

Price Contracts for Dairy Cattle Concentrate or Grain Mixes

Price contracting is an excellent tool used by many dairy farmers to lock in prices for their dairy businesses. With known costs, dairy production costs (usually feed costs) can be estimated and these known prices then can be used in budgeting and planning throughout the year. Many dairy farmers have routinely contracted with a local feed company for a certain tonnage of a complete grain mix (complete feed) or protein supplement to be delivered for a set time frame, usually one year. Many of these contracts expire this fall and will need to be renegotiated.

If you have not already received a price for your grain mix this year, be prepared for sticker shock. Prices for all feed ingredients have increased tremendously from a year ago. These increases have modulated since corn and soybean meal prices have come down the last few weeks (as I am writing this article). Feedstuffs, the trade magazine for nutritionists, publishes the cash prices for various commodities each week and compares that price to the price from a year ago. As shown in the table, as of August 13th, the prices for shell corn and soybean meal have increased 41 and 54%, respectively, from a year ago. The more troubling price increase has been seen in wheat midds. Prices for wheat midds have increased from \$60/ton to \$145/ton or 142% from a year ago. Wheat midds

has traditionally been heavily used in some of the economical pellets sold in Kentucky. In addition, major increases in prices have occurred in minerals, vitamins and feed additives. All of these increases result in higher feed (grain mix) costs for the upcoming year—let's hope milk prices stay up there. On the brighter side of corn and soybean meal prices, they have been trending downward the past few weeks making it a more opportune time for price contracting.

Commodity	Aug 13, 2008	Year Ago	% increase
Shell Corn, (Chicago, bu)	\$5.41	\$3.84	41 %
Soybean Meal (48%), (Decatur, ton)	\$352.20	\$228.20	54 %
Wheat midds, (Minneapolis, ton)	\$145.00	\$60.00	142 %
Cottonseed meal, (Memphis, ton)	\$285.00	\$125.00	128 %

Source: Feedstuffs, Issue Date August 18, 2008 @ <http://www.feedstuffs.com>

Requesting a price bid from a feed company can be done in various ways.

1. Ask the feed company to balance a ration for your cows and available forages at a set milk production level and price the grain mix needed to support that milk production
2. Ask for a grain mix price that meets a set of nutrient specs (i.e. crude

protein, energy, minerals, feed additives etc.)

3. Provide a grain mix recipe which the feed company then prices

All of these ways will work in arriving at a bid or contract price for a grain mix. I would guess that the first option is the method used most often by Kentucky farmers. One advantage of options 1 and 2 is that cost effective substitutions for corn and soybean meal can be made that meet the nutrient needs of your cows but attempt to economize ration costs without sacrificing milk production. However, a limitation of both options 1 and 2 is when you want to compare prices between companies. In option 1, each company could use different nutrient specs to balance the ration assuming you provide current forage analysis results. In option 2, even though the constraints are tighter, companies may use different energy values for each feed ingredient, thus making comparisons between companies difficult. For example, the NEI value for soyhulls could range between 0.66 to over 0.80 Mcal/lb dry matter. Although option 3 will allow one to compare prices between companies, it does not allow companies to utilize ingredients that

provide nutrients cows need but at a more economical cost. In this price climate, it is imperative that you keep your options open. For example, for the University of Kentucky's heifer mix, I was able to save \$80/ton or \$7000 per year for these heifers by using by-products versus corn and soybean meal exclusively. (Realize that the university bid schedule took place in July when corn was over \$7/bu.) But, the point here is that keeping an open mind toward utilizing some urea or other by-products can reduce feed costs as long as the nutrient needs of the cows and heifers are met without compromising milk production, health, reproductive performance or growth.

The bottom line is there is no easy way to compare grain prices between companies. If you have found a way, please share it with me. Just remember to look at the bottom line— income over feed prices. Sometimes a penny wise turns out to be a pound foolish. Do not compromise milk production – that is what makes it possible for you to make money especially in this pricing climate. Happy price hunting!

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