



HOW TO FIND A RIGHT
STRATEGY TO TACKLE
CHALLENGES?

HOW TO MAKE BEST
DECISIONS FOR THE
FUTURE?

MITEN LÖYTÄÄ
STRATEGIA
TULEVAISUUDEN
HAASTEISIIN
MAITOTILALLA?



MAST hanke
Danish Dairy farms'
development from
1990 to 2017
-
learning points to successful
development in
North Savo

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May 31st 2017

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MTK



SAVONIA
AMMATTIHOKEAKOULU



Disclaimer:
The basis for the content of this report is author's experience as an agricultural chief advisor in Denmark, during a period where the dairy farms expanded and invested heavily in growth.
The project group of MAST has submitted the task. The assignment serves only for the purpose to answer their questions.
The author does not assume responsibility for the material's accuracy or for dispositions made on basis of the information or assessments.

OMISTAJAVAIHDOSTEN UUDET MUODOT

HANKE MEETING KUOPIO 19.04.2018

Based on: Tanskalaisten maitotilojen kehitys 1990–2017

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HEADLINES

1. Look at the future
2. Strategy
3. Expansion
4. Shift in ownership and reparcelling
5. Leadership
6. Management
7. Finance
8. Education
9. Organizations

21 Initiatives for reflection



https://proagria.fi/hankkeet/mast-hanke-5838-ole_kristenssen_report_at_danish_dairy_sector.pdf

4. SHIFT IN OWNERSHIP AND REPARCELLING

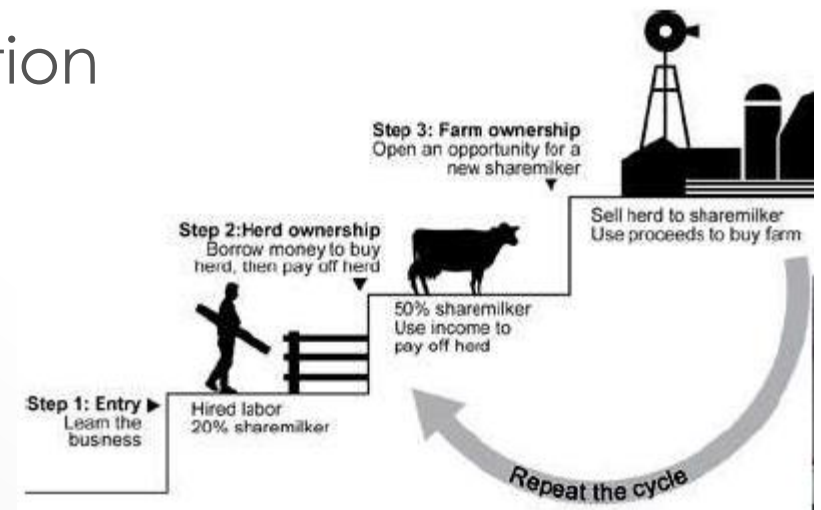


- Traditional way need to be supplied with alternative way (eg sharemilking, partnership, ltd)
- Matching buyer and seller
- A farm real estate company
- All farmland used in production
- Reparcelling initiatives
- Logistic and competitiveness



PRINCIPLE IDEA OF SHAREMILKING

- **Sharemilking is an agreement** between a farm owner and a sharemilker, who combine their resources such as land, labour, capital and expertise.
- **Beneficial sharing of production factors**, equity, production facilities, land, labour, capital
- **BtB** relationship is very different to employee-employer relationship.
- **Divide of proceeds** according to Contribution
- **Contract**
- Reasons for allocation is many.



REASON FOR ALLOCATION

Dairy Owner

- Cannot find and keep good workers on the dairy
- No desire to reinvest in facilities after age 50 because of looming retirement

Potential Young Dairy Farmer

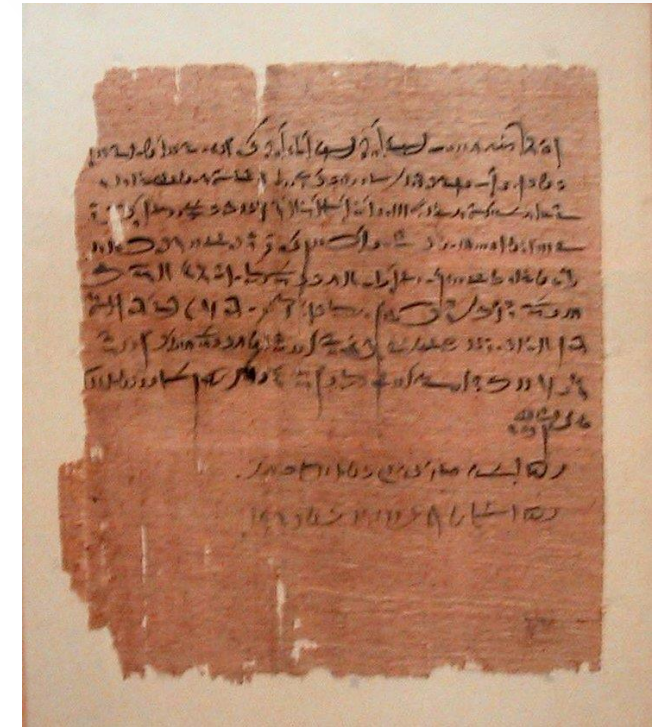
- Cannot find financing to start dairying
- Lump size of equity necessary to leverage and create a minimal sized dairy is beyond most people in their 20's and 30's.

