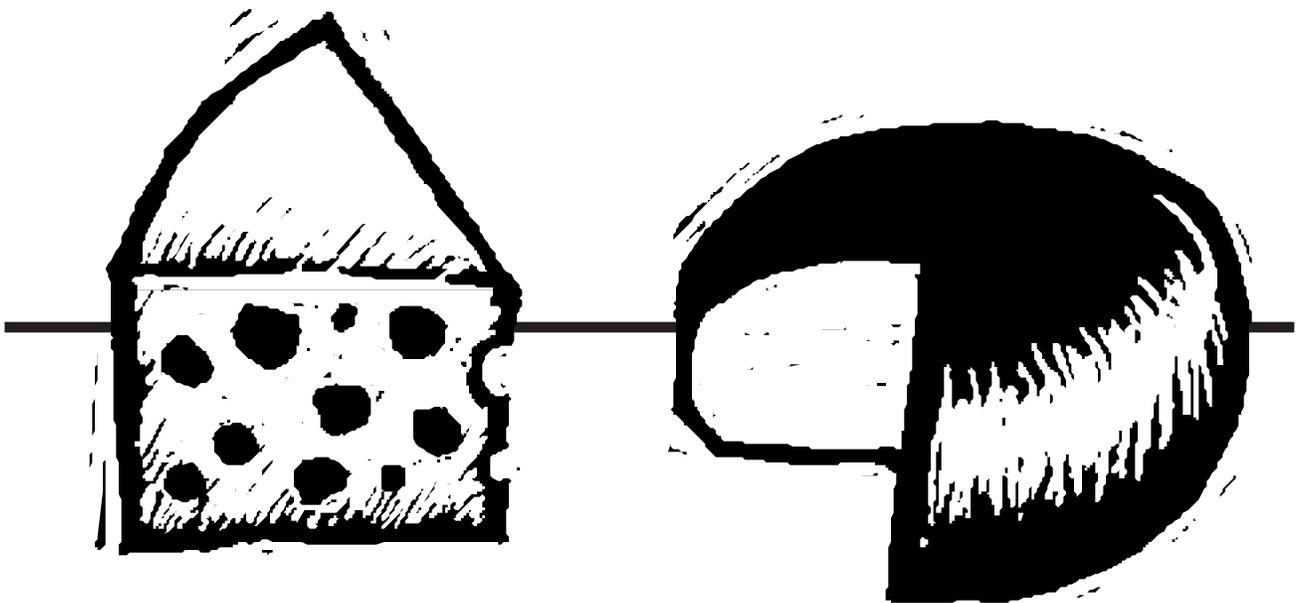


Specialty Cheese in Wisconsin: Opportunities and Challenges



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Specialty cheese in Wisconsin: Opportunities and challenges

Executive summary

Why specialty cheese?

The specialty cheese industry offers appealing opportunities to Wisconsin dairy farmers: it is one arena in the Upper Midwest where some dairy farmers can earn more than commodity prices for their milk. But like any business venture, making, marketing and distributing specialty cheese is not easy.

What categories of cheese does Wisconsin produce?

Wisconsin's cheese industry is diverse—producing commodity, specialty and artisan cheeses. Commodity cheeses are not included in this study.

Specialty cheese production has more than doubled in Wisconsin since 1994, when specialty cheese was first tracked separately from commodity cheese. Specialty cheese production, as a percentage of total cheese production, has steadily risen in Wisconsin. Also on the rise are artisan dairy products. Artisan and farmstead operations produce high-end cheeses and other dairy products that reflect Wisconsin's diverse cultural roots and attract the attention of consumers throughout the U.S.

Specialty cheese is defined as cheese produced in limited volume, with distinctive characteristics that result in high quality products, create added value and command a premium price from consumers. *Commodity cheeses* are cheeses produced in large volume—more than 40 million pounds nationally, in a year—that appeal to a wide audience of consumers. *Artisan cheeses* maximize hand production and traditional cheesemaking practices. *Farmstead cheeses* are produced on the farm with milk from animals raised on that farm.

What do we know about the specialty cheese industry in the U.S.?

Per capita consumption of cheese in the U.S. has increased for more than a decade and is expected to rise for at least another decade. Specialty cheese continues to be an important and fast-growing component of that increase. According to a California Milk Advisory Board (CMAB) 2004 study, specialty cheese consumption has increased five times faster than total cheese consumption over the past ten years. The same CMAB study states that specialty cheese production in the U.S. totaled 815 million pounds in 2003, with an estimated value of \$6.4 billion.

Additional information regarding the marketing potential of specialty cheese is available from a study conducted by the Food Processing Center at the University of Nebraska: *The Market for Specialty Cheese*, <http://www.farmprofitability.org/cheese.htm>.

What makes specialty and artisan cheese a good fit for Wisconsin?

Wisconsin's strong dairy tradition, significant dairy infrastructure and successful dairy businesses place the state in a prime position to take advantage of the growing U.S. and international specialty and artisan

markets. For more than 130 years, cheese has been an important part of Wisconsin's culture, agriculture and economy. Cheesemakers from many countries immigrated to Wisconsin, bringing their cheesemaking traditions. Over the years, Wisconsin's dairy economy was strengthened by public and private support. As a result, Wisconsin has been a national leader in the dairy industry for more than 100 years.

In 2004, there were 115 plants manufacturing one or more dairy products in Wisconsin. Of those, 75 independently owned, small-to medium-sized cheese plants produced specialty and artisan dairy products.

Specialty and artisan dairy businesses in Wisconsin contribute to the state's economy by converting the milk of more than 1,600 Wisconsin dairy farms to a diverse set of value-added products. The industry is rooted in more than 60 communities in the state and employs more than 1,500 people.

What are the challenges to growing the specialty cheese industry in Wisconsin?

While the future of specialty cheese looks bright, there are some challenges. Wisconsin is recognized nationally as a dairy leader, but its artisan and specialty industry remains less known. The small size of specialty cheese businesses presents challenges with profitability. Resources for business development have been difficult to access. Recommendations to improve opportunities for the Wisconsin industry are:

Strengthen the image of the specialty cheese industry in Wisconsin.

Specifically, the Wisconsin specialty cheese industry could:

1. Better distinguish itself from the commodity cheese industry;
2. Emphasize Wisconsin's deep-rooted cheesemaking heritage;
3. Develop more branded cheeses; and
4. Emphasize the unique artisan characteristics of Wisconsin specialty cheeses.

Improve technical support to individual businesses and the industry as a whole.

The needs for technical assistance, as identified in this study include:

1. Encourage specialty cheese businesses to diversify their income streams;
2. Provide technical and business development support for improved profitability;
3. Create opportunities to share the costs of goods and services; and
4. Provide training in marketing and merchandising to seek out high-end sales opportunities.

