Tactics for Tight Times

Optimising Feeding Decisions

Feed cost decisions in a low milk price year are likely to be based on the “margins” that can be created and individual attitudes to spending and risk. The concept of creating “margin” relates to the question, “Am I willing to spend more, usually on supplements, but also on inputs such as fertiliser, to make a bit or a lot more money from an anticipated increase in production?” At a simple level, it involves comparing the price of the extra inputs to the price of the extra milk that is hopefully generated. Importantly, it is not just the quoted prices that need to be used but your actual individual prices for both inputs and outputs.

To help with decision making around margin and the level of supplementary feeding, various ratios and responses are discussed by advisors. Table 1 shows how an initial “guide” to profitable feeding for a particular farm can be developed using a farm’s income estimation and the concentrate price that the farm hopes to pay each month this coming season.

The figures are based on a 550 cow farm producing 314,562 kg MS last year. The farm does NOT receive a flat milk payment or any additional payments such as group bonuses, or special tailored arrangements. Their opening milk price income estimation indicates an annual price based on 2015/16 production of $4.78 after levies and all charges. Their “lean and mean” break even budget was $4.85 so they are in the ball park, which is good.

The individual milk price for each month is recorded in the table plus the concentrate price this farmer hopes to pay as the year progresses. Then a ratio is created by dividing the cents per kilogram of milk solids by the concentrate price per tonne.

Table 1 Milk Value to Grain Price Ratio

Cents/kg MS divided by $/t concentrate can be a useful initial guide to the profitable feeding of supplements

Month	Milk Value c/kg MS	Grain/Concentrate Price $/t	Ratio c/kg MS ÷ $/t
July	496	340	1.46
August	472	340	1.39
September	411	340	1.21
October	412	330	1.25
November	409	320	1.28
December	471	320	1.47
January	498	320	1.56
February	515	320	1.61
March	514	320	1.61
April	518	320	1.62
May	504	320	1.58
Jun	563	320	1.76
Year	478	328	1.46

Based on an **average response** of 0.07 kg MS from a kilogram of dry matter (0.96L/kg), if the result is a ratio greater than 1.5 then there is a strong possibility that the sensible feeding of concentrates will still be profitable this year. Table 1 shows that from August to December it will be harder to create a margin from concentrates. That does not mean necessarily they don’t get fed but, that the margin is tighter and therefore riskier.

The information to create your own Table is available on all income estimations and is a useful exercise to do. Remember to use the value of the milk each month, not when you are paid for the milk. Note also that the overall price paid for the year is not of great value - it's the individual months that are important.

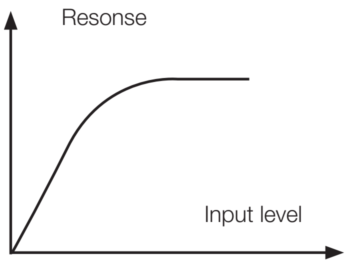
When you consider your own situation:

› If all the months are less than 1.3 (due to your milk, your processor and concentrate price) then you will have to seriously review how much you feed and even how many cows you milk. If your ratio happens to be at 1.8 then you are in a different world - enjoy it but be careful of over feeding!

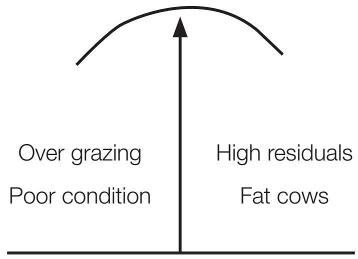
› The use of the words "anticipated" and "strong possibility" when describing marginal responses indicates that there is a more complex aspect to the concept of margin:
  - "Average response" may not be your cows' response.
  - The level of response will vary according to stage of lactation.
  - Response drops off beyond a certain level of input. A good operator can judge where that point has been reached; a less skilled operator will spend more on inputs without covering their cost via increased production. How skilled are you at picking that point?

› Achieving a profitable margin goes hand in hand with good pasture management. When there's pasture, supplements are an optional extra that can increase production profitably when ratios are favourable. Relying on response to supplements to achieve production leaves you exposed when ratios are less favourable. Remember to monitor your daily position through observing cow behaviour and residuals, so that you get optimum value from cheaper grass and avoid the risk of over/under feeding.

Margin response curve



Optimum daily position



Your individual milk price drives (or should drive!) decisions about supplements. Do your sums and explore your ratios. Then consider your skill level, to determine how much risk you should take when seeking margin. The "margin pusher", the farm that pushes inputs, including stocking rate and per cow production, to generate extra margin will always have to do some serious number crunching, even more so with low milk price. The farm that always restricts spending has less pressure in decision making; they will continue to not spend much and be happy not to chase margin. In times of low milk price those on a tight budget need to assess the **risk of not spending** on their bottom line, compared to doing some simple sums and seeing where spending can actually help.

In summary:

› Individual milk price should drive decisions about supplements.

› Base feeding decisions on ratio of milk price over feed costs.

› Use actual monthly prices for both inputs and outputs.

› Use the value of the milk each month, not when you are paid.

› If a ratio of greater than 1.5 is calculated, sensible feeding is appropriate.

› If a ratio of less than 1.3 is calculated, review carefully what you are feeding.

› Achieving a profitable margin goes hand in hand with good pasture management.

This factsheet has been adapted from an article by John Mulvany, OMJ Consulting

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