

The Specialty Cheese Market

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Introduction

This report is intended to be an overview of the specialty cheese market and the marketing of its products. The report also attempts to uncover some of the opportunities and barriers associated with entering the specialty cheese market. The report begins with a discussion of the recent foodservice and retail industry trends, as well as the way the industry is continuing to promote and expand the specialty cheese market.

The report then turns its focus to what will be identified as the “Four P’s” of specialty cheese. This section is intended to assist individuals, farmers, small and mid-size producers and potential business owners, and others with an overview of the “marketing mix” and some of the necessary strategies to market their products. The section on the “Four P’s” is not intended as a “one size fits all marketing plan” but rather as a way to understand alternative markets (such as specialty cheese), and their function, structure, participants, and distribution channels. Although many of the marketing tasks (identifying a product, selecting and monitoring a channel of distribution, and developing a promotional and pricing strategy) a business owner has to face may seem overwhelming, its presentation is necessary in order to understand the nature of each task and how their structure leads to the success or failure of a product. Small producer-owned businesses need to be aware of these marketing tasks, and consequently take on as many as possible, to ensure the success of their business. As a small beginning specialty cheese business enterprise, owners are often required to wear many hats. This means that these small business owners have the responsibility for multiple business and marketing functions such as marketing, distribution of products, as well as business and finance manager functions.

Successful small cheesemaking businesses have been analyzed to determine the market structures, niches, products and marketing strategies that have made them into successful businesses. These enterprises have been successful because they use “big business” marketing techniques to market their products on a much smaller but still-profitable scale. The report attempts to illustrate these “big business” techniques with the hope that the small business owner will be able to use *some* of them to his advantage in order to successfully compete in the industry.

Executive Summary

Cheese consumption has dramatically increased in the past 30 years, jumping from 11.3 pounds per person in 1970 to 31.2 pounds per person in 2000. Per capita consumption is expected to continue to grow rapidly by rising to 37.5 pounds by the year 2009. Specialty cheese consumption is helping to drive this growth. According to the Wisconsin Specialty Cheese Institute, the nature of specialty cheese is derived from one or more unique qualities, such as exotic origin, particular processing, design, limited supply, unusual application or use, and extraordinary packaging or channel of sale. The common denominator of specialty cheeses is their very high quality.

Some of the reasons behind the growth of the specialty cheese market include: more Americans traveling abroad and tasting unique varieties of cheese in Europe and other areas; restaurants offering the time-honored European tradition of the cheese course; the overall trend of Americans wanting more variety and robust flavor in the food; education from retailers, foodservice, and cheese organizations in the types and use of unique cheese; the growth of ethnic populations and interest in ethnic food; and a greater availability and access to a wide variety of cheese.

Retail sales of specialty cheese reached almost \$2.4 billion in 2000, a 4% advance over 1999 sales. Retail sales of gourmet/specialty cheese will continue to grow at an approximate rate of 4% over the next five years to nearly \$2.9 billion by 2005. This would represent an increase of 22% over 2000 sales. Successful merchandising of specialty cheese is a key factor in the growth of the retail market for specialty cheese.

Specialty Cheese needs to be promoted in order for it to sell and expand its growing market. The seller must be able to *educate* customers on the use and presentation of the company's products. The Wisconsin Center for Dairy Research and its Wisconsin Master Cheesemaker program works to educate cheesemakers on the production techniques, varieties, and use of specialty cheese, while dairy marketing organizations effectively promote specialty cheese to cheesemakers and consumers. Innovative production techniques, such as cheese production *condominiums* are also helping to grow the specialty cheese market.

The “Four P’s of Marketing” can be used to describe a means to market specialty cheese. These “Four P’s” make up an organization’s marketing mix or *marketing function*. The “Four P’s” include product, promotion, place (distribution) and price. The method an organization uses to manage these “Four P’s” will determine the success of its product in the marketplace.

Product is identifying, via market research, products for which sufficient market demand exists to support a proposed product offering. Section 3.1 outlines 14 steps that are necessary to successfully launch a new niche product. Market research is a critical component of identifying a type of cheese to produce. A cheesemaker can use market research to understand market characteristics, uncover emerging and/or rapidly growing market trends, discover niches that are not being served or are underserved, and to understand the demographics of a his or her target market. Restaurant chefs, retail stores, and organizations such as the American Cheese Society can help identify and develop products, and hence are an important resource of your market research.

Promotion is marketing in the pure sense of the term. How are you going to sell your product and whom are you going to sell it to? Promotion should be considered *one of the first*, if not *the first* step even preceding the first production of your product. Promotional activities should include differentiating your product from your competitors, building relationships with your buyers (relationship marketing), and using the Internet to educate your customers. Many specialty cheesemakers were able to get their start by marketing to upscale restaurants or particular ethnic groups. A cheesemaker can outsource promotional activities through the use of a food broker or cheese marketer.

Place includes all company activities involved in making the product available to target consumers. It includes: methods of distribution, the geographic area to be covered, managing the varieties and quantities of cheeses for different markets, number and types of markets, and the management of inventory, transportation, and logistics. Ultimately, place is involved in making the product *convenient* for the target customers to purchase. Section 3.3 describes the primary channels and key players in the distribution of food products and should help develop a basic understanding of food distribution channels, methods and key players.

The last, not the first, consideration for any market is *price*. Price is completely dependent upon supply and demand. Premium priced products that are not supported by consumer demand will fail due to insufficient volume. Increasing consumer perception of *value*, through differentiation, increases consumer demand and the price dictated for the product. Consumer perception of *value* MUST be determined PRIOR to determining price. The most common pricing mistakes are: the pricing that is too cost oriented; the prices that are not revised often enough to reflect changes in the market; and that the prices that do not take the entire marketing mix into account. There are several pricing “issues” potential cheese businesses should consider including: product quality and differentiation, company image, a competitor’s pricing strategy, production costs, and if necessary, retailers/foodservice distributor’s desired gross margin or markup.

As mentioned earlier, one way to position your product in the market place is to uncover a niche product. One rapidly growing niche market is the ethnic cheese market. The fastest growing ethnic market is the Hispanic community. The Hispanic consumer, with \$421 billion of spending power, is very attractive to grocery retailers and suppliers. To serve this market, Hispanic style cheese production jumped 43% in the period 1996 to 2000. Hispanics are very brand conscious and brand loyal, and will pay a premium for products that have a perception of value to them. In short, Hispanics want what they pay for. It is also important to note that the Hispanic market actually consists of several markets or ethnic groups.

