Progressive Beef Conference 17-11-16

1. **Introduce myself and talk about farm –** Good afternoon, my name is Tom Forgrave and I farm near Ballymoney.

   I can recall 3 or 4 years ago I was at an arable conference where one of the speakers farmed both arable and beef. I remember him saying that on his family's farm a generation or two ago the farm had hit hard times and had gone downhill. I remember him telling us that there were 3 very specific reasons why the farm had fallen on hard times - fast women, slow horses and winter finishing beef cattle!!

   I've been asked to speak today to bring a different perspective to you from the poultry industry. I can only talk about my own experience in my own small corner of the poultry industry but I hope that it helps you look at your own business from a different angle.

   To give you a little background on myself, we only have a small farm of 75 acres but we have continually looked to maximize our income from whatever assets we have. We started broiler production 25 years ago and at that time we were producing 85k birds/yr. This side of the business has grown over the years and we are currently producing 1.2m birds/yr.

   We used to produce 200 head/yr of intensive bull beef but the BSE crisis in '96 changed the whole dynamic and beef production lost its attraction. It was around this time we realized that we needed to diversify into something non-food related and so, in 2001, we diversified into growing a few Christmas trees. We currently have 100k trees growing on 40 acres of the farm.

   We have also embraced renewable energy with biomass boilers and a wind turbine installed on the farm

2. **Acknowledge issues in agri industry** – When I was approached a few months ago and was asked to speak about our model in the poultry industry my first thoughts were that each industry would have its own specific needs and it would be impossible to be able to have a one size fits all model. I don't believe for one moment that there is a one size fits all solution; all I would like to do today is explain the model that works for us in the broiler industry and hopefully see if some of it could be adapted to the beef industry.

   There are wide ranging challenges in our agri industry. A lot of these issues are outside of our control and I think it is a much wiser use of our time and energy if we aim to focus on the things that we *can* have an influence over.

We have been told time and again of the pressing need to produce more and more to feed all the hungry mouths around the world - but there is little point producing food for all the hungry mouths if they can't afford to buy it. Who's really telling us to produce more? Is it the very same corporations who wish to see prices kept down? Could we start by focusing more on only producing *exactly* what is required, doing it to the very best of our ability and focus on making our most efficient farms profitable before we contemplate producing more?

The bottom line is that unless we look at the current system with a critical eye and as long as we continue to oversupply our marketplace, producing a product *in the hope* that someone will buy it, we *will not* receive the price we need to maintain a profit.

3. **Introduce Moyparks integrated model** – As I said before, I can only talk about the model that I know and understand.

   The supply chain model that we work within addresses some of the issues I mentioned earlier. The model is far from perfect but it has served the poultry industry well with the growth of Moypark, and the expansion at farm level, both testament to its success. Moypark is a very successful company and much of their success and strength comes from having as much control over the product from start to finish as possible.

   Moypark control the quality of the chicks and the quality of the feed, both of which they sell to us. It is then up to us to manage these chicks to the best of our ability. We supply the housing, all the other inputs, management, labour and expertise. Advice is always available from field-staff who are employed by Moypark. They are an invaluable part of the equation as they are regularly on-farm, checking and advising and they act as a conduit between the farm and the factory.

   We receive the chicks at one day old and at the end of the cycle, what the processor has is a product grown to their spec, at a pre-agreed weight and with the steady consistency demanded by the market. The system isn't perfect but it goes a long way in addressing the ability to supply the market with what it wants, when it wants it.

4. **Explain the costings system** – Within our model we have a platform for discussions between the processor and grower representatives and I think that this is one of the strongest features of our integrated model.

   We have a group of 6 or 8 growers who are elected by their peers at an AGM to represent them at processor level. This committee meets once every month with Moypark management to sit around a table and talk frankly about any issues. It is very much a 2 way conversation and we would have managers at that meeting from the hatchery, feed mill, processing and accounts all there at once. Minutes are taken and circulated to everyone a week or two after the meeting.

   Once a year, usually in April, we have what we call our "costing's" meeting. At these meetings we sit down and agree costs of production plus a margin for labour. This agreed figure is called the *Target*. As a group we open our books to Moypark and we agree an average cost for every single item that it takes to produce a crop of chickens.

