



**Report to Congress**

**on the**

**National Dairy Promotion  
and Research Program**

**and the**

**National Fluid Milk  
Processor Promotion Program**

**July 1, 2006**



**Report to Congress**

**on the**

**National Dairy Promotion  
and Research Program**

**and the**

**National Fluid Milk  
Processor Promotion Program**

**July 1, 2006**

## **Contact Information**

To obtain additional copies of the 2006 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/dairypr.htm>

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

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

Gary Hemphill  
850 Third Avenue, 14<sup>th</sup> Floor  
New York, NY 10022  
(212) 688-7640

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>

The U.S. Department of Agriculture (USDA) prohibits discrimination in all of its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.

Report printed on recycled paper ♻️ using vegetable-based ink. 

# Contents

Contact Information .....	ii
Executive Summary .....	1
Chapter 1: The Dairy Promotion Programs .....	5
National Dairy Promotion and Research Board.....	5
3-A-Day™ of Dairy for Stronger Bones and 3-A-Day of Dairy – Burn More Fat, Lose Weight ....	8
Foodservice/Partnerships .....	9
Communications and Technology .....	10
Export and Dry Ingredients.....	10
National Dairy Council®/School Marketing .....	13
Research.....	14
Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs .....	14
National Fluid Milk Processor Promotion Board .....	18
Medical and Scientific Activities.....	19
National Fluid Milk Programs .....	19
Sponsorships .....	20
Advertising.....	20
Promotions .....	21
Public Relations .....	22
Strategic Thinking.....	23
School Marketing.....	24
Chapter 2: USDA Activities .....	25
National Dairy Promotion and Research Board Oversight.....	25
Nominations and Appointments .....	25
Organic Exemption Amendment to the Order.....	26
Foreign Agricultural Service.....	26
Contracts .....	26
Contractor Audits.....	26
Collections .....	26
Compliance .....	27
Qualified Programs .....	27
Litigation.....	27
National Fluid Milk Processor Promotion Board Oversight.....	28
Nominations and Appointments .....	28
Order Amendments.....	28
Programs Development.....	29
Contractor Audits.....	29
Compliance .....	29

## Contents, continued

Chapter 3: Impact of Generic Fluid Milk and Dairy Advertising and Promotion on Dairy Markets: An Independent Analysis.....	30
Highlights.....	31
Analysis of Generic Fluid Milk Marketing.....	31
Analysis of Total Dairy Product Generic Marketing.....	39
Benefit-Cost Analysis of the Dairy Program.....	41
Chapter 4	
Part I – Fluid Milk Market and Promotion Assessment: Beverage Marketing Corporation.....	45
BMC’s Assessment of the Current Milk Industry Environment.....	45
Consumer Attention.....	49
Product Attributes and Innovation.....	50
Branding.....	50
Distribution.....	51
Pricing.....	51
BMC’s Assessment of Current Milk Marketing Programs.....	51
Part II – National Fluid Milk Processor Promotion Program: Highlights by the National Fluid Milk Processor Promotion Board.....	55
Overall Sales and Consumption Impact.....	55
Competitive Assessment of Milk Industry’s Position.....	56
Success of Weight-Related Benefit Promotion.....	56
Growth of Vended Milk Business.....	58
Summary of Program Effectiveness.....	60
Part III – National Dairy Promotion and Research Program: Highlights by Dairy Management Inc. ....	61
Three Servings a Day of Dairy.....	61
3-A-Day of Dairy™ for Stronger Bones and Weight Management.....	62
Recapturing Milk as Kids’ “Beverage of Choice”.....	63
Meeting Unmet Demand through Exports and Ingredients.....	65
Conclusion.....	66
Appendix A	
National Dairy Promotion and Research Board: Current Member Listing.....	68
Appendix B	
National Fluid Milk Processor Promotion Board: Current Member Listing.....	72

## Contents, continued

### Appendix C

(C-1) Regions of the National Dairy Promotion and Research Board.....	76
(C-2) Regions of the National Fluid Milk Processor Promotion Board .....	77

### Appendix D

(D-1) National Dairy Promotion and Research Board, Actual Income and Expenses, FY 2004–2005 .....	78
(D-2) USDA Oversight Costs for the National Dairy Promotion and Research Board, FY 2004–2005 .....	79
(D-3) National Dairy Promotion and Research Board, Approved Budgets, FY 2005–2005 .....	80
(D-4) National Fluid Milk Processor Promotion Board, Actual Income and Expenses, FY 2004–2005.....	81
(D-5) USDA Oversight Costs for the National Fluid Milk Processor Promotion Board, FY 2004–2005.....	82
(D-6) National Fluid Milk Processor Promotion Board, Approved Budgets, FY 2005–2006 .....	83

### Appendix E

(E-1) Independent Auditors’ Report – National Dairy Promotion and Research Board .....	84
(E-2) Independent Auditors’ Report – National Fluid Milk Processor Promotion Board.....	100

### Appendix F

(F-1) National Dairy Promotion and Research Board and Dairy Management Inc. Contracts Reviewed by USDA, 2005 .....	126
(F-2) National Fluid Milk Processor Promotion Board and International Dairy Foods Association Contracts Reviewed by USDA, 2005 .....	131

### Appendix G

(G-1) Nutrition and Health Research Institute and Dairy Foods Research Centers, 2005 .....	132
(G-2) Dairy Foods Competitive Research Projects, 2005 .....	134
(G-3) Nutrition Competitive Research Activities, 2005 .....	135

### Appendix H

Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs, 2005 .....	137
---	-----

## **Contents, continued**

### Appendix I

Thumbnail Images of National Fluid Milk Print and Television Advertisements.....	141
--	-----



## **Executive Summary**

The enabling legislation of both the producer and processor dairy promotion programs (7 U.S.C. 4514 and 7 U.S.C. 6407) requires the U.S. Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry by July 1. The producer and processor programs are conducted under the Dairy Promotion and Research Order (Dairy Order) (7 CFR § 1150) and the Fluid Milk Promotion Order (Fluid Milk Order) (7 CFR § 1160), respectively. This report includes a description of activities for both the producer and processor programs and summarizes activities of the national fluid milk programs. An accounting of funds collected and spent, an independent analysis of the effectiveness of the advertising campaigns of the two programs, and an industry-commissioned review of fluid milk markets and program operations are included. Unless otherwise noted, this report addresses program activities for the fiscal period January 1 – December 31, 2005, of the Dairy Promotion Program and the Fluid Milk Processor Promotion Program.

### **Producer Dairy Promotion Program**

The Dairy Production Stabilization Act of 1983, as amended, (Dairy Act) (7 U.S.C. 4501, *et seq.*) authorized a national producer program for generic dairy product promotion, research, and nutrition education as part of a comprehensive strategy to increase human consumption of milk and dairy products. Dairy farmers fund this self-help program through a mandatory 15-cent per hundredweight assessment on all milk produced in the contiguous 48 States and marketed commercially. Dairy farmers appointed by the Secretary administer the national program through the National Dairy Promotion and Research Board (Dairy Board). The Dairy Act provides that dairy farmers can receive a credit of up to 10 cents per hundredweight of the assessment for contributions to qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs).

The Dairy Order became effective on May 1, 1984. The Dairy Act required the Secretary of Agriculture to conduct a referendum among dairy farmers by September 30, 1985, to determine if a majority favored continuation of the program. Nearly 90 percent of the dairy farmers voting in the August-September 1985 referendum favored continuing the program. USDA held a second referendum on the dairy promotion program in August 1993. Approximately 71 percent of the dairy farmers who voted in the referendum favored continuing the program. USDA will hold future referenda at the direction of the Secretary or upon the request of at least 10 percent of the affected dairy farmers.

Mandatory assessments collected under the Dairy Act totaled \$278.7 million in 2005. The Dairy Board portion of the revenue from the 15-cent per hundredweight producer assessment was \$88.6 million for 2005, and Qualified Programs revenue from the producer assessment was \$190.1 million for the same year. 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. Details of the 2005 activities of the dairy producer program can be found in Chapter 1.

## **National Fluid Milk Processor Promotion Program**

The Fluid Milk Promotion Act of 1990, as amended (Fluid Milk Act) (7 U.S.C. 6401 *et seq.*) authorized the establishment of a national processor program for fluid milk promotion and education. The Fluid Milk Order became effective December 10, 1993. The Secretary appointed the initial National Fluid Milk Processor Promotion Board (Fluid Milk Board) on June 6, 1994.

Processors administer the Fluid Milk Processor Promotion Program through the Fluid Milk Board. Since August 2002, processors marketing more than 3 million pounds of fluid milk per month, excluding those fluid milk products delivered to the residence of a consumer, fund this program through a 20-cent per hundredweight assessment on fluid milk processed and marketed in consumer-type packages in the contiguous 48 States and the District of Columbia. From 1996–2002, processors marketing 500,000 pounds or more funded the program. The Fluid Milk Board’s revenue from assessments for the January 1 through December 31, 2005, period was \$107.1 million.

The Fluid Milk Act required the Secretary to conduct a referendum among fluid milk processors funding the program to determine if a majority favored implementing the program. In the October 1993 referendum, 72 percent of the processors voted to approve the implementation of the fluid milk program. These processors represented 77 percent of the volume of fluid milk products marketed by all processors during May 1993, the representative period set for the referendum. USDA held a continuation referendum in February-March 1996. Of the processors voting in that referendum, nearly 65 percent favored continuation of the program. These processors represented 71 percent of the volume of fluid milk products marketed by all processors during September 1995, the representative period set for the referendum.

In November 1998, USDA held another continuation referendum at the request of the Fluid Milk Board. Fluid milk processors voted to continue a national program for fluid milk promotion established by the Fluid Milk Order. Of the processors voting in this referendum, 54 percent favored continuation of the order. These processors represented 86 percent of the fluid milk products processed and marketed by fluid milk processors voting in the referendum. The Fluid Milk Act and Order state that USDA will hold future referenda upon the request of the Fluid Milk Board, of processors representing 10 percent or more of the volume of the fluid milk products marketed by those processors voting in the last referendum, or when called by the Secretary.

The Fluid Milk Board continued to execute a generic national fluid milk program in 2005. The fluid milk marketing programs are research based and message focused. Activities of the national fluid milk program for 2005 are presented in the Fluid Milk Board section in Chapter 1 of this report.

## **USDA Oversight**

USDA has oversight responsibility for both dairy 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, and educational materials are developed under established guidelines. All Board budgets, contracts, and advertising materials are reviewed and approved. USDA employees attend all Board and Board Committee meetings and monitor all Board activities. USDA also has 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. Chapter 2 reports on USDA's oversight activities.

## **Independent Analysis and Fluid Milk Market and Program Assessment**

Chapter 3 reports the results of the independent econometric analysis, conducted by Cornell University, of the effectiveness of the dairy promotion programs. Since 1995, the independent analysis has included an analysis of the effectiveness of the producer promotion program in conjunction with the processor promotion program. Cornell has conducted these analyses since 1998.

Chapter 4 presents the industry-commissioned fluid milk market and program operations assessment, representing the seventh year that this assessment has been conducted by Beverage Marketing Corporation. The review offers an evaluation of the effectiveness of the fluid milk advertising and promotion programs from a marketing perspective.

Additionally, the National Fluid Milk Processor Promotion Board and Dairy Management Inc., provide individual highlights of 2005 program successes from the Boards' perspective in parts II and III of Chapter 4.

## **Appendices: Supplemental Information**

This report's Appendix section (Appendix A–I) includes a variety of supplemental information related to the fluid milk and dairy promotion programs. Appendix A presents a listing of current Dairy Board members. Appendix B similarly includes a listing of all current Fluid Milk Board members.

Appendix C features maps that display the Dairy Board and Fluid Milk Board regions.

Appendix D presents tables that report the actual income and expenditures, USDA oversight costs, and approved budgets for both Boards.

Appendix E-1 includes the financial statements, supplemental schedules, and the independent auditor's report for the Dairy Board. The accounting firm Ernst & Young conducted the 2005 Dairy Board independent audit. Appendix E-2 includes financial statements and the independent auditor's report for the Fluid Milk Board. Snyder, Cohn, Collyer, Hamilton and Associates P.C., conducted the 2005 Fluid Milk Board independent audit.

Appendix F-1 includes a listing of all 2005 Dairy Board and Dairy Management Inc. (DMI) contracts (and corresponding initiatives) reviewed by USDA. The Dairy Act and Order require that all contracts expending producer assessment funds be approved by the Secretary of Agriculture (7 CFR § 1150.140). Appendix F-2 includes a detailed listing of all 2005 Fluid Milk Board and International Dairy Foods Association (IDFA) contracts reviewed by USDA. The Fluid Milk Board contracts with IDFA to manage the day-to-day operations of the processor promotion program.

Appendix G-1 includes a listing of the nutrition institute and the six dairy foods research centers that provide much of the research that supports the marketing efforts of the dairy promotion programs. Appendices G-2 and G-3 list the new and ongoing dairy foods and nutrition research projects that are funded by DMI.

Appendix H lists the Qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs) for 2005. Qualified Programs are certified annually by the Secretary to determine whether milk producers may continue to receive credit against the 15-cent per hundredweight assessment due to the Dairy Board when contributing to a Qualified Program.

Appendix I features thumbnail images of the national fluid milk print and television advertisements. The advertisements are organized by message, target audience, contests, and sweepstakes winners.

## **Chapter 1**

### **The Dairy Promotion Programs**

In 2005, the National Dairy Promotion and Research Board (Dairy Board) and the National Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to develop and implement programs to expand the human consumption of fluid milk and dairy products. Each promotion program has many unique activities. In 2005, the Fluid Milk Board continued to use the role of calcium-rich fluid milk products in successful weight management as a central theme and focal point for its activities. The Dairy Board focused on the away-from-home market to promote the expansion of flavors and a greater range of packaging in foodservice and restaurants.

#### **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 Promotion and Research Order (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. A map of the contiguous 48 States depicting the 13 geographic regions is shown in Appendix C-1.

Total Dairy Board actual revenue for 2005 was \$88.8 million (including assessments and interest). This amount was more than the Dairy Board Budget of \$86.4 million for that period. The Dairy Board amended its budget to \$88.9 million by incorporating program development funds not budgeted previously. The Dairy Board budget for 2006 projects total revenue of \$86.7 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 2004–2005 is provided in Appendix D-1. USDA's oversight and evaluation expenses for 2004–2005 are listed in Appendix D-2. Appendix D-3 displays the Dairy Board's approved budgets and a comparison of program funding by function for 2005–2006. An independent auditor's report for 2005 is provided in Appendix E-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 59 active 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<sup>®</sup> and National Dairy Council<sup>®</sup> throughout the contiguous 48 States. DMI serves both boards and is structured into support groups. The marketing and business development group supports retail channel development, marketing communications, advertising, research, analyses of domestic and foreign marketplaces, program effectiveness, consumption patterns and consumer perceptions for effective program planning, implementation, and measurement. The nutrition, public, and corporate affairs group supports nutrition education and consumer affairs, board relations, and program implementation. The industry relations group provides news about dairy topics through media contacts as well as communications regarding the dairy checkoff program to producers and the rest of the industry. The strategic operations/finance and administration group handles program planning and communications, information services, membership development, and finance and accounting activities. The export marketing group serves as a resource for U.S. dairy ingredient manufacturers and processors to improve export capabilities of the U.S. dairy industry.

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 celebrated its 10<sup>th</sup> anniversary in 2005.

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 G-1. Additionally, lists of DMI's dairy foods and nutrition projects can be found in Appendices G-2 and G-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 October 2004, both boards approved the 2005 unified dairy promotion plan budget and national implementation programs. Similar to previous plans, the 2005 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.

During 2005, DMI 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 State and regional dairy board members to ask questions, raise concerns, and offer their thinking on the plan's direction and development.

At the 2005 forums, dairy directors across the country reviewed and endorsed a unified marketing plan that continued to focus on five areas identified in 2004: (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) 3-A-Day of Dairy™ – Burn More Fat, Lose Weight, where the dairy checkoff reminds consumers that milk, cheese, and yogurt may help in weight-loss efforts when paired with a reduced-calorie diet and physical activity; (3) 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; (4) 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 to help with menu concepts for cheese; 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, and health professional organizations.

The above-mentioned focus areas continue to build upon the 2002 forum results that emphasized programs with less reliance upon television advertising, continuance of successful foodservice and retail activities, the need for heavier focus on kids and school milk problems, more focus on industry partnerships, and stronger, more proactive image protection of dairy products. Combined industry spending for the unified marketing plan totaled more than \$250 million in 2005. National and State and regional dairy producer organizations' contributions totaled over \$158.9 million.

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: Cheese, Communications and Technology, Export and Dry Ingredients, and Fluid Milk. 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 2005. During 2005, the Dairy Board and UDIA Board met jointly 5 times.

The following information describes Dairy Board and UDIA program activities along with new programs and initiatives implemented in 2005.

### **3-A-Day™ of Dairy for Stronger Bones and 3-A-Day™ of Dairy – Burn More Fat, Lose Weight**

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 2005. 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.



In 2005, DMI sponsored three national promotions around 3-A-Day™. The first national promotion, “Super Bowl XXXIX 3-For-All” launched January 9 and ran through February 13. As part of the promotion, a special coupon offer was released to more than 40 million families in a special Sunday newspaper insert. The coupon offer included dairy product coupons and recipe ideas from major 3-A-Day™ manufacturing partners. Other promotion elements included national advertising; special consumer offers for an exclusive, football-shaped cheese board customized with their favorite NFL® team’s logo; and retail sampling events at over 7,500 grocery stores. Additionally, this Super Bowl promotion launched the first national consumer promotion since the dairy checkoff and the NFL® announced their 4-year partnership in 2004. Local dairy promotion groups also partnered with individual NFL® teams to conduct local retail, school, and other consumer marketing efforts.



The second national promotion, “Real People, Real Results” leveraged the public’s growing awareness of dairy’s connection to weight loss. The promotion featured real women who lost weight with dairy in a *People* magazine insert and a corresponding booklet made available to select retailers. In addition, new 3-A-Day of Dairy™ awards became part of the 42<sup>nd</sup> Pillsbury™ Bake-Off Contest. Throughout the month of April 2005, a “*Real People, Real Results*” booklet was available free to consumers with the purchase of milk, cheese, and yogurt in the same shopping trip. The insert included a special section with inspiring weight loss success stories, fitness and dieting tips, and dairy recipes. This promotion was supported by new national television and print advertising emphasizing dairy’s effect on the waistline. The new print advertisements with a “best measure of a trimmer tummy” tagline and television advertisements showing dairy’s ability to help “reach your weight loss goals” were launched along with the introduction of the program. An advertisement for the American Dairy Association® sponsored 3-A-Day of Dairy Awards in the 42<sup>nd</sup> Pillsbury™ Bake-Off Contest was



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

featured in the booklet and recognized the most delicious recipes that were nutritious and provided a serving of dairy. The finalists received cash prizes of \$10,000 each for the best recipes made with milk, cheese, or yogurt.

The third national promotion, “Tackle it Today with 3-A-Day™,” coincided with the September NFL® Kickoff – giving moms all the tools and information needed to tackle her weight loss goals. With this promotion, shoppers received a free *Tips and Tools for a Slimmer You* CD, when they bought



at least one each of milk, cheese, and yogurt products during the same shopping trip. The CD featured a 16-week food and exercise journal, expert fitness advice, success stories, recipes, and time-saving workouts. Moms also were invited to share on Web site [www.3aday.org](http://www.3aday.org) how they tackled their weight loss goals with three daily servings of dairy for a chance to win a trip to Hawaii and tickets to the Pro Bowl. New television and print advertisements were released in September and October supporting the promotion to remind people that enjoying 3 servings of dairy as part of a reduced calorie diet can help adults achieve better results when it comes to trimming the waistline rather than just cutting calories alone.

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 renewed their support and partnership with DMI and 3-A-Day™. By working with these key health professional partners, DMI continued to provide a clear, practical message to the public on the importance of dealing with the Nation’s calcium crisis. DMI’s 3-A-Day™ advisory panel, comprised of leaders from these four organizations along with other nutrition experts, continued to help guide the overall campaign as well as nutrition philosophy and principles. DMI released several advertorials, including an advertorial celebrating the American Academy of Pediatrics 75<sup>th</sup> anniversary highlighting their longstanding commitment to children’s health and wellness.

### **Foodservice/Partnerships**

DMI continued to work closely with top national restaurant chains, including McDonald’s® and Wendy’s®, to ensure that milk and cheese were featured prominently in menu items and offerings. Building upon 2004 efforts leading to the introduction of new milk offerings at McDonald’s® and Wendy’s®, DMI helped to motivate single-serve milk testing among other major restaurant chains including Burger King® and Sonic® Drive-In. These chains are expected to introduce milk in single-serve plastic containers nationwide in 2006.

In addition to milk, Wendy’s® also worked with DMI to test and market a 7-ounce yogurt cup that is now a permanent menu option. The new introduction moves 7 million incremental pounds of milk used through foodservice. Also, DMI helped increase cheese use by partnering with national restaurant chains to introduce cheese-friendly items and drive innovation. Pizza Hut®, the Nation’s top pizza chain, featured three new cheese-friendly items that DMI helped to develop and promote. During the four-week promotion of the new product “Dippin’ Strips,” Pizza Hut®’s cheese usage was up 3 million pounds over the previous 4 weeks.

## **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 State and regional dairy promotion groups, and dairy cooperative check stuffers), dairy industry events (including major trade shows and producer meetings) and media relations (including press releases, feature placement, and farm broadcast interviews). For the 8<sup>th</sup> year, 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.

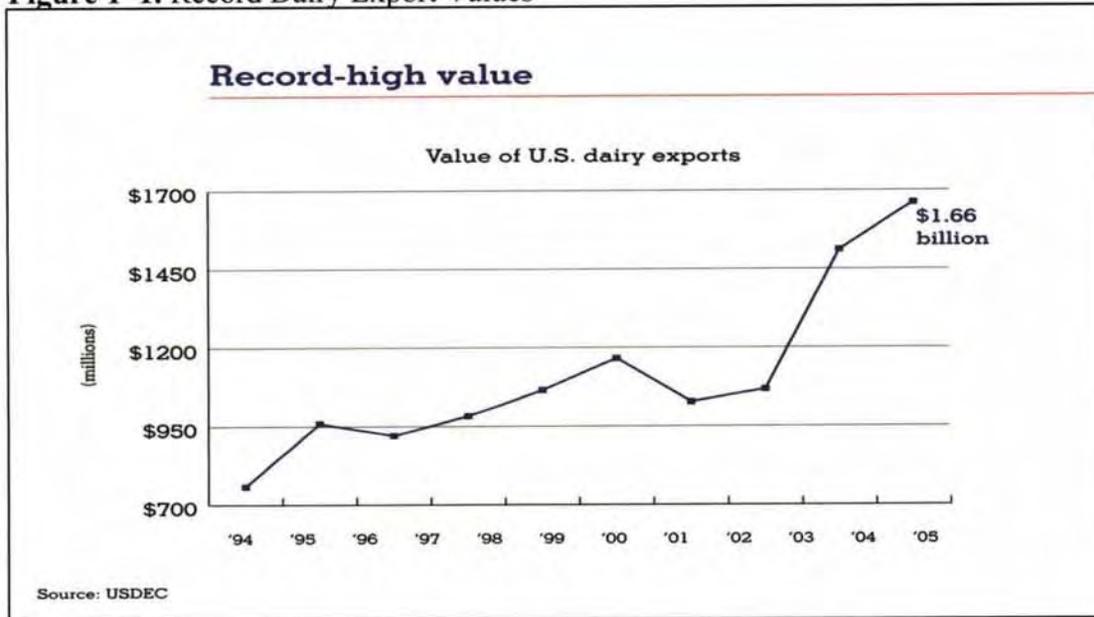
DMI continued its support for butter through cooperation and public relations activities with the American Butter Institute, including the Web site [www.butterisbest.com](http://www.butterisbest.com), a consumer resource center with current cooking trends and ideas, butter recipes, and links to other 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 State and regional dairy promotion groups 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 industrywide 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.

## **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 2005, USDEC received \$7.5 million from DMI; \$3.9 million from USDA’s Market Access Program and the Foreign Market Development Program, which support commodity groups in promotion of their commodities in foreign markets; and \$685,000 from membership dues. USDEC celebrated its 10-year anniversary in 2005 and its total budget was \$13 million.

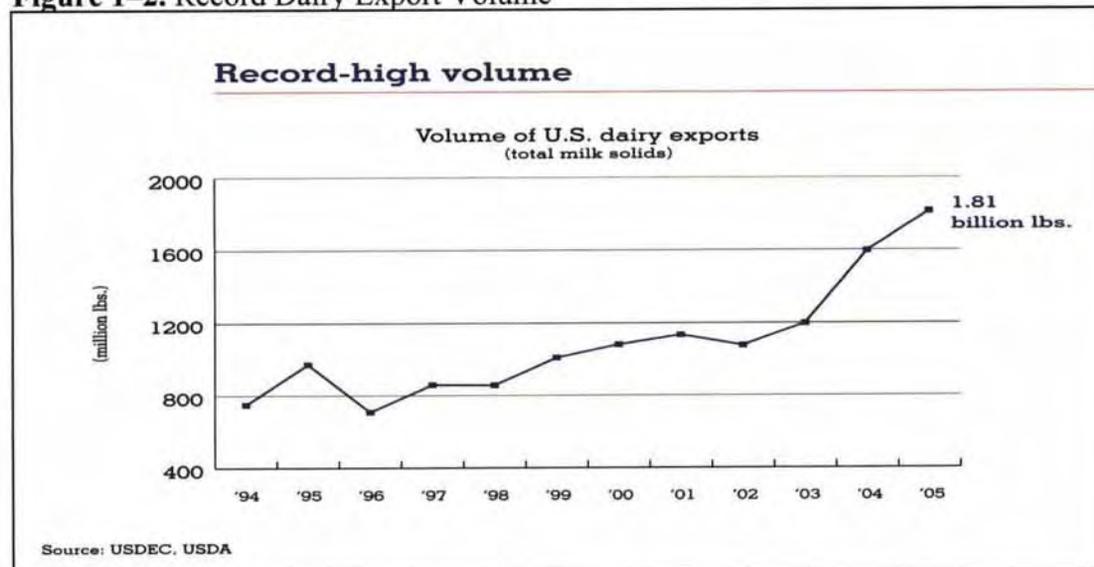
**Figure 1-1. Record Dairy Export Values**



USDEC has offices in Mexico City, Tokyo, Seoul, Hong Kong, Shanghai, Bangkok, Taipei, London, and Sao Paulo. In 2005, strong global demand for dairy protein led to another record year for dairy exports.

Final 2005 export data confirm that U.S. dairy product exports reached \$1.66 billion in 2005. Figure 1-1 shows dairy export values have increased 55 percent in the last 2 years. Similarly, Figure 1-2 shows that the dairy export volume is also a record high at 1.81 billion pounds of milk solids. This value has increased 52 percent over the last 2 years. Economic growth in Asia

**Figure 1-2. Record Dairy Export Volume**



– China in particular – Russia, Mexico, and the Middle East created opportunities for increased sales of milk components. According to data from USDA and USDEC, the United States exported approximately 35 percent of all the nonfat milk powder produced, 40 percent of sweet whey and whey protein concentrate, 55 percent of whey protein isolate, and 61 percent of lactose.

USDEC continued working to improve the export capabilities of domestic dairy companies. The organization assists U.S. dairy exporters by providing up-to-date information on market conditions, global trade trends, and regulatory requirements for export. Ongoing reverse trade mission activities provide opportunities for domestic dairy product suppliers to meet potential importers visiting the United States.

DMI's 2005 ingredients program was conducted through DMI's Innovation Program and through the new Web site [www.innovatewithdairy.com](http://www.innovatewithdairy.com). This program replaced the "Do it with Dairy" ingredient marketing campaign. DMI's Innovation Program supports dairy product and nutrition research, ingredient applications development and technical assistance for the dairy, food, and beverage industries.

Dairy, food, and beverage manufacturers look to DMI as a partner and resource. DMI assists dairy processors in creating and introducing new and/or improved dairy products, processes, and packaging and meeting their innovation challenges. 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 2005 Dairy Innovation Forum (Forum) in New Orleans, Louisiana. The invitation-only Forum continued an 8-year DMI tradition of bringing together top decision makers in science and marketing to develop ways to increase consumption of dairy products. The forum attracted more than 150 participants and included industry representatives such as dairy processors and cooperatives, food manufacturers, Government officials, ingredient suppliers, State and regional representatives, and university researchers. This year's Forum focused on innovation – a key to the future of the dairy and dairy ingredient industries. Dairy is positioned to be a key protein ingredient in beverages of the future according to a beverage expert that presented at the Forum.