Another unique niche market is the farmstead cheese market. A farmstead cheese is an artisan cheese—

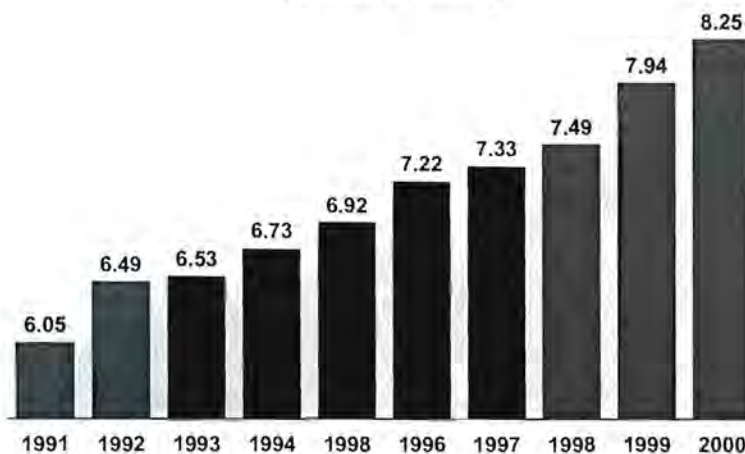
one handmade in small quantities that are produced on the farm using only milk from the herd located on that farm. This industry is rapidly growing in California and Wisconsin. Examples of several successful Wisconsin farmstead dairies are portrayed in section 4.2, as is their advice for future cheesemakers.

The report's appendix includes more information on margins and product introduction into the retail and foodservice industry, pricing strategies information on the role and selection on food brokers, and a glossary of popular specialty cheeses. The section concludes with important contact information.

1.0 The Cheese Industry

Total Cheese Production United States

(in Billion of Pounds)



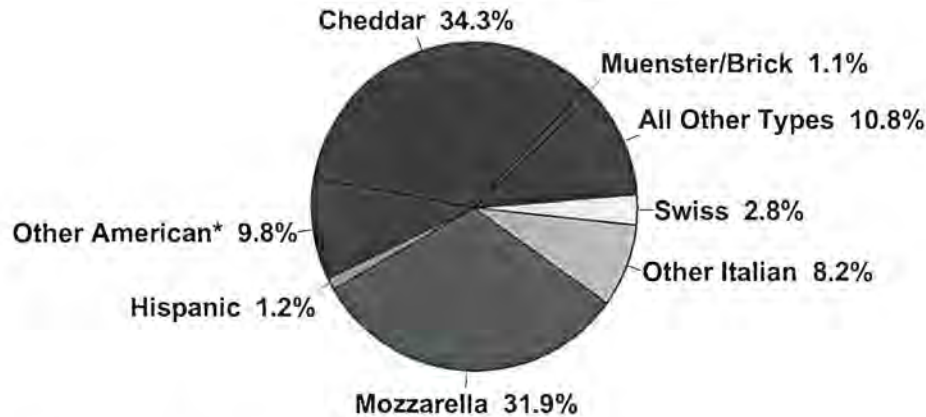
Source: Agricultural Statistics Board NASS, USDA

The cheese market has grown rapidly in recent years. In 2000, U.S. cheese production totaled a record-high 8.255 billion pounds, up 4.6% from 1999's output, according to USDA's Dairy Products 2000 Summary. This is an expansion of 360 million pounds over 1999's production (see graph below). Taking both 1999 and 2000 together, U.S. cheese production has grown by 762.4 million pounds since 1998. By comparison during the 1990-98 period, U.S. cheese production grew by about 1.4 billion pounds, or less than twice the growth achieved during 1999 and 2000 alone^[1].

The graph on the next page breaks down the U.S. cheese production by types of cheese. Although traditional American cheese production concentrated on cheddar and mozzarella, other cheeses are making significant inroads. For example, Italian cheese (other than mozzarella) makes up 8.2% of the total U.S. production, while Hispanic cheese now encompasses 1.2% of the total.

2000 U.S. Cheese Production

Percent by Type



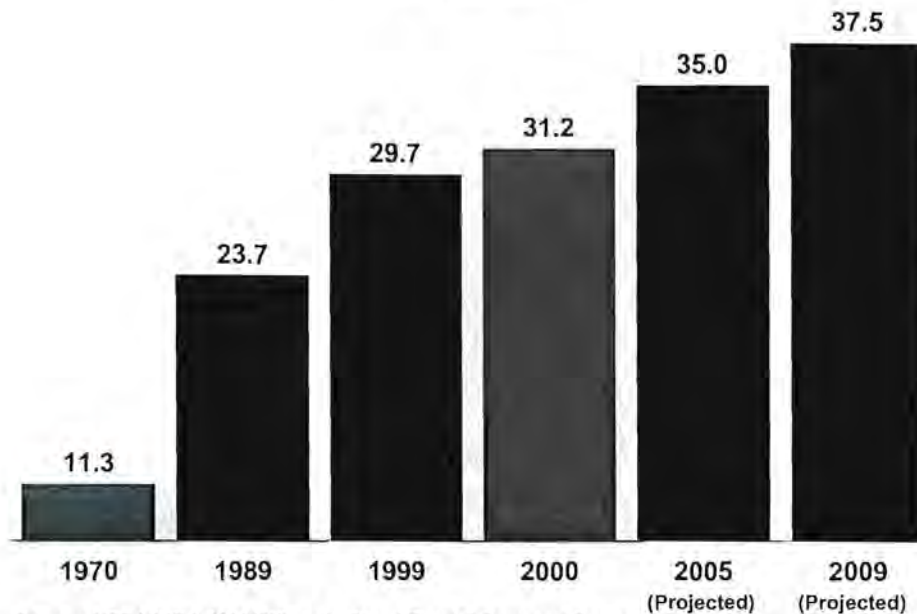
* Includes Colby, Monterey, and Jack Cheese

Source: USDA Dairy Products 2000 Summary

A Business Trends Analyst study estimates U.S. cheese sales at approximately \$20.6 billion in 1999, a 3.7% increase over the 1998 sales. In addition, cheese sales are projected to increase about 5% in 2000 to roughly \$21.7 billion and to maintain an annual growth rate of 4.1% through 2008, eventually topping \$29.8 billion that year^[2].

Naturally, the reason cheese production and sales have increased is because cheese consumption has skyrocketed. U.S. per capita cheese consumption was estimated at 31.2 pounds in the year 2000, up 1.5 pounds from 1999 and jumping 7.5 pounds since 1989, according to the USDA (see graph on the next page). Since 1970, per capita cheese consumption has increased 19.9 pounds and is expected to grow to 37.5 pounds by 2009. American-type cheeses led the way with 12.96 pounds but specialty cheeses are benefiting from the trend^[3].

