



# 2012 Annual Report



# A Message From the Chairmen

As dairy farmers, we are proud to be original environmentalists. Our commitment to our planet and sustainable farming has been evident for many generations.

Today, we have the benefit of advanced technologies that allow us to produce more milk with fewer cows and far less impact on natural resources. This is great news for our environment. It's also great news for our valued consumers, who are making more purchase decisions based on an industry's real or perceived environmental impact.

With 98 percent of Americans working outside agriculture, most of our consumers don't know what it takes to produce food. They don't know that the dairy products they enjoy largely come from family farms like ours.

And worse, they could be getting misinformation about our industry from animal activist organizations. When consumers question what we do on our farms, it damages our long-term freedom to operate — it's that simple.

This is why, as your dairy checkoff leaders, we started our industry-wide "consumer confidence" effort. This work is part of everything the checkoff does. It has a strong emphasis on social media, where many consumers receive their information these days.

We know that consumers want dairy products that are safe and wholesome and are produced in a manner that is good for our

cows and our planet. Although this has been our generations-long commitment, it's time we told our story, from our farms to their tables, with renewed emphasis. It's the right thing to do, not only for consumers but also for our industry and the farmers who will follow us.

A lot of momentum began in 2012 that has carried over to 2013. New partners such as Feeding America and the World Wildlife Fund are introducing us to new audiences. Our consumer confidence work has the backing of the Academy of Nutrition and Dietetics, which helps us reach influential health professionals. We also have support from partners such as McDonald's® and Domino's®.

These efforts are growing fast, and they need *your* participation to show consumers how dairy farmers across the country make a daily contribution to healthy people, healthy communities and a healthy planet.

We hope you will join us in building more confidence among consumers by telling your story to consumers near you or by becoming active in social media. It's the best way for consumers and farmers to better understand each other.



**Paul Rovey**  
Arizona dairy farmer  
Chair, Dairy Management Inc.™



**Steve Maddox**  
California dairy farmer  
Chair, National Dairy Promotion  
and Research Board



**Bill Siebenborn**  
Missouri dairy farmer  
Chair, United Dairy Industry Association

# A Letter From the CEO

Your investment in the dairy checkoff yields results that benefit all dairy farmers over the short and long term.

Short-term examples include our strategic partnerships that help increase dairy sales today, such as our work with Domino's Pizza. This partnership has led to a large increase in other than American cheese sales, translating into 1.1 billion pounds of additional milk moved from November 2011 to November 2012, over the previous 12 months (Source: U.S. Department of Agriculture).

Likewise, our McDonald's partnership yielded an additional 1 billion pounds of milk consumption from 2009 to 2011 through continued menu innovations that focus on yogurt, desserts and natural cheese.

Our longer-term projects include efforts to turn around decades of declining fluid milk sales, a situation that affects dairy farmers and the entire industry. Checkoff leadership stepped forward with a \$9 million commitment to help reverse this trend through projects designed to grow sales. To date, milk processors and others in the industry committed more than \$81 million to help grow the category.

Other 2012 successes include:

**Dairy Research Institute® (DRI)** — DRI, founded by dairy farmers in 2010, makes dairy industry innovation happen. This leads to new ways to use dairy ingredients in products, as well as sustainability and nutrition/health positioning that will increase sales. DRI's motto is "More, Bigger, Faster!," which

means MORE dollars coming in for checkoff-identified priorities, BIGGER ideas that move more dairy and FASTER ways to use tools to get industry to translate research into sales. DRI secured \$81 million in funding (\$68 million from non-checkoff sources) for the integrated dairy industry research plan.

**U.S. Dairy Export Council®** — U.S. dairy product and ingredient export sales were valued at a record \$5.3 billion in 2012, an increase of more than 10 percent compared with 2011, according to the U.S. Department of Agriculture (USDA). In all, more than 13 percent of U.S. milk solids were sold internationally in 2012. This means nearly one of every seven milk tankers heads to a market outside of the United States.

