

CHEESE MARKET NEWS®

The Weekly Newspaper Of The Nation's Cheese And Dairy/Deli Business

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CHEESE MARKET NEWS'
2011 Market Directory
supplement.

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CMN's annual round table:

Panelists discuss consumer trends, challenges to growth

MADISON, Wis. — Welcome to part two of *Cheese Market News'* annual round table, our year-end discussion of pressing industry issues.

Each year, the *CMN* staff asks a group of industry executives to participate by providing their written responses to several questions about key issues affecting the industry. We then run a selection of those responses in a two-part series. Last week, participants

discussed the outlook for dairy prices, exports and milk production in 2011, ideas on reforming the dairy pricing structure and the increased focus on food safety in the U.S. supply chain. This week's discussion topics include challenges to dairy industry growth, concerns about sodium and Dietary Guidelines, and other key issues participants foresee the industry facing in 2011.

We thank each of our round table participants and their staffs for taking time in the midst of busy holiday schedules to coordinate responses. Following are this year's panelists:

- Donald A. Boelens, CEO, Swiss Valley Farms Co., Davenport, Iowa.

- George Crave, president, Crave Brothers Farmstead Cheese LLC, Waterloo, Wis.

- Jerry Dryer, editor, Dairy & Food Market Analyst, and chief market analyst, Rice Dairy LLC, Chicago, Ill.

- John Jeter, president and CEO, Hilmar Cheese Co., Hilmar, Calif.

- Andrew M. Novakovic*, E.V. Baker Professor of Agricultural Economics, Cornell

University, Ithaca, N.Y.

*Dr. Novakovic is responding entirely in his role as a professor at Cornell University. His comments and views do not necessarily represent the Secretary of Agriculture, USDA or the Dairy Industry Advisory Committee (DIAC), which he chairs, and were not made in consultation with USDA or the DIAC.

- Jim Sartori, CEO, Sartori Foods Corp., Plymouth, Wis.

- John Wilson, senior vice president and chief fluid marketing officer, Dairy Farmers of America Inc., Kansas City, Mo.

What are some of the primary challenges — regulatory or otherwise — to growth of the dairy industry for both producers and processors? What can be done to correct these problems?

Boelens: The challenges that we continue to face are on the regulatory side as we have opportunities to grow our export markets. We simply don't have a level playing field with other countries as it relates to regulatory issues in some cases. This is not necessarily a negative issue, but we need to find ways to use it as a positive by promoting our

products as high quality and very safe products.

Dryer: The price support program has limited the motivation to make creative new products for demanding customers and consumers both here in the United States and in the world marketplace.

Jeter: We simply need a fresh approach to dairy policy and pricing regulation. Our current policy over a long period of time has not helped prepare us for the world that we face now. That is obvious.

I recently returned from the International Dairy Federation's World Dairy Summit in New Zealand. At the World Dairy Summit, we heard from the European Union (EU) regarding their vision for a more market oriented dairy industry. They were very clear about where they are going. The decisions they made in this regard were really made many years ago about the need for reform — and they have not wavered much to date. It was also very apparent that Oceania (New Zealand and Australia) has made significant reforms over the last 25 years that have left them in

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Demand for dairy snacks rises with increased focus on health

By Johanna Nelson

MADISON, Wis. — When it comes to snack food, cheese may not be the first thing that comes to mind. However, an increasing number of consumers are seeking out cheese and dairy snacks that not only meet their desire for taste and convenience, but also add a nutritional boost.

• A growing market

According to a new study from Zenith International, sales of dairy snacks — which include products like string cheese and yogurt tubes — grew 7 percent in 2009 and are heading for a 6 percent rise this year.

Zenith says this growth is expected to continue as manufacturers look to dairy as an avenue for developing healthy, convenient snacks. Total volumes are expected to grow from an estimated 217,000 tons in 2010 to more than 260,000 tons by 2014.

"As modern on-the-go lifestyles have left consumers time poor, many people are increasingly looking for a convenient snack that delivers on health and nutrition, and also one that tastes good and provides a pleasurable eating experience," says Laura Knight, Zenith market analyst. "Dairy snacks are well placed to meet these consumer demands and manufacturers have begun to capitalize on the opportunity this presents."

And opportunity there is. For the first time ever, NPD Group's "Eating Patterns in America," listed cheese snacks this year as one of the top 10 snacks (those consumed in between meals) in America. The annual report tracks U.S. eating and drinking habits both in home and away.

"It's a snack food that is being enjoyed by a lot of different groups, especially children," says Harry Balzer, vice president and chief industry analyst, NPD Group. "It's about moms making choices of what children will snack on. Moms are decreasing the intake of cookies and cakes as snack occasions and increasing consumption of cheese and yogurt."

In addition to health and nutrition, Balzer says there are three main factors that drive consumer purchases. First and foremost, he says the product must taste good.

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California floods, Northeast blizzard challenge industry

By Rena Archwamety

MADISON, Wis. — Snow has blanketed urban areas of the Northeast and floods have swept across agricultural areas in California, posing some challenges for the dairy industry over the past two weeks.

Parts of California have recorded more rain this month than any previous month. Last week California Gov. Arnold Schwarzenegger proclaimed a "State of Emergency" for several counties in southern California after severe storms flooded homes and infrastructure, closing roads and forcing evacuations.

