



On-farm strategies to minimise the impact of high feed prices on business profitability

There are a number of strategies that can be employed on farm to minimise the impact of high feed prices on the profitability of businesses. These options are by no means all the strategies available in dealing with high feed prices. APL would recommend that producers seek professional advice from extension officers and/or consultant nutritionists when considering all possible options to address this issue.

Risk Management Strategies

The Australian pork industry has long recognised the need to effectively manage feedstuff usage and secure domestic feed grains, pulses and protein meals at competitive prices to enable effective competition in domestic and export markets. The reliance of pork producers on feed grain leaves them vulnerable to sudden increases in grain prices as a result of drought or swings in international markets. Once a crisis situation such as a drought has occurred, producer options to reduce risk are limited.

The pork sector has one of the more predictable requirements for grain demand. Piggeries tend to have a regular and predictable number of animals on feed and are able to employ more price risk management tools than other livestock industries. The current operation of the grain market presents pork producers, with exposure to the risk of high grain prices relative to pork prices. They need to manage their gross margin, the difference between buying from producers and traders at uncertain and volatile price, and selling to end retail users at fixed prices.

The foundation for all risk management is what cost level must be achieved to make the profit necessary to cover expenses and perpetuate the operation. Once the break-even level has been established, then it becomes a matter of buying ingredients that meet or beat the target price and locking in the sales of a final product.

The marketing and buying of grain and oilseed crops in Australia has traditionally involved the delivery, transfer of title and pricing occurring at the same time in the spot market. However the deregulation of the domestic market in recent years has rapidly expanded the alternatives available for marketing and contracting. Buyers of feed grains – either pork producers directly or stockfeed companies - now have a wide variety of contracts that can be negotiated to suit individual circumstances. In all cases, it is important to monitor trends in global and domestic feed supply and pricing.

In order to develop a producer specific risk management strategy APL recommends a look through the various available resources for additional information on possible risk management measures and tools. One possible source of information on feed grain related risk management is the website of the Australian Stock Exchange [Australian Stock Exchange Futures information](#)

Additional information available for download from APL's website:

- [Managing drought price risk - a guide for grain end users](#)
- [Management and nutritional strategies to address the challenges of low profitability](#)
- [Drought alert 2007: feeding strategies](#)

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AUSPIG

AUSPIG is a computer decision support system that models a herd's unique performance characteristics so that more profitable management strategies can be determined and implemented. The more common management issues identified by AUSPIG are the:

- level amino acids are oversupplied in the respective diets,
- amount of feed wastage
- level of stocking and
- appropriate marketing strategy.

This valuable management tool for piggery managers is able to provide information on feed ingredients, formulation of diets and feeding levels. Some Australian producers, especially in Queensland, have reported increasing profitability of \$100 per sow in the first year of using AUSPIG.

The most onerous aspect of doing an AUSPIG analysis is the collection of physical feed data. That is, measuring the amount of feed offered and left over for a specific batch of pigs from weaning to point of sale. However, results have shown that there can be an increase in profitability in the first year of using this system.

To do an AUSPIG analysis of your piggery you will need to contact a licensed AUSPIG facilitator. If you do not know of one, please contact Emalyn Laudon from APL on 1800 789 099.

FEEDCHEQUE

Another option that home mixers should consider is FEEDCHEQUE, developed by APL as a group-training package. The FEEDCHEQUE "kit" provides a manual and simple tools to assist pig producers to improve their on-farm diet mixing practices as well as maintaining the quality of mixed feed prepared on-farm in the long term.

Studies have shown that there is often substantial room for improvement in the ways diets are formulated and prepared on-farm. In fact, a piggery that recently evaluated its home milling procedures using FEEDCHEQUE estimated that that they could improve their profitability by \$20,000 per annum by ensuring the desired particle size and uniformity of feed ingredients was achieved during the milling process.

Other issues identified by home-mixers using the FEEDCHEQUE program were:

- inadequate mixing times;
- overfilling of mixers;
- segmentation of feed ingredients in the mix;
- cross contamination of ingredients between feed batches.

Feed Wastage Minimisation

Potentially all feeding systems are capable of mismanagement. In fact, an AUSPIG study by Sara Willis, DPI Queensland of ten herds in 2001 found that feed wastage ranged from 5 – 27%*; with 70% of herds wasting more than 10% of feed. Reducing feed wastage from 15% to 10% improved profitability by \$65 per sow. Best practice strategies identified by this study to reduce wastage were:

- ensuring proper adjustment of feeders (ideally by one designated staff member)
- checking feeders daily to ensure proper flow rate and good accessibility of feed to pigs
- maintaining feeders in good condition
- ensuring that feed is fresh and palatable
- checking flow rates in feeder drinkers don't exceed 0.5l/m to minimise feed spoilage
- monitoring feed conversion for the growing herd
- using AUSPIG to address feed use issues

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**27% feed wastage was for a piggery that was floor feeding*

Buying Groups

Through the advantage of economies of scale, forming a feed buying group enables producers to obtain consistent high quality feed at a competitive price. A Queensland producer who is a member of a feed buying group, stated that in addition to lowering his feed cost, his Feed Conversion Ratio (FCR) and growth rates improved due to the pigs being fed better diets. There are four key points that will ensure a feed buying is successful:

- committed individuals who are like-minded;
- members who are geographically close together;
- groups having similar genetics; and
- pigs sold to similar markets.

The size of the piggery operation should not be an obstacle in becoming a member of a buying group.

