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## Back to profit

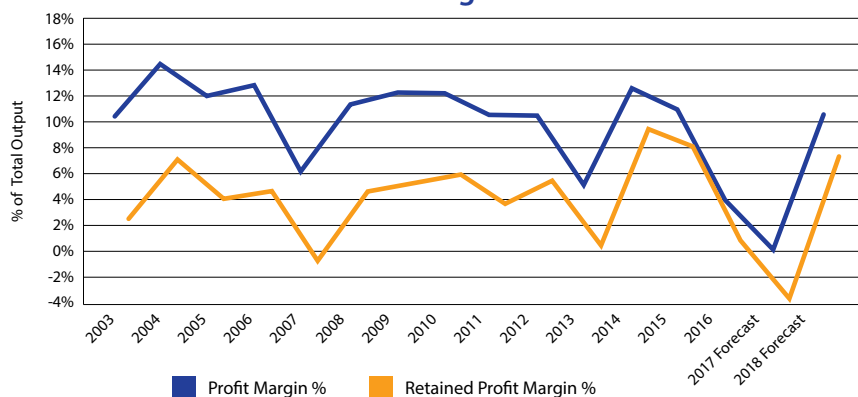
By Edward Lott [edward.lott@kiteconsulting.com](mailto:edward.lott@kiteconsulting.com)



Profit has seemed a dirty word over the last three years as we have seen the milk price fall from its peak of around 33ppl in the spring of 2014 to the lows of 18-19ppl during the summer of 2016. The light in the tunnel is getting brighter again, but it won't be until milk cheques start hitting bank accounts in spring 2017 that we will see positive monthly cash flows for most businesses. Averages are though, of course, just averages and we know that there are many farms that have seen bigger ranges than this, whilst those on retailer aligned contracts have seen much smaller variance. Overall our figures show that profitability was maintained in the year to March 2015 and then dropped away in 2016 and 2017.

Kite clients have generally maintained some level of profit throughout the downturn and this has been achieved through a real focus on cost control and maintaining output despite negative mood. Cashflow has been very difficult, but by working closely with the banks I think we are coming out of the downturn bruised, but with more business focus than ever before. The issue of debts and the resilience of businesses to future price volatility is a topic we will return to later in the year.

Profit margin trends



The emphasis over the last year has understandably been on short term management and survival. Now we need to turn back to being profit focused and continuing to strengthen the business against the future winds of change, which will include Brexit and being globally competitive.

The graph above shows the trends of profit margins of recorded Kite clients over the last 14 years and the forecast position to March 2018. Profit margin is the percentage of the total income (output) of business remaining after trading costs. Retained profit margin is that remaining after

drawings/family labour has been covered as well. We can see that Kite clients had an average profit margin from 2013 to 2016 of up to 12%. Profit per cow over this time averaged £315 per cow.

The outlook to March 2018 is for profitability to return to the long-term average but this under-estimates the potential for those businesses which have come out of the downturn stronger. There are big opportunities with current feed prices to lock in profits well above £315 per cow!

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There are also some big lessons to be taken from the last two years, which could bring significant advantages to Kite clients going forward.

Some of these are:

- Run the dairy unit at 100% stocked and 100% output at all times whatever the milk price
- Land productivity – we need to target 14t DM/ha of forage through multi-cut systems
- Genetic potential of the herd is underestimated
- Use the right KPIs for you

We will explore these issues over the coming months. However, I want to really highlight the last point on KPIs as it's very important that we are using the right measures for your business and not the industry doctrine.

A KPI needs to focus on limiting factors for your farm. For some, where the limiting resource is access to land, then it's the production or return per hectare that is important. For many, the access to capital for more cow places/buildings is key and so the production/margin per cow is the KPI that needs monitoring. Many farmers are now increasingly being paid according to milk solids

and so it is on a kg of milk solids per cow and per hectare basis we need to work on ((% fat + % protein) x milk kgs). Here, the top 25% are targeting >2000kg milk solids per hectare (900kg milk solids per cow) and >£1600 per hectare profit (£750 per cow).

We are adapting Milk Monitor Costings for milk solids now and will continue to ensure at client meetings that the KPIs we are looking at are the right ones for your business. If you have any questions, please do get in touch with me or your Kite Consultant.

## Digital Dermatitis: *A new approach*

By Sara Pederson (Farm Dynamics Ltd) & Tony Jackson  
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**Controlling DD requires an integrated approach consisting of improved hygiene, identification and treatment of cows with DD as well as control through footbathing. Whilst many people will already be doing many of these, DD can continue to be a grumbling issue as the cycle of infection continues. Therefore a strict protocol is key which maximises the benefit of each of these.**

Whilst individual cows may be treated on an ad-hoc basis, the key to dampening down infection and thus the risk of spread is to treat ALL infected cows at the same time. Not all cows with DD are lame, so cows must be inspected individually – something that can be done in the parlour or at the feed fence. Any cows with any sign of DD should then be treated with a licenced treatment e.g. topical oxytetracycline spray. Since the DD lesion itself is the biggest reservoir of infection, by treating all cows at once it results in a dramatic reduction in the infection pressure in the environment. Antibiotic footbaths have been used in the past to 'treat' DD, however, they are not recommended for several reasons; they are not licenced for this use in cattle so require at least a 7 day milk withhold, they are prophylactic treatments thus a large proportion of uninfected cows are unnecessarily treated and it carries a risk of milk contamination through contact of the feet with teats.

