



IN THE DRIVING SEAT

Understanding and closely monitoring the numbers is helping a North Canterbury farming family drive their business to achieve their goals.

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Nicky Anderson's aim for managing the finances in the family farming business is to be paperless. Her husband Duncan loves to write things down on paper. He has a sturdy eraser and well-worn pencil and while it may seem at first that they're not quite aligned, it's soon clear they are most definitely on the same page – whether it's paper or a screen.

Their core document is paper – a large A3 with a multicoloured wheel at its heart. It's the planning wheel, created during a DairyNZ Mark and Measure course in 2015, but more about that later.

The family has been dairying for just over 10 years, converting their 405ha Rotherham sheep and beef farm, Auchenbrae, in North Canterbury to dairy in time for the 2013–14 season.

It's now a substantial 482ha property milking 1750 cows with an adjacent 418ha support block which includes both leased and owned land.

RIGHT The strategy came first, with a DairyNZ Mark and Measure course.

Their son Jack is now managing the support block, and they have variable order sharemilkers Paco and Lou Mones-Cazon running the dairy farm. Their older son Angus has recently returned to the area too and is running his own sheep and beef enterprise on leased land about 25 minutes away.

The dairy farm has an 80-bail rotary and in total they have 14 pivot irrigators – along with other forms of irrigation too.

The conversion was a big step, one they discussed as a wider family with their two sons Angus and Jack, then high school age.

“We knew that if we were going to have a longer-term vision for the business as a family then going to dairy was the way to make that happen. The decision was driven out of frustration really, with the meat companies and the mistakes you could see happening again and again, decade after decade,” Duncan says.

“But it took Duncan ages to get me over the line with it – mainly because of the debt we'd be taking on,” Nicky says.

But the monthly milk cheque, long-term returns and the opportunities for the future eventually won her over.

They had grazed dairy stock from the district and Duncan had also been an AI (artificial insemination) technician in the Amuri Basin.

“When I was out on the AI run, the guys who knew I was converting were more than happy to share information,” he says. “The dairy industry is so transparent and the transfer of information between farmers is fantastic.”

While it hasn't been a straight line, with the first year's \$8.40/kg milksolids (MS) milk price followed by \$4.40 and \$3.90/kg MS, they have no regrets about the decision.

Having a close eye on the financials is a must, Nicky says. Trained as an accountant before going farming, she readily admits that she enjoys the numbers side of the business and making it part of the daily routine isn't seen as a drag.

Instead, she's found it has helped her learn about the day-to-day activities of the farm alongside Duncan and made her feel very much a part of the business. Knowledge, she agrees, gives you power.

But she says it also gives you comfort because at any time she and Duncan will know where they're sitting relative to budget and how the monthly cashflow is panning out across the season.

“I think one of the reasons I enjoy it is that I can see how we're tracking towards the longer-term goals we have and that's exciting,” she says.



Farm facts



AUCHENBRAE FARM Rotherham

- **Owners:** Nicky and Duncan Anderson
- **Variable order sharemilker:** Paco and Lou Mones-Cazon
- **Area:** 482ha
- **Cows:** 1750
- **Supplement:** 500–700kg drymatter (DM)/cow silage, palm kernel, grain. Spring includes soya meal and distillers dry grain (price dependent)
- **Farm dairy:** 80-bail rotary
- **Automation:** Protrak, automatic cup removers, Allflex collars, in-shed feeding (three feed heads)
- **Production:** range from 465–510kg milksolids (MS)/cow since conversion

Support block

- **Area:** 418ha
- **Rearing:** 400–440 dairy replacements, 200 Wagyu-cross reared and finished for First Light (total up to 500 onfarm), 150 bull beef calves to 100kg, rear 52 bulls for onfarm use and finish 30 of these, 120 Hereford-cross calves sold at one year old.
- **Cows:** 1800 cows wintered.



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Nicky prepares the cashflow and initially does her own spreadsheet to come up with the monthly milk income for the cashflow, but once Fonterra has put up the advance rate for the new season, she will update the information using Fonterra's dairy forecaster which links into the software.

Whenever there's a milk price announcement the updated prices automatically flow through at the click of a button.

