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Understand Your Milk Check First

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A drop in milk prices, such as we had last year, sometimes leads milk producers to think about the “greener pastures” of changing their milk handler. Comparing prices with neighbors can provide a hot topic at the local coffee shop. In a study of over 200 milk checks from New York producers in August 2000, we found significant variability of pay prices. But producers really need to understand their milk check first, before they can understand and evaluate the alternatives. In some ways, Federal Milk Marketing Order (FMMO) Reform implementation has made this process even more difficult.

The implementation of multiple component pricing (MCP)¹ explains some of the variation. In our milk check study, total component values per cwt. ranged from \$9.19 to \$12.66 -- although the high was \$10.84 for herds under 4% butterfat. We have a simple spreadsheet¹ available that can help producers evaluate alternative component test and production trade-offs on revenue.

However, when comparing prices, components should be taken out of the analysis since component prices are the same for all handlers procuring milk in New York. The only exception is somatic cell adjustment for milk priced under the Mideast order

¹ Can be downloaded: <http://www.cpdmp.cornell.edu/CPDMP/Pages/FMMO/MCP.html>.

(generally in Chautauqua county). Instead, comparison should be made on the net “non-MCP price” including the Producer Price Differential (PPD) plus premiums and minus deductions. Comparison of any of these elements in isolation otherwise can distort comparison.

The PPD is Only Part of the Story

The PPD is basically the weighted average classified value of the milk in the market pool less the average component values paid to producers (with a few other adjustments). The PPD for the Northeast Order is announced at Boston and a producer’s PPD is adjusted for the location of the plant of first receipt. The PPD varies from month to month but the location difference between plant zones do not. For example there is a \$.75/cwt. lower price for a plant located in Syracuse than one located in Boston. The difference reflects a portion of the hauling costs from a general area of milk supply to a milk deficit metropolitan area.

Some producers in lower priced zones may have the option of shipping to handlers in higher PPD city zone locations but this needs to be evaluated along with the likely increase in hauling costs. Proprietary handlers that move a producer’s milk to multiple locations for the month pay a weighted average PPD. Cooperative handlers who move a producer’s milk between plants, may or may not pay the exact weighted average PPD but instead may adjust the hauling such that a producer may receive a consistent PPD regardless of where the milk actually goes.

Premiums and Deductions

Premiums generally include any positive adjustment to prices over and above the minimum federal order prices. Quality, volume, and what can generally be called “market” premiums are paid by many handlers. However premium levels and program requirements can vary significantly by handler and region. Some producers also receive a Northeast Interstate Compact payment. This can be included among the premiums and should be factored into weighing the options as we found that other market premiums tend to be lower.

Deductions usually include the hauling cost that is typically based on a per hundredweight rate and often an additional charge per pick-up (or “stop charge”). Other deductions could include coop dues or market order fees paid by independent producers. The promotion fee of \$.15 does not vary among handlers.

New York Milk Check Analysis – August 2000 (\$/cwt)*

| | Average | Range |
|---|----------------------|-----------------------------|
| <i>PPD (plant zone adjusted)</i> | <i>\$2.48</i> | <i>\$1.92-\$3.26</i> |
| + Market | \$0.21 | \$0.00-\$1.14 |
| + Quality | \$0.11 | \$0.00-\$0.70 |
| + Volume | \$0.14 | \$0.00-\$0.70 |
| + Compact | \$0.13 | \$0.00-\$0.91 |
| <i>Total Premiums</i> | <i>\$0.58</i> | <i>\$0.00-\$1.65</i> |
| - Hauling | \$0.55 | \$0.00-\$1.38 |
| - Other deducts | \$0.04 | \$0.00-\$0.18 |
| - Promotion | \$0.15 | \$0.15 |
| <i>Total Deducts</i> | <i>\$0.74</i> | <i>\$0.16-\$1.55</i> |
| Net Non-MCP Price | \$2.32 | \$1.11-\$3.69 |

*Preliminary results from 214 milk checks from August 2000 collected from New York State producers. The simple average of farms is reported.

Look Before You Leap

The preliminary results (see table) of our New York milk check study showed wide variability across of the state of the PPD, premiums and deductions individually and of the net non-MCP price (PPD + premiums – deducts) adjustment. But many additional issues arise when considering market alternatives. The long-term record of financial stability and service of the coop or proprietary handler is important to consider. The distributable profits (and equity) associated with cooperative membership were not included in the study but in some cases are significant. Similarly some proprietary handlers may pay signing bonuses that also were not included in our study. The coop or proprietary handler may provide other valuable services that should not be ignored. Finally keep in mind that premiums can and do change over time. If considering an alternative market, it is important to contact your current handler, as well as any alternative handlers, to understand exactly how your payment might change. Price

variation among handlers may offer producers opportunity, but as always “look before you leap.”

Smart Marketing is a monthly marketing newsletter for extension publication in local newsletters and to place in local media. It reviews the elements critical to successful marketing in the food and agricultural industry. Articles are written by faculty members in the Department of Applied Economics and Management at Cornell University.

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