



Three-Year Business Plan

2009/10 – 2011/12

March 2009

Contents

Introduction.....	3
An assessment of Britain's dairy farming sector.....	6
DairyCo's role in the dairy sector.....	7
Tackling/addressing market failure.....	7
DairyCo's objectives and delivery strategies - 2009/10.....	11
Strategic priorities 2009-10.....	14
Projected budget for 2009-12.....	16

Introduction

DairyCo, the dairy sector company created under the Agricultural and Horticultural Development Board (AHDB) is entering its second year when, along with progressing the strategies included in this plan, the organisation will be relocating its head office to Stoneleigh Park in Warwickshire.

Implementation of DairyCo's first year's plan saw a significant change in direction:

- **Increased investment in market intelligence** to really get the supply chain working effectively
- **Maintained investment in R&D** ensuring there is a 'pipeline' of technology for the future
- **Increased investment in communicating R&D, which we're calling Knowledge Transfer**, so farmers get usable and useful information that really makes a difference to their business
- **Focus on Image & Issues Management** - instead of trying to grow the demand for milk and dairy products, we are working towards a positive marketplace in which the dairies and co-operatives can develop new products and increase demand for dairy
- **A focus on securing non-levy funds** to reduce the need to collect levy in the future.

This document has been based on a review of these strategies to ascertain what, if any, changes are needed to tackle the issues of market failure in the British dairy industry.

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

The big challenge during the 2009/10 year will be the continued implementation of the new DairyCo strategy while managing the transition of staff and activities from Cirencester to Stoneleigh.

DairyCo management

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, one dairy processor, and the chairman Tim Bennett.

The daily running of the organisation, including the devising and implementation of projects and communication of results to producers, is managed by a professional executive team based in Cirencester, as well as field staff situated around the country.

DairyCo's purpose and values

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'

For DairyCo staff to succeed in delivering these agreed strategies, they will be actively encouraged to embrace the following values:

- **Professional**
Finishing each task to the highest standard
- **Ethical**
Always remembering who we work for and what we stand for
- **Ambitious**
Daring to think that bit bigger
- **Irreverent**
Challenging the status quo

A summary of the British dairy sector – October 2008

- After many years with GB milk production in the region of 12 billion litres, the last three years has seen a sharp decline to 11.3 billion litres in 2007/8 milk year. This is due to both short term weather effects and the longer term effect of declining cow numbers due to the low levels of profitability and reinvestment seen in the sector in recent years.
- The number of British dairy farmers has almost halved in ten years to 14,300 in 2007 from 28,100 in 1997.
- Efficiency on farm has increased over the past ten years with average milk yield increasing by almost 20% to 6,908 in 2007. Average herd size has also increased over the past ten years by 38 to an average of 112 in 2007.
- In the past 12 months farmgate price has increased dramatically, with year on year comparisons showing 7ppl (42%) increases as a result of the buoyant global commodity market situation. However, input costs have increased dramatically with feed costs (comprising around 25% of production costs on average) increasing by over 50% in the past year.
- However, commodity markets have weakened during the weeks of writing this plan (October 2008), and there is likely to be pressure on farmgate milk prices next year.
- As a result of farmgate price increases and a number of farmers buying forward their major inputs, Farm Business Income for dairy farms in England and Wales for 2007/08 increased by 51% and 30% respectively.
- Due to low margins over a number of years and the resulting lack of confidence, investment on dairy farms has been low. In the past five years the majority of British dairy farmers have invested less than £50,000 in their dairy units. Although farmgate prices have increased, only 50% of British dairy farmers intend to invest over £25,000 in the next five years – demonstrating the continued fragility of the industry.
- 75% of the milk produced in the UK is bought by just six milk buyers.
- 50% of the raw milk produced in the UK is processed into liquid milk.
- 31% of the raw milk produced in the UK is processed into cheese.
- Consumer demand for liquid milk and cheese is increasing (1.4% and 1.1% respectively in year to July 08). Functional products such as filtered milk are experiencing the strongest growth (16.4% in year to July 08) and, in the liquid milk market, consumers continue to switch from whole milk to lower fat alternatives with semi skimmed and skimmed milk now accounting for 76% (July 2008) of the liquid milk market.
- The UK remains a net importer of dairy products with a trade deficit in 2007 of £881m.