The livestock module in the software is the place to start for the beef side of the business. It has taken Nicky a bit of time to master this, but since their son Angus started in his sheep and beef business, the importance of this module has become very apparent. Building the numbers in the livestock module forms the basis of Angus's sheep and beef business budget.

One of the "work ons" in their Mark and Measure planning was to lift stock returns to help buffer inflationary costs and milk price fluctuations. They've boosted returns on a kg MS basis from 23c to \$1.15.

"You have to keep on top of recording the births and deaths and make sure classes are recorded correctly when transacted," Nicky says.

'I run my eye along the balance at the bottom of the page to see the peaks and troughs and make sure it's what we're expecting. Then I run a year-to-date variance report to see how we are tracking.'

NICKY ANDERSON

With the budget prepared, it's then a matter of keeping it updated. Both their accountant and banker have access on a read-only basis to the information, allowing them to see key numbers and what's behind them if they wish to.

As the season starts to roll through, electronic invoices and credit notes are uploaded to the software and around the 13th of each month, once all invoices and statements are in, Nicky matches the invoices she has to their statements to make sure all invoices have been correctly received. It's at this time the paperless office system gets challenged, with Duncan noting down each invoice amount on his notepad. He confirms whether it's related to the dairy farm or the runoff and who can verify the spending.

"I'll ask Paco about any on the dairy farm and I'll talk to Jack about any on the runoff. They'll be able to tell me if the thing that was ordered and invoiced actually turned up and that the pricing matches what they were expecting. It might be for servicing something, and they can tell me how long someone was actually onsite for and what the outcome was."



TOP Nicky and dog Lofty. BOTTOM Nicky and Duncan review the numbers and track progress on their goals. LEFT Nicky and Jack catch up with Duncan. Jack is managing the support block.

"I think one of the most powerful things we did right at the start of this was, after our first season, we went to a DairyNZ Mark and Measure course," says Duncan. "We took the boys too – Angus was at Lincoln (University) and Jack was in his last year at high school."

They created their own planning wheel, a strategic planning tool, setting goals and mapping out how they were going to make each happen.

"Every time we get to a crossroads or have a big decision to make we go back to that and think okay, how does this fit with that plan, is it going to get us to the goals," Nicky says.

"Some of the goals were a long way out so we've had to actively drive progress and still have to do that," adds Duncan.

Having a good understanding of your working financials informs decisions about the opportunities that arise, they say. To do that, Nicky and Duncan set up a budget in their farm financial accounting software.

They start by looking at the actuals for the current season on a line-by-line basis and whether anything will change, either with the way they're running their system or in terms of price changes. There are always tweaks to the system, informed by Paco's rigorous record taking and analysis.

Now with Jack on the support block, he too is identifying areas for greater efficiency or better gains.

