

NATIONAL DAIRY PROMOTION
AND RESEARCH PROGRAM

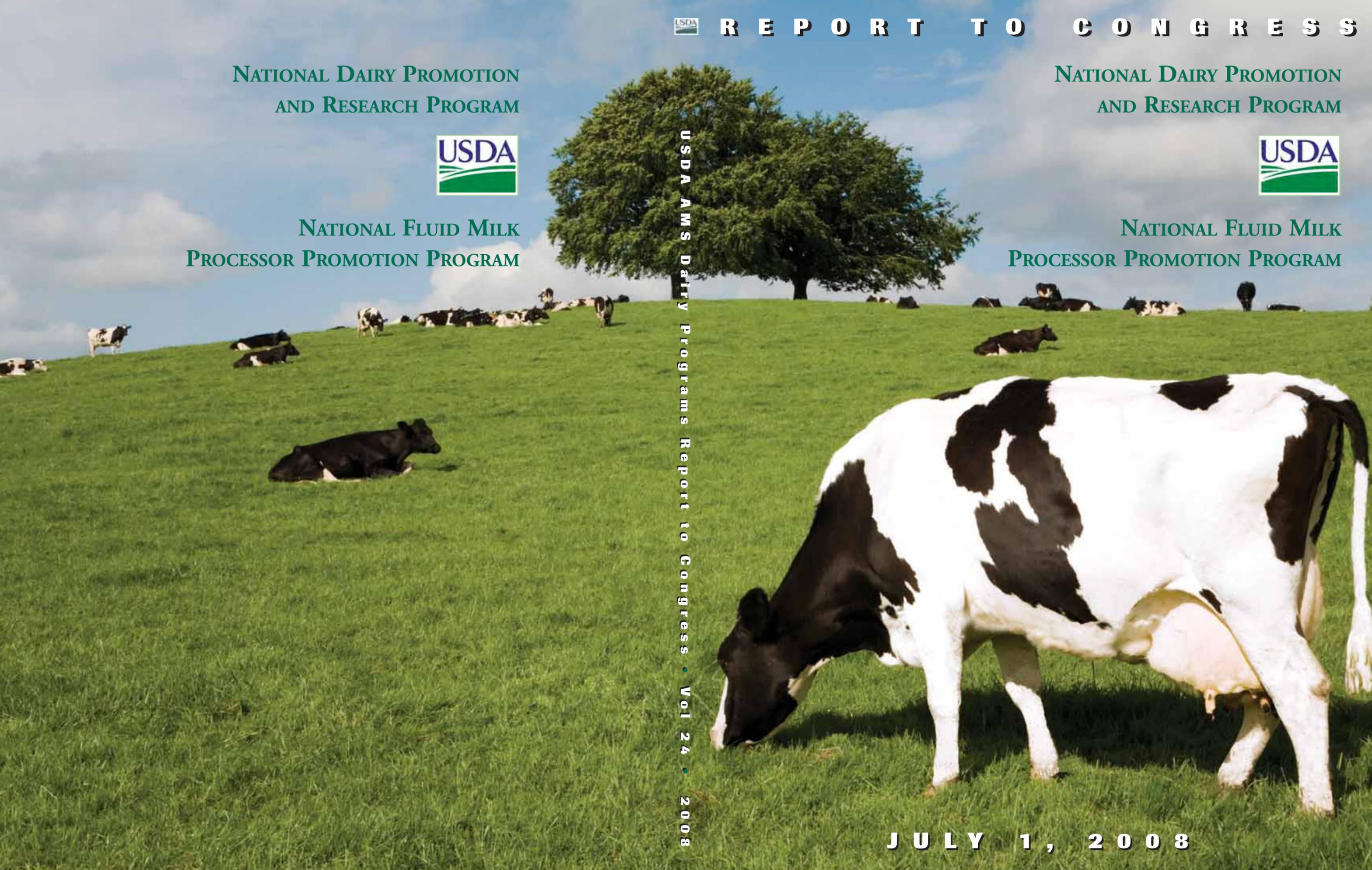
NATIONAL DAIRY PROMOTION
AND RESEARCH PROGRAM



NATIONAL FLUID MILK
PROCESSOR PROMOTION PROGRAM

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JULY 1, 2008

Report to Congress

**National Dairy Promotion
and Research Program**

and the

**National Fluid Milk
Processor Promotion Program**

2007 Program Activities

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Contact Information

To obtain additional copies of this Report to Congress on the National Dairy Promotion and Research Program and the National Fluid Milk Processor Promotion Program and the complete independent analysis of the programs, please contact:

Promotion and Research Branch
Dairy Programs, Agricultural Marketing Service, USDA
Stop 0233, Room 2958-South
1400 Independence Avenue, SW
Washington, DC 20250-0233
(202) 720-6909
<http://www.ams.usda.gov/Dairy>

To obtain copies of the complete independent analysis report or for questions on Chapter 3, please contact:

Harry M. Kaiser, Ph.D.
Cornell Commodity Promotion Research Program
Department of Agricultural, Resource and Managerial Economics
Cornell University
349 Warren Hall
Ithaca, NY 14853
(607) 255-1620
<http://www.cornell.edu>

To obtain copies or for questions on the Fluid Milk Market and Promotion Assessment by Beverage Marketing Corporation of New York, please contact:

Gary Hemphill
Beverage Marketing Corporation of New York
850 Third Avenue, 14th Floor
New York, NY 10022
(212) 688-7640
<http://www.beveragemarketing.com>

For additional information about the National Dairy Promotion and Research Board and Dairy Management Inc., please contact:

National Dairy Promotion and Research Board
Dairy Management Inc.
10255 West Higgins Road, Suite 900
Rosemont, IL 60018-5616
(847) 803-2000
<http://www.dairyinfo.com>

For additional information about the National Fluid Milk Processor Promotion Board, please contact:

National Fluid Milk Processor Promotion Board
1250 H Street, NW, Suite 950
Washington, DC 20005
(202) 737-0153
<http://www.whymilk.com>

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Executive Summary

The enabling legislation of the dairy producer and fluid milk processor promotion programs requires the Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry. The producer and processor programs are conducted under the Dairy Production and Stabilization Act of 1983 (7 U.S.C. 4501 *et seq.*) (Dairy Act); the Dairy Promotion and Research Order (7 CFR § 1150) (Dairy Order); the Fluid Milk Promotion Act of 1990 (7 U.S.C. 6401 *et seq.*) (Fluid Milk Act); and the Fluid Milk Promotion Order (7CFR § 1160) (Fluid Milk Order), respectively. This report includes summaries of the activities for the producer and processor programs, including an accounting of funds collected and spent; USDA activities; an independent analysis of the effectiveness of the advertising campaigns of the two programs; an industry-commissioned review of fluid milk markets and program operations; and highlights from each of the boards' perspectives. Unless otherwise noted, this report addresses program activities for the fiscal period January 1 through December 31, 2007, of the Dairy Promotion and Research Program and the Fluid Milk Processor Promotion Program.

Producer Dairy Promotion and Research Program

Mandatory assessments collected under the Dairy Act totaled \$282.6 million in 2007. The National Dairy Promotion and Research Board (Dairy Board) portion of the revenue from the 15-cent per hundredweight producer assessment was \$93.6 million for 2007, and Qualified Programs revenue from the producer assessment was \$189.0 million. Expenditures by the Dairy Board and many of the Qualified Programs are integrated through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The Dairy Board continued to develop and implement programs to expand the human consumption of dairy products by focusing on partnerships and innovation, product positioning with consumers, and new places for dairy product consumption. One such endeavor was accomplished through continuing to integrate single-serve plastic bottled milk into the menus of quick-serve restaurants such as Burger King[®], Wendy's[®], and Subway[®]. The Dairy Board also continued to promote its 3-A-Day[™] for Stronger Bones, a nutrition-based marketing and education program developed to help solve the Nation's calcium crisis and increase consumption of milk, cheese, and yogurt; as well as its "New Look of School Milk" campaign which includes efforts to improve the school milk experience for the Nation's children through improvements in packaging, flavors, and availability. Details of the 2007 activities of the dairy producer program are presented in Chapter 1.

National Fluid Milk Processor Promotion Program

The National Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to administer a generic fluid milk promotion and consumer education program funded by America's fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase milk consumption, and maintain and expand markets and uses for fluid milk products in the 48 States and the District of Columbia. During 2007, the Fluid Milk Board evolved its messaging to use the role of calcium-rich fluid milk products in successful weight maintenance as a central

theme and focal point for its activities. In its promotion programs such as “Another Reason, Another Season,” and “Give Your Family Something Smarter,” the Fluid Milk Board encouraged moms to choose milk to help maintain a healthy weight. For teens, the 2007 integrated Body By MilkSM campaign, combining advertising, promotion, and public relations components, stressed the importance of maintaining a healthy weight through a healthy diet, and keeping fit and strong by drinking three glasses a day of lowfat or fat-free of milk instead of sugar-sweetened beverages. Assessments generated \$107.7 million in 2007. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California Milk Processor Board. The amount returned to California from the 2007 assessments was \$10.3 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, which include the *got milk?*[®] advertising campaign. The fluid milk marketing programs are research based and message focused. Activities of the National Fluid Milk Processor Promotion Program for 2007 are presented in the Fluid Milk Board section in Chapter 1 of this report.

USDA Oversight

USDA has oversight responsibility for the dairy and fluid milk promotion programs. The oversight objectives ensure that the Boards and Qualified Programs properly account for all program funds and that they administer the programs in accordance with the respective Acts and Orders. All advertising, promotional, research, and educational materials are developed under established guidelines. All Board budgets, contracts, and advertising materials are reviewed and approved by USDA. USDA employees attend all Board and Committee meetings, monitor all Board activities, and have responsibility for obtaining an independent evaluation of the programs. Additional USDA responsibilities relate to nominating and appointing Board members, amending the Orders, conducting referenda, assisting with noncompliance cases, and conducting periodic program audits. The Boards reimburse the Secretary, as required by the Acts, for all of USDA’s costs of program oversight and for the independent analysis. In 2007 the Secretary of Agriculture appointed 12 members to the Dairy Board and 10 members to the Fluid Milk Board. Approximately 863 dairy producers were granted organic exemptions in 2007, representing approximately 1 billion pounds of production. Compliance for both Boards continues in a timely manner and at a high rate. Chapter 2 details USDA’s oversight activities.

Independent Analysis and Fluid Milk Market and Program Assessment

Chapter 3 presents the results of the independent econometric analysis, conducted by Cornell University (Cornell), of the effectiveness of the dairy and fluid milk promotion programs. It is estimated that the generic fluid milk marketing efforts activities sponsored by fluid milk processors and dairy farmers have helped mitigate the decline of fluid milk consumption. The generic fluid milk marketing activities increased fluid milk consumption by 30 billion cumulative pounds from 1998 to 2007, or 3 billion pounds per year on average. Had there not been generic fluid milk marketing conducted by the two National Programs, fluid milk consumption would have been 5.4 percent lower. Cornell concluded that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Details of Cornell’s independent evaluation are presented in Chapter 3.

Chapter 4, part I presents the industry-commissioned fluid milk market and program operations assessment conducted by Beverage Marketing Corporation (BMC). The review offers an evaluation of the effectiveness of the fluid milk advertising and promotion programs from a marketing perspective. In 2007, the fluid milk volume decreased by 0.1 percent from 6.26 to 6.25 million gallons. Consumer awareness of the generic milk advertising program remained high, but lack of branded advertising kept milk at a competitive disadvantage. BMC believes that the marketing campaigns developed under the Dairy Act and the Fluid Milk Act have played a key role in maintaining the category's growth, and volume declines would have been more significant without the major programs and initiatives implemented in 2007.

Additionally, the National Fluid Milk Board and Dairy Management Inc., (DMI) provide individual highlights of 2007 program successes from the Boards' perspective in Parts II and III. In Part II, the Fluid Milk Board presents highlights regarding sustained milk sales despite historically high pricing, at-risk flavored milk in the school channel, and a summary assessment of the program's effectiveness. The Fluid Milk Board concludes that the 2007 campaigns were successful in advancing the effectiveness of the program by driving incremental volume and helping to mitigate the long-term loss of market share. The short-term comparison of retail sales to Board expenditures (\$6.60 for every dollar spent) remains highly favorable – basically flat compared to 2006 (\$6.61 for every dollar spent). The Fluid Milk Board continues to promote the fluid milk industry through the National Fluid Milk Processor Promotion Program (MilkPEP), supporting the Federal nutrition goals such as those outlined in the enabling legislation, the U.S. Dietary Guidelines for Americans, and USDA's Food Guide Pyramid. MilkPEP is a national marketing voice for milk in a marketing environment subject to a high degree of Federal and State regulation, helping to maintain the strength and stability of the fluid milk industry, to the benefit of the Nation's health.

In Part III, DMI provides highlights regarding the dairy producer promotion program's successes through DMI's changing role, the executed model for quick serve restaurants, and new product development efforts based on an in-depth segmentation study. DMI concluded that positioning the right product to the right consumer at the right place and time is the key to growth for the milk category. DMI will continue to maximize dairy farmer investments through innovation, by increasing dairy demand, and by identifying and analyzing what works best to move dairy sales.

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Chapter 1

The Dairy and Fluid Milk Promotion Programs

The Dairy Board and the Fluid Milk Board continued to develop and implement programs to expand the human consumption of fluid milk and dairy products. Each promotion program had many unique activities. The Dairy Board continued its focus on partnerships and innovation to provide consumers with dairy products “how they want them, when they want them, and where they want them.” The Fluid Milk Board used the role of calcium-rich fluid milk products in successful weight loss for the first half of 2007 and weight maintenance for the second half of the year as a central theme and focal point for its activities.

National Dairy Promotion and Research Board

The mission of the Dairy Board is to coordinate a promotion and research program that maintains and expands domestic and foreign markets for fluid milk and dairy products produced in the United States. The Dairy Board is responsible for administering the Dairy Order, developing plans and programs, and approving budgets. Its dairy farmer board of directors administers these plans and monitors the results of the programs.

The Secretary of Agriculture (Secretary) appoints 36 dairy farmers to administer the Dairy Order. The appointments are made from nominations submitted by producer organizations, general farm organizations, qualified State or regional dairy products promotion, research or nutrition education programs (Qualified Programs), and by other means as determined by the Secretary (7 CFR §1150.133(a)). Dairy Board members serve 3-year terms and represent 1 of 13 regions in the contiguous 48 States. Dairy Board members elect four officers: Chair, Vice Chair, Treasurer, and Secretary. Current Dairy Board members are listed in Appendix A–1. A map of the contiguous 48 States depicting the 13 geographic regions is shown in Appendix H–1.

Total Dairy Board actual revenue for 2007 was \$93.6 million (including assessments and interest). This amount was more than the Dairy Board Budget of \$91.4 million for that period. The Dairy Board amended its budget to \$114.3 million by incorporating program development funds not budgeted previously and a \$15.2 million carry-forward from their 2006 budget. The Dairy Board budget for 2008 projects total revenue of \$91.6 million from domestic assessments and interest. The Dairy Board administrative budget continued to be within the 5-percent-of-revenue limitation required by the Dairy Order. A list of actual income and expenses for 2006–2007 is provided in Appendix B–1. USDA’s oversight and evaluation expenses for 2006–2007 are listed in Appendix B–2. Appendix B–3 displays the Dairy Board’s approved budget for 2008. An independent auditor’s report for 2007 is provided in Appendix C–1.

The Dairy Board has two standing committees: the Finance and Administration (F&A) Committee and the Executive Committee. The F&A Committee is made up of the Dairy Board officers and appointees named by the Dairy Board Chair. The Dairy Board Treasurer is the Chair of the F&A Committee, and the full Dairy Board serves as the Executive Committee.

The remaining committees for the Dairy Board are joint program committees with the United Dairy Industry Association (UDIA).

In March 1994, the Dairy Board approved the creation of Dairy Management Inc. (DMI), a management and staffing corporation. DMI is a joint undertaking between the Dairy Board and UDIA. UDIA is a federation of 18 of the 58 Qualified Programs under the direction of a board of directors. DMI merged the staffs of the Dairy Board and UDIA to manage the Dairy Board programs as well as those of the American Dairy Association[®] and National Dairy Council[®] throughout the contiguous 48 States. DMI serves both boards and is structured into product platform and mission areas. These platform and mission areas include: Platforms, Partners, Sales and Marketing; Export, International Marketing, and Ingredients; Research, Regulatory and Scientific Affairs; Strategic Planning, Business Development and Information Management; Child Nutrition and Fitness Initiative, Nutrition Leadership, and Integrated Marketing Communications; and Image and Industry Relations; and Finance and Administration, Human Resources, Strategic Operations. During 2007, DMI successfully implemented a national staffing structure which utilizes personnel throughout DMI and the UDIA federation to plan and execute the national programs.

Since January 1, 1995, the Dairy Board and UDIA have developed their marketing plans and programs through DMI. DMI facilitates the integration of producer promotion funds through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The mission of DMI is to drive increased sales of and demand for U.S. dairy products and ingredients, on behalf of U.S. dairy farmers. DMI works proactively, and in partnership with leaders and innovators, to increase and apply knowledge that leverages opportunities to expand dairy markets.

DMI funds 1 to 3-year research projects that support marketing efforts. Six Dairy Foods Research Centers and one Nutrition Institute provide much of the research. Their locations and the research objectives are listed in Appendix E-1. Additionally, lists of DMI's dairy foods and nutrition projects can be found in Appendices E-2 and E-3, respectively. Universities and other industry researchers throughout the United States compete for these research contracts.

At its inception, the DMI Board of Directors consisted of 12 dairy farmers from the Dairy Board and 12 dairy farmers from the UDIA Board. An amendment to the articles of incorporation of DMI to expand the DMI Board size took effect January 1, 2001, and the expanded DMI Board (77) now comprises all Dairy Board (36) and all UDIA (41) members. Voting is equalized between the Dairy Board and UDIA.

The committees for program activities are comprised of board members from both the Dairy and UDIA Boards. The Dairy Board and UDIA Board separately must approve the DMI budget and annual plan before they can be implemented. In November 2006, both boards approved the 2007 unified dairy promotion plan budget and national implementation programs. Similar to previous plans, the 2007 unified dairy promotion plan continued to support the underlying theme of investing dollars where the consumers are – not where dairy cows are. The unified dairy

promotion plan was consistently implemented in the top 150 demand-building consumer markets nationwide.

DMI, through Qualified Programs, again hosted dairy director regional planning forums across the country to review and create marketing strategies for development of the unified dairy promotion plan. These forums are designed to create one unified dairy promotion plan and allow opportunity for Qualified Program board members to ask questions, raise concerns, and offer their thinking on the plan's direction and development.

At the 2007 forums, dairy directors across the country reviewed and endorsed a unified marketing plan that continued to focus on (1) 3-A-Day of Dairy™ for Stronger Bones, a nutrition-based marketing and education program developed to help solve the Nation's calcium crisis and increase consumption of milk, cheese, and yogurt; (2) New Look of School Milk which includes efforts to improve the school milk experience for the Nation's children through improvements in packaging, flavors, and availability; (3) Foodservice, where dairy checkoff funds are invested to help promote the expansion of flavors and the range of packaging for milk in foodservice and restaurants, as well as other dairy product offerings; (4) Partnerships and Innovation, which include efforts to help provide consumers dairy products when, where, and how they want them; and (5) Dairy Image/Confidence, which aims to protect and enhance consumer confidence in dairy products and the dairy industry through correcting misinformation and inaccurate claims against dairy. The success of the unified marketing plan relies heavily upon DMI's ability to expand partnerships with processors, retailers, schools, health professional organizations, and manufacturers.

The joint Dairy Board and UDIA Board committee structure provides the framework for DMI program activities. The Dairy Board and UDIA Board Chairs assign their respective board members to the following joint program committees: Products and Relationships; Producer and Industry Relations; Industry Priorities; and Export, Ingredients and Science. Each committee elects a Chair and Vice-Chair. The joint committees and the DMI staff are responsible for setting program priorities, planning activities and projects, and evaluating results. The Joint Evaluation Committee continued to operate in 2007. During 2007, the Dairy Board and UDIA Board met jointly six times.

The following information describes Dairy Board and UDIA program activities along with new programs and initiatives implemented in 2007.

National Dairy Council®/School Marketing

The National Dairy Council® www.nationaldairycouncil.org (NDC), the nutrition marketing arm of DMI, has been the leader in dairy nutrition research, education, and communication since 1915. NDC provides timely, scientifically sound nutrition information to the media, physicians, dietitians, nurses, educators, consumers, and other health professionals. NDC continues to work closely with school foodservice professionals and milk processors vis-à-vis the benefits of offering an enhanced milk



product in the school cafeteria. The foundation of these efforts is comprised of the results of a year-long School Milk Pilot Test conducted in 2002. Currently, more than 50 processors now offer milk in single-serve plastic resealable containers on the school meal line and supply 9,200 schools representing nearly 5 million students nationwide. This number grows each year as DMI continues to implement its “New Look of School Milk” initiative and represents over 55 million pounds of additional milk sold each year. DMI-funded market research shows that improving students’ school milk experience can help recapture school milk consumption of up to 400 million gallons lost since 1993. NDC was honored at the 2007 Global Dairy Innovation Awards for “Best School Milk Initiative” category for its partnership with local dairy processors and school districts to encourage milk consumption among students.

NDC also continued its active support and participation in the Action For Healthy Kids® (AFHK) initiative. AFHK (www.actionforhealthykids.org) was created in response to the Healthy Schools Summit in 2002 and its mission is to inform, motivate, and mobilize schools, school districts, and States to chart a healthier course for the Nation’s children and adolescents. AFHK is comprised of 51 State teams (including all 50 States and the District of Columbia) and a partnership of more than 40 national organizations and Government agencies spanning

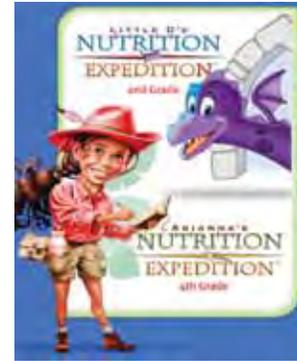


education, health, fitness, and nutrition arenas. AFHK, in partnership with the National Football League, continued to promote ReCharge! Energizing After-school™, the first nationally distributed after-school program that fully integrates nutrition and physical activity through teamwork-based strategies for youth in grades 3-6. According to AFHK, ReCharge! has been distributed to over 8,000 after-school programs across the country, reaching over half a million students.

National Dairy Council®/Nutrient Rich Foods Coalition

The activities of the Nutrient Rich Foods Coalition (Coalition) continued in 2007, with the National Dairy Council® and other Coalition members from all food groups dedicated to working with scientific researchers to develop an approach to address the complete nutrient package of a food and how to maximize nutrients from the calories they consume. Through research and education, the Coalition aims to shift the way people choose foods and beverages, from focusing on single “nutrients to avoid” to understanding the complete nutrient package as a way to build better diets and improve diet quality. On the science front, the Coalition worked in 2007 to complete a scientifically sound and validated definition of nutrient density, which was called for by the advisory committee of the 2005 Dietary Guidelines for Americans. The Coalition also developed tools to help health professionals and media spread the word about the importance and ease of choosing nutrient-rich foods first. The Coalition published several studies on nutrient-rich foods in academic journals and garnered the support of prominent nutrition thought-leaders, with its scientific advisory panel of third-party experts continuing to guide the science.

In addition to reaching kids through the classroom with “Pyramid Cafè” and “Pyramid Explorations™,” NDC continued its distribution of “Little D’s Nutrition Expedition” and “Arianna’s Nutrition Expedition” as the primary focus of nutrition education activities in 2007. Similar to “Pyramid Cafè” and “Pyramid Explorations™,” these two programs also are targeted to second and fourth grades and reach millions of students with messages that milk and dairy products are a key part of a healthy diet. Survey results continue to show a high utilization rate for these programs. These programs and other resources are available for teachers, school foodservice professionals, and consumers at: www.nutritionexplorations.org.



Research

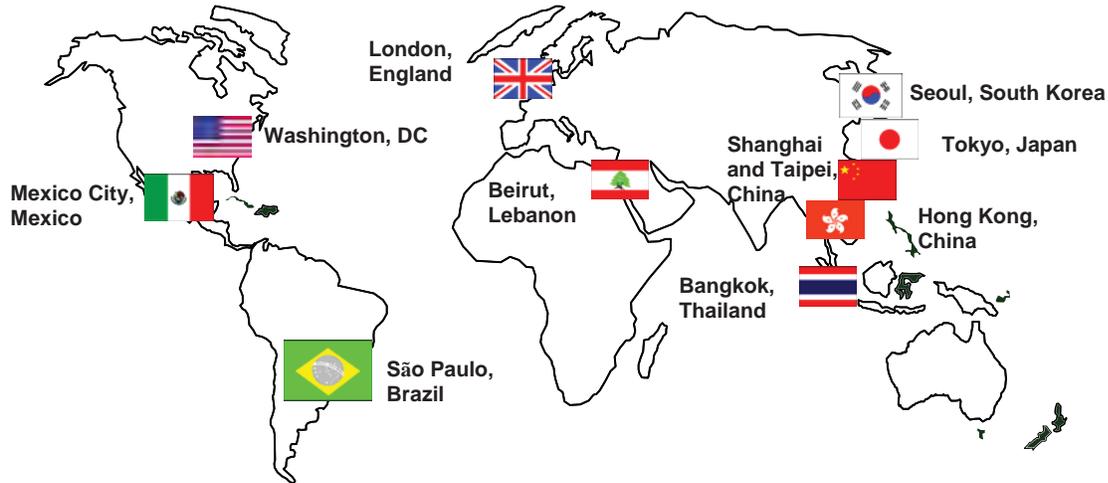
In 2007, milk and dairy-related nutrition and product research was continued in the following areas:

1. The role of milk and milk products in the prevention of colon cancer and reduction of blood pressure.
2. Establishing the genetic basis for the activity of probiotic cultures.
3. Demonstration of milk consumption by teens to meet their calcium needs without adversely affecting weight.
4. The contribution of dairy’s nutrient package in the development and maintenance of strong bones.
5. Investigation of the added value of fortification through the use of probiotics, nutraceuticals, nutrient delivery, and flavor enhancement.
6. The impact of differing milk options and experiences in schools on childhood fluid milk consumption behavior and attitudes.
7. The role of dairy as part of a heart-healthy diet.
8. The role of calcium-rich dairy products in weight loss and maintenance.

Export and Dry Ingredients

DMI’s export enhancement program is implemented by the U.S. Dairy Export Council (USDEC). USDEC receives primary funding from three sources: DMI, USDA’s Foreign Agricultural Service (FAS), and membership dues from dairy cooperatives, processors, exporters, and suppliers. In 2007, USDEC received \$9.7 million from DMI; \$5.6 million from USDA’s Market Access Program, Foreign Market Development Program, and other FAS programs that support commodity groups in promotion of their commodities in foreign markets; and \$750,000 from membership dues. USDEC began its 12th year of operation in 2007 and its total budget was \$16.6 million.

Figure 1–1. USDEC Offices

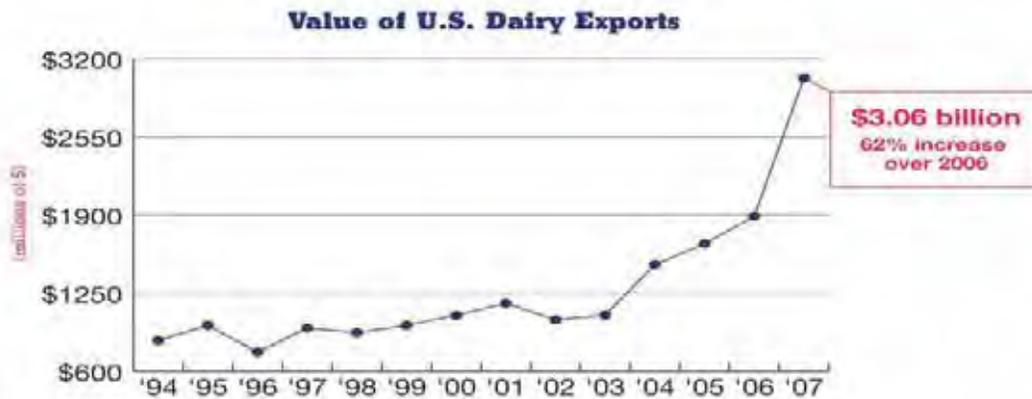


USDEC has offices in Washington, D.C.; Mexico City, Mexico; Tokyo, Japan; Seoul, South Korea; Hong Kong, Taipei, and Shanghai, China; Bangkok, Thailand; Beirut, Lebanon; London, England; and São Paulo, Brazil (Figure 1–1). In 2007, a weak dollar and strong global demand for dairy protein led to another record year for dairy exports.

Final 2007 export data confirm that U.S. dairy product exports reached \$3.06 billion in 2007 (Figure 1–2). Dairy solids export volume is also a record high at 2.19 billion pounds, more than double the export volume of 5 years ago, according to analysis of trade data conducted by USDEC (Figure 1–3). This volume represented nearly 9.5 percent of the total U.S. milk production (Figure 1–4).

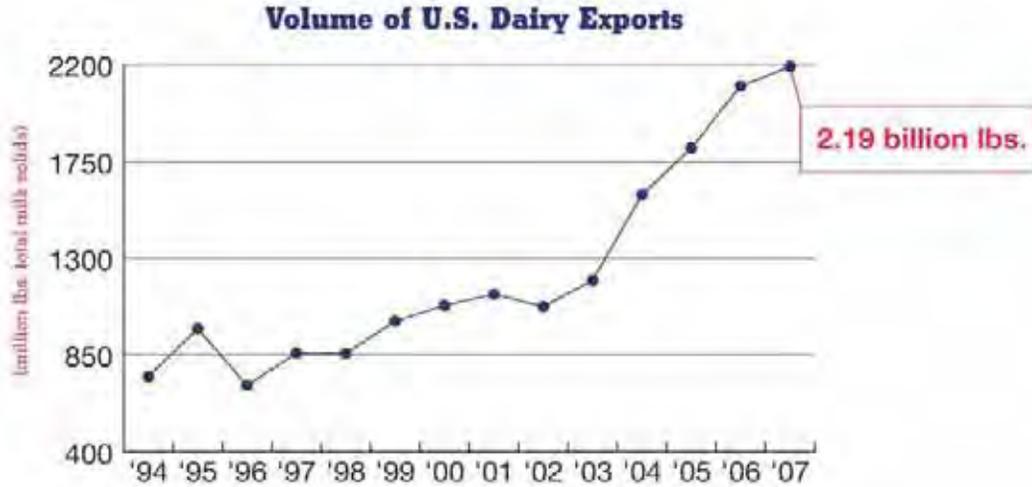
On a value basis, U.S. exports of milk powder, whey, cheese, lactose, butterfat and other dairy products were up 62 percent from the prior year, and nearly triple the export value posted in 2002. It was the fifth straight year U.S. dairy exports increased in both volume and value.

Figure 1–2. Value of U.S. Dairy Exports



Source: USDEC, USDA

Figure 1–3. Volume of U.S. Dairy Exports (total milk solids)

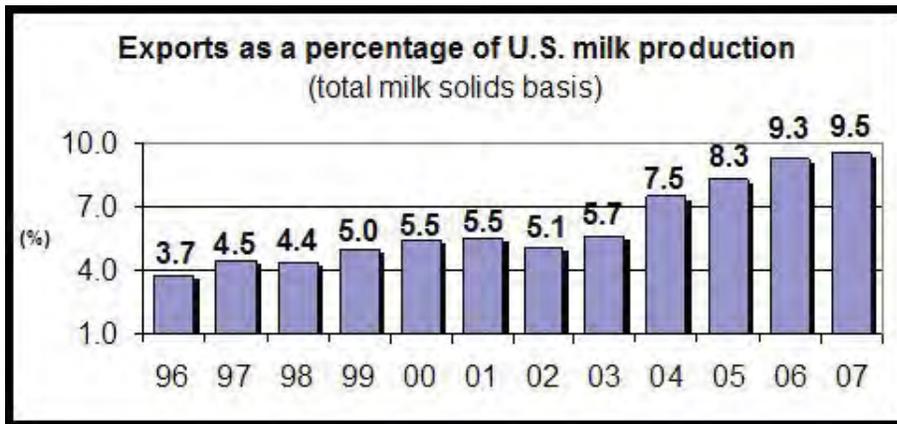


Source: USDEC, USDA

Additionally, USDEC notes that although the trend had been developing for several years, a variety of elements converged to create worldwide “structural shortage” of dairy products in 2007. Markets were characterized by strong global dairy demand, lower exportable surpluses from Europe and Oceania, and a lack of stocks to fall back on.

Export gains in 2007 occurred in nearly all product categories. By value, the major U.S. dairy exports were skim milk powder/nonfat dry milk (\$865 million), whey proteins (\$759 million), cheese (\$387 million), and lactose (\$304 million). Mexico, Southeast Asia, and Canada remained the largest destinations for U.S. dairy products. USDEC continued working to improve the export capabilities of domestic dairy companies by providing up-to-date information on market conditions, global trade trends, and regulatory requirements for export.

Figure 1–4. Exports as a percentage of U.S. Milk Production



Source: USDEC, USDA

Ongoing reverse trade mission activities provide opportunities for domestic dairy product suppliers to meet potential importers visiting the United States.

DMI's 2007 ingredients program was conducted through DMI's Innovation and Ingredients Program (Innovation Program) and through the new Web site www.innovatewithdairy.com. DMI's Innovation Program supports dairy product and nutrition research, ingredient applications development and technical assistance for the dairy, food, and beverage industries. DMI-assisted product development now in the marketplace include: (1) Hershey's® PayDay™ Pro Bars, which use 200,000 pounds of U.S. dairy proteins annually, requiring about 15 million pounds of milk and (2) Yoplait® Ultra-Low Carb Yogurt, which created an outlet for 4 million pounds of additional milk volume during the year following the launch and more than 250,000 pounds of whey protein concentrate, which requires 25 million pounds of milk. Additionally, various Schwan's® products, including Wolfgang Puck Frozen Pizza, Freshcetta Build and Bake Pizza, Toastwich grilled cheese sandwiches, and trans-fat free school pizzas, move more than 150 million pounds of additional milk annually. Producer-funded product research and innovation, along with insights into consumer preferences are tools that DMI provides to U.S. dairy ingredient suppliers to help sell U.S. dairy ingredients to food and beverage manufacturers. Dairy, food, and beverage manufacturers look to DMI as a partner and resource. With food and beverage manufacturers, DMI provides know-how and laboratory and professional resources to help develop or improve foods using dairy ingredients.

DMI's Innovation Program hosted the 2007 Dairy Innovation Forum (Forum) in Scottsdale, Arizona. The invitation-only Forum, continued a DMI tradition of bringing together top decision makers in science and marketing to develop ways to increase consumption of dairy products. The forum attracted a record 189 participants and included industry representatives such as dairy processors and cooperatives, food manufacturers, Government officials, ingredient suppliers, State and regional representatives, and university researchers. Similar to 2006, the Forum continued to focus on innovation – a key to the future of the dairy and dairy ingredient industries. Additionally, DMI co-sponsored the 10th Annual Dairy Ingredients Symposium in San Francisco, California, which highlighted research, manufacturing technology, market trends, and application of value-added dairy ingredients. Attendees included scientists, research and development managers, directors and decision-makers responsible for production, quality, marketing and sales of dairy ingredients, plus food and beverage industry professionals who buy or use dairy ingredients.

DMI publications that support the Innovation Program include: (1) *Dairy Council Digest*—published six times per year and focuses on the latest dairy nutrition research relevant to dairy, food and beverage manufacturers and health professionals; (2) *Ingredient Specification Sheets*—cover technical basics of a variety of dairy ingredients and are updated as new data is available; (3) *Dairy Herald*—reports periodically on how food formulators and markets can take advantage of taste, cost, functional, and nutritional appeal of dairy ingredients; (4) *Application Monographs*—published as necessary, provide a comprehensive look at how whey protein and other dairy ingredients can be used in foods and beverages for different functionality needs; (5) *Tools for Innovation*—a periodic supplement from DMI and *Dairy Foods* magazine that covers

dairy product trends and research; (6) *Innovations in Dairy*—a technical bulletin, published two to three times a year on specific topics in dairy products, ingredients, processing, and packaging; and (7) *Dairy Business View*—an e-newsletter published bi-monthly with *Dairy Foods* magazine and covers dairy industry news, new technologies, business trends, innovative ideas, and research.

3-A-Day™ of Dairy for Stronger Bones

The 3-A-Day™ of Dairy for Stronger Bones (3-A-Day™) marketing and nutrition education campaign was officially launched on March 3, 2003, and continued in 2007. The program objectives are to increase total consumption of dairy products and reinforce dairy as the leading source of calcium by providing simple guidance about dairy food selections. The development of the program was a joint dairy industry effort led by DMI. A key component of the 3-A-Day™ program is the logo, which appears on packages and labels of milk, cheese, and yogurt products containing 20 percent or more of the daily value of calcium.



Health professional outreach remained a critical component of the 3-A-Day™ program. The American Academy of Family Physicians, the American Academy of Pediatrics, the American Dietetic Association, and the National Medical Association all continued their support and partnership with DMI and 3-A-Day™. The National Hispanic Medical Association and the School Nutrition Association are the latest health professional organizations to partner with dairy to educate the public about dairy's role in a healthy diet and the need to consume three serving of milk, cheese, and yogurt daily. By working with key health professional partners like these, DMI continued to provide a clear, practical message to the public on the importance of dealing with the Nation's calcium crisis. Combined, these organizations represent more than 250,000 health professionals nationwide. DMI's 3-A-Day™ advisory panel, comprised of leaders from these organizations along with other nutrition experts, continued to help guide the overall campaign as well as nutrition philosophy and principles.

In alignment with the 3-A-Day™ program, DMI continued to execute its overall strategy of promoting three servings of dairy a day, encouraging the public to consume, and health professionals to support, the government-recommended three servings. One aspect of the three servings strategy is to encourage industry to meet consumer needs by developing and marketing innovative products that fit changing consumer lifestyles. Through its Fluid Milk Platform, DMI worked with industry to develop and test milk products customized to meet specific consumer needs, such as lactose-free products or milk products fortified with Omega-3 for heart health. In addition to fluid milk, DMI's Cheese Platform identified opportunities to build sales for cheese through industry innovation, including: developing new products to meet consumer health needs such as reduced-fat and low-fat cheeses; expanding the use of Hispanic-style and other specialty cheeses; and leveraging convenience and new uses for cheese with pizza, burgers, snacks, and sandwiches.

Foodservice/Partnerships

DMI continued to work closely with top national restaurant chains, including Subway[®] and Domino's Pizza[®], to ensure that milk and cheese were featured prominently in menu items and offerings. Building upon previous efforts leading to the introduction of new milk offerings at McDonald's[®] and Wendy's[®], DMI helped to motivate a single-serve milk launch in Subway[®], which represents 20,000-plus restaurants nationwide. To date, there are more than 60,000 restaurants in the U.S. offering milk in single serve plastic resealable containers. Over the next year, more than one billion units of milk will be sold at foodservice, or 250 million pounds of additional milk sold.

Also, DMI helped increase cheese use by partnering with national restaurant chains to introduce cheese-friendly items and drive innovation. DMI partnered with Domino's Pizza[®] to develop the new "Cheesy Garlic Bread Pizza" that was offered at more than 6,000 restaurants nationwide. In support of this launch, Domino's[®] unveiled its new website and offered free music downloads by up-and coming artists, and a chance to appear in a television commercial. DMI provided funding for culinary and other marketing assistance during this effort.



Additionally, DMI is working at supermarkets by partnering with retailers on a "dairy aisle reinvention" project that identifies new ways to position milk, cheese, and yogurt in the dairy case and throughout the store. The new merchandising ideas aim to increase traffic and sales in the dairy aisle. Partners include Kraft[®] Foods, Dannon[®], Marva Maid, and major regional retail partners.

Communications and Technology

Consumers receive mixed messages through the media about the nutritional value and benefits of food. DMI worked to provide consumers with education and information based on sound nutritional science and communicated the value of dairy products to consumers as well as to health professionals and educators. DMI also worked to inform dairy farmers about how their assessment dollars were being used. The organization continued to communicate to dairy producers and other industry audiences through publications (such as the annual report, joint newsletters with Qualified Programs, and dairy cooperative check inserts), dairy industry events (including major trade shows and producer meetings) and media relations (including press releases, feature placement, and farm broadcast interviews). DMI continued its "Dairy Ambassadors" program which uses a select group of board members to deliver consistent messages about the dairy promotion program to producers and other industry audiences.

DMI continued its support for butter through cooperation and public relations activities with the American Butter Institute, including the Web site www.butterisbest.com, a consumer resource center with current cooking trends and ideas, butter recipes, and links to other butter-related Web sites. DMI also continued to work with Wisconsin Milk Marketing Board to execute co-funded

retail butter promotion activities. The national effort helped to drive incremental retail butter sales in select markets across the United States.

