



**Report to Congress**

**on the**

**National Dairy Promotion  
and Research Program**

**and the**

**National Fluid Milk  
Processor Promotion Program**

**July 1, 2007**

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## **Executive Summary**

The enabling legislation of both the dairy producer and fluid milk processor promotion programs (7 U.S.C. 4501 *et seq.* and 7 U.S.C. 6401 *et seq.*) requires the Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry 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) (7CFR § 1160), respectively. This report includes a description of activities for both the producer and processor programs and summarizes activities of the national dairy and 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, 2006, of the Dairy Promotion and Research Program and the Fluid Milk Processor Promotion Program.

### **Producer Dairy Promotion and Research Program**

Mandatory assessments collected under the Dairy Act totaled \$281.2 million in 2006. The National Dairy Promotion and Research Board (Dairy Board) portion of the revenue from the 15-cent per hundredweight producer assessment was \$91.2 million for 2006, and Qualified Programs revenue from the producer assessment was \$190.0 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. The Dairy Board continued to develop and implement programs to expand the human consumption of dairy products by focusing on partnerships and innovation to satisfy “unmet demand” – the gap between current and potential sales to help create new products, new positioning with consumers, and new places for dairy product consumption. One such endeavor was accomplished through continuing to integrate single-serve plastic bottled milk into the menus of quick-serve restaurants such as Burger King<sup>®</sup>, Wendy’s<sup>®</sup>, and Subway<sup>®</sup>. The Dairy Board also continued to promote its 3-A-Day<sup>™</sup> for Stronger Bones, a nutrition-based marketing and education program developed to help solve the Nation’s calcium crisis and increase consumption of milk, cheese, and yogurt; as well as its “New Look of School Milk” campaign which includes efforts to improve the school milk experience for the Nation’s children through improvements in packaging, flavors, and availability. Details of the 2006 activities of the dairy producer program are presented in Chapter 1.

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

The National Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to administer a generic fluid milk promotion and consumer education program funded by America’s fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase milk consumption, and maintain and expand markets and uses for fluid milk products in the 48 States and the District of Columbia. In 2006, 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, focusing its efforts on weight loss to American moms in its promotion programs such as “Wake Up to Weight Loss” and “Celebrate Success”. For teens, the 2006 integrated Body By Milk<sup>SM</sup> campaign, combining advertising, promotion, and public relations components, stressed the importance of maintaining a healthy weight through a healthy diet, and keeping fit and strong by drinking 3 glasses of low-fat or fat-free glasses of milk instead of sugar-sweetened beverages. Assessments generated \$107.8 million to the Fluid Board in 2006. 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 2006, the amount returned to California from the assessments was \$10.3 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, which include the “got milk?<sup>®</sup>” advertising campaign. The fluid milk marketing programs are research based and message focused. Activities of the national fluid milk program for 2006 are presented in the Fluid Milk Board section in Chapter 1 of this report.

## **USDA Oversight**

USDA has oversight responsibility for both the dairy and fluid milk promotion programs. The oversight objectives ensure that the Boards and Qualified Programs properly account for all program funds and that they administer the programs in accordance with the respective Acts and Orders. All advertising, promotional, research, and educational materials are developed under established guidelines. All Board budgets, contracts, and advertising materials are reviewed and approved. USDA employees attend all Board and 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. The Secretary of Agriculture appointed 13 members to the Dairy Board and eight members to the Fluid Milk Board. Approximately 600 dairy producers were granted organic exemptions in 2006. Compliance for both Boards continues in a timely manner and at a high rate. Chapter 2 details USDA’s oversight activities.

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

Chapter 3 presents the results of the independent econometric analysis, conducted by Cornell University, of the effectiveness of the dairy and fluid milk promotion programs. It is estimated that the generic fluid milk marketing efforts activities sponsored by fluid milk processors and dairy farmers have helped mitigate the decline of fluid milk consumption. Had there not been generic fluid milk marketing conducted by the two National Programs, fluid milk consumption would have been 11.7 percent lower in the programs’ absence. Cornell concluded that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Details of Cornell’s independent evaluation are presented in Chapter 3.

Chapter 4 presents the industry-commissioned fluid milk market and program operations assessment, representing the 8th year that this assessment has been conducted by Beverage Marketing Corporation (BMC). The review offers an evaluation of the effectiveness of the fluid milk advertising and promotion programs from a marketing perspective. In 2006, the unadjusted fluid milk volume increased by 1.0 percent to 6.26 billion gallons, the first volume increase for milk in 4 years. While milk continued to experience a declining share loss in the competitive set, it increased in product innovation by introducing 185 new products compared to 174 in 2005. Consumer awareness of the generic milk advertising program remains high, but lack of branded advertising kept milk at a competitive disadvantage. BMC believes that while over the last 5 years milk consumption has been virtually flat, the declines would have been more significant without the industry's weight-loss messaging, 3-A-Day™ of Dairy and got milk?® / milk mustache campaigns.

Additionally, the National Fluid Milk Board and Dairy Management Inc. (DMI) provide individual highlights of 2006 program successes from the Boards' perspective in parts II and III of Chapter 4. In part II, the Fluid Milk Board presents highlights regarding overall sales impact, competitive assessment of the milk industry's position, success of weight-related benefit promotion, results of the teen Body By Milk<sup>SM</sup> program, and a summary assessment of the program's effectiveness. The Fluid Milk Board concludes that these campaigns were successful in advancing the effectiveness of the program by driving incremental volume and mitigating the long-term loss of market share. The short-term comparison of retail sales to Board expenditures (\$6.61 for every dollar spent) remains highly favorable, although lower than in 2005. The Fluid Milk Board maintains the program is 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 cost to the taxpayer. Fluid Milk Board's highlights are located in Chapter 4, part II.

In part III, DMI provides highlights regarding the dairy producer promotion program's (National Program) efforts to leverage farmer-funded promotions to drive increased sales of and demand for U.S. dairy products and ingredients, domestically and internationally, and to satisfy unmet demand. It accomplished this through leveraging fluid milk sales in the foodservice and school channels, satisfying unmet demand by growing cheese through innovation, and satisfying unmet demand through ingredients and exports. The National Program concludes that the key to continued growth will be milk in single-serve plastic containers, innovation in cheese products and innovative uses for cheese, expanding imports, and enhancing the value of dairy ingredients. The Dairy Board's highlights are found in Chapter 4, part III.

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## **Chapter 1**

### **The Dairy and Fluid Milk Promotion Programs**

In 2006, 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 2006, 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 partnerships and innovation to satisfy “unmet demand” – the gap between current and potential sales to help create new products, new positionings with consumers, and new places for dairy product consumption.

#### **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–1. A map of the contiguous 48 States depicting the 13 geographic regions is shown in Appendix H–1.

Total Dairy Board actual revenue for 2006 was \$91.2 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 2007 projects total revenue of \$91.8 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 2005–2006 is provided in Appendix B–1. USDA’s oversight and evaluation expenses for 2005–2006 are listed in Appendix B–2. Appendix B–3 displays the Dairy Board’s approved budgets and a comparison of program funding by function for 2006–2007. An independent auditor’s report for 2006 is provided in Appendix C–1.

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

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

In March 1994, the Dairy Board approved the creation of Dairy Management Inc. (DMI), a management and staffing corporation. DMI is a joint undertaking between the Dairy Board and UDIA. UDIA is a federation of 18 of the 57 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 funds 1- to 3-year research projects that support marketing efforts. Six Dairy Foods Research Centers and one Nutrition Institute provide much of the research. Their locations and the research objectives are listed in Appendix E-1. Additionally, lists of DMI's dairy foods and nutrition projects can be found in Appendices E-2 and E-3, respectively. Universities and other industry researchers throughout the United States compete for these research contracts.

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

The committees for program activities are comprised of board members from both the Dairy and UDIA Boards. The Dairy Board and UDIA Board separately must approve the DMI budget and annual plan before they can be implemented. In October 2005, both boards approved the 2006 unified dairy promotion plan budget and national implementation programs. Similar to previous

plans, the 2006 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 2006, 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 2006 forums, dairy directors across the country reviewed and endorsed a unified marketing plan that continued to focus on five areas: (1) 3-A-Day of Dairy™ for Stronger Bones, a nutrition-based marketing and education program developed to help solve the Nation's calcium crisis and increase consumption of milk, cheese, and yogurt; (2) New Look of School Milk which includes efforts to improve the school milk experience for the Nation's children through improvements in packaging, flavors, and availability; (3) Foodservice, where dairy checkoff funds are invested to help promote the expansion of flavors and the range of packaging for milk in foodservice and restaurants, as well as to help with menu concepts for cheese; (4) Partnerships and Innovation, which include efforts to satisfy "unmet demand" and help provide consumers dairy products when, where, and how they want them; and (5) Dairy Image/Confidence, which aims to protect and enhance consumer confidence in dairy products and the dairy industry through correcting misinformation and inaccurate claims against dairy. The success of the unified marketing plan relies heavily upon DMI's ability to expand partnerships with processors, retailers, schools, health professional organizations, and manufacturers.

The above-mentioned focus areas continue to build upon previous 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 growth, more focus on industry partnerships and innovation, and stronger, more proactive image protection of dairy products. Combined industry spending for the unified marketing plan totaled more than \$250 million in 2006.

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 2006. During 2006, the Dairy Board and UDIA Board met jointly six times.

The following information describes Dairy Board and UDIA program activities along with new programs and initiatives implemented in 2006.

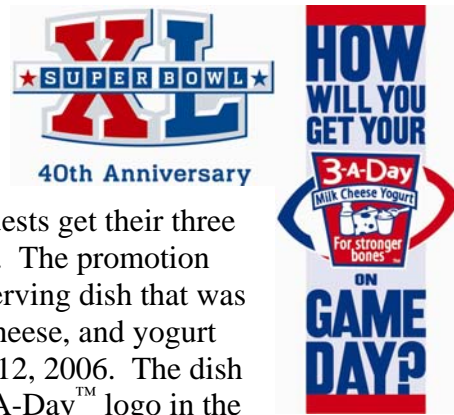


### 3-A-Day™ of Dairy for Stronger Bones

The 3-A-Day™ of Dairy for Stronger Bones (3-A-Day™) marketing and nutrition education campaign was officially launched on March 3, 2003, and continued in 2006. 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. Today, more than 50 dairy manufacturers and 70 key retail partners feature the 3-A-Day™ logo on nearly 3 billion qualified packages of milk, cheese, and yogurt.



In 2006, DMI sponsored three national promotions around 3-A-Day™. The first promotion commemorated the National Football League's® (NFL®) 40<sup>th</sup> anniversary of the Super Bowl. The 3-A-Day™ teamed up with Ginny Barber, mother of two and wife of New York Giants' Running Back Tiki Barber, to help moms across the country kick-off game-day entertaining with tips to help guests get their three servings a day of dairy on Super Bowl Sunday and beyond. The promotion featured a commemorative 40<sup>th</sup> Anniversary Super Bowl serving dish that was available for a small fee by purchasing one each of milk, cheese, and yogurt during the same shopping trip January 8 through February 12, 2006. The dish featured all 40 Super Bowl logos on the outside and the 3-A-Day™ logo in the center of the dip container. Local dairy promotion groups also partnered with individual NFL® teams to conduct local retail, school, and other consumer marketing efforts.



The second national promotion with the NFL® included 27 retail marketing programs to help educate consumers about the importance of including three servings of dairy in their daily diets. The promotions took place in more than 5,000 stores nationwide, including Wal-Mart Super Centers®. The retail promotion efforts included special consumer sweepstakes to win tickets to NFL® games, regional newspaper coupon offers, and a "Junior Broadcaster" sweepstakes for a chance to participate in individual team's radio broadcasts. Retailers that participated experienced double-digit dairy sales increases, compared to year-ago dairy sales.

To help women take three steps toward a slimmer summer, 3-A-Day™ teamed up with Michael Sena, fitness expert, personal trainer, and author of "Lean Mom, Fit Family" to create a 3-Week Healthy Lifestyle Start-Up Plan that includes tips for cutting calories, exercising, and getting three servings of dairy a day. Each week, the plan featured healthy eating suggestions, calorie cutting tips, strength training, and cardiovascular exercises to help women take small steps toward their weight loss goals. The promotion also provided a free 3-month trial subscription to *Prevention* or *Women's Health*



magazine when consumers purchases one each of milk, cheese, and yogurt during the same shopping trip between April 1 and May 7, 2006. Moms also were invited to visit the Web site [www.3aday.org](http://www.3aday.org) and sign up to be a 3-A-Day Mom, where they receive a monthly *Get 3!* e-newsletter, recipes, exclusive member-only offers, and great advice from other moms. Over 100,000 moms signed up to be a 3-A-Day mom during the promotion period.

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 key health professional partners like these, DMI continued to provide a clear, practical message to the public on the importance of dealing with the Nation's calcium crisis. 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.

### **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 previous efforts leading to the introduction of new milk offerings at McDonald's® and Wendy's®, DMI helped to motivate single-serve milk launches among other major restaurant chains including Burger King® (right insert) and Sonic® Drive-In (below right insert). To date, there are more than 54,000 restaurants in the U.S. offering milk in single serve plastic resealable containers. This includes other national chains such as Subway®, Ruby Tuesdays®, Jack-in-the-Box®, and Culver's®. Over the next year, more than one billion units of milk will be sold at 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 new cheese-friendly items that DMI helped to develop and promote. During the promotion period of the new "Cheesy Bites Pizza," Pizza Hut® invested nearly \$50 million in a marketing campaign to support the launch, while DMI provided funding for culinary and other marketing assistance.

### **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). 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 industry-wide efforts that interact with the Issues Management, Industry Relations, and Dairy Image programs, continued a proactive program to educate consumers and to reinforce the positive attributes of dairy foods, dairy farmers, and dairy farming practices to this audience.

As part of an effort to help protect the image of dairy producers and the dairy industry among the public, DMI launched a new Website, [www.dairyfarmingtoday.org](http://www.dairyfarmingtoday.org). The site educates the public about how today’s dairy producers care for their animals, protect the land, and produce safe, wholesome milk.

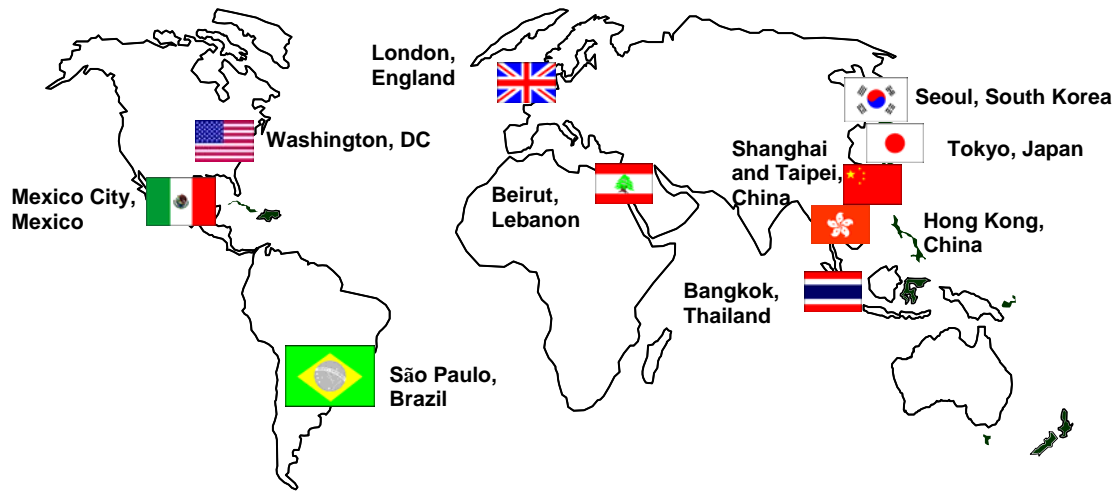
## **Export and Dry Ingredients**

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 2006, USDEC received \$7.5 million from DMI; \$4.8 million from USDA’s Market Access Program, Foreign Market Development Program, and other FAS programs, that support commodity groups in promotion of their commodities in foreign markets; and \$685,000 from membership dues. USDEC began its 11<sup>th</sup> year of operation in 2006 and its total budget was \$13 million.

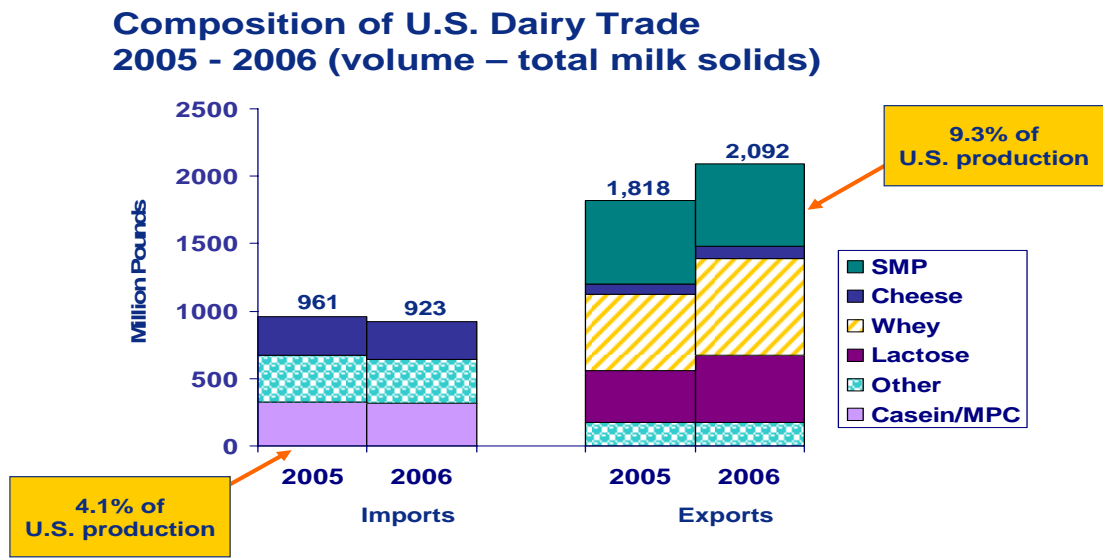
USDEC has offices in Washington, D.C.; Mexico City, Mexico; Tokyo, Japan; Seoul, South Korea; Hong Kong, Taipei, and Shanghai, China; Bangkok, Thailand; Beirut, Lebanon; London, England; and Sao Paulo, Brazil (Figure 1–1). In 2006, strong global demand for dairy protein led to another record year for dairy exports.

Final 2006 export data confirm that U.S. dairy product exports reached \$1.89 billion in 2006. Figure 1–2 shows that the dairy export volume is also a record high at 2.09 billion pounds of

**Figure 1–1. USDEC Offices**



**Figure 1–2. Composition of U.S. Dairy Trade**

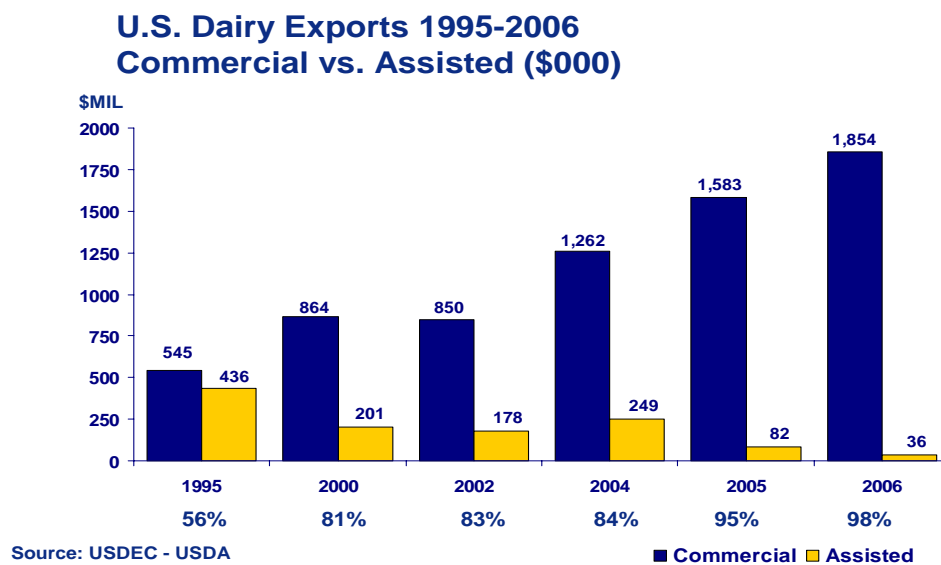


milk solids and the overall composition of U.S. dairy trade. Skim milk powder exports represent nearly 9.3 percent of the U.S. milk production.

Figure 1–3 illustrates the dramatic changes in percent of assisted dairy exports in 1995 (56 percent) versus commercial (unassisted) dairy exports (98 percent) in 2006. USDEC continued working to improve the export capabilities of domestic dairy companies by providing up-to-date information on market conditions, global trade trends, and regulatory requirements for export. Ongoing reverse trade mission activities provide opportunities for domestic dairy product suppliers to meet potential importers visiting the United States.

DMI’s 2006 ingredients program was conducted through DMI’s Innovation and Ingredients Program (Innovation Program) and through the new Web site [www.innovatewithdairy.com](http://www.innovatewithdairy.com). DMI’s Innovation Program supports dairy product and nutrition research, ingredient applications development and technical assistance for the dairy, food, and beverage industries. DMI-assisted product development now in the marketplace include: (1) Kellogg’s<sup>®</sup> Special K<sub>2</sub>O Protein Waters, a new whey protein-enhanced water that will use an estimated 150,000 pounds of whey protein isolate, which represents over 25 million pounds of milk annually; (2) SlimFast<sup>®</sup> Optima™ – a reformulation of SlimFast<sup>®</sup> drinks that contain more real skim milk, and represents an estimated 34 to 68 million pounds of milk annually; (3) PepsiCo’s<sup>®</sup> Ben & Jerry’s<sup>®</sup> Milk Shakes – three new indulgent dairy drinks that contain more than 65 percent dairy (skim milk and cream), slated to use up to 8 million pounds of milk annually; and (4) Next Protein<sup>®</sup>’s Detour™ Line – a new caffeinated whey protein energy bar, a heart-healthy whey protein crisp bar, and a whole grain whey protein oat bar, representing up to 7 million pounds of milk annually. Producer-funded product research and innovation, along with insights into consumer preferences are tools that DMI provides to U.S. dairy ingredient suppliers to help sell U.S. dairy

**Figure 1–3.** U.S. Dairy Exports 1995-2006





ingredients to food and beverage manufacturers. Providing consumers with innovative products that meet their needs and desires for taste, nutrition, and convenience will help build dairy sales for both the short- and long-term. Dairy, food, and beverage manufacturers look to DMI as a partner and resource. With food and beverage manufacturers, DMI provides know-how and laboratory and professional resources to help develop or improve foods using dairy ingredients.

DMI's Innovation Program hosted the 2006 Dairy Innovation Forum (Forum) in Scottsdale, Arizona. The invitation-only Forum continued a DMI tradition of bringing together top decision makers in science and marketing to develop ways to increase consumption of dairy products. The forum attracted more than 135 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 continued to focus on innovation – a key to the future of the dairy and dairy ingredient industries.

DMI publications that support the Innovation Program include: (1) *Dairy Council Digest*—published six times per year and focuses on the latest dairy nutrition research relevant to dairy, food and beverage manufacturers and health professionals; (2) *Ingredient Specification Sheets*—cover technical basics of a variety of dairy ingredients and are updated as new data is available; (3) *Dairy Herald*—reports periodically on how food formulators and markets can take advantage of taste, cost, functional, and nutritional appeal of dairy ingredients; (4) *Application Monographs*—published as necessary, provide a comprehensive look at how whey protein and other dairy ingredients can be used in foods and beverages for different functionality needs; (5) *Tools for Innovation*—a periodic supplement from DMI and *Dairy Foods* magazine that covers dairy product trends and research; (6) *Innovations in Dairy*—a technical bulletin, published two to three times a year on specific topics in dairy products, ingredients, processing, and packaging; and (7) *Dairy Business View*—an e-newsletter published bi-monthly with *Dairy Foods* magazine and covers dairy industry news, new technologies, business trends, innovative ideas, and research.

### **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 50 processors now offer milk in single-serve plastic resealable containers on the school meal line and supply 6,000 schools representing nearly 305 million students nationwide. This number grows each year as DMI continues to implement its “New Look of School Milk” initiative and represents over 55 million pounds of additional milk sold each year. DMI-funded market research shows that improving students’ school milk experience can help recapture school milk consumption of up to 400 million gallons lost since 1993. The Fluid Milk



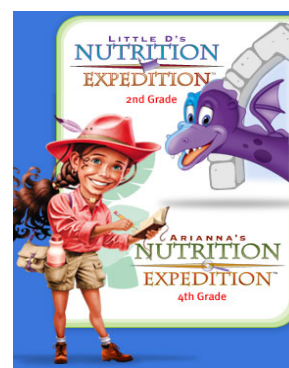
Board continues to implement a program to educate milk processors about the benefits of offering an enhanced milk product in the Nation's elementary and secondary schools.

NDC also continued its active support 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.



In addition to reaching kids through the classroom with "Pyramid Cafè" and "Pyramid Explorations™," NDC continued its distribution of "Little D's Nutrition Expedition" and "Arianna's Nutrition Expedition" as the primary focus of nutrition education activities in 2006. 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 2006, milk and dairy-related nutrition and product research was continued in the following areas:

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

## **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 active qualified programs is provided in Appendix F.

The aggregate revenue from the producers' 15-cent per hundredweight assessment directed to the Qualified Programs in 2006 was \$190 million (approximately 10 cents out of the 15-cent assessment). See Appendix B-7 and Appendix B-8 for aggregate income and expenditure data of the Qualified Programs.

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



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

The Fluid Milk Board, as authorized in the Fluid Milk Promotion Act of 1990, as amended, (Fluid Milk Act), administers a fluid milk promotion and consumer education program that is funded by fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase fluid milk consumption, and maintain and expand markets and uses for fluid milk products in the contiguous 48 States and the District of Columbia.

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

The Fluid Milk Board elects four officers: Chair, Vice-Chair, Secretary, and Treasurer. Fluid Milk Board members are assigned by the Chair to the following committees: Advertising, Finance, Promotions, Public Relations, Hispanic, Medical/Scientific, and Strategic Thinking/Research. The program committees are responsible for setting program priorities, planning activities and projects, and evaluating results. The Finance Committee reviews all program authorization requests for funding sufficiency, the Fluid Milk Board's independent financial audit, and the work of the Board's accounting firm. The Fluid Milk Board met three times during 2006.

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 \$107.8 million in 2006. 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 2006, the amount returned to California from the assessments was \$10.3 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, which include the "got milk?®" advertising campaign.

The actual income and expenses for 2005-2006 are provided in Appendix B-4. The Fluid Milk Board's administrative expenses continued to be within the 5-percent-of-assessments limitation required by the Fluid Milk Order. USDA's oversight and evaluation expenses for 2005-2006 are detailed in Appendix B-5. Appendix B-6 contains the Fluid Milk Board's approved budgets for 2006 and 2007. Appendix C-2 contains an independent auditor's reports for the period of January 1 through December 31, 2006.

The following summarizes Fluid Milk Board medical and scientific activities for the period of January 1 through December 31, 2006. The Fluid Milk Board's sponsorships, advertising, promotions, public relations, strategic thinking, and school marketing activities are incorporated in the National Fluid Milk Programs summary.

### **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 once in 2006. The MAB provides guidance to the Fluid Milk Board's development of key nutritional and health messages for consumers and health professionals. MAB members assisted the Fluid Milk Board in continuing relationships with health and health professional organizations such as the American Academy of Pediatrics, the American Dietetic Association, the American Heart Association, the National Cancer Institute, and the National Medical Association. They also appeared as medical professionals in the media, providing science-based statements supporting the health benefits of milk.

