Prudent farming: How farmers can cut input costs in grain and animal farming

Managing input costs is key to remaining profitable in grain and animal farming - the lower the total input costs, the greater the profits yielded. Senior Agricultural Economist at FNB, Paul Makube answers a few questions on the biggest expenses in animal and grain farming and proposes some cost cutting measures for farmers.

Paul Makube, Senior Agricultural Economist at FNB

What are the biggest expenses in animal and grain farming?

Fertiliser accounts for roughly 22% of the direct variable costs, followed by fuel at +15%, herbicide and pesticides at +11 and seed at +10%. These, of course, will differ according to the commodity being produced, expected yield and whether i in dry or irrigated land.

In livestock production, the greatest expenditure is in feed and health costs. Feed constitutes 50% to 55% of input costs. Maize constitutes +70% of livestock feed. The profitability of this sector is highly linked to grain production.

What can farmers do better to decrease the expenditure?

Grain farmers have to adopt a sustainable purchasing strategy for fertiliser and herbicides, together these account for ove 30% of production costs. About 80% of fertiliser and some herbicides and pesticides are imported and, therefore, subject fluctuations in the rand/US dollar exchange rate and international prices. If one adds fuel to the mix, it means that the farm has no influence on prices of closer to 49% of production inputs.

A prudent application of fertiliser/herbicide/pesticides is required – application at the right time, in the correct type and quantities. It also means regular soil tests, practicing conservation agriculture and adoption of genetically modified (GM) crops that in turn help lower the reliance on pesticides and herbicides.

Livestock requires an improvement in feed conversion ratios and a smart grain procurement policy which takes into accou the high price volatility.

How does prudent farming impact on efficiency in farming?

Last year saw the worst drought since the 1900s. Grain prices skyrocketed and squeezed margins in the poultry, pork anc feedlot industries. We also had an invasion of the Fall armyworm. What helped is that almost 80% of South Africa's crops are GMs, minimising the impact on the 2016/17 crop which saw the recent grain and oilseed production estimate coming i at a record high of 18.10m tonnes, up 93% year-on-year (y/y). The maize crop estimate rebounded strongly by 101% y/y 15.63m tonnes, according to the June 2017 Crop Estimate Committee (CEC) report.

What rule of thumb should be kept to ensure that a farming business is sustainable eve in tough times?

Ensure that a sound business and financial plan is developed, implemented and augmented from time to time to address th immediate and new risks.
"Like any business, profitability is increased by managing spend better. A noble idea would be to sit with a financial plann who can assist with a range of financial products to address individual and business needs," concludes Makube.