The recommendations from this study inspired the creation, development, and work plan for a new organization, the Dairy Business Innovation Center. The Dairy Business Innovation Center offers business development assistance to farmers and cheese processors for value-added dairy product development, business planning and market development. For more information visit www.dbicusa.org or call 1-888-623-2269.

Introduction

This report examines and describes the specialty cheese industry in Wisconsin, in order to better understand the potential opportunities and challenges for dairy farmers in this growing industry. The report also provides baseline data for the specialty dairy industry in Wisconsin. Commodity cheese production in Wisconsin attracts most of the attention and resources. Far less known, in many circles, are the dozens of cheese factories, farmstead and artisan operations that produce high-end cheeses and other specialty dairy products. These enterprises reflect Wisconsin's diverse cultural roots and attract the attention of consumers throughout the U.S.

As part of a larger project, the Food Processing Center at the University of Nebraska conducted a preliminary study on specialty cheese in 2001. This study provided background on specialty cheese nationally (Zumwolt, Brad. 2001. *The Market for Specialty Cheese*. Lincoln: The North Central Initiative for Small Farm Profitability. <http://www.farmprofitability.org/cheese.htm>). This report builds on Zumwolt's work by providing a basic introduction to the Wisconsin specialty cheese industry, identifying the strengths and challenges faced by industry businesses. Since the specialty cheese industry is well established in Wisconsin, the intent here is to provide lessons from Wisconsin's experiences for Midwest farmers and others looking at entering the industry.

Audiences for the report

This report is geared toward:

- Farmers who are involved with the specialty or artisan cheese industry or those considering extending their businesses into the industry.
- Cheese manufacturers and other businesses that form part of the specialty cheese industry.
- Individuals who work for agencies, organizations and businesses in the specialty cheese industry.
- Other individuals whose choices or policies affect specialty dairy businesses in Wisconsin and beyond.

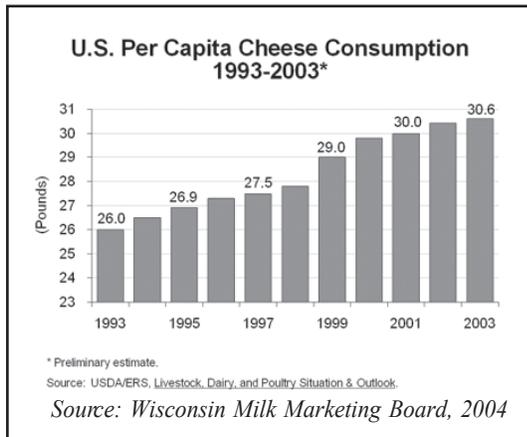


Context: Specialty cheese in the Upper Midwest

The specialty cheese industry is one market in the Upper Midwest where some dairy farmers can earn more than commodity prices for their milk. New farmers enter the specialty cheese industry each year, adding value to milk by processing it into high-end, specialty dairy products. These specialty dairy products—including cheeses of many varieties as well as specialty butters, ice cream, yogurt and other products—have attracted tremendous interest among cheese buyers and consumers in recent years (California Milk Advisory Board. 2004. *U.S. Cheese Consumption Trends, 1994-2003*. Modesto, CA: California Milk Advisory Board by J/D/G Consulting, Delray Beach, Florida).

Per capita consumption of cheese in the U.S. has increased for more than a decade now (see page 2). Furthermore, cheese consumption is expected to continue to rise for at least another decade.

Specialty cheese, along with other value-added dairy products, continues to be an important and fast-growing food category in the United States. According to the California Milk Advisory Board (CMAB), specialty cheese consumption has increased five times faster than total cheese consumption over the past ten years (CMAB, 2004). The same CMAB study states that U.S. specialty cheese production totaled 815 million pounds in 2003 in the U.S., with an estimated value of \$6.4 billion (CMAB, 2004).



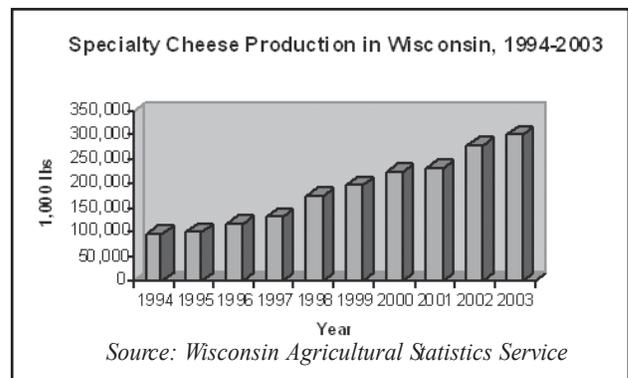
The potential for developing new specialty cheese products still exists in the U.S. market. In 2003, the U.S. imported more than 200,000 metric tons of cheese, valued at nearly \$1 billion (U.S. Foreign Agricultural Service, 2004,

<http://www.fas.usda.gov/ustrdscripts/USReport.exe>).

Numerous European cheese varieties are not yet produced in the U.S. Furthermore, there are many original cheese varieties that can be developed from Wisconsin milk. All of these opportunities have the potential to earn a premium for farmers and further strengthen Wisconsin and the Midwest as a region that produces high quality, specialty cheese.

In Wisconsin, specialty cheese production has more than doubled since 1994 when specialty cheese was first tracked as a separate category from commodity cheese (Wisconsin Agricultural Statistics Service).

Wisconsin's strong dairy tradition, significant dairy infrastructure and successful dairy businesses place the state in a prime position to take advantage of the growing U.S. and international specialty cheese markets.



Definitions and terms

In this report, definitions for 'specialty,' 'artisan' and 'farmstead' conform to those used by the professional organizations of specialty cheese manufacturers and producers in the U.S.

Commodity cheeses are those cheeses produced in large volume (more than 40 million pounds, nationally, in a year) that appeal to a wide audience of consumers. Commodity cheeses include varieties such as cheddar, mozzarella, Colby and Muenster and are typically produced at large, industrial cheese plants¹. The cheesemaking process is often automated. Commodity cheeses are not a part of this report.

¹The term 'plant' refers to a factory that processes milk. It is a term used commonly by industry regulators. All licensed milk processors are referred to as 'plants', even farmstead processors. Culturally and historically, many of the plants producing specialty cheese in the state of Wisconsin are referred to as 'cheese factories'.

