

FMMO Producer Handler Hearing  
Gene Carrejo – Price's Creamery  
May 2009

My name is Gene Carrejo, I am the general manager of Price's Creameries located at 600 N Piedras, El Paso, TX. I first began in the dairy industry working with my Dad on a route for Creamland Dairies, in Albuquerque, New Mexico. I earned a bachelors degree in Business and Marketing from the University of New Mexico. In total, I have been employed in the dairy industry 30 years. I spent my first seven years at Creamland before transferring to Prices. I have been with Price's Creamery for 23 years and the general manager for 17 years. In my capacity as the general manager I oversee all Price's Creamery's departments. I also have full responsibility for the profitability of Price's. I have the lead responsibility on all local and national key customers.

Price's is the fifth oldest business in El Paso, dating back to its formation in 1906. The family business started in January of 1906 with the purchase of a cow. In the early days the family milked cows, packaged milk and distributed it. The business moved to the current location in 1933. In 1979, the Price family sold the business to Dean Foods. Today, the business employs 170 employees and produces packaged milk and juice/drink products. In consumer focus studies that have been done with El Paso residents, the Price's brand recognition is equivalent with Coke, McDonald's, and Budweiser.

The company serves customers and consumers in El Paso County Texas. The total marketing area from Price's reaches from the west Texas border as far west as the east Arizona border and from Truth or Consequences, New Mexico as far south as the Mexico

border. We service our customers directly. We also export some milk into the Republic of Mexico. We purchase all of our milk from a cooperative.

I am here to testify about my experience selling milk and competing with an unregulated producer-handler. Specifically, the rapid impact of a new producer handler has been demonstrated in my home market. In very few months we have seen a new producer handler enter our market. In the balance of my testimony I would like to articulate the market, the size of this new entrant and the size of the market that I believe is at risk.

The first clear sign of GH's entry in the market was as El Paso's school milk was up for bid. There are three major school districts in El Paso: Ysleta School district, (lower valley – far eastern suburb), Socorro School District (lower valley – eastern suburb), and El Paso Independent School District. Each district has their own bid process and they are opened at different times. We went through our normal process of constructing the price we were going to bid for the school business. Price's Creameries was successful on the first two school districts, but then lost the El Paso Independent School District. We had served the El Paso School district for many years. We know the population of El Paso is currently static so our experience tells us this business is 20,000 gallons of milk per week. Interestingly, when school started the GH El Paso facility was not opened. We surveyed the schools to find the plant code was not from a facility in El Paso, rather it was from Las Vegas, Nevada. The Nevada plant code continued to be in the schools until the students returned from Christmas break, at which point the GH El Paso facility had begun production and the product had the GH plant code on it.

There is a large military base (the second largest in the world) in El Paso, Fort Bliss. We have done business at that base since my tenure at Price's. We continue to serve the commissary, but GH has been selling some milk there beginning in early 2008. From our observations of our sales and the business before GH and since, it appears GH is selling about 3,000 gallons per week to the commissaries at Fort Bliss.

We have a couple of local retailers that cater to the Hispanic market, both of which have a long history with Prices. They are each local businesses; one has four stores the other has two stores and all stores are located in El Paso. We lost business at each of these to GH, but they continue to carry Price's brand. From our observations of our sales and the business before GH and since, it appears GH is selling about 4,000 gallons per week to these businesses in El Paso.

In servicing our accounts we have drivers around town that have observed that GH has four routes. We run similar route trucks and we know their capacity. With four routes running I would expect that to amount to about 4,000 to 5,000 gallons per week per route. While I can't provide a list of exactly the customers that have been picked up to fill these routes, we see them at work and understand the capacity. I would estimate this to be between 16,000 and 20,000 gallons of milk per week.

The final and most significant piece of business that is being served today by GH is a national retailer that is continuing to grow in the US. This is a customer we have served

since 1990. This business left in two stages. The first was lost on March 16, 2009 and amounted to six stores, which are large format and large volume. The second loss occurred on April 13, 2009 and was four stores, these are much smaller format and less volume, but have higher velocity compared to most single store operations. The total of the above loss was 66,000 gallons per week. I can state this with confidence, as we had the exact business within the past 60 days, and we continue to distribute the Price's brand into these stores.

GH's manufacturing began in El Paso in November 2008 and from there we have seen an operation start up and gain market share to a point where they have at least 109,000 gallons per week. If one takes that volume over 52 weeks and back into months it is roughly 472,000 gallons per month. For those who don't think in gallons, a gallon weighs roughly 8.6 pounds so this would translate into just over 4,000,000 pounds of milk per month.

When I evaluate the marketplace where Price's competes, there are packaged gallons and half-gallons sales of approximately 925,000 gallons per week. Today, this area is served at some level by the following: Price's (El Paso, Tx), GH (El Paso, Tx), Natures (Roswell, NM), Shamrock (Phoenix, AZ), Plain's Dairy (Amarillo, Tx), and others (broadliners and retail distribution centers). In my estimation looking at the competition it would appear that of the 925,000 gallons about 752,000 gallons or 80% of the volume in the marketplace is at risk to be taken by a producer handler. It is not 100 percent of the

market only because of distribution centers, entrenched private label relationships, institutional one stop shopping, and vertically integrated businesses.

So there are 752,000 gallons available and today GH has 109,000 gallons. The footprint of the property they purchased and the work that has been done leads me to estimate the plant is about 85,000 square feet. Through industry contacts I have learned their cooler capacity is about 30,000 square feet. In comparison our facility that I operate has a footprint of less than half of this plant and has cooler space of 21,000 square feet. I am confident the 109,000 gallons is significantly less than the plant's capacity. From my observations and information, I believe 752,000 gallons a week is realistic production within GH's existing investment.

My milk supply comes from Don Ana County, New Mexico, which is about 24 miles from my facility. Our plant processes this milk into a quality product that has powerful brand recognition. We are recognized in our community as a company who invests in the quality of life of our children through many grass root programs. We are also committed to excellence in serving our customers, and receive feedback to this effect. To this point the retailer that has taken business from us has audited our plant by their quality standards and has given us a 100% score. I am not aware of another facility that received such a score. We have responded to this retailer's numerous initiatives to help with their processes for inventory control and quality products, most of which have required investments on our part. At the end of the day we were not given a chance to respond to GH. We were just told how much longer to deliver product before GH would supply.

When the GH product showed up, we observed a lower retail cost, which translated to 34 cents per gallon below our price. This is milk that is being transported from Muleshoe, Texas, which is about 320 miles away. I don't understand many of the workings of Federal Orders, but I am convinced something must not be right for a customer who rates our quality so highly to simply move business.

Thank you for the chance to testify.