

The image is a vertical collage of dairy products. The top half features two glass bottles of milk against a light wood background. The bottom half shows a variety of cheeses: a wedge of Swiss cheese on a marble board, a round of soft cheese in a white bowl, a slice of Swiss cheese, and a block of butter in a white butter dish. A small wooden scoop filled with cheese powder is also visible in the foreground.

**DMi** DAIRY MANAGEMENT INC.™

# 2013 Annual Report

# A Message From the Chairmen

As fellow dairy farmers, we all understand the pride we have in working to feed people. It's why we approach every day with so much passion and integrity.

Our dairy promotion checkoff strategy has included working with partners on how to get more of the nutritious dairy products we produce into the diets of Americans, and that is a great thing for all of us who invest in the checkoff. Our successes with Domino's® and McDonald's have been well-documented, and newer partnerships with Taco Bell®, Quaker and Pizza Hut have yielded positive results so far, and hold plenty of promise for the future.

Now, we've entered into a new partnership that allows us to work with a segment of the population we previously haven't: hungry people.

Our partnership with Feeding America® — the nation's largest hunger relief organization — has made us see hunger in a new way. As Americans, we like to say we live in a country of abundance. But there isn't a community anywhere that isn't affected in some way by hunger. None of us have to look very far to find hungry people.

Feeding America has compiled some startling statistics about the extent of our country's hunger crisis:

- Nearly 50 million Americans, including 1 in 5 children, don't know where their next meal is coming from on a daily basis.
- Even though milk is one of the top foods in demand throughout the food bank network, on average, 37 million Feeding America clients receive only 1 gallon per person, per year.

These heartbreaking figures underscore why the checkoff leadership proudly supports our Feeding America partnership to find ways to help make a difference.

We know there are significant declines in milk consumption among those in need. We need to keep these families in the milk purchasing category, as they are more likely to buy milk once they no longer rely on food banks.

In 2013, our National Dairy Council® (NDC) teamed with Feeding America and the Academy of Nutrition and Dietetics to award nutrition initiative grants of \$10,000 each to food banks within the Feeding America network. These grants supported nutrition education and helped Feeding America clients increase their access to dairy products and other in-demand, nutrient-rich foods.

The checkoff also helped launch the Healthy Food Bank website ([healthyfoodbankhub.org](http://healthyfoodbankhub.org)) that is part of [FeedingAmerica.org](http://FeedingAmerica.org). It helps registered dietitians, public health officials and hunger experts collaborate on combatting food insecurity, improving nutrition and reducing the risk of diet-related diseases. It ensures dairy is part of the conversation when discussing nutrient-rich foods needed for food banks and offers recipes that include dairy.

Another exciting hunger-focused program is the Great American Milk Drive, organized by MilkPEP®, Feeding America and NDC. This effort will drive consumer donations of milk for those who need it most.

Consumers can donate as little as \$5 at [milklife.com/give](http://milklife.com/give) or text “milk” to 27722 to purchase milk for hungry families. The plan also calls for donations to be made through participating retailers.

We feel very blessed to farm each day with our families and our animals in a way that is good for people, our communities and the environment. Knowing we also are helping Americans who face daily hunger issues takes our job satisfaction to a whole new level.



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



**Kenton Holle**  
North Dakota dairy farmer  
Chair, National Dairy Promotion  
and Research Board



**Neil Hoff**  
Texas dairy farmer  
Chair, United Dairy Industry Association

# A Letter From the CEO

The dairy checkoff is your voice. We work to find a home for your production and it's done with a collective power and purpose.

We want processing plants and manufacturers to do the right things with your milk that they otherwise wouldn't do. Or, we want them to do it in a much more compressed time frame.

Our approach to working with partners multiplies your checkoff investment. Partners are putting in 10, 20 or even 30 times the amount of resources that you invest. This is the most effective way we can build sales and consumer trust in your products.

The majority of your product is sold domestically. That said, we do not have a mature market here. There still are substantial areas for growth. But this is just potential, not actual sales. Closing the gap between potential and actual dairy sales is a great opportunity for the checkoff.

