

# The passion to produce more milk... and make more money?

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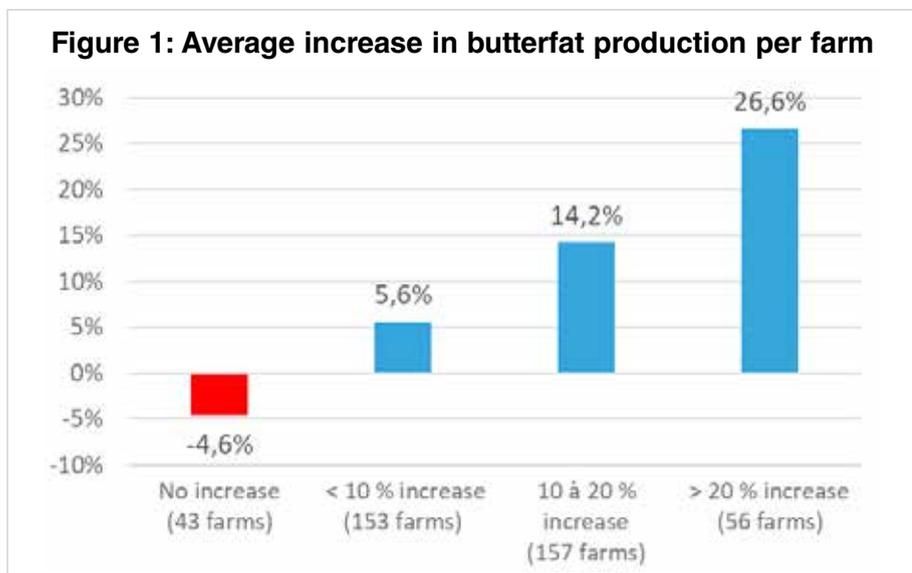
The quota increases over the past three years have allowed producers to significantly increase their milk production. Many have gone to great lengths to increase production and ship the maximum volumes now allowed. Whether they've managed to do that or not, the question remains: "Producing more milk is all very nice, but is it profitable?"

In an effort to answer that question, we examined the data from a group of 409 farms that have been a part of the Agritel database for the past five years, at least. Here are a few observations.

## How much did production increase?

The farms included in the sample showed an average 10.7-per-cent increase in butterfat production between 2014 and 2016. But we wanted to look beyond the averages, and see how the production increase affected the farms' financial performance. Figure 1 presents the average results for four subgroups of farms based on the percentage of the increase in butterfat production.

The results show that the group



of farms that reported no increase in production experienced a 4.6-per-cent drop. We were also able to determine that, on top of the allocated quota, additional quota was purchased in 2015 and in 2016 by all the groups except the "No increase" group, where instead, net sales were equivalent to an average 3 kg/day.

**Table 1: Herd size and cow productivity**

Butterfat production 2016 vs 2014	Average number of cows 2014	Average number of cows 2016	Milk/cow kg 2014	Milk/cow kg 2016	BF content kg/hl 2014	BF content kg/hl 2016
No increase	66.5	65.2	8,899	8,623	4.18	4.18
< 10% increase	71.1	73.6	9,111	9,236	4.15	4.16
10 to 20% increase	75.2	81.9	9,280	9,669	4.12	4.14
> 20% increase	61.7	72.4	9,111	9,733	4.12	4.14
Group average	70.9	75.7	9,154	9,406	4.14	4.15

**Table 2: Changes in net profit (milk) and financial surplus**

Butterfat production 2016 vs 2014	Net profit (milk) 2014	Net profit (milk) 2016	Financial surplus (%) 2014	Financial surplus (%) 2016
No increase	32,633	-6,915	1.6%	-2.5%
Increase of < 10%	45,745	22,990	3.6%	1.2%
Increase of 10 to 20%	59,447	68,344	2.6%	6.3%
Increase of > 20%	13,028	44,977	1.7%	4.5%
Group average	45,146	40,266	2.7%	3.2%

## What path did producers choose to produce more milk?

There are three ways to increase a herd's butterfat production:

1. More cows in production
2. More milk per cow
3. More butterfat per hectolitre

production is also the group in which the average milk production per cow rose most rapidly, from 43 kg below average to 327 kg above average.

## Was the production increase profitable?

Increasing production is all well and good, but it is certainly not worth the effort if costs are climbing faster than revenues. That doesn't appear to be a problem here, however, since all the subgroups saw a slight decrease in the cost of concentrates per hectolitre. Besides feeding, the data analysis revealed that labour requirements in the barn (FTE barn) increased by only 3 per cent on average during the period, while the number of cows rose by 7 per cent and the volume of butterfat produced increased by 11 per cent. Those numbers represent a substantial gain in labour productivity.

Note, however, that the target price per hectolitre decreased for the three groups that recorded production increases, while the opposite was true for the "No increase" group. The observed price decrease was proportional to the percentage increase in production.

## What about the bottom line?

As anyone in business knows, it's the bottom line that counts. More milk produced at a lesser cost, but sold at a

lower price: does that mean more net profit in the barn?

Table 2 answers that question: the two groups of farms that were unable to achieve the production increase allowed by the quota allocation saw their profits melt away between 2014 and 2016. The situation was reflected in their annual financial surplus, which dropped by 4.1 per cent and 2.4 per cent, respectively. The other two groups managed to either meet their quota or exceed it in some cases by increasing the size of their herds. These groups showed improvements in their net profit (milk) and their financial surplus.

## In conclusion

It is evident that farms that were able to take full advantage of the opportunities to increase their production between 2014 and 2016 were also successful in improving their financial results, while the other farms fell behind. It is important to point out, however, that most of these gains were achieved by making better use of existing resources. Launching into an expansion plan on the basis of the results presented here could prove hazardous: there is no guarantee that the additional revenues will be enough to offset the new debt-related obligations. In any case, it is essential to ensure that the system already in place is being used optimally before undertaking any major new investments.