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 on how food formulators and markets can take advantage of taste, cost, functional, and nutritional appeal of dairy ingredients; (4) *Application Monographs*—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 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.

### **National Dairy Council®/School Marketing**

The National Dairy Council® [www.nationaldairyCouncil.org](http://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 3,400 schools representing nearly 2.4 million students nationwide now offer milk in single-serve plastic resealable containers on the school meal line. This number grows each year as DMI continues to implement its “New Look of School Milk” initiative. 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. The Fluid Milk Board also implemented a program to educate milk processors about the benefits of offering an enhanced milk product in the Nation’s elementary and secondary schools. Milk processors have exhibited widespread support for the program and it is reported on in greater detail in the National Fluid Milk Program summary.

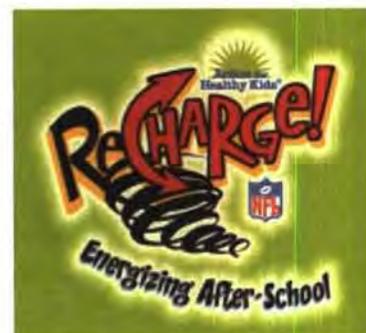


NDC also continues its active support of and participation in the Action For Healthy Kids (AFHK) initiative.

AFHK ([www.actionforhealthykids.org](http://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 hosted the Healthy Schools Summit 2005 in September and challenged a gathering of over 600 leaders to “raise the bar” on how to approach the national epidemic of childhood obesity in this country.

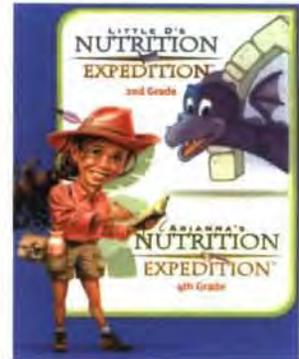


In September 2005, recognizing the importance of getting the nation’s youth back on a healthier and more active track, the National Football League and AFHK announced the launch of “ReCharge!,” an after-school program that encourages kids to get active and eat healthy. ReCharge! is the first nationally distributed after-school program that fully integrates nutrition and physical activity through team-based strategies for youth in grades 3-6. The program is available nationwide to schools and after-school facilities. ReCharge! coaches children on “energy-



in and energy-out” while focusing on goal-setting and teamwork through fun age-appropriate activities designed for the athlete and non-athlete alike.

In addition to reaching kids through the classroom with “Pyramid Cafè” and “Pyramid Explorations™,” NDC introduced in 2005 “Little D’s Nutrition Expedition” and “Arianna’s Nutrition Expedition” as the primary focus of nutrition education activities. 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](http://www.nutritionexplorations.org).



## Research

In 2005, 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 successful weight loss and maintenance.

## 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 59 active programs is provided in Appendix H.

The aggregate revenue from the producers' 15-cent per hundredweight assessment directed to the Qualified Programs in 2005 was \$190 million (approximately 10 cents out of the 15-cent assessment). The Qualified Programs manage State or regional dairy product promotion, research, or nutrition education programs. See Table 1–1 and Table 1–2 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.

**Table 1-1**  
**Aggregate Income and Expenditure Data Reported to USDA**  
**by the 59 Active Qualified Programs**

	2004 (in \$000's)	2005 (in \$000's)
<b>Income</b>		
Carryover from Previous Years	47,947 <sup>1</sup>	48,939 <sup>1</sup>
Producer Remittances	187,457	190,079
Transfers from Other Qualified Programs <sup>2</sup>	55,439	60,338
Transfers to Other Qualified Programs <sup>2</sup>	-67,222	-68,676
Other <sup>3</sup>	<u>3,657</u>	<u>4,076</u>
<b>Total Adjusted Annual Income</b>	<b>227,278</b>	<b>234,756</b>
<b>Expenditures</b>		
General and Administrative	7,919	9,133
Advertising and Sales Promotion	75,799	71,485
Unified Marketing Plan <sup>4</sup>	50,124	54,057
Dairy Foods and Nutrition Research	4,091	4,996
Public and Industry Communications	14,958	13,811
Nutrition Education	16,590	16,455
Market and Economic Research	1,872	3,141
Other <sup>5</sup>	<u>2,081</u>	<u>2,001</u>
<b>Total Annual Expenditures</b>	<b>173,434</b>	<b>175,079</b>
<b>Total Available for Future Year Programs</b>	<b>53,844<sup>1</sup></b>	<b>59,677</b>

<sup>1</sup> Differences are due to audit adjustments and varying accounting periods.

<sup>2</sup> Payments transferred between Qualified Programs differ due to different accounting methods and accounting periods.

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

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

<sup>5</sup> Includes capital expenses and contributions to universities and other organizations.

Source: Aggregate income and expenditure data reported by the 59 active Qualified Programs.

**Table 1-2**  
**Aggregate Advertising Expenditure Data Reported to USDA**  
**by the 59 Active Qualified Programs**

<b>Advertising Programs</b>	2004 (in \$000's)	2005 (in \$000's)
Fluid Milk	16,100 [21.2%]	16,262 [22.8%]
Cheese	48,170 [63.6%]	44,164 [61.8%]
Butter	2,835 [3.7%]	2,583 [3.6%]
Frozen Dairy Products	71 [0.1%]	121 [0.1%]
Other <sup>1</sup>	<u>8,623</u> [11.4%]	<u>8,355</u> [11.7%]
<b>Total</b>	<b>75,799 [100%]</b>	<b>71,485 [100%]</b>

<sup>1</sup> Includes "Real Seal," holiday, multiproduct, 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 59 active Qualified Programs.

## **National Fluid Milk Processor Promotion Board**

The Fluid Milk Board, as authorized in the Fluid Milk Promotion Act of 1990, as amended, (Fluid Milk Act), administers a generic 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 B. A map of the Fluid Milk Board regions is shown in Appendix C-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/Medical and Scientific, Strategic Thinking/Research, and Hispanic. 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 2005.

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 \$107.1 million in 2005. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California fluid milk processor promotion program. For 2005, the amount returned to California from the assessments was \$10.2 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, including the "got milk?"<sup>®</sup> advertising campaign.

The actual income and expenses for 2004–2005 are provided in Appendix D-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 2004–2005 are detailed in Appendix D-5. Appendix D-6 contains the Fluid Milk Board's approved budgets for 2005 and 2006. Appendix E-2 contains an independent auditor's reports for the period of January 1 through December 31, 2005.

The following summarizes Fluid Milk Board medical and scientific activities for the period of January 1 through December 31, 2005. The Fluid Milk Board's advertising, promotions, public relations, school marketing, sponsorships, and strategic thinking activities are incorporated in the National Fluid Milk Programs section.

### **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 2005. 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 forging 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. Members 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 24 ounces of milk each day as part of a weight loss plan—including exercise can help people lose more weight than calorie-restricted diets that do not include milk. Numerous studies in recent years have pointed to similar conclusions—that milk, dairy foods, and calcium may be important when addressing the issue of overweight and obesity. These communications and activities continue to highlight milk's nutritional profile which includes nine essential vitamins and minerals.

The 2005 "Good For You" (GFY) program, whose primary goal is to promote 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 fluid 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 listing of 2005 research may be found in the *got news?* section at [www.milkpep.org](http://www.milkpep.org).

The Fluid Milk Board continued its lactose intolerance initiatives. These efforts focus on educating Hispanic Americans and others on the importance of incorporating milk into their diets and why lactose intolerance should not be a barrier to including milk in the diet.

### **National Fluid Milk Programs**

The Fluid Milk Board continued to execute a generic national fluid milk processor promotion program in 2005. The fluid milk marketing programs are research based and message focused.

The purpose of the national fluid milk program is to positively change the attitudes and purchase behavior of Americans regarding fluid milk. The 2005 fluid milk marketing plans were designed to continue marketing and promotional activities emphasizing milk's weight-loss benefits, to increase the consumption of fluid milk, and to identify and support growth opportunities for the industry. Many communication media were used to accomplish this objective including television and print advertising, public relations, promotions, and the Internet. The program's target audiences include women and moms, teens, and Hispanics.

In 2005, the got milk?<sup>®</sup>/Milk Mustache advertising campaign, which provides the basis for advertising activities and other program delivery methods, was continued. A description of the 2005 program activities for the Fluid Milk Board follows.

### **Sponsorships**

In 2005, the got milk?<sup>®</sup>/Milk Mustache campaign continued leveraging a multi-year partnership with Walt Disney Corporation<sup>®</sup>. 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<sup>™</sup> 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?<sup>®</sup> signage and milk mustache posters throughout the complex.

The Fluid Milk Board moved into the fifth and final year of its partnership with the National Basketball Association (NBA<sup>®</sup>) during 2005 as part of a multi-year sponsorship. Through this sponsorship, the Fluid Milk Board utilized an additional mechanism to reach teens with sports nutrition and growth messaging through the NBA<sup>®</sup>/got milk?<sup>®</sup> "Rookie of the Month/Year" program that features popular NBA<sup>®</sup> stars and highlights the important nutrients that milk provides for active, growing bodies. The sponsorship also includes the got milk?<sup>®</sup> Rookie Game that is televised during the NBA<sup>®</sup> All-Star weekend.

The Fluid Milk Board continued in its eighth year sponsoring the Scholar Athlete Milk Mustache of the Year (SAMMY) award and selected 25 high school students from various regions across the United States to receive a \$7,500 scholarship. Each applicant is 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 35,000 applications. In addition to the scholarship award, each of the 25 winners are inducted into the SAMMY Hall of Fame and are featured in a special milk mustache advertisement (Appendix I) that appears in *USA Today*, *Sports Illustrated*, and *ESPN* magazine.

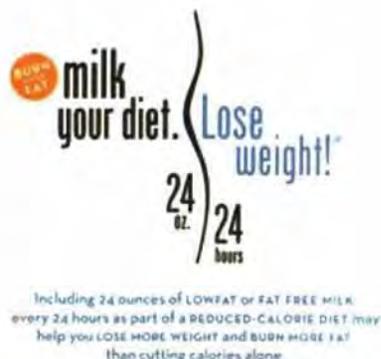
### **Advertising**

The Fluid Milk Board advertising program consists of television and print advertising as well as media-driven promotions. The advertisements highlight specific, relevant health-benefit

messages about milk and its nutrient content, while media-driven promotions serve to extend the advertising campaign. In 2005, the Fluid Milk Board created three new television advertisements encouraging women to include 24 ounces daily of fat-free or reduced-fat milk as part of a reduced-calorie diet to promote milk's weight loss benefits.

Fluid milk print advertisements produced in 2005 included celebrity weight loss advertisements targeting moms and women (7); celebrity advertisements with the active, bone growth, and fracture messages targeting teen boys and girls (12); NBA® Rookies of the Month (6) and Rookie of the Year (1); contest winners (4); Hispanic (7); school milk posters (4); and trade advertisements (1).

This year continued leveraging the new logo for milk's weight loss message: "24/24 Milk your diet/ Lose weight!" Additional information regarding these advertisements can be found at [www.milkpep.org](http://www.milkpep.org) and at [www.whymilk.com](http://www.whymilk.com). Appendix I includes thumbnail images of the above noted television and print advertisements.



To initiate the celebration of its 10-year anniversary, the Milk Mustache campaign launched its 200<sup>th</sup> celebrity advertisement featuring actress/singer Lindsay Lohan. The campaign first launched in 1995, with a print advertisement featuring Naomi Campbell, to help educate Americans about the nutritional benefits of milk and to increase milk consumption. Board-funded research shows that it has helped raise awareness of the many reasons to drink milk—from reducing the risk of high blood pressure and osteoporosis to weight management. Campaign messages have included promoting the importance of milk's nine essential nutrients, including calcium, to help bones grow and to help keep them strong and healthy.

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"), as well as "24 oz./24 horas" which reminds Hispanic moms to include 24 ounces daily of fat-free or reduced-fat milk as part of a reduced-calorie diet to promote milk's weight loss benefits. Hispanic print advertising featured celebrities Dr. Aliza and Giselle Blondet, along with several Hispanic advertorials designed to compliment the general market's weight loss message with an integrated Hispanic overlay. Hispanic consumers were directed to [www.2424leche.com](http://www.2424leche.com) for more information on Hispanic weight loss activities.

## Promotions

The Fluid Milk Board conducts promotions to help increase fluid milk sales in retail outlets. The promotions work to move more milk out of the 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 works with partners to increase the appeal to consumers. In 2005, promotions continued to focus on feature incentives such as promotional vehicles used to increase advertisements, displays of milk, and programs offering

prizes directly to consumers to help drive incremental purchases. Of note, regional producer groups play an important role in the execution of these retail programs.

The Fluid Milk Board conducted three national promotions in 2005. The first promotion, “A New View of You” was launched January 1<sup>st</sup> to coincide with healthy New Year’s resolutions and was featured in a segment of “The View” morning talk show. The promotion offered consumers a “Get a New View of You” 12-month calendar with any milk purchase and featured an online sweepstakes for a chance to win one of 24 trips for two to New York City.

The second promotion, “Fuel Up With Milk/Gear Up With the NBA<sup>®</sup>,” was a 5-week feature ad incentive program designed to drive sales of flavored milk in which retailers could run featured ads on flavored milk in exchange for Fuel Up With Milk/NBA<sup>®</sup>/got milk?<sup>®</sup> prizes. Point-of-Sale kits were shipped to retailers who signed up. Retailers would assemble kits, promote any size flavored milk at a feature price, send in proof of compliance, and receive prizes for giveaways. Retailers then used the prizes to execute their own in-store sweepstakes, contests, or giveaways. Additionally, the incentive featured an on-line auction in which kids could bid on NBA<sup>®</sup> star Carmelo Anthony gear and win prizes. The promotion celebrated flavored milk as a healthy alternative to soda.

The third promotion, “Get the Curves You Want,” held in May, focused on the importance of including 24 ounces of reduced-fat or fat-free milk a day in a reduced-calorie diet combined with exercise to support healthy weight loss. Consumers could purchase two gallons of milk and take their milk caps to Curves<sup>®</sup> fitness centers to earn a 2-week free membership. Consumers could also visit [www.2424milk.com](http://www.2424milk.com) and enter an online sweepstakes for their chance to win one of twenty-four 24-month Curves<sup>®</sup> memberships.



## **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?<sup>®</sup>/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. For 2005, over 1.65 billion media impressions were garnered through the integrated public relations program. The program provided support for the three national retail promotions by helping to build public awareness and increase retailer participation.

For the eighth consecutive year, the Milk Mustache Mobile Tour made its way around the United States. This year’s program, the “Great American Weight Loss Tour 2005,” (GAWL) ran from March through September covering 75 cities nationwide. Events included GAWL sign-ups,

Curves® workout equipment, processor sampling, and health assessments by a nutritional expert. This year's tour trucks were dedicated solely to moms and women, featuring celebrity moms and the Milk Your Diet-Lose Weight/GAWL themes on the trucks' side and end panels.



The 2005 “Healthy Schools Challenge”(Challenge) encouraged students to write testimonials regarding the efforts their school had made in getting students fit and healthy. Fifty schools each won a \$1,000 grant for school improvements such as installing milk vending machines or buying new athletic equipment. The students were visited by either an NBA® or WNBA® player and received other NBA® prizes such as autographed merchandise or game tickets. The grand prize winner was Bronx, New York’s Preston High School nominated by student Cymone Bedford. Her school received a gym make-over, and Cymone appeared in her own milk mustache ad. The Challenge was one part of the “Fuel Up with Milk/Gear Up with the NBA®” program.

To educate Americans about the nutritional and taste benefits of chocolate and other flavored milk, the Fluid Milk Board continued its partnership with MTV and *Rolling Stone* magazine. The magazine offered teens the chance to participate in the “got milk?® Roadie for a Day” contest. The contest winner, Nathan Hernandez, was featured in his own got milk?® print advertisement (Appendix I) in *Rolling Stone* magazine.

The “got news?” section at [www.milkpep.org](http://www.milkpep.org) continued in 2005 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](http://www.whymilk.com), [www.milkpep.org](http://www.milkpep.org), and [www.2424milk.com](http://www.2424milk.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 of the Fluid Milk Board.

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 that may be found at [www.milkdelivers.org](http://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, a one-page fact sheet explaining the science behind milk's weight-loss claims, vending sales kits containing results from the 2003 Multi-Channel Vending Test, and 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](http://www.milkpep.org) and for customers at [www.milkdelivers.org](http://www.milkdelivers.org). The presentations, videos, and printed materials are available by calling the milk hotline at 1-800-945-MILK (6455.)

## **School Marketing**

In 2005, FMSTI continued to conduct 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 that presents processors with a myriad of options they can implement to improve school milk. More seminars were scheduled this year in various regions across the United States due to the growing demand by processors.

Additionally, FMSTI conducted a school milk test in St. Louis, jointly sponsored by Prairie Farms, MilkPEP, and the St. Louis Dairy Council, to determine the impact of flavor variety, improved flavor formulations, and enhanced paperboard packaging on milk sales. The test involved about 165,000 students at almost 300 area schools during the January-June 2005 semester. The test demonstrated an overall average increase in milk sales of more than 12 percent per school, with 35 percent increases at the best performing schools. If applied nationally, results could translate into more than 600 million more unit sales of milk annually and 11 more units of milk per student each year. Part of the test's objective was to show that no one solution fits all situations, and there are multiple opportunities for success with school milk. The schools demonstrating the largest sales increases incorporated simultaneous marketing tactics such as displaying milk mustache celebrity posters and point-of-sale materials in the cafeteria, hosting sampling events, and giving away prizes through special promotions.

The Fluid Milk Board continued its School Image Poster Program in 2005 to help educate students and school food service professionals about the role milk plays in good nutrition. Two large got milk?<sup>®</sup> posters were sent to 32,000 participating public middle and high school foodservice directors in August for the beginning of the school year, educating almost 24 million students. Smaller posters were sent to schools with cafeteria size limitations. This year's posters featured pop singer Kelly Clarkson, NBA<sup>®</sup> star Tracy McGrady, professional ice skating star Michelle Kwan, and NFL<sup>®</sup> quarterback Donovan McNabb. Surveys of the schools' foodservice directors revealed that of those schools receiving posters, over 80 percent hung them in the school cafeteria with more than one-third leaving the posters up until they were no longer in good condition.

## **Chapter 2**

### **USDA Activities**

Dairy Programs 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 Board's 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, My Pyramid, Dietary Guidelines, 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 State or regional dairy product promotion, research, or nutrition education programs (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 program audits. Dairy Programs representatives attend full Board meetings, Board committee meetings, and other staff and member 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-four nominations were received by USDA for the 12 Dairy Board members whose terms expired October 31, 2005. A press release issued on August 16, 2005, announced the appointment of ten new members and two incumbents. All will serve 3-year terms ending October 31, 2008. Newly appointed members were: Ronald L. Koetsier, Visalia, California (Region 2); William R. D. Anglin, Bentonville, Arkansas (Region 4); Donna L. Sharp, Bath, South Dakota (Region 5); Carl F. VanDen Avond, Green Bay, Wisconsin (Region 6); Bradford A. McCauley, Viola, Wisconsin (Region 6); Douglas D. Nuttelman, Stromsburg, Nebraska (Region 7); Carl A. Schmitz, Wadesville, Indiana (Region 9); Joyce A. Bupp, Seven Valleys, Pennsylvania (Region 11); Ronald R. McCormick, Java Center, New York (Region 12); and Debora A. Erb, Landaff, New Hampshire (Region 13). Reappointed to serve second terms were: Lester E. Hardesty, Windsor, Colorado (Region 3) and Michael M. Ferguson, Senatobia, Mississippi (Region 8).

A list of the 2005 Dairy Board members appears in Appendix A. Appendix C-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 Amendment to the Order*

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 2005, approximately 500 dairy producers were granted exemptions. The Dairy Order requires producers to re-apply annually to continue to receive the exemption.

#### *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 2005, 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 2005, Dairy Programs reviewed and approved 250 Dairy Board and DMI agreements, amendments, and annual plans. Funding approvals were from the 2003, 2004, and 2005 fiscal periods. Appendix F-1 lists the contractors and corresponding Board initiatives approved by USDA during 2005.

#### *Contractor Audits*

At the time of publication, DMI had not completed its 2005 contractor audits. DMI retained a new certified public accounting firm in 2005, Ernst & Young, for their audit services.

#### *Collections*

The Dairy Act specifies that persons who pay producers and producers marketing milk directly to consumers, commonly referred to as "responsible persons," shall remit assessments to the Dairy Board or to Qualified Programs for milk produced in the United States and marketed for commercial use.

The Dairy Act provides that dairy farmers can direct up to 10 cents of their 15-cent per hundredweight assessment to Qualified Programs. During 2005, the Dairy Board received about 5.07 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 59 Qualified Programs. A list of the 59 active Qualified Programs is provided in Appendix H. 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 2004 and 2005 in Chapter 1.

### *Litigation*

The Dairy Board and the Secretary of Agriculture were named as defendants in a lawsuit in the U.S. District Court for the Middle District of Pennsylvania by dairy producers seeking a declaration that the Dairy Act violates their First Amendment rights of free speech and association. In March 2003, a Federal trial court in Pennsylvania found that the Dairy Program does not violate the claimants' right of free speech and association. Upon appeal, the U.S. Court of Appeals for the Third Circuit reversed this decision. The Appeals Court found that the Dairy Program does violate the claimants' right of free speech and association rights by compelling them to subsidize speech with which they disagree. The Department of Justice (on behalf of the Secretary of Agriculture and Dairy Board) filed a petition for an *En Banc* rehearing, but the petition was subsequently denied. On October 1, 2004, the U.S. Solicitor General filed a writ of certiorari with the U.S. Supreme Court (Court). The petition for writ was granted on May 31, 2005; the judgment was vacated and the case was remanded to the Third Circuit Court of Appeals for further consideration in light of Court's decision in *Johanns, Secretary of Agriculture, Et Al. v. Livestock Marketing Association Et Al.* In this decision, the Court held that commodity promotion programs are considered Government speech and therefore are not subject to First Amendment protections. On September 15, 2005, the Third Circuit Court of Appeals ruled that "the teachings of *Johanns v. Livestock Marketing Association*, control the matters presented in this case" and ordered that the March 2003 judgment of the District Court for the Middle District of Pennsylvania that the Dairy Program does not violate the claimants' right of free speech and association be affirmed.

## **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 2 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 March 28, 2006, the Secretary of Agriculture announced four reappointments and five new appointments to the Fluid Milk Board, including two members filling vacancy terms. Newly appointed to serve their first terms were: Edward L. Mullins, Carlinville, Illinois (Region 9); Patrick R. Beaman, Dallas, Texas (Region 12); and Lisa M. Hillenbrand, Geneva, Switzerland (At-Large Public). Reappointed to serve a second term were: Michael F. Nosewicz, Cincinnati, Ohio (Region 3); William R. McCabe, Orrville, Ohio (Region 6); Paul W. Bikowitz, City of Industry, California (Region 15); and Susan D. Meadows, Dallas, Texas (At-Large Processor). The newly appointed and reappointed members were officially seated at the July 12-15, 2006, Fluid Milk Board Meeting. The terms for these appointees will expire on June 30, 2009. Additionally, filling vacancies with less than 18 months remaining were: Charles L. Gaither, Jr., Asheville, North Carolina (Region 4); and Teresa E. Webb, Wallington, New Jersey (At-Large Processor). Both were officially seated at the April 6-8, 2006, meeting. The terms for the two vacancy positions will expire June 30, 2007.

A list of the 2005 Fluid Milk Board members appears in Appendix B. Appendix C-2 shows a map depicting the 15 geographic regions under the Fluid Milk Order.

### *Order Amendments*

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 1160.211 of the Fluid Milk Order. In 2005, no fluid milk processors were granted exemptions. The Fluid Milk Order requires processors to re-apply annually to continue to receive the exemption.

The second Fluid Order amendment became effective May 1, 2005, (70 FR 14974-14976, published March 24, 2005). This final rule amended section 1160.200 of the Fluid Milk Order by modifying the terms of membership of the Fluid Milk Board. The amendment requires that any change in a member's employer or change in ownership of the member's employer would disqualify that member. The member would continue to serve on the Board for a period of up to 6 months until a successor was appointed. In addition, a public member on the Board who changes employment or whose business focus with an employer is substantively changed would be disqualified in a manner similar to a fluid milk processor member. The amendments ensure

that the Board is able to equitably represent fluid milk processing constituents and the public's interest.

#### *Program Development*

The Fluid Milk Board contracted with the International Dairy Foods Association (IDFA) to manage the program. IDFA contracted with Lowe Worldwide, DRAFT, Weber Shandwick, and Siboney USA to develop the Fluid Milk Board's 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 Weber Shandwick, in order to determine if the agency had conformed to the financial compliance requirement specified in its agreement with the Board for the period of January 1, 2004, through December 31, 2004. 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. In 2005 one delinquent account was referred to the USDA as a result of bankruptcy proceedings.

### **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 a yearly independent analysis of milk industry programs. These promotion programs operate to increase milk awareness and thus the sale of fluid milk and related dairy products. From 1984 through 1997, USDA conducted the independent evaluation 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. Beginning in 1995, the Congressional report began including analyses of 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 (Cornell).

The following economic evaluation focuses on the combined 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 including public relations, sales promotions, nutrition education, and sponsorships conducted by fluid milk processors and dairy farmers. 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 total dairy demand model for all fluid milk and dairy products used to evaluate the economic impacts of all generic marketing activities for those products. The total dairy demand model is included because the dairy farmer programs now emphasize an "all dairy" promotion strategy (e.g., 3-A-Day™) over product-specific campaigns. Similar to the first model, marketing activities in the second include generic advertising, sales promotions, public relations, nutrition education, and sponsorships. 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 both programs.

The following summarizes the findings of the report.

## **Highlights**

Generic fluid milk marketing activities sponsored by dairy producers and fluid milk processors have helped mitigate a long-term decline in per capita fluid milk consumption in the United States. Cornell estimates that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Specifically, over the period 1995 through 2005, it is estimated that a 1.0 percent increase in generic fluid milk marketing expenditures resulted in a 0.051 percent increase in per capita fluid milk consumption when holding all other demand factors constant.

What about the impact on total consumption of fluid milk? From 2001 through 2005, generic fluid milk marketing activities increased fluid milk commercial disappearance by 22.5 billion pounds in total or 4.5 billion pounds per year. Alternatively stated, had there not been generic fluid milk marketing conducted by the two national programs, fluid milk consumption would have been 8.2 percent less over this time period. Hence, the combined efforts of the two programs to market fluid milk have had a positive and statistically significant impact on fluid milk consumption.

Regarding the total dairy product demand analysis, the average generic dairy marketing elasticity for the period 1990–2005 was 0.074 -- a 1.0 percent increase in expenditures for these marketing activities increased per capita dairy demand by 0.074 percent. Thus, the total marketing program effort had a positive and statistically significant impact on dairy consumption.

The benefit-cost ratio (BCR) for the Dairy Program for the period 2000 through 2005 was calculated. The benefits of the Dairy Program were calculated as the change in dairy farmers' net revenue due to demand enhancement from all marketing activities under the Dairy Program. 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 4.33. This means that each dollar invested in generic dairy marketing by dairy producers returned \$4.33, on average, in net revenue to farmers.

To make allowances for the error inherent in any statistical estimation, a 95 percent confidence interval was calculated for the average BCR. The confidence interval provides a lower and an upper bound for the average BCR. One can be "confident" that the true average BCR lies within these bounds 95 percent of the time. The estimated lower and upper bounds for the average BCR were 3.70 and 4.95, respectively. This confidence interval demonstrates that one could be confident 95 percent of the time that the true average BCR lies between a low of 3.70 and a high of 4.95. Hence, it is reasonable to conclude that the benefits of the Dairy Program's marketing activities have been considerably greater than the cost of the program.

