



A discussion document  
produced by Kite Consulting  
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# A NEW WORLD

New Business Performance Indicators





**Client name:** David Christensen

**Consultant:** Mike Bray

**Farm name:** Kingston Hill Farm, Oxfordshire

**Farm background:** David milks 600 cows with a predominantly autumn calving pattern. He sells more than five million litres of milk to Arla every year.

*"We have used benchmarking for a number of years at Kingston Hill Farm. We find it a very valuable tool to assess how we are performing as a business when comparing against colleagues. We benchmark both financial and physical performance with groups of like-minded farmers who we know and can trust with our information. This helps us to identify the weak areas of our business, which we then focus on improving. Very often our benchmarking colleagues will have the answers as to how to improve in our weak areas and I value these exchanges of information."*





*“We are proud of our knowledge base and our relationships, which are unique in fostering communication and understanding across the entire chain from farm to retailer”*

### About Kite Consulting

Kite Consulting is a modern consultancy company focused on delivering excellence to customers in farming and the allied industries. We operate a team approach and our partnership of national specialists and leading business and technical consultants, provide high calibre consultancy across the UK and internationally.

Kite provides business services to the entire food supply chain. Recognised as a specialist in the UK dairy industry, we also work with livestock and arable businesses, serving market sectors including farming, the agricultural supply trade, food processors, retailers and public sector organisations. In addition, we are recognised for our pioneering environmental work, particularly on the carbon footprint of primary production.

We are proud of our knowledge base and our relationships, which are unique in fostering communication and understanding across the entire chain from farm to retailer.

This discussion document has been prepared by Kite Consulting's Business Network

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### Context

The dairying world is forever changing.

- World commodity markets remain volatile but generally strong with long-term upward movements in real terms. This demand is increasingly coming from the “New World” of Asia. The “Old World” can actually supply many of the food needs for a growing population.
- EU quotas cease at the end of this quota year, creating uncertainty.
- UK dairying is now becoming competitive at a world level, as long run world prices have increased. This is opening up opportunities for growing UK dairy and reversing 30 years of contraction since quotas were introduced.

In this changing world, we too need to change. Old ways of looking at issues need revision, especially when it comes to measuring and improving business performance.



*“We want to move the UK dairy industry on in thinking about new business performance indicators ready for a new era.”*

#### **New Business Performance Indicators – the rationale**

For the past 20 years we have been focussed on cost per litre and profit per litre. In an era of restrictions due to quota, rational businesses maximise their returns to their most limiting asset, so this was correct. During the past 10 years as the importance of milk quota has diminished in the UK, we have started to see more rational business models emerge. Total farm profit has become increasingly important since marginal profits on a per litre basis add to total profit, albeit they may not be the most profitable litres on a pence per litre basis.

We want to move the UK dairy industry on in thinking about new business performance indicators ready for a new era. Cost per litre is still crucial for international competitiveness, and will be one key benchmark, but we want to look at others as well to help drive our clients forward.

#### **A positive outlook**

In the world we are moving towards, we want to focus on profit and returns on capital, land and labour. We want to move away from just covering a cost of production, which has been essential for our industry survival in recent years. We have no doubt there will be periods of instability going forward when covering the cost of production

will be vital. During such periods the security of pricing models based on costs with additional returns that offer stability will remain attractive to producers, especially those seeking stability to invest. But availability of these models for most producers is limited and we need to focus on maximising profits in the good years and managing downturns in the market.

#### **Wider business performance indicators**

We are issuing this discussion document to stimulate debate on what business benchmarks will matter in the future. We have taken our ideas from wider business measurement of performance, as well as looking back at measures used prior to quotas. We accept that different figures will be relevant to different farms.

#### **Competing for resources**

It's essential for us to adopt new business performance indicators to compete with other demands for resources, especially land. For instance we have markets where more secure returns are currently being offered for crops for energy generation, albeit fixed and dependent on political commitments to subsidies. This is inflating land rents in some areas and returns on total capital employed. We need to see dairy being able to compete in these markets.