The medical and scientific activities of the Fluid Milk Board also included preparing press materials and acting as spokespersons on breaking research with relevance to fluid milk. The MAB worked extensively over the past year to inform others in the scientific community of the new and emerging research showing that three servings of milk each day as part of a weight loss plan may help people lose more weight than calorie-restricted diets that did not include milk. Numerous studies in recent years have pointed to similar conclusions—that milk 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 2006 "Good For You" (GFY) program, with the primary goal of promoting milk's nutritional benefits, continued to leverage breaking research with relevance to milk and is supported with advertising and public relations. The focus of GFY efforts was to inform consumers and the public about emerging research regarding the role milk may play in preventing weight gain and maintaining a healthy weight. The MAB was very involved in helping the Fluid Milk Board explore ways to leverage the information in public relations and advertising messages surrounding breaking research. A detailed accounting of 2006 research may be found in the MilkPEP newsroom's *got news?* section of [www.milkpep.org](http://www.milkpep.org).

### **National Fluid Milk Programs**

The Fluid Milk Board continued to execute a generic national fluid milk processor promotion program in 2006. 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 2006 fluid milk marketing plans were designed to continue marketing and promotional activities emphasizing milk's potential 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, press releases, promotions, internet, and others. The program’s target audiences included women and moms, teens, and Hispanics.

In 2006, the got milk?®/Milk Mustache advertising campaign, continued to provide the basis for advertising activities and other program delivery methods. A description of the 2006 program activities follows.

### **Sponsorships**

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

The Fluid Milk Board continued in its ninth year sponsoring the Scholar Athlete Milk Mustache of the Year (SAMMY) and awarded 25 high school students from various regions across the United States a \$7,500 scholarship. Each applicant was required to list his/her high school achievements and tell why milk is an important beverage to include in his/her daily regimens. This year SAMMY received more than 55,000 applications. In addition to the scholarship award, each of the 25 winners were inducted into the SAMMY Hall of Fame and featured in a special milk mustache advertisement (Appendix G–2) which appeared in *USA Today*, *Sports Illustrated*, and *ESPN* magazine. Winners were selected by milk mustache celebrity judges.

### **Advertising**

The Fluid Milk Board advertising program 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.

Three new television advertisements (“Magic Moments”) were created encouraging women to include 24 ounces daily of low-fat or fat-free milk as part of a reduced-calorie diet to promote milk’s weight loss benefits. These ads prominently featured women consuming milk.



“Magic Moments: Lift”



“Magic Moments: Rain”



“Magic Moments: Reunion”

Fluid milk print advertisements produced in 2006 included celebrity weight loss advertisements targeting moms and women (8); celebrity advertisements with the active, bone growth, and healthy weight messages targeting teen boys and girls (15); contest and sweepstakes announcements and winners (4); Hispanic (7); school milk posters (8); and trade advertisements (2). The Fluid Milk Board continued leveraging the logo for milk's weight loss message: "24/24 Milk your diet/ Lose weight!" Appendix G-2 includes thumbnail images of the Fluid Milk Board's television and print advertisements, public relations, and promotion efforts.



The national Hispanic advertising campaign continued as part of industry outreach to the growing Hispanic population. The advertisements continued to feature the popular tagline, "Más leche, Más logro" ("More milk, More achievement"), as well as "24 oz./24 horas" which reminds Hispanic moms to include 24 ounces daily of low-fat or fat-free milk as part of a reduced-calorie diet to promote milk's healthy weight benefits. Hispanic print advertising featured celebrities Sofia Vergara and the Despierta America cast, 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 healthy weight 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 grocery store refrigerator and to increase sales in other retail outlets such as convenience stores, independent grocery stores, drug stores, and mass merchandisers. For some promotions, the Fluid Milk Board works with partners to increase the appeal to consumers. Promotional activities continued to focus on feature incentives to increase advertisements, displays of milk, and programs offering prizes directly to consumers to help drive incremental purchases. Of note, regional producer promotion organizations play an important role in the execution of these retail programs.

The Fluid Milk Board conducted three national promotions in 2006. The first promotion, "Wake Up to Weight Loss" was launched in January and reminded consumers to include low-fat or fat-free milk in the most important meal of the day – breakfast – and continue to enjoy milk throughout the day to help promote a healthy weight. The promotion offered consumers a free trial week membership at a Curves<sup>®</sup> fitness center with receipts for milk and any breakfast item. Additionally, consumers could go to [www.2424milk.com](http://www.2424milk.com) and register for a chance to win one of 24 trips in its "Wake Up in Paradise!" online sweepstakes. Promotional materials were available in both English and Spanish versions.

The second promotion, "Celebrate Success," a 5-week ad incentive program launched in May to promote successful weight-loss results for real people, featured a milk mustache ad with success story of Robin Seaber who joined in the Great American Weight Loss Challenge (a component of the Milk



Mustache Mobile Tour – a public relations effort) and lost more than 25 pounds in 12 months the healthy way – by reducing her calories, exercising, and including low-fat and fat-free milk into her daily routine. Consumers could pick up a free copy of Robin’s “Celebrate Success” journal when they purchased milk and could enter online at [www.2424milk.com](http://www.2424milk.com) for a chance to win one of 24 shopping sprees worth \$2,400 and a 24-month membership at Curves® fitness centers.

The third promotion, “Chocolate Milk – the Official Drink of Halloween,” held in October, focused on flavored milk as a healthy treat for moms to give her kids at Halloween. This was one of the most successful retail promotions to date with October posting the highest gallon sales for flavored milk since 2004 and helping to reverse the declining trend in fluid milk sales for the year. A record number of stores (36,159) participated. Retailers could choose prizes such as DVD systems, MP3 players, or CD players to offer as in-store giveaways, employee incentives, or other ways to help increase flavored milk sales. Promotional point-of-sale materials included banners, wobblers, and static clings to aid retailers in creating exciting in-store displays.

## **Public Relations**

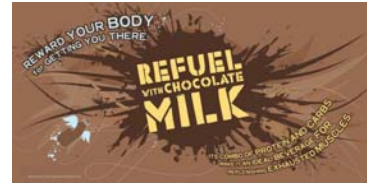
The public relations programs continued to focus on (1) the nutritional benefits of milk; (2) emerging scientific studies that highlight milk’s benefits; (3) leveraging the high interest generated by the celebrities and the got milk?®/Milk Mustache campaign; and (4) preparing for and responding to misinformation and negative news about milk or the educational campaign. A wide variety of initiatives were implemented to reach specific target audiences. For 2006, over 1.74 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 ninth consecutive year, the Milk Mustache Mobile Tour made its way around the United States. This year’s program, the “Great American Weight Loss Challenge 2006,” (GAWL) ran from April through August, covering 75 cities nationwide, with eight cities conducting Hispanic overlays featuring noted Hispanic author and nutritionist Claudia Gonzalez. Events included GAWL sign-ups, Curves® workout equipment, fluid milk sampling, and health assessments by a nutritional expert. This year marked the second year the tour trucks’ signage was dedicated solely to moms and women, featuring celebrity moms and the Milk Your Diet–Lose Weight/GAWL themes.

The 2006 “Healthy Student Bodies” program encouraged students to get fit and healthy. Students could write testimonials regarding their school’s fitness and nutrition efforts toward students. Fifty schools were awarded \$1000 grants to support fitness and nutrition programs and a special got milk?® recognition assembly. The students nominating the winning schools were awarded \$200 worth of sports gear and apparel from Adidas® and Baby Phat®/Phat Farm® clothing lines and a year’s subscription to *Sports Illustrated* and *Teen People*.

The February 2006 issue of the *International Journal of Sport Nutrition and Exercise Metabolism*, featured a study which touted low-fat chocolate milk as a recovery beverage after strenuous exercise. The study, conducted at Indiana University, had nine endurance cyclists pedal bicycles until their muscles were depleted of energy, rest four hours, then bike again until

exhaustion on three separate occasions. During the rest period, the cyclists drank low-fat chocolate milk, a carbohydrate replacement sports drink, or a traditional fluid replacement sports drink. Cyclists who drank the low-fat chocolate milk were able to pedal nearly twice as long in the second round of exercise than those who consumed the carbohydrate replacement drink, and as long as those who consumed the fluid replacement drink. MilkPEP raised consumer awareness of the study through television, radio, print, and online stories. Additionally, MilkPEP visited 25 cities nationwide to promote low fat chocolate milk as a recovery drink to athletes in walk/runs and other sporting events.



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

Brochures, news releases, and other information on milk were made available to consumers through Web sites [www.whymilk.com](http://www.whymilk.com), [www.milkpep.org](http://www.milkpep.org), [www.bodybymilk.com](http://www.bodybymilk.com), 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.

Over the years, FMSTI has conducted market tests and studies in various business channels to develop proven ways to increase milk sales and subsequently turned these studies into customer-friendly processor materials which may be found at [www.milkdelivers.org](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; one-page fact sheets explaining the science behind milk’s weight-loss claims; vending sales kits containing results from the 2003 Multi-Channel Vending Test; and many other reports and studies published in prior years highlighting opportunities for increased milk sales.

Complete reports, studies, executive summaries, and press releases for FMSTI’s ongoing initiatives are available for processors on Web site [www.milkpep.org](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

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

New in 2006 was the introduction of the “Spotlight On” program which recognized school professionals such as principals and food service directors who actively encouraged students to improve their health by consuming more milk. The program rewarded one contestant per month in the second half of 2006 and a grand prize winner at the end of the year. Monthly winners received got milk?<sup>®</sup> cooler barrels for their schools and iPods<sup>®</sup> for themselves. Entrants shared their stories via essays submitted on [www.milkdelivers.org](http://www.milkdelivers.org). The program was open to school nutrition professionals, school board officials or members, and all school administrators. Winners were selected by a panel of dairy industry experts. MilkPEP posted all entries on the Web site in order to inspire more entries and to help inspire schools to improve milk opportunities to students such as introducing new flavors and packaging, hosting milk sampling days, or adding milk to the à la carte selections.

The Fluid Milk Board expanded its School Image Poster Program for the 2006–07 school year to help educate students and school food service professionals about the role milk plays in good nutrition. Kits were sent to 45,000 participating public middle and high school foodservice directors in August for the beginning of the school year promoting the new BodyByMilk<sup>SM</sup> (BBM<sup>SM</sup>) campaign which spoke to teens directly about a healthy lifestyle which included drinking milk. Kits contained truck-sized posters, static clings, and banners to be displayed in school cafeterias. Smaller posters were sent to schools with cafeteria size limitations. More than 60,000 public elementary schools received posters with traditional health messages such as the “nine essential nutrients active bodies need.”

The logo for BodyByMilk features the word "body" in a large, bold, lowercase sans-serif font. Below it, the word "milk" is written in a smaller, bold, lowercase sans-serif font. A small "SM" trademark symbol is positioned to the right of the word "milk".

The school posters have become very popular. This year’s posters featured tennis star Serena Williams, ice skating champion Sasha Cohen, soccer stars David Beckham and Freddy Adu, actress Raven-Symoné, and two introductory BBM<sup>SM</sup> “Reward Yourself” posters. The posters are displayed in Appendix G–2. The BBM<sup>SM</sup> message encouraged teens to “drink three glasses of low-fat or fat-free milk daily to give their bodies the nutrients they need, like protein to build muscle. Replacing sugary soft drinks with milk, eating right, and being active can help teens stay healthy, lean and looking their best.” The BBM<sup>SM</sup> program integrated messaging in print advertising and promotion in the schools’ cafeterias, online, and at retail. Students were encouraged to save their UPC codes from milk containers and redeem them in an online auction at [www.bodybymilk.com](http://www.bodybymilk.com) by bidding on prizes from popular teen brands like Adidas<sup>®</sup>, Fender<sup>®</sup>, Baby Phat<sup>®</sup>, and Epic<sup>®</sup> Records.

## **Chapter 2**

### **USDA Activities**

The Dairy Programs unit of USDA's Agricultural Marketing Service has day-to-day oversight responsibilities for the Dairy Board and the Fluid Milk Board. Dairy Programs oversight activities include reviewing and approving the Dairy and Fluid Milk 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, USDA's My Pyramid, the U.S. Dietary Guidelines for Americans, and with other legislation such as the Nutrition Labeling and Education Act.

Dairy Programs continues to ensure that the collection, accounting, auditing, and expenditure of promotion funds is consistent with the enabling legislation and orders; to certify qualified 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 and committee meetings, and other meetings of consequence to the program.

#### **National Dairy Promotion and Research Board Oversight**

##### **Nominations and Appointments**

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

Forty-one nominations were received by USDA for the 12 Dairy Board members whose terms expired October 31, 2006. A press release issued on October 4, 2006, announced the appointment of seven new members and five incumbents. All will serve 3-year terms ending October 31, 2009. Newly appointed were: Lawrence A. Hancock, Muleshoe, Texas (Region 4); Paul L. Kent, Mora, Minnesota (Region 5); Peter J. Kappelman, Two Rivers, Wisconsin (Region 6); Randy G. Roecker, Loganville, Wisconsin (Region 6); Larry G. Purdom, Purdy, Missouri (Region 7); Rita P. Kennedy, Valencia, Pennsylvania (Region 11); and Sanford Stauffer, Nicholville, New York (Region 12). Reappointed to serve second terms were: Elizabeth I. Anderson, Onalaska, Washington (Region 1); Mary E. Cameron, Hanford, California (Region 2); Kimberly K. Clauss, Hilmar, California (Region 2); William C. Stouder, Wendell, Idaho (Region 3); and Donald E. Gurtner, Fremont, Indiana (Region 9).



A list of current Dairy Board members appears in Appendix A–1. Appendix H–1 is a map of the contiguous 48 States depicting the 13 geographic regions under the Dairy Promotion and Research Order (Dairy Order). There was one resignation from Region 9 on the Dairy Board in 2006. In a press release issued on April 19, 2007, the Secretary announced the appointment of Paul Broering, St. Henry, Ohio, to fill the vacancy. His term will expire October 31, 2007.

### **Organic Exemption**

Effective February 14, 2005, any persons producing and marketing solely 100 percent organic products were exempted from paying assessments to any research and promotion program administered by the Agricultural Marketing Service (70 FR 2743, published January 14, 2005). The final rule amended Section 1150.157 of the Dairy Order. In States that have mandatory assessment laws, dairy producers are only exempt from the Federal assessment. Producers are still responsible for remittance of State assessments. In 2006, approximately 600 dairy producers were granted exemptions. The Dairy Order requires producers to re-apply annually to continue to receive the exemption.

### **Amendment to the Dairy Act**

On November 10, 2005, the President signed the Agriculture Appropriations Bill (Bill), which modified the Dairy Production Stabilization Act of 1983 (7 U.S.C. 4501 *et seq.*). The modification implemented a 1-year allowance (during fiscal year 2006) for the Dairy Board to obligate and to expend funds for any activity to improve the environment and public health. Additionally, the Bill required the Secretary to review the impact of any expenditure pursuant to this change and include the review in the 2007 report of the Secretary to Congress on the dairy promotion programs.

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

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

## **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 2006, 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 2006, Dairy Programs reviewed and approved 312 Dairy Board and Dairy Management Inc. (DMI) agreements, amendments, and annual plans. Funding approvals were from the 2004, 2005, and 2006 fiscal periods. Appendix F-1 lists the contractors and corresponding Board initiatives approved by USDA.

## **Contractor Audits**

At the time of publication of the 2006 Report to Congress, DMI had not completed its 2005 contractor audits. During 2005, DMI retained the certified public accounting firm Ernst & Young to audit the records of the following contractors: J. Brown and Associates (media and advertising); The Fratelli Group (public relations and nutrition education); Initiative Media Worldwide, Inc. (marketing research services); University of Minnesota (dairy product and nutrition research); and American-Mexican Marketing (export, through USDEC). One of the five audits had minor findings, and the contractor has agreed to take corrective action based on the auditor's recommendation. DMI continues to enhance procedures to improve management and internal controls over contracts.

## **Collections**

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

The Dairy Act provides that dairy farmers can direct up to 10 cents of their 15-cent per hundredweight assessment to Qualified Programs. During 2006, 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. In 2006, USDA Office of General Counsel closed 13 outstanding Dairy Board cases related to bankruptcy and uncollectible assessments.

## **Qualified Programs**

Dairy Programs reviewed applications for continued qualification from 57 Qualified Programs. A list of the active Qualified Programs is provided in Appendix F. Consistent with its responsibility for monitoring the Qualified Programs, Dairy Programs obtained and reviewed income and expenditure data from each of the programs. The data reported from the Qualified Programs are included in aggregate form for 2005 and 2006 in Appendix B-7 and Appendix B-8.

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

### **Nominations and Appointments**

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

In a news release issued on February 6, 2007, the Secretary announced six reappointments and two new appointments to the Fluid Milk Board. Reappointed to serve a second term were: Michael F. Touhey, Jr., Franklin, Massachusetts (Region 1); Robert B. McCullough, San Antonio, Texas (Region 10); Jerry N. Tidwell, Pleasanton, California (Region 13); and Randy D. Mooney, Springfield, Missouri (At-Large Processor). Re-appointed to serve first terms after filling vacancies lasting less than 18 months were: Charles L. Gaither, Jr., Asheville, North Carolina (Region 4) and Teresa E. Webb, Wallington, New Jersey (At-Large Processor). Newly appointed to serve a first term was: James B. Green, St. Paul, Minnesota (Region 7). The reappointed and newly appointed members were officially seated at the July 12-14, 2007, meeting. The terms for these appointees will expire on June 30, 2010. Additionally, filling a vacancy with less than 18 months remaining was: Jay B. Simon, Stockton, California (Region 14). The term for this position expires June 30, 2008.

A list of current Fluid Milk Board members appears in Appendix A-2. Appendix H-2 shows a map depicting the 15 geographic regions under the Fluid Milk Order. There was one resignation from Region 12 in 2006. The vacancy has not been filled.

### **Program Development**

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

### **Contractor Audits**

The Fluid Milk Board retained the certified public accounting firm of Synder, Cohn, Collyer, Hamilton & Associates, P.C., to audit the records of DRAFTFCB, in order to determine if the agency had conformed to the financial compliance requirements specified in its agreement with the Board for the period of January 1, 2005, through December 31, 2005.

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

### **Compliance**

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

### **Chapter 3**

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

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

The economic evaluation focuses on generic marketing activities by dairy farmers and fluid milk processors that are designed to increase the demand for fluid milk and dairy products. The results of two separate models are presented. Unlike previous reports, this year's study divides the marketing activities into two general categories: advertising and non-advertising marketing activities. Advertising includes all media activities such as television, print, radio, and outdoor advertising. Non-advertising marketing includes public relations, sales promotions, nutrition education, retail programs, and sponsorships conducted by fluid milk processors and dairy farmers. The advertising and non-advertising marketing variables represent all demand enhancing activities by fluid milk processors and dairy farmers. They do not include expenditures on overhead, research, loan and grants, technical support, industry relations, and corporate technology.

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. While the dairy farmers' and fluid milk processors' programs utilize various types of marketing strategies to increase fluid milk consumption, the effects of fluid milk marketing under both programs are combined because the objectives of both programs are the same and data cannot be satisfactorily segregated to evaluate the two programs separately.

The second model is a combined fluid milk and dairy product demand model (measured in terms of commercial disappearance) used to evaluate the economic impacts of all generic marketing activities for those products. This model, which is hereafter referred as the "all-dairy products" model, is included because the dairy farmer programs now emphasize an "all dairy" promotion strategy (e.g., 3-A-Day) over product-specific campaigns. As in the first model, marketing activities in the second include generic advertising, sales promotions, public relations, nutrition education, retail programs, and sponsorships. Also, advertising and non-advertising marketing strategies are included as two separate variables in the demand model. Unlike the first model, the marketing activities in the second model include activities for all-dairy products (fluid and manufactured dairy products). This model provides a measure of the economic impact of all demand-enhancing, generic marketing activities by processors and farmers.

## Highlights

While per capita fluid milk consumption has been declining for decades in the United States, generic fluid milk marketing activities sponsored by fluid milk processors and dairy farmers have helped mitigate some of this decline. We estimate that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Specifically, over the period 1995 through 2006, we estimate that a 1.0 percent increase in generic fluid milk advertising expenditures resulted in a 0.029 percent increase in per capita fluid milk consumption when holding all other demand factors constant. Over the same period, we estimate that a 1.0 percent increase in generic fluid milk non-advertising marketing expenditures resulted in a 0.053 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 1997 through 2006, generic fluid milk marketing activities increased fluid milk commercial disappearance by 55.8 billion pounds in total or 5.9 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 10.7 percent less than it actually was over this time period. Hence, the combined fluid milk marketing efforts by dairy farmers and fluid milk processors have had a positive and statistically significant impact that is partially mitigating declines in fluid milk consumption. Moreover, it appears that the performance of these marketing programs has become more effective over time. For instance, in 1997, it is estimated that fluid milk consumption would have been 8.1 percent lower in the absence of the two programs, while in 2006, milk consumption would have been 11.7 percent lower in the programs' absence.

Regarding the all-dairy product demand analysis, the average generic dairy advertising elasticity for the period 1995 through 2006 was 0.021; i.e., a 1.0 percent increase in expenditures for these advertising activities would increase per capita dairy demand by 0.021 percent. The average generic dairy non-advertising marketing elasticity for the period 1995 through 2006 was 0.031. Thus, the total marketing (advertising and non-advertising) effort by dairy farmers and fluid milk processors has had a positive and statistically significant impact on dairy consumption.

Cornell calculated the benefit–cost ratio (BCR) for the Dairy Program for the period 1997 through 2006. The benefits of the Dairy Program were calculated as the change in dairy farmers' net revenue (producer surplus) due to demand enhancement from all marketing activities under the Dairy Program by way of increased sales and higher prices. The cost of the Dairy Program was 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 4.88. This means that each dollar invested in generic dairy marketing by dairy farmers would return \$4.88, on average, in net revenue to farmers. These estimates are similar to the 4.33 BCR computed for last year's report.

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 bound for the average BCR. One can be 95 percent “confident” that the true average BCR lies within those bounds. The estimated lower and upper bound for the average BCR was 3.20 and 6.55, respectively.

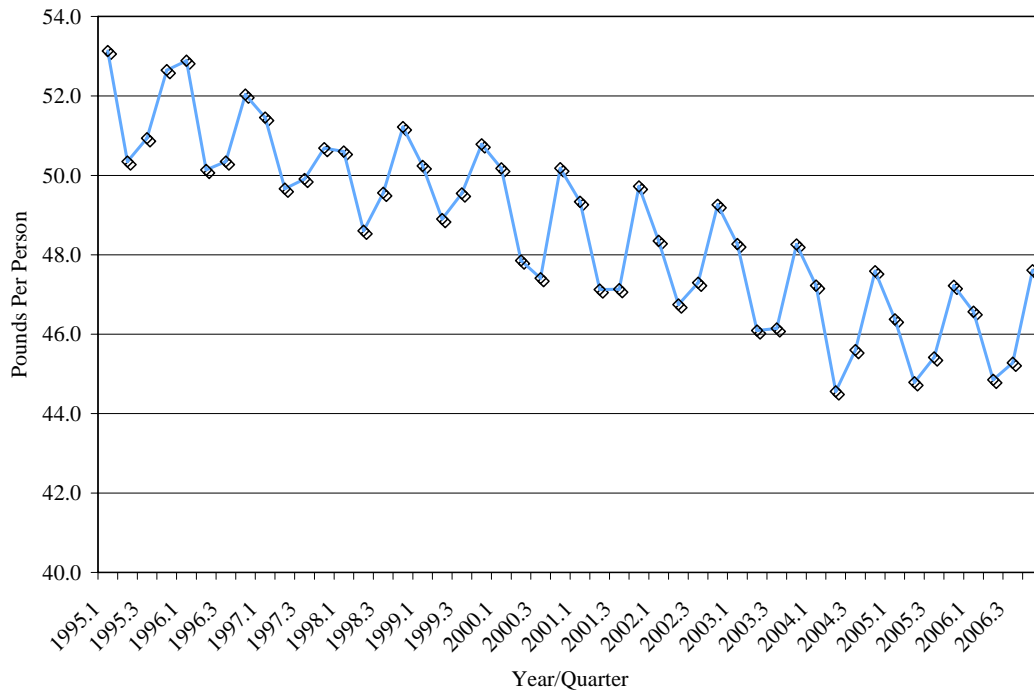
Hence, it is reasonable to conclude that these confidence intervals give credence to the finding that the benefits of the Dairy Program’s marketing activities have been considerably greater than the cost of the programs.

### Analysis of Generic Fluid Milk Marketing

Per capita fluid milk consumption in the United States has been steadily declining for decades. Among the factors behind this decline are changes in U.S. demographics, changes in consumer preferences for fluid milk, how and where people consume food, and aggressive advertising and marketing by producers of beverages that compete with fluid milk. As the model described in this report uses quarterly data covering the period 1995 through 2006, 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 declining trend in per capita fluid milk consumption since 1995. From 1995 through 2006, annual commercial disappearance declined by 11 percent. This translates into an average annual rate of decline of a little less than 1.0 percent (0.92 percent) per year. However, annual per capita commercial disappearance actually increased slightly from 2005 to 2006, increasing from 183.8 pounds to 184.3 pounds.

**Figure 3–1.** Per Capita Fluid Milk Consumption.



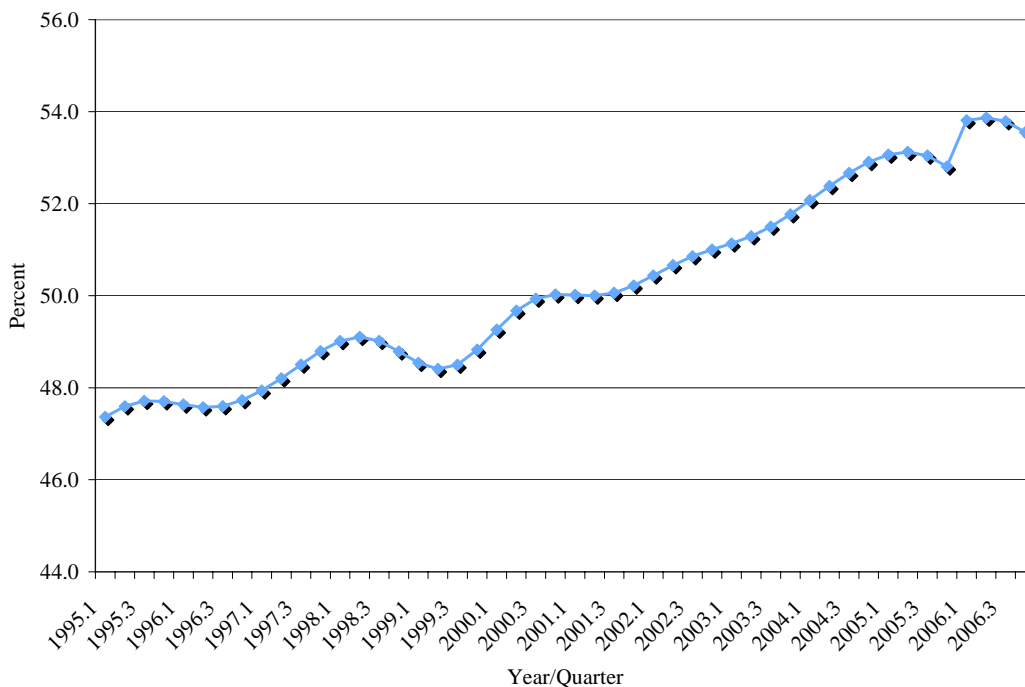


One potential cause of declining per capita fluid milk consumption may be the increasing trend in food consumed away from home. As people consume more food away from home, fluid milk consumption may be diminished by the lack of availability of many varieties of fluid milk products at the Nation’s eateries as well as the expanding availability of fluid milk substitutes. Many eating establishments carry only one type of milk product, which 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. From 1995 through 2006, the annual average percentage of expenditures on food consumed away from home increased by 12.9 percent. While there were some ups and downs in the percentage of food consumed away from home over this period, the general trend is increasing from 1995 through 2006. 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 appears to be responsible for some of the decrease in per capita fluid milk consumption. Additionally, the slight decrease in the percentage of food consumed away from home from 2005 to 2006 may be part of the reason for the increase in fluid milk consumption from 2005 to 2006.

