Corporate Plan 2010-2013

March 2010

DairyCo

Introduction

With this plan DairyCo continues the thrust to increase the focus on business management and competitiveness through increased focus on Knowledge Transfer (KT) and Research and Development (R&D). This approach, begun two years ago, is now starting to bear fruit.

As identified in the overall AHDB PESTLE analysis of the environment facing the agricultural sector there are several key strategic themes:

- Reducing Greenhouse Gas emissions per kg of food
- Increasing sustainable productivity to meet the food security challenge
- Improving industry competitiveness
- Promoting a healthy balanced diet
- Developing industry skills.

The plan on the following pages sets out how the dairy sector needs to tackle these issues in England, Wales and Scotland.

It remains the firm intention of the DairyCo Board that while DairyCo continues to provide important services helping tackle these issues, it will also do its utmost to encourage the industry to ultimately take over the provision of these services – either on a commercial or voluntary basis.

DairyCo's non-executive board of 12 includes eight dairy farmers located across Scotland, England and Wales, who all operate very different production systems. As well as this high representation of farmers – which is appropriate considering the levy is only raised from dairy farmers – there are two independents on the board, plus one dairy processor, and the chairman. This board is responsible for devising the strategy and monitoring implementation.

The responsibility for overseeing the implementation of the strategy rests with the AHDB's Senior Executive Team, with the daily devising and implementation of projects and the communication of results to producers managed by a professional DairyCo team based in Stoneleigh, as well as field staff situated around the country.

An overview of the British dairy sector and market place

After many years of GB milk production in the region of 12 billion litres, the last four years has seen a sharp decline, dropping to a 40 year low in the 2008/09 milk year to less than 11 billion litres. GB milk production may stabilise slightly this year due to better weather, but current expectations from the DairyCo Intentions Survey are that production will continue on a downward trend in future years.

Farmer numbers have continued to fall steadily to 13,600 in 2008 compared to 26,600 in 1998.

Until a few years ago, despite farmer and cow numbers falling, milk production was maintained because cow yields increased to compensate for fewer cows, and the remaining farmers expanded fast enough to replace the farmers who left the industry.

However, lower farmer confidence in the long term future of dairying from those remaining in the industry has led to lower investment/expansion and milk production is now falling as those leaving are not being replaced fast enough by those farmers expanding. However, if confidence returns the milk production base could begin to grow again.

This fall in supply is coinciding with increased demand from consumers with sales of liquid milk increasing by 5.4% since 2005 to over 5 billion litres, and cheese sales also growing. In addition, sales of added value and branded products have increased significantly with sales of branded milk increasing from 5% to 10% of the market between 2005 and 2008, and sales of branded cheese increasing from 29% to 38% over the same period.

This increased demand and falling domestic supply has led to increasing net imports - now seeing continuous net imports of dairy products by volume for the first time in over 30 years.

Although production is falling, the professionalism and efficiency of both the farming and processing sectors of the industry has improved in recent years. Investment has occurred both on farms and in processing factories (particularly the liquid sector), but more investment is needed for the industry to achieve the optimum levels of competitiveness.

Efficiency on farm has increased over the past ten years with average milk yield increasing by 20% to 6,945 in 2008 according to Defra data. Average herd size has also increased over the past ten years by 35 to an average of 114 in 2008.

Milk prices have been volatile over the past two years with historic highs and, since 2009, significant price cuts. Although this meant better margins on farm in 2007/8, falling prices are now leading to lower confidence.

60% of the milk produced in GB is purchased by just five milk buyers, with 53% of the raw milk produced in the UK processed into liquid milk and 29% processed into cheese.