*“Performance indicators play a key management role on our farm. Financial performance is monitored through attendance at my local Kite discussion group, and KPIs for health and welfare are displayed in the dairy for staff to monitor. The main benefit of working this way is that we always have a clear picture of how we are performing and can react quickly to any issues. Participating in benchmarking activity with like-for-like farms really focuses you on your costs and subsequent profit margins. By comparing your figures with others, it’s easy to see where there are opportunities to improve and gives you tangible targets to try to achieve.”*

**Client name:** Andrew Gilman

**Consultant:** David Levick

**Farm name:** Statfold Farm, Staffordshire

**Farm background:** Arla supplier Andrew, milks 160 cows using a high output system. Cows are housed in freestalls and milked three times a day.






**Client name:** John Forrest

**Consultant:** John Allen

**Farm name:** Hukledale Farm, Dumfriesshire

**Farm background:** John runs a large scale, high welfare herd of 1,500 Holstein cows in South West Scotland. The AYR calving herd is housed in freestalls lined with sand.



*"I have been benchmarking with national, like-minded, dairy businesses for eight years. No one is brilliant at everything, but by comparing cost of production figures you are quickly able to identify your strengths and weaknesses. I strongly believe that by analysing and comparing COP we have added 2ppl to our profitability."*

### BPIs – the substance

We have developed a toolkit of business performance indicators that we believe farmers and their consultants can use to better understand how to grow successfully, and meet their business objectives.

**Table 1: Business performance indicators and basis for calculation**

Business performance index	Basis of calculation
Dairy business net profit (£)	Dairy business net profit is gross sales less variable and fixed resource costs, including family labour
Retained profit per cow (£)	Dairy business net profit/average number of cows
Retained profit per Ha (£)	Dairy business net profit/area allocated to dairy business
Debt per cow (£)	Total dairy debt (long and short term)/average number of cows
Cash cover for debt (%)	Cash produced as a % of debt
Profit margin (%)	Profit as a % of total output
Rent and finance (%)	Rent and finance costs as a % of output
Owner equity (%)	Total assets less debt/ total assets
Return on Equity (ROE) %	Net dairy income/average owner equity

Based on our Kite client database, table 2 shows how we expect Kite clients to perform in 2014 using the new business performance indicators.

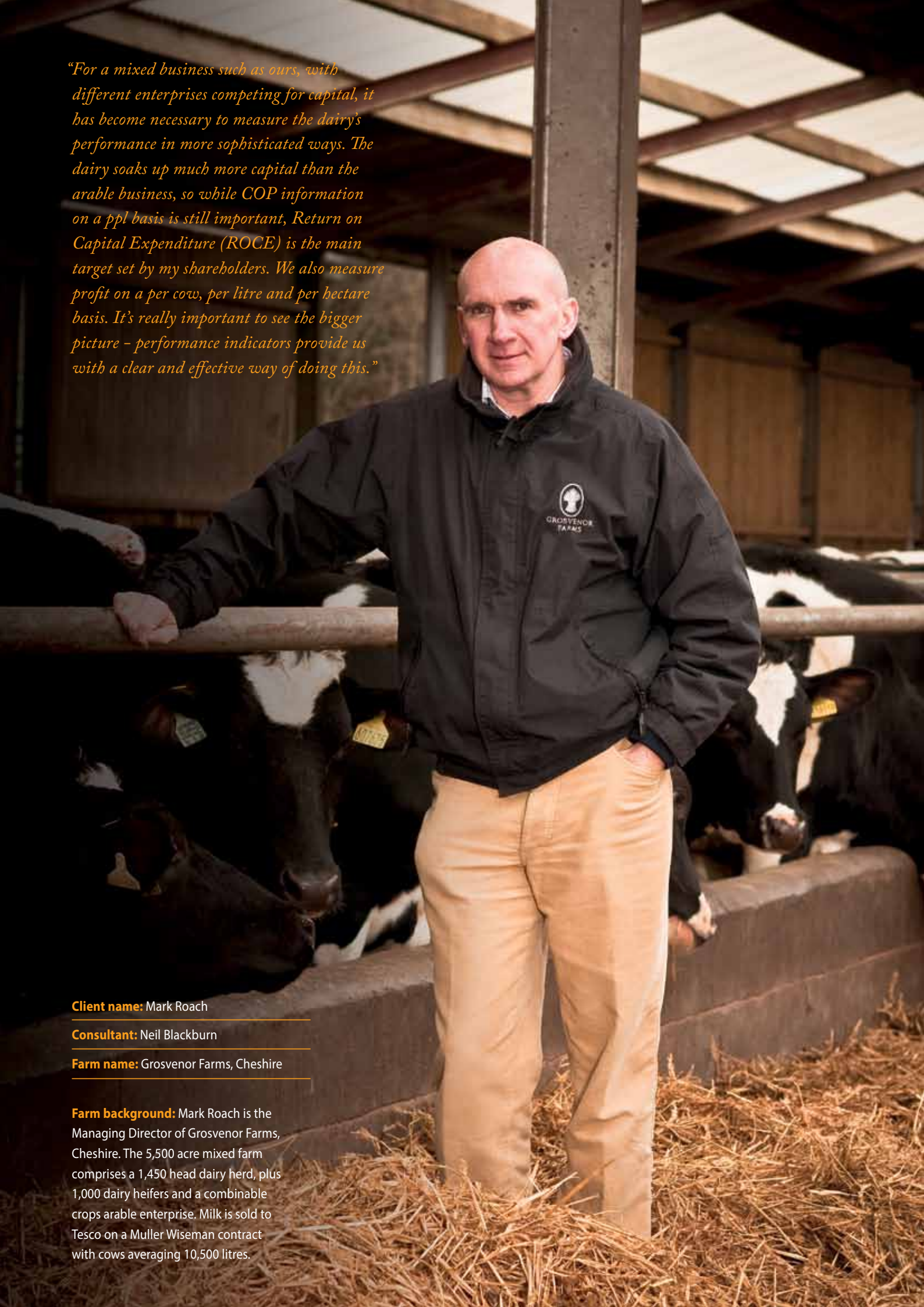
**Table 2: Kite business performance indicators 2014**