Citation: Wayne Prewitt & Joe Horner (2009)

It is a fantastic carrier path to develop the skills of people from management to business.

WHERE IS IT PRACTICED

- Scotland and Ireland Original
- Imported to NZ in 1889's from Ireland
- UK, AUS, SA, Michigan, Wisconsin, DK
- France and Italy known as **metayage**
- Can be seen as a feudal system (common in India)
- There is not one model, as a blue print, due to huge variation between regions, commodities, regulations and partnerships.



Contract for metayage, papyrus, 35th year of Amasis II (533 BC, 26th Dynasty)

DEVELOPMENT OF SHAREMILKING IN NZ

Table 1: Trend in the number of dairy farms and sharemilking positions over the past 20 years

	1995	2005	2010	2015	2020 (est)
All Farms	14597	11883	11691	11970	11000
All sharemilkers	5016	4260	4041	3879	3500
Herd Owning sharemilkers (average drop in positions/year)	3614	2719 (-90/yr)	2303 (-80/yr)	2050 (-50/yr)	1800 (-50/yr)

FEW STATISTIC INFORMATION

Table 4: Average Return on Capital for Share M

Period end 20
Past 15 years
Past 13 years
Past 10 years
Past 7 years

Table 5: Milk production per ha by operat

	kgMS/ha
	20-29% sharemilker
1992/93	688
1994/95	724
2000/01	864
2004/05	912
2010/11	945

Source: LIC 2010/11

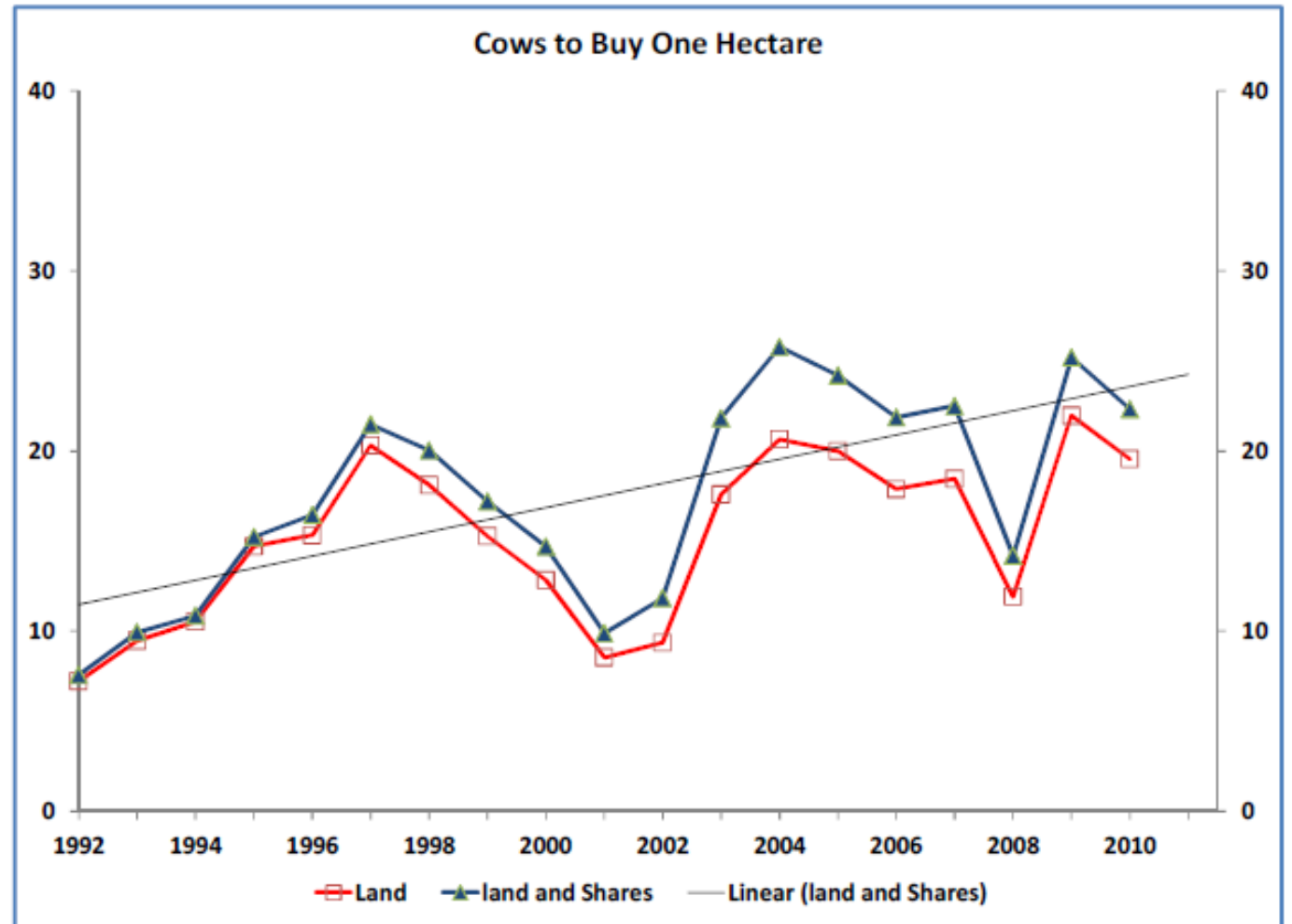


Figure 5: Cows to buy One Hectare of Land

Source: Derived from DNZ Economic Surveys

MODELS IN USE

- Basic types are defined as: lower order and 50/50
- VOMS (Variable Order ShareMilker), HOMS (Herd Owner ShareMilker), contract milker, manager

