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Zach and Laura are strict on their budget to make profit rather than chase production.

BUYING AT THE BOTTOM

Zach Mounsey has gone from balancing a $15 billion Fonterra fund, being a DairyNZ economist and Kellogg graduate, to now sharemilking in the King Country along with his partner Laura Campbell. Sheryl Brown spoke to them about what drives them to succeed.

American investor Warren Buffett's philosophy is to "buy it when it's ugly".

That's the advice Zach Mounsey, 26, and Laura Campbell, 22, adhered to when they bought their first herd and started sharemilking this season on the basis of a $4.25/kg milksolids (MS) milk price forecast.

An economist and accountant, respectively, both had done their figures thoroughly to show they could make it work, but more importantly had the passion to get into the dairy industry and an appetite for risk.

Zach had looked at the long-term trend for cow prices and knew they would be paying under $1400 on average, which was close to the lowest cow prices in 10 years. Zach and Laura felt prices were bound to recover and, taking Buffett's words on board about buying in a dip, it was a good time to enter the industry.

"When a market experiences lulls there are opportunities if you have the risk threshold to take it, which Laura and I did."

Their bank manager told Zach he was leaving a good job as an economist at DairyNZ to work for nothing, but he disagreed and told him he wasn't going farming to make a loss.

"It's not okay to accept that losing money is the status quo, we are more disciplined than that."

The milk price recovery has certainly helped them, but they are maintaining their strict budget based on the $4.25/kg MS payout.

> *It is tempting to chase production, but it's not how we want to do our business. You're adding another layer of risk. It's gambling on estimated milk price and feed price inputs.*

For every dollar they spend they want to make a margin return on it.

NZ Milk Price Futures & Options

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They budgeted conservatively for their costs to be $1.74/kg MS, but they're looking more likely to be about $1.60/kg MS. They would have been another 10 cents down if they hadn't had such a wet winter and spring. The farm has had 45% more rain half way through the season than their total average annual rainfall and consequently milk production went down and animal health costs rose.

Now the milk price is improving they are not trying to capture extra production by adding more costs to their system, Laura says.

They are focused on their profit margin rather than total production and cash income.

"It is tempting to chase production, but it's not how we want to do our business. You're adding another layer of risk. It's gambling on estimated milk price and feed price inputs."

There is also a lifestyle cost involved from buying in extra feed into a system because more labour is required, she says.

"Part of the joy of farming is the lifestyle. Why spend all that time working not to earn more money, or only marginally more, especially if you value your time and consider opportunity cost?"

Zach has always had a strong passion for dairy farming, spending as much time on his family farm at Otorohanga as he could growing up, throughout university and once he started his professional career.

"I ate, breathed and slept farming."

At 21 while he was a third-year student at Waikato University he bought into the 108ha conversion farm at Te Kuiti, where he is now sharemilking, with his parents.

Although his goal has always been farm ownership, when it came to tertiary education he wanted to give himself broader opportunities outside the dairy industry.

"I wanted to add a set of skills to my current aptitude, something that was not farming but would compliment farming. I didn't want to limit my options, I wanted to be able to jump into any industry."

He studied a Bachelor of Management Studies in Finance and Strategy and, as it happened, his degree took him straight into the dairy industry regardless.

He started working at Fonterra three days after his last exam in a short-term role as a TAF specialist to support farmers adapt to the Trading Amongst Farmers scheme, in which his farming background and financial knowledge was a good fit.

He later moved to Fonterra's shares and payments division and was part of the team that managed the $15-billion fund that is ultimately paid out to farmers. The role included share forecasting and the liquidity needed for the co-operative shares, being responsible for monthly dividend payments and the capacity adjustment, and designing and implementing share contracts for farmers.

To go from a small Waikato farm to the corporate office in Auckland and be responsible for such a large fund and transferring billions of dollars at a time was daunting.

"I've never sat at a computer shaking so much, looking at the numbers you were responsible for was a bit nerve racking at times."

While working in Auckland he met Laura, who is off a Hawke's Bay drystock farm.

"I somehow managed to find the only girl in Auckland who knew how to milk cows. She'd reared calves and done a lot of relief milking."

Laura is now in her last year studying for a Bachelor of Business Studies in Accounting and Finance. She did a summer internship with Fonterra and was offered an entry-level role as an accountant last year so she is working fulltime while finishing her degree and helping to manage the farm, milking most weekends.

She was the real driving force for him to take the plunge into farming now, Zach says.

Working and living in the big city was always going to be a short-term step for Zach as the life onfarm was where he wanted to be.

"I prefer the wide-open spaces of the King Country and the Waikato. I lived for two years in Auckland and spent one weekend there – so that gives you an insight to where my commitment was to the farm."

A move to DairyNZ offices in Hamilton to work as an economist helped him move back to greener pastures.

His role at DairyNZ was providing economic insight on New Zealand dairy farming, doing analysis on profitability, sustainability and competiveness of NZ farmers, including NZ's international competiveness.

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He was also looking at farmers' debt levels, which in the dairy downturn was significant data to showcase the impact of the low milk price on regions across NZ.

He studied top performing farms and analysed their onfarm economics, including debt levels and costs.

He still does contract work for DairyNZ in that space. The work is beneficial for him to keep his finger on the pulse in economics while the work also relates back to his own business.

"It just so happens to be work I can apply back to my own business. I'm forever looking at the way we are running our business because I'm doing so much work on identifying profit drivers."

Subsequently he is constantly writing budgets, analysing profit drivers in the business and adjusting their margins throughout the season.

"I think the big one is people need to understand how the different parts of the business work together or are correlated."

The wet winter and spring this year put their target production back and ultimately Zach had to adjust his spending.

"We were aiming to do 100,000kg MS this year, plus, but production has fallen back 8-9% this season and if we had just left our costs stand-alone without going back and adjusting them, we would have close to 30 cents more cost, per kilo.

"The challenge is holding capacity as much as we can while keeping a close eye on operating expenses and really understanding the drivers of our business.

"For every 1000kg MS production drops we need to adjust working costs per kilo to ensure we keep performing profitably when benchmarked against performing budgets."

It's important for farmers to go back to the drawing board and they have to realise to remain efficient, something has to go sometimes, he says.

Farming can be an emotional business, but you have to apply those economic lenses to make it perform.

There are always costs that are unavoidable onfarm, but there are usually some costs that can be taken out of the business, deferred or looked at more closely in terms of the performing margin.

One of the biggest risks to farmers keeping a tight budget is not understanding the impact of buying in supplements, Zach believes.

While he knows any system can be profitable, because farmers don't know that marginal benefit at the time of buying supplements (due to the milk price only being an early estimate in most cases in spring) they are adding another layer of risk to their business, he says.

He uses palm kernel as a buffer if they have any adverse weather conditions and a feed shortage, but ultimately it's a simple, grass-focused resilient system. Some of the most profitable farms are those simple systems that are not achieving 400kg plus MS/cow or 1000kg plus MS/ha, he says.

"From what I've seen looking at some of the top dairy farms in NZ, the best farms for profitability, often have more moderate production."

Key Facts:

Sharemilkers: Zach Mounsey and Laura Campbell

Location: Te Kuiti

Area: 108ha milking platform

Cows: 289 Jerseys

Target production: 100,000kg MS

Farm Dairy: 32-aside herringbone, ACRs, in-dairy feeding

Farm working expenses (sharemilking): $1.50/kg MS

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