Actual sales don't just happen by themselves. They happen because people in dairy innovate to get consumers the products they want, where they want them and how they want them.

Our role is to stimulate this innovation. This is happening in a variety of ways. Here are some examples:

- Pizza drove the consumption of cheese in the 1980s and 1990s. However, the pizza category started to go flat in the 2000s. We began our partnership with Domino's in 2009 and, nine months later, the category started to turn around. Since then, we have moved 10 billion additional pounds of cheese through the pizza category, because other pizza chains followed Domino's lead.
- Our partnership with McDonald's has become a model for other checkoff partnerships. We have a team of employees representing the dairy checkoff on the front lines at McDonald's headquarters. This work resulted in 27 new dairy-based products being introduced or in the testing phase in 2013. McDonald's also keeps dairy front and center in its advertising efforts.
- Schools always have been a priority for dairy farmers, going back nearly 100 years to the creation of the NDC. The work we're doing with Fuel Up to Play 60 (FUTP 60), a program you created with the National Football League® with support from the USDA, is making a difference. Activists have made schools the battleground for nutrition. But FUTP 60 is helping to protect dairy's freedom to operate at our nation's schools with additional funding from our GENYOUth Foundation. The program has helped put an additional 2.5 million kids through breakfast programs the last three years, giving them access to fluid milk and other dairy products.

- Dairy farmers created the Innovation Center for U.S. Dairy® five years ago with the goal of having the industry work together on goals that are important to you. In this short period of time, the Innovation Center has become a model for what is possible through industrywide collaboration. The Innovation Center has 34 chairmen or CEOs on the board and more than 350 companies representing work that takes place in six priority areas: sustainability, food safety, consumer confidence, health and wellness, research and insights, and globalization. These committees are staffed by more than 1,000 people representing brands and cooperatives, all working on dairy farmer strategies.
- Internationally, more countries are entering the middle class. As a result, demand for animal protein is increasing. Billions and billions of pounds in potential sales exist around the world. A study by the U.S. Dairy Export Council® (USDEC) — an organization founded by dairy farmers through their checkoff — shows a demand of 1.3 billion pounds of fluid milk in China alone. We are working to move more of your dairy there.

These successes, among others, have a common theme of growing consumer confidence in our products and the people who produce them. That's why consumer confidence is at the core of everything we do with the checkoff. It is the reason we created our industry-leading newsroom and the "Where Good Comes From" consumer communications platform for engaging in social media conversations about dairy to help ensure your long-term freedom to operate.

People want trusted sources of information. They want to hear from people like themselves. And research tells us they want to hear from farmers. You are our most trusted source in this country in speaking about how food is produced and where it comes from. To learn more about the checkoff's work on consumer confidence, visit [DairyGood.org](http://DairyGood.org).

Building consumer confidence starts with you, the dairy farmer and importer. The power of one is mighty. The power of all of us together is even stronger.