An assessment of Britain's dairy farming sector

<p>Strengths</p> <ul style="list-style-type: none"> • Cool and damp climate • Large herd size (by EU standards) • Resilient family farming sector • High levels of production efficiency on some units • A wide range of market opportunities for farmers • Heritage of fresh milk consumption 	<p>Opportunities</p> <ul style="list-style-type: none"> • Dedicated supply chains • Global growth in dairy consumption • New and innovative products • New routes to market • Industry consolidation • Improved business performance • Low milk supply
<p>Weaknesses</p> <ul style="list-style-type: none"> • Variable production performance • 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 • Supply chain relationships • Poor export market • Fluctuating prices for milk 	<p>Threats</p> <ul style="list-style-type: none"> • 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

During the past year, increasing oil prices, other input costs and concerns over global food supply have been increasingly important factors in the dairy market.

A weakening global economy reducing demand, increased global milk production and higher stock levels have been exerting downward pressure on dairy commodity prices. Should this impact on farmgate prices in the following year, DairyCo's strategies remain relevant, and indeed, more important than ever to levy payers who could face increased volatility in the sector.

Using the criteria of market failure and industry need we need to continue to focus on the following areas:

- **Market Intelligence**
- **Business Management**
- **Issues and Image Management**

As indicated in the introduction to the document, another big challenge during the 2009/10 year will be the continued implementation of the new DairyCo strategy while managing the transition of staff and activities from Cirencester to Stoneleigh.

DairyCo's role in the dairy sector

DairyCo must work effectively with public and commercial industry partners (farmers, processors, retailers, government and its 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 helping improve the key areas of business management, issues management and market intelligence 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 example, there will be savings made after the transition to Stoneleigh by the centralisation of some services and we will be working towards cutting the levy.

This strategy will be monitored in light of predicted falls in milk production and further analysis of market failure in the industry.

For the 2009/10 year, it is proposed that levy rates will be maintained at 0.06ppl.

Tackling/addressing market failure

If DairyCo is to realise its long term vision, it will need to continue to remedy 'market failure' – ie, tackle issues not currently being addressed or being addressed insufficiently to meet the needs of the industry – by encouraging the provision of key services by others on a commercial or voluntary basis.

The practicalities of achieving this are that we will need to see the following changes, implemented on a phased basis:

- Increased funding of activities from alternative sources.
- Increased uptake of commercial advisory and training services among farmers.
- Activities once undertaken using the levy being undertaken by others in the supply chain.

DairyCo's continuing work in this area includes:

In Issues Management:

Activity surrounding the promotion of the nutritional benefits of milk and dairy was previously funded by both levy and industry contribution. We are now seeing the industry taking on the responsibility for this area. This releases levy funds to tackle

issues management around animal health and welfare and the environment – both of which are increasingly on the consumer agenda.

In Knowledge Transfer

We are encouraging our partners to take on more responsibility for the management of discussion groups with DairyCo involvement moving to more technical/expert input. This releases levy funds to expand the vital KT network and create more Discussion Groups and extension activity. As partnerships develop, we are unlikely to need to provide as much funding to KT as we currently do.

In Research and Development

Working with our colleagues in AHDB and Defra – via its LINK projects – we can increase the funding available for dairy specific R&D. We will also be developing closer links with commercial companies and others in the supply chain.

In Market Intelligence

Other sectors in AHDB are already undertaking commercial market intelligence activity within the industry. Moving to a central Market Intelligence service will help develop ways of generating non levy income for dairy-specific market intelligence.

DairyCo Business Plan 2008/09 – year to date

At the time of writing this plan (October 2008), we are six months in to the 2008/9 business year and have already made great progress towards this year's targets.

Highlights include:

In 2008/9, the market information service will be extended to both provide the depth of information necessary to fully understand dairy markets, and to continue to develop farmer-facing economic benchmarking services.

