experience rearing calves. After completing year 11, Luke started his dairy career as an employee on a local dairy farm. From this role he developed an interest in dairy farming and an aspiration to own his own farm.

In 2009 Luke bought a 76ha beef property and ran it with agistment and beef cattle. In 2013 Luke and Stacey acquired a 40 hectare lease next door which allowed them to go ahead and build a dairy and start their dairy business.

Farm location



Farm description – at a glance

Farm details	Farm system	Farm performance ($)
People: Luke and Stacey (plus casual milker)	Herd type: Cross-bred cows	EBIT average $2.76 per kg MS With a range of $1.91–$4.12 over 4 years
Milking area: 110ha	Herd number: 220 peak	ROTA 10.7 % average range 7.8–15.1% over past 4 years
Support blocks: 46ha	Seasonal calving pattern: Autumn from 1st April	
Average rainfall: 750mm	Stocking rate: 2.2 cow/ha	
Dryland with effluent irrigation	Concentrate feeding: 1.4 t DM/cow/year (1.3 –1.4)	
	Proportion of homegrown feed in the diet 67% (57–78)	
	529kg Milk solids/cow (519–548)	
	Production % liveweight 109 (104–115)	

Australian Government

Dairy Australia

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KEY TAKE HOME MESSAGES

You can own your own farm from scratch but you need to work hard and be a good allrounder. Time management and business management skills are essential. Develop good working relationships with your contractors and suppliers.

Set your system for what works best for you and your farm – then find a milk company that suits your farm system. Don't go chasing milk price or milk companies.

Apply tight cost control and ensure every dollar counts.

The story

Farm system

When Luke and Stacey started their dairy business, they had the benefit of being able to work with a 'greenfield' site and system. With Luke's previous employment on a local dairy farm, he had seen the work and amount of bought in feed required for a February calving herd.

Luke also knew that his ability to grow grass and maintain high pasture utilisation, was one of his strengths, so they decided to set up a system based on their skill set, previous experience and desire to grow and utilise the cheapest form of feed, pasture!

Some of the cows originally purchased were spring calving, so initially it was necessary to operate a split calving pattern. Eventually Luke and Stacey were able to bring the herd back to a calving starting date of 1st April. This ensured there was favourable weather for calving cows and rearing calves, the seed was in the ground and by the end of April, the cows were going onto a diet with a high pasture content.

The Madden's were also keen to have an annual break from milking, so they set the system up to ensure that all the herd is out of the dairy for at least four weeks a year. Not only does this give the Madden's a break from milking, but it also gives them time to set the farm up for the coming season.

Luke has assessed the risks he sees associated with different systems (split calving system or a late summer calving) including the potential increased cost of extra bought in fodder, the extra workload of calving and rearing calves twice a year and the inability to have all the cows dried off at once.

With access to a run-off block, the Maddens are now in a position where they have reduced their need to buy in fodder (hay and silage). They generally operate with 60 – 70% of the feed requirements home grown. They feed their milking herd an average of 1.4-1.5t grain/year and this is based on ensuring that the grain 'fills the gap' in the pasture available on farm through the year. During calving the cows may get up to 6kg per day and then when the spring pasture growth peak hits, this may drop as low as 3kg per day.

For Luke and Stacey, their primary reason for running their farm system is driven by maximising pasture production and utilisation, reducing their cost of production, workload and lifestyle. They are a family operation with little reliance on other labour, so it is essential that they keep things simple, maximise profit and maintain a lifestyle that they enjoy.

Decision making

The Maddens make their key decisions based on different tools and methods of assessment. They draw on their experience and what they know has worked in the past.

Budgeting plays a role in some of their decisions – however this is not their main assessment tool. Some of the number crunching is done in Luke's head, or on the 'back of an envelope', whereas the more complex decisions may require further detailed budgeting.

"Timing is the absolute key to be a good farmer". Luke has very good time management skills and is a big advocate of setting and sticking to key dates throughout the year. This applies to drying off and calving dates, putting seed in the ground and then following up with nitrogen applications during the season and harvesting home grown fodder.

Luke and Stacey are also happy to keep things the same if they are working well. They have developed a good system that works for them and while it is still giving them good returns, they are happy to keep it and refine it where possible.

They are firm believers in working on what is best for the farm and the people. They want to maximise their pasture intakes and then find a milk company that suits their production profile. They have seen people make the mistake of changing calving patterns to chase a better milk price and associated bonuses and they have come undone. The extra costs and risk associated with the change was greater than the additional milk price received.

Risks

In order to maximise their home-grown feed (and reduce the risks associated with purchased fodder) Luke and Stacey ensure they have all their pasture sown by 25th March. Through the cooler months, they use nitrogen fertiliser to maximise the pasture production and feed grain to the milkers to 'fill the gap'. Their calving pattern also helps to manage the reliance on extra feeding during the slower pasture growing months.

The Maddens run at a stocking rate of 2.1 cows/ha (milking platform) which Luke feels is a little on the high side, he believes this gives them the required grazing pressure to achieve optimal pasture utilisation while not exposing themselves greatly to bought in feed. If it gets too tight or wet, then some extra grain can be fed until the spring hits. The inclusion of an out-paddock into the operation has also reduced the number of young stock on the milking platform and increased their usable area for fodder production.