U.S. Cheese Consumption Per Capita Consumption In Pounds



Cheese consumption has increase in part due to the consumer's desire for new cheese varieties in convenient forms and packages. Consumers are willing to try new varieties of cheese and pay a premium for them. Retailers like the premium that upscale cheeses command. Restaurant owners find that if they add cheese to a menu item, especially a specialty cheese like gorgonzola or asiago, consumers will pay more. In fact, cheese is listed on almost every menu across the country. According to recent research from Dairy Management Inc., 74% of consumers love the taste of cheese and 78% say they want to try new and different varieties^[4].

Another reason that cheese consumption has increased is because of the calcium and protein content found in cheese. U.S. consumers are becoming increasingly more health conscious in their food choices.

Besides being nutritious, many of the new varieties of cheese either imported or manufactured by artisan cheesemakers have turned non-cheese consumers into users or at least occasional users. Artisan cheesemakers are small independent cheesemakers that use tradition methods (most of the work being done by hand) in producing cheese. Such cheeses may represent only a small portion of the total cheese market, but they also show a great deal of opportunity for market growth^[5].

2.0 Specialty Cheese

Cheese is the secret ingredient to the great American culinary melting pot. Although cheese has been around a long time (it predates recorded history), today, cheese is at its height of popularity. This is an even more amazing feat considering that most cheeses get more than 50% of their calories from the taboo nutrient of fat. Interestingly, although cheddar and mozzarella continue to be the two most largely

consumed cheeses, it's the specialty cheeses that are driving the growth of the cheese industry^[6]. Jim Path Outreach Specialist at the University of Wisconsin's Center for Dairy Research defines specialty cheese as a cheese that is low in production volume—less than 40 million pounds of production annually. Specialty cheese is labor intensive; has the perception of a valued added product; may have an ethnic background and/or a special manufacturing process or packaging.

Section 2.1 presents an overview of the escalating specialty cheese market. Industry growth trends will be analyzed, as well the reasons behind this growth. Section 2.2 and 2.3 will discuss the growth and promotion of specialty cheese in the retail and foodservice segments. Section 2.4 will show how the industry is using education as a means to further promote and grow the specialty cheese market. Finally, section 2.5 will illustrate how innovative production ideas are helping to foster market expansion.

2.1 Specialty Cheese—Market Overview

According to the Wisconsin Specialty Cheese Institute, the nature of specialty cheese is derived from one or more unique qualities, such as exotic origin, particular processing, design, limited supply, unusual application or use, and extraordinary packaging or channel of sale. The common denominator of specialty cheeses is their very high quality^[7]. Specialty cheese offers retailers and foodservice providers a higher profit margin than commodity cheese, such as cheddar and mozzarella, because consumers with any appreciation for gourmet food will pay more^[8].

Wisconsin is the only state to track specialty cheese production separate from its commodity cheese production. The state's specialty cheese production last year was a record high of 221.7 million pounds, up 6.4% from 1999, according to figures released in May 2001 by the Wisconsin Agricultural Statistics Service. In 2000, specialty cheese accounted for 10.1% of Wisconsin's cheese output, up from 9.2% in 1999 and up from 4.1% in 1993^[9].

Why is U.S. specialty cheese market flourishing? With all its subtle variations in textures, flavors and ethnic heritages, specialty cheeses are a perfect fit for today's adventurous and flavor-seeking consumer. The quality and variety of U.S. cheese continues to advance through innovation, research, global migrations of cheesemakers, high-quality milk production and craftsmanship programs like the Wisconsin Master Cheesemaker Training and Certification Program (see section 2.4). In the past decade, the United States has experienced a renewal in specialty cheeses, particularly feta, fresh mozzarella, hard Italian cheeses, Hispanic cheeses, and goat cheeses. Such cheeses are being served by chefs for the time-honored European tradition of the cheese course (a European tradition of offering a display of cheese to a customer at any stage—appetizer, main course or dessert—of the meal), a menu item long ignored by Americans (see section 2.3)^[10].

Currently, artisan cheeses of all kinds are experiencing great reception. Goat cheese is now one of the most popular specialty cheeses. Some retailers carry as many as 50 varieties of goat cheeses. Fat-free cheeses are down in sales and have been replaced by reduced-fat varieties, or consumers are eating less, but switching to fuller flavored high-quality cheese^[11]. While domestic production is growing, importation is decreasing. This is evident in the table shown below especially in the blue/gorgonzola, feta and Romano cheeses.

	Domestic Production (Thousand lbs.)	% Change 97-'98	Imports (Thousand lbs.)	% Change 97-'98	Total Market Size (Thousand lbs.)
Blue/Gorgonzola	43,900	2.6%	7,869	-12.0%	51,769
Camembert/Brie	11,435	2.0%	11,823	5.0%	23,258
Feta	51,227	9.0%	10,879	-11.5%	62,106
Gouda/Edam	12,005	5.0%	12,407	16.0%	24,412
Havarti	3,900	9.0%	12,240	7.0%	16,140
Hispanic	76,000	10.5%	N/A	N/A	76,000
Parmesan/Similars	128,400	-14.4%	9,535	3.0%	137,935
Romano/Similars	28,400	5.6%	10,885	-13.0%	39,285
Goya	N/A	N/A	17,409	118.0%	17,409

Source: International Dairy Foods Association, Cheese Facts, 2000 Edition

Specialty Cheese Market Issues: Wisconsin vs. California

Production and popularity of cheese is rapidly growing in California, which may surpass Wisconsin in annual production before the year 2005. California is aggressively pursuing a niche that Wisconsin's Cheesemakers have dominated in more recent years: small volume, specialty cheeses that consistently win national and worldwide competitions. These cheeses provide higher profit margins because consumers with increasingly sophisticated palates snatch them up at premium prices. A moderate climate, the nation's largest milk supply, aggressive economic development and investment environment and favorable milk prices for cheesemakers are among the factors feeding staggering growth in California cheese production^[12].

In 1919, Wisconsin produced 63.1% of the nation's cheese supply. Today, the state has dropped to 27.1%, followed by California at 17.4%. Wisconsin now boasts about 350 varieties, types and styles of cheese, while California touts about 130. California has 54 cheese plants, and Wisconsin has 126—a reflection of California's reliance, so far, on large factories^[13]. According to reports by the California based Milk Advisory Board, cheese production has doubled in California in the past nine years. In fact, California produces one-sixth of all of the cheese made in the U.S., including one-quarter of all mozzarella. It is the largest producer of Monterey Jack and Hispanic-style cheeses (the fastest growing type in California)^[14].

