

Milk Procurement



The year ended 31 March 2015 was a year of two dramatically different periods. The first part of the year saw milk prices at record highs with intense competition amongst milk processors for milk supply. In the second half of the year, dairy markets collapsed as milk production soared on the back of higher prices and favourable weather conditions. This resulted in milk prices falling at an unprecedented scale and speed.

Milk supply

We have managed to achieve a balanced supply of milk, by carefully monitoring production levels and customer demand. Successful new farm recruitment activity during the year has been scaled back for the short term with our priority being to develop our existing milk fields. The comprehensive service package we offer to our farmers has enabled us to maintain our focus on quality and efficiency at a time when milk prices have been under significant pressure. This partnership approach delivers key benefits to our business and our farmers, including the long term sustainability of our direct milk supply, which is fundamental to our business.

Standards and support

Our office based advisors within the Farm Business Centre together with our regional team of Farm Business Managers are the primary contacts for our farmers. During the year they have undertaken a number of practical farm training programmes to enable them to provide more comprehensive support and guidance.

Animal health and welfare remains a key priority as we work with our farmers to promote best practice and continually improve milk quality and production standards. Raising awareness of the challenges the dairy sector faces from animal disease and the eradication programmes that are in place, is one area of focus. We have worked closely with Dairy Crest Direct ('DCD'), the independent organisation representing our farmers, to engage veterinary support as part of our communication and training programmes.

Listening to our farmers

During the summer of 2014 we commissioned an independent research project 'The Voice of the Farmer'. The objective was to gain a greater

understanding of how Dairy Crest and the services we offer are perceived by our farmers. This unique survey was well received with the results highlighting the opportunities for greater segmentation within our core communication activity – both for content and method of delivery. The feedback identified both what we do well as a business and where there is scope for us to improve. Our operational performance scored very highly with the consistent achievement of high service levels being recognised as a key benefit.

Electronic communication is a focus as we develop 'Farm Connect', our interactive farmer website. This provides our farmers with key management information about their milk supply together with news about Dairy Crest and the dairy sector.

The independent White Gold farm advisory service, which is fully funded by Dairy Crest, has been expanded to include a series of new initiatives to benefit our farmers. These include 'MilkWell' to improve herd health and welfare through better data recording, 'WaterWell' to analyse water consumption and 'Safe&Well' to provide guidance on health and safety for key farm tasks. The Safe&Well initiative encompasses routine health checks for our farmers and was launched during our summer agricultural shows programme, where we offered free 'on the spot' health assessments to our farmers.

Milk supply contracts

Our service package supports our core offer of a fair and competitive milk price and range of contract options. We continue to work closely with DCD to explore opportunities for new contract options that meet the requirements of both our farmers and our business. Our innovative formula pricing mechanism continues to be very popular with our farmers with over 20% opting to have a proportion of their milk priced in this way. At the start of the year we responded to farmer feedback for greater simplicity with the launch of a new 'Simplified' Formula contract which proved very popular.

We continue to consider variations to our core contracts, looking at the compositional quality of milk for our cheese business and for larger supply volumes.

In addition, we are working with DCD to consider the opportunity for a contract based on the Dairy Futures market, with the aim of providing farmers with different options to help manage future market volatility.

Operational efficiency

Our contracted hauliers maintain their focus on improving efficiency within the milk collection operation whilst also delivering environmental improvement and meeting a range of service targets for our farmers.

The on-going vehicle fleet replacement programme will result in lighter vehicles with greater capacity. Exploratory work is also being done with new milk pumping equipment to reduce pollution and noise and to further develop automatic milk sampling equipment to reduce the opportunity for human error.

We continue to work closely with our haulage and milk testing partners to ensure that our milk sampling and testing procedures are effective and robust at every stage of the raw milk supply chain.

Looking ahead

We are committed to working in partnership with our farmers to ensure that together, we are best placed to take advantage of market opportunities. In our Davidstow milk field we are launching a new farm standards package to recognise the work our farmers in the South West are doing in preparation for the production of demineralised whey powder. In our milk fields serving the liquid market, we will further develop our portfolio of supply contracts to recognise the diverse range of business models so we can continue to offer flexibility and choice.

We will continue our support of the Government's Voluntary Code of Practice for milk supply contracts, having been the first milk processor to fully embrace this since the launch in 2012. We are supporting DCD's work to review structural changes to their organisation, including their application to achieve DPO (Dairy Producer Organisation) status. This followed a comprehensive evaluation of the constitutional implications for their members, carried out through funding they secured through the Defra 'Dairy Fund'.

Global volatility in dairy markets had a huge impact in 2014 and is expected to continue to be a critical factor going forward. We and our farmers also have to deal with any challenge brought about by the end of European milk quotas. By working together with DCD and our farmers, we can help ensure that our businesses are in the best place to meet the challenges we face and ensure we deliver a sustainable supply of top quality British milk for our customers.