## **Analysis of Generic Fluid Milk Marketing**

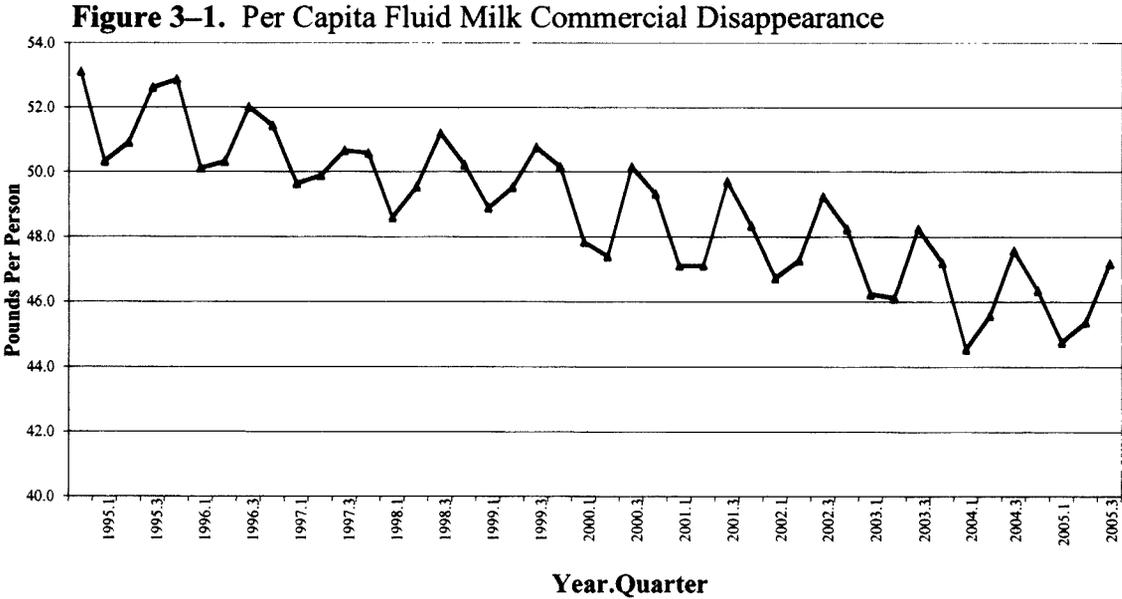
Per capita fluid milk consumption in the United States has been trending downward for many years. Among the factors behind this decline are changes in U.S. demographics, changes in

consumer preferences for fluid milk, how and where people consume food, and aggressive advertising and marketing by producers of beverages that compete with fluid milk. The model described in this report uses quarterly data covering the period 1995 through 2005 and the following is a brief graphical overview of changes in per capita fluid milk consumption and factors hypothesized to affect milk consumption over this time period. 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.

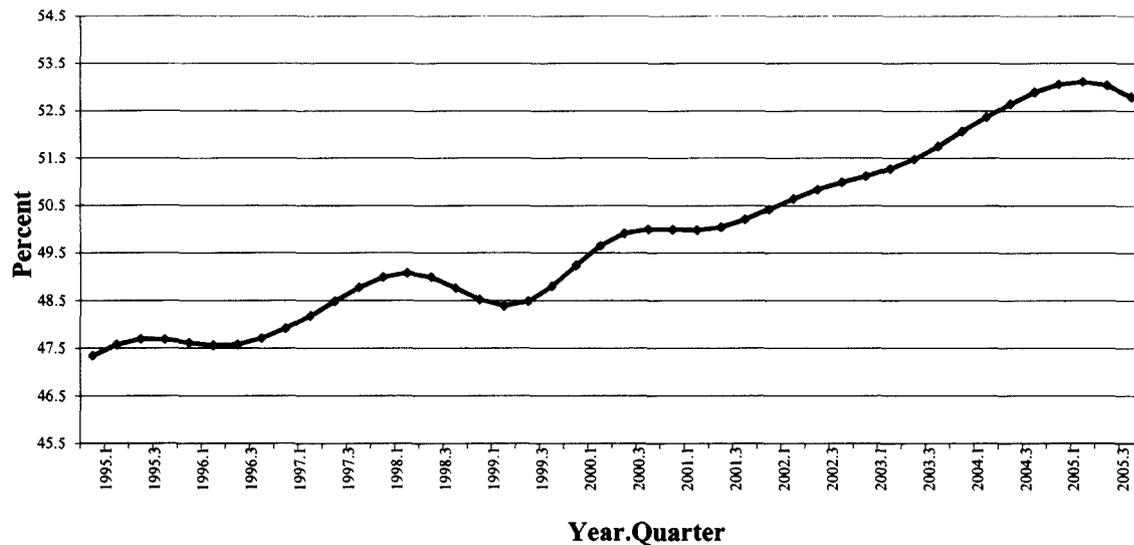
Figure 3–1 illustrates the steady decline in per capita fluid milk commercial disappearance since 1995 (along with seasonal and quarterly changes). From 1995 to 2005, per capita commercial disappearance declined by 11.3 percent. This translates into an average annual rate of decline of a little more than 1.0 percent annually.

One potential cause of declining per capita fluid milk consumption may be the positive 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 milk product that causes some people who would normally drink milk to consume a different beverage if the preferred 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 since 1995. Between 1995 and 2005, the annual average percentage of expenditures on food consumed away from home increased by 11.4 percent. While there were some ups and downs in the percentage of food consumed away from home over



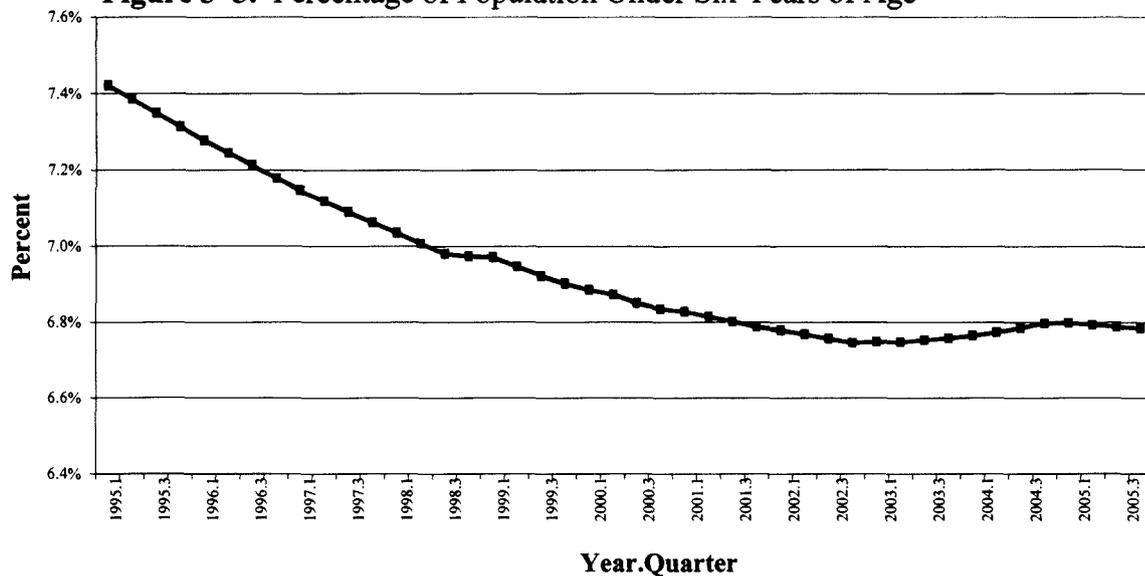
**Figure 3–2. Expenditures on Food Consumed Away From Home as a Percentage of Total Food Expenditures**



this period, the general trend is increasing from 1995 to 2005. It is evident from Figures 3–1 and 3–2 that per capita fluid milk consumption and eating away from home are negatively related. Thus the increase in food consumed away from home likely has been responsible for some of the decrease in per capita fluid milk consumption.

Another potential reason why per capita fluid milk consumption has declined may be changes in U.S. population. One important change is the declining proportion of young children in the population since 1995 (the decline has leveled out since 2003). Since young children are one of

**Figure 3–3. Percentage of Population Under Six Years of Age**

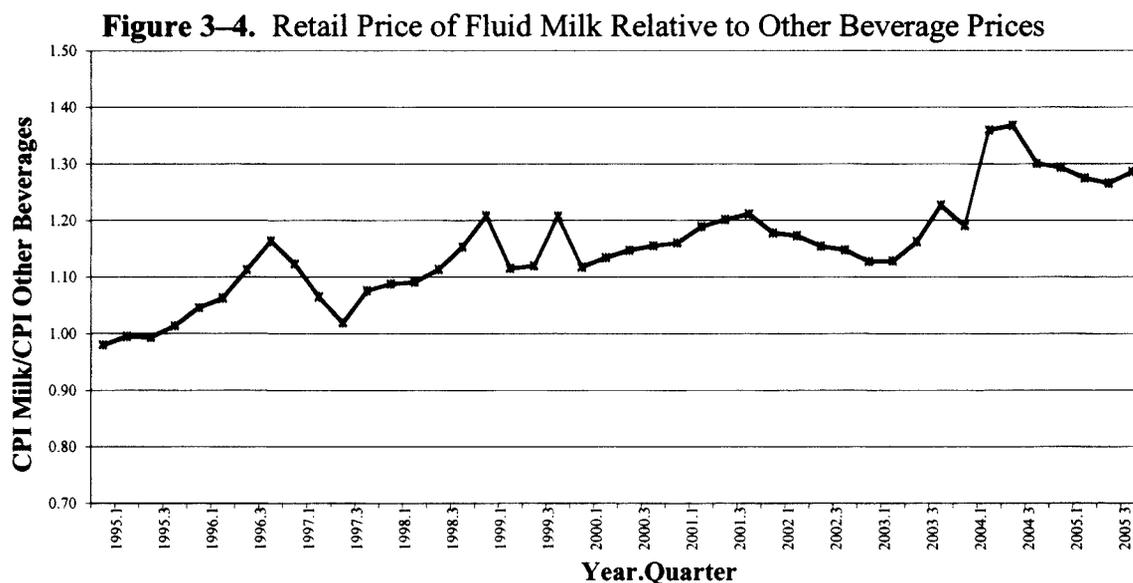


the largest milk-consuming cohorts, any decline in that cohort negatively impacts per capita fluid milk consumption. Figure 3–3 shows the percentage of the population that was less than 6 years old from 1995 to 2005, a segment of the population that has decreased by almost 8.0 percent since 1995. Therefore, there is a positive correlation between per capita milk consumption and this age cohort—both are declining.<sup>1</sup>

Since 1995, the retail price of fluid milk products has 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, two-out-of-three periods have been characterized by rising relative retail prices for fluid milk. From 1995 through 2005, annual average fluid milk prices rose 28.5 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.

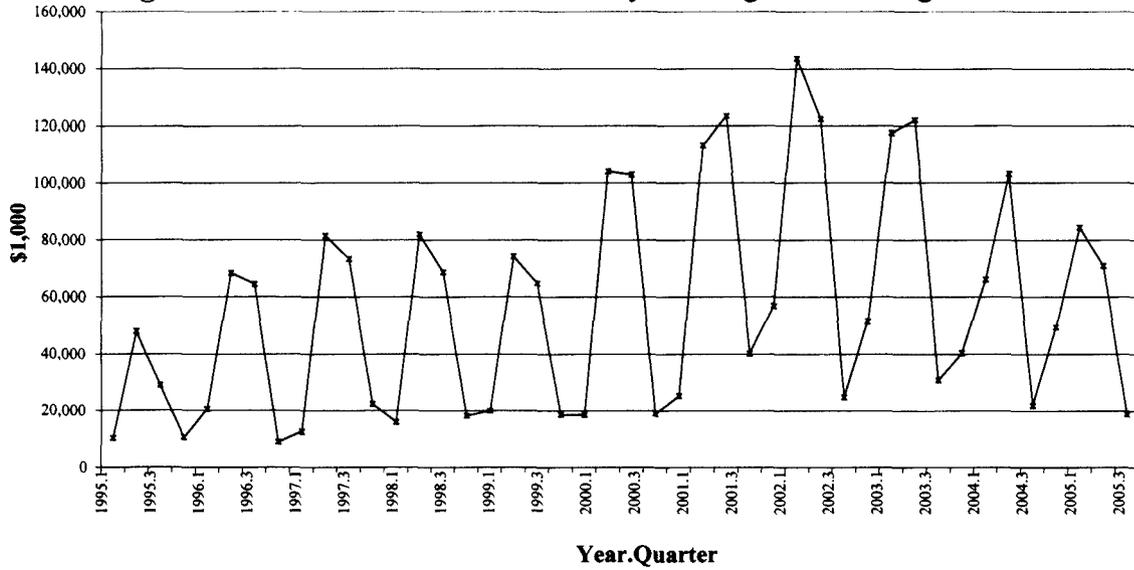
Fluid milk’s loss of market share to other beverages also may be due to aggressive marketing by competing beverage producers. Indeed, both dairy farmers and fluid milk processors started generic marketing programs to combat competing marketing from other beverage producers.

Since 1995, two beverages that have grown the most in per capita consumption are bottled water and soy beverage, due in part to increased advertising and promotion by these beverages. Figure 3–5 displays real (inflation-adjusted) per capita advertising expenditures for bottled water and soy beverage. Combined advertising for bottled water and soy beverage (in 2005 dollars) increased from about \$98 million in 1995 to \$224 million in 2005, 129.0 percent increase. Both



<sup>1</sup> Since 2000, the positive relationship between per capita fluid milk consumption and the percent of the population under 6 years old has weakened considerably with the flattening out of the age demographic variable. However, this positive relationship nevertheless holds for the period 1995 through 2005.

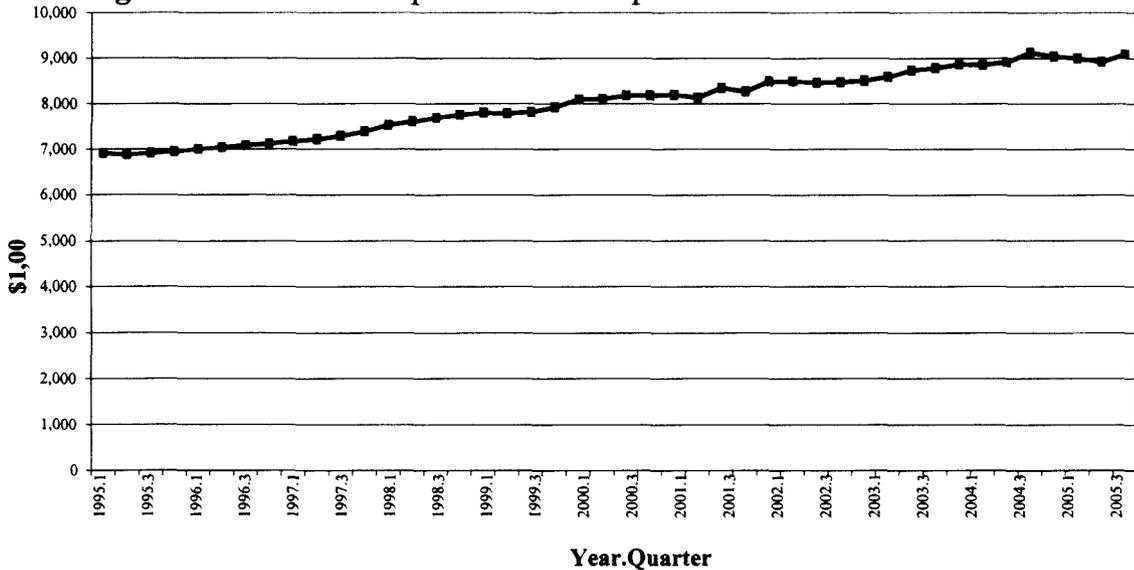
**Figure 3-5. Real Bottled Water and Soy Beverage Advertising**



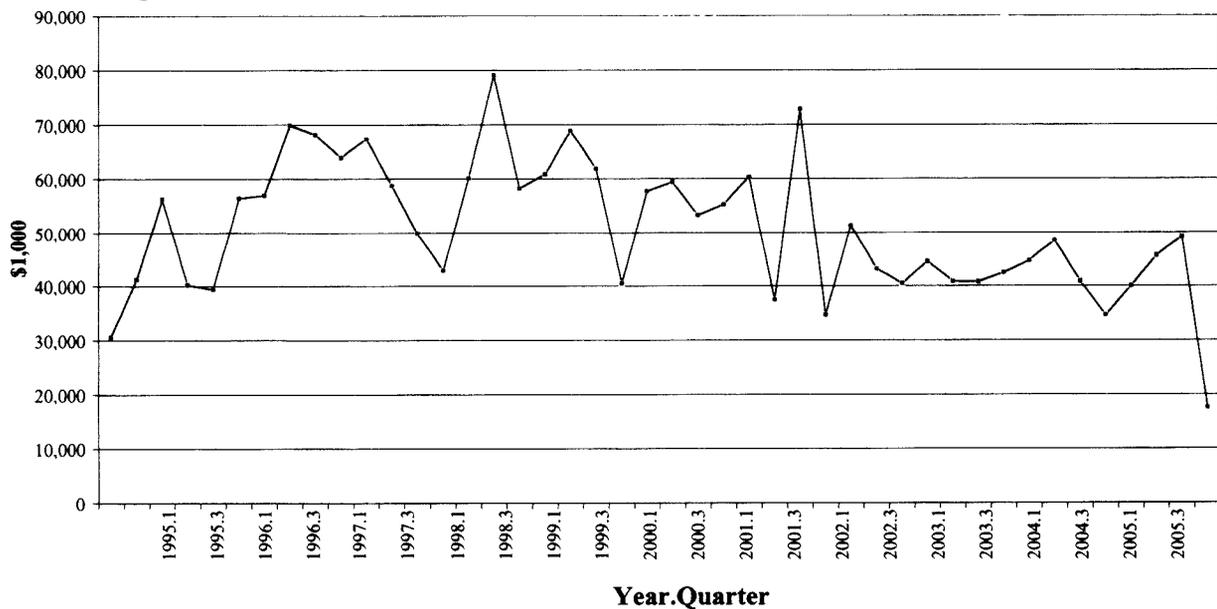
of these products experienced large increases in per capita consumption over this time period, undoubtedly taking away some market share from fluid milk.

One factor that may have diminished some of the long-term 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 -- meaning consumption increases as consumers’ disposable incomes

**Figure 3-6. Real Per Capita Personal Disposable Income**



**Figure 3–7. Real Total Fluid Milk Expenditures**



increase. Figure 3–6 illustrates the steady positive trend in real per capita income (in 2005 dollars) from 1995 to 2005. Since 1995, real per capita income has increased by 30.3 percent.

Another factor that may have mitigated some of the long-term decline in per capita fluid milk consumption over part of this time period is generic marketing efforts by dairy producers and fluid milk processors. The producer checkoff program is the largest checkoff program in the United States in terms of revenue and the second largest is the fluid milk processor program. Figure 3–7 shows the combined real expenditures (in 2005 dollars) on generic fluid milk marketing efforts by these two programs. From 1995 to 1998, there was steady growth in real expenditures for generic fluid milk marketing, from about \$168 million in 1995 to \$232 million in 1998. Since 1998, however, such expenditures have been declining. Between 1995 and 2005, combined annual average real expenditures declined nearly 10.0 percent reaching a low of \$152 million in 2005. This decline may have had an impact on declining per capita fluid milk consumption over this period.

To more formally evaluate the relationship between per capita fluid milk consumption and factors hypothesized to influence that consumption, an econometric modeling approach was developed. Because there are factors other than generic advertising that influence the demand for fluid milk, this model was used 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 less than 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; per capita

expenditures on bottled water and soy beverage advertising (combined); and expenditures on generic fluid milk marketing. As mentioned in the introduction, the marketing expenditures included funds spent on fluid milk advertising, public relations, sales promotions, nutrition education, and sponsorships. Since the goals of the two marketing programs are the same with regards to fluid milk, all generic fluid milk marketing activities by both programs were aggregated into a single marketing variable.

The model was estimated with national quarterly data from 1995 to 2005. To account for the effects of inflation, all prices and income were deflated by the appropriate consumer price index. Generic fluid milk marketing and bottled water and soy beverage advertising expenditures were deflated by a media cost index computed from annual changes in promotion and advertising costs by media type supplied by Dairy Management Inc. Because marketing has 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.<sup>2</sup> Similar procedures were used to capture this carry-over effect for bottled-water and soy beverage advertising.

The impact of variables affecting demand can be represented by elasticities. Elasticity measures 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 2005 for variables found to have a statistically significant effect on consumption. For example, a price elasticity of demand for fluid milk equal to  $-0.114$  means that a 1.0 percent increase in the real (inflation-adjusted) retail fluid milk price decreases per capita fluid milk quantity demand by 0.114 percent.

The most important factors influencing per capita fluid milk demand are the percentage of the population under 6 years of age and the proportion of food expenditure on food eaten away from home. While not as large in magnitude, retail fluid milk prices, income, expenditures on generic milk marketing efforts, and bottled water plus soy beverage advertising expenditures also significantly impacted per capita fluid milk demand.

The amount of food that is consumed away from home, which was measured in this model as real per capita expenditures on food eaten away from home as a percentage of total expenditures on food, was the most important factor affecting milk consumption. The estimated elasticity for this factor was  $-0.709$ . A 1.0 percent increase in the percentage of food consumed away from home would result in a 0.709 percent decrease in fluid milk demand. As mentioned previously, this negative relationship may be due to the limited availability of fluid milk products versus the high availability of fluid milk substitutes at many eating establishments that 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 milk choose another beverage instead. This result

---

<sup>2</sup> Specifically, a second-degree polynomial lag structure with both end point restrictions was imposed. The demand model included current expenditures and eight quarters of lagged real generic milk marketing expenditures to capture the carry-over effect of the marketing activities. The length of lag used here indicates that such demand enhancing activities as the *got milk?*<sup>®</sup> and milk mustache campaigns have long-lasting effects on consumers.

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 dining-out customers may increase the competitiveness of fluid milk.

Another important milk demand factor continues to be demographic changes. Specifically, the percentage of the population under 6 years of age had an estimated elasticity of 0.366. This means that a 1 percent increase in this age cohort would result in a 0.366 percent increase in per capita fluid milk demand when holding all other demand factors constant. This result is consistent with previous studies (including last year's analysis) that show one of the largest milk-consuming segments of the population is young children.

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 percent increase in the real retail price of fluid milk would result in a 0.114 percent decrease in per capita fluid milk quantity demanded. The magnitude of this elasticity is relatively small indicating that U.S. consumers' 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 milk has increased substantially since 1995 (28.5 percent) relative to the price of other beverages. Consequently, the increase in fluid milk prices has contributed to the decline in per capita consumption.

Per capita disposable income had 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 0.108 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

**Table 3–1.** Average Elasticity Values (1995–2005) for Factors Affecting the Retail Demand for Fluid Milk.<sup>1</sup>

<b>Demand Factor</b>	<b>Elasticity</b>
Retail price	-0.114*
Per capita income	0.108**
Percent of food-away-from-home expenditures	-0.709*
Percent of population younger than six years of age	0.366*
Bottled water + soy beverage advertising	-0.008**
Generic milk marketing	0.056*

<sup>1</sup> Example: A 1.0 percent increase in the retail price of fluid milk is estimated to reduce per capita sales of fluid milk by 0.114 percent. For more information on the data used, see Table 3–3. \*Statistically significant at the 5.0 percent significance level or less. \*\*Statistically significant at the 10.0 percent significance level or less.

milk products as a staple commodity in the United States. With income up by over 30 percent since 1995, this has lessened the decline in per capita fluid milk consumption.

Combined bottled water and soy beverage advertising also had a negative impact on fluid milk demand during the study period. The estimated fluid milk demand elasticity with respect to bottled-water advertising was  $-0.008$  and statistically significant. While relatively small in magnitude, the huge percentage increase in competing advertising likely had a negative impact on fluid milk consumption over this time period.

Finally, the generic fluid milk marketing activities by the checkoff had a positive and statistically significant impact on per capita fluid milk demand. The average marketing elasticity was  $0.056$  and was statistically significantly different from zero at the 1.0 percent significance level. Thus, a 1.0 percent increase in generic fluid milk marketing would increase per capita fluid milk consumption by 0.056 percent holding all other demand factors constant. This generic marketing elasticity is virtually identical to the one estimated last year of  $0.054$ .

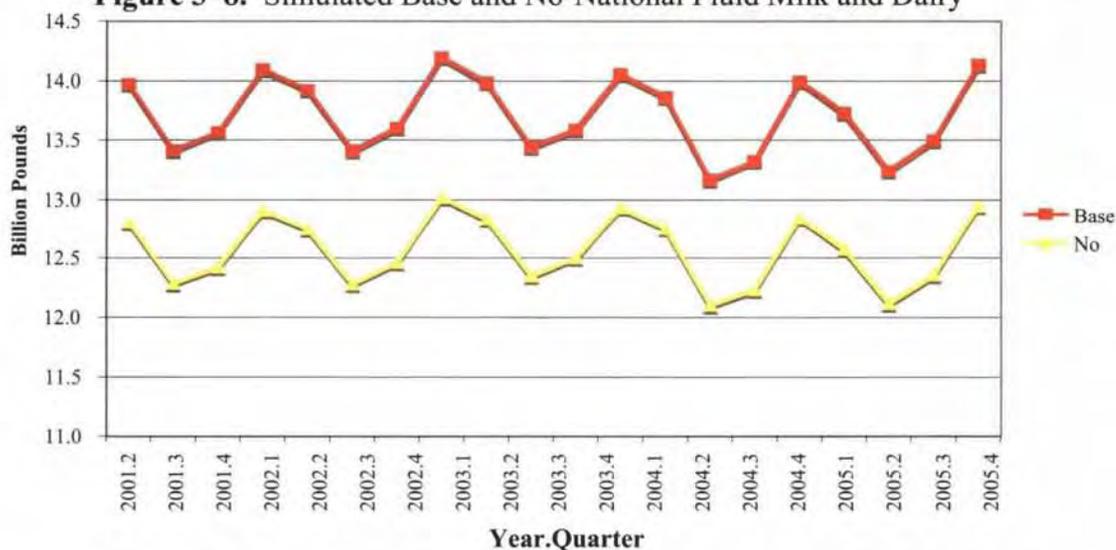
To examine the impact on total consumption of fluid milk for the period 2001 through 2005, the economic model simulated the estimated demand equation for two scenarios: (1) a baseline scenario in which the combined fluid milk marketing expenditures were equal to actual marketing expenditures under the 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 producer-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 two national programs.

Figure 3–8 displays the simulation results for quarterly fluid milk commercial disappearance for the two scenarios. It clearly shows the positive impact on total fluid milk consumption due to the milk-processor and dairy producer marketing programs. From 2001 through 2005, these marketing activities increased fluid milk commercial disappearance by 22.5 billion pounds in total, which is 4.5 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 8.2 percent less than it actually was over this time period. Hence, the bottom line is that the fluid milk marketing efforts by dairy producers and fluid milk processors combined have had a positive and statistically significant impact that is partially mitigating declines in fluid milk consumption.

### **Analysis of Total Dairy Product Generic Marketing**

To examine the overall impact of the dairy producer and fluid milk processor programs on overall dairy demand, a combined fluid milk/dairy product demand model was developed that included all demand-enhancing marketing activities as one of the demand determinants. Per capita commercial disappearance of fluid milk, cheese, butter, and frozen products was used to

**Figure 3–8.** Simulated Base and No-National Fluid Milk and Dairy



represent total dairy demand.<sup>3</sup> Expenditures for the following marketing activities were aggregated into one variable assumed to impact the total dairy demand model: total dairy producer expenditures for generic milk and cheese advertising, public relations, sponsorships, retail promotions, and nutrition education and total milk-processor expenditures for generic milk advertising, public relations, and promotions.<sup>4</sup> In addition, the following variables were included as factors influencing per capita dairy demand: the CPI for all dairy products, per capita

**Table 3–2.** Average Elasticity Values (1990–2004) for Factors Affecting Total Dairy Retail Demand.

Demand Factor	Elasticity
Retail price	-0.671*
Per capita income	0.175**
Per capita food-away-from-home expenditures	0.770*
Generic dairy marketing	0.074*

\*Statistically significant at the 1 percent level or less. \*\*Statistically significant at the 10.0 percent level.

<sup>3</sup> Since all products were expressed on a milk-fat equivalent basis, non-fat dry milk is not included. The summation of fluid milk, cheese, butter, and frozen dairy products on a milk fat equivalent basis is used as a measure of total dairy demand.

<sup>4</sup> Considerably more than 90 percent of the combined marketing budgets of dairy farmers and fluid milk processors is spent on fluid milk and cheese marketing activities. Hence, expenditures on fluid milk and cheese marketing are used as a measure of the overall dairy marketing efforts of the two programs.

disposable income, variables to capture seasonality in dairy product demand, and per capita expenditures on consumption of food away from home. The model was estimated with national quarterly data for 1990–2005.<sup>5</sup> To account for the impact of inflation, all monetary variables were deflated by the CPI for all items. Generic fluid milk and cheese marketing expenditures were deflated by a weighted average media cost index (television, radio, print, and outdoor) for fluid milk and cheese.

