



Communicating in tough times

The good rains in January have, together with the low dairy payout, thrown Canterbury into a perfect storm with regard to grazing and feed.

Some dairy farmers are in the position of having entered off-farm grazing contracts and now finding that they either cannot afford to meet their commitment, or that they have more feed on hand than expected and don't need to graze so many cows off-farm. Perhaps more commonly, both these situations apply to some degree.

This is problematic for the now-many dairy support farmers who spend several months of planning and preparation to meet their side of the agreement.

Not having enough mouths for the feed they have grown would not usually be such a huge problem, but this year they have probably produced a lot more feed than anticipated and the opportunities for buying in store animals and growing them profitably are diminished by high stock values caused mainly by the destocking brought on by the earlier drought conditions.

As with most things, the key to avoiding difficult situations arising between stock owners and stock grazers is early communication.

We had a case recently where a dairy farmer recognised in late January that he was not going to be able to meet all of his obligation, in terms of cow numbers and the per head rate, under a signed winter grazing contract. He contacted his HRL bloke at around that time, setting out his problem. Our bloke talked to the grazer who was understandably unhappy.

Then the agent visited both parties separately to explore areas in which they might be willing to compromise. This was only partially successful so a face-to-face meeting was arranged between the two parties with our bloke facilitating.

The meeting had only been going about ten minutes when both farmers shifted their positions sufficiently for an agreement to be made that each would be willing to fulfil.

The new arrangement involved the cow owner sending the originally-agreed number of cows, and the grazer conceding that the cows would be in better-than-usual condition, and would thus require less intensive feeding, and so agreeing to a reduced per head rate for a portion of the herd.

As our bloke said: "The best part of the story is that the dairy farmer came to me early. He could have waited until May 20th - what a disaster that would have been. He'd done his budgets and he sang out early."

That early communication enabled the matter to be progressed rationally and amicably well before the time cows were due to be trucked.

We encounter similar situations, if not as extreme, occasionally and have always found good and timely communication to be the key.

All this is not to say that we encourage people to seek to break contracts they have entered into. A contract is a contract to which the parties are bound by law and must be honoured.

The above story, however, does illustrate that, in farming, forward contracts cannot always anticipate the conditions under which the obligations will have to be met. Sometimes, it is common sense and respectful discussion that are needed to save the day.

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FROM THE GM

The day I drafted this was the day Fonterra dropped its payout forecast to \$3.90, very bad news for all of us, but the worst for those at the coalface scratching their heads as to how to hollow more costs out of their already-threadbare budgets.

It's as if dairy has hit a perfect storm. In every direction you look around the world – China, Middle East, Europe, US – there is something unfolding to impact directly on dairy product demand. Our thoughts are with our dairying mates and, although it's small consolation for them, there are very few businesses in the rural servicing sector that won't share the pain to some degree or other, ourselves included.

Milkers have already been reacting to the deteriorating situation. Many are presently culling empties, even if they're still in milk, to downsize their herds to a level that their platforms alone can support through the near future. Supplements and off-farm grazing can be expected to undergo even more hard questioning.

As our client profile observes, if you're producing milk at a loss, it can make sense to produce less of it – such an alien concept to Kiwi farmers brought up on the fundamental principle that ever-increasing production is the pathway to success.

We expect the strong values seen in North Island calf sales to be reflected down here when our sales start soon, but in North Canterbury that's no consolation at all. There, a lot of breeding cows were offloaded last year because of the drought so those farmers are missing out on the good calf prices they could be getting now.

Dairy support farmers have some consolation in that beef and wool are doing well enough, and even though lamb returns are less than ideal they are far from disastrous. However, with the global situation as it is, it's hard to see where the money will come from to support a return to premium prices for high quality chilled product.

Possibly, one bright prospect for chilled lamb lies in China: it is to be hoped that country's growing interest in our meat processing and marketing sector could see it shifting to take some premium chilled product, which would be an improvement on the frozen-only trade that exists at present.

But, as David rightly points out in his note, who really knows what's going to happen?

Here in HRL there's been an important change in the office. Sharon Hunt has left us with our best wishes and we have replaced her dual role with two new full-timers. Megan Jenkins steps into the insurance role while Wan Yen Koh takes up the finance position. We warmly welcome them to the HRL team.

