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## Media Release

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### **Gut feel not enough to survive dairy downturn**

Dairy farmers who have a detailed understanding of their businesses will be in the best position to reduce costs, improve efficiency and ride out the dairy downturn, new ANZ research reveals.

"Cash flow pressures in the dairy sector are set to persist and uncertainty exists on the timing and extent of recovery," Agri Economist Con Williams writes in ANZ Agri-Focus.

"Dairy farmers face the difficult challenge of minimising near-term losses, while not cutting too deeply into the long-term productive capacity of the business. Striking the right balance is no easy task.

"The imperative to minimise losses is likely to be greater if the financial viability of a business is more precarious. However, recalibrating the cost structure and productive efficiency of a farm is usually of greater significance."

Decisions on improving a farm business' viability need to be supported by a formal decision making process. A big part of this is completing a business plan and multi-year budget.

The report says many farmers still use gut feel when making decisions, which can be effective under normal circumstances. But in times of rapid adjustment and heightened risk it doesn't provide a basis for deeper change.

"It's not that there's no place for instinct, but it should be honed and supported by the numbers and a more formal decision making process – particularly when dealing with significant change and complexity," Mr Williams said.

"There needs to be an assessment of where a business sits for its debt servicing and operating expenditure. It isn't possible to stay viable for long if both are high.

"If the gap between revenue and total costs can't be closed it means an equity injection, selling assets, or generating additional income need to be considered to improve business viability. Those who can respond and adapt the best will emerge in the strongest position."

The report features case studies of dairy businesses that have adapted to the current price environment. ANZ Agri-Focus is available here: <http://www.anz.co.nz/rural/rural-news-insights/agri-focus/>

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