**Innovation Center for U.S. Dairy®** — The U.S. dairy industry created a framework for voluntary measurement of dairy's sustainability to help the industry address the expectations of a changing marketplace in a unified way. The Innovation Center, which was created by dairy farmers, also hosted industry-led and industry-funded food safety workshops to help protect consumer trust in dairy. Nearly 400 industry representatives participated in training to improve food safety practices at dairy manufacturing and processing plants in 2012. Finally, the Innovation Center worked with cheese manufacturers (representing about 80 percent of cheese volume) who committed funds and other resources for research to address public health concerns about sodium in cheese.

We encourage you to review more 2012 checkoff updates and highlights in this report.

Your dairy checkoff leaders and staff — nationally and locally — continue to find new and innovative ways to bring you value on your dairy checkoff investment.



**Thomas P. Gallagher**  
Chief Executive Officer  
Dairy Management Inc.™

# Partnerships. Innovation. Results.



**The dairy checkoff works to help you grow your business by:**

- Forming lifelong dairy consumers
- Building powerful partnerships to grow sales
- Providing long-term value for your checkoff investment



## **Purpose**

The dairy checkoff was put in place by farmers to increase milk sales and extend your influence once your milk leaves your farm.



## **Role**

Work proactively — and in partnership — with leaders and innovators to increase and apply knowledge that offers opportunities to grow short- and long-term sales.

# Financial Information

## 2012 Dairy Checkoff Unified Marketing Plan Program Revenues/Expenses (All \$ in millions)

|                                             |                |
|---------------------------------------------|----------------|
| Fuel Up to Play 60                          | \$52.1         |
| Strategic Initiatives*                      | \$36.0         |
| Industry Image and Relations**              | \$28.7         |
| Dairy Research Institute:                   |                |
| ▪ Nutrition Research                        | \$8.7          |
| ▪ Product Research                          | \$7.5          |
| ▪ Sustainability                            | \$5.9          |
| Dairy Health and Wellness/Nutrition Affairs | \$22.0         |
| Exports                                     | \$17.5         |
| Strategy and Insights                       | \$9.8          |
| Industry Communications                     | \$2.2          |
| Butter                                      | \$1.0          |
| General and Administration                  | \$7.6          |
| <b>Total:</b>                               | <b>\$199.0</b> |

Annual dairy checkoff plans and budgets are determined and approved by the Dairy Management Inc.™ board of directors, composed of checkoff leaders from around the United States who share your commitment to the future of our dairy industry.

\*Includes marketing partnerships with foodservice companies

\*\*Includes issues management, crisis preparedness and farmer image

## Program Revenues/Expenses (all \$ in millions)

|                                              |                |
|----------------------------------------------|----------------|
| National Dairy Promotion and Research Board* | \$96.1         |
| United Dairy Industry Association**          | \$96.7         |
| Redirection of 2011 funds from DMI budget    | \$6.2          |
| <b>Total Revenues:</b>                       | <b>\$199.0</b> |

In addition, approximately \$20 million in United Dairy Industry Association local programming from state and regional promotion organizations extends and complements national programming.

\*The USDA established the National Dairy Promotion and Research Board (NDB) under the Dairy Production Stabilization Act of 1983. The 38-member board carries out coordinated promotion, research and nutrition education programs to help build demand and expand domestic and international markets for dairy products. NDB funds, in part, Dairy Management Inc.™, which manages the national checkoff program.

\*\*United Dairy Industry Association (UDIA®) is a federation of state and regional dairy farmer-funded promotion organizations that provides marketing programs developed and implemented in coordination with its members. UDIA is overseen by a board composed of dairy farmers elected by their respective boards of their member organizations.

# Your Dairy Checkoff at Work



## Dairy Checkoff Drives Sales, Grows Demand

Today's dairy checkoff focuses on one mission: to grow sales of and demand for dairy products

and ingredients.

The checkoff accomplishes this by:

- Working *with* and *through* the dairy industry
- Partnering with industry leaders such as Domino's Pizza, McDonald's and Quaker®

The dairy checkoff works with those that further extend the checkoff investment. In fact, partners invest more than \$6 for every checkoff dollar spent in partnerships.

## Consumer Confidence Work Builds Consumer Trust

Another way the checkoff protects the interest of dairy farmers and the industry is by leading [industry-wide efforts](#) to maintain and build consumer confidence in dairy.