A second factor for declining per capita fluid milk consumption may be changes in U.S. demographics. One important change is the declining proportion of young children in the population since 1995 (the decline has leveled out since 2003). Since young children are one of the largest milk-consuming cohorts, any decline in that cohort negatively impacts per capita fluid

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

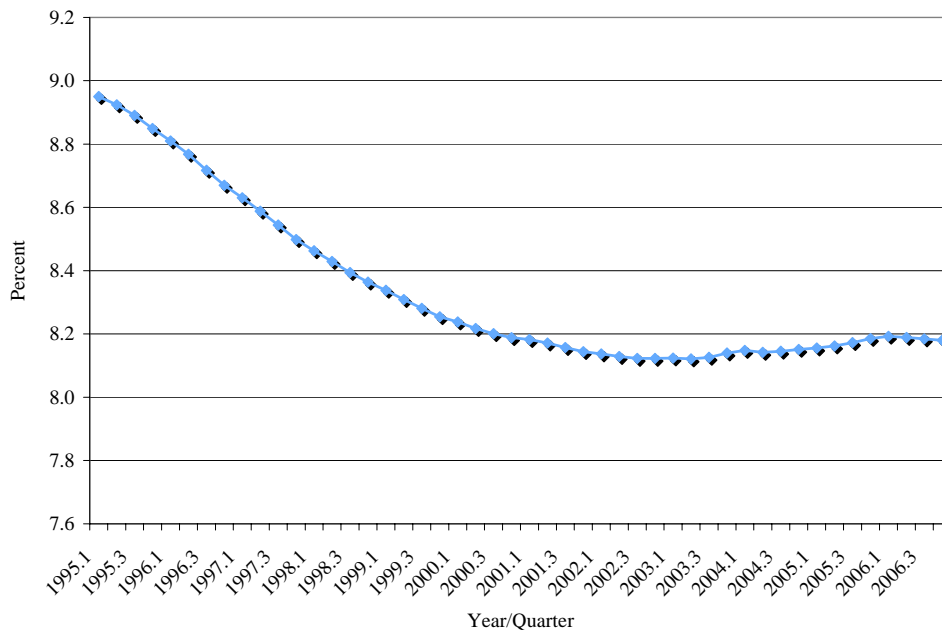


milk consumption. Figure 3–3 shows the percentage of the population that was under 6 years old from 1995 through 2006, a segment of the population that decreased 8.7 percent between 1995 and 2002. Therefore, there is a positive correlation between per capita fluid milk consumption and this age cohort—both are declining.

Since 1995, the retail price of fluid milk products has generally been rising relative to other nonalcoholic beverages. This pattern is displayed in Figure 3–4 (note that any value above 1.0 means the consumer price index for fluid milk is higher than the consumer price index for nonalcoholic beverages). While there have been some periods since 1995 where retail fluid milk prices declined relative to other beverage prices, almost three-out-of-five periods have been characterized by rising relative retail prices for fluid milk. From 1995 through 2006, annual average fluid milk prices rose 23.6 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. Since the third quarter of 2004, however, the price of milk has declined relative to other beverages, which may be an important reason for the slight increase in per capita consumption in 2006.

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.

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



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

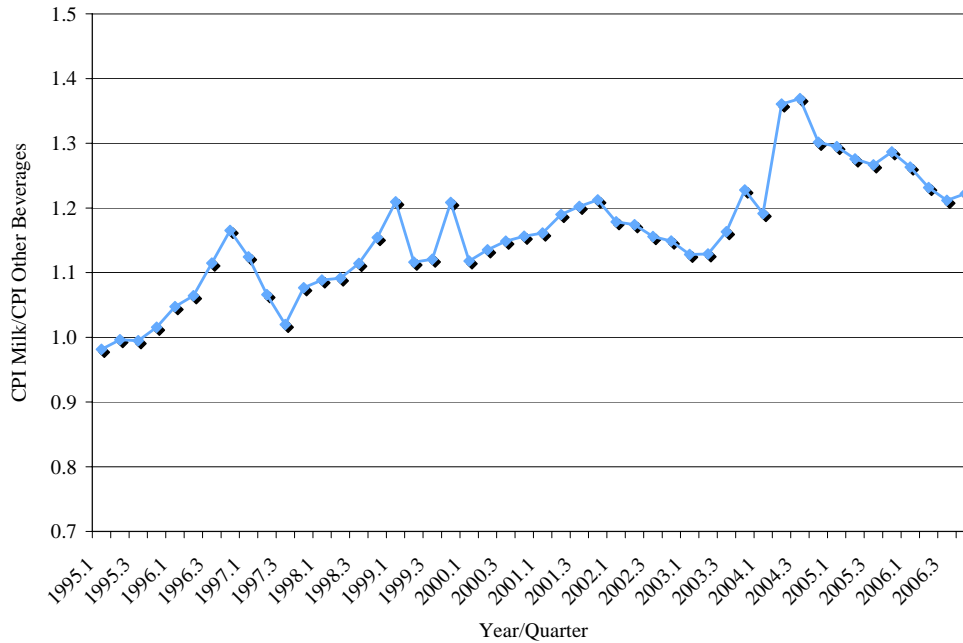
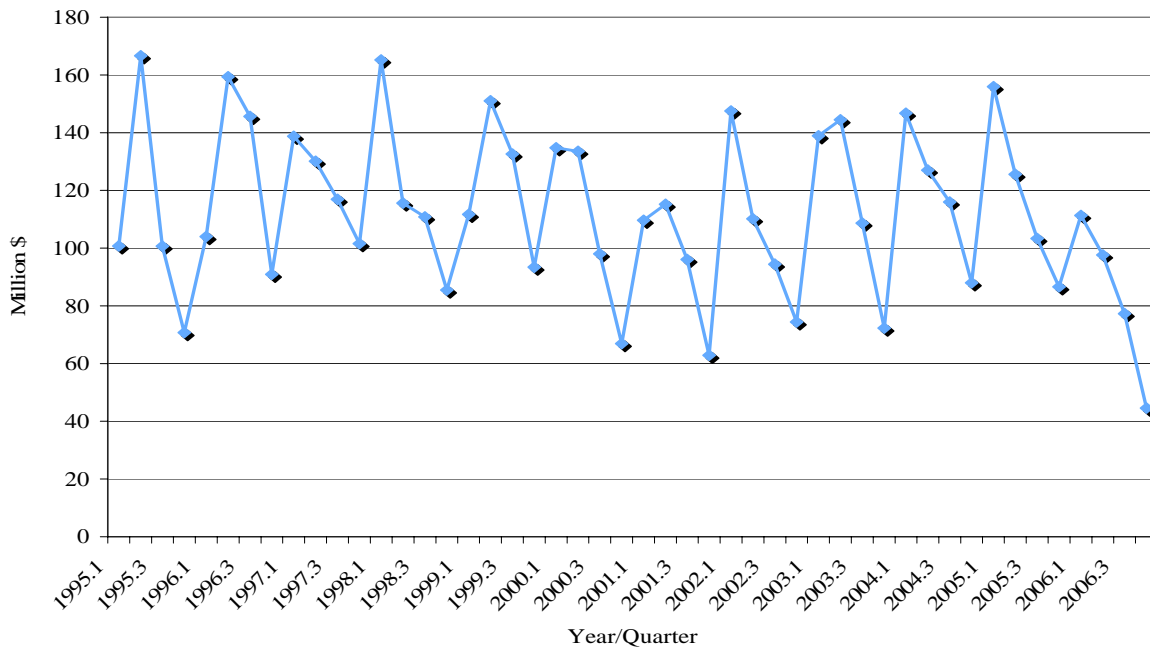
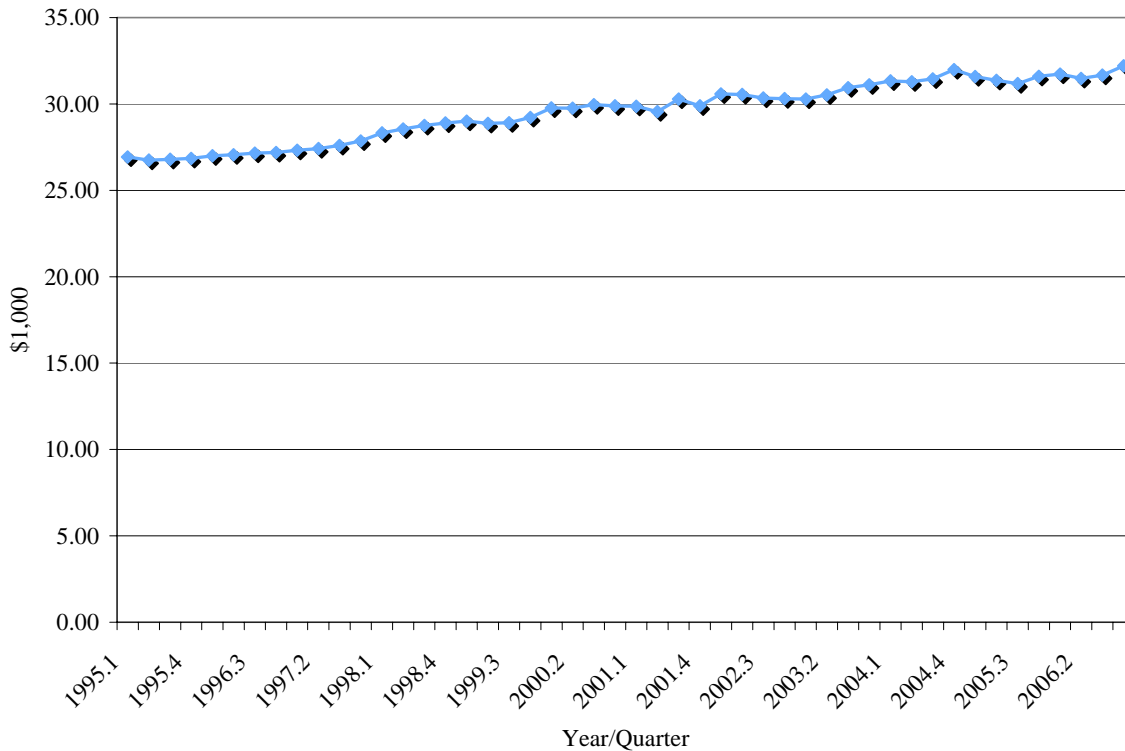


Figure 3–5 displays the combined real advertising expenditures (in 2006 dollars) of non-alcoholic beverages (juice, bottled water, and soy beverages). Since 1995, there has been a decrease in annual competing beverage advertising by 24.6 percent, with a significant part of that

**Figure 3–5.** Real Total Advertising for Soy–Beverages, Juices, and Bottled Water.



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

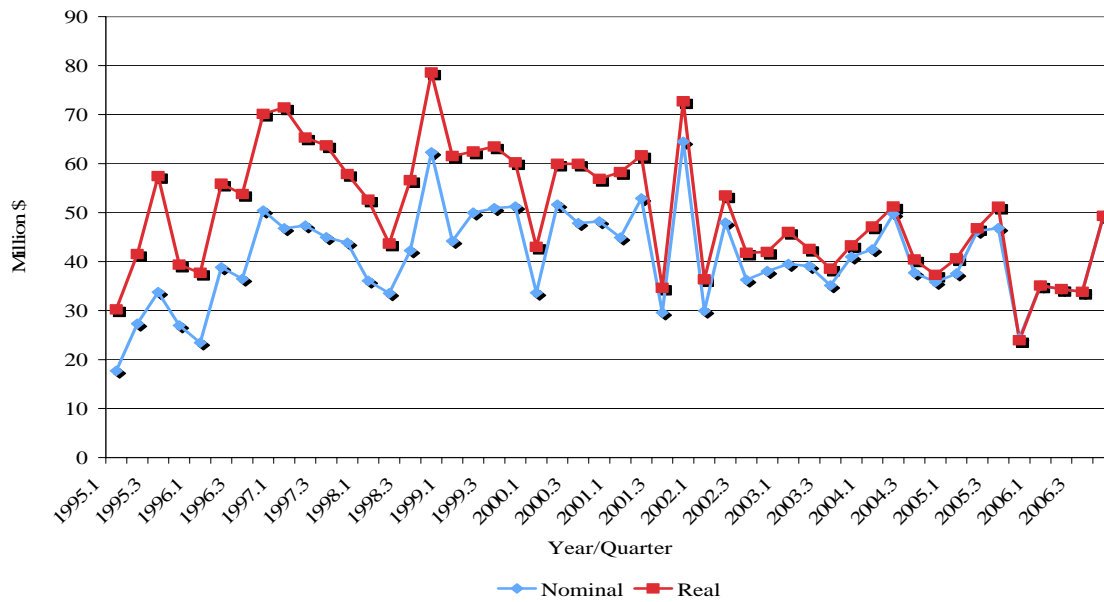


decrease occurring from 2005 to 2006. Hence, this decrease in advertising by beverage competitors may have had a positive impact on fluid milk consumption, particularly between 2005 and 2006.

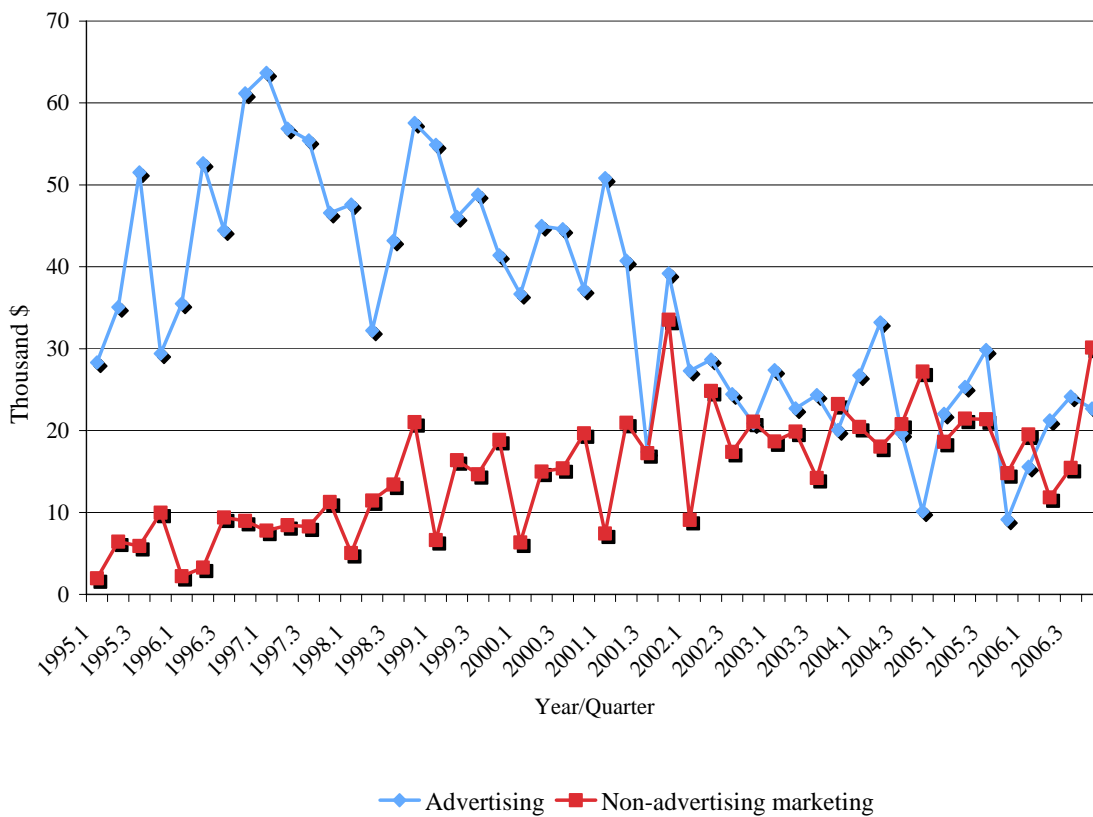
One factor that may have diminished some of the decline in per capita fluid milk consumption is the growth in real income over this period. Fluid milk is considered to be a “normal” good, which means that consumption increases as consumers’ disposable incomes increase. Figure 3–6 illustrates the steady positive trend in real per capita income (in 2006 dollars) from 1995 through 2006. Since 1995, real per capita income has increased by 18.4 percent.

Another factor that may have diminished some of the decline in per capita fluid milk consumption over part of this time period is generic marketing efforts by fluid milk processors and dairy farmers. The dairy-farmer checkoff program is the largest checkoff program in the United States in terms of revenue, and the second largest program is the fluid milk processor program. Figure 3–7 shows combined nominal and real expenditures (in 2006 dollars) on generic fluid milk marketing efforts by these two programs. From 1995 to 1997, there was steady growth in real (2006 dollars) annual expenditures for generic fluid milk marketing, from \$169 million in 1995 to \$258 million in 1997. Since 1997, however, such expenditures have been declining. Between 1995 and 2006, combined annual average real expenditures declined

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



**Figure 3–8.** Real Generic Fluid Milk Advertising and Non-Advertising Marketing.



by 9.5 percent reaching a low of \$152.6 million in 2006. This decline may have had an impact on declining per capita fluid milk consumption over this period. In nominal terms, there has actually been a 44 percent increase in total annual generic milk marketing expenditures since 1995. In 1995, nominal annual expenditures totaled \$106 million for the two programs, while in 2006 nominal annual expenditures totaled \$153 million. Hence, the erosion in real expenditures has been entirely due to inflation, primarily media cost inflation, which is substantially higher than the overall inflation rate in the economy.

Figure 3–8 displays real generic fluid milk advertising expenditures and generic non-advertising marketing expenditures by dairy farmers and fluid milk processors. It is clear from this figure that there has been a shift away from advertising towards non-advertising marketing activities over this period. Indeed, real generic fluid milk advertising expenditures decreased by \$60.7 million annually since 1995, while real fluid milk non-advertising marketing expenditures increased by \$58.5 million annually. The shift away from advertising has been primarily done by the dairy farmer program.

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

The model was estimated with national quarterly data from 1995 through 2006. To account for the effects of inflation, prices and income were deflated by the consumer price index. Generic fluid milk advertising and competing advertising expenditures were deflated by a media cost index computed from annual changes in advertising costs by media type supplied by DMI. Generic fluid milk non-advertising marketing expenditures were deflated by the CPI for all items. Because both advertising and non-advertising marketing have a carry-over effect on demand, past fluid milk marketing expenditures also were included in the model as explanatory

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

variables using a distributed-lag structure.<sup>2</sup> Similar procedures were used to capture this carry-over effect for competing advertising.

The impacts of variables affecting demand can be represented with what economists call “elasticities.” Elasticities measure the percentage change in per capita demand given a 1.0 percent change in one of the identified demand factors while holding all other factors constant. Table 3–1 provides average elasticities for the period 1995 through 2006 for model variables all of which have a statistically significant effect on consumption.<sup>3</sup> For example, a price elasticity of demand for fluid milk equal to  $-0.112$  means that a 1.0 percent increase in the real (inflation-adjusted) retail fluid milk price decreases per capita fluid milk quantity demanded by 0.112 percent.

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

**Table 3–1.** Average Elasticity Values (1995–2006) for Factors Affecting the Per Capita Retail Demand for Fluid Milk.\*

<b>Demand Factor</b>	<b>Elasticity</b>
Retail fluid milk price	$-0.112^{**}$
Per capita income	$0.236^{**}$
Percent of food away from home expenditures	$-0.806^{**}$
Percent of population under 6 years of age	$1.510^{**}$
Bottled-water + soy beverage + juice advertising	$-0.032^{**}$
Generic fluid milk advertising	$0.029^{**}$
Generic fluid milk non-advertising marketing	$0.053^{**}$

\* Example: A 1.0 percent increase in the retail price of fluid milk is estimated to reduce per capita sales of fluid milk by 0.112 percent. For more information on the data used, see Table 3–3 at the end of this chapter.

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

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

<sup>3</sup> The estimated model fit the data extremely well. All variables were statistically significant at the 1.0 percent significance level or better. The adjusted goodness-of-fit measure indicated that the explanatory variables explained over 97 percent of the variation in per capita fluid milk consumption. Various statistical diagnostics were performed and no statistical problems were found except for auto-correlation, which was corrected for using a moving average error correction procedure.

The percentage of the population under 6 years of age was the most important factor affecting fluid milk consumption. This factor has an estimated elasticity of 1.51, which means that a 1.0 percent increase in this age cohort measure would result in a 1.51 percent increase in per capita fluid milk demand when holding all other demand factors constant. This result is consistent with previous studies<sup>4</sup>, that show that one of the largest fluid milk-consuming segments of the population is young children. While this age cohort has declined since 1995, it has been slowly rising the last several years, which should have a mitigating influence on declining per capita fluid milk consumption.

The amount of food that is consumed away from home, measured in this model as real per capita expenditures on food eaten away from home as a percentage of total expenditures on food, has an elasticity of  $-0.806$ . This means that a 1.0 percent increase in the food consumed away from home would measure result in a 0.806 percent decrease in fluid milk demand when holding all other demand factors constant. As mentioned previously, this negative relationship may be due to the limited availability of fluid milk products and high availability of fluid milk substitutes at many eating establishments, which frequently offer only one or two types of milk beverages. One can hypothesize that because of these limited choices, some people who would ordinarily choose fluid milk choose another beverage instead. This result suggests the need to target the retail food service industry in an effort to increase away from home consumption. Efforts to increase the variety of fluid milk beverages offered to customers may increase the competitiveness of fluid milk.

Not surprising, the retail price of fluid milk has a negative and statistically significant impact on per capita demand. The results indicate that a 1.0 percent increase in the real retail price of fluid milk would result in a 0.112 percent decrease in per capita fluid milk quantity demanded. The magnitude of this elasticity is relatively small, which indicates that U.S. consumers' fluid milk purchasing behavior is relatively insensitive to changes in the retail price. This result, which is consistent with the other studies, is likely due to the fact that fluid milk is generally regarded as a staple commodity in the United States. However, as described in the previous section, the retail price of fluid milk has increased substantially since 1995 (23.6 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 has a positive and statistically significant impact on per capita fluid milk consumption. A 1.0 percent increase in real per capita income would result in a 0.236 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 milk products as a staple commodity in the United States. With income up by over 18 percent since 1995, this has lessened the decline in per capita fluid milk consumption.

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<sup>4</sup> The following mistake appears in last year's report: the variable labeled "percentage of population younger than 6 years of age" was actually the percentage of population younger than 5 years of age, so it is not directly comparable to this year's result. This is the main reason why the elasticity for the percentage of young children in last year's report is substantially lower than this year's estimate.



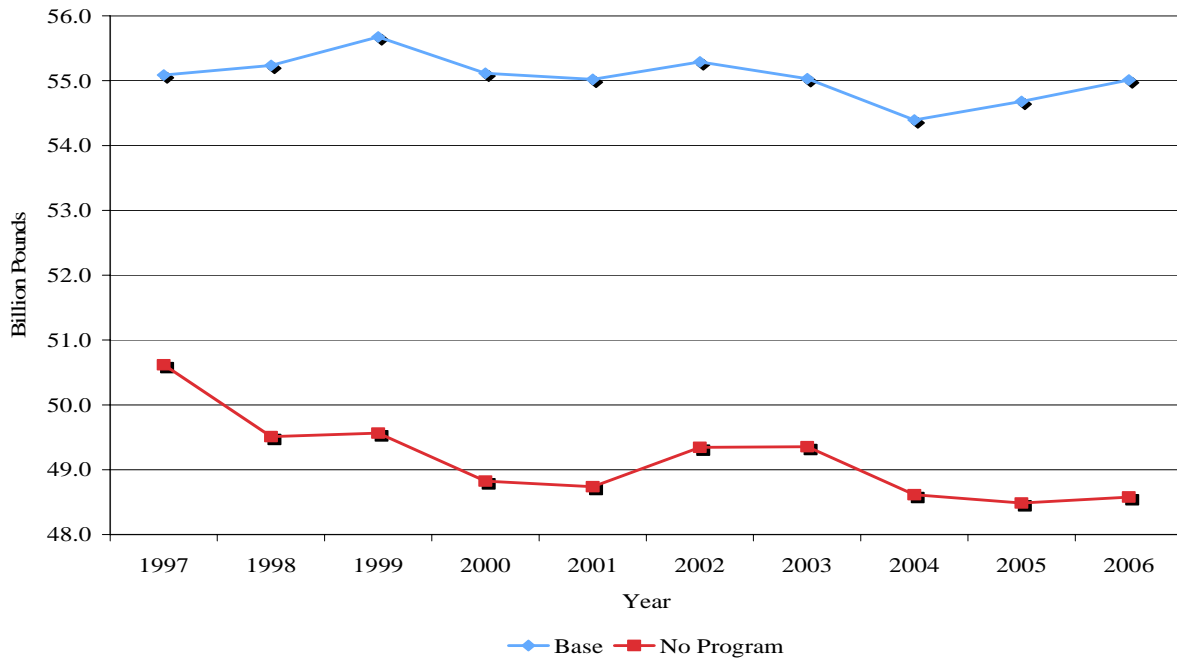
Combined soy beverage, juice, and bottled-water advertising has also had a negative impact on fluid milk demand during the study period. The estimated fluid milk demand elasticity with respect to soy beverage, juice, and bottled-water advertising is  $-0.032$ , and statistically significant. There has been a large decline (24.6 percent) in advertising expenditures for these three commodities since 1995, and hence, this likely had a positive impact on fluid milk consumption over this time period.

Finally, the generic fluid milk marketing activities conducted by fluid milk processors and dairy farmers have had a positive and statistically significant impact on per capita fluid milk demand. The average advertising elasticity is computed to be  $0.029$  and is statistically significantly different from zero at the 1.0 percent significance level. Thus, a 1.0 percent increase in generic fluid milk advertising would increase per capita fluid milk consumption by 0.029 percent holding all other demand factors constant. The generic non-advertising marketing elasticity is computed to be  $0.053$  and is statistically significant at the 1.0 percent significance level. In terms of relative elasticities, it appears that the combined non-advertising marketing activities by fluid milk processors and dairy farmers are more effective at increasing fluid milk consumption than their advertising efforts. However, this first time finding should not be interpreted as a recommendation to eliminate generic advertising in favor of non-advertising marketing activities since there is likely a synergy between the two types of marketing operations.

To examine the impact of dairy farmer and fluid milk processor marketing on total consumption of fluid milk, the estimated demand equation was simulated for two scenarios for the period from 1997 through 2006: (1) a baseline scenario in which the combined fluid milk marketing (advertising and non-advertising) expenditures were equal to actual marketing expenditures under the two programs, and (2) a no-national-Dairy-Program, no-Fluid-Milk-Processor-Program scenario in which there was no fluid milk-processor-sponsored marketing and dairy-farmer-sponsored fluid milk marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before the National Program was enacted. A comparison of these two scenarios provided a measure of the impact of the national Dairy and Fluid Milk Programs.

Figure 3–9 displays the simulation results for annual fluid milk consumption for the two scenarios. From 1997 through 2006, these marketing activities were responsible for creating 58.9 billion cumulative pounds of fluid milk commercial disappearance, which averages to 5.9 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 10.7 percent less than it actually was over this time period. Hence, the bottom line is that the fluid milk marketing efforts by dairy farmers and fluid milk processors combined have had a positive and statistically significant impact that is partially mitigating declines in fluid milk consumption. Moreover, it appears that the performance of these marketing programs has become more effective over time. This can be seen by the widening of the gap in fluid milk disappearance between the two scenarios over time in Figure 3–9. For instance, in 1997, it is estimated that fluid milk consumption would have been 8.1 percent lower in the absence of the two programs, while in 2006, milk consumption would have been 11.7 percent lower in the programs' absence.

