

Buying feed direct, farm to farm



At first glance, buying direct from a grain or fodder producer to save costs versus from a feed trader or merchant looks attractive, but needs careful consideration. In making the choice between a 'direct' purchase farm-to-farm versus a 'trade' purchase, you must consider both the 'contract management' issues as well as the 'physical movement' issues when sourcing grain or fodder. Supply chain costs, market volatility and supplier risk must also be considered.

You can choose to buy grain and fodder three different ways:

- Direct farm to farm, face-to-face or online
- Through a broker, face to face or on-line
- Through a third party, such as a merchant / trader / stockfeed company

The same physical movement of grain and fodder applies, regardless of the buying method, but you need to consider which contractual tasks you want to manage.

Supply chain costs

There are several ways in which grain finds its way from a grain farm to a dairy farm (Figure 1).

Grain supply chain costs can be \$10-\$20 lower through the 'direct' channel (by avoiding an intermediate storage step). This applies regardless of feed price, whether the price is \$200/tonne or \$400/tonne.

Fodder supply chain costs can also be lower through the direct channel.

Market volatility

Feed prices can and do move by up to +/- \$100/tonne over a season. To understand or enhance timing of feed purchases requires quality information, market monitoring and attention and advice (see Fact Sheets 8 and 9).

Key tips

- Consider whether you have the time to manage all the tasks associated with managing feed supply. It does not happen by itself: a stockfeed company, merchant or trader can take some, or many, of these tasks off your hands, so make sure you value your time before you take it on.
- Can you monitor feed prices daily-weekly to know what is happening in the market – or do you use a trusted merchant to keep you informed?
- Can you manage supplier risk? Does it become your problem if the supplier does not have the feed, or fails to deliver, or do you leave that to a stockfeed company, merchant or trader?

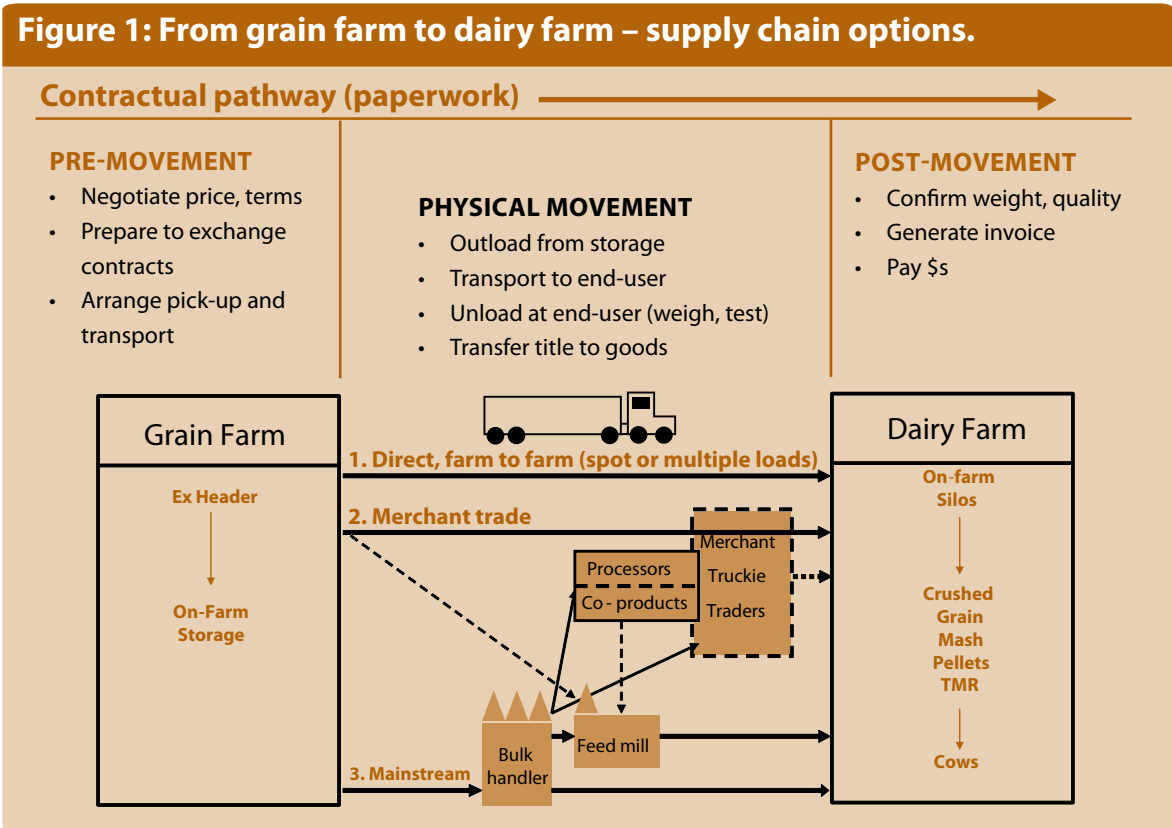
Supplier risk

When buying 'direct' you are exposed to the individual feed supplier's performance against any contract you have. In a 'trade' purchase your exposure is to a stockfeed company, merchant or trader, who has many feed suppliers, so if one supplier fails to perform this can usually be managed (see Fact Sheet 10 for more information on the role of agents in feed buying, and how they can add value).