2.2 Specialty Cheese—Retail Growth

Top 10 Fastest Growing Natural Cheeses at Retail

(Year to date ending 12/23/00)

Shown is the % Increase for the Year 2000

	Volume Sales	Dollar Sales
Asiago	52.4	49.9
Gorgonzola	37.3	47.1
Provolone	35.3	39.6
Muenster	30.1	31.8
Colby Jack	23.6	16.7
Brie	16.4	19.4
Goat	16.1	17.6
Blue	15.6	19.4
Havarti	14.0	23.1
Swiss	13.8	15.8

Source: "Cheese for All", Dairy Foods, April 2001

Consumers are buying more interesting varieties of cheese. On the retail side specialty cheeses are doing very well, partly because today's consumers have an adventurous and experimental palate. Asiago leads the pack in terms of growth rate, followed by gorgonzola, provolone, muenster, and havarti^[15]. As seen in the table to the left, specialty cheeses like asiago and gorgonzola, which most consumers weren't even aware of just 10 years ago, are experiencing impressive double-digit growth^[16]. Specialty cheeses are mainly sold in the deli department, wh

commodity cheese is available in

pre-packaged, set weight varieties in the dairy case. According to a market research study by Warren, NJ based Fromartharie, most shoppers purchase commodity cheese for cooking and baking, while they shop the deli case for entertaining^[17].

According to a U.S. Gourmet Specialty Foods Market report published by Packaged Facts, retail sales of specialty cheese reached almost \$2.4 billion in 2000, a 4% advance over 1999 sales. The retail specialty cheese market has grown at a fairly consistent rate of approximately 4% annually over the last five years, growing 17.5% between 1996 and 2000. Retail sales of gourmet/specialty cheese will continue to grow at an approximate rate of 4% over the next five years to nearly \$2.9 billion by 2005, the report said. This would represent an increase of 22% over 2000 sales. The Packaged Facts report also estimates that supermarkets generate 55% of specialty cheese retail sales, with specialty cheese stores accounting for 30%, health and natural food stores 5%, warehouse clubs 4%, and all other retail outlets generating 6% of retail sales^[18].

Cheese, especially specialty cheese, can be a profit center for retail stores. A Supermarket Business 2000 Expenditure Survey lists the cheese category at 35.5% gross profit margin (price - product cost = gross profit; gross profit/price = gross profit margin) compared to a 29.8% gross profit margin for the entire dairy department (more about profit margins in section 6.1). The International Dairy-Deli-Bakery Association's (IDDBA) 2001 annual foodservice trend cites cheese as having the highest gross profit margin of any product sold in the dairy department of grocery stores. IDDBA also quotes from a Consumer Expenditure study, which shows that grocery dairy cheese sales are the second-largest financial contributor to the dairy department with sales reaching \$5.5 billion in 1998^[19].

Supermarket consumers are choosing more artisan and ethnic cheeses as part of their daily routine, in part due to increased exposure from the rebirth of the cheese course at restaurants. Greek feta cheeses, including flavored feta, are selling better as well, with a 30% increase in retail sales last year. The "other Italian cheeses" category is booming, as is production of Hispanic cheese^[20]. In Dairy Management's July 1999 Specialty Cheese Survey, retailers reported that they typically sold seven or more varieties of specialty cheeses, with blue/gorgonzola and Romano being the most popular.

Education and income are important determinants of retail sales of specialty cheese. The Gourmet Specialty Foods Market report published by Packaged Facts states that consumers with a household income of \$250,000 or more are four times as likely to purchase Brie cheese over other cheeses. Professionals and consumers with incomes over \$100,000 are considerably more likely (than the average consumer) to choose camembert cheese, with havarti cheese holding an appeal to middle income consumers earning \$50,000 to \$59,000^[21].

Retail Promotion of Specialty Cheese

The Gourmet Retailer surveyed specialty food retailers, cheese shops, independent grocers, independent delis, natural food stores, and supermarket chains on specialty cheese. Overall, close to 60% of the retailers who responded offer a full-service cheese counter. The share of supermarkets offering a full-service cheese counter was the highest ever, and one-third of these supermarkets offered up to 300 individual specialty cheeses. Seventy-five percent of the respondents had increased their selection in the past year. Overall, the three top-selling specialty cheeses were Brie, cheddar, and provolone. Nearly 60% of the respondents said that artisan cheese makes up more than 50% of their cheese case. Although the popularity of organic foods is growing nationwide, organic cheese accounts for less than 10% of retail cheese sales. Seventy-four percent of the retailers who responded to this survey said their cheese sales increased last year, some by as much as 15% or more. Overall, respondents said that their selections are split evenly between imported and domestic with specialty cheese from the U.S. almost

double what they were three years ago. The two most effective means of promoting specialty cheese are sampling/demos and staff recommendations. Getting the customer to taste and maintain a knowledgeable staff are key to effective merchandising^[22].

Educational signage is an essential part of the marketing effort and should romance different characteristics of the product. Type, age, taste profile, country of origin, serving suggestions and care instructions are all-important elements. With the increase in wine consumption, a cheese-wine pairing chart that outlines which cheese best accompanies specific wines is another successful merchandising approach. Tastings and more formalized sampling programs, as well as knowledgeable employees are required components of any specialty cheese merchandising program^[23]. An upscale grocery store, located in a metropolitan area of Nebraska, not only displayed their wine with their cheese, but also featured a poster matching the cheese that compliments the wine and/or beer. This pairing of wine and cheese greatly increased the store's wine and cheese sales. Successful merchandising of specialty cheese is a key factor in the growth of the retail market for specialty cheese. The only limit to the retail growth of this market is retailers and producers failing to come up with strong programs to promote good cheese^[24].

2.3 Specialty Cheese—Foodservice Growth and Promotion

Cheese course offerings at restaurants, including dessert cheeses, are responsible for the increase in retail specialty cheese sales with consumers attempting to recreate the cheese course at home. The cheese course trend is increasing rapidly in popularity. Not only can the cheese course increase the customer's ticket, but it can also be a profit center with many customers buying a second bottle of wine to go with the cheese. One restaurant owner reported that they doubled the sales of fortified wines with their cheese course. With more customers interested in trying new foods, an increase in availability of fine cheeses, and a greater selection and better quality domestic cheeses—such as the explosion of artisan and farmstead cheese, Americans are attuned to cheese^[25].