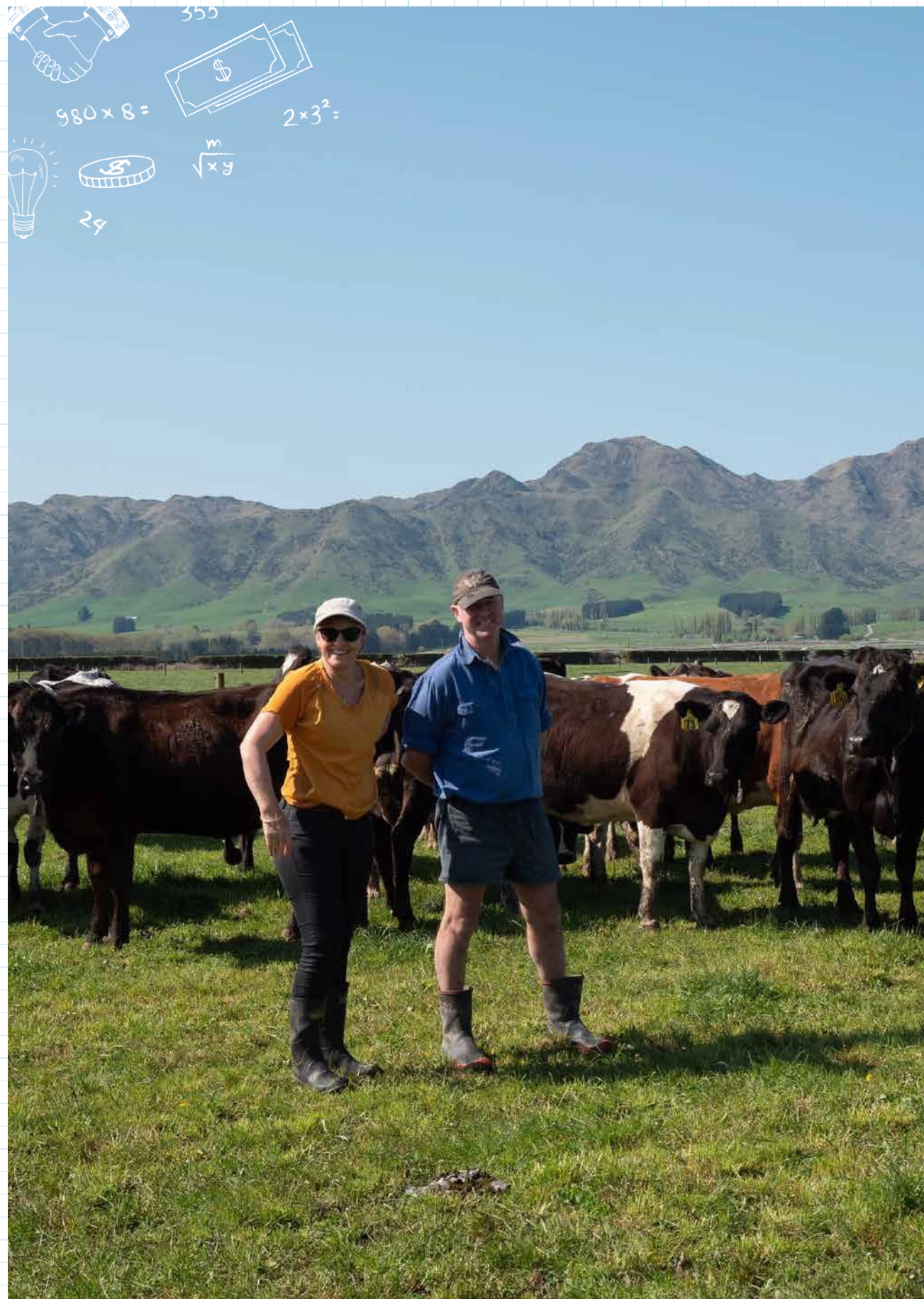
"We try to do as much of our own servicing and maintenance as we can," Duncan says. "For instance, we've been servicing our own pivots for the last six years but if there's something we can't fix – such as a drive chain – we call up and tell them what specifically we want fixed, and which pivot it is."

They'll go out to suppliers of some of the larger consumables such as teat spray each year and get quotes for the best deal they can do. Making use of suppliers' interest-free deferred payment schemes can make for a smoother cashflow too.

"We're using milk powder for our beef-cross calves on the support block and have been able to make use of the Farm Source scheme and put that cost into December, once the 100kg animals have left the farm and been paid for," Nicky says. "It all helps to even out some of those lumpy months when it comes to costs."

Speaking of lumpy items, budget time is an opportunity to talk about plant and machinery replacement, she says.

"We do all our own ag work – regrassing and balage, although we get contractors in for the silage," Duncan says. "But it does mean that every few years something might need replacing."



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He says it's amazing how many times there will be some kind of discrepancy that wouldn't have been picked up otherwise.

"I'd say every month it would amount to \$500 to \$1200, so it's a very worthwhile exercise. I don't have a problem ringing a supplier and challenging an invoice. It's about putting some discipline around it and not just paying invoices without question."

They also have a stipulation that anything put on account at the major suppliers such as Farm Source is accompanied by a note of who ordered or purchased it.

"The suppliers know the purchase needs a name, so again every purchase has some accountability attached to it," Duncan says.

Once the invoices are approved and paid, Nicky will look at how the updated cashflow is tracking.

