

Hats off to the British Dairy Farmer!

Douglas Green Consulting Ltd are a team of dedicated Farm Management Consultants who produce an annual dairy benchmarking survey to help their clients identify which of their costs are out of kilter with other farmers, and investigate why. Management changes can then be adopted to improve them and make the business more sustainable.

	HSBC Average 1998/99 ppl	DGCL Average 2017/18 ppl	HSBC Top 25% 1998/99 ppl	DGCL Top 25% 2017/18 ppl
Output	21.84	32.92	22.17	33.46
Variable Costs	7.32	14.31	6.69	13.28
Wages	1.47	2.65	0.93	2.49
Power & Machinery	4.49	10.86	4.07	9.13
Property Charges	1.10	1.32	0.97	1.12
Sundry Overheads	0.99	1.27	0.89	0.79
Rent	0.84	1.11	0.79	0.86
Quota Leasing	0.98	0	1.08	0
Interest	2.16	0.91	2.27	0.08
Drawings/Tax	3.14	1.30	2.08	0.68
Total Cost of Production	22.49	31.08	19.77	25.94

This year they have also compared how the cost of milk production has changed since the ADAS/HSBC Spotlight figures from 1999.

Over a 19 year period the average cost of producing milk in the UK has gone from 22.49 ppl to 31.08 ppl. This represents an average increase of 0.45ppl per year or an effective average of 2% inflation per year.

In 1998 the average retail milk price was 59.84 ppl, today it stands at 79.20 ppl, which is an effective inflation of 1.7% per annum.

So how has the price of milk gone up compared to other things we spend money on? The table below shows the Retail Price Index of milk compared to other commodities.

Obviously, we really need to be in alcohol or tobacco production and it is clear why it is harder to find British clothes and shoes on the shelf!

	RPI Index* March 1999	RPI Index* March 2018	% Increase
Liquid Milk	153	234	52
Bread	133	219	65
Beef	133	212	59
Utilities	140	260	86
Motoring Costs	172	253	47
Travel & Leisure	164	246	50
Clothing & Footware	117	156	33
Alcohol & Tobacco	201	393	95
Household Expenditure	165	314	90

*RPI Index where 100 is base year Jan 1987

Looking at the Spotlight comparison more closely, the average milk price in 1999 was 21.84 ppl and in our 2018 comparison was 28 ppl – on average a 1.5% increase per annum.

Average yields in 1999 were 6,655 litres per cow, with the average farm producing 973,000 litres milk. The DGCL figures represent an average yield per cow of 8,456 litres and the average farm producing 2,310,539 litres milk.

The improvement in yield per cow shows what a massive improvement in technical performance the UK dairy farmer has made over this period. For every say 1.2 acres of land, the UK dairy farmer has increased the amount of milk produced from it by nearly 30% in just under 20 years – something that we should all be celebrating. So, when the politicians say that British Farmers should become more efficient, we should remind them of our track record!

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Janice Radford, Dairy Farm Management Consultant

Variable costs have increased by on average 5% per annum, wages by 4.2%, power and machinery by a massive 7.5%. Property costs and sundry overheads have increased by a mere 1%/yr, but farmers not spending as much on property is not always sustainable in the longer term.

Rents have increased by on average 1.7%/year, but there are many rental situations where the landlord is now receiving the BPS payments on top of the rental income.

Thankfully, we do not have quota leasing/purchase costs any more, but it is interesting to note that interest payments per litre have actually fallen by around 50%. Back in 1999 the Bank of England base rate was 5.5% and in 2018 it had fallen to 0.75%. So much of this reduction is a reflection of lower interest rates rather than less money borrowed.

One cost which is worryingly low is personal drawings and tax, which has fallen by over 50% over the same period. Farmers are paying themselves less, despite the fact that the job has become much more technical and skills demanding.

So, milk price over this period has increased by 1.5% per year, but the majority of input costs have increased by around 4-5%, reflecting the cost price squeeze we have all been feeling. This is very salutary, especially as many farmers have offset this by increasing supply, which then impacts on price.

The next generation are, quite rightly, demanding more time off and a salary to reflect the complexity of the job and the unsociable hours. But I have never known British farmers not up for the challenge. We have an industry rich in talent and expertise and producing a top class product – something we should all be proud of!

To find out more information please go to www.douglasgreenconsulting.co.uk or email Janice@douglasgreenconsulting.co.uk