One model as a blueprint for sharemilker agreement does not exist, due to huge variation between regions, commodities, regulations and partnerships

SHAREMILKING

farm assistant to entrepreneur - collecting capital and competences
NZ - Share milking model

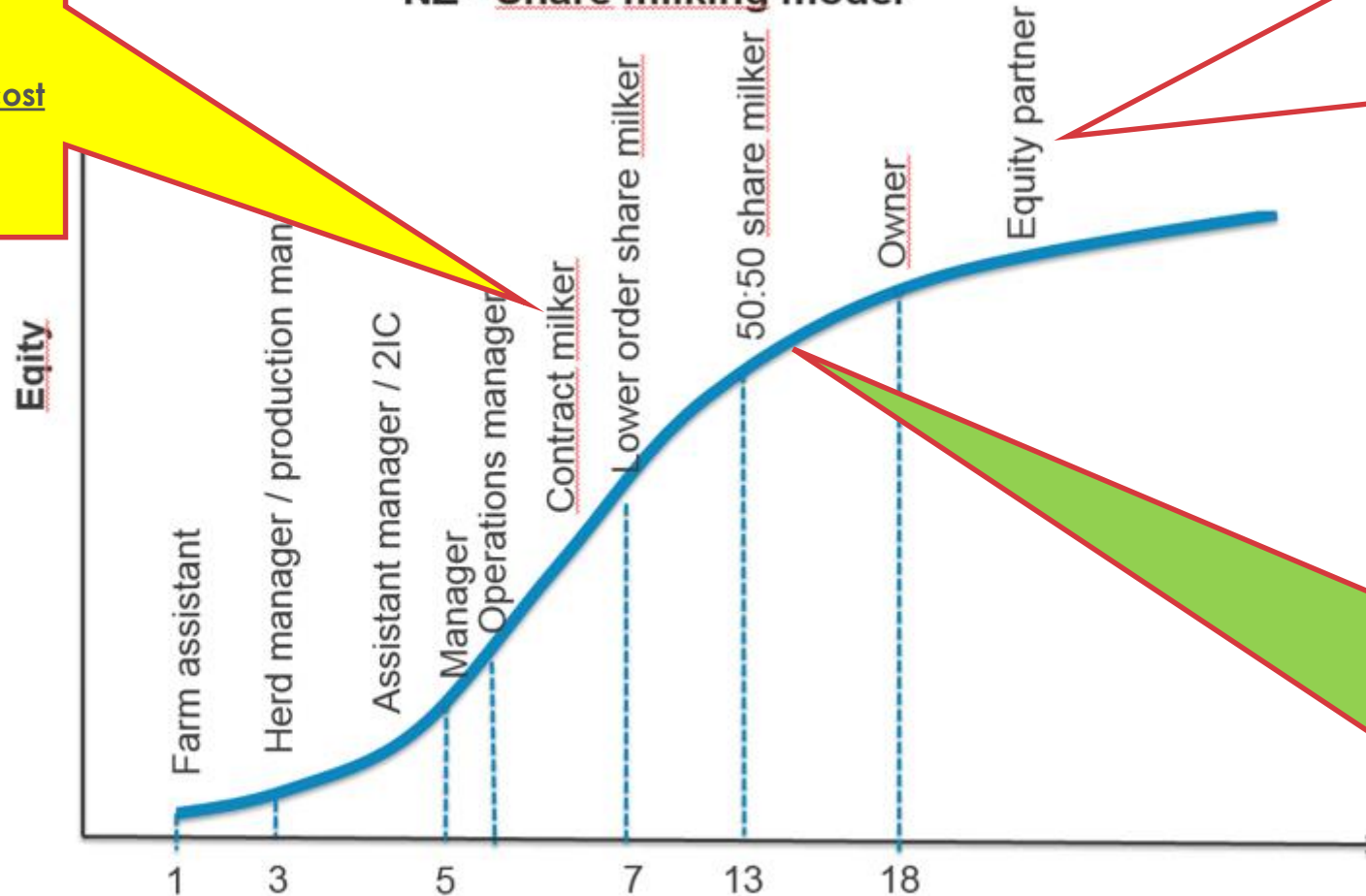


Fig 7: Collecting capital and competences by the Share milking

OM
OK-

Is what?

Joint venture farming business
An LCC. Corp or Partnership
An entry point for insiders/outside

What can they offer?