"I run my eye along the balance at the bottom of the page to see the peaks and troughs and make sure it's what we're expecting. Then I run a year-to-date variance report to see how we are tracking. If something is out of whack, I'll look at it more closely and we [she and Duncan] will talk about it. If it's something that's come in a month early for instance, I'll go through and update the cashflow.

"This season, with Fonterra's milk price going up, it's been nice to see the cashflow effects. I'll email the accountant and make sure they are aware of the change it will make to our provisional tax liability.

'So, the key number for us is our annual cashflow surplus and balance sheet wise, what's happening with our debt-to-equity ratio. The aim is equity growth.'

NICKY ANDERSON

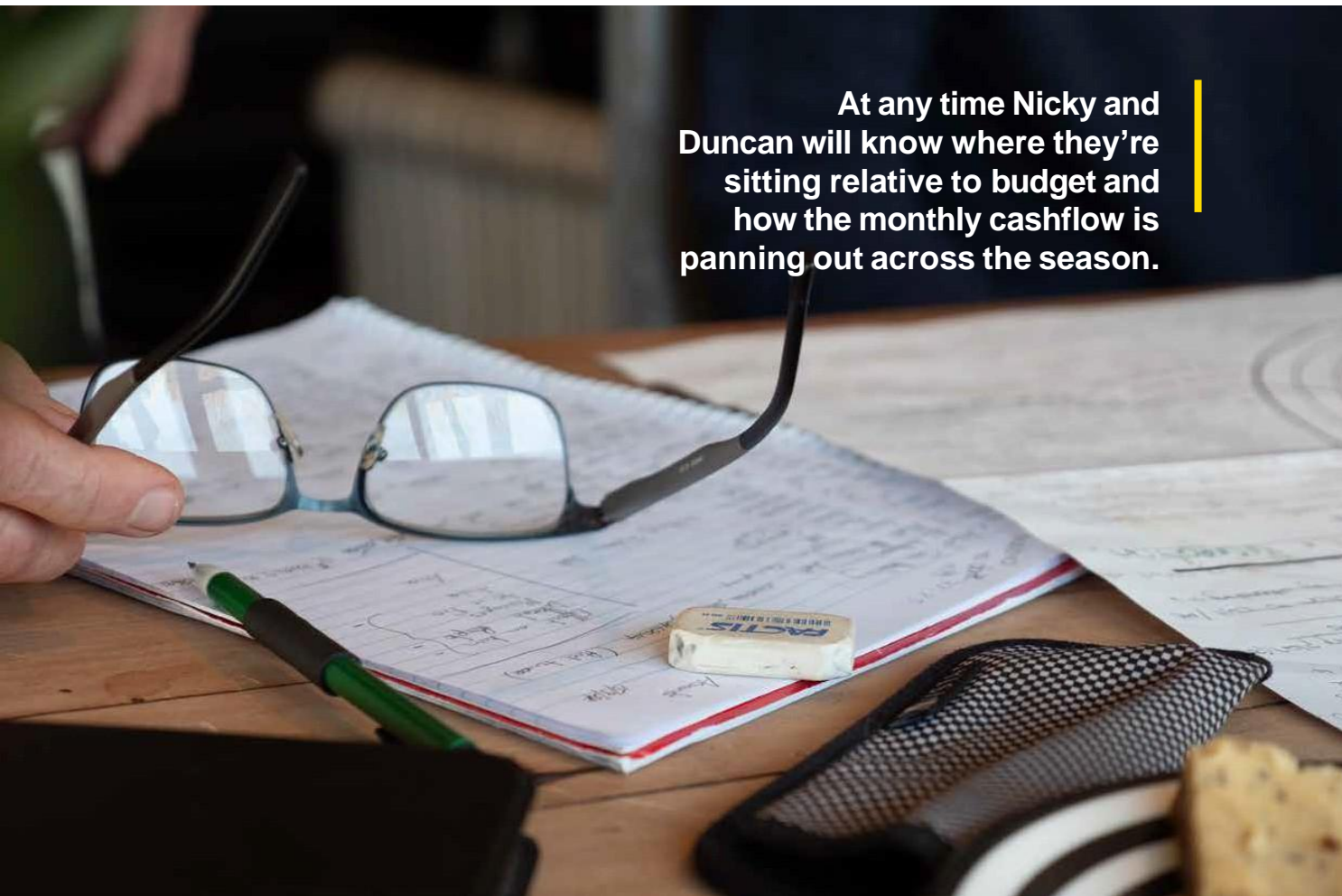
"We don't want any surprises when it comes to tax – it's quite a change from the sheep and beef days to have to be thinking that way, but you do have to be prepared, as those tax payments make quite a hole in the cashflow," she says.

