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Author: Dairy Checkoff  
2001 Annual Report  
Dairy Management

Dairy Management Inc.™ (DMI) is the domestic and international planning and management organization that builds demand for dairy products on behalf of America's nearly 80,000 dairy producers. DMI and International, state and regional organizations manage the American Dairy Association's, the National Dairy Council and the U.S. Dairy Export Council.

**Our Mission: To increase worldwide demand for U.S. dairy products.**



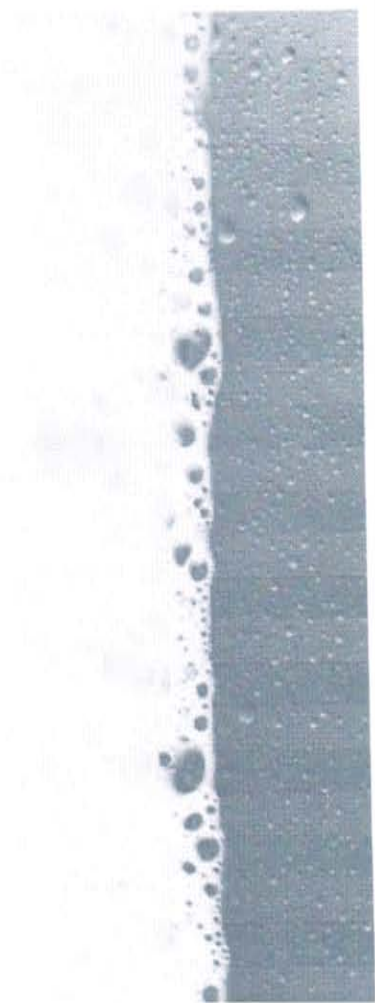
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# Letter

## to Our Fellow Dairy Producers

Our futures and grandchildren's milk won't be at issue of the dairy body. Producers do, but they could easily agree on at least one thing: Dairy farming is viable, it is necessary, and it has changed.

Change isn't always easy, but it is necessary. In so many ways, it has changed and will continue to do so. But has the dairy check of a changed enough to keep pace with the marketplace?

In the last two years, we have expanded our planning process to include dairy producer feedback. In 2001, more than 300 dairy producers participated in a series of regional planning forums held nationwide. At each forum, local producer boards came together to discuss issues facing the dairy industry, suggested ways to address those issues, and agreed on plans to maintain a high level of consumer dairy product demand.

And did we get what we needed from those discussions? You bet! Coming out of these producer forums, we began to make plans that reflect some big changes.

We believe in the power of a unified plan. We believe in the power of producers working together honestly and openly to put that plan into action.

We must look beyond our own county and state lines. Beyond our own regional borders. We must see dairy as a national and international concern, just as every other food business sees itself.

None of us can afford to be wary, wary. Let's have the courage to make the right business decisions and move forward confidently.



Herman M. Brinker  
Chair, Dairy Management Inc.  
Chair, United Dairy  
Industry Association



Paul E. Roney  
Vice Chair,  
Dairy Management Inc.  
Chair, Producers and  
Consumers Board



To say that 2001 was one heck of a year is an understatement.

And yet, 2002 came right on schedule. Cows don't take a day off, and neither does your farm. Every day, producers milk their cows, and every day that milk needs to be marketed.

While our mission has remained simple and unchanged – to help increase worldwide demand for your dairy products – we are changing the way we fulfill that mission.

Instead of relying heavily on traditional means of reaching consumers directly, today we need to identify the barriers to and growth opportunities for increased demand, prioritize those barriers and opportunities, and do only those things that we can afford to do well.

Next, we need to partner with others inside and outside the dairy industry. People with money and strength, who can help us more effectively reach our target consumers. Working with partners expands the \$250 million power of checkoff threefold and more.

We've seen it in cheese, working with supermarket chains and product suppliers to drive volume. We've seen it with exports, where the U.S. Dairy Export Council® is the model for strategic partnerships and alliances.

We've seen it in fluid milk, bringing together schools and processors to test new products and packaging on the lunch line. And we're seeing it in issues management, where we have brought the industry together to prepare for any unforeseen emergencies.

This is what promotion is focusing on today, and I want every dairy producer in America to know about it.