The department has now strengthened its team and has successfully published several documents including Dairy Supply Chain Margins. The Milkbench+ service is now operational – GB's fully independent, confidential and impartial online dairy benchmarking service. The team has improved the quality of its ongoing output and is now working on new and innovative analysis to help the supply chain operate more efficiently in the future.

In 2008/9 we will work with AHDB, Defra, devolved administrations and others both nationally and internationally to provide an accurate assessment about the possible climate-changing impact of milk production and how to mitigate it sustainably.

Two climate change projects are now underway, and we are discussing with the industry the potential of agreeing one model to be used on dairy farms to evaluate their emissions of Green House Gases. This will allow more meaningful and accurate comparisons and set the base for tackling emissions on farm.

Also within Business Management:

*In 2008/9 DairyCo will focus on **Feeding** – a farm-level campaign to improve feed efficiency will be prioritised because the difference between the top 10% of farm businesses in efficiency of feed use and the average is 0.9ppl.*

***Business Skills** – DairyCo will support the development of farmers' business capability through discussion groups and other tools and services.*

In September 2008 we launched **feeding+**, designed and written by four highly respected specialists for DairyCo. In addition to a folder of information, the comprehensive programme will be supported and delivered by a year long nationwide campaign of farmer meetings led by the DairyCo extension team. These launch meetings have begun well, and farmers signing up will be measuring the change in their feed usage.

DairyCo Discussion Groups continue to flourish – 98% of participants questioned state they are a good use of their time, and more than 90% are changing what they are doing on farm as a result of their involvement in a DairyCo Discussion Group.

In 2008/9 DairyCo will focus on making the transition from MDC to DairyCo as smooth and efficient as possible.

In 2008 we have successfully launched the DairyCo brand, receiving positive responses from both the staff and industry. We will continue to promote the new brand and our services to dairy farmers. New communications tools include a bi-monthly newsletter, *All things dairy*, and an electronic newsletter to the wider industry, *DairyCoWWW*.

In 2008/9 DairyCo will work with industry partners to agree the co-ordination of issues management and the promotion of positive consumer messages. The agreed model will be implemented during the year.

As a final part of our Fresh Start review, we have now agreed with the industry a strategy to ensure consumers have an accurate view of dairy farming – we will be implementing this strategy towards the end of 2008/9.

DairyCo's objectives and delivery strategies - 2009/10

Objective 1: Market Intelligence

Provision of high quality information to help farmers and their representatives make the most of dairy markets and opportunities

Strategy: Provision of a world-class information service

Effective supply chain relationships are crucial to the success of the industry because the different parts of the chain are highly dependent on each other. Information and understanding are important for productive relationships so DairyCo will provide a world-class market intelligence service 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 information will also help guide industry policy and future DairyCo strategy.

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.

Objective 2: Business Management

Help dairy farmers increase their profits while meeting regulatory and environmental requirements – through better business management

Strategy: Helping dairy farmers meet and manage environment needs and regulatory requirements

Improving dairy farmers' environmental profile and ensuring regulation is realistic – while maintaining profitability – is crucial for the future of the industry.

DairyCo will, in collaboration with industry partners, undertake research and provide tools to ensure farmers can improve sustainability and minimise environmental impact, thereby proactively managing a likely increase in variable costs and regulatory burden.

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.

Strategy: Helping dairy farmers increase their profitability through better business management

DairyCo will work to provide practical information and applicable tools, through gathering information from around the world and commissioning research where necessary. Any commissioned research will be primarily driven by KT and on farm needs.

These tools will be delivered by a distinct Knowledge Transfer team who will ensure dairy farmers receive the outputs of research and development in the most suitable media to assist informed decision making.

In 2009/10, DairyCo will focus on the following strategies:

Knowledge Transfer

- **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. This means if an extension officer can assist 20 dairy farmers to improve efficiency by 0.5ppl through implementing best practice, they will more than pay for themselves in one year*.
- **Business Skills** – DairyCo will support the development of farmers' business capability through discussion groups, 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.
- **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. Based on working with 750 farms over three years, savings on clinical mastitis costs to dairy farmers is estimated to be over £2.7million.