An assessment of Britain’s dairy farming sector

<table>
<tr><th>Strengths</th><th>Weaknesses</th></tr>
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Cool and damp climate leading to good grass growth
Large herd size (by EU standards)
Resilient family farming sector
High levels of production efficiency on some units and processors undertaking investment in new plant
A wide range of market opportunities for some farmers
Heritage of fresh milk consumption – domestic demand for dairy is still good
Supply chain relationships among most highly developed in the world
Industry structure more developed than many EU counterparts

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Variable production performance on farm
Poor quality training opportunities for the development of business skills
Lack of opportunities for expansion/new entrants
Variable quality of support
Recruitment and retention of quality staff
Weak supply chain relationships
Lack of world class processing in some markets
Poor export market
Fluctuating prices for milk - volatility

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Opportunities	Threats
- Dedicated supply chains - Global growth in dairy consumption/demand - New and innovative products - New routes to market - Industry consolidation - Improved business performance - Low milk supply	- Economic slowdown affecting consumer purchasing power and commodity prices - Increasing input costs - Environmental legislation - Regulatory burden - Climate change - Animal welfare and environment perceptions - Conflict within supply chains - Reduction in Government support - Pressure on land use - Increasing global competition - Nutritional concerns - Risk of infections and disease eg, TB, Bluetongue - Lack of throughput in processing plants - Volatility

As identified in the AHDB PESTLE analysis there are some key strategic issues/themes for all agricultural sectors. Particular issues within the AHDB PESTLE which are key drivers in the dairy sector are Climate Change, Supply Chain development, Global trade leading to increasing volatility and competition, and diet and nutrition. By looking at the SWOT analysis, the strategic themes which come out of the AHDB PESTLE and by examining what the dairy sector is doing well on its own we can identify what the priorities for DairyCo are.

Strategic Theme 1: Reducing Greenhouse Gas (GHG) emissions per kg of food

- **Dairy Sector Priorities**
  - Ensure the Dairy Roadmap targets are achieved
  - Ensure the necessary information relating to GHG emissions from dairy farming is available to farmers and policy makers through research and Knowledge Transfer

Strategic Theme 2: Increasing sustainable productivity to meet the food security challenge

- **Dairy Sector priorities**
  - Creation of an industry-supported research strategy to help develop productivity
  - Ensure industry drives research priorities through the DairyCo Research Advisory Forum
  - Ensure appropriate technical information is available through our Knowledge Transfer services and farming information centre to facilitate increased production
  - Undertake genetic evaluations to maximise sustainable productivity

Strategic Theme 3: Improving industry competitiveness

- **Dairy Sector priorities**
  - Understanding of future demand in order for confidence to invest to exist – provide market intelligence
  - Ensuring the technical information required by dairy farmers is available when they want it, in the format they want it, through our Knowledge Transfer services and farming information centre
  - Support improving on farm efficiency through benchmarking – MilkBench+
  - Managing volatility
  - Undertaking genetic evaluations to maximise competitiveness through breeding the best cows.

Strategic Theme 4: Promoting a healthy balanced diet

- **Dairy Sector priorities**
  - Ensure industry has sufficient information to both reactively and proactively communicate with consumers about dairy farming
  - The dairy supply chain is already addressing this in relation to promoting the place of dairy products in the diet, so no market failure exists and DairyCo will leave this to the dairy supply chain.

Strategic Theme 5: Developing industry skills

- **Dairy Sector priorities**
  - Reducing variation in technical and business skills through Knowledge Transfer.

We set out on page 32 how DairyCo will address these challenges throughout England, Wales and Scotland.

DairyCo's purpose

DairyCo exists to: *promote world class knowledge to British dairy farmers so they can profit from a sustainable future*

DairyCo's successful delivery of this will be demonstrated by: *world-beating dairy farmers thriving in a vibrant industry – without levy support*

DairyCo's role in the Dairy Sector

In supporting the industry in tackling the priorities identified above DairyCo must work effectively with public and commercial industry partners (farmers, processors, retailers, governments in England, Wales and Scotland and their agencies) to ensure levy funds are only used in the unique, unaddressed (ie, market failure) areas that can generate the greatest benefit for dairy farmers.

For example, DairyCo has a significant role to play in some of these areas, such as on farm competitiveness, which are currently not well developed in the industry.

However, it is clear that tackling the key issues facing the industry described previously is not DairyCo's sole responsibility. We expect that over the course of this business plan we will see more and more activities currently funded by the levy, being funded by other sources, or activities delivered by others in the supply chain.

The existing levy rate will be monitored carefully to ensure that only enough income is generated from the levy to tackle the priority areas of market failure.

For the 2010/11 year, it is proposed that levy rates will be maintained at 0.06ppl.