*Thomas P. Allmeyer*

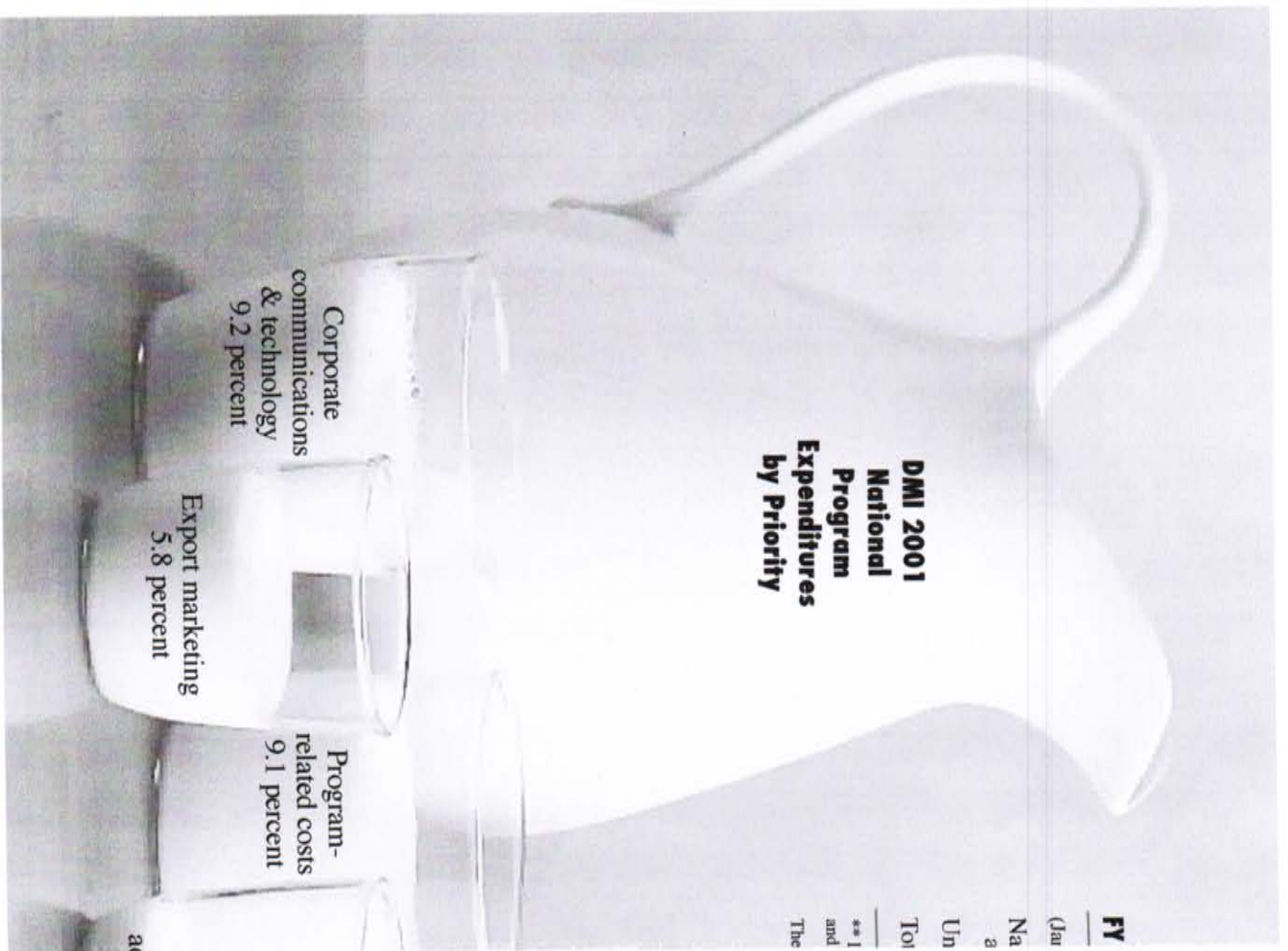


Dairy producers contribute to the dairy checkoff to help build demand for their products, and Dairy Management Inc.™ (DMI) takes very seriously its charge to manage dairy producer dollars efficiently and effectively.

Since DMI was created in 1995, the dairy checkoff has realized more than \$32 million in efficiencies through cost-saving measures.