A recent survey by the California Milk Advisory Board of trend-setting restaurants in San Francisco and the Napa/Sonoma wine region revealed that two out of three fine restaurants currently feature some form of cheese course on the menu. Survey highlights include: sixty five percent of the restaurants offer some form of cheese course on the menu, most on a daily basis and all as a regular menu feature; twenty-eight percent offer a traditional cheese course in which the guest is offered a selection of several cheeses and may choose one or several; and thirty percent also feature specific artisan or farmstead cheeses on the menu as ingredients^[26].

The objectives of a cheese course include pairing wine and cheese, selecting complementary condiments, creating a cheese course, finding menu parts to introduce cheese and learning a new lexicon to describe texture and flavor. Fruit-and-cheese plates, fondues and cheese-based dips are growing in popularity as appetizers at the finest restaurants, as well as at chain and family dining establishments. For that matter, 40% of appetizers on restaurant chain menus include cheese^[27].

Marketed properly, a separate cheese course on the menu has manifold benefits. It can help to set the restaurant apart from its competition, and make a quality statement about the products used. And while imported exotic varieties of cheese can obviously send the quality message, some restaurant owners and managers have found that taking advantage of *locally* produced ones can do the same. Local products are very easy to showcase, and offering them really sets restaurants apart, and they are able to make a profit with it. Although the cost of specialty cheeses is high, profit margins are solid because of the

limited waste and labor costs involved. Successful introduction of a cheese course first requires education and training of the restaurant's kitchen and wait staff. A staff, well trained in their awareness and presentation of unique cheeses, is necessary in a restaurant's ability to sell the product. In addition to providing wait staff with information about the various cheeses, the kitchen needs to plate them so that the server can identify each one^[28].

Top 10 Specialty Cheeses

According to chefs and retailers, here are the cheeses customers are asking for^[29]:

1. Fresh Mozzarella: soft, white cow's milk cheese with a mild flavor
2. French Brie: a ripe cheese with an edible white rind and a cream-colored, buttery-soft interior
3. Parmigiano-Reggiano: a hard, dry cheese made from skimmed or partially skimmed cow's milk. Has a rich, sharp flavor and is usually used for grating
4. Blue Cheese
5. Cheddar
6. Feta: a classic Greek cheese made with sheep's or goat's milk
7. Swiss Emmental: a hard cheese with a mellow, nutty flavor and marble sized holes
8. French Chevre: a goat's milk cheese with a tart flavor and a texture ranging from moist and creamy to dry and semi firm
9. Mascarpone: a soft, buttery, rich double- or triple-cream cheese made from cow's milk
10. Provolone

2.4 Specialty Cheese—Education

Specialty Cheese needs to be promoted in order for it to sell and expand its growing market. Effective promotion requires the seller to know its products inside and out. In other words, the producer must be able to *educate* customers on the use and presentation of the company's products.

The Wisconsin Center For Dairy Research at the University of Wisconsin is an excellent educational resource for people interested in entering the dairy business^{*}. The Center serves as a national leader in strategic research to improve the competitive position of the dairy industry. The Center links its staff and University faculty, students and the dairy/food industries to address key issues resulting in transfer of technology and communication of information. The Center is organized into four functional areas: research, applications, communications programs and administration. Three committees, composed of both industry and academic representatives, assist with administration and research planning^[30].

The completion of the Wisconsin Master Cheesemaker program is a grand achievement for future cheesemakers. This program is sponsored by the Center for Dairy Research at the University of Wisconsin. The Wisconsin Master Cheesemaker® Program is the first advanced education program for cheesemakers in the United States. Following in the European tradition, a Wisconsin Master Cheesemaker is the highest honor a cheesemaker can achieve. The program was established as an advanced education program for experienced cheesemakers. In order to be accepted into the program, you must hold a Wisconsin cheesemakers license for a minimum of ten years before beginning the 3-year apprenticeship. The required courses include four of the short courses (see below), as well as three elective courses^[31].

For those just starting out in the cheese business, The Wisconsin Center for Dairy Research also sponsors a number of short courses. A cheesemaker completes each course in only five days. Some of these courses include: Dutch Cheese Artisan Course, Wisconsin Cheese Grading Short Course, the

Applied Dairy Chemistry Short Course, Quality Assurance Short Course, and—probably the most popular—the Wisconsin Cheese Technology Short Course (which provides a technical approach to the discussion of the principles and practices of cheesemaking). In addition there are several one-day workshops on such topics as food safety.

The American Cheese Society has as one of its missions to be an educational resource for American cheesemakers and the public through sharing knowledge and experience on cheesemaking as a hobby or as a commercial enterprise with special attention given to specialty and farmstead cheeses made from all types of milk, including cow's, goat's, and sheep's milk. A farmstead cheese is an “artisan” cheese—one handmade in small quantities that are produced on the farm using only milk from the herd located on that farm. The farmstead producer is able to direct the cheesemaking process from determining the animal's feed through final aging of the cheese.

The California Milk Advisory Board (CMAB) has been educating California dairy families about cheesemaking. Over the past two years, the CMAB has held several seminars to introduce dairy families to cheesemaking, and has sponsored cheesemaking classes. Last year, the CMAB sponsored a visit by representatives from Durrus, the respected Irish cheesemaker, to discuss cheesemaking techniques with their California counterparts^[32]. The CMAB is also assisting in developing cooking schools for consumers in Salt Lake City and participating in culinary trade organization's shows. In addition, the CMAB has developed an online chef's continuing education course. As a result of these marketing efforts, artisan and farmstead cheeses are having a big impact on the California cheese industry^[33].

2.5 Innovative Production Ideas

Paul Scharfman, president of Specialty Cheese Company in Lowell, Wisconsin, is encouraging the growth of Wisconsin Specialty cheese by offering an opportunity to other cheesemakers to develop and make cheese. Scharfman suggests that his plant could be thought of as the “mother ship” and smaller, separate buildings would be auxiliary plants, owned or leased by cheesemakers. His “specialty cheese condominium” concept offers a chance to share the physical plant costs, like heat, water wastewater treatment, whey treatment and storage rooms and loading docks. It also offers an opportunity to build on one of Wisconsin's unique advantages—the human resources that include decades of cheesemaking experience. If condo owners choose, they could brainstorm about product development and marketing, or they could share business expenses like accounting or a retail store^[34].