Table 3–2 provides selected elasticities for the total dairy demand model. All demand elasticities were statistically significantly different from zero at the 1.0 percent significance level, except for income which was significant at the 10.0 percent level. The most important factor in the model impacting per capita disappearance of all dairy products was per capita expenditures on food consumed away from home. The results indicate that a 1.0 percent increase in per capita food-away-from-home expenditures would result in a 0.77 percent increase in combined per capita total dairy demand. The average price elasticity for 1990 through 2004 was  $-0.671$ ; in other words, a 1.0 percent increase in the retail price of dairy products would result in a 0.671 percent decrease in per capita quantity demanded for all dairy products. Income was also an important factor in the total demand model. The estimated income elasticity was 0.175, indicating that these dairy products are normal goods; that is, consumption rises with increases in income.

The major interest here is the combined advertising and promotion or “marketing” elasticity. The average marketing elasticity for this period was 0.074; a 1.0 percent increase in expenditures for these combined marketing activities would increase per capita total dairy demand by 0.074 percent. Thus, the total marketing effort by dairy producers and fluid milk processors has had a positive and statistically significant impact on dairy consumption.

### **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 revenue<sup>6</sup> due to generic dairy marketing divided by the cost of the checkoff program. A BCR was estimated for producers for the Dairy Program but one could not be computed at this time for fluid milk processors for the Fluid Program because data on packaged fluid milk wholesale prices, which are necessary in calculating processor net revenue, are proprietary and therefore not available.

---

<sup>5</sup> Unlike the fluid milk demand model, data for the total dairy demand model went farther back in time to 1990. We could not go back prior to 1995 for the fluid milk model because it was impossible to separate fluid milk marketing expenditures from total dairy marketing expenditures before 1995. Since extra data existed for the total dairy demand model, it was used.

<sup>6</sup> “Net revenue” is defined as the aggregate gain in total revenue from price and product disappearance enhancements due to generic dairy marketing less the increase in supply costs for the additional milk marketed by dairy farmers.

The BCR<sup>7</sup> was calculated by simulating two scenarios: (1) a baseline scenario in which combined marketing expenditure 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 producer-sponsored marketing was reduced to 42 percent of actual levels to reflect the difference in assessments before and after the national program was enacted. A comparison of these two scenarios provides 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 refer to as “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.

The average all milk price over this period in the baseline scenario was \$14.61 per hundredweight. In the no-national-Dairy-Program scenario, the average all milk price was \$14.23 per hundredweight, which is 38 cents lower. Thus, had there been no national program over this period, the price farmers receive for their milk would have been 2.6 percent lower than it actually was.

The results show that the average BCR for the Dairy Program was 4.33 from 2000 through 2005. This means that each dollar invested in generic dairy marketing by dairy producers during the period would return \$4.33, on average, in net revenue to farmers. The level of the marketing BCR suggests that the combined marketing programs supported by dairy producers have been a successful investment.

In another interpretation of the BCR, the increase in nominal generic dairy marketing expenditures resulting from the Dairy Program costs dairy producers an additional \$130 million per year on average (i.e., the difference between \$304 million annually under the baseline scenario and \$174 million under the no-Dairy-Program scenario). The additional generic dairy marketing resulted in higher demand, prices, and net revenue for dairy producers nationwide. Based on the simulations conducted, it is estimated 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 \$562.9 million. Dividing \$562.9 million by the additional Dairy Program cost of \$130 million results in the estimated benefit-cost ratio of 4.33.

To make allowance for the error inherent in any statistical estimation, a 95 percent confidence interval was calculated for the average BCR providing a lower and upper limit for the average BCR. One can be “confident” that the true average BCR lies within those bounds. The estimated lower and upper bounds for the average BCR were 3.70 and 4.95, respectively. Hence, it is reasonable to conclude that these confidence intervals give credence to the finding that the

---

<sup>7</sup> To measure market impacts, supply equations at the retail and farm levels were estimated 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.

benefits of the Dairy Program's marketing activities have been considerably 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 0.55 percent of the average annual value of farm milk marketings from 2000 through 2005 (\$23.58 billion). The generic 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.<sup>1</sup>**

Variable	Description	Units	Mean <sup>2</sup>
<b><i>Consumption Variables</i></b>			
RFDPC	Quarterly retail fluid demand per capita	lbs MFE	13.77 (0.32)
RDDPC	Quarterly retail total dairy demand per capita	lbs MFE	41.33 (2.28)
<b><i>Price Indices</i></b>			
RFPCPI	Consumer retail price index for fresh milk and cream deflated by consumer price index for nonalcoholic beverages (1982–84=1)	#	1.15 (0.09)
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=1)	#	136.51 (4.65)
<b><i>Demographic and Income Variables</i></b>			
INCPC	Quarterly per capita disposable income, deflated by the consumer retail price index for all items (2005=1)	\$	8,101 (717.86)
AGE5	Percent of the population under age six	%	6.97 (0.21)
FAFH%	Food away from home expenditures as percent of total food expenditures	%	49.87 (1.82)
<b><i>Marketing Expenditures</i></b>			
GMM	Quarterly generic fluid milk marketing expenditures deflated by media cost index (2005 \$)	\$mil	50.60 (12.72)
GMMD	Quarterly generic fluid milk marketing expenditures, Dairy Program, deflated by media cost index (2005 \$)	\$mil	29.55 (10.27)
GMMP	Quarterly generic fluid milk marketing expenditures, Fluid Milk Program, deflated by media cost index (2005 \$)	\$mil	21.05 (10.53)
GMCM	Quarterly generic fluid milk and cheese marketing expenditures, Dairy and Fluid Milk Program, deflated by media cost index (2005 \$)	\$mil	74.79 (22.75)
BWA	Quarterly soy milk plus bottled-water advertising expenditures deflated by media cost index (2004 \$)	\$mil	55.6 (38)

<sup>1</sup> Quarterly dummy variables are also included in the model to account for seasonality in demand.

<sup>2</sup> Computed over the period 1995–2005. Standard deviation in parentheses.

## Chapter 4

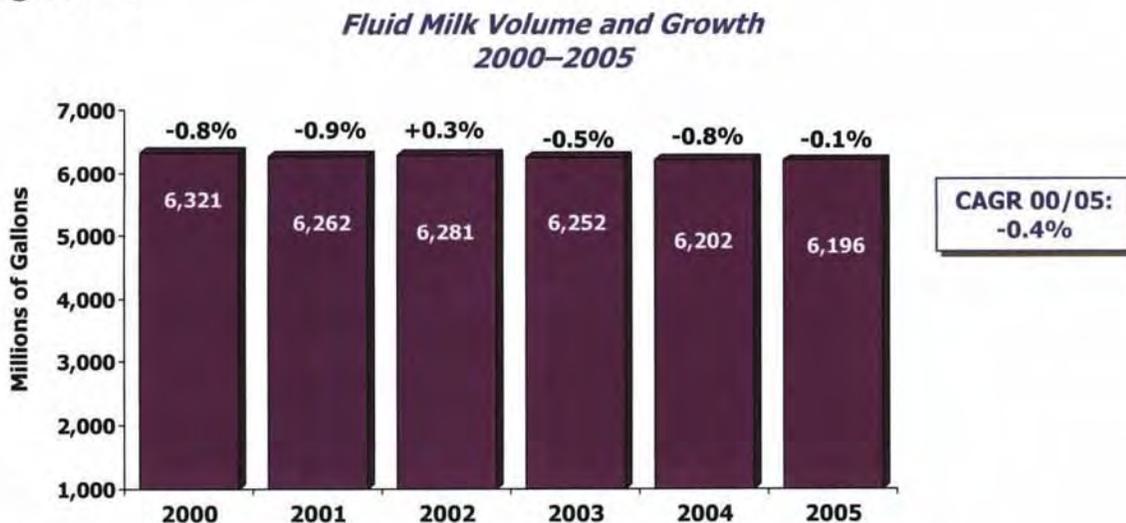
### Part I – Fluid Milk Market and Promotion Assessment: Beverage Marketing Corporation

For the seventh consecutive year, Beverage Marketing Corporation (BMC) has been commissioned by Dairy Management Inc. (DMI) and the National Fluid Milk Processor Promotion Board to review the national fluid milk advertising and promotional programs. This review offers a subjective evaluation of the effectiveness of those programs and provides a third-party marketing perspective of these efforts for inclusion in USDA’s Report to Congress. It also evaluates milk’s position relative to milk’s competitive beverage set, including its respective marketing efforts and market performance. BMC believes milk’s competitive set includes most non-alcoholic refreshment beverages, specifically carbonated soft drinks, bottled water, fruit beverages, ready-to-drink teas, and sports beverages. This year BMC examines both the overall milk industry’s performance as well as the effect that targeted advertising and promotion have had on milk’s crucial demographic cohorts. The following summarizes our findings based on the analysis of available data.

#### BMC’s Assessment of Current Milk Industry Environment

In summary, BMC believes that the collective efforts of the producer and processor generic milk programs in 2005 continued to effectively utilize available resources for driving incremental sales of fluid milk by focusing on high-opportunity consumer targets, relevant product benefits, and powerful communications/messaging. However, milk’s competitors continue to increase their own marketing spending and programs and pace of innovation, leaving milk at a relative competitive disadvantage.

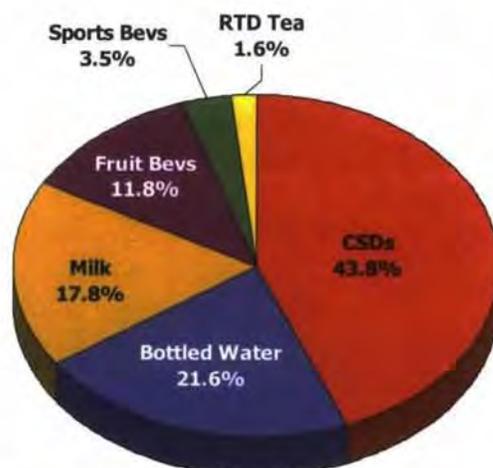
Figure 4–1.



Source: Beverage Marketing Corporation, USDA

Figure 4–2.

*Milk's Competitive Set Volume Shares  
2005*



Source: Beverage Marketing Corporation

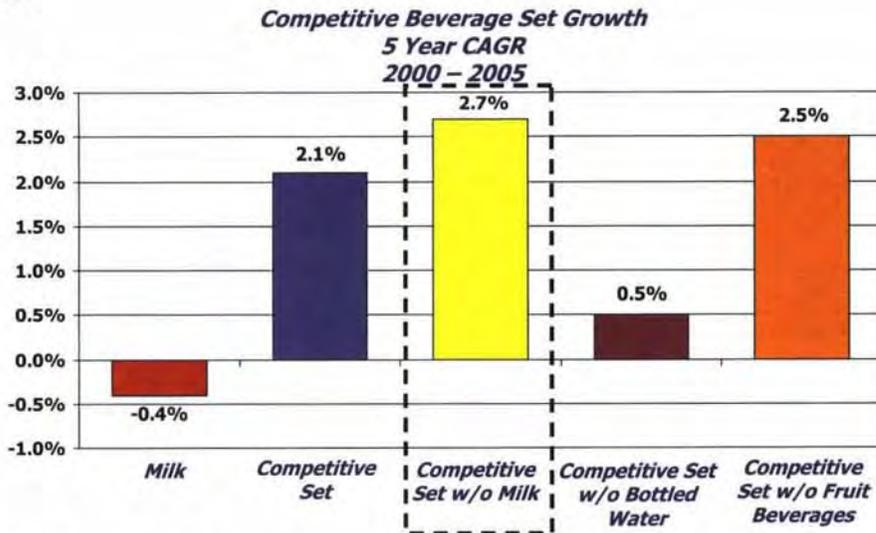
In 2005, fluid milk volume declined by 0.1 percent to 6.20 billion gallons, a smaller decline than the previous year. Over the last 6 years, fluid milk volume has essentially been stable, fluctuating within a narrow band of volume between 6.2 and 6.3 billion gallons. Milk volume declined 6 million gallons in 2005 compared to 50 million gallons in 2004. The history of volume changes for fluid milk sales over the past 6 years is shown in Figure 4–1. Milk's compound annual growth rate (CAGR) for the five-year period of 2000 to 2005 was –0.4 percent, a reflection of the negligible swings in year-over-year milk consumption since 2000.

Within its competitive set, milk is the third-largest beverage category by volume (Figure 4–2). In 2005, bottled water, which has been showing dramatic growth for the last decade, strengthened its position as the second-largest beverage category. Meanwhile, carbonated soft drinks remain the largest category in the competitive set, by far, with 15.3 billion gallons in 2005. While the “new age” type beverages (i.e., sports beverages and RTD tea) experienced some sort of an increase over the previous year, fruit beverages, milk, and carbonated soft drinks suffered minor declines.

As a whole, volume of the combined competitive set categories increased by 2.4 percent to 34.9 billion gallons, up from 34.1 billion gallons in 2004. This increase was primarily driven by bottled water, sports beverages, and ready-to-drink teas. From 2000 to 2005, the competitive set has grown at a CAGR of 2.1 percent (Figure 4–3). Without milk, the performance of the competitive set would have been slightly better – increasing at a CAGR of 2.7 percent from 2000 to 2005. Without bottled water, the competitive set grew by a CAGR of 0.5 percent over that same 5-year time span. Bottled water accounted for nearly 89 percent of the volume increase of the competitive set in 2005.

BMC has quantified milk's share of the volume increase compared to that of the entire competitive set annually over the last 18 years. This index reveals whether milk has gained or

Figure 4-3.

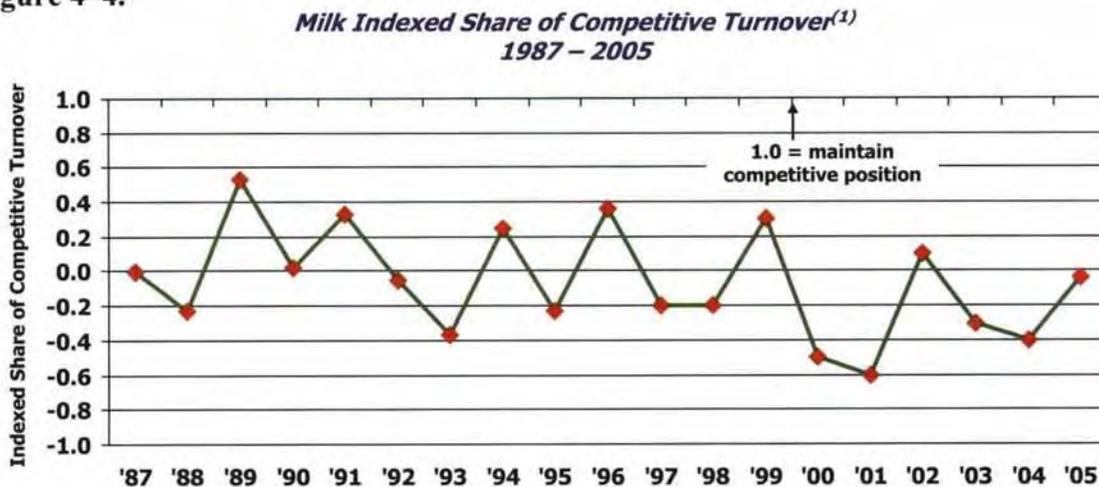


Source: Beverage Marketing Corporation

lost competitive share over this time span. This measure of milk's performance is an index based on its share of competitive volume change, divided by milk's market share of the competitive set at the onset of the year. An index greater than one indicates milk is improving its share and thus outperforming the competitive set; an index less than one reveals that milk's share of the competitive set is declining. In Figure 4-4, this index for milk is illustrated over an 18-year period.

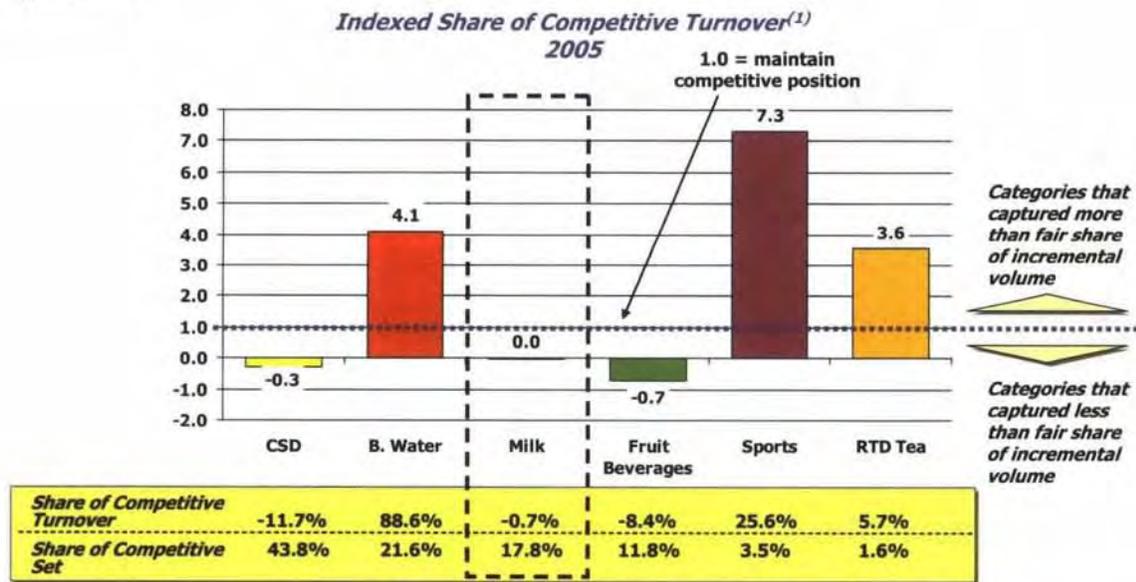
Milk has consistently underperformed the competitive set and has thus lost competitive share each year since 1987 as Figure 4-4 illustrates. Conversely, bottled water and sports drinks have consistently outperformed the competitive set and have gained competitive share (Figure 4-5). Bottled water, in particular, has shown dramatic growth in recent years, driven primarily by heightened consumer demand for healthier beverage alternatives and greater convenience.

Figure 4-4.



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

Figure 4-5.



While there are many factors associated with these consumption trends, advertising expenditures is one factor that is easily measured. In 2005, every category within the competitive set except for milk experienced an increase in media spending per gallon (Figure 4-6). Just as in previous years, milk is one of the lowest categories in media spending per gallon. The milk category spent about 2 cents on advertising for every gallon of milk sold, whereas carbonated soft drinks spent about 5 cents for every gallon sold. Only bottled water spends less per gallon than milk. Bottled water's success has been primarily distribution- and consumer-driven and has continued even without significant marketing dollar expenditures.

Figure 4-6.

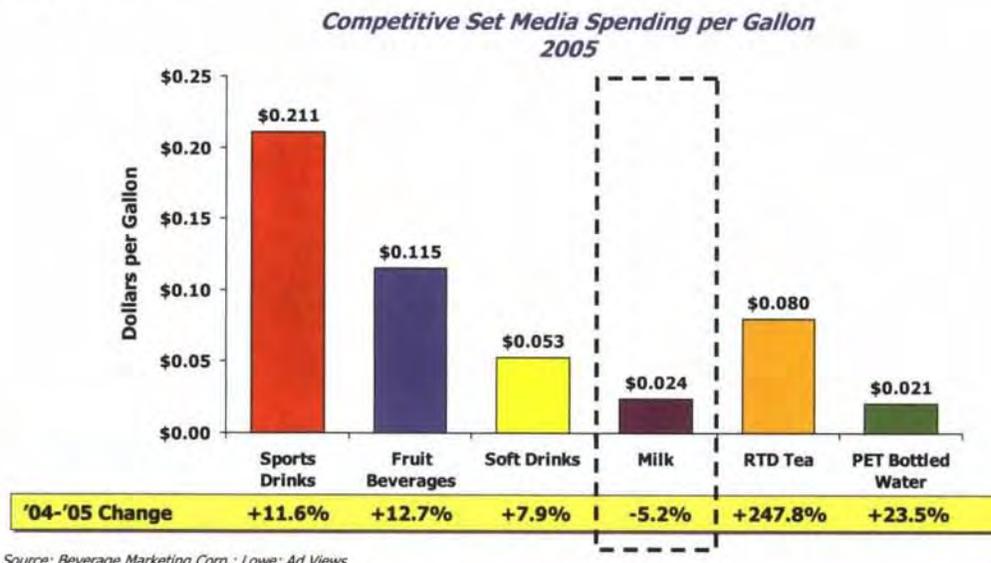
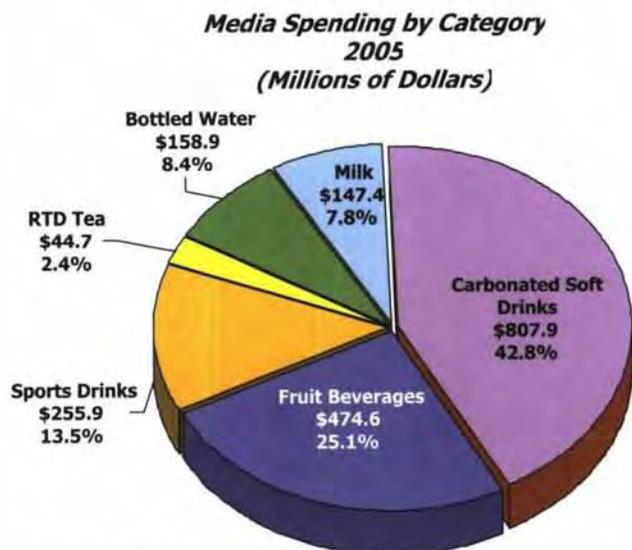


Figure 4–7.



Source: Beverage Marketing Corporation

In 2005, all categories in the competitive set except for milk increased advertising from 2004. Carbonated soft drinks accounted for approximately 40 percent of all advertising dollars spent within the competitive set, at approximately \$808 million. At \$475 million in spending, fruit beverages accounted for approximately 25 percent. At \$147 million in 2005, milk ranked 5<sup>th</sup> within the competitive set, accounting for less than 8 percent of spending (Figure 4–7). Milk advertising spending is comprised primarily of the national generic campaign, regional generic spending and limited branded product spending. While such spending is significant, milk accounts for about 18 percent of the competitive set volume and thus, remains significantly underrepresented in share of voice.

Clearly, simple measurement of media spending does not take into account the effectiveness of the campaigns, nor does it measure the impact of millions of dollars spent on promotions and other non-media programs. Promotional expenditures can not be measured in an objective manner because promotions are not tracked by syndicated methods and companies tend not to divulge this data. Nevertheless, millions of dollars are spent on promotional programs within the competitive set, including for milk. BMC believes that milk, despite past year increases in non-media programs, continues to be outspent on promotional programs and that this is a contributory factor to milk's flat volume performance.

Furthermore, the milk category is disadvantaged relative to the other competitive set categories for other reasons, outlined below. While the milk category has begun to make progress in many of these areas, it continues to trail the other categories in all of them.

### Consumer Attention

Consumer penetration of milk and awareness of milk advertising is high; however, the category lacks other competitive categories' high-level of consumer-focused marketing brand activities (e.g., promotions and innovations).

The consumer-relevant new science that links milk to weight loss has been effectively communicated through advertising, public relations, and other tools. However, in 2005, milk once again lagged the competitive set in its share of advertising expenditures in contrast to its volume share. Milk's low share of voice, declining over a number of years, is likely to have both real-time immediate as well as cumulative negative impact on milk consumption, despite the category's highly relevant and differentiated messaging.

Beverage product innovation has accelerated in recent years for all categories within the competitive set. Innovation adds news and excitement to categories, bringing more focus and attention to them compared to less innovative categories. Limited innovation in the milk category has caused milk to lag other competitive set categories in number of new product introductions. Additionally, milk new products have largely been limited to package changes, with little creativity around flavors and/or added functionality. The net result is that consumers have more choices than ever outside of milk. The news related to innovation has the added effect of increasing the impact of advertising. Many of these new products, such as soy beverages and calcium fortified fruit beverages, have innovated into milk's territory co-opting milk's healthy positioning.

### **Product Attributes and Innovation**

Recent innovation in the milk category has centered on flavored milk—primarily variations of chocolate and single-serve packaging. There have been additional pockets of growth in specific milk segments including organic, reduced lactose and fortified milk products. While this represents an improvement after years of very little innovation, other competitive set categories have been more aggressive with a wider variety of product innovation and a greater assortment of packaging formats and sizes. Among other innovations, beverage fortification with vitamins, minerals, herbs, and other ingredients have added functional benefits in many categories.

In 2005, milk's new product introductions dropped to 174, while other categories within the competitive set experienced a large increase in new product introductions. Milk ranks last in the competitive set for new product introductions in 2005, dropping two places from third in 2004. The category is in need of more innovation, both evolutionary (e.g., packages and flavors) and revolutionary (e.g., functionality and technology) in the coming years.

A new product is only an innovation for a short time—until consumers become accustomed to it or competitors meet or beat the innovation. Thus, continued innovation is a requirement for competitive advantage.

### **Branding**

One of the more significant disparities in milk versus its competitive set is the distinct lack of large milk brands and the impact of brand-building support on the total category. In comparison, the competitive set is dominated by mega-brands that have been built and nurtured by world-class marketing organizations.

The milk category is dominated by private label. In 2005, only 32.7 percent of milk volume in the grocery channel was accounted for by branded products. No other category in the competitive set has less than half its volume accounted for by branded products. BMC believes this disparity places milk at a distinct disadvantage with the rest of the competitive set because of the challenges inherent in marketing a category versus brands.

Additionally, private label products, particularly milk products, are generally sold in less-premium, undifferentiated packages and with little or no marketing support. Thus, the high volume of private label milk reinforces milk's commodity image, making competitive premium-image branded products more attractive to consumers.

### **Distribution**

Milk is widely available; nevertheless, its availability does continue to have some significant limitations. Milk availability is concentrated in take-home retail channels, especially supermarkets. In other outlets where milk is available, it often does not have the range of packaging and flavor options that consumers seek and that are offered by other competitive set products. This places milk at a competitive disadvantage.

As consumer lifestyles become more and more on-the-go, beverage manufacturers respond by developing products in convenient single-serve packaging distributed in immediate consumption channels such as convenience stores, foodservice, and vending. In 2005, only about 19 percent of milk volume was sold for immediate consumption, whereas about half the volume of carbonated soft drinks, sports drinks, and ready-to-drink tea was purchased for immediate consumption.

### **Pricing**

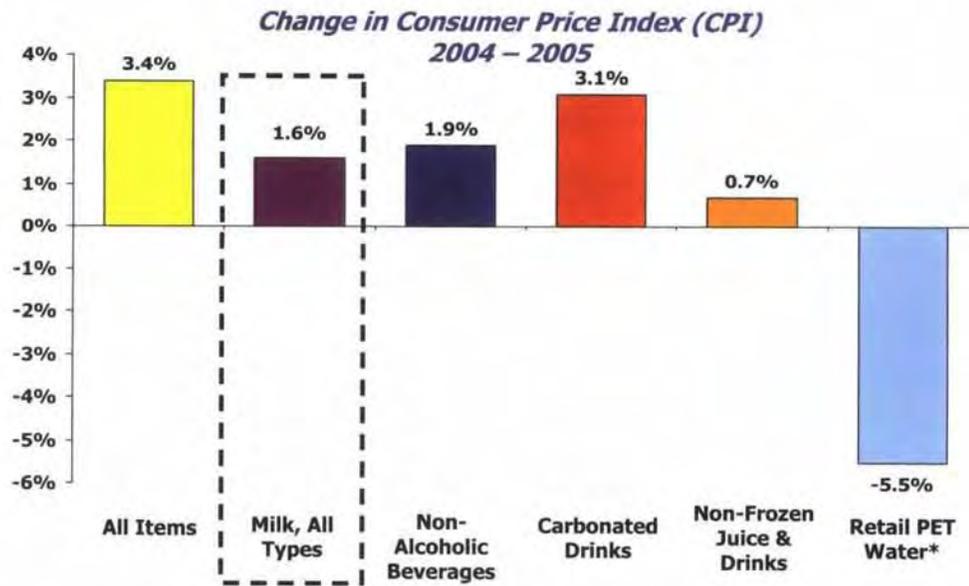
Price promotion is a key tool beverage marketers have used to spur sales, and this is true of all categories in the competitive set except for milk. The industry is limited structurally and legally in its use of price promotion. Because flavored milk is responsive to price changes, price increases impact volume sales significantly.

