Cutting costs in a low pay-out season

There have been a plethora of articles recently warning farmers to cut costs, with particular focus on cutting feed costs. A more responsible approach would be to focus on cost-effective expenditure rather than simply cutting costs.

Financial discipline and control is an important part of any business and should not vary depending on milk price. This discipline will be required to survive high levels of volatility which is now part of dairying. For long term survival, it is essential to develop the most profitable system. Modelling different options is a useful tool. Chopping and changing systems between years, is the worst thing a farmer can do. What makes money in good years usually saves money in poor years, but it may be prudent to do some fine tuning and refine the system.

Determining total farm profit is the difference between the selling price and the total cost of production per kg MS multiplied by the number of milk solids for sale. Both cost per unit and number of units are important. Using a metric like lowest farm working expenses can be very misleading, as lowest farm working expenses does not necessarily equate to highest farm profit if less milk solids are produced. Farm working expenses do not include interest, which is now the biggest single cost item for the average dairy farmer in NZ. The lower the production, the higher the interest per kg MS. Besides interest, a number of other items are fairly fixed for the season. For example, it costs the same to winter a cow producing 300 kg MS as it does a cow producing 500 kg MS, but the wintering cost per kg milk solid will be 40c/kg MS cheaper for the higher producer. The same principle applies to other overhead costs. If expenditure is cost-effective, simply lowering farm working expenses at the expense of production will be detrimental to the business, as it can lower income faster than lowering costs. The importance of diluting overhead costs must not be under estimated.

Consideration must also be given to long term effects any cost cutting may have on the business. Under feeding cows this season could transfer problems to next season, for example, more empty cows or lower body condition and less milk next season.

The focus must be sustained profitability and cost-effectiveness, as opposed to cost cutting. Cost-effectiveness needs to be designed into the farm system, starting with growing and utilising as much home grown feed as possible. This determines the optimum stocking rate and ensures any supplements are used to improve production rather than carry more cows. The feed to milk price ratio and response rates, determines the viability and pricing of supplements. Purchased feed should be economically assessed. This is not as simple as buying on cents/MJ of energy basis as different supplements may generate different responses e.g. grain normally promotes more protein while PKE promotes fat production, both improving MS yield. The difference is protein is worth 3x the value of fat making the value of the response more important than the MS response. Focus on improving efficiencies and diluting costs.

If cutting feed costs reduces production, as would likely happen, ensure that the saving will be greater than the lost income, before you “save”. Your consultant needs to develop a farm system that is financially robust and delivers maximum profit. If your system is optimised annually to maximise your profit, it may just be best to stick to your system and maintain good financial discipline every season.