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Rural



The Farm Consultancy Group

Milk Cost of Production Report 2021





Welcome to the Milk Cost of Production Report for the year to 31 March 2021, and what a year it has been! It goes without saying that the year has brought about more than it's fair share of challenges, but dairying has escaped the full effects of many of them with the average producer turning a small profit of £185 per cow. This is off the back of a falling milk price, rising feed costs and straw prices at levels not seen before, so is all the more credit to the dairy industry.

Whilst the report shows the top 10% of farms received £103 per cow more for their milk, the difference between the profitability of the top 10% and bottom 10% of farms has widened to £1,328 per cow. This highlights the importance of cost control within the industry, with turning the question from 'Can I do this cheaper?' to 'Do I need to do this?' being particularly important as input costs rise.

It is costs which differentiate the top 10% from the bottom 10%, with £1,097 in extra costs being incurred by the bottom 10%. We know that scale has a part to play in reducing costs, but cutting out costs that do not provide a return helps ensure that the hard earned milk cheque doesn't disappear down the farm drive with the sales reps.

As the combined effect of buyers curtailing milk supplies early in the year and good beef prices kicking in we saw a 10% fall in the average herd size as adaptable farmers took the opportunity to remove the poorer performing animals from the herd. Add to this an increased use of sexed semen and non-milk income grew to 13% of total income through sales of excess heifers and higher numbers of beef cross calves in 2021, up from 10% in 2020. The top 10% have shown it is well worth taking the opportunity of the continuing good beef prices to assess individual cow's performance, removing the poorer ones.

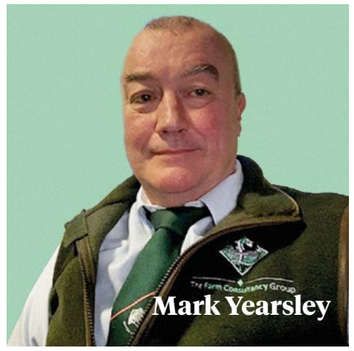
Compared to the rollercoaster of 2020/21, the 2021/22 year has felt quite stable up to now. Milk price has been relatively static, costs have risen rapidly and forage is in plentiful supply – certainly within the South West of the country. All of this points to a winter where the focus needs to be on profitability rather than production and to ensure any extra litres produced do indeed pay their way. Milk production can be highly rewarding in many ways, it is simply a case of adapting to market conditions which farming has done so well over the volatile 2020/21 year.

There is no magic method to being a successful milk producer, all systems can prosper. The common theme among successful producers is to focus on the big picture, and use what is in their control to suit what they cannot.

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The sample farms analysed include organic, all milk bonuses, a higher proportion of manufacturing than liquid contracts, plus more aligned contracts than would be the norm across the whole of the UK.





Budgeted profits per cow are expected to increase slightly by 12%, due to higher calf prices and a reduction in feed costs as forage stocks are plentiful - 19% drop for the coming year. The focus will be to challenge more milk from forage.

Variable costs are predicted to rise slightly by 1.3%, impacted by higher straw prices and an increase in sexed and beef semen usage, reducing the black and white bull calves on farm. Fertiliser usage could drop by 14% due to inflated prices with an emphasis on better utilisation of organic manures.

Labour costs are a concern, the lack of staff will push wages up as the demand increases by 2%. Higher fuel, oil and energy prices continue to be high and show no signs of reducing therefore I estimate a 5% increase compared to this year.

Farm profitability could rise as producers become more efficient and milk prices remain stable.

Looking at last year's data here are some observations...

Costs of Production still drives Profits. With a lower income per cow or pence per litre, comparable farm profit is up by £25 per cow. The lower the costs per cow or per litre, the higher the profit. Savings have been made on costs to reflect in this increase but comparable profit per litre is down which is the slight drop in milk price of 6%.

