

Cost of production or breakeven milk price

How many of you know what they are and the difference between them?



Unsurprisingly they are not the same, one tells you what your costs are, and one will dictate whether there is any surplus cash generated from the business.

Cost of production can be used to analyse and benchmark the cost structures of your business against your peers, be aware that it must also be regional to where you farm and of a similar farming system otherwise the benchmarking is weakened. This allows for informed decision making based on fact, being a member of a discussion group is a good way to enter the world of cost benchmarking. Remember if you can measure it you can manage it.

Breakeven milk price takes in other factors such as other incomes beyond the milk sales, the cost of replacement and other income, to be accurate, includes actual personal drawings, loan and hire purchase capital, capital spending and any taxation paid. It differs from cost of production as a result and is individual to a particular business due to the borrowing profile and personal expectations of a living and business structures regarding taxation. However, it is the only true way to assess whether the milk price received is sufficient to meet the needs of the business, it starts the process of change where change is necessary to produce cash sufficiency from trading activity. It is, therefore, more important than cost of production alone.

Start improving your own business knowledge now by taking your yearend accountancy figures and getting them looked at by a P&L Agriconsulting consultant.

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