

Revenue and Cost

Revenues received by retailers, processors, and producers are ultimately derived from total consumer expenditures. Consumer expenditures equal Class I retail price times Class I utilization ($C1R \times C1UR$) plus Class II retail price times Class II utilization ($C2R \times C2UR$). Total returns to retailers (TRR) is the product of the retail margin on Class I products (RMARG1) times consumer expenditures on Class I products plus the retail margin on Class II products (RMARG2) times consumer expenditures on Class II products. Note that TRR is equivalent to gross returns to retailers after payments to processors but before deducting retail handling costs. Since data on retail costs of handling milk were not available, it was not possible to compute net returns to retailers.

Total returns to processors (TRP) equal total consumer expenditures minus total returns to retailers. To obtain net returns to processors (PCNR), costs of milk assembly, processing, and distribution are deducted from total processor returns. Processors are assumed to incur assembly (from producers to processors) and milk distribution (from processors to retailers) costs. This is the typical arrangement in southeast Florida.

Raw milk assembly cost (RAC) is the product of the milk production rate (MPR) and per unit assembly costs (PAC). The value of PAC in 1965 [20], namely 22 cents per hundredweight, was used. Packaged milk distribution costs (GDC) is the product of total milk utilization ($C1UR + C2UR$) and per unit distribution costs (PDC). Packaged milk distribution costs (for a 20% home delivery—80% wholesale distribution) were computed to be \$2.50 per hundredweight based on cost figures developed by Stennis *et al.* [20].

Costs of processing Class I milk products (CCOP1) and Class II products (CCOP2) are set at \$1.50 and \$.50 per hundredweight, respectively. The Class I figure reflects 1965 cost conditions in Miami [20]. Class II processing costs are not available for Florida. The figure used here pertains to dry whey and cheese plants in Minnesota in 1965 [10]. Assembly, processing and distribution costs were held constant throughout the analysis.

Producer net returns (PRNR) equal total producer returns (TPR) minus total milk production costs (TPC). Total production cost is the product of the milk production rate and the average cost of milk production (ACP). Greene [6] estimated the average cost of milk production in 1965 for each of four groups of dairy farms in southeast Florida. The weighted average cost