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The diagram below describes the contractual pathway for grain, and the tasks that must be managed before, during and after the physical movement of grain from the grain farm to the dairy farm.



Contract execution – making it happen

When securing feed you have the option of doing all the work yourself or using an agent. Even when the contract has been drawn up, someone needs to be responsible for ensuring and monitoring the delivery of the feed. Look over the following list of tasks to determine whether you have the time and expertise to carry out these tasks:

- Arrange pick-up, trucking schedule, and ensure necessary equipment (e.g. auger) is available.
- Perform quality tests (feed lab analysis).
- Weigh loads and get weight certificate.

- Communicate regularly with supplier during season.
- Arrange payment schedules – for supply, freight, storage.
- Monitor supplier/buyer risk in the event of a major price/supply shift.

It may be good value for money to pay a local agent \$5-10/tonne to manage these tasks, including contract creation and contract execution.

Remember that when you buy feed from a stockfeed company or a grain or fodder merchant or trader, all these tasks are performed for you and are included in the price.

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Feed storage facilities – build your own or pay someone else?



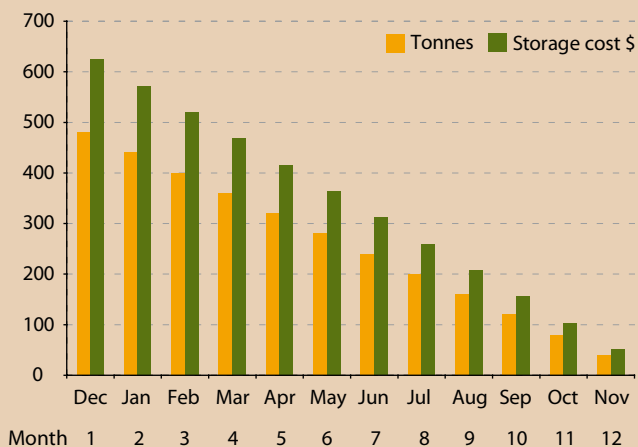
When it comes to storing feed you have two options: build your own storage facilities or pay someone else to store your feed. Here is a simple example using grain to help you calculate storage costs and compare options.

Garry buys 480 tonnes of grain from a supplier at harvest. He will use this quantity over 12 months at the rate of 40 tonnes per month.



Option 1: Garry pays his supplier \$1.30 per tonne per month to store his grain for him.

Garry's storage fee in the first month is 480 tonnes X \$1.30, in the second month 440 tonnes X \$1.30, in the third month 400 tonnes X \$1.30 etc. Garry's total storage cost over 12 months is \$4,056.



Garry has worked out that the capital cost to build storage facilities sufficient to store 480 tonnes of grain would be \$50,000, taking into account full installation



Option 2: Garry invests in his own dairy farm grain storage facilities

cost, pads, road access, augers and other equipment. If he financed this at 7.5% interest over five years, the annual debt servicing cost would be approximately \$12,000, and the total cost over the five years would be \$60,000 (excluding taxation effects) vs \$20,000 in storage fees at about \$4,000 per year (Option 1).

Over this five-year timeframe, assuming he buys a similar quantity of grain each year, Garry reckons he'd be much better off paying someone else to store and look after his grain, keep it free of insects and mice, pay insurance, etc. and call for the grain when he needs it. However, if Garry can see the working life of the grain storage facility exceeding 15 years, he may consider Option 2 the more attractive option.

Note:

- If you get a load from a supplier's storage that doesn't meet your quality standards, you can always reject it, but not if it is from your own storage!
- Don't confuse storage fees (above) with finance costs (eg. \$250/tonne @ 8% = \$1.67/month). They are often lumped together and called a 'carry cost'.

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Grain crushing – do it yourself or pay someone else?

Buying whole grain direct, farm to farm, brings with it the decision to process the grain yourself. You need to consider the capital and depreciation costs, maintenance, repairs, power and labour costs. You also need to allow for losses of 1-2% in grain during processing.

Given the real cost of crushing your own grain, it may be preferable to pay someone else to do it for you, i.e. buy crushed grain, a grain-mix or a pelleted feed.

If you choose to crush your own grain, you need to continually monitor the crusher's performance and service it regularly. Some grains are more difficult to process effectively than others. A stockfeed mill is generally able to handle a wider range of raw materials to include in a ration, whereas on-farm crushers will have a more restricted range of ingredients.



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