Capital and income growth
Entry points for managers & sharemilkers
An opportunity for investors
Flexibility
Capital (equity) release for landowner

Owner
provides the land and facilities

Sharemilker
provides cattle, equipment and labor

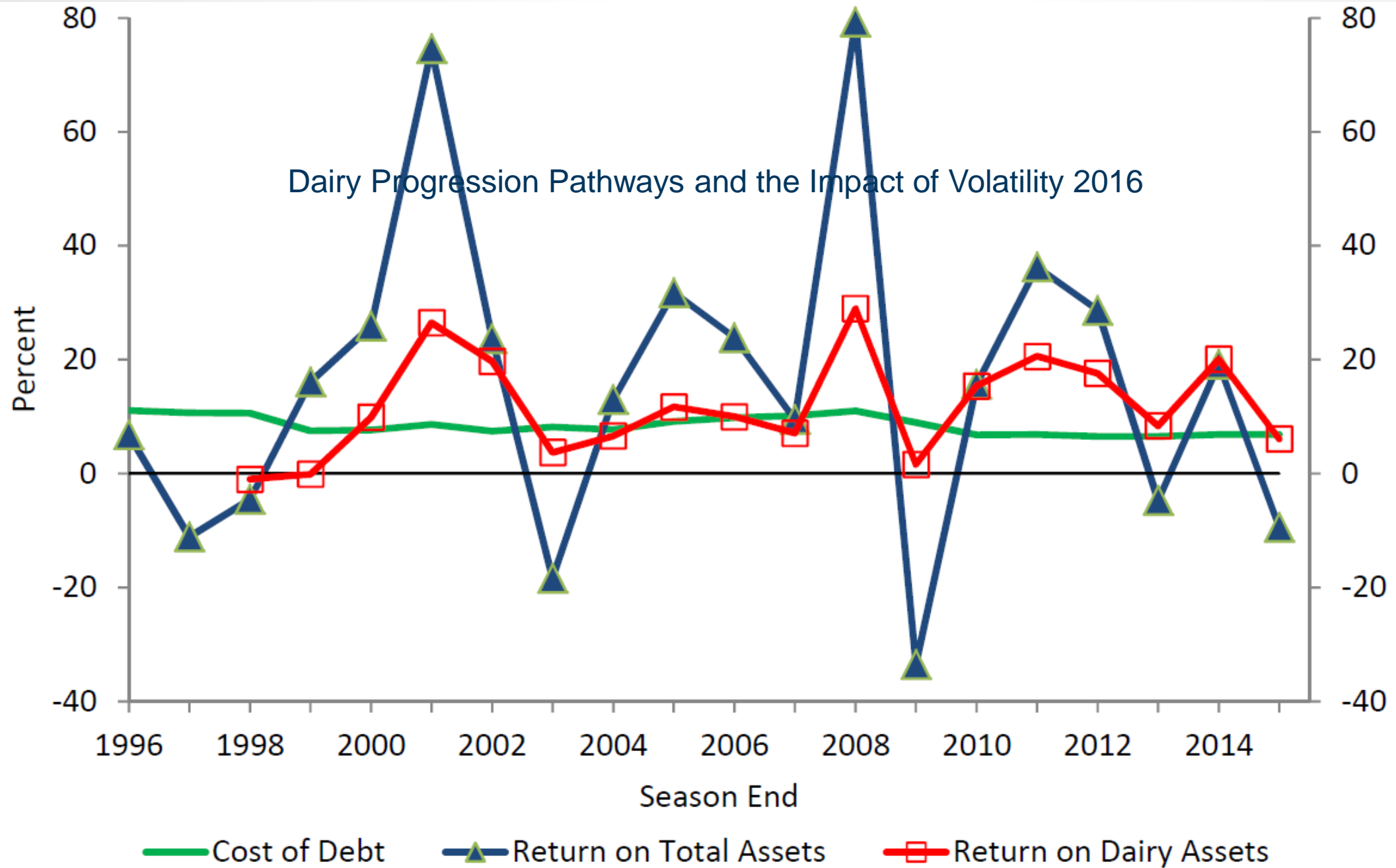
Milk check
and som key cost shared approximately
50% Sharemilker
50% farm owner

