



A group of grass-based dairy farmers in southeastern Minnesota decide to set their price by marketing and distributing premium quality, specialty dairy products themselves.

# ***Buttering Up Your Customers: Direct-Market Dairy Products Keep Profits on the Farm***

This case study was prepared for the North Central Initiative for Small Farm Profitability by Martin Kleinschmit, Research Associate, Center for Rural Affairs. Written by Rebecca S. Kilde.

Additional information is available through the Center for Applied Rural Innovation and Food Processing Center, University of Nebraska, 58 H. C. Filley Hall, Lincoln, NE 68583-0947 or online at [www.farmprofitability.org](http://www.farmprofitability.org).

This material is based upon work supported by the Cooperative State Research, Education, and Extension Service, U.S. Department of Agriculture. Any opinion, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the view of the U.S. Department of Agriculture.

### **Taking Back the Profit**

Dan and Muriel French are grass-based dairy farmers just south of Minneapolis and St. Paul, Minnesota. They began management-intensive grazing about 15 years ago to cut costs and improve profits. But, like most dairy farmers, they were prisoners of market price. They could cut their costs, but were stuck with the price.

And they had no control over that price. The pitfall of commodity prices is that as costs to the producer go down, the price of the commodity goes down, too. The average dairy farmer, it seems, can never get ahead. Even very efficient farmers watch their potential profits drive off the farm with the milk truck.

After years of talking about it, a group of six grass-based dairy farmers, including Dan, decided they would try to get around that market bias.

Instead of taking what was left of the profits after everyone else took their share out, they would take control of processing, distribution and marketing in order to keep more of that profit on the farm.

Unlike most current milk cooperatives, this group focuses on getting profits to the farmers rather than building equity for the organization. Although they're now a formal co-op with rules and bylaws, the six families that comprise PastureLand Farms still make decisions by consensus at their bi-weekly meetings. They're committed to that decision-making process, and feel that if they can't reach consensus about an issue, then it probably needs more discussion.

### **First Things First**

The first step was to decide what the group wanted to produce and market. There is currently a successful niche market for organic milk, but that didn't seem feasible in this situation because fluid milk has a limited shelf life and processors have a 500-gallon minimum batch.

The group chose to start with cheese and butter. These easily movable and storable products have a long shelf life, which makes it easier to match supply to demand. PastureLand plans to add ice cream in the future, and will consider adding fluid milk as the co-op gets bigger.

Next, they needed to find processors able to make quality specialty products. Small dairy processors have been disappearing all over the country, but Minnesota has more than most states. They used the state business directory to find processors, calling around until they found good prospects—often through

PastureLand decided to focus on the high-end specialty market. The higher premiums are needed to pay the farm-gate price and cover operating and processing expenses.

But if they were going to ask for more money for their product, there had to be a real difference that would attract consumers to PastureLand products. The market for organics is growing, but they wanted to go beyond organic to pioneer the next step in quality food.

### **Grass is Better**

The farmers found the answer right at home. Milk from ruminants that graze fresh grass is rich in conjugated linoleic acid (CLA), as much as five times as much as is found in the milk of grainfed animals. Research suggests CLA can reduce cancerous tumors (Ip, C, J.A. Scimeca, et al. (1994) "Conjugated linoleic acid. A powerful anti-carcinogen from animal fat sources," p. 1053.

**"THE BIGGEST PROBLEM MOST START-UP BUSINESSES  
HAVE IS NOT FIGURING A LARGE ENOUGH PROFIT."**

leads from processors that were too small or busy for their needs.

Once they had a product and a processor, they were ready to start marketing. But why would consumers pick PastureLand's cheese and butter?

### **Standing Out in a Crowd**

Recognizing they couldn't compete with generic and mainstream products on price,

Cancer 74 (3 suppl):1050-4.)

Other health benefits that may be associated with CLA consumption are decreased obesity and heart-attack rates. (For more information on CLA and the benefits of grass-based agriculture, go to [www.eatwild.com](http://www.eatwild.com), or read *Why Grassfed Is Best!* by Jo Robinson.)

The health benefits of CLA make PastureLand products

unique in a crowded specialty market. To enhance that difference, the group sought out specialty cheese and butter makers to give their product a unique taste. In addition to butter, they currently offer gouda, herb gouda, tomato-basil gouda, cheddar, and fresh cheddar curds, and anticipate adding more cheese varieties in coming months.

PastureLand's "Points of Difference" are emphasized on their brochure, packaging and promotional material:

- \* The milk comes from family farms in southeastern Minnesota.
- \* The farms are grass-based, which, in addition to providing a humane environment for their animals, prevents erosion and provides habitat for wildlife.
- \* Their products are high in CLA and Omega-3 acids.
- \* No growth or production-enhancing hormones, antibiotics, or medications are used in their herds.
- \* Supplementary feed is free of GMO grain.