**Figure 3–9.** Simulated Annual Fluid Milk Consumption With and Without the National Program.



### Analysis of All-Dairy Product Generic Marketing

To examine the overall impact of the fluid milk processor and dairy farmer programs on overall dairy demand, we estimated a combined fluid milk/dairy product demand model that included all generic dairy advertising activities as one demand determinant, and all non-advertising dairy marketing activities as another demand determinant. Expenditures for the following advertising activities were aggregated into one variable assumed to impact the all-dairy product demand model: television, radio, print, and outdoor media advertising for fluid milk and manufactured dairy products by dairy farmers and fluid milk processors. Expenditures for the following non-advertising, marketing activities were aggregated into one variable: total dairy-farmer expenditures for fluid generic milk and cheese public relations, sponsorships, retail promotions, and nutrition education and total fluid milk-processor expenditures for generic fluid milk public relations, and promotions. In addition, the following variables were included as factors influencing per capita all-dairy product demand: the CPI for all-dairy products, per capita disposable income, variables to capture seasonality in dairy product demand, per capita expenditures on consumption of food away from home, percent of population under 6 years old, and competing advertising.

Similar to the fluid milk demand model, the all-dairy products demand model was estimated on a per capita basis to control for the influence of population increases on demand. One problem with this approach is exports are included in commercial disappearance, and consequently per capita commercial disappearance overstates true domestic per capita consumption. Since exports

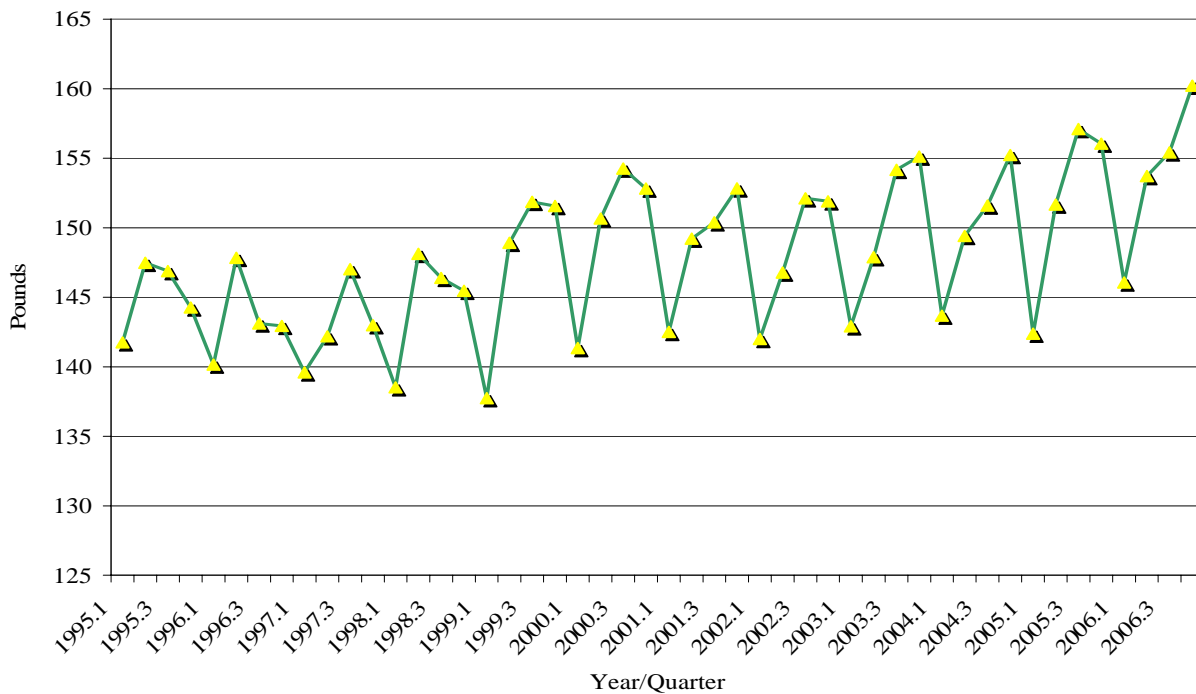
on a milk-fat equivalent basis still represent a small share of commercial disappearance, this inflation of domestic per capita disappearance is fairly small.<sup>5</sup>

Figure 3–10 displays per capita commercial disappearance of fluid milk and dairy products since 1995. Per capita commercial disappearance of fluid milk and dairy products has increased consistently on an annual basis over time, from 580 billion pounds in 1995 to 615 billion pounds in 2006, which represents an average annual growth of 0.5 percent.

The model was estimated with national quarterly data for 1995 through 2006. To account for the impact of inflation, all prices and income variables were deflated by the CPI for all items. Generic fluid milk and cheese advertising expenditures were deflated by a weighted average media cost index (television, radio, print, and outdoor) for fluid milk and cheese. Generic fluid milk and cheese non-advertising marketing expenditures were deflated by the CPI for all items.

Table 3–2 provides selected elasticities for the all-dairy product demand model. All variables were statistically significant. The most important factor impacting per capita disappearance of all-dairy products was per capita income. The results indicate that a 1.0 percent increase in per capita income would result in a 0.385 percent increase in combined per capita all-dairy product demand, holding all other variables constant. The average price elasticity for 1995 through

**Figure 3–10.** Per Capita Commercial Disappearance of Fluid Milk and Dairy Products.



<sup>5</sup> Like previous reports, this report measures fluid milk and dairy products on a milk-fat equivalent basis. However, this approach ignores the nonfat component of milk, which is growing in importance over time. Preliminary research on developing a nonfat milk equivalent model indicates that next year’s report will include an analysis of non-fat as well as fat components of milk. Additionally, work is being performed regarding removing exports from the commercial disappearance data.

**Table 3–2.** Average Elasticity Values (1995–2006) for Factors Affecting Per Capita All-dairy Products Demand.

<b>Demand Factor</b>	<b>Elasticity</b>
CPI for all-dairy products	–0.250*
Per capita income	0.385*
Per capita food away from home expenditures	0.222*
Generic dairy advertising	0.021**
Generic dairy non-advertising marketing	0.031*
Bottled-water advertising	–0.014*

\* Statistically significant at the 1.0 percent level or better.

\*\* Statistically significant at the 10 percent level.

2006, using the CPI for all-dairy products was –0.25; in other words, a 1.0 percent increase in the retail price of dairy products would result in a 0.25 percent decrease in per capita quantity demanded for all–dairy products holding all other variables constant. Per capita food away from home expenditures had a positive elasticity—a 1.0 percent increase in food away from home resulted in a 0.222 percent increase in per capita demand for all-dairy products. This result is the opposite of that found for the fluid milk only demand model, which is likely due to the positive effect of eating away from home on cheese consumption outweighing the negative effect on fluid milk consumption. Competing advertising measured by bottled water advertising expenditures, had an elasticity of –0.014, a 1.0 percent increase in bottled water advertising would result in a 0.014 percent decrease in per capita demand for all-dairy products holding all other demand determinants constant.

The major interest here is the advertising and non-advertising marketing elasticities. The average advertising elasticity for this period was 0.021; a 1.0 percent increase in media advertising expenditures would increase per capita all-dairy product demand by 0.021 percent. The average non-advertising marketing elasticity for this period was 0.031; a 1.0 percent increase in media advertising expenditures would increase per capita all-dairy product demand by 0.031 percent. Similar to the fluid milk model results, these results indicate that the combined generic dairy non-advertising marketing activities by dairy farmers and fluid milk processors are more effective at increasing all-dairy product consumption than their advertising marketing activities.

### **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

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

dairy marketing divided by the cost of the checkoff program. While we were able to estimate a BCR for producers for the Dairy Program, we could not compute one at this time for fluid milk processors under the Fluid Milk Program because data on packaged fluid milk wholesale prices, which are necessary in calculating processor net revenue, are proprietary and, therefore, not available.

We calculated BCRs<sup>7</sup> by simulating two scenarios: (1) a baseline scenario in which combined marketing (advertising and non-advertising marketing) levels were equal to actual marketing expenditures under the two programs, and (2) a no-national-Dairy-Program scenario in which there was fluid milk-processor-sponsored marketing but dairy-farmer-sponsored marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before and after the National Program was enacted. A comparison of these two scenarios provided a measure of the impact of the Dairy Program. The benefits of the Dairy Program were calculated as the change in dairy farmer net revenue (what economists call “producer surplus”) due to demand enhancement from all marketing activities under the Dairy Program (i.e., the difference in net revenue between scenarios 1 and 2). The demand enhancement reflects increases in quantity and price as a result of the marketing program. The costs of the Dairy Program were calculated as the difference in total assessment revenue before and after the National Program was enacted. These scenarios were run for the time period 1997 through 2006.

The average all milk price from 1997 through 2006 in the base line scenario was \$15.12 per hundredweight. In the counter-factual no-national-Dairy-Program scenario, the average all milk price was \$14.69 per hundredweight, which is 43 cents lower. Thus, had there been no national Dairy Program over this period, the price farmers receive for their milk would have been 2.9 percent lower than it actually was.

The results show that the average BCR for the Dairy Program was 4.88 from 1997 through 2006. This means that each dollar invested in generic dairy marketing by dairy farmers during the period would return \$4.88, on average, in net revenue to farmers. This is slightly higher than the 4.33 BCR calculated for last year’s report. The level of the marketing BCR suggests that the combined marketing programs supported by dairy farmers have been a successful investment.<sup>8</sup>

In another interpretation of the BCR, the increase in real (2006 dollars) generic dairy marketing expenditures resulting from the Dairy Program costs dairy producers an additional \$146 million per year on average from 1997 through 2006. The additional generic dairy marketing resulted in higher demand, prices, and net revenue for dairy producers nationwide. Based on the simulations conducted, we estimate 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 \$712.3 million, which divided by the additional Dairy Program cost of \$146 million results in the estimated BCR of 4.88.

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<sup>7</sup> To measure market impacts, we estimated supply equations at the retail and farm levels to simulate supply response to any price increase due to a marketing-induced increase in demand. The results of these estimates are available from the authors upon request.

<sup>8</sup> To see how the BCR has varied over time, the models were simulated for an earlier time period (1997–98) and the latest time period (2005–06). The results indicate that the estimated BCR for the earlier and later time periods were almost identical.

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 bound for the average BCR. One can be 95 percent “confident” that the true average BCR lies within those bounds. The estimated lower and upper bounds for the average BCR were 3.20 and 6.55, respectively. Hence, it is reasonable to conclude that these confidence intervals give credence to the finding that the benefits of the Dairy Program’s marketing activities have been considerably greater than the cost of the programs.

Questions often arise with respect to the accuracy of these BCR estimates. BCRs for commodity promotion programs are generally found to be large because marketing expenditures in relation to product value are small and, as such, only a small demand effect is needed to generate large positive returns. For example, the change in generic dairy marketing expenditures noted previously is a mere 0.63 percent of the recent average annual value of farm milk marketings from 1997 through 2006 (\$23.2 billion). The marketing activities resulted in modest gains in the quantity of dairy products and a positive effect on milk prices, resulting in large positive net revenue from the marketing investment.

**Table 3–3.** Description of Variables Used in Econometric Models.<sup>a</sup>

Variable	Description	Units	Mean <sup>b</sup>
<b><i>Consumption Variables</i></b>			
RFDPC	Quarterly retail fluid demand per capita	lbs. MFE	13.77 (0.32)
RDDPCF	Quarterly retail all-dairy product demand per capita on a fat basis	lbs. MFE	146.90 (5.59)
<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)	#	1.16 (0.09)
RDPCPI	Consumer retail price index for all-dairy products deflated by consumer retail price index for all items (1982–84=1)	#	0.92 (0.03)
RBEVCPI	Consumer retail price index for non-alcoholic beverages (1982–84=1)	#	137.41 (5.39)
<b><i>Demographic and Income Variables</i></b>			
INCPC	Quarterly per capita disposable income, deflated by the consumer retail price index for all items (2006=1)	\$	29,560 (1,690)
AGE5	Percent of the population under age 6	%	8.34 (0.26)
FAFH%	Food away from home expenditures as percent of total food expenditures	%	50.2 (2.05)
<b><i>Marketing Expenditures</i></b>			
GMA	Quarterly generic fluid milk advertising expenditures deflated by media cost index (2006 \$)	\$mil	35.40 (14.03)
GMN	Quarterly generic fluid milk non-advertising marketing expenditures deflated by consumer price index (2006 \$)	\$mil	14.89 (7.30)
GDA	Quarterly generic milk and dairy advertising expenditures, deflated by media cost index (2006 \$)	\$mil	60.96 (19.05)
GDN	Quarterly generic milk and dairy non-advertising marketing expenditures, deflated by media cost index (2006 \$)	\$mil	29.75 (13.17)
CBA	Quarterly soy beverage + juice + bottled-water advertising expenditures deflated by media cost index (2006 \$)	\$bil	112.00 (0.0288)

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

<sup>b</sup> Computed over the period 1995–2006. Standard deviation in parentheses.

## **Chapter 4**

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

For the eighth consecutive year, Beverage Marketing Corporation (BMC) has been commissioned by Dairy Management Inc. (DMI), and the National Fluid Milk Processor Promotion Board (MilkPEP) to review the fluid milk advertising, promotion, and other 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. BMC evaluates milk's position relative to milk's competitive beverage set—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 (RTD) teas, and sports beverages. This year BMC examines both the overall milk industry's performance as well as the effect that targeted advertising, promotion, and specific messaging have had on milk's crucial demographic cohorts. The following summarizes BMC's 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 2006 continued to effectively use available resources for driving incremental sales of fluid milk by focusing on high-opportunity consumer targets, relevant product benefits, and powerful messaging. In spite of a competitive disadvantage within its competitive set, milk volume increased in 2006 and this is likely because of the generic marketing programs.

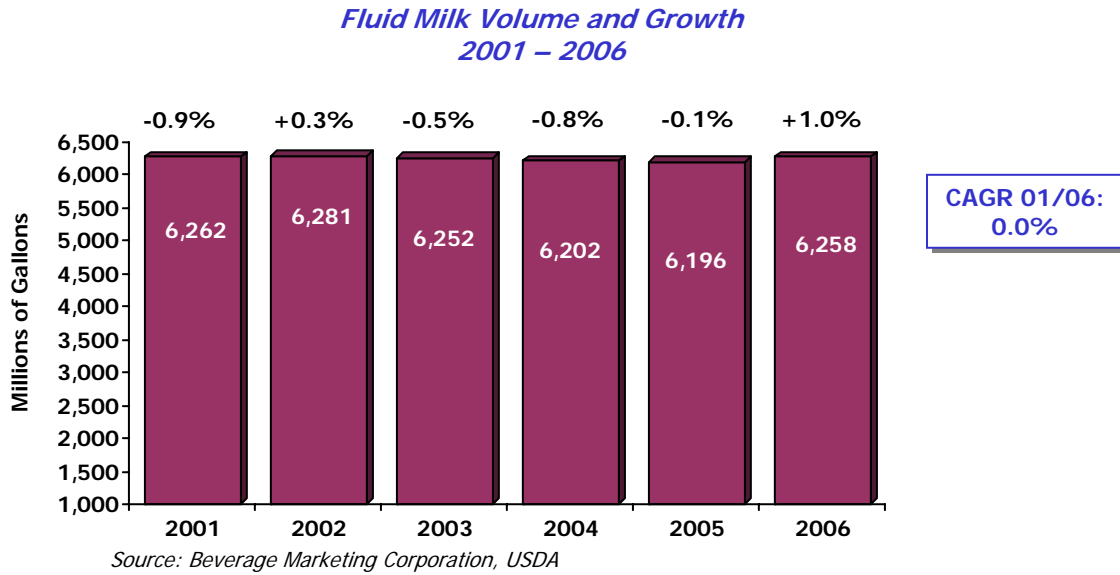
In 2006, unadjusted fluid milk volume increased by 1.0 percent to 6.26 billion gallons, the first volume increase for milk in 4 years. Over the last 6 years, fluid milk volume has essentially been stable, fluctuating within a narrow band of volume between 6.2 and 6.3 billion gallons. Unadjusted milk volume increased by more than 60 million gallons in 2006 compared to a decline of 6 million gallons in 2005. 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 5-year period from 2001 to 2006 was essentially flat, a reflection of the very small swings in year-over-year milk consumption since 2000.

Within its competitive set, milk is the third largest beverage category by volume (See Figure 4–2). In 2006, 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, in spite of a 1.1 percent decline in 2006.

While the “new age” type beverages (i.e., sports beverages and RTD tea) experienced solid increases over the previous year, fruit beverages, like carbonated soft drinks, suffered a slight decline.



**Figure 4–1**

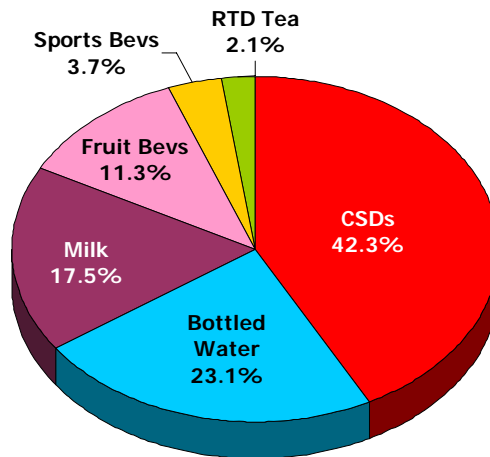


As a whole, volume of the combined competitive set categories increased by 2.3 percent to 35.7 billion gallons, up from 34.9 billion gallons in 2005. This increase was primarily driven by bottled water, sports beverages and RTD teas. From 2001 to 2006, the competitive set enlarged by a CAGR of 2.3 percent (See Figure 4–3).

Without milk, the performance of the competitive set would have been slightly better – increasing at a CAGR of 2.8 percent from 2001 to 2006. Without bottled water, the competitive

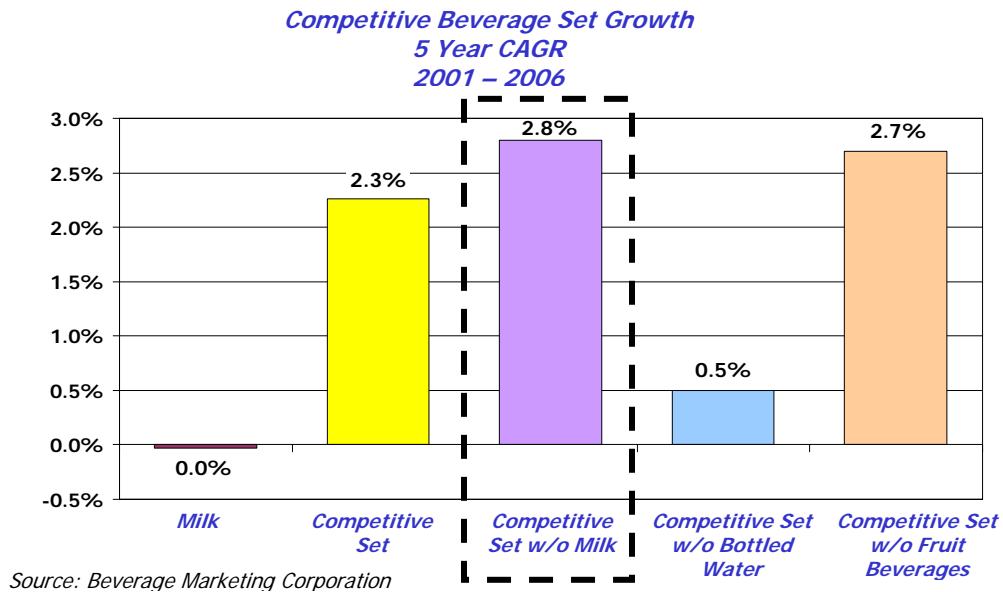
**Figure 4–2**

*Milk's Competitive Set All-Channel Volume Shares  
2006*



*Source: Beverage Marketing Corporation*

Figure 4-3



set grew by a CAGR of just 0.5 percent over that same 5-year time span. Bottled water accounted for nearly 90 percent of the volume increase of the competitive set in 2006.

BMC has quantified milk’s share of the volume increase compared to that of the entire competitive set annually over the last 19 years in the form of an index. This index reveals whether milk has gained or lost competitive share over this time span. This measure of milk’s performance is based on its share of competitive volume change, divided by milk’s market share of the competitive set at the onset of the year.

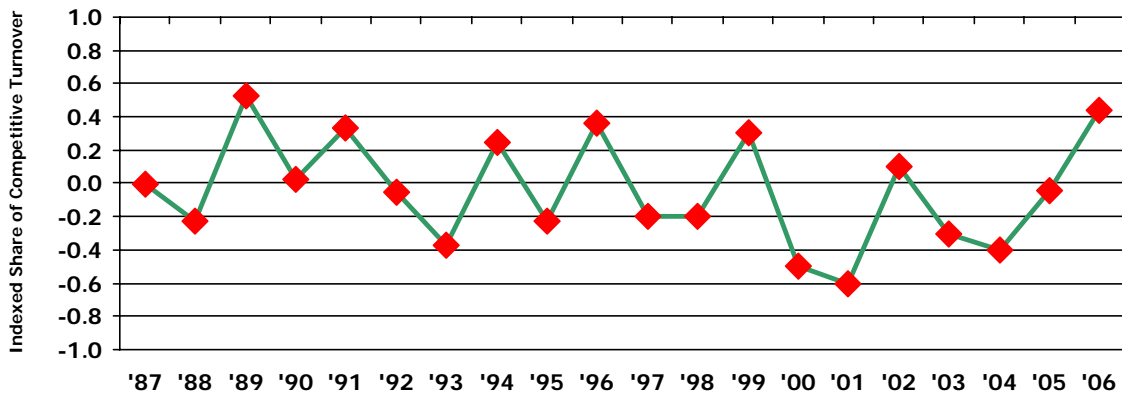
An index greater than 1 indicates milk is improving its share and thus out performing the competitive set; an index less than 1 reveals that milk’s share of the competitive set is declining. In Figure 4-4, this index for milk is illustrated over a 19-year period.

Milk has consistently underperformed the competitive set and has thus lost competitive share each year since 1987, as the diagram illustrates. However, the trend over the last 5 years suggests an ongoing decrease in share loss. Conversely, bottled water and sports drinks have consistently out performed 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, greater convenience, and aggressive pricing.

While there are many factors associated with beverage consumption trends, advertising expenditures is one factor that is easily measured. In 2006, every category within the competitive set except for bottled water experienced a decline in media spending per

**Figure 4-4**

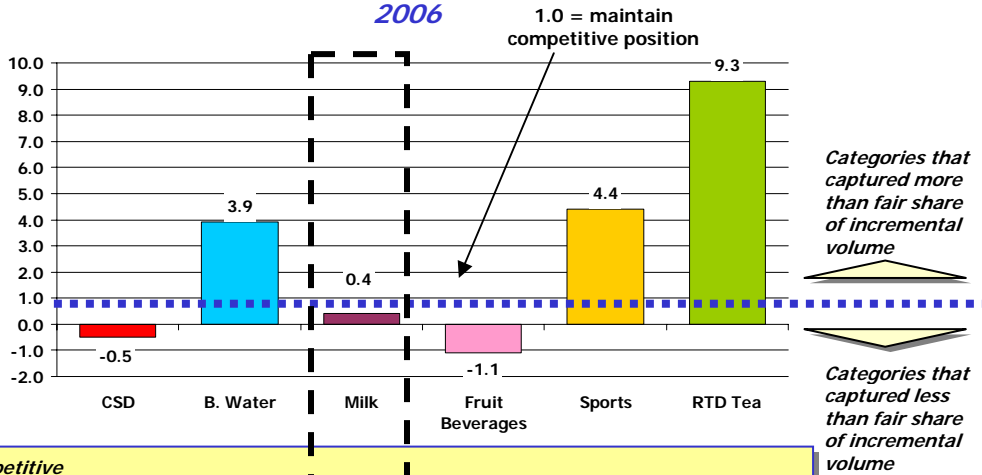
*Milk Indexed Share of Competitive Turnover<sup>(1)</sup>  
1987 – 2006*



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

**Figure 4-5**

*Indexed Share of Competitive Turnover<sup>(1)</sup>  
2006*

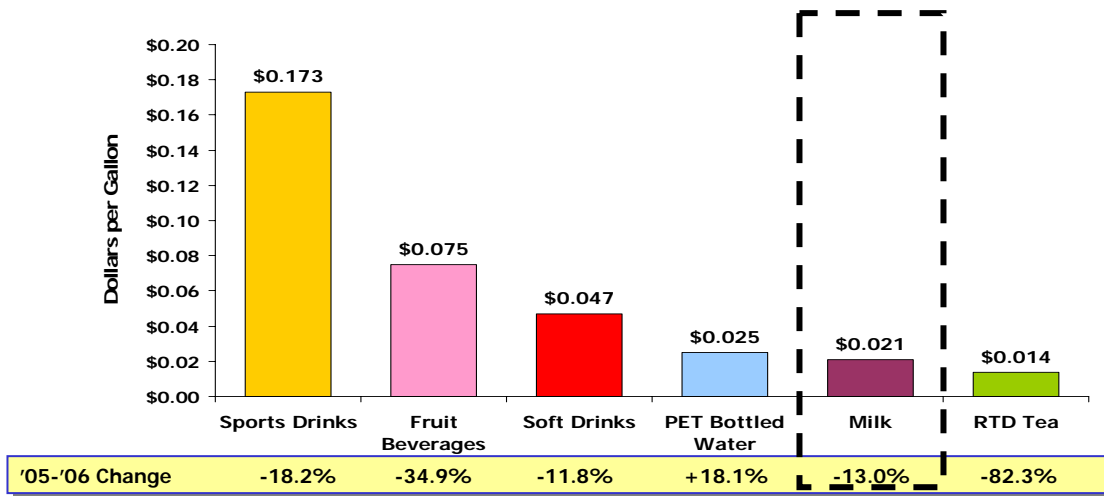


<i>Share of Competitive Turnover</i>	-21.1%	89.9%	7.8%	-12.4%	16.5%	19.4%
<i>Share of Competitive Set</i>	42.3%	23.1%	17.5%	11.3%	3.7%	2.1%

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

**Figure 4–6**

*Competitive Set Media Spending per Gallon  
2006*



Source: Beverage Marketing Corp.; Lowe; Ad Views

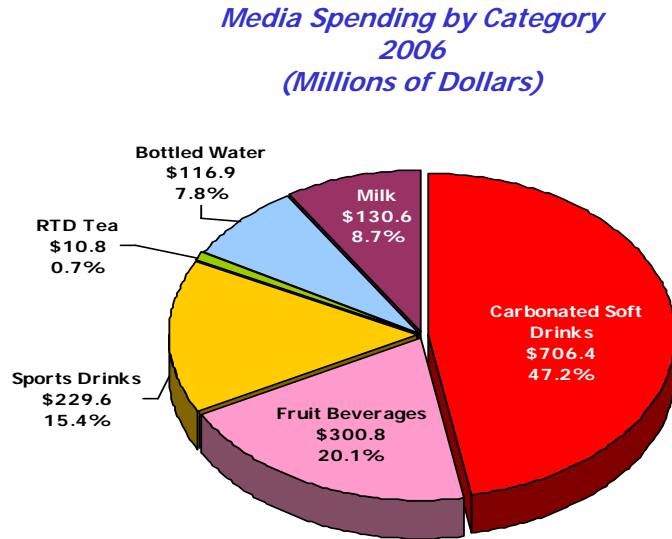
gallon (See Figure 4–6). Just as in previous years, milk is one of the lowest categories in media spending per gallon. The milk category spent about 2 cents on advertising for every gallon of milk sold, whereas carbonated soft drinks spent about 5 cents for every gallon sold. Only RTD tea spent less per gallon than milk in 2006, and bottled water spent about the same.