Another activity of the Communications and Technology program was the issues management program. The objective of this program is to identify, monitor, and manage key issues that may influence consumer perceptions of dairy products. DMI coordinated its issues management activities with Qualified Programs as well as with other dairy and agricultural groups. The organization worked with these groups to bring forth sound, science-based information to address consumer issues. Dairy Reputation Management, and industry-wide efforts that interact with the Issues Management, Industry Relations, and Dairy Image programs, continued a proactive program to educate consumers and to reinforce the positive attributes of dairy foods, dairy farmers, and dairy farming practices to this audience.

As part of an effort to help protect the image of dairy producers and the dairy industry among the public, DMI continued its Website, www.dairyfarmingtoday.org. The site educates the public about how today's dairy producers care for their animals, protect the land, and produce safe, wholesome milk.

Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs

Qualified Programs are certified annually by the Secretary. To receive certification, the Qualified Program must: (1) conduct activities that are intended to increase human consumption of milk and dairy products generally; (2) have been active and ongoing before passage of the Dairy Act, except for programs operated under the laws of the United States or any State; (3) be primarily financed by producers, either individually or through cooperative associations; (4) not use a private brand or trade name in its advertising and promotion of dairy products (unless approved by the Dairy Board and USDA); and (5) not use program funds for the purpose of influencing governmental policy or action (7 CFR §1150.153). A list of the Qualified Programs is provided in Appendix F.

The aggregate revenue from the producers' 15-cent per hundredweight assessment directed to the Qualified Programs in 2007 was \$189 million (approximately 10 cents out of the 15-cent assessment). See Appendix B-7 and Appendix B-8 for aggregate income and expenditure data of the Qualified Programs.

Some of these Qualified Programs participate in cooperative efforts conducted and coordinated by other Qualified Programs and/or other organizations such as DMI, the Dairy Board, and UDIA. Their goal in combining funding and coordinating projects is more effective and efficient management of producers' promotion dollars through larger, broad-based projects. For example, UDIA coordinates nationally through DMI the programs and resources of 18 federation members and their affiliated units to support the unified marketing plan.

National Fluid Milk Processor Promotion Board

The National Fluid Milk Processor Promotion Board (Fluid Milk Board) as authorized in the Fluid Milk Act, administers a fluid milk promotion and consumer education program that is funded by fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase fluid milk consumption, and maintain and expand markets and uses for fluid milk products in the contiguous 48 States and the District of Columbia.

The Secretary of Agriculture appoints 20 members to the Fluid Milk Board. Fifteen members are fluid milk processors who each represent a separate geographical region, and five are at-large members. Of the five at-large members, at least three must be fluid milk processors and at least one must be from the general public. Four fluid milk processors and one public member serve as at-large members on the current Fluid Milk Board. The members of the Fluid Milk Board serve 3-year terms and are eligible to be appointed to two consecutive terms. The Fluid Milk Promotion Order (Fluid Milk Order) provides that no company shall be represented on the Board by more than three representatives. Current Fluid Milk Board members are listed in Appendix A-2. A map of the Fluid Milk Board regions is shown in Appendix H-2.

The Fluid Milk Board elects four officers: Chair, Vice-Chair, Secretary, and Treasurer. Fluid Milk Board members are assigned by the Chair to the following committees: Advertising, Finance, Promotions, Public Relations, Hispanic, Medical/Scientific, and Strategic Thinking/Research. The program committees are responsible for setting program priorities, planning activities and projects, and evaluating results. The Finance Committee reviews all program authorization requests for funding sufficiency, the Fluid Milk Board's independent financial audit, and the work of the Board's accounting firm. The Fluid Milk Board met three times during 2007.

The National Fluid Milk Processor Promotion Program (MilkPEP) is funded by a 20-cent per hundredweight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the contiguous 48 States and the District of Columbia. The program exempts from assessment those processors who process and market 3 million pounds or less of fluid milk products each month, excluding fluid milk products delivered to the residence of a consumer. Assessments generated \$107.7 million in 2007. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California Milk Processor Board. The amount returned to California from 2007 assessments was \$10.3 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, which include the "got milk?" advertising campaign.

The actual income and expenses for 2006-2007 are provided in Appendix B-4. The Fluid Milk Board's administrative expenses continued to be within the 5-percent-of-assessments limitation required by the Fluid Milk Order. USDA's oversight and evaluation expenses for 2006-2007 are detailed in Appendix B-5. Appendix B-6 contains the Fluid Milk Board's approved budget for 2008. Appendix C-2 contains an independent auditor's reports for the period of January 1 through December 31, 2007.

The following sections summarize the Fluid Milk Board medical and scientific; sponsorship; advertising; promotion; public relation; strategic thinking; and school marketing programs and activities for 2007.

Medical and Scientific Activities

The Fluid Milk Board's Medical Advisory Board (MAB), comprised of academic, medical, and health care professionals with expertise relevant to the health benefits of fluid milk, met twice in 2007. The MAB provides guidance to the Fluid Milk Board's development of key nutritional and health messages for consumers and health professionals. MAB members assisted the Fluid Milk Board in continuing relationships with health and health professional organizations such as the American Academy of Pediatrics, the American Dietetic Association, the American Heart Association, the National Cancer Institute, and the National Medical Association. They also appeared as medical professionals in the media, providing science-based statements supporting the health benefits of milk.

The medical and scientific activities of the Fluid Milk Board also included preparing press materials and acting as spokespersons on breaking research with relevance to fluid milk. The MAB worked extensively over the past year to inform others in the scientific community of the new and emerging research showing that three servings of milk each day as part of a daily nutrition plan may help people maintain a healthy weight. These communications and activities continue to highlight milk's nutritional profile that includes nine essential vitamins and minerals.

The "Good For You" (GFY) program, with the primary goal of promoting milk's nutritional benefits, continued to leverage breaking research with relevance to milk and is supported with advertising and public relations. The focus of GFY efforts was to inform consumers and the public about emerging research regarding the role milk may play in preventing weight gain and maintaining a healthy weight. The MAB was very involved in helping the Fluid Milk Board explore ways to leverage the information in public relations and advertising messages surrounding breaking research. A detailed accounting of 2007 research may be found in the MilkPEP newsroom's *got news?* section of www.milkpep.org.

National Fluid Milk Programs

The Fluid Milk Board continued to execute a generic national fluid milk processor promotion program. The fluid milk marketing programs are research based and message focused for the purpose of positively changing the attitudes and purchase behavior of Americans regarding fluid milk. MilkPEP's primary objectives are to increase the consumption of fluid milk and to identify and support growth opportunities for the fluid milk industry. The first half of 2007, the fluid milk marketing plans were designed to conduct marketing and promotional activities emphasizing milk's role in supporting healthy weight loss. The latter half of the year, the messaging focused on milk's weight maintenance benefits. Many communication media were used to accomplish these objectives, including television and print advertising, press releases, promotions, internet, and others. The program's target audiences included women and moms, teens, and Hispanics.

The got milk?[®]/Milk Mustache advertising campaign, continued to provide the basis for advertising activities and other program delivery methods. A description of the 2007 program activities follows.

Sponsorships

The Fluid Milk Board continued leveraging its multi-year partnership with Walt Disney Corporation[®]. The sponsorship provides a unique opportunity to raise milk's image among teens and young adults by highlighting the message that milk is a great beverage of choice for active teens and for athletes of all ages. As part of the partnership, milk continued to be "the official training fuel" of Disney's Wide World of Sports[™], while the "Milk House," a state-of-the-art facility that hosts more than 30 championships and 20 tournaments for more than 40 different amateur sports (including baseball, football, soccer, volleyball, and inline hockey) annually, remained the centerpiece arena. The "Milk House" features prominently displayed got milk?[®] signage and milk mustache posters throughout the complex.

The Fluid Milk Board sponsored the Scholar Athlete Milk Mustache of the Year (SAMMY) program for the tenth year and awarded 25 high school students from various regions across the United States a \$7,500 scholarship. Each applicant was required to list his/her high school achievements and tell why milk is an important beverage to include in his/her daily regimens. This year SAMMY received more than 66,000 applications. In addition to the scholarship award, each of the 25 winners were inducted into the SAMMY Hall of Fame and featured in a special milk mustache advertisement (Appendix G) which appeared in *USA Today*, *Sports Illustrated*, and *ESPN* magazine. Winners were selected by milk mustache celebrity judges.

Advertising

The Fluid Milk Board advertising program consisted of television and print advertising as well as media-driven promotions. The advertisements highlighted specific, relevant health-benefit messages about milk and its nutrient content, while media-driven promotions served to extend the advertising campaign.

The "Little Victories" television advertisement was created encouraging women to include 24 ounces daily of lowfat or fat-free milk as part of their daily diet to promote milk's benefits. As the Fluid Milk Board evolved its messaging the ad was subsequently revised to promote milk's weight maintenance benefits. The ad prominently featured women being active with their families and consuming milk. Additionally, a public-service type vignette was created featuring actress Mariska Hargitay extolling the benefits of consuming more lowfat or fat-free milk and encouraging moms to think about their drink.



Fluid milk print advertisements produced in 2007 included celebrity advertisements targeting moms and women; celebrity advertisements with the active, bone growth, and healthy weight

messages targeting teen boys and girls; contest and sweepstakes announcements and winners; Hispanic; school milk posters; and trade advertisements. The Fluid Milk Board leveraged a new logo for milk's message: "Think About Your Drink". Appendix G includes thumbnail images of the Fluid Milk Board's television and print advertisements, public relations, and promotion efforts.

The national Hispanic advertising campaign continued as part of industry outreach to the growing Hispanic population. The advertisements continued to feature the popular tagline, "*Más leche, Más logro*" ("More milk, More achievement"), which reminds Hispanic moms to include 24 ounces daily of lowfat or fat-free milk to promote milk's healthy weight benefits. Print advertising featured celebrities Maria Celeste, Barbara Mori, and Sara Ramirez, along with several Hispanic advertorials designed to compliment the general market's weight maintenance message with an integrated Hispanic overlay. Hispanic consumers were directed to www.2424leche.com for more information on Hispanic healthy weight activities.

Promotions

The Fluid Milk Board conducted promotions to help increase fluid milk sales in retail outlets. The promotions worked to move more milk out of the grocery store refrigerator and to increase sales in other retail outlets such as convenience stores, independent grocery stores, drug stores, and mass merchandisers. For some promotions, the Fluid Milk Board worked with partners to increase the appeal to consumers. Promotional activities continued to focus on feature incentives to increase advertisements, displays of milk, and programs offering prizes directly to consumers to help drive incremental purchases. Qualified Programs play an important role in the execution of these retail programs.

The Fluid Milk Board conducted four national promotions in 2007. The first promotion, "Think About Your Drink" was launched in January featuring personal fitness trainer Kathy Smith encouraging consumers to include lowfat or fat-free milk to support a healthy weight. The promotion offered consumers a chance to win 1 of 24 trips for 2 to La Costa Resort and Spa by registering at www.2424milk.com. Promotional materials were available in both English and Spanish versions.

The second promotion, "Another Reason. Another Season.," a 4-week retail promotion program launched in May, included a life-size refrigerator shipper in-store display encouraging women to think about their drink. Consumers were given free magnets with motivational slogans when they purchased milk and could enter online at www.thinkaboutyourdrink.com for a chance to win a 2-week free membership at Curves® fitness centers.

The third promotion, "Give Your Family Something Smarter", held in the August/September back-to-school period encouraged mom to give her family a beverage which could provide numerous health benefits for the whole family.

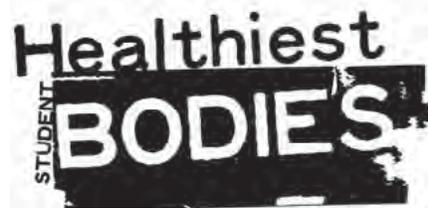


The final promotion, “Chocolate Milk – the Official Drink of Halloween,” held in October, focused on flavored milk as a healthy treat for moms to give her kids at Halloween. Retailers could choose prizes such as MP3 players to offer as in-store giveaways, employee incentives, or other ways to help increase flavored milk sales. Promotional point-of-sale materials included banners, wobblers, and static clings to aid retailers in creating exciting in-store displays. This promotion also included a Hispanic component. Appendix G includes thumbnail images of the Fluid Milk Board’s promotional activities.

Public Relations

The public relations programs continued to focus on (1) the nutritional benefits of milk; (2) emerging scientific studies that highlight milk’s benefits; (3) leveraging the high interest generated by the celebrities and the got milk?®/Milk Mustache campaign; and (4) preparing for and responding to misinformation and negative news about milk or the educational campaign. A wide variety of initiatives were implemented to reach specific target audiences. Almost 2 billion media impressions were garnered through the integrated public relations program. The program provided support for the four national retail promotions by helping to build public awareness and increase retailer participation.

For the tenth consecutive year, the Milk Mustache Mobile Tour made its way around the United States. This year’s tour, “Think About Your Drink,” (TAYD) ran from April through August, covering 75 cities nationwide, with 8 cities conducting Hispanic overlays. Events included Curves® workout equipment, fluid milk sampling, and health assessments by a nutritional expert. This year the tour trucks’ signage was again dedicated solely to moms and women, and featured celebrity moms. The TAYD tour provided consumers a “What America Drinks” report detailing Americans’ beverage consumption habits and encouraging choosing three glasses of lowfat or fat free milk daily as part of a healthy diet.



The 2007 “Healthy Student Bodies” program encouraged students to get fit and healthy. Students could write testimonials regarding their school’s fitness and nutrition efforts toward students. Fifty schools were awarded \$1,000 grants to support fitness and nutrition programs and a special got milk?® recognition assembly. The students nominating the winning schools were awarded sports gear and apparel from Adidas® and a year’s subscription to *Sports Illustrated* and *Teen People*.

MilkPEP continued to raise consumer awareness of a recent study through television, radio, print, and online stories as well as visiting cities nationwide to promote lowfat chocolate milk as a recovery drink to athletes in local walk/runs and other sporting events and by engaging local processors. The February 2006 issue of the *International Journal of Sport Nutrition and Exercise Metabolism*, featured a study which touted lowfat chocolate milk as a recovery beverage after strenuous exercise. The study, conducted at Indiana University, had nine endurance cyclists pedal bicycles until their muscles were depleted of energy, rest 4 hours, then bike again until exhaustion on three separate occasions. During the rest period, the cyclists

drank lowfat chocolate milk, a carbohydrate replacement sports drink, or a traditional fluid replacement sports drink. Cyclists who drank the lowfat chocolate milk were able to pedal nearly twice as long in the second round of exercise than those who consumed the carbohydrate replacement drink, and as long as those who consumed the fluid replacement drink.



The MilkPEP newsroom’s “got news?” section at www.milkpep.org continued to help processors with their local media efforts. This feature gave processors access to customizable media materials from National Programs such as the Milk Mustache Mobile to use in their own public relations efforts. Additionally, the Web site provided a daily email to processors for breaking news, a list of dietetic spokespersons for use as a resource, processor success stories, and links to a searchable library of medical research studies.

Brochures, news releases, and other information on milk were made available to consumers through Web sites www.whymilk.com, www.milkpep.org, www.bodybymilk.com, and www.thinkaboutyourdrink.com.

Strategic Thinking

The Fluid Milk Strategic Thinking Initiative (FMSTI) is a joint effort of the Fluid Milk Board, processors, and suppliers. This ongoing effort was established to address barriers to fluid milk consumption not targeted by the advertising, promotion, and public relations activities.

Over the years, FMSTI has conducted market tests and studies in various business channels to develop proven ways to increase milk sales and subsequently turned these studies into customer-friendly processor materials which may be found at www.milkdelivers.org. These materials include reports on milk’s opportunities in vending, foodservice, convenience and drug store, supermarket and school foodservice channels. Some of the materials included are brochures focusing on new ways to get kids to drink more milk; vending sales kits containing results from the 2003 Multi-Channel Vending Test; and many other reports and studies published in prior years highlighting opportunities for increased milk sales.

Complete reports, studies, executive summaries, and press releases for FMSTI’s ongoing initiatives are available for processors on Web site www.milkpep.org and for customers at www.milkdelivers.org. The presentations, videos, and printed materials are available by calling the milk hotline at 1-800-945-MILK (6455.)

School Marketing

FMSTI continued to conduct several seminars to educate processors on how to increase their milk sales at schools. The seminars were part of the “Capturing the School Milk Opportunity” program, which presents processors with a myriad of options they can implement to improve school milk. Seminar schedules continued to include presentations to representatives of the School Nutrition Association at various locations across the United States.

The “Spotlight On” program continued in 2007 and recognized school professionals such as principals and food service directors who actively encouraged students to improve their health by consuming more milk. The program rewarded one contestant per month and a grand prize winner at the end of the year. Monthly winners received got milk?[®] cooler barrels for their schools and iPods[®] for themselves. Entrants shared their stories via essays submitted on www.milkdelivers.org. The program was open to school nutrition professionals, school board officials or members, and all school administrators. Winners were selected by a panel of dairy industry experts. MilkPEP posted all entries on the Web site in order to inspire more entries and to help inspire schools to improve milk opportunities to students such as introducing new flavors and packaging, hosting milk sampling days, or adding milk to the à la carte selections.

**body
by milkSM**

The Fluid Milk Board expanded its School Image Poster Program for the 2007–08 school year to help educate students and school food service professionals about the role milk plays in good nutrition. Kits were sent to 45,000 participating public middle and high school foodservice directors in August for the beginning of the school year promoting the new BodyByMilkSM (BBMSM) campaign which spoke to teens directly about a healthy lifestyle which included drinking milk. Kits contained truck-sized posters, static clings, and banners to be displayed in school cafeterias. Smaller posters were sent to schools with cafeteria size limitations. More than 60,000 public elementary schools received posters with traditional health messages such as the “nine essential nutrients active bodies need.”

This year’s posters featured various artists, actors, and athletes such as Amanda Bynes, Steve Nash, Shrek, the cast of High School Musical, Olympic athletes (male and female versions), Laila Ali, Hayden Panettiere, and Masi Oka. The posters and other school materials are displayed in Appendix G. The BBMSM message encouraged teens to drink three glasses of lowfat or fat-free milk daily to give their bodies the nutrients they need, like protein to build muscle. Additionally, some studies suggest teens that choose milk tend to be leaner than those who choose sugary beverages. The BBMSM program integrated messaging in print advertising and promotion in the schools’ cafeterias, online, and at retail. Students were encouraged to save their UPC codes from milk containers and redeem them online for free music downloads at www.bodybymilk.com.

Chapter 2

USDA Activities

The Dairy Programs unit of USDA's Agricultural Marketing Service has day-to-day oversight responsibilities for the Dairy Board and the Fluid Milk Board. Dairy Programs oversight activities include reviewing and approving the Dairy and Fluid Milk Boards' budgets, budget amendments, contracts, advertising campaigns, and investment plans. Approval of program materials is a major responsibility of Dairy Programs. Program materials are monitored for conformance with provisions of the respective Acts and Orders, USDA's My Pyramid, the U.S. Dietary Guidelines for Americans, and with other legislation such as the Nutrition Labeling and Education Act.

Dairy Programs continues to ensure that the collection, accounting, auditing, and expenditure of promotion funds is consistent with the enabling legislation and orders; to certify Qualified Programs; and to provide for evaluation of the effectiveness of both promotion programs' advertising campaigns. Dairy Programs assists the Boards in their assessment collection, compliance, and enforcement actions.

Other Dairy Programs responsibilities relate to nominating and appointing Board members, amending the orders, conducting referenda, and conducting periodic management reviews. Dairy Programs representatives attend full Board and committee meetings, and other meetings of consequence to the program.

National Dairy Promotion and Research Board Oversight

Nominations and Appointments

The 36 members of the Dairy Board who administer the program serve 3-year terms, with no member serving more than two consecutive terms. Dairy Board members must be active dairy producers and are selected by the Secretary of Agriculture from nominations submitted by producer organizations, general farm organizations representing dairy producers, Qualified Programs, or other interested parties.

Thirty-eight nominations were received by USDA for the 12 Dairy Board members whose terms expired October 31, 2007. A press release issued on October 16, 2007, announced the appointment of seven new members and five incumbents. All will serve 3-year terms ending October 31, 2010. Newly appointed were: James L. Zielinski, St. Paul, Oregon (Region 1); James L. Ahlem, Hilmar, California (Region 2); Stephen D. Maddox, Riverdale, California (Region 2); Brad J. Scott, Moreno Valley, California (Region 2); Pauline Tjaarda, Shafter, California (Region 2); William J. Herr, Greenwood, Wisconsin (Region 6); and Corrine M. Banker, Morrisville, New York (Region 12). Reappointed to serve second terms were: Grant Kohler, Midway, Utah (Region 3); Jose L. Gonzalez, Mesquite, New Mexico (Region 4); Paul L. Broering, Saint Henry, Ohio (Region 9); John M. Larson, Okeechobee, Florida (Region 10); and Paula A. Meabon, Wattsburg, Pennsylvania (Region 11).

A list of current Dairy Board members appears in Appendix A–1. Appendix H–1 is a map of the contiguous 48 States depicting the 13 geographic regions under the Dairy Promotion and Research Order (Dairy Order).

Organic Exemption

Effective February 14, 2005, any persons producing and marketing solely 100 percent organic products were exempted from paying assessments to any research and promotion program administered by the Agricultural Marketing Service (70 FR 2743, published January 14, 2005). The final rule amended Section 1150.157 of the Dairy Order. In States that have mandatory assessment laws, dairy producers are only exempt from the Federal assessment. Producers are still responsible for remittance of State assessments. In 2007, approximately 863 dairy producers were granted exemptions representing approximately 1 billion pounds of production. The Dairy Order requires producers to re-apply annually to continue to receive the exemption.

Amendment to the Dairy Act

On November 10, 2005, the President signed the Agriculture Appropriations Bill (Bill), which modified Section 781 of the Dairy Production Stabilization Act of 1983 (7 U.S.C. et seq.). The modification implemented a one-year allowance (during fiscal year 2006) for the National Dairy Promotion and Research Board to obligate and to expend funds for any activity to improve the environment and public health. Additionally, the Bill required the Secretary to review the impact of any expenditure pursuant to this change and include the review in the 2007 report of the Secretary to Congress on the dairy promotion program.

At its January 2006 meeting, the Dairy Board passed a motion authorizing expenditure of up to \$6 million, administered and overseen by the National Milk Producers Federation (NMPF), to fund a portion of the National Air Emissions Monitoring Study (NAEMS). The NAEMS is intended to collect air emission data and create tools that all dairies can use, whether they are participating in the Environmental Protection Agency Air Quality Compliance Agreement (Consent Agreement) or not, to determine whether their air emission levels are in excess of the Clean Air Act thresholds and Comprehensive Environmental Response, Compensation and Liability Act and Emergency Planning and Community Right to Know Act reporting requirements. The Consent Agreement was developed to offer protection to operations while research is conducted to determine the size and type of farms that may have regulatory responsibilities. Currently, little air emissions data exists for dairy operations.

NMPF is responsible for representing the interests of the Dairy Board with the Agriculture Air Research Council (AARC), through two board members on the AARC. The AARC is the non-profit organization formed to administer the air emission study and manage the accounting of the funds for all livestock and poultry groups involved.

The latest report of the AARC notes that the study is approximately 50 percent complete. The study is projected to conclude in the first half of 2010; and the focus will shift to wrap-up, equipment reconciliation, site decommissioning, and final data transfer to the Environmental Protection Agency (EPA). EPA will have up to 18 months to complete the data interpretation.

Foreign Agricultural Service

The Secretary of Agriculture has delegated oversight responsibility for all foreign market development activities outside the United States to the Foreign Agricultural Service (FAS) (7 CFR 2.43(a)(24)). FAS reviews the USDEC foreign market development plan and related export contracts. USDEC export contracts also are reviewed by AMS Dairy Programs to ensure conformance with the Dairy Production Stabilization Act of 1983 (Dairy Act), Dairy Order, and with established USDA policies. In 2007, the USDA's Foreign Market Access Program and the Market Promotion Program provided matching funds to USDEC for dairy product promotion and market research in Japan, Mexico, Southeast Asia, South Korea, and Latin America.

Contracts

The Dairy Act and Dairy Order require that all contracts expending assessment funds be approved by the Secretary (7 CFR 1150.140). During 2007, Dairy Programs reviewed and approved 343 Dairy Board and Dairy Management Inc. (DMI) agreements, amendments, and annual plans. Funding approvals were from the 2005 and 2006 fiscal periods. Appendix D-1 lists the contractors and corresponding Board initiatives approved by USDA.

Contractor Audits

During 2007, DMI retained the certified public accounting firm Ernst & Young to audit the records of the following contractors: Edelman Public Relations Worldwide (public relations and communication), WebMD (marketing communications), Children's Hospital, Oakland Research Institute (research), The NPD Group (marketing), and Arab Marketing Finance, Inc. (export). These contractors represented expenditures totaling approximately \$11.4 million. One of the five audits had minor findings, and the contractor has agreed to take corrective action based on the auditor's recommendation. DMI continues to enhance procedures to improve management and internal controls over contracts.

Collections

The Dairy Act specifies that each person making payments to a producer for milk produced in the United States and purchased from the producer shall, in the manner as prescribed by the order, collect an assessment based upon the number of hundredweights of milk for commercial use handled for account of the producer and remit the assessment to the Dairy Board. The current rate of assessment is 15 cents per hundredweight of milk for commercial use or the equivalent thereof as determined by the Secretary.

The Dairy Act provides that dairy farmers can direct up to 10 cents of their 15-cent per hundredweight assessment to Qualified Programs. During 2007, the Dairy Board received about 5.04 cents of the 15-cent assessment.

Compliance

Compliance by responsible persons in filing reports and remitting assessments continues in a timely manner and at a high rate. No significant differences were discovered when comparing the audit results to what was reported by the responsible persons. The Dairy Board verifies that the credits claimed by responsible persons are actually sent to Qualified Programs. This verification is done by contract with each Qualified Program. When noncompliance exists, the Dairy Board takes initial action on the matter. If the Dairy Board is unsuccessful in resolving the violation, the matter is referred to USDA for further action.

Qualified Programs

Dairy Programs reviewed applications for continued qualification from 58 Qualified Programs. A list of the active Qualified Programs is provided in Appendix F. Consistent with its responsibility for monitoring the Qualified Programs, Dairy Programs obtained and reviewed income and expenditure data from each of the programs. The data reported from the Qualified Programs are included in aggregate form for 2006 and 2007 in Appendix B-7 and Appendix B-8.

National Fluid Milk Processor Promotion Board Oversight

Nominations and Appointments

The 20 members of the Fluid Milk Board serve 3-year terms, with no member serving more than two consecutive terms. The Fluid Milk Promotion Order (Fluid Order) provides that no company shall be represented on the board by more than three representatives. Fluid Milk Board members who fill vacancies with a term of 18 months or less are permitted to serve 2 additional 3-year terms. Fluid Milk Board members are selected by the Secretary from nominations submitted by fluid milk processors, interested parties, and eligible organizations.

In a news release issued on February 29, 2008, the Secretary announced three reappointments and six new appointments to the Fluid Milk Board. Reappointed to serve a second term were: Brian Haugh, Dallas, Texas (Region 8); and Michael A. Krueger, Phoenix, Arizona (At-Large Processor). Re-appointed to serve a first term after filling a vacancy lasting less than 18 months was Jay B. Simon, Stockton, California (Region 14). Newly appointed were: James F. Walsh, Lynnfield, Massachusetts (Region 2); Michael R. Smith, Lakeland, Florida (Region 5); and Steven M. Turner, Covington, Tennessee (Region 11). The reappointed and newly appointed members were officially seated at the July 17-19, 2008, meeting. The terms for these appointees will expire on June 30, 2010. Filling vacancies with less than 18 months remaining were: John R. Zuroweste, Dallas, Texas (Region 12); Charles S. Mayfield, Jr. (At-Large Processor); and Janey K. Thornton, Ph.D. (At-Large Public), who were officially seated at the April meeting. Additionally, in a press release issued June 3, 2008, Jay S. Bryant, Reston, Virginia (Region 6) was appointed to fill a vacancy with less than 18 months remaining. The term for these positions expires June 30, 2009.

A list of current Fluid Milk Board members appears in Appendix A-2. Appendix H-2 shows a map depicting the 15 geographic regions under the Fluid Milk Order.

Program Development

The Fluid Milk Board contracted with the International Dairy Foods Association (IDFA) to manage the program. Mid-year, the Fluid Milk Board restructured its operations and contracted directly with Lowe Worldwide; DRAFTFCB; Weber Shandwick; and Siboney, USA, to develop its mom and teen advertising, promotions, consumer education/public relations, and Hispanic advertising/public relations, respectively.

Contractor Audits

The Fluid Milk Board retained the certified public accounting firm of Synder, Cohn, Collyer, Hamilton & Associates, P.C., to audit the records of Lowe Worldwide, in order to determine if the agency had conformed to the financial compliance requirements specified in its agreement with the Board for the period of January 1 through December 31, 2007.

The Board continues to enhance its internal contract control system in order to ensure that the amounts invoiced to the Board are in compliance with established contracts and procedures.

Compliance

Compliance by fluid milk processors in filing reports and remitting assessments continues in a timely manner and at a high rate.

Chapter 3

Impact of Generic Fluid Milk and Dairy Advertising and Promotion on Dairy Markets: An Independent Analysis

The Dairy Production and Stabilization Act of 1983 (Dairy Act; 7 U.S.C. 4514) and the Fluid Milk Promotion Act of 1990 (Fluid Milk Act; 7 U.S.C. 6407) require an annual independent analysis of advertising and promotion programs that operate to increase consumer awareness and sales of fluid milk and related dairy products. From 1988 through 1994, USDA conducted the independent analyses of the National Dairy Promotion and Research Program (Dairy Program), as authorized by the Dairy Act, and issued an annual Report to Congress on the effectiveness of the Dairy Program. From 1995 through 1997, the USDA analyses evaluated the effectiveness of the Dairy Program in conjunction with the National Fluid Milk Processor Promotion Program (Fluid Milk Program), authorized by the Fluid Milk Act. Since 1998, these independent analyses have been conducted by agricultural economists from Cornell University.

The economic evaluation focuses on generic marketing activities by dairy farmers and fluid milk processors that are designed to increase the demand for fluid milk and dairy products. The results of two separate models are presented. The first model is a fluid milk-only demand model used to evaluate the economic impacts of all generic fluid milk marketing activities of both programs on fluid milk demand. The generic fluid milk marketing activities include fluid milk advertising and non-advertising marketing activities used to increase demand. Similar to last year's study, the marketing activities are divided into two general categories: advertising and non-advertising marketing activities. Advertising includes all media activities such as television, print, radio, and outdoor advertising. Non-advertising marketing includes retail programs, school marketing, food service and manufacturing programs, integrated communications, public relations, sales promotions, nutrition education, retail programs, and sponsorships conducted by fluid milk processors and dairy farmers. The advertising and non-advertising marketing variables represent all demand enhancing activities by fluid milk processors and dairy farmers. They do not include expenditures on overhead, longer-term business development programs, research, loan and grants, technical support, industry relations, and corporate technology. While the dairy farmers' and fluid milk processors' programs utilize various types of marketing strategies to increase fluid milk consumption, the effects of fluid milk marketing under both programs are combined because the objectives of both programs are the same and data cannot be satisfactorily segregated to evaluate the two programs separately.

The second model is a combined fluid milk and dairy product demand model (measured in terms of domestic commercial disappearance) used to evaluate the economic impacts of all generic marketing activities for those products. This model, which is hereafter referred as the "all-dairy products" model, is included because the dairy farmer programs now emphasize an "all dairy" promotion strategy over product-specific campaigns. As in the first model, marketing activities in the second include generic advertising and non-advertising marketing activities. Also, advertising and non-advertising marketing strategies are included as two separate variables in the demand model. Unlike the first model, the marketing activities in the second model include activities for all-dairy products (fluid and manufactured dairy products). This model provides a

measure of the economic impact of all demand-enhancing, generic marketing activities by processors and farmers.

Highlights

While per capita fluid milk consumption has been declining for decades in the United States, generic fluid milk marketing activities sponsored by fluid milk processors and dairy farmers have helped mitigate some of this decline. We estimate that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Specifically, over the period 1995 through 2007, we estimate that a 1.0 percent increase in generic fluid milk advertising expenditures resulted in a 0.057 percent increase in per capita fluid milk consumption when holding all other demand factors constant. Over the same period, we estimate that a 1.0 percent increase in generic fluid milk non-advertising marketing expenditures resulted in a 0.062 percent increase in per capita fluid milk consumption when holding all other demand factors constant.

In terms of total consumption of fluid milk, generic fluid milk marketing activities increased fluid milk consumption by 30 billion cumulative pounds from 1998 to 2007, or 3 billion pounds per year on average. Put differently, had there not been generic fluid milk marketing conducted by the two National Programs, fluid milk consumption would have been 5.4 percent less than it actually was over this time period. Hence, the combined fluid milk marketing efforts by dairy farmers and fluid milk processors have had a positive and statistically significant impact that is partially mitigating declines in fluid milk consumption. Moreover, it appears that the performance of these marketing programs has become more effective over time. For instance, in 1998, it is estimated that fluid milk consumption would have been 4.8 percent lower in the absence of the two programs, while in 2007, milk consumption would have been 6.1 percent lower in the programs' absence.

In terms of the all-dairy product demand analysis, the average generic dairy advertising elasticity for this period on a non-fat and a fat basis was 0.027 and 0.029, respectively; a 1.0 percent increase in media advertising expenditures would increase per capita all-dairy product demand by 0.027 (non-fat basis) and 0.029 (fat basis) percent. The average non-advertising marketing elasticity for this period was 0.016 (non-fat) and 0.029 (fat); a 1.0 percent increase in media advertising expenditures would increase per capita all-dairy product demand by 0.016 (non-fat) and 0.029 (fat) percent. Thus, the total marketing (advertising and non-advertising) effort by dairy farmers and fluid milk processors has had a positive and statistically significant impact on dairy consumption.

Cornell calculated the benefit–cost ratio (BCR) for the Dairy Program for the period 1998 through 2007. The benefits of the Dairy Program were calculated as the change in dairy farmers' net revenue (producer surplus) due to demand enhancement from all marketing activities under the Dairy Program by way of increased sales and higher prices. The costs of the Dairy Program were calculated as the difference in total assessment revenues before and after the National Program was enacted. The results show that the average BCR for the Dairy Program was 5.52 (non-fat solids basis) and 5.94 (milk-fat basis) from 1998 through 2007. This means that each dollar invested in generic dairy marketing by dairy farmers during the period would return

between \$5.52 and \$5.94, on average, in net revenue to farmers. The level of the marketing BCR suggests that the combined marketing programs supported by dairy farmers have been a successful investment.

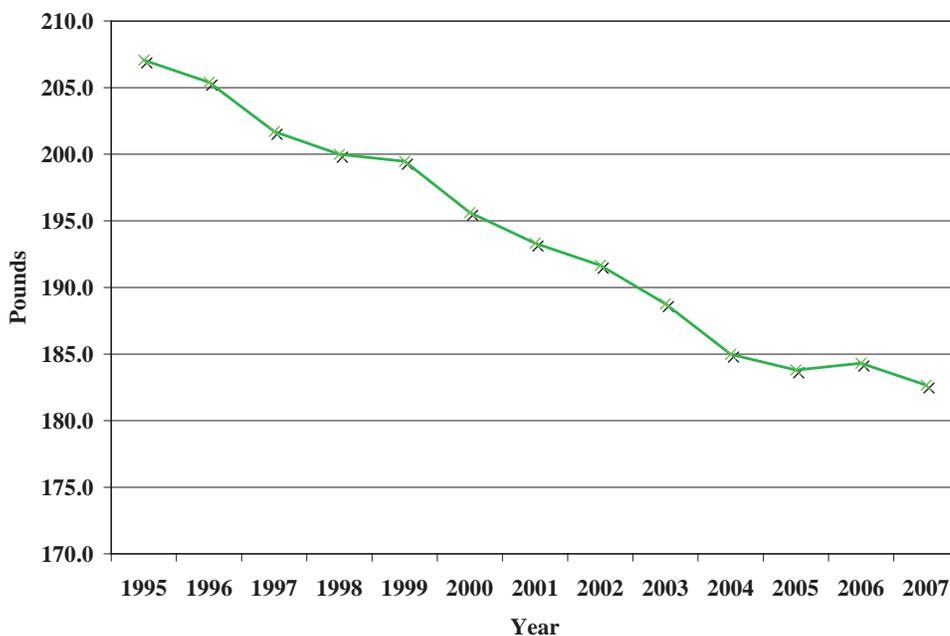
To make allowance for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR, providing a lower and upper bound for the average BCR. One can be 90 percent “confident” that the true average BCR lies within those bounds. The estimated lower bounds for the average BCR in the non-fat and fat models were 1.12 and 1.41, respectively. Hence, it is reasonable to conclude that these confidence intervals give credence to the finding that the benefits of the Dairy Program’s marketing activities have been considerably greater than the cost of the programs.

Analysis of Generic Fluid Milk Marketing

Per capita fluid milk consumption in the United States has been steadily declining for decades. Among the factors behind this decline are changes in U.S. demographics, changes in consumer preferences for fluid milk, how and where people consume food, changes in consumer income and retail fluid milk prices, changes in advertising and marketing by producers of beverages that compete with fluid milk, and changes in generic fluid milk advertising and marketing. The following is a brief graphical overview of changes in per capita fluid milk consumption and factors hypothesized to affect milk consumption from 1995 through 2007. It is important to emphasize, however, that the decline in per capita fluid milk consumption has occurred over a significantly longer period of time than since 1995.

Figure 3–1 illustrates the declining trend in per capita fluid milk consumption since 1995. From

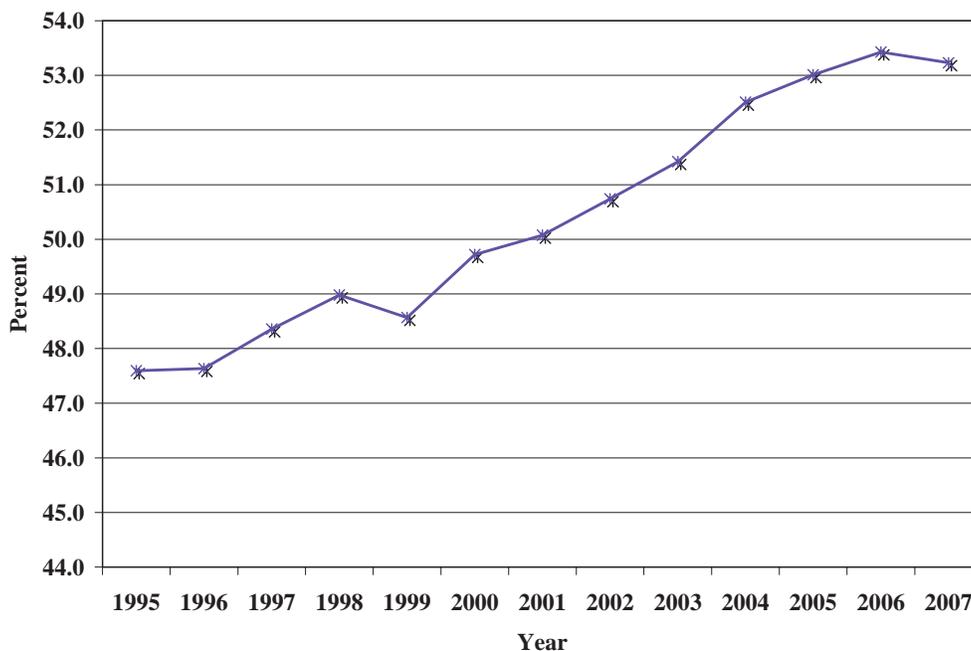
Figure 3–1. Per Capita Fluid Milk Consumption.



1995 through 2007, annual per capita consumption declined by 11.8 percent. This translates into an average annual rate of decline of about 1.0 percent per year. Annual per capita consumption actually increased slightly from 2005 to 2006, increasing from 183.8 pounds to 184.3 pounds, but declined from 184.3 to 182.7 pounds from 2006 to 2007. One potential cause for declining per capita fluid milk consumption may be the increasing trend in food consumed away from home. As people consume more food away from home, fluid milk consumption may be diminished by the lack of availability of many varieties of fluid milk products at the Nation's eateries as well as the expanding availability of fluid milk substitutes. Many eating establishments carry only one type of fluid milk product, which causes some people who would normally drink fluid milk to consume a different beverage if the preferred fluid milk product is not available.

Figure 3–2 illustrates the trend in expenditures on food consumed away from home as a percentage of total food expenditures. From 1995 through 2007, the annual average percentage of expenditures on food consumed away from home increased by 11.8 percent. While there were some increases and decreases in the percentage of food consumed away from home over this period, the general trend is increasing from 1995 through 2007. From 1998-1999, there was a small dip in food away from home expenditures as a percent of total food expenditures and the decline in per capita fluid milk consumption lessened considerably. It is evident from Figures 3–1 and 3–2 that per capita fluid milk consumption and eating away from home are negatively correlated. Thus, the increase in food consumed away from home appears to be responsible for some of the decrease in per capita fluid milk consumption.