   Over the years we have learned that Moypark don't like a farmer coming to them with a cap in his hand and a tear in his eye asking for more money. Nor is there any great point in standing at the gate of the factory waving a placard!

   We have found that we *have* to be able to talk solid numbers in a way that an accountant can understand. We will sit down and discuss the true costs of production. Some of the items that we cost are…. Heating, electricity, water, bedding, disinfectant, every day expendables like light bulbs/wellies/paper towels/bait, maintaining and running the stand-by generator, vitamins, vaccine, repairs, insurance, depreciation, washing, dead collection and even land spreading the wash water.

   These costs are gathered from actual costs from a sample of farms and an average is taken. We know to the nearest 0.1p per chicken what our average cost is. If there is an inefficient farm using more than the average, then that is their loss. But likewise, if a farmer is able to produce his chickens using less than the average, it is his gain. Herein lies the crux of the model – poultry farmers are continually being challenged to be more efficient. They have to be more efficient than their peers to make a profit. This is a continual process and it works.

   If we come to the end of a financial quarter and the average profit of all the farmers is higher than the *target* then our flesh price is reduced to bring us back down to average. The reverse is also true though. When performance and therefore profit falls, for whatever reason, and the average profit drops below the *target* then the flesh price rises to help keep us on track.

After we have worked out the true cost of production we factor in an allowance for labour. We know how many chickens it is possible for 1 labour unit to produce in a year and we agree an amount. Crucially, this amount rises in line with inflation year on year. I believe that this is something no other industry within farming has achieved and is the primary factor why so many farms are not as profitable as they aught to be. The result of compounding this inflationary rise is one of the main reasons why poultry farming has remained relatively steady over the years.

But for those of you who are farmers or processors, don't get too excited. This is *not* a guaranteed wage. This allowance for labour will only be earned by those growers who are in the top 50% of all growers in NI. Remember, broiler incomes are all about averages, so if you are number 50 out of 100 growers you will earn a wage, that's it! If you are in the top 25% you can earn a good bit more but if you are in the bottom 25% you may not even get to enjoy a wage.

To put it in some perspective, a full time broiler farmer today is able to manage 4 modern sheds. The difference in yearly income between being in the top 10% and the bottom 10% is a high 5-figure sum! That is a very real incentive to be efficient and on top of your game.

In the broiler industry we also have something called the 400 club. There is a measurement called the 'European performance and efficiency factor' or EPEF. This is a performance indicator based solely on efficiency.

It strips out *all* the variables and takes into account only 4 things - the weight of the chickens when they leave the farm - total mortality - the final age of the bird in days– and the most important part, the feed conversion ratio. A calculation is then done. This figure is usually somewhere between 340 and 360 but if a farmer achieves an EPEF of 400 or more it places him in the top 1% of farmers in the UK and his achievement is recognized by the industry. Now I know these numbers don't mean much to you so I'd like to give you some perspective on this – on our farm, if I can raise my average EPEF from 360 to 370, it is worth an extra £25,000 a year to me.

Could the beef industry look at something similar and reward the farmers who are producing beef the most efficiently rather than rewarding them for having a good looking animal in the show-ring which has been fed huge amounts of expensive feed? Every week when I open the paper there are pages and pages of farmers getting cups for one thing or another!! If it wasn't for farming I fear that many of our jewelers would be out of business. Are all of these cups *really* encouraging the industry or are they just a way to help us feel good about our industry and compensate for the fact that it isn't really profitable?

Transferring the model – So, is there any way to transfer some of the parts of this integrated model across to the beef industry? I fully understand that your industry has a range set ups with much, much more variability. Averages are harder to come by and farmers by tradition don't like to open their books.

But we *have* seen the likes of "Blade Farming" which emulates a part of this model.

We have seen Eric Reid, the founding father of the vertically integrated model in our sector look at transferring parts of this model to his beef herd.

I know that most progressive beef farmers like yourselves will say that they know their cost per kilo for the obvious things like contractors/ conacre and diesel. But what about the less obvious ones, the smaller mundane ones? What is the cost per kilo for bedding/medicine /machinery maintenance/depreciation for both sheds and machinery/dead animal collection/repairs and general maintenance? How much does it cost per kilo in lost performance and time taken up for a TB test?