**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



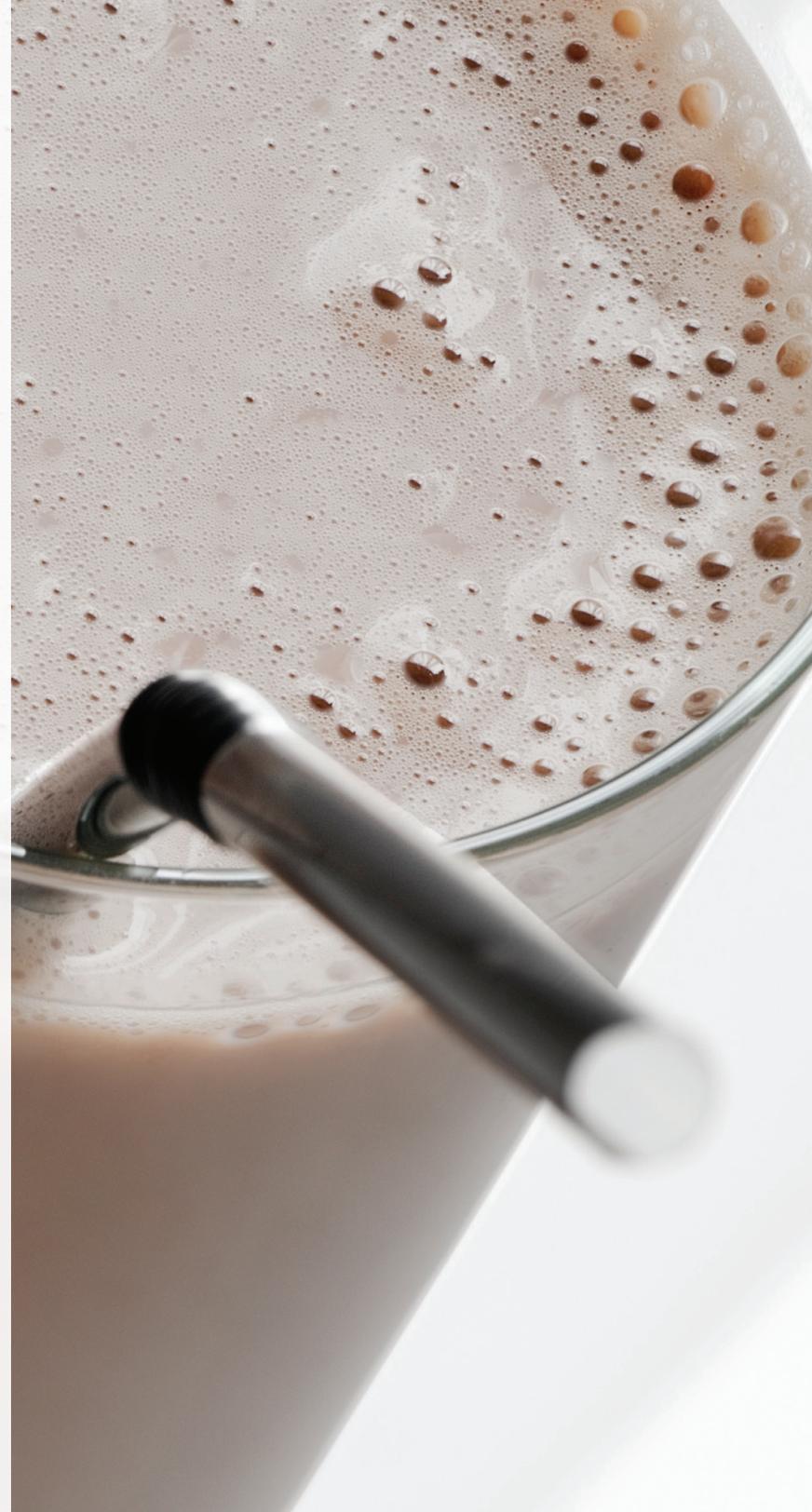
## **Purpose**

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

## 2013 Dairy Checkoff Unified Marketing Plan

Program Revenues/Expenses	(All \$ in millions)
FUTP 60	\$41.5
Strategic Initiative*	\$55.8
Producer Relations & Communication**	\$25.8
Dairy Research Institute (DRI)	\$17.7
Nutrition Marketing & Affairs (NDC)	\$19.0
Export	\$28.1
Strategy, Insights & Planning	\$6.3
Strategic Business Communications	\$1.0
Butter	\$1.0
Supplemental Funding for S/R's	\$7.1
General and Administration	\$7.5
<b>Total:</b>	<b>\$210.7</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 U.S. 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*	\$100.0
United Dairy Industry Association**	\$97.0
Redirection of 2011 funds from DMI budget	\$13.7
<b>Total:</b>	<b>\$210.7</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 United States Department of Agriculture established the 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.

\*\*UDIA is a federation of state and regional dairy farmer-funded promotion organizations that provides marketing programs that are developed and implemented in coordination with its members. UDIA is overseen by a board comprised of dairy farmers elected by their respective boards of their member organizations.

