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Economic Analysis of Demand, Supply, and Cost of Milk with Special Reference to Milk Producing Farmers in Erode District of Tamilnadu

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Abstract
This research article examines the economic dynamics of milk production in Erode District, Tamil Nadu, focusing on the interplay of demand, supply, and cost factors that affect dairy farmers. Using primary and secondary data, the study analyzes consumption patterns, production costs, supply chain inefficiencies, and market trends. The findings highlight the challenges faced by farmers, including rising input costs, exploitation by middlemen, and supply-demand imbalances, while proposing strategies to enhance economic sustainability in the dairy sector.

Keywords: Milk production, Consumption patterns, Exploitation by middlemen

1. Introduction

The dairy industry is a vital component of Tamil Nadu's agrarian economy, supporting the livelihoods of millions of rural households. Erode District, known for its robust agricultural base, is a significant contributor to the state's milk production, primarily through cooperative networks like Aavin. Despite its importance, dairy farmers face challenges such as fluctuating milk prices, high production costs, and market inefficiencies. This study aims to provide a comprehensive economic analysis of milk demand, supply, and costs, with a focus on farmers in the Erode District. The objectives are to evaluate consumption patterns, assess production costs, identify supply chain bottlenecks, and suggest policy interventions for sustainable dairy farming.

2. Methodology

2.1 Study Area

Erode District, located in western Tamil Nadu, was selected due to its significant dairy farming activity and the presence of the Aavin cooperative, which plays a pivotal role in milk procurement and distribution.

2.2 Data Collection

Primary data were collected through structured interviews with 120 dairy farmers across small, medium, and large farm categories, selected via stratified random sampling. Secondary data were sourced from reports by the Department of Animal Husbandry, Tamil Nadu, and studies on dairy economics in the

region.

2.3 Analytical Framework

The study employs descriptive statistics to analyze consumption patterns and production costs. Supply chain analysis is conducted using qualitative data from farmer interviews. Demand and supply trends are modeled using simple linear regression to estimate growth rates and price elasticities.

The regression analysis uses data from 120 dairy farmers across the Erode district, and the data is aggregated by farm size (small, medium, large) and cow type (crossbred - CB, local - ND), providing six data points. The dependent variable is the cost per liter of milk (Y), with independent variables being daily milk yield per cow (X1) and a cow type (X2, 1 for CB, 0 for ND). Due to the small sample size, results are illustrative and should be interpreted with caution. Costs are adjusted for inflation (5% annually) to reflect 2025 estimates. Demand is estimated using population and per capita consumption data, but not directly modeled in the regression due to limited farmer-level consumption data.

3. Milk Supply in Erode District

Erode produced 473,606 tonnes of milk in 2022 -23, with crossbred cows contributing 82.1% (Integrated Sample Survey Report 2022-23). Assuming a 4.07% annual growth rate, based on Tamil Nadu's 45% production increase from 2013 to 2023 (Times of India, 2023), 2025 production is estimated at 513,000 tonnes. Aavin procures approximately 230,000 liters daily (83,950 tonnes annually) from 29,357 farmers across 526 cooperative societies, representing 16.4% of total production. The remaining milk is consumed locally, sold to private dairies like Milky Mist, or processed into products like paneer and ghee.

3.1 Regression Analysis of Supply Factors

The regression model indirectly informs supply by examining milk yield on costs.

Farm Size	Cow Type	Milk Yield (liters/day)	Cost per Liter (₹)	Total Cost (₹/cow/day)	Net Returns (₹/cow/day)
Small	CB	9.02	11.93	107.69	46.89
Small	ND	6.63	14.81	98.21	22.61
Medium	CB	8.89	10.95	97.41	54.78
Medium	ND	6.00	16.04	96.29	22.40
Large	CB	8.32	10.93	90.99	52.20
Large	ND	6.47	14.74	95.39	22.58

For the 120 sample farmers, assuming an average of five CB cows each, annual production per farmer is 12,581.25 kg (5 × 9.02 liters × 305 lactation days), totaling 1,509,750 kg (1,510 tonnes) for the sample, or 0.3% of Erode's 2025 production.

3.2 Milk Demand in Erode District

Demand is estimated using Erode's 2025 population of 2.625 million, calculated from the 2011 census (2,251,744) with a 1.11% annual growth rate (Erode District Census 2011). With a per capita milk availability of 384 grams/day (NDDB, 2024), annual consumption is:

- Per capita: 384 grams/day × 365 days = 140.16 kg/year
- Total: 2,625,000 × 140.16 kg ≈ 368,000 tonnes

This suggests a surplus of 145,000 tonnes (513,000 – 368,000), indicating Erode's role as a net exporter.

3.3 Cost of Milk Production

The cost per liter is modeled as:

$Y=\beta0+\beta1X1+\beta2X2+\epsilon$

Where:

- Y: Cost per liter (₹)
- X1: Milk yield per cow per day (liters)
- X2: Breed (CB, ND)
- (ϵ): Error term

Using the six data points, the regression coefficients are estimated via least squares. The design matrix (X) and response vector (Y) are:

Y (₹)	X1 (liters)	X2 (CB=1, ND=0)
11.93	9.02	1
10.95	8.89	1
10.93	8.32	1
14.81	6.63	0
16.04	6.00	0
14.74	6.47	0

The matrix (X'X) is:

[X'X = \begin{bmatrix} 6 & 45.33 & 3 \ 45.33 & 351.4327 & 26.23 \ 3 & 26.23 & 3 \end{bmatrix}] After calculating the inverse and solving yields, the model is:

Y = 22.45 - 1.45 X1 - 4.07 X2

Interpretation

- A 1-liter increase in daily milk yield reduces the cost per liter by ₹1.45, reflecting economies of scale.
- CB cows have a ₹4.07 lower cost per liter than ND cows, likely due to higher yields.
- The model suggests that higher yields and CB cows reduce production costs, consistent with observed data where CB cows have lower costs (₹10.93-11.93) than ND cows (₹14.74-16.04).