Figure 3–2. Food Consumed Away From Home as a Percentage of Total Food Expenditures.



A second factor for declining per capita fluid milk consumption may be changes in U.S. demographics. One important change is the declining proportion of young children in the population since 1995 (the decline has leveled out since 2002). Since young children are one of the largest milk-consuming cohorts, any decline in that cohort negatively impacts per capita fluid milk consumption. Figure 3–3 shows the percentage of the population that was under 6 years old from 1995 through 2007, a segment of the population that decreased 9 percent between 1995 and 2002. Therefore, there is a positive correlation between per capita fluid milk consumption and this age cohort—both are declining.

Since 1995, the retail price of fluid milk products has generally been rising relative to other nonalcoholic beverages. This pattern is displayed in Figure 3–4 (note that any value above 1.0 means the consumer price index for fluid milk is higher than the consumer price index for nonalcoholic beverages). While there have been some periods since 1995 where retail fluid milk prices declined relative to other beverage prices, there is clearly an increasing trend over time making milk more expensive than other nonalcoholic beverages. From 1995 through 2007, annual average fluid milk prices rose 34.3 percent relative to other beverages. These retail fluid milk price increases are likely responsible for some of the decline in per capita fluid milk consumption. Between 2004 and 2006, the price of fluid milk declined relative to other beverages, which may be an important reason for the slight increase in per capita consumption in 2006. However, in 2007, the retail price of milk increased by almost 9 percent and per capita consumption declined by 0.9 percent.

Fluid milk’s loss of market share to other beverages also may be due to aggressive marketing by

Figure 3–3. Percent of Population Under 6 Years of Age.

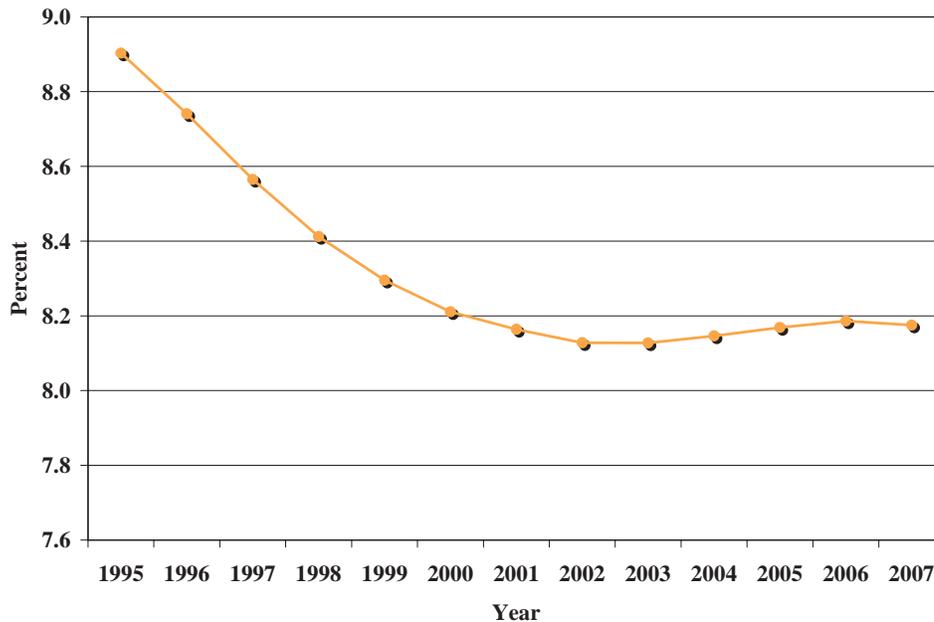
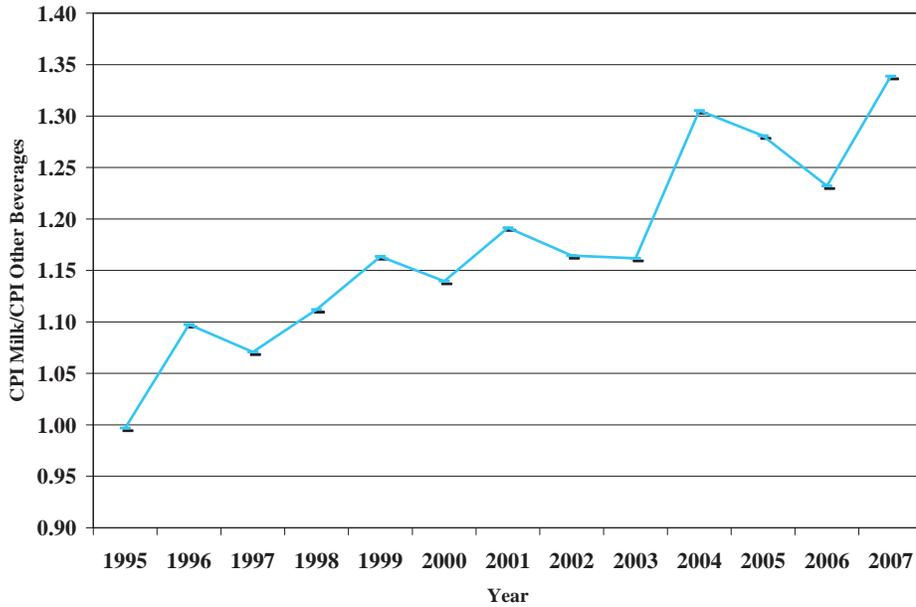


Figure 3–4. Retail Price of Fluid Milk Relative to Other Nonalcoholic Beverage Prices.



competing beverage producers. Indeed, both dairy farmers and fluid milk processors started generic marketing programs to combat competing marketing from other beverage producers.

Figure 3–5 displays the combined real advertising expenditures (in 2007 dollars) of several

Figure 3–5. Real Bottled Water, Soy Beverage, and Fruit Juice Advertising (in 2007 dollars).

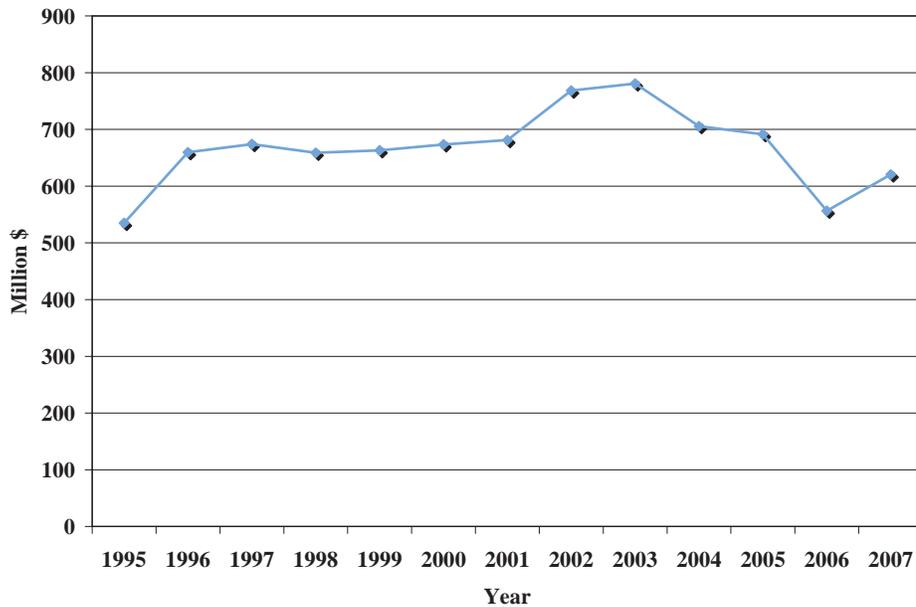
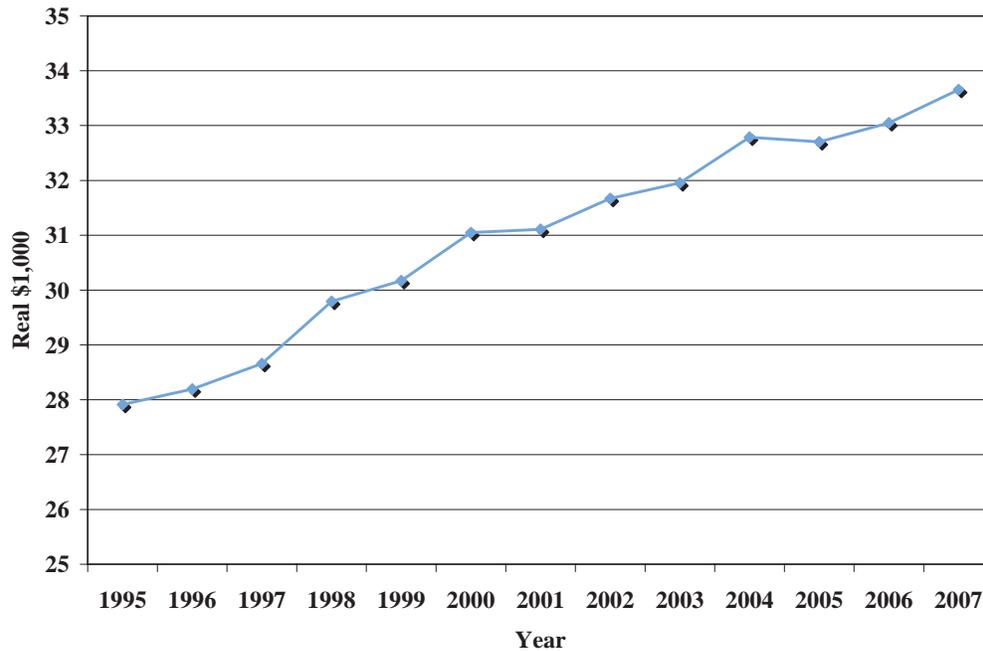


Figure 3–6. Real Per Capita Disposable Income (in 2007 dollars).



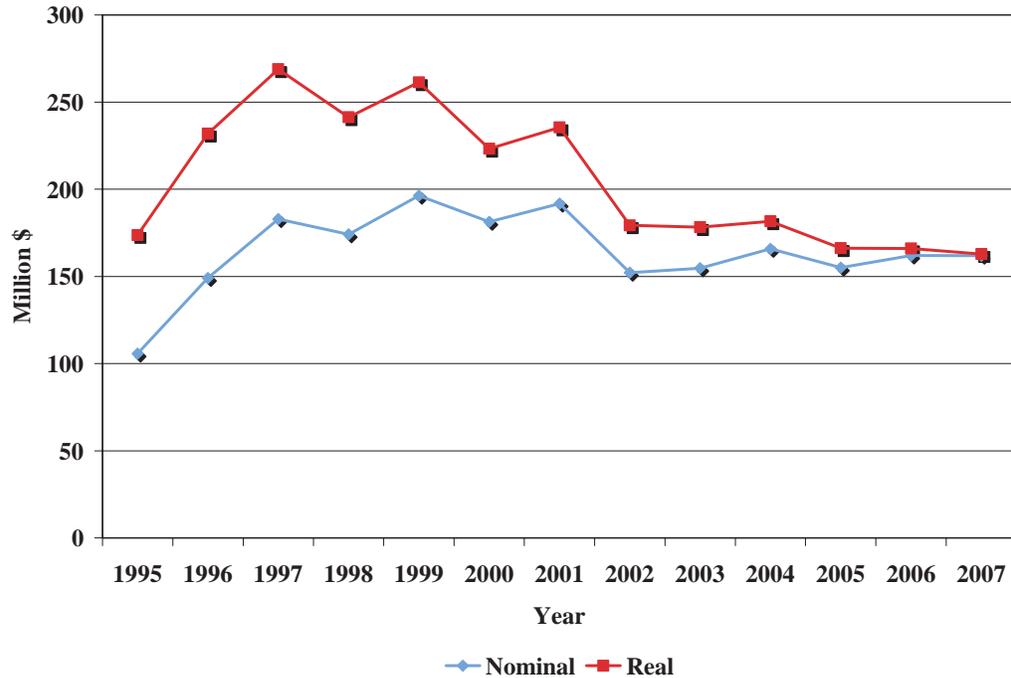
competing non-alcoholic beverages (fruit juice, bottled water, and soy beverages). Since 1995, there has been an increase in annual competing beverage advertising by 16 percent with most of the increase occurring between 1995 and 2003. Since then, there has been a trend down in competing beverage advertising with the exception of 2007, where competing advertising increased by 11.7 percent over 2006.

One factor that may have diminished some of the decline in per capita fluid milk consumption is the growth in real income over this period. Fluid milk is considered to be a “normal” good, which means that consumption increases as consumers’ disposable incomes increase. Figure 3–6 illustrates the steady positive trend in real per capita income (in 2007 dollars) from 1995 through 2007. Since 1995, real per capita income has increased by 20.6 percent.

Another factor that may have diminished some of the decline in per capita fluid milk consumption over part of this time period is generic marketing efforts by fluid milk processors and dairy farmers. The dairy-farmer checkoff program is the largest checkoff program in the United States in terms of revenue, and the second largest program is the fluid milk processor program.

Figure 3–7 shows combined nominal and real expenditures (in 2007 dollars) on generic fluid milk marketing efforts by these two programs. From 1995 to 1997, there was steady growth in real (2007 dollars) annual expenditures for generic fluid milk marketing, from \$174 million in 1995 to \$269 million in 1997. Since 1997, however, such expenditures have been declining. Between 1995 and 2007, combined annual average real expenditures declined by 6.2 percent

Figure 3–7. Real and Nominal Total Fluid Milk Marketing Expenditures.



reaching a low of \$163 million in 2007. This decline may have had an impact on declining per capita fluid milk consumption over this period. In nominal terms, there has actually been a 53 percent increase in total annual generic fluid milk marketing expenditures since 1995. In 1995, nominal annual expenditures totaled \$106 million for the two programs, while in 2007 nominal annual expenditures totaled \$162 million. Hence, the erosion in real expenditures has been entirely due to inflation.

Most of the decline in fluid milk marketing has been due to decreases in expenditures by dairy farmers. Figure 3–8 displays real marketing expenditures fluid milk processors and dairy farmers separately 1995. Dairy farmers have significantly decreased their real marketing expenditures for fluid milk since 1995, from \$174 million to \$74 million, a 57.2 percent decrease. Fluid milk processors have had a slight decline in real expenditures from their peak in 2001, but have not decreased expenditures nearly as much as dairy farmers.

Figure 3-9 displays real generic fluid milk advertising expenditures and generic non-advertising marketing expenditures by dairy farmers and fluid milk processors. It is clear from this figure that there has been a shift away from advertising towards non-advertising marketing activities over this period. Indeed, real generic fluid milk non-advertising marketing expenditures increased by \$57 million annually. The shift away from advertising has been primarily done by the dairy farmer program.

Figure 3–8. Real Generic Fluid Milk Marketing Expenditures by Fluid Milk Processors and Dairy Farmers.

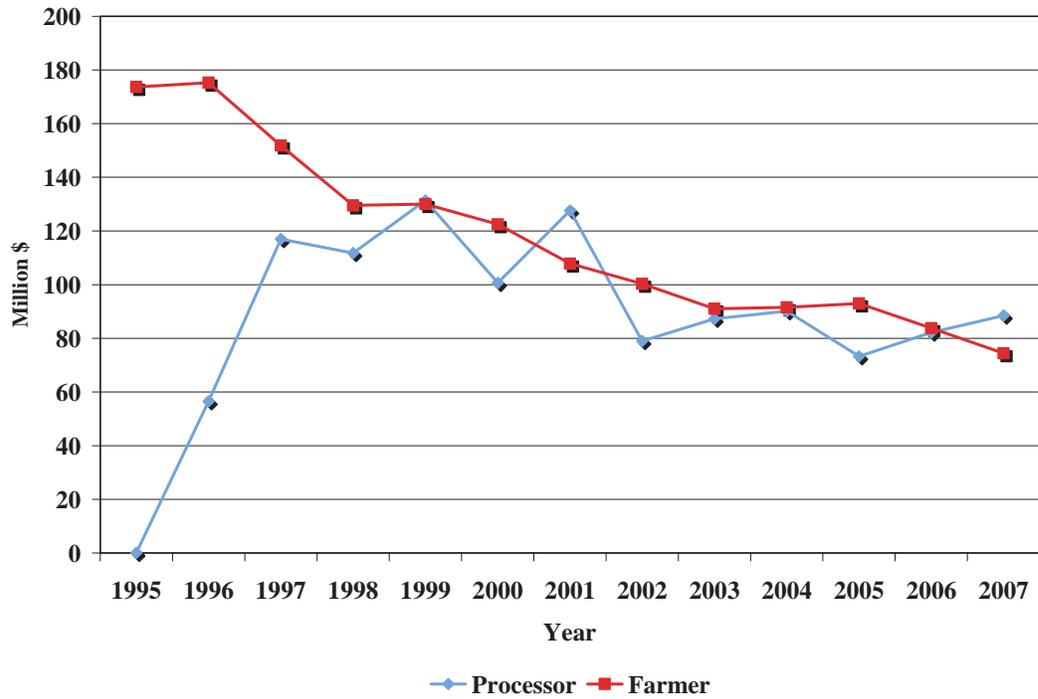
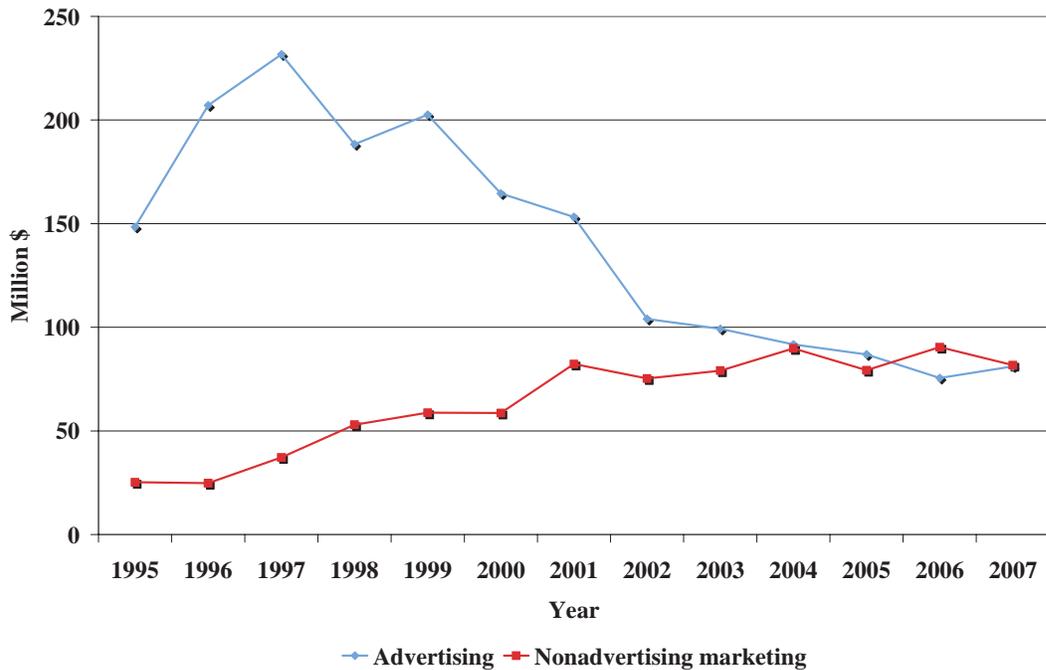


Figure 3–9. Real Generic Fluid Milk Advertising and Non-advertising Marketing Expenditures.



Fluid Milk Model Estimation

To more formally evaluate the relationship between per capita fluid milk consumption and factors hypothesized to influence that consumption, we used an econometric modeling approach. Because there are factors other than generic advertising by dairy farmers and fluid milk processors that influence the demand for fluid milk, we used this model to identify the effects of individual factors affecting demand. The following variables were included as factors influencing per capita fluid milk demand: the consumer price index (CPI) for fluid milk; the CPI for nonalcoholic beverages, which was used as a proxy for fluid milk substitutes; the percentage of the U.S. population under 6 years old; per capita disposable income; variables to capture seasonality in fluid milk demand; expenditures on food consumed away from home as a percentage of total food expenditures; expenditures on competing beverage advertising (bottled-water, juice, and soy beverage advertising combined), expenditures on generic fluid milk advertising, and expenditures on generic fluid milk non-advertising marketing activities.¹ Since the goals of the farmer and processor marketing programs are the same with regards to fluid milk, all generic fluid milk advertising by both programs were aggregated into a single advertising variable, and all generic fluid milk non advertising marketing by both programs were aggregated into a single advertising variable, and all generic fluid milk non-advertising marketing by both programs were aggregated into a single non-advertising marketing variable.

The model was estimated with national quarterly data from 1995 through 2007. To account for the effects of inflation, prices and income were deflated by the consumer price index. Generic fluid milk advertising and competing advertising expenditures were deflated by a media cost index computed from annual changes in advertising costs by media type. Generic fluid milk advertising and competing advertising expenditures were deflated by the CPI for all items. Because both advertising and non-advertising marketing have a carry-over effect on demand, past fluid milk marketing expenditures also were included in the model as explanatory variables using a distributed-lag structure.² Similar procedures were used to capture this carry-over effect for competing advertising.

The impacts of variables affecting demand can be represented with what economists call “elasticities.” Elasticities measure the percentage change in per capita demand given a 1.0 percent change in one of the identified demand factors while holding all other factors constant. Table 3–1 provides average elasticities for the period 1995 through 2007 for model

¹ As mentioned in the introduction, the advertising expenditures include media expenditures for television, radio, print, and outdoor advertising, while the non-advertising marketing expenditures included funds spent on fluid milk public relations, sales promotions, nutrition education, retail programs, and sponsorships by dairy farmers and fluid milk processors.

² Specifically, a second-degree polynomial lag structure with both end point restrictions was imposed. The demand model included current advertising expenditures and eleven quarters of lagged advertising expenditures to capture the carry-over effect of advertising. Similarly, current non-advertising marketing expenditures and seven quarters of lagged expenditures were included to capture the carry-over effect of non-advertising marketing. Competing advertising included current and five quarters of lagged expenditures. The length of lag used here indicates that such demand enhancing activities as the *got milk?*[®], the 3-A-Day of Dairy[™] promotional campaign, and the milk mustache campaigns have long-lasting effects on consumers.

Table 3–1. Average Elasticity Values (1995–2007) for Factors Affecting the Per Capita Retail Demand for Fluid Milk.*

Demand Factor	Elasticity
Percent of population under 6 years of age	1.585**
Percent of food away from home expenditures	–0.489**
Retail fluid milk price	–0.096**
Per capita income	0.141**
Bottled-water + soy beverage + fruit juice advertising	–0.018**
Generic fluid milk advertising	0.057**
Generic fluid milk non-advertising marketing	0.062**

*Example: A 1.0 percent increase in the retail price of fluid milk is estimated to reduce per capita sales of fluid milk by 0.096 percent. For more information on the data used, see Table 3–3 at the end of this chapter.

** Statistically significant at the 1.0 percent significance level or less.

variables all of which have a statistically significant effect on consumption.³ For example, a price elasticity of demand for fluid milk equal to –0.096 means that a 1.0 percent increase in the real (inflation-adjusted) retail fluid milk price decreases per capita fluid milk quantity demanded by 0.096 percent when holding all other demand factors constant.

The most important factors influencing per capita fluid milk demand are demographic changes and the proportion of food expenditures on food eaten away from home. While not as large in magnitude, retail fluid milk prices, income, expenditures on generic fluid milk advertising and non-advertising marketing efforts, and competing beverage advertising expenditures also impacted per capita fluid milk demand. Each factor is further discussed in detail.

The percentage of the population under 6 years of age was the most important factor affecting fluid milk consumption. This factor has an estimated elasticity of 1.585, which means that a 1.0 percent increase in this age cohort measure would result in a 1.585 percent increase in per capita fluid milk demand when holding all other demand factors constant. This result is consistent with previous studies,⁴ that show that one of the largest fluid milk-consuming segments of the population is young children. While this age cohort has declined since 1995, it has been slowly rising the last several years, which should have a mitigating influence on declining per capita fluid milk consumption.

³ The estimated model fits the data extremely well. All variables were statistically significant at the 1.0 percent significance level or better. The adjusted goodness-of-fit measure indicated that the explanatory variables explained over 98 percent of the variation in per capita fluid milk consumption. Various statistical diagnostics were performed and no statistical problems were found except for auto-correlation, which was corrected for using a moving average error correction procedure.

⁴ A fluid supply equation was also estimated in order to estimate the price response to the simulated increase in demand. The own price elasticity of supply was estimated to be 0.046 and was incorporated into this simulation.

The amount of food that is consumed away from home, measured in this model as real per capita expenditures on food eaten away from home as a percentage of total expenditures on food, has an elasticity of -0.489 . This means that a 1.0 percent increase in the food consumed away from home would measure result in a 0.489 percent decrease in fluid milk demand when holding all other demand factors constant. As mentioned previously, this negative relationship may be due to the limited availability of fluid milk products and high availability of fluid milk substitutes at many eating establishments, which frequently offer only one or two types of milk beverages. One can hypothesize that because of these limited choices, some people who would ordinarily choose fluid milk choose another beverage instead. This result suggests the need to target the retail food service industry in an effort to increase away from home consumption. Efforts to increase the variety of fluid milk beverages offered to customers may increase the competitiveness of fluid milk. Indeed, this year's estimated elasticity is lower than last year's which may be due to successful efforts by the dairy industry in expanding the availability of fluid milk products for away from home consumption.

Not surprisingly, the retail price of fluid milk has a negative and statistically significant impact on per capita demand. The results indicate that a 1.0 percent increase in the real retail price of fluid milk would result in a 0.096 percent decrease in per capita fluid milk quantity demanded. The magnitude of this elasticity is relatively small, which indicates that U.S. consumers' fluid milk purchasing behavior is relatively insensitive to changes in the retail price. This result, which is consistent with the other studies, is likely due to the fact that fluid milk is generally regarded as a staple commodity in the United States. However, as described in the previous section, the retail price of fluid milk has increased substantially since 1995 (34.3 percent) relative to the price of other beverages. Consequently, the increase in fluid milk prices has significantly contributed to the decline in per capita consumption. For instance, had the real price remained constant since 1995 instead of increasing by 34.3 percent, per capita fluid milk consumption would have been 3.3 percent higher today than it actually is.

Per capita disposable income has a positive and statistically significant impact on per capita fluid milk consumption. A 1.0 percent increase in real per capita income would result in a 0.141 percent increase in per capita fluid milk demand, holding all other demand factors constant. Similar to the price elasticity in magnitude, the income elasticity is consistent with the notion of fluid milk products as a staple commodity in the United States. With income up by 20.6 percent since 1995, this has lessened the decline in per capita fluid milk consumption. Holding all other factors constant, this 20.6 percent increase in real income increased per capita fluid milk consumption by 2.9 percent.

Combined soy beverage, juice, and bottled-water advertising also has had a negative impact on fluid milk demand during the study period. The estimated fluid milk demand elasticity with respect to soy beverage, juice, and bottled-water advertising is -0.018 , and statistically significant. There has been a 16 percent increase in advertising expenditures for these three commodities since 1995, and hence, this likely had a negative impact on fluid milk consumption over this time period. In other words, had there been no increase in competing advertising since 1995, per capita fluid milk consumption would have been almost 0.3 percent higher today than it actually is.

Finally, the generic fluid milk marketing activities conducted by fluid milk processors and dairy farmers have had a positive and statistically significant impact on per capita fluid milk demand. The average advertising elasticity is computed to be 0.057 and is statistically significantly different from zero at the 1.0 percent significance level. Thus, a 1.0 percent increase in generic fluid milk advertising would increase per capita fluid milk consumption by 0.057 percent holding all other demand factors constant. The generic non-advertising marketing elasticity is computed to be 0.062 and is statistically significant at the 1.0 percent significance level. In terms of relative elasticities, there is no statistical difference in estimated advertising and non-advertising elasticities. One could say estimated effects of advertising and non-advertising are virtually the same.

Fluid Milk Model Simulation

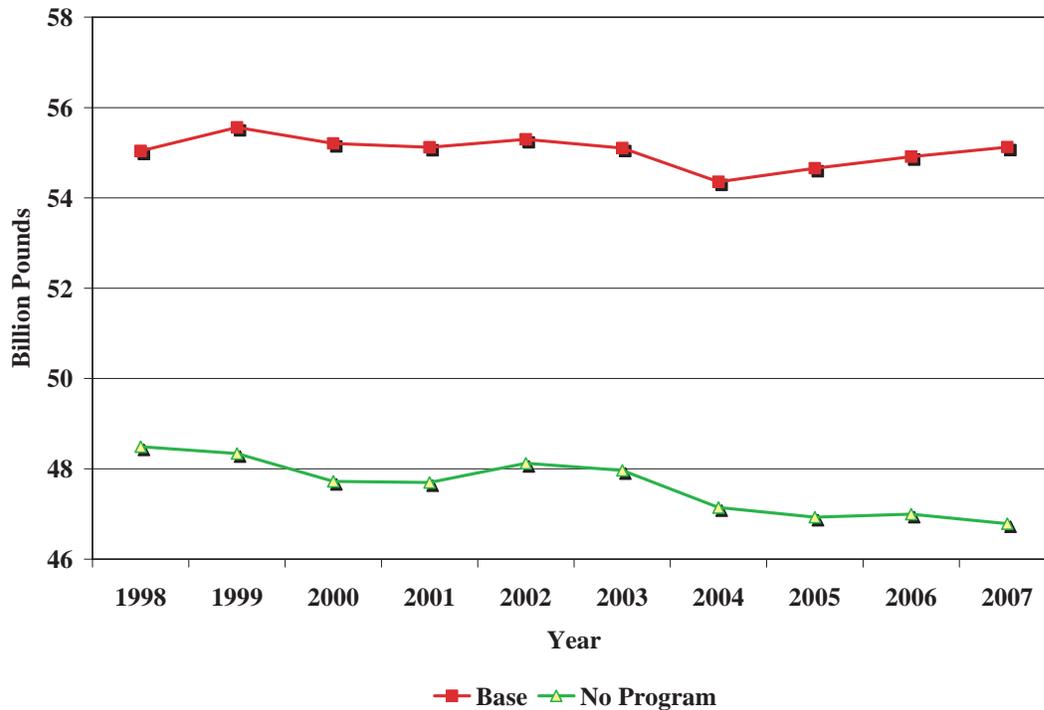
To examine the impact of dairy farmer and fluid milk processor marketing on total consumption of fluid milk, the estimated demand equation was simulated for two scenarios for the period from 1998 through 2007: (1) a baseline scenario in which the combined fluid milk marketing (advertising and non-advertising) expenditures were equal to actual marketing expenditures under the two programs, and (2) a no-national-Dairy-Program, no-Fluid-Milk-Processor-Program scenario in which there was no fluid milk-processor-sponsored marketing and dairy-farmer-sponsored fluid milk marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before the National Program was enacted. A comparison of these two scenarios provided a measure of the impact of the national Dairy and Fluid Milk Programs.

Figure 3–10 displays the simulation results for annual fluid milk consumption for the two scenarios. From 1998 through 2007, these marketing activities were responsible for creating 30 billion cumulative pounds of fluid milk consumption, which averages to 3 billion pounds per year. Put differently, had there not been generic fluid milk marketing conducted by the two National Programs, fluid milk consumption would have been 5.4 percent less than it actually was over this time period. Hence, the bottom line is that the fluid milk marketing efforts by dairy farmers and fluid milk processors combined have had a positive and statistically significant impact that is partially mitigating declines in per capita fluid milk consumption. Moreover, it appears that the performance of these marketing programs has become more effective over time. This can be seen by the widening of the gap in fluid milk disappearance between the two scenarios over time in Figure 3–10. For instance, in 1998, it is estimated that fluid milk consumption would have been 4.8 percent lower in the absence of the two programs, while in 2007, milk consumption would have been 6.1 percent lower in the programs' absence.

Analysis of All-Dairy Product Generic Marketing

Unlike fluid milk, all-dairy product consumption (i.e., fluid milk plus dairy products) in the United States has been steadily increasing for decades. Among the factors behind this increase are changes in consumer preferences for dairy products, changes in income and retail dairy prices, and changes in generic advertising and marketing of milk and dairy products. The following is a brief graphical overview of changes in per capita all dairy product consumption and factors hypothesized to affect it from 1995 through 2007.

Figure 3–10. Simulated Fluid Milk Consumption With and Without Generic Fluid Milk Marketing.



In all previous reports, total commercial disappearance (including exports) of all dairy products on a milk-fat equivalent basis was used as the measure of all-dairy product consumption. This was problematic for two reasons. First, the economic evaluation is for the domestic market and exports should not be included in the measure of consumption. Second, looking only at milk-fat completely ignores the other component of milk, solids-not-fat. To correct for these two problems, in this year’s report, we use domestic commercial disappearance net of exports on both a milk-fat and solids-not-fat basis. Figures 3-11 and 3-12 display the per capita domestic commercial disappearance of all dairy products since 1995 on a solids-not-fat and fat basis, respectively. The increase in per capita consumption has been almost three times higher on a milk-fat basis compared with a solids-not-fat basis. For instance, over the time period 1995 through 2007, annual per capita commercial disappearance of all dairy products increased by 3.5 percent and 9.4 percent, respectively, on a solids-not-fat and on a fat basis. Although the trend has been positive, there have been some periods of annual declines in per capita consumption, particularly on a solids-not-fat basis from 1995-1999.

An important factor influencing per capita commercial disappearance of all dairy products is the retail price of dairy products. Figure 3-13 displays the Consumer Price Index (CPI) for fluid milk and all dairy products relative to the CPI for all items. This figure indicates that there have been both ups and downs for retail dairy prices relative to all prices in the economy. From 1995-1999, real dairy prices have actually trended down slightly, decreasing by 2.1 percent.

Figure 3–11. Domestic Per Capita Commercial Disappearance of Fluid Milk and Dairy Products (Solids-not-fat milk Equivalent).

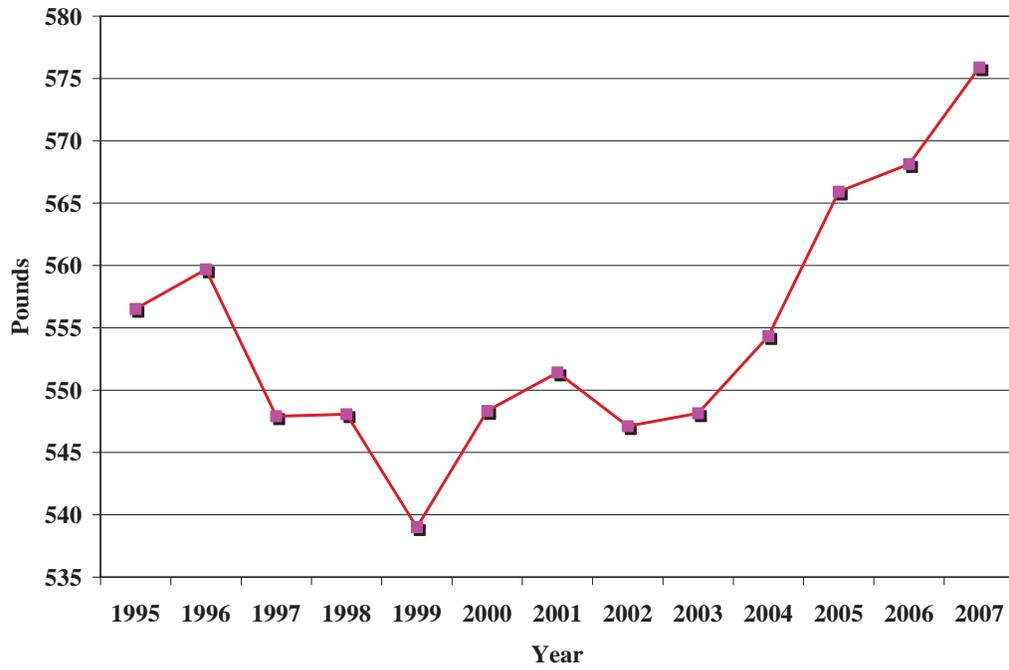


Figure 3–12. Domestic Per Capita Commercial Disappearance of Fluid Milk and Dairy Products (Milk-Fat Equivalent).

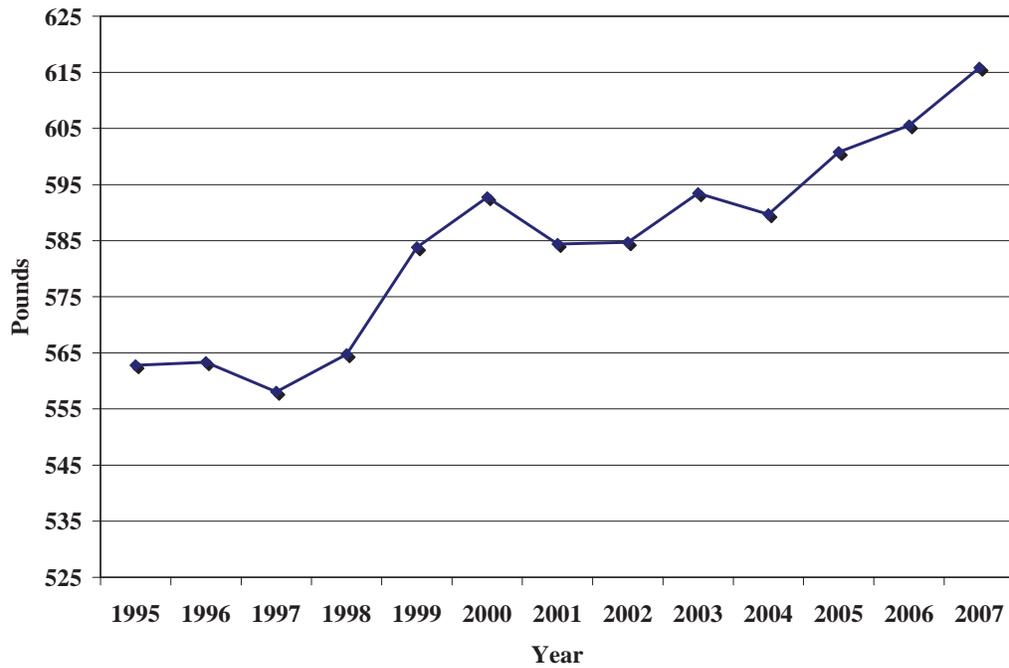
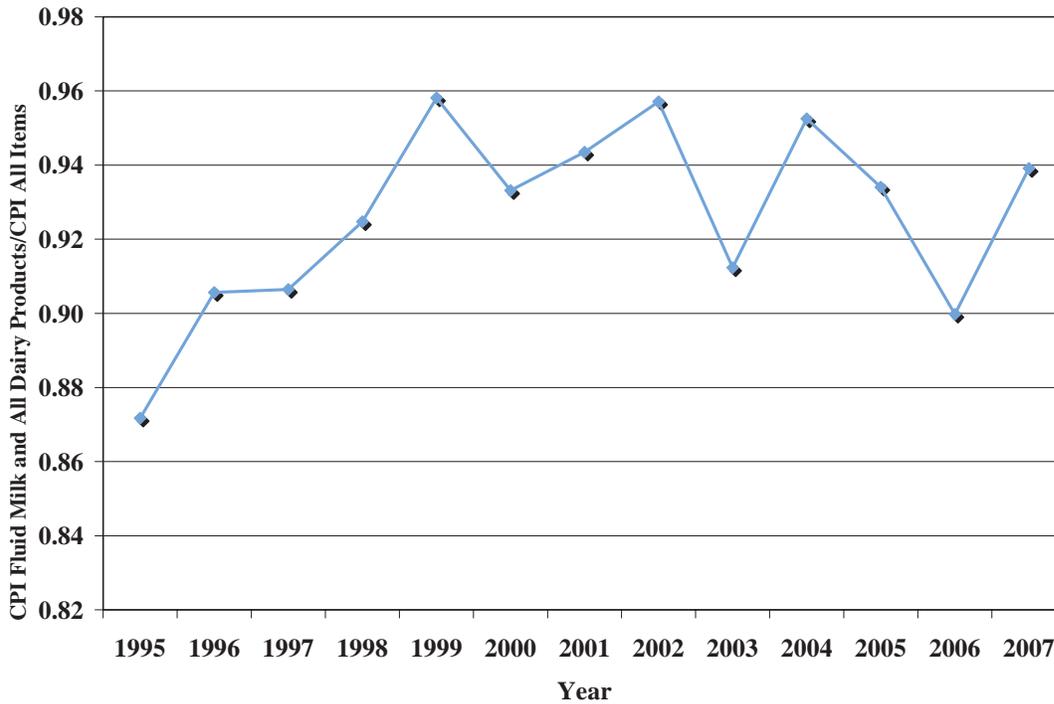


Figure 3–13. Retail Dairy Prices Relative to Price of All Items.