Consumer trust is critical to protecting farmers' reputation and the industry's freedom to operate. We're reconnecting consumers with agriculture to protect your freedom to operate, increase our country's food security and increase dairy sales.

Consumer confidence comes into play across all areas of the checkoff. This includes working throughout the entire industry to share a unified and powerful voice that is communicated through social media and other ways to reach consumers.



This also allows farmers and the industry to have conversations with consumers about modern dairy and food production practices — and helps set the record straight when necessary.

The media and consumers understand that dairy farmers are the No. 1 resource when it comes to their farms and producing milk. Through media tours, on-farm events with partners, conversations between farmers and business leaders and engaging farmers in activities with partners, activating farmers to tell their good and honest stories has been a critical part of our efforts. At media briefings this past year, nearly every editor talked about the need for their staff to understand more about milk production and dairy farms.

Dairy has a great story to share with consumers, but it's going to take an industry-wide effort, plus assistance from credible third-party allies. Our goal is to position dairy's important role in a safe, affordable and abundant food supply by focusing on:

- **Healthy People** — Dairy products play a healthy, nutritious and great-tasting role in people's diets throughout their lifetime.
- **Healthy Communities** — Farmers and the industry help communities lead healthier lives by producing nutritious, safe and wholesome dairy products and providing economic value.
- **Healthy Planet** — Dairy farm families, along with others in the industry, remain committed to environmental stewardship and reducing our environmental impact.



## Partnerships Drive Category Growth

Working with industry leaders allows the checkoff to help advance innovation and grow sales. Equally important, these partners bring money and resources to the table.

For example:



- **Domino's Pizza** — Domino's recognizes that cheese — and plenty of it — is critical to its success. And when Domino's innovates, the other pizza guys follow. According to the USDA's Economic Research Service, other than American cheese sales (as a category) moved more than 8.6 billion pounds of milk since the beginning of the Domino's partnership in 2009. Domino's annually invests tens of millions of dollars to help grow pizza (and cheese) sales through menu development (handmade pan pizza), aggressive promotions (carryout specials), digital marketing and national advertising. The Domino's **Smart Slice** program is in more than 400 school districts. This helps keep pizza — and cheese — on school menus.



- **Quaker** — In 2012, checkoff directors approved a three-year strategic partnership with The Quaker Oats Company to grow dairy sales. First up is a pilot program with a major retail chain where Quaker launched its "Make It With Milk" campaign to encourage consumers to use milk instead of water when making oatmeal.





■ **McDonald's** — The checkoff's partnership with McDonald's creates "dairy destinations" for the more than 27 million customers who visit its restaurants every day. The chain used more than 1.7 billion pounds of additional milk in dairy-friendly menu items between 2009 and 2011 (the start of the checkoff's partnership with the chain). Billions of additional pounds of milk are projected to be used over the next three years. Beyond sales, McDonald's annually invests in dairy priorities such as menu development, equipment and advertising. And because McDonald's is the leader, the other fast-food places copy what they do, which is great for dairy.



■ **Taco Bell**® — Taco Bell, the largest Mexican quick-service restaurant chain in the United States, shares the checkoff's commitment to growing sales through innovation. In 2012, a dairy scientist (and checkoff employee) began working at Taco Bell's headquarters to help develop dairy-friendly menu items and ingredients that aim to contribute more than 150 million additional pounds of milk annually. Taco Bell's plans include desserts, beverages, breakfast items and entrees that feature dairy as a key ingredient.



## Checkoff Leading Fluid Milk Revitalization Efforts

The checkoff is leading an unprecedented, comprehensive, industry-wide effort to turn around the decades-long decline in fluid milk sales.

The long-term plan involves farmers, co-ops, processors, retailers, and equipment and packaging companies to address fundamental challenges facing fluid milk. These efforts aim to establish a more sustainable, balanced business model that ensures the viability and profitability of the fluid milk category.

In the short term, the checkoff has invested \$9 million to stimulate product innovation and identify merchandising and other marketing opportunities to go beyond the gallon and sell milk in new places and in new ways.

