Efficiency of Recording Systems

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Agenda
Overview of Milk Recording in Canada
CanWest DHI Service Delivery
- Services, Fees
- Laboratories & Record Processing
- Field Services Operations
  - Work Scheduling, Travel, On Farm Visit
  - Staff Compensation

Key Efficiency Factors
Closing Remarks

The Evolution of Milk Recording in Canada
1905 Federal Government establishes national program
1949 Governments establishes provincial program
1981 Provincial programs are privatized (DHI - producer run cooperative)
1985 Federal program is amalgamated with provincial DHIs
1998 Federal Government funding support ends
2000 National Record Processing Centre – Montreal
2004 Ontario DHI merges with Western Canadian DHI
2007 Atlantic DHI discusses merger with Quebec DHI

Milk Recording in Canada: 2007
Two Organizations
- CanWest DHI
- Valacta

CanWest DHI
- Non-Profit Corporation
- Farmer Owned and Governed
- Specialize in Milk Recording and Herd Management Services

CanWest DHI
Demographics...
- 4,600 herds 70%+ Market Share
- 370,000 cows 80%+ Market Share
- Average Herd Size 80 cows
- Small to Large herds 10 to 1000 cows
- Holstein Breed 90%+
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DHI Services…
- 44,000 herd tests per year
- 9.5 tests/herd/year
- 75% of tests with DHI Staff
  - 51% - AM/PM (1X)
  - 24% - 24 hours (2X with some 3X)
- 25% as Owner Sampler

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DHI Services…
- 65% - 'Publishable' Service
  - Recognized by Breed Associations
  - DHI staff supervises the test/sample collection
- 10% - Management Service with DHI Labour
- 25% - Management Service as Owner Sampler
- 80% - Herd Book Registrations and contribute to Genetic Evaluations

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DHI Fees… 4 Fee System
Based on ‘Charge me for what I use Principle’… from a customer point of view AND
Also based on what it actually costs to deliver the service… from the company’s point of view

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DHI Fees… 4 Fee System
1) Herd Fee
   - To cover ‘fixed costs’… admin, governance, office…etc.
   - Fixed annual fee on per herd per year, regardless of service level, # of tests, herd size… etc.
   - € 270 per year

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DHI Fees… 4 Fee System
2) Call Fee
   - To cover travel costs (mileage and time) farm ‘set up’ time, sample shipment, reports postage and some staff admin time
   - Charged on per test/trip basis.
   - € 27 - € 47 per test for Owner Sampler
   - € 47 - € 90 per test for 2 visit tests
3) Cow Fee
- To cover on farm data entry, vials/lab analysis and record processing
- Charged on per cow per test (cows in milk only)
  €1.0 to €1.9 per cow/test

4) Hourly Fee
- To cover staff time for on farm sample collection during milking (first milking unit on... to last milking unit off)
- Charged on per hour basis (nearest 5 mins)
  €16 - €19 per hour

Plus ‘Options’...
- SCC & MUN Analysis
- Elisa tests
- Herd Management Software
- Other on farm ‘time related items’ at the given Hourly Rate (ie. registrations)

Annual Service Prices Based on Average Herd Size of 80 Cows

10 Tests Service Price
- Publication - AM/PM: €1,250 to €2,200
- Publication – 24 Hr (2 trips): €1,625 to €2,720
- Mgmt - Owner Sampler: €905 to €1,920

2006 Expense Distribution

Top 4 items: 84% of Expenses
CanWest DHI Service Delivery

Laboratories…
- Operate 3 labs & contract with 1 lab
- DHI & Payment/Quality in 3 labs
- Sample volumes are modest
- Vast Geography is the Bottleneck
  - Turn around time
  - Sample transportation costs

CanWest Laboratories

- 310,000 DHI samples/yr
- 500,000 DHI samples/yr
- 210,000 DHI samples/yr
- 1.9 million DHI samples/yr

CanWest DHI Service Delivery

Laboratories…
- Including sample transportation from field to the 4 Labs…
- Average cost/sample…

€.34 to €.44

CanWest Record Processing

- 725K cows processed

CanWest DHI Service Delivery

Record Processing…
- One National Processing Center
- Joint Ownership & Operation
- 7.2 Million Cow Tests/year

CanWest DHI Service Delivery

Record Processing…
- Including daily operations (65%) and Development (35%)
- Average cost/cow/test…

€.10
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Field Services… Overview

- 140 Field Staff… Technicians… Testers…
- Customer Service Representatives (CSRs)
- 2 provinces are Unionized (105 CSRs)
- 115 FT - 25 PT
- 6 District Managers – Day to day service delivery, CSR supervision, Sales

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Field Services… CSR Compensation

- ALL paid hourly
- However, 2 scenarios of hours calculations…
  - Actual time claimed/reported by staff (35%)
  - Standard hours PLUS some actual time (65%)

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Field Services… CSR Compensation

Hourly Rate varies by province…

- €12 to €15 per hour

All have benefits, which do vary by province…

- Pension, family dental, medical, drug plan…etc.
- Benefits costs add 15% to 25% to base wages costs

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Field Services… Work Scheduling

- Each CSR has 20 to 60 herds assigned
- Geography plays the key role…
- Each CSR is responsible for scheduling ALL farm testing for his/her customers, based on service purchased by customers…
- Great flexibility & responsibility for CSRs…
- Monitoring by District Managers

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Field Services… Travel

- 44,000 tests/yr
  - 33,000 single return trip
  - 11,000 at 2 return trips
  - Total kms/yr is 2.98 Million
  - Average kms/return trip is 54 kms (27 kms 1 way)

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Field Services… Travel

- Average kms/year/CSR is 21,300
  - From 5,000 to 60,000 +
- High Mileage territories (22,000 kms/yr +) are provided with company vehicle
  - Purchase vs Lease
  - Used Vehicle (1 yr old, 15K - 25K kms)
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Field Services… Travel

- Company vehicle costs… €1.19/km
- Formula for mileage reimbursement rate is developed & agreed upon with employees & rarely changes
  - Flexibility in employee vehicle choice
  - ‘Step down’ reimbursement rate
    €.25/km down to €.19/km

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Field Services… Travel

- Quarterly adjustment of reimbursement rate based on price of gas (weekly avg.)
- 1st Quarter 2007, average price for gas…
  $1.00/L €.67/L

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Field Services… Travel Time

2 Scenarios…
- Pay actual driving time as reported by CSRs (35%)
- Pay standard time based on a per km formula (65%)
  - Current formula… 65 kms travel = 60 minutes

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Field Services… On Farm Time

2 Scenarios…
- Pay actual time spent at the farm as reported by CSRs (35%)
- Pay standard time based on the type of test & herd size PLUS actual time for milking time for sample collection (if CSR Sampling)

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Field Services… Post Farm/Home Office

( Scheduling, phone, prepare samples for shipment, transmit data via internet, email correspondence, expense claims…etc)

2 Scenarios…
- Pay actual time spent as reported by CSRs (35%)
- Pay standard ‘admin’ time for each test based on the type of test (65%)

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Field Services… Other Time

Staff meetings, training, non testing related (relatively small amount)…

Pay actual time spent as reported by CSRs (100%)
Key Efficiency Factors

1) ‘For Profit’ Culture
2) Revenues & Expenses Model
3) CSR Compensation Model
4) Service Mix & AM/PM Option (1X)
5) Lab Operations
6) Record Processing
7) Travel Costs
8) Partnerships

Key Efficiency Factors

1) ‘For Profit’ Culture…
   • Sales, Service & Marketing Focus
   • $$ Incentives for CSRs & Managers
   • Emphasis on Growth vs Cost Cutting
   • Optional Services with Profit Margin
   Meter Rental Service
   Milk Elisa Tests
   Herd Mgmt Software
   E Registration Service

Key Efficiency Factors

2) Revenues & Expenses Model…
   4 Fee Pricing System…
   Balanced with
   CSR Compensation System…
   Revenues & Expenses follow each other very closely!!!

Key Efficiency Factors

3) CSR Compensation Model…
   Standard Hours + Milking Time (65%)
   Rewards Efficiency
   Closely Follows Revenues
   Claimed Hours (35%)
   Rewards Inefficiency
   Does NOT Necessarily Follow Revenues
   ‘Human Nature’ Factor…

Key Efficiency Factors

4) Service Mix & AM/PM Option…
   76% of herds on 1 trip/1 milking service
   51% on AM/PM with DHI Staff
   25% as Owner Sampler
   Same # of herds, samples and record processed (ie. Close to same revenue) with reduced costs…
   More herds & cows per CSRs…
   Gained Efficiencies!

Key Efficiency Factors

5) Lab Operations…
   Because of modest volumes… tried to gain Economies of Scale
   Non DHI Business
   Payment & Quality
   Elisa Tests
   New Revenues!
Key Efficiency Factors

6) Record Processing…
- Economies of Scale - It’s a volume game!
- ‘Critical Mass’ for Operations & Development
- National Processing Center is Key to our Efficiency

7) Travel Costs…
- N.A. distances are significant (2.98M Kms)
  - Standard Formula for Travel Time (65%)
  - Company vehicles for high kms areas
    - Purchase of used vehicle
    - Helps keep reimbursement rate reasonable/low
  - Fuel price…
    - Very low ($1/L = €.67/L)

8) Partnerships…
- Economies of Scale & Critical Mass
  - Merger of Provincial DHIs…
  - National Processing Centre…
  - Office Building…
  - AI/Breeds – phone, insurance, benefits pooling…

Closing Remarks

For CanWest DHI the Efficiency of our Recording System…
- Is part of overall Company ‘Culture’…
- More than one way to do things… We always try to Challenge the Status Quo…
- Being good/efficient in ALL major operating areas is important…
- Continuous Improvement Approach…
- Efficiencies of all magnitude are important to pursue…

Thank You!