Joining an Alliance

An alliance is a formal business structure whereby members of a supply chain agree to work together to maximise their returns and minimise risk. Small producers particularly benefit from an alliance as they can access the advantages of being part of a larger scale operation.

Now, more than ever, producers should consider joining existing alliances. The benefits can be considerable – including containing costs; consolidating markets; gaining a higher return; and achieving a closer partnership with the supply chain resulting in more consistent prices which enables easier and more effective planning. APL has been actively involved in encouraging producers to look at this option through our National Networks Alliance Program (NNAP). If you would like more information on existing alliances, please call APL on 1800 789 099.

Feed Efficiency - Monitoring and Improving Feed Conversion Efficiencies

It has been calculated that a 0.1 % improvement in grower FCR can improve the profitability of a 200-sow unit by approximately \$6,000 per annum. Some options to improve FCR include:

- minimising feed wastage;
- controlling pests (eg mice);
- ensuring ventilation and temperature controllers are functioning properly;
- checking the water supply (including flow rates to the pigs); and
- ensuring pigs are not overstocked as this can dramatically increase cost of production through a poorer feed conversion and growth rate

Bi-Product Use

Access to a wider range of feed ingredients is necessary to minimise diet costs and reduce the pig industry's reliance on feed grains. Consequently, there are compelling arguments for diverting food industry bi-products away from traditional disposal methods (eg. landfill and sewage treatment systems) and utilising them for animal production. Note that **swill feeding in Australia is ILLEGAL and dangerous** (see notes below).

Liquid feeding has been suggested as one means of improving feed use efficiency and accessing lower cost feed ingredients. However, the majority of pigs in Australia are fed dry diets in either a meal or pellet form. Liquid feeding has not been widely adopted by the Australian pig industry due to the perceived high establishment costs. Liquid feeding systems increase the range of solid and liquid ingredients capable of being used in a mixed diet. Increased flexibility in raw material use provides the potential to lower total feed costs by using low cost food industry bi-products. Utilising food industry bi-products in a wet form

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using liquid feeding systems is usually cheaper than drying products into a form suitable for inclusion into pelleted diets. The dry matter content of the bi-product, the distance from factory to farm and the cost of alternative disposal will affect the economics of bi-product use.

Utilisation of food industry bi-products by livestock reduces the amount of “waste” material otherwise disposed through landfill and sewage treatment. Utilisation of food industry bi-products can provide an alternative income for farmers. In the UK several food processors are prepared to pay farmers to utilise their bi-products rather than be charged a greater amount to dispose of their “waste” in landfill or sewage treatment. The range of food industry bi-products available to a producer is limited by:

- the nutritional value of the bi-product;
- the price (if any) of the product;
- the volume available;
- the dry matter the bi-product; and
- distance and transport costs from processor to farm.

Bi-products that are suitable for use include:

- whey and other dairy bi-products;
- starch bi-products;
- bakery bi-products;
- vegetable processing wastes;
- brewery and cider bi-products; and
- non-compliant icecream and other food products.

In the most cases bi-products can be included in rations “as is” but in some farmers may be required to further process the bi-product to make it more suitable. This could range from de-wrapping packaged product to reducing water content from very dilute bi-products.

Residues / Swill Feeding

WARNING: SWILL FEEDING IS ILLEGAL

In the current difficult feed situation producers may be tempted to utilise waste products from the food industries as a cheap source of feed for their pigs or turn to bi-products from feed wastage. Producers should be aware of the potential dangers to such feeding strategies. For example bi-products from feed wastes could contain unidentified chemicals that could impact on domestic or trade markets through residue contamination. Producers should ensure that they have residue management strategies in place for the safe stock feed use of bi-products from feed and plant processing wastes that address the necessary withholding periods or export slaughter intervals. The Australian Pesticides and Veterinary Medicines Authority (APVMA) routinely establishes Maximum Residue Limits (MRLs) for chemicals that are updated monthly and available on the [APVMA web site](#). For further information contact the Chemical and Residue Evaluation section of the APVMA at 02 6272 3212.

Producers should also be aware that strict laws and conditions apply to the feeding of "swill". In general the practice is illegal in all States and Territories especially if the bi-product contains any animal protein. In some states the use of bi-products such as cooking oils that have been used by the fast food industries are either not specifically regulated, or are subject to restrictions. If any food industry bi-product is being considered for use, please contact the local Department of Agriculture first. Large fines are imposed for breaches of swill feeding laws and regulations.

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FARM MANAGEMENT DEPOSITS

The Farm Management Deposits (FMD) scheme is a tax-linked, risk-management tool, which allows primary producers to deal with variable income. The scheme allows primary producers to set aside taxable primary production income in profitable years, to be withdrawn, usually in lower income periods.

Farm management deposits are offered through authorised deposit-taking institutions (ADIs) such as banks, building societies and credit unions. Interest is earned at market rates on the deposit's full amount.

To be eligible to invest in an FMD, individual primary producers must not earn more than \$65,000 off farm income in the year of deposit. In addition, only primary production income can be invested in FMDs, up to a maximum holding of \$400,000 at any given time. Deposits are tax deductible in the year they are made, and included as taxable income in the year they are withdrawn. To qualify for the tax deduction, deposits must remain in the account for at least 12 months, unless the withdrawal is made in Exceptional Circumstances (EC) and the deposit was made prior to the area being EC declared ([Exceptional Circumstances-declared areas may be exempt](#)).

To apply for a FMD, contact your local financial institution (bank, building society or credit union)

For further information about the scheme, visit the [DAFF website](#)

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