

Open dialogue improves ingredient value chain

With a focused effort and small time commitment, it is possible to dramatically increase the understanding and mutual trust between two primary value chain constituents: the soybean meal processor and feed manufacturer.

By **GORDON DENNY***

FEED production and animal agriculture have always been subject to dynamic market swings in terms of demand and profitability.

Many of the factors affecting market volatility are out of the control of those directly involved in the feed and animal agriculture business. Meat exports, currency exchange rates, feed ingredient prices, consumption trends, government policies, consumer demand and the potential for a food crisis like the recent lean finely textured beef situation are unpredictable.

It is important to manage what can be controlled and to look for areas of improvement in the feed value chain. Areas with significant potential are improved quality and profit enhancement.

Achieving this potential requires strong communication and an open relationship with the providers of the major protein source for animal agriculture in the U.S.: domestic soybean meal processors.

The soybean value chain is very diverse, and to the detriment of all parties, each link in the chain typically has mutually exclusive goals.

For example, it is easy to understand why the soybean processor wants to sell soybean meal at the maximum price and volume while just meeting the specifications for protein and fiber. On the other hand, the feed manufacturer wants soybean meal with the best amino acid profile at the lowest price and the

highest feed conversion characteristics, all with timely and consistent delivery.

Additionally, in some cases, soybean meal buyers, nutritionists, feed mill operators, soybean meal sellers and soybean processing plant managers seldom, if ever, talk directly with one another. This lack of communication can lead to a less-than-perfect understanding of what a soybean processor can do to partner with the end user.

Why partner?

U.S. agriculture has continued to transition to a bulk handling and processing business, where economies of scale keep costs low enough to be

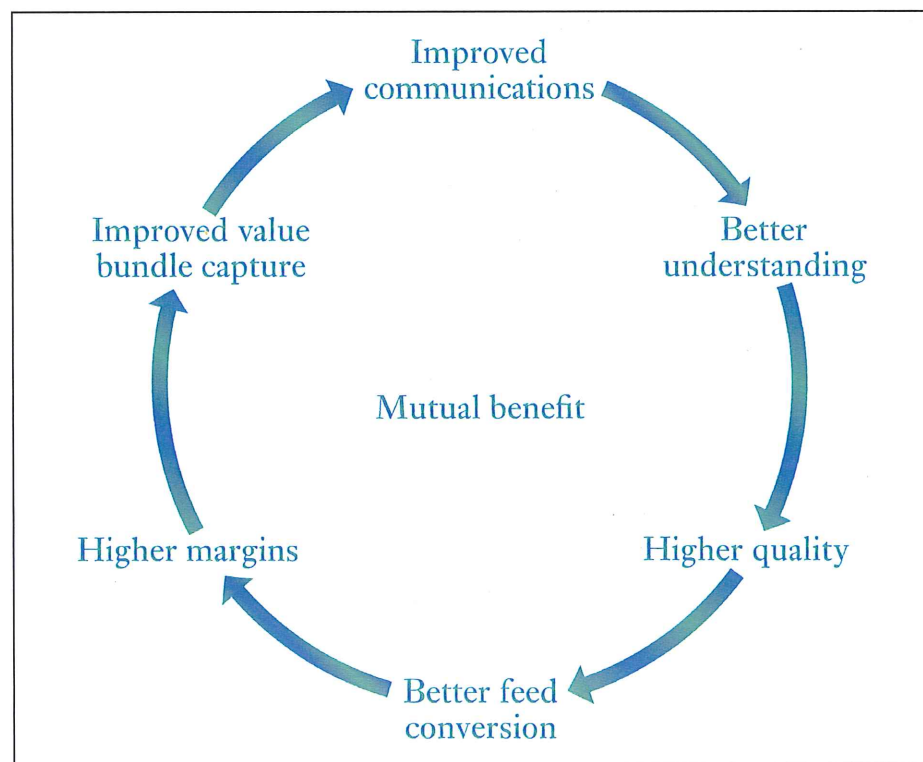
competitive and profit margins high enough to generate returns that attract the capital investments that fund upgrades to remain competitive with the rest of the world. Little or no return on investment would, of course, move production offshore to other countries and other economies.

While pushing toward high volumes, a soybean processor will design, build and operate a plant to run at consistent, maximum run rates with optimum productivity and efficiency.

Like feed manufacturers, many of the economic variables of the soybean processing industry are out of the soybean processor's control. However, a processor can do several things if the buyer is willing to acknowledge the value in the effort.

Adjustments in the soybean meal manufacturing process can change the protein, fiber, moisture and residual oil content as well as the toasting, texture/grind, amount of fines, flowability and bulk density of the finished product.

Due to normal changes in soybean



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processing quality, ambient weather conditions, process variables and run rates, the daily quality of any feed ingredient can vary slightly from one railcar to the next. If there are certain meal traits and/or specific characteristics a feed manufacturer would like, it is possible for a soybean processing plant to provide them.

In turn, a feed manufacturer must understand and know the effect of quality factors on various protein sources to capture the maximum value from any particular trait.

Improved communications and better understanding among all parties can result in higher quality, better feed conversion, higher margins and improved value bundle capture, all of which work together to the benefit of all (Figure).

For example, if a poultry feed mill wanted a finer grind with higher flowability, higher residual oil content and heavier bulk density, a processor could adjust the plant to provide that, as long as the additional costs are covered.

The bottom line is that by

communicating with a soybean processor, it is possible to get soybean meal that is better suited to a feed manufacturer's specific needs, which helps eliminate feed production roadblocks and optimize feed conversion.

Successfully achieving these goals requires open and honest dialogue between both parties to explore and understand the possibilities, costs and benefits.

How to partner

The soybean industry is exceptionally diverse and has many participants. It is possible for any two links in the value chain to view each other as competitors, even if they rely on each other for trade and profitability.

In many cases, communication among nutritionists, soybean meal buyers, feed ingredient brokers, transportation providers and soybean meal processors is broken or incomplete.

Many nutritionists have never visited a soybean processing plant or don't

understand the complete process of turning soybeans into a feed component. At the same time, many soybean meal processors have not visited feed mills or livestock farms to understand the issues associated with providing consistent, high-quality feed every day.

With a focused effort and small time commitment, it is possible to dramatically increase the understanding and mutual trust between two primary value chain constituents: the processor and feed manufacturer.

The United Soybean Board is currently working to enhance the open dialogue between feed manufacturers and soybean meal processors.

The demand for U.S. soybeans, soybean meal and domestically produced meat and poultry will continue to expand. Continued industry support of and some additional efforts toward creating an open dialogue are essential to ensure progress toward a more profitable, growing and diverse domestic feed and processing industry. ■

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