Dairy Checkoff Report & Update

October 31, 2005
United Dairy Industry Association (UDIA)

- UDIA is a governance structure only
- Each local unit pays membership dues to UDIA
- UDIA oversees American Dairy Association and National Dairy Council
- Governed by 44 directors elected from State and Regional organizations; monitored by USDA
- Checkoff Funding: 10-cent per hundredweight
National Dairy Promotion and Research Board (NDB)

- Formed by Congress in 1984, monitored by USDA, to oversee the $.15 checkoff program
- NDB, today, is a governance structure only – not an operating company
- Purpose: strengthen demand for dairy in domestic and foreign markets
- Governed by 36-member board of dairy farmers appointed by Secretary of Agriculture
- Checkoff funding: 5-cent per hundredweight
Dairy Management, Inc. (DMI)

• Founded in 1995 by UDIA and NDB
• Operating company that manages domestic and international promotion programs
• Responsible for driving demand for U.S. produced dairy products
U.S. Dairy Export Council

- Formed by DMI in 1995
- An independent membership organization that leverages the investments of dairy processors, exporters, milk producers and industry suppliers to increase dairy exports
- Funding from the Foreign Agricultural Service of USDA, USDEC members and DMI
Midwest Dairy Association

Mission

Midwest Dairy Association implements programs that help increase sales and demand for dairy products and dairy ingredients and help improve the economic well-being of Midwest dairy producers.
Midwest Dairy Association

Who We Are

- MDA Started Jan. 1, 2000
- Predecessors go back over 70 years
- Covers 9 States
- Promote to 35 Million Consumers
- Funded by 14,000 Dairy Farmers (20% of all US Dairy Farmers)
- $19 Million Budget
- Part of $240 Million National Program
National Dairy Partnerships

Natl Milk Producers Fed.  
- Milk research  
- Policy information

American Butter Inst.  
- Butter website  
- Butter PR program

American Dairy Products Inst.  
- Dairy ingredient marketing program  
- Dairy product research

DMI/MDA

Natl Cheese Institute  
- Cheese/calcium PR program

Intl Dairy Foods Assn  
- MilkPEP program
Consumer Partnerships

DMI/MDA

Schools
- Nutrition education
- School foodservice promotion

Restaurant Operators
- New dairy menu offerings

Media
- Dairy food publicity
- Nutrition information

Retailers
- In-store dairy promotion

Health Professionals
- Nutrition recommendations

Food Manufacturers
- Dairy ingredient usage
Midwest Dairy Association

What We Do:

• Apply upward pressure on the demand curve for commodity dairy products.

• Protect long term image of dairy products and the dairy industry.

• Fill in gaps in product, market, and nutrition information.

• Fill in gaps between the Brands.
Midwest Dairy Association

What Tools Do We Use?
• 3-A-Day Advertising
• Restaurant Promotions
• Supermarket Promotions
• Classroom Nutrition Education
• School Cafeteria Promotions
• Product/Nutrition/Industry PR
• Ingredient Marketing
2005 Dairy Checkoff Unified Marketing Plan Budget

- Fluid Milk: 22%
- Cheese: 26%
- School Marketing: 12%
- Emerging Opportunities: 8%
- Other Marketing Programs: 4%
- General Administration: 4%
- Dairy Image: 7%
- Exports: 5%
- Product Research: 4%
- Technology: 3%
- Ingredients: 2%
- Producer Communication: 3%
Does It Work?

How you know the checkoff works:

• During the past three years, cheese and fluid milk advertising programs were responsible for selling an additional **1.5 billion** pounds of milk annually (USDA).

• Since 1984 per capita consumption of dairy products has grown from 519 pounds to approximately **600 pounds**!
Since the national dairy checkoff began in 1984, per capita consumption of total milk has steadily climbed. “Total milk” is the milk that goes into all dairy products. Source: NMPF, from USDA data (milkfat basis)
Cheese Sales

• Per capita cheese consumption now at 31.5 lbs. -- never been higher
• Expected to reach 35 lbs. by 2005
Dairy Health and Wellness Platform

3 servings of dairy a day in a reduced-calorie diet supports weight loss.

