

WHAT CAN YOU AFFORD TO PAY?

PLAN FOR PROFIT

What price could you afford to pay for feed and still achieve a reasonable profit? It's important to plan well before you buy.

Given your target milk yield and milk income and your estimate of how much of your herd feed requirements you can grow on-farm, you will have worked out what quantities of feed you need to buy. Now it's time to think through what you can afford to pay for each feed.

Consider other costs first

Since the milk yield you achieve needs to do more than just cover bought-in feed costs, it's important to determine what cash 'workload' your infrastructure, operating practices and lifestyle choices impose on your herd.

Capital costs such as farm development works and personal drawings are discretionary costs determined by individual choices. Debt-servicing costs and other dairy operating costs (herd, shed, grass growing, labour and overhead costs excluding bought-in feed costs) tend to be relatively fixed once you have determined herd size.

Debt-servicing costs depend on an individual's attitude to risk and can range from \$0 to \$2.00/cow/day. Other dairy operating costs frequently consume between \$3.50 and \$4.00/cow/day.

The affordability of your bought-in feeds is linked to their ability to produce sufficient milk to cover your overall financial plan.

Break-even feed price

Given the quantities of bought-in feed you expect you will need to achieve your target milk production and total income for the year, what's the top price you can afford to pay for your bought-in feeds and still protect your equity position? Remember that in tough times you protect your equity position by losing the least amount through your trading activities.

KEY MESSAGES

Work with a business management specialist to work out your 'break-even' and 'target' feed prices

Armed with your feed budget and your 'target' feed price, you're now ready to go shopping

By doing an annual cash flow analysis, you will be able to estimate both a 'lose-least' and 'break-even' feed price – the prices you can't go over if you want to control your total feed costs and minimise or avoid negative annual net cash flow. These are useful figures to have at the back of your mind.

Target feed price

Of course, positive annual net cash flow is what dairy farmers are aiming for! You need to consider what price you can afford to pay for your bought-in feeds to achieve an annual net cash flow that you would be satisfied with for your farm business.

This is the figure that, if achieved, would allow you to sleep soundly at night. Remember that you don't have to buy every load below your target feed price for grains/concentrates or fodder to achieve your target price on average across the whole year.

Apart from buying feed as required at the 'spot price', there are other pricing tools you can use to control your business's feed price and sleep better at night.

You can't control the market price of feed, but you can control your farm business's average feed price!

Do a detailed analysis of your current farm financial position with a business management specialist and work out your 'break-even' and 'target' feed prices.

The table below may serve as a useful worksheet in your discussions.

	Example farm figures (\$)			Your figures (\$)		
	Lose-least	Break-even	Target	Lose-least	Break-even	Target
Income						
Milk	1,123,000	1,123,000	1,123,000			
Livestock	60,000	60,000	60,000			
Other	10,000	10,000	10,000			
Total	1,193,000	1,193,000	1,193,000			
Costs						
Herd	80,000	80,000	80,000			
Shed	28,000	28,000	28,000			
Labour	110,000	110,000	110,000			
Pasture growing	175,000	175,000	175,000			
Bought-in grains/concentrates	470,000	440,000	360,000			
Bought-in fodder	100,000	90,000	75,000			
All bought-in feeds	570,000	530,000	435,000			
Overheads	80,000	80,000	80,000			
Total	1,043,000	1,003,000	908,000			
Operating surplus/deficit	150,000	190,000	285,000			
Finance	120,000	120,000	120,000			
Capital (including drawings)	70,000	70,000	70,000			
Net cash flow*	-40,000	0	95,000			

*Excludes depreciation and \$100,000 imputed owner/operator/family labour and management



Net cash flow

Bought-in feed cost
= no. tonnes multiplied
by average price/tonne

All other operating costs
(except bought-in feed)
Finance costs, capital costs
(inc. drawings)

If not carefully managed, either your bought-in feed costs or your other operating costs could leave you with nil or negative net cash flow. However, every effort you make to control these costs will flow straight to your bottom line, resulting in greater net cash flow.

Note: Net cash flow is calculated after personal drawings for day-to-day living expenses – it is the 'cream' generated by the business that can be invested on or off-farm, or spent on a holiday, new car, kitchen, etc.

Now you're ready to go shopping!

Now that you know what quantities of feed you need to buy, and have a target price to aim for each of your feeds, you can move on to Step 2 in the buying process, giving due attention to:

- quality
- supply
- price.