For example, an industry-wide, unified marketing plan was developed to focus dollars and eliminate duplication. The plan includes specific demand-building partnerships with leading branded product manufacturers, as well as national restaurant and retail chains such as Pizza Hut®, Wendy's® and Kroger®. In addition, national, state and regional promotion groups work together and with other dairy organizations to integrate marketing, promotion, advertising, public relations, nutrition education, and research programs.

To ensure the future success of dairy, more than 400 dairy producer board members represent all dairy producers in directing checkoff funds and approving its programs. They make sure checkoff dollars are strategically invested in the best economic interest of dairy producers. In addition, the dairy checkoff program is independently audited each year to make sure program funds are administered in strict accordance with generally accepted accounting principles and with U.S. Department of Agriculture financial guidelines.

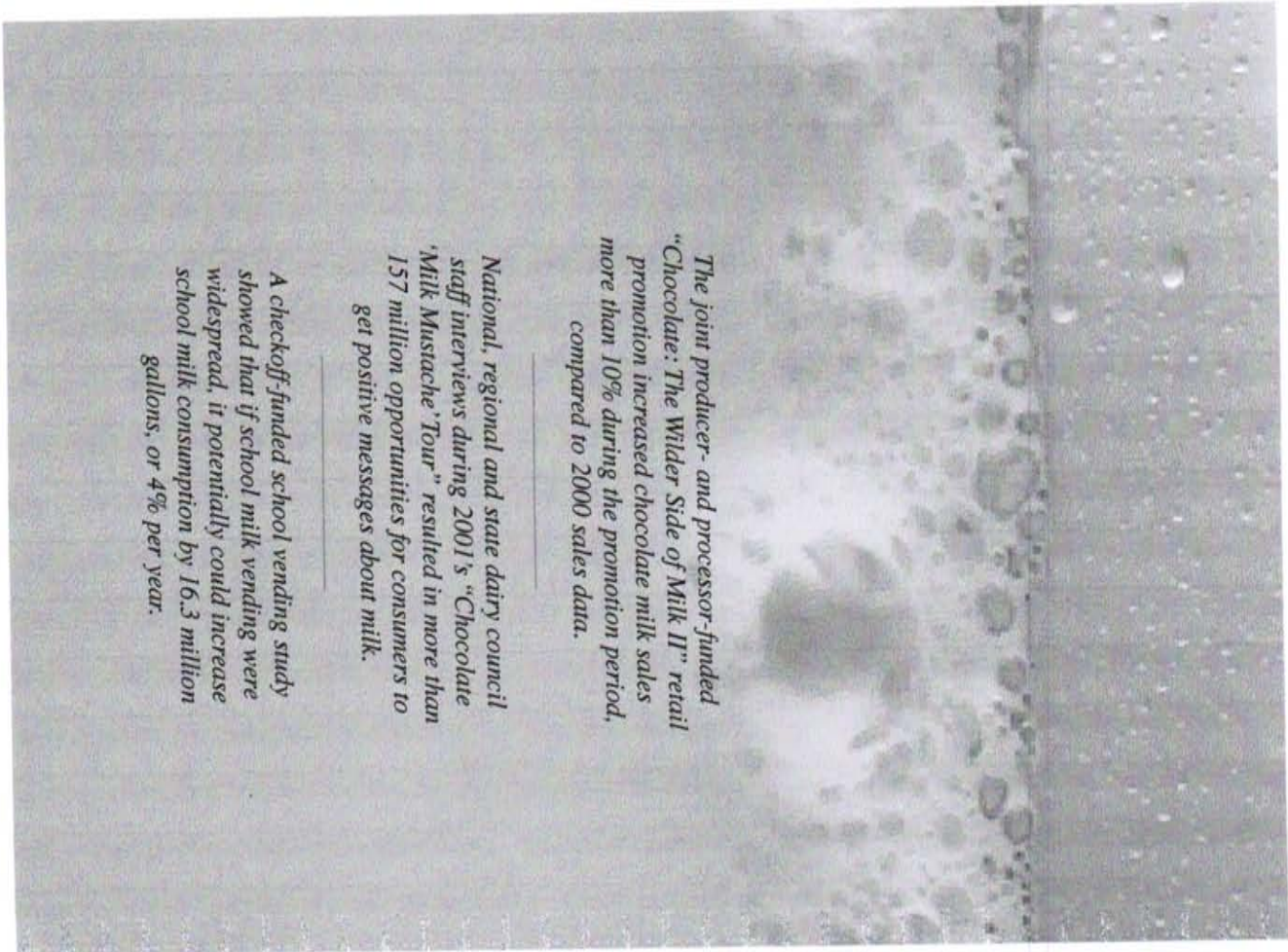


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As the best avenue to increase fluid milk consumption long-term, children are without a doubt the future of dairy consumption. That's why the dairy checkoff continues to implement school milk marketing programs as one way to help increase kids' fluid milk consumption.