In 2005, milk experienced a lower consumer price index increase compared to 2004, a year that saw large year-over-year price increases. In 2005, milk's was also one of the lower price increases out of all the categories in the competitive set tracked by the Bureau of Labor Statistics. However, milk prices in 2005 remained historically high (Figure 4-8).

### **BMC's Assessment of Current Milk Marketing Programs**

BMC believes the marketing campaign developed under the Dairy Production Stabilization Act of 1983 and the Fluid Milk Promotion Act has served to stem declines in milk consumption in the face of vastly heightened competition. While over the last five years there has been a slight decline in milk consumption, BMC believes these declines would have been more significant without the industry's weight loss messaging, 3-A-Day™ for Stronger Bones, and got milk?®

Figure 4-8.



\* Estimated  
Source: Beverage Marketing Corp.; Bureau of Labor Statistics

celebrity milk moustache campaigns. This belief is supported by the milk category marketing mix analysis conducted in 2005 by Marketing Mix Analytics.

Supported by dairy farmers' investment in the weight and dairy science, in 2005, milk advertising continued to build on the emergence of new scientific evidence that milk consumption can be linked to weight loss. This has allowed for differentiated opportunity to drive milk sales. With the generic program shifting gears and realigning the advertising budget and other program efforts (e.g., public relations, promotions, and research) behind weight loss communications, there has been measurable success in achieving consumer acceptance of the weight loss-milk link. In addition, dairy processors have integrated the weight loss programming into their own business and brand-building initiatives.

In accordance with the new weight loss efforts, there has been a shift in target and product focus. Generic media spending allocations have continued to move from kids and teens to women/moms. The continuation of the milk moustache campaign driven by new celebrities is also tied-in with weight loss. Despite the shift away from teen-targeted advertising, grassroots sponsorships focusing on teens continued, and included a 3v3 soccer tournament, action sports, Disney Wide World of Sports, and the NFL partnership.

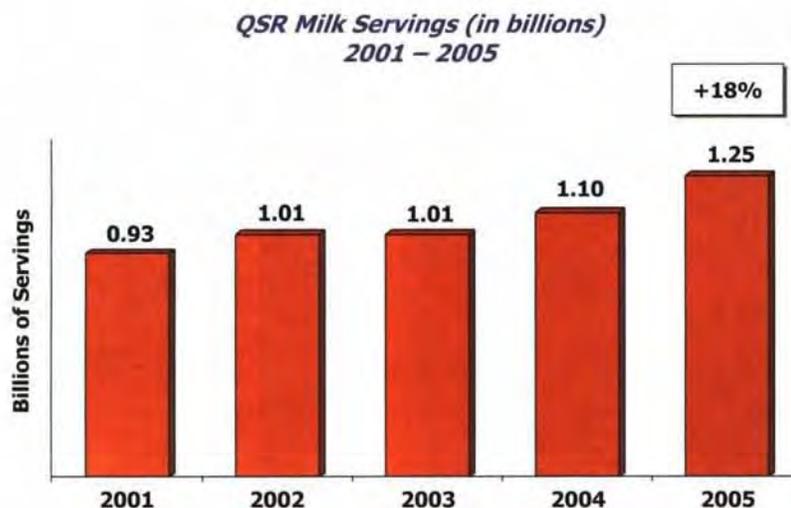
Programs from DMI and MilkPEP continued to focus on milk vending, foodservice, and school milk improvements in 2005, as did Hispanic consumer-targeted programs—all with positive results. The milk vending initiative appears to be gaining momentum, with BMC estimating there are now approximately 9,500 dedicated milk vending placements, many in the key secondary school channel.

Recapturing milk as the beverage of choice for children continues to be the primary, overarching goal that guides DMI's school foodservice/quick service restaurant (QSR) marketing efforts. Foodservice milk sales, especially through QSRs, are gaining traction after the industry-sponsored tests with Wendy's® and McDonalds® (Figure 4–9). Additionally, more schools than ever are involved in upgrading school milk to drive increased consumption for kids and teens. Currently, The New Look of School Milk Program has been adopted in 3800 schools (over 500 school districts with 38 processors) and is reaching 2.3 million kids with an improved single-serve milk in plastic package product. Tracking studies show that this program has generated 30 million incremental pounds of milk sales to date.

Even against these improvements, milk remains at a disadvantage against the competitive set. Its price has increased faster than any other category, while its spending is declining. The last four years have seen declines in the fluid milk generic media budget – from \$82 million in 2001 to \$48.6 million in 2005, with a particular large decline this year from \$65.7 million in 2004. BMC believes this decline in spending may have a negative impact on milk consumption in the face of sizeable spending by other categories in the competitive set. Most of the categories in the competitive set (except ready-to-drink tea, a much smaller category) outspent milk again in 2005.

On the other hand, the generic milk programs recognize that there are increasing limitations to traditional media advertising, particularly for some target consumers such as kids and teens, in part due to increasing media costs. Thus, the generic programs have been increasingly and successfully utilizing alternative communications and marketing vehicles to drive milk sales. Total spending budget has shifted from 69 percent spent on advertising in 2002 to 60 percent in

**Figure 4–9.**



QSR= Quick Service Restaurants  
Source: Beverage Marketing Corporation; NPD

**Figure 4–10.**

***Historical Spending by Discipline  
In % Budget Allocation***

	<b>MilkPEP &amp; DMI</b>			
	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>
<b><i>Advertising</i></b>	69.0	70.7	58.6	59.9
<b><i>Promotion</i></b>	10.0	11.7	15.0	14.5
<b><i>Events/ Sponsorship</i></b>	8.0	7.1	9.5	10.2
<b><i>PR</i></b>	10.0	6.4	4.7	4.5
<b><i>Research</i></b>	2.0	2.3	2.4	2.8
<b><i>Other<sup>(1)</sup></i></b>	1.0	1.5	9.9	8.2

<sup>(1)</sup> Other includes FMSTI (MilkPEP), School Marketing and Foodservice Programs (DMI)  
Source: Beverage Marketing Corporation; MilkPEP; DMI

2005 (Figure 4–10). This portion of the advertising budget has been strategically reallocated to increase promotions, events/sponsorships, and other programs that are focused largely on expanding milk availability and consumer appeal through innovation.

The new emphasis on weight-loss benefits also has invited new challenges for milk. The set of direct competitors may now include other weight-loss products such as meal replacement beverages and bars, and even programs such as Weight Watchers and Jenny Craig. Additionally, with competitors' aggressive advertising, promotion, as well as focus on convenience and innovation, BMC believes that milk is perceived by consumers as being less contemporary compared to the alternatives.

The shift in target to women/moms has lessened milk advertising focus on previously targeted teens/kids. Positive consumption trends were seen with teens/kids in prior years and the industry should be concerned about losing traction with those consumers. It will be critical for the generic programs to continue to focus or refocus resources at the primary targets—including teens, while continuing to evolve the messaging. The industry will have to accurately gauge consumer response to the weight-loss message and its sustainability, and eventually evolve or perhaps move onto another benefit communication. Additionally, the focus on weight-loss should not be at the expense of other long-term relevant industry platforms such as product innovation, availability enhancements and significant brand-building focus.

With price increases stabilizing, continued focus against strategic consumer targets and market opportunities and improving integration of generic programs into processor and retailer marketing tactics in 2006, the outlook seems positive, especially given the growing acceptance of the weight-loss platform and its expansion into the teen segment. BMC predicts a slight increase or at least no decline in volume for the upcoming year.

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

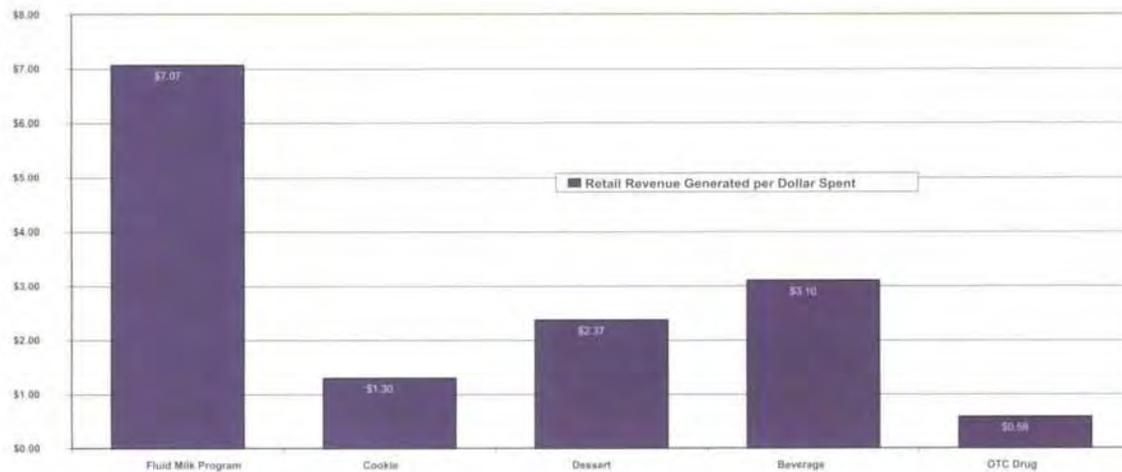
This section, prepared by the staff of the National Fluid Milk Processor Promotion Board (Fluid Milk Board), will examine the overall impact of the Fluid Milk Program in terms of its impact on the core measures of sales and consumption, an estimate of the impact of industry investment, and the competitive situation in which the fluid milk industry competes. It also will detail one of the main program areas (promoting weight loss benefits of milk consumption to women), as well as an example of a longer-term business development goal (promoting new opportunities for vending single-serve milks.)

### Overall Sales and Consumption Impact

Using the program's newest measurement resources, it is possible to assess the impact and value of the program at the retail level (RII)<sup>1</sup>, for the industry's marketing investment. The Fluid Milk Board's marketing mix analysis showed that the share of total national milk volume attributable to the fluid milk program went up from 3.8 percent in 2004 to 4.5 percent in 2005. In actual volume, that 2005 contribution represents approximately 129 million gallons, or approximately \$496.3 million in retail sales revenue nationwide. This represents a return of \$7 at retail for every \$1 spent in 2005 comparing favorably to similar calculations for other industries and companies (Figure 4-11).

In terms of per capita consumption of milk by the groups that the fluid milk program targets, both the primary target of adult women/moms and the Hispanic ethnic target saw increases in 2005, while teenagers' consumption declined slightly as program resources were shifted away from this group (Figure 4-12.)

Figure 4-11.

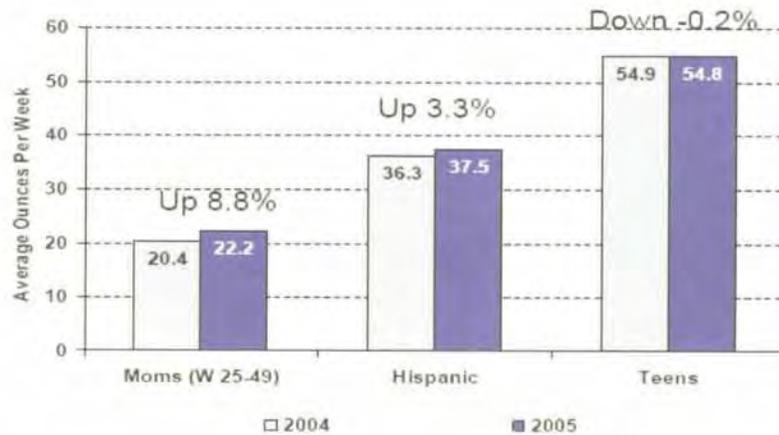


Source: Marketing Management Analysis

<sup>1</sup> The term "RII" for Retail Impact of Investment compares the incremental retail value for its return and the direct spending on consumer activities as its investment.

Figure 4-12.

2004-2005 Milk Per Capita Consumption by MilkPEP Target Group



Source: TNS-NFO eSIP data

### Competitive Assessment of Milk Industry's Position

Largely driven by its commodity status and its high degree of regulation, the fluid milk industry operates at a disadvantage to competitive beverages.

In 2005 that competitive position worsened on several fronts. While milk is the number three beverage in its competitive set, it continues to lose ground to key competitors--primarily bottled water--while carbonated soft drinks remain the dominant beverage of choice for Americans (Figure 4-2). Fluid milk suffers in the market due to relative pricing (Figure 4-13), a lack of brand marketing infrastructure, poor "out-of-home"/immediate consumption availability (Figure 4-14), and lower spending (Figure 4-6). In this context, the need for the fluid milk program remains as strong or stronger than at its inception in 1995.

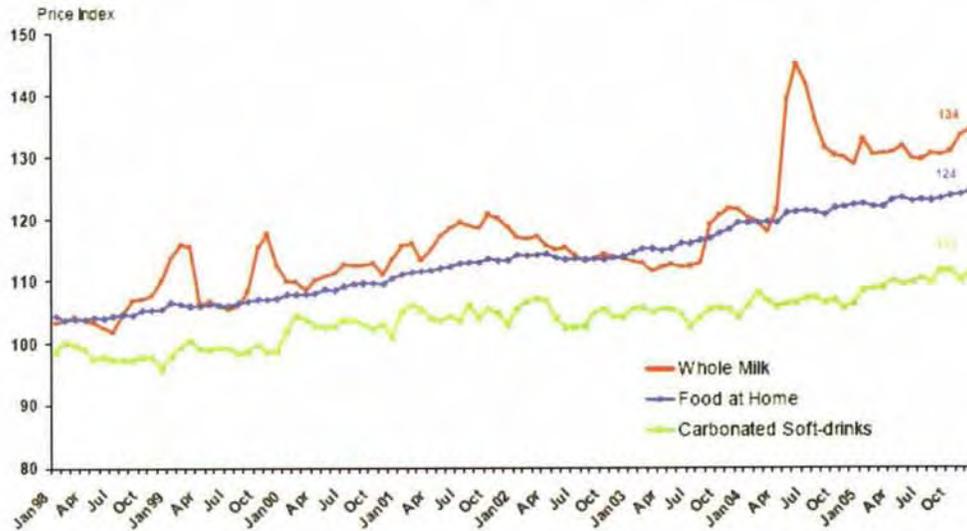
### Success of Weight-Related Benefit Promotion

A wide range of studies, more than 50 over the last 6 years, suggest that consuming the recommended 3 servings of milk and dairy products as part of a balanced, reduced-calorie diet can be a healthy and effective way to lose weight. Promoting the weight-loss benefits of milk consumption represented over 65 percent of all program resources in 2005 and was the primary program objective. The Fluid Milk Program has successfully informed American women and they have responded with positive changes in their consumption of milk. Among the key indicators of how this marketing communication program is changing consumer behavior are:

- Recall of the link between drinking milk and losing weight is at 80 percent (Figure 4-15).

Figure 4-13.

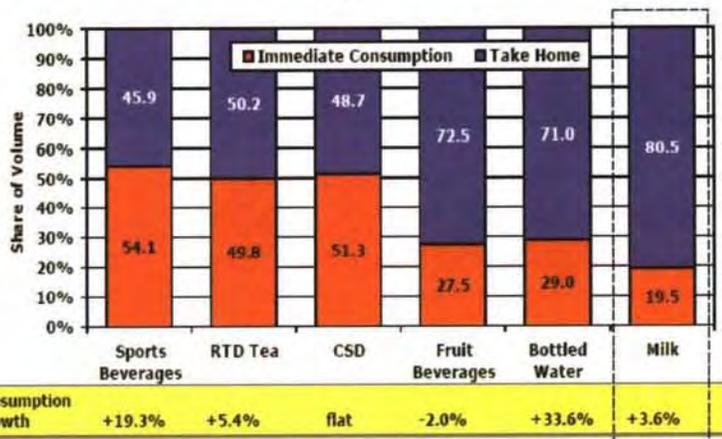
Indexed Cost of Whole Milk, CSD, and Food at Home;  
1998-2005 (Base =1996)



Source: Bureau of Labor Statistics

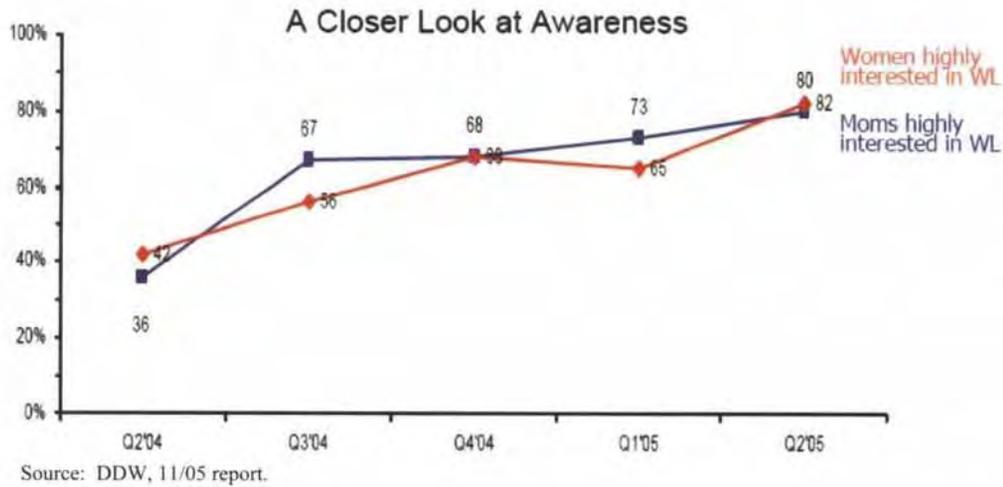
Figure 4-14.

Immediate Consumption vs. Take Home Distribution  
2005



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

Figure 4–15.



- Per capita consumption is up among the “mom” demographic of 25–49 year-old women from 20.4 to 22.2 ounces per week in 2005 (Figure 4–11).
- “Trying to lose weight” is the number two reason women cited for “drinking more milk” (Figure 4–16).
- Additionally, based on the Fluid Milk Board’s marketing mix analysis, the program’s three main marketing activities—public relations, television advertising to moms and print advertising to moms—were focused almost exclusively on this message in 2005. These activities appear to have driven the highest levels of incremental volume at greatest efficiency.

### Growth of Vended Milk Business

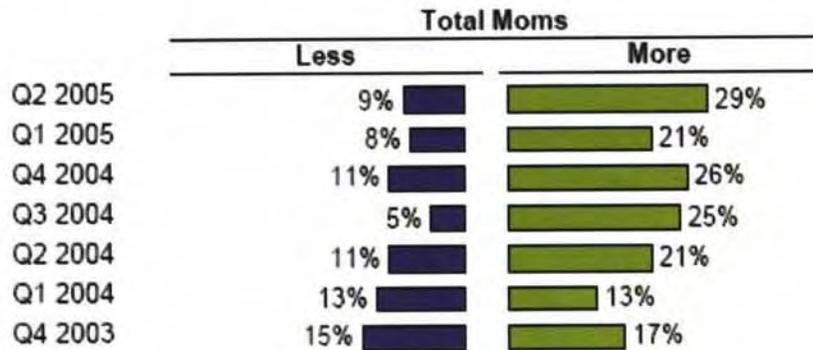
This business area report shows the Fluid Milk Program’s positive results of more than 6 years of research and business development activity in milk vending. The Fluid Milk Board first identified milk vending as an underutilized channel and important growth opportunity in 1999. Though a relatively small portion of total sales volume (less than 3 percent), vending continues to represent solid potential for growth. This activity was designed to create new opportunities for sales and consumption where the industry’s competitive position has been historically poor, but where milk needs to be more present in the marketplace (away-from-home consumption).

Since that time the Fluid Milk Board has invested over \$3 million to build this area of the business. Among the key measures of the impact of these activities are:

- In 2003 and 2004 (last years for which full sales figures are available), milk sales growth in vending outpaced all other vended foods and beverages, in a period in which the vending industry was flat or declining (Figure 4–17).

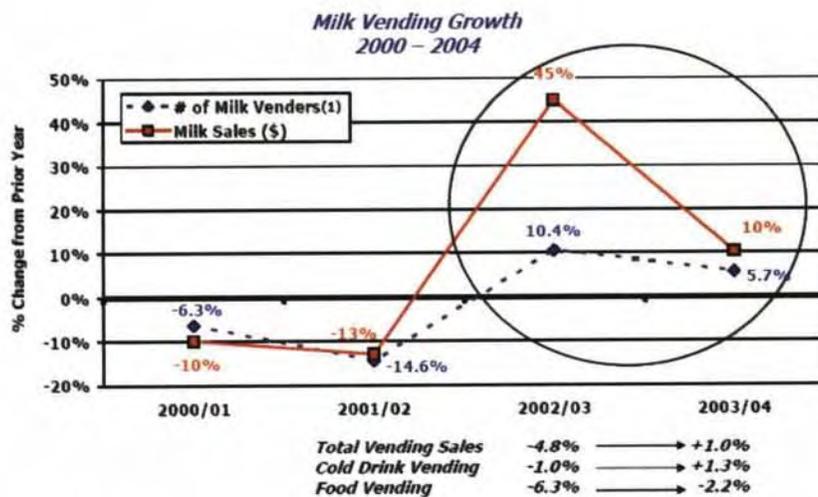
Figure 4-16.

Impact on Claimed Consumption



Main Reasons For Drinking More Milk*						
	2004				2005	
	Q1	Q2	Q3	Q4	Q1	Q2
	%	%	%	%	%	%
Just Like It	5	9	21	23	18	2
Healthier For Me	23	15	22	17	18	35
Trying To Lose Weight	23	12	11	17	37	29
Pregnant/Nursing	-	9	7	13	6	6
Need The Calcium	36	14	7	5	6	8

Figure 4-17.



(1) Milk-Dedicated vending machines (may include other products, but milk is dominant)  
Source: Beverage Marketing Corporation; Automatic Merchandiser State of the Vending Industry Report

- Vending operators, who in previous research indicated that they believed milk vending was a business area with little or no growth potential, have experienced a significant turn-around in their attitudes toward milk with more than half of all company executives surveyed agreeing that milk vending was likely to grow in the next year.
- Finally, a critical subset of the vending story is the growth of milk vending machines in the nation's schools, estimated at approximately 8,000 vending machines in over 7,300 schools nationwide. This growth is primarily due to the efforts of the dairy industry over the past five years from both Dairy Management Inc. and the Fluid Milk Board, and contributes to national efforts in both the public and private sectors to persuade young people to make healthier food and beverage choices.

### **Summary of Program Effectiveness**

Overall, in this highly competitive beverage marketplace where the milk industry is significantly disadvantaged against key competitors, the fluid milk program in 2005 was effective in driving incremental volume and mitigating 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 by promoting milk as a viable product for new channels of distribution such as vending.

The program remains a good example of how Congress can promote and support national health and nutrition goals and the economic strength of a critical industry segment by enabling an industry to fund the programs it needs to sustain itself with no net cost to the taxpayer.

Despite decreases in the spending levels of the program, increased spending by beverage competitors, and additional declines in the Fluid Milk Board's purchasing power due to higher media costs, the Fluid Milk Program generated a higher volume of incremental sales (up 15 percent) and a higher retail impact of investment (RII) than the previous year (\$7 for every \$1 spent vs. \$5.50 for every \$1 in 2004). The increase was primarily attributable to increases in program efficiency.

As in the past, the program has demonstrated its ability to change consumer behavior. Per capita consumption among 25–49 year-old women improved in 2005, in response to the Fluid Milk Program shifting the majority of its resources to this target to promote the weight-loss benefits of milk consumption. This new benefit, tied to recent scientific and medical research, has proved an effective message for the Fluid Milk Program in persuading moms to reconsider and increase their consumption of milk.

The Fluid Milk Program continues to promote the milk industry by supporting the Federal nutritional goals—as well as the nutrition goals outlined in the Dietary Guidelines for Americans and the Food Guide Pyramid. The Fluid Milk Program is a national marketing voice for milk in a marketing environment restricted by a high degree of Federal and State regulation that helps to maintain the strength and stability of the milk industry to the benefit of the nation's health.

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

This section, prepared by Dairy Management Inc. (DMI), the staff of the National Dairy Board, will examine the impacts of the National Dairy Promotion and Research Program (National Program) during the past year. The goal of the National Program is to leverage dairy producer-funded activities to drive increased sales of and demand for U.S. dairy products and ingredients, domestically and internationally. Since the program's inception in the early 1980s, the per capita consumption of dairy has climbed to 592 pounds in 2004 compared to 522 in 1983, according to the Department of Agriculture (USDA). For dairy farmers to produce – and Americans to have available – safe, plentiful and affordable dairy products and ingredients it is critical that markets for dairy continue to expand, sales increase, and producers continue to invest in the National Dairy Promotion and Research Program.

This goal is accomplished through: (1) dedicated teams that are funded and directed by dairy producers who partner with dairy and food industry leaders and innovators on nutrition, research and marketing efforts to drive sales; (2) outreach programs to kids to reverse the long-term downward trend of fluid milk consumption with this age group including innovative solutions such as the adoption of single-serve plastic milk bottles in the nation's schools and national restaurant chains; and (3) discovering new uses for cheese, dairy proteins, and other components.

### **Three Servings A Day of Dairy**

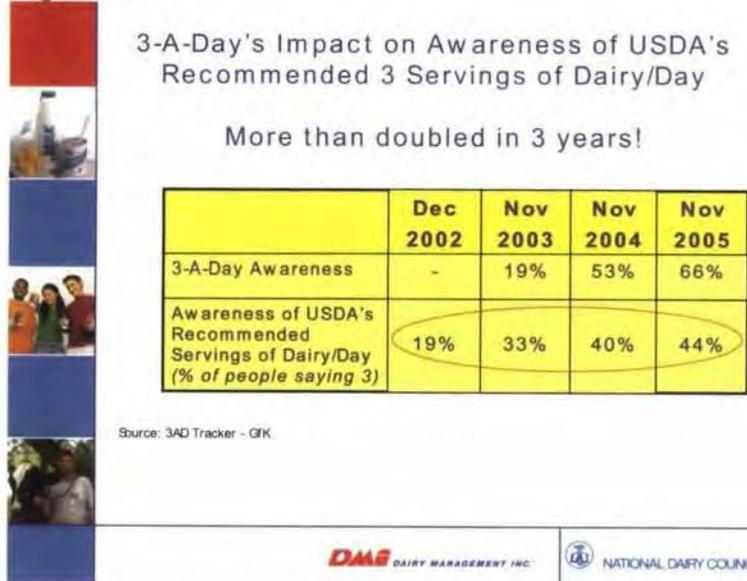
The National Dairy Promotion and Research Program developed the 3-A-Day of Dairy™ nutrition-based marketing and education program to communicate the health benefits of eating three servings of milk, cheese or yogurt daily.

In January 2005, the U.S. Department of Health and Human Services and USDA announced the new Dietary Guidelines for Americans, that raised the recommended 2-3 servings to 3 servings of low-fat and fat-free dairy foods every day – the first time that dairy recommendations have changed in 20 years. The new Federal guidelines are the basis for many Federal feeding programs, as well as health professional recommendations. The 3-A-Day of Dairy™ program is an easy actionable way to ensure Americans get several important nutrients. This initiative includes education efforts and partnerships with health professionals, manufacturers and retailers.

To date, 3-A-Day of Dairy™ has achieved unprecedented accomplishments demonstrated through growth in sales, support, and awareness with a variety of influential audiences. Below are a few highlights of this effort:

- Overall awareness of 3-A-Day of Dairy™ increased from 19 percent to 66 percent in just 2 years. (Source: GFK Media Tracker)

**Figure 4–18.**



- Based on the National Dairy Promotion and Research Program's 3-A-Day of Dairy™, industry partners invested more than \$25 million in marketing, education and consumer-directed efforts. (Source: J. Brown & Associates)
- 3-A-Day of Dairy™ awareness and logo recognition helped to increase consumer knowledge of USDA's recommendation for 3 servings of dairy a day. People responding to "3" as the correct number of servings increased from 19 percent to 44 percent in three years (Figure 4–18). (Source: GfK Media Tracker)
- Among health professionals, the 3-A-Day of Dairy™ program has reached more than 50 percent awareness. Producer funded research shows that a majority of dietitians, family practitioners, and pediatricians recommend at least 3 servings of dairy a day for all ages and life stages. (Source: GfK Media Tracker)
- In a poll conducted by DMI, 76 percent of moms surveyed recalled 3-A-Day of Dairy's™ connection to weight loss. (Source: GfK Media Tracker)
- According to an independent marketing mix analysis, the 3-A-Day™ efforts delivered 1.4 billion pounds of milk equivalent at retail; added 3 percent of cheese, 2 percent of fluid milk and 4 percent of yogurt retail sales volume. (Source: Marketing Mix Analytics)
- There are more than 2.5 billion qualified packages carrying the 3-A-Day of Dairy™ logo. (Source: DMI Industry Survey)

### 3-A-Day of Dairy™ for Strong Bones and Weight Management

Based on dairy producer-funded research, DMI works closely with major reputable health organizations such as the American Academy of Pediatrics, the American Dietetic Association, the American Academy of Family Physicians, and the National Medical Association to encourage their clients to enjoy 3 servings of dairy each day for stronger bones. The U.S. Surgeon General concurs with this recommendation based on the dairy producer-funded sound science.