1. Cow numbers have dropped by 15 from last year but yield per cow has increased by 90 litres. Total Income has dropped by £9 per cow although stock sales are up by £31 per cow and stock purchases are down by £12 per cow. The drop is down to the average milk price.

2. The cost of purchased feed has helped in the extra £25 increase, probably due to better forage production than last year which has helped reduce bought in feed costs by £75 per cow and purchased forage by 27%.

3. Variable costs have also dropped overall by £9 per cow with savings made on vet costs of £3, sprays £3, bedding £10 and parlour maintenance £6 per cow. Breeding is up by £6 per cow probably due to the trend to use more sexed and beef semen, and an increase in stock sundries of £10 per cow

4. Labour has increased by £27 per cow which could be a trend for the coming year too due to shortages and higher wages.

5. Power and machinery costs are up which is no surprise when fuel and energy prices have increased. This is reflected in the silage costs which have increased by 42% - more forage made, higher fuel costs. 2018-19 showed a cost of £85 per cow, last year £74 due to early drought, Covid and lower fuel costs.

6. Administrative costs are higher by £15 per cow with big hitters being insurance, office and bank charges and professional fees, which I expect are the impact of Brexit, Covid and the challenges from the reduction of the Basic Payment Scheme.

What does the future hold? Producers have started to realise they have to look at their businesses and implement change in management decisions, the less reliance on subsidies means reducing costs where possible, improving efficiencies to maintain farm profits. The next generation of farmers will be more entrepreneur bringing new ideas and technology to their businesses. Focusing on cost of production and benchmarking helps with the decision making and those management changes.

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Key points

1. The average total comparable cost of milk production in the year to 31 March 2021 was £2,392/cow compared to average milk income received of £2,231/cow.
2. The total comparable cost of milk production for the year to 31 March 2022 is projected to be £2,354/cow against projected milk income of £2,165/cow.
3. Downward pressure early in the year brought average milk prices for 2020/2021 to 30.03p/litre, although it has still been possible to produce milk profitably on all types of farming system.
4. Milk income has remained stable for the fourth year in a row, with increased yields offsetting the fall in price. A favourable milk to feed ratio early in the year and good quality forage saw average yields rise 151 litres per cow.
5. Milk income is expected to reduce by £66 per cow to £2,165 as yields decline due to high feed prices, whilst non milk income is expected to rise to £356/cow reflecting the buoyant market for livestock.
6. Non milk income has recovered in 2020/21 due to the improvement in the beef market, also reflecting the reduction in herd size as dairy farmers have taken advantage of this. This is expected to remain stable for the 2021/2022 year as beef prices hold firm.
7. Feed costs are expected to fall by £86/cow despite high feed prices on a per tonne basis. Concentrate feed levels are expected to be cut back and replaced with the plentiful forage produced over summer 2021.
8. Cost increases are expected to be seen in both labour and power and machinery as the labour shortage means higher wages are sought, and the rise in energy prices continues.
9. Profit expected to be reduced to £167/cow, with both income and costs falling slightly as marginal litres are no longer economical to produce.
10. Profitability has fallen from 2019/2020 levels, down to an average of £185/cow. Although this is the fourth year in a row that profits in excess of £100/cow have been achieved by the average producer.
11. The total comparable cost of milk production for the top 10% of producers was £1,857/cow compared with £2,954/cow for the bottom 10%, a difference of £1097/cow.
12. The top 10% of producers produced lower yields at 7,229 litres, spending £320/cow less on feed than the bottom 10%. There is a huge range of production level within the top 10% producing anywhere from 4,828 litres per cow and 9,711 litres per cow, showing that a focus on efficiency pays whatever the yield level.
13. Labour costs for the top 10% are £365/cow, compared to £626/cow for the bottom 10%. Much of this is paid labour indicating less efficient setups to work with and likely requiring investment to change this.
14. Although removed from the top 10% vs bottom 10% statistics, the performance of organic herds was variable, with some producers achieving profits within the top 10% of conventional farms and equally with some producers falling within the bottom 10% of conventional farms.

