



'Taking Stock was so good for us in the drought that I'd recommend it to any farmer. Given it's provided free right now, all farmers should give it a go.'

– Murray Dairy region dairy farmer

Tactics for Tight Times

Calculating your Break-Even Milk Price

Understanding the total cash demands on your business as a total \$ value and as \$ per kgMS basis is essential in a cash constrained environment.

Calculating what your break-even milk price would have been for the 15/16 season will help frame the strategies you will put in place to manage lower milk prices moving forward.

In order to improve farm financial resilience, a strong focus on all parts of the business is required from both a physical and financial perspective. This includes more efficient use of inputs, better combinations of home grown and purchased feeds while looking for opportunities reduce farm costs, finance costs and controlling personal expenditure.

What is your Break-Even Milk Price?

Break-Even Milk Price (BEMP) is the minimum milk price required to meet the total cash demands on the business.

Total cash demands include:

- › all farm working expenses (herd, shed, purchased feed, home grown feed and cash overheads)
- › finance costs (interest and lease) and HP payments
- › essential capital expenditure non-negotiable principal repayments
- › drawings and nonnegotiable tax payments.



Example farm

Milking area 160 Ha, Support area 80 Ha
Cows 400 cows producing 500kgMS/cow
Concentrate 1.8 tn/cow of concentrate @ \$400/tonne

Table title required		
Milk production		200,000
Milk income	\$1,050,000	\$5.25
Other farm cash income	\$90,000	\$0.45
Total cash income	\$1,140,000	\$5.70
Herd	\$55,000	\$0.28
Shed	\$35,000	\$0.18
Purchased feed	\$380,000	\$1.90
Homegrown feed	\$170,000	\$0.85
Cash overheads	\$200,000	\$1.00
Farm working expenses	\$840,000	\$4.20
Interest	\$40,000	\$0.20
Principal	\$35,000	\$0.18
Lease	\$30,000	\$0.15
Capital expenditure	\$20,000	\$0.10
Drawings	\$55,000	\$0.28
Tax	\$20,000	\$0.10
Other cash demands	\$200,000	\$1.00
Total cash demands	\$1,040,000	\$5.20
Net farm cash income	\$100,000	\$0.50



Calculating BEMP

BEMP =

(Total Cash Demands – Other Farm Cash Income) / Milk Production)

(\$1,040,000 – \$90,000) / 200,000kg MS
 = \$950,000 / 200,000 kg MS

= \$4.75/kg MS

Or on a kg MS basis

BEMP =

(Total Cash Demands – Other Farm Income) / Milk Production
 = \$5.20 – \$0.45

= \$4.75/kgMS

It is important to note that **BEMP** is not a measure of farm performance nor can it be used for any sort of benchmarking or comparative analysis. **BEMP** is specific to each unique farming situation and provides valuable planning for the next 12 months.

So what options are available to improve cash flow reduce and what impact does this have on the Break-Even Milk Price?

It goes without saying that no two farms are the same and therefore the options available will be specific to every individual farm.

That being said as farms look for options to improve cash flow over the next 12 months there are two overarching principles to take into consideration as you put together a strategy for the upcoming season;

1. The net impact of any decision is to improve cash flow.
2. Any decision taken in the next 12–18 months should not undermine the long term viability of your business.



The options listed opposite are just one example of how a farm can look to improve cash flow over the next 12 months. These decisions would not be considered changes to the farm system. The impact of significant changes to stocking rates and supplementary feeding strategies are complex and require careful consideration – your support network are likely to provide valuable input to these decisions.

1. Non milk Income

- a. Cull an additional 10–15 cows by targeting low producing, high SCC and older cows that are likely to be on a cull list over the next 12 months.
- b. Sell 10–15 youngest/smallest heifers.

Result – increase Other farm cash income by \$10,000.

Changes to cow numbers should be carefully considered on a case by case basis as they have the impact to reduce milk production and have a negative impact on cash flow.

2. Herd costs

- a. Reduce the number of herd tests from 8 to 4 and only herd test am or pm.
- b. This farm uses 400 straws of semen per year and previously averaged \$25/straw to \$15/straw.

Result – reduce herd costs by \$10,000.

3. Shed costs

- a. Conduct an energy audit and renegotiate electricity contract.

Result – reduce Shed costs by \$3,000.

4. Purchased feed costs

- a. Trim feeding rates from 6.0 to 5.0kg/cow/day for 50 days during spring while neither pasture quality nor quantity is restricting intake.
- b. Review concentrate formulation. Reducing average cost per tonne by \$20/tonne for 600 tonne.

