



Stayin Alive

For those born after 'the sixties' and haven't had the opportunity to experience good music, 'Stayin Alive' was a hit record for The Bee Gees in 1977. It has nothing to do with the dairy industry, but seemed an appropriate title for this month's article.

For many farmers, staying alive in a business sense is probably foremost on their minds in the light of recent milk price announcements. I read over Christmas a dairy outlook report published by Rabobank; well respected for their agricultural lending and knowledge of world agricultural markets and impacts on farm businesses.

Although it was quite a lengthy and complex document, its summary was probably most relevant to us as dairy farmers. Rabobank predicted volatility in farm gate pricing as dairy processors struggle to come to grips with a radically changed trading environment; a period in which some processors would have to make significant changes to their marketing practices and product mixes. Despite this, Rabobank considered the long term viability of the dairy industry as very sound.

Anyway, back to staying alive in the interim period. Nothing has changed as far as profitable dairy farming is concerned. The principles I've espoused over the last few years are just as relevant in today's market as they were in the past. We work in numbers in dairying; numbers of cows and numbers of hectares. To ensure overall profit each individual cow and hectare must produce above its cost or investment in it.

For the cows, Milk Over Feed Cost is the only determinant, and herd testing will identify those who are not performing. For hectares, tonnes of dry matter harvested is the sole measure of performance. This may seem a brash statement in regard to hectares as the cost of inputs can vary dramatically. However, I've yet to see fertilizer well prescribed produce a loss on investment. Certainly variables such as plant density and specie come into play here. Fertilizer is the cheapest feed you can buy.

Both cows and hectares have fixed costs. The cow has a maintenance cost of around \$1.85/day (70 MJME x 2.65c/MJME - Holstein) whether she produces 10 litres or 30 litres. Here's an example February ration/late lactation herd: 1.8 kgs DM pasture (25c/kgDM), 9 kgs DM silage (35c/kgDM), 3 kgs DM crop (17.5c/kgDM) and 4.5 kgs DM grain (wheat/barley/canola meal/minerals – 35%/35%/20%/10% - 32c/kgDM). This ration would produce 24 litres @ 29c/lt = \$6.96 milk income, based on new February milk price. The ration cost \$5.41/cow/day = \$1.55 profit (Milk Over Feed Cost). Now, if we save some feed

cost by removing 3.7 kgs DM silage and 1 kg DM crop (\$1.47) the ration would produce 15 litres.

But look at profit or Milk Over Feed Cost – now a loss of \$1.06/cow/day. By underfeeding our cow by 4.7 kgs DM we've taken her from a moderate profit to a loss! We reduced feed cost by \$1.47 and milk income by \$2.61. Our feed cost per litre at 24 litres was 22.5c/litre. At 15 litres it became 36c/litre, due entirely to fewer litres concentrating the fixed maintenance cost per litre. The lesson: litres determine profit! To dramatize my point further, over a 200 cow herd the profit drop is \$228/day or \$1596/week! Feed available must match cow numbers to ensure efficient conversion of feed to milk – the fixed cost maintenance factor. The fully fed cow is the most efficient and profitable.

Without going into the figures to the above depth, I assure you, pasture production, or tonnes of dry matter harvested per hectare has a similar impact on profit due to the fixed cost of owning (or leasing) land. Again, fertilizer is our cheapest feed when used correctly. Example: land at \$12,500/Ha (\$5000/acre) at a nominal 5% return on investment is \$625/Ha. At 4 tonne DM harvested/Ha capital cost is \$156/tonne DM pasture (fertilizer, seed, drinking water, tracks, fencing etc on top of this). At 8 tonne harvested/Ha capital cost is \$78/tonne DM pasture. There is certainly room here for profitable investment in fertilizer.

We all focus far too heavily on milk price, or grain price, or fertilizer price and not enough on their actual impact on our profit. Milk price, based on the information I have, will drop 37%, and this is dramatic, grain price has dropped (38%) and fertilizer (40%). We must ensure all components of our dairy business are productive and any decision to cut cost needs to be well informed of the probable outcome of such cuts.

The interaction of input costs and milk price is not too complex and can be monitored. Further revelation as the season progresses will determine our ultimate outcome. To wind down production as a reaction to milk price is to 'shoot yourself in the foot'. Dairying is still viable and I encourage you to push all parameters for higher production; per cow and per hectare.

Some things to think about: Wheat is now cheaper than the cost of the silage you made on your farm. Barley is now cheaper than grazed pasture. Many farms will now be looking at forage shortages due to poor spring harvest, although you must maintain a 60% forage based ration, grain is the cheapest option as far as bought-in feed is concerned. A 50:50 wheat barley grain mix is about \$270/tonne = 2.07c/MJME (energy). Hay at say \$300/tonne = 4.2c/MJME – twice the cost based on energy. We require energy for milk production so cost out bought in feed on an energy basis. Use grain to the maximum – no feed-out cost and no wastage.

Milk price, grain price, fertilizer price and fuel price are all relevant to our farm business, but I'm convinced beyond doubt they are minimal compared to the impact the farm manager has on profit. This is not intended as an insult, but encouragement, for we have significant potential to improve our profitability inside the farm gate.