Ed Marfell General Manager

A NOTE FROM DH

We have some really impressive young folk coming into farming. I was talking to a group of them at the Amuri Show. They tend to look at things differently and I like that. Perhaps it's because they're part of that generation that seeks success in disrupting conventional business approaches — the attitude that spawned Uber and dozens of other examples where the old ways are challenged and seem set to be terminally usurped.

Those young people at the show asked me what I would do if I were their age and entering the farming industry. The question assumed, I guess, that I know something they don't. But I don't. I don't know where our industry is headed, or the headwinds it is going to confront in the near future and for how long.

I don't know what 'normal' returns are going to be in the years ahead. Nobody does.

What I do know, and what I talked about with them, was that we must embrace the tough times and not be frightened to be frightened. As Sir Alex Fergusson said in his book about his experiences in coaching Manchester United: "We learn more from the younger generation than from our own." We're all facing ghastly times and novel approaches are required to deal with them. That means we should welcome these young folk into our industry with open arms and embrace any new thinking they bring in with them.

We have all heard the old adages: "Failure is failure to change", "If you fail to plan, you're planning to fail" and "Failure is doing what you did last year and expecting a better outcome." Well, I'm sick of hearing about failure, because it's not failure, it's just the way it is.

New thinking is what's needed. We have to turn our businesses upside down and look at them from entirely different perspectives. There are folk out there doing just that and some outstanding opportunities are being identified in terms of cost structures, operating structures and even ownership and succession-planning structures.

But tipping our businesses upside down is massively difficult and stressful, and I know it is placing huge strain on some families who are doing it. Like the heroic explorers of three and four centuries ago, we are in uncharted territory but we know we have to keep sailing on as best we can in the hope that a safe landfall lies ahead.

We know that things will always come right in the end, but after a string of comparatively good years we now have to map these uncharted waters so we make that safe landing.

I see many farming people preparing themselves for the voyage; I admire their fortitude and can only hope their commitment, guts and determination are rewarded. I'm an optimist and I firmly believe that somewhere along the line we will be rewarded.

David Hazlett Rural Bloke

The Blokes' Diary...

17 Mar Coalgate

23 Mar Coalgate

24 Mar Culverden 1st Calf Sale

31 Mar Coalgate

31 Mar Cheviot Northern Calf Sale

1 Apr Cheviot Southern Calf Sale

4 Apr Castle Ridge Calf Sale

7 Apr Coalgate Sheep & Calf Sale

8 Apr Culverden 2nd Calf Sale

14 Apr Coalgate

15 Apr Culverden 3rd Calf Sale

21 Apr Coalgate Sheep & Calf Sale

22 Apr Culverden 4th Calf Sale

28 Apr Coalgate Sheep & Calf Sale

4 May Coalgate

12 May Coalgate

19 May Coalgate

26 May Coalgate

2 Jun Coalgate

9 Jun Coalgate

16 Jun Coalgate

23 Jun Coalgate

30 Jun Coalgate



Dealing with the payout

Justin and Melissa have had their gross income slashed in half and while they're not at all happy about it they have measures in hand to get by.

What really irks them, though, is that the same thing has happened to their hard-earned equity that was their passport to bigger sharemilking jobs and eventual farm ownership.

But they're going to hang in there.

They are into their second season on Norm and Sandra Williamson's property near Culverden, this year milking 530 cows on their 157-ha platform.

This is their third 50/50 job. They have worked their way up through a 180-cow contract in the Waikato where they come from, and then 450 cows in Fairlie.

The couple have a number of things going for them: they were named 2015 NZ Sharemilker/Equity Farmers of the Year, winning over \$50,000 in prizes and having numerous doors opened for them; they had 180 cows leased out which they have been able to sell well (their herd index ranks in the country's top 20% "... and in Jim Hazlett we have a very good stock agent!"); Melissa is able to continue with accountancy work from the farm for the North Island firm that trained her, which covers their daily living expenses; and they have been able to reduce staff costs by 20% by not replacing one of two full-time employees who moved on at the beginning of the year.

Further, they have an excellent working relationship with the Williamsons who are open to any ideas to reduce cost structures to improve matters.



Ryan Slattery's Mum and Dad grow big fodder beets.