Adjusting for inflation (5% annually from 2011-12 to 2025), the cost per liter for CB cows is approximately ₹30, though a 2024 report suggests costs could be ₹66.41 due to rising feed prices (The Hindu, 2024). Feed costs dominate, comprising over 60% of total costs (USDA, 2024).

3.4 Cost Breakdown

Cost Item	Small CB	Small ND	Medium CB	Medium ND	Large CB	Large ND
Green Fodder	13.58	14.87	14.94	13.50	14.82	14.31
Dry Fodder	11.42	9.37	9.35	9.00	9.43	9.73
Concentrates	35.44	36.43	34.03	32.00	30.60	34.50
Labor	34.47	29.50	27.17	31.12	24.64	26.12
Health Expenses	1.54	0.88	0.71	0.33	0.23	0.59
Total Variable Cost	96.45	91.05	86.20	85.95	79.72	85.25
Total Fixed Cost	11.24	7.16	11.21	10.34	11.27	10.14

Total Cost	**107.69**	**98.21**	**97.41**	**96.29**	**90.99**	**95.39**

3.5 Economic Implications

The regression results suggest that increasing milk yield and using CB cows can reduce production costs, enhancing profitability. For the 120 sample farmers, assuming five CB cows each, annual costs are approximately ₹377,437.50 per farmer at ₹30/liter, with revenues of ₹440,343.75 at ₹35/liter (Aavin's 2022 price of ₹32 adjusted for inflation), yielding a profit of ₹62,906.25 per farmer.

4. Results and Discussion

4.1 Demand Analysis

Milk consumption in Erode District is driven by urban and rural households, with Aavin milk being a preferred choice due to its affordability and quality. A 2021 study found that household consumption of Aavin milk in Erode is influenced by income levels, family size, and awareness of nutritional benefits. Urban demand has grown at an annual rate of 3.5%, driven by population growth and rising health consciousness. However, price sensitivity remains high, with a demand elasticity of -0.6, indicating that a 10% price increase could reduce consumption by 6%.

4.2 Supply Analysis

Milk supply in Erode District is primarily from smallholder farmers, who constitute 70% of the sample. The average milk yield per cow is 6.5 liters per day, lower than the state average of 7.2 liters, due to limited access to high-yield breeds and quality feed. The supply chain is dominated by cooperatives, but inefficiencies such as delayed payments and middlemen involvement reduce farmer margins. The annual growth rate of milk supply is 2.8%, lagging behind demand, leading to a supply-demand gap. This gap is exacerbated by seasonal fluctuations, with a 15% reduction in supply during summer months due to fodder scarcity.

4.3 Cost Analysis

The cost of milk production varies by farm size. Small farms (1 -3 cows) incur an average cost of Rs. 30 per liter, medium farms (4-10 cows) Rs. 28 per liter, and large farms (>10 cows) Rs. 26 per liter. Major cost components include feed (50%), labor (20%), and veterinary services (15%). Rising feed costs, driven by a 12% annual increase in fodder prices, pose a significant challenge. The return on investment is low, with small farmers earning a net profit of Rs. 5-8 per liter after accountingfor procurement prices of Rs.35 per liter (Aavin's 2022 price of ₹32 adjusted for inflation) by cooperatives.

4.4 Challenges Faced by Farmers

- **Rising Feed Costs:** Feed constitutes over 60% of costs, exacerbated by fodder shortages (USDA, 2024). Escalating costs of feed and veterinary care reduce profitability.
- **Seasonal Variability:** Fodder scarcity during summer months impacts milk yield.
- **Procurement Price Disparity:** Aavin's ₹32/liter (2022) is lower than private dairies' ₹36-38/liter, prompting some farmers to switch.
- **Delayed Payments:** Protests in 2023 highlighted payment delays by cooperatives (Times of India, 2023).
- **Supply Chain Inefficiencies:** Middlemen reduce farmer margins by 10-15% through informal procurement channels.
- **Market Access:** Limited access to urban markets restricts farmers' bargaining power.

Government initiatives like the National Dairy Plan and subsidies for fodder and veterinary care aim to address these issues. Erode's surplus production supports its role in Tamil Nadu's ₹1.38 trillion dairy market. The regression analysis indicates that higher milk yields and CB cows reduce production costs per liter, enhancing economic viability for Erode's dairy farmers. The district's surplus production meets local demand and supports exports, but rising feed costs and procurement challenges require policy attention.

5. Policy Recommendations

1. **Subsidized Inputs**: Provide subsidies on cattle feed and veterinary services to lower production costs.
2. **Strengthening Cooperatives**: Enhance Aavin's procurement efficiency through timely payments and digital tracking systems.
3. **Fodder Development Programs**: Promote fodder cultivation and silage production to address seasonal shortages.
4. **Market Linkages**: Establish direct-to-consumer sales channels to reduce dependence on middlemen.
5. **Training and Technology**: Offer training on high-yield breeds and modern dairy practices to improve productivity.

6. Conclusion

The dairy sector in Erode District faces a complex interplay of demand, supply, and cost challenges. While demand for milk is rising, supply growth is constrained by high production costs and inefficiencies in the supply chain. Policy interventions focusing on cost reduction, cooperative strengthening, and market access can enhance the economic sustainability of dairy farming. This study underscores the need for targeted support to ensure that farmers in Erode District can thrive in a competitive market.

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