Projects include:

- Dairy “refuel” beverages in club, health and convenience stores
- Product development in the fast-growing breakfast beverage category
- More value-added options to appeal to different consumer segments

The 25 percent of the U.S. population that identifies itself as lactose intolerant remains a very important audience for dairy. The checkoff’s partnership with HP Hood LLC that produces the LACTAID® brand — the category leader in lactose-free and reduced-lactose milk products

— continues to change attitudes and grow sales. Retail sales indicate that lactose-free category sales as a whole increased nearly 3 percent in 2012. U.S. milk processors continue to introduce lactose-free products to address the needs of these consumers.



## U.S. Dairy Exports Reach Record Levels

The U.S. Dairy Export Council® — established by farmers through the checkoff — unites all industry segments to grow the volume and value of U.S. exports and ingredients.

The U.S. dairy industry sold more than 13 percent of its milk solids internationally in 2012. Export value hit a record \$5.2 billion and more than 3 billion pounds of total milk solids were sold into export channels, according to USDA's Foreign Agricultural Service.

U.S. dairy exports to Mexico grew 6 percent to \$1.2 billion, topping \$1 billion for the second consecutive year. Other major markets include: Southeast Asia (\$921 million), Canada (\$554 million), China/Hong Kong (\$443 million), Middle East/North Africa (\$431 million), Japan (\$284 million), South America (\$256 million), South Korea (\$227 million) and Australia/New Zealand (\$213 million).

USDEC programs that have advanced sales include a go-to-market strategy that provides new, value-added opportunities for U.S. farmers by working with industry to produce, market and export Gouda processing cheese to Mexico. USDEC, working with U.S. suppliers, helped grow Gouda sales from nothing in 2008 to 31 million pounds in 2012.

## Innovation Center Uses Outside Resources to Advance Checkoff Goals

Dairy farmers created the [Innovation Center for U.S. Dairy®](#) in 2008 to help increase short- and long-term dairy sales and advance checkoff priorities. Those priorities include: health and wellness, consumer confidence, globalization, sustainability, research and insights, and food safety.

By working with and through industry, the dairy checkoff extends its influence, increases marketplace impact and magnifies its investment by using other people's resources to help advance your priorities.

Today, more than 1,000 individuals (representing more than 300 companies) invest an average of 60,000 hours annually working on checkoff priorities across Innovation Center committees and task forces.

Recent successes include:

- **Sustainability** — Outside funding and partnership resources (including USDA contributions) for Innovation Center sustainability initiatives total more than \$120 million and help improve the industry's environmental, social and economic sustainability
- **Globalization** — Industry partners developed and tested voluntary enhanced traceability practices to improve U.S. competitiveness, meet requirements of the U.S. Food and Drug Administration Food Safety Modernization Act and bolster consumer confidence
- **Research and Insights** — Groundbreaking [Future of Dairy](#) research embedded new product ideas in dairy companies' plans that will lead to long-term dairy sales opportunities





## FUTP 60 Protects and Grows Dairy's Place in Schools

The checkoff-funded Fuel Up to Play 60 program is the largest children's health and wellness program in U.S. schools. It advances healthy eating (including dairy) and 60 minutes of physical activity every day. The program protects dairy's freedom to operate in school cafeterias and beyond.

Today, nearly 73,000 schools are enrolled in FUTP 60 and 11 million students actively participate in the program.

FUTP 60 was launched by National Dairy Council® and National Football League®, and its goals are supported by the USDA. The program provides an opportunity to reach more than 55 million future dairy consumers who attend school each day.

The program helps grow dairy sales. For example, research shows that schools receiving grants made possible through FUTP 60 partners demonstrated a 42 percent increase in students participating in the school breakfast program, which requires that milk be offered with the meal. This helps schools, as well, because they receive government-funded school feeding resources based on student participation.

Over the past three years, the checkoff has piloted more than 60 programs with partners who have provided more than \$3 million to support FUTP 60. This support alone has led to more than 50 million pounds of additional dairy sales.





## NATIONAL DAIRY COUNCIL®

### National Dairy Council Protects Dairy's Role in Health and Wellness

National Dairy Council® (NDC), the nonprofit organization founded by farmers, has been committed to nutrition education and research-based communications for nearly 100 years.