The couple's loan arrangement rolls their working capital and loan facility into one account with provision for principal payments to be flexible to match cashflow.

"Managing our cashflow is number one when it comes to our financials because it helps us minimise our interest cost and gives us visibility with which to make decisions on things that might pop up unexpectedly," Nicky says.



TOP Duncan - financial management means you can actively drive your business forward. BOTTOM Jack - making sure the support block is helping lift returns. LEFT Nicky and Duncan - dairying is allowing a longer-term vision for the farm business as a family.



At any time Nicky and Duncan will know where they're sitting relative to budget and how the monthly cashflow is panning out across the season.

ABOVE Keeping a close eye on the monthly cashflow ensures those longer-term goals can be realised.

“So the key number for us is our annual cashflow surplus and balance sheet wise, what’s happening with our debt-to-equity ratio. The aim is equity growth. They’re the big numbers but they’re driven by all the little things and it’s important to keep an eye on them all the time.”

They’re interested in, but not focused on, return on asset or return on equity at the moment because selling the asset is not in their plans and land-use change isn’t in any near-term plan.

When they did the conversion, those numbers were important to secure funding from the bank. As they have grown, the numbers and the bank’s comfort with their financial management have enabled them to take on the next challenge. The change in return on equity from sheep and beef farming to return on equity from dairying put the compelling numbers around their initial investment.

“We know where we want to be and this is the best use of our assets right now. We’re not blinkered – if something came up that was better use of the asset, we would definitely look at it,” Nicky says. “Because we’re all over our financials, we have that information at our fingertips and we could quickly compare returns and see if something else would get us to the goals that we set out”,

Having a good understanding of their financial position at any time and having good communication with their banker and accountant means the conversations with those professionals are ones more of governance than compliance or micromanagement.

That’s helped in the succession style conversations with their rural professionals who are party to their goals and understanding how their boys’ farming goals work in with the overall family enterprise.

Good communication and a good relationship with everyone you work with is a big part of all this, Duncan says. This includes people onfarm and off it.

“The sooner you can get everyone around the table and understand the goals, understand the numbers, then you can actually take control and make things happen. You get to drive it.” he says.

In the Driving Seat Questions

These questions focus on how the farmers Nicky and Duncan manage the financial aspects of their farm to ensure profitability and highlight the strategic decisions they make as part of their long-term business plan.

1. What was the main reason Nicky and Duncan decided to switch their farm from sheep and beef to dairy farming?
2. How does Nicky’s background as an accountant help in managing the finances of their farming business?
3. What is the planning wheel, and how does it help the family with decision-making?
4. Why do Nicky and Duncan carefully track their cashflow and update their budget regularly?
5. How does Nicky ensure that the business stays on track financially throughout the year?
6. Why is it important for Nicky and Duncan to review and challenge invoices each month?
7. How does using financial software help Nicky and Duncan manage their farm’s finances more efficiently?
8. What did the family do to manage unexpected costs or fluctuations in milk price?
9. Why do Nicky and Duncan make sure their accountant and banker have access to the financial information?
10. What steps do Nicky and Duncan take to make sure their financial information is accurate and up to date?
11. Why do Nicky and Duncan look at the balance sheet and debt-to-equity ratio regularly?
12. What strategies do Nicky and Duncan use to improve the profitability of their farming business?
13. How do Nicky and Duncan manage their loan repayments and working capital to ensure the business stays financially healthy?
14. How do Nicky and Duncan use the financial data to set long-term goals for their farming business?
15. What strategies do Nicky and Duncan use to manage cashflow and reduce financial risks on the farm?
16. How does Nicky and Duncan’s approach to managing the farm’s finances help them work together as a family?
17. Why do they involve their sons in business decisions? How does this help the farm?