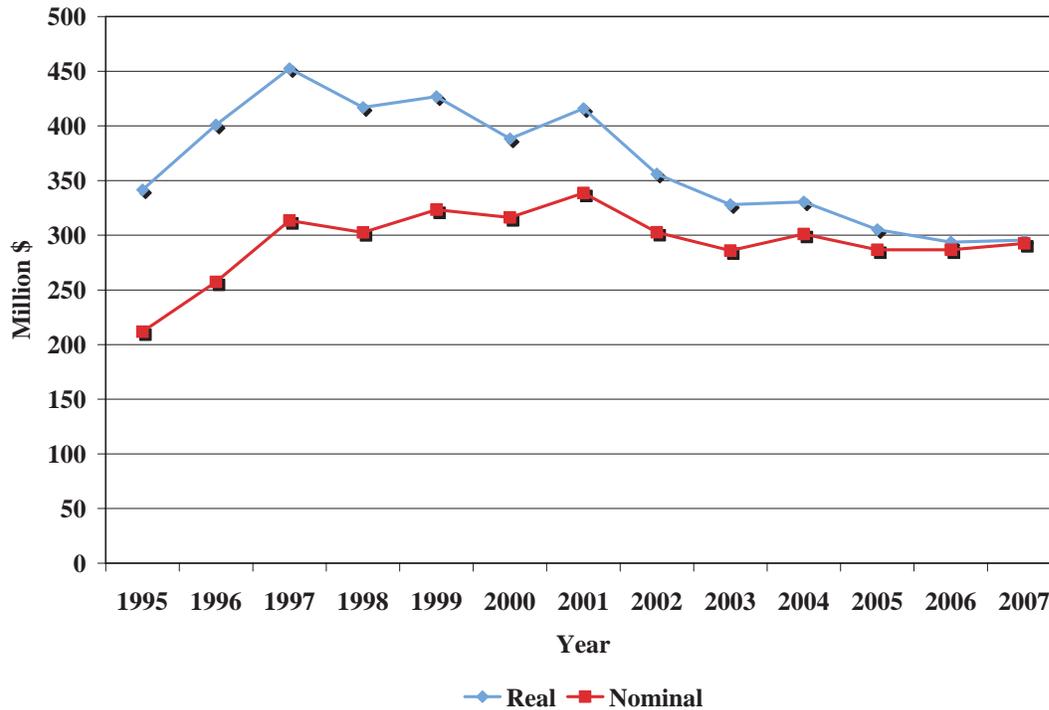


A factor that had a positive impact on per capita commercial disappearance of all dairy products is the growth in real income over this period. All dairy products are considered to be “normal” goods, which means that consumption increases as consumers’ disposable incomes increase. Figure 3-6 illustrates the steady positive trend in real per capita income (in 2007 dollars) from 1995 through 2007. Since 1995, real per capita income has increased by 20.6 percent.

Another factor that may have contributed to increasing per capita domestic commercial disappearance of all dairy products over part of this time period is generic marketing efforts by fluid milk processors and dairy farmers. Figure 3-14 shows combined nominal and real expenditures (in 2007 dollars) on generic dairy product marketing efforts by these two programs. From 1995 to 1997, there was steady growth in real (2007 dollars) annual expenditures for generic dairy product marketing, from \$342 million in 1995 to \$452 million in 1997. Since 1997, however, such expenditures have been declining. Between 1995 and 2007, combined annual average real expenditures declined by 13.5 percent reaching a low of \$294 million in 2006. In nominal terms, there has actually been a 38.2 percent increase in total annual generic dairy product marketing expenditures since 1995. In 1995, nominal annual expenditures totaled \$212 million for the two programs, while in 2007 nominal annual expenditures totaled \$293 million. Hence, the erosion in real expenditures has been entirely due to inflation.

Figure 3-15 shows real generic marketing expenditures for fluid milk processors and dairy farmers (all dairy). Dairy farmers’ total marketing expenditures have consistently declined since 1995 in real terms, falling by 39.4 percent since 1995. Fluid milk processors’ marketing expenditures peaked in 1997, but have fallen by 24.4 percent in real terms since then.

Figure 3–14. Real and Nominal Generic Dairy Marketing Expenditures.



To examine the overall impact of the fluid milk processor and dairy farmer programs on overall dairy demand, we estimated a combined fluid milk/dairy product demand model that included all generic dairy advertising activities as one demand determinant, and all non-advertising dairy marketing activities as another demand determinant. Expenditures for the following advertising activities were aggregated into one variable assumed to impact the all-dairy product demand model: television, radio, print, and outdoor media advertising for fluid milk and manufactured dairy products by dairy farmers and fluid milk processors. Expenditures for the following non-advertising, marketing activities were aggregated into one variable: school marketing, food service and manufacturing programs, integrated communications, public relations, sales promotions, nutrition education, retail programs, and sponsorships conducted by fluid milk processors and dairy farmers. In addition, the following variables were included as factors influencing per capita all-dairy product demand: the CPI for all-dairy products, per capita disposable income, and variables to capture seasonality in dairy product demand. Similar to the fluid milk demand model, the all-dairy products demand model was estimated on a per capita basis to control for the influence of population increases on demand.

The model was estimated with national quarterly data for 1995 through 2007. To account for the impact of inflation, all prices and income variables were deflated by the CPI for all items. Generic fluid milk and cheese advertising expenditures were deflated by a weighted average media cost index (television, radio, print, and outdoor) for fluid milk and cheese. Generic fluid milk and cheese non-advertising marketing expenditures were deflated by the CPI for all items.

Figure 3–15. Real Generic Dairy Marketing Expenditures By Fluid Milk Processors and Dairy Farmers.

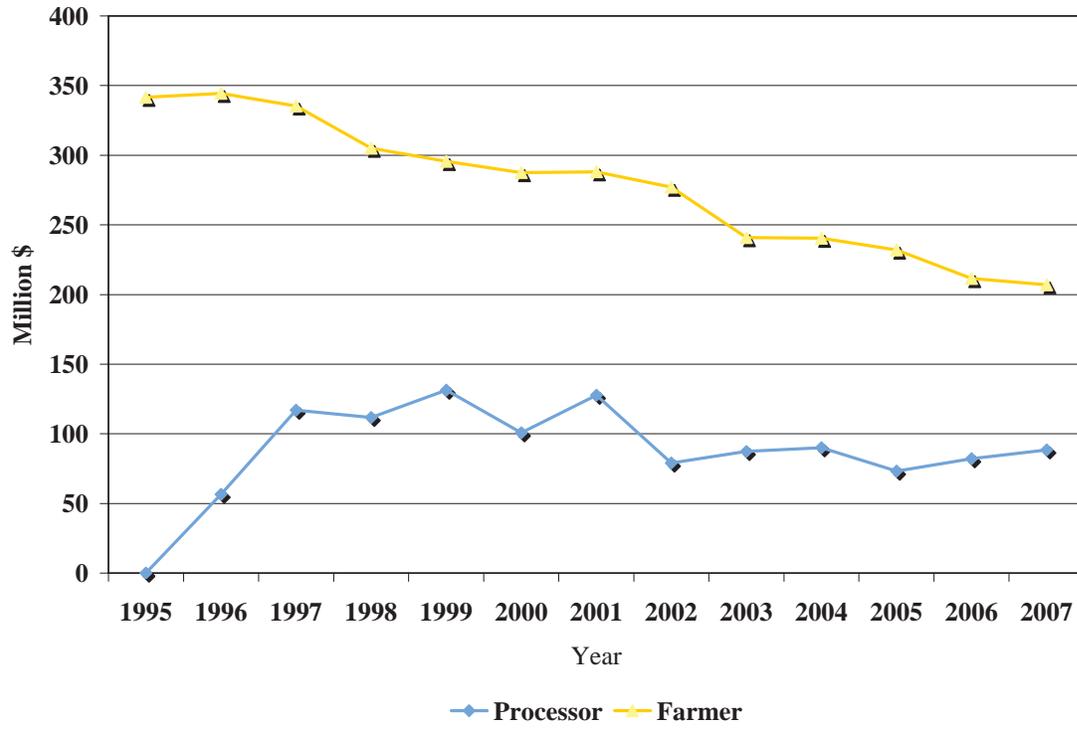


Table 3–2 provides selected elasticities for the all-dairy product demand models on a fat and non-fat solids basis. (The models are for milk-equivalent, calculated on a fat solids basis and non-fat solids basis. Not to be confused with models for nonfat solids and fat solids. See cautionary statement below.) All variables were statistically significant. The most important factor impacting per capita disappearance of all-dairy products was per capita income. The results indicate that a 1.0 percent increase in per capita income would result in a 0.540 percent and 0.662 percent increase in combined per capita all-dairy product demand on a non-fat and fat basis, respectively, holding all other variables constant. The average price elasticity for 1995 through 2007, using the CPI for all-dairy products, was -0.343 (non-fat basis) and -0.244 (fat basis); in other words, a 1.0 percent increase in the retail price of dairy products would result in a 0.343 (non-fat) and 0.244 (fat) percent decrease in per capita quantity demanded for all-dairy products holding all other variables constant.

The major interest here is the advertising and non-advertising marketing elasticities. The average advertising elasticity for this period on a non-fat and fat basis was 0.027 and 0.029, respectively; a 1.0 percent increase in media advertising expenditures would increase per capita all-dairy product demand by 0.027 (non-fat basis) and 0.29 (fat basis) percent. The average non-advertising marketing elasticity for this period was 0.016 (non-fat) and 0.29 (fat), respectively; a 1.0 percent increase in media advertising expenditures would increase per capita all-dairy product demand by 0.016 (non-fat) and 0.029 (fat) percent.

Table 3–2. Average Elasticity Values (1995–2007) for Factors Affecting Per Capita All-dairy Products Demand.

Demand Factor	Nonfat-solids basis elasticity	Fat basis elasticity
CPI for all-dairy products	–0.343*	–0.244*
Per capita income	0.540*	0.662*
Generic dairy advertising	0.027**	0.029**
Generic dairy non-advertising marketing	0.016*	0.029*

* Statistically significant at the 1.0 percent level or better.

** Statistically significant at the 10 percent level.

Benefit-Cost Analysis of the Dairy Program

One way to measure whether the benefits of a program outweigh the cost is to compute a benefit–cost ratio (BCR). A BCR can be computed as the change in net revenue⁵ due to generic dairy marketing divided by the cost of the checkoff program. While we were able to estimate a BCR for producers for the Dairy Program, we could not compute one at this time for fluid milk processors under the Fluid Milk Program because data on packaged fluid milk wholesale prices, which are necessary in calculating processor net revenue, are proprietary and, therefore, not available.

It should be pointed out that Dairy Management Inc., (DMI) has made a significant shift in their marketing programs in 2007. Previously, the bulk of DMI’s marketing expenditures were allocated to media advertising and to non-advertising marketing activities. In 2007, these traditional marketing activities represented 57 percent of DMI’s marketing budget. The remaining 43 percent was spent on their new business plan of strategic business development with dairy processors and manufacturers. In the analysis that follows, this part of DMI’s marketing budget is not included. DMI has stated that they do not expect any short-term benefits of these programs for 2007, but rather expect to see these benefits to accrue in the longer-term. Hence, the BCR that follows only includes the advertising and non-advertising marketing activities.

Cornell calculated BCRs⁶ by simulating two scenarios: (1) a baseline scenario in which combined marketing (advertising and non-advertising marketing) levels were equal to actual marketing expenditures under the two programs, and (2) a no-national-Dairy-Program scenario in which there was fluid milk-processor-sponsored marketing but dairy-farmer-sponsored

⁵ “Net revenue” is defined as the aggregate gain in total revenue from price and product disappearance enhancements due to generic dairy advertising and non-advertising marketing less the increase in supply costs for the additional milk marketed by dairy farmers. Economists refer to this notion of net revenue as “producer surplus.”

⁶ To measure market impacts, we estimated supply equations at the retail and farm levels to simulate supply response to any price increase due to a marketing-induced increase in demand. The results of these estimates are available from the authors upon request.

marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before and after the National Program was enacted. A comparison of these two scenarios provided a measure of the impact of the Dairy Program. The benefits of the Dairy Program were calculated as the change in dairy farmer net revenue (what economists call “producer surplus”) due to demand enhancement from all marketing activities under the Dairy Program (i.e., the difference in net revenue between scenarios 1 and 2). The demand enhancement reflects increases in quantity and price as a result of the marketing program. The costs of the Dairy Program were calculated as the difference in total assessment revenue before and after the National Program was enacted. These scenarios were run for the time period 1998 through 2007 for the two milk-equivalent models: milk-fat and non-fat.

The average all milk price from 1998 through 2007 in the base line scenario was \$14.49 per hundredweight. In the counter-factual no-national-Dairy-Program scenario for the nonfat-solids model, the average all milk price was \$14.17 per hundredweight, which is 32 cents lower. Thus, had there been no national Dairy Program over this period, the price farmers receive for their milk would have been 2.23 percent lower than it actually was. In the counter-factual no-national-Dairy-Program scenario for the milk-fat model, the average all milk price was \$13.91 per hundredweight, which is 58 cents lower. Thus, had there been no national Dairy Program over this period, the price farmers receive for their milk would have been 4.02 percent lower than it actually was.

The results show that the average BCR for the Dairy Program was 5.52 (non-fat solids basis) and 5.94 (milk-fat basis) from 1998 through 2007. This means that each dollar invested in generic dairy marketing by dairy farmers during the period would return between \$5.52 and \$5.94, on average, in net revenue to farmers. The level of the marketing BCR suggests that the combined marketing programs supported by dairy farmers have been a successful investment.⁷

In another interpretation of the BCR, the increase in real 2007 dollars generic dairy marketing expenditures resulting from the Dairy Program costs dairy producers an additional \$117 million per year on average from 1998 through 2007. The additional generic dairy marketing resulted in higher demand, prices, and net revenue for dairy producers nationwide. Based on the simulations conducted, Cornell estimates that the average annual increase in producer surplus (reflecting changes in both revenues and costs) due to the additional generic marketing under the Dairy Program was \$645.8 million on a non-fat basis and \$695 million on a fat basis. Dividing \$645.8 (or \$695) million by the additional Dairy Program cost of \$117 million results in the estimated benefit-cost ratios of 5.52 (non-fat basis) and 5.94 (fat basis).

To make allowance for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR, providing a lower and upper bound for the average BCR. One can be 90 percent “confident” that the true average BCR lies within those bounds. The estimated lower bound for the average BCR in the non-fat and fat model is 1.12 and 1.41, respectively. Since both lower bounds are above 1.0, it is reasonable to conclude that these

⁷ To see how the BCR has varied over time, the models were simulated for an earlier time period (1998–99) and the latest time period (2006–07). The results indicate that the estimated BCR for the earlier and later time periods were almost identical.

confidence intervals give credence to the finding that the benefits of the Dairy Program's marketing activities have been greater than the cost of the programs.

Questions often arise with respect to the accuracy of these BCR estimates. BCRs for commodity promotion programs are generally found to be large because marketing expenditures in relation to product value are small and, as such, only a small demand effect is needed to generate large positive returns. For example, the change in generic dairy marketing expenditures noted previously is a mere 0.48 percent of the recent average annual value of farm milk marketings from 1998 through 2007 (\$24.63 billion). The marketing activities resulted in modest gains in the quantity of dairy products and a positive effect on milk prices, resulting in large positive net revenue from the marketing investment.

Table 3–3. Description of Variables Used in Econometric Models.^a

Variable	Description	Units	Mean ^b
<i>Consumption Variables</i>			
RFDPC	Quarterly retail fluid demand per capita	lbs.	48.44 (2.32)
RDDPCNF	Quarterly retail all-dairy product demand per capita on a non-fat basis	lbs.	138.66 (3.30)
RDDPCF	Quarterly retail all-dairy product demand per capita on a fat basis	lbs.	146.14 (6.23)
<i>Price Indices</i>			
RFPCPI	Consumer retail price index for fresh milk and cream deflated by consumer price index for nonalcoholic beverages (1982–84=1)	#	1.17 (0.10)
RDPCPI	Consumer retail price index for all-dairy products deflated by consumer retail price index for all items (1982–84=1)	#	0.93 (0.03)
RBEVCPI	Consumer retail price index for non-alcoholic beverages (1982–84=100)	#	138.65 (6.74)
<i>Demographic and Income Variables</i>			
INCPC	Quarterly per capita disposable income, deflated by the consumer retail price index for all items (2007=1)	\$	30,980 (1,860)
AGE5	Percent of the population under age 6	%	8.32 (0.25)
FAFH%	Food away from home expenditures as percent of total food expenditures	%	50.41 (2.09)
<i>Marketing Expenditures</i>			
GMA	Quarterly generic fluid milk advertising expenditures deflated by media cost index (2007 \$)	\$mil	35.28 (14.93)
GMN	Quarterly generic fluid milk non-advertising marketing expenditures deflated by consumer price index (2007 \$)	\$mil	16.07 (7.55)
GDA	Quarterly generic milk and dairy advertising expenditures, deflated by media cost index (2007 \$)	\$mil	61.89 (19.37)
GDN	Quarterly generic milk and dairy non-advertising marketing expenditures, deflated by media cost index (2007 \$)	\$mil	30.95 (13.70)
CBA	Quarterly soy beverage + juice + bottled-water advertising expenditures deflated by media cost index (2007 \$)	\$mil	166.71 (52.31)

^a Quarterly dummy variables are also included in the model to account for seasonality in demand.

^b Computed over the period 1995–2007. Standard deviation in parentheses.

Chapter 4

Part I – Fluid Milk Market and Promotion Assessment: Beverage Marketing Corporation

Introduction

In this report, Beverage Marketing Corp. (BMC) reviews the 2007 research and marketing programs for fluid milk, for inclusion in the USDA's Report to Congress. These programs are authorized by the Dairy Production and Stabilization Act of 1983 (Dairy Act; 7 U.S.C. 4501) and the Fluid Milk Promotion Act of 1990 (Fluid Milk Act; 7 U.S.C. 6401). The programs are intended to increase the appeal of milk and develop incremental consumption opportunities, and thus increase the overall sales of fluid milk and related dairy products.

BMC's review offers an objective evaluation of the effectiveness of the research and marketing programs implemented to drive fluid milk sales, and provides a third-party perspective on the competitive position of fluid milk in the broader U.S. beverage marketplace. Specifically, in this report BMC evaluates milk's position relative to a growing competitive beverage set that now includes soy beverages, value-added bottled waters, energy drinks and ready-to-drink (RTD) coffee (in addition to carbonated soft drinks [CSDs], RTD teas, fruit beverages, bottled water and sports beverages), which are targeted to capturing the growing desire for health and wellness offerings in beverages. In addition, in the report BMC examines both the overall milk industry's performance as well as the apparent impact of targeted advertising, promotion and specific messaging on milk's consumer and channel targets. The following summarizes BMC's findings based on the analysis of available data.

Key Highlights And Trends For 2007

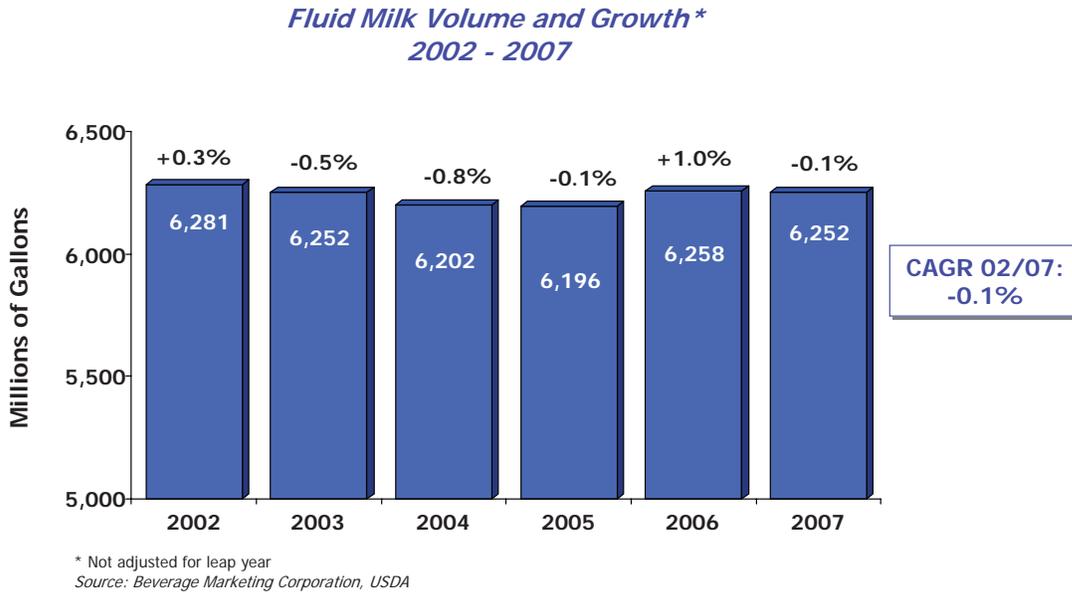
Fluid Milk Category Performance

BMC believes the producer and processor generic milk programs continued to effectively and efficiently use the available resources in 2007 to drive the relevance, consumer appeal and consumption of fluid milk. The generic milk programs achieved this by focusing on high-opportunity consumer and channel targets, communicating meaningful messages about milk to these targets, and supporting these strategies with effective research, advertising, promotion, public relations and grassroots activities.

A key marketplace factor for fluid milk in 2007 was the high level of milk pricing, which created consumer price increases of approximately 13 percent from 2006 to 2007. In some regions, the increase was even higher. Prices reached an historical high in the last half of 2007. In addition, consumers had a broader variety of healthier beverages to choose from than ever before, with more offerings such as enhanced waters and RTD teas, soy beverages, and enhanced fruit beverages targeted toward nutrition and wellness.⁸ Yet, the fluid milk category

⁸ Healthy beverages include milk, bottled water, fruit beverages, teas, sports drinks, and soy beverages, among others.

Figure 4–1



avoided significant volume declines in 2007, and achieved flat volume performance vs. 2006, at 6,252 million gallons, a -0.1 percent change from the prior year (see Figure 4–1).

In the past few years, the competitive environment for healthier beverages has grown dramatically across a wide variety of chilled and shelf-stable categories, creating more robust competition for milk usage occasions. Thus, it is an indicator of the positive effect of the milk marketing programs that from 2005-2007, fluid milk volume grew slightly at a +0.45 percent 2-year compound annual growth rate (CAGR).

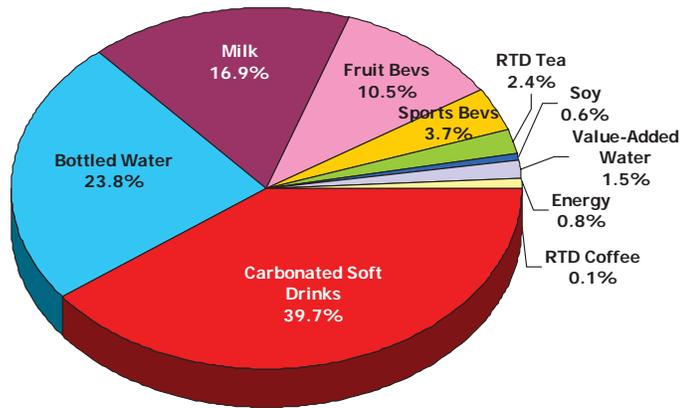
Over the last 5 years, fluid milk volume has essentially been stable, fluctuating within a narrow band of volume between 6.2 and 6.3 billion gallons. Milk’s 5-year CAGR from 2002 to 2007 was essentially flat, at -0.1 percent.

Fluid Milk Competitive Position and Performance

As noted in the Introduction, the competitive set for milk in the 2007 analysis has been expanded to include additional competitively relevant beverage offerings (e.g., enhanced waters, soy beverages, energy drinks, RTD coffees). In terms of overall volume, milk maintained its position as the third largest beverage category, following bottled water by about 7 share points (see Figure 4–2). In 2007, the beverage categories outside the top 3, approached the 20 percent volume share mark (at 19.6 percent share), indicating the strong, continued growth in demand for perceived healthier beverage offerings by consumers.

Figure 4–2

*Milk's Competitive Set Volume Shares
2007*



Source: Beverage Marketing Corporation

Within the broader competitive set, milk was the sixth largest contributor to volume growth from 2005 through 2007 (see Figure 4–3).

As a whole, the total volume of the combined competitive set categories increased by 1 percent in 2007, or 1.4 million gallons, to 37 billion gallons in 2007. From 2002 to 2007, the competitive set grew by a 2.3 percent 5-year CAGR,⁹ a moderate compound 5-year growth rate (see Figure 4–4).

Figure 4–3

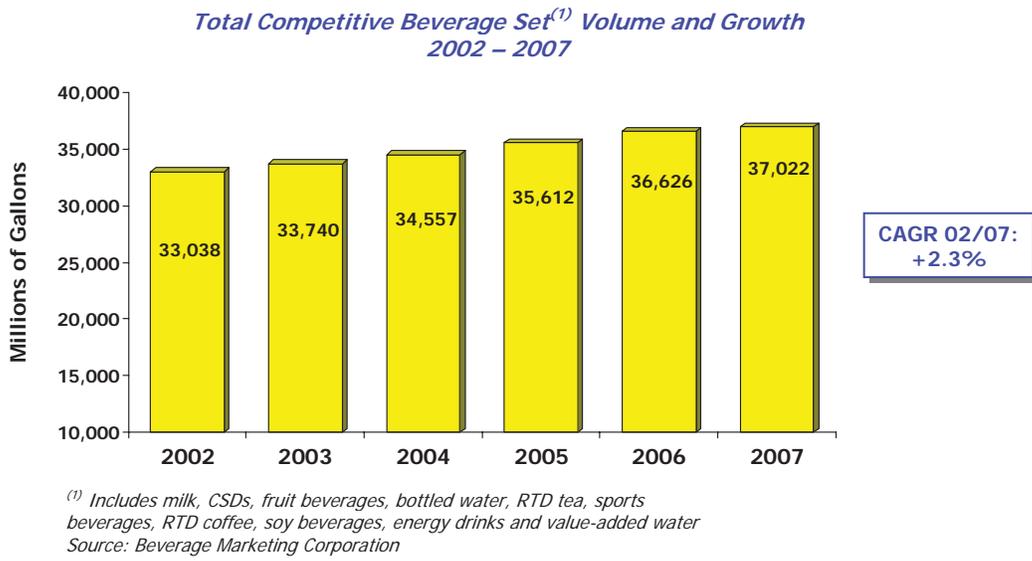
*Milk Competitive Set
Share of Volume Growth – Millions of Gallons
2005 - 2007*

	2005 Volume	2007 Volume	2005 – 2007 Vol. Change	2005 – 2007 Share of Growth
Carbonated Soft Drinks	15,272	14,707	-565	-40%
Bottled Water	7,537	8,822	+1,285	+91%
Milk	6,196	6,252	+56	+4%
Fruit Beverages	4,119	3,900	-219	-16%
Sports Beverages	1,191	1,355	+164	+12%
RTD Tea	603	875	+272	+19%
Value-Added Waters	307	547	+240	+17%
Soy Beverages	186	217	+31	+2%
Energy Drinks	161	303	+142	+10%
RTD Coffee	40	45	+5	+1%
Total Competitive Set	35,612	37,022	+1,410	100%

Source: Beverage Marketing Corp.

⁹ CAGR stands for compound annual growth rate. It's a growth rate measurement using the first and last values over the period. It is the geometric mean growth rate that generates the end value starting from the beginning value. As such, it smoothes out deviations from the trend.

Figure 4-4



Without milk, the performance of the competitive set would have been slightly better – increasing at a 5-year CAGR of 2.8 percent from 2002 to 2007. Excluding the primary growth category, bottled water, the competitive set grew by a 5-year CAGR of just 0.7 percent (see Figure 4-5).

To better understand the performance of milk against its key competitor categories over time, Beverage Marketing has indexed milk’s share of volume growth vs. its share of the overall competitive set (specifically, the index calculates milk’s share of total competitive volume change, divided by milk’s volume share of the total competitive set at the onset of the year).

Figure 4-5

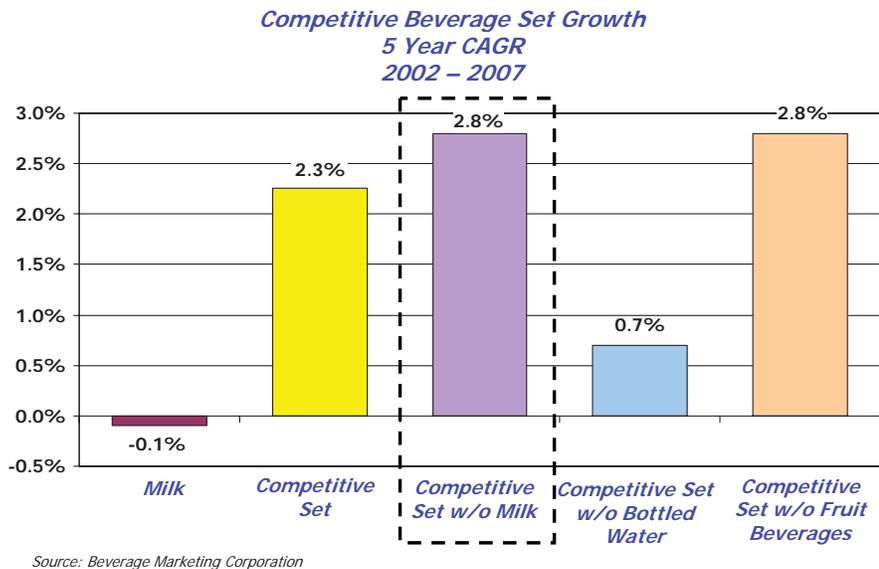
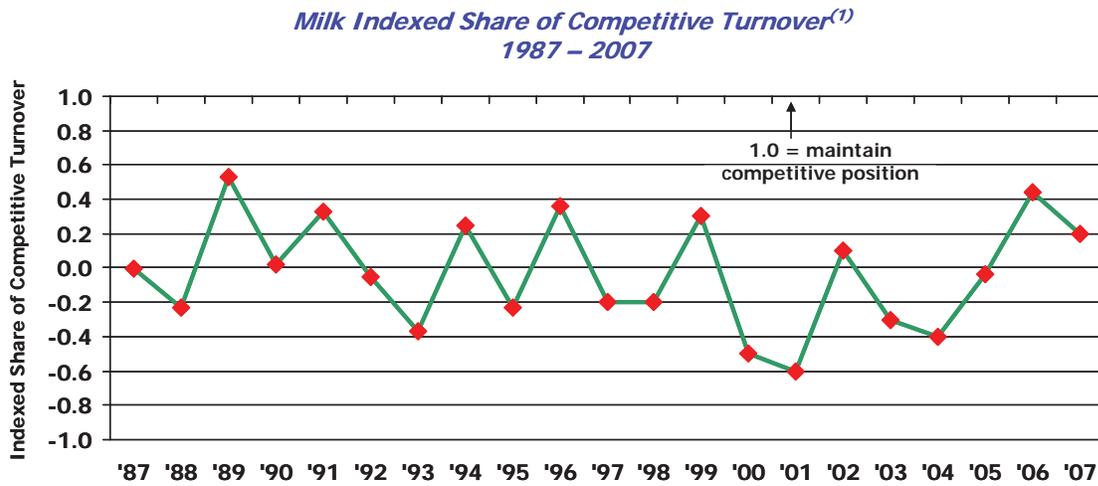


Figure 4-6

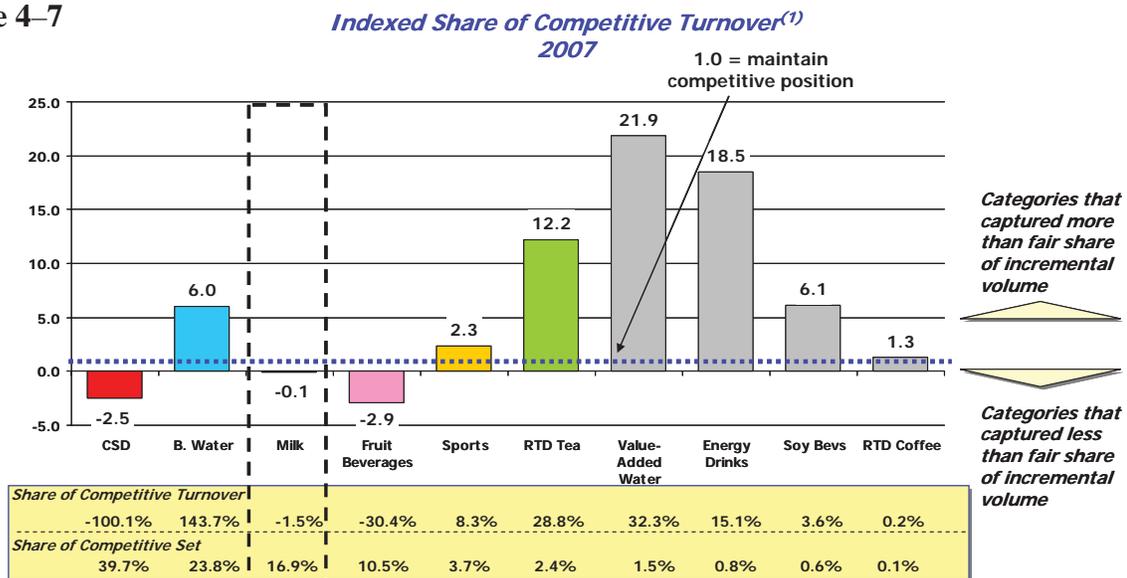


⁽¹⁾ Share of competitive turnover divided by share of competitive set
Source: Beverage Marketing Corporation

This index shows whether milk has gained or lost competitive ground year-to-year. An index greater than 1 indicates milk is gaining competitive volume share, thus outperforming the competitive set; an index less than 1 shows that milk is losing volume share to competitors. As seen in Figure 4-6, milk has consistently lost competitive share over the past 20 years.

As shown in Figure 4-7 below, the major competitive volume gains in 2007 were realized by the value-added water and energy drink categories, followed by RTD teas. Each of these categories offered an array of beverages positioned to address both general and specific health and wellness benefit areas. Value-added waters, in particular, were able to successfully position themselves within the “healthy” beverage arena by adding specific ingredients/flavors/functionalities to the plain bottled water platform, which had already achieved broad consumer appeal and acceptance as a healthy beverage alternative.

Figure 4-7



⁽¹⁾ Share of competitive turnover divided by share of competitive set
Source: Beverage Marketing Corporation

Analysis Of Key Beverage Category Growth Drivers

In this section, Beverage Marketing analyzes and discusses specific marketplace factors that affect the overall performance of the fluid milk category, particularly within the context of the competitive and market landscape. These factors are:

- Category and Consumer Positioning
- Branding and Media Spending
- Retail Channel Distribution
- Consumer Pricing
- New Product Activity

Historically, the milk category has been disadvantaged relative to the other competitive categories across most of these areas. However, the milk category has begun to make progress in many of them, by strategically focusing its resources against key growth opportunity areas.

Category and Consumer Positioning

In recent years, the growth in beverages positioned to address “wellness and functional” need-states/benefit areas has outpaced the growth in all other types of beverages (e.g., those addressing basic refreshment, hydration, mood enhancement, etc.), and is having a significant influence on the marketplace. From 2006-07, wholesale sales of wellness and functional beverages more than doubled the growth rate of “all other” beverages (see Figure 4–8). Indeed, when redefining the beverage landscape by need-state/benefit area, the “wellness/nutrition” category is the largest competitive space among beverages.

This consumer demand dynamic presents an opportunity for fluid milk to capture a portion of this sizeable and growing beverage market, with the evolution to its Healthy Weight messaging/category positioning. In 2007, the shift from the Weight Loss to the Healthy Weight messaging in the second quarter appeared to have a slight effect on overall awareness of the linkage of milk consumption to weight loss, with recall of the Weight Loss/Healthy Weight message and milk consumption link among moms going from 77 percent awareness in Q1 2007 to 75 percent in Q2-Q3 2007, and to 66 percent in Q4 2007 (source: DDW/Lowe). In terms of believability of the milk consumption and Weight Loss/Healthy Weight claims in 2007, the level

Figure 4–8
Wellness & Functional Beverage Market vs. Total Liquid Refreshment Beverages
Volume, Share and Growth 2001 – 2007

Categories	Millions of Wholesale Dollars			Share		Change	CAGR
	2001	2006	2007	2001	2007	06/07	01/07
Wellness & Functional	\$45,728	\$57,854	\$61,105	29.4%	32.2%	5.6%	4.9%
All Other	\$109,949	\$126,216	\$128,855	70.6%	67.8%	2.1%	2.7%
Total	\$155,677	\$184,070	\$189,960	100.0%	100.0%	3.2%	3.4%

* Wellness and functional categories include milk, bottled water, fruit juice, RTD tea, soy milk, meal replacement drinks, flavored water, protein drinks, sports beverages, energy drinks and nutrient-enhanced drinks.
 Source: Beverage Marketing Corporation

of believability among adult women increased from 45 percent in Q1 2007 to 54 percent in Q4 2007. For moms, the level of believability of the claims dipped slightly, from 50 percent in Q1 2007 to 45 percent in Q4 2007.

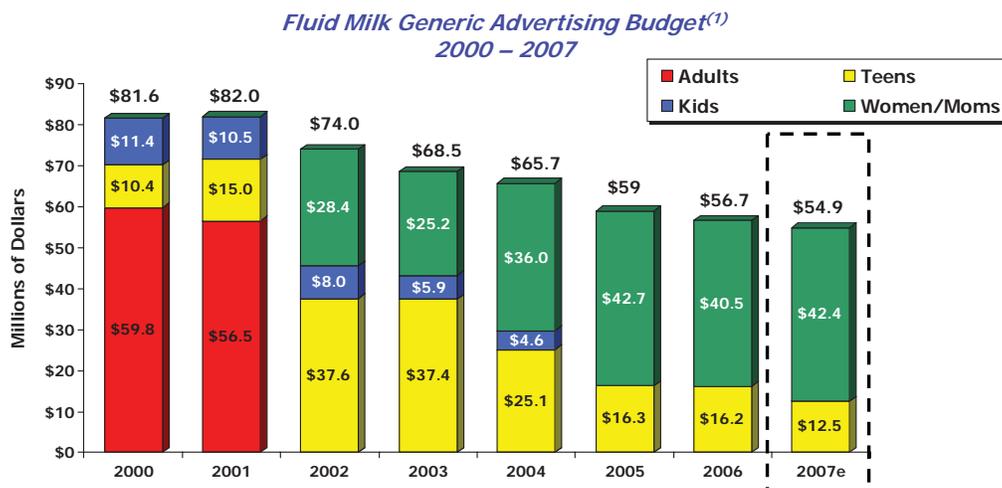
Branding and Media Spending

While target consumer awareness of the generic milk advertising messaging and programs is high, the category continues to spend less on media, as compared to other key categories, placing it at a competitive disadvantage. One of the more significant differences between milk and its competitive set is the dominance of private label milk in the category, and the lack of major national brands to compete with significant brands in competitive categories.

In 2007, private label milk comprised 69 percent volume and branded milk 31 percent volume, compared with very high branded volume levels in categories such as sports beverages (99 percent branded volume), energy drinks (98 percent branded volume), RTD tea (93 percent branded volume), and carbonated soft drinks (89 percent branded volume). BMC believes this disparity places milk at a definite disadvantage with regard to the rest of the competitive set because of the challenges inherent in marketing a category versus brands. Additionally, many private label products, across most categories, are generally sold in less-premium, undifferentiated packages and with little or no marketing support. Thus, the high share of private label milk reinforces milk's commodity image, making competitive premium-image branded products more attractive to consumers.

In 2007, a year which saw significant retail price increases on fluid milk, the fluid milk generic advertising budget decreased 3.2 percent from \$56.7 million in 2006 to \$54.9 million. Within this 2007 budget, advertising dollars allocated to the key consumer target, moms, increased by 4.7 percent from \$40.5 million in 2006 to \$42.4 million in 2007, while advertising budget for teens dropped by nearly 23 percent in 2007 (Figure 4-9).