The basis

In order to understand and interpret the results of the survey, it is important to set out the basis upon which these figures have been produced, specifically:

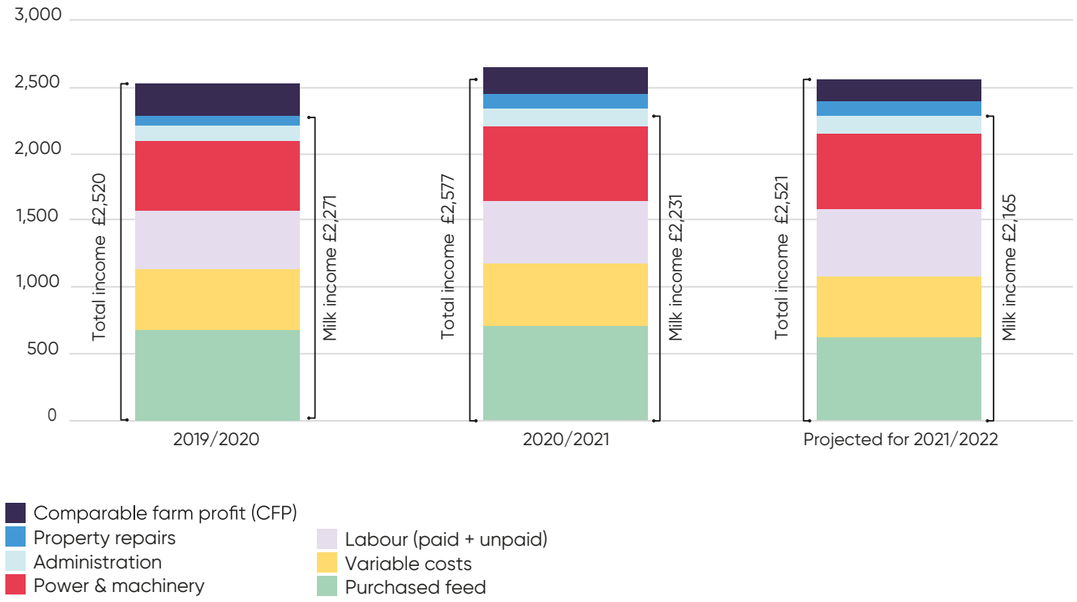
1. The sample consists of Old Mill and Farm Consultancy Group clients who derive their income mainly or solely from milk sales, across a variety of farming systems.
2. All farms have a 31 March year end.
3. In order to make the businesses comparable, rents, interest payments, drawings, tax and capital expenditure have been excluded from the figures and a labour charge of £30,000 has been included per full time partner/director. Basic payment scheme has also been excluded from the income. It should be noted that depreciation has been included in these figures.
4. The projection for 2022 has been calculated by looking at actual costs incurred for this financial year to date along with national trends.

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Whole sample - actual results compared with projected results

	2019/2020	2020/2021	Projected	Difference
Herd size	307	269	275	6
Yield per cow (litres)	**7,214**	**7,365**	**7,290**	**(75)**
	£/cow	£/cow	£/cow	£/cow
Milk income	2,271	2,231	2,165	(66)
Non-milk income	249	346	356	10
Total income	**2,520**	**2,577**	**2,521**	**(56)**
Purchased feed	692	702	616	(86)
Variable costs	437	454	457	3
Labour (paid + unpaid)	458	498	516	18
Power & machinery	524	543	559	16
Administration	104	117	127	10
Property repairs	72	78	79	1
Cost of production	(2,287)	(2,392)	(2,354)	38
Comparable farm profit	**233**	**185**	**167**	**(18)**

“High feed prices make marginal litres uneconomical, yields and profitability decline as a result.”