Specialty cheeses are produced or packaged with distinctive characteristics that result in high quality, create added value, and demand a premium price from consumers. According to the Wisconsin Specialty Cheese Institute, among the characteristics that offer distinction and added value are:

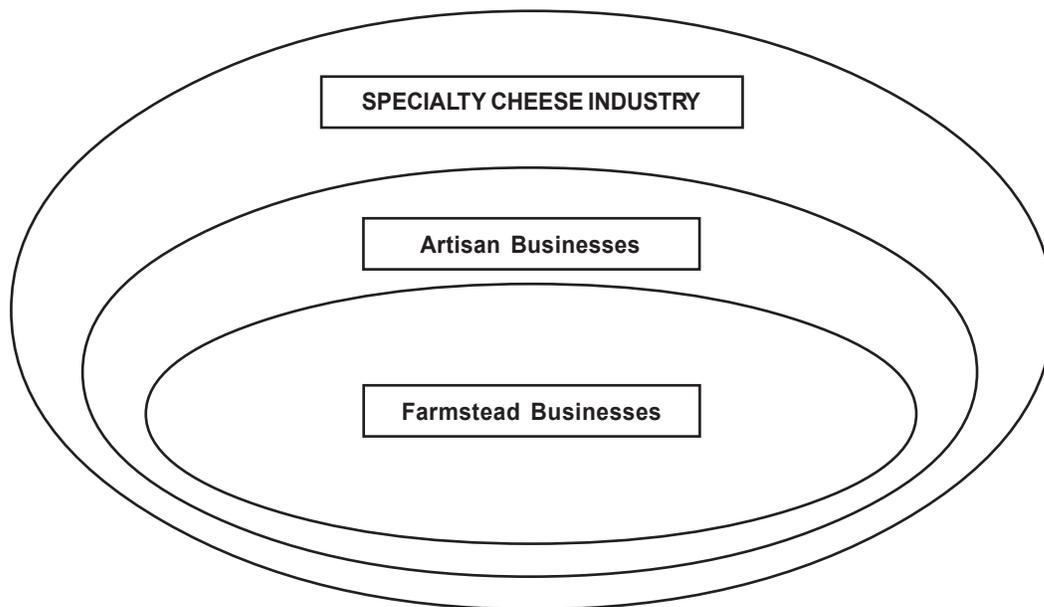
“... exotic origin, particular processing, design, limited supply, unusual application or use, and extraordinary packaging or channel of sale.”

—Wisconsin Specialty Cheese Institute
<http://www.wisspecialcheese.org/special.htm>

‘**Specialty cheese industry**’ and ‘**specialty dairy industry**’ refer to the businesses that produce, market, distribute and otherwise handle specialty or value-added dairy products including cheese, yogurt, butter and ice cream.

Specialty cheeses in Wisconsin are produced in factories or plants that tend to be considerably smaller in size than the commodity plants. In Wisconsin in 2004, there were 75 small cheese factories or dairy plants that produced hundreds of specialty cheeses and artisan dairy products.

Within the specialty category are artisan and farmstead cheeses and other products.



The Universe of Specialty Cheese

Artisan cheeses are those produced in a way that maximizes hand production and traditional cheesemaking practices. Artisan cheeses are produced in relatively small batches and can be produced from the milk of any species of mammal.

The Wisconsin Dairy Artisan Network distinguishes dairy artisan products with two additional criteria:

- “*Artisan captures the uniqueness and special identity of each product as well as the artisan who makes it.*”
- “*The artisan cheesemaker can tell you where the milk came from and how the animals were cared for.*”

—Wisconsin Dairy Artisan Network

<http://www.wisconsin dairy artisan.com/aboutus.html>

Farmstead cheeses are produced on the farm with milk from animals raised on that farm. According to the American Cheese Society, farmstead cheese...

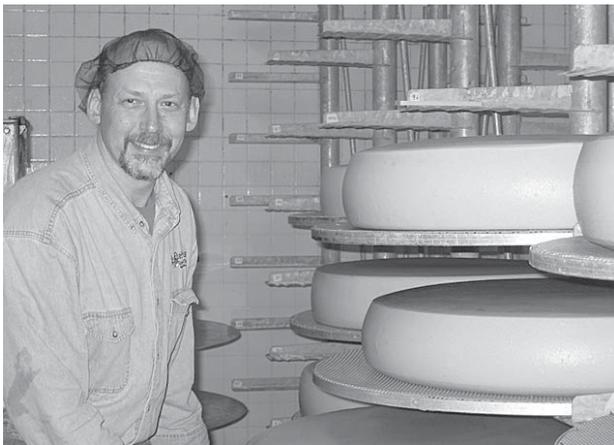
“...must be made with milk from the farmer’s own herd, or flock, on the farm where the animals are raised. Milk used in the production of farmstead cheeses may not be obtained from any outside source.”

—The American Cheese Society

<http://www.cheesesociety.org/displaycommon.cfm?an=1&subarticlenbr=2>

The Wisconsin specialty cheese plants surveyed are smaller than commodity cheese operations. The artisan and farmstead operations, in turn, are smaller than the specialty cheese plants in the state. For example, survey data from this study revealed that five of the state’s farmstead operations produced a combined total of less than 20,000 pounds of cheese in 2002. This compared with 1,000,000-9,000,000 pounds of specialty cheese produced by Wisconsin factories in the same year.

Since the volume of production influences many aspects of a business, the differences between specialty factories and artisan businesses are many. Therefore, much of the data reported here are separated for specialty and artisan businesses.



As noted above, in reporting data from the survey, ‘specialty’ refers to the specialty factories and ‘artisan’ refers to the smaller scale farmstead and other artisan businesses in the state.

The term ‘respondent’ refers to the person who answered the questions on the survey questionnaire.

Methods for the study

Multiple methods of data collection were used in conducting this study. The data incorporated into this report were collected during the period from July 2002 through October 2003, with some updates during 2004. The methods used in collecting data for this study were:

1. Research of existing (secondary) data and information on Wisconsin's specialty cheese industry
2. A mailed questionnaire surveyed all specialty cheese businesses in Wisconsin (see Appendix A on page 19)
3. Intensive interviews with more than 40 individuals who work in or with Wisconsin's specialty cheese industry as well as with an additional 30 people involved with the specialty cheese industries in California, New York, Vermont and Italy
4. Detailed case study analysis of 10 different Wisconsin specialty businesses, involving comparative analysis of selected parameters related to development and operation of the businesses
5. Observation by participation and attendance in meetings, conferences, trade shows, training sessions, competitions, and reading trade publications and related news



Cultural Landscapes, LLC, developed the questionnaire in consultation with industry professionals. The questionnaire was mailed to 68 businesses producing specialty cheese and other specialty dairy products in the fall of 2003. Of the 68 businesses, 54 were specialty cheese plants (specialty cheese factories). Cheese plants or factories are referred to in this report as '*specialty*' businesses. The other 14 businesses, from the Wisconsin Dairy Artisan Network list, produced a variety of artisan dairy products on a much smaller scale, either in factories or on farms. This group of 14 businesses is referred to in the profile below as '*artisans*.'

A total of 51 specialty and artisan businesses in Wisconsin completed and returned the twelve-page questionnaire. Of these 51 questionnaires, 38 were from specialty businesses and 13 from artisans including farmstead operations (see the table on page 20). Thus the response rate for specialty businesses was 70% and for artisan businesses was 93%. The combined response rate for the study was a total of 75% of the specialty and artisan businesses in Wisconsin.