In comparison to other categories of the competitive set, bottled water’s success has been primarily distribution and consumer driven and has continued without major marketing dollar expenditures.

In 2006, carbonated soft drinks accounted for nearly half of all advertising dollars spent within the competitive set, at \$706 million. At \$301 million in spending, fruit beverages accounted for approximately 20 percent. At \$131 million in 2006, milk ranked fourth within the competitive set, accounting for 8.7 percent of spending (See 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, many 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 contributing factor to milk’s flat volume performance.

**Figure 4–7**



*Source: Beverage Marketing Corporation; Lowe*

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, for the most part it continues to trail the other categories in all of them.

### **Consumer Attention**

Consumer awareness of the generic milk advertising program is high, but because the category lacks branded advertising, it's still at a competitive disadvantage.

The consumer-relevant new science that links milk to weight loss had been effectively communicated through advertising, public relations (PR), and other tools. However, in 2006, 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 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 their way 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 has been additional growth in specific milk segments, including organic, reduced lactose, recombinant bovine somatotropin-free (rbST-free) 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 2006, milk new product introductions increased to 185 from 174 in 2005, while other categories within the competitive set experienced modest declines in new product launches. Milk ranked in the middle of the competitive set for new product introductions in 2006, but has generally been out innovated by the other categories. The milk category is in need of more innovation, both evolutionary (e.g., packages, flavors) and revolutionary (e.g., functionality, 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 differences between milk and its competitive set is the distinct lack of major 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 2006, only about a third 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 definite disadvantage with regard to 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 share 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 2006, only about 20 percent of milk volume was sold for immediate consumption, whereas about half the volume of carbonated soft drinks, sports drinks and RTD tea was purchased for immediate consumption. Milk has experienced improved growth in non-traditional channels, such as convenience stores, club stores and discount stores.

## Pricing

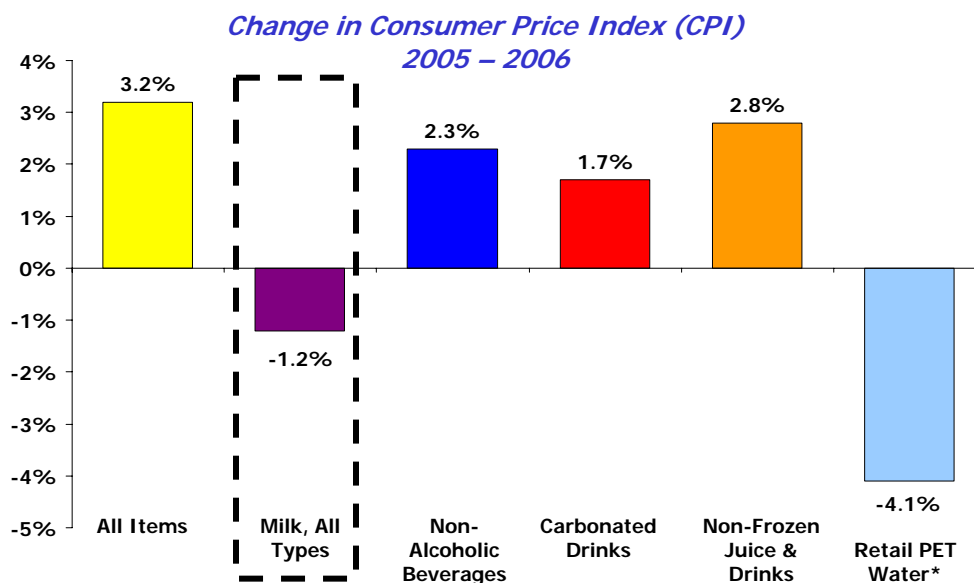
Price promotion is a key tool beverage marketers have used to spur sales, and this is true of all categories in the competitive set except for milk. The industry is limited structurally and legally in its use of price promotion. Because milk is responsive to price changes – flavored even more than white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

In 2006, milk experienced a 1.2 percent decline in its consumer price index. In 2006, milk along with bottled water were the only competitive set categories to experience pricing declines. However, milk prices in 2006 remained historically high (See Figure 4–8).

## BMC’s Assessment of Current Milk Marketing Programs

In 2006, fluid milk experienced its first unadjusted volume gain in 4 years, and BMC believes that the marketing campaigns developed under the Dairy Production Stabilization Act of 1983 and the Fluid Milk Promotion Act of 1990, as amended, have played a key role in this growth.

**Figure 4–8**



\* Estimated

Source: Beverage Marketing Corp.; Bureau of Labor Statistics

While over the last 5 years milk consumption has been virtually flat, BMC believes these declines would have been more significant without the industry's weight-loss messaging, 3-A-Day™ of Dairy and got milk?®/milk mustache campaigns. The Marketing Mix Analytics (MMA) analysis conducted for MilkPEP also supports this belief. This analysis, based on 10 months of 2006 data, suggests that the advertising and promotional campaigns of MilkPEP continue to be effective in generating incremental milk volume. Additionally, base volume increased as a result of the long-term support for weight loss. The incremental volume impact, however, has diminished somewhat compared with the MMA findings for 2005.

Supported by dairy farmers' investment in the weight loss and dairy science, in 2006, milk advertising continued to build on the emergence of scientific evidence that milk consumption may be linked to weight loss. This allowed for differentiated opportunities to drive milk sales. With the generic program shifting and realigning the advertising budget and other program efforts (e.g., PR, promotions, and research) behind weight loss communications, there was measurable success in achieving consumer acceptance of the weight loss-milk link. In addition, dairy processors welcomed the weight loss programming and integrated it into their own business and brand-building initiatives. In 2006, there was full-integration and coordination among the advertising, PR, promotions, and processor participations in the National Programs resulting in a more efficient and impactful spending program.

In accordance with the weight-loss efforts, there was a shift in target and product focus that began in 2005. Generic media spending allocations moved from teens to moms, but a new teen-focused program to promote healthy weight, called BodyByMilk<sup>SM</sup>, also began. The continuation of the milk mustache campaign driven by new teen-appealing celebrities was also tied-in with healthy weight. Through the BodyByMilk<sup>SM</sup> program, schools became a key marketing channel for milk with posters, print ads, promotions, and an internet component. The MMA report found that the new media being used for teens (school marketing, on-line, and word-of-mouth) resulted in incremental sales in 2006.

Programs from DMI and MilkPEP continued to focus on milk vending, foodservice, and school milk improvements in 2006 with ongoing positive results. The milk vending initiative continues to produce positive results, with significant increases in school placements and vending operator activity. The 2006 vend tracking survey has demonstrated an increase in the important school channel with an estimated 10,000 schools now reporting at least some milk vending activity.

DMI's efforts to recruit new quick-service restaurant (QSR) chains in 2006 culminated with the addition of Burger King® and Sonic®, while other chains are considering the addition of milk. There are now more than 35,000 QSR outlets offering milk in single-serve packaging as a permanent part of their menus. This is an increase of more than 25 percent in the number of outlets. Estimated volume for single-serve milk in QSR outlets in 2006 climbed to nearly 30 million gallons.

DMI's continuing implementation of the New Look of School Milk Program has doubled the number of participating schools and increased student coverage by nearly 60 percent in the 2006/07 school year, compared with 2005/06 levels. This program is likely to result in higher levels of milk per capita consumption for the school-age cohort as it ages. The impact of this



program in the longer term is yet to be felt, but will probably increase milk's consumption base significantly as the school milk experience improves.

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. The advertising budget has been strategically reallocated to increase promotions, events/sponsorships, on-line and other programs, which are focused largely on expanding milk availability and consumer appeal through innovation.

The recent emphasis on weight-loss benefits had also invited new challenges for milk. The set of direct competitors could have included other weight-loss products such as meal replacement beverages and bars as well as programs such as Weight Watchers<sup>®</sup> and Jenny Craig<sup>®</sup>. 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.

With a continued focus against strategic consumer targets and market opportunities, and improving integration of generic programs into processor and retailer marketing tactics in 2007, the outlook seems positive. BMC predicts a slight increase or 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**

Each year, in addition to the econometric analysis performed for the USDA by Cornell University, a more marketing-oriented and technical assessment is made of the effectiveness of the Milk Processor Education Program (MilkPEP) fluid milk generic promotion program using a combination of the best available measurement tools from outside and within the program.

Among the resources used for this assessment over the last 5 years has been the “Beverage Marketing Corporation Report.” The report, jointly funded by DMI and MilkPEP, provides an in-depth analysis of the competitive position of the milk industry in comparison to a selected group of appropriate competitors such as carbonated soft drinks, juices, bottled water, sports drinks, and ready-to-drink teas.

In addition, the MilkPEP program itself commissions a wide range of measurement efforts, both internal and external. Chief among these are:

- Marketing Mix Analysis: MMA Corporation;
- Attitude, Awareness, and Usage Tracking Study: Data Development Worldwide;
- Product sales and household sales data: Information Resources, Inc.;
- School Sales Impact Analysis: Prime Consulting, Inc.

This chapter goes beyond the third party report developed by BMC in Part I and integrates all additional and appropriate research of these sources for an assessment of the program’s effectiveness. It will be shown that the MilkPEP program in 2006 was effective in driving incremental volume and mitigating the long-term loss of market share in a highly competitive beverage marketplace. It also will be shown that a new aspect of the marketing mix analysis shows a consistent 3-year trend, through 2006, of strong growth of the base volume. This demonstrates the program’s ability to create long-term behavior change. The program continues to meet the needs of the fluid milk industry that funds the program.

More specifically this section will examine the overall impact of the MilkPEP program in terms of its impact on the core measures of sales and consumption, its “retail sales return-on-investment<sup>9</sup>” (RROI) and the competitive situation in which the fluid milk industry competes. It also will detail two of the main program areas, promoting weight loss benefits of milk consumption to women, and for the first time an overall impact assessment of the teen focused Body by Milk<sup>SM</sup> program.

### **Overall Sales Impact**

Using the full range of our program’s measurement resources, we are able to assess the impact and value of the program in terms of providing the industry with an RROI estimate for its

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<sup>9</sup>The term RROI for “retail sales return-on-investment” compares the incremental retail value for its return and the direct spending on consumer activities as its investment.

marketing investment, and in achieving the national nutritional goals specified in its congressional mandate.

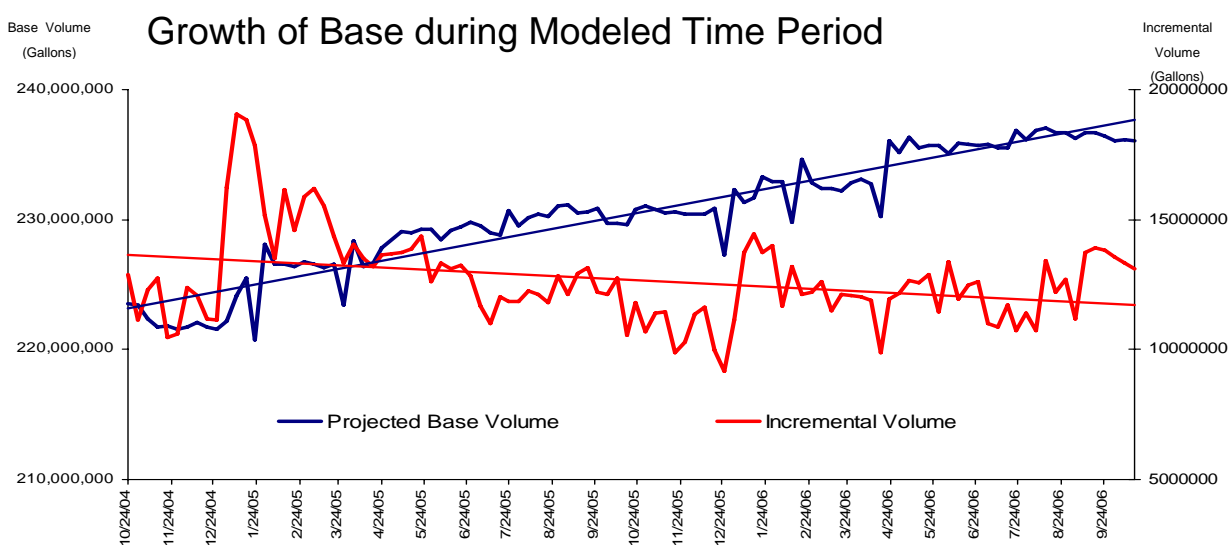
MilkPEP’s Marketing Mix Analysis showed that the share of total milk volume attributable to the short term MilkPEP activities was down from 4.7 percent in 2005 to 3.6 percent in 2006. In actual volume, that 2006 contribution represents approximately 147 million gallons, or an estimated \$468 million in retail sales revenue nationwide. This represents a retail impact of \$6.61 for every dollar spent by fluid milk processors in 2006. While incremental volume is defined as volume directly attributable to specific marketing activity in the current year, we are also in year three of a growth trend in the base volume. Base volume is defined as “intrinsic demand” or volume that would have been sold regardless of any branded or generic marketing activities such as advertising. This trend is most likely the function of the long-term behavior change advocated by the campaign, as adopted by consumers for what is a very “habitual consumption” product (Figure 4–9).

### 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 2006, the competitive position improved 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 in Part I). Fluid milk suffered in the market due to relative pricing, although 2006 saw some improvement (Figure 4–10), a lack of brand marketing infrastructure, poor

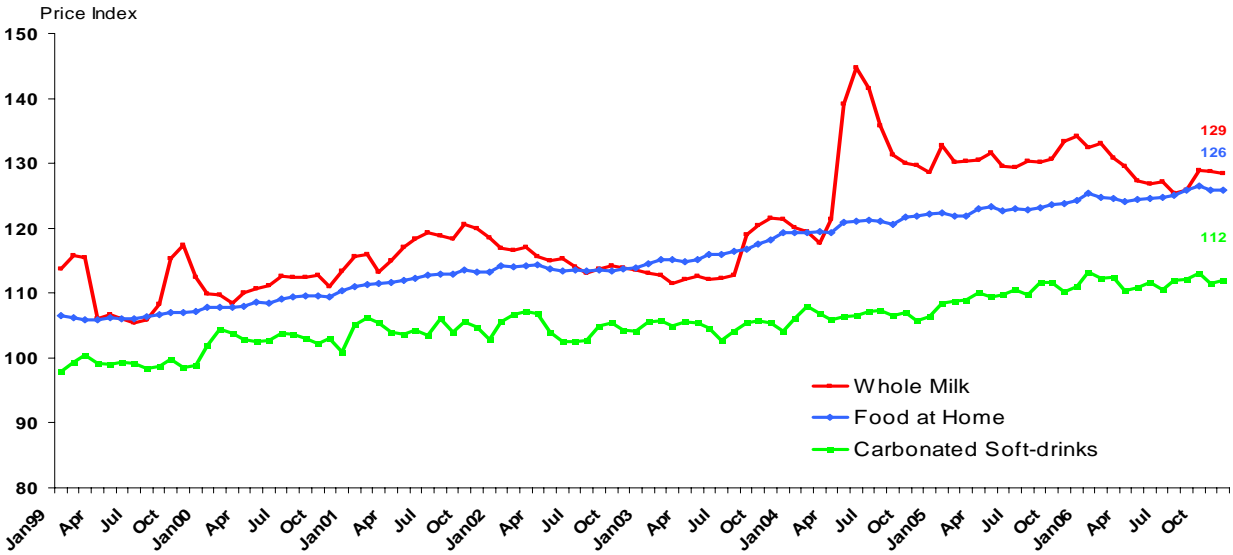
**Figure 4–9**



Source: 2007 Marketing Mix Analytics Corporation Study

**Figure 4-10**

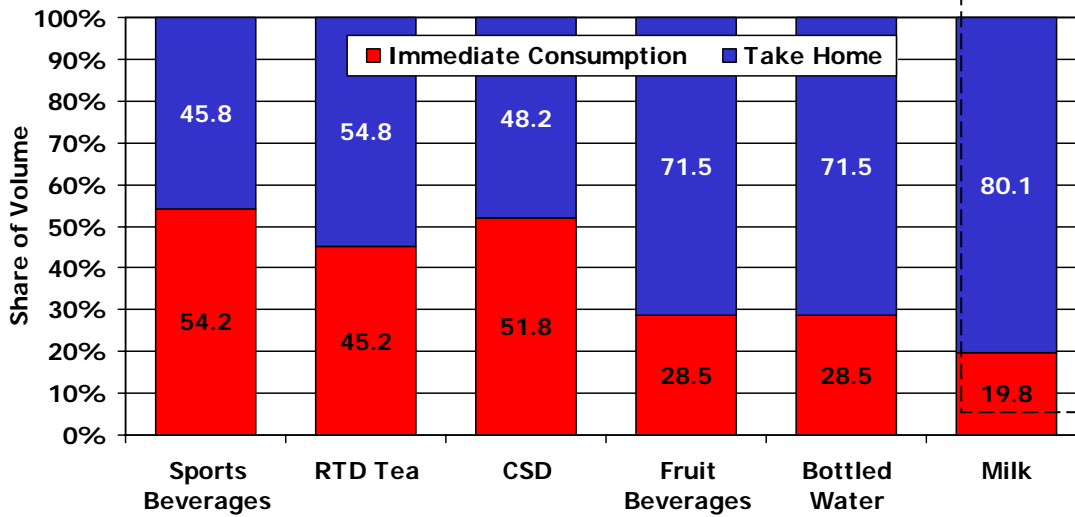
**Relative Pricing of Milk, Soft Drinks and "Food Basket CPI"**



Source: Bureau of Labor Statistics

**Figure 4-11**

**Immediate Consumption vs. Take Home Distribution  
2006**



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

“out-of-home”/immediate consumption availability (Figure 4–11), and lower spending (Figure 4–6 in Part I). In this context, the need for the MilkPEP program remains as strong as or stronger than at its inception in 1995.

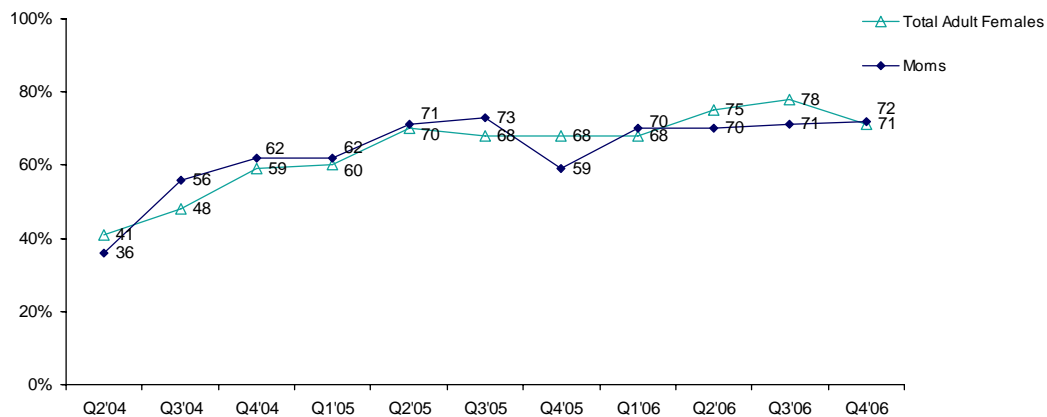
### Success of Weight-Related Benefit Promotion

A wide range of studies, more than 50 over the last 6 years, suggest that consuming the recommended three servings of low-fat and fat-free 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 72 percent of all program resources in 2006 and was the primary program objective. The MilkPEP program successfully informed American women and they responded with positive changes in their consumption of milk. Among the key indicators of how this marketing communication program changed consumer behavior are:

- Recall of the link between drinking milk and losing weight is at 71 percent (Figure 4–12).
- “Trying to lose weight” is the number two reason women cited for “drinking more milk” (Figure 4–13).
- Additionally, based on MilkPEP’s MMA 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 2006. These activities appear to have driven the highest levels of incremental volume at greatest efficiency.

Figure 4–12

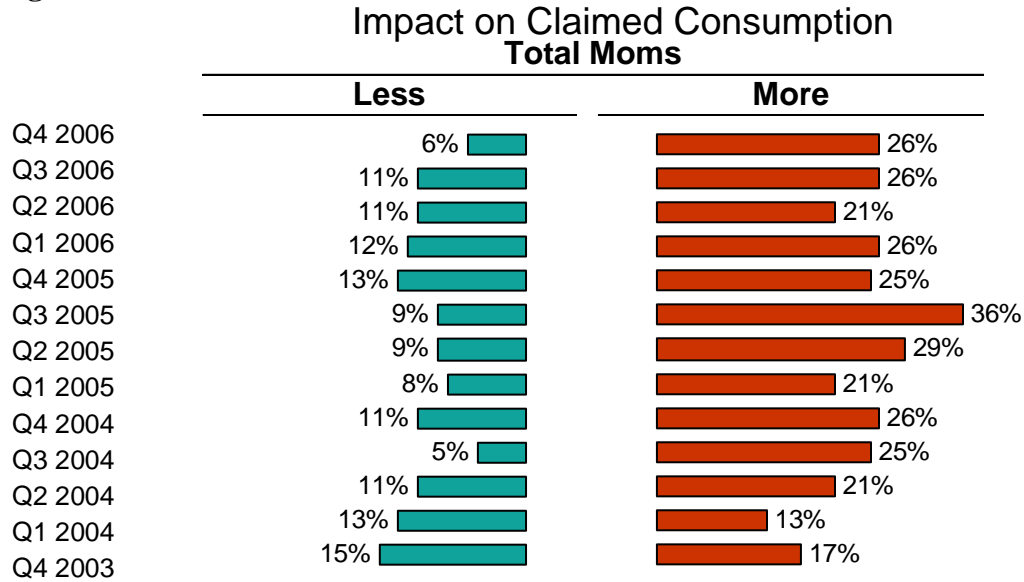
Total Recall of Milk and Weight-Loss Link



Q.4f1/4f4 Have you heard, read or seen anything about a connection between drinking milk and losing weight?

Source: Data Development Worldwide, 12/06 report.

**Figure 4–13**



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

<b>Reasons For Drinking More Milk</b>					
	<b>2005</b>		<b>2006</b>		
	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<u>Among Those Drinking More</u>	(39)*	(40)*	(29)*	(36*)	(45)*
	%	%	%	%	%
Healthier For Me/Child	22	8	26	13	32
Trying To Cut Back On Fats/Trying To Lose Weight	13	12	12	11	24
Just Like It	16	15	3	12	14
Pregnant/Nursing My Baby	3	7	6	4	12
Good for bones	8	-	6	5	7

Source: Data Development Worldwide, 12/06 report.

### **Results of the Teen Body by Milk<sup>SM</sup> Program**

In 2006, the new Body by Milk<sup>SM</sup> program targeting teens was launched. This program, that includes print advertising, online components and in-school marketing efforts, educates teens on the importance of choosing milk over less nutritious beverages to make them leaner and help build muscle. Research findings show that Body by Milk<sup>SM</sup> has successfully brought milk’s nutritional message to teens and generated sales growth, not only in schools but at retail as well.

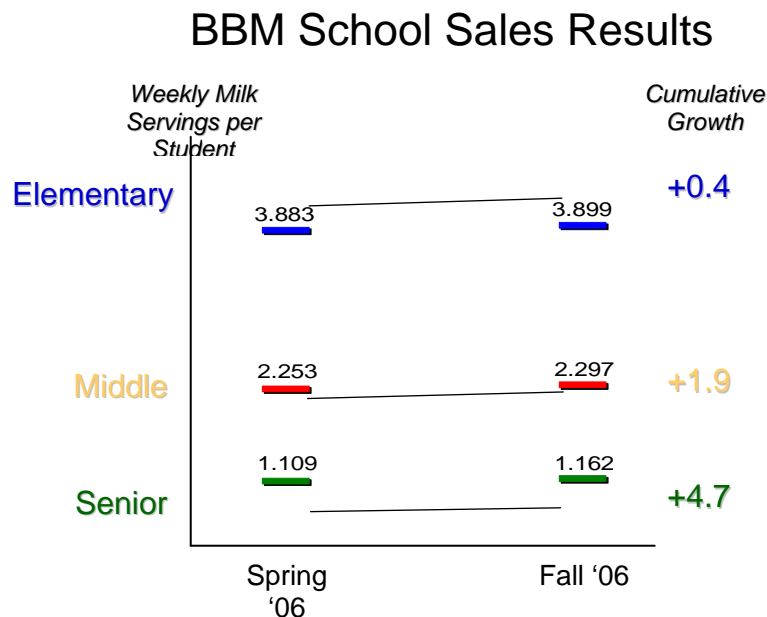
Based on MilkPEP’s MMA marketing mix analysis, Body By Milk<sup>SM</sup> marketing activities generated more than 14 million incremental gallons and \$13.70 in retail revenue for every dollar spent in 2006. Additional key indicators of success include:

- Milk sales (weekly servings per week per student) increased 1.9 percent in middle schools and 4.7 percent in Senior high schools from Spring to Fall 2006 (Figure 4–14).
- “Healthier for me” is the top reason that teens cite for drinking more milk, and 26 percent of teens said they were drinking more vs. 6 percent drinking less in Q4 2006 (Figure 4–15).
- Self-reported consumption of single-serve milk among teens is showing a long-term upward trend (Figure 4–16).
- Students’ awareness of school posters is around 40 percent (Figure 4–17).
- In just two quarters (Q3 and Q4), Body by Milk<sup>SM</sup> slogan recall was already at 19 percent.

### Summary Assessment of Program Effectiveness

Overall, in this highly competitive beverage marketplace, the MilkPEP program in 2006 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 a "healthy weight" benefit to teens with the new “Body by Milk<sup>SM</sup>,” campaign in media, and in schools.

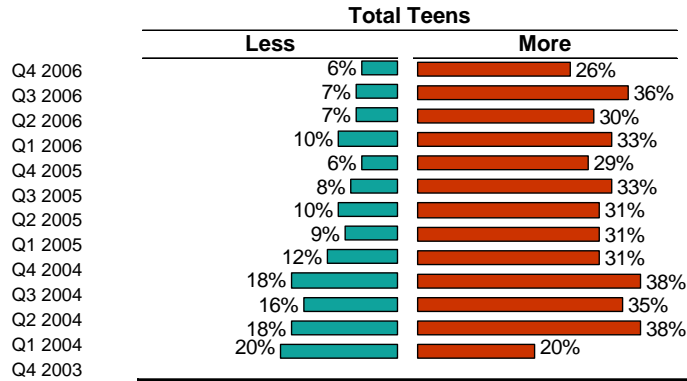
**Figure 4–14**



Source: Body By Milk Sales Impact Analysis, Prime Consulting

**Figure 4–15**

### Drinking More/Less White Milk Compared to Six Months Ago (Teens)



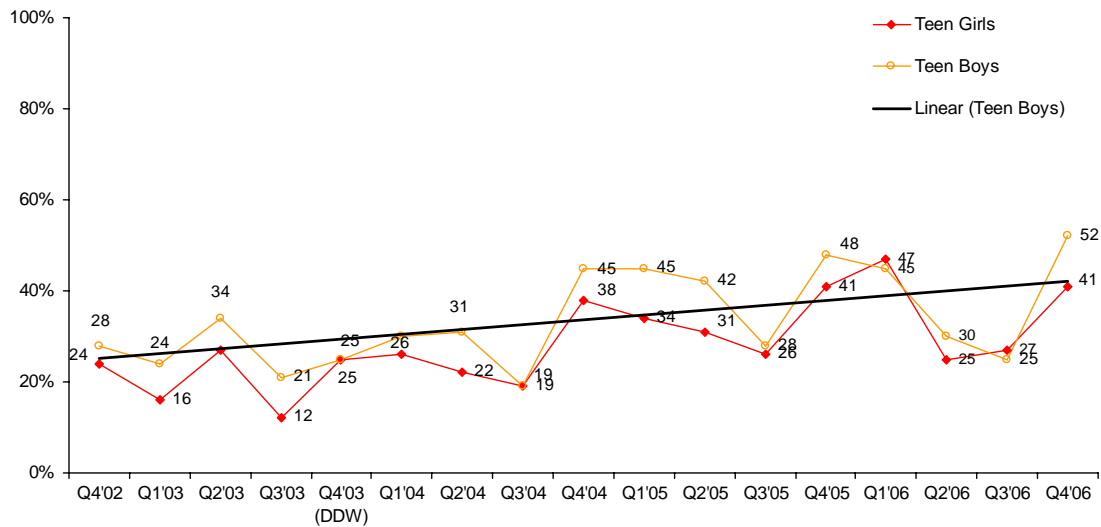
	2005					2006				
	Q4	Q1	Q2	Q3	Q4	Q4	Q1	Q2	Q3	Q4
<b>Among Those Drinking More</b>	(88)	(102)	(97)	(109)	(89)*	%	%	%	%	%
Healthier For Me	33	22	34	8	31					
Just Like It	15	7	14	6	19					
Trying To Cut Back On Fats/Trying To Lose Weight	3	10	7	6	13					
Like The Taste	5	11	7	11	8					
Trying To Become More Active/More Active In Sports	7	4	5	3	7					

Source: Data Development Worldwide, 12/06 report.