Dairy producers, through their checkoff, launched two groundbreaking initiatives in 2001. A yearlong school milk research program that began in the fall of 2001 examines how improved packaging, additional flavors, coolers with merchandising, and better temperature regulation can affect fluid milk consumption and kids' attitudes toward milk both in and out of school. The study concludes at the end of the 2001-02 school year. Also, dairy producers and processors worked together to conduct a five-month vending study in middle and high schools in five major U.S. markets. The study revealed that many students would choose milk over competitive beverages if it were available when, where and how they wanted.

Many other successful school programs continue to encourage children to drink milk. Nutrition education programs, such as "Pyramid Explorations™" and "Pyramid Cafe™," teach students that dairy products are a key part of a healthy diet; the "Cold Is Cool" program teaches school cafeteria managers how to keep milk cold, just how kids like it; and the checkoff is helping expand dairy-friendly school breakfast programs. In addition, the popular "got milk?" campaign continues to reach children at school and through such kid-focused media outlets as Nickelodeon® and the Cartoon Network®.



*The joint producer- and processor-funded "Chocolate: The Wilder Side of Milk II" retail promotion increased chocolate milk sales more than 10% during the promotion period, compared to 2000 sales data.*

*National, regional and state dairy council staff interviews during 2001's "Chocolate Milk Mustache Tour" resulted in more than 157 million opportunities for consumers to get positive messages about milk.*

*A checkoff-funded school vending study showed that if school milk vending were widespread, it potentially could increase school milk consumption by 16.3 million gallons, or 4% per year.*

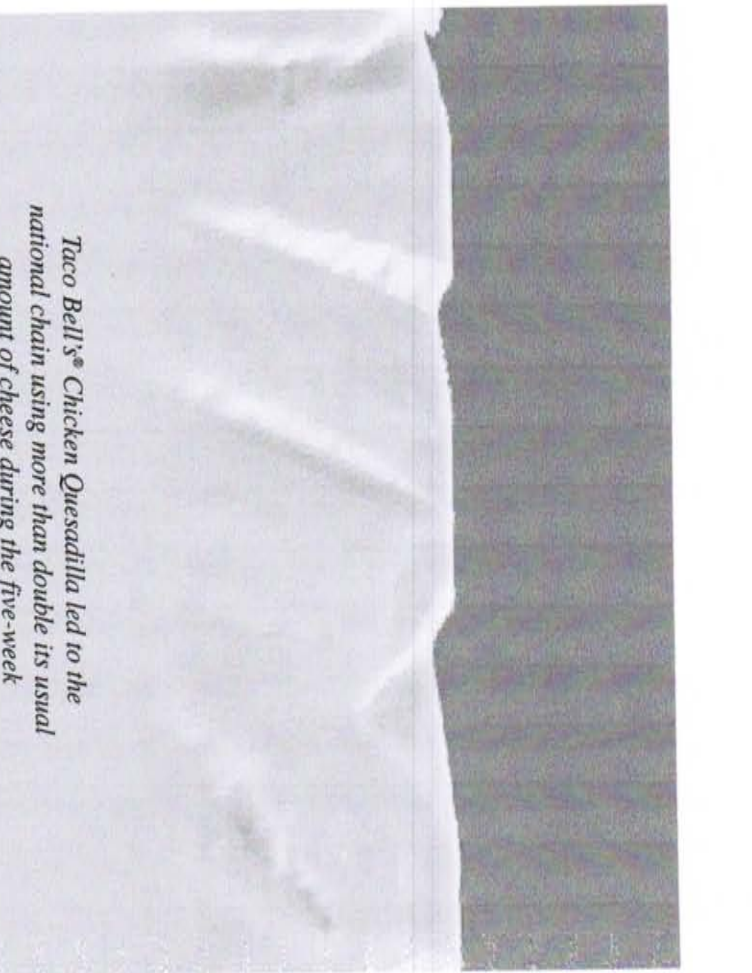
Americans continue their love affair with cheese, despite a downturn in the U.S. and world economies. According to the U.S. Department of Agriculture, cheese sales increased 1 percent in 2001 compared to 2000. Dairy producers, through the dairy checkoff, helped drive this increase through ongoing cheese marketing efforts on the national, state and regional levels.

