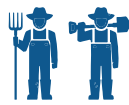


# MILK PRICE VOLATILITY

## How to cope



**120+**  
innovating  
dairy farmers



**14**  
operational  
groups



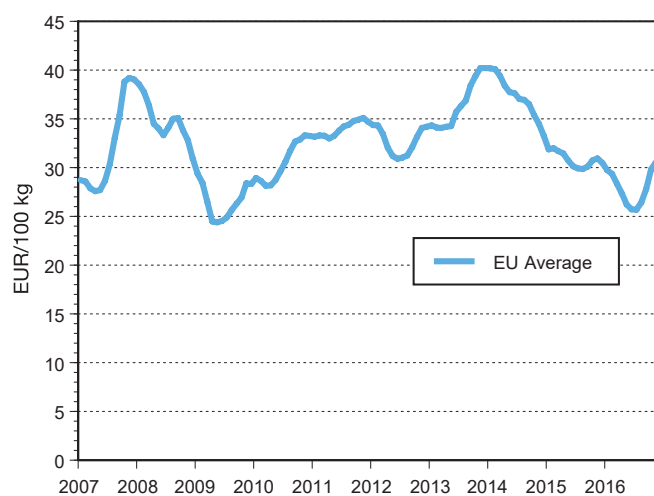
**40**  
knowledge  
transfer centers

Dairy farmers are often confronted with substantial changes in the prices they receive for their milk. When you have a look at the milk prices of the last decade, it's clear that all dairy farmers have to deal with fluctuating prices.

The cause of this phenomenon? 'Fluid milk and most dairy products have an "inelastic" demand and, dairy farmers exhibit an "inelastic" supply response to changes in milk price. The term is really just a way to say that dairy farmers make relatively small changes in short-run milk production decisions when the milk price changes and consumers do the same thing with purchase decisions. This type of behaviour can lead to volatile prices.

Price fluctuation is part of a normal functioning market. But extreme fluctuations or volatility can have significant negative consequences for producers of milk:

it makes financial planning and investment decisions more complicated. This affects at producer level and processor level and could prevent the dairy industry as a whole from maximizing its potential.



## FARMER CASE

### Brian McCracken's strategy for coping with lower milk prices

Brian's strategy revolves around keeping his production costs as low as possible. To this end he aims to make the most of his cheapest feed – grazed grass. Cows are all calved in a 12 week block in the spring, with around 80-85% calving in the first 6 weeks. Grass is measured on a weekly basis throughout the growing season to ensure an adequate supply of high quality grass. This reduces the amount of silage that needs to be made and minimises the use of purchased concentrates.

In particular when the recent very severe and extended depression in milk prices occurred Brian reduced cow numbers. This had two benefits, he generated cash from the heifer and cows sales and further reduced the pressure on the farm allowing him to further cut the use of purchased feed.



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# MILK PRICE VOLATILITY

## How to cope

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Volatility is an important norm in dairy farming. Being able to manage milk price volatility will be a key component of successful dairy businesses in the future. There is no magical solution to survive periods of recession. But there are some good practices to make it easier to cope with this situation.

### Strong financial awareness - Cash Flow Management

Cash flow is one of the most critical components of success for a business company because without cash, profits are meaningless. Cash flow refers to the difference between the amount of money coming into a business and the amount of money necessary to cover expenditures. It is necessary to get control of your cash flow. Therefore you must know:

- What is my cash balance right now (cash flow planning)?
- What do I expect my cash balance to be a year from now (cash flow forecast)? To get an answer on these questions, you can use several cash flow management tools.

[Example of a tool](#)

### Excellent farm management - Business optimization

Running a company is a challenge: you need to work both efficient and effective. It's important to have a critical look at all the organization's operations: are they useful, how much money do you gain,...? Do you make the right decisions at the right time? You also need to minimize the resources required to get things done. In fact, you demand for the best outcome for every action

and for every activity, for example crop management, animal health, animal feed, workforce, ... And always remember that efficiency must come before expansion: first better, than bigger.

### What is your breakeven price?

The break-even price is the point at which total cost and total revenue are equal. The higher your break-even price, the sooner you start to suffer when the milk price drops. During periods of low output prices, only the most competitive of producers typically make positive margins from milk production. That's why it's important to know what your (future) break-even

price is, especially when you are making future plans. A decent cost price calculation is necessary for each dairy farmer. It makes it clear when you may get (financial problems) and how you can solve it. There are several ways to affect the break-even price, for example reduce costs or increase the value of your output.

## CONTACT

**Ellen Vos**

[ellen.vos@innovatiesteunpunt.be](mailto:ellen.vos@innovatiesteunpunt.be)

[www.innovatiesteunpunt.be](http://www.innovatiesteunpunt.be)

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**Socio-Economics**



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