Tackling/addressing market failure

During the past year we have tackled market failure, with The Dairy Council, which provides promotion of the nutritional benefits of milk and dairy, now solely being funded by the industry. We are also now seeing the industry taking on the responsibility for this area through industry-funded consumer campaigns promoting milk and dairy products.

We have investigated, and will continue to investigate, all opportunities to tackle market failure. During the past year we have investigated one and concluded (based on industry views and the practicalities) that it was not possible to pass the activity to the industry. We are currently (October 2009) investigating another activity and are hopeful we will make an announcement early in the 2010/11 year.

We will continue to look for opportunities to support the industry in taking on activities we currently carry out with the statutory levy.

DairyCo in England, Scotland and Wales

DairyCo is aware that the needs of dairy farmers in the different countries of Great Britain do vary sometimes and DairyCo seeks to operate in the most appropriate manner in those countries. We work with the devolved administrations to identify the best way of operating in the different countries in GB.

Our core service is generally relevant to all countries (e.g. Market Intelligence – EU commodity prices), but is tailored to suit any individual needs (e.g. Welsh specific Market Intelligence pages in some areas). The main area of difference is in the delivery of on the ground services to dairy farmers.

During the past year we have entered into a ground breaking agreement with the Welsh Assembly Government (WAG) regarding the delivery of our services in Wales. This will mean that our on-the-ground KT activities will be combined with the WAG Farming Connect Dairy Development Programme activities to provide one set of co-ordinated activities in Wales. By combining our resources we will be able to deliver more for Welsh dairy farmers.

We have recently entered into discussions with Scottish stakeholders and the Scottish Government about how we should develop our services to dairy farmers in Scotland including our work on reducing greenhouse gas emissions, and whether the agreement we have made in Wales may also be applicable for Scotland. This may or may not be the case, but should be determined during this plan.

Over time we will also look at closer working with the regions of England via the RDA’s.

Key achievements year to date

At the time of writing this plan (October 2009), we are six months in to the 2009/10 business year and have already made great progress towards this year’s targets.

Highlights include:

> *In 2009/10, the market intelligence service will continue to develop to provide both the depth of information necessary to fully understand dairy markets, and to continue to develop farmer-facing economic benchmarking services.*

The department has successfully published several documents, including two innovative new reports, *Factors affecting milk supply* and *Ensuring a sustainable supply chain* with another new report examining milk buyers' strategy and performance due in the coming months. Usage of the service continues to grow.

The team has continued to improve the quality and scope of the analysis and output produced and will continue to be strengthened throughout the remainder of the year.

In 2009/10 we will continue our work with AHDB, Defra, devolved administrations and others both nationally and internationally to provide farmers with simple, cost effective ways of reducing their impact on the climate, working within the Dairy Supply Chain Forum Roadmap framework.

DairyCo R&D provides support to the Environmental Plan for Dairy Farming (EPDF) group which collectively provides the measures against the targets set out in the Milk Roadmap. These measures helped to produce the *Milk Roadmap: One year down the road* document in August 2009 which detailed the positive efforts and improvements already being made by British dairy farmers to reduce the impact of dairy farming on the environment. Tim Bennett, DairyCo Chairman, now chairs the roadmap group.

The R&D team has continued to improve the level, quality and scope of climate change work undertaken, to help to improve farm efficiency while continuing to reduce environmental impact with several factsheets available in the autumn of 2009, and working to co-ordinate the industry's approach to measurement.

- ***feeding+ -*** *Continuation of the farm-level* ***feeding+*** *campaign to improve feed efficiency will be prioritised – the difference between the top 10% of farm businesses in efficiency of feed use and the average is 0.9ppl.*
- ***DairyCo Mastitis plan –*** *A targeted mastitis reduction plan to be implemented over a three year period, starting early 2009. This initiative will deliver benefits on three levels: improve longer term business profitability; increase levels of animal health and welfare and also deliver a positive message to consumers.*

The DairyCo Mastitis Control Plan was launched in April and response from vets and consultants to the offer of training in the implementation of the plan has been very pleasing. We had targeted to train 50 vets/consultants as planned users and to have 150 farmers on the plan by end March 2010. Currently, we have over 100 plan users trained with 200 farmers on the plan and more coming on board all the time.

