

GUEST COLUMNIST *CMN Exclusive!*

Perspective: Dairy Markets

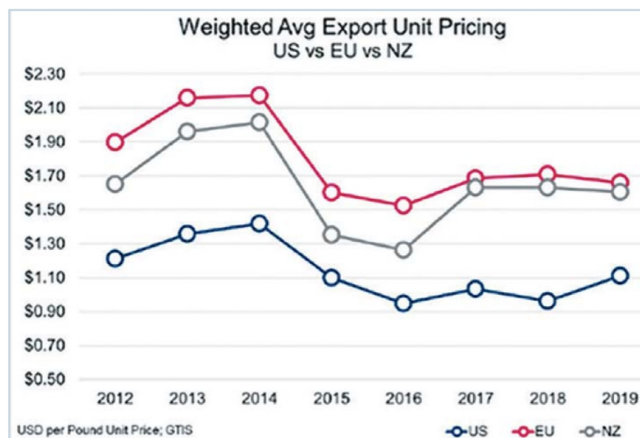
Mike McCully is owner of The McCully Group LLC, South Bend, Indiana. He contributes this column exclusively for *Cheese Market News*®.

Value vs. volume: Time to innovate

The U.S. dairy industry is a very good low-cost producer of commodity products — Cheddar cheese, nonfat dry milk (NDM), butter and fluid milk. Dairy farms and plants focus on high-volume production, which results in the “pushing” of these products to market. In addition, the federal milk marketing order system, which regulates U.S. milk prices, fosters a low-risk, low-reward environment that incentivizes the production of commodity products, and disincentivizes innovation and the production of consumer-driven, value-

added products.

Given the focus on operational efficiencies at dairy plants, few, if any, resources are dedicated to research and development. There are good examples of innovative U.S. dairy companies and products, but this is an area where U.S. dairy lags behind the competition, whether that be non-dairy products or global dairy companies. A clear example of this is the average value of dairy product exports from the U.S. compared to Europe and New Zealand. Most of the U.S. export



volume is in low-valued commodity products such as NDM, whey powder and lactose, while Europe and New Zealand focus more on higher-value products such as specialized milk and whey products, infant formula, UHT milk and specialty cheeses. Over the last decade, the average value of U.S. dairy exports was well below Europe and New Zealand — 40%-60% lower in 2017-19. Consider the additional value in the market that U.S. dairy farmers and processors could capture through investments in processing technology and product innovation.

For too long, the dairy industry has focused on product form (fluid milk, cheese, butter and yogurt) versus consumer uses (cooking, snacking, drinking). This has led to missed opportunities for growth on a global basis and shrinking market shares in some categories such as beverages. Thinking of what consumers in developing markets want would have allowed U.S. farmers and dairy companies to compete in value-added dairy ingredients and dairy-based shelf-stable beverages. Focusing on usage occasions could lead to innovative product development for cooking, snacking and entertaining not only in the U.S. but for consumers around the world. The decline in fluid milk consumption in the U.S. is a function of behavior changes in the U.S. consumer, and not focusing on the changing consumer wants and needs results in dairy being a staple, not a must-have item.

Developing and marketing new products to meet consumer demand is difficult and requires investment in research and development, manufacturing capabilities and, in some cases, changes at the farm level. These tough choices are needed to ensure that dairy remains essential to consumers rather than a staple product thought of along with bread and peanut butter. It's easy to see how we got here as the milk pricing structure encourages a “push” system of production and is further incented to produce products that are less appealing to consumers. Creative innovation could lead to higher prices for dairy products, and coupled with changes to how milk is valued, it could

allow those increased premiums to flow back to the dairy farmer and processor.

To accomplish this, a number of changes will need to happen. First, dairy companies will have to shift from a short-term tactical focus to a long-term strategic focus. This will include the need to adopt a culture of innovation and risk taking such as making investments in new equipment or plants, adding personnel in marketing and R&D, and shifting out of a commodity product mindset. Dairy farmers and cooperatives will also need to think differently about producing milk to meet demand, and not just producing NDM to balance the market. There are some great examples of U.S. dairy cooperatives and companies that have been successful in developing products to meet changing consumer demands. Those companies have been able to grow profitably and also return higher prices to dairy farms for their milk — a true win-win.

In a recent joint research project with Blimling and Associates, we looked at how the U.S. compares to dairy suppliers in other parts of the world. As a buyer for a global food company succinctly put it, “When you think of innovative dairy companies, they are not in the U.S.” To illustrate that point, look at what several of the major global dairy companies are doing. Arla has invested over \$80 million over the last five years to build two innovation centers in Denmark. Fonterra's Research and Development Centre in New Zealand is one of the largest of its kind in the world, with nearly 280 scientific and technical staff from 46 countries, including over 130 Ph.D.s and 350 dairy patents. Arla, Fonterra and other dairy companies also have formed partnerships with leading research universities and institutions. This is a best practice U.S. dairy companies could adopt.

Competitors to dairy are also investing in new products that consumers are asking for. Danone, one of the largest dairy companies in the world, has plans to triple the size of its plant-based products by 2025 to 5 billion euros (US\$6 billion). The

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Mike McCully
mike@themccullygroup.com
Office 312-646-0361
www.themccullygroup.com

NEWS/BUSINESS

USDA issues broad range of pandemic flexibilities for serving meals through June 2022

WASHINGTON — USDA this week issued a broad range of flexibilities to allow school meal programs and child-care institutions across the country to return to serving healthy meals in fall 2021 as part of the Biden-Harris administration's commitment to reopen schools safely. Several meal service flexibilities that enable social distancing are now extended through June 30, 2022.