Data from the questionnaire were compiled by Applied Research Systems of Madison, Wisconsin. Cultural Landscapes, LLC, analyzed survey and other data (see above) to develop the discussion, major conclusions and recommended actions.

Major conclusions and recommended actions

Recommendations fall under two major themes:

- 1) Strengthen the image of Wisconsin's specialty dairy industry; and
- 2) Address industry needs for technical support and business development assistance.

Ten specific conclusions are discussed below, along with discussion and recommended actions for each.

I) Strengthening the image of Wisconsin's specialty dairy businesses

<p>Conclusion 1: Wisconsin's artisan and specialty dairy industry could be better distinguished from the state's commodity cheese industry.</p>
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Discussion

An important challenge faced by specialty and artisan cheese businesses in Wisconsin is the ability of the specialty and artisan industry to distinguish itself in Wisconsin, nationally and internationally.

In 2003, there were 200 dairy plants in Wisconsin manufacturing one or more dairy products including commodity, specialty and artisan products. The range of dairy products manufactured in the state includes: milk in various forms, butter, cheese, yogurt, ice cream and other assorted products. Of the 200 registered dairy plants in Wisconsin in 2003, 68 (34 %) of them were specialty cheese plants that received the survey. These are the small, independently owned factories, farmstead and dairy artisan operations that produce value-added cheeses, yogurt, ice cream and other specialty dairy products.

While general data are available on Wisconsin's dairy industry and cheese producers, limited information is available or used to distinguish the specialty cheese industry. Despite the quality, strength and tradition of specialty and artisan production in Wisconsin, the state's image still emphasizes the commodity cheese industry.

- When surveyed, 60% of the specialty and artisan businesses said they believe the public does not clearly understand the distinctions between specialty and commodity cheeses.
- In interviews, specialty cheesemakers expressed the desire to have their industry better recognized and understood. One executive of a specialty cheese plant said:

"Here's a good business. Wake up! We're losing farms. Big companies are going away. Specialty cheese has played second fiddle too long. It may end up being our primary cheese business in Wisconsin!"

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- Other evidence of the need to clearly distinguish Wisconsin’s specialty and commodity cheese industries comes from national food editors in the U.S. who had the following reactions after hearing a presentation about Wisconsin artisan cheeses:

“I had no idea Wisconsin was doing this sort of cheese. When I think of Wisconsin, I think of huge factories and mainstream yellow cheese.”

—Editor, *Country Living*.

“When I think of specialty cheese, I think first of California. They have all those interesting, really little cheesemakers doing high-end products. It’s really cool what’s going on there. I didn’t know the same sort of thing is happening in Wisconsin.”

—Editor, *Redbook*.

(Source: Wisconsin Milk Marketing Board, 2004.)

Wisconsin could better position itself in the market by drawing a figurative line around the specialty and artisan businesses and promoting them as a distinct, high-end industry.

Cheese consumption and sales in the U.S. continue to rise (Zumwalt, 2001). National data show that specialty cheese sales drive growth in the cheese industry overall (Wisconsin Milk Marketing Board, 2004). Specialty cheese consumption has increased five times faster than total cheese consumption over the past ten years (CMAB, 2004).

Wisconsin could better position itself to meet the increasing demand for artisan and specialty cheese by drawing a figurative line around the specialty and artisan businesses and promoting them as a distinct, high-end industry.

Specialty and artisan products from Wisconsin and the businesses that produce them possess characteristics that can strengthen the overall image of Wisconsin’s cheese industry. Increased visibility for specialty products and producers will reflect well on the entire dairy industry.

Recommended actions:

1. Create a shared image for Wisconsin’s specialty and artisan businesses that reflects the fine, high-end regional specialties and other strengths of these companies and products. Without a more clearly distinguished image for specialty dairy businesses, Wisconsin’s dairy industry will be at a disadvantage in competing with other domestic and foreign companies. Use the data from this study to create an image distinct from commodity cheese businesses and products.



2. Create opportunities to convey a positive image of Wisconsin specialty and artisan businesses in Wisconsin and beyond. Let that image represent the quality and strengths of the entire Wisconsin cheese (dairy) industry.

3. Conduct regular industry surveys to accurately form the image of the Wisconsin specialty cheese industry and closely track its successes, needs and challenges.

Many specialty cheese businesses have long histories in Wisconsin. Nearly two-thirds of the specialty plants in Wisconsin today are 50 years old or older; one-third of plants are 80 or more years old. Seven specialty plants have been operating in Wisconsin for over 100 years.

4. Examine the means used by other micro-industries (such as beer in Wisconsin or wine in upstate New York and California) that produce high quality, high-end foods. Explore how they work together to formulate an industry vision and image, and provide needed services to individual businesses.

5. Conduct training programs with selected specialty retailers and chefs to educate them about Wisconsin cheeses, their handling requirements and consumption.

6. Encourage cheese education programs that inform consumers, buyers and retail personnel about the distinctions of specialty/artisan products.

7. Encourage the selection of new and original artisan cheese varieties rather than commodity varieties when dairy businesses are identifying new products.

Conclusion 2: Wisconsin's specialty cheese industry could benefit from being more closely associated with the state's historical and cultural heritage in cheesemaking.

Discussion

Wisconsin's historical and cultural heritage as a cheesemaking state is strongly tied to its expertise, its products and the state's unique and diverse ethnic origins.

- More than one hundred years ago, at the end of the 19th century, dairying and cheese were promoted in Wisconsin to take the place of a failing wheat industry. A convergence in effort among several individuals and institutions enabled Wisconsin to become a national leader for dairy. This status, which led to the title 'America's Dairyland,' continues to attract individuals and businesses to Wisconsin that further strengthen the state's dairy infrastructure today.

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- Of the numerous ethnic groups that settled in Wisconsin in late 19th and 20th centuries, several brought the heritage and traditions of cheesemaking with them. These immigrants have created an industry with a variety of cheeses and cheesemaking practices that originated in the cultural traditions of Switzerland, Italy, France, Germany, Mexico and many other countries.
- Another strength of Wisconsin is the skilled people who produce cheese. Among specialty businesses, Wisconsin's licensed cheesemakers have a total of more than 3,000 years experience making cheese.
- Many specialty cheese businesses have long histories in Wisconsin. Nearly two-thirds of the specialty plants in Wisconsin today are 50 years old or older; one-third of plants are 80 or more years old. Seven specialty plants have been in operation in Wisconsin for more than 100 years.
 - Another strength of Wisconsin is the skilled people who produce cheese in the state. Among specialty businesses, Wisconsin's licensed cheesemakers have a total of more than 3,000 years experience making cheese.
 - Lengthy careers in the cheese industry are also common in Wisconsin. Among the 51 respondents (those who filled out the questionnaire), 73% have worked for 20 or more years in the cheese industry. Respondents who were owners, managers and office personnel for the businesses had a total of 1,092 years working in the cheese industry.