In addition, a growing body of evidence supports the connection between weight management and 3 servings of dairy a day. Clinical studies (complete list of study citations is available at: [www.nationaldairyCouncil.org/NationalDairyCouncil/Healthyweight/Science.htm](http://www.nationaldairyCouncil.org/NationalDairyCouncil/Healthyweight/Science.htm)) suggest that including 3 servings of dairy a day as part of a reduced-calorie diet may help people lose more weight and more fat than just cutting calories alone.

Checkoff-funded research supporting dairy foods' role in weight management continues to grow. Branded companies are using the science to increase sales of their products. For example, in 2005, according to a large consumer company's annual report, retail sales grew 24 percent for 1 major yogurt manufacturer due to advertising efforts that focused on yogurt as a great choice for consumers managing their weight. The yogurt category as a whole continues to see strong growth as evidenced in Figure 4-19.

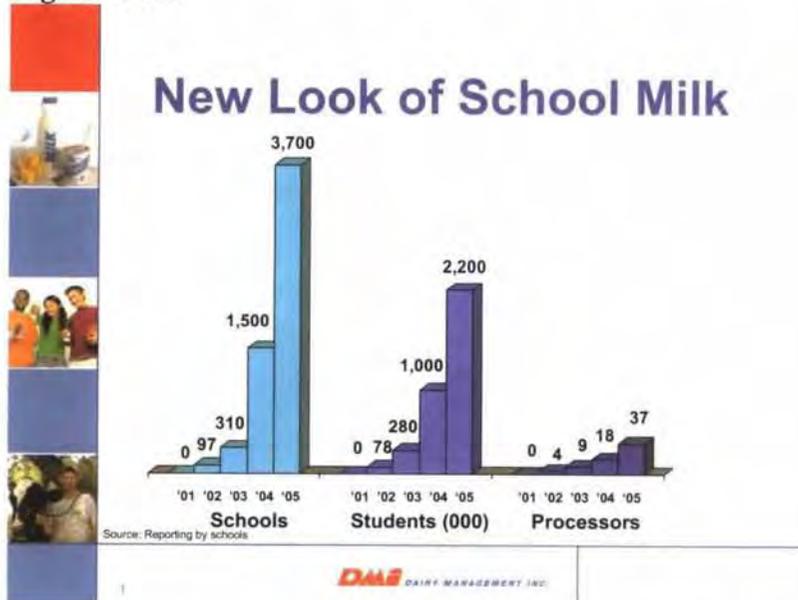
### Recapturing Milk as Kids' "Beverage of Choice"

Efforts to build lifelong dairy consumers start at childhood. Offering kids a different milk experience at school can influence them throughout their lifetimes. The National Dairy Promotion and Research Program is making aggressive efforts to address the high percentage of children ages 9-19 who do not meet the recommended daily intake of 3 servings a day. For example, according to the March 2005 USDA Pyramid Servings Intake, Community Nutrition Research Group, 83 percent of teenage girls ages 12-19 are not consuming the recommended 3 servings of dairy a day. Similarly, 68 percent of boys in the same age group are not consuming 3 servings of dairy a day. Milk consumption among children continues to decline with significant volume lost at school. Producer-funded research shows that children will drink milk if it's offered in plastic bottles, in flavors, and at a colder temperature.

Figure 4-19.



Figure 4–20.



To help identify and build opportunities in the school channel, the National Dairy Promotion and Research Program utilized a School Account Development Process that strategically targets the top school districts. Approximately 70 promotion program staff members are in place throughout the country and serve as a “consultant” to school districts and their school nutrition directors, educating them about the nutritional and financial benefits of school milk programs.

For example, through the adoption of the New Look of School Milk (NLSM), more than 3,700 schools across the country are providing nearly 2.5 million students with a nutritional product they also find appealing and tastes great (Figure 4–20). NLSM is based on the highly successful School Milk Pilot Test, funded through the National Program that was conducted in 2002 by the National Dairy Council® and the School Nutrition Association. Results confirmed that more children drink milk when it’s served in plastic bottles, served cold in a variety of flavors, and made widely available on the meal line, a la carte and in vending machines. To date, the NLSM program has resulted in approximately 30 million incremental pounds of milk being consumed according to individual school reports and the 2002 New Look of School Milk Pilot Test.

The National Dairy Promotion and Research Program staff is working proactively with schools in the education of how dairy producer-funded efforts and nutrition research may play a role in School Wellness Policies. These wellness policies help to ensure that children learn practical, lifelong lessons about the balance of good nutrition and physical activity. Each school district is required by law to have a Wellness Policy by July 2006. Because low-fat and fat-free dairy foods are one of 3 food groups that Americans are encouraged to eat more of, the inclusion of milk, cheese and yogurt in the school environment and school wellness policies will help drive better nutrition for children. In a recent informal Web-based survey at [www.3aday.org](http://www.3aday.org) among 4,000 moms, 92 percent said they were comfortable with their child drinking flavored milk at school.

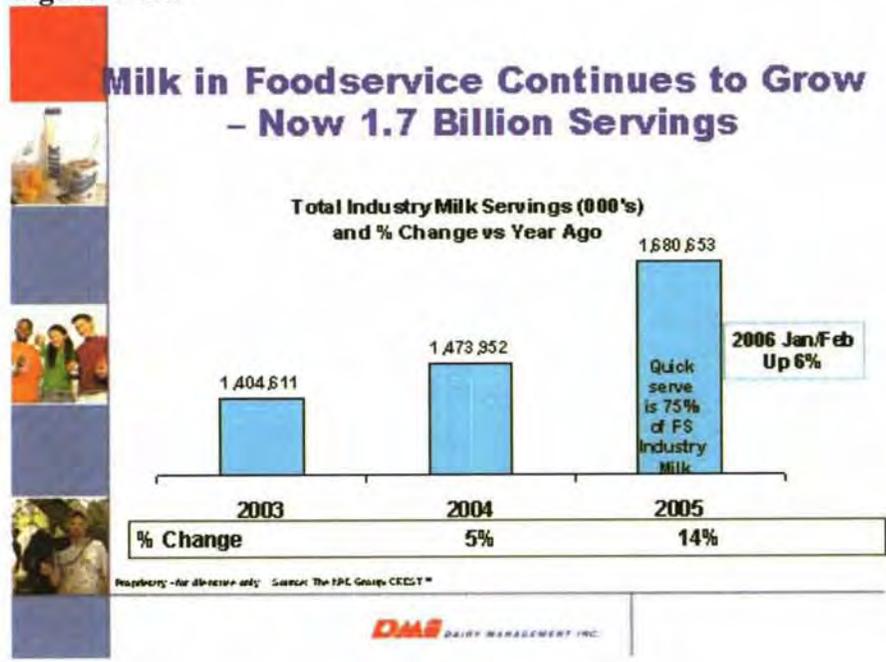
In the foodservice sector, the National Program has forged strong, innovative partnerships with fast-food restaurant companies such as Burger King<sup>®</sup>, McDonalds<sup>®</sup>, Wendy's<sup>®</sup>, and Sonic<sup>®</sup> Drive-Ins to test and serve plastic single-serve milk as a viable beverage option for their customers. At Wendy's<sup>®</sup> and McDonalds<sup>®</sup>, according to their 2005 store level data, the efforts to help introduce white and chocolate milk in plastic, resealable bottles in nearly 20,000 restaurants resulted in combined weekly sales of 5.2 million units per week compared to 690,000 units of milk when it was offered in paper cartons. As more Americans eat away from home, the need to offer products they want, where and how they want them is at the heart of a continued strategy to fulfill unmet demand. Figure 4-21 shows the continued strong growth of milk in foodservice.

The companies who are committed to growing the business see that, at a minimum, the plastic and flavor conversion could add 1 billion pounds of consumption at school and foodservice annually if offered universally across the United States (based on foodservice, retail, and school estimates from DMI.) Over time, this will impact long-term consumption as these generations remain milk drinkers as adults.

**Meeting Unmet Demand through Exports and Ingredients**

Another area with high growth potential is the use of dairy ingredients such as milk protein concentrate, nonfat dry milk and whey. The National Dairy Promotion and Research Program is working with exporters and manufacturers to provide solutions for increased consumption of dairy products through innovative applications of dairy ingredients. According to the National Panel Dairy, ingredients alone allow dairy to be part of an additional 82.3 percent of total eating occasions (Figure 4-22).

**Figure 4-21.**



Customizing whey proteins for unique applications and targeting market segments with growth such as beverages, yogurt and sports/nutrition products was a successful strategy in 2005. The introduction of a new protein bar using whey protein concentrate and whey protein isolate resulted in an additional 500,000–1 million pounds of whey protein ingredients in the first 12 months of the product launch according to company data.

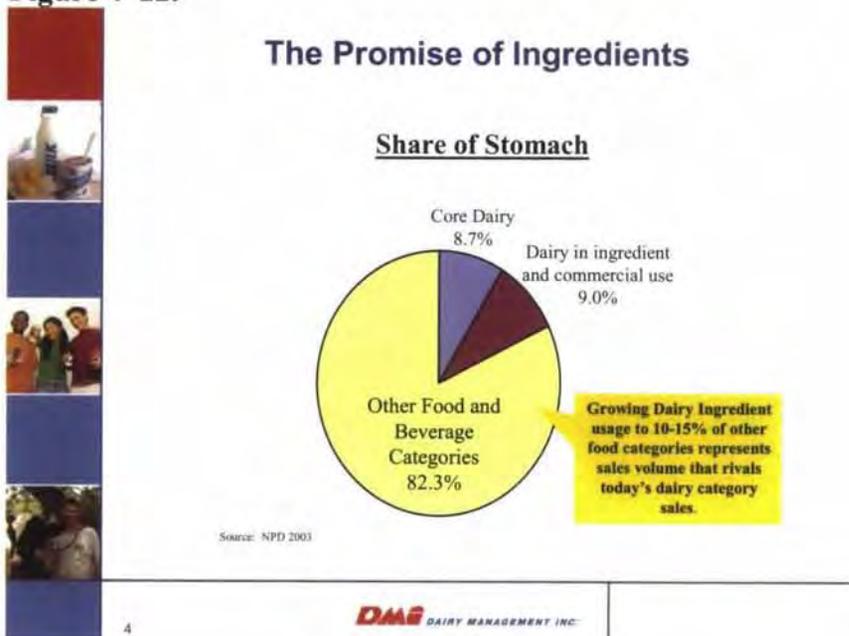
The National Dairy Promotion and Research Program’s work with manufacturers on dairy ingredients has created the same effect. A major yogurt product recently generated nearly 2.5 million pounds of incremental milk volume using the basics of milk powder in their new drinkable yogurt line. Another line of yogurt was developed using milk protein concentrate and ultra filtered milk that generated between 3 and 4 million pounds of total incremental milk equivalent value according to company data. Overall, the promise of yogurt continues to be strong as manufacturers leverage the science that supports the nutritional and weight management benefits of this product.

Exports continue to be a promising opportunity for U.S. production. In 2005, there were significant increases in the quantities of whey solids and other nonfat milk solids sold overseas. Export sales totaled 751 million pounds of milk solids in 2005. U.S. whey protein exports to China grew from 51.4 million pounds to 151.6 million pounds in the 5 years since 2000.

## Conclusion

In 2005, The National Dairy Promotion and Research Program’s many accomplishments paved the road to increased dairy consumption. Successful outreach programs such as the development of nutrition and science research, the New Look of School Milk, single-serve milk at foodservice,

Figure 4–22.



new uses of dairy as an ingredient, and the 3-A-Day of Dairy program all were possible because of the dairy producer-funded promotion program.

The best way to understand the opportunities is to acknowledge that the growth of dairy in traditional forms – white milk in gallons, American-style and mozzarella cheese sold domestically – will increase but not at historic levels. Therefore, focusing on production-driven demand, as in the past, is not the way to drive growth.

To increase dairy sales, there is a need to focus on the amount of unmet **consumer-driven** demand. Consumer-driven demand is characterized by products that are not **currently offered** that consumers want. The keys to continued growth will be milk in single-serve **plastic** containers, innovation in cheese products and innovative uses for cheese, **expanding exports and** enhancing the value of dairy ingredients.

**Appendix A**  
**National Dairy Promotion and Research Board**  
**Current Member Listing**

Region 1 (Oregon and Washington)

Elizabeth L. (Liz) Anderson  
Onalaska, Washington  
Term expires 10/31/2006

Marlin J. Rasmussen  
St. Paul, Oregon  
Term expires 10/31/2007

---

Region 2 (California)

Mary E. Cameron  
Hanford, California  
Term expires 10/31/2006

Kimberly K. Clauss  
Hilmar, California  
Term expires 10/31/2006

Deborah Dykstra  
Caruthas, California  
Term expires 10/31/2007

Margaret A. Gambonini  
Petaluma, California  
Term expires 10/31/2007

Linda P. Macedo  
Merced, California  
Term expires 10/31/2007

Harvey S. Moranda  
Orland, California  
Term expires 10/31/2007

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

---

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 10/31/2007

William C. Stouder  
Wendell, Idaho  
Term expires 10/31/2006

## Appendix A, continued

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

Charles W. Bryant  
Austin, Arkansas  
Term expires 10/31/2006

Jose L. Gonzalez  
Mesquite, New Mexico  
Term expires 10/31/2007

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

---

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

Arlon E. Fritsche  
New Ulm, Minnesota  
Term expires 10/31/2006

Donna L. Sharp  
Bath, South Dakota  
Term expires 10/31/2008

---

### Region 6 (Wisconsin)

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

Rosalie M. Geiger  
Reedsville, Wisconsin  
Term expires 10/31/2007

Bradford A. McCauley  
Viola, Wisconsin  
Term expires 10/31/2008

Ronald Johnsrud  
Gays Mills, Wisconsin  
Term expires 10/31/2006

Connie M. Seefeldt  
Coleman, Wisconsin  
Term expires 10/31/2006

---

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

Douglas D. Nuttelman  
Stromsburg, Nebraska  
Term expires 10/31/2008

James R. Bartelson  
Anita, Iowa  
Term expires 10/31/2006

## Appendix A, continued

### 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)

Donald E. Gurtner  
Fremont, Indiana  
Term expires 10/31/2006

Alice S. Moore  
Frazeyburg, Ohio  
Term expires 10/31/2007

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 10/31/2007

---

### Region 11 (Delaware, Maryland, New Jersey, and Pennsylvania)

Paula A. Meabon  
Wattsburg, Pennsylvania  
Term expires 10/31/2007

Lewis Gardner  
Galeton, Pennsylvania  
Term expires 10/31/2006

Joyce A. Bupp  
Seven Valleys, Pennsylvania  
Term expires 10/31/2008

---

### Region 12 (New York)

Ronald R. McCormick  
Java Center, New York  
Term expires 10/31/2008

David E. Hardie  
Lansing, New York  
Term expires 10/31/2007

**Appendix A, continued**

Region 12 (New York)

Edgar A. King  
Schuylerville, New York  
Term expires 10/31/2006

---

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

Debora A. Erb  
Landaff, New Hampshire  
Term expires 10/31/2008

**Appendix B**  
**National Fluid Milk Processor Promotion Board**  
**Current Member Listing**

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

Michael F. Touhey  
Dean Foods Company  
Franklin, Massachusetts  
Term expires 06/30/2007

---

Region 2 (New Jersey and New York)

Joseph Cervantes  
Crowley Foods, L.L.C.  
Binghamton, New York  
Term expires 06/30/2008

---

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 06/30/2007

---

Region 5 (Florida)

James S. Jaskiewicz  
Publix Super Markets, Inc.  
Lakeland, Florida  
Term expires 06/30/2008

## Appendix B, continued

### Region 6 (Ohio and West Virginia)

William R. McCabe  
Smith Dairy Products Company  
Orrville, Ohio  
Term expires 06/30/2009

---

### Region 7 (Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin)

Rachel A. Kylo  
Marigold Foods, Inc.  
St. Paul, Minnesota  
Term expires 06/30/2007

---

### Region 8 (Illinois and Indiana)

Brian Haugh  
National Dairy Holdings  
Dallas, Texas  
Term expires 06/30/2008

---

### 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 M. McCullough  
H. E. Butt Grocery Company  
San Antonio, Texas  
Term expires 06/30/2007

## Appendix B, continued

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

Gary L. Aggus  
Hiland Dairy Foods Company, L.L.C.  
Springfield, Missouri  
Term expires 06/30/2008

---

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

Patrick R. Beaman  
Dean Foods Company  
Dallas, Texas  
Term expires 06/30/2009

---

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

James T. Wilcox, III  
Wilcox Farms, Inc.  
Roy, Washington  
Term expires 06/30/2007

---

Region 14 (Northern California)

Jerry N. Tidwell  
Safeway, Inc.  
Pleasanton, California  
Term expires 06/30/2008

---

Region 15 (Southern California)

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

## Appendix B, continued

### Members-At-Large

Lisa M. Hillenbrand  
Public Member  
Geneva, Switzerland  
Term expires 06/30/2009

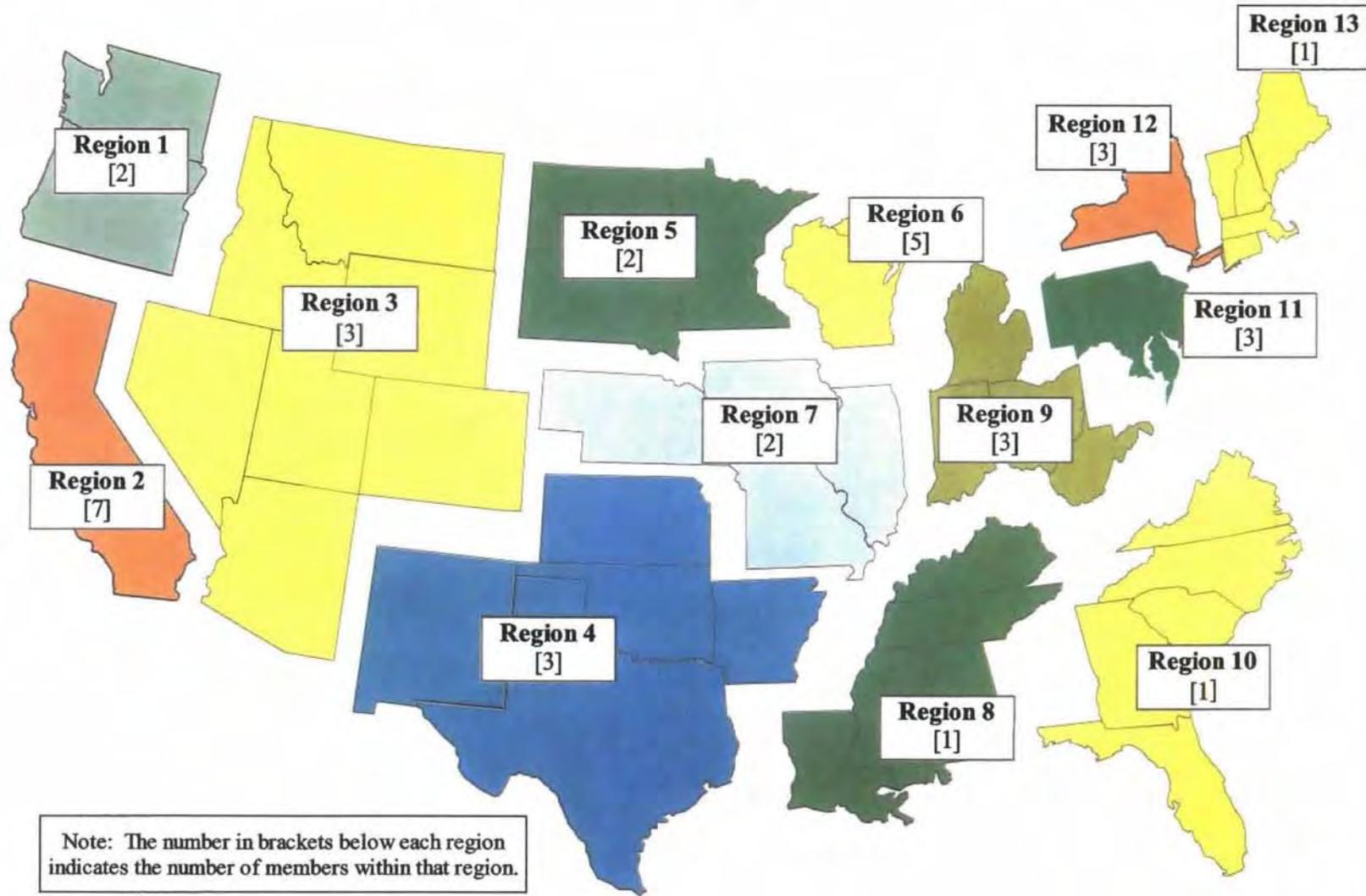
Susan D. Meadows  
Dean Foods Company  
Dallas, Texas  
Term expires 06/30/2009

Randy D. Mooney  
Hiland Dairy Foods Company, L.L.C.  
Springfield, Missouri  
Term expires 06/30/2007

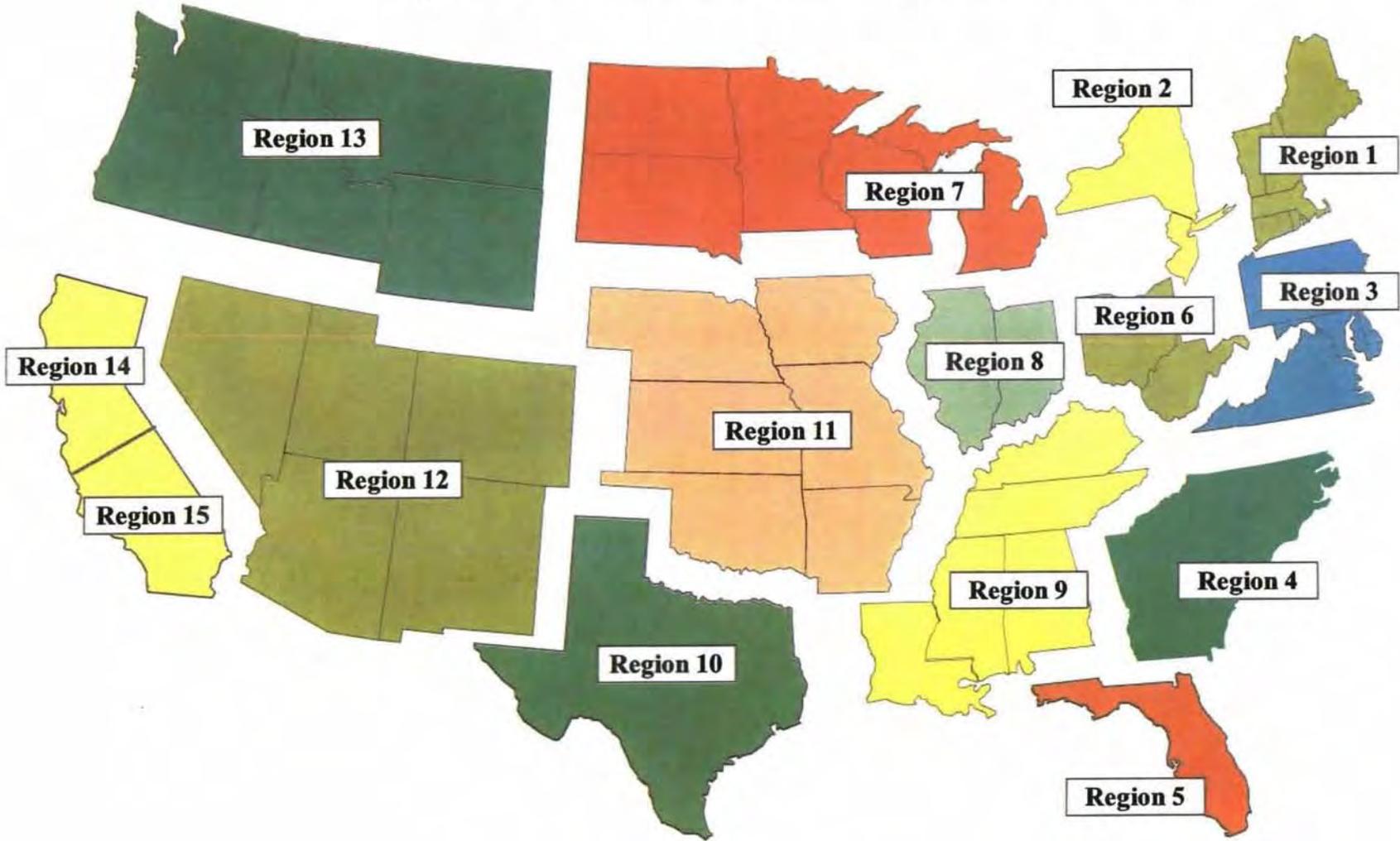
Michael A. Krueger  
Shamrock Foods Company  
Phoenix, Arizona  
Term expires 06/30/2008

Teresa E. Webb  
Farmland Dairies L.L.C.  
Wallington, New Jersey  
Term expires 06/30/2007

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



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



77

---

**Appendix D-1**  
**National Dairy Promotion and Research Board**  
**Actual Income and Expenses**  
**FY 2004–2005**  
**(in \$000's)**

---

	<b>2004</b>	<b>2005</b>
<b>Income</b>		
Assessments	\$85,716	\$88,621
Interest	<u>29</u>	<u>201</u>
<b>Total Income</b>	<b>\$85,745</b>	<b>\$88,882</b>
 <b>General Expenditures</b>		
General and Administrative	\$3,470	\$3,627
USDA Oversight	<u>659</u>	<u>588</u>
<b>Total General Expenditures</b>	<b>\$4,129</b>	<b>\$4,215</b>
 <b>Program Expenditures</b>		
Communications and Member Relations	\$11,595	\$11,005
Domestic Marketing	60,491	55,901
Export Enhancement	5,483	5,443
Hurricane Fund	0	500
Planning and Research	<u>3,082</u>	<u>2,386</u>
<b>Total Program Expenditures</b>	<b>\$80,651</b>	<b>\$75,235</b>
 Excess of Revenue (Under) Over Expenditures	 \$965	 \$9,432
 <b>Fund Balance, Beginning of Year</b>	 <b>\$4,924</b>	 <b>\$5,889</b>
 <b>Fund Balance, End of Year</b>	 <b>\$5,889</b>	 <b>\$15,321</b>

---

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

---

---

**Appendix D-2**  
**USDA Oversight Costs for the**  
**National Dairy Promotion and Research Board**  
**FY 2004–2005**

---

	2004	2005
Salaries and Benefits	\$359,338	\$319,403
Travel	36,906	36,405
Miscellaneous <sup>1</sup>	32,984	55,202
Equipment	6,651	1,651
Printing	<u>3,261</u>	<u>4,744</u>
<b>USDA Oversight Total</b>	<b>\$439,140</b>	<b>\$417,405</b>
<b>Independent Evaluation</b>	<b>\$154,543</b>	<b>\$92,888</b>
<b>Total<sup>2</sup></b>	<b>\$593,683</b>	<b>\$510,293</b>

---

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

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

---

**APPENDIX D**

---

**Appendix D-3**  
**National Dairy Promotion and Research Board**  
**Approved Budgets**  
**FY 2005–2006**  
**(in \$000's)**

---

	2005	2006
<b>Revenues</b>		
Assessments	\$86,315	\$86,600
Program Development Fund Draw	2,500	5,900
Interest	<u>50</u>	<u>100</u>
<b>Total Income</b>	<b>\$88,865</b>	<b>\$92,600</b>
<b>Expenses</b>		
General and Administrative	\$3,721	\$3,853
Hurricane Fund	500	-
USDA Oversight	<u>540</u>	<u>600</u>
<b>Subtotal</b>	<b>\$4,761</b>	<b>\$4,453</b>
<b>Program Budget</b>		
Communications and Member Relations	\$11,596	\$13,472
Domestic Marketing	62,508	41,779
Air Emissions Research	-	6,000
Export Enhancement	5,460	4,890
Research and Evaluation	2,869	3,256
Business Plan Development Fund	-	13,050
Emerging Opportunities	<u>1,671</u>	<u>5,700</u>
<b>Subtotal</b>	<b>\$84,104</b>	<b>\$88,147</b>
<b>Total Budget</b>	<b>\$88,865</b>	<b>\$92,600</b>

---

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

---

**Appendix D-4**  
**National Fluid Milk Processor Promotion Board**  
**Actual Income and Expenses**  
**FY 2004-2005**  
**(in \$000's)**

	2004	2005
<b>Income</b>		
Assessments	\$105,728	\$107,061
Late Payment Charges	54	99
Interest	252	276
Other	4	510
<b>Total Income</b>	<b>\$106,038</b>	<b>\$107,946</b>
<b>General Expenditures</b>		
California Refund	\$10,175	10,199
Administrative	2,152	2,001
USDA Oversight	318	256
USDA Assessment Verification	113	95
<b>Total General Expenditures</b>	<b>\$12,757</b>	<b>\$12,551</b>
<b>Program Expenditures</b>		
Media	\$69,508	\$59,949
Public Relations	13,312	9,979
Promotions	9,690	9,425
Strategic Thinking	1,864	2,092
Medical Advisory Panel	189	210
American Heart Association	240	16
Research, Local Markets, and Program Measurement	2,129	1,711
Program Management	334	145
<b>Total Program Expenditures</b>	<b>\$80,651</b>	<b>\$83,527</b>
Excess of Revenue (Under) Over Expenditures	\$3,887	\$11,867
<b>Fund Balance, Beginning of Year</b>	<b>\$16,447</b>	<b>\$12,560</b>
<b>Fund Balance, End of Year</b>	<b>\$12,560</b>	<b>\$24,427</b>

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

---

**Appendix D-5**  
**USDA Oversight Costs for the**  
**National Fluid Milk Processor Promotion Board**  
**FY 2004–2005**  
**(\$000's)**

---

	<b>2004</b>	<b>2005</b>
Salaries and Benefits	\$262,626	\$312,353
Travel	18,385	19,648
Miscellaneous <sup>1</sup>	28,161	48,705
Equipment	2,910	1,651
Printing	<u>3,024</u>	<u>5,913</u>
<b>USDA Oversight Total</b>	<b>\$315,106</b>	<b>\$388,270</b>
<b>Independent Evaluation</b>	<b>\$98,375</b>	<b>\$30,963</b>
<b>Total<sup>2</sup></b>	<b>\$413,481</b>	<b>\$419,233</b>

---

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

<sup>2</sup> The totals for USDA expenses differ slightly from those shown in Appendix D–4 because of end-of-year estimates which are adjusted in the following year.