The ***feeding+*** campaign has now seen 500 farmers attending events throughout the country with over 1800 ***feeding+*** farm improvement folders distributed. In preparation for evaluating the project at the end of a two year period, we have baseline Feed Conversion Efficiency (FCE) figures from over 80 farms.

So far in 2009/10 ***breeding+*** has successfully introduced national calving ease evaluations for the Holstein breed and has made significant advances in Across-breed evaluations, which for the first time allows farmers to compare bulls from different breeds, to maximise the efficiency of their breeding programmes.

In 2009/10 DairyCo *will focus on maintaining effective communication with dairy farmers to increase uptake of products and services and awareness of the role of DairyCo.*

The annual survey carried out in January 2009 showed 66% of farmers recognising the DairyCo name and its activities. Concerted communications activity remains in place to increase this figure with press mentions for 2009/10 outstripping the previous year by 61%.

In 2009/2010 DairyCo will build a resource of information for the industry and consumers on the impact of dairy farming on the environment and how dairy farmers manage animal welfare. In addition, we will undertake identified Image Management activities eg, promoting milk in schools.

The knowledge base for the central resource of information is well underway with regular input and co-operation from industry. The first issue statements are now ready and we have worked with the industry on dealing with issues that have arisen in the media over the past 8 months.

DairyCo strategies 2010/11

Using the criteria of market failure and industry need (as generated by the PESTLE/SWOT) we need to continue to support the industry in developing its capacity to deal with the following themes:

- Strategic Theme 1: Reducing greenhouse gas emissions per kg of food
- Strategic Theme 2: Increasing sustainable productivity to meet the food security challenge
- Strategic Theme 3: Improving industry competitiveness
- Strategic Theme 4: Promoting a healthy balanced diet
- Strategic Theme 5: Developing industry skills

Examining what the industry is and is not already doing well, we are left with the following activities for DairyCo:

Objective 1: Ensure farmers have access to world class information needed to improve competitiveness, GHG reduction and productivity (Strategic themes 1,2,3,4,5)

We will collect world class information and provide via a “hub”. This will cover market intelligence, dairy farming information, and information for consumers. The “hub” will be our website, which will be developed into a repository of world class information, available in different formats for different customers.

Information and understanding are important for productive relationships and we will provide a world-class market intelligence service – Datum – which will be insightful, independent and impartial – yet challenging. This means farmers and their representatives will have access to unbiased, high-quality information to assist them in business planning and improving relationships. This will also help guide industry policy and future DairyCo strategy.

The farming information centre on the website will be developed into a one stop shop of dairy farming technical information over the lifetime of this plan to include links to third party information, and academic research papers from around the world. This will be done on a priority basis. Where gaps in technical farming information are identified in our five year R&D & KT strategies, work will be commissioned and the results published on our website and through other mediums. The farming information centre will also link to consumer-focused information on dairy farming to ensure the image of dairy farming is portrayed fairly and accurately. We will also ensure that schools and education programs are delivered to ensure our consumers of the future are fully informed about dairy.

- ***In 2010/11,*** *the market intelligence service will continue to develop to provide the depth of information necessary to fully understand dairy markets. It will contribute to the debate on possible methods of managing volatility and milk buyer performance. (Strategic themes 1,2,3,5).*
- ***In 2010/11*** *we will focus on developing the farming information centre to provide world class technical information to dairy farmers, the DairyCo KT team and for Image Management. Particular areas of focus in 2010/11 include the development and implementation of a strategic research plan which will have industry support and be supported in its development by the DairyCo Research Advisory Forum (Strategic themes 1,2,3,5).*
- ***In addition*** *we will provide a consumer-facing website about dairy farming. (Strategic themes 4)*

Objective 2: Ensure farmers have access to direct and indirect support to help them improve their profitability through better business management (Strategic themes 1,2,3,5)

DairyCo will provide Knowledge Transfer services, through a team of 16 extension officers based around the country. They will deliver practical support to help farmers develop their businesses through open meetings, discussion groups and other services. DairyCo's aspiration is to engage with even more farmers. In addition, we will provide tools and information to farmers via third parties. A good example of this is our mobility scoring tools being used by farmers supplying Tesco as part of its supply chain partnership.