Figure 4-9



⁽¹⁾ These figures represent only national advertising spending and not State/Regional spending
e=estimated; based on MilkPEP actual plus DMI estimated; DMI total media advertising spending allocated to Women/Moms

Source: Beverage Marketing Corporation; Lowe

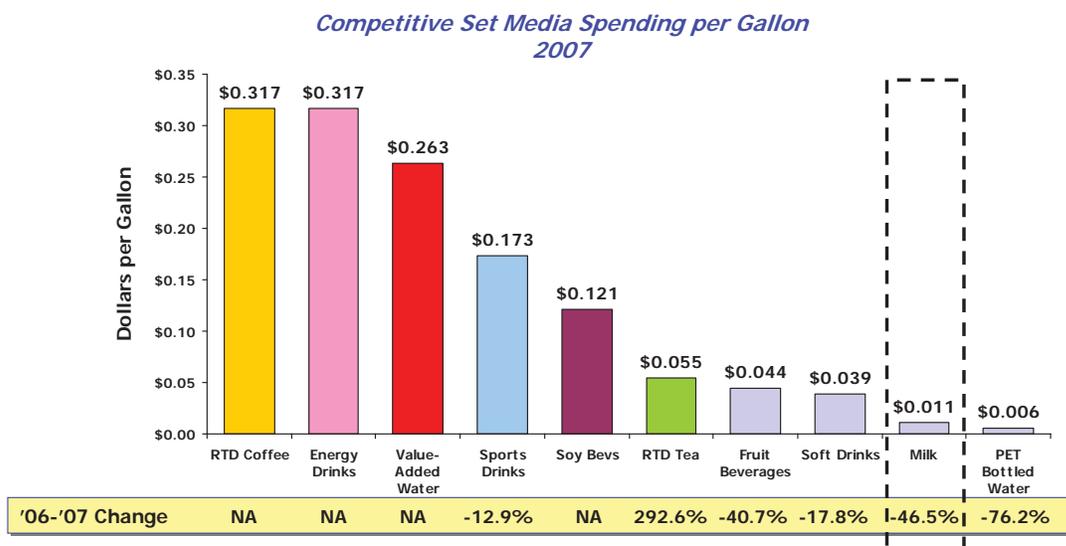
In addition, total estimated media spending for fluid milk in 2007 (i.e., national/regional spending and brand-specific spending) of \$70.5 million, constitutes a 24.5 percent drop in spending from 2006, and generated a per-gallon spending rate of 1.1 cents per gallon – the second-lowest media spending rate among milk’s competitive beverage set. As the industry has diverted marketing dollars to public relations programs, school programs and other promotions, media spending has declined. (Figure 4–10).

Within the competitive set, media spending growth was realized for only a handful of categories in 2007: energy drinks (57 percent), RTD teas (53 percent), value-added waters (40 percent), and fruit drinks (20 percent). Overall media spending for the total competitive beverage set decreased by 11.7 percent in 2007, driven mostly by a decline in carbonated soft drinks (per-gallon spending down nearly 18 percent). In comparison to other categories in the competitive set, bottled water’s success has been primarily driven by pervasive distribution, convenient packaging, aggressive pricing and local promotions/marketing, without major, national advertising expenditures.

As a result of the declines in fluid milk media spending in 2007, milk’s share of voice dropped to 6.6 percent among its competitive set from 8.7 percent in 2006, creating a share of voice vs. market share index of 39, vs. an index of 53 only 5 years ago. Milk’s low share of voice, declining over a number of years, is likely to have a current and cumulative negative impact on milk consumption, despite the category’s highly relevant and differentiated messaging.

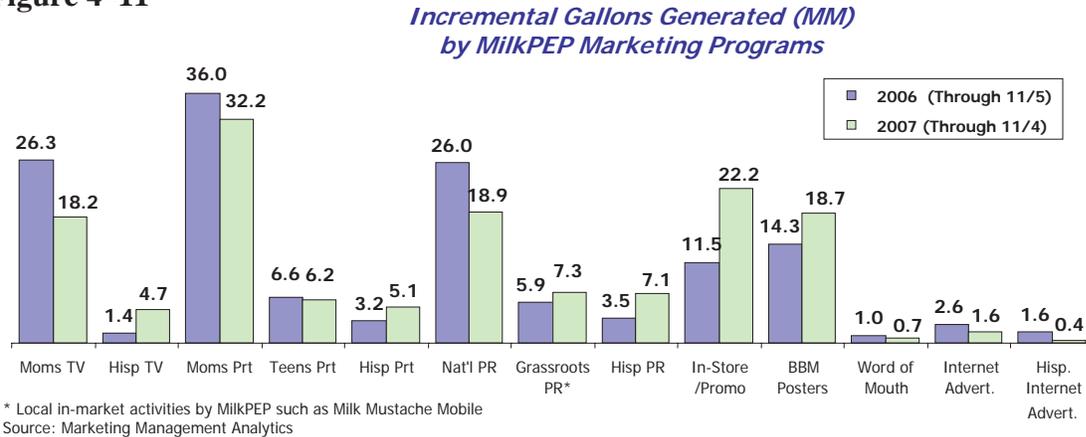
It should be noted that the tracking of media spending does not signify the effectiveness of the advertising, nor does it measure the impact of millions of dollars spent on promotions and other non-media programs. While promotional spending cannot be tracked across competitive

Figure 4–10



Source: Beverage Marketing Corp.; Lowe; Ad Views

Figure 4–11



categories, MilkPEP promotions targeted to mom and Hispanics as measured by Marketing Management Analytics (MMA), have shown a highly positive impact (see Figure 4–11).

According to MMA, each of MilkPEP’s programs has had some positive incremental volume benefit, and some had a growth impact, comparing 2007 versus 2006.¹⁰ Even with this positive impact, it is BMC’s belief based on its decades of industry knowledge and experience that the milk category continues to be outspent in promotions by some of the major competitive categories, such as carbonated soft drinks, sports beverages, bottled water and perhaps even energy drinks.

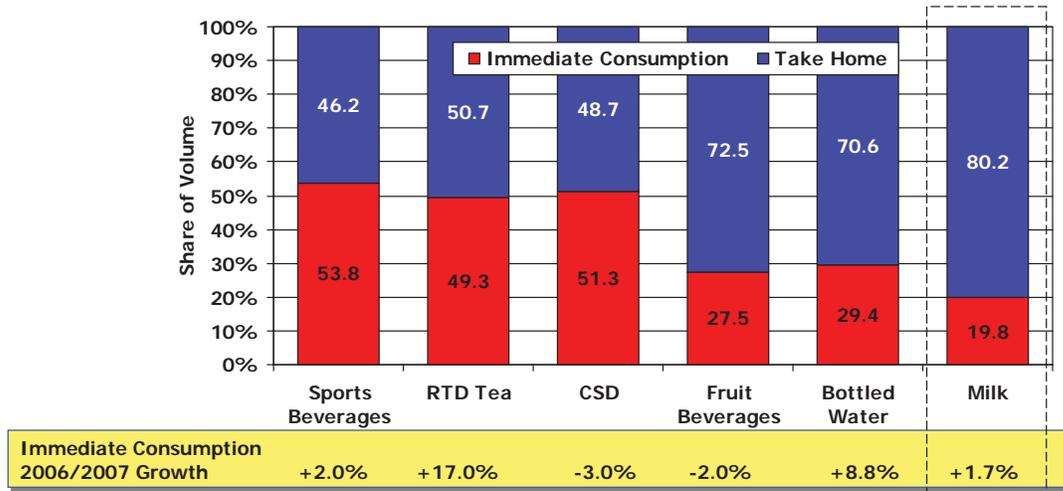
Retail Channel Distribution

The availability of fluid milk across the continually expanding and fragmenting retail channels has historically been an area of competitive disadvantage for the category. In 2007, the estimated volume of milk sold in retail channels primarily serving at-home consumption was 80.2 percent, and the estimated volume of milk sold in channels primarily serving on-the-go, immediate consumption was 19.8 percent, showing very little growth in the ratio of immediate vs. take home volume from 2006. This take-home vs. immediate consumption retail channel sales balance is in sharp contrast to competitive categories such as CSDs, sports beverages, energy drinks and enhanced waters, and is likely driven by a combination of more limited single-serve packaging, flavor variety and distribution reach in immediate consumption retail channels, when compared to competitive categories, as well as inherent product drawbacks like being more viscous and thus less refreshing and gulpable (see Figure 4–12).

However, the milk category is continuing to achieve more diversified availability in non-traditional take-home channels such as club stores and dollar stores, with an estimated 16.4 percent volume coming from Drug, Mass and Club retail channels in 2007, up from

¹⁰ Source: 2007 MilkPEP Marketing Mix Analysis, conducted by MMA, which builds regression based econometric models using actual sales, marketing and non-marketing factors to decompose the volume impact of various in-market stimuli, while controlling for outside variables

Figure 4–12



Source: Beverage Marketing Corp.; Information Resources, Inc.

10 percent total volume in 2002 (see Figure 4–13). This distribution channel shift is important to fluid milk’s overall growth and market presence, as consumers continue to fragment their shopping trips across a wider variety of outlets, and non-traditional grocery outlets continue to proliferate.

Consumer Pricing

As mentioned earlier in this report, the average retail price for milk in 2007 increased by approximately 15 percent, from \$2.42/gallon in 2006 to \$2.78/gallon in 2007 (source: IRI). Based on the Consumer Price Index for 2007, the milk category experienced an 11.6 percent

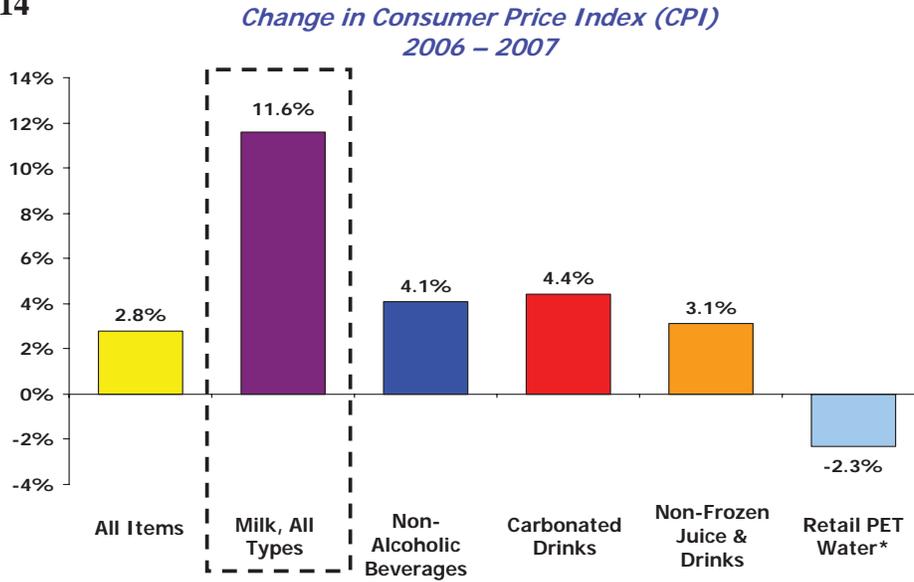
Figure 4–13

*U.S. Fluid Milk Market
Share of Volume by Distribution Channel
2002 - 2007*

Distribution Channels	2002	2003	2004	2005	2006	2007e	CAGR 02/07
Supermarkets	74.6%	73.7%	70.9%	68.3%	67.2%	66.5%	-2.3%
Drug Stores	1.3%	1.4%	1.6%	1.8%	2.2%	2.3%	11.2%
Mass Merchandisers	5.2%	6.8%	7.7%	8.6%	8.8%	9.0%	11.6%
Club Stores	3.5%	2.9%	4.0%	4.8%	5.0%	5.1%	7.9%
Down-the-Street	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	0.0%
Foodservice	3.2%	3.1%	3.2%	3.3%	3.3%	3.4%	1.1%
Convenience/Gas	3.3%	3.0%	3.3%	3.5%	3.5%	3.5%	1.4%
Others	6.5%	6.6%	6.8%	7.0%	7.3%	7.4%	2.5%
Vending	1.1%	1.1%	1.3%	1.4%	1.5%	1.5%	6.4%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

e = Estimated
Source: Beverage Marketing Corporation

Figure 4–14



increase in pricing, well beyond that of total non-alcohol beverages (which increased 4.1 percent, and higher than both carbonated soft drinks (4.4 percent) and retail PET water (–2.3 percent) (see Figure 4–14).

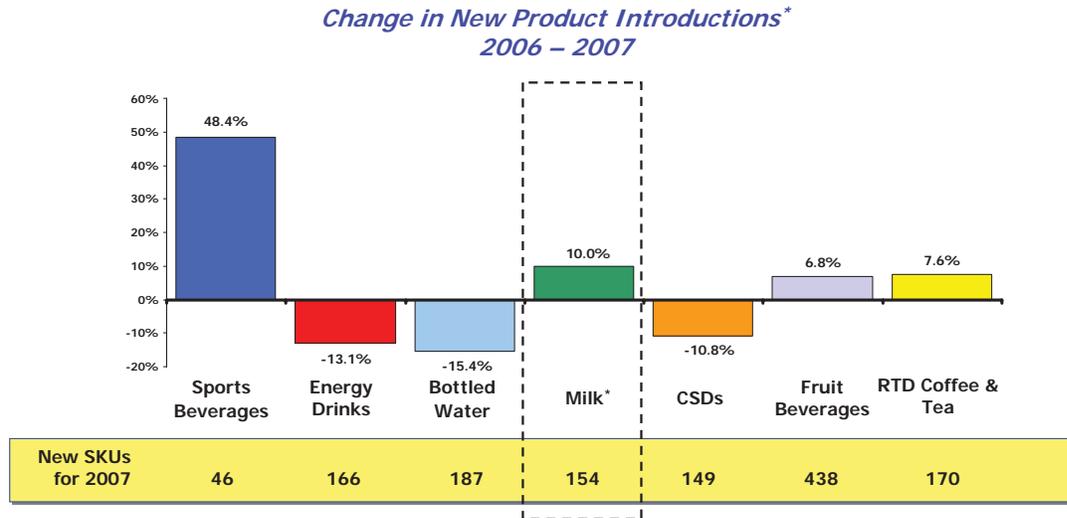
In an economic climate where retail pricing was an important factor, the percentage of milk volume sold on price promotion in 2007 remained stable, at 16.7 percent, a rate among the highest within the competitive set except for refrigerated juice (17.9 percent volume sold on feature price). Other key categories with relatively high rates of volume sold on feature were mature, large-scale categories such as sports beverages (16.1 percent) and carbonated soft drinks (12.1 percent). In 2007, price promotion continued to be one of several key drivers of volume for milk and its core competitors.

New Product Activity

Along with the increased focus on healthier “wellness” beverages in 2007, the beverage market saw a significant amount of new product introductions. New product growth in 2007 occurred primarily with sports drinks (+48 percent), RTD tea and coffee (+8 percent), and fruit beverages (+7 percent). Some of these new products positioned themselves against a key ingredient or combination of ingredients such as antioxidants and protein, and against benefit areas such as rejuvenation, energy, satiety, and weight management.

The number of new product/package introductions (also known as stock keeping units or SKUs) for white fluid milk in 2007 is estimated to have reached 86 new entries, a significant 59 percent increase over 2006 activity. For flavored milk, the number of new product/package SKU introductions is estimated at 68 new entries, a decrease of 21 percent vs. 2006 (source: Mintel Global New Products Database). The new product activity for white and flavored milk combined in 2007 increased by 10 percent. A few mature competitive categories saw declines in

Figure 4–15



* Includes SKU's for White and Flavored Milk
Source: Beverage Marketing Corporation; Mintel

new product activity in 2007, with carbonated soft drinks introductions dropping by 11 percent, and bottled water introductions declining by 15 percent (see Figure 4–15)

Going forward, to remain well-positioned within the competitive environment, the milk category will need to continue to innovate, in both products (e.g., flavors, ingredients, functions) and packaging (e.g., sizes, designs, formats, new technologies). Many competitive new products are geared to the specific needs, ingredients, functional benefits, package sizes/shapes of highly specific consumer targets and usage occasions. The net result is that consumers have more choices than ever outside of milk, and the milk category will need to provide innovation to capture some of the growth in “healthier” beverage alternatives.

Beverage Marketing’s Assessment Of 2007 Milk Marketing Programs

In 2007, the fluid milk category performed surprisingly well, given the increasingly tough market and competitive environment. Specifically, milk maintained a steady volume level, sustaining the increases achieved in 2006 despite the high price increases that occurred for consumers (particularly toward the latter half of the year). This volume performance may indicate the strength of milk’s benefit positioning and relevance in the marketplace.

In addition, the competitive landscape again in 2007 became more challenging for fluid milk, with a growing number of entries into the “healthier” beverage arena striving to capture some of the nutrition and “wellness” usage occasions. In particular, milk’s new product activity, relevant messaging and promotional/communications strategies, and expanding availability for out-of-home occasions all helped to sustain milk’s current volumes. Because of milk’s superior health characteristics, the emphasis on health may enhance milk’s competitive stature in the market.

Beverage Marketing believes that the marketing campaigns developed under the Dairy Act and the Fluid Milk Act have played a key role in maintaining the category's growth, and volume declines would have been more significant without the major programs and initiatives implemented in 2007. Moreover, Beverage Marketing believes the key initiatives implemented by MilkPEP and DMI for the milk category are successfully targeting and addressing the strategic growth opportunity areas evident in the marketplace:

- On-trend messaging continued in 2007 with the Healthy Weight message
- Effective use of both traditional and non-traditional media, to reach key consumer targets in a cost-efficient approach
- Identifying Quick Service Restaurants (QSRs) as a key strategic retail channel to capture out-of-home usage occasions
- Both the New Look of School Milk program from DMI and Capturing the School Milk Opportunity program from MilkPEP are reaching Teens/Kids by positioning milk as a relevant, appealing beverage choice in schools
- Promotion programs are geared to moms making purchase decisions for the family as the nutrition gatekeeper
- Hispanics are being targeted in a culturally relevant way with communications on the core benefits of milk consumption

Beverage Marketing believes the positioning strategy for the milk category was an important driver of sustained consumer demand in 2007, with the evolution from the Weight Loss to Healthy Weight messaging fitting with consumers' shifting consumption habits toward healthier, more natural beverages. The Healthy Weight messaging and related Body by Milk program/messaging for teens enabled milk to compete more effectively as a viable beverage alternative within an expanding competitive set of beverages aimed at health and wellness needs/occasions. As a result, Beverage Marketing believes milk is increasingly seen as a key component in the wellness and nutrition offerings in a wide variety of occasions and venues.

In 2007, overall MilkPEP spending generated an estimated 3.2 percent share of total milk volume, or approximately 140 million gallons (source: Marketing Management Analytics). This is a solid performance, given the steep milk price increases experienced by the category, as well as the growing competitive set in 2007. Overall, the MMA analysis conducted for MilkPEP in 2007 continues to show that the advertising and promotional campaigns of MilkPEP are effective in generating incremental milk volume.

The communications strategy utilized by MilkPEP for the milk category also continued to evolve into meaningful new media for key consumer targets, resulting in improved media spending efficiencies and strong messaging impact in 2007. In 2007, the spending allocations were strategically allocated by consumer target, with moms as the core consumer target. The "Think about Your Drink" platform for moms and their families focused on public relations and specific website communications about increasing milk consumption.

In 2007, teen print advertising continued to feature the Milk Mustache celebrity campaign, which has built very strong equity among teens over the years. In addition, spending on the teen target

in 2007 utilized the Internet (Web sites, social networking, etc.), as well as traditional print. In addition, school communications utilized banners and expanded beyond cafeterias into gymnasiums, and also reached into elementary schools with age-appropriate messaging.

The Body by Milk campaign to reach, educate and reward teens (originally launched in 2006) was continued in 2007 with a strong array of available in-school and interactive, online materials to help communicate the nutritional value of milk in a compelling, relevant format. In schools which ran the Body by Milk “Music to Move You” poster program, weekly milk servings per student in secondary schools increased an estimated 4.5 percent the fall 2007 (source: PCI tracking report).

This Body by Milk program was one component of an overall school channel outreach effort by MilkPEP in 2007, incorporating the School Nutrition Association, dairy processors, school trade publication advertising and trade show attendance, and in-school materials, to educate school nutrition professionals about increasing milk consumption in schools. In addition, MilkPEP worked to increase milk consumption in schools through the Capturing the School Milk Opportunity program, which shows schools and processors how to improve school milk sales.

Beyond the teen demographic, the Milk Mustache campaign continued to be utilized to deliver the Healthy Weight message to moms. This iconic and highly-recognizable campaign has helped milk to cut through the clutter to reach both moms and teens in a marketplace in which milk has been heavily outspent by competitive categories.

For the QSR initiative, DMI continued partnering with chains to establish single-serve milk as a viable beverage choice for kids in immediate consumption outlets. In late spring 2007, DMI succeeded in partnering with the Subway chain of 22,000 outlets to offer 12-ounce plastic bottles of lowfat white and chocolate milk. This initiative continued to expand milk’s visibility and relevance as a contemporary beverage alternative in on-the-go, impulse venues such as QSRs, reaching an estimated 60,000 outlets in 2007.

The New Look of School Milk program, begun in 2002, continues to focus on enhancing the visibility and merchandising of plastic bottled single-serve milk in schools. In 2007, DMI worked with large foodservice management companies to promote and implement the core strategies of New Look of School Milk, and also continued to convert school districts to the program. As a result, New Look of School Milk has generated an estimated 200.6 million pounds of incremental milk volume in schools from 2002 through 2007, reaching 9,200 schools and an estimated 5.5 million students.¹¹ In addition, DMI continues to develop and implement the Expanding Breakfast Program, with the goal of promoting breakfast consumption, including milk, as part of the overall child nutrition program.

As part of the strategic emphasis of driving school milk consumption, both MilkPEP and DMI are assisting processors in a variety of ways with flavored milk reformulations, to address the

¹¹ National Dairy Council and School Nutrition Association. School Milk Pilot Test. Beverage Marketing Corporation, 2002. School Market Access database - National Dairy Council, 2007.

needs of school “wellness” policies. These programs involved efforts such as identifying flavored milk products that meet nutrition, wellness and taste requirements, conducting flavored milk testing with kids, and developing and making flavored milk formulations available to processors.

Finally, the MilkPEP efforts targeting Hispanics across TV/print advertising and public relations, increased in effectiveness and spending efficiency in 2007, with noteworthy increases in incremental volume generated with Hispanic moms (source: Marketing Management Analytics).

Overall, Beverage Marketing’s assessment of the performance and impact of the milk marketing programs in 2007 is positive. We believe the efforts to support ongoing improvements in all retail channel availability, product/package innovation, and utilization of consumer relevant messaging and media utilization are critical to the short and long-term growth and competitive viability of the fluid milk category.

Part II – National Fluid Milk Processor Promotion Program: Highlights by the National Fluid Milk Processor Promotion Board

In addition to the independent econometric analysis of dairy industry performance in Chapter 3 and the overall assessment of the impact of dairy promotion in 2007 submitted by Beverage Marketing Corp. in Part I of Chapter 4, the purpose of this analysis is to demonstrate the beneficial effect of the National Fluid Milk Processor Promotion Program (MilkPEP) by providing specific examples of the program's success. Though it is encouraging that the marketing/communication community continues to laud the national Milk Mustache/"got milk?" campaign as among the most notable and successful communication efforts in history, it is important to know that the program is responsible for real and measurable improvement in the milk market.

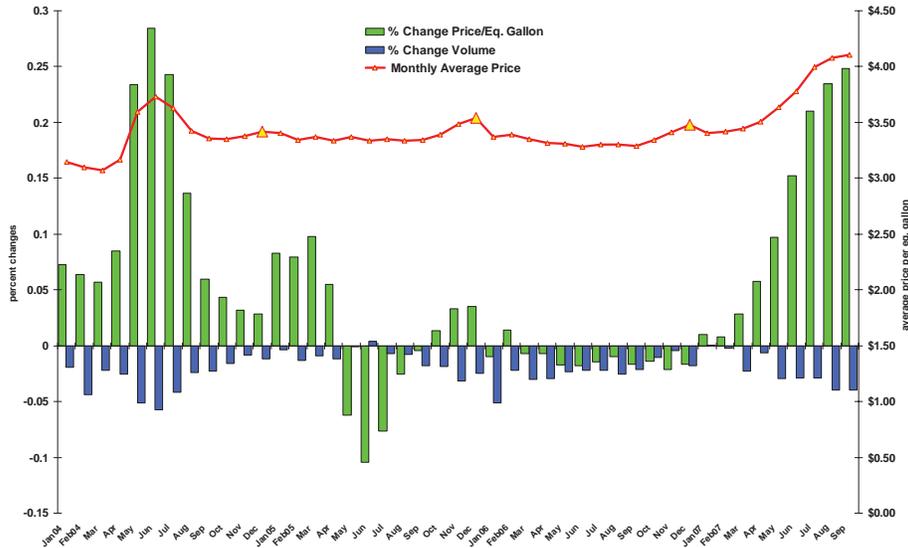
An extensive range of marketing and communication disciplines are utilized to execute the program, and these are integrated in every manner possible to achieve the greatest impact. This section will: 1) explain the unexpected and favorable results of this integrated approach on industry sales in 2007, and 2) provide a specific example of how MilkPEP is playing the lead role to reduce the calories in flavored school milk as the Nation and education community address the growing childhood obesity issue.

Sustaining Milk Sales Despite Historically High Pricing

Milk prices, which actually began to rise in the last quarter of 2006, gradually increased through the second quarter of 2007 and then remained at historically high levels through the remainder of the year, with the average annual price 14.4 percent above 2006 in major retail channels, according to IRI (FDMx). (Figure 4–16) For consumers and processors, 2007 was arguably the worst pricing environment for milk in history, with milk prices at their greatest disparity compared to the overall grocery products and soft drinks. (Figure 4–17) The historically high milk prices in 2007 might have predicated a decline in sales. In fact, however, actual sales remained essentially unchanged, declining only 0.1 percent between 2006 and 2007.

One potential contributor to the unexpected stability of milk sales despite significantly higher prices may have been the fact that the price increase did not occur as quickly or as dramatically as in prior periods, e.g., 2004. Thus, the 'sticker shock' was not as great as in 2004. Another market factor was likely that the price of orange juice, a key competitor for milk, increased even more than milk price. Additionally, however, consumer research conducted on the effects of MilkPEP's "weight loss/healthy weight" messaging indicates it has positively influenced consumer awareness, attitudes and perceptions of milk and milk's benefits. This message has been timely and relevant in light of the country's health/obesity crisis and MilkPEP has maintained the message for 4 years, possibly leading consumers to value milk at such a level as to sustain milk sales in an environment of higher pricing, and thus lending support to sustained and positive effect of MilkPEP messaging.

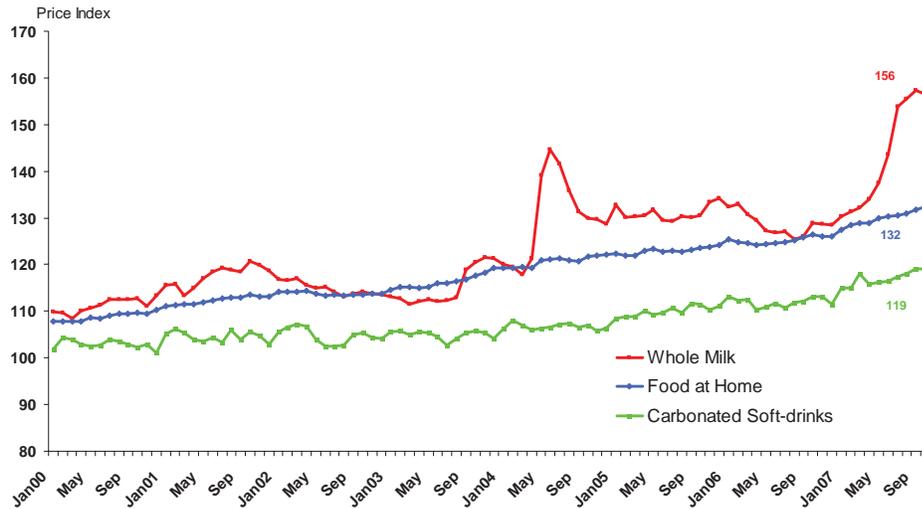
Figure 4–16 Fluid Milk Sales and Retail Price Changes – 2004 - 2007



Source: Information Resources, Inc. (FDMx)

Using the full range of our program’s measurement resources, we are able to assess the impact and value of the program in terms of providing the industry with a Retail Return on Investment (RROI) estimate for its marketing investment, and in achieving the national nutritional goals specified in its congressional mandate. MilkPEP’s Marketing Mix Analysis¹² showed that the

Figure 4–17 Relative Pricing of Milk, Soft Drinks and "Food Basket CPI"



Source: Bureau of Labor Statistics

¹² Source: 2007 MilkPEP Marketing Mix Analysis, conducted by MMA, which builds regression based econometric models using actual sales, marketing and non-marketing factors to decompose the volume impact of various in-market stimuli, while controlling for outside variables

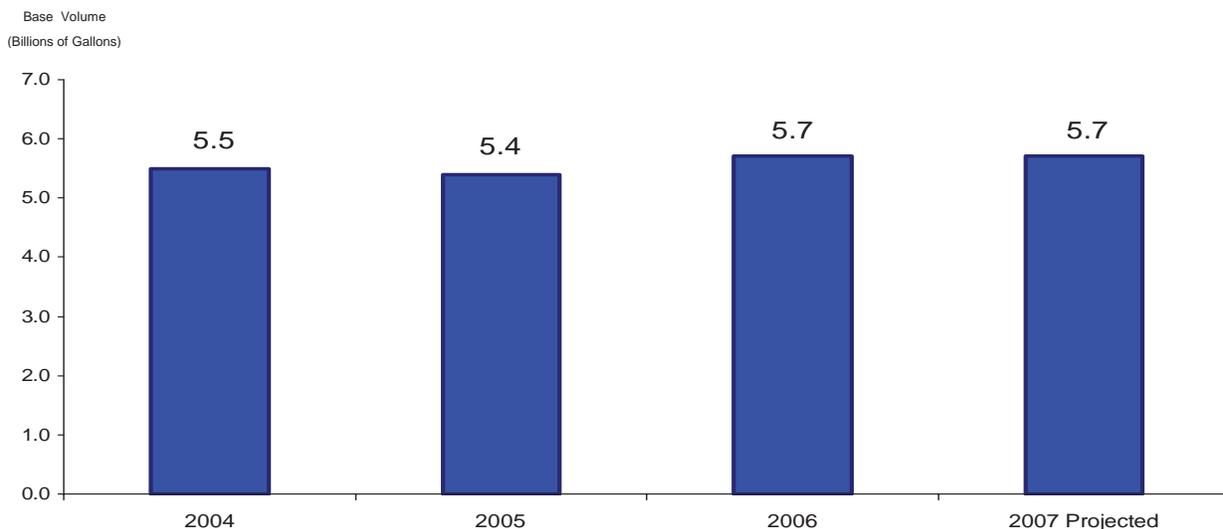
share of total milk volume attributable to the short term MilkPEP activities, though down slightly from 3.5 percent in 2006, remained a significant 3.3 percent in 2007. In actual volume, that 2007 contribution represents approximately 173 million gallons, or an estimated \$522 million in retail sales revenue nationwide. This represents a retail impact of \$6.60 for every dollar spent by fluid milk processors in 2007. The short term RROI to the fluid milk industry, measured in terms of total retail sales (\$6.60 for every dollar spent) remains highly favorable, basically flat compared to 2006 (\$6.61 for every dollar spent).

While incremental volume is defined as volume directly attributable to specific marketing activity in the current year, base volume reflects “intrinsic demand” and is defined as volume that can not be directly linked to current or very recent (within the current year) marketing activities such as in-store promotion or advertising. Base volume is a product of consumers’ long-term affinity for a product and is affected over time by marketing programs, particularly awareness and equity building media such as advertising and public relations.

In 2007, despite the historically high prices for milk, the base volume as measured by the Marketing Mix Analysis was roughly flat versus 2006, thus not diminishing the recent growth. The continued strength of base volume is likely a function of the long-term behavior change advocated by the campaign, and adopted by consumers for what is a very “habitual consumption” product (Figure 4–18).

Continuing a long-term trend, once again in 2007, lower-fat milks volume increased and whole milk volume declined. (Figure 4–19). All of MilkPEP’s ongoing messaging specifies low-fat and fat free milk, and the healthy weight message awareness and believability among target consumers are very high, (69 percent and 54 percent of adult women in Q4 2007, respectively¹³).

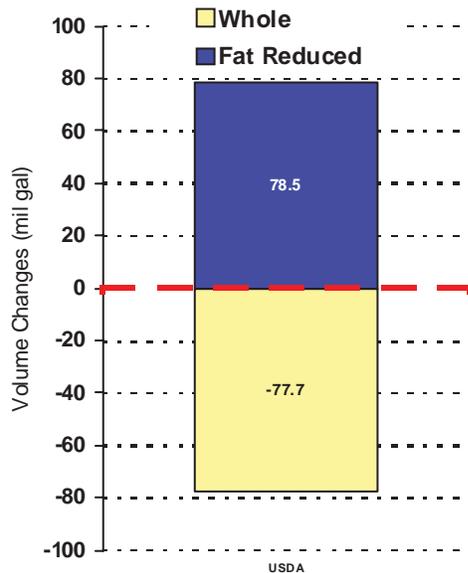
Figure 4–18 Growth of Base during Modeled Time Period



Source: 2007 Marketing Mix Analytics Corporation Study; 2007 is a year-end estimate based on actual base volume generated through 11/4/07

¹³ Source: Data Development Worldwide Q4, 2007 tracker

Figure 4–19 Milk Volume Changes by Segment – 2006-2007



Source: USDA-AMS; IRI-FDMw

Thus, it seems likely that the program is influencing consumers to choose the lower-fat products. Also based on the quarterly consumer tracking studies, both of MilkPEP’s key targets, Moms and Teens, indicate they are drinking more milk, with general health cited as the primary reason. (Figures 4–20 and 4–21)¹⁴

Based on the Marketing Mix Analysis and other indicators as detailed above, in this highly competitive beverage marketplace, the MilkPEP program in 2007 was effective in driving incremental volume and helping to mitigate the long-term loss of market share. The program advanced its effectiveness by focusing on new ideas, such as science supporting the positive impact of milk consumption on maintaining a healthy weight and data showing that those with higher milk consumption and lower consumption of sugary drinks have lower BMI (Body Mass Index)¹⁵ and healthier diets overall. MilkPEP’s public relations efforts communicated the emerging science linking milk with anti-aging, bone health and lowered risk of diabetes and certain types of cancer.¹⁶

Addressing At-Risk Flavored Milk in School Channel

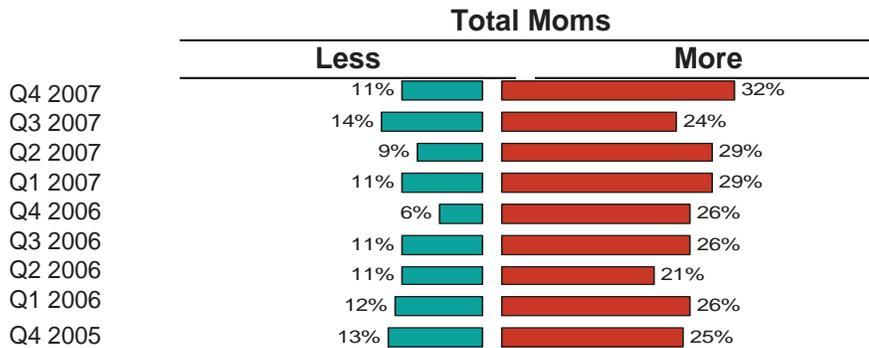
Continued concern for the growing childhood obesity epidemic has created heightened attention to, and scrutiny of the foods and beverages marketed and sold to children, with schools in

¹⁴ Source: Data Development Worldwide quarterly advertising, attitude and consumption tracking study utilizing an Internet panel of over 450,000 households, built as a randomly sampled construct of the U.S. consumer population, continuously interviewing 300 adult women, 150 mothers of kids 2 to 14 and 300 teens (split between boys and girls) each month

¹⁵ BMI provides a reliable indicator of body fatness for most people and is used to screen for weight categories that may lead to health problems (Source: Centers for Disease Control)

¹⁶ Detailed findings and published studies can be found on whymilk.com

Figure 4–20 Drinking More/Less White Milk Compared to Six Months Ago (Moms)

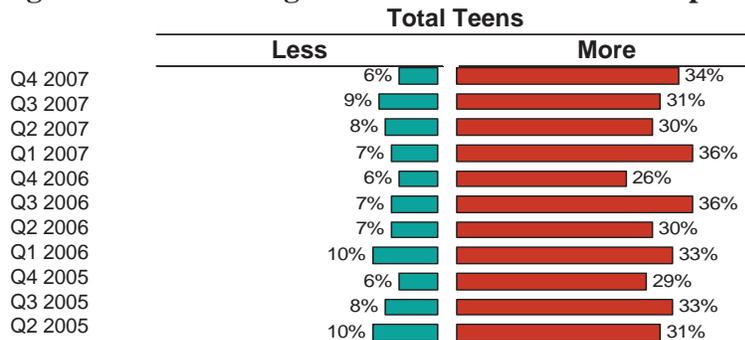


Question: "Do you feel that you are drinking more, less or the same amount of white milk as six months ago?"

Reasons For Drinking More Milk					
	2006		2007		
	Q3	Q4	Q1	Q2	Q3
<u>Among Those Drinking More</u>	(36)*	(45)*	(45)*	(41)*	(35)*
	%	%	%	%	%
Healthier For Me/Child	13	32	23	21	31
Pregnant/Nursing My Baby	4	12	7	5	18
Trying To Cut Back On Fats/Trying To Lose Weight	11	24	14	22	12
Just Have/Have More Around Lately/It's What Is Available At The Time	2	2	2	8	11
Just Like It	12	14	17	17	11
Like It More/Prefer It With Certain Foods/Drink/Meals	8	2	2	0	10
Good for bones	5	7	4	5	9
Need The Calcium	7	4	7	12	6

Source: Data Development Worldwide

Figure 4–21 Drinking More/Less White Milk Compared to Six Months Ago (Teens)

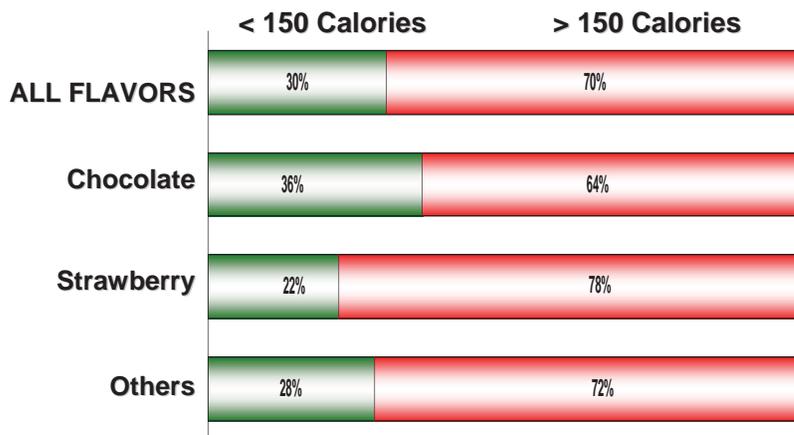


Question: "Do you feel that you are drinking more, less or the same amount of white milk as six months ago?"

Reasons For Drinking More Milk					
	2006		2007		
	Q4	Q1	Q2	Q3	Q4
<u>Among Those Drinking More</u>	(89*)	(107)	(90*)	(97*)	(270)
	%	%	%	%	%
Healthier for me	31	32	27	29	28
Just like it	19	18	24	12	15
Like the taste/Child likes the taste	8	12	5	14	11
Like it more/Prefer it with certain foods/drink/meals	7	1	4	8	8
Enjoy it with cereal	4	5	6	11	7
Good for bones	6	3	2	7	6
Trying to cut back on fats/ lose weight	13	8	3	6	6

Source: Data Development Worldwide, 3/08 report.

Figure 4–22 Share of Flavored Milks in Schools that Met Initial AHG Guidelines – 2006/07 School Year



Source: School Marketing Access database – DMI and Prime Consulting

particular targeted for changes. Pressure to reduce fat, sugar and calorie levels of flavored milk in schools is being applied at every level, from government to consumer advocacy organizations.

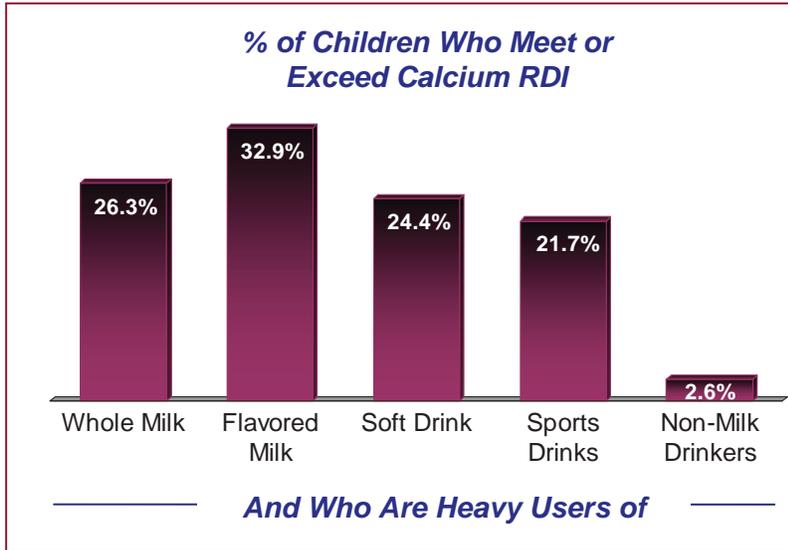
Several public interest groups have initiated action to address childhood obesity in schools, in particular the Alliance for a Healthier Generation (AHG), a partnership of the American Heart Association, the Clinton Foundation, and the American Beverage Association. The AHG “School Beverage Guidelines” have gained significant influence in schools and have been adopted by the major beverage companies. The AHG voluntary guidelines call for 150 calories per 8 ounce beverage serving. When the AHG guidelines were announced in 2006, only about 1/3 of the chocolate milk and less than 30 percent of other flavor offerings in schools met the 150-calorie criteria. (Figure 4–22)

Flavored milk, with the same nine essential nutrients as white milk, plays a very important role in child nutrition and the school meal programs (Figure 4–23). An estimated 70 percent of milk sold in schools is flavored milk. Research has shown that when students have a variety of milk flavors to choose from, more milk is consumed (Figure 4–24). In schools that served 2 flavors in addition to white and chocolate, weekly per student consumption was 0.42 ounces, or 12.2 percent, higher than in schools where only white and chocolate milk were available, according to PCI’s Annual School Survey. In addition, intake of nutrients such as calcium, magnesium and phosphorus increases. Children who drink flavored milk tend to drink fewer nutrient-poor sodas and sugary fruit drinks, and flavored milk contributes only a fraction of the total added sugars (<2.0 percent) consumed by children and adolescents; and children who drink flavored milk tend to be leaner than those who do not.¹⁷

The risk of negatively impacting milk consumption among school-aged children is real and serious. Already, milk consumption declines dramatically during the teen years. (Figure 4–25) Limiting the availability and/or the appeal of flavored milk in schools is likely to result in lower

¹⁷ Detailed findings and published studies can be found on whymilk.com

Figure 4–23 Children Who Drink Flavored Milk have Better Nutritional Profiles

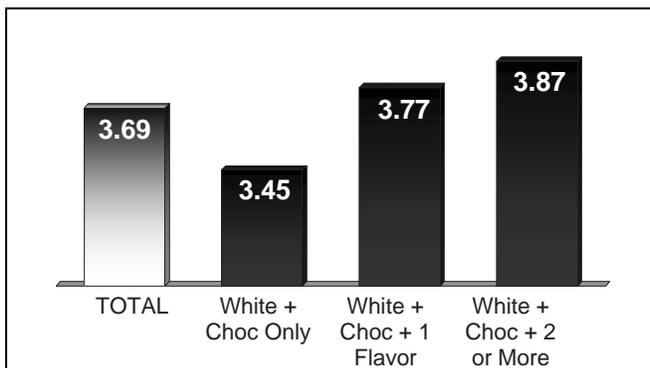


Source: What America Drinks: How Beverages Relate to Nutrient Intakes & Body Weight; Jan 2007

consumption at school, and potentially translate to lower consumption of milk overall by the students currently as well as later in life.

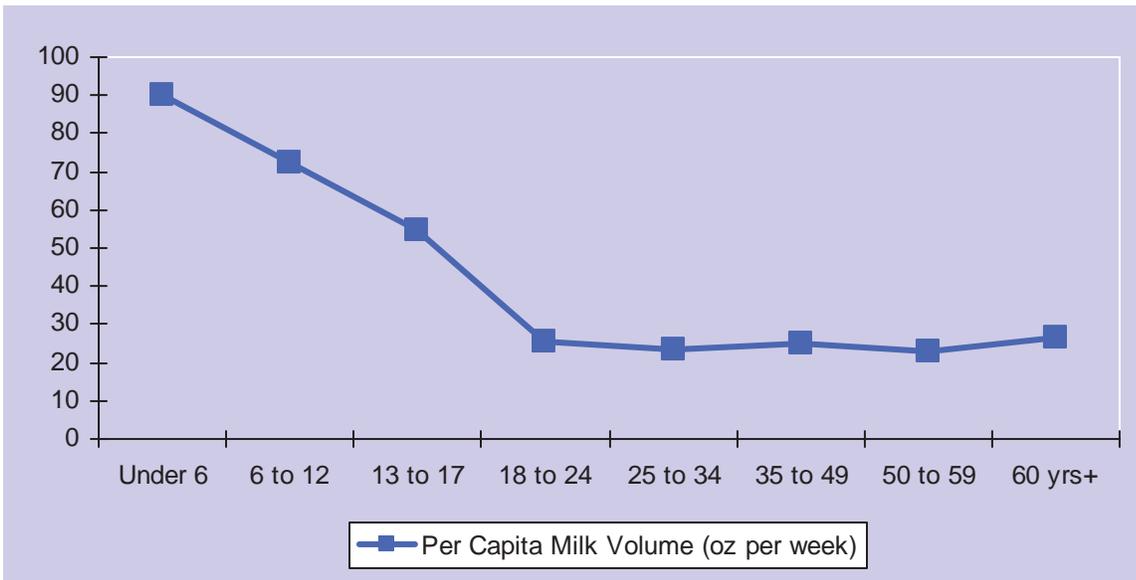
Recognizing that milk’s long standing position on the school lunch line will be in jeopardy if processors do not move quickly to meet the AHG guidelines, MilkPEP made a commitment to protect our current ability to deliver nutrient-rich flavored milk to children, improve the health profile of flavored milk via lower calories and deliver the healthiest flavored milk product possible.

Figure 4–24 Students Consume More Milk In School When Offered More Flavors
Weekly Servings of Milk per Student



Source: Annual School Survey '06/'07, Prime Consulting Inc.

Figure 4–25 Milk Consumption Declines in Teen Years



Source: Share of Intake Panel 2004, TNS-NFO

The industry has thus far invested approximately \$1 million toward addressing the issue through research, flavor testing and training the industry on ways to improve flavored milk health profiles through the School Milk Flavor Formulation Workshops. The Workshops reach out to milk processors to provide potential solutions for reducing calories in flavored school milk by August 2008. The first workshop was held in August 2007, and to date about 25 dairies and 225 fluid milk processors have participated in the program. This cadre of processors represents roughly 60 percent of milk volume in the U.S., and all participants have committed to having 150-calorie flavored milk offerings by August 2008, with some already having attained this goal.

In Summary

MilkPEP continues to promote the fluid milk industry, supporting the Federal nutrition goals outlined in the legislative act establishing the program – as well as the nutrition goals as outlined in the U.S. Dietary Guidelines for Americans and USDA’s Food Guide Pyramid. MilkPEP is a national marketing voice for milk in a marketing environment subject to a high degree of Federal and State regulation, helping to maintain the strength and stability of the fluid milk industry, to the benefit of the Nation’s health.

Part III – National Dairy Promotion and Research Program: Highlights by Dairy Management Inc.

Introduction: DMI's Changing Role

In 2007, dairy checkoff organizations continued the transition from direct consumer programming to a more aggressive business strategy focused on working with influential industry partners with the goal of meeting dairy demand. DMI is working with industry partners to identify the products customers want, where and how they want them.

Over the years, the buying power of promotion dollars has decreased due to inflation. At the same time, consumers are becoming more sophisticated, and accustomed to niche marketers meeting their needs. Rather than continuing to fund programs to promote only the products that are currently available, dairy farmers have shifted their focus to address the issue of unmet demand: the products consumers want, need, and are willing to pay for.

With limited promotional funding, it has become increasingly important to find the most cost-effective way to fund programming to drive sales. The Board of Dairy Management Inc. has made a strategic decision to maximize the dollars available by partnering with leaders and innovators in the dairy industry in order to find synergies between branded and generic efforts. Several years ago, dairy checkoff staff tested the theory that if the market leader in a given category could be persuaded to enhance the milk experience, soon the rest of the category would have to follow suit in order to compete. While the initial outlay in money and manpower may have been more than in years past, the theory proposed that once the market leader converted, it would take less involvement to convert the next tier of players, and finally, the marketplace – and consumers themselves – would demand the change of the rest of the category. This theory is referred to as the Analytic/Catalytic Concept.

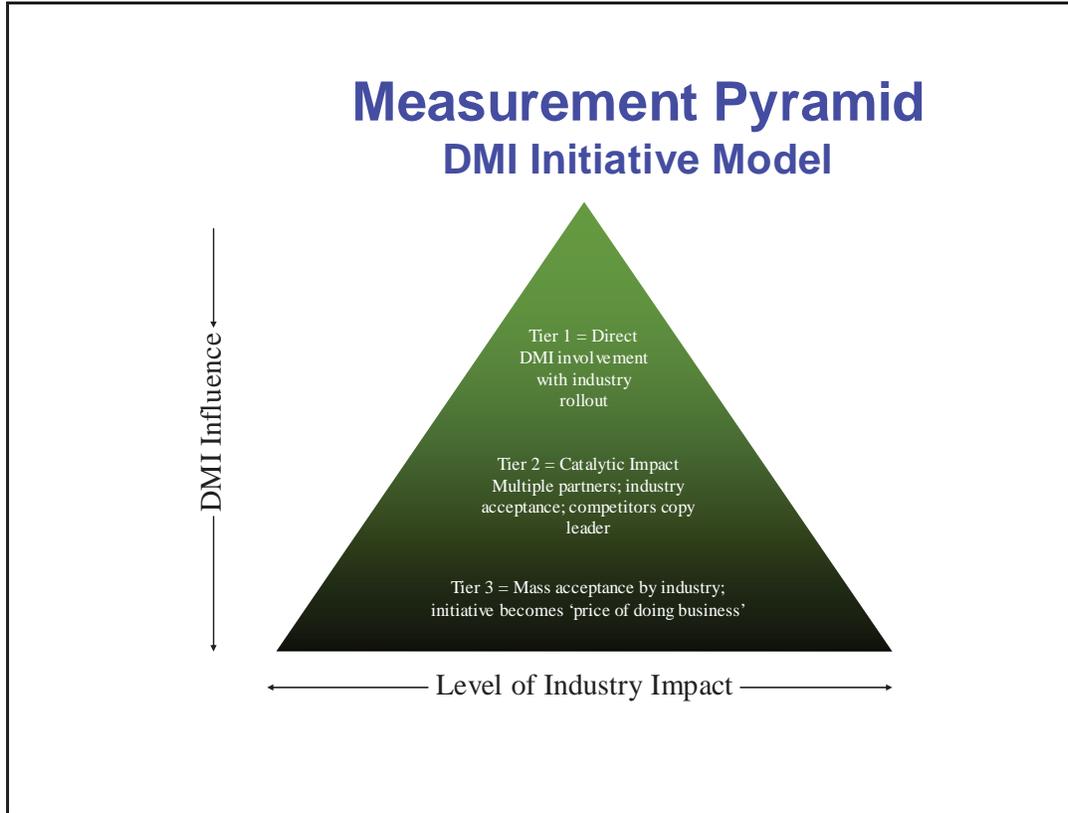
This theory is demonstrated graphically in Figure 4–26: The very top of the pyramid represents the highest level of involvement by DMI/dairy checkoff staff. This phase could include product development, market testing, and support of advertising concepts. It represents the highest level of input in both dollar value and staff time. This is referred to as the Analytic phase – the direct expenditure of time and money. Tier two represents where the change has been shown to be valuable to other market participants, and competitors realize they must make similar changes or risk losing market share. Finally, at the base of the pyramid lies the third tier, where the change becomes an accepted part of doing business, with little or no involvement from dairy checkoff.

This pyramid shows the Catalytic Concept with a Return on Investment indicator. As shown, dairy farmer resources allocated to these projects will be the greatest in the beginning stages, and will decrease exponentially downward as the greater impact within the market is demonstrated.

Fully Executed Model: Quick Serve Restaurants (QSRs)

An example of the fully executed pyramid is the 2004 launch of single-serve, low-fat white and chocolate milk, in plastic, re-sealable containers at two of the top five quick serve restaurant

Figure 4–26



Source: Dairy Management Inc.

chains in the country. Foodservice – a traditionally under-developed, away-from-home business segment for milk – is a critical channel to reach kids despite the historical market dominance of carbonated soft drinks.

DMI staff approached key foodservice chains with the proposition that milk as part of a balanced diet could be part of a solution to the rising obesity levels among children. The excellent results of the School Milk Pilot Test conducted by DMI was the basis for proving that, given more attractive packaging and flavors, children would increase their milk consumption dramatically. In order to convince franchisees that promotion of single serve milk in plastic bottles would pay both long-term and short-term dividends, a four-market test was conducted using milk as a part of the kid's meal offerings. The test was successful. Key competitors in the four test markets observed the success and began to push their national offices for a similar program. The race was on to be first to launch the product nationally.

One of the barriers to overcome was the habitual ordering of soft drinks by both moms and children. The decision was made to offer a broad spectrum of marketing and merchandising techniques to break this traditional pattern. DMI collaborated on advertising that announced the new meal offerings and developed point-of-sale materials both in-store and at the drive-through. In-store materials prominently featured milk and tied in with restaurant/movie promotions and

other themes throughout the promotional period. At the grassroots level, local promotion agencies created incentives for the restaurant staff to suggest milk with kid’s meals, cookie and milk promotions, and public relations events that featured nutrition and exercise tips.

In this Analytic phase of the program DMI enabled these fast food giants to build the business case for single-serve milk in plastic containers by providing milk sales/trend information, consumer insights, milk-specific consumption data, and the results of the School Milk Pilot Test. The success realized by these chains, in terms of milk sales, merchandising and overall restaurant traffic gains, has served as a catalyst for other quick-serve competitors to add milk to their menus in 2007 and beyond (Figure 4–27).

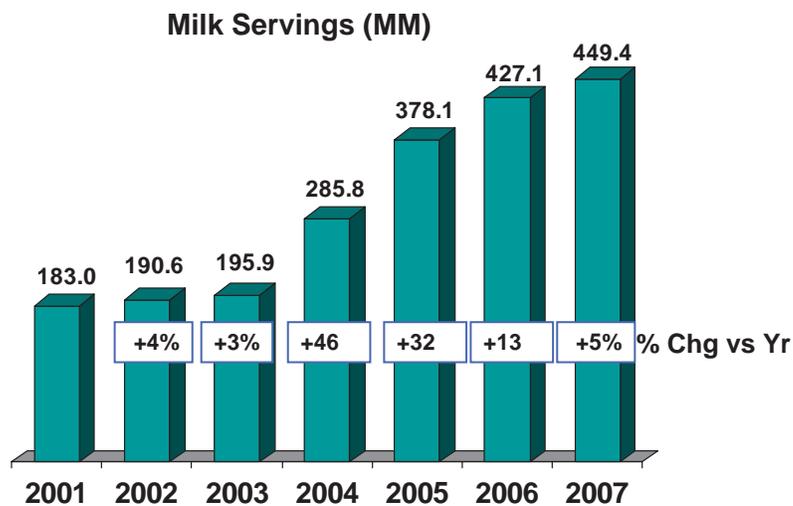
In the following years additional top-ten chains were supported with selling propositions and point of sale materials. The program entered the Catalytic Phase and the model was proving to be more than a theory. These chains were given a decreasing amount of assistance in both monetary and staff resources. As this program progressed additional chains began to adopt single-serve milk in plastic containers, without assistance from DMI, as a way to build traffic and their nutrition profile.

Now, more than 60,000 quick-serve outlets nationwide offer single-serve milk, in plastic resalable containers, and they support this offering with attractive marketing.

Figure 4–27



Continued Growth in Milk Servings at QSRs¹



Source: NPD CREST

¹ QSR Hamburger + QSR other Sandwich Categories

New Product Development: A New Test For The Model

In April 2006, DMI conducted an in-depth segmentation study involving 3,000 consumers. From a marketing management viewpoint, market segmentation divides a market into distinct groups who might be attracted to different products or services. This technique is widely accepted as one of the requirements for successful marketing. By dividing the market into relatively homogenous subgroups or target markets, both strategy formulation and tactical decision making can be more effective.

The survey offered insights on how milk can better address beverage-consumption occasions, packaging, process and product development, and marketing and merchandising efforts. A goal of the study was to identify the key occasions upon which one consumes a beverage. In addition, the survey report offers insights into how milk and dairy-based beverages can better address those occasions through package, process and product development and marketing and merchandising efforts. The study uncovered seven beverage “need-states” which are needs that drive consumers to buy certain products. Of these, DMI identified four need-states as having great potential for value-added milk: Health Focused, Replenish, Meal Replacement/Other and Comfort/Indulgence. These are the segments where milk has a significant opportunity to gain share, and together, they represent 62 percent of total beverage consumption.

Value-added milk is broken down into two categories: 100 percent milk products, which include products made with 100 percent milk with specific benefits such as flavoring, reduced lactose, extra nutrients and single serve bottles; and milk-based beverages, which are beverages where milk is a key ingredient but less than 100 percent. This includes drinks such as lattes, nutritional drinks and smoothies.

Around the same time, DMI partners were trying to grow the fortified milk category. A 1.0 percent lowfat milk product with the rich creamy taste of whole milk, plus additional protein (25 percent) and calcium (20 percent) was trying to find the right niche. Some of these products use the ultra-filtration process to remove extra liquid from the milk to create the creamy consistency and mouth feel of whole milk.

Positioning the right product to the right consumer at the right place and time is the key to growth for the milk category. Market research from DMI on who those customers might be, combined with the reach and influence of State and regional units from throughout the Northeast and Southern States, helped position protein fortified milks in these markets (Figure 4–28). Marketing support included traditional efforts, such as sampling, radio tags and print advertising. In addition, through State and regional organizations’ close relationships with local health professional groups, the chocolate version of this product gained access to key influencers – namely dietitians, pediatricians, and other members of medical groups, including American Academy of Pediatricians, National Medical Association, American Academy of Family Physicians, and the American Dietetic Association. These health professional groups received information explaining the nutritional attributes of the product and received samples at industry meetings in order to encourage endorsement of the product to clients and the media.

Figure 4–28

Sales Data Indicates that other Enhanced Milks in the Northeast Continued to Grow after the Repositioning of Protein Fortified Milk

Northeast	2005 ¹ / 2006	2007 / 2008 ²
TOTAL Fluid Milk	-2.4%	-3.9%
-Enhanced Milk (Protein Fortified Milk, Over the Moon, Special Request & Special Request Plus)	+8.5%	+7.5%
-Protein Fortified Milk	-3.1%	+3.6%

1. 1 Periods preceding full year to equal 6 consecutive pre promotion quarters.
2. 2 Periods following full year to equal 6 consecutive post promotion periods.

Protein Fortified Milk prices increased dramatically in Q3 '07 (+17%); prices of competitive enhanced milks did not increase as much (+7%)

As of this writing, this value added program is work in progress, and remains at the analytic phase of the evaluation.

Together, the repositioning of this value-added milk through increased marketing support plus the introduction of a chocolate product is working positively to turn around the brand. This increase in brand sales was sufficient to lift the entire category of enhanced milk products in the face of declining fluid milk sales overall. The information gathered in this test concerning value-added milks is available to all brands in the market and with proper marketing should further build fluid milk category sales, which is the ultimate goal of the checkoff program.

Incremental Sales Definition, Explanation and Results

Incremental sales, as defined by The American Marketing Association, is, *Units of the product sold to retailers or consumers through a sales promotion effort over and above the amount that would have been sold in the absence of the promotional deal.*

Growth in sales is converted into pounds based on the amount of milk used within the product. The resulting sales are reported by DMI's partners as agreed with DMI in the beginning of the program.

Careful consideration is given to interpreting what sales occurred specifically due to the program and what dairy product consumption may have been replaced by the promoted product, resulting in lower sales increases for the dairy farmer.

Single-Serve Milk in QSRs: The growth in sales shown in Table 4–1 is based on the average unit sales of milk per store per week provided by the partnering Quick Serve Restaurants for both pre-plastic bottle and post-plastic bottle time periods. Total milk unit sales were tracked for the year, establishing a baseline prior to the plastic bottle switch. The calculation for incremental sales in a given month for a QSR is (Average Weekly Sales Units – Pre-Existing Weekly Sales Units) x Number of Stores x Number of Weeks. Those units are then converted into pounds of milk using the following calculation: Units x 8 fluid ounces per unit/128 fluid ounces per gallon x 8.6 pounds per gallon.

Value-added Milk (Table 4–2): The equation for calculating incremental sales for enhanced milk that DMI partnered on in established markets is the Current 18 months – Previous 18 Month Sales (Base Line), provided the category experienced overall growth. The partner’s growth rate, 3.6 percent was compared to the category growth rate of 7.5 percent, both of which outpaced total fluid milk growth rate of –3.9 percent.

Table 4–1

Assessment of QSR Single Serve Program							
Year		Growth in Sales, lbs.	Cost of Program	Change in Production, lbs.	Change in All-Milk Price, \$/cwt.	Change in Gross Producer Revenue	Change in Net Producer Revenue
2004	Fluid milk, 2%, ndm fortified	66,587,737	\$8,272,000	7,422,645	\$0.0150	\$30,399,133	\$29,307,583
2005	Fluid milk, 2%, ndm fortified	53,282,118	\$60,000	25,381,313	\$0.0234	\$49,525,817	\$45,793,322
2006	Fluid milk, 2%, ndm fortified	7,551,546	\$560,000	38,560,574	\$0.0215	\$47,637,598	\$41,967,003
2007	Fluid milk, 2%, ndm fortified	35,968,029	\$750,000	49,318,298	\$0.0276	\$61,139,487	\$53,886,895
	Fluid milk, 2%, ndm fortified	0	\$0	61,203,975	\$0.0240	\$55,999,174	\$46,998,712
	Present Value of First 5 Years		\$9,642,000	181,886,805	\$0.0223	\$244,701,209	\$217,953,514
Estimated Project Benefit:Cost ratio:							21.60:1

Table 4–2

Assessment of Added Value Milk Program							
Year		Growth in Sales, lbs.	Cost of Program	Change in Production, lbs.	Change in All-Milk Price, \$/cwt.	Change in Gross Producer Revenue	Change in Net Producer Revenue
2007	Fluid milk, 2%, ndm fortified	3,127,556	\$1,243,740	348,634	\$0.0007	\$1,427,815	\$1,376,546
2008 ¹	Fluid milk, 2%, ndm fortified	1,563,778	\$0	1,087,481	\$0.0009	\$1,897,575	\$1,737,654
	Fluid milk, 2%, ndm fortified	0	\$0	0	\$0.0000	\$0	\$0
	Fluid milk, 2%, ndm fortified	0	\$0	0	\$0.0000	\$0	\$0
	Fluid milk, 2%, ndm fortified	0	\$0	0	\$0.0000	\$0	\$0
	Present Value of First 5 Years		\$1,243,740	1,436,115	\$0.0003	\$3,325,391	\$3,114,200
Estimated Project Benefit:Cost ratio:							1.50:1

¹ 2008 Growth in sales is the result of the first 2 quarters off the year.

The tables above show that these programs generate positive returns.

The balance of the incremental sales came from new markets in the southeast region to which the partner's brand was expanded. According to branded sales information from the processor, in the southeast region the new product expansion grew the category 84.2 percent, and the new product represented 92.3 percent of that growth.

Conclusion

Dairy checkoff has long been viewed as an innovation leader and catalyst for change in the industry. As we continue to move forward with fresh ideas for maximizing dairy farmer investments, we will need not only to look critically at our initiatives and activities, but take further steps to determine how best to analyze what works best to move dairy sales. Based on the experience detailed above, we are confident our direction of working with industry leaders to develop ways to serve unmet markets will lead to increased sales and future dairy consumers.

The Evaluation Model

In order to effectively measure the past performance and future potential of producer invested programs, DMI is measuring the impact of each program's sales increases on the value of farm milk. The evaluation tool developed for this purpose has the flexibility to measure impacts of sales over time in all classes of milk by converting incremental unit sales into pounds of protein and milkfat, then assessing the market-wide impacts.

This spreadsheet model was developed for DMI by Dr. Roger Cryan of the National Milk Producers Federation. The demand analysis in the model is adapted from demand elasticities for milk components calculated and provided by Dr. Scott Brown at the Food and Agriculture Policy Research Institute. The supply analysis is adapted from supply equations developed by USDA/AMS, Dairy Programs.¹⁸ Other model parameters include baseline milk and component prices and supply. The primary raw inputs for the model are the costs of each promotion project and the incremental pounds of dairy product sales generated by each project; these are generally projected or estimated in connection with the project itself; in the model they are assumed to be additions to overall demand (i.e., they represent an outward shift of the demand curve).

The model calculates estimated changes in producer prices, gross producer revenue, and producer revenue net of the cost of additional production. Finally, it generates a project rate of return to dairy farmers, based on the promotion cost and net revenue benefit.

Sum Cost of Program / Sum Impact on Producer Revenue

The objective in using this model is to look at the future value of today's investment and analyze potential payback. This also allows us to evaluate programs where the payback is not expected within the same year of the investment or where there is an expected catalytic impact on sales stemming from a direct investment.

¹⁸ *USDA Agricultural Marketing Service (AMS) Dairy Programs National Econometric Model Documentation*. April 2007. Available at <http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=STELPRDC5056334>

This model has the flexibility to compare projects across all dairy product types. Therefore, DMI can rank projects based on value added to the industry whether the sales source is fluid milk, cheese, ingredient, or some other processed dairy product. The spreadsheet allows us to investigate various incremental sales and investment scenarios by easily changing input assumptions, and is, therefore, a usable tool for valuation and budgeting exercises. This model may also be used to measure investment projects in which maintaining existing volume is the measure of success.

In summary, this model evaluates investments by the amount of value that the investors will receive by measuring the base elements from which processor's payments derive. It looks at a multiple-year period allowing the programs time to gain acceptance with the initiating partner and consumer. Additionally, it allows us to apply consistent quantitative thinking to projects across all areas of dairy investment.

Definitions

- **Growth in Sales (lbs.)**
 - The increase in annual sales of the specified dairy product that were sold over and above the previous year due to a particular program. (If a project increases sales for only 1 year, there is an offsetting negative change in the second year.)
- **Cost of Program**
 - The total dollar investment made each year by check-off organizations for the project.
- **Change in Production (lbs.)**
 - The estimated increase in U.S. production resulting from the price impacts of the project.
- **Change in the All-Milk Price (\$/cwt.)**
 - The estimated impact on the all-milk price, relative to the baseline, for each year, including the impact from shifting demand and a change in the "blend" value based on the Class price for the product.
- **Change in Gross Producer Revenue**
 - The estimated change in total producer revenue, resulting from changes in price and production.
- **Change in Net Producer Revenue**
 - The estimated change in net producer revenue, based on the change in price and the net returns from new milk production.
- **Benefit Cost Ratio**
 - The change in the total Net Producer Revenue divided by the total Cost of the Program.

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Appendix A-1
National Dairy Promotion and Research Board
Current Member Listing

Region 1 (Oregon and Washington)

Elizabeth I. Anderson
Onalaska, Washington
Term expires 10/31/2009

James Zielinski
St. Paul, Oregon
Term expires 10/31/2010

Region 2 (California)

James L. Ahlem
Hilmar, California
Term expires 10/31/2010

Mary E. Cameron
Hanford, California
Term expires 10/31/2009

Kimberly K. Clauss
Hilmar, California
Term expires 10/31/2009

Ronald L. Koetsier
Visalia, California
Term expires 10/31/2008

Stephen D. Maddox
Riverdale, California
Term expires 10/31/2010

Brad J. Scott
Moreno Valley, California
Term expires 10/31/2010

Pauline Tjaarda
Shafter, California
Term expires 10/31/2010

Region 3 (Arizona, Colorado, Idaho, Montana, Nevada, Utah, and Wyoming)

Lester E. Hardesty
Greeley, Colorado
Term expires 10/31/2008

Grant B. Kohler
Midway, Utah
Term expires 10/31/2010

William C. Stouder
Wendell, Idaho
Term expires 10/31/2009

Region 4 (Arkansas, Kansas, New Mexico, Oklahoma, and Texas)

William R. Anglin
Bentonville, Arkansas
Term expires 10/31/2008

Jose L. Gonzalez
Mesquite, New Mexico
Term expires 10/31/2010

Lawrence A. Hancock
Muleshoe, Texas
Term expires 10/31/2009

Appendix A-1, continued

Region 5 (Minnesota, North Dakota, and South Dakota)

Paul L. Kent	Donna L. Sharp
Mora, Minnesota	Bath, South Dakota
Term expires 10/31/2009	Term expires 10/31/2008

Region 6 (Wisconsin)

William J. Herr	Peter J. Kappleman
Greenwood, Wisconsin	Two Rivers, Wisconsin
Term expires 10/31/2010	Term expires 10/31/2009

Bradford A. McCauley	Randy G. Roecker
Viola, Wisconsin	Loganville, Wisconsin
Term expires 10/31/2008	Term expires 10/31/2009

Carl F. Van Den Avond
Green Bay, Wisconsin
Term expires 10/31/2008

Region 7 (Illinois, Iowa, Missouri, and Nebraska)

Douglas D. Nuttelman	Larry G. Purdom
Stromsburg, Nebraska	Purdy, Missouri
Term expires 10/31/2008	Term expires 10/31/2009

Region 8 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)

Michael M. Ferguson
Senatobia, Mississippi
Term expires 10/31/2008

Region 9 (Indiana, Michigan, Ohio, and West Virginia)

Paul Broering	Donald E. Gurtner
St. Henry, Ohio	Fremont, Indiana
Term expires 10/31/2010	Term expires 10/31/2009

Carl A. Schmitz
Wadesville, Indiana
Term expires 10/31/2008

Region 10 (Florida, Georgia, North Carolina, South Carolina, and Virginia)

John M. Larson
Okeechobee, Florida
Term expires 10/31/2010

Appendix A-1, continued**Region 11 (Delaware, Maryland, New Jersey, and Pennsylvania)**

Joyce A. Bupp

Seven Valleys, Pennsylvania

Term expires 10/31/2008

Rita P. Kennedy

Valencia, Pennsylvania

Term expires 10/31/2009

Paula A. Meabon

Wattsburg, Pennsylvania

Term expires 10/31/2010

Region 12 (New York)

Corinne M. Banker

Morrisville, New York

Term expires 10/31/2010

Ronald R. McCormick

Java Center, New York

Term expires 10/31/2008

Sanford Stauffer

Nicholville, New York

Term expires 10/31/2009

Region 13 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)

Debora A. Erb

Landaff, New Hampshire

Term expires 10/31/2008

Appendix A-2
National Fluid Milk Processor Promotion Board
Current Member Listing

Region 1 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)

Michael F. Touhey, Jr.
Dean Foods Company
Franklin, Massachusetts
Term expires 06/30/2010

Region 2 (New Jersey and New York)

James F. Walsh
H.P. Hood, L.L.C.
Lynnfield, Massachusetts
Term expires 06/30/2011

Region 3 (Delaware, District of Columbia, Maryland, Pennsylvania, and Virginia)

Michael F. Nosewicz
The Kroger Company
Cincinnati, Ohio
Term expires 06/30/2009

Region 4 (Georgia, North Carolina, and South Carolina)

Charles L. Gaither, Jr.
Milkco, Inc.
Asheville, North Carolina
Term expires 06/30/2010

Region 5 (Florida)

Michael R. Smith
Publix Super Markets, Inc.
Lakeland, Florida
Term expires 06/30/2011

Region 6 (Ohio and West Virginia)

Jay S. Bryant
Maryland and Virginia Milk Producer's Cooperative Association, Inc.
Reston, Virginia
Term expires 06/30/2009

Appendix A-2, continued**Region 7 (Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin)**

James B. Green
Kemps, L.L.C. (a subsidiary of HP Hood, L.L.C.)
St. Paul, Minnesota
Term expires 06/30/2010

Region 8 (Illinois and Indiana)

Brian Haugh
National Dairy Holdings
Dallas, Texas
Term expires 06/30/2011

Region 9 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)

Edward L. Mullins
Prairie Farms Dairy, Inc.
Carlinville, Illinois
Term expires 06/30/2009

Region 10 (Texas)

Robert Bruce McCullough
H. E. Butt Grocery Company
San Antonio, Texas
Term expires 06/30/2010

Region 11 (Arkansas, Iowa, Kansas, Missouri, Nebraska, and Oklahoma)

Steven M. Turner
Turner Dairy, L.L.C. (a subsidiary of Prairie Farms Dairy, Inc.)
Covington, Tennessee
Term expires 06/30/2011

Region 12 (Arizona, Colorado, Nevada, New Mexico, and Utah)

John R. Zuroweste
Dean Foods Company
Dallas, Texas
Term expires 06/30/2009

Region 13 (Idaho, Montana, Oregon, Washington, and Wyoming)

Jerry N. Tidwell
Safeway, Inc.
Pleasanton, California
Term expires 06/30/2010

Appendix A-2, continued**Region 14 (Northern California)**

Jay B. Simon
Super Store Industries
Stockton, California
Term expires 06/30/2011

Region 15 (Southern California)

Paul W. Bikowitz
Heartland Farms
City of Industry, California
Term expires 06/30/2009

Members-At-Large (Processors)

Charles S. Mayfield, Jr.
Mayfield Dairy (a subsidiary of Dean Foods Company)
Athens, Tennessee
Term expires 06/30/2009

Michael A. Krueger
Shamrock Foods Company
Phoenix, Arizona
Term expires 06/30/2011

Randy D. Mooney
Hiland Dairy Foods Company, L.L.C.
Springfield, Missouri
Term expires 06/30/2010

Teresa E. Webb
Farmland Dairies, L.L.C.
Wallington, New Jersey
Term expires 06/30/2010

Members-At-Large (Public)

Janey K. Thornton, PhD.
Elizabethtown, Kentucky
Term expires 06/30/2009

Appendix B-1
National Dairy Promotion and Research Board
Actual Income and Expenses
(Thousands)

	2006	2007
Income		
Assessments	\$90,320	\$91,951
Program Development Fund (NAEMS ¹ Study)	-	2,000
Interest	<u>965</u>	<u>1,720</u>
Total Income	\$91,285	\$95,671
 General Expenditures		
General and Administrative	\$3,759	\$3,753
USDA Oversight	<u>757</u>	<u>712</u>
Total General Expenditures	\$4,516	\$4,465
 Program Expenditures		
Communications and Member Relations	\$15,474	\$25,405
Domestic Marketing	40,143	34,681
Export Enhancement	5,199	6,432
Disbursement for NAEMS ¹ Study	6,000	2,000
Investment in NAEMS ¹ Study	(5,833)	-
Planning and Research	<u>3,078</u>	<u>3,519</u>
Total Program Expenditures	\$64,061	\$72,037
 Excess of Revenue (Under) Over Expenditures	\$22,708	\$19,169
 Fund Balance, Beginning of Year	\$15,321	\$37,966
 Fund Balance, End of Year	\$38,029	\$55,135

¹National Air Emissions Monitoring Study.

Source: Independent Auditor's Report of the National Dairy Board and USDA records.

Appendix B-2
USDA Oversight Costs for the
National Dairy Promotion and Research Board
(Thousands)

	2006	2007³
USDA Oversight Costs		
Salaries and Benefits	\$382,865	\$370,581
Travel	46,394	62,733
Miscellaneous ¹	51,688	66,920
Equipment	5,131	5,016
Printing	<u>5,269</u>	<u>6,604</u>
USDA Oversight Total	\$491,347	\$511,854
Independent Evaluation	\$95,154	\$122,062
Total²	\$586,501	\$633,916

¹Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of the General Counsel costs.

²The totals for USDA expenses differ slightly from those shown in Appendix B-1 because of end-of-year estimates which are adjusted in the following year.

³The 2007 totals correspond to the Federal fiscal year, which runs from October 1 through September 30.

Source: USDA accounting reports.

Appendix B-3
National Dairy Promotion and Research Board
2008 Approved Budget
(Thousands)

	2008
Revenues	
Assessments	\$91,000
Program Development Fund Draw	27,915
Carryover from Prior Year	11,110
Interest	<u>600</u>
Total Income	\$130,625
 Expenses	
General and Administrative	\$4,100
Amortization of NAEMS ¹ Study	2,000
USDA Oversight	<u>800</u>
Subtotal	\$6,900
 Program Budget	
Milk	\$10,075
Cheese	8,330
Ingredients	6,136
Export Enhancement	11,731
Children's Fitness and Nutrition Initiative	21,688
Product Research	6,598
Nutrition Research	9,669
Nutrition Affairs	9,614
3-A-Day	3,400
Public and Industry Communications	8,419
Foodservice	3,261
Retail	5,972
Strategy and Insights	11,172
Other ²	<u>8,042</u>
Subtotal	\$124,107*
 Total Budget Expenditures	 \$131,007

¹National Air Emissions Monitoring Study.

²Other includes fixed commitments, butter promotion, value added milk, value-added cheese, value-added milk and cheese.

*UDIA Expense share of total is \$26,897.

Source: Budgets received and approved by USDA from the National Dairy Board.

Appendix B-4
National Fluid Milk Processor Promotion Board
Actual Income and Expenses
(Thousands)

	2006	2007
Income		
Assessments	\$107,850	\$107,736
Late-Payment Charges	91	102
Interest	990	899
Other	<u>1</u>	<u>71</u>
Total Income	108,932	108,808
 General Expenditures		
California Refund	\$10,308	\$10,257
Administrative	2,140	2,875
USDA Oversight	508	425
USDA Assessment Verification	<u>107</u>	<u>89</u>
Total General Expenditures	\$13,063	\$13,646
 Program Expenditures		
Media	\$66,335	\$72,122
Public Relations	11,566	12,662
Promotions	10,372	12,468
Strategic Thinking	1,303	1,157
Medical Advisory Panel	271	268
American Heart Association	120	-
Medical Research	71	100
Research, Local Markets, and Program Measurement	1,991	2,228
Program Management	<u>-</u>	<u>120</u>
Total Program Expenditures	\$92,029	\$101,125
 Excess of Revenue (Under) Over Expenditures	 \$3,840	 (\$5,963)
 Fund Balance, Beginning of Year	 \$24,427	 \$28,268
 Fund Balance, End of Year	 \$28,267	 22,304

Source: Independent Auditor's Report of the Fluid Milk Board and USDA Records

Appendix B-5
USDA Oversight Costs for the
National Fluid Milk Processor Promotion Board
(Thousands)

	2006	2007
USDA Oversight Costs		
Salaries and Benefits	\$340,185	\$309,978
Travel	24,441	18,506
Miscellaneous ¹	49,737	54,813
Equipment	3,164	494
Printing	<u>2,306</u>	<u>6,629</u>
USDA Oversight Total	\$419,833	\$390,420
Independent Evaluation	\$31,718	\$16,995
Total²	\$451,551	\$407,415

¹ Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of the General Counsel costs.

² The totals for USDA expenses differ slightly from those shown in Appendix B-4 because of end-of-year estimates which are adjusted in the following year.

Source: USDA accounting reports.

Appendix B-6
National Fluid Milk Processor Promotion Board
Approved Budgets
(Thousands)

	2008
Revenues	
Assessments	\$107,800
Interest	<u>340</u>
Total Income	\$108,140
Carryover from Previous Fiscal Year	<u>\$4,646</u>
Total Available Funds	\$112,786
Expenses	
General and Administrative	\$2,865
USDA Oversight	567
California Refund	<u>10,210</u>
Subtotal	\$13,642
Program Budget	
Advertising	\$67,500
Public Relations	15,619
Promotions	11,236
Strategic Thinking	1,115
Medical Advisory Panel	400
Research	2835
Medical Research	205
Program Management	-
Program Measurement	<u>230</u>
Subtotal	\$99,140
Unallocated	<u>4</u>
Total Budget Expenditures	\$112,786

¹Independent Evaluation costs are included in Program Measurement Expenses.

²Processor Compliance is included in General and Administrative Expenses.

Source: Budgets from the National Fluid Milk Board received and approved by USDA.

Appendix B-7
Aggregate Income and Expenditure Data Reported to USDA
by the Qualified Programs
(Thousands)

	2006	2007
Income		
Carryover from Previous Years	\$53,810 ¹	\$60,672 ¹
Producer Remittances	181,262	189,043
Transfers from Other Qualified Programs ²	55,818	51,676
Transfers to Other Qualified Programs	-52,009	-51,501
Other Income	<u>7,941</u>	<u>9,037</u>
Total Adjusted Annual Income	\$246,822	\$258,927
Expenditures		
General and Administrative	\$8,056	\$8,435
Advertising and Sales Promotion	72,403	74,982
Unified Marketing Plan ⁴	63,534	67,249
Dairy Foods and Nutrition Research	5,122	5,717
Public and Industry Communications	14,019	14,556
Nutrition Education	15,130	15,831
Market and Economic Research	2,641	1,394
Other ⁵	<u>1,538</u>	<u>2,126</u>
Total Annual Expenditures	\$182,443	\$190,290
Total Available for Future Year Programs	\$64,379	\$68,637

¹ Differences are due to audit adjustments and varying accounting periods.

² Payments transferred between Qualified Programs differ due to different accounting methods and accounting periods.

³ Includes interest, income from processors and handlers, sales of supplies and materials, contributions, and rental income.

⁴ Unified Marketing Plan: Reported local spending by United Dairy Industry Association units participating in the DMI unified marketing plan to fund national implementation programs.

⁵ Includes capital expenses.

Source: Aggregate income and expenditure data reported by the Qualified Programs.

Appendix B-8
Aggregate Advertising Expenditure Data Reported to USDA
by the Qualified Programs
(Thousands)

	2006	2007
Advertising Programs		
Fluid Milk	\$12,658 [17.5%]	\$13,763 [18.5%]
Cheese	46,343 [64.0%]	48,008 [64.6%]
Butter	2,717 [3.7%]	2,786 [3.8%]
Frozen Dairy Products	411 [0.6%]	259 [0.3%]
Other ¹	<u>10,274</u> [14.2%]	<u>9,554</u> [12.8%]
Total	\$72,403 [100%]	\$74,370 [100%]

¹Includes "Real Seal," holiday, multi-product, calcium, evaporated milk, foodservice, product donation at State fairs, and other events and contributions for displays or promotional events.

Source: Aggregate income and expenditure data reported by the Qualified Programs.

FINANCIAL STATEMENTS

National Dairy Promotion and Research Board
Years Ended December 31, 2007 and 2006
With Report of Independent Auditors

C-1

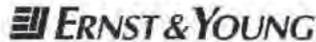
National Dairy Promotion and Research Board

Financial Statements

Years Ended December 31, 2007 and 2006

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Ernst & Young LLP
Sears Tower
233 S. Wacker Drive
Chicago, IL 60606

Phone: (312) 879-2000
www.ey.com

Report of Independent Auditors

The Board of Directors
National Dairy Promotion and Research Board

We have audited the accompanying balance sheets of National Dairy Promotion and Research Board (NDB) as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NDB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of NDB's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NDB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Dairy Promotion and Research Board as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 17, 2008

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National Dairy Promotion and Research Board

Balance Sheets

	December 31	
	2007	2006
Assets		
Cash and cash equivalents	\$ 56,273,012	\$ 25,577,570
Assessments receivable, net of allowance for doubtful accounts of \$300,000 in 2007 and 2006	7,986,431	8,553,930
Accrued interest receivable	104,824	47,400
Investment in NAEMS study, net of accumulated amortization of \$2,166,667 in 2007 and \$166,667 in 2006.	3,833,333	5,833,333
Fixed assets, net of accumulated depreciation of \$165,524 in 2007 and \$161,889 in 2006	40,517	32,152
Total assets	<u>\$ 68,238,117</u>	<u>\$ 40,044,385</u>
 Liabilities and net assets		
Liabilities:		
Due to related party – DMI	\$ 12,772,234	\$ 1,690,607
Accounts payable	134,281	250,232
Accrued expenses and other liabilities	196,647	137,217
Total liabilities	<u>13,103,162</u>	<u>2,078,056</u>
 Net assets – unrestricted	 <u>55,134,955</u>	 <u>37,966,329</u>
Total liabilities and net assets	<u>\$ 68,238,117</u>	<u>\$ 40,044,385</u>

See accompanying notes.

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National Dairy Promotion and Research Board

Statements of Activities

	Year Ended December 31	
	2007	2006
Revenues		
Assessments	\$ 91,951,512	\$ 90,320,106
Interest income	<u>1,719,927</u>	964,672
Total revenues	<u>93,671,439</u>	91,284,778
Expenses		
Programs:		
Domestic marketing group	37,785,911	40,143,404
Research and evaluation group	3,404,516	3,077,723
Communications/member relations group	23,218,042	15,474,320
Export group	5,723,896	5,199,382
United States Department of Agriculture	712,299	757,296
Amortization of NAEMS study	<u>2,000,000</u>	166,667
Total programs	<u>72,844,664</u>	64,818,792
General and administrative:		
DMI general and administrative	3,157,229	3,251,973
General and administrative	<u>500,920</u>	506,972
Total general and administrative	<u>3,658,149</u>	3,758,945
Total expenses	<u>76,502,813</u>	<u>68,577,737</u>
Increase in net assets	17,168,626	22,707,041
Net assets at beginning of year	<u>37,966,329</u>	<u>15,259,288</u>
Net assets at end of year	<u>\$ 55,134,955</u>	<u>\$ 37,966,329</u>

See accompanying notes.

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National Dairy Promotion and Research Board

Statements of Cash Flows

	Year Ended December 31	
	2007	2006
Operating activities		
Change in net assets	\$ 17,168,626	\$ 22,707,041
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of NAEMS study	2,000,000	166,667
Depreciation	3,635	22,863
Changes in assets and liabilities:		
Assessments receivable	567,499	260,047
Accrued interest receivable	(57,424)	(46,416)
Accounts payable	10,965,676	(2,997,965)
Accrued expenses and other liabilities	59,430	(122,879)
Net cash provided by operating activities	30,707,442	19,989,358
Investing activities		
Investment in NAEMS study	-	(6,000,000)
Purchases of fixed assets	(12,000)	(8,275)
Cash used in investing activities	(12,000)	(6,008,275)
Net increase in cash and cash equivalents	30,695,442	13,981,083
Cash and cash equivalents at beginning of year	25,577,570	11,596,487
Cash and cash equivalents at end of year	\$ 56,273,012	\$ 25,577,570

See accompanying notes.

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National Dairy Promotion and Research Board

Notes to Financial Statements

December 31, 2007 and 2006

1. Organization

The National Dairy Promotion and Research Board (NDB) was established on May 1, 1984, pursuant to The Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180), as part of a comprehensive strategy to reduce milk surplus supplies in the United States (U.S.) and increase human consumption of U.S.-produced fluid milk and other dairy products. The purpose of NDB is to establish a coordinated program of promotion and research designed to strengthen the U.S. dairy industry's position in the marketplace and to maintain and expand domestic and international markets' usage of U.S.-produced fluid milk and other dairy products.

The United States Department of Agriculture (USDA) approved a joint venture between NDB and the United Dairy Industry Association (UDIA) to form Dairy Management Inc. (DMI) effective January 1, 1995. The purpose of DMI, a related organization, is to promote greater coordination, efficiency, and effectiveness and avoid incompatibility and duplication in the marketing programs and projects undertaken by NDB and UDIA. NDB and UDIA will jointly plan, develop, and implement their various marketing programs and activities through DMI, subject to the approval of the USDA.

NDB funds DMI on a cost-reimbursement basis. Core costs, which include staff salaries and benefits, travel, Board of Directors, and office operating expenses, are primarily funded by NDB, with UDIA funding one-half of Board of Directors and executive office costs. Marketing program costs, which include expenses associated with implementing the marketing programs of NDB and UDIA, are funded by NDB and UDIA based on the annual Unified Marketing Plan budget. NDB has funded DMI core costs of \$20,023,639 and \$16,398,851 and program costs of \$53,265,955 and \$50,747,951 for activity related to the years ended December 31, 2007 and 2006, respectively.

The U.S. Dairy Export Council (USDEC) is a related organization that was founded by the boards of both NDB and UDIA and began operations effective January 1, 1996. The purpose of USDEC is to improve the marketing conditions for the U.S. dairy industry with respect to the export of U.S. dairy products by promoting the acceptability, consumption, and purchase of U.S. dairy products in international markets. For the years ended December 31, 2007 and 2006, NDB reimbursed DMI \$5,723,896 and \$5,199,382, respectively, for USDEC's operations.

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National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates. Net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions in accordance with the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, as follows:

- Permanently restricted net assets are assets subject to donor-imposed restrictions requiring the asset be retained permanently and invested. Restrictions permit the use of some or all of the income earned on the invested assets for specific purposes.
- Temporarily restricted net assets are assets with donor restrictions that expire with the passage of time, the occurrence of an event, or the fulfillment of certain conditions. Earnings related to temporarily restricted net assets are recorded as temporarily restricted net assets until amounts are expensed in accordance with the donor's specified purposes. When donor restrictions are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities.
- Unrestricted net assets are not subject to donor-imposed stipulations. Board-designated net assets are unrestricted net assets designated by the Board to be used for several specific purposes. The Board retains control over these net assets and may, at its discretion, subsequently use the net assets for other purposes.

All net assets of the NDB at December 31, 2007 and 2006, are unrestricted.

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National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

Cash equivalents include all liquid investments with a maturity of three months or less at the date of acquisition.

Assessments

Assessment revenue is generated by a mandatory assessment of \$0.15 per hundredweight on all milk produced and marketed in the contiguous United States. Milk producers can direct up to \$0.10 per hundredweight to USDA qualified state and regional generic dairy promotion organizations. For the years ended December 31, 2007 and 2006, the net NDB assessment was approximately \$0.0505 and \$0.0504 per hundredweight of milk marketed, respectively. Assessment revenue is recognized in the month in which milk is marketed.

During 2005, the Dairy Promotion and Research Order was amended to allow organic dairy producers, as defined, to be exempt from paying assessments. The amount of exempted assessments in 2007 and 2006 was approximately \$515,000 and \$409,000, respectively.

Fixed Assets

Fixed assets consist of computer software and are recorded at cost. Depreciation and amortization are provided in amounts sufficient to charge the costs of depreciable assets to operations over estimated service lives of five years using the straight-line method.

Contract and Grant Expense

Expenses related to contracts are recognized as incurred. Grants for research projects typically require periodic reporting of project status and payments. Such payments are expensed as progress is achieved.

Income Taxes

NDB has received a determination letter from the Internal Revenue Service indicating that it is exempt from federal and state income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. There was no unrelated business taxable income for the years ended December 31, 2007 and 2006; therefore, no provision for income taxes has been reflected in the accompanying financial statements related to activities of NDB.

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National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Employee Costs

NDB's operations are staffed by DMI employees who receive vacation, retirement, health, and other benefits provided by DMI.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31:

	<u>2007</u>	<u>2006</u>
Cash	\$ 1,113,536	\$ 385,059
Federal agency discounted securities	55,159,476	25,192,511
	<u>\$56,273,012</u>	<u>\$25,577,570</u>

4. Assessments Receivable

Assessments receivable are recorded at the estimated net amounts to be received based on the amount of milk marketed and the average payment per hundredweight. In accordance with Public Law 98-180, NDB forwards unpaid assessments to the USDA for collection and other legal proceedings. As of December 31, 2007 and 2006, approximately \$67,000 and \$68,000, respectively, of cumulative unpaid assessments were at the USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2007 and 2006, and will not be recorded as revenue until such amounts are ultimately received. Civil penalties exist for any persons who do not pay the assessment and/or file required milk marketed assessment reports with NDB.

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National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

5. Net Assets

During 2007 and 2006, NDB's Board designated a portion of net assets for cash reserves. Total designations of net assets are as follows:

	<u>2007</u>	<u>2006</u>
Designated net assets:		
Cash reserves	\$ 1,800,000	\$ 1,800,000
NAEMS study	3,833,333	5,833,333
Subsequent year program activity	17,966,465	5,500,000
Total designated net assets	<u>23,599,798</u>	<u>13,133,333</u>
Undesignated net assets	<u>31,535,157</u>	<u>24,832,996</u>
Total net assets	<u>\$ 55,134,955</u>	<u>\$ 37,966,329</u>

6. Transactions With the United States Department of Agriculture

NDB reimburses the USDA for the cost of administrative oversight and compliance audit activities. These reimbursements amounted to \$712,299 and \$757,296 for the years ended December 31, 2007 and 2006, respectively.

7. National Air Emissions Monitoring Study (NAEMS)

In 2005, the U.S. Congress approved a one-time waiver in restrictions that limited the use of checkoff dollars to post-harvest research activities. The waiver allowed NDB to use checkoff money to pay for research into the types of air emissions coming from a cross-section of dairy operations.

In January 2006, NDB contracted with National Milk Producers Federation (NMPF) to conduct a research project to study the environmental effects of air emissions from dairy operations. Total investment in the project was \$6.0 million. This amount was disbursed to NMPF during 2006 for the project beginning in December. In turn, NMPF placed these funds into an escrow account, and, subsequently, released an NDB-approved portion of these funds to the Agricultural Air Research Council (AARC). AARC is conducting the research during a three-year period.

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National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

7. National Air Emissions Monitoring Study (NAEMS) (continued)

NDB is amortizing this investment over the life of the project as follows:

	<u>2007</u>	<u>2006</u>
Investment in NAEMS Air Emissions Study	\$ 6,000,000	\$ 6,000,000
Less:		
Accumulated amortization	2,166,667	166,667
Net investment	<u>\$ 3,833,333</u>	<u>\$ 5,833,333</u>

**National Fluid Milk Processor
Promotion Board**

Financial Statements
and
Independent Auditor's Report

Year Ended December 31, 2007

1250 H Street, N.W., Suite 950
Washington, D.C. 20005

Part I

Financial Statements and Independent Auditor's Report for the Year Ended December 31, 2007

Part II

Independent Auditor's Report on Internal Control (Combined Report Applicable to Internal Control over Financial Reporting Based on an Audit of Financial Statements and Internal Control over Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*)

Part III

Independent Auditor's Comments on Compliance with *Government Auditing Standards*

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Independent Auditor's Report

**To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.**

We have audited the accompanying statement of financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the National Fluid Milk Processor Promotion Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2007, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants and Business Advisors
4520 East West Highway, Suite 520, Bethesda, MD 20814-3338
Phone: 301-652-6700 Fax: 301-986-1028
Web: cpahelp.com E-Mail: advice@cpahelp.com

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APPENDIX C
AUDITS



To the Board of Directors
National Fluid Milk Processor
Promotion Board
Page two

In accordance with *Government Auditing Standards*, we have also issued reports dated March 26, 2008 on our consideration of the National Fluid Milk Processor Promotion Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

APPENDIX C
AUDITS

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

SNYDER, COHN, COLLYER, HAMILTON & ASSOCIATES, P.C.
Bethesda, Maryland
March 26, 2008

C-2
National Fluid Milk Processor Promotion Board

Statement of Financial Position

December 31, 2007

Assets

Current assets:

Cash and cash equivalents	\$ 16,897,658
Assessments receivable	10,525,196
Future year costs	5,740,792
Prepaid expenses	25,117
Other receivables	<u>133,672</u>

Total assets \$ 33,322,435

Liabilities and net assets

Current liabilities:

Accounts payable and accrued expenses \$ 11,018,497

Net assets:

Designated for contingencies 2,500,000
Undesignated 19,803,938

Total net assets 22,303,938

Total liabilities and net assets \$ 33,322,435

See Accompanying Notes

C-2
National Fluid Milk Processor Promotion Board

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended December 31, 2007

Revenues:	
Assessments	\$ 107,735,716
Late payment charges	101,950
Interest income	899,175
Other	<u>70,966</u>
Total revenues	<u>108,807,807</u>
Expenses:	
Program expenses:	
Media	72,121,873
Promotions	12,468,400
Public relations	12,661,455
Strategic thinking	1,157,015
Research	2,227,542
Medical advisory panel	268,410
Medical research	100,150
Program measurement	<u>120,230</u>
Total program expenses	<u>101,125,075</u>
Other expenses:	
California grant	10,257,444
Administrative	2,874,727
USDA oversight	425,072
USDA compliance audit	<u>88,786</u>
Total other expenses	<u>13,646,029</u>
Total expenses	<u>114,771,104</u>
Excess of expenses over revenues	(5,963,297)
Net assets - beginning	<u>28,267,235</u>
Net assets - ending	<u>\$ 22,303,938</u>

See Accompanying Notes

C-2
National Fluid Milk Processor Promotion Board

Statement of Cash Flows

For the Year Ended December 31, 2007

Cash flows from operating activities:	
Excess of expenses over revenues	\$ (5,963,297)
Changes in assets and liabilities:	
Decrease in assessments receivable	1,437,321
Decrease in interest receivable	23,601
Increase in future year costs	(2,314,372)
Increase in prepaid expenses	(25,117)
Decrease in other receivables	22,391
Decrease in accounts payable and accrued expenses	<u>(1,924,209)</u>
Net cash used in operating activities	<u>(8,743,682)</u>
Cash flows from investing activities:	
Purchase of investments	(2,802,817)
Proceeds from sale of investments	<u>5,605,576</u>
Net cash provided by investing activities	<u>2,802,759</u>
Net decrease in cash and cash equivalents	(5,940,923)
Cash and cash equivalents - beginning	<u>22,838,581</u>
Cash and cash equivalents - ending	<u><u>\$ 16,897,658</u></u>

See Accompanying Notes

C-2
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2007

Note 1: Summary of significant accounting policies:

The National Fluid Milk Processor Promotion Board (the Board) was established pursuant to the authority of the Fluid Milk Promotion Act (the Act) of 1990, Subtitle H of the Title XIX of the Food, Agriculture, Conservation and Trade Act of 1990. The purpose of the Board is to administer the provisions of the Fluid Milk Promotion Order (the Order) established pursuant to the Act which establishes an orderly procedure for the development, and the financing through an assessment, of a coordinated program of advertising, promotion, and education for fluid milk products.

The Act requires that a referendum be conducted among processors to determine if a majority favored implementing the fluid milk program. In the October 1993 initial referendum, the majority of processors voted to approve the implementation of the fluid milk program. A continuation referendum was held in February-March 1996. Of the processors voting in that referendum, the majority favored continuation of the fluid milk program. In November 1998, another continuation referendum was held at the request of the Board and processors voted to continue the fluid milk program as established by the Order. The Act and Order state that the United States Department of Agriculture (USDA) will hold future referenda upon the request of the Board, processors representing 10 percent or more of the volume of fluid milk products marketed by those processors voting in the last referendum, or when called by the U.S. Secretary of Agriculture. On March 30, 2004, a Notice of Review and Request was published in the Federal Register. The purpose of the Review was to determine whether the Order should continue without change. No comments were received and the Order will continue without change.

For financial reporting purposes, the Board is considered a quasi-governmental agency of the U.S. government. As such, it is exempt from income taxes under the Internal Revenue Code. The USDA and its affiliated agencies operate in an oversight capacity of the Board.

The financial statements of the Board are prepared in conformity with accounting principles generally accepted in the United States of America. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

Assessments - Assessments are generated from those processors marketing more than 3,000,000 pounds of fluid milk per month by a 20-cent per hundred weight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the 48 contiguous United States and the District of Columbia. Assessment revenue is recognized in the month in which the fluid milk product is processed.

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National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2007

Note 1: Summary of significant accounting policies: (continued)

Late payment charges are assessed, as provided under the Act, to processors who do not remit monthly assessments within 30 days following the month of assessment. The late payment charge is equal to 1.5% of unpaid assessments and accrues monthly. At no time does the Board stop accruing interest on these assessments. For 2007, an allowance for doubtful accounts of \$-0- has been established for those amounts where the late charges are being appealed.

California grant - In accordance with the Act, the Board is required to provide a grant to a third party equal to 80% of the assessments collected from Regions 14 and 15 to implement a fluid milk promotion campaign. Disbursements under these provisions are recorded as "California Grant" in the accompanying financial statements.

Cash equivalents - For purposes of the statement of cash flows, the Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Future year costs - Future year costs represent costs incurred for 2008 budget year projects.

Assessments receivable - An allowance for uncollectible accounts has been established for those assessments which management has determined as uncollectible. The total allowance for uncollectible amounts at December 31, 2007 was \$306,527.

Use of estimates - The Board has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Advertising - In accordance with its mission, the Board has approved the development of direct and nondirect response advertising and promotional activities. All costs related to these activities are charged to expense as incurred.

Note 2: Cash and cash equivalents:

At December 31, 2007, the bank balance of the Board's cash deposits was entirely covered by federal depository insurance or was covered by collateral held by the Board's agent in the Board's name. Included in cash and cash equivalents is \$2,500,000 of Board designated cash reserves.

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National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2007

Note 3: Investments:

The Board is required to follow the Agricultural Marketing Service (AMS) investment policy. Accordingly, the Board is authorized to invest in securities consisting of obligations issued or fully insured or guaranteed by the U.S. or any U.S. government agency, including obligations of government-sponsored corporations, and must mature within one year or less from the date of purchase. Investments are carried at cost, which approximates fair value. The Board's investments are held by the counterparty's trust department or agent in the Board's name.

During 2007, the Board liquidated all of its investments and transferred the proceeds to a high interest bearing account with BB&T. Proceeds from the sale of the securities for the year ended December 31, 2007 were \$5,691,684. Unrealized gains and losses were \$-0- for the year ended December 31, 2007.

Note 4: Compliance matters:

In accordance with the Act and the Order, effective one year after the date of the establishment of the Board, the Board shall not spend in excess of 5% of the assessments collected for the administration of the Board. For the year ended December 31, 2007, the Board did not exceed this limitation.

Note 5: Program administration:

The Board entered into an agreement with the International Dairy Foods Association (IDFA) to administer the fluid milk program. Under this agreement, IDFA engages outside organizations to develop programs for advertising, promotion, consumer education, and certain minority initiatives. The organizations are:

- DraftFCB Group
- Lowe & Partners Worldwide
- Weber Shandwick Worldwide
- Siboney USA

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National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2007

Note 5: Program administration: (continued)

Under this and related agreements, IDFA also provided program management, administrative support and employee benefits management services and leases office space to the Board. During the year ended December 31, 2007, the Board incurred \$1,002,347 for directly provided services. At December 31, 2007, the Board owed IDFA \$259,776 for costs billed.

In October 2007, the Board terminated its administrative support and program management agreement with IDFA and entered into two new agreements, an office services and a professional services agreement.

The office services agreement is a 12-month agreement expiring on September 30, 2008. Under this agreement IDFA will provide certain administrative services and resources to the Board following the reorganization of the Board's staff, effective October 1, 2007. Fees for these services are based on either an hourly rate of \$200 or predetermined amounts ranging from \$750 to \$3,000 per month plus materials. During the year ended December 31, 2007 the Board incurred \$84,917 under this agreement.

The professional services agreement is a 27-month agreement expiring on December 31, 2009. The agreement allows for IDFA to assist the Board in performing general services pursuant to its responsibility under the Fluid Milk Promotion Act of 1990. General services are set forth in greater detail in the agreement, but include areas such as:

- Medical and nutritional
- Communications and public relations
- Sales and econometric analysis
- In house legal services
- Meeting planning
- Other services as requested

Total costs incurred under this agreement amounted to \$62,897 for the year ended December 31, 2007.

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National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2007

Note 6: Commitments:

The Board entered into an agreement during fiscal year 2000 with Walt Disney World Hospitality & Recreation Corporation (WDWHRC), whereby the Board agreed to pay WDWHRC \$1,800,000 each year for the next six years through 2006 in exchange for the sponsorship and certain promotional rights at the Sports Complex in order to cooperatively develop programs to promote fluid milk products at Walt Disney World Resort. In December 2003, both parties agreed to extend the term of the agreement for another three years through 2009 at the previously agreed rate of \$1,800,000 to be increased annually by the change in the Consumer Price Index.

In 2002, the Board entered into a five-year agreement with the American Heart Association. Under the agreement, the Board pays the American Heart Association \$120,000 annually from 2002 to 2007 for use of the logo on the processors' milk containers.

During August 2007, the Board entered into a severance agreement with a former program manager. The agreement requires payment of the program manager's annual salary through August 2008 and continuation of medical, dental and life insurance coverage for a period up to 12 months after termination.

Note 7: Operating lease:

In 1999, the Board entered into a sublease agreement with IDFA to lease office space and for other general office services. The lease has an automatic renewal option, which was cancelled during 2007 due to the Board's restructuring. In October 2007, the Board entered into a new 20-month lease agreement with IDFA, which expires on May 31, 2009. Under the terms of the lease, the Board is required to pay monthly base rent plus additional monthly charges equal to a pro rata portion of the buildings operating expenses and other charges as defined in the lease agreement. The Board also has the option to renew the lease for an additional twelve months. Future minimum base rental payments under the agreement for the years ending December 31 are as follows:

2008	\$ 164,201
2009	<u>68,417</u>
	<u>\$ 232,618</u>

The Board incurred \$124,300 of rental expense during 2007.

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National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2007

Note 8: Transactions with the United States Department of Agriculture:

Under the provisions of the Act and the Order, the Board is required to pay the United States Department of Agriculture certain fees for oversight and evaluation costs. These costs were \$513,858 during 2007.

Note 9: Related party activity:

Accounting services for the Board are performed by Rubin, Kasnett & Associates, P.C. (RK&A); the cost of these services was \$375,000 during 2007. A principal of RK&A serves as the Chief Financial Officer of the Board and receives compensation for services performed.

The Board has entered into an employment agreement with its Chief Executive Officer (CEO). The agreement runs from January 1, 2004 to December 31, 2009 and provides for annual compensation, benefits, and increases based upon the CEO's annual performance evaluation. The agreement also includes provisions that would require severance payments upon early termination of the agreement.

Other receivables consist of \$133,672 due from IDFA, which represents excess retirement plan fundings associated with the CEO's employment contract. This amount will be adjusted on an annual basis, and will be refunded to the Board upon the earlier of the CEO's termination or retirement.

Note 10: Pension plan:

In October 2007, the Board adopted a safe harbor 401(k) plan. An employee is eligible to participate in the plan once the service requirement is completed as defined in the plan document. If an employee was employed by the Board on October 1, 2007, the service requirement was waived and those employees were immediately eligible to participate. Participants may elect to defer a portion of their salary and contribute it to the retirement plan. Additionally, the Board will make a safe harbor matching contribution equal to 100% of deferrals that do not exceed 3% of the employees' compensation plus a 50% match for deferrals between 3% - 5% of employees' compensation. However for any plan year when the plan is not a "safe harbor" plan, the contribution is at the Board's discretion. The Board's contribution totaled \$124,235 for the year ended December 31, 2007.

**SUPPLEMENTARY
INFORMATION**



Independent Auditor's Report on Supplementary Information

**To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.**

Our report on our audit of the basic financial statements of the National Fluid Milk Processor Promotion Board for 2007 appears on pages 1 and 2. We conducted our audit for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 14 to 18 for the year ended December 31, 2007 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

Bethesda, Maryland
March 26, 2008

C-2
National Fluid Milk Processor Promotion Board

**Schedule of Revenues and Expenses
Actual Compared to Budget
(Budget Basis)**

For the Year Ended December 31, 2007

	Unexpended/ Amended Budget	Current Year Actual	Actual Over (Under) Budget
Revenues:			
Assessments	\$ 107,000,000	\$ 107,735,716	\$ 735,716
Late payment charges	-	101,950	101,950
Interest income	640,000	899,175	259,175
Other	-	70,966	70,966
Carryover - prior years	<u>8,311,500</u>	<u>-</u>	<u>(8,311,500)</u>
Total revenues	<u>115,951,500</u>	<u>108,807,807</u>	<u>(7,143,693)</u>
Expenses:			
Program expenses:			
Program - current year	101,692,449	96,746,015	(4,946,434)
Program - prior years	<u>7,406,192</u>	<u>4,379,060</u>	<u>(3,027,132)</u>
Total program expenses	<u>109,098,641</u>	<u>101,125,075</u>	<u>(7,973,566)</u>
Other expenses:			
California grant	10,200,000	10,257,444	57,444
Administrative	3,294,700	2,874,727	(419,973)
USDA oversight	<u>550,000</u>	<u>513,858</u>	<u>(36,142)</u>
Total other expenses	<u>14,044,700</u>	<u>13,646,029</u>	<u>(398,671)</u>
Less: encumbrances - prior years	<u>(7,406,192)</u>	<u>-</u>	<u>7,406,192</u>
Total expenses	<u>115,737,149</u>	<u>114,771,104</u>	<u>(966,045)</u>
Unallocated budget	<u>214,351</u>	<u>-</u>	<u>(214,351)</u>
Excess of expenses over revenues	<u>\$ -</u>	<u>\$ (5,963,297)</u>	<u>\$ (5,963,297)</u>

See Independent Auditor's Report on Supplementary Information

National Fluid Milk Processor Promotion Board

Schedule of Program Expenses
Actual Compared to Budget
(Budget Basis)

For the Year Ended December 31, 2007

	Current Year Amended Budget	Expended Current Year		Actual Over (Under) Budget	Prior Year Unexpended Budget	Expended Prior Year		Actual Over (Under) Budget	Total Program Activity
		Actual	Budget			Actual	Budget		
Expenses - 2007 budget									
Media	\$ 70,655,124	\$ 69,753,792	\$ 3,285,104	\$ (901,332)	\$ 3,285,104	\$ 2,368,061	\$ (917,023)	\$ 72,121,873	
Promotions	12,320,000	11,371,603	1,565,454	(948,397)	1,565,454	1,096,797	(468,657)	12,468,400	
Public relations	13,403,825	12,459,288	730,765	(944,537)	730,765	202,167	(528,598)	12,661,455	
Strategic thinking	1,661,500	961,290	899,781	(720,210)	899,781	195,725	(704,056)	1,157,015	
Research	2,810,000	1,785,006	648,555	(1,024,994)	648,555	442,536	(206,019)	2,227,542	
Medical advisory board	400,000	247,530	109,832	(152,470)	109,832	20,880	(88,952)	268,410	
Medical research	205,000	47,276	129,874	(157,724)	129,874	52,874	(77,000)	100,150	
Program measurement	217,000	120,230	36,827	(96,770)	36,827	-	(36,827)	120,230	
Total program expenses	\$ 101,692,449	\$ 96,746,015	\$ 7,406,192	\$ (4,946,434)	\$ 7,406,192	\$ 4,379,060	\$ (3,027,132)	\$ 101,125,075	

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National Fluid Milk Processor Promotion Board

**Schedule of Administrative Expenses
Actual Compared to Budget
(Budget Basis)**

For the Year Ended December 31, 2007

	Current Year Amended Budget	Current Year Actual	Actual Over (Under) Budget
Management contract	\$ 296,157	\$ 299,614	\$ 3,457
Board meeting expenses	350,000	253,433	(96,567)
Resource development committee	300,000	212,871	(87,129)
Industry support survey	25,000	14,000	(11,000)
Support staff severance	103,000	89,362	(13,638)
Staff salaries and benefits:			
Staff salaries and compensation	391,864	389,288	(2,576)
Staff retirement benefit	83,579	124,235	40,656
Payroll taxes	40,662	39,801	(861)
Health insurance	18,366	13,966	(4,400)
Life insurance	3,915	2,382	(1,533)
Disability insurance	5,138	2,833	(2,305)
Workers compensation	4,865	4,756	(109)
Other employee benefits	23,504	5,940	(17,564)
Total staff salaries and benefits	571,893	583,201	11,308
Finance and administration:			
Contract staff	175,000	175,000	-
Consultants - HR, IT	20,000	12,850	(7,150)
Financial services	375,000	375,000	-
Total finance and administration	570,000	562,850	(7,150)
Other operating expenses:			
Legal	365,000	365,000	-
Audits	95,000	91,211	(3,789)
Office facilities	133,250	124,300	(8,950)
Support and maintenance	33,000	41,895	8,895
Staff travel	145,000	130,004	(14,996)
Telephone	9,640	7,395	(2,245)
Insurance	40,000	36,029	(3,971)
Postage and delivery	25,000	15,456	(9,544)
Payroll service & pension admin	5,260	8,404	3,144
Software license and support	-	398	398

See Independent Auditor's Report on Supplementary Information

C-2
National Fluid Milk Processor Promotion Board

Schedule of Administrative Expenses
Actual Compared to Budget
(Budget Basis)

For the Year Ended December 31, 2007

	Current Year Amended Budget	Current Year Actual	Actual Over (Under) Budget
Other operating expenses: (continued)			
Miscellaneous	\$ 10,000	\$ 12,669	\$ 2,669
Space plan and build-out	70,000	24,845	(45,155)
Furniture	40,000	275	(39,725)
Equipment	87,500	1,515	(85,985)
Contingency	20,000	-	(20,000)
Total other operating expenses	1,078,650	859,396	(219,254)
Total administrative expenses	\$ 3,294,700	\$ 2,874,727	\$ (419,973)

See Independent Auditor's Report on Supplementary Information

C-2
National Fluid Milk Processor Promotion Board

Schedule of Cash Receipts and Disbursements

For the Year Ended December 31, 2007

Cash receipts from operations:	
Assessments	\$ 109,195,428
Late payment charges	101,950
Interest income	922,776
Other	70,966
Total revenues	<u>110,291,120</u>
Cash disbursements for operations	<u>(119,034,802)</u>
Cash receipts from investing activities:	
Purchase of investments	(2,802,817)
Sale of investments	5,605,576
Cash receipts from investing activities	<u>2,802,759</u>
Excess of disbursements over cash receipts	(5,940,923)
Cash and cash equivalents - beginning	<u>22,838,581</u>
Cash and cash equivalents - ending	<u>\$ 16,897,658</u>

See Independent Auditor's Report on Supplementary Information

PART II



Independent Auditor's Report on Internal Control
(Combined Report Applicable to Internal Control over Financial Reporting
Based on an Audit of Financial Statements and Internal Control over Compliance
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing*
Standards)

To the Board of Directors
National Fluid Milk Processor Promotion Board
Washington D.C.

We have audited the financial statements of the National Fluid Milk Processor Promotion Board (the Board), as of and for the year ended December 31, 2007, and have issued our report thereon dated March 26, 2008. We have also audited the Board's compliance with requirements applicable to *Government Auditing Standards* and have issued our report thereon dated March 26, 2008.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the Board complied with certain laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

The management of the Board is responsible for establishing and maintaining effective internal control. In planning and performing our audits of the financial statements and compliance, we considered the Board's internal control over financial reporting and its internal control over compliance with requirements that could have a direct and material effect on the determination of financial statement amounts in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting and internal control over compliance.

Certified Public Accountants and Business Advisors
4520 East West Highway, Suite 520, Bethesda, MD 20814-3338
Phone: 301-652-6700 Fax: 301-986-1028
Web: cpahelp.com E-Mail: advice@cpahelp.com

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To the Board of Directors
National Fluid Milk Processor Promotion Board
Page two

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis misstatements or noncompliance with applicable requirements of *Government Auditing Standards*. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements or noncompliance with applicable requirements of *Government Auditing Standards* that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements or material noncompliance with applicable requirements of *Government Auditing Standards* will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

We noted during the course of our audit one instance where a vendor check was issued by the Board and cashed by the bank without a second signature on the check as required per Board policy.

During the course of the audit we noted that a single individual receives and reconciles the bank statements. To establish more effective controls we recommend that the unopened bank statements and a listing of the disbursements be forwarded to the Chief Financial Officer for his review of any unusual items. The assistant controller should then reconcile the statements and forward the reconciliation to the controller for a final review. Each phase of the review process should be documented by the appropriate personnel initialing the face of the bank statements and/or reconciliations.

It also came to our attention that under existing procedures, signed disbursement checks are returned to the employee who prepared the checks. Control over disbursements would improve if an individual outside the accounting department received and mailed all disbursements after they are signed. This will help reduce the opportunity for checks to be altered after they are signed.



To the Board of Directors
National Fluid Milk Processor Promotion Board
Page three

This report is intended solely for the information of the Board of Directors of the National Fluid Milk Processor Promotion Board, management, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture, and is not intended to be and should not be used by anyone other than these specified parties.

Snyder, Cohn, Collyer, Hamilton + Associates, P.C.

SNYDER, COHN, COLLYER, HAMILTON & ASSOCIATES, P.C.
Bethesda, Maryland
March 26, 2008

PART III



**To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 26, 2008. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention, insofar as it relates to accounting matters, that causes us to believe that the National Fluid Milk Processor Promotion Board:

- Failed to comply with laws and regulations applicable to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1160.212 of the Fluid Milk Promotion Order, relating to the use of assessment funds for the purpose of influencing governmental policy or action;
- Expended assessment funds for purposes other than those authorized by the Fluid Milk Promotion Act and the Fluid Milk Promotion Order;
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by the National Fluid Milk Processor Promotion Board's approved Budget and Marketing Plan;
- Did not adhere to the original or amended Budget and Marketing Plan for the year ended December 31, 2007;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the National Fluid Milk Processor Promotion Board;

Certified Public Accountants and Business Advisors

4520 East West Highway, Suite 520, Bethesda, MD 20814-3338
Phone: 301-652-6700 Fax: 301-986-1028

Web: cpahelp.com E-Mail: advice@cpahelp.com

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To the Board of Directors
National Fluid Milk Processor
Promotion Board
Page two

- Failed to comply with Section 1999H, paragraph (g) of the Fluid Milk Promotion Order, relating to the limitations on the types of investments which may be purchased by the National Fluid Milk Processor Promotion Board and the insurance or collateral that must be obtained for all National Fluid Milk Processor Promotion Board deposits and investments, except as noted below;
- Failed to comply with internal controls, except as described below;
- Failed to comply with disclosure requirements for lease commitments;
- Failed to comply with standards established requiring signed contracts, USDA approval letters (if necessary), contract term documentation within the file, and CFO's signature on the Board approval letter; or
- Failed to comply with the by-laws of the National Fluid Milk Processor Promotion Board or any other policy of the National Fluid Milk Processor Promotion Board, specifically as they relate to all financial matters, including time and attendance, and travel.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

During the course of our audit, we noted one instance where a vendor check was issued by the Board and cashed by the bank without the second signature on the check as required per Board policy.

During the course of the audit, we noted that a single individual receives and reconciles the bank statements. To establish more effective controls we recommend that the unopened bank statements and a listing of the disbursements be forwarded to the Chief Financial Officer for his review of any unusual items. The assistant controller should then reconcile the statements and forward the reconciliation to the controller for a final review. Each phase of the review process should be documented by the appropriate personnel initialing the face of the bank statements and/or reconciliations.

It also came to our attention that under existing procedures, signed disbursement checks are returned to the employee who prepared the checks. Control over disbursements would improve if an individual outside the accounting department received and mailed all disbursements after they are signed. This will help reduce the opportunity for checks to be altered after they are signed.