In California, the Tulare County Chamber of Commerce is building a Specialty Cheese Production Complex. This facility makes it possible for the cheesemaker to have the latest in equipment and facilities, while at the same time minimizing the tenant's capital outlay, allowing him the luxury to concentrate on quality, production and marketing. The complex would be laid lineally with one milking station, pasteurizer and one storage and shipping common building. The remainder of the buildings would be for each cheesemaker. This is a condominium approach where each cheesemaker could concentrate on cheese making (they will be able to control their own business) and not on processing or storing milk. Not only will the facility take care of routine facility managements they will also assist in securing tax credits and help the cheesemakers find trained workers through their local Dairy Tech programs^[35]. The complex will have space for up to eight producers initially and up to 20 cheesemakers when fully developed. Not only does Tulare County have plenty of milk, it's within a couple of hundred miles of both Los Angeles and San Francisco—major markets for the growing specialty cheese niche^[36].

3.0 The Marketing Mix and The Four P's of Specialty Cheese

The "Four P's" of Marketing" are part of every basic marketing course. These "Four P's" make up an organization's marketing mix or *marketing function*. The "Four P's" include product, promotion, place and price. **Product** (what product are you going to produce to satisfy a consumer's wants and needs) is identifying, via market research, products for which sufficient market demand exists to support a proposed product offering. **Promotion** (how are you going to advertise and promote your product) is the means by which you will create and/or increase demand for your products. This may include discount incentives, give-a-ways, sampling, advertising, etc. **Place** (where are you going to sell your product and how are you going to distribute your product) relates to the marketing channel(s) through which your product will be distributed to its end user. Examples of marketing channels include retail, consumer direct, and foodservice. **Price** (what price are you going to set for your product) is self-explanatory. Considerations with price include identifying the supply/demand relationship by evaluating such things as the company's perceived brand quality and industry competition. Sections 3.1 through 3.4 will go into more detail about each of the "Four P's" and how they relate to the specialty cheese market.

Managing the Marketing Function

There are several options for managing the marketing function for an organization. A company may choose to perform the marketing function internally, outsource some of it, or outsource all of it. However, it should be noted that whichever option is selected, someone inside the organization still must be put in charge of overseeing the marketing function. This person(s) would be responsible for the activities outlined above, either doing it themselves or working with the out-sourced person/organization who is doing it on behalf of the company.

If it is decided to perform these activities in-house, it is critical that the designated person possesses the knowledge, skills, and time resources required to effectively perform the job. The marketing function is too often allocated insufficient time and money, which significantly limits the potential of the company to grow. A second option is to outsource the position of marketing director. An advantage of this option is that the company would benefit from the experience of marketing professional. The primary disadvantage is that hiring a marketing director would mean the company would have a fixed monthly expense for the director's salary and expenses.

A combination approach may be the most logical course of action. This may include outsourcing some of the marketing function by establishing a relationship with a broker. The nature of the brokerage relationship and their role in a company's marketing structure is outlined in section 3.2 and 6.4. This solution offers several advantages. The company gets the insight of an individual (firm) that knows the marketplace, has contact with industry players, and is experienced in developing and implementing promotions. A broker is compensated via commission on the sales they achieve, so there is not the fixed monthly expense obligation associated with an in-house marketing director. Selecting a broker is an important task not to be taken lightly (see section 6.4).

Regardless of how you arrange your organization's marketing function, it is important to take an integrated approach. When acting as a marketer you need to think of all components in tandem with one another—from product packaging, in-store merchandising, sales promotion and discounting programs to media advertising, public relations activities, direct marketing, and retailer and consumer education initiatives. For your company's marketing efforts to effectively generate awareness and sales, they must "speak with one voice." The concept of "integrated marketing" refers to the management of all aspects of marketing communications so that a company's key selling strategy is communicated *clearly* and *consistently*. To do otherwise is detrimental to your success in the marketplace.

How is this achieved? Below are several steps you can use to integrate your marketing efforts.

- *Decide Who You Are.* Create a mission statement and determine what your company/product stands for. What makes you unique? Once determined, convey this information at every point of customer contact.
- *Communicate.* If you have various people handling different components of your marketing activities, make certain they interact. Disjointed efforts are not conducive to long-term success. Provide updates and regular status reports to those involved including successes, problems and plan adjustments.
- *Have a Plan.* A written marketing plan makes good sense. It allows you to clearly communicate the company's vision and goals. It doesn't have to be lengthy but it should be written down and adjusted periodically based on activities.
- *Practice Relationship Marketing.* Establish strong relationships with your customers. Identify, recognize and reward your key customers. Remember that it is usually easier to generate additional sales from a current customer than it is to find and convert a new one.
- *Build Loyalty with Your Retail Partners.* Why should retailers buy your product and recommend it? Have they personally tried it? Is there a retailer loyalty program in place to recognize and reward purchases? Give them a reason to recommend your product.
- *Educate at Every Opportunity.* Consumers tend to buy what retailers recommend and retailers recommend what they know. The companies that take the time to educate and inform will reap the benefits of customer loyalty, both retailer and consumer. Education is especially important in the marketing of specialty cheese. Provide bag stuffers and third party literature. Sample product and advertise.

Competition is intense and the choices facing customers are numerous. Growth and success will come to those who strategize and manage their marketing efforts so that they "speak with one voice". John Raymond, manager of the cheese division at gourmet grocery store Dean & DeLuca in St. Helena, CA, advises specialty cheesemakers to relentlessly keep pushing their product, to be acutely aware of distribution, and to put out a premier signature cheese. He says, "people are putting out volumes of cheese decorated with various herbs and spices when what they really need is one great signature cheese and their future is made for them"^[37].

3.1 Product

A product is anything offered for attention, acquisition, use, or consumption that might satisfy a want or need. Products can be physical objects, services, persons, places, organizations, and ideas. Product planners need to think about the product on three levels:

- 1) The core product –what is the buyer really buying? The core product refers to the use, benefit, or problem solving service that the consumer is really buying when purchasing the product, i.e. the need that is being fulfilled;
- 2) The actual product is the tangible product or intangible service that serves as the medium for receiving core product benefits: quality (product performance), features (combinations of product attributes), styling (design or aesthetic aspects), brand name (helps consumers position and identify the product), and packaging (protects and promotes the product);
- 3) The augmented product consists of the measures taken to help the consumer put the actual product to sustained use, including installation, deliver and credit, warranties, and after-sale service^[38].

Launching a New Niche Product

Paul Scharfman of Specialty Cheese Company has written a series of articles for the University of Wisconsin's Dairy Pipeline entitled Inventing a New Niche Product^[39]. In one article, he presents 14 steps that are necessary to successfully launch a new niche product such as specialty cheese. The 14 steps are listed below.

