

Inside the numbers: How high-performing dairy farms drive profitability

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**Department of
Primary Industries**

Do you run your business, or does your business run you? Top farmers make informed decisions enabling them to optimise land, cows, feed, labour and water resources, while actively managing risks such as weather and price volatility.

This article compares the “Top 25%” (T25%) of NSW Dairy Farm Monitor Project (DFMP) farms with “The Rest” (the other 75%) averaged over the last five years and adjusted for inflation (2020/21 – 2024/25). It focuses on three areas:

- Profitability – the results
- Cost structures
- Efficiencies

Before we get to the financials, the table below shows some key physical differences averaged over the last five years for each group.

	Average milker number	Kilograms milk solids/cow (kgMS/cow)	Litres/cow (L/cow)
Top 25%*	640	605	8,090
The Rest	336	500	6,848

*Most Top 25% farms over the last five years have been in the NSW DFMP south subset.

Profitability – the results

To be in the T25% group, a business must rank in the top 25% for return on total assets (ROTA) in a given year.

In Figure 1, profit, measured as Earnings before Interest and Tax (EBIT) shows the Top 25% are performing strongly, and it's worth noting that milk price isn't the determinant. Over the last five years, the T25% averaged a \$10.67/kgMS milk price compared

Profits – Top 25% v The Rest (5 year average)

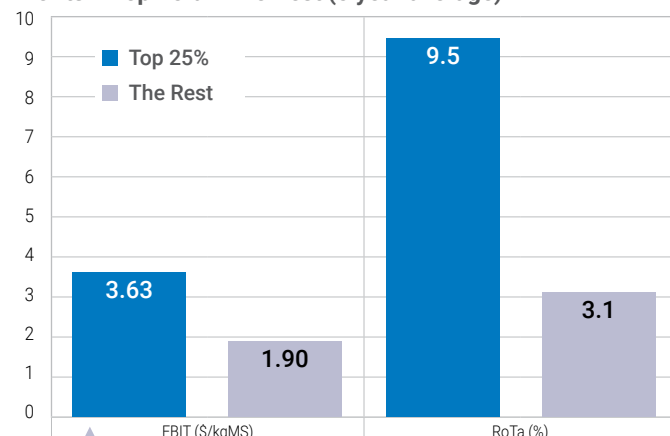


Figure 1: Profits (Earnings before Interest and Tax (EBIT) and Return on Assets (ROTA))

with \$11.55/kgMS for The Rest, while EBIT averaged \$3.63/kg MS (ranging from \$2.98 to \$4.57/kgMS over the 5-year period) compared to \$1.90/kgMS (range \$1.57 to \$2.44/kgMS).

Return on total assets (ROTA) shows how effectively all assets (owned and leased) are used to generate a profit. This average EBIT translated into a 9.5% ROTA for the T25%, compared to 3.1% for The Rest.

Cost structures

Efficient resource use and cost control are central to profitability. Figure 2 compares variable and overhead (operating) costs across the two groups, with particular attention to feed and labour, the two largest operating costs in most dairy businesses.

Secondary performance indicators – Top 25% v The Rest (5 year average)

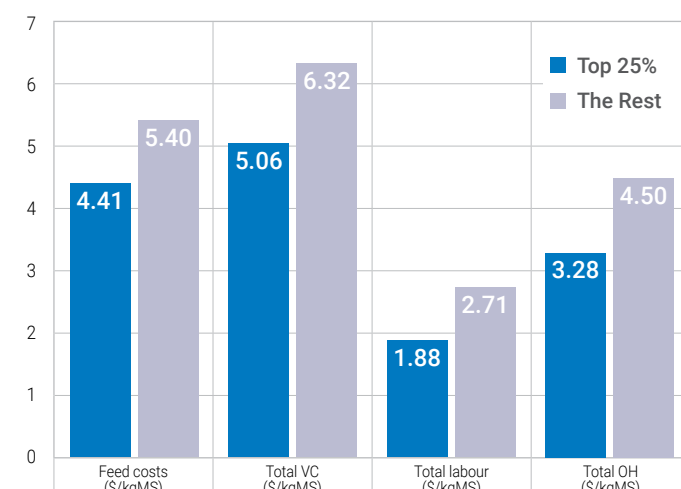


Figure 2: Variable (VC) and overhead (OH) costs

The T25% have lower feed costs than The Rest on a \$/kgMS basis, although feed makes up a slightly higher share of variable costs (87% v 85%) for the T25%. As these farms are mostly in southern NSW, they are often closer to grain and fodder sources, reducing freight costs, and they also tend to contract feed supplies to manage risk. They also tend to have more efficient cows.