In addition to the ever-popular "Ahh, the power of Cheese"™ TV and print advertising campaign, which continues its award-winning success, leveraging partnerships in the retail and foodservice channels is helping to increase cheese sales.

At the retail level, dairy checkoff staffs worked with leading supermarket chains across the country to increase cheese category sales throughout the year. Specific 2001 retail promotion efforts included in-store cheese recipe sampling and displays, customized "Ahh, the power of Cheese"™ TV and radio advertising, and retailer feature ad support. Retail partners included Wal-Mart® Supercenters, Kroger®, Albertsons®, and Safeway®, among others.

In the foodservice industry, the dairy checkoff builds partnerships with major restaurant chains and helps them develop cheese-friendly menu items. In fact, the dairy checkoff has cheese-focused partnerships with four of the five top restaurant chains: Burger King, Wendy's®, Taco Bell®, and Pizza Hut®.

Research also plays an important role in cheese marketing efforts. Product and technology research helps improve cheese products with such innovations as improved meltability, new varieties, and better baking appearance for pizza cheeses, while consumer market research helps provide cheese and food marketers (such as foodservice operators) with sound reasoning about why they should include cheese in their menu development.



*Taco Bell's® Chicken Quesadilla led to the national chain using more than double its usual amount of cheese during the five-week promotional debut.*

*Publicity surrounding the producer-funded "Mr. Food's® Hometown Grilled Cheese Contest" gave consumers more than 50 million opportunities to hear cheese-friendly messages through local and national print and broadcast media.*

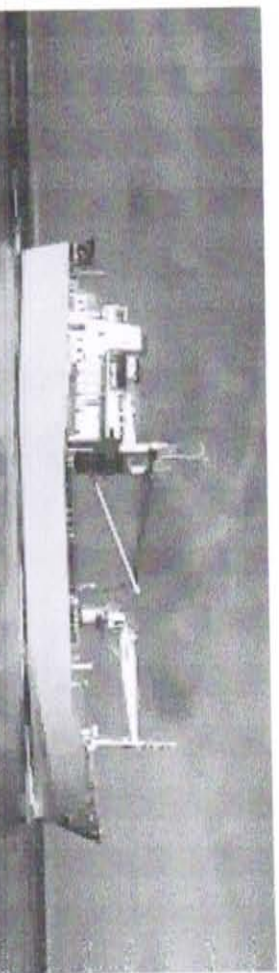
*A retail partnership between the dairy checkoff and Wal-Mart® Supercenters helped increase cheese category volume sales 10% during the promotion period compared to the same period in 2000.*

Dairy exports continued their success with another record-breaking year.

In 2001, U.S. dairy exports broke the \$1 billion sales level for the third year in a row. The U.S. Dairy Export Council<sup>®</sup> (USDEC), founded and funded in large part by dairy producers, led this success by implementing integrated in-market education, promotion and communications programs to drive export demand. In fact, a 2001 study by the National Milk Producers Federation revealed that increased international demand affects supply in the same way domestic demand does.

To increase the volume and value of U.S. dairy exports abroad, USDEC staff enters foreign markets on behalf of its members to educate importers and distributors about the benefits of U.S. dairy products. USDEC members include dairy producers, cooperatives, processors, export marketing and trading companies, and dairy suppliers. The greatest effort goes toward marketing value-added, unsubsidized products such as whey, lactose, ice cream, and certain cheeses.

For example, in a 2001 retail program in Mexico, USDEC promoted American cheeses through cooperative promotions and in-store samplings at "mega-supermarkets" such as Wal-Mart<sup>®</sup>, Costco and Gigante. The promotion resulted in the sale of more than 6,000 tons of cheese during the promotion. In a foodservice promotion in Mexico, U.S. cheese was featured on Domino's Pizza<sup>®</sup> boxes and in menu specials, reaching more than 7 million people per month.