In 2010/11 we will focus on the following KT projects:

- ***Mobility Scoring –*** *Implementing the DairyCo mobility scoring system on more farms and helping to reduce the incidence of lameness in their herds. (Strategic themes* 1,2,3,5*)*
- ***Business Skills –*** *DairyCo will support the development of farmers' business and technical capability through discussion groups, open meetings, etc supported by other tools and services. The difference in costs between the top 10% and the average cost of production is in excess of 5ppl - better business management and benchmarking will allow farmers to identify and tackle areas where they can improve business performance. If an extension officer assists two discussion groups of 10 farmers implement best practice and improve profitability by 0.5ppl during the year, this would more than cover the costs of that extension officer. (Strategic themes 1,2,3,5)*
- ***DairyCo Mastitis Control Plan –*** *A targeted mastitis reduction plan to be implemented over a three year period, will continue. This initiative will deliver benefits on three levels: improve longer term business profitability; increase levels of animal health and welfare and also deliver a positive message to consumers. Based on working with 750 farms over three years, savings on clinical mastitis costs to dairy farmers is estimated to be over £2.7million. (Strategic themes 1,2,3)*
- ***MilkBench+ -*** We will work with over 350 dairy farmers in 2010/11 to support them in benchmarking their businesses through our MilkBench+ system in order to improve profitability. It is our intention to collect data proportionately through GB. In addition, we will provide a report analysing the key performance indicators to optimise efficiency on different farming systems. Targets for future years will increase after first year rollout of the new team, to 500 in year two. (Strategic themes 1,2,3,5)

Objective 3: Ensure that dairy farming is reducing its impact on the environment (Strategic theme 1)

Further reducing the environmental impact of dairy farms and ensuring regulation is realistic, while maintaining profitability, is crucial for the sustainability of the British dairy industry. In particular, reducing GHG emissions per litre of milk produced is of paramount importance to the dairy industry. This will enable DairyCo and others to promote the positive efforts being made across the industry to decrease the environmental impact of dairy farming.

The industry developed the Milk Roadmap in May 2008 which details targets that the industry needs to meet by the reporting years of 2010, 2015 and 2020. DairyCo will, in collaboration with partners (including other sectors of AHDB), undertake research to ensure farmers can improve sustainability which will help to further reduce environmental impact. At the same time, this will improve farm profitability and ensure that the industry is able to meet the targets laid out in the Milk Roadmap.

- ***In 2010/11*** *we will continue our work with AHDB, Defra, devolved administrations, Dairy UK, farming unions and others both nationally and internationally to provide farmers with simple, cost effective ways of reducing their impact on the climate working within the Dairy Supply Chain Forum Milk Roadmap framework in England, and the similar initiatives currently being set up in Scotland and Wales. We will also be working across AHDB on the issue of GHG emissions and mitigation to enhance our activities and avoid duplication. (Strategic theme 1)*
- ***Climate change R&D*** *– This programme will continue the fact finding work already in progress and will provide practical information to help farmers manage the challenges of climate change and reduce the impact of milk production on climate change as cost effectively as possible (again we will link with other AHDB sectors where possible). (Strategic theme 1)*

Objective 4: Ensure farmers understand the benefits of breeding and use the related tools. (Strategic themes 1,2,3,5)

Breeding has a considerable impact on profitability, as demonstrated by the fact that 80% of the increase in milk yield over the past 20 years can be attributed to improved breeding – giving a total annual economic benefit of well over £10m per year on all traits evaluated. Although the benefits cannot be seen quickly, breeding has a huge impact over time. However, not all farmers use it to its maximum potential so we need to encourage its use.

During 2010/11 the ***breeding+*** genetic evaluations service will continue to be developed to help farmers maximise their business potential through breeding. In particular we will continue to develop indices with new technologies such as genomic evaluations, and with more traits such as mastitis resistance. We will review the national breeding objectives, and as part of this will also investigate the impact of breeding on GHG emissions. Additional efforts will be focused on increasing the transfer of knowledge about genetics to more farmers. (Strategic themes 1,2,3,5)