Recommended actions:

1. Research, document and promote the diversity of Wisconsin's ethnic cheese traditions.
2. Educate the public about unique characteristics of regional crops, food, land use, architecture and other cultural elements that express culinary and other folk practices of Wisconsin's ethnic cheese businesses.
3. Build on existing promotional efforts, and create new special events and opportunities for tourism that express and emphasize these ethnic and historic cheese traditions.

Conclusion 3: Wisconsin's specialty dairy businesses tend to be small-scale, family owned businesses.

Discussion

While worldwide trends in business tend toward growth, concentration and acquisition, specialty cheese in Wisconsin is an industry comprised of small, independent businesses that have found ways to add value to milk in small- or medium-sized plants and create profitable businesses.

According to the definition of specialty cheese used by the Wisconsin Specialty Cheese Institute:

“Specialty Cheese is defined as a value-added cheese product that is of high quality and limited quantity...A specialty cheese type cannot have a nationwide annual volume of more than 40 million pounds.”

—Wisconsin Specialty Cheese Institute

<http://www.wisspecialcheese.org/special.htm>

- The specialty cheese businesses that make up the industry in Wisconsin are independently owned, small-to medium-sized cheese plants, farmstead and artisan operations. Most are not attached to large corporations or big business interests.
- Sixty-eight percent of the specialty cheese businesses in Wisconsin are family owned. This includes factory or plant as well as farmstead or artisan businesses.

Sixty-eight percent of the specialty cheese businesses in Wisconsin are family owned.

Recommended actions:

1. Encourage specialty cheese businesses and those who work with them to promote cheesemaking in Wisconsin as a family tradition.
2. Stimulate the continued growth and creation of new farmstead and artisan businesses in the state, focusing on high-end products, artisan techniques and family ownership.
3. Continue to seek out new markets for Wisconsin specialty dairy products that value small-scale production, family ownership and unique products.

Conclusion 4: Many of Wisconsin’s specialty cheese factories and the cheeses they produce possess artisan characteristics that could be more effectively promoted.

Discussion

In addition to Wisconsin’s farmstead operations, many of Wisconsin’s factories also produce cheeses that fall within the definitions of ‘artisan’ established by the American Cheese Society and the Wisconsin Dairy Artisan Network.

The Wisconsin Dairy Artisan Network’s definition refers to ‘capturing the flavor of the environment where cheeses are produced’ and the ‘uniqueness and special identity of each product.’ These characteristics

may be obvious for some products, but can be subtle for others. Cheeses with an image emphasizing *terroire*—regional characteristics that impart unique flavors—are easy to categorize as ‘artisan’ using the Wisconsin Dairy Artisan Network definition. In other cases, research may be required to demonstrate distinctive flavor or nutrition characteristics that can be attributed to a specific production technique, ingredient or locale and thus capture the environment or a special identity.



- Wisconsin is unique in the number of specialty factories operating in the state. In 2004, 75 individual businesses produced specialty cheese. According to this study, many of these factories possess some of the characteristics that have been used to define ‘artisan’ (see the second question in Appendix A on page 20).
- Many of Wisconsin’s specialty cheese factories described in this study (and perhaps those specialty businesses that responded to the survey) represent a type of cheese plant that has disappeared from most of the United States. These could be labeled ‘artisan factories’ as they are characterized by:
 - 1) Production of goods that require manual labor by people skilled at their craft;
 - 2) Cheesemakers who have knowledge about the source of milk and the animal husbandry methods used on the animals from which the milk came; and
 - 3) Small batch sizes (2,500 lbs. or less) for production.
- According to the Wisconsin Dairy Artisan Network definition, production volume is a characteristic that helps define artisan production. Nearly two-thirds (63%) or 24 of the specialty cheese factories in the state produce batches of cheese that are no larger than 2,500 lbs. This volume is much larger than artisan operations and much smaller than commodity manufacturers in the state and elsewhere.
- Two-thirds (66%) of the specialty factories in this study were able to identify the farms from which the milk was sourced.
- More than one-third (37%) of the specialty factories in Wisconsin knew about the animal husbandry practices on those farms.
- All of the businesses in the ‘artisan’ category possessed the characteristics of ‘artisan’ as defined by the Wisconsin Dairy Artisan Network.

Thus cheese factories that use these practices or other artisan methods could be labeled ‘artisan factories.’

Recommended actions:

1. Wisconsin specialty cheese businesses could capitalize on the term ‘artisan’ in marketing and promotions where their products and production practices comply with the definition. The term is associated with high-value products.
2. Specialty producers need help to better develop products, names, labels and promotional materials that emphasize the unique, artisan characteristics of their businesses and products.

Wisconsin specialty cheese businesses could capitalize on the term ‘artisan’ in marketing and promotions where their products and production practices comply with the definition. The term is associated with high-value products.
3. New entrants should consider the definitions of ‘artisan’ as used by the Wisconsin Dairy Artisan Network, the American Cheese Society and others in order to evaluate their capacity and willingness to develop products and businesses with these value-added characteristics.
4. Establish standards and define ‘artisan factory’ using scale of production and other characteristics to clearly delineate these plants from much larger, commodity plants. Such standards should be designed to protect artisan businesses from possible future co-opting of the term by companies whose plants do not possess artisan characteristics.

Conclusion 5: Wisconsin’s specialty businesses could benefit by establishing more branded products.

Discussion

Branding a product adds value by defining a distinction. The brand combines a name, label, product characteristics and image. A brand enables a product to be distinguished from other, similar products in the marketplace. Branded products demand a higher price.

In Wisconsin, nearly all (85%) of the businesses from the ‘artisan’ category that participated in the survey say that all (100%) of their products are marketed as their own brand. However, specialty businesses tend to follow a different marketing course:

- Only 15% of specialty cheese plants surveyed market all (100%) of the cheese they produce with their own label or brand.

-
- Among specialty plants, 48% market half or more of their cheese without their own label.

Unbranded cheeses, many of which are private label cheeses, are an important source of income for many specialty cheese businesses. They provide a market for product. One way to increase the value of those cheeses is to establish distinctions, brand them and market them with a company's own label. Branded products bring higher margin in sales and enable smaller specialty companies to earn in margin what companies with higher volume can earn by greater efficiencies of scale.

Recommended actions:

1. Establish training modules for specialty cheese businesses that help them appreciate the advantages of branding and consider developing new brands and strengthening existing ones.
2. Use effective branding techniques employed by artisans as models for branding specialty cheeses.
3. Identify sources of technical assistance for brand development and encourage businesses to use them.
4. Emphasize the potential for return on investment in establishing a brand. Increase sources of funding and support for businesses to create new brands.

