

GUEST COLUMNISTS



Perspective: Dairy Marketing

Tom Gallagher is CEO of Dairy Management Inc., the planning and management organization that works to increase sales of U.S.-produced dairy products and ingredients on behalf of America's dairy producers. He is a guest columnist for this week's *Cheese Market News*®.

Creating a brighter future for today's dairy industry

For 18 months and counting, U.S. dairy farmers have suffered through the impact of the global economic meltdown. The global crisis caused dairy exports to drop by several hundred million pounds per month beginning in late summer 2008 through the end of 2008. Exports improved somewhat in 2009 — although at lower prices than before — but they are still not at pre-crisis levels.

Fortunately, domestic dairy demand has been fairly strong during this period. That has helped fill part of the gap caused by the decline in exports. Some of the sales strength resulted from lower retail prices. But a substantial portion was achieved with the help of quick action by Dairy Management Inc. (DMI) and the dairy checkoff. DMI farmer-led efforts to redirect our focus to grow sales through partnerships helped:

- Revitalize pizza sales — Since August of 2009, the top four pizza chains have ordered 48 percent more cheese

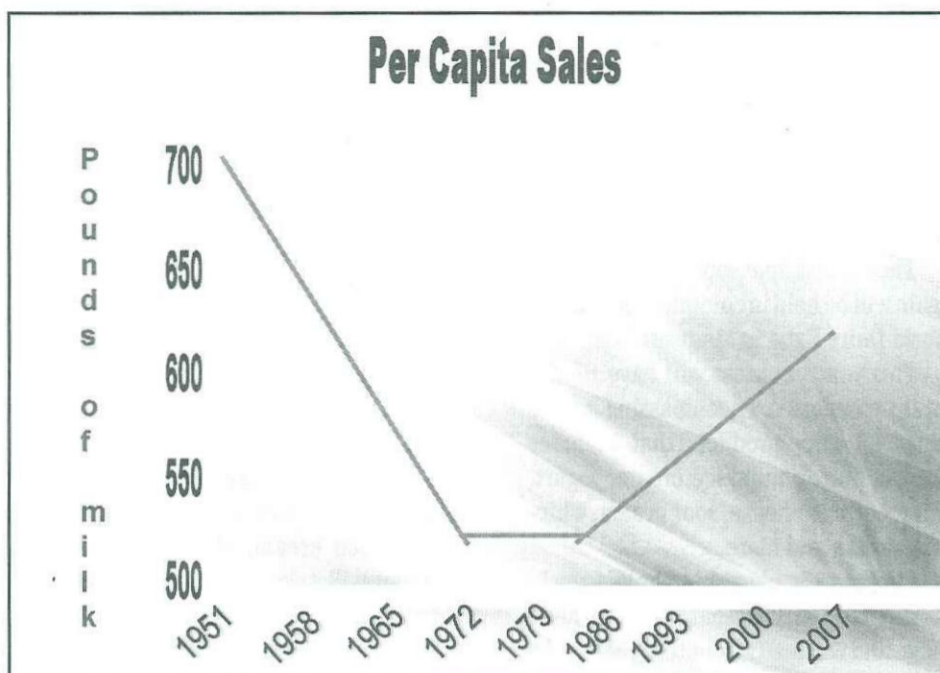
from their suppliers;

- Grow dairy-based beverages — Specialty coffees, smoothies and single-serve re-sealable milk at McDonald's and other chains have resulted in hundreds of millions of pounds of new sales; and

- Increase sales of dairy products for people with lactose intolerance — There has been a 5-percent increase in this category's sales.

As sales continue to grow, farmers will experience even greater benefits from these product sales. Pizza and specialty beverages alone should add more than a billion pounds of new sales this year.

With all that, we are still not out of the woods. Even though supply and demand are fairly well balanced today, we are sitting on nearly 600 million pounds of Cheddar, which is about 50-60 million pounds more than historical averages. As long as that amount of cheese overhangs the market, there will



be downward pressure on prices.

• What's next?

DMI efforts continue to grow cheese and other dairy sales. Further, Cooperatives Working Together reopened the export assistance program to help move some of that excess Cheddar into export channels. And USDA is still in the process of purchasing up to \$60 million worth of cheese.

But more needs to be done to reduce cheese inventories. One alternative is for the government to distribute those products to hard-pressed food banks and government feeding programs. Due to current program rules, efforts to accomplish that last year saw limited success. Nevertheless, this approach is good for the needy and good for dairy producers. It should become an ongoing part of USDA programs.

How do we build a healthier dairy economy for the future? Eight months ago a New York farmer told me that he, like many farmers, had always saved for

a rainy day. But this time the rain just kept coming, and now it felt like a flood. Still, he said, what DMI was doing to increase sales gave him hope. And there is hope for sales growth if the industry focuses on a few things:

Focus on increasing sales and demand. Because ours is an incredibly productive industry, over time, production will always increase. If we can give consumers what they want, when, where and how they want it, there will be more sales opportunities for dairy, here and abroad.

Look at per capita sales since 1951. Production and sales growth both skyrocketed starting in 1983. That's the year the national checkoff began. When we market products that give people what they want, it works. Look at DMI's results in pizza, re-sealable single-serve milk containers and specialty beverages.

Make what consumers demand. Antiquated national dairy policies that create incentives to make products like yellow cheese need to change. The governments and industries of other countries are pouring huge sums into their dairy industries building plants to supply tomorrow's consumers. The longer we avoid doing the same, the further behind we will fall.

Find new ways to share sales revenue or add income. It doesn't work for farmers to be hurting when prices are low, while processors make record profits, and vice versa. A more rational and realistic method is sorely needed to compensate all parts of the marketing chain. Further, farmers should reap the benefits of innovations like on-farm technologies for feeding, production and sustainability — and be in a position to take advantage of income sources beyond the cow.

• Conclusion

Farmers exiting the dairy industry in large numbers due to foreclosures could put intense pressure on industry leaders to make changes this year. But this pressure also may offer an opportunity — a call to action to do things that may not have been possible before.

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WORLD CHAMPIONSHIP CHEESE CONTEST



GALLAGHER

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At an industry meeting 18 months ago, I reworked a popular phrase: "The best way to predict the future is to look at the past" became, "The best way to predict the future is to create it."

We can create a great future for the U.S. dairy industry by giving consumers what they want, when, where and how they want it. That will involve an intense effort by industry and government to retool our aging plant infrastructure, change outdated dairy policies and look to additional new sources of on-farm revenue.

Some of us have been pressing for these changes for years, but change requires unity, and unity on dairy policy has been elusive. Nothing calls for action and unity like this crisis. It demands that we act, as one, for dairy farmers and the health of the industry.

We must act now. We can't let recent history repeat itself. CMN

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