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

**Figure 4–16**

### Consumption of Single Serve Milk Containers in Past Week

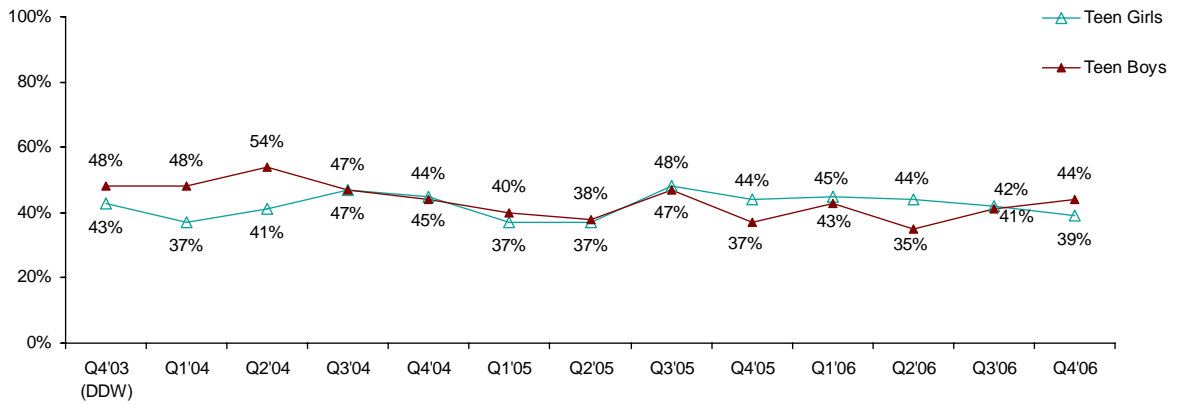


Source: Data Development Worldwide Q16A. (TEENS ONLY) Have you purchased single serve milk in the past week?



**Figure 4–17**

### Aided Awareness of School Poster Program (Teens)



Q4d. Have you seen any posters in your school featuring a milk mustache celebrity?  
 Source: Data Development Worldwide

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 cost to the taxpayer.

The short term RROI to the fluid milk industry, measured in terms of total retail sales (\$6.61 for every dollar spent) remains highly favorable, although lower than in 2005.

As in the past, the program has demonstrated its ability to change consumer behavior. The increase to base volume, as demonstrated by MMA, suggests that the weight loss benefit, tied to recent scientific and medical research, proved an effective message for the MilkPEP program in persuading moms to reconsider, and increase, their consumption of milk.

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

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

### **Dairy Producer Promotion Program Drives Dairy Sales and Consumption**

In order to grow sales and dairy consumption, the National Dairy Promotion and Research Program (National Program) is focused on helping the dairy industry meet unmet demand, which is the gap between current sales and potential sales – the result of giving consumers the products they want, when and where they want them. To satisfy unmet demand, it becomes necessary to move from providing a production-driven program to a consumer-driven one that is based on research, co-investment partnerships, and meeting consumer preferences.

The goal of the National Program is to leverage farmer-funded promotions to drive increased sales of and demand for U.S. dairy products and ingredients, domestically and internationally, and meet unmet demand. Since its inception in the early 1980s, the per capita consumption of dairy has climbed to 593 pounds in 2005 compared to 522 in 1983, according to the 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 Program.

This goal is accomplished through:

- Dedicated teams that are funded and directed by dairy farmers who partner with dairy and food industry leaders and innovators on nutrition, research, and marketing efforts to drive sales.
- 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.
- Discovering new uses for cheese, fluid milk, dairy proteins, and other ingredients and opportunities to serve the growing Hispanic market.

In 2006, the National Program launched a number of efforts tied to meeting the billions of pounds of unmet demand that exists for dairy products. These efforts range from launching five strategic platform teams (fluid milk, cheese, Hispanic, ingredients and exports) that will examine specific growth opportunities in these areas; to developing strategic partnerships with manufacturers and food and beverage companies to launch new, and enhance existing, dairy-based products; to creating a long-range nutrition plan aimed to educate consumers and health professionals about the need for three daily servings of dairy as part of a healthy diet.

This past year, the National Program worked proactively and in partnership with leaders and innovators to increase and apply knowledge that leveraged opportunities to expand dairy markets. The Board’s Chief Executive Officer and other staff leaders participated in over 35 top-to-top industry meetings, gave keynote addresses at numerous cooperative and other industry meetings, and held several one-on-one conversations to help establish the National

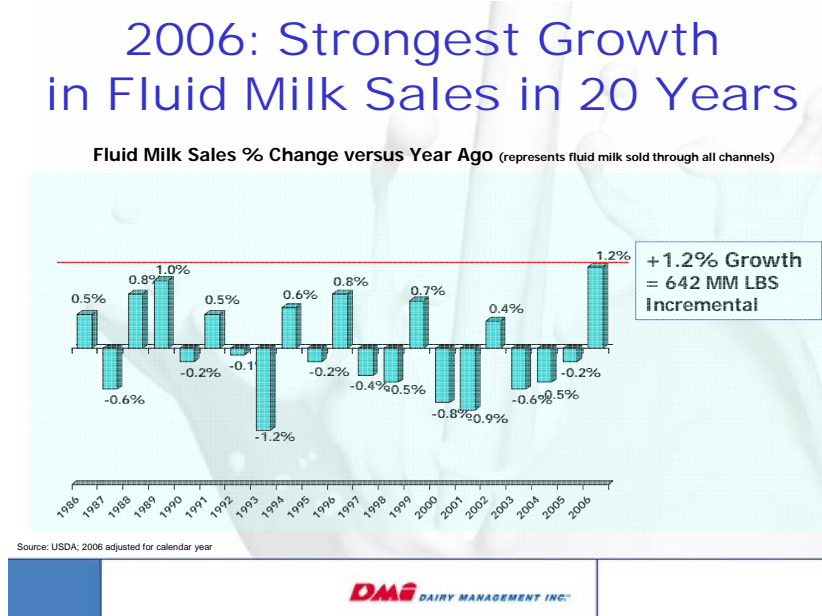
Program as a leader in identifying unmet demand opportunities to grow dairy sales. Additionally, the Global Dairy Platform (GDP) was created with the help of the National Program, which provides management services to GDP through DMI. GDP's role is to direct the development and dissemination of research and information to protect and promote dairy's image, worldwide. Finally, through partnerships with ingredient and food companies, the National Program has affected over \$200 million of industry investment. This means that by working strategically with various food and ingredient companies, the industry invested over \$200 million dollars on advertising, promotion and marketing to help drive dairy sales. For example, the National Program invested \$500,000 with Burger King®, while Burger King® invested tens of millions of dollars on advertising, featuring milk. The National Program invested \$45,000 with Pizza Hut®, while Pizza Hut® invested tens of millions of dollars advertising Cheesy Bites Pizza.

These efforts contributed to stronger fluid milk sales (Figure 4–18). Fluid milk sales in 2006 were up, increasing 1.2 percent over 2005, climbing to 642 million incremental pounds, which represents the largest growth rate that fluid milk has encountered and the largest absolute volume increase in over two decades.

### Leveraging Dietary Guidelines for Three Servings of Dairy a Day

The National Program developed a science-based nutrition road map reflective of the changing nutrition environment. The 2005 U.S. Dietary Guidelines for Americans recommendation of three servings of dairy a day was affirmed by Government agencies at all levels, supported by the health and nutrition community and leveraged by manufacturers and marketers to protect the business climate and promote increased demand and sales for dairy. The goal of the nutrition

**Figure 4–18**



road map is to maintain and increase the substantial support and to encourage the industry to focus on how it can further leverage the nutritional attributes of dairy products as a way to drive sales. The program is focused on three areas:

- **Health Professional Organization Support:** Through successful relationships with the four core health professional organizations (the American Dietetic Association, the American Academy of Family Physicians, the American Academy of Pediatrics, and the National Medical Association), the National Program has developed visible and vocal calls to action to consume three servings of dairy a day for various health benefits/claims.
- **Food Groups to Encourage:** In partnership with Action for Healthy Kids (AFHK), this effort positions dairy as a food to “get more of” as it provides the key “shortfall” nutrients to kids/adults by garnering support from public health and nutrition advocates to follow the U.S. Dietary Guidelines.
- **Nutrient Rich Foods:** Using science, the National Program is developing a new foundation for food guidance based on the whole/intrinsic nutrient package of foods.

## **Growing Fluid Milk Through School and Foodservice Channels**

### **Recapturing Milk as Kids’ “Beverage of Choice”**

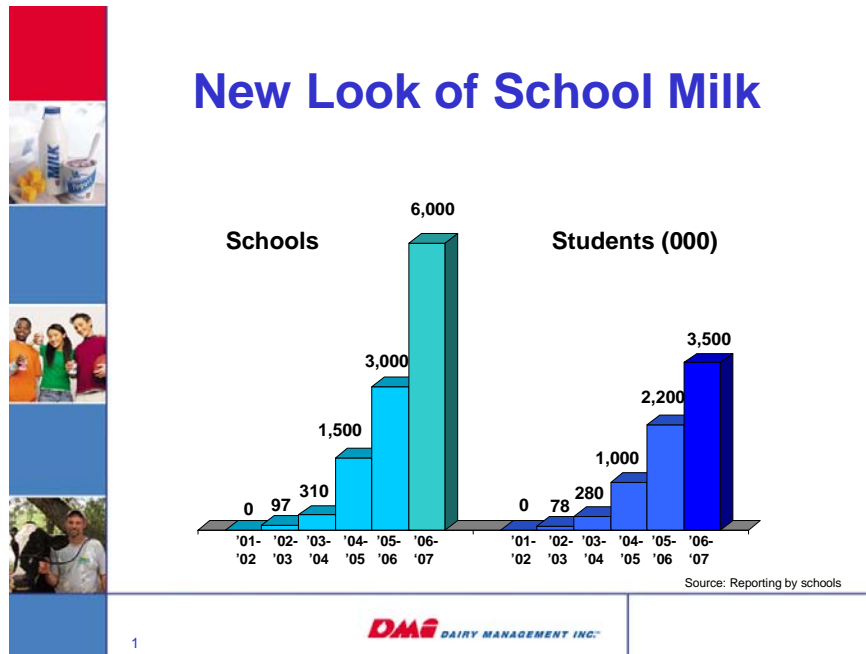
Efforts to build lifelong dairy consumers start with children. Offering kids a different milk experience at school can influence them throughout their lifetimes. The National Program is making aggressive efforts to address the high percentage of children ages 9-19 who do not meet the recommended daily intake of three servings of dairy a day. School-aged children consumed 120 million gallons less milk per year than 10 years ago and most of this volume was 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.

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

Through the New Look of School Milk (NLSM), the National Program is working to reverse the trend of low milk consumption and provide children with positive milk experiences day after day, year after year, creating lifelong dairy consumers. Today, more than 50 individual milk processors provide the new milk offerings to more than 6,000 schools, reaching more than 3.5 million students with a nutritional product in more flavors and at colder temperatures. In 2006 alone, the National Program worked with more than 3,000 schools to successfully convert them from paperboard cartons to milk in single-serve plastic bottles (Figure 4–19).

The NLSM is based on the highly successful School Milk Pilot Test, funded through the National Program investment, which was conducted in 2002 by the National Dairy Council® and the School Nutrition Association. The NLSM program could result in approximately 55 million incremental pounds of milk according to projections made by the National Program.

Figure 4–19



The National 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 was required by law to have a Wellness Policy in place by July 2006. Because low-fat and fat-free dairy foods are one of three food groups that Americans are encouraged to consume more, the inclusion of these foods in the school environment and school wellness policies will help drive better nutrition for children. In an informal Web-based survey at [www.3aday.org](http://www.3aday.org) among 4,000 moms, 92 percent said they are comfortable with their child drinking flavored milk at school.

In addition, the National Program offers these programs that schools can use to fulfill their wellness policy needs:

- Recharge! Energizing After-school™, a partnership with AFHK, is geared for athlete and non-athlete students in grades 3-8. Launched in September 2005, this program reinforces the valuable life skills of healthy eating, physical activity, teamwork and goal-setting through hands-on activities.
- Nutrition Expedition programs are standards-based, teacher-tested nutrition education for second- and fourth-grade students that include student activities, a teacher's guide, and fun interactive games that are based on health, nutrition, and language arts curricula.
- The Expanding Breakfast Program is an alternative breakfast service that helps students start their day with a nutritious breakfast.

## Milk Sales Soar in Foodservice

In the Foodservice arena, the National Program has forged strong, innovative partnerships with fast-food restaurant giants such as Burger King<sup>®</sup>, McDonalds<sup>®</sup>, Wendy's<sup>®</sup> and Sonic<sup>®</sup> Drive-Ins to test and serve milk in plastic single-serve containers as a viable beverage option for their customers. By partnering with national restaurant chains to make milk available in plastic bottles, the dairy checkoff program has helped increase milk sales by more than 200 million pounds of incremental milk sold in 2006, with more than 35,000 restaurants offering single-serve flavored milk (Figure 4–20).

Through dairy checkoff, a combined \$600,000 investment in test-marketing, merchandising, training, and public relations was made to support single-serve milk at Burger King<sup>®</sup> and Sonic<sup>®</sup>. As a result, both chains currently offer a more contemporary, kids-friendly package, better merchandised milk at colder temperatures and in different flavors as part of their package, better merchandised milk at colder temperatures and in different flavors as part of their kids/value meals – in a combined total of slightly more than 10,000 outlets, and the two chains have spent several million dollars in advertising and promotion efforts related to the availability of milk at these restaurants, according to store data. The chart below shows the continued strong growth of milk in foodservice, which has recorded year-over-year increases in servings ranging from 3-14 percent for each of the past 3 years.

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 the National Program). Over time, this will impact long-term consumption if these generations remain milk drinkers as adults.

**Figure 4–20**

## Continued Growth in Restaurant Fluid Milk Servings

% Change in Milk Servings vs Year Ago	2003	2004	2005	2006
Total Foodservice	-4%	+5%	+14%	+3%
- Quick Serve	+0%	+5%	+18%	+3%



Source: NPD CREST

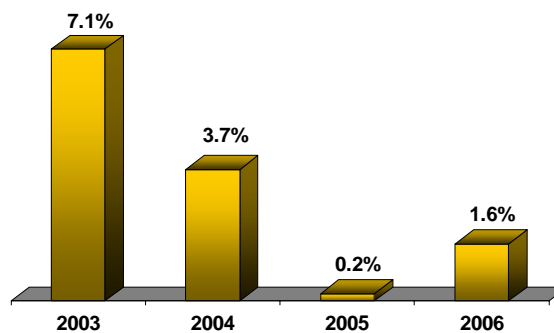
## Satisfying Unmet Demand by Growing Cheese Through Innovation

Overall cheese sales for the past 5 years at retail and foodservice have been relatively strong, according to Information Resources Inc. (IRI). The processed cheese category continues to struggle, yet natural cheeses continue to grow. In 2006, retail cheese sales increased 1.6 percent – up from 0.2 percent the prior year (Figure 4–21). In order to grow the overall cheese category, the National Program is working with industry leaders to drive innovation at retail and other venues. Working with manufacturers to look at new ways to offer low-fat cheese for the weight-conscious consumer and offer these cheeses in portable packages for the person on-the-go are just two examples of the work being done in the cheese arena.

In Foodservice, cheese-friendly menu items continue to drive sales. The National Program works closely with manufacturers, retailers and foodservice chains to create new menu items. For example, in 2006, the National Program partnered with several of the leading quick-serve restaurant chains to offer innovative new pizzas and cheeseburgers that not only make cheese the focal point, but that showcase new cheese varieties as well. As a result of these menu development efforts, Pizza Hut<sup>®</sup> introduced Cheesy Bites pizza, a concept that features string cheese baked into the pizza crust. Wendy's<sup>®</sup> launched a dual Double Melt sandwich concept – cheeseburgers that use Cheddar and Jalapeno Cheddar cheeses. Burger King<sup>®</sup> introduced Cheesy Angus Bacon cheeseburger and its signature, Tendercrisp chicken sandwich. Both featured two slices of American cheese, a slice of Pepper Jack and a cheesy sauce. Dairy checkoff assisted in bringing these cheese-friendly concepts to market in 2006. These efforts channel-wide contributed to an overall incremental cheese sales growth of nearly 30 million pounds – a 5 percent increase over the prior year.

Figure 4–21

### Retail Cheese Sales Percent Change Vs Prior Year



Source: IRI Scanner Data: Grocery, Drug Mass Including Wal-Mart

**DMAI** DAIRY MANAGEMENT INC.<sup>™</sup>

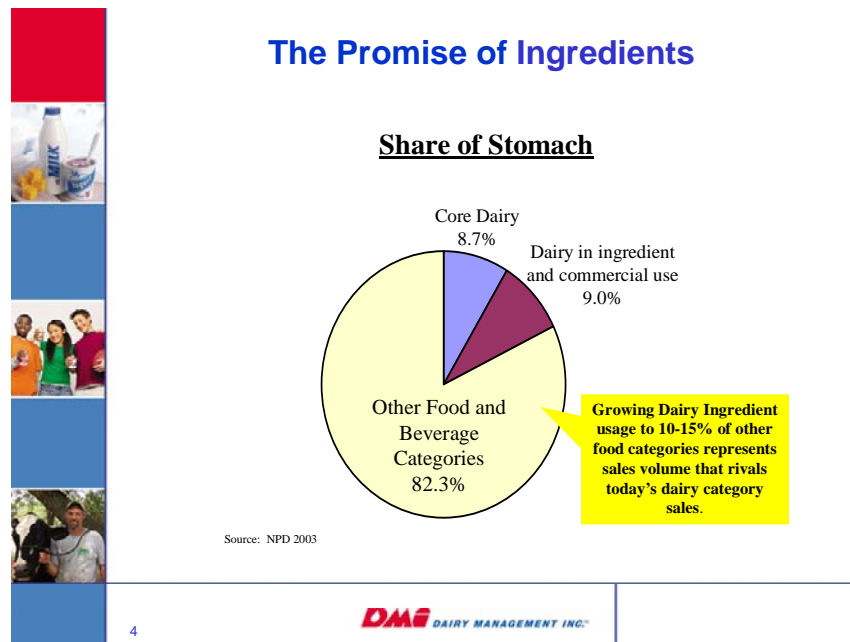
## Satisfying Unmet Demand Through Ingredients and Exports

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

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 2006. The introduction of a new whey protein energy and health bar using whey protein concentrate could result in use of an additional 50,000–100,000 pounds of whey protein, according to manufacturer projections.

The National Program’s work with manufacturers on other dairy ingredients has created a similar effect. By leveraging scientific research and expertise, a major weight-loss drink has been reformulated with more real skim milk which has an estimated impact of 34 to 68 million pounds of milk used annually, according to manufacturer projections. Another flavored dairy-based drink was introduced to the market based on the National Program providing technical education, lab support, regulatory and supplier insights to the beverage manufacturer which could result in 4.3 million incremental pounds of milk used annually according to manufacturer projections. Overall, the promise of dairy ingredients continues to be strong as manufacturers leverage the science and information that supports the reformulation and development of new snack foods, nutritional beverages and new food and drink products.

Figure 4–22





Exports continue to provide profitable outlets for U.S. dairy production. In 2006, U.S. dairy exports were valued at \$1.89 billion, up 13 percent from the prior year (Figure 4–23). The success of 2006 continues a strong 3-year growth trend – since 2003, total U.S. dairy exports are up 77 percent in value. In addition, 98 percent of U.S. dairy exports in 2006 were commercial sales (unassisted).

## Conclusion

The National Program’s many accomplishments paved the road to increased dairy consumption. Successful outreach programs such as the development of nutrition and science research, the NLSM, single-serve milk at food service, and new uses of dairy as an ingredient were possible because of strong dedication by the producer-funded National Program.

The best way to understand the potential 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 huge amount of unmet consumer-driven demand. Consumer-driven demand is characterized by products not currently offered but that consumers want. The key 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.

**Figure 4–23**



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

Region 1 (Oregon and Washington)

Elizabeth L. (Liz) Anderson  
 Onalaska, Washington  
 Term expires 10/31/2009

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

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Region 2 (California)

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

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

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

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

Ronald L. Koetsier  
 Visalia, California  
 Term expires 10/31/2007

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

(One Vacant Position)  
 Term expires 10/31/2008

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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 10/31/2009

## Appendix A-1, continued

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

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

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

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

---

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

Paul L. Kent  
Mora, Minnesota  
Term expires 10/31/2009

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

---

### Region 6 (Wisconsin)

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

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

Peter J. Kappelman  
Two Rivers, Wisconsin  
Term expires 10/31/2009

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

Randy G. Roecker  
Loganville, Wisconsin  
Term expires 10/31/2009

---

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

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

Larry G. Purdom  
Purdy, Missouri  
Term expires 10/31/2009

## Appendix A-1, continued

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

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

---

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

Paul Broering  
St. Henry, Ohio  
Term expires 10/31/2007

Donald E. Gurtner  
Fremont, Indiana  
Term expires 10/31/2009

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

---

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

John M. Larson  
Okeechobee, Florida  
Term expires 10/31/2007

---

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

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

Rita P. Kennedy  
Valencia, Pennsylvania  
Term expires 10/31/2009

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

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Region 12 (New York)

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

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

## **Appendix A-1, continued**

Region 12 (New York)

Sanford Stauffer  
Nicholville, New York  
Term expires 10/31/2009

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

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

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

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

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

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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

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

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

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Region 5 (Florida)

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

## Appendix A-2, continued

### Region 6 (Ohio and West Virginia)

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

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

James B. Green  
Kemps, L.L.C.  
St. Paul, Minnesota  
Term expires 06/30/2010

---

### Region 8 (Illinois and Indiana)

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

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

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

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### Region 10 (Texas)

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

**Appendix A-2, 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

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

Vacant  
Term expires 06/30/2009

---

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

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

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Region 14 (Northern California)

Jay B. Simon  
Super Store Industries  
Stockton, California  
Term expires 06/30/2008

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Region 15 (Southern California)

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



## Appendix A-2, 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 Dean Mooney  
Hiland Dairy Foods Company, L.L.C.  
Springfield, Missouri  
Term expires 06/30/2010

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 06/30/2010

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

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	2005	2006
<b>Income</b>		
Assessments	\$88,621	90,320
Interest	<u>201</u>	<u>965</u>
<b>Total Income</b>	<b>\$88,882</b>	<b>\$91,285</b>
 <b>General Expenditures</b>		
General and Administrative	\$3,627	\$3,759
USDA Oversight	<u>588</u>	<u>757</u>
Total General Expenditures	<b>\$4,215</b>	<b>\$4,516</b>
 <b>Program Expenditures</b>		
Communications and Member Relations	\$11,005	\$15,474
Domestic Marketing	55,901	40,143
Export Enhancement	5,443	5,199
Disbursement for NAEMS Study	-	6,000
Investment in NAEMS Study	-	(5,833)
Hurricane Fund	500	-
Planning and Research	<u>2,386</u>	<u>3,078</u>
<b>Total Program Expenditures</b>	<b>\$75,235</b>	<b>\$64,061</b>
 Excess of Revenue (Under) Over Expenditures	 \$9,432	 \$22,708
 <b>Fund Balance, Beginning of Year</b>	 <b>\$5,889</b>	 <b>\$15,321</b>
 <b>Fund Balance, End of Year</b>	 <b>\$15,321</b>	 <b>\$38,029</b>

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

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

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	<b>2005</b>	<b>2006</b>
Salaries and Benefits	\$319,403	\$382,865
Travel	36,405	46,394
Miscellaneous <sup>1</sup>	55,202	51,688
Equipment	1,651	5,131
Printing	<u>4,744</u>	<u>5,269</u>
<b>USDA Oversight Total</b>	<b>\$417,405</b>	<b>\$491,347</b>
<b>Independent Evaluation</b>	<b>\$92,888</b>	<b>\$95,154</b>
<b>Total<sup>2</sup></b>	<b>\$510,293</b>	<b>\$586,528</b>

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<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 B-1 because of end-of-year estimates which are adjusted in the following year.

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**Appendix B-3**  
**National Dairy Promotion and Research Board**  
**Approved Budgets**  
**(Thousands)**

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	2006	2007
<b>Revenues</b>		
Assessments	\$86,600	\$91,400
Program Development Fund Draw	5,900	7,447
Carryover from Prior Year	-	15,182
Interest	<u>100</u>	<u>360</u>
<b>Total Income</b>	<b>\$92,600</b>	<b>\$114,389</b>
<b>Expenses</b>		
General and Administrative	\$3,853	\$3,874
Amortization of NAEMS Study	-	2,000
USDA Oversight	<u>600</u>	<u>700</u>
<b>Subtotal</b>	<b>\$4,453</b>	<b>\$6,574</b>
<b>Program Budget</b>		
Communications and Member Relations	\$13,472	\$25,633
Domestic Marketing	41,779	49,381
Air Emissions Research	6,000	-
Export Enhancement	4,890	6,335
Research and Evaluation	3,256	3,631
Business Plan Development Fund	13,050	17,200
Emerging Opportunities	<u>5,700</u>	<u>5,635</u>
<b>Subtotal</b>	<b>\$88,147</b>	<b>\$107,815</b>
<b>Total Budget</b>	<b>\$92,600</b>	<b>\$114,389</b>

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

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

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	2005	2006
<b>Income</b>		
Assessments	\$107,061	\$107,850
Late-Payment Charges	99	91
Interest	276	990
Other	<u>510</u>	<u>1</u>
<b>Total Income</b>	<b>\$107,946</b>	<b>108,932</b>
<b>General Expenditures</b>		
California Refund	\$10,199	\$10,308
Administrative	2,001	2,140
USDA Oversight	256	508
USDA Assessment Verification	<u>95</u>	<u>107</u>
<b>Total General Expenditures</b>	<b>\$12,551</b>	<b>\$13,063</b>
<b>Program Expenditures</b>		
Media	\$59,949	66,335
Public Relations	9,979	11,566
Promotions	9,425	10,372
Strategic Thinking	2,092	1,303
Medical Advisory Panel	210	271
American Heart Association	16	120
Medical Research	-	71
Research, Local Markets, and Program Measurement	1,711	1,991
Program Management	<u>145</u>	<u>-</u>
<b>Total Program Expenditures</b>	<b>\$83,527</b>	<b>\$92,029</b>
Excess of Revenue (Under) Over Expenditures	\$11,867	\$3,840
<b>Fund Balance, Beginning of Year</b>	<b>\$12,560</b>	<b>\$24,427</b>
<b>Fund Balance, End of Year</b>	<b>\$24,427</b>	<b>\$28,268</b>

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

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

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	2005	2006
Salaries and Benefits	\$312,353	\$340,185
Travel	19,648	24,441
Miscellaneous <sup>1</sup>	48,705	49,737
Equipment	1,651	3,164
Printing	<u>5,913</u>	<u>2,306</u>
<b>USDA Oversight Total</b>	<b>\$388,270</b>	<b>\$419,833</b>
 <b>Independent Evaluation</b>	 <b>\$30,963</b>	 <b>\$31,718</b>
 <b>Total<sup>2</sup></b>	 <b>\$419,233</b>	 <b>\$451,551</b>

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<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 B-4 because of end-of-year estimates which are adjusted in the following year.