Is it really a useful tool that you can open up the newspaper on a Saturday and see how much your neighbour got for his bullock at the market last week? Does it have any relevance unless you know what it cost to produce?

Is there an opportunity instead to have a co-op or a P O who will talk directly to the processor and make representation for you? Is there enough trust to even contemplate such a move? Is there a willingness to set a little of your independence to one side and co-operate? Are there men within your industry who can talk to an accountant and speak in a language that he understands and be able to justify the numbers that he produces? There is no point in standing up and saying you need £5 per kilo if the processor can show you that you should be able do it for less than £3 per kilo. There is no point in shaking a placard at the factory gate until you know exactly what you are asking for and can justify it.

LABOUR – do you know how many hrs you actually work on the farm? Is your farm giving you a wage after *all* expenses are paid? I mentioned earlier that 4 poultry sheds are counted in the industry as 1 man full time. But what about beef? The Anderson Centre says that the average wage in the UK is around £27,000 and would suggest that finishing 300 beef animals or calving 100 sucklers a year is a full time job for 1 man on a well mechanized farm and should provide this level of income.

5. **What about the pros and cons of our system?** – Pros - we will never make a fortune but we will never lose one. We are continually challenged to be efficient. The incentive is to continually improve and be better than our peers. Another advantage is that when we approach a bank to expand they have confidence that there is a model in place which allows for forward planning. We have been very encouraged on our farm that the bank has been willing to lend. The integrated model has helped make this possible.

   Cons – One of the downsides is the amount of time and effort it takes for the farmer representatives *and* managers to do their job and have constructive conversations. But if anything is worth doing it is worth doing well and the current health of the poultry industry is in part due to the work and effort put in by *both* sides of the table over the years.

   We also never *fully* benefit from the improvements seen year on year in genetic improvement. 20 years ago it took 56 days to grow a broiler, today we can do it in 38 but our income has only risen in line with inflation. Back at the start I mentioned that we have grown our business from 85k birds/yr to over 1.2m. Has our income increased 12 fold?? I wish!!!

   So far I have been speaking about the big picture side of the business, a financial over-view if you like, but what about the smaller stuff… What about the day-to-day running of the farm?

6. **Challenge to farmers** - to know your true cost of production and be able to communicate it. Do your sums. Spend time working out your true cost of production and share this with other farmers rather than what price you achieved for a solitary beast or how many of those cups you may have won. If you truly know your cost of production then you will know what budget you have to purchase stores or to rent conacre. Just last week there was a report of conacre for lowland grazing making £300/acre. Can someone please explain to me how this makes financial sense?!

   Measure and record - Use spreadsheets. Analyze constantly. You need to analyze not just your silage and your soil but also your water, your slurry and your feedstuffs as well as your costs. If you don't know what you are putting into the animal or onto the land how do you know what achieves the best performance? How can you manage your grazing without knowing how much grass you have? Record which animals performed best financially and which didn't. Build up a picture of genetic traits that generate profit rather than looking good in the ring.

Weigh and record - We weigh our birds automatically every day. Unless you weigh you have no idea of performance. How often do you weigh your cattle? What targets do you set? How do you alter your management to help achieve these targets? I assume everyone here benchmarks but that is only the starting point. There is so much more you can do to drive efficiency and achieve targets. I was delighted to see an article in last weeks IFJ covering this exact topic and beef farmer John Egerton explained really well the financial benefits of weighing, recording and comparing to pre-set targets.

Do **trial work**, see what works for you. But this only works if you measure and record. In the poultry industry we put huge emphasis on **clean water and fresh air**! It may sound basic but one of our hardest tasks as a stockman is retaining heat within the shed but not at the expense of fresh air? If the birds are too cool they will eat to stay warm rather than put on weight but if the air isn't fresh enough then you have respiratory issues and poor performance.

What is the optimum temperature for cattle for them to put on the maximum weight per day? Do you have too many or too few cattle in each pen? Would a simple fan in the roof drawing air over the top of the cattle and out of the shed be useful on one of those calm, foggy Autumn days when you can hear that wee cough? Would blowing some background heat into the calf rearing shed help keep pneumonia at bay?