Key points

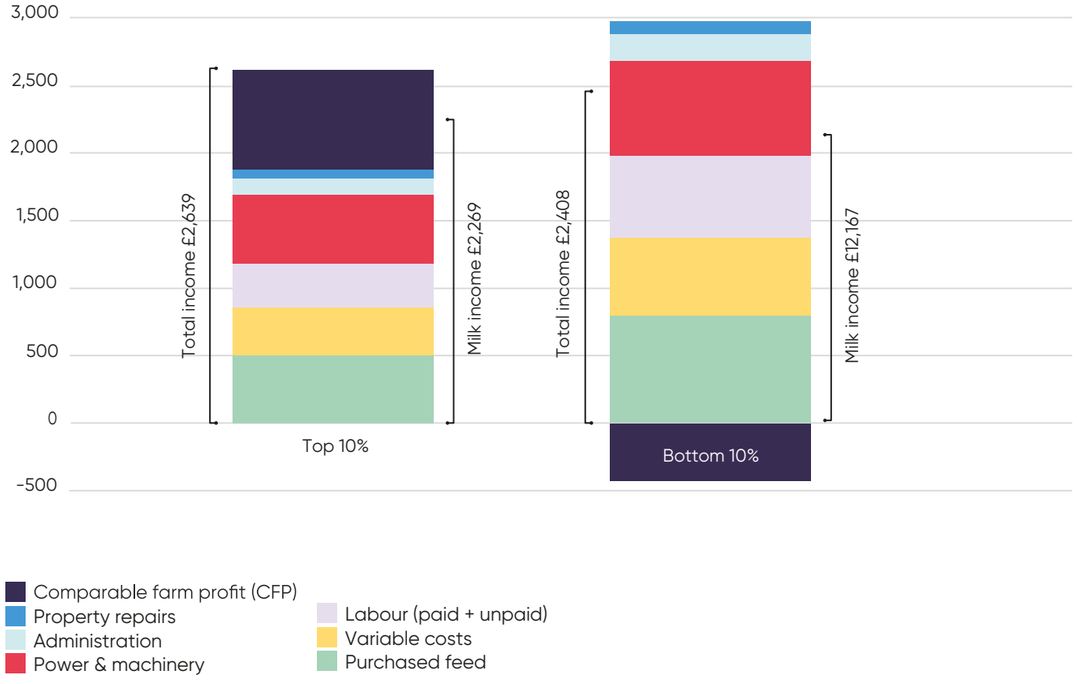
1. Herd size expected to remain stable after the fall in 2020/2021, whilst a fall in yield is expected as feed prices remain high in comparison to milk price.
2. Labour and overhead costs continue to rise, eating away at the savings made on feed and reduced income from lower yields, reducing profitability by £18/cow.
3. High feed and fertiliser prices are likely to be offset by reduced usage following favourable growing conditions and plentiful forage stocks.
4. The top 10% of producers received £231/cow more income than the bottom 10%, but their costs were £1,097/cow less.

Milk Cost of Production Report 2021

Top 10% by retained profit per litre vs bottom 10% - 2020/2021

	Top 10%	Bottom 10%	Difference
Herd size	302	176	(126)
Yield per cow (litres)	**7,229**	**7,483**	**254**
	£/cow	**£/cow**	**£/cow**
Milk income	2,269	2,167	(102)
Non-milk income	370	241	(129)
Total income	**2,639**	**2,408**	**(231)**
Purchased feed	514	834	(320)
Variable costs	363	528	(165)
Labour (paid + unpaid)	365	626	(261)
Power & machinery	443	688	(245)
Administration	101	152	(51)
Property repairs	71	126	(55)
Cost of production	(1,857)	(2,954)	(1,097)
Comparable farm profit	**782**	**(546)**	**(1,328)**