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

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	<b>2006</b>	<b>2007</b>
<b>Revenues</b>		
Assessments	\$106,600	106,000
Interest	<u>-</u>	<u>-</u>
<b>Total Income</b>	<b>\$106,600</b>	<b>\$106,600</b>
Reserve Fund	-	-
Carryover from Previous Fiscal Year	<u>\$5,535</u>	<u>\$1,040</u>
<b>Total Available Funds</b>	<b>\$112,135</b>	<b>\$107,640</b>
<b>Expenses</b>		
General and Administrative	\$2,213	\$2,214
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>10,200</u>
<b>Subtotal</b>	<b>\$12,893</b>	<b>\$12,894</b>
<b>Program Budget</b>		
Advertising	\$69,010	66,166
Public Relations	11,810	10,893
Promotions	11,570	10,650
Strategic Thinking	2,305	1,700
Medical Advisory Panel	330	200
Research	2,095	1,600
Medical Research	205	200
Program Management	-	2,637
Program Measurement	<u>215</u>	<u>200</u>
<b>Subtotal</b>	<b>\$97,540</b>	<b>\$94,246</b>
Unallocated	<u>1,702</u>	<u>-</u>
<b>Total Budget</b>	<b>\$112,135</b>	<b>\$107,040</b>

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<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.

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**Appendix B-7**  
**Aggregate Income and Expenditure Data Reported to USDA**  
**by the 57 Active Qualified Programs**  
**(Thousands)**

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	2005	2006
<b>Income</b>		
Carryover from Previous Years	47,947 <sup>1</sup>	53,810 <sup>1</sup>
Producer Remittances	187,457	181,262
Transfers from Other Qualified Programs <sup>2</sup>	55,439	55,818
Transfers to Other Qualified Programs <sup>2</sup>	-67,222	-52,009
Other <sup>3</sup>	<u>3,657</u>	<u>7,941</u>
<b>Total Adjusted Annual Income</b>	<b>227,278</b>	<b>246,822</b>
<b>Expenditures</b>		
General and Administrative	7,919	8,056
Advertising and Sales Promotion	75,799	72,403
Unified Marketing Plan <sup>4</sup>	50,124	63,534
Dairy Foods and Nutrition Research	4,091	5,122
Public and Industry Communications	14,958	14,019
Nutrition Education	16,590	15,130
Market and Economic Research	1,872	2,641
Other <sup>5</sup>	<u>2,081</u>	<u>1,538</u>
<b>Total Annual Expenditures</b>	<b>173,434</b>	<b>182,443</b>
<b>Total Available for Future Year Programs</b>	<b>53,844<sup>1</sup></b>	<b>64,379</b>

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<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.

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Source: Aggregate income and expenditure data reported by the 57 active Qualified Programs.

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**Appendix B-8**  
**Aggregate Advertising Expenditure Data Reported to USDA**  
**by the 57 Active Qualified Programs**  
**(Thousands)**

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	<b>2005</b>	<b>2006</b>
<b>Advertising Programs</b>		
Fluid Milk	16,100 [21.2%]	12,658 [17.5%]
Cheese	48,170 [63.6%]	46,343 [64.0%]
Butter	2,835 [3.7%]	2,717 [3.7%]
Frozen Dairy Products	71 [0.1%]	411 [0.6%]
Other <sup>1</sup>	<u>8,623</u> [11.4%]	<u>10,274</u> [14.2%]
<b>Total</b>	<b>75,799 [100%]</b>	<b>72,403 [100%]</b>

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

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Source: Aggregate income and expenditure data reported by the 57 active Qualified Programs.

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FINANCIAL STATEMENTS

National Dairy Promotion and Research Board  
Years Ended December 31, 2006 and 2005  
With Report of Independent Auditors

**C-1**  
**National Dairy Promotion and Research Board**

**Financial Statements**

Years Ended December 31, 2006 and 2005

**Contents**

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Report of Independent Auditors

The Board of Directors  
National Dairy Promotion and Research Board

We have audited the accompanying balance sheets of National Dairy Promotion and Research Board (NDB) as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NDB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Dairy Promotion and Research Board as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

April 20, 2007

**C-1**  
National Dairy Promotion and Research Board

Balance Sheets

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 25,577,570	\$ 11,596,487
Assessments receivable, net of allowance for doubtful accounts of \$300,000 in 2006 and 2005	8,553,930	8,813,977
Accrued interest receivable	47,400	984
Investment in NAEMS study, net of accumulated amortization of \$166,667 in 2006	5,833,333	—
Fixed assets, net of accumulated depreciation of \$161,889 and \$139,026 in 2006 and 2005, respectively	32,152	46,740
Total assets	<u>\$ 40,044,385</u>	<u>\$ 20,458,188</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Due to related party – DMI	\$ 1,690,607	\$ 4,776,017
Accounts payable	250,232	162,787
Accrued expenses and other liabilities	137,217	260,096
Total liabilities	<u>2,078,056</u>	<u>5,198,900</u>
Net assets – unrestricted	<u>37,966,329</u>	<u>15,259,288</u>
Total liabilities and net assets	<u>\$ 40,044,385</u>	<u>\$ 20,458,188</u>

*See accompanying notes.*

**C-1**  
National Dairy Promotion and Research Board

Statements of Activities

	<b>Year Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Revenues</b>		
Assessments	\$ 90,320,106	\$ 88,621,371
Interest income	964,672	200,678
Total revenues	91,284,778	88,822,049
<b>Expenses</b>		
Programs:		
Domestic marketing group	40,143,404	55,901,430
Research and evaluation group	3,077,723	2,385,345
Communications/member relations group	15,474,320	11,005,496
Export group	5,199,382	5,443,200
Hurricane Fund	—	500,000
United States Department of Agriculture	757,296	588,852
Amortization of NAEMS study	166,667	—
Total programs	64,818,792	75,824,323
General and administrative:		
DMI general and administrative	3,251,973	3,136,334
General and administrative	506,972	491,556
Total general and administrative	3,758,945	3,627,890
Total expenses	68,577,737	79,452,213
Increase in net assets	22,707,041	9,369,836
Net assets at beginning of year	15,259,288	5,889,452
Net assets at end of year	\$ 37,966,329	\$ 15,259,288

*See accompanying notes.*

**C-1**

## National Dairy Promotion and Research Board

## Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Operating activities</b>		
Change in net assets	<b>\$ 22,707,041</b>	\$ 9,369,836
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of NAEMS study	166,667	-
Depreciation	22,863	12,296
Changes in assets and liabilities:		
Assessments receivable	260,047	(1,225,501)
Accrued interest receivable	(46,416)	(800)
Accounts payable	(2,997,965)	(1,181,498)
Accrued expenses and other liabilities	(122,879)	125,759
Net cash provided by operating activities	<b>19,989,358</b>	7,100,092
<b>Investing activities</b>		
Investment in NAEMS study	(6,000,000)	-
Purchases of fixed assets	(8,275)	(47,850)
Cash used in investing activities	<b>(6,008,275)</b>	(47,850)
Net increase in cash and cash equivalents	13,981,083	7,052,242
Cash and cash equivalents at beginning of year	11,596,487	4,544,245
Cash and cash equivalents at end of year	<b>\$ 25,577,570</b>	<b>\$ 11,596,487</b>

*See accompanying notes.*

**C-1**  
National Dairy Promotion and Research Board

Notes to Financial Statements

December 31, 2006 and 2005

**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 \$16,398,851 and \$15,612,201 and program costs of \$50,747,951 and \$62,259,604 for activity related to the years ended December 31, 2006 and 2005, 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, 2006 and 2005, NDB reimbursed DMI \$5,199,382 and \$5,443,200, respectively, for USDEC's operations.



## C-1

### 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, 2006 and 2005, are unrestricted.

**C-1**  
National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Cash Equivalents**

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

**Assessments**

Assessment revenue is generated by a mandatory assessment of \$0.15 per hundredweight on all milk produced and marketed in the contiguous United States. Milk producers can direct up to \$0.10 per hundredweight to USDA qualified state and regional generic dairy promotion organizations. For the years ended December 31, 2006 and 2005, the net NDB assessment was approximately \$0.0504 and \$0.0506 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 2006 and 2005 was approximately \$409,000 and \$127,000, respectively.

**Fixed Assets**

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

**Contract and Grant Expense**

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

**Income Taxes**

NDB has received a determination letter from the Internal Revenue Service indicating that it is exempt from federal and state income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. There was no unrelated business taxable income for the years ended December 31, 2006 and 2005; therefore, no provision for income taxes has been reflected in the accompanying financial statements related to activities of NDB.

**C-1**  
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:

	<b>2006</b>	<b>2005</b>
Cash	\$ 385,059	\$ 261,302
Federal agency discounted securities	<u>25,192,511</u>	<u>11,335,185</u>
	<u><u>\$25,577,570</u></u>	<u><u>\$11,596,487</u></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, 2006 and 2005, approximately \$68,000 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, 2006 and 2005, 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.

**C-1**  
National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

**5. Net Assets**

During 2006 and 2005, NDB's Board designated a portion of net assets for cash reserves. Total designations of net assets are as follows:

	2006	2005
Designated net assets:		
Cash reserves	\$ 1,800,000	\$ 1,800,000
NAEMS study	5,833,333	-
2007 program activity	5,500,000	-
Total designated net assets	13,133,333	1,800,000
Undesignated net assets	24,832,996	13,459,288
Total net assets	\$ 37,966,329	\$ 15,259,288

In February 2007, the Board designated \$15,182,334 of previously undesignated net assets for 2007 programs.

**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 \$757,296 and \$588,852 for the years ended December 31, 2006 and 2005, respectively.

**7. NAEMS Air Emissions Study**

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

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

**C-1**

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

**7. NAEMS Air Emissions Study (continued)**

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

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

**8. Litigation**

NDB and the USDA were defendants in a lawsuit that claimed the Dairy Promotion Program established by the Dairy Promotion Stabilization Act of 1983 (the Dairy Act) violated the First Amendment right to free speech and free association. During fiscal year 2005, this case was settled in NDB and the USDA's favor.

**National Fluid Milk Processor  
Promotion Board**

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

Year Ended December 31, 2006

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

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**Part I**

Financial Statements and Independent Auditor's  
Report for the Year Ended December 31, 2006

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**Part II**

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

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**Part III**

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

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APPENDIX C



**C-2**

**PART I**

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, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the National Fluid Milk Processor Promotion Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2006, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Certified Public Accountants and Business Advisors**  
4520 East West Highway, Suite 520, Bethesda, MD 20814-3338  
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To the Board of Directors  
National Fluid Milk Processor  
Promotion Board  
Page two

In accordance with *Government Auditing Standards*, we have also issued reports dated March 27, 2007 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.

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

SNYDER, COHN, COLLYER, HAMILTON & ASSOICATES, P.C.  
Bethesda, Maryland  
March 27, 2007

**C-2**  
**National Fluid Milk Processor Promotion Board**

**Balance Sheet**

**December 31, 2006**

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**Assets**

**Current assets:**

Cash and cash equivalents	\$ 22,838,581
Assessments receivable	11,962,517
Investments - held to maturity	2,731,410
Investments - available for sale	71,349
Interest receivable	23,601
Future year costs	3,426,420
Other receivables	156,063

**Total assets** \$ 41,209,941

**Liabilities and net assets**

**Current liabilities:**

Accounts payable	<u>\$ 12,942,706</u>
------------------	----------------------

**Net assets:**

Designated for contingencies	2,500,000
Undesignated	<u>25,767,235</u>

Total net assets 28,267,235

**Total liabilities and net assets** \$ 41,209,941

See Accompanying Notes

## C-2

## National Fluid Milk Processor Promotion Board

## Statement of Revenues, Expenses and Changes in Net Assets

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 For the Year Ended December 31, 2006
 

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<b>Revenues:</b>	
Assessments	\$ 107,850,025
Late payment charges	90,728
Interest income	990,187
Other	<u>894</u>
Total revenues	<u>108,931,834</u>
<b>Expenses:</b>	
Program expenses:	
Media	66,335,085
Promotions	10,372,274
Public relations	11,565,400
Strategic thinking	1,303,265
Research	1,821,168
Medical advisory panel	271,126
Medical research	71,126
American Heart Association	120,000
Program measurement	<u>170,097</u>
Total program expenses	<u>92,029,541</u>
Other expenses:	
California grant	10,307,837
Administrative	2,140,078
USDA oversight	507,907
USDA compliance audit	<u>107,025</u>
Total other expenses	<u>13,062,847</u>
Total expenses	<u>105,092,388</u>
<b>Excess of revenues over expenses</b>	<b>3,839,446</b>
Net assets - beginning	<u>24,427,789</u>
<b>Net assets - ending</b>	<b><u>\$ 28,267,235</u></b>

See Accompanying Notes

**C-2**  
**National Fluid Milk Processor Promotion Board**

**Statement of Cash Flows**

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**For the Year Ended December 31, 2006**

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**Cash flows from operating activities:**

Excess of revenues over expenses	\$ 3,839,446
Changes in assets and liabilities:	
Increase in assessments receivable	(470,701)
Increase in interest receivable	(2,044)
Decrease in future year costs	2,124,381
Decrease in other receivables	3,804
Increase in accounts payable	5,252,904
<b>Net cash provided by operating activities</b>	<u>10,747,790</u>

**Cash flows from investing activities:**

Purchase of investments	<u>(2,731,410)</u>
-------------------------	--------------------

**Net increase in cash and cash equivalents** 8,016,380

Cash and cash equivalents - beginning 14,822,201

**Cash and cash equivalents - ending** \$ 22,838,581

**Supplemental schedule of noncash investing and financing activities:**

In December 2006, per the terms of a processor's bankruptcy settlement, the Board received stock valued at \$71,349 in exchange for a decrease in the amount owed to the Board.

See Accompanying Notes

**C-2**  
**National Fluid Milk Processor Promotion Board**

**Notes to Financial Statements**

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**December 31, 2006**

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**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 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.

**C-2**  
**National Fluid Milk Processor Promotion Board**

**Notes to Financial Statements**

---

**December 31, 2006**

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**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 2006, an allowance for doubtful accounts of \$1,512 has been established for those amounts where the late charges are being appealed.

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

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

Future year costs - Future year costs represent costs incurred for 2007 budget year projects.

Assessments receivable - An allowance for uncollectible accounts has been established for those assessments which management has determined as uncollectible. The total allowance for uncollectible amounts at December 31, 2006 was \$325,049.

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, 2006, 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.



**C-2**  
**National Fluid Milk Processor Promotion Board**

**Notes to Financial Statements**

**December 31, 2006**

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

	Carrying Value
Cash deposits	\$22,437,895
Repurchase agreements	400,686
	\$22,838,581

At December 31, 2006, 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.

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

**Note 3: Investments:**

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

At December 31, 2006, held to maturity securities consisted of the following:

	Issue Date	Maturity Date	Interest Rate	Carrying Amount
U.S. Securities:				
FNMA discount note	11/01/06	05/02/07	5.18%	\$2,731,410

At December 31, 2006, the Board was owed accrued interest of \$23,601.

As of December 31, 2006 the Board held \$71,349 in marketable securities that are classified as short-term investments in the balance sheet. These securities are considered available-for-sale securities and are carried at fair value based on quoted market prices. Unrealized gains and losses were \$-0- for the year ended December 31, 2006.

**C-2**  
**National Fluid Milk Processor Promotion Board**

**Notes to Financial Statements**

---

**December 31, 2006**

---

**Note 3: Investments: (continued)**

The Board received the securities as part of a bankruptcy agreement with a processor that owed assessment revenue to the Board. Per the Board's investment policy, the Board cannot hold investments unless they are U.S. government obligations; therefore, the securities were sold early in 2007.

**Note 4: Compliance matters:**

In accordance with the Act and the Order, effective one year after the date of the establishment of the Board, the Board shall not spend in excess of 5% of the assessments collected for the administration of the Board. For the year ended December 31, 2006, the Board did not exceed this limitation.

**Note 5: Program administration:**

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

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

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, 2006, the Board incurred \$1,119,378 for directly provided services. At December 31, 2006, the Board owed IDFA \$189,643 for costs billed under these agreements.

**C-2**  
**National Fluid Milk Processor Promotion Board**

**Notes to Financial Statements**

---

**December 31, 2006**

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**Note 6: 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.

**Note 7: Operating lease:**

The Board incurred \$129,000 of rental expense during 2006, under a sublease with an automatic renewal option. For 2007, the annual lease payment under the contract will be \$129,000.

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

Under the provisions of the Act and the Order, the Board is required to pay the United States Department of Agriculture certain fees for oversight and evaluation costs. These costs were \$614,932 during 2006.

**Note 9: Related party activity:**

Accounting services for the Board are performed by Rubin, Kasnett & Associates, P.C. (RK&A); the cost of these services was \$300,000 during 2006. A principal of RK&A serves as the Chief Financial Officer of the Board and receives compensation for services performed.

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

**C-2**  
**National Fluid Milk Processor Promotion Board**  
**Notes to Financial Statements**

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**December 31, 2006**

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**Note 9: Related party activity: (continued)**

Other receivables consist of \$156,063 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**



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 2006 appears on pages 1 and 2. We conducted our audit for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 14 to 17 for the year ended December 31, 2006 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

March 27, 2007  
Bethesda, Maryland

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**C-2**  
**National Fluid Milk Processor Promotion Board**

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

**For the Year Ended December 31, 2006**

	Unexpended/ Amended Budget	Current Year Actual	Actual Over (Under) Budget
<b>Revenues:</b>			
Assessments	\$ 106,600,000	\$ 107,850,025	\$ 1,250,025
Late payment charges	-	90,728	90,728
Interest income	-	990,187	990,187
Other	-	894	894
Carryover - prior years	5,535,000	-	(5,535,000)
<b>Total revenues</b>	<b>112,135,000</b>	<b>108,931,834</b>	<b>(3,203,166)</b>
<b>Expenses:</b>			
Program expenses:			
Program - current year	98,080,000	90,563,808	(7,516,192)
Program - prior years	3,711,415	1,465,733	(2,245,682)
<b>Total program expenses</b>	<b>101,791,415</b>	<b>92,029,541</b>	<b>(9,761,874)</b>
Other expenses:			
California grant	10,300,000	10,307,837	7,837
Administrative	2,263,750	2,140,078	(123,672)
USDA oversight	686,000	614,932	(71,068)
<b>Total other expenses</b>	<b>13,249,750</b>	<b>13,062,847</b>	<b>(186,903)</b>
Less: encumbrances - prior years	(3,711,415)	-	3,711,415
<b>Total expenses</b>	<b>111,329,750</b>	<b>105,092,388</b>	<b>(6,237,362)</b>
Unallocated budget	805,250	-	(805,250)
<b>Excess of revenues over expenses</b>	<b>\$ -</b>	<b>\$ 3,839,446</b>	<b>\$ 3,839,446</b>

See Independent Auditor's Report on Supplementary Information

National Fluid Milk Processor Promotion Board

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

For the Year Ended December 31, 2006

	Current Year Amended Budget	Expended Current Year		Actual Over (Under) Budget	Prior Year Unexpended Budget		Expended Prior Year		Actual Over (Under) Budget	Total Program Activity
		Actual	Budget		Budget	Actual				
<b>Expenses - 2006 budget</b>										
Media	\$ 69,445,000	\$ 66,159,896	\$ 678,714	\$ (3,285,104)	\$ 678,714	\$ 175,189	\$ (503,525)	\$ 66,335,085		
Promotions	11,580,000	10,014,546	1,423,860	(1,565,454)	1,423,860	357,728	(1,066,132)	10,372,274		
Public relations	12,070,000	11,339,235	433,571	(730,765)	433,571	226,165	(207,406)	11,565,400		
Strategic thinking	2,080,000	1,120,219	280,818	(959,781)	280,818	183,046	(97,772)	1,303,265		
Research	2,110,000	1,461,445	558,608	(648,555)	558,608	359,723	(198,885)	1,821,168		
Medical advisory board	380,000	270,168	19,304	(109,832)	19,304	958	(18,346)	271,126		
Medical research	201,000	71,126	1,902	(129,874)	1,902	-	(1,902)	71,126		
American Heart Association	-	-	120,000	-	120,000	120,000	-	120,000		
Program measurement	214,000	127,173	44,638	(86,827)	44,638	42,924	(1,714)	170,097		
Program management	-	-	150,000	-	150,000	-	(150,000)	-		
<b>Total program expenses</b>	<b>\$ 98,080,000</b>	<b>\$ 90,563,808</b>	<b>\$ 3,711,415</b>	<b>\$ (7,516,192)</b>	<b>\$ 3,711,415</b>	<b>\$ 1,465,733</b>	<b>\$ (2,245,682)</b>	<b>\$ 92,029,541</b>		

See Independent Auditor's Report on Supplementary Information



**C-2**  
**National Fluid Milk Processor Promotion Board**

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

**For the Year Ended December 31, 2006**

	Current Year Amended Budget	Current Year Actual	Actual Over (Under) Budget
<b>Management contract</b>	\$ 365,000	\$ 339,405	\$ (25,595)
<b>Board meeting expenses</b>	350,000	271,346	(78,654)
<b>Staff salaries and benefits:</b>			
Staff salaries and compensation	435,985	415,167	(20,818)
Staff retirement benefit	43,599	60,014	16,415
Payroll taxes	15,206	15,289	83
Health insurance	8,699	3,509	(5,190)
Life insurance	1,485	648	(837)
Disability insurance	1,591	783	(808)
Workers compensation	743	533	(210)
Other employee benefits	2,334	2,420	86
<b>Total staff salaries and benefits</b>	<u>509,642</u>	<u>498,363</u>	<u>(11,279)</u>
<b>Finance and administration:</b>			
Contract staff	150,000	150,000	-
Financial services	300,000	300,000	-
<b>Total finance and administration</b>	<u>450,000</u>	<u>450,000</u>	<u>-</u>
<b>Other operating expenses:</b>			
Legal	206,000	210,665	4,665
Audits	82,400	91,976	9,576
Office facilities	114,330	111,000	(3,330)
Support and maintenance	18,000	18,000	-
Staff travel	105,000	94,001	(10,999)
Telephone	3,378	2,252	(1,126)
Insurance	35,000	34,919	(81)
Postage and delivery	15,000	15,137	137
Software license and support	-	1,214	1,214
Miscellaneous	10,000	1,800	(8,200)
<b>Total other operating expenses</b>	<u>589,108</u>	<u>580,964</u>	<u>(8,144)</u>
<b>Total administrative expenses</b>	<u>\$ 2,263,750</u>	<u>\$ 2,140,078</u>	<u>\$ (123,672)</u>

See Independent Auditor's Report on Supplementary Information

**C-2**  
**National Fluid Milk Processor Promotion Board**  
**Schedule of Cash Receipts and Disbursements**

**For the Year Ended December 31, 2006**

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<b>Cash receipts from operations:</b>	
Assessments	\$ 107,383,128
Late payment charges	90,728
Interest income	988,143
Other	894
Total revenues	<u>108,462,893</u>
<b>Cash disbursements for operations</b>	(97,715,103)
<b>Cash disbursements for investing activities:</b>	
Purchase of investments	<u>(2,731,410)</u>
<b>Excess of operating receipts over disbursements</b>	8,016,380
Cash and cash equivalents - beginning	<u>14,822,201</u>
<b>Cash and cash equivalents - ending</b>	<u><u>\$ 22,838,581</u></u>

See Independent Auditor's Report on Supplementary Information

**C-2**

**PART II**

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

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

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

We have audited the financial statements of the National Fluid Milk Processor Promotion Board (the Board), as of and for the year ended December 31, 2006, and have issued our report thereon dated March 27, 2007. We have also audited the Board's compliance with requirements applicable to *Government Auditing Standards* and have issued our report thereon dated March 27, 2007.

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

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

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis misstatements or noncompliance with applicable requirements of *Government Auditing Standards*. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements or noncompliance with applicable requirements of *Government Auditing Standards* that is more than inconsequential will not be prevented or detected by the Board's internal control. We noted during the course of our audit one instance where an invoice was paid without any indication on the invoice of its approval for payment.

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

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

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

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

SNYDER, COHN, COLLYER, HAMILTON & ASSOCIATES, P.C.  
Bethesda, Maryland  
March 27, 2007

**C-2**

**PART III**



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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2006, 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 27, 2007. 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, 2006;
- 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;



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

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

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

During the course of our audit, we noted one instance where an invoice was paid without any indication on the invoice of its approval for payment. We also noted that the Board, as part of a processor's bankruptcy settlement, received securities that were not U.S. government obligations. The Board sold this stock early in 2007.