Owner
provides the land, facilities, equipment and the milking herd

Sharemilker
provides the labor

Milk check

and some key operating cost shared approximately
20% Sharemilker
80% farm owner

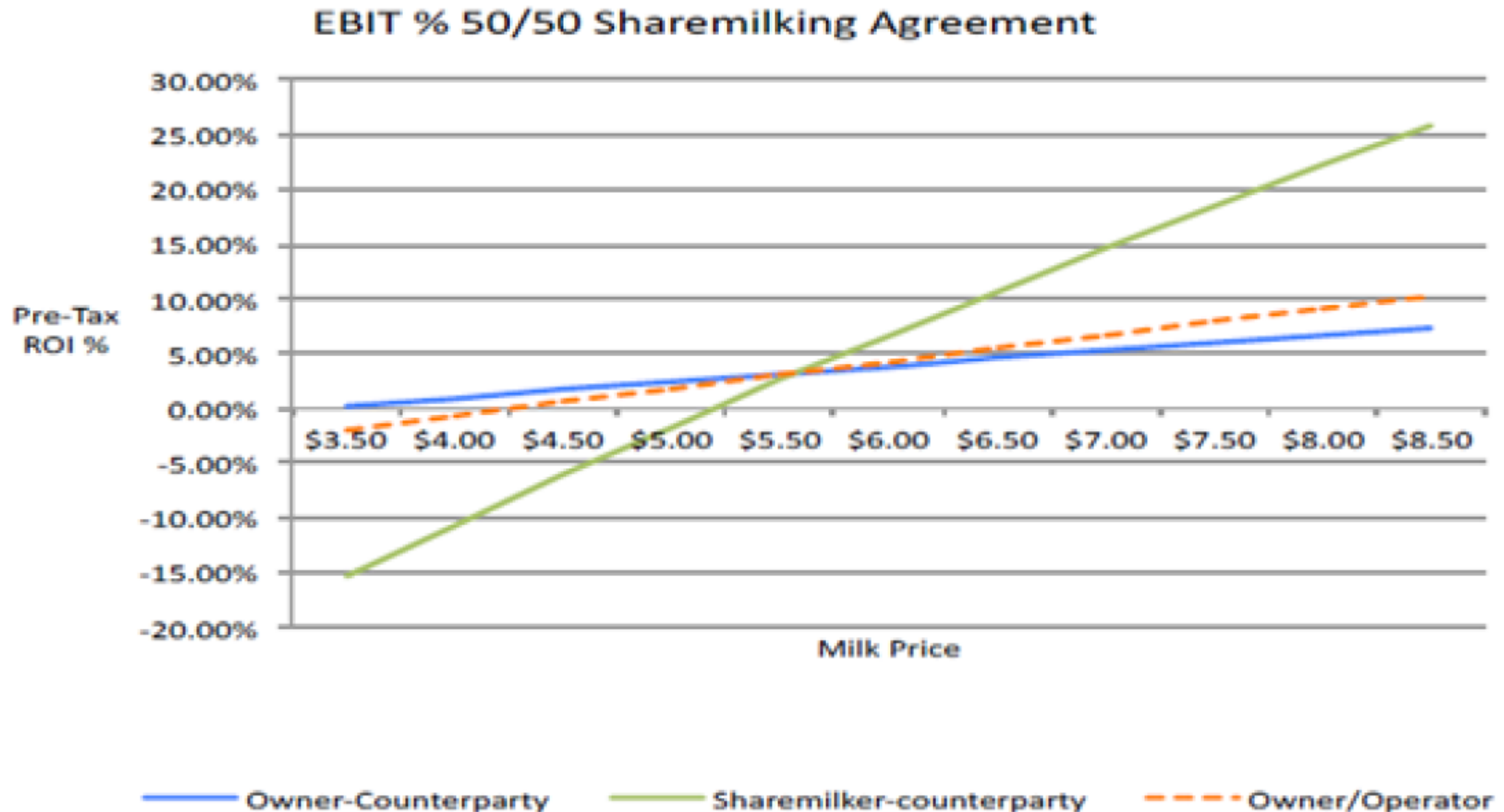


James Allen & Nicola Kloeten 2016

Figure 20: Herd Owning sharemilker HOSM) return on assets (total assets includes cow values) and cost of debt