II. Technical support and industry services

The recommendations in this section inspired the creation, development, and work plan for a new organization, the Dairy Business Innovation Center. The Dairy Business Innovation Center offers business development assistance to farmers and cheese processors for product development, business planning and market development. For more information, visit www.dbicusa.org or call 1-888-623-2269.

The following set of recommendations addresses the need for technical assistance in business development and other services for the specialty industry.

Conclusion 6: Specialty cheese businesses in Wisconsin benefit by maintaining a diversity of income-generating activities.

Discussion

While cheese sales are an important source of income for producers and manufacturers of specialty cheese in the state, several businesses report additional sources of income. Maintaining and seeking out a diversity of income-generating activities helps these small businesses avert risk by not relying heavily on any single income source. Many specialty factories in the state diversify their incomes in the following ways:

- One-half (50%) of the specialty plants in Wisconsin earn 100% of their income from the sale of their own cheese. The other 50% of the state's specialty plants rely on other activities for income, such as cutting and wrapping, aging, distribution, production of commodity cheese, marketing cheese made by others, sale of fluid milk and other products.
- Among specialty plants in the state, 73% of them own retail stores for product sales. These stores sell their own cheese, cheese produced by others, and a variety of other products that meet the needs of their customers.
- Nearly one-third (32%) of Wisconsin's specialty plants produce commodity cheese in addition to their specialty cheeses. This provides needed income and capacity.

Recommended actions:

1. Research ways in which the retail stores owned by 73% of the state's specialty plants can be strengthened to generate more income for specialty businesses. Examine products, merchandising and promotional materials and offer training opportunities to strengthen these retail spaces.
2. Work with specialty plants now producing commodity cheese to examine options for converting commodity production to higher value specialty varieties.
3. Seek grant support for specialty dairy businesses that are expanding in ways that diversify income sources.



Conclusion 7: Many of Wisconsin's specialty cheese businesses could benefit from business development assistance to help them increase their profitability and strengthen the industry overall.

Discussion

Specialty cheese businesses have long faced challenges to their profitability. Specific evidence of this from the current study includes:

- Eighty-one percent of the specialty businesses and 54% of artisan businesses were profitable in 2002. Of those businesses that were not profitable, several were new and thus less likely to turn a profit in the first few years of operation. However, during interviews, many businesses called for access to business development assistance to help them strengthen their businesses.
- In Wisconsin, the trend in cheese production since 1922 has been toward concentration—fewer cheese companies producing greater amounts of cheese over time. The number of cheese plants in the state peaked in 1922, when there were 2,807 businesses manufacturing cheese. Growth of urban populations, expansion of transportation networks and refrigeration led to increased shipping and consolidation. This trend of consolidation and loss of individual businesses has continued for more than eight decades.

Recommended actions:

1. Encourage businesses that are not profitable to seek out available services to help them analyze their business practices and identify means of earning more and cutting costs.
2. Create opportunities for new entrants to obtain a realistic idea of businesses opportunities and challenges in specialty cheese.
3. Work to identify and create opportunities for industry businesses to share costs of some goods and services and thus gain volume discounts.

Conclusion 8: Technical support services are not always accessible to small artisan and specialty cheese businesses in the state.

Discussion

Limited resources among support institutions for cheesemakers can leave smaller companies at a disadvantage or exclude them entirely from some of the existing dairy industry infrastructure in the state.

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- In 2003, the Center for Dairy Research (CDR) was scheduling technical support for cheesemakers 3-4 months in advance. Furthermore, technical assistance for product development cost more than most small producers could afford.
 - While 81% of the specialty businesses had received assistance from the Wisconsin Milk Marketing Board, only 54% of the artisan businesses reported having done so. Some of the artisans are not eligible for assistance from the Wisconsin Milk Marketing Board since they do not use cow's milk in their products. Similar marketing and promotion assistance is not available to these businesses.
 - During interviews, producers cited challenges they face in accessing loan and grant monies to expand or otherwise strengthen their businesses.

While only half of artisan businesses had taken advantage of CDR offerings at the time of the survey, it is important to note that CDR increased its support services to specialty and artisan dairies in 2003-04 (see <http://www.cdr.wisc.edu>). This is reflected in CDR's website, now describing courses for artisan cheesemakers. Also, the Dairy Business Innovation Center now shares the cost of these CDR technical services with qualified Wisconsin businesses.

Recommended actions:

1. Wisconsin could benefit from an effort to increase access to the state's resources for small dairy producers. The Dairy Business Innovation Center (DBIC) was created to provide this service (see Executive Summary). Federal funding through DBIC has made it possible for more of the state's artisan and specialty dairy businesses to access these services.
2. Examine the California Milk Advisory Board initiative aimed at the specialty and artisan dairy sector beginning in 1999. This initiative could serve as a model for strengthening Wisconsin's artisan dairy industry. This initiative was extremely successful in creating new and strengthening existing artisan businesses in California and creating an image of the state as a key player in artisan dairy production in the national marketplace.
3. Look at other specialty food micro-industry models (e.g., wine in California and New York and cheese in California) that might reveal strategies for micro-industry growth and cooperation and the development of infrastructure.

Conclusion 9: Creating cooperative opportunities for specialty businesses to share the costs of goods and services could diminish costs and increase profitability for individual businesses.

Discussion

The relatively small size of specialty businesses creates challenges in achieving economies of scale. However, cooperation among businesses in the industry offers potential for diminishing costs and increasing profitability.

- About one-third of all specialty businesses currently cooperate with other specialty businesses to meet their needs for marketing, product distribution and cutting/wrapping of cheeses.
- About 40% of all specialty plants would consider cost sharing for marketing, consolidation and distribution of product, purchase of ingredients with a volume discount and purchase of employee benefits with a volume discount.
- One-third of specialty plants in the state would consider sharing costs for consolidation and processing of whey.

Recommended actions:

1. Explore new, broad-based cost-sharing opportunities among businesses in the industry, starting with those areas cited by companies as priorities in the survey (listed above).
2. Work with specialty businesses to examine current cooperative efforts and build on what has been effective for them.
3. Look for existing dairy businesses that offer services that could be expanded to meet the needs of smaller, specialty businesses. These might include cutting and wrapping, distribution, mail order, e-sales and benefits packages.



Conclusion 10: Technical support and training for marketing and merchandising specialty dairy products could aid industry businesses in identifying more high-end sales opportunities and thus increase the profitability of individual businesses.

Discussion

Many people who produce artisan and specialty dairy products do not enjoy marketing. Few have been trained in marketing. Many businesses do not structure marketing costs into their budgets or work plans.

- Wholesale companies and distributors were the most important method of cheese sales for specialty businesses and the second most important method of sales for artisans (implying limited direct sales that have potential for higher margin).
- Among artisan businesses, direct marketing through farmers' markets was the most important marketing strategy used.

While distributors and wholesale companies can be important sales outlets for specialty products, direct marketing can keep added value in the hands of the producer or processor.