1. Assemble the team: This team should include the following: an R&D person, a sales person, a graphic designer (and, where possible, a local advertising agency representative), a financial expert, and the general manager of your business. In some cases, one person may fulfill all of these roles, but it's important to recognize these critical areas in launching a new niche product.
2. Know your strengths. Compare yourself to your competition: Look at your competition's product line and business practices. Discover opportunities to compete with them—other than price. There is no benefit to merely duplicating another firm's niche cheese and trying to sell your product to his or her customer base by competing on price. Whatever a firm's strengths may be the new product development process should build on them.
3. Pick a mega-trend and ride it: Look at a list of predictions about our society and ask yourself what each prediction means for your product category.
4. Brainstorm ideas with your team that you think your firm could produce: see which mega-trends fit with your firm.
5. Ask your team to take your list of ideas and put them in priority order according to which ones have the best mix of these elements: 1) You can do it; 2) Your competition can't do it as well; 3) You think there is a market for it.
6. Do your first market research study. Then, take your ideas to your potential customers to determine whether there is a market for them. If not, ask them how they would change your idea to make it suitable for them.
7. Go back to the drawing board. Create revised, "positioned" ideas: Gather your team and refine your ideas and attempt to answer the following questions: who will buy it; who will use it; what will it replace (compete with); why will they use it; and why should users believe your product will deliver that benefit.
8. Try communicating your ideas in a persuasive way. For example, develop a test advertisement.
9. Seek the opinions of your potential customers whom you do not know personally, show them your ideas, including the test advertisement and see how they respond.

10. Repeat steps 7, 8, and 9 until you have some ideas that are greeted with enthusiasm by consumers.
11. Create some prototypes of product, package and label. Refine them based on your consumers' reactions in the same way you revised and improved your concept.
12. Take your concept, and prototypes to some distributors, store or restaurant owners and get their opinions. Be willing to modify your product based on their reactions.
13. Go sell your product, but only a little bit at a time. Listen carefully to reactions from the marketplace.
14. Celebrate.

Using Market Research for Identifying a Product to Produce

In order to identify and then develop a product, one must first have an in-depth understanding of the market. A Wisconsin dairy producer that was interviewed as part of this project is in the process of building a plant for his grass-fed dairy farm. He stated that it is necessary to do extensive market research to determine the right kind of cheese to produce. His market research identified potential niche markets and types of cheese based upon his location, size, long-term goals, etc. He then worked with a cheese technologist in the development of his specialty cheese.

Uncovering Trends

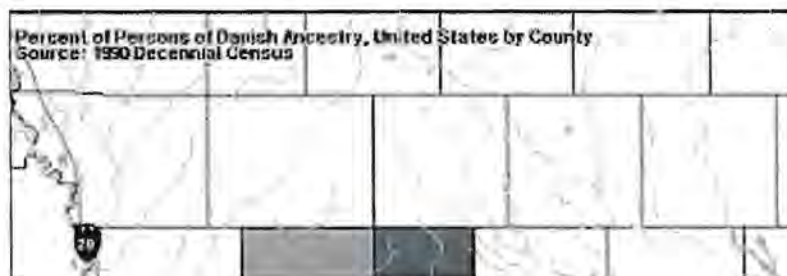
Market research can also be used to uncover an emerging and/or rapidly growing market trend in the area or region in which you live. There are several emerging markets in the specialty cheese industry. Today, some of the fastest growing markets are ethnic cheeses such as Italian, Mediterranean, Mexican and Latin American varieties. For example, a producer could develop a product that appeals to the growing Hispanic market, an idea that will be discussed in more detail in section 4.1. Another emerging niche could be the growing interest in farmstead cheese or cheese produced from grass-based dairies (see section 4.2).

Identifying Niches

When identifying potential niches, it is important to research the market. This could mean visiting the local grocery stores or independent (non-chain) restaurants and evaluating their cheese needs and whether these needs are being met. Maybe, the local Mediterranean restaurant has a hard time finding the specific cheese they want to use for their ethnic dishes or the local natural/organic restaurant cannot find the variety of organic cheese that they would like to use on their menu items. This is where market research can be an invaluable resource.

Your market research may include finding a European cheese that is not established in the United States but is very popular in Europe. For example, the map below shows two Iowa counties where 20 to 40 percent of the residents are of Danish decent. This map was obtained from the U.S. Census Internet site. County-level data was used for this example. However, a map can also be created on the metropolitan level or even the congressional district level.

Legend



Legend

A potential cheesemaker could then access a website such as <http://www.cdr.wisc.edu>. The website was developed and is maintained by the University of Wisconsin's Center for Dairy Research. The site lists information on over 1400 cheeses and can be sorted by nationality. By selecting Denmark, one gets a list of 30 Danish Cheeses. The Center for Dairy Research then provides brief description of each cheese including the milk type, texture, flavor, and appearance associated with the cheese. The Danish community within these two Iowa counties could then be surveyed to determine their level of interest in purchasing *locally produced* authentic Danish cheese. This approach allows you to promote a product on two levels: locally produced and ethnic heritage.

Uncovering Target Markets and Their Demographics

Another aspect of market research is finding out who and where your target market is. The chart shown on the next page provides a strategy for investigating possible target markets and market niches. This chart profiles the difference between American cheese and Imported cheese buyers as surveyed in their retail dairy case purchases by Spectra, a Chicago-based marketing research firm. The higher the index is over 100 (the number representing the average for all U.S. households), the higher the likelihood that the demographic category is a heavy purchaser of Imported cheese. The assumption in presenting this information is that Imported cheese buyers have similar demographics to specialty cheese buyers. Looking at the chart, one can conclude that as age, income, education, and employment status rise so does the likelihood of purchasing Imported cheese.

The Time is Right for Cheese	HOH	Other Employed	
1 Child in Household	250	104	Page 19 of 56
2 Children in Household	261	115	
3+ Children in Household	270	96	
Household Income \$30,000-\$39,999	107	89	
Household Income \$40,000-\$49,999	112	112	
Household Income \$50,000-\$74,999	118	138	
Household Income \$75,999-\$99,999	113	178	
Household Income \$100,000-\$149,999	106	202	
Household Income \$150,000 or more	99	208	

*Index of 100 = U.S. average, HOH = Head of Household

Source: Spectra (www.spectramarketing.com) from Supermarket Business September 15, 2000

With this information, a specialty cheesemaker can use U.S. Census data to target neighborhoods (market niches) where the ideal specialty cheese consumer lives. U.S. census data can be easily accessed at www.census.gov or your local library. According to the table below, **the ideal specialty cheese consumer is a college graduate who is at least 35 years old, is employed in a professional, managerial or executive position and resides in a neighborhood where most of the residents have an annual household income greater than \$50,000.**

Although it is important to identify which product to produce, it is also critically important to find out how to package and ship the product. Part of your market research should include asking chefs and dairy department managers questions such as: how they expect the cheese to be packaged, how much do they buy at one time, at what temperature do they expect it to be delivered, etc.