To the Board of Directors
National Fluid Milk Processor
Promotion Board
Page three

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

SNYDER, COHN, COLLYER, HAMILTON & ASSOCIATES, P.C.
Bethesda, Maryland
March 26, 2008

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Appendix D-1
National Dairy Promotion and Research Board
and Dairy Management Inc.
Contracts Reviewed by USDA

Advertising and Marketing Services

American Academy of Family Physicians–Sponsorship; 3-A-Day™ of Dairy Activities
American Academy of Pediatrics–Sponsorship; 3-A-Day™ of Dairy Activities
American Association of School Administrators–Journal Advertising
American Association of School Business–Sponsorship Activities
American Dairy Association/Dairy Council, Inc.–Professional Staff Services
American Dietetic Association–Sponsorship; 3-A-Day™ of Dairy Activities
American School Food Service Association–School Foodservice Publications
Broadcast Traffic and Residuals, Inc.–Fluid Milk and Cheese Broadcast Materials and Talent Activities
DDB Chicago–Media Services
Dairy Farmers, Inc.–Professional Services
Demo Sales–Product Demo Program
Domino’s Pizza–Cheese Promotion Activity
Flair Communications Agency–Marketing and Program Management Services
G2 Promotional Marketing–Retail Activities
Global Dairy Platform–Management Services
Initiative Media Worldwide–Advertising Commissions Review
Interior Systems–Ultimate School Restyle
Mass Connections–Value-Added Milk Demonstrations
Media Management Services–School Marketing Program Support
Midwest Dairy Association–National Retail Account Services; UMP Implementation
NFL Properties, L.L.C.–Promotional Activities; Logo Usage Rights
National School Board Association–Marketing Partnership; Conference Exhibits; Journal Space
Novak Birch–Marketing and Creative Services
Olson Communications–School Foodservice Merchandising Materials; Mealtime Sampler Activities; Milk Vending Promotion Kits; School Cafeteria Promotion Activities; Foodservice Program Activities; School Promotion Activities; ADA Trade Booth
Richter Bros., Inc.–www.Dairyfarming.org Strategy
RTC–Dairy Aisle Reinvention
School Foodservice and Nutrition–Nutrition Magazine Inserts
Shook Kelley–Cheese Case Design
Slack Barshinger and Partners–Integrated Marketing Communications
Stagnito Communications–LISN Awards Program
Team Services, L.L.C.–NFL and Sports Marketing Services
VNU, Inc.–Licensing Agreement
WebMD–Newsletter and Quick Quiz Activities (Web-based)
Willard Bishop–Category Management Consulting
Wisconsin Milk Marketing Board–National Butter Program

Appendix D-1, continued

Communications, Public Relations, and Nutrition Education

Action for Healthy Kids, Inc.–Sponsorship

Audrey Welper–Media Consulting

Blu Skye Sustainability–Dairy Industry Sustainability Initiative

Child Nutrition Foundation–School Foodservice Program Activities

Christopher Klose–Editorial Consulting, Communications

Cleveland Dovington Partners, Inc.–Information Technology Services and Consulting;
www.TeamDairy.com and www.3aday.org Web site activities

Dairy Farmers, Inc.–Communication Activities, UMP Implementation

Destination Imagination, Inc.–Destination Imagination Sponsorship; CNFI Research

Edelman Public Relations Worldwide–Health Professional Public Relations;
Dairy Spokesperson Network, Nutrition Communications Program; Dairy Image Media
Relations; 3-A-Day Public Relations-Retail/Foodservice; Dairy Image Program

FoodMinds L.L.C.–Health Professional Public Relations; Nutrition and Scientific Affairs Public
Relations

Food, Research, and Action Center–Food Breakfast Expansion

The Fratelli Group–Dairy Image Protection

Gagen MacDonald L.L.C.–Internal Communications Support

Health and Nutrition Network–Media Training and Consulting Services

IA Collaborative–Nutrient Rich Coalition-Systemic Brand Development

I-Site Web Design–School Marketing Web Program

Image Base Corporation–Video News Release Production; School Milk Video Project

Integer Group–Dairy Producer Communications Program

JDG Consulting–Dairy Issues Management

John Folse & Co.–Cheese Friendly Ideation and Prototypes

Kelley Czerwonka–Consulting Services

LevCom–Communications Activity

Media Management Services–Pyramid Café/Pyramid Explorations Newsletter

National Cattleman’s Beef Association–Naturally Nutrient Rich Score Project

National Dairy Shrine–Dairy Scholarship Program

Novations Group, Inc.–Custom 360 Feedback Process

Nutrition Impact L.L.C.–Nutrient Density Index

Osborn and Barr–Communications; Industry Relations Consulting Project

Results Direct–DMI Website Activities

Richter Brothers–www.dairyfarmingtoday.org Web site activities

Valecor Services–Industry Relations and Market Intelligence

Weber Shandwick, Inc.–Issues Monitoring and Response; Crisis Communications Program

Export and Ingredients

3 A Business Consulting–European Newsletter; Milk Protein Ingredient Study

ABC Translation Services–Technical and Safety Evaluation Assessments

American-Mexican Marketing–Mexican Market Representation and Program Activities;
Mexican Trade Show and Cheese Promotion Activities; Dairy Deserts Promotion

Appendix D-1, continued

Export and Ingredients, continued

Another Color, Inc.–USDEC Publications Development and Design
Arab Marketing Finance, Inc.–Middle East Market Representation and Program Activities
Brooke Scientific Consulting–USDEC Export Guide
Burson-Marsteller–Dairy Ingredient Vulnerability Audit
Captive Media–Whey Sampling and Panel Advertising Campaign
Contacts International Consulting, Ltd.–South American Market Representation and Program Activities
DH Business Consulting–Milk Permeate Study
Data Development Worldwide–Evaluation Study
David L. Stiefer–USDEC Consulting Services
GVI Productions–Development and Production of Promotional Video
Garrison Group, L.L.C.–Consulting, Editorial, and Promotional Services
Global Trade Information Services–Purchase of *World Trade Atlas*
Grassland Media–Production of Deli Training Video
IFP–Supplement Packet Product; Whey Protein Formulations
International Dairy Foods Association–Export Manual Updates
International School of Baking–Dairy Ingredient Application in Bakery Products
International Trade Services–International Manuals Updates
IntNet–Korean Market Representation and Program Activities
iRIS Consulting–Mexican Dairy Market Assessment; Middle East Ingredient Study
JDG Consulting–USDEC Domestic Communications Plan
Knechtel, Inc.–Design and Develop Dairy Protein Based Products
Landell Mills–Global Dairy Ingredients Market Study; Brazilian Market Research; Milk Minerals Research; Chinese Dairy Ingredient Market Study; East African Dairy and Soy Markets Research
LBC Consulting–Canadian Marketing Research
Levitt Communication–International Consulting Services
Market Makers–High Value Whey Product Development; Japanese Market Representative and Program Activities
Mistral Group, Ltd.–European Market Representation and Program Activities
National Milk Producers Federation–Global and Domestic Research Activities; Trade Barriers
Novak Birch–USDEC Website Redesign
PR Consultants–Chinese Market Representation and Program Activities
Pacrim Associates–Southeast Asian Market Representation and Program Activities
Patricia R. Fuchs & Associates–USDEC Print Project Management
Promar International–Consulting Services
RB International–Consulting Services
Results Direct–USDEC Web site Activities www.usdec.org
Schonrock Consulting–Export Guide Analysis
Stanton, Emms, and Sia–Asian Market Study-Consumer Packaged Dry Formulas
Story Consulting–Consulting Services
Strategic Pathfinders–Evaluation of Japanese Marketing Programs

Appendix D-1, continued

Export and Ingredients, continued

TCE Consulting Group–Food and Nutrition Conference Activities

Uniflex Marketing–Japanese Market Representation and Program Activities; Japanese Dry Ingredients Program

World Perspectives–Evaluation of Southeast Asia Export Program

Zenith International–Middle East Cheese Market Research; Caribbean Cheese Study

Market and Economic Research, Consulting Services

AC Nielson–Information Data Purchase

Academic Network–Food Guide Pyramid Strategic Counseling

ARS Group–Print Advertising Evaluation

Baker Communications–Selling Skills Workshop

Beverage Marketing Corporation of New York–Evaluation of the Effectiveness of Generic Milk Programs; Contract Packer Directory

Borden Dairy–Milk in Single-Serve Plastic Containers for Schools

Burelle's–Media Monitoring and Analysis

CFE Solutions, Inc.–Consulting Services

C & R Research–Educational Materials Research Evaluation

Convert Marketing–Away From Home Yogurt Consumption Tests

Creamland Dairies–Milk in Single-Serve Plastic Containers for Schools

Custom Research, Inc.–Cheese and 3-A-Day™ Advertising Campaign Impact Assessment; Health Professional Dairy Nutrition Tracking Study

Datacore Marketing–Database Management and Consulting

Data Development WorldWide–Marketing Publication Evaluation

Decision Insights–Pizza Concept Screener

Demeter Communication–Large Herd Producer Panel

Doyle Research Associates–Web Site Usability Qualitative Research; Business to Business Qualitative Research; Chocolate/White Milk Qualitative Research

Ellen Tuchler–Strategic Counseling

Environ–Flavored Milk Research; Nutrition Research

Farmland Dairies, L.L.C.–Milk in Single-Serve Plastic Containers for Schools

Focus Management Services–U.S. Milk Industry School Audit

Fresh Look Marketing Group–Deli Cheese Tracking Data

GFK Custom Research–3-A-Day™ Tracking Study; Health Professional Tracking Study; Kids Milk Tracking

Green House Communications–Foodservice Program Activities

Harris Interactive, Inc.–New York City Milk Taste Test

Information Resources, Inc.–Milk and Cheese Category Volume Reports

Kiddie-i-OH–Lactose Intolerance Study

KRC Research–3-A-Day™ Tracking Survey

Lori Stanwood–Strategic Counsel

MSW–Qualitative Research

Appendix D-1, continued

Market and Economic Research, Consulting Services continued

Marketecture—Attitudes and Usage Trends Study Analysis; Tracking Activities of Public Opinion Toward Dairy Products and the Dairy Industry (Issues Tracker); Whey Protein Study

Marketing Concepts—Product Innovation and Research Program; Real Seal Administration

Maskowitz-Jacobs—Hispanic Research; Chocolate Milk Sensory Research

Meyers Research Center—Hispanic Cheese Market Research; Dairy Aisle Reinvention

Mintel International Group—New Products Database and Market Intelligence Reports

Model People—Milk and Cereal Breakfast Research

National Milk Producers Federation—Domestic Research Program Activities/Animal Health and Welfare Issues Activities; Air Emissions Monitoring Study

New American Dimensions—Hispanic Market Research

NFO Research—INFOfast Subscription; Dairy Restrictors Research; Purchase and Analysis of Marketing Data; Milk Segmentation (Value-Added)

NPD Group—Snack Tracker; Cheese Consumption Tracking Activity; CREST Foodservice Data; Eating Patterns Data Report; Food Safety and Dieting Monitor Report; Eating Trends and Beverage Study; Breakfast in America Report; *Food World* Subscription; Hispanic Market Database; Shopper Insight Analysis

Palma Companies—Qualitative Research

PHD Technologies—Meat Applications and Consulting; Trade Mission Activities

Prevail!—Hispanic Consumer Research

Promar International—School Milk Analysis and Consultation

Promata-Leemiss Services—Online Advertising Activity Data

Pursuant, Inc.—Milk-Producing Livestock Cloning/Dairy Consumption Research; Dairy Production Practices Attitude Research; Dairy Web Site Focus Groups

Results Direct—Database Development; Multi-Lingual Activity Support

Shainwright Consulting—Consulting and Research Services

Smith Dairy Products Company—Milk in Single-Serve Plastic Containers for Schools

Southern Foods Group, L.P.—Milk in Single-Serve Plastic Containers for Schools

Spectra Marketing Systems—Marketing Research Activities

Summit Research, Inc.—Whey Protein Research

Sunderg-Fear—Cereal and Milk On-the-Go Project

Synovate—Milk Packaging Messages; Health Focused Beverage Research; Meal Replacement Research

Synetics—Lactose Intolerance Research

Talent Partners—Broadcast Traffic Services

Technomic—Foodservice Trend Drivers

Teri Gacek Associates—Qualitative Market Research Assignments; Focus Group Testing; Organic Milk Focus Groups; Naturally-Nutrient Rich Qualitative Research; Specialty Cheese Study

TNS Custom Research—SIP Data, INFOfast Subscription

Trion Group LP—Value-Added Milk; Consulting Services

Turover Straus Group—Strategic Counsel

Upshot Corporation—Sales Force Outreach and Data Delivery System

Appendix D-1, continued

Market and Economic Research, Consulting Services continued

Upstate Farms Cooperative–School Milk Research Activities

Video Monitoring Services–Broadcast Monitoring

Watson Mulhern LLC–Consulting Services

Werely Marketing–Non-Yogurt User Research

Wirthlin Worldwide–Producer Communications Survey; Pyramid Education Program Research

Appendix D-2
National Fluid Milk Processor Promotion Board
Contracts Reviewed by USDA

Medical Advisory Board

Steve Abrams, M.D.-Baylor College of Medicine–Medical Advisory Board Member Services
Susan Barr, Ph.D.–Medical Advisory Board Member Services
Christine Economos, Ph. D.–Medical Advisory Board Member Services
Frank R. Greer, M.D.–Medical Advisory Board Member Services
Robert P. Heaney, M.D.-Creighton University–Medical Advisory Board Member Services
James O. Hill, Ph.D. –Medical Advisory Board Member Services
Rachel Johnson, Ph.D., R.D.–Medical Advisory Board Member Services
Ronald M. Krauss, M.D.–Medical Advisory Board Member Services

Advertising, Promotion, and Public Relations

American Heart Association–Licensing Agreement
CMGRP, Inc., d.b.a. Weber Shandwick–Public Relations Services and Website Activities
Draft, Inc.–Promotional Services
Fastspot–Website Service and Support
Lowe Worldwide–Advertising Services
Outloud, L.L.C.–Marketing Communications Plan
Publicidad Siboney–Hispanic Marketing Program

Market Research and Evaluation, and Consulting Services

Automatic Merchandiser–Market Analysis
Beverage Marketing Corporation–Consulting/Competitive Strategy Development; Tracking Study
Click IQ, Inc. –Online Survey
C&R Research Services–Market Research
Data Development Corporation–Market Research
Energy Infuser–Focus Groups
Environ International Corporation–Research Analysis
Foley and Lardner, L.L.P. –Processor Survey
Foresee Results–Consulting Services
Greenfield Consulting–Consulting Services
Harris Interactive–Market Research
Information Resources, Inc.–Market Analysis
International Dairy Foods Association–Professional Management Services
Kelly Fisher–Consulting Services
MarketMaker Interactive–Website Analysis
Marketing Management Analytics–Marketing Mix Analysis
Mc3staffing–Consulting Services
Outloud–Marketing Communications/Strategic Planning

Appendix D-2, continued

Phoenix Marketing–Hispanic Market Research

P.O.V. Marketing–Consulting Services

Prime Consulting Group–Consulting Services, Survey Analyses; Conducting Training Workshops; and Strategic Planning

RealMedia Value Company–Media Evaluation Services

Technomic, Inc.–Market Study and Analysis

Other Agreements

Hay Group–Organizational Structure Assessment

Inland Printing–Customer Service Activities

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.–Audit Services

Appendix E-1

Nutrition and Health Research Institute and Dairy Foods Research Centers

Nutrition and Health Research Institute

Genetics and Nutrition Institute

Children’s Hospital, Oakland Research Institute: Relationship of Genetics, Dietary Fat (Especially Dairy Fat), and Heart Disease.

Dairy Foods Research Center

California Dairy Research Foundation

(University of California–Davis and California Polytechnic State University–San Luis Obispo): Specializes in product technology development, ingredient technology, product health enhancement properties, food safety, and quality assurance.

Midwest Dairy Foods Research Center

(University of Minnesota–St. Paul, Iowa State University–Ames and South Dakota State University–Brookings): Concentrates on natural and processed cheese functionality and flavor, fluid milk flavor and shelf life, genomics of probiotic bacteria, and utilization of acid and salt whey.

Northeast Dairy Foods Research Center

(Cornell University–Ithaca and University of Vermont–Burlington): Focuses attention on developing and improving processing technologies to enhance dairy product quality, safety, and functionality, improving the safety of foods and processing systems, and modifying dairy product composition to ensure that dairy foods and ingredients remain a part of a healthy diet.

Southeast Dairy Foods Research Center

(North Carolina State University–Raleigh and Mississippi State University–Starkville): Specializes in milk and whey ingredient functionality, thermal and biological processing, sensory properties of cheese and dairy ingredients, dairy food safety, and microbial technologies for starter cultures and probiotics.

Western Dairy Center

(Utah State University–Logan, Oregon State University–Corvallis, Washington State University–Pullman, and University of Idaho–Moscow): Specializes in cheese flavor and functionality, fluid milk processing, whey and milk utilization, and microbial genetics and physiology.

Wisconsin Center for Dairy Research

(University of Wisconsin–Madison): Explores functional flavor and physical properties of cheese and cheese products, whey and whey components, and milk components used as ingredients and as finished products, cheese making and whey processing and separation procedures, use of milkfat, and food safety and quality technology.

Appendix E-2

Dairy Foods Competitive Research Activities

Principal Investigator, Institution, and Project Title

NIZO Food Research (Private Company): Solubility of Milk Protein Concentrate [continued in 2007]

Devin Peterson, Ph.D. (Pennsylvania State University): Inhibition of Off-Flavor Development in Non-Refrigerated Milk by Phenolic Chemistry [began in 2007]

Hua Wang, Ph.D. (Ohio State University Research Foundation): Methods to Maintain Dairy Culture Genotypes [began in 2007]

Shan-Tian Yang, Ph.D. (Ohio State University Research Foundation): Production of Galacto-Oligosaccharides from Whey Lactose [continued in 2007]

Appendix E-3 Nutrition Competitive Research Activities

Principal Investigator, Institution, and Project Title

Sean Adams, Ph.D. (USDA-Agricultural Research Service-Western Human Nutrition Research Center): Evaluation of the Anti-Inflammatory Effects of Calcium and Dairy in a Polygenic Obese Mouse Model [began in 2007]

David J. Baer, Ph.D. (USDA-Agricultural Research Service): Effects of Trans-Fatty Acids from Ruminant Sources on Risk Factor for Cardiovascular Disease [continued in 2007]; Effect of When Protein on Blood Pressure [began in 2007]

Leann L. Birch, Ph.D. (Pennsylvania State University): Parental Influence on Girls' Calcium Intake and Bone Mineral Content and Weight Status—Phase III [continued in 2007]

Robert Brannan, Ph.D. (Ohio University): Whey Protein Inhibition of Oil Absorption in Fried Foods [began in 2007]

Joseph Donnelly, Ph.D. (University of Kansas Center for Research, Inc.): The Effects of Dairy Intake on Weight Maintenance and Metabolic Profile [completed in 2007]

Ellen M. Evan, Ph.D. (University of Illinois): Higher Protein Diet and Exercise for Optimal Weight Loss in Elderly Women [began in 2007]

Michael Holick, Ph.D., M.D. (Boston University School of Medicine): The Effect of Dietary Calcium and Vitamin D on Prostate Cancer [continued in 2007]

Michael Huncharek, Ph.D. (Meta-Analysis Research Group and Marshfield Clinic): Impact of Dairy Foods and Dairy Associated Nutrients on the Risk of Colorectal Cancer [completed in 2007]; and Impact of Dairy Foods and Dairy-Associated Nutrients on the Risk of Prostate Cancer [completed in 2007]

Elsa M. Janle, Ph.D. (Purdue University): Potential of Dietary Whey Protein to Ameliorate the Development of Diabetes in the Zucker Diabetic Rat [continued in 2007]

Marlena C. Kruger, Ph.D. (Massey University): Investigation of Physiological Responses to Consumption of Whey or Soy Protein in the Obese Rat [completed in 2007]

Donald K. Layman, Ph.D. (University of Illinois): Meal Responses to Whey Proteins Enhance Adult Health [continued in 2007]

Joan M. Lappe, Ph.D. (Creighton University): Pilot Project Preparatory to a Definitive Study of the Efficacy of Milk Minerals in Human Bone Health [continued in 2007]

Appendix E-3, continued

Roy Martin, Ph.D., Jun Zhou (Pennington biomedical Research Center): Mechanisms of Reduced Appetite with Whey Protein [began in 2007]

Lynn L. Moore, Ph.D. (Boston University School of Medicine): The Effect of Dietary Calcium on Body Fat Levels in Children and Adults– Phase II [completed in 2007]; Dairy Intake: Its Determinants and Relation to a Healthy Diet [completed in 2007]; Dairy Intake and Metabolic Risk in Adolescent Girls [began in 2007]; Effects of Early Dairy Intake on Adolescent Bone Density and Content [completed in 2007]; and The Effects of Dairy Intake in Girls Over Ten Years Old [completed in 2007]

Mary Murphy, M.S., R.D. (ENVIRON): Nutrient and Energy Intakes of Children and Adolescents Consuming Flavored Milk in Schools [began and completed in 2007]; Nutrient Intakes by School Age Children and Adolescents [began and completed in 2007]

Theresa Nicklas, Ph.D. (Baylor College of Medicine): Dietary Calcium Intake and Dairy Product Consumption by Minority Mothers: Nutritional Impact and Health Outcomes [completed in 2007]

Troy Ott, Ph.D. (Pennsylvania State University): A Critical Evaluation of Sterols in Milk and Dairy Products [continued in 2007]

Stuart Phillips, Ph.D. (McMaster University): Impact of Whey, Casein, and Soy Supplementation on Human Muscle Protein Turnover after Resistance Training [completed in 2007]; and Responses of Muscle and Whole-Body Protein Turnover to Ingestion of Differing Doses of Whey and Soy Protein with and without Resistance Exercise in Elderly Men [began in 2007]

Karen Rafferty, M.S., R.D., Robert Heaney, M.D. (Creighton University): A Project to Advance a Research Data Infrastructure by Creating a Master Data Bank [began in 2007]

Nancy Rodriguez, Ph.D. (University of Connecticut): Milk's Impact on Protein Turnover-Specific Intracellular Signaling Protein in Human Skeletal Muscle During Recovery from Endurance Exercise [began in 2007]

Dale Schoeller, Ph.D. (University of Wisconsin-Madison): A Novel Stable Isotope Measurement to Monitor Macronutrient Intake for Future Use in the Study of Interactions of Diet and Dairy on BMI and Bone Health [continued in 2007]

Debra Sullivan, Ph.D. (University of Kansas Medical Center): A Qualitative Study of Children's Perceptions of Dairy Foods [began in 2007]

Angelo Tremblay, Ph.D. (Hopital Laval): Effect of Milk Supplementation on Appetite Control in Obese Women Following a Weight Loss Program [began in 2007]

Appendix E-3, continued

Frances Tylavsky, Ph.D. (University of Tennessee): Role of Dairy Products in Decreasing Insulin Resistance and Modulating the Release of Glucagon-Like Peptide-1 in Obese African American Adolescents [began in 2007]

Marta VanLoan, Ph.D. (USDA-Agricultural Research Service-Western Human Nutrition Research Center): The Role of Dairy Foods in Enhancing Central Fat Loss and Weight Loss with Moderate Energy Restriction in Overweight and Obese Adults [continued in 2007];

Jeff Volek, Ph.D. (University of Connecticut): Investigation of Whey Protein Supplementation for Physiological Enhancement to Resistance Training and Dietary Regimes in Young Adults [began in 2007]

Richard A. Washburn, Ph.D. (University of Kansas Center for Research): Whey Protein Supplementation with Resistance Training: Effect on Body Composition of Young Adults [began in 2007]

Connie Weaver, Ph.D. (Purdue University): Influence of Dairy on Bone Mass Accrual, Bone Size and Fat and Lean Body Mass in Early Pubertal Overweight vs Healthy Weight Girls [began in 2007]; and Calcium, Dairy, and Body Fat in Adolescents [continued in 2007]

Michael B. Zemel, Ph.D. (University of Tennessee Research Foundation): Dairy Attenuation of Oxidative and Inflammatory Stress in Metabolic Syndrome [began in 2007]; Dietary Calcium and Dairy Modulation of Oxidative and Inflammatory Stress in Mice [completed in 2007]; and Dairy Modulation of Oxidative and Inflammatory Stress in Overweight and Obese Subject [continued in 2007]

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Appendix F
**Qualified State or Regional Dairy Product Promotion,
Research, or Nutrition Education Programs**

Allied Milk Producers' Cooperative

495 Blough Road
Hooversville, PA 15936-8207

**American Dairy Association and Dairy
Council Mid East**

5950 Sharon Woods Blvd.
Columbus, OH 43229

**American Dairy Association and Dairy
Council, Inc.**

219 South West Street, Suite 100
Syracuse, NY 13202

American Dairy Association of Alabama

5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Georgia

5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Kentucky

5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Michigan

2163 Jolly Road
Okemos, MI 48864

American Dairy Association of Mississippi

5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Nebraska

8205 F Street
Omaha, NE 68127-1779

**American Dairy Association of
North Carolina**

5340 West Fayetteville Road
Atlanta, GA 30349-5416

**American Dairy Association of
South Carolina**

5340 West Fayetteville Road
Atlanta, GA 30349-5416

**American Dairy Association of
South Dakota**

2015 Rice Street
St. Paul, MN 55113

American Dairy Association of Virginia

5340 West Fayetteville Road
Atlanta, GA 30349-5416

**California Manufacturing Milk Producers
Advisory Board**

3800 Cornucopia Way, Suite D
Modesto, CA 95358-9492

California Milk Producers Advisory Board

3800 Cornucopia Way, Suite D
Modesto, CA 95358-9492

Dairy Council of California

1101 National Drive, Suite B
Sacramento, CA 95834-1945

Dairy Council of Michigan

2163 Jolly Road
Okemos, MI 48864

Appendix F, continued

Dairy Council of Nebraska

8205 F Street
Omaha, NE 68127-1779

Dairy Farmers, Inc.

166 Lookout Place, Suite 100
Maitland, FL 32751-4496

DairyMAX

2214 Paddock Way Drive, Suite 600
Grand Prairie, TX 75050

Dairy Promotion, Inc.

10220 NW Ambassador Drive
Kansas City, MO 64153

**Georgia Agricultural Commodity
Commission for Milk**

19 Martin Luther King Jr., Dr., SW, Room 328
Atlanta, GA 30334

Granite State Dairy Promotion

c/o New Hampshire Department of Agriculture
25 Capitol Street, Box 2042
Concord, NH 03302-2042

Idaho Dairy Products Commission

10221 West Emerald, Suite 180
Boise, ID 83704

Illinois Milk Promotion Board

1701 Towanda Avenue
Bloomington, IL 61701

Indiana Dairy Industry Development Board

9360 Castlegate Drive
Indianapolis, IN 46256

**Louisiana Dairy Industry Promotion Board
c/o Louisiana Department of Agriculture
and Forestry**

P.O. Box 3334
Baton Rouge, LA 70821-3334

Maine Dairy and Nutrition Council

333 Cony Road
Augusta, ME 04330

Maine Dairy Promotion Board

333 Cony Road
Augusta, ME 04330

Michigan Dairy Market Program

P.O. Box 8002
Novi, MI 48376-8002

Mid-Atlantic Dairy Association

325 Chestnut Street, Suite 600
Philadelphia, PA 19106

Midwest Dairy Association

2015 Rice Street
St. Paul, MN 55113

Midwest Dairy Council

2015 Rice Street
St. Paul, MN 55113

Milk for Health on the Niagara Frontier, Inc.

4185 Seneca Street
West Seneca, NY 14224

Milk Promotion Services of Indiana, Inc.

9360 Castlegate Drive
Indianapolis, IN 46256

Appendix F, continued

Minnesota Dairy Research and Promotion Council

2015 Rice Street
St. Paul, MN 55113

Nebraska Dairy Industry Development Board

8205 F Street
Omaha, NE 68127-1779

Nevada Farm Bureau Dairy Producers Committee

2165 Green Vista Drive, Suite 205
Sparks, NV 89431

New England Dairy and Food Council, Inc.

1034 Commonwealth Avenue
Boston, MA 02215

New England Dairy Promotion Board

1034 Commonwealth Avenue
Boston, MA 02215

New Jersey Dairy Industry Advisory Council c/o New Jersey Dept. of Agriculture

PO Box 330
Trenton, NJ 08625-0330

New York State Dept. of Agriculture and Markets

Division of Milk Control and Dairy Services
10 B Airline Drive
Albany, NY 12235-0001

North Dakota Dairy Promotion Commission

2015 Rice Street
St. Paul, MN 55113

Oregon Dairy Products Commission

10505 Southwest Barbur Boulevard
Portland, OR 97219

Pennsylvania Dairy Promotion Program c/o Pennsylvania Department of Agriculture

2301 North Cameron Street
Harrisburg, PA 17110-9408

Promotion Services, Inc.

5340 West Fayetteville Road
Atlanta, GA 30349-5416

Rochester Health Foundation, Inc.

c/o ADADC, Inc.
219 South West Street, Suite 100
Syracuse, NY 13202

St. Louis District Dairy Council

1254 Hanley Industrial Court
St. Louis, MO 63144-1912

Southeast United Dairy Industry Association

5340 West Fayetteville Road
Atlanta, GA 30349-5416

Southwest Dairy Museum

P.O. Box 936
Sulphur Springs, TX 75483

Tennessee Dairy Promotion Committee

5340 West Fayetteville Road
Atlanta, GA 30349-5416

United Dairymen of Arizona

2008 S. Hardy Drive
Tempe, AZ 85282

Utah Dairy Commission

1213 East 2100 South
Salt Lake City, UT 84106

Vermont Dairy Promotion Council

116 State Street, Drawer 20
Montpelier, VT 05620-2901

Appendix F, continued

Washington State Dairy Council

4201 198th Street, SW, Suite 102
Lynnwood, WA 98036-6751

Washington State Dairy Products Commission

4201 198th Street, SW, Suite 101
Lynnwood, WA 98036

Western Dairyfarmers' Promotion Association

12000 North Washington Street, Suite 200
Thornton, CO 80241

Wisconsin Milk Marketing Board, Inc.

8418 Excelsior Drive
Madison, WI 53717

Appendix G National Fluid Milk Processor Promotion Board

Active, Weight Loss, and Healthy Weight Messages
Target Audience: Moms/Women
Source: MilkPEP/Lowe Worldwide



Mariska Hargitay



Dancing with the Stars
Semi Finalists



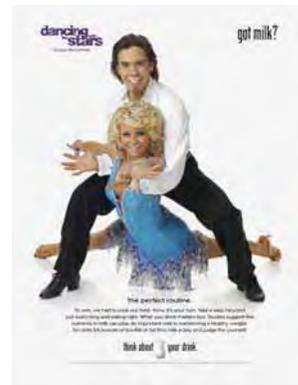
Laila Ali



Dancing with the Stars
Tour



Sara Ramirez



Dancing with the Stars
Winners



Kathy Smith



Bill Germanakos



Jillian Michaels, Bob
Harper, and Kim Lyons

Appendix G, continued

Active, Bone Growth, and Healthy Weight Messages

Target Audience: Teen Girls and Teen Boys

Source: MilkPEP/Lowe Worldwide



High School Musical



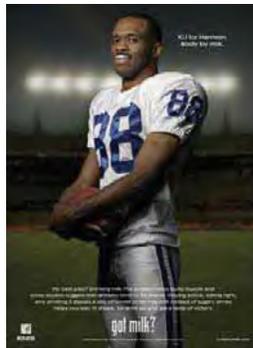
Masi Oka



Rex Grossman and Marvin Harrison



Vince Carter



Marvin Harrison



Steve Nash



Avery Johnson and Josh Howard



Hayden Panettiere



Fantastic Four

Appendix G, continued

Active, Bone Growth, and Healthy Weight Messages

Target Audience: Teen Girls and Teen Boys

Source: MilkPEP/Lowe Worldwide



Amanda Bynes



Alex Rodriguez



Teddy Geiger and
Rebecca Eden



Beyoncé and Solange
Knowles

body
BY milkSM



Sasha Cohen

Appendix G, continued

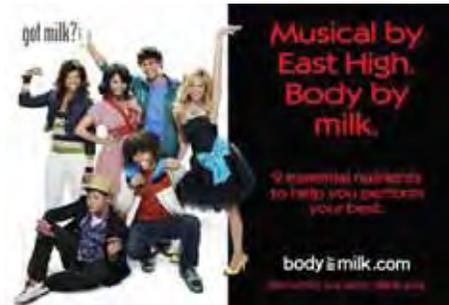
School Milk Posters

Source: MilkPEP/Lowe Worldwide

Elementary Schools:



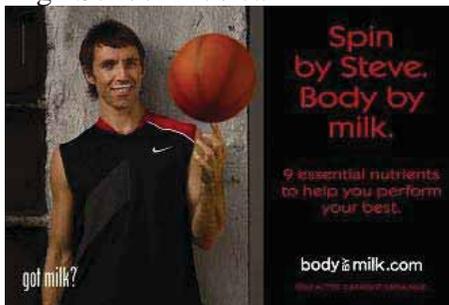
Amanda Bynes



High School Musical



Shrek



Steve Nash

Middle and High Schools:



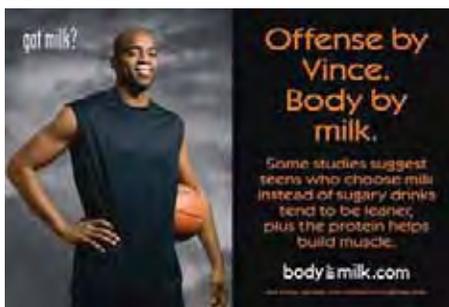
Fantastic Four



Masi Oka



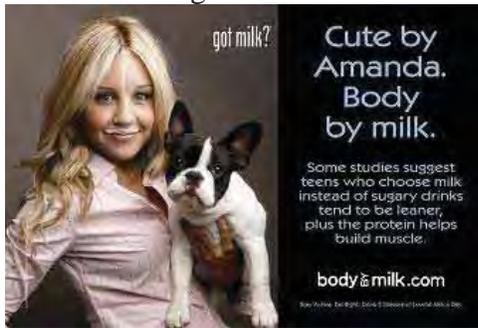
Laila Ali



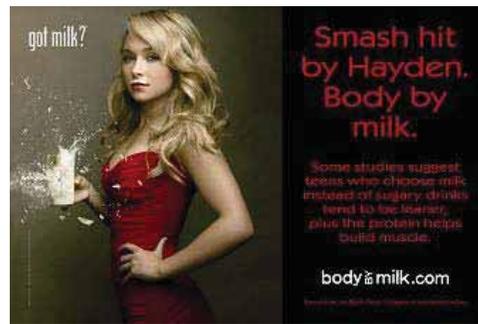
Vince Carter

Appendix G, continued

Middle and High Schools:



Amanda Bynes



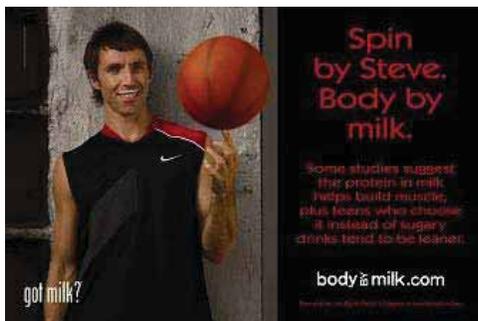
Hayden Panettiere



Female Olympic Athletes



Male Olympic Athletes



Steve Nash



High School Musical

Appendix G, continued

School Materials

Source: MilkPEP/DRAFTFCB

Posters:



Alien Girl



Rocker



Soccer Girl



Pro Wrestler



Milk The Rewards – Girl



Milk The Rewards – Boy

Clings:



Alien Girl



Robot



Rocker



Pro Wrestler



Grab a Milk



Reward Your Body



Bar Codes



Reward Yourself

Appendix G, continued

BBMSM Web Banners

Source: MilkPEP/Lowe Worldwide, Weber Shandwick, and DRAFTFCB



BBMSM – Steve Nash



BBMSM - Amanda Bynes



BBMSM – Fantastic Four



BBMSM – Heroes



BBMSM – Vince Carter



BBMSM – Marvin Harrison



BBMSM – Steve Nash



BBMSM – Beyoncé and Solange Knowles



BBMSM – Hayden Panettiere

Appendix G, continued

Hispanic Materials

Source: MilkPEP/Siboney, U.S.A.



Maria Celeste



Barbara Mori



Lili Estefan and Family



Barbara Mori Web Banner



Recipe Booklet En Español



Sara Ramirez En Español



Dr. Aliza Advertorial



Lili Estefan And Family



Sofia Vergara Mobile



Lili Estefan - Halloween



Lili Estefan –Chocolate Milk Advertorial

Appendix G, continued

Hispanic Materials

Source: MilkPEP/Siboney, U.S.A.



Another Reason Another Season
En Español



Another Reason Another Season
En Español



Maria Celeste and Family
Web Banner



Mom Summit Tips and Booklet



Halloween POS
En Español



Lili Estefan – Halloween
Advertorials



Meredith Advertorial

Appendix G, continued

Public Relations Materials

Source: MilkPEP/Weber Shandwick



MMM Tour
Information Kit



Body By MilkSM Logo



MilkPEP Web Banner



TAYD Handout



2007 SAMMY Logo



2007 SAMMY Winners



TAYD Family Challenge



Healthiest Student Bodies



TAYD Homepage



TAYD Logo



Chocolate Milk
Recovery Beverage



TAYD Table Top Sign

Appendix G, continued

Promotions Materials

Source: MilkPEP/DRAFTFCB



Give Your Family Something Smarter (GYFSS) Cling



GYFSS Wobbler



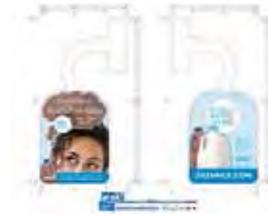
GYFSS Cling



GYFSS Wobbler



GYFSS Channel Strip 1



GYFSS Wobbler



GYFSS Cling



GYFSS Hispanic Wobblers



GYFSS Cling En Español



GYFSS Channel Strip 2



GYFSS Monster Cling

Appendix G, continued

Retail Promotions Materials Source: MilkPEP/DRAFTFCB



Another Reason / Season POS



Another Reason / Season POS



Another Reason / Season POS



Another Reason / Season POS



Another Reason / Season POS



Another Reason / Season POS



Another Reason / Season POS



Curves In-Club Poster



Curves Web Banner



Web Banner



Web Banner



Web Banner

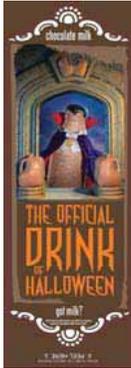


Web Banner

Appendix G, continued

Promotions Materials

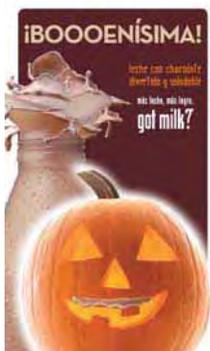
Source: MilkPEP/DRAFTFCB



Official Drink of Halloween Vertical Cling



Official Drink of Halloween Frankenstein and Dracula Clings



Official Drink of Halloween Hispanic Vertical Cling



Official Drink of Halloween Horizontal Cling



Official Drink of Halloween Chocolate Milk Banner



Official Drink of Halloween Gallon Channel Strip



Official Drink of Halloween Hispanic Channel Strip

Appendix G, continued

Sweepstakes Promotional Web Banners and Local Marketing POS

Source: MilkPEP DRAFTFCB



Web Banner



Web Banner



Web Banner



Web Banner



Web Banner



Web Banner



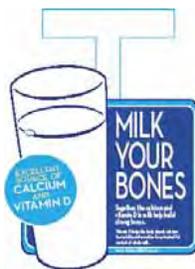
Vertical Cling



Local Marketing Cling



Gallon Art



Wobbler



Carton Art



Local Marketing Cap Art

Appendix G, continued

Television Advertisements – Little Victories and Milk Vignette

Source: MilkPEP/Lowe Worldwide

Little Victories:



Milk Icon



Woman in Park



"My secret admirer?"



"My husband."



"40 is the new 20."



"I still love my little black dress."



"Summer? Bring it on."



"My daughter steals my clothes."

Appendix G, continued



“High school reunion? Can’t wait.”



Woman drinking milk



Think about your drink



got milk?

Milk Vignette:



Mariska Hargitay



Mariska Hargitay



Mariska Hargitay



Mariska Hargitay

Appendix G, continued

Hispanic Television Advertisements

Source: MilkPEP/Siboney, U.S.A.



Flamenco Dancer Girl



Flamenco Dancer Girl



Superhero Boy



Superhero Boy

Milk Vignette:

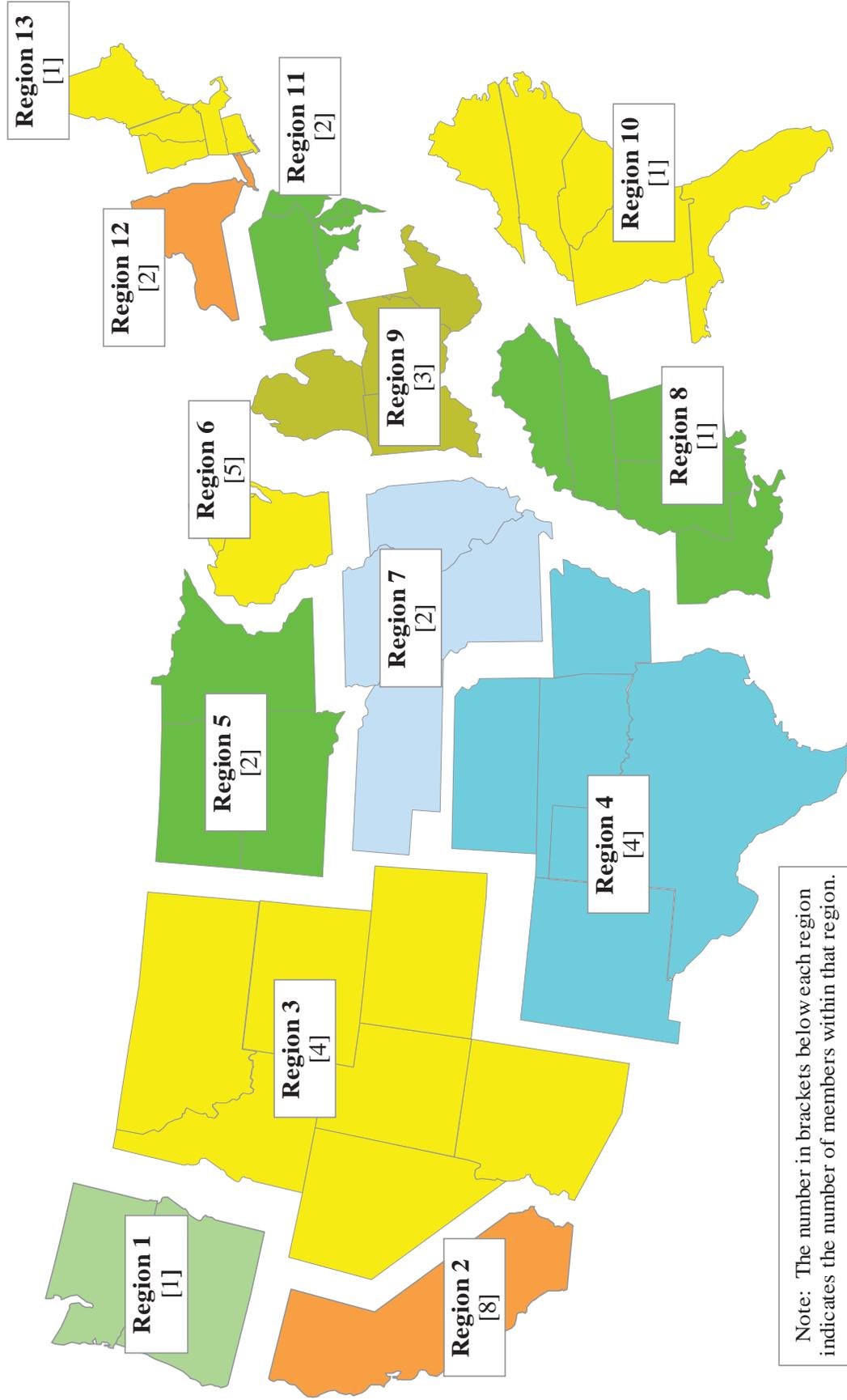


Dr. Aliza



Dr. Aliza

Appendix H-1
Regions of the National Dairy Promotion and Research Board



Appendix H-2
Regions of the National Fluid Milk Processor Promotion Board