Research – will focus on three key areas

- **Technical farming information** – This service will provide world class technical input to dairy farmers, the DairyCo KT team and for Issues & Image Management. Particular areas of focus in 2009/10 include: Provision of labour KPIs for dairy farms to help make best use of labour, definitive information into best practice FYM and slurry application on a range of clover inclusion rates and investigation into improved forage management techniques with the aim of increasing the feeding quality of the UK crop.
- **Climate Change** - 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 as cost effectively as possible.
- **Genetic Evaluations** - The **breeding+** genetic evaluation service will continue to be developed to help farmers maximise their business potential through breeding. 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.

* This is calculated on 0.5ppl *800,000 litres *20 farmers = £80,000

Objective 3: Issues & Image Management

To implement a dairy industry Issues & Image Management Strategy by the end of March 2010.

Strategy: Promote the positive perception of dairy farming with the general public.

There is a clear need for both issues and image management activity and co-ordination to improve the consumer perception of dairy farming.

It is evident that while on the whole Human Health and Nutrition issues are well covered in terms of service provision by the supply chain the same is not true for Environment or Animal Health & Welfare issues particularly in terms of availability of information from the farmgate.

DairyCo will work with the industry to ensure that issues are managed using 'best practice' and make sure all activities are fully co-ordinated.

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.

Objective 4: Development of DairyCo

Development of DairyCo towards a self-sustaining model

Strategy: Reducing dependence on levy funds

The organisation will be managed to be as efficient as possible and to increase non-levy funding of activities. This is because any organisation tackling market failure should have the aim of fixing that market failure and reducing the number of activities requiring funding from the statutory levy.

In 2009/10 DairyCo will seek alternative third party funding for its activities which will reduce the dependency on levy funds while still addressing the market failure issues within the sector.

Strategy: Increasing levy payer awareness of DairyCo's products and services

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.

Communications is a crucial step in delivering value back to producers; unless producers know about the world class knowledge we can provide, they cannot make full use of it.

By improving how we listen and respond to farmer needs, we will make it clear what DairyCo is and what it's here to do.

Strategic priorities 2009-10

Strategy	Key Outcome	Targets 2009/10	Key Risks	Key Controls
Objective 1: Supply Chain Information HT to edit				
Provision of a world-class market information service	Farmers have access to unbiased, high-quality information that assists in business planning and relationships.	Quantitative: Monthly target of website hits 60,000 and subscribers to fortnightly Dairy Market Update 3,900. Qualitative: Annual survey of farmers showing an increase of 0.3 in the value placed on the MI service by those aware of it. Provision of economic costings of different production systems.	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
<i>Resource Requirement: £725k</i>				
Objective 2: Business Management				
Provision of world class technical information	Availability of world class technical farming information to dairy farmers, KT and Issues & Image Management.	Numbers of requests for information from farmers Positive feedback from KT and I&I regarding provision of farming information. Provision of labour KPIs for dairy farms to help make best use of labour. Definitive information into best practice FYM and slurry application on a range of clover inclusion rates. .	Lack of suitable researchers to undertake the projects. Farmers not open to change existing practices. Lack of farmer awareness of information availability.	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.
The implications of Climate Change for dairy farming.	Reduction in the amount of climate changing emissions produced per litre of milk.	Agree one model with the industry to measure GHG emissions and appropriate on-farm targets with associated solutions to support implementation of the DSCF milk roadmap. Greater understanding of the opportunities (forage varieties) and threats (disease) in the regions of GB.	Not having the necessary detail to inform priorities. Many different on farm climate change models cause confusion.	Use of robust, globally-accepted analysis and review strategies. Try to achieve industry consensus on which model to use.
Improve feed efficiency	Increased milk output per kg of dry matter fed.	Feed efficiency on dairy farms with which DairyCo works improves by 5%. Target is 400 farms. On a typical cost in excess of 6ppl this equates to 0.3ppl.	Ensuring farmers have sufficient confidence in the information provided to change. Training not adequate Lack of suitable staff.	Develop the most effective tools and materials for targeted campaigns. Peer-review tools and materials. Suitable retention and progression in place for staff.
Improve business skills	Farmers actively planning and taking control of their farm business and their future.	120 Dairy Business Groups achieving: – 90% of attendees agreeing it is a good use of time	Poor quality training and management of staff Lack of suitable staff.	Communication of importance of cost control. Delivery of proof that planning works