Additional research is underway investigating other human health benefits of dairy and meat products from grass-fed animals, but customers already tell Dan that there's something unique about PastureLand cheese. Customers with milk and cheese allergies are able to digest PastureLand cheese with no problems. Dan says, "There must be more things different about our product than we know now."

### **Now Just Find Some Customers**

To spread the word, group members promote their product with brochures, in food co-op letters, and with press releases. They go to farmers markets, buying clubs, specialty stores, and health and nutrition meetings. Their products are listed on websites for natural food campaigners Sally Fallon's Weston A Price Foundation, [westonaprice.org](http://westonaprice.org), and Jo Robinson's [eatwild.com](http://eatwild.com). Word of mouth is also a strong marketing tool.

Member farmers make deliveries to stores and buying clubs. Other direct marketers offer PastureLand cheeses and butter in order to expand their own product offerings—called piggyback sales.

### **Making the Numbers Work**

Dan says, "The biggest problem most start-up businesses have is not figuring a large enough profit." A new business need to compensate for higher initial costs and a lack of the economy of scale enjoyed by established businesses.

Grants from the Minnesota Department of Agriculture and other organizations helped with start-up costs and organizational development. To fully capitalize the start-up phase in 1999, PastureLand's six dairy farmers received \$11 per hundredweight, which was the market price at the time. Milk prices have increased since 1999, but the cheese price has remained the same.

Since their milk was priced at \$15 per hundredweight, the \$4 difference was the investment

equity contributed by the farmers. Transportation and processing costs of about \$2 per hundredweight were added to the milk price, making the take-home price \$17 per hundredweight.

The farmers' contribution is smaller this year, and once the business gets going, the farmers' initial investment will be returned. Last year the group moved about three percent of its milk through the co-op, and the goal this year is 15 percent.

### **Every Silver Lining Has a Dark Cloud**

Since the industry is moving to larger scale all the time, the cost to process small volumes is high. To get their milk to the processor, the group rents a truck that is capable of delivering 45,000 pounds of milk although they currently only deliver only 4,800 pounds, enough for one batch of cheese. The transportation costs are the same for a full or partial truckload of milk. The yield is about 500 pounds a week, which is processed, cut, wrapped and transported to the warehouse at the French farm.

Volume is also a problem for making butter. It takes about 23 pounds of milk to produce a pound of butter. The milk is taken to the cheese plant to be separated, and then the cream is transported to the butter plant. PastureLand currently can provide one truckload a week, the minimum amount of cream needed to make the churn work. That's only half the capacity of the churn, though, and their costs are higher per pound than if they

could provide enough cream to process a full batch.

Many processors don't even want to handle small volumes. After finding a processor that is willing to work with you, says Dan, a plant can merge or be bought out. You either have to find another processor, or re-educate the key people and management to keep production steady, and both options take a lot of time. It's a challenge to keep up with the dynamics of the industry.

Maintaining brand identity is critical in a specialty market, but packaging can be expensive. Small lots of packaging materials cost more to print than larger runs, and different packaging machines use different paper or film. PastureLand originally used plain paper to wrap its butter, but the farmers realized that it didn't make sense to ask premium prices for butter wrapped in generic paper. They spent nine

months developing their own packaging paper with their logo and marketing information on it.

Costs per pound will go down as volume increases. Dan figures the ideal size for the co-op is 25 farms, which will minimize many of the costs associated with low volume.

### ***So You Wanna' Sell Cheese? (or butter, or beef, or...)***

Dan says the first step in direct marketing any product is to evaluate your resources. Make sure you have the support system you need to get your product to market, and find a market that can bear the expenses you need covered. PastureLand entered the premium, high-end deli cheese market for just those reasons. Dan notes, "The milk price and generic cheese price fluctuate widely, but the deli cheese price is relatively constant."

Anyone starting this type of business needs to understand

that it is a long process that requires time, work, planning, and money. In the early stages it's a huge added workload. Besides managing your existing business (in Dan's case, his dairy farm), you also have to take on the marketing and delivery.

The success of this kind of enterprise is dependent on the people involved. Dan says, "It takes people with passion and vision to get something like this started, but without someone who can organize to minimize costs and fill orders, it is not going to succeed."

Dan and the other farmers used grant programs to get started, but he thinks others can start up with different funding sources. Thanks to this group, there will be a model to follow. Is this idea profitable? "It's too early to tell, but it feels real good!" says Dan.



"It takes people with passion and vision to get something like this started, but without someone who can organize to minimize costs & fill orders, it is not going to succeed."