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Ways to Add Value to Farm Milk

by

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Prior to the mid-1800s it was common for farmers to be both the producers of milk and the processors of dairy products. Home delivery of farm milk, butter and cheese was usually done by the farmers who produced the milk and further processed the product. In recent years, a widening farm-to-retail price spread and other factors have left dairy producers wondering whether dollars are being left at the bargaining table with processors and whether a movement back to on-farm processing currently makes sense—or should I say cents? In the quest to add value to farm milk, it is not necessary to further process the product. Milk may have different values as a result of space, time and form.

Space, Time and Form

Space speaks to where milk is produced relative to demand. A farm near a plant in a metropolitan area may have the obvious drawbacks of difficult neighbor relations or a high property tax burden, but federal and state milk marketing orders generally recognize that this milk is worth more because of the lower costs of transportation to the market place. Lower costs to transport the raw product to the market place is also a factor with farms located near a major highway or at least good secondary roads and an easily navigable driveway.

Time can be a factor in the value of milk according to when it is produced. Historically, milk has been more valuable in the fall when demand for dairy products is at its peak and total milk production is declining. Timing calving cycles to anticipate the expected seasonal peak prices adds value to your product. Although not as prevalent today, it was a common practice to further accentuate market price movements with seasonal incentive plans through cooperatives or federal and state milk marketing orders. More subtly, timing the completion of your milking to coincide with a preferred time for your hauler to pick up farm milk may give you some edge in negotiating hauling rates.

Farms have some ability to control the form of their milk. Higher component values (butterfat, protein and other solids) will be rewarded through multiple component pricing in the new federal and state order systems. Voluntary premiums may be paid above and beyond the federal order minimums for milk components, and premiums are often paid for low somatic cell count milk. Other premiums for form may include the certification of your milk as meeting an organic, kosher, or other market segmentation standard.

Further Processing

It is quite typical for individual farms in the New York Dairy Farm Business Summary to have annual milk prices that differ by as much as \$2.00 per hundredweight in any given year. Space, time or form can add value to your raw milk, but further processing is also a possibility; however, the desire to add value to farm milk by further processing should be carefully planned and implemented. There are relatively few good reasons for producers to consider further processing: perhaps the market is not paying you the full value for your milk; there might be an unfilled marketing niche that you have identified; it is possible that you have better management skills to run a plant than your competition would have; or you are bored with milk production and need a bigger challenge.

Although rare, there are examples of producers who were able to demonstrate through further processing that the market had underpaid them for their milk. In the 1980s, twelve Jersey producers in Hilmar, California argued for several years that the value of their milk to a cheese plant was more than they received. With no satisfaction

from milk buyers for their claims, they decided to build a cheese plant. Today, Hilmar Cheese is the largest single site cheese plant in the world. For a commodity product like cheddar or mozzarella cheese, a minimum plant size in today's market place probably requires two million pounds of milk a day to run through a plant. This is the milk from about 30,000 cows—considerably more than any single farm in the Northeast. In fact, a plant of this size would require all of the milk produced in Wyoming County.

If the scale of successful commodity processing is not feasible, then finding a market niche may be an alternative. The term “niche” connotes a small place often filled with a highly regarded object. Finding an empty niche is not easy but our proximity to eight million ethnically diverse people is an advantage. Many cultures have a fondness for dairy products not readily available in our supermarket-oriented society. If an unfilled demand can be identified, then the first and arguably largest hurdle has been crossed. The second and considerable challenge is to research the process of manufacturing a non-standard product. And finally, developing and maintaining marketing channels is no small task.

As with dairy farms, there are degrees of successful management in dairy plants. I would contend that a minimum demonstration of a producer's ability to run a dairy plant is to first operate a very successful dairy farm. The next step may be an accounting of the management skills that you possess which are transferable to a processing operation. Perhaps motivating employees and good input purchasing are among those transferable skills, but market development abilities and other essential proficiencies are probably untested. It is not easy to compete with people who have years of experience in the processing arena.

In Conclusion...

Before making a decision to invest in a processing plant, consider whether or not the returns to space, time and form have been fully exhausted. The dairy processing sector is an intensively competitive arena with little room for error. Success stories like Hilmar Cheese can be found, but tales of broken dreams are more common. We have developed a list of questions that we think should be answered by anyone considering

dairy product processing. These questions can be found in the miscellaneous publications section of our web site at <http://cpdmp.cornell.edu>.