Calving in early April can mean there is some risk associated with a later than average autumn break. This can put pressure on the available pasture and extra hay and silage may be required to feed to the milking herd. Over the past few years, the Madden's have increased their fodder reserves so that they have a good amount of hay and silage to carry over for the fresh cows, if it is required.

When they first purchased the farm and then built their dairy, the Madden's had a low equity level (less than 50%). This was a risk to the business and therefore reducing debt and increasing their equity to a more comfortable level was a high priority. Equity now sits at 55% which is much more manageable for them. Their philosophy is that you need to work hard, and only spend money on those things you need so that you can reduce your debt and grow your equity.

Business management tools and monitoring cost of production

The Maddens use some tools and systems to ensure they can maintain a good overview of their farm production, costs and farm business performance.

They utilise their accounting software (MYOB) by monthly reviewing current performance against the previous year as a budgeting guide that enables them keep track of their position. They use **DairyBase** to complete an annual analysis of their farm performance that enables them to identify areas of improvement.

They will seek outside expertise when required and utilise a **dairy nutritionist** from their local feed supplier to support their ration decisions and grain feeding levels.

Luke has completed courses such as **'Feeding Pastures for Profit'** and some of the **industry** programs that have been available.

In terms of monitoring production costs, Luke monitors grain prices, but he knows that the key is growing as much grass as possible. He uses a 'back of the envelope' system to calculate and check the production costs and he does this every few weeks. If things are not quite working, then he will look at this more closely.

Given he is an owner operator and the key person in the business, he is constantly making visual observations of the pasture, cows health (condition/behaviour) and vat levels. When things change, he is quick to notice and is quick to respond.

Strengths of the business

The Maddens believe their business strengths are:

- Their ability to grow and utilise pasture
- Having their 'finger on the pulse' – out in the business observing, monitoring everyday
- Operating at maximum efficiency to get the most out of what they have
- They have developed and maintained a simple system that suits their farm and their lifestyle
- Good relationships with key suppliers and contractors. This helps to ensure they get good timely service at a competitive price.

In good years the Maddens have taken the opportunity to build and improve their farm infrastructure, while still reducing debt. They also try to forward pay for purchases, build fodder reserves and utilise Farm Management Deposits to be able to draw on when operating conditions are more challenging.

They always try to reinvest in the business with capital improvements, but they do not take on too much. When they have a tight year, they reduce/minimise this type of expenditure. Given they set up the dairy enterprise from scratch, they have slowly developed the farm over time, and they hope to keep progressing with small improvements along the way.

Wealth creation

When the Maddens purchased the property back in 2009, they had enough to cover the deposit of $240,000. They now estimate their net worth is approximately $1,300,000 which they have achieved since converting to dairy. Now that their equity has grown, they are finding they are able to continue to reduce debt, while maintaining the lifestyle they are happy with.

What's next?

While the Maddens are looking for other opportunities, they do not have great plans to make major changes to their dairy business. If there was an option to purchase neighbouring land, they would consider it, however they are happy with their herd size and would only consider increasing this to 240–250 cows.

They are looking to invest off the farm and diversify their existing farm business which may include running a small beef herd.

For now, the Maddens are proud of what they have achieved and the farm they have. They enjoy their small farm and they like it that way, it makes for a good family lifestyle and will give them plenty of options in the future.

ADVICE TO NEW ENTRANTS/ KEYS TO BUSINESS SUCCESS

You have to work hard. And you need to have good time management skills. Get your timing right!

Make every dollar count. *"Every time you spend a $1 you want to get $1.30 return".*

Know your strengths and work to them. Find a system that is profitable, and it will give you a good return.

"Ask yourself...what can this farm do? What are the farm's strengths and work around that. Don't get caught up in what others are doing – work out what works for you and stick to it. Too many people get caught up trying to have the best and the biggest, but you need to make sure every dollar you spend gets you a decent return".

The numbers behind the story

Farm details

	2016/17	2017/18	2018/19	2019/20
Milking Cow Numbers	190	200	200	220
Total useable area (ha)	110	110	130	150
Rainfall (mm)	915	758	684	743

Primary indicators

	2016/17	2017/18	2018/19	2019/20
Business Efficiency				
EBIT per kg Milk Solids ($)	2.43	1.91	2.58	4.12
Return on Total Assets managed (%)	10.2	7.8	9.6	15.1
Return on Equity (%)	37.1	19.0	28.0	42.3

Secondary Indicators

	2016/17	2017/18	2018/19	2019/20
Milk price ($/kg MS)	5.30	5.54	6.12	7.26
Total Variable Costs ($/kg MS)	2.21	3.07	2.83	2.73
Total Feed Costs ($/kg MS)	1.93	2.71	2.46	2.31
Homegrown Feed Costs ($/t DM)	87	106	88	95
Total Labour Costs (paid plus imputed) ($/kg MS)	0.88	0.93	0.90	0.88
Cost of Production (including inventory changes) ($/kg MS)	3.47	4.23	3.97	3.79

Tertiary indicators

	2016/17	2017/18	2018/19	2019/20
Milk solids as a % of Cow liveweight	114	109	108	105
Proportion of homegrown feed in the diet (%)	65	57	68	78
Homegrown feed consumed (t DM) per 100mm rainfall	0.86	0.92	1.11	1.13
Homegrown feed consumed (t DM/ha)	8.1	7.4	8.9	10.0
Milk solids per Labour Unit	86,763	74,438	79,842	82,686

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