Dairy H/W Platform

- Shop 'n Save
- Walmart
- Safeway
- Kroger
- Costco
- Albertsons
- NFL
- New Look of School Milk
- School Nutrition Association
- Action for Healthy Kids
- Dietary Guidelines for Americans 2005
- American Academy of Pediatrics
- American Dietetic Association
- MDA Midwest Dairy Association
Product A Profile

- Universal trial by age 2
- 97% household penetration
- 87% positive consumer perception of health (May ’05 calcium)
- 81% positive consumer perception of food $ value (Nov ’04)
- Spot on the Food Guide Pyramid
- Mandatory serve in school lunch program
- Got Milk? one of top ad campaigns of all time
- One of top products that drives consumers to store
- Sales trends have been stable for 20 years.
Product B Profile

- Low margin, commodity type product
- Limited availability..85+% of sales at retail  (2004 SIP data)
- 69% private label…little brand support (IRI 52 wks end 5/29/05)
- 93% sold in single flavor…white (USDA '02 data)
- 75% of kids choose other flavors..when offered (SMPT )
- 72% sales in “bulk gallon & ½ gallon jugs” (IRI data)
- Outspent 11 to 1 by competitors (BMC ’05 Mktg Analysis)
- Negative demographic trends..aging population
- Sales trends have been flat for decades
Half Full or Half Empty?
Classroom Nutrition Education
Competitive Beverage Continuum
Milk in Schools

Non-Competitive

- Traditional formulation
- White milk only
- One-color cardboard container
- Meal-line only
- Over 40 degrees, dated cooling equipment, inadequate handling and limited merchandising

Highly Competitive

- Enhanced formulation
- Additional flavor
- Upgraded paperboard
- A la carte
- Multiple distribution points (e.g., meal-line, a la carte, vending in/out of cafeteria)
- Cold, Visible, Merchandised and Promoted

- Multiple flavors
- Plastic, resealable packaging
Why Kids?...
Why are kids the first priority for growing milk consumption?
Kids’ Represent Twice the Milk Volume than their “Fair Share”

Source: “The Electronic Share of Intake Panel (eSIP) study is conducted by TNS NFO.”
“eSIP monitors individuals’ beverage consumption both at home and away from home through a national panel of 36,000 individuals per year.”
* Excludes milk used for cereal, coffee, or as an ingredient
Milk’s Slippery Slope
Consumption starts out high, declines with age

### Kids 37% Milk Volume

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Milk Volume (2004)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 6</td>
<td>90.12</td>
</tr>
<tr>
<td>6 to 12</td>
<td>72.51</td>
</tr>
<tr>
<td>13 to 17</td>
<td>54.92</td>
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<tr>
<td>18 to 24</td>
<td>25.38</td>
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<td>25 to 34</td>
<td>23.29</td>
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<tr>
<td>35 to 49</td>
<td>25.08</td>
</tr>
<tr>
<td>50 to 59</td>
<td>22.92</td>
</tr>
<tr>
<td>60 yrs+</td>
<td>26.42</td>
</tr>
</tbody>
</table>

### Teens 11% Milk Volume

### Adults 52% Milk Volume

Source: The Electronic Share of Intake Panel (eSIP) study is conducted by TNS NFO.
“eSIP monitors individuals’ beverage consumption both at home and away from home through a national panel of 36,000 individuals per year.”
Why Schools?...
Why focus on schools first to access kids?
Focus on School Milk

• 55 million kids go to school every day

• 400 million gallons of milk sold in schools
  5 billion 8oz. cartons served per year; 5 billion product exposures!

• 36 million participate in school meals
  – 28 million at lunch/8 million at breakfast

• School milk is declining in popularity among kids

• Milk continues to be a “nutrition solution” in schools
  – Only 2% of kids meet the Food Guide Pyramid recommendations
  – Milk and dairy products provide the most important source of calcium in children's diets and account for 75% of the calcium in the US food supply
  – Milk must be offered in School Lunch and Breakfast programs

• School milk represents a huge area of opportunity for the industry
  – Early brand identification, loyalty
Impact of School Milk Per Caps on Milk Consumption

- Based on preliminary data from the School Milk Pilot Test, implementing a nationwide program of improved school milk would return per capita milk consumption among 6 to 17 year olds to 1992 levels
  - This projection does not consider the potential out-of-school consumption impact, which could drive an even more significant recovery

Impact of National Program of Improved School Milk
Projected Per Capita Consumption - 6 to 17 Year Olds

* Assuming nationwide implementation of improved school milk program
Source: Beverage Marketing Corp.; DMI; SIP; ASW
Impact of School Milk Per Caps on Milk Consumption

- Thus, the difference between doing nothing and initiating a program of improved school milk is dramatic - as much as 143 million gallons per year by 2010.
  - The ‘spill-over’ into the older demographic could add as much as 27 million gallons per year (not included in graph).