Schools nationwide will be allowed to serve meals through USDA's National School Lunch Program Seamless Summer Option (SSO), which is typically only available during the summer months. This option maintains the nutrition standards of the standard school meal programs — including a strong emphasis on providing fluid milk, fruits and vegetables, whole grains and sensible calorie levels, while

allowing schools to serve free meals to all children.

In addition, USDA says schools that choose this option will receive higher-than-normal meal reimbursements for every meal they serve, which will support them in serving the most nutritious meals possible while managing increased costs associated with pandemic-related operational and supply chain challenges. This option also affords schools the financial flexibility to further customize their meal service design to fit their local needs.

USDA says it will continue to offer targeted meal pattern flexibility and technical assistance as needed. In addition, schools and both child and adult care institutions can continue providing breakfasts, lunches and after-school snacks in nongroup settings at flexible meal times. Parents or guardians also can pick up meals for their children when programs are not

operating normally, all while maintaining social distancing consistent with federal recommendations.

Earlier this month, the Department of Education released Volume 2 of its COVID-19 Handbook, "Roadmap to Reopening Safely and Meeting All Students' Needs," that includes initial recommendations and resources for schools and communities to support the nation's most vulnerable students during the pandemic, including those facing food insecurity. Available at <https://www2.ed.gov/documents/coronavirus/reopening-2.pdf>, the handbook includes strategies to increase student and family access to meal programs during the school year and over the summer, including specific strategies for underserved students such as students experiencing homelessness and English learners, and how federal funding can support these efforts. **CMN**

Northeast Dairy Business Innovation Center to open dairy marketing grant applications

MONTPELIER, Vt. — The Northeast Dairy Business Innovation Center (NE-DBIC) recently announced the availability of funds through the Dairy Marketing and Branding Services Grant Program. The application period for grants opens April 27 and closes June 8.

This program will provide grants to established value-added dairy processors to access professional marketing and branding services to elevate their businesses. Dairy processors headquartered in the Northeast U.S. region (Connecticut, Delaware, Massachusetts, Maine, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont) may apply for this grant. Grants will range from \$10,000 to \$50,000 each, with \$400,000 in available funding.

Grant funds must be used to prioritize the grantee hiring a professional marketing/branding contractor to develop strategy and/or content. Additionally, up to 25% of the grant funds may be used to implement the strategy and/or content developed by the contractor.

Eligible marketing services may include, but are not limited to: strategy and planning; branding, creative and/or design services; digital marketing and web development; public relations; access to new markets; and analytics and reporting.

All proposals must show matching funds that represent at least 25% of the grant request. Matching funds may be contributed by the applicant or by another organization. The 25% required match may be any combination of cash and in-kind funds in any expense category.

All applications must be submitted via the WebGrants system at <https://agriculturegrants.vermont.gov>. No paper applications will be accepted. For technical assistance, contact Rebecca Brockett at Rebecca.Brockett@vermont.gov or (802) 636-7016.

For more information on the program, visit <https://agriculture.vermont.gov/dbic/activities/dairy-marketing-branding-services-grant> or contact Kathryn Donovan at Kathryn.Donovan@vermont.gov or (802) 585-4571. **CMN**

Study: Ag sector critical in feeding economy

WASHINGTON — Over the past year, the ongoing COVID-19 crisis has served as a reminder of the critical role that the U.S. food and agriculture industries still play in a resilient food supply chain, fueling the nation and ensuring that Americans are supplied with an abundance of safe food during this time of need. A new nationwide economic impact study, commissioned by 33 food and agriculture groups and available at www.FeedingTheEconomy.com, reinforces the significance of these industries as critical to day-to-day American life.

The new economic impact study shows that one-fifth of the nation's economy and one-quarter of American jobs are linked to the food and agriculture sectors, either directly or indirectly. Additionally, the analysis broke down the

food and agriculture sectors' economic impact by state and congressional district. The key findings include 40,714,808 total jobs, \$2.04 trillion total wages, \$797.22 billion total taxes, \$155.58 billion in exports and a total food and industry economic impact of \$6.975 trillion.

"The nation's dairy manufacturing and marketing industry supports more than 3 million jobs that generate \$159 billion in wages and \$620 billion in overall economic impact," says Michael Dykes, president and CEO, International Dairy Foods Association. "From our dairy farms, to the processors, truck drivers, equipment and packaging makers, all the way to the dairy case stockers at your local grocery store, the people who make up the U.S. dairy industry are the world's best at delivering safe, nutritious dairy foods to consumers everywhere." **CMN**

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Bob Wolter

312.576.1881
 bwolter@cbs-global.com
 www.cbs-global.com

319 N. Broadway
 Green Bay, WI 54303
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oat-based beverage Oatly launched in the U.S. in 2017 and is now the second most popular plant-based beverage with sales up over 200% in 2020. Ahead of a potential IPO valued near \$10 billion, Oatly recently reported a \$60 million net loss on \$421 million revenue in 2020. How many dairy companies would accept short-term losses like that instead of a much larger potential gain in the future? And in the next generation of innovation, Perfect Day is a food technology company that has developed a process to make dairy proteins through a fermentation process. All of these products can and will take market share from dairy if dairy companies don't respond by shifting the focus to meeting consumer demand,

both today and in the future.

When it comes to being a low-cost producer of commodity products, the U.S. dairy industry excels. This isn't necessarily a bad thing if that is the vision for the future. However, one consequence will be the trend to fewer and larger dairy farms and plants will continue as smaller farms and plants cannot compete in a low-margin environment. By 2030, dairy farm numbers will likely fall by 50% or more. An alternate vision is to invest in innovation, create and make products consumers want, and add value to dairy products and milk. This could result in a dairy industry where farmers and processors of all sizes can be profitable and sustainable. **CMN**

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