Strategy	Key Outcome	Targets 2009/10	Key Risks	Key Controls
		<ul style="list-style-type: none"> - 80% have applied what they have learned 250 MilkBench+ datasets 5 Impact groups 30 Open meetings 3 What If? courses successfully run 	Poor tools and systems for use with farmers.	<ul style="list-style-type: none"> 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.
Improve mastitis control	An increase in the level of proactive health planning and a reduction in mastitis levels. Positive messages for use in image management.	A decrease in mastitis levels for 200 farmers engaged in the plan by 20%. On typical figures this equates to a saving of 0.2ppl.	<ul style="list-style-type: none"> Reliance on others to deliver the programme. Industry advisors ignore information. Information only taken up by small number of farmers. 	<ul style="list-style-type: none"> Work with key influencers in the industry, publicising the economic benefits to them. Work with existing industry and farm advisors' representative organisations.
The benefits of breeding and related tools	Farmers make informed breeding decisions that lead to the best cows for maximising their profitability.	<ul style="list-style-type: none"> Three genetic evaluation runs produced The usage of genetic evaluation information increases by 10% during the year. 	<ul style="list-style-type: none"> Failure to recognise the benefits of genetic services by some farmers. Failure to deliver timely and accurate genetic evaluations. 	<ul style="list-style-type: none"> Careful use of targeted communication to tailor messages appropriately. Monitoring contractor's delivery.
<i>Resource Requirement: £2,975k</i>				
Objective 3: Issues & Image Management				
Protect and promote the image of dairy farming	Create a positive environment towards dairy farming in which the industry can thrive.	Quarterly monitoring of consumer attitudes towards dairy farming. Long term target is to see increasingly positive consumer attitudes towards the environmental impact of dairy farming and animal welfare	<ul style="list-style-type: none"> Lack of awareness of emerging issues. Insufficient scientific knowledge. Lack of industry co-operation. Lack of accessibility to target audiences. 	<ul style="list-style-type: none"> 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.
<i>Resource Requirement: £899k</i>				
Objective 4: Development of DairyCo				
Increase in alternative funding	Non-levy monies are secured to fund DairyCo activities.	Secure £250,000 of additional income or match funding, with £150,000 of that delivered within 2009/10.	Lose independence.	Ensure all contracts and joint ventures fit in to DairyCo objective, strategies and principles.
Increasing levy payer awareness of DairyCo's products and services	Farmers maximising their profits from using DairyCo information.	The annual survey of dairy farmers shows an increase in awareness of DairyCo products and services to the same level achieved by MDC or better..	Disruption to services to levy payers due to transition to Stoneleigh.	<ul style="list-style-type: none"> On time and on message communications to levy payers Sufficient resources allocated to communicating to levy payers.
<i>Resource Requirement: £672k</i>				

Projected budget for 2009-12

(£,000)		Forecast			
		2008/9	2009/10	2010/11	2011/12
Income					
	Levy	6552	6323	6102	5888
	Non Levy	45	80	90	100
	Interest	72	110	105	105
		<u>6669</u>	<u>6513</u>	<u>6297</u>	<u>6093</u>
MI	Staff	397	449	462	480
	Projects	265	276	275	275
Research	Staff	227	300	312	327
	Projects (inc Genetics)	989	868	870	800
KT	Staff	935	1163	1,210	1,250
	Projects	531	644	640	600
Comms	Staff	207	220	228	240
	Projects	380	442	440	385
I&I	Staff	236	116	120	125
	Projects (inc Image Management)	893	783	750	700
Central		1058	950	950	950
Business Development		10	10	10	10
UK IDF		26	28	30	32
IDF Conference		30	0	-	-
DairyCo Board		259	259	200	200
Transition		130	-	-	-
		<u>6573</u>	<u>6508</u>	<u>6497</u>	<u>6374</u>
	Profit/Loss	96	5	-200	-281
	Reserves	3253	3258	3058	2777
	Headcount	63	61.5	61.5	61.5