When was the last time you gave serious thought to the cleanliness of your **water** troughs, header tanks and pipework? Water is our biggest input! For every ton of feed our birds consume they drink 2 tons of water. On our farm that's 7,000 tons of water a year! We deep clean our water lines, header tanks and pipework every 7 weeks and we test our borehole water regularly to check for coliforms. *All* borehole and mains water is routinely sanitized on farm. A lot of our water is also acidified as the bird's guts like it and we get improved feed efficiency.

What about **lighting**? Do you turn the lights off in the shed at night during the winter or leave them on all night? Forget about the electric bill for a minute, what do the cattle need? Do cattle see better (and ultimately eat more) in LED light or fluorescent? Would a few controlled hrs of darkness each night be better for performance than too much or too little? All you need is a time-clock and a weighbridge. In poultry we have very defined hrs of darkness and we *know* what the optimum is to achieve top performance.

What about **hygiene and biosecurity**? How many of you quarantine an animal that has just arrived on farm? How many of you wash your boots and disinfect them after you've come back from the market or the abattoir but before you go to check your animals? How often do you wash and disinfect your sheds, your calving pens, your crush facilities or your diet feeder? When was the last time you opened that inspection panel and looked inside your meal bin to see if there was any mould around the inside of the bin? Mould contamination will reduce feed intake and therefore performance. We open up and clean and disinfect our mealbins at least once every year.

Are you willing to accept that there may have to be less choice in who you sell your produce to? This may seem counter-intuitive but speaking from experience we in the broiler sector are in a much stronger position in having 1 strong player in Northern Ireland as opposed to 3 average companies. Would you be willing to work together if it meant providing a regular supply of a consistent product to the processor who can achieve the best price in the market for it?

Are you willing to accept that there may be a better way than the current conacre system? Are you willing to accept that knowledgeable men like John Gilliland know what they are talking about and are worth paying attention to? So often we are dismissive of men who think outside the box and have foresight because it "wasn't the way our fathers would have done it."

Are you willing to invest in mechanisation to free up your time to focus on managing your herd more closely? We recently invested £12,000 in automatic bird weighers across the site and are currently getting that information wired to the farm pc. and eventually directly to the factory for real-time weights. It has saved 3 or 4 hrs labour per week and we are achieving our weighing bonuses much more regularly compared to manual weighing. With the Farm Business Investment Scheme having just been launched there has never been a better time to look at mechanising or introducing new technology to help measure and record.

Would you be willing to consider Feed Conversion Ratio as a primary starting point for future genetic selection? In the poultry industry FCR is top of our agenda. It is the one thing that matters most in the quest for profit. Whether it is grass or silage or meal, feed costs money and if you can feed less and put on more weight then you'll make a profit.

Would you be willing to move on from the 'them and us' mentality we have of the processor?

7. **Challenge to processors** – are you willing to acknowledge actual costs and allow for a margin for labour and reinvestment. You can either play the short game or the long game. We are very fortunate in that Moy Park most definitely play the long game. I know that there is a big bad world out there and that margins are continually being squeezed. Consumers can be fickle and markets do change, but, were you to receive a more consistent product to help you achieve a better price from the market, or so that you have less wastage, are you willing to share that potential extra profit with the farmer? Chicken has an average 71% kill-out. I believe beef is in the low to mid 50's. Could this be improved? Are you willing to talk to the farmers and explain to them exactly what you need from them or do you prefer to treat them like mushrooms? Does the market *really* require such a complicated grading system? Are you willing to accept that maybe Northern Ireland is too small for so many players? We used to have 3 main poultry processors, we now have 1! Are you willing to accept that the same may have to happen in the red meat sector so that the industry as a whole becomes stronger?

   Would *you* be willing to move on from the 'them and us' mentality?

8. **Challenge to wider industry** - be realistic! Stop telling us that everything will be ok in the future and that we must keep producing more, bigger is better, shiny is good. Shiny is not always good, turnover is not important, profit is what is matters. Lets look closer at building relationships, sharing good practice and having a bit of realism.

   For the students here today - are you willing to accept that farming should not just be a way of life; it must be a profitable business run by professionals?

   To Conclude - The poultry industry didn't get to where it is overnight. It took work, foresight and co-operation. Look closely at every detail of your business, pay attention to detail and enjoy the challenge.

   Thank you.