---

**Appendix D-6**  
**National Fluid Milk Processor Promotion Board**  
**Approved Budgets**  
**FY 2005–2006**  
**(in \$000's)**

	2005	2006
<b>Revenues</b>		
Assessments	\$104,900	\$106,600
Interest	<u>-</u>	<u>-</u>
<b>Total Income</b>	<b>\$104,900</b>	<b>\$106,600</b>
Reserve Fund	-	-
Carryover from Previous Fiscal Year	<u>\$5,175</u>	<u>\$5,535</u>
<b>Total Available Funds</b>	<b>\$110,075</b>	<b>\$112,535</b>
<b>Expenses</b>		
General and Administrative	\$2,192	2,213
USDA Oversight	380	380
Independent Evaluation	- <sup>1</sup>	- <sup>1</sup>
Processor Compliance	- <sup>2</sup>	- <sup>2</sup>
California Refund	<u>10,300</u>	<u>10,300</u>
<b>Subtotal</b>	<b>\$12,872</b>	<b>\$12,893</b>
<b>Program Budget</b>		
Advertising	\$60,695	\$69,010
Public Relations	10,285	11,810
Promotions	10,535	11,570
Strategic Thinking	2,155	2,305
Medical Advisory Panel	225	330
Research	2,020	2,095
Medical Research	201	205
Program Management	150	-
Program Measurement	<u>164</u>	<u>215</u>
<b>Subtotal</b>	<b>\$86,430</b>	<b>\$97,540</b>
Unallocated	<u>10,773</u>	<u>1,702</u>
<b>Total Budget</b>	<b>\$110,775</b>	<b>\$112,135</b>

<sup>1</sup>Independent Evaluation costs are included in Program Measurement Expenses.

<sup>2</sup>Processor Compliance is included in General and Administrative Expenses.

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

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

National Dairy Promotion and Research Board  
Years Ended December 31, 2005 and 2004

National Dairy Promotion and Research Board  
Financial Statements and Supplemental Schedule  
Years Ended December 31, 2005 and 2004

**Contents**

Report of Independent Auditors.....1

Financial Statements

Balance Sheets .....2

Statements of Activities .....3

Statements of Cash Flows.....4

Notes to Financial Statements.....5

Supplemental Schedule

Schedule of Reconciliation of Operations Budget.....10

APPENDIX E

## Report of Independent Auditors

The Board of Directors  
National Dairy Promotion and Research Board

We have audited the accompanying statement of financial position of National Dairy Promotion and Research Board (NDB) as of December 31, 2005, and the related statements of activities and cash flows for the year 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 audit. The financial statements of NDB for the year ended December 31, 2004, were audited by other auditors, whose report dated April 8, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2005 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, 2005, and the 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.

Our audit was conducted for the purpose of forming an opinion on the 2005 financial statements taken as a whole. The schedule of reconciliation of operations budget is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2005 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 financial statements taken as a whole.



April 7, 2006

# National Dairy Promotion and Research Board

## Balance Sheets

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 11,596,487	\$ 4,544,245
Assessments receivable, net	8,813,977	7,588,476
Accrued interest receivable	984	184
Fixed assets (net of accumulated depreciation of \$139,026 and \$126,730 in 2005 and 2004, respectively)	46,740	11,186
<b>Total assets</b>	<b>\$ 20,458,188</b>	<b>\$ 12,144,091</b>
 <b>Liabilities and net assets</b>		
<b>Liabilities:</b>		
Due to related party – DMI	\$ 4,776,017	\$ 5,883,443
Accounts payable	162,787	236,859
Accrued expenses and other liabilities	260,096	134,337
<b>Total liabilities</b>	<b>5,198,900</b>	<b>6,254,639</b>
 Net assets – unrestricted	 15,259,288	 5,889,452
<b>Total liabilities and net assets</b>	<b>\$ 20,458,188</b>	<b>\$ 12,144,091</b>

*See accompanying notes.*

# National Dairy Promotion and Research Board

## Statements of Activities

	<b>Years Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues</b>		
Assessments	\$ 88,621,371	\$ 85,716,090
Interest income	200,678	28,759
Total revenues	88,822,049	85,744,849
<b>Expenses</b>		
Program:		
Domestic marketing group	55,901,430	60,491,075
Research and evaluation group	2,385,345	3,081,654
Communications/member relations group	11,005,496	11,595,023
Export group	5,443,200	5,482,500
Hurricane Fund	500,000	—
United States Department of Agriculture	588,852	659,305
Total program	75,824,323	81,309,557
General and administrative:		
DMI general and administrative	3,136,334	2,972,207
General and administrative	491,556	497,605
Total general and administrative	3,627,890	3,469,812
Total expenses	79,452,213	84,779,369
Increase in net assets	9,369,836	965,480
Net assets at beginning of year	5,889,452	4,923,972
Net assets at end of year	\$ 15,259,288	\$ 5,889,452

*See accompanying notes.*

National Dairy Promotion and Research Board

Statements of Cash Flows

	Years Ended December 31	
	2005	2004
<b>Operating activities</b>		
Increase in net assets	\$ 9,369,836	\$ 965,480
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	12,296	8,921
Changes in assets and liabilities:		
Assessments receivable	(1,225,501)	80,403
Accrued interest receivable	(800)	(93)
Accounts payable	(1,181,498)	(2,005,267)
Accrued expenses and other liabilities	125,759	(196,862)
Net cash provided by (used in) operating activities	<u>7,100,092</u>	<u>(1,147,418)</u>
<b>Investing activities</b>		
Purchases of fixed assets	<u>(47,850)</u>	-
Net increase (decrease) in cash and cash equivalents	<u>7,052,242</u>	<u>(1,147,418)</u>
Cash and cash equivalents at beginning of year	<u>4,544,245</u>	<u>5,691,663</u>
Cash and cash equivalents at end of year	<u>\$ 11,596,487</u>	<u>\$ 4,544,245</u>

See accompanying notes.

APPENDIX E

# National Dairy Promotion and Research Board

## Notes to Financial Statements

December 31, 2005 and 2004

### **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 \$15,612,201 and \$15,481,616 and program costs of \$62,259,604 and \$68,140,843, for activity related to the years ended December 31, 2005 and 2004, 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, 2005 and 2004, NDB reimbursed DMI \$5,443,200 and \$5,482,500, respectively, for USDEC's operations.

# 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 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 as "net assets released from restrictions."
- 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, 2005 and 2004 are unrestricted.

# 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 \$.15 per hundredweight on all milk produced and marketed in the contiguous United States. Milk producers can direct up to \$.10 per hundredweight to USDA qualified state and regional generic dairy promotion organizations. For the years ended December 31, 2005 and 2004, the net NDB assessment was approximately \$.0506 and \$.0507 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 2005 was approximately \$127,000.

#### **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, 2005 and 2004; therefore, no provision for income taxes has been reflected in the accompanying financial statements related to activities of NDB.

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>2005</u>	<u>2004</u>
Operating cash in banks and on hand	\$ 261,302	\$ 305,034
Federal agency discounted securities	11,335,185	4,239,211
	<u>\$11,596,487</u>	<u>\$ 4,544,245</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, 2005 and 2004, approximately \$101,000 and \$101,000, respectively, of cumulative unpaid assessments were at USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2005 and 2004, 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.

# National Dairy Promotion and Research Board

## Notes to Financial Statements (continued)

### 5. Net Assets

During 2005 and 2004, NDB's Board designated a portion of net assets for cash reserves. Total designations of net assets are as follows:

	<u>2005</u>	<u>2004</u>
Designated assets – cash reserves	\$ 1,800,000	\$ 1,800,000
Undesignated net assets	<u>13,459,288</u>	<u>4,089,452</u>
Total net assets	<u>\$ 15,259,288</u>	<u>\$ 5,889,452</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 \$588,852 and \$659,305 for the years ended December 31, 2005 and 2004, respectively.

### 7. Litigation

NDB and the USDA were defendants in a lawsuit that claims the Dairy Promotion Program established by the Dairy Promotion Stabilization Act of 1983 (the Dairy Act) violates the First Amendment right to free speech and free association. The lawsuit sought injunctive relief from the mandatory assessment fees paid to NDB on milk produced and marketed in the contiguous United States. These mandatory assessment fees are the primary revenue source for NDB. During fiscal year 2005, this case was settled in NDB and the USDA's favor.

# Supplemental Schedule

National Dairy Promotion and Research Board

Schedule of Reconciliation of Operations Budget

Year Ended December 31, 2005

	<b>2005 Total Expenses</b>	<b>2005 Commitments Expensed in 2004</b>	<b>2005 Operations Budget Statement</b>
<b>Organizational group expenses</b>			
Domestic marketing group	\$ 55,901,430	\$ 164,147	\$ 56,065,577
Research and evaluation group	2,385,345	-	2,385,345
Communications/member relations group	11,005,496	-	11,005,496
Export group	5,443,200	-	5,443,200
Hurricane Fund	500,000	-	500,000
United States Department of Agriculture	588,852	-	588,852
DMI general and administrative	3,136,334	-	3,136,334
General and administrative	491,556	-	491,556
Total organizational group expenses	<u>\$ 79,452,213</u>	<u>\$ 164,147</u>	<u>\$ 79,616,360</u>

This schedule reconciles the total expenses from the statement of activities presented in accordance with accounting principles generally accepted in the United States of America to those reflected in the Operations Budget Statement which is used for management's internal purposes.

The 2005 commitments expensed in 2004 represent programs that management committed as part of the 2005 marketing plan.

*See accompanying independent auditors' report.*

## Report of Independent Accountants on Applying Agreed-upon Procedures

The Board of Directors and Management  
National Dairy Promotion and Research Board:

We have performed the procedures enumerated below, which were agreed to by the U.S. Department of Agriculture (USDA) and National Dairy Promotion and Research Board (NDB), solely to assist you with respect to evaluating NDB's compliance with the Dairy and Tobacco Adjustment Act of 1983 (the Act), the Dairy Promotion and Research Order (Order), and the Agricultural Marketing Services Directive (Directive) entitled Investments of Public Funds as of and for the year ended December 31, 2005. NDB is responsible for its compliance with the Act, Order, and Directive. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

- a. We obtained NDB's budget for the year ended December 31, 2005, and sighted the signature of the Secretary of the USDA.
- b. We selected four investment purchase transactions from calendar year 2005, compared and agreed them against their respective brokers' advices, and noted the following:
  - The investments were in either U.S. Government Securities or Federal Agency Securities.
  - The investments had maturity periods of one year or less.
  - The U.S. Government Securities and Federal Agency Securities were held in the name of NDB at the designated financial institution.
- c. We obtained the 1999 investment files and sighted various broker's advices noting that the investment records have been maintained for six years.

We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the above compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the board of directors and management of NDB and USDA, and is not intended to be and should not be used by anyone other than these specified parties.

April 15, 2006



April 7, 2006

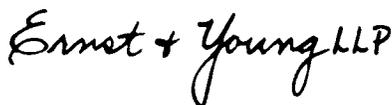
The Board of Directors

National Dairy Promotion and Research Board  
Rosemont, Illinois

In planning and performing our audit of the financial statements of the National Dairy Promotion and Research Board for the year ended December 31, 2005, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the United States Department of Agriculture, the Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.



April 7, 2006

**National Fluid Milk Processor  
Promotion Board**

**Financial Statements**  
and  
Independent Auditor's Report

Year Ended December 31, 2005

**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, 2005

---

**Part II**

Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters 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*

---

## **PART I**

**Table of Contents**

**Independent Auditor's Report** ..... 1-2

**Financial Statements:**

    Balance Sheet ..... 3

    Statement of Revenues, Expenses and Changes in Net Assets ..... 4

    Statement of Cash Flows ..... 5

    Notes to Financial Statements ..... 6-10

**Supplementary Information:**

    Independent Auditor's Report on Supplementary Information ..... 12

        Schedules of Actual Compared to Budget:

            Revenues and Expenses (Budget Basis) ..... 13

            Program Expenses (Budget Basis) ..... 14

            Administrative Expenses (Budget Basis) ..... 15

        Schedule of Cash Receipts and Disbursements ..... 16

APPENDIX E



**SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.**

Independent Auditor's Report

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

We have audited the accompanying balance sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2005, 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 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, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued reports dated March 6, 2006 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.



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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting information included in the report for 2005 (Pages 11 through 16) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the National Fluid Milk Processor Promotion Board. Such information has been subjected to the auditing procedures applied in our 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.*

March 6, 2006  
Bethesda, Maryland

APPENDIX E

# National Fluid Milk Processor Promotion Board

## Balance Sheet

---

**December 31, 2005**

---

### Assets

#### Current assets:

Cash and cash equivalents	\$ 14,822,201
Assessments receivable, net of allowance for uncollectible accounts of \$144,915	11,563,165
Interest receivable	21,557
Future year costs	5,550,801
Other receivables	<u>159,867</u>

**Total assets** **\$ 32,117,591**

### Liabilities and net assets

#### Current liabilities:

Accounts payable	\$ <u>7,689,802</u>
------------------	---------------------

#### Net assets:

Designated for contingencies	2,500,000
Undesignated	<u>21,927,789</u>

Total net assets 24,427,789

**Total liabilities and net assets** **\$ 32,117,591**

**National Fluid Milk Processor Promotion Board**  
**Statement of Revenues, Expenses and Changes in Net Assets**

**For the year ended December 31, 2005**

**Revenues:**

Assessments	\$ 107,060,754
Late payment charges	99,131
Interest income	276,135
Other	<u>509,591</u>

Total revenues	<u>107,945,611</u>
----------------	--------------------

**Expenses:**

Program expenses:

Media	59,949,054
Promotions	9,424,612
Public relations	9,978,572
Strategic thinking	2,091,931
Research	1,711,525
Medical advisory panel	210,194
Medical research	16,098
Program measurement	<u>144,716</u>

Total program expenses	<u>83,526,702</u>
------------------------	-------------------

Other expenses:

California grant	10,199,294
Administrative	2,000,686
USDA oversight	256,000
USDA compliance audit	<u>95,443</u>

Total other expenses	<u>12,551,423</u>
----------------------	-------------------

Total expenses	<u>96,078,125</u>
----------------	-------------------

<b>Excess of revenues over expenses</b>	<b>11,867,486</b>
---	-------------------

Net assets - beginning	<u>12,560,303</u>
------------------------	-------------------

<b>Net assets - ending</b>	<b><u>\$ 24,427,789</u></b>
----------------------------	-----------------------------

APPENDIX E

## National Fluid Milk Processor Promotion Board

### Statement of Cash Flows

---

**For the year ended December 31, 2005**

---

**Cash flows from operating activities:**

Excess of revenues over expenses	\$ 11,867,486
Changes in assets and liabilities:	
Increase in assessments receivable	(349,439)
Increase in interest receivable	(15,910)
Decrease in future year costs	9,239,105
Decrease in other receivables	54,572
Decrease in accounts payable	<u>(11,633,790)</u>

**Net cash provided by operating activities and  
net increase in cash and cash equivalents**

9,162,024

Cash and cash equivalents - beginning

5,660,177

**Cash and cash equivalents - ending**

\$ 14,822,201

# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

December 31, 2005

---

**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 - Effective August 1, 2002, 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. Prior to August 1, 2002, the minimum monthly assessments were generated from processors marketing more than 500,000 pounds of fluid milk per month. Assessment revenue is recognized in the month in which the fluid milk product is processed.

# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

December 31, 2005

**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 2005, allowance for doubtful accounts has not been recorded for late fee charges because the Board's management considers all late fees to be fully collectible.

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 investments with an original maturity of three months or less to be cash equivalents.

Future year costs - Future year costs represent costs incurred for 2006 budget year projects.

Assessments receivable - An allowance for uncollectible accounts has been established for those assessments which management has determined as uncollectible.

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, 2005, 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.

	<u>Carrying Value</u>
Cash deposits	\$11,295,987
Repurchase agreements	924,132
Investments	<u>2,602,082</u>
	<u>\$14,822,201</u>

# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

December 31, 2005

**Note 2: Cash and cash equivalents:** (continued)

At December 31, 2005, the repurchase agreements were secured as to principal plus accrued interest by U.S. government securities held in the respective banks' safekeeping account, in the Board's name, with the Federal Reserve Bank.

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. At December 31, 2005, investments consist entirely of U.S. government agency obligations. 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.

At December 31, 2005, investments consisted of the following:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Carrying Amount</u>
U.S. Securities:				
FNMA discount note	10/18/05	02/08/06	3.96%	<u>\$2,602,082</u>

At December 31, 2005, the Board was owed accrued interest of \$21,557.

Included in cash and cash equivalents is \$2,500,000 of Board designated cash reserves.

**Note 3: 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, 2005, the Board did not exceed this limitation.

# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

---

December 31, 2005

---

**Note 4: 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:

- Draft
- Lowe & Partners Worldwide
- Weber Shandwick Worldwide
- Siboney USA

Under this and related agreements, IDFA also directly provides program management, administrative support and employee benefits management services and leases office space to the Board. During the year ended December 31, 2005, the Board incurred approximately \$1,120,255 for directly provided services. At December 31, 2005, the Board owed IDFA \$545,030 for costs billed under these agreements.

**Note 5: Commitments:**

The Board entered into an agreement during fiscal year 2000 with Walt Disney World Hospitality & Recreation Corporation (WDWHRC), whereby the Board will 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 2004, IDFA and Flair Communications Agency, Inc. (Flair) agreed to submit to binding arbitration for Flair's claim of additional amounts due of \$504,788 with respect to services it performed under marketing agreements entered into by IDFA as a contractor to the Board. As a result of this claim, the Board accrued \$504,788 in 2004 as a potential obligation pending resolution of the binding arbitration process. In June 2005, a decision was reached in which the arbitrator ruled that the Board has no further obligations to Flair. Accordingly, in 2005 this accrual was reversed and is included in miscellaneous income on the statement of revenues, expenses and changes in net assets.

# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

December 31, 2005

---

**Note 6: Operating lease:**

The Board incurred \$129,000 of rental expense during 2005, under a sublease with an automatic renewal option. For 2006, the annual lease payment under the contract will be \$129,000.

**Note 7: 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 \$351,443 during 2005.

**Note 8: Related party activity:**

Accounting services for the Board are performed by Rubin, Kasnett & Associates, P.C. (RK&A); the cost of these services was \$310,000 during 2005. 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, 2006 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.

Included with other receivables is \$143,392 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.

**SUPPLEMENTARY  
INFORMATION**



**SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.**

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 2005 appears on page 1. 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 13 to 16 for the year ended December 31, 2005 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.

APPENDIX E

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

March 6, 2006  
Bethesda, Maryland

**National Fluid Milk Processor Promotion Board**

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

**For the year ended December 31, 2005**

	Unexpended/ Amended Budget	Current Year Actual	Actual Over (Under) Budget
<b>Revenues:</b>			
Assessments	\$ 104,900,000	\$ 107,060,754	\$ 2,160,754
Late payment charges	-	99,131	99,131
Interest income	-	276,135	276,135
Other	-	509,591	509,591
Carryover - prior years	<u>5,175,000</u>	<u>-</u>	<u>(5,175,000)</u>
Total revenues	<u>110,075,000</u>	<u>107,945,611</u>	<u>(2,129,389)</u>
<b>Expenses:</b>			
Program expenses:			
Program - current year	86,429,700	82,412,286	(4,017,414)
Program - prior years	<u>6,873,470</u>	<u>1,114,416</u>	<u>(5,759,054)</u>
Total program expenses	<u>93,303,170</u>	<u>83,526,702</u>	<u>(9,776,468)</u>
Other expenses:			
California grant	10,300,000	10,199,294	(100,706)
Administrative	2,192,000	2,000,686	(191,314)
USDA oversight	<u>380,000</u>	<u>351,443</u>	<u>(28,557)</u>
Total other expenses	<u>12,872,000</u>	<u>12,551,423</u>	<u>(320,577)</u>
Less encumbrances - prior years	<u>(6,873,470)</u>	<u>-</u>	<u>6,873,470</u>
Total expenses	<u>99,301,700</u>	<u>96,078,125</u>	<u>(3,223,575)</u>
Unallocated budget	<u>10,773,300</u>	<u>-</u>	<u>(10,773,300)</u>
<b>Excess of revenues over expenses</b>	<u>\$ -</u>	<u>\$ 11,867,486</u>	<u>\$ 11,867,486</u>

**National Fluid Milk Processor Promotion Board**

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

**For the year ended December 31, 2005**

	<u>Current Year Amended Budget</u>	<u>Expended Current Year Actual</u>	<u>Actual Over (Under) Budget</u>	<u>Prior Year Unexpended Budget</u>	<u>Expended Prior Year Actual</u>	<u>Actual Over (Under) Budget</u>	<u>Total Program Activity</u>
<b>Expenses - 2005 budget</b>							
Media	\$ 60,695,000	\$ 59,816,286	\$ (878,714)	\$ 601,151	\$ 132,768	\$ (468,383)	\$ 59,949,054
Promotions	10,535,000	9,111,140	(1,423,860)	3,856,853	313,472	(3,543,381)	9,424,612
Public relations	10,285,000	9,851,429	(433,571)	433,474	127,143	(306,331)	9,978,572
Strategic thinking	2,155,000	1,874,183	(280,817)	537,223	217,748	(319,475)	2,091,931
Research	2,020,000	1,418,392	(601,608)	926,243	293,133	(633,110)	1,711,525
Medical advisory board	225,000	205,696	(19,304)	215,244	4,498	(210,746)	210,194
American Heart Association	-	-	-	120,000	-	(120,000)	-
Medical research	201,000	16,098	(184,902)	139,560	-	(139,560)	16,098
Program measurement	163,700	119,062	(44,638)	43,722	25,654	(18,068)	144,716
Program management	150,000	-	(150,000)	-	-	-	-
<b>Total program expenses</b>	<b>\$ 86,429,700</b>	<b>\$ 82,412,286</b>	<b>\$ (4,017,414)</b>	<b>\$ 6,873,470</b>	<b>\$ 1,114,416</b>	<b>\$ (5,759,054)</b>	<b>\$ 83,526,702</b>

117

**National Fluid Milk Processor Promotion Board**

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

**For the year ended December 31, 2005**

	Current Year Amended Budget	Current Year Actual	Actual Over (Under) Budget
<b>Management contract</b>	\$ 320,000	\$ 318,040	\$ (1,960)
<b>Board meeting expenses</b>	350,000	230,177	(119,823)
<b>Staff salaries and benefits:</b>			
Staff salaries and compensation	423,286	417,658	(5,628)
Staff retirement benefit	42,329	22,565	(19,764)
Payroll taxes	14,763	14,983	220
Health insurance	8,446	3,034	(5,412)
Life insurance	1,442	1,608	166
Disability insurance	1,545	777	(768)
Workers compensation	721	1,048	327
Other employee benefits	2,266	2,300	34
<b>Total staff salaries and benefits</b>	<u>494,798</u>	<u>463,973</u>	<u>(30,825)</u>
<b>Finance and administration:</b>			
Contract staff	140,000	139,955	(45)
Financial services	310,000	310,000	-
<b>Total finance and administration</b>	<u>450,000</u>	<u>449,955</u>	<u>(45)</u>
<b>Other operating expenses:</b>			
Legal	200,000	171,453	(28,547)
Audits	80,000	87,834	7,834
Office facilities	111,000	111,000	-
Support and maintenance	18,000	18,000	-
Staff travel	105,000	89,899	(15,101)
Telephone	3,000	1,979	(1,021)
Insurance	35,000	35,940	940
Postage and delivery	15,000	16,856	1,856
Unallocated administrative expense	10,202	5,580	(4,622)
<b>Total other operating expenses</b>	<u>577,202</u>	<u>538,541</u>	<u>(38,661)</u>
<b>Total administrative expenses</b>	<u>\$ 2,192,000</u>	<u>\$ 2,000,686</u>	<u>\$ (191,314)</u>

# National Fluid Milk Processor Promotion Board

## Schedule of Cash Receipts and Disbursements

**For the year ended December 31, 2005**

<b>Cash receipts from operations:</b>	
Assessments	\$ 106,765,887
Late payment charges	99,131
Interest income	260,225
Other	<u>4,803</u>
Total revenues	107,130,046
<b>Cash disbursements for operations</b>	<u>(97,968,022)</u>
<b>Excess of operating receipts over disbursements</b>	9,162,024
Cash and cash equivalents - beginning	<u>5,660,177</u>
<b>Cash and cash equivalents - ending</b>	<u>\$ 14,822,201</u>

APPENDIX E

## **PART II**



**SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.**

Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters 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 as of and for the year ended December 31, 2005, and have issued our report thereon dated March 6, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the National Fluid Milk Processor Promotion Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the National Fluid Milk Processor Promotion Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted during the course of our audit one instance where a subcontractor was reimbursed for first class airfare totaling \$548. Upon discovery, the subcontractor was contacted and a refund of \$121, the difference between the price of a first class ticket and a coach class ticket, was obtained.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

APPENDIX E



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the National Fluid Milk Processor Promotion Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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.*

March 6, 2006  
Bethesda, Maryland

## PART III



## **SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.**

**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 balance sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2005, 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 6, 2006. 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, 2005;
- 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, except as described below;



**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;
- 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 subcontractor was paid for services rendered prior to having a written contract or agreement with the Board. This situation was discovered by the Board's management during the calendar year and subsequently corrected by obtaining a refund from the subcontractor. Once a contract was executed, the payment was reissued. We also noted one instance where a subcontractor was reimbursed by the Board for first class airfare. Upon discovery, the subcontractor was contacted and a refund was obtained for the difference between the price of a first class ticket and a coach class ticket.