Yet they are struggling. And both of them now have to put in more hours in the milking shed, which browns Justin off particularly as it leaves him with less time to spend on essential management.

In preparing their submission for the Dairy Industry Awards competition Justin and Melissa did some deeply penetrating analysis of their business, which was singled by the judges for its clarity. They have a very good grasp of what makes money and what doesn't.

They are not cutting back on 10% regrassing each year, or on the usual N applications, because they know these measures are the cheapest form of feed for their cows. In the case of regrassing, they've worked out it equates to an extra four tonnes per hectare of feed at 7¢/kg of dry matter.

Their farm working expenses are pared to the bone, and they could hardly look at boosting their herd's productivity: last year it did 460kg MS/cow and 1600kg/ha.

Their strategy for dealing with the payout crisis: produce less milk at less cost. "If we can justify that to Norm, then we're good."

This year they have taken an eight-hectare area out of pasture. They actually took it out last year for rape as well, a drought measure. This year they've put it in fodder beet and feel they may be onto something.

The paddock equals 6% of their platform area so they have reduced cow numbers in like measure. The idea was to have four hectares to provide late autumn feed while improving cow condition, and four hectares of winter feed to enable them to winter at least half of the cows at home.

They are looking at a crop headed towards 30 tonnes per hectare and Justin thinks it "...could be a game changer." It attracted media attention recently when Melissa put the accompanying photo on Twitter of their son Ryan, then not yet two, unable to lift one of the bulbs.

For one thing, they are determined to be in the "ruthless" position of not buying in feed next season (they are rolling their contract with the Williamsons over for another year), and starting the season with their supplementary feed already paid for.

The low cost of the fodder beet is the biggie for them. Even with the opportunity cost of eight hectares of grass, Melissa calculates it's around 15 cents per kg of dry matter and compares this with 25¢ for PKE and 35¢ for silage.

With the cost of off-farm grazing now falling, they feel they may have overshot the mark in terms of the area they sowed. But here's the thing: the couple are thinking that perhaps four hectares of fodder beet each year is what could change the game: at this time of year, they can review the feed market, and be in the relatively strong position of being able to choose whether they use it for autumn feed if they need to or, if not, they have half their winter feed requirement right there on their doorstep with no harvesting required.

Their main message to all sharemilkers and upcoming dairy farmers: "Hang in there! If you want a great motivation to analyse your business, enter the dairy industry awards."

Staff Profile . . .

Hamish Marshall

Rural Supplies Bloke



Hamish brought an extraordinary CV of farming experience to HRL when he joined in July 2014.

The 42-year-old hails originally from Waikari but spent most of his upbringing on Mount White Station where his father was manager for 20 years; he attended CBHS and Lincoln before heading off overseas in 1996 for 6-7 years.

He stopped first in the wheat belt and the big cattle stations of Western Australia. He later headed to the UK where he again worked on grain farms and spent about two years as a "shepherd-slash-ghillie" for a gamekeeper on an estate near Ullapool in the northwest Scottish highlands. During the hunting season this involved carrying clients' rifles, processing the game and drinking a fair wee bit of whisky, while the off-season involved general farm work on the estate — shearing and so on.

Then it was back home in 2001 to work on the Floridale Angus stud near Darfield for six years. He went fencing after that, then dairying. He joined PGGW in 2008 as a livestock agent out of Temuka, his first-ever off-paddock job.

Then a while later he worked for three years as an HR consultant for a McLeans Island-based firm that prepares people

over a period of three months to work on farms. The firm specialised in Chileans; Hamish's work included training and matching them up with future employers. Over that three years he reckons he placed some 200 people on, mainly, Mid-Canterbury dairy farms,

"The South Americans want to work. They have a bit of go about them and they remind me of what young Kiwis used to be like ..."

That work, together with all the other things he has done, saw him build up a significant book of farming clients that is now serving him and those clients well. Talking about his current role, Hamish sounds like a pig in the proverbial — he loves the work and the career prospects it offers, he loves how it's making sense of all his previous experience, and he enjoys the fact that he is still learning new stuff all the time. "I enjoy helping

the stock agents in the stock yards when I can. It is the core of our business and you get to see what our clients produce."

