

Component Pricing

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Under this system, more money is going toward the non-solids in milk. This compensates high-volume herds, but fails to recognize high-solids herds such as Jerseys and Guernseys.

These farmers, recognizing that the solids in their herd's milk is marketable, are pushing for a change to component pricing based on the amount of protein in a herd's milk.

Jersey and Guernsey breeders argue that most of the milk produced today goes into manufactured dairy products such as cheese, yogurt, and ice cream and that fluid whole milk consumption is down. Milk that has a high-protein, high-fat content yields more cheese. Therefore, since it is more efficient for cheese producers to have the high-solids milk, Jersey and Guernsey breeders feel they should be rewarded for producing it.

Component pricing not new

Component pricing isn't a new idea. Paying for milk on fat and solids-not-fat has been going on since the 1940s. Currently Europe pays for milk on this basis as does California and certain areas in the Midwest.

It has not been popular in the northeast for several reasons. First,

most of the dairy herds in the region consist of Holsteins, which are long on volume but rather low on solids. "The current butterfat pricing system benefits Holstein breeders," commented Glenn Shirk, Penn State extension dairy specialist. "For decades the pricing structure for milk has been more attractive for non-solids, which is what Holsteins have been bred for. Holstein breeders resist the component pricing system, which they don't see as profitable for them."

Component pricing hasn't caught on yet with most cheese manufacturers who for some reason haven't recognized the value of high-solids milk. "Cheese manufacturers just aren't aware that more protein yields more cheese. This is partly because they aren't set up to segregate the milk and run comparisons," said John I. Collins Jr., district manager for Dairymen Inc., Middle Atlantic Division, a milk cooperative in Sykesville, Md. "We have to increase their awareness and convince them that high-solids milk is more efficient for their uses."

Because Jersey and Guernsey breeders are scattered, it is costly to gather a load. This cost factor has kept many co-ops from being willing to work with high-solids milk producers in gathering a load

of high-solids milk.

The roadblocks for component pricing are falling away as more and more farmers are negotiating special bonus plans with cooperatives. Some of the current programs, according to Dr. Jack Kirkland, extension dairy specialist for Adams County, include:

•Dairymen Inc. is paying a group of southern Lancaster County farmers 12 cents for every point of protein above the standard 3.2 percent, a bonus that is tied to the somatic cell count (SCC).

•Dairyalea Inc. has a protein payment program where producers are paid 13 cents per point for milk with a protein percentage over 3.3 percent and with a SCC of less than 350,000 and no antibiotic contamination.

•Leprino-Eastern is giving all producers a premium plus giving 10 cents per point of protein greater than 3.3 percent. The base protein percentage moves higher as the SCC increases and no protein premium will be paid for milk with a SCC higher than 750,000.

•Empire Cheese Inc. has a protein payment plan that is determined on a quarterly basis. The protein percentage is established each quarter and currently is 7 cents per point for milk over the base if the milk meets their quality standards.

•Sunnydale Farms of Brooklyn,

N.Y., is paying a 30-cent per hundredweight premium as well as paying a protein premium. Their plan pays 10 cents per point of protein over 3.2 percent.

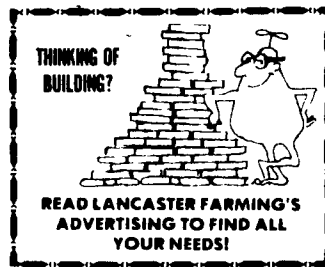
•Winfield Cheese Cooperative and Farmers Cheese Inc. use end-product pricing to pay producers for their milk. The formula takes into account the SCC, casein content (protein), and butterfat content and pays farmers on that basis. The prices paid also depend on the wholesale price of cheese and cream. With the end-product pricing, the higher the solids level in the milk, the higher the price to producers. The proportion of cheese products is directly related to the level of solids in the milk, the higher the solids, the greater the output of cheese.

Many dairymen believe component pricing is an idea whose time has almost arrived for the northeast. "I believe that component pricing eventually will become the pricing system," said Shirk. "There tends to be a movement in the marketplace in trying to price most commodities on their true value in relationship to the desires of the public."

Shirk feels that component pricing will be adopted slowly because currently more producers stand to lose. "But in the long run," he added, "The ones that gain will

have a higher gain than the loss experienced by the majority of those that lose." This monetary gain will influence farmers to shift emphasis from volume to solids.

Or, as Dr. Truman F. Graf, agricultural economics specialist from the University of Wisconsin-Madison said, "Consumers are putting more emphasis on the non-fat solids portion of milk. If the dairy industry hopes to maximize per capita sales of dairy products, it must recognize and react to the increased consumer demand for nonfat solids. With the nonfat values included in pricing, individual farmers would benefit by getting paid for extra nonfat solids, and thus encouraged to produce more nonfat relative to fat and thereby improve their marketing situation."



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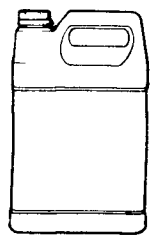
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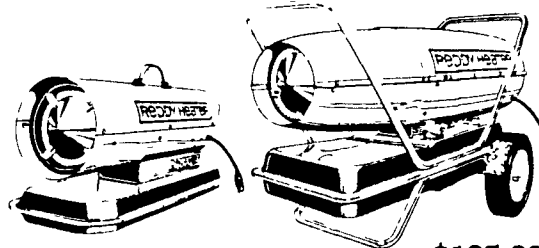


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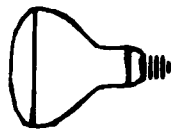
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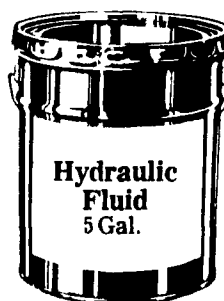
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