



Perspective: Industry Innovation

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Giving producers an incentive to invest in dairy research

Rarely do I venture into dairy economics — I don't have the training and I'm a science guy. Be that as it may, when I look at the scientific world of whey components I see real potential for the dairy industry. The science and technology around whey components have never been more intriguing. New separation technology and new health benefits are coming out, largely funded by dairy producer check-off funds.

Here's the dairy economics part. The return on investment to dairy producers is measured in milk sales. Whenever

we start selling anything other than fluid milk, especially things like whey components, the return to producers declines. In other words, producers do not have access to the higher margins associated with higher-end, nutritionally-beneficial milk components even though much of the data generated to create these opportunities started with check-off funds.

We saw this as the whey protein market matured. Increasing the market for whey protein provided only an indirect return to the very producers that funded

the research to develop it. That is not my problem to solve, but as a researcher it does impact my life directly. I see great opportunities for delivering unprecedented benefits to consumers of dairy products. However, I am constrained because of an artificially limited return on investment to the people paying for the research program.

Just like any industry, market expansion for dairy products relies on new product development. The challenge from the dairy research perspective lies in that it is difficult to motivate producer investments in product research when producers are paid based on sales of milk, cheese, powder and butter. Lacking a decent financial incentive, the investment necessary to expand new product development lines sputters out. Certainly, we need to promote milk, cheese and butter, but we also need to grow. As the largest bovine milk producer in the world, the United States should be leading the research effort, not dependent on overseas suppliers.

As long as everyone is throwing out ideas for market order reform and what have you, I'll throw in my two cents saying that producers stand ready and willing to advance the nutritional understanding of milk and how it delivers nutritional benefits to consumers unlike any other food. Producers could drive this effort forward in a huge way with big paydays to producers, processors and consumers.

What we need is a milk payment system that would justify producers investing in developing the technology that processors could further invest in to create proprietary products for new markets.

This doesn't mean line extension type products but instead products that open up whole new worlds for marketing such as products to promote gut health, premature infant health, prevention of geriatric abnormalities, immune normalization and weight maintenance. We're not talking about magic potions but rather systems built into milk that allow the various mammal species to thrive. Then you need the processing technology to capture these benefits in consumer-friendly, tasty products. The potential is there, but until the market is redesigned so a flow of profit returns to the investors in a more significant way, the growth will be slow or non-dairy interests will take control.

Leadership is critical in all aspects of business. Milk is a gold mine of marketing opportunities. Incentives and investments follow return on investment. How can we restructure our economic systems to promote research for new product development and a dynamic, growing industry? CMN

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