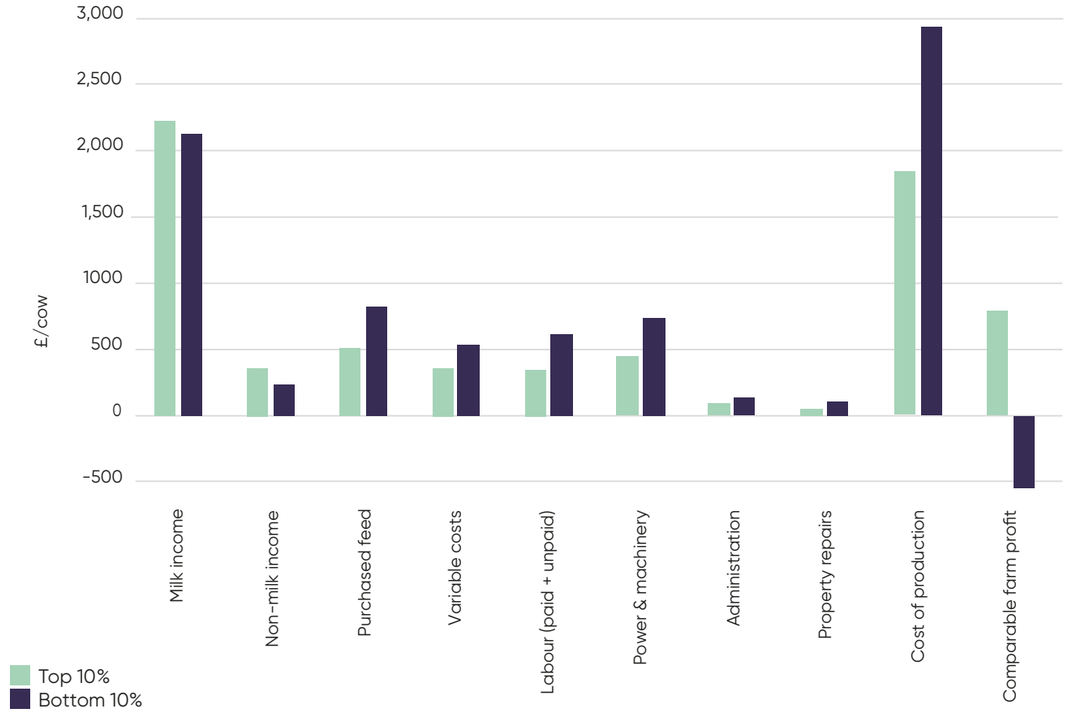
"The gap widens as the top 10% out perform the bottom 10% by over £1,300 per cow, with cost control being the key driver of profitability."