NDC works to protect dairy's role in health and wellness through peer-reviewed science that supports its nutrition and health contribution to the diet. From education on lactose intolerance and cheese and sodium to benefits of protein provided by dairy, this helps ensure that dairy foods are well-positioned in the marketplace and government feeding programs, including school meal programs, which represent \$12.4 billion of annual dairy purchases.

NDC highlights include:

- NDC and [GENYOUth](#) hosted 400 health, government, education and corporate leaders to build support for the connection between breakfast, physical activity and academic achievement among youth through the [Learning Connection Summit](#). This is important for dairy, because estimates reinforce that if every child who eats school lunch also ate school breakfast, dairy consumption would grow by an additional 1.7 billion pounds of milk annually. (GENYOUth was founded through a public-private partnership with NDC and the NFL. FUTP 60 is its flagship program.)
- The leadership of 14 national health, government and education organizations serves on NDC and GENYOUth's Health and Wellness Advisory Council. They commit significant time providing strategic counsel on child and school initiatives and serve as advocates for FUTP 60. The support of these and other partnerships extends checkoff's investment to help advance children's health and wellness.
- In 2012, NDC launched a partnership with [Feeding America](#) and the [Academy of Nutrition and Dietetics](#). This partnership aims



to help fight hunger and make additional resources available for the nearly 50 million Americans who are food insecure. As part of this partnership, these organizations will identify ways to improve access to milk and other dairy foods at local food banks.



### **Dairy Research Institute Drives Innovation Through Cutting-edge Research**

The [Dairy Research Institute](#) (DRI), founded by farmers in 2010, drives pre-competitive research in dairy nutrition, product and sustainability that is needed to accelerate dairy innovation and grow sales.

DRI applies world-class expertise and resources to research priorities that align with checkoff goals and industry partners. This includes research that:

- Demonstrates how dairy consumption improves nutrient intake, reduces the risk for chronic diseases and improves muscle and bone health
- Showcases dairy as a unique source of protein
- Promotes increased dairy use by improving quality and performance of dairy products and ingredients
- Provides industry with science-based decision-making tools to benchmark and improve economic and environmental impact
- Establishes an accurate environmental footprint for U.S. dairy, from farm to table

DRI magnifies the checkoff impact by aligning with partners to work toward a \$100 million goal for investment in shared research priorities that will benefit the dairy industry. To date, this aligned investment has reached more than \$79 million, of which \$68 million is from non-checkoff resources.

## Additional Resources

### Board of Directors and DMI Officers

Dairy Management Inc.™ (DMI), which oversees the management of the dairy checkoff, is funded by America's dairy farmers and those companies that import dairy products in the United States. Funds are collected through the National Dairy Promotion and Research Board (NDB) and the United Dairy Industry Association (UDIA). The DMI Board of Directors is composed of dairy farmers and two representatives from companies that import dairy products into the United States. Board members provide oversight of all checkoff activities and ensure proper use of checkoff funds.

### Local, state and regional dairy promotion organizations

Find contact information here for your local dairy promotion organization. Representatives from each organization can provide you with information about dairy checkoff promotion programs, locally and nationally.

### Learn more

To learn more about how your dairy checkoff investment helps build dairy demand, visit our checkoff-funded websites.

#### Dairy Management Inc.

[www.dairy.org](http://www.dairy.org)

#### DairyGood

[www.dairygood.org](http://www.dairygood.org)

#### Dairy Response

[www.dairyresponse.com](http://www.dairyresponse.com)

#### Fuel Up to Play 60

[www.fueluptoplay60.com](http://www.fueluptoplay60.com)

#### Innovate With Dairy

[www.innovatewithdairy.com](http://www.innovatewithdairy.com)

#### Innovation Center for U.S. Dairy

[www.usdairy.com](http://www.usdairy.com)

#### National Dairy Council

[www.nationaldairyCouncil.org](http://www.nationaldairyCouncil.org)

#### U.S. Dairy Export Council

[www.usdec.org](http://www.usdec.org)

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