*Dairy exports set a new volume record in 2001: 9 billion pounds on a milk equivalent total solids basis. (Source: USDA/USDEC)*

*Total cheese exports to Mexico in 2001 reached more than 16,300 tons, a 65% increase over 2000 exports.*

*Exports of cheese increased 10% in 2001, totaling almost 52,500 metric tons.*

*85% of U.S. dairy exports were unsubsidized, proving the U.S. dairy industry can successfully compete in the world's markets.*

Food manufacturers increasingly are faced with the challenge to meet consumers' demand for foods that taste good while still offering convenience and nutritional benefits. To help meet this challenge, dairy producers, through their checkoff, partner with food manufacturers to help them do more than ever before with dairy ingredients.

The "Do it with dairy<sup>sm</sup>" marketing initiative helps dairy producers educate the food industry about the benefits of dairy ingredients. The campaign provides food formulators with the latest information about dairy ingredients and gives them direct access to suppliers.

Some of 2001's "Do it with dairy<sup>sm</sup>" initiatives included on-site partnering seminars at major food manufacturers that helped product development staff better understand how to use dairy ingredients effectively in their products; the "Discoveries in Dairy Ingredients Contest," which showcased dairy ingredients while providing collegiate food science students marketable experience; and meetings with food manufacturers at the Institute of Food Technologists Annual Meeting and Food Expo<sup>®</sup>.

These advancements in dairy ingredient marketing are made possible by research. Checkoff-funded research finds new applications for dairy ingredients, such as nonfat dry milk, whey, cheese, and milkfat. In addition, checkoff-funded research studies consumer attitudes about dairy products, which help demonstrate to food manufacturers the benefits of using dairy in products that go beyond the dairy case, including confectionery and baked goods, meat products, sports and nutritional drinks, salad dressings, and sauces.



*Whey's use as a food ingredient is growing at a rate even faster than the demand for cheese. Whey protein usage grew 31% between 1999 and 2000, according to the American Dairy Products Institute and USDA's National Ag Statistics Service (NASS).*

*Dairy ingredients contribute \$1.28 to the overall on-farm milk price, according to USDA's NASS.*

*In a checkoff-funded survey, 90% of respondents agreed that products with dairy ingredients are good for them. The same survey found that one out of three people look for dairy ingredients in their food products.*



Now more than ever, it is vitally important to educate the public about dairy products' strong nutritional value, and about dairy producers' and the industry's commitment to the environment and animal well-being. Ongoing public trust in U.S. dairy products is the foundation of the continued success of dairy marketing efforts and, consequently, consumer demand for dairy.

To that end, a network of key organizations in the dairy and food industries communicates to consumers and the media about dairy's safety and wholesomeness. Communications include plans to address potential threats to demand arising from an animal disease outbreak or other industry crises.

In 2001, the National Dairy Council® (NDC) continued to publicize sound research that confirms dairy products' nutritional benefits. The NDC also sponsored events such as *Calcium Summit II*, which brought together more than 30 national health and professional organizations to develop a nationwide action plan to increase children's calcium intake and improve their bone health.

To address potential food safety and animal health public concerns, checkoff representatives worked closely with key organizations, including the National Milk Producers Federation, the U.S. Dairy Export Council®, the International Dairy Foods Association, and the U.S. Department of Agriculture, and developed a plan to maintain consumer trust in dairy in the event of potential industry crises.

The campaign also includes strategies aimed at informing consumers about how dairy producers and the industry responsibly produce milk and dairy products. Through these efforts, consumers learn how dairy producers care for their animals and are good stewards of the land.



*Media relations  
consumers with  
messages about  
benefits*

*Dairy checkoff  
link between the  
reduced risk  
published in the*

*Dozens of dairy  
Farmer Story  
participated in a  
that taught part  
positive story*

The National Dairy Promotion and Research Board (NDB), and the United Dairy Industry Association (UDIA) fund Dairy Management Inc.™ The DMI board comprises the entire boards of NDB and UDIA.

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The dairy producer checkoff program meets my expectations.

- Strongly agree     Somewhat agree
- Somewhat disagree     Strongly disagree
- Don't know

If your expectations are not being met, why not?

- I want to know more about how my money is being spent.
- I feel my money could be better spent on local programs through my processor.
- Other

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Comments \_\_\_\_\_



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