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

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

SNYDER, COHN, COLLYER, HAMILTON & ASSOCIATES, P.C.  
Bethesda, Maryland  
March 27, 2007



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**Appendix D-1**  
**National Dairy Promotion and Research Board**  
**and Dairy Management Inc.**  
**Contracts Reviewed by USDA, 2006**

**Advertising and Marketing Services**

**American Academy of Pediatrics**–Sponsorship; 3-A-Day™ of Dairy Activities  
**American Association of School Business**–Sponsorship Activities  
**American Dairy Association/Dairy Council, Inc.**–Professional Staff Services  
**American Dietetic Association**–Sponsorship; 3-A-Day™ of Dairy Activities  
**American School Food Service Association**–School Foodservice Publications  
**Broadcast Traffic and Residuals, Inc.**–Fluid Milk and Cheese Broadcast Materials and Talent Activities  
**DDB Worldwide Communications Group**–Media Planning Services; 3-A-Day™ of Dairy Creative Advertising  
**Dairy Farmers, Inc.**–Professional Services  
**Flair Communications Agency**–Marketing and Program Management Services  
**Global Dairy Platform**–Management Services  
**Initiative Media Worldwide**–Advertising Commissions Review  
**J. Brown and Associates**–DMI Cheese Co-Marketing Program  
**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; Conference Exhibits  
**Novak Birch**–Marketing and Creative Services  
**Olson Communications**–School Foodservice Merchandising Materials; Mealtime Sampler Activities; Milk Vending Promotion Kits; School Cafeteria Promotion Activities; Foodservice Program Activities; School Promotion Activities; ADA Trade Booth  
**Richter Bros., Inc.**–2006 [www.Dairyfarming.org](http://www.Dairyfarming.org) Strategy  
**RTC**–Dairy Aisle Reinvention  
**School Foodservice and Nutrition**–Nutrition Magazine Inserts  
**Shook Kelley**–Cheese Case Design  
**Siboney USA**–3-A-Day™ Hispanic  
**Slack Barshinger and Partners**–Integrated Marketing Communications  
**Stagnito Communications**–LISN Awards Program  
**Team Services, LLC**–NFL and Sports Marketing Services  
**VNU, Inc.**–Licensing Agreement  
**WebMD**–Newsletter and Quick Quiz Activities (Web-based)  
**Willard Bishop**–Category Management Consulting  
**Wisconsin Milk Marketing Board**–National Butter Program

## Appendix D-1, continued

### **Public Relations and Nutrition Education**

**Action for Healthy Kids, Inc.**—Sponsorship

**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); [www.3aday.org](http://www.3aday.org) Web site activities

**Dairy Farmers, Inc.**—Communication Activities

**Destination Imagination, Inc.**—Destination Imagination Sponsorship

**Edelman Public Relations Worldwide**—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

**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 and Consulting Services

**I-Site Web Design**—School Marketing Web Program

**Image Base Corporation**—Video News Release Production; School Milk Video Project

**Integer Group**—Dairy Producer Communications Program

**JDG Consulting**—Dairy Issues Management

**Media Management Services**—Pyramid Café/Pyramid Explorations Newsletter

**National Cattleman's Beef Association**—Naturally Nutrient Rich Score Project

**National Dairy Shrine**—Dairy Scholarship Program

**Nutrition Impact LLC**—Nutrient Density Index

**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**—European Newsletter; Milk Protein Ingredient Study

**ABC Translation Services**—Technical and Safety Evaluation Assessments

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

**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

**Data Development Worldwide**—Evaluation Study

**GVI Productions**—Development and Production of Promotional Video

## Appendix D-1, continued

### Export, continued

**Garrison Group, LLC**–Consulting, Editorial, and Promotional Services

**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

**JDG Consulting**–USDEC Domestic Communications Plan

**Landell Mills**–Global Dairy Ingredients Market Study; Brazilian Market Research; Milk Minerals Research; Chinese Dairy Ingredient Market Study; East African Dairy and Soy Markets Research

**Levitt Communication**–International Consulting Services

**Market Makers**–Japanese Market Representative and 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)

**Schonrock Consulting**–Export Guide Analysis

**Stanton, Emms, and Sia**–Asian Market Study-Consumer Packaged Dry Formulas

**Story Consulting**–Consulting Services

**TCE Consulting Group**–Food and Nutrition Conference Activities, Tunis

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

### 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; U.S. Shelf Stable Study; DSD Services-Yogurt

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

**Burrelle's Newsclip Analysis Service**–Media Monitoring and Analysis

**CFE Solutions, Inc.**–Consulting Services

**C & R Research**–Educational Materials Research Evaluation

## Appendix D-1, continued

### **Market and Economic Research, continued**

**CY Research, Inc.**–Milk and Cheese Creative Testing; Dairy Weight Loss Research Awareness

**Caxy Consulting**–Evaluation of DMI Web Sites

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

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

**Datacore Marketing**–Database Management and Consulting

**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**–Deli Cheese Tracking Data

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

**Green House Communications**–Foodservice Program Activities

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

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

**KRC Research**–3-A-Day™ Tracking Survey

**MSW**–3-A-Day™/Osteoporosis Test; Advertising Focus Group Analysis; 3-A-Day™ Bone Health Test

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

**Marketing Concepts**–Product Innovation and Research Program; Real Seal Administration

**Maskowitz-Jacobs**–Reduced-Calorie Flavored Milk Study

**Mintel International Group**–New Products Database and Market Intelligence Reports

**National Medical Association**–Role of Dairy in the African American Diet

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

**New American Dimensions**–Hispanic Market Research

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

**NPD Group**–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; Hispanic Market Database; Shopper Insight Analysis

**Palma Companies**–Qualitative Research

**PHD Technologies**–Meat Applications and Consulting; Trade Mission Activities

**Pravail!**–Hispanic Consumer Research

## Appendix D-1, continued

### Market and Economic Research, continued

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

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

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

**QFacts Marketing Research**–Cheese Shreds Test

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

**Results Direct**–Database Development; Multi-Lingual Activity Support

**Shainwright Consulting**–Consulting and Research Services

**Smith Dairy Products**–Milk in Single-Serve Plastic Containers for Schools

**Southern Foods**–Milk in Single-Serve Plastic Containers for Schools

**Spectra Marketing Systems**–Marketing Research Activities

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

**Talent Partners**–Broadcast Traffic Services

**Technomic**–Foodservice Trend Drivers

**Teri Gacek Associates**–Qualitative Market Research Assignments; Focus Group Testing; Organic Milk Focus Groups; Naturally-Nutrient Rich Qualitative Research; Value-Added Cheese Study

**Trion Group LP**–Value-Added Milk; Consulting Services

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

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

**Upstate Farms Cooperative**–School Milk Research Activities

**Video Monitoring Services**–Broadcast Monitoring

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

**Appendix D-2**  
**National Fluid Milk Processor Promotion Board**  
**and International Dairy Foods Association**  
**Contracts Reviewed by USDA, 2006**

**Medical Advisory Board**

**Christine Economos, Ph. D.**–Medical Advisory Board Member Services

**Steve Abrams, M.D.-Baylor College of Medicine**–Medical Advisory Board Member Services

**Advertising, Promotion, and Public Relations**

**CMGRP, Inc., d.b.a. Weber Shandwick**–Public Relations Services and Website Activities

**American Dietetic Association**–Body by Milk and Think About Your Drink Campaigns

**Draft, Inc.**–Promotional Services

**Fastspot**–Website Service and Support

**Lowe Worldwide**–Advertising Services

**Outloud, L.L.C.**–Marketing Communications Plan

**Publicidad Siboney**–Hispanic Marketing Program

**Market Research and Evaluation**

**Beverage Marketing Corporation**–Consulting/Competitive Strategy Development

**C&R Research Services**–Market Research

**Data Development Corporation**–Market Research

**Environ International Corporation**–Research Analysis

**Harris Interactive**–Market Research

**Information Resources, Inc.**–Market Analysis

**Marketing Management Analytics**–Marketing Mix Analysis

**Outloud**–Marketing Communications/Strategic Planning

**Phoenix Cultural Access Group**–Hispanic Market Research

**P.O.V. Marketing**–Consulting Services; Temporary Staff Support

**Prime Consulting Group**–Consulting Services, Survey Analyses; and Strategic Planning

**RealMediaValue Company**–Media Evaluation Services

**Scherer Cybrarian Services**–Temporary Staff Support

**Teenage Research Unlimited**–Qualitative Teenage Market Research/Focus Groups

**Willard Bishop**–Consulting Services

**Widener-Burrows**–Analyses of Media Advertising

**Other Agreements**

**Inland Printing**–Customer Service Activities

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

## **Appendix E-1**

### **Nutrition and Health Research Institute and Dairy Foods Research Centers, 2006**

#### **Nutrition and Health Research Institute**

##### **Genetics and Nutrition Institute**

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

#### **Dairy Foods Research Center**

##### **California Dairy Research Foundation**

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

##### **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.

##### **Wisconsin Center for Dairy Research**

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



## **Appendix E-2**

### **Dairy Foods Competitive Research Activities, 2006**

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

**Joseph E. Marcy, Ph.D.** (Virginia Polytechnic Institute): Ensuring Stability of Natamycin on Shredded Cheese to Prevent Mold Growth [completed in 2006]

**NIZO Food Research** (Private Company): Milk Protein Concentrate Functional Study [began in 2006] and Permeate Functionality and Utilization [completed in 2006]

**Shan-Tian Yang** (Ohio State University Research Foundation): Production of Galacto-Oligosaccharides from Whey Lactose [began in 2006]

## **Appendix E-3**

### **Nutrition Competitive Research Activities, 2006**

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

**David J. Baer, Ph.D.** (USDA-Agricultural Research Service): Effects of Trans-Fatty Acids from Ruminant Sources on Risk Factor for Cardiovascular Disease [began in 2006]

**Leann L. Birch, Ph.D.** (Pennsylvania State University): Parental Influence on Girls' Calcium Intake and Bone Mineral Content and Weight Status–Phase III [began in 2006]

**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 [terminated in 2006]

**Joseph Donnelly, Ph.D.** (University of Kansas Center for Research, Inc.): The Effects of Dairy Intake on Weight Maintenance and Metabolic Profile [continued in 2006]; Substrate Oxidation in Children in Response to Exercise with High and Low Intake [completed in 2006]

**Michael Holick, Ph.D., M.D.** (Boston University School of Medicine): The Effect of Dietary Calcium and Vitamin D on Prostate Cancer [began in 2006]

**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 [completed in 2006]; Impact of Dairy Foods and Dairy Associated Nutrients on Risk of Colorectal Cancer [began in 2006]; and Impact of Dairy Foods and Dairy Associated Nutrients on Risk of Prostate Cancer [began in 2006]

**Elsa M. Janle, Ph.D.** (Purdue University): Potential of Dietary Whey Protein to Ameliorate the Development of Diabetes in the Zucker Diabetic Rat [continued in 2006]

**Donald K. Layman, Ph.D.** (University of Illinois): Meal Responses to Whey Proteins Enhance Adult Health [began in 2006]

**Joan M. Lappe, Ph.D.** (Creighton University): Pilot Project Preparatory to a Definitive Study of the Efficacy of Milk Minerals in Human Bone Health [continued in 2006]

**Edward Melanson, Ph.D.** (University of Colorado): Effects of High and Low Calcium Diets on Fat Metabolism During and After Exercise [completed in 2006]

**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 2006]; Dairy Intake: Its Determinants and Relation to a Healthy Diet [continued in 2006]; Dairy Intake Patterns and

### Appendix E-3, continued

Metabolic Syndrome Among Children and Adolescents [completed in 2006]; Effects of Early Dairy Intake on Adolescent Bone Density and Content [began in 2006]; and The Effects of Dairy Intake in Girls Over Ten Years Old [began in 2006]

**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 [terminated in 2006]

**Mary Murphy, M.S., R.D.** (ENVIRON): Flavored Milk Study [began in 2006]

**Theresa Nicklas, Ph.D.** (Baylor College of Medicine): Dietary Calcium Intake and Dairy Product Consumption by Minority Mothers [began in 2006]

**Stuart Phillips, Ph.D.** (McMaster University): Impact of Whey, Casein, and Soy Supplementation on Human Muscle Protein Turnover after Resistance Training [continued in 2006]; Whey Protein Beverage Study Supporting Muscle Protein Synthesis [completed in 2006]

**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 [completed in 2006]

**Debra Sullivan, Ph.D.** (University of Kansas Medical Center): Synergistic Effect of Dairy Foods on Metabolism—A Mechanistic Study [completed in 2006]

**Dorothy Teegarden, Ph.D.** (Purdue University): Effect of Calcium Education Intervention on Body Fat Mass in Adolescents [completed in 2006]

**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 [continued in 2006]

**Connie Weaver, Ph.D.** (Purdue University): Dairy versus Calcium Carbonate in Promoting and Retaining Peak Bone Mass [completed in 2006]; Calcium, Dairy, and Body Fat in Adolescents [continued in 2006]

**Robert Wolfe, Ph.D.** (University of Texas Medical Branch): Dose-Dependent Effects of Whey Protein on Muscle Protein Synthesis [completed in 2006]

**Michael B. Zemel, Ph.D.** (University of Tennessee Research Foundation): Role of Dairy Components in Weight Control and Fat Loss [completed in 2006]; Role of Dairy Products in Weight Maintenance: Prevention of Weight Regain Following Weight Loss [completed in 2006]; Dietary Calcium and Dairy Modulation of Oxidative and Inflammatory Stress in Mice [began in 2006]; and Dietary Modulation of Oxidative and Inflammatory Stress in Overweight and Obese Subject [began in 2006]

**Appendix F**  
**Qualified State or Regional Dairy Product Promotion,  
Research, or Nutrition Education Programs, 2006**

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

**American Dairy Association and Dairy  
Council Mid East**  
5950 Sharon Woods Blvd.  
Columbus, OH 43229

**American Dairy Association and Dairy  
Council, Inc.**  
219 South West Street, Suite 100  
Syracuse, NY 13202

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

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

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

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

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

**American Dairy Association of Nebraska**  
8205 F Street  
Omaha, NE 68127-1779

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

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

**American Dairy Association of  
South Dakota**  
2015 Rice Street  
St. Paul, MN 55113

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

**California Manufacturing Milk Producers  
Advisory Board**  
3800 Cornucopia Way, Suite D  
Modesto, CA 95358-9492

**California Milk Producers Advisory Board**  
3800 Cornucopia Way, Suite D  
Modesto, CA 95358-9492

**Dairy Council of California**  
1101 National Drive, Suite B  
Sacramento, CA 95834-1945

**Dairy Council of Michigan**  
2163 Jolly Road  
Okemos, MI 48864

## Appendix F, continued

### **Dairy Council of Nebraska**

8205 F Street  
Omaha, NE 68127-1779

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

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

### **DairyMAX**

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

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

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

### **Granite State Dairy Promotion**

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

### **Idaho Dairy Products Commission**

10221 West Emerald, Suite 180  
Boise, ID 83704

### **Illinois Milk Promotion Board**

1701 Towanda Avenue  
Bloomington, IL 61701

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

9360 Castlegate Drive  
Indianapolis, IN 46256

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

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

### **Maine Dairy and Nutrition Council**

333 Cony Road  
Augusta, ME 04330

### **Maine Dairy Promotion Board**

333 Cony Road  
Augusta, ME 04330

### **Michigan Dairy Market Program**

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

### **Mid-Atlantic Dairy Association**

325 Chestnut Street, Suite 600  
Philadelphia, PA 19106

### **Midwest Dairy Association**

2015 Rice Street  
St. Paul, MN 55113

### **Midwest Dairy Council**

2015 Rice Street  
St. Paul, MN 55113

### **Milk for Health on the Niagara Frontier, Inc.**

4185 Seneca Street  
West Seneca, NY 14224

### **Milk Promotion Services of Indiana, Inc.**

9360 Castlegate Drive  
Indianapolis, IN 46256

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

2015 Rice Street  
St. Paul, MN 55113

## Appendix F, 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, Inc.**

1034 Commonwealth Avenue  
Boston, MA 02215

**New England Dairy Promotion Board**

1034 Commonwealth Avenue  
Boston, MA 02215

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

PO Box 330  
Trenton, NJ 08625-0330

**New York State Dept. of Agriculture and Markets**

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

**North Dakota Dairy Promotion Commission**

2015 Rice Street  
St. Paul, MN 55113

**Oregon Dairy Products Commission**

10505 Southwest Barbur Boulevard  
Portland, OR 97219

**Pennsylvania Dairy Promotion Program c/o Pennsylvania Dept. of Agriculture**

2301 North Cameron Street  
Harrisburg, Pennsylvania 17110-9408

**Promotion Services, Inc.**

5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**Rochester Health Foundation, Inc.**

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

**St. Louis District Dairy Council**

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

**Southeast United Dairy Industry Association**

5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**Southwest Dairy Museum**

P.O. Box 936  
Sulphur Springs, TX 75483

**Tennessee Dairy Promotion Committee**

5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**Vermont Dairy Promotion Council**

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

**United Dairymen of Arizona**

2008 S. Hardy Drive  
Tempe, AZ 85282

## **Appendix F, continued**

### **Utah Dairy Commission**

1213 East 2100 South  
Salt Lake City, UT 84106

### **Washington State Dairy Council**

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

### **Washington State Dairy Products Commission**

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

### **Western Dairyfarmers' Promotion Association**

12000 North Washington Street, Suite 200  
Thornton, CO 80241

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

8418 Excelsior Drive  
Madison, WI 53717

# Appendix G-1 National Dairy Promotion and Research Board

**3-A-Day of Dairy™ and New Look of School Milk Advertising**  
**Target Audience: Moms, Teens, and Kids**  
**Source: Dairy Management Inc.**



3-A-Day™ Superbowl



3-A-Day™ Osteoporosis  
Consumer Advertorial



3-A-Day™ Best  
Measure



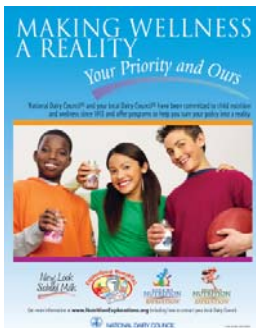
3-A-Day™ Osteoporosis  
Physicians Advertorial



3-A-Day™ Logo



3-A-Day™  
Osteoporosis  
Dieticians Advertorial



NLSM Wellness Full



NLSM Wellness  
Horizontal 1/2



NLSM Wellness  
Vertical 1/2



## Appendix G-1, continued

**School Marketing and Multi-Program Advertising**  
**Target Audience: Elementary and Secondary Faculty/School Administrators**  
**Source: DMI/National Dairy Council**



NLSM Marketing 1



NLSM Advertorial



NLSM Marketing 2



NLSM Marketing 3



NLSM Logo



NLSM Marketing 4



NLSM Multi-Program Full



NLSM Multi-Program  
Horizontal 1/2



NLSM Multi-Program  
Vertical 1/2

## Appendix G-2 National Fluid Milk Processor Promotion Board

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



Beyoncé and Tina Knowles



The View Cast



Sheryl Crow



Robin Seaber

milk  
your diet. Lose weight!  
24 oz. / 24 hours



Elizabeth Hurley



Erik Chopin



Serena Williams



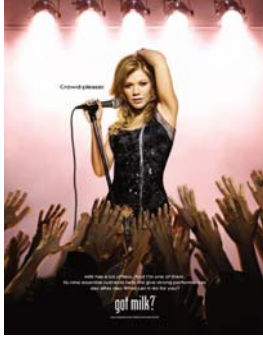
Elizabeth Hurley

## Appendix G-2, continued

### Active, Bone Growth, and Healthy Weight Messages

Target Audience: Teen Girls and Teen Boys

Source: MilkPEP/Lowe Worldwide



Kelly Clarkson



Beyoncé and Solange Knowles



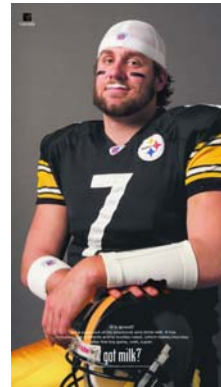
Ben Roethlisberger and Matt Hasselbeck



Superman



Freddy Adu



Ben Roethlisberger



Donovan McNabb



Mischa Barton



Lindsay Davenport



Appendix G-2, continued

Active, Bone Growth, and Healthy Weight Messages  
 Target Audience: Teen Girls and Teen Boys  
 Source: MilkPEP/Lowe Worldwide



Sasha Cohen



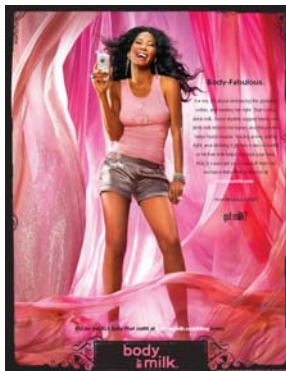
Alex Rodriguez



David Beckham



Carrie Underwood



Kimora Lee Simmons



Kimora Lee Simmons



BBM<sup>SM</sup> Rewards - School Milk Poster 1



BBM<sup>SM</sup> Rewards - School Milk Poster 2

## Appendix G-2, continued

### School Milk Posters

Source: MilkPEP/Lowe Worldwide

#### Elementary Schools:



Freddy Adu



Raven-Symone

#### Middle and High Schools:



Serena Williams



David Beckham



Sasha Cohen



Freddy Adu

body  
by milk<sup>SM</sup>

## Appendix G-2, continued

### Contest/Trade Advertisements/Web Banners

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



Healthiest Student Bodies



BBM<sup>SM</sup> Ad Front



BBM<sup>SM</sup> Ad Back



Milk Your Diet and Wake Up to Weight Loss



Paula Buser - Spotlight On Winner



Celebrate Success Advertorial



2006 SAMMY Kickoff



Laurel and Moti Almakias - Spotlight On Winners



2006 SAMMY Winners



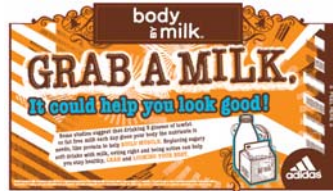
## Appendix G-2, continued

### Contest/Trade Advertisements/Web Banners

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



Beckham BBM<sup>SM</sup> Webpage



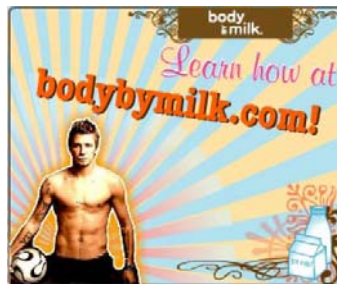
BBM<sup>SM</sup> Cling



Pink BBM<sup>SM</sup> Cling



BBM<sup>SM</sup> Webpage



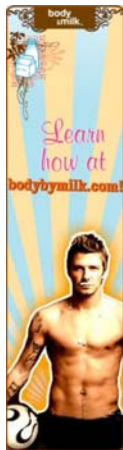
Beckham Web Banner



Biggest Loser Web Banner



BBM<sup>SM</sup> Web Banner



Beckham Web Banner



BBM<sup>SM</sup> Online Auction Home and Bid Pages



BBM<sup>SM</sup> Rewards Cling

Appendix G-2, continued

Hispanic Materials

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



Despierta Advertorial



Sofia Vergara



Despierta America Cast



Celebrate Success Static Cling En Español



Recipe Booklet En Español



Wake Up to Weight Loss Static Cling En Español



Wobbler En Español



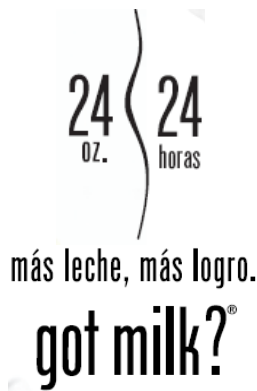
People En Español



Sofia Vergara Advertorials



Despierta Milk Mobile



Wake Up to Weight Loss and Nuestra Gente Advertorials



## Appendix G-2, continued

### Public Relations Materials

Source: MilkPEP/Weber Shandwick



Got news? Screen Grab



Body By Milk<sup>SM</sup> Logo



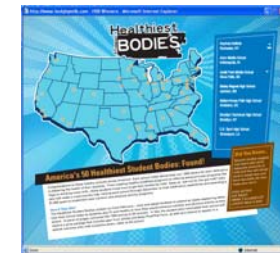
SAMMY BBM<sup>SM</sup> Webpage



Mother-Daughter Brochure



2006 SAMMY Logo



HSB Winners on BBM<sup>SM</sup> Webpage



HSB Webpage



Healthiest Student Bodies



BBM<sup>SM</sup> Webpage



2006 MMM Truck



Healthiest Student Bodies Email



Chocolate Milk Recovery Beverage

## Appendix G-2, continued

### Promotions Materials

Source: MilkPEP/DRAFTFCB



Curves Wobbler



Curves Cling



Tear Pad Front



Tear Pad Back



Wake Up to Weight Loss Cling



Hispanic Sustaining Cling



Hispanic Sustaining Banner



Wake Up in Paradise Sweepstakes Cling



Hispanic Sweepstakes Cling



Hispanic Wobbler



Sweepstakes Wobbler

## Appendix G-2, continued

### Promotions Materials

Source: MilkPEP/DRAFTFCB



Wake Up In Paradise Online Sweepstakes



Online Sweepstakes Entry



Online Sweepstakes Tell A Friend



Online Sweepstakes Bottle Graphic



Online Sweepstakes Enter UPC Code



Online Sweepstakes Passport Graphic



## Appendix G-2, continued

### Promotions Materials

Source: MilkPEP/DRAFTFCB



Celebrate Success Counter Card



Celebrate Success Cling



Tear Pad Cling



Hispanic Cling



Celebrate Success Wobler



Celebrate Success Sweepstakes Cling



Tear Pad Front and Back



Hispanic Sweepstakes Cling



Hispanic Wobler



Celebrate Success Journal Cover



Celebrate Success Shipper

Appendix G-2, continued

Promotions Materials

Source: MilkPEP/DRAFTFCB



Official Drink of Halloween Vertical Cling



Official Drink of Halloween Gallon Channel Strip



Official Drink of Halloween Bottle Channel Strip



Official Drink of Halloween Chocolate Milk Banner



Official Drink of Halloween Horizontal Cling

**Appendix G-2, continued**

**Television Advertisements**

**Source: MilkPEP/Lowe Worldwide**



“Magic Moments: Pool” (:30 TV spot)



“Magic Moments: New Day” (:30 TV spot)



“Magic Moments: New Dress” (:30 TV spot)



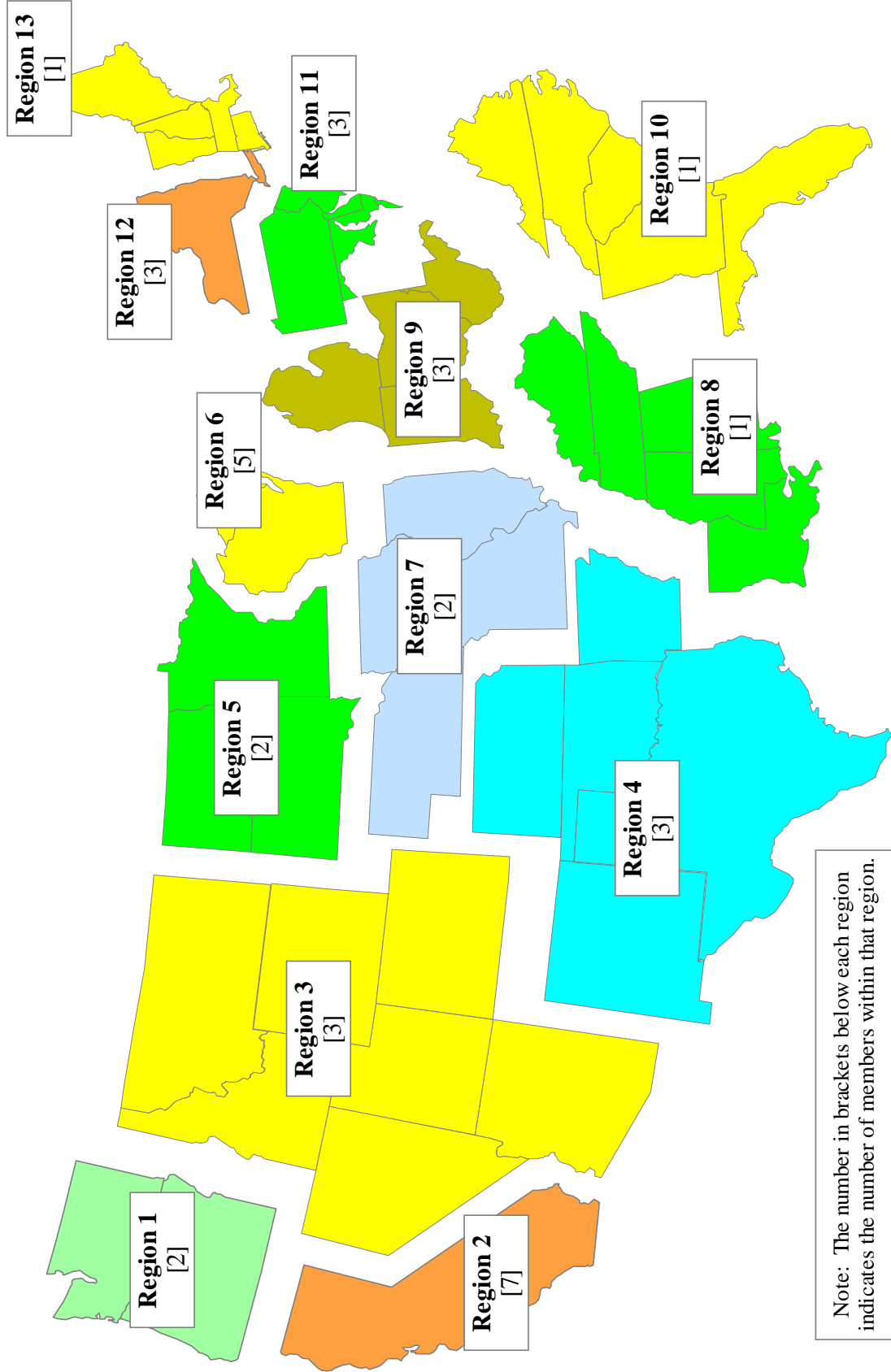
“Magic Moment: Beach” (:30 TV spot)



“Magic Moments: Escalator” (:30 TV spot)



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



Note: The number in brackets below each region indicates the number of members within that region.

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