Using Restaurant Chefs to Help Develop Products

Restaurant chefs can also help identify and develop products. Price, consistent quality, consistent supply, portion control, taste, palatability, eye appeal and food safety are very important factors in the foodservice market. Quality must be consistent with the price the consumer is willing to pay at each and every sitting. Taste, palatability and eye appeal are also very important factors for generating repeat sales. In addition, food safety is becoming increasingly more important in foodservice. If any of these factors are not being met, then your product will not be successful in the foodservice market.

Several of the specialty cheese producers in Wisconsin were able to get their start in food service by contacting chefs and working with them on using their cheese in the restaurant's menu applications. Roth Kase of Monroe, Wisconsin worked with chefs at Disney to develop an ethnic cheese exclusively for Disneyworld based upon the chef's specifications. Hence, Roth Kase's Knights Vail cheese was developed especially for Disney World's Norwegian Pavilion in Lake Buena Vista, Florida.

Membership in the American Cheese Society (only \$125 per year) can be a great way to contact and network with upscale chefs who have an interest in specialty cheese products. One farmstead cheesemaker in Wisconsin said that she was able to get a list of 30 potential buyers for her product with nearly all of them turning out to be "good" buyers. The American Cheese Society is not only an invaluable source of networking, but it is also a way to get your product promoted through its cheesemaking contests and shows.

Food Safety

The most important aspect of product development is the attention given to producing a safe product for consumers to eat. An in-depth segment covering these issues will be written at a later time. Until that time, it is strongly advised that readers consult their Department of Health for any federal or state guidelines before any production begins.

3.2 Promotion

Promotion may be defined as any two-way communication for the purpose of making sales and building customer relationships. Obviously, this form of communication is "personal." It provides a forum for

immediate exchange of needs, goals, ideas, and feedback^[40]. This is marketing in the pure sense of the term. How are you going to sell your product and whom are you going to sell it to? *Promotion should not be considered the last step in the marketing process. In fact it should be one of the first steps (if not the first step) even preceding the first production of your product.*

A successful promotional campaign or activity will increase consumer perception of *value* thereby increasing consumer demand for your specialty cheese products. Consequently, consumers are willing to pay a higher price for your products. Consumer perception of *value* MUST be determined PRIOR to determining price. How do you increase consumer perception of value? The best way is through product differentiation.

Differentiating Your Product

How many other products are there like yours on the market? Purchase these products and taste them to determine how your product differs from others. What about the product makes it better or worse than your product? Be honest! If you do not gather objective information on your competition you will pay for it later. Based on your assessment of the competition, what makes your product unique, or different?

Product differentiation includes identifying the features, benefits, and attributes that differentiate your specialty cheese from the competitors. The more successful you are at creating a perceived difference the less price sensitive your cheese becomes and the more difficult it becomes for others to effectively compete with you in your defined market place. If your promotional activities do not adequately differentiate your specialty cheese from the competition then you are simply another "me too" specialty cheese company and will be forced into competing based on price and other monetary incentives you offer to buyers and customers in order to gain market penetration and or maintain current market share.

Differentiating your company is also important. Your promotional activities should not only sponsor your products, but should also promote your company. What is your company's image? Are you a discount seller, a gourmet producer, a "country" product? Decide on your image and make sure your promotional activities accurately portray that image. What are your company's strengths? How will these strengths benefit potential customers? Your promotional activities must clearly communicate these strengths to potential buyers and customers.

Practicing Relationship Marketing

The key to success in marketing your product is the relationships that you build with the buyers.

On the retail side, that means getting to know the dairy department managers and the store managers. It is important to also establish a relationship with both because store employees tend to change over time. This relationship building in addition to sampling, demonstrations, and other forms of advertising takes an enormous amount of time. That is why the most successful enterprises have at least one person who can dedicate all or most of their time to this task. However, if a producer can hire a person (or partner with a friend or a relative) to perform this task, it would be a tremendous plus to the growth of the business. That person should be as familiar with your product as you are and be able to tell "your story" the way you can. He or she should be comfortable with all aspects of customer service.

On the foodservice side, relationship marketing means working directly with restaurant managers, chefs, and wait staff. You must educate the foodservice buyers on how your product is different from other cheeses (product differentiation). The chef or manager may also expect the cheesemaker to instruct the wait staff on how to sell the cheese. The wait staff is a critical resource in moving the menu items. If the menu item or cheese doesn't move, it will be pulled off the menu. This is where the education that you provide on your product's uses can be a very important selling tool. Set up carving and presentation

workshops on your cheese. Ask the manager whether monetary incentives or contests can be provided to the wait staff to increase the sales and promotion of your product. Table tents that “tell the story” of your cheese are also an excellent way to promote your product at a restaurant.

Using the Internet as a Promotional Tool

In our research findings, few cheese producers indicate that the Internet is an effective tool to sell their products. However, many use it as a way to promote their products. Two successful specialty cheesemakers—Full Circle Farm and Uplands Cheese—in Wisconsin have an extensive amount of literature on their web site^[41] that is used to promote their grass-based cheese. These cheesemakers provide the reader (customer) with a persuasive description—not just of their product but of their beliefs, grazing methods, raw material quality, health benefits, and day-to-day farmstead operation that differentiates their product from would be competitors.

Selling Direct to Independent Restaurants

Many of the specialty cheese companies, who were interviewed as part of this research project, indicated that they got their start by selling direct to upscale and other independent (non-chain) restaurants. They also indicated that these restaurants present the best opportunity for new specialty cheese companies and products. Selling direct to an independent restaurant also provides an excellent promotional tool to promote your product and gain brand/name recognition by consumers especially if your product is literally featured on the restaurant’s menu. This means that somewhere on the menu it is stated that the restaurant is featuring locally produced product from your farm or plant. This can promote brand awareness for your future retail sales. If the restaurant’s customers like your product at the restaurant they will look for it for use in their home recipes. Even if your brand name is not featured on the menu, just to be able to say that a prominent, respected upscale restaurant is using your product is a tremendous promotional resource to use when marketing your product to other restaurants.

Other Promotional/Marketing Techniques and Examples

Paul Scharfman employed his marketing management skills when he bought a cheese plant in Lowell, Wisconsin, in 1992. Using U.S. Census data and consumer research, he determined there was a ