How Livestock Improvement is responding to a changing world

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Structure of my talk today …

• NZ dairy and herd improvement history.

• Some key achievements in LIC over the last 5 years.

• LIC has moved from being a ‘not for profit’ to a profit generating business.

• The ownership structure of the co-op has changed as the strategy has changed.

NZ Dairy Industry History

• First dairy cows arrived in NZ in 1814.

• Exports to Australia and Europe from mid-1800’s.

• Co-operative industry – then and now.
NZ Dairy Herd Improvement History
• Danish visit in early 1900’s stimulated formal herd recording in NZ.
  – Initially government and industry schemes
  – Industry run since 1930’s
  – No government involvement or influence since 1980’s

• Very high participation rates
  – > 90% of cows have ID and parentage recorded
  – > 90% of cows use AI
  – >75% of cows are herd tested

NZ Herd Improvement Players

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Livestock Improvement

- A co-operative owned by NZ dairy farmers.
- Integrated herd improvement organisation.
  - Herd recording and genetics
  - Genetic evaluation (on contract to dairy industry)
- Small amount of international activity.
  - Genetics into Australia, Ireland via subsidiaries and other markets via agencies

Herd Recording

- Development of innovative recording software for data entry and information reporting.
  - Almost 80% of NZ cows now recorded electronically

Milk Recording

- Development of new tools to simplify DIY milk recording.
  - Tru-test electronic milk meter
  - EZ-Link handheld barcode scanner
- Annually progeny test 300 bulls.
  - 150 Friesian, 90 Jersey, 60 KiwiCross™
- Developing new options to meet emerging market needs.
  - KiwiCross™, short gestation, OAD

Genetics

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DNA Testing

- GeneMark established in late ‘90s.
  - DNA testing is complementary to milk recording
- Parentage testing is the ‘bread and butter’.
  - > 25% of NZ dairy herds have done some DNA testing in the last 3 years.
  - > 100 herds are using DNA testing as their means of recording calf parentage
RFID

- RFID systems make it easier to do herd and milk recording, and make the information more useful.

- LIC integrates other people’s technology, to deliver an on-farm solution to animal ID and handling.
  - Most useful for large herds > 500 cows
  - Sorting, alerts, feeding, weighing, in-line meters

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LIC Profitability

- Historically, LIC has been ‘not for profit’.

- From 2002 a strategic decision was made to grow profits.
  - Deliver a fair return on investment to shareholders
  - Generate funds that can be invested in innovation
  - Encourage efficiency in the business

- With this came a move to fair value pricing.

LIC Net Profits – 2003 to 2006

- 2002/03: $3.5 m
- 2003/04: $4.75 m
- 2004/05: $5.5 m
- 2005/06: $8.0 m
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Strategy Impacts On Structure

- Co-op shareholders have different objectives.
  - Control over co-op assets
  - Use of products and services
  - Opportunity to invest, and earn a return on investment
- Greater profit focus brings a higher risk.
  - LIC Board wanted to give shareholders the choice about their level of investment in the co-op

2 Classes Of Share

Co-op Control Share
- Value of $1 each.
- All dairy farmer users MUST own these shares – 4 shares for every $100 spent.
- Voting rights.
- Annual ‘dividend’ based on bank lending rates.

Investment Share
- Value determined by the market (listed on NZAX).
- All Co-op shareholders MUST own some – minimum 2:1 and maximum 30:1.
- No voting rights.
- Attract most of the dividend (after Co-op share payment) – currently > 10% return.

Shareholding Trend

Investment:Co-operative Shares Held

Share Price Trend

Conclusion

- NZ is a young dairy industry in world terms.
  - LIC has been helping improve dairy cows in NZ for 100 years
- LIC has invested heavily in innovation in the last 5 years, made possible in part because of a change in focus to generating profits.
- The structure of the co-op has changed as the strategy has changed.
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LIC Net Profits – 1995 to 2006

Consolidated Net Profit

Millions of

Financial Year Ended