# Your Dairy Checkoff at Work



The dairy checkoff's strategy of working with partners grew categorywide, sustainable dairy sales in 2013.

More than 12 billion additional pounds of dairy have been sold through checkoff partnerships over the last five years. Today, annual U.S. per capita consumption of total milk is an estimated 604 pounds (milkfat basis), compared with 541 pounds in 1981, which was before the national checkoff program was created.

Much of this growth is made possible through the financial resources, expertise and other assets from processors, manufacturers, foodservice companies, retailers and others that work with the checkoff to maintain and grow sales.

Specific 2013 results include:

- **Consumer confidence effort protects sales.** The checkoff's consumer confidence mission is to reconnect consumers with agriculture to protect dairy's freedom to operate, improve the industry's image and increase demand for and sales of dairy. The consumer confidence effort is designed to increase and maintain consumer demand for high-quality, safe and nutritious dairy foods and ingredients produced in a way that is socially, economically and environmentally responsible. The aim is to have consumers understand that dairy is where good comes from.





■ **Pizza moving more milk.** About 10 billion pounds of additional milk have moved through the pizza category since the checkoff began partnering with Domino's five years ago. Successes include the Domino's® Smart Slice line of school lunch pizza that is in more than 3,000 schools. The expansion of this program has increased Domino's impact on in-school meal programs and child health initiatives. Pizza Hut has followed Domino's into schools, resulting in an increase in cheese consumption through fresh, nutritious pizza offerings. In addition, Pizza Hut continues to expand its menu with pizzas that feature cheese baked on top of the crust. The checkoff's on-site scientist perfected this cheese crust to ensure a premium product that now is a permanent menu item. Pizza Hut will grow dairy volume by an estimated 110 million additional milk pounds in 2014 through new product innovation.



■ **New opportunities at McDonald's.** McDonald's used more than 1.7 billion pounds of additional milk through dairy-friendly items between 2009 and 2011. The goal is to move an additional 3 billion pounds between 2012 and 2014. McDonald's dairy innovation is accelerated thanks to support from on-site checkoff employees. Among the new offerings the checkoff helped develop is Go-GURT® low fat strawberry yogurt (yogurt in a tube) that is a Happy Meal® side option. Also, McDonald's milk jugs now tout the protein power of milk. Phrases such as, "A smart way to enjoy the power of protein," and, "8 grams of protein per bottle," are featured on the product and at points of purchase.





■ **Taco Bell unveils new dairy-based items.**

The checkoff helped Taco Bell introduce double steak quesadillas and fancy cheese shreds that led to a 4 percent increase in dairy volume at the chain. DMI has provided Taco Bell an on-site dairy scientist and other resources. The chain launched a dairy-based breakfast menu in 2014 that will help grow Taco Bell's dairy sales by 5 percent. Taco Bell is on track to deliver the checkoff's partnership goal to grow dairy volume by an estimated 100 million milk pounds. The chain's focus on the millennial audience helps deliver dairy to this key demographic and provides dairy with further insights around consumer behavior.



■ **Quaker making it with milk.** The Quaker-led "Make It With Milk" campaign, which encourages consumers to make their oatmeal with milk instead of water, was supported with a Kroger retail program. Milk sales increased an average of 2.2 percent throughout the program, with one week seeing a sales lift as high as 6 percent. These efforts are being duplicated with Safeway Inc. in two retail promotions in 2014. Checkoff resources have helped Quaker develop innovative products such as a breakfast shake that contains dairy, plus Warm & Crunchy Granola that can only be prepared with milk.



■ **Fluid milk action plan takes hold.** The dairy checkoff, working with milk processors and other innovative partners, has embarked on a comprehensive revitalization strategy to reinvent the milk experience for consumers and reverse decades-long sales declines. This is a long-term effort that drives investment in innovation, branding and plant infrastructure to ensure that a wide range of milk and milk-based beverages are available to meet consumers' diverse and changing needs. DMI staff has provided insights and technical support to four fluid milk strategic partners that are developing multiple innovative milk and milk-based beverages. These products address consumers' changing lifestyles and needs, and target groups such as millennials, baby boomers and athletes.