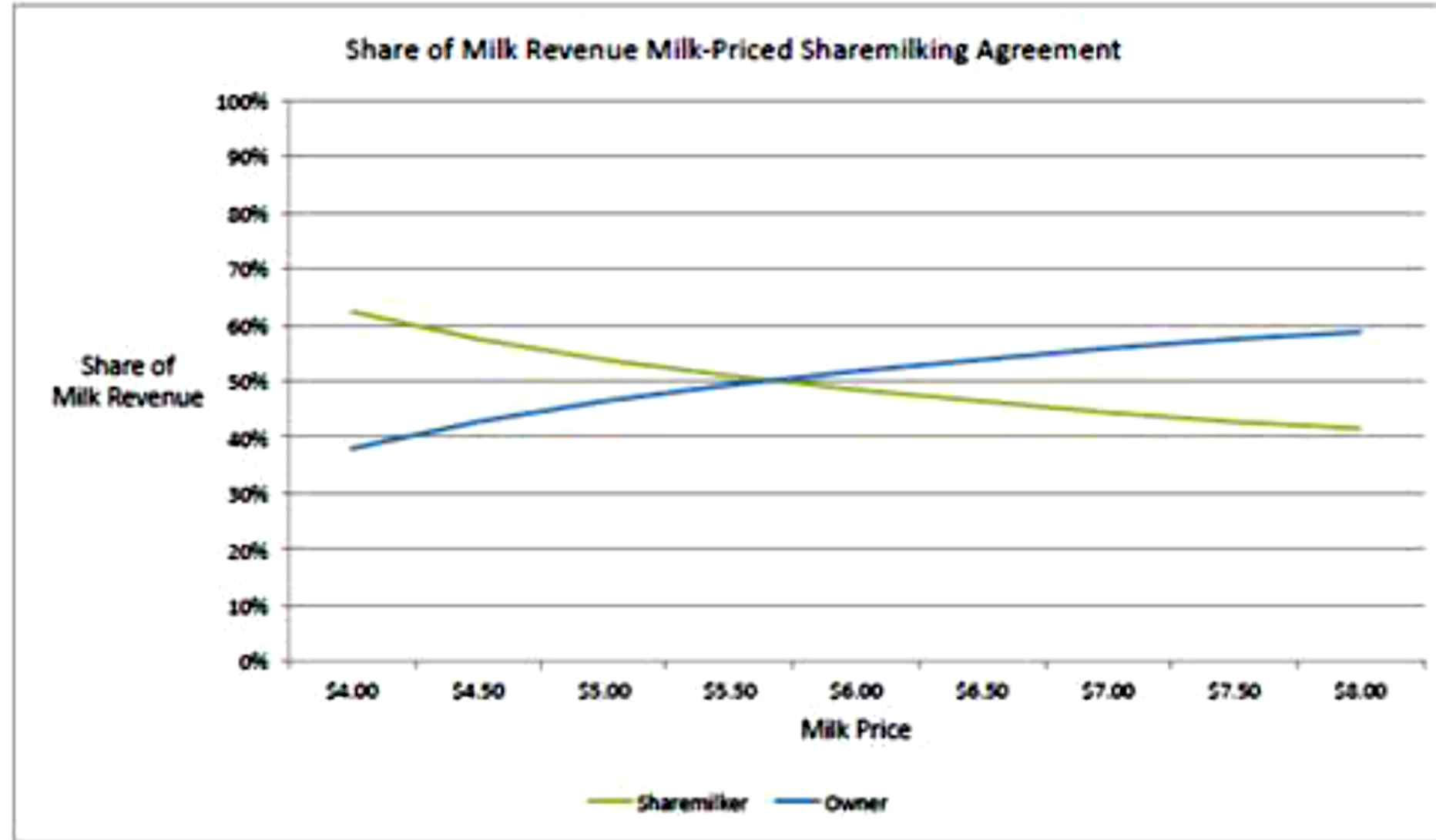
HOSM CONSEQUENCES

Flexi-Rate Sharemilking agreement (concept) Dairy, Fischer DairyNz



FLEXIRATE SHAREMILKER HOSM

Flexi-Rate Sharemilking agreement (concept) Dairy, Fischer DairyNz



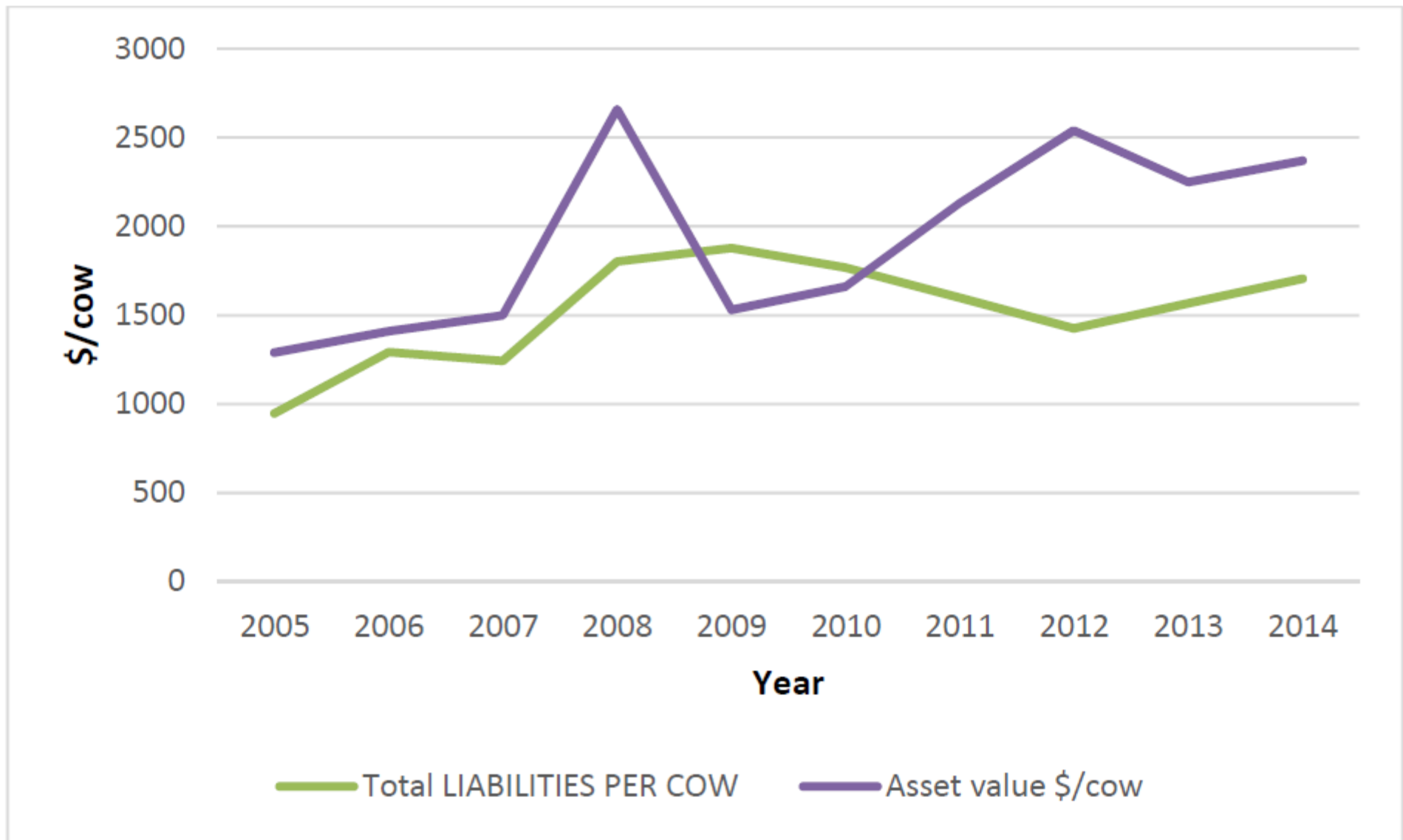


Figure 6: Herd owning sharemilking debt \$/cow and asset value \$/cow (DairyNZ Economics Group)

WHO OWNS THE CAPITAL							
Step 1: Who owns the Capital?		SHAREMILKER		MILKER EVALUATION		Milk Price	\$15,50
Capital Contributions	Rate	Total Value	Sharemilker Percent	Sharemilker Contribution	Owner Contribution	Per Cow	Per Cwt
House for Sharemilker (Annual Rental)		\$7.200	0%	\$0	\$7.200		
Land		\$750.000					
Rental Rate	3,00%	\$22.500	0%	\$0	\$22.500	\$75	\$0,68
Insurance	0,25%	\$1.875	0%	\$0	\$1.875	\$6	\$0,06
Property Tax	0,20%	\$1.500	0%	\$0	\$1.500	\$5	\$0,05
Livestock		\$450.000				\$0	\$0,00
Interest	8,00%	\$36.000	100%	\$36.000	\$0	\$120	\$1,09
Insurance	0,50%	\$2.250	100%	\$2.250	\$0	\$8	\$0,07
Property Tax	0,20%	\$900	100%	\$900	\$0		
Buildings and Improvements		\$288.000				\$0	\$0,00
Depreciation	5,00%	\$14.400	0%	\$0	\$14.400	\$48	\$0,44
Interest	8,00%	\$23.040	0%	\$0	\$23.040	\$77	\$0,70
Insurance	0,50%	\$1.440	0%	\$0	\$1.440	\$5	\$0,04
Property Tax	0,20%	\$576	0%	\$0	\$576		
Repairs	2,00%	\$5.760	0%	\$0	\$5.760	\$19	\$0,17
Machinery		\$80.000				\$0	\$0,00
Depreciation	10,00%	\$8.000	100%	\$8.000	\$0	\$27	\$0,24
Interest	8,00%	\$6.400	100%	\$6.400	\$0	\$21	\$0,19
Insurance	0,50%	\$400	100%	\$400	\$0	\$1	\$0,01
Property Tax	0,20%	\$160	100%	\$160	\$0		
Repairs	3,00%	\$2.400	100%	\$2.400	\$0	\$8	\$0,07
Contributions Total		\$134.801		\$56.510	\$78.291	\$449	\$4,08
Contribution Percentage				42%	58%		

HOW TO SPLIT THE EXPENSES

Step 2: How do we split the Expenses?							
		Dairy Enterprise	Sharemilker	Sharemilker	Owner		
Variable Cost Allocations	\$/Cow	Per Year	Percent	Contribution	Contribution	Per Cow	Per Cwt
Purchased Feed	\$512,42	\$153.726	50%	\$76.863	\$76.863	\$512	\$4,66
Purchased Forage	\$202,33	\$60.699	50%	\$30.350	\$30.350	\$202	\$1,84
Vet/Medicine	\$44,26	\$13.278	100%	\$13.278	\$0	\$44	\$0,40
Parlor Supplies	\$46,23	\$13.869	100%	\$13.869	\$0	\$46	\$0,42
Semen/Breeding	\$12,77	\$3.831	100%	\$3.831	\$0	\$13	\$0,12
DHIA Testing	\$7,23	\$2.169	100%	\$2.169	\$0	\$7	\$0,07

WHO PUTS IN LABOUR AND MANAGEMENT

Step 3: Who puts in the Labor and Management?							
		Total	Sharemilker	Sharemilker	Owner		
Labor and Management Allocations		Value	Percent	Contribution	Contribution	Per Cow	Per Cwt
Managerial Labor		\$40.000	100%	\$40.000	\$0	\$133	\$1,21
Management		\$0	100%	\$0	\$0	\$0	\$0,00
Labor & Management Total		\$40.000		\$40.000	\$0	\$133	\$1,21
Contribution Percentage				100%	0%		

CONTRIBUTION RESULTS - EXAMPLE

Contribution Results								
		Total			Sharemilker	Owner		
		Value			Contribution	Contribution	Per Cow	Per Cwt
Capital Contributions		\$134.801			\$56.510	\$78.291	\$449	\$4,08
Variable Cost Allocations		\$402.709			\$245.868	\$156.842	\$1.342	\$12,20
Labor and Management		\$40.000			\$40.000	\$0	\$133	\$1,21
Total		\$577.510			\$342.378	\$235.133	\$1.925	\$17,50
		Dairy Enterprise		Sharemilker	Sharemilker	Owner		
		Per Year		Percent	Income	Income	Per Cow	Per Cwt
Milk Sales		\$511.500		55%	\$281.325	\$230.175	\$1.705	\$15,50
Cull Cow Sales		\$41.847		100%	\$41.847	\$0	\$139	\$1,27
Calf Sales		\$13.949		100%	\$13.949	\$0	\$46	\$0,42
Crop Sales		\$0		100%	\$0	\$0	\$0	\$0,00
Government Payments		\$23.902		55%	\$13.146	\$10.756	\$80	\$0,72
Patronage Dividend		\$0		55%	\$0	\$0	\$0	\$0,00
Other Farm Income		\$0		55%	\$0	\$0	\$0	\$0,00
Total Income		\$591.198			\$350.267	\$240.931	\$1.971	\$17,92
Income Distribution Percentage					59%	41%		
Variance between Contributions and Income					0%	0%		

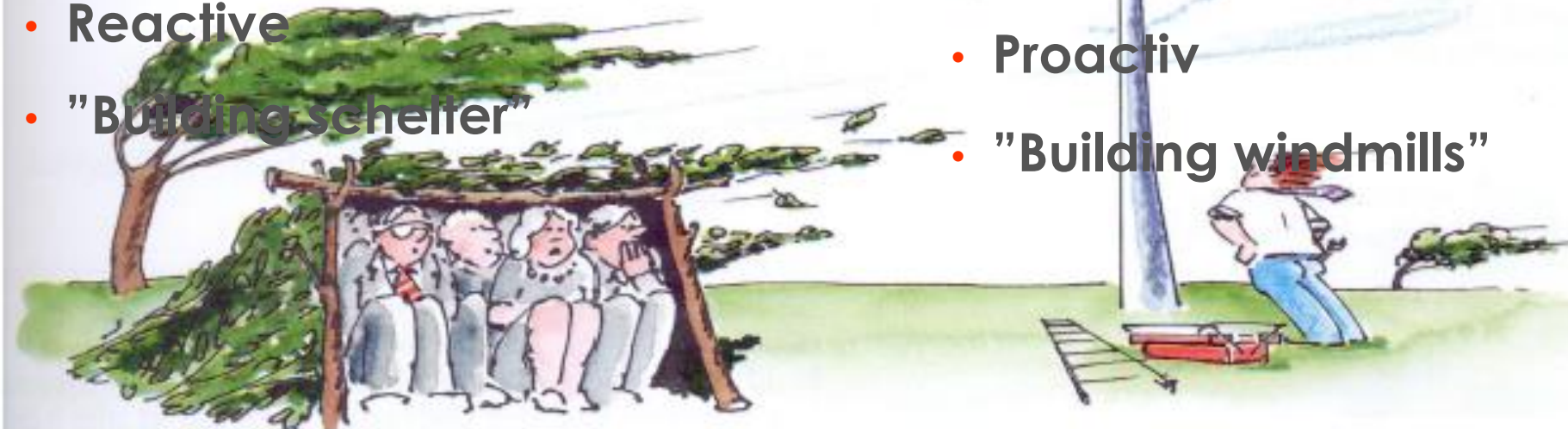
JOHTAMINEN JA TOIMINNAN HALLINTA

Management

- Watching pathways to optimize the production
- Focusing a lesser degree on the outside world
- Reactive
- "Building shelter"

Leadership

- Sees opportunity to develop the farm
- Good to persuade others on his ideas
- Proactive
- "Building windmills"



At tomorrow's cattle farm there is a need for both leadership and management!!!

SWOT analysis



Internal

Strenghts

(a)
(c)

Take-away points

(a)
(c)

External

Opportunities

(a)
(c)

Weaknesses

(a)
(c)

Implications

(a)
(c)

Threats

(a)
(c)

Strategic challenges

1.

SWOT analysis farm



Internal

Strengths

- (a) Efficient milk production 11250 kg
- (c) Sale of milk directly
- (d) Own electricity supply
- (e) Updated barn
- (f) Skilled herd manager and manager of fields

Weaknesses

- (a) 20 ha water protection area
- (c) 3 ha bufferzone
- (d) Cost of production of roughage is high
- (e) Trainees – motivation
- (f) Communication and operational planning
- (g) Lack of financial management
- (g) Surplus capacity of machinery

Take-away points

- (a) Good production facilities – better utilization
- (c) Resources available (land and barn)

Implications

- (a) Leadership skills
- (c) Need for better management of crop production
- (d) Reduce environmental impact
- (e) Introduce tools for operational planning and motivation
- (f) Adjustment of machinery capacity
- (g) Increase utilization of available resources

Strategic challenges

1. Continuous increase in milk yield
2. Reduction of production price of roughage
3. Change of culture among employees
4. Better financial management

External

Opportunities

- (a) Increase in production efficiency
- (c) Sale of land to city
- (d) Environmental possible to have more cows

Threats

- (a) Water protection
- (c) Expansion of §3 area
- (d) Infectious diseases eg Mycoplasma
- (e) Close proximity to city – city grow
- (f) Change electricity price - political

Source: Seges

NEEDED AND WHAT NEXT

- Guidebook
- Due diligence process
- Legal – restrictions and barriers
- Financial subjects
- Tax - implication
- Tools – calculators
- Metigators – advisors
- Dispute settling board

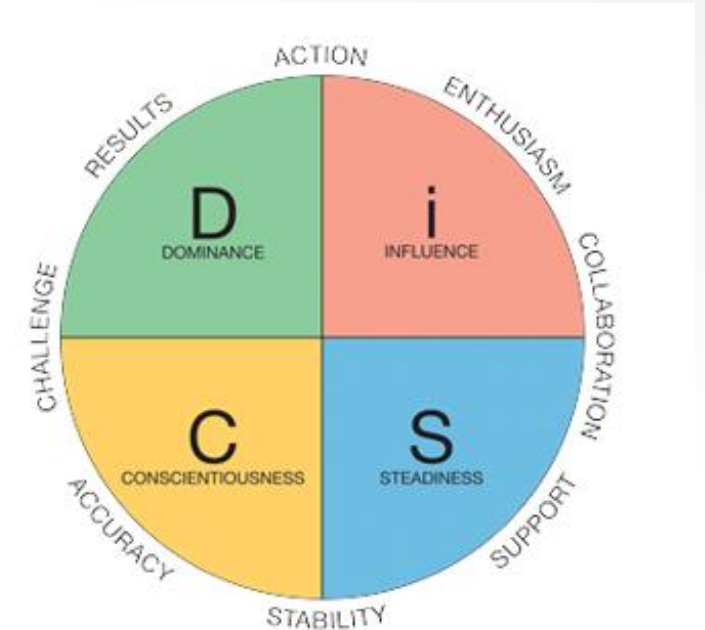


Figure 9: DISC profiles (Cole and Tuzins)