

Dairy Business Termed 'Mature Industry'

COCKEYSVILLE, Md. — Calling the dairy business a "mature industry," Jim McDowell says milk cooperatives must increasingly be involved in the total food industry, rather than focusing on marketing milk.

McDowell is chief operating officer of Dairymen, Inc., third-largest milk cooperative in the nation, annually marketing over 5.5 million pounds of milk from 6,500 member families, and headquartered in Louisville, Ky.

He spoke during the annual meeting of the Middle Atlantic Division of Dairymen, Inc., held last Saturday at the Hunt Valley Marriott Inn.

Middle Atlantic Division, headquartered at Sykesville, Md.,

was the former Maryland Cooperative Milk Producers, and has a current membership of 870 dairy farm families in Delaware, Maryland, Pennsylvania, Virginia and West Virginia.

A mature industry, according to

McDowell, is one with a stable demand for the product, depressed margins, under-utilization of available production facilities, and disappearance of competitors, all symptomatic of dairying. To overcome economic stagnation which accompanies this industry maturing, McDowell sees dairy cooperatives undergoing structural changes, diversifying, and developing specialty, or "niche" markets.

"And there'll be some weird marriages and relationships developed in dealing with this maturing industry," said the Dairymen operations officer, concurring with similar predictions made by division president Fred Butler.

Co-ops will move to horizontally integrate through partnerships and joint ventures, such as a present one taking shape at Decatur, Ala., between Dairymen, Inc., and H. P. Hood to develop and market a long-shelf-life ice cream mix for the fast food industry. First product from the joint venture is expected to enter the market about the first of the year.

Vertical integration, or taking product more directly to consumers, has been the object of Dairymen's Ultra-High-Temperature processing facility at Savannah, Ga., and the wholly-owned milk and dairy foods processing and sales subsidiary, Flav-O-Rich. With a combined sales distribution system that can reach 28 percent of the nation's population, and a fleet of up to 2,800 vehicles, Dairymen is looking toward moving companion-type commodities for better utilization of production and distribution facilities.

Specialty, or "niche" markets, include value added products, such as Dairymen's Farm Best UHT long-shelf-life milk, adds McDowell. Other related long-shelf-life items being packaged are Hi-C drinks for the Coca-Cola company, and Dairymen's own Nutri-Treat, a fortified dairy drink.

McDowell sees no appreciable rise over the next three years in the prices farmers will receive for their milk. While supply management is gaining attention by many in the industry, Dairymen's position is to give the present program a chance to work.

"Better the industry be market driven, rather than government driven," says McDowell, citing trends which followed the conversion of tobacco growing to quotas, and in which "farmers got out of the tobacco business and into the base business."

A continued strong financial structure undergirds member equity in Dairymen, according to chief financial officer Jim Mueller.

He reported both Dairymen and Flav-O-Rich as in the "black," with the all time high asset level of \$252 million. Member equity totals \$87 million, with \$57 million long-term debts, and a continued Double A credit rating from Standard and Poor, allowing the cooperative to borrow at low-risk rates and reduce finance costs by a million dollars annually.

Some 5.6 billion pounds of member milk was marketed through the fiscal year, up 3 percent in spite of both the severe drought and heavy buyout sign-up in the Southeast. Total consolidated sales were at \$987 million, the first time in five years that sales have dropped below the billion dollar level, but attributable to lower product prices.

The 1986 fiscal year end figures tally to a \$8.6 million net margin, with \$15 million to be returned to members in the five-year revolving equity program.

While we did not yet get costs down as low as we wanted," noted Mueller "it is the 10th out of 12 years that more than 97 cents of every dollar of raw milk sales is returned to members."

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