Key points

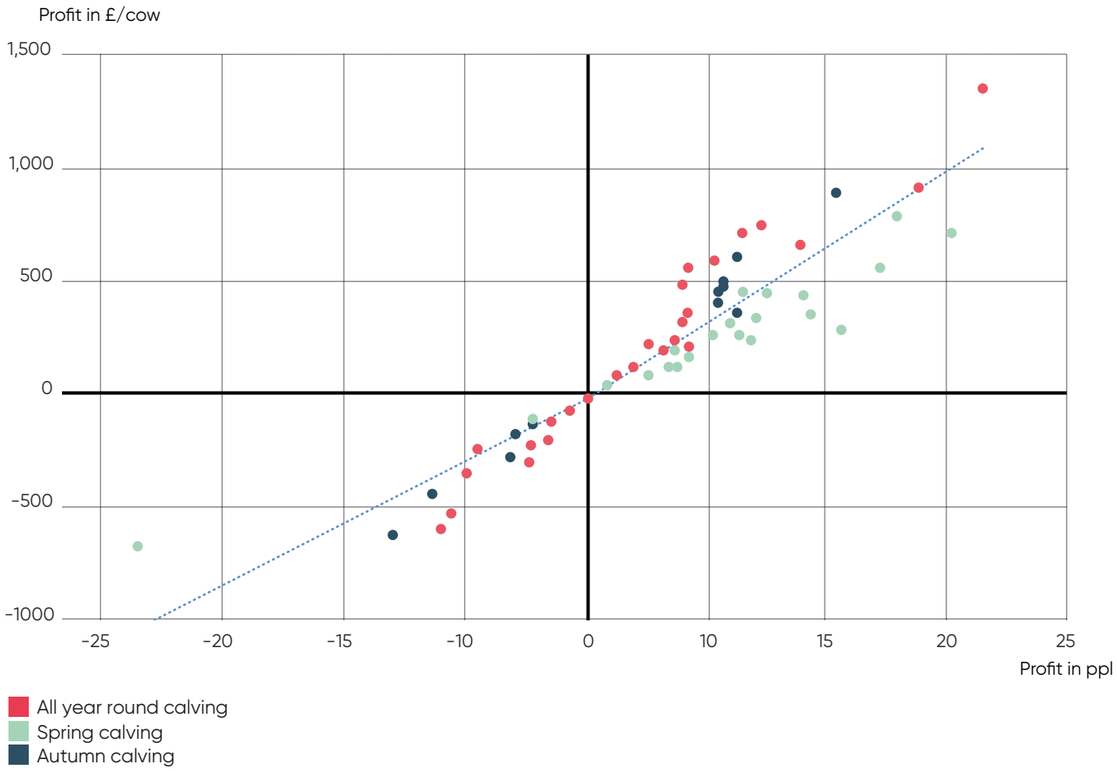
1. The top 10% received £103/cow more for their milk, taking advantage of favourable forage growing conditions and producing to the specifications required by their milk buyer.
2. There was a difference of £1,097/cow in the costs of production between the top 10% and the bottom 10%, with the gap widening on the £950/cow seen in 2019/2020.
3. All of the key cost categories are significantly higher for the bottom 10%.
4. The average comparable farm profit for the top 10% was 11.80p/litre compared with a loss of 8.83p/litre for the bottom 10%.
5. The average yield per cow is very similar for the top 10% at 7,229 litres compared to the bottom 10% at 7,483 litres, but there is a huge range within these with the top 10% producing anywhere from 4,828 litres per cow to 9,711 litres per cow. The bottom 10% produced between 3,532 litres per cow and 9,921 litres per cow.
6. The top 10% spent £278 less on concentrates for the milking cows, reducing concentrate usage when the milk price to feed price ratio made marginal litres uneconomical to produce. More efficient use of forage has kept yields at a similar level to those in the bottom 10% at a 42% lower feed cost.
7. Combined labour and power and machinery, or 'Cost of Doing Work' is £1,314 for the bottom 10%, compared to £808 for the top 10%. This indicates more work is being done in a less efficient manner, and is not generating a return.
8. The top 10% has a herd on average of 126 head larger than the bottom 10%, with smaller herds having less animals to spread fixed costs and family labour over.
9. There is a variety of systems and calving patterns in the top 10%, showing all can be profitable if done well with a keen eye on costs.
10. There is also a variety of farming systems in the bottom 10% of herds, showing that farming efficiently relies on the farmer and is not based on the system which is run.

Milk Cost of Production Report 2021



"Increasing costs are a big challenge to profitable dairying, making the best use of those inputs is vital to profitability."

Farm profitability by £/cow vs farm profitability by pence/litre shown by calving pattern



Key points

1. There are profitable farms with all calving patterns, and also loss making farms on all farming systems.
2. The trendline shows that as CFP/litre increases, so does CFP/cow. However, this is not a linear relationship as yields fall when focusing on maximising margin/litre.
3. Spring calving herds often make the most profit on a pence/litre basis, showing their ability to produce cheap milk. This does insulate them against lower milk prices and mean they are more likely to generate a profit.
4. Spring calving herds tend to sit below the trendline for CFP/cow, indicating lower than average yields.
5. As yields climb, profitability per cow increases, although margins are squeezed showing the costs of producing the marginal litres.
6. Profitability has declined from last year on average, although the gap between the top and bottom performing herds has significantly widened.



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