■ **Fuel Up to Play 60 creates healthier schools.** FUTP 60, which the dairy checkoff created in 2008, is the nation's largest in-school wellness program, with more than 73,000 schools enrolled. Through FUTP 60, 14 million kids are reaching for better foods (including dairy) and 14 million are getting more physical activity in schools. The FUTP 60 campaign "It Starts With School Breakfast" helped build support for eating school breakfast by highlighting the gap of more than 10 million kids who could benefit from breakfast. The program showcased research that concluded students who eat breakfast have improved classroom performance and behavior. State and regional dairy organizations hosted 41 local school breakfast events during the campaign. Dean Foods provided \$100,000 in breakfast grants and supported a nationwide retail effort.



- **Exports experience record year.** The U.S. Dairy Export Council®, primarily supported by the dairy checkoff, helped exporters capitalize on steady global demand, declining production from other suppliers and favorable pricing to ship record volume — at record values — in 2013. U.S. dairy exports increased 31 percent to \$6.72 billion, compared with \$5.2 billion in 2012, according to USDA data. Total U.S. cheese volume was a record 316,558 tons (up 22 percent).



- **Innovation Center for U.S. Dairy® highlights farmer and importer priorities.**  
The Innovation Center for U.S. Dairy is a dairy farmer-founded forum for the industry to work together pre-competitively to address barriers and opportunities for innovation and sales. The Innovation Center, which includes more than 450 companies and 1,000 individuals, focuses on six farmer and importer priorities: sustainability, food safety, consumer confidence, health and wellness, research and insights, and globalization. The Innovation Center trained more than 1,200 industry staff members in food safety to minimize risk and protect dairy sales. It also helped secure nearly \$10 million in grants from USDA for research to support the Farm Smart™ tool to help farmers assess their management practices.



■ **Dairy Research Institute secures non-checkoff funding.**

The Dairy Research Institute (DRI), founded by dairy farmers in 2010, and including \$75 million in non-checkoff funding for your interests, makes dairy industry innovation happen to deliver new opportunities in product and ingredient uses, as well as sustainability and nutrition/health positioning that will increase dairy sales. DRI's motto is "More, Bigger, Faster!", which means MORE dollars coming in for producer-identified priorities, BIGGER ideas that move more dairy, and FASTER ways to use tools to get industry to translate research into sales. DRI's priorities are in nutrition research, product research and sustainability — and the results are seen in other programs of the checkoff.

- **Crisis plan stretches across industry, government.** In the event of a crisis — such as a foot-and-mouth disease outbreak, intentional or accidental contamination of the milk supply, or a radiological incident affecting dairy safety — the U.S. dairy industry must communicate quickly, accurately and effectively with its stakeholders and the public. This helps protect dairy's image and farmers' freedom to operate. Toward this end, DMI, National Milk Producers Federation, International Dairy Foods Association, MilkPEP and USDEC maintain an industrywide crisis communications plan, conduct training, and develop communication materials and resources. More than 1,300 people have participated in 16 national crisis trainings held since 2009. Checkoff-led trainings create long-term relationships among participants, including national and local checkoff staff, dairy farmers, dairy companies and government agencies such as the Food and Drug Administration, USDA, Environmental Protection Agency, Department of Energy, Homeland Security, FBI and Federal Emergency Management Agency.



## Learn more

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

Dairy Management Inc.  
[dairy.org](http://dairy.org)

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

National Dairy Council  
[nationaldairycouncil.org](http://nationaldairycouncil.org)

Innovation Center for U.S. Dairy  
[usdairy.com](http://usdairy.com)

U.S. Dairy Export Council  
[usdec.org](http://usdec.org)

Fuel Up to Play 60  
[fueluptoplay60.com](http://fueluptoplay60.com)

Innovate With Dairy  
[innovatewithdairy.com](http://innovatewithdairy.com)

Dairy Response Center  
[dairyresponse.com](http://dairyresponse.com)