Due to the invasive nature of DD, by the time an active lesion is visible the bacteria will already be encysted deep in the skin. Therefore, rather than curing the infection the aim

of treatment is to create a 'dormant' state which can then be controlled. Once all infected cows are in this dormant stage, control measures can be implemented to prevent them reoccurring and driving further outbreaks.

The main component of prevention is footbathing, however, good hygiene is also crucial in reducing the risk of infection spread and skin damage which allows DD to take hold. Whilst footbathing has commonly been thought of as a treatment, its role is disinfection of the feet to prevent new infections forming and, crucially, to prevent dormant lesions recurring.

A correctly designed footbath is essential to make sure each foot receives sufficient 'dunks' in the footbath – to ensure three dunks of each hind foot a four metre long footbath is recommended. Further advice on the recommended footbath design can be sought from your Kite Consultant.

In summary, for long term success the recommended plan of action is: identify, treat, prevent recurrence through improved footbathing and keep monitoring.

**Paul Macer** [paul.macer@kiteconsulting.com](mailto:paul.macer@kiteconsulting.com)



If we look across the North Sea to what is happening in Holland and Denmark, most herds are approaching 8% fat and protein in the milk. Genetics definitely play a part in the long term but we should be able to close the gap by adjusting what we already do on the forage side. So what are they doing differently?

If you ever travel to those countries from Early May to October they are nearly always cutting grass and many will take five or even six cuts. The advantage of this system is that you will have better quality material which will encourage higher forage dry matter intakes and a lower acid load on the rumen, both of which will encourage milk solids.

We need to change the traditional view that unless the clamps are two thirds full by the end of first cut then we will run out of forage. These early cut swards are still green in the bottom and therefore regrow very quickly, giving higher yields over the course of the season. In the UK the best growing days of the year are through the end of May and early June, when there is the maximum daylight and generally good moisture reserves. Cutting at the traditional time of mid to late May leaves silage fields white and not photosynthesising at this crucial time. By starting earlier in the month these great growing conditions will be harnessed more effectively.



## Potential energy supply/ha

	Yield (t DM/ha)	Av ME of forage	MJ/ha	Litres/ha (@5.5MJ/ litre)	Milk Value/ha (@25ppl)
4-5 cut	14	11.8	165,200	30,036	£7,500
3 cut	10	10.5	105,000	19,090	£4,772

The prospect of doing many cuts will fill some in the wetter parts of the country with dread due the amount of rain they receive, but we have case studies from South West Scotland and North Devon with annual rainfalls of 70" (1750mm) where the system actually works better. As the crops are lighter and dry more quickly, the length of weather window required for each cut is significantly smaller and by cutting more often you are also spreading the risk.

The way that you deal with your contractor will also need a change of mindset. This will require a sit down well in advance to discuss the plans. It will probably need a change of payment basis from per acre to per tonne or per hour and I think you may well be surprised how receptive the contractors might be to this. They will be pleased to start earlier in the season as it spreads the workload and there will be much less stress on the machinery picking up three to four tonnes per acre of 35% dry matter grass than seven to eight tonnes at

25%. By adopting this regime you may well be able to jump up the queue and not be waiting whilst they get round all their other customers. You may end up paying the contractor a little more over the course of the season, but you will have more forage in the clamp and it will be of higher quality which is worth an enormous amount. It really is a win-win.

It is well established that multiple smaller cuts will give a greater yield over the course of the season and coupled with the better quality the potential financial benefits are huge (see table above).

On top of this, you are more likely to get more fat and protein from your cows, which means a higher milk price (for constituent based contracts).

There are many other aspects to consider so discuss the potential benefits with your consultant. This could be a real game-changer for your business.



# Formalin for cattle footbaths

## Changes in legislation



Tony Jackson [tony.jackson@kiteconsulting.com](mailto:tony.jackson@kiteconsulting.com)

**It has come to our attention that many farmers are not fully aware that the requirements for dealing with Formalin changed from 1st January 2016, when it was reclassified as a Category 1b Carcinogen.**

The new health and safety rules require that only "professional users" can now work with formalin which must be bought from a licensed supplier. Part of the definition of professional use

is that the operator has received training in dealing with the substance and uses the correct Personal Protective Equipment. This is specified on the Data Sheet for the product, but basically requires the correct respirator, eye shielding, gloves and splash protective clothing while dealing with the concentrate. Further



information can be found on the HSE website, but employers must always bear in mind their duty of care to staff and themselves.

## Introducing David and Katie Keiley...

**Kite has recently recruited husband and wife, David & Katie Keiley to help support and build the Kite Consulting network in Scotland.**



David has recently left his position as Senior Dairy Consultant with SRUC to join Kite and has extensive experience in providing technical and business consultancy to dairy businesses across Scotland. David also works closely with milk processors, particularly cheese makers, to improve cheese yields and factory efficiencies. David's motto is "from parlour to palate".

Katie joins Kite as an Associate, with over 20 years of agricultural and accountancy experience across SW Scotland and Northern England. Katie has worked both for SRUC and accountancy firms, combining this experience to set up and run her own Management Accountancy practice for dairy farmers over the last ten years. Katie aims to ensure her clients are firmly in the driving seat, providing them with the information they need to move their business forward.

## Save the date!

The next Kite Progressive Dairy Operators Conference will be on **9 & 10 October, 2017**,  
**Park Royal Hotel, Stretton, Warrington, WA4 4NS**

Look out for more details in the next Kite Update.



**PROGRESSIVE  
DAIRY OPERATORS  
CONFERENCE**

*"Flying  
high for the  
future"*



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