



Milk Marketing

AS 472, AVS472 Fall 2007

John Swain Lecture 3

Last session

- Federal Milk Marketing Orders
- Classified pricing- NASS Survey
- Pooling - Blend price
- Price support - CCC

Retail Pricing of Milk

- Retail marketers operate on a Gross Margin Pricing system.
- Milk is an *inelastic demand* product.
 - **Total revenue increases as price increases and vice versa.**
 - **The consumer will purchase the product at a wide range of cost.**
- Retailers respond if there is a loss of the market share or decrease in unit sales.

Supply Management

- Supply/Demand driven market
- Reduction in Price Support, CCC Purchases
- Dairy Diversion, Buy Out Programs
- Export Potential
- National Advertising
- New Product Technology

Supply Management

- Create Demand
- Reduce Supply
- Both

Create Demand

- National Research and Promotion Board
 - **5 cent check-off**
 - **Research on new product technology**
 - **National Advertising (National Dairy Council)**
- Regional Promotion 10 cent check off
- Enhance Exports
 - **DEIP (Dairy Export Incentive Program)**
 - **NAFTA (North American Free Trade Agreement)**
 - **GATT (General Agreement on Tariffs and Trade)**

Reduce Supply

- **Allow free market to drive the system**
- **Quota Systems**
 - **Producers have shares of Classes of milk they can produce. Penalized for over production.**
 - **Producers can buy or sell Base.**
 - **Canadian and many European countries have quotas.**
 - **Must be priced that over-base production is not economical.**

Reduce Supply Cont.

- More Stringent Quality Standards
 - **Stricter PMO Standards**
 - **FMMOs begin setting quality standards**
 - **Pricing to account for SCCs**
 - **Eliminate Johnes positive cows**
 - **Set minimum Fat and Protein values**
- Imports
 - Limit import product
 - Set import quality standards

Where do we go from here?

- Involvement
 - **Regional Dairy Lobbies (UDI, WSDF)**
 - **Cooperatives – Producers have a vote**
 - **National Boards – NMPF**
 - **State & National Legislators (VOTE)**
- Maintain desirable feed to milk ratio
 - **Value of 16% protein ration to produce 1 lb. Of milk. (Currently 3.15)**

Where do we go from here? Cont.

- Reduce cattle #s with a government program?
- Reduce milk flow with government quality programs?
- A Quota System?
- Increase exports?
- Increase national sales with more check-offs?
- Let free market enterprises control all supply and demand?



What will the US Dairy Industry Look
like in the year 2010

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