BPI	2014	Top 25%	Target
Total milk output (litres)	2,801,845	4,181,459	Increasing
Total retained profit £*	66,520	236,331	
Retained profit per cow £*	221	553	750+
Retained profit per Ha £*	362	1,004	1,500+
Debt per cow £	2,572	1,727	2,500
Cash produced as a % of debt	12%	34%	30%
Profit margin (%)	6.3%	15%	20%
Rent/finance % of output	4.8%	3.4%	5%
Owner equity %	68%	78%	60%
Return on equity %	4%	8.9%	20%

\*Retained profit is after deduction of family labour/drawings



*“For a mixed business such as ours, with different enterprises competing for capital, it has become necessary to measure the dairy’s performance in more sophisticated ways. The dairy soaks up much more capital than the arable business, so while COP information on a ppl basis is still important, Return on Capital Expenditure (ROCE) is the main target set by my shareholders. We also measure profit on a per cow, per litre and per hectare basis. It’s really important to see the bigger picture – performance indicators provide us with a clear and effective way of doing this.”*



**Client name:** Mark Roach

**Consultant:** Neil Blackburn

**Farm name:** Grosvenor Farms, Cheshire

**Farm background:** Mark Roach is the Managing Director of Grosvenor Farms, Cheshire. The 5,500 acre mixed farm comprises a 1,450 head dairy herd, plus 1,000 dairy heifers and a combinable crops arable enterprise. Milk is sold to Tesco on a Muller Wiseman contract with cows averaging 10,500 litres.



*"I find that using business performance indicators keeps you focused on the fundamentals – such as healthy, well looked after cows, staff, fertility and margins over feed. If you can get this right then improved profits will come. Benchmarking helps you to use these figures to see where you are as a business and what areas need improving. There is such a wide difference between the top producers and the bottom – it's important to know where you fit in and what can potentially be achieved."*

**Client name:** Tim Sinnott

**Consultant:** Chris Flint

**Farm name:** Ivy House Farm, Leicestershire

**Farm background:** Tim milks 210 cows on an Arla Asda contract and block calves between August and December. The semi TMR fed herd is milked twice a day and averages 10,000 litres with young stock being reared away from main unit. Tim recently moved from loose housing to sand freestalls to improve animal health and allow him to increase his cow numbers.





#### **Analysis of BPIs**

The tables on pages 7 and 8 show a snapshot of how Kite clients are expecting to perform in 2014. We can use BPIs to look in more detail at trends and correlations.

#### **Client case studies**

The new approach to measuring business performance has been adopted by a number of Kite clients. You can see by reading all the testimonials throughout this report what they had to say about the new approach.







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