Recommended actions:

1. Offer short-term training opportunities and materials to help processors consider direct marketing options available to them. Target these efforts at the specific marketing needs of these specialty dairy businesses, such as: how to reach chefs; approaching retailers, distributors and high-end consumers; how to sell in a farmers' market; opportunities in agricultural tourism; cooperative marketing; creating a press kit; surviving a trade show; developing labels and point of sale materials.
2. Expand existing course offerings to include marketing for specialty and artisan cheesemakers. Engage consultants from private industry, business schools and/or SBDCs to offer training on marketing. Add training opportunities and resources available through existing educational efforts by the Wisconsin Dairy Artisan Network, the Major Farm's Sheep Dairy Center in Vermont, CDR short courses and others.
3. Develop a mentoring program to offer less experienced specialty businesses technical support for marketing.
4. Focus new training for specialty businesses to help them evaluate opportunities for direct marketing of their products to green markets, farmers' markets, chefs, select retail outlets and on the Internet.

Summary conclusions

This study provides a profile of the specialty and artisan dairy industry of Wisconsin. The profile emphasizes the industry's strengths, distinguishes it from commodity production in Wisconsin and demonstrates the growing market for artisan and specialty cheeses in the U.S.

Specialty and artisan dairy businesses in Wisconsin contribute to the state's economy by converting the milk of more than 1,600 dairy farms to a diverse set of value-added products. The industry is rooted in more than 60 communities in the state and employs more than 1,500 people.

The study provides a series of recommendations directed at two areas of support for the industry:

1) strengthening the image of the artisan and specialty industry; and 2) gaining better access to technical and business development support for industry businesses. These recommendations aim to fill in gaps in support that were identified by the study.

Wisconsin's strong dairy tradition, significant dairy infrastructure and successful dairy businesses place the state in a prime position to take advantage of the growing U.S. and international markets for specialty and artisan dairy products.

Appendix A. Questionnaire and results

A study of specialty and artisan dairy businesses in Wisconsin was conducted by Laurie S. Z. Greenberg, of Cultural Landscapes, LLC for the University of Wisconsin-Madison's Center for Integrated Agricultural Systems. As part of the study, a twelve-page questionnaire was completed and returned by 51 specialty and artisan dairy businesses in Wisconsin. Of the 51 completed, returned questionnaires, 38 were from 'specialty' businesses and 13 from 'artisans'. (Artisans were those farmstead and artisan producers that had participated in the Wisconsin Dairy Artisan Network.) Thus the response rate for specialty businesses was 70% and for artisan businesses was 93%. The combined response rate for the study was a total of 75% of the specialty and artisan businesses in Wisconsin.

	<u>Specialty</u>	<u>Artisan</u>	<u>Total</u>
Mailed	54	14	68
Returned	38	13	51
Response rate	70%	93%	75%

I. The character of specialty cheese businesses in Wisconsin

1. Who owns Wisconsin's specialty cheese businesses?

	<u>Specialty</u>	<u>Artisan</u>
Family owned	68%	69%
Family managed	45	54
Cooperatives	18	—
Have milk patron owners	29	—

2. Can Wisconsin specialty cheese businesses be considered 'artisans'?

A popular label for marketing specialty cheeses in the U.S. today is 'artisan.' Based on the characteristics of artisan as defined by the Wisconsin Dairy Artisan Network, many Wisconsin businesses responded that they have production characteristics that qualify them to be characterized as 'artisan.'

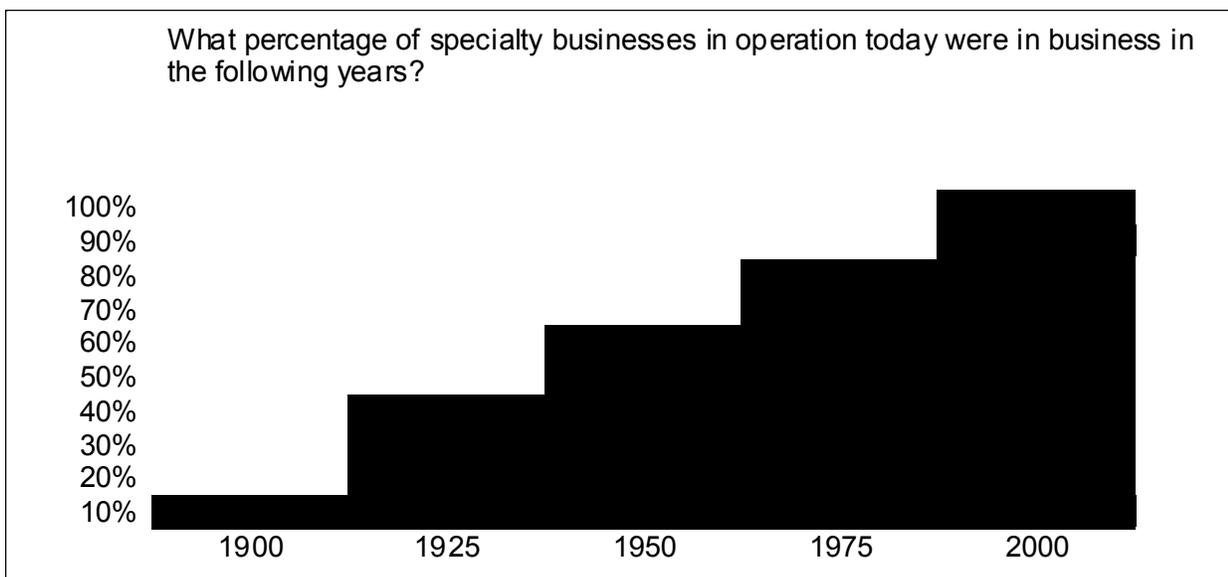
	<u>% Specialty factories with this characteristic</u>	<u>% Artisan businesses with this characteristic</u>
Manual labor used in production	90	100
Cheese produced by skilled craftsmen	82	100
Can identify farms from which milk came	66	100
Know animal husbandry characteristics of those farms	37	100
Cheese produced in batches no larger than 2,500 lbs	63	92

Niche <u>Characteristic</u>	<u>% Specialty plants that produce cheese with this characteristic</u>
Flavored	79
rBGH-free	42
Organic	37
Kosher	37
Pasture-based	34
Heat-treated	21
GMO-free	18
Raw milk	13
Goat milk	10
Sheep milk	5

3. What are some of the specialty characteristics that define Wisconsin specialty cheeses?

Additional types of specialty cheese products named by respondents include: baked, cave aged, grass fed and cheeses with vegetable rennet.

4. How old are Wisconsin's specialty cheese businesses?



5. What is the total number of years of cheesemaking experience among licensed cheesemakers working for specialty businesses in Wisconsin?

	<u>Specialty</u>	<u>Artisan</u>
Combined years of cheesemaking experience	2,631 years	370 years
Total:	3,001 years	

Licensed cheesemakers working for specialty and artisan businesses have a combined total of more than 3,000 years of cheesemaking experience.

6. What is the cheesemaking experience of respondents to the questionnaire?

A total of 73% of respondents have worked for 20 or more years in the cheese industry. Respondents had a total of 1,092 years working in the cheese industry. (Respondents to the survey were owners, managers and office personnel for the specialty and artisan businesses in Wisconsin.)

II. Marketing and sales among Wisconsin’s specialty cheese businesses

7. What activities generate income for specialty cheese and dairy artisan businesses?

The percentages below refer to the number of specialty and artisan businesses that conduct the following activities.

	<u>Specialty</u>	<u>Artisan</u>
Cut and wrap cheese	63%	39%
Age cheese	50	62
Distribute cheese	47	46
Market or broker cheese produced by others	29	23
Further process cheese	29	8

8. Specialty cheese sales:

	<u>Specialty</u>	<u>Artisan</u>
Percent of company's income from sale of specialty cheese	50%	77%
100% of sales derived from their own cheese vs. cheese bought and resold	43%	75%
100% of their own cheese sold as company's own brand	15%	85%

9. What are the three most important methods of cheese sales for specialty businesses?

Percentages reflect the number of specialty and artisan businesses that use the following methods for sale of cheese.

	<u>Specialty</u>	<u>Artisan</u>
Wholesaler or distributor	36%	17%
Direct to retail	20	22
Own retail store	16	0
Direct to food service	9	11
Direct to food processor	9	6
Internet sales	2	8
Catalog sales or brochure	1	3

10. How many specialty and artisan businesses own a retail store for sales?

	<u>Specialty</u>	<u>Artisan</u>
Own a retail store	73%	8%

11. Who markets products for specialty and artisan businesses?

Percentage of respondent businesses that use the following to conduct marketing:

	<u>Specialty</u>	<u>Artisan</u>
Respondent	82%	92%
Broker or consultant	40	23
Distributor or wholesaler	37	15
Other employees	37	8

Others that conduct marketing for specialty and artisan businesses included marketing firms, cooperatives, and other companies.

12. Where is Wisconsin specialty cheese distributed?

Responses are the percentage of businesses that are distributed to:

	<u>Specialty (%)</u>	<u>Artisan (%)</u>
Wisconsin	97	100
Midwest, outside Wisconsin	92	46
Eastern U.S.	81	15
Western U.S.	78	15
Elsewhere in U.S.	65	31
Exported	22	0

13. What do we know about sales for businesses in 2002?

	<u>Specialty</u>	<u>Artisan</u>
Businesses with sales on the rise, 2002	92%	92%

III. Farmer relations

14. What are the sources of milk for Wisconsin specialty plants?

Responses are the percent of businesses that source milk from:

	<u>Specialty</u>
Local dairy producers	71%
Dairy cooperatives	53%
Milk handler or broker	13%
Other	13%

Other sources of milk cited by businesses include other cheese manufacturers and organic farmers.

15. What percent of milk used by specialty cheese businesses based in Wisconsin comes from Wisconsin?

	<u>Specialty</u>	<u>Artisan</u>
% milk from Wisconsin	72	100

16. From how many individual milk patrons did businesses purchase milk in the first half of 2003 (January-June 2003)?

	<u>Specialty</u>	<u>Artisan</u>	<u>Total</u>
Number of milk patrons	1,430	177	1,607

Not accounting for milk patrons that may ship to more than one specialty plant, specialty cheese businesses purchased milk from 1,607 dairy farmers during the first half of 2003.

17. What percent of specialty plants had difficulty obtaining milk during the past twelve months?

Nearly one-third (29%) of specialty plants experienced difficulty obtaining milk during the 12-month period prior to receiving the questionnaire.

18. What percent of specialty cheese plants have production agreements to convert milk to cheese for farmers or others?

	<u>Specialty plants</u>
Percent with production agreements	13

Artisan producers did not report any production agreements.

IV. Use of available services in Wisconsin

Specialty cheese businesses were asked about their use of services offered by multiple agencies, organizations and businesses that serve the needs of the industry.

19. What sources of technical assistance do Wisconsin specialty businesses use?

	<u>Specialty (%)</u>	<u>Artisan (%)</u>	<u>Total (%)</u>
WI DATCP	51	62	54
WMMB	81	54	74
UW-CDR	76	62	73
CDR Short Course	55	31	49
UW-River Falls	8	8	8

20. What other sources of assistance are used by Wisconsin specialty businesses?

	<u>Specialty (%)</u>	<u>Artisan (%)</u>	<u>Total (%)</u>
Private consultant	27	39	30
WI Dairy Council	27	15	24
SBDC	19	15	18
UW-Extension	14	23	16
WI Dept of Commerce	16	0	12

21. What percent of specialty and artisan businesses have employees who are members of professional organizations of cheesemakers?

	<u>Specialty (%)</u>	<u>Artisan (%)</u>	<u>Total (%)</u>
WI Cheese Makers Association (WCMA)	68	8	52
WI Specialty Cheese Institute (WSCI)	41	8	32
American Cheese Society	30	39	32
WI Dairy Artisan Network	3	54	16

V. Basic economic impacts of specialty cheese businesses in Wisconsin

22. How many people are employed by specialty cheese and dairy artisan businesses in Wisconsin?

Number of people employed by specialty and artisan businesses in Wisconsin		
	<u>Specialty</u>	<u>Artisan</u>
	1,475	53
Total number of people employed by specialty cheese businesses in Wisconsin = 1,528 people		

23. In how many communities do specialty and artisan businesses operate?

Specialty cheese businesses operate in more than 60 communities in the state of Wisconsin.

24. How many specialty and artisan businesses offer health and retirement benefits for employees?

	<u>Specialty (%)</u>	<u>Artisan (%)</u>
Offer health benefits for employees	92	0
Offer retirement benefits for employees	76	0

VI. Sharing costs or services with other businesses in the industry

25. How many specialty and artisan businesses currently cooperate in the following activities with other specialty dairy businesses in the state?

	<u>Specialty (%)</u>	<u>Artisan(%)</u>	<u>Total (%)</u>
Market products	35	31	34
Consolidate and distribute products	35	15	30
Cut & wrap cheese	32	15	28
Consolidate and process whey	11	0	8
Purchase ingredients with volume discount	5	8	6
Purchase employee benefits with volume discount	0	0	0

26. How many specialty and artisan businesses would consider sharing costs for services with other specialty dairy businesses in the state?

	<u>Specialty (%)</u>	<u>Artisan(%)</u>	<u>Total (%)</u>
Market products	41	46	42
Consolidate and distribute products	38	31	36
Purchase ingredients with volume discount	41	15	34
Purchase employee benefits with volume discount	43	0	32
Cut & wrap cheese	24	31	26
Consolidate and process whey	35	0	26