Result – reduce Purchased feed costs by \$20,000.

Changes to supplementary feeding plans should be carefully considered on a case by case basis as they have the potential to reduce milk production and have a negative impact on cash flow.

5. Home grown feed costs

- a. Reduce PKS and fertiliser by only applying fertiliser to the back half of paddocks and avoiding known high fertility regions.
- b. Focus on wastage of other home-grown feed inputs.

Result – reduce Home grown feed costs by \$10,000.

6. Cash overheads

- a. Employed labour costs – reduce overtime.
- b. Repairs and Maintenance – only essential R&M.
- c. Administration – get quotes for the likes of mobile phone plans, reduce mobile phone.

Result – reduce Cash Overheads by \$10,000.

7. Capital Expenditure

- a. No Capital expenditure should be funded out of cash flow.
- b. Only essential capital expenditure should be considered.

Result – reduce Capital expenditure by \$10,000.

8. Finance costs

- a. If principal repayments are currently being made explore interest only options for at least 3-6 months.
- b. Renegotiate variable interest rates.

Result – reduce Finance costs by at least \$10,000.

9. Personal drawings

- a. Consider options to reduce personal drawings.

10. Tax

- a. Talk with your accountant about deferring tax commitments.

Effect on BEMP			
Milk Production			200,000
Milk Income	\$1,050,000		\$?
Other Farm Cash Income	\$100,000	(1)	\$0.50
Total Cash Income	\$1,150,000		\$?
Herd	\$45,000	(2)	\$0.23
Shed	\$33,000	(3)	\$0.17
Purchased Feed	\$360,000	(4)	\$1.80
Homegrown Feed	\$160,000	(5)	\$0.80
Cash Overheads	\$190,000	(6)	\$0.95
Farm Working Expenses	\$787,000		\$3.94
Interest	\$40,000		\$0.20
Principal	\$25,000	(7)	\$0.13
Lease	\$30,000		\$0.15
Capital Expenditure	\$10,000	(8)	\$0.05
Drawings	\$55,000		\$0.28
Tax	\$20,000		\$0.10
Other Cash Demands	\$180,000		\$0.90
Total Cash Demands	\$967,000		\$4.84
Net Farm Cash Income	\$?		\$?



Calculating BEMP

BEMP =

(Total Cash Demands – Other Farm Cash Income) / Milk Production)

$(\$968,000 - \$100,000) / 200,000 \text{ kg MS}$

$= \$868,000 / 200,000 \text{ kg MS}$

= \$4.34/kg MS

How should Break-Even Milk Price be used?

- › Avoid major irreversible changes until you know your actual opening milk price for the 16/17 season. However in the interim understanding the Break Even Milk Price for your farm will help you better understand what the likely cash position of the business will be over the next 12-24 months. The options that you choose to implement on

your farm will vary based on your individual circumstances and will be influenced by your relationship with creditors, equity levels, bank redraw options and forecast seasonal conditions.

- › It is possible that improving the cash flow position business through cost control and fine tuning the current farming system may not be enough to satisfy the needs of the business. In this case it may be time to start looking at making significant changes to your farm business and

farm system. This is likely to be a complex exercise and one that will involve much 'tooting and froing' as you work through various options. In this situation the discussions with your support team are essential.

- › In some cases this could involve selling down core livestock and other assets or starting to prepare for a planned exit from the dairy industry. These discussion should involve key stakeholders in the business, your accountant, bank manager and other key advisors.

Published by Dairy Australia Limited.

Whilst all reasonable efforts have been taken to ensure the accuracy of the *Tactics for Tight Times: Calculating your break-even milk price* fact sheet, use of the information contained herein is at one's own risk. To the fullest extent permitted by Australian law, Dairy Australia disclaims all liability for any losses, costs, damages and the like sustained or incurred as a result of the use of or reliance upon the information contained herein, including, without limitation, liability stemming from reliance upon any part which may contain inadvertent errors, whether typographical or otherwise, or omissions of any kind.

© Dairy Australia Limited 2016. All rights reserved.

Dairy Australia Limited ABN 60 105 227 987
Level 5, IBM Centre
60 City Road, Southbank VIC 3006 Australia
T + 61 3 9694 3777 F + 61 3 9694 3701
E enquiries@dairyaustralia.com.au
dairyaustralia.com.au