Hamish is a hunter (or would be if he could find the time nowadays) and a hockey player, having captained at rep level while at secondary school; he is a keen member of the HRL team that plays in a social league at Nunweek Park.

As Ed Marfell mentioned in the last issue, Hamish, Sarah, Lachlan (5), Rory (3) and Dougal (2) have their Hororata house on the market and will shift to Rangiora, Amberley or thereabouts where most of his clients are located.

The fishy story ...

Our hat/fishing pic in the last issue brought out the best in two true southern fishing gentlemen. Mick Burdon wrote wanting to know why, if he caught the fish, he wasn't displaying the trophy. All Dan did was land it with his net, he tells us. Maybe you didn't have the right hat on, Mick. Anyway, both gents sent us cheques for \$250 to go to the Cancer Society. That's not what's supposed to happen, but we gratefully accepted their sporting gestures. We added our usual donation, so the Society had a windfall of \$750. Apparently, there's more to the story of that fish, but we won't go there...

HRL

Hazlett Rural Limited

The Blokes and Blokesses



Ed Marfell

Mobile 027 462 0120
Phone 03 322 1268
emarfell@hazlett.nz

David Hazlett

Mobile 027 235 5300
Phone 03 337 2931
dhazlett@hazlett.nz

Craig Miller

Mobile 027 462 0117
Phone 03 318 8350
cmiller@hazlett.nz

Travis Dalzell

Mobile 027 202 0196
Phone 03 314 8652
tdalzell@hazlett.nz

Brian Brice

Mobile 027 462 0118
Phone 03 329 7079
bbrice@hazlett.nz

Jon Waghorn

Mobile 027 462 0121
Phone 03 314 8165
jwaghorn@hazlett.nz

Jim Hazlett

Mobile 027 462 0128
Phone 03 312 9559
jhazlett@hazlett.nz

Phil Manera

Mobile 027 462 0125
Phone 03 347 4989
pmanera@hazlett.nz

Marty Amos

Mobile 027 462 0122
Phone 03 307 8833
mamos@hazlett.nz

Ben Lill

Mobile 027 462 0130
Phone 03 347 6306
blill@hazlett.nz

Hayden Ross

Mobile 027 462 0133
Phone 03 307 0216
hross@hazlett.nz

Geoff Wright

Mobile 027 462 0131
Phone 03 302 6107
gwright@hazlett.nz

Paul Ross

Mobile 027 462 0134
pross@hazlett.nz

Tim Rutherford

Mobile 027 462 0135
Phone 03 314 8080
trutherford@hazlett.nz

Scott McIlroy

Mobile 027 462 0160
Phone 03 318 7644
smcilroy@hazlett.nz

Hamish Marshall

Mobile 027 462 0158
Phone 03 929 0974
hmarshall@hazlett.nz

Pete Smith

Mobile 027 462 0129
Phone 03 929 0716
psmithl@hazlett.nz

Paul Whittaker

Mobile 027 431 3234
pwhittaker@hazlett.nz

Joe Adams

Mobile 027 462 0119
jadams@hazlett.nz

Sean Lysaght

Mobile 027 462 0123
Phone 03 358 7246
slysaght@hib.co.nz

Rebecca Stoop

Mobile 027 462 0156
Phone 03 358 7246
rstoop@hib.co.nz

Kristine Winter

Mobile 027 462 0159
Phone 03 358 7246
kwinter@hib.co.nz

Stephen Blyth

Mobile 027 462 0157
Phone 03 358 7246
sblyth@hib.co.nz

Peter Engel

Mobile 027 434 0555
Phone 03 358 7988
pengel@hazlett.nz

Office

Postal P.O. Box 39-162
Harewood
Christchurch 8545
Phone: (03) 358 7988
Fax: (03) 358 7989
508 Wairakei Road
Christchurch
(No mail service)

Leone Bryce

lbryce@hazlett.nz

Jo Manson

jmanson@hazlett.nz

Sandy Boyd

sboyd@hazlett.nz

Steve Ludemann

sludemann@hazlett.nz

Wan Yen Koh

wkoh@hazlett.nz

Sarah Corbett

scorbett@hib.co.nz

Ruth White

rwhite@hib.co.nz

Megan Jenkins

mjenkins@hib.co.nz