Strategy	Key Outcome	Targets	Key Risks	Key Controls
DairyCo Objective 1: Ensure farmers have access to world class information needed to improve competitiveness, GHG reduction and productivity				
Provision of a world-class market information service	Farmers have access to unbiased, high-quality information that assists in business planning and supply chain relationships	Quantitative: Monthly target of website hits 70,000 and subscribers to fortnightly Dairy Market Update 4,000	Availability of skilled staff. Perceived or actual bias. Depth of analysis. Depth of challenge. Not able to obtain sufficient economic data	Appropriate retention, and training procedures. Sign off procedures. Staff and time to undertake work. Constant review and contingency plans for data collection
Provision and uptake of world class technical information with more and more farmers using it	Farmers increasingly using world class technical farming information via our website and staff so that they maximise their competitiveness, productivity and minimise GHG emissions per litre	The usage of our website increases to 1,600,000 page visits during the year. We have 77,000 downloads, uses or requests for our tools, publications and materials. How would you rate the performance of DairyCo on a 1-5 scale = target 3.7/5	Lack of suitable researchers to undertake the projects. Farmers not open to change existing practices. Lack of farmer awareness of information availability. Lack of marketing of services. Lack of training for staff. Lack of quality control	Ensure outcomes of research activity are delivered in a manner that will give farmers the confidence to change. Ensure research is fully integrated with Knowledge Transfer networks. Sufficient resources allocated to communicate to levy payers. On time and on message communications to levy payers. Management control. Feedback on services from levy payers to ensure quality at right level
Protect and promote the image of dairy farming	Provision of high quality information to consumers which helps create a positive environment towards dairy farming in which the industry can thrive	We have increasing usage of our consumer websites (launch Mar 2010), leading to positive consumer attitudes towards dairy farming	Lack of awareness of emerging issues. Insufficient scientific knowledge. Lack of industry co-operation. Lack of accessibility to target audiences	Close media monitoring and regular tracking of critical issues. Retain high level of scientific awareness. Close communication and liaison with industry. Close co-ordination with lobbyists
Resource requirement: £2,206k				

Strategy	Key Outcome	Targets	Key Risks	Key Controls
Objective 2: Ensure farmers have access to direct and indirect support to help them improve their profitability through better business management				
Improve business and technical dairy farming skills through direct and indirect work with farmers	Farmers actively planning and taking control of their farm business and their future to optimise productivity and competitiveness by implementing best practice and new research	Moving to measuring overall effect of activities on profitability of farms. Plan to work directly with dairy farmers on 8,000 occasions to support the profitability of their businesses. This will be based on achieving the targets for the individual knowledge transfer activities. Some of these are: 350 farmers on MilkBench+, 120 Discussion Groups, 400 farmers on DairyCo Mastitis Plan	Poor quality training and management of staff. Poor tools and systems for use with farmers. Resistance from farmers due to inertia	Communication of importance of cost control. Delivery of proof that planning works for a more secure future. Rigorous training and performance management system. Suitable retention and progression in place for staff. Peer review of tools and systems. Using case studies and industry champions
Resource requirement: £2,447k				
Objective 3: Ensure that dairy farming is reducing its impact on the environment				
Support achieving the targets in the Milk Roadmap for reducing GHG emissions	Reduction in the amount of climate changing emissions produced per litre of milk through achieving roadmap targets and provision of appropriate information	The industry is on track to achieve the highest priority targets in the Milk Roadmap –(currently encouraging 65% of dairy farmers to nutrient plan, improving water and energy use efficiency by 5-15%, and utilisation of new technologies to reduce environmental impact.)	Not having the necessary research to inform priorities and policy. Many different on farm climate change models cause confusion. Farmers not interested in tackling challenges	Use of robust, globally-accepted analysis and review strategies. Try to achieve industry consensus on approach to use. Use case studies and champions in industry to promote benefits
Resource requirement: £145k (Please note that much of the spend in other areas contributes to tackling this area)				
Objective 4: Ensure farmers understand the benefits of breeding and use the related tools				
Ensure farmers understand the benefits of breeding and use the related tools	Farmers make informed breeding decisions that lead to the best cows for maximising their profitability	Three genetic evaluation runs produced. The average PLI of semen used increases over the year by 8 points from the new base (set in January 2010). We develop our evaluation systems to include more key traits	Failure to recognise the benefits of genetic services by some farmers. Failure to deliver timely and accurate genetic evaluations	Careful use of targeted communication to tailor messages appropriately. Monitoring contractor's delivery
Resource requirement: £855k				