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.*

March 6, 2006  
Bethesda, Maryland

**Appendix F-1**  
**National Dairy Promotion and Research Board**  
**and Dairy Management Inc.**  
**Contracts Reviewed by USDA, 2005**

**Advertising and Marketing Services**

**Affina Corporation**–Real Seal\* Certification Program  
**American School Food Service Association**–School Foodservice Publications; School Milk Pilot Consulting Services  
**Broadcast Traffic and Residuals, Inc.**–Fluid Milk and Cheese Broadcast Materials and Talent Activities  
**Campbell Mithun (Lowe Worldwide)**–Foodservice Promotion Activities  
**DDB Worldwide Communications Group**–Media Planning Services; 3-A-Day of Dairy Creative Advertising  
**Dairy Farmers, Inc.**–Professional Services  
**Flair Communications Agency**–Marketing and Program Constitution and Management  
**General Mills Marketing**–41st Pillsbury Bake-off Contest; Print Media Buying  
**Initiative Media Worldwide**–Advertising Commission Review  
**J. Brown and Associates**–DMI Cheese Co-Marketing Program  
**Kellogg’s USA, Inc.**–NASCAR Sponsorship; Joint Milk and Cereal Promotion Activities  
**McDonald’s Corporation**–Happy Meal Promotion  
**Media Management Services**–School Marketing Program Support  
**Media Vest Worldwide**–3-A-Day Advertising Services  
**Midwest Dairy Association**–National Retail Account Services; Chicago School Marketing  
**NFL Properties, LLC**–Promotional Activities; Logo Usage Rights  
**National School Board Association**–Marketing Partnership  
**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  
**School Foodservice and Nutrition**–Nutrition Magazine Inserts  
**Slack Barshinger and Partners**–Integrated Marketing Communications  
**Team Services, LLC**–NFL and Sports Marketing Services  
**WebMD**–3-A-Day Weight Loss Activities (Web-based)  
**Wendy’s International**–Plastic Milk Container Tests; Kids Meal Promotion  
**Wisconsin Milk Marketing Board**–National Butter Program

## Appendix F-1, continued

### Public Relations and Nutrition Education

**7<sup>th</sup> Wave Communications**–Brag Book Video Project  
**American Dietetics Association**–3-A-Day Avertorial  
**Association Partners Plus**–Communications and Cooperative Education Projects  
**Association of School Business Officials International**–School Milk Marketing  
**Cardan Company**–Grade 2 Nutrition Education Programs  
**Child Nutrition Foundation**–School Foodservice Program Activities  
**Cleveland Dovington Partners, Inc.**–Information Technology Services and Consulting; Web site development (Intranet) [www.TeamDairy.com](http://www.TeamDairy.com)  
**Dairy Farmers, Inc.**–Communication Activities  
**Destination Imagination, Inc.**–Destination Imagination Sponsorship; 3-A-Day of Dairy Improv Challenge  
**Edelman Public Relations Worldwide**–Web site [www.butterisbest.com](http://www.butterisbest.com) Maintenance; DMI Health Professional Public Relations Program; Dairy Spokesperson Network, Nutrition Communications Program; Dairy Image Media Relations; 3-A-Day Public Relations-Retail/Foodservice; DMI Dairy Image Program; Centers of Influence; Healthy Weight with Dairy Activities  
**Fleishman Hillard**–Reputation Management Program  
**Food, Research, and Action Center**–Food Breakfast Expansion  
**The Fratelli Group**–Dairy Image Protection  
**Health and Nutrition Network**–Media Training & Consulting Services  
**Healthy Schools, Inc.**–Action For Healthy Kids Sponsorship  
**I-Site Web Design**–School Marketing Web Program  
**Image Base Corporation**–Video News Release Production; International School Milk Conference Services  
**Integer Group**–Dairy Producer Communications Program  
**J.M. Smucker**–Return to School Promotion Activities  
**Jack Morton Worldwide**–Web site Design; Web Activities  
**Jerry Dryer Group**–Dairy Issues Management  
**Media Management Services**–Pyramid Café/Pyramid Explorations Newsletter  
**National Dairy Shrine**–Dairy Scholarship Program  
**Nutrition Impact LLC**–Consulting  
**Osborn and Barr**–Communications; Industry Relations Consulting Project  
**Results Direct**–DMI Website Activities  
**Weber Shandwick, Inc.**–Issues Monitoring and Response; Crisis Communications Program

### Export

**3 A Business Consulting**–Europe’s Sport Nutrition Market Review  
**ABC Translation Services**–Technical and Safety Evaluation Assessments

## Appendix F-1, continued

### Export, continued

**American-Mexican Marketing**–Mexican Market Representation and Program Activities; Mexican Trade Show and Cheese Promotion Activities  
**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  
**Contacts International Consulting, Ltd.**–South American Market Representation and Program Activities  
**DairyMark.com**–Whey Permeate Product Supplier Study; Global Strategic Plan for Dairy Research; Global Dairy Industry Patent Review  
**Foodtrends**–Production of Training Manual and Video for Caribbean Deli Program  
**Functional Ingredients Research, Inc.**–Korean Whey Nutrient-Marketing Conference and Trade Mission  
**GVI Productions**–Development and Production of Promotional Video  
**The Garrison Group**–Consulting, Editorial, and Promotional Services  
**Global Foods & Nutrition**–Education Seminar and Trade Mission, Central Asia; Europe Newsletter  
**Global Trade Information Services**–Purchase of *World Trade Atlas*  
**Grassland Media**–Production of Deli Training Video  
**International Dairy Foods Association**–Export Manual Updates  
**International Trade Services**–International Manuals Updates  
**IntNet**–Korean Market Representation and Program Activities; Trade  
**Islamic Food & Nutrition**–Halal Certification Services  
**Jerry Dryer Group**–USDEC Domestic Communications Plan  
**Landell Mills**–Update of Global Dairy Blends Study; Brazilian Market Research; Milk Minerals Research; Indian Dairy Market Study; Soy and Whey Competitive Study  
**Levitt Communication**–International Consulting Services  
**Market Makers**–Japanese Market Representative & Program Activities  
**Mistral Group, Ltd.**–European Market Representation and Program Activities  
**National Milk Producers Federation**–Global and Domestic Research Activities; Farm to Consumer Program Activities  
**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**–Study Dairy Products in Russia  
**Results Direct**–USDEC Web site Activities [www.usdec.org](http://www.usdec.org) Activities  
**Stanton, Emms, and Sia**–Study of Markets for Dairy Products in Vietnam  
**TCE Consulting Group**–Food and Nutrition Conference Activities, Tunis  
**Uniflex Marketing**–Japanese Market Representation and Program Activities; Japanese Dry Ingredients Program

## Appendix F-1, continued

### Export, continued

**World Perspectives**—Market Research for Cheese in the Foodservice Sector in the Caribbean  
**U.S. Whey Research Consortium**—The effect of Whey Protein on Body Weight, Body Fat, and Health

### Market and Economic Research

**Academic Network**—Food Guide Pyramid Strategic Counseling  
**ARS Group**—Print Advertising Evaluation  
**BBDO**—Pizza Qualitative Research  
**Beverage Marketing Corporation of New York**—Evaluation of the Effectiveness of Generic Milk Programs; Vending Tracking Study  
**Burrell's Newsclip Analysis Service**—Media Monitoring and Analysis  
**CFE Solutions, Inc.**— Consulting Services  
**C & R Research**—Educational Materials Research Evaluation  
**CY Research, Inc.**—Milk and Cheese Creative Testing; Dairy Weight Loss Research Awareness  
**Container Recycling Service**—School Recycling Project  
**Custom Research, Inc.**—Cheese and 3-A-Day Advertising Campaign Impact Assessment; Health Professional Dairy Nutrition Tracking Study  
**Datacore Marketing**—Database Management and Consulting  
**Doyle Research Associates**—Web Site Usability Qualitative Research; Business to Business Qualitative Research; Chocolate/White Milk Qualitative Research  
**Environ**—Flavored Milk Research Project  
**Focus Management Services**—U.S. Milk Industry School Audit  
**Fresh Look Marketing Group**—Top-line Random Weight Cheese Data  
**GFK Custom Research**—3-Day Tracking Study; Health Professional Tracking Study;  
**Green House Communications**—Pizza Recipe Development  
**Information Resources, Inc.**—Milk and Cheese Category Volume Reports  
**K.A. Enterprise**—African American Usage, Attitudes, and Associations with Dairy Products  
**KRC Research**—3-A-Day Tracking Survey  
**Knowledge Networks**—NASCAR Promotion Awareness Research; Fluid Milk Advertising Tracking Research/Mom's Tracking Study  
**MSW**—3-A-Day Weight Loss Advertising Test; Test; Advertising Focus Group Analysis  
**MangoLogic**—Online Consumer Surveys  
**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  
**Marketing Management**—Marketing Mix Analysis  
**Maskowitz-Jacobs**—Consumer Interviews on Milk and Soy Preferences  
**Mintel International Group**—New Products Database and Market Intelligence Reports  
**National Medical Association**—Role of Dairy in the African American Diet

## Appendix F-1, continued

### Market and Economic Research, continued

**National Milk Producers Federation**–Domestic Research Program Activities/Animal Health and Welfare Issues Activities

**NFO Research**–INFOfast Subscription; Dairy Restrictors Research; Purchase and Analysis of Marketing Data

**NPD Group**–Whey Protein Survey; Organic Milk Survey; Milk Allergen Labeling Study; 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

**Peryam and Kroll**–School Milk Container Test; Frozen Pizza Qualitative Study

**PHD Technologies**–Whey Protein Concentrate-Processed Meat Applications

**Prime Consulting Group**–Retail Innovation Study Results Workshop

**Promar International**–School Milk Analysis and Consultation

**Promata-Leemiss Services**–Online Advertising Activity Data

**Pursuant, Inc.**–Milk-Producing Livestock Cloning/Dairy Consumption Research; Obesity and Healthcare Research; Dairy Production Practices Attitude Research

**RSC-The Quality Measurement Co.**–3-A-Day Testing Activities

**Results Direct**–Database Development

**Roper ASW**–Plate Waste Study; Student Surveys

**Sachs Marketing and Research**–Dairy Weight Loss Claims Study

**Spectra Marketing Systems**–Marketing Research Activities

**Summit Research, Inc.**–Milk Pilot Satisfaction Survey

**Talent Partners**–Broadcast Traffic Services

**TDI Management**–Planning Services

**Technomic**–Understanding Obesity and its Foodservice Impact

**Teri Gacek Associates**–Qualitative Market Research Assignments; Focus Group Testing; Organic Milk Focus Groups

**The Travis Company**–NDC Promotional Kit Evaluation Research

**Trion Group LP**–School Milk Training Project

**Turover Straus Group**–Strategic Blueprint Development; Concept Development: Dairy-Based Salad Dressing and Spreads

**Upshot Corporation**–Sales Force Outreach and Data Delivery System

**Video Monitoring Services**–Broadcast Monitoring

**Western Wats**–School Vending Awareness and Usage Survey

**Widener-Burrows and Associates**–Qualitative Research for Chocolate Milk Program Analysis

**Wirthlin Worldwide**–Producer Communications Survey; Pyramid Education Program Research

**Appendix F-2**  
**National Fluid Milk Processor Promotion Board**  
**and International Dairy Foods Association**  
**Contracts Reviewed by USDA, 2005**

**Contractor and Initiatives**

**Susan Barr, Ph.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  
**Jeanette M. Newton-Keith, M.D.**—Medical Advisory Board Member Services  
**Ronald M. Krauss, M.D.**—Medical Advisory Board Member Services  
**American Heart Association**—Certification Mark Licensing Agreement; Product Nomenclature  
**Beverage Marketing Corporation of New York**—Consulting/Competitive Strategy Development  
**Blueprint Communications**—Media Buy Performance Analysis  
**California Milk Processor Board**—Licensing Agreement  
**CMGRP, Inc., d.b.a. Weber Shandwick**—Public Relations Services  
**Data Development Corporation**—Market Research  
**Draft, Inc.**—Promotional Marketing Services  
**Energy Infuser, Inc.**—Focus Groups  
**Environ International Corporation**—Consulting Services and Research  
**Fixation Marketing**—Graphics Design  
**Information Resources, Inc.**—Market Analysis  
**Inland Printing**—Customer Service Activities  
**Insight Express**—Market Research  
**Lowe Worldwide**—Advertising Services  
**Menendez International**—Hispanic Market Research  
**Outloud**—Marketing Communications  
**Potomac Digitek**—[www.Milkplan.org](http://www.Milkplan.org) Web site Services  
**P.O.V. Marketing**—Consulting Services  
**Prime Consulting Group**—Consulting Services, Survey Analysis; Promotion Assessments  
**Publicidad Siboney**—Hispanic Marketing Program  
**School Nutrition Association**—Educational Seminars  
**Snyder, Cohn, Collyer, Hamilton & Associates, P.C.**—Audit Services  
**Taylor Nelson Sofres**—Hispanic Consumer Market Research  
**Technomic, Inc.**—Marketing Study and Analysis  
**The Innovation Resources**—Consulting Services  
**Willard Bishop**—Consulting Services

**Appendix G-1**  
**Nutrition and Health Research Institute**  
**and Dairy Foods Research Centers, 2005**

**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 Centers**

**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.

**Minnesota/South Dakota Dairy Food Research Center**

(University of Minnesota–St. Paul 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.

## **Appendix G-1, continued**

### **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 G-2**  
**Dairy Foods Competitive Research Activities, 2005**

**Principal Investigator, Institution, and Project Title**

**Valente B. Alvarez, Ph.D.** (Ohio State University Research Foundation): Stability, Flavor Changes, and Shelf Life of PET Bottled Ultrapasteurized Milk [continued in 2005]

**Joseph E. Marcy, Ph.D.** (Virginia Polytechnic Institute): Ensuring Stability of Natamycin on Shredded Cheese to Prevent Mold Growth [continued in 2005]

**Charles Morr** (Independent): Developing a Membrane Fractionation Process Removing Lactose from Skim Milk [completed in 2005]

**K. Schmidt, Ph.D.** (Kansas State University): Ingredient Technology and Interactions for Stable, Nutritionally Designed Milk-Based Beverages [completed in 2005]

## **Appendix G-3**

### **Nutrition Competitive Research Activities, 2005**

#### **Principal Investigator, Institution, and Project Title**

**Leann L. Birch, Ph.D.** (Pennsylvania State University): Parental Influence on Girls' Calcium Intake and Bone Mineral Content and Weight Status—Phase II [continued in 2005]

**Michael D. Brot, Ph.D.** (MDS Pharma Services): The Effectiveness of Dairy-Based High Calcium Diets in Accelerating Weight and Fat Loss Secondary to Energy Restriction in a Transgenic Mouse Model of Obesity [began in 2005]

**Joseph Donnelly, Ph.D.** (University of Kansas Center for Research, Inc.): The Effects of Dairy Intake on Weight Maintenance and Metabolic Profile [continued in 2005]; Substrate Oxidation in Children in Response to Exercise with High and Low Intake [began in 2005]

**Penny Kris-Eatherton, Ph.D.** (Pennsylvania State University): Effects of a Dairy-Rich Diet on Blood Pressure and Vascular Reactivity [completed in 2005]

**Christine Economos, Ph.D.** (Tufts University): What Predicts Dairy Intake, Bone Mass, and Body Composition in Early Children [completed in 2005]

**Stan Heshka, Ph.D.** (St. Luke's-Roosevelt Hospital): The Effect of a Mixed Nutrient Versus a Single Nutrient Beverage on Energy Metabolism, Substrate Oxidation, and Indices of Satiety and Food Intake in Children [completed in 2005]

**Michael Huncharek, Ph.D.** (Meta-Analysis Research Group and Marshfield Clinic): Effects of Dairy Products on Total Dietary Calcium Intake on Bone Health in Children and Young Adults: A Meta-Analytic Evaluation of Existing Scientific Data [began in 2005]

**Elsa M. Janle, Ph.D.** (Purdue University): Potential of Dietary Whey Protein to Ameliorate the Development of Diabetes in the Zucker Diabetic Rat [began in 2005]

**Joan M. Lappe, Ph.D.** (Creighton University): Pilot Project Preparatory to a Definitive Study of the Efficacy of Milk Minerals in Human Bone Health [began in 2005]

**Richard Mattes, Ph.D.** (Purdue University): Effect of Dairy Product Consumption on Food Intake and Hunger in Adult Humans [completed in 2005]

**Edward Melanson, Ph.D.** (University of Colorado): Effects of High and Low Calcium Diets on Fat Metabolism During and After Exercise [continued in 2005]

### Appendix G-3, continued

**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 [continued in 2005]; Dairy Intake: Its Determinants and Relation to a Healthy Diet [continued in 2005]; and Dietary Intake Patterns and Metabolic Syndrome Among Children and Adolescents [continued in 2005]

**Ratna Mukherjea, Ph.D.** (Children’s Hospital Oakland Research Institute): Effect of Moderate Dairy Intake on Insulin Resistance, Glucose Tolerance, and Body Fat in Overweight Young Adolescent Girls [continued in 2005]

**Mary Murphy, M.S., R.D.** (ENVIRON): Flavored Milk Study [began in 2005]

**Stuart Phillips, Ph.D.** (McMaster University): The Effectiveness of Milk Consumption in the Promotion of Resistance Training-induced Lean Mass Gains in Novice Weightlifters [completed in 2005]; Impact of Whey, Casein, and Soy Supplementation on Human Muscle Protein Turnover after Resistance Training [began in 2005]; Whey Protein Beverage Study [began in 2005]

**Victor Shen, Ph.D.** (MDS Pharma Services): The Effect of Calcium, Milk Mineral, and Nonfat Dry Milk on Bone Quality and Strength in Estrogen Deficient Rats [began in 2005]

**Debra Sullivan, Ph.D.** (University of Kansas Medical Center): Synergistic Effect of Dairy Foods on Metabolism–A Mechanistic Study [continued in 2005]

**Dorothy Teegarden, Ph.D.** (Purdue University): Effect of Calcium Education Intervention on Body Fat Mass in Adolescents [continued in 2005]

**Martha 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 [began in 2005]

**Connie Weaver, Ph.D.** (Purdue University): Dairy versus Calcium Carbonate in Promoting and Retaining Peak Bone Mass [continued in 2005]; Calcium, Dairy, and Body Fat in Adolescents [continued in 2005]

**Robert Wolfe, Ph.D.** (University of Texas Medical Branch): Dose Dependent Effects of Whey Protein on Muscle Protein Synthesis [continued in 2005]

**Michael B. Zemel, Ph.D.** (University of Tennessee Research Foundation): Role of Dairy Components in Weight Control and Fat Loss [continued in 2005]; Role of Dairy Products in Weight Maintenance: Prevention of Weight Regain Following Weight Loss [continued in 2005]

**Appendix H**  
**Qualified State or Regional Dairy Product Promotion,  
Research, or Nutrition Education Programs, 2005**

**Allied Milk Producers' Cooperative, Inc.**  
495 Blough Road  
Hooversville, PA 15936-8207

**American Dairy Association and  
Dairy Council Mid East**  
5950 Sharon Woods Boulevard  
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**  
9201 Bunsen Parkway, Suite 100  
Louisville, KY 40220

**American Dairy Association of Michigan, Inc.**  
2163 Jolly Road  
Okemos, MI 48864

**American Dairy Association of Mississippi**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**American Dairy Association of Nebraska, Inc.**  
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, Inc.**  
2163 Jolly Road  
Okemos, MI 48864

**Dairy Council of Nebraska, Inc**  
8205 F Street  
Omaha, NE 68127-1779

## Appendix H, continued

### **Dairy Farmers, Inc.**

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

### **Dairy MAX, Inc.**

2415 Avenue J, Suite 111  
Arlington, TX 76006-6119

### **Dairy Promotion, Inc.**

Dairy Farmers of America  
P.O. Box 909700  
Kansas City, MO 64190-9700

### **Georgia Agricultural Commodity Commission for Milk**

19 Martin Luther King Jr. Dr., S.W., 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 N. Towanda Avenue  
P.O. Box 2901  
Bloomington, IL 61702-2901

### **Indiana Dairy Industry Development Board**

200 W. Washington Street  
242 State House  
Indianapolis, IN 46204

### **Kansas Dairy Commission**

4210 Wam-Teau Drive  
Wamego, KS 66547

### **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

### **Minnesota Dairy Research and Promotion Council**

2015 Rice Street  
St. Paul, MN 55113

## Appendix H, continued

- 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**  
1034 Commonwealth Avenue  
Boston, MA 02215
- New England Dairy Promotion Board, Inc.**  
1034 Commonwealth Avenue  
Boston, MA 02215
- New Jersey Dairy Industry Advisory Council**  
c/o New Jersey Department of Agriculture  
P.O. Box 330  
Trenton, NJ 08625-0330
- New York State Department of Agriculture and Markets**  
Division of Milk Control and Dairy Services  
10 B Airline Drive  
Albany, NY 12235
- 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 American Dairy Association and Dairy Council, 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, Inc.**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416
- Southwest Dairy Museum, Inc.**  
P.O. Box 936  
Sulphur Springs, TX 75483
- Tennessee Dairy Promotion Committee**  
9201 Bunsen Parkway, Suite 100  
Louisville, KY 40220
- United Dairymen of Arizona**  
2008 South Hardy Drive  
Tempe, AZ 85282
- Utah Dairy Commission-Dairy Council of Utah/Nevada**  
1213 East 2100 South  
Salt Lake City, UT 84106

## **Appendix H, continued**

### **Vermont Dairy Promotion Council**

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

### **Washington State Dairy Council**

4201 198th Street, S.W., Suite 101  
Lynnwood, WA 98036-6757

### **Washington State Dairy**

#### **Products Commission**

4201 198th Street, S.W., Suite 101  
Lynnwood, WA 98036

### **Western Dairy Farmers' Promotion Association**

12000 North Washington Street, Suite 200  
Thornton, CO 80241

### **Wisconsin Milk Marketing Board, Inc.**

8418 Excelsior Drive  
Madison, WI 53717

# Appendix I

## 2005 Fluid Milk Print Advertisements

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



Meredith Vieira



Serena Williams



Bebe Neuwirth



Red Curtain Advertorial



Skinny Glass Advertorial



Stockard Channing



Diane Heavin

## Appendix I, continued

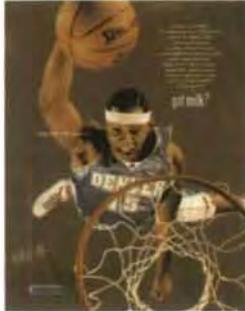
### Active, Bone Growth, and Bone Fractures Messages

Target Audience: Teen Girls and Teen Boys

Source: MilkPEP/Lowe Worldwide



Michelle Kwan



Carmelo Anthony



Donovan McNabb /  
Teddy Bruschi



Batman



Joss Stone



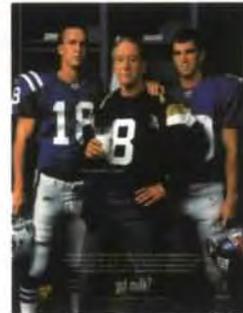
Teddy Bruschi



Donovan McNabb



Lindsay Lohan



Manning Family

## Appendix I, continued

### Active, Bone Growth, and Bone Fractures Messages

Target Audience: Teen Girls and Teen Boys

Source: MilkPEP/Lowe Worldwide



Tracy McGrady



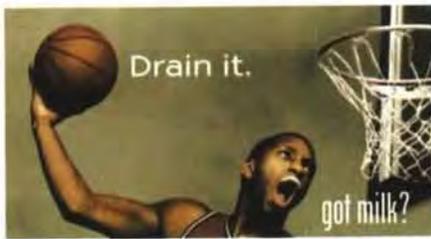
Mia Hamm



Jason Kidd

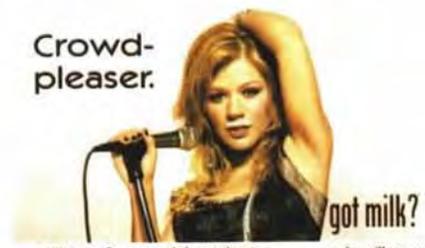
### 2005 School Milk Posters

Source: MilkPEP/Lowe Worldwide



About 15% of your height is added as a teen and milk helps.

Tracy McGrady



Milk has 9 essential nutrients active bodies need.

Kelly Clarkson



Milk has 9 essential nutrients active bodies need.

Michelle Kwan



About 15% of your height is added as a teen and milk helps.

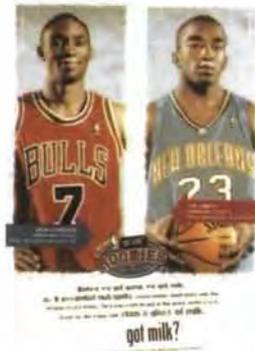
Donovan McNabb

## Appendix I, continued

2005 Got Milk?®/NBA® Rookies of the Month/Rookie of the Year  
 Source: MilkPEP/Lowe Worldwide



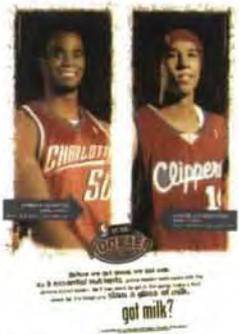
January  
 Ben Gordon/J.R. Smith



February  
 Ben Gordon/J.R. Smith



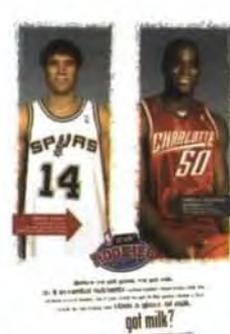
March  
 Ben Gordon/J.R. Smith



April  
 Emeka Okafor/  
 Shaun Livingston



November  
 Devin Harris/Emeka Okafor



December  
 Beno Udrih/Emeka Okafor



Rookie of the Year  
 Emeka Okafor

## Appendix I, continued

### Contest/Sweepstakes/Trade Advertisements

Source: MilkPEP/Lowe Worldwide



Healthy Schools Challenge



Karen Johnson Trade Ad



2005 SAMMY Winners



Rolling Stone winner,  
Nathan Fernandez



2006 SAMMY Kickoff



Win With Milk Contest

## Appendix I, continued

### Hispanic Advertisements

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



Dr. Aliza



Giselle Blondett



Shape



People En Espanol



Nuestra Gente



People En Espanol



24/24 Leche POS

## Appendix I, continued

### 2005 Promotions and Public Relations Materials Source: MilkPEP/DRAFT and Weber Shandwick



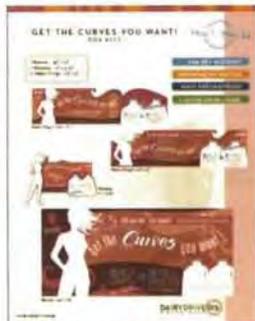
New View of You POS



Flavored Milk Brochure



Get the Curves You Want Website



Get the Curves You Want  
POS Reference Sheet



Get the Curves You Want POS



Fuel Up With Milk  
Online Auction



Healthy Schools Challenge



Milk Mustache Mobile Tour

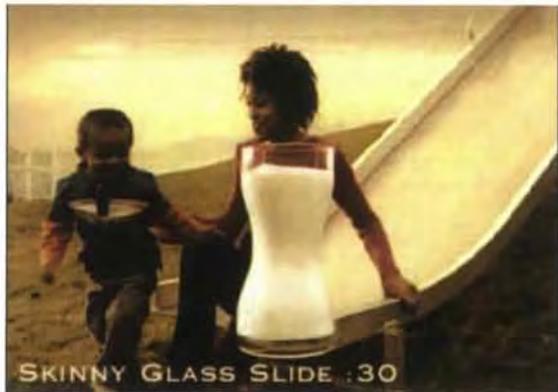


Great American  
Weight Loss Challenge

## Appendix I, continued

### 2005 Television Advertisements

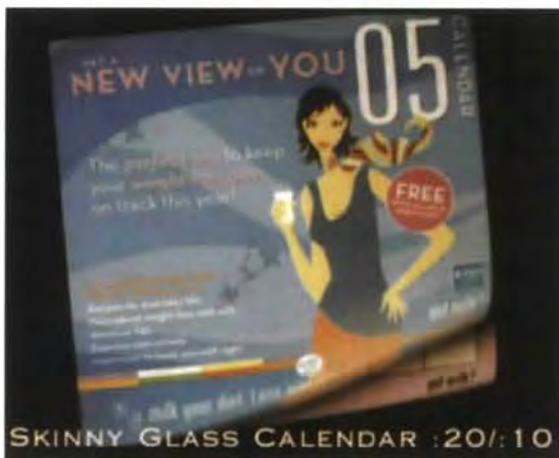
Source: MilkPEP/Lowe Worldwide



"Skinny Glass Slide" (:30 TV spot)



"Skinny Glass Cartwheel" (:30 TV spot)



"Skinny Glass Calendar" (:30 TV spot)