Labour is generally the second-largest operating cost on dairy farms. Although the Top 25% use more labour overall (7.1 FTE compared with 4.9 FTE), they achieve lower labour costs on a \$/kgMS basis than The Rest (\$1.88 compared with \$2.71/kgMS). This reflects stronger labour efficiency.

Overhead cost control remains critical, as extra spending here does not usually improve productivity. Higher production can help dilute these costs on a \$/kgMS basis.



Efficiencies

Figures 3 and 4 show efficiencies that can impact performance.

Cow efficiency

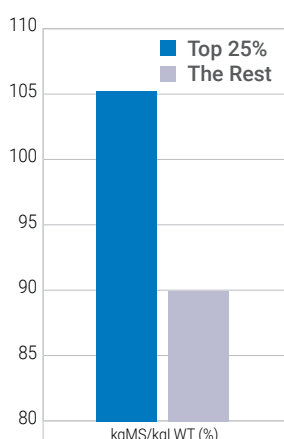


Figure 3. Cow efficiency – Top 25% v The Rest (5 year average)

Labour efficiency

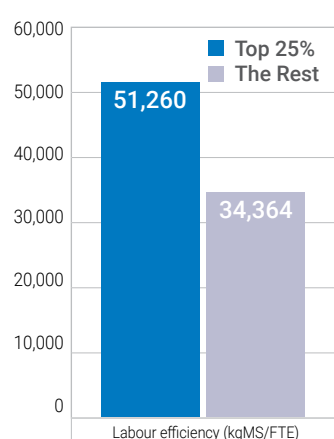


Figure 4. Labour efficiency – Top 25% v The Rest (5 year average)

Figure 3 shows the Top 25% have more efficient cows than The Rest (105% v 90% cow efficiency). In practical terms, a 600 kg cow at 105% efficiency produces 630 kgMS/year, compared with 540 kgMS/year at 90% efficiency. This difference is influenced by many factors including feed conversion efficiency, grazing management, ration balance and herd fertility.

Figure 4 shows a large difference in labour efficiency, with the Top 25% producing 51,260 kgMS/FTE compared with 34,364 kgMS/FTE for The Rest (49% higher). This helps explain why they achieve a lower labour cost on a \$/kgMS basis despite higher total labour costs. Labour efficiency is influenced by factors such as farm layout, dairy infrastructure and investment priorities.

The data suggests that Top 25% farms tend to manage resources more effectively than The Rest. They manage the business to optimise input efficiency while maintaining a strong focus on overhead cost control.

It is important to remember that these results represent the average of two groups of farms in the NSW Dairy Farm Monitor Project. Performance still varies within each group, as individual businesses manage their resources and apply their skills in ways that suit their own circumstances.

What about you – how is your business performing?

Are you running your business, or is your business running you? Dairy businesses are more complex than they were 10 or 20 years ago, so performance must be monitored and managed closely.

If you use DairyBase, you already have the information to interrogate your business in relation to the metrics outlined in this article. Check your numbers and see what they tell you – have you been improving, are you doing well, or are there areas that need investigation?

If you don't use DairyBase, now is the time to start. If you want something simpler, try Dairy Australia's Farm Business Snapshot tool.

Key end of financial year activities

Good managers make informed decisions which are aided by good data. Keeping accurate records is part of this. The end of financial year is the right time to update key information:

June 30th is 'stocktake' day!

- **Get accurate livestock information** – how many milkers, replacements, calves, bulls and/or dairy x beef head do you have on hand?
- **How much feed do you have in your sheds and silos** – record the tonnes of each individual type of feed

If you manage your finances in accounting software, use the Dairy Standard Chart of Accounts (SCoA). It puts your numbers into categories that transfer easily into DairyBase or Farm Business Snapshot and produces more useful management reports than tax-only reports. The SCoA is tax compliant, so speak with your bookkeeper or accountant before the new financial year and set it up for next year. ■ ■

If you are interested in participating in the NSW Dairy Farm Monitor Project, please contact Sheena via email.

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Disclaimer: Interpretation of top 25% benchmarking results should be undertaken with caution, as the analysis is based on an unbalanced panel of farms. Changes in the farms participating each year can influence the composition of the top-performing group, limiting the ability to draw conclusions from the data.