# Coping with Low Milk Prices in 2015

Managing milk price volatility will be a key component of successful dairy businesses in the future. The outlook for 2015 is for a significant drop in milk prices as a result of strong growth in milk output from all the main milk producing regions in the world during 2014. This downturn is likely to be relatively short lived as the milk price received is significantly below milk production costs for most of the large milk exporting nations, resulting in a supply correction. In a low milk price year, the price received for milk on Irish farms is likely to be less than the total costs of production including the farmers own labour. It is vital that the industry remains cost competitive and maintains positive cash flows. While most of the focus will centre on cost control during a low milk price year, there are a number of aspects to managing milk price volatility:

(a) Developing a farm budget
(b) Cost control and management
(c) Produce high solids milk
(d) Creation of a sink fund
(e) Fixed milk price schemes

For 2015 the focus will be around (a) to (c).However, it is also important to now start focusing actions to undertake when milk price rises again to make the dairy farm less vulnerable in the future.

1. ***Cash flow budget*** – The most important component of managing low milk prices is to know the effect of a milk price reduction on total farm revenues in the year ahead. This knowledge must be used to reduce the impact of lower revenues on farm incomes.
   - The budget should be kept simple, and should be based on the expected physical performance of the farm. The budget should be completed on a monthly basis, estimating the income and expenses that your business is likely to generate in the year ahead.
   - This budget should be completed at the start of the year before significant expenditure has been made and while there are options and decisions that can be made to manage cash flow.
   - All cost categories should be considered including provisions for family drawings, taxation and capital repayments.
   - Review the plan quarterly; keep the basics of good farm and business management in mind.
   - Identify those who can help you succeed; ask for and use that support (i.e. agricultural adviser (Teagasc), family, bankers and accountant).
   - Financial management software is available (e.g. Teagasc Cost Control Planner or other such budgeting software).
2. ***Cost control*** – Managing costs on the farm is the most successful way to manage price risk. No one option will fit all farms and therefore there is no one solution around cost control. Table 1 sets out a target budget for a 100 cow herd in 2015. Your local advisor or discussion group can help with this analysis.
3. ***High solids milk*** – Producing milk with a higher milk solids concentration attracts a higher price and should be a key strategy to manage low milk price. Take an example of milk produced with 3.35% protein and 3.90% fat compared to milk produced with 3.65% protein and 4.6% fat at a base milk price of €0.25/l. The high solids milk receives a 3.8 c/l higher milk price than the low solids milk (€0.312/l and €0.274/l, respectively). Maximizing the amount of high quality grass in the diet throughout the year will have a positive effect on milk solids concentration and should be prioritized for 2015.

**Table 1: Target annual cash flow budget for a 100 cow dairy farm producing 41,603 kg milk solids (MS) on 45 hectares operated to a very high level of efficiency in a low (26c/l) base price (pre-VAT).**

| | Total (€) | € per ha | Cent per litre | € per kg MS |
|---|---|---|---|---|
| Milk sales | 155,914 | 3,465 | 32.1 | 3.75 |
| Livestock sales | 18,500 | 411 | 3.8 | 0.44 |
| **Receipts** | **174,414** | **3,876** | **35.9** | **4.19** |
| | | | | |
| Purchased feed | 12,060 | 268 | 2.5 | 0.29 |
| Fertiliser | 14,828 | 330 | 3.1 | 0.36 |
| Veterinary & AI | 10,952 | 243 | 2.3 | 0.26 |
| Contractor | 8,200 | 182 | 1.7 | 0.20 |
| Contract rearing | 16,800 | 373 | 3.5 | 0.40 |
| Other variable costs | 9,500 | 211 | 2.0 | 0.23 |
| **Total variable costs** | **72,340** | **1,607** | **14.9** | **1.74** |
| | | | | |
| Labour/Drawings/Tax | 40,000 | 889 | 8.2 | 0.96 |
| Machinery running | 6,300 | 140 | 1.3 | 0.15 |
| Car/ESB/Phone | 7,179 | 160 | 1.5 | 0.17 |
| Bank interest | 9,000 | 200 | 1.9 | 0.22 |
| Farm maintenance | 5,000 | 111 | 1.0 | 0.12 |
| Other fixed costs | 9,300 | 207 | 1.9 | 0.22 |
| Land lease | 5,000 | 111 | 1.0 | 0.12 |
| **Total fixed costs** | **81,779** | **1,817** | **16.9** | **1.97** |
| Capital repayments | 12,933 | 287 | 2.7 | 0.31 |
| Capital development | 3,000 | 67 | 0.1 | 0.07 |
| Single farm payment | 11,200 | 249 | 2.3 | 0.27 |
| **Cash surplus** | **15,562** | **347** | **3.8** | **0.37** |

## Options to increase receipts/ reduce cash costs and achieve targets during 2015

Cost categories that do not have a significant negative effect on long term farm productivity should be prioritised for savings and no category should be viewed as untouchable. As a general principle, farmers should engage early with suppliers to pre-agree requirements and prices for the year ahead and purchase in bulk to get best value. Where possible, the burden of reduced milk prices should also be shared with business partners such as land owners (leasers), contractors (including contract rearing) and other suppliers to reduce costs within the overall dairy business during 2015.

Among the main specific options to increase receipts and reduce costs include:

- Sell surplus animals and cull unproductive and empty animals early
- Delay/reduce/avoid investment in capital work: buildings, machinery, sward renewal, etc.
- Reduce spend on fertilizer by making better use of slurry, using urea for longer, bulk purchase, etc.
- Reduce spend on purchased feed by using baled silage and cheaper concentrate options instead when feed deficits are present
- Reduce spend on AI by using more high EBI test bulls
- Reduce machinery costs by avoiding non-essential works (such as hedge cutting, rolling and topping) during 2015.