"The rains have affected our transportation quite a bit, having delays," says Kurt Lewis, Dairy Farmers of America field manager

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Dean reaches \$30M settlement with dairy farmers

WASHINGTON — More details are emerging on a \$30 million settlement Dean Foods Co. recently reached with dairy farmers in the Northeast over an antitrust lawsuit (see "Dean Foods Co. agrees to lawsuit settlement" in the Dec. 10, 2010, issue of *Cheese Market News*). Earlier this month the two parties agreed to settle all claims against

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ROUND TABLE

CMN Exclusive!

NUTRITION

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— are lowfat, healthy, nutritionally concentrated in calcium and taste great. Natural cheese needs to be promoted as part of a healthy diet.

Wilson: There is conflicting information about the nutritional value of virtually every food, and dairy is no exception. Dairy farmers have funded nutrition education programs since 1915, and the industry needs to continue educating the public about the health benefits of lowfat dairy products, including cheese, as part of a well-rounded diet. I also believe the industry has an opportunity to be responsive to consumer demand for products that are more health-conscious but continue to deliver on consumers' flavor and quality expectations.

Other than those mentioned here, what other key issues will the dairy industry face in 2011?

Boelens: We will face some difficult

times in 2011 with dairy prices and high feed costs. The dairy producers in the Midwest are positioned better than some, but we will still likely see a number of dairy producers leaving the business this coming year. Hopefully, stronger prices in the second half of the year will help dairy producers regain their footing and position them for a bright future.

Novakovic: Dairy policy is a source of constant vexation for all members of the industry. We will devote a good deal of 2011 to reassessing what should be done and what can be done. The sense of need will be great and urgent. The change in the balance of power in Congress will slow the legislative process in large part because it will take time for the new House majority to find its footing. Unfortunately, I think the Congress will remain gridlocked by a lack of a clear majority and acrimony. The genuine concern of legislators will be diluted by a genuine and legitimate concern for a large number of difficult problems. The ability of legislators to do what they would like to do will

be severely restricted by too little resources and too many demands. It will be important for the industry to do its homework carefully and be prepared to work with legislators to craft workable solutions. In sharp contrast to the effort of House Ag Committee Chair Collin Peterson to move a new Farm Bill forward, current expectations are that the discussion will not occur before the more normal timetable in 2012, and may even be delayed beyond that due to the politics of the next presidential election.

I offer two notes of caution. First, be careful to differentiate the important from the urgent. There are many issues — such as diet, nutrition, animal welfare, labor, sustainability — that are very important, but which won't feel urgent. I would caution against waiting to address these issues until they become critical. Second, be careful for what you ask. I think we have a tendency to judge existing programs too harshly while being too lenient or hopeful in our evaluation of new ideas. In evaluating new ideas, be mindful that prices and costs don't stay average for

long anymore, and no business is average. The Bell Curve is getting flatter. Ideas that look good, on average, may have a very different implication for your plant or your farm.

Sartori: Price discovery: Thinly traded markets at the Chicago Mercantile Exchange can affect pricing. The industry needs to get greater balance between sellers and buyers.

Wilson: The financial health of the producer sector is my greatest concern. Our government has tied feed costs to energy through ethanol policy. As a result, producers are going to have to worry about managing their margins more, as opposed to just managing milk price fluctuations. Unfortunately, futures prices have not been conducive to allowing farmers to lock in a positive margin for 2011. Considering the disaster that they experienced in 2009, the first half of 2011 will be particularly stressful for producers.

As a cooperative, it will be more important than ever before that we bring products and services to the table that help members manage costs and operate more efficiently and profitably. CMN

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NEWS/BUSINESS

WEATHER

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for southern California. "It's slowed down, but we have been able to get to dairies for pick-up, so the milk is not sitting on the dairies."

Milk production is down due to the rain, he adds, since the cows are extremely saturated and tired, having no place to lay down except in standing water. He estimates production in the area at this point is down between 5 and 7 percent from last year. Farmers also have experienced power outages and had trouble starting their generators, causing delays in milking and pick-up.

Dairy operators in Tulare County, Calif., were among those hardest hit by the storms, the *Visalia Times-Delta* reported last Friday, adding that the county agriculture commissioner estimates the rain could result in as much as a 30 percent decline in milk production among dairy cows in the county.

The worst is yet to come, Lewis adds, as when the Santa Anna winds dry things out, the mud will become stickier and it will be more work for the cows to get through the corals. However, he notes that the additional snow packs that have accumulated in the Sierra mountains will be good water sources for the summer months.

Meanwhile the Northeast continues to battle heavy snowfall, with areas of New Jersey reporting more than two feet of snow as of Monday, according to the National Weather Service.

The snowy conditions have backed up delivery trucks, particularly in urban areas, but it has not affected on-farm pick-up, according to Karen Cartier, spokesperson for Dairy Marketing Services (DMS).

"It honestly wasn't as bad as we thought in the Northeast," Cartier says.

"We're getting into little issues, like trucks backed up getting finished product into urban areas that the snow has affected," she says. "It's more an issue of getting finished product out of the plant now than issues during the storm. We will have to work things out as urban areas clear the snow."

While a bridge closing in New York and getting products out of plants in northern New Jersey have posed some challenges, Cartier says being proactive and having backup plans have helped DMS weather this storm.

"We were prepared to be able to deal with the issue, and we've seen worse in the past," Cartier says. "We try to have flexibility built into our grid."

Rocco Cardinale, director of marketing for Franklin Foods, Enosburg Falls, Vt., also says planning ahead is important to keep the company running smoothly in these conditions.

"It's during times like this that a company is able to see the benefits of its planning and team member execution," Cardinale says. "With our increased production capacities, backup power sources, and taking advantage of cell phone communications amongst our team members we've been able to meet production demands during this busy time of year." CMN