Impact of National Program of Improved School Milk
Projected Annual Change in Total Milk Volume for 6 to 17 Year-Olds

2010P

<Diagram showing projected annual change in total milk volume for 6 to 17 year-olds, with bars indicating a 143 million gallons increase and a 76 million gallons decrease.>

Source: Beverage Marketing Corp.; DMI

MDA MIDWEST DAIRY ASSOCIATION™
Advertising & Retail

• What is the current dairy promotion advertising campaign?

• Got Milk, Ah, the Power of Cheese or something else?
Industry Embracing 3-A-Day

• **Strong retail support**
  – 29 of 30 top retail chains on board
  – Wal-Mart, Safeway, Kroger (Ralph’s), Albertson’s, Costco, HyVee, Fareway, etc.

• **60+ dairy manufacturers**
  – Swiss Valley Farms, Lactaid, Crystal Farms, Land O’Lakes, Borden, Kraft, Schreiber, Sargento, Tillamook, Nestle, Dannon, Yoplait, etc.

• **3-A-Day is on nearly 3 billion packages**
Supermarket Partnerships

SuperValu Foods

Rainbow Foods

Cub®

MDA MIDWEST DAIRY ASSOCIATION™
3-A-Day of Dairy Program Evolution

Health & Wellness Program

- Bone Health Platform
- Weight Management Platform
- Other Wellness Platforms

3 servings of dairy a day in a reduced-calorie diet supports weight loss.
New health research findings

- Low fat dairy can help prevent high blood pressure
- Dairy can help prevent colon cancer
- Diet rich in dairy may reduce risk of diabetes, heart disease
- Dairy foods can help people lose weight

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3-A-Day of Dairy – Weight Loss

• Obesity No. 1 U.S. health problem

• But good news …

\textit{science confirms that 3-A-Day of Dairy can be part of the solution!}

3 servings of dairy a day in a reduced-calorie diet supports weight loss.
Health Partner’s Support

American Dietetic Association

American Academy of Family Physicians

WebMD

MIDWEST DAIRY ASSOCIATION™
Conclusions

• Based on consumer/market information on
  – It is the right H&W platform for dairy
  – The Mom’s target is correct
  – It’s a long-term approach to deliver relevant news
    • Over time and to different segments of the population
  – It will affect behavior
  – It will raise dairy’s overall image
  – It will increase demand for milk and cheese and yogurt
McDonald’s Milk Launch

- McDonald’s first fast food restaurant to introduce plastic, single-serve white/choc milk nationwide
  - 13,500+ locations
- Part of new kids Happy Meals Choices menu!

*McDonald’s selling over 4 million milk jugs each week!*
Dairy + Foodservice = Volume Growth

Sales: over 1.5 million + Units per week!
Protecting Dairy’s Image: Crisis preparedness

- Industry wide – speak with one voice to public
  - Media misinformation
  - Consumer skepticism
- Three-pronged approach
  - Lead coordinated, unified industry effort
  - Build industry response plan
  - Train industry players, preparation drills, modify as necessary

- [www.dairyresponse.com](http://www.dairyresponse.com) – industry resource for co-ops, others in the industry
Protecting Dairy’s Image: Dietary Guidelines

New Dietary Guidelines and MyPyramid Food Guidance Tool recommend:
3 servings of dairy products per day
Dairy Innovation Strategic Platform

Corporate Long-Term Goal:

“Be a catalyst for dairy industry innovation to deliver new opportunities in product and ingredient usages and nutrition/health positionings.”
Why Invest in Innovation?

• To better meet consumers’ need
  – And deliver a dairy solution

• To better align the US Dairy Industry to compete effectively by increasing investment in Innovation
  – Take it to soy and foreign-sourced products

• To build future markets for dairy products and ingredients
  – Build current and future demand
Innovation - Ingredient Marketing
Thank you!