

Grooming the golden goose

Overall outlook to dealing and significant gains and returns is a real plus for New Zealand and its economy. Trading environment offers genuine opportunities to achieve strong returns for those already established but means a real dilemmas for those about to invest. How do you manage the impact of changing expectations of staff sellers and other players.

One area that is particularly challenging as balancing the impact on she looking and salaries. There are a number of agreements currently being reviewed we out owners are struggling with the total cost of staffing because of agreements that were set up in 80 totally different trading environment and is now translated to a major shift in returns to the milk is.

While this should be welcomed by all -- especially knockers who have received only modest returns at lower milk prices, a formula to manage unexpected change will be in and to sustainability.

What is needed here is clear structural thinking. If the formula can be developed around sound business understanding (especially the need to balance is startling and other costs with changes in overall farm expenses) the parties can then go to work on choosing the right figures to meet their expectations.

One heavily involved in such reviews at present.

The current agreements have been formulated with outlook to look prices of four dollars to four dollars 50 per kilogram milk solids. Potential milk price of seven dollars per kilogram results and significant change. The percentage share offer to knockers was in large part driven by the need to manage the risk at lower returns. At four dollars per kilogram milk solids 20 to 25% of milk income provides only a basic return. Maintaining this level of income she after a 75% increase in the price distorts results at the other end of the spectrum by making staffing costs unacceptably high relative to other options such as employing management staff.

This scenario risks a triple word relativities between she of milking and employed staff become distorted and neither will be sustainable if milk prices decline -- especially if expectations are set around current potential turns.

My recommendation is to strive for transparency in negotiating such arrangements between milk and owner. It is to be a clear understanding of the cost structure for both and absolute agreement on what is likely to cost the milk to provide the resources and inputs they will be responsible for. In this area I strongly recommend that milk was only meet costs they can directly control such as staff, in theory, vehicle and the right administration costs. I see no point in milk is making a payment and contribution towards foetal fertiliser as this simply provides the ingredients for disputes and disagreements.

Across clearly defined the next step is to agree on the salary value of a share mocha and a margin for risk. This is a matter of understanding the market and being in touch with the industry.

The combination of these costs and reward expectations can then be used to calculate the percentage share required for the those results to be achieved address not prices.

What's emerging from readers a full formula whereby the knockers share is higher at low lumber prices and declines as the milk price rises to buffer the effect of significant changes in returns. This can include the owner underwriting the milk price rather than increasing the share. Well thought through, this provides a formula where the book is risk at lower milk prices is eliminated and that returns can remain generous and hype will prices without being unsustainable.

The recent changes in industry fortunes have confirmed to me that there is no "magical" percentage that works for situations. The needs to be a sliding scale that allows effective management of change without causing distortions or unfair impacts.

A similar approach needs to be taken with land values. In the current environment buyers and sellers are understandably nervous about the decisions. I am seeing some new ways of approaching land prices that enable the parties to share the risk and continue their exposure to the benefits of waters and extremely positive time for the industry.

Most of the article

Review the approach taken with weather is, Edmeades, Diamond etc that links not price and percentage is to provide a realistic she while reward more parties

Recognize the changing cost structures from fertiliser, fuelled, land costs and interest in how these are driving the business

Recognize that lack of appropriate staff reward structures has the potential to set be baseline to high so that prices return to four dollars or similar it would be unsustainable for the businesses and knockers expectations would be out of line with what is sustainable

Encourage farming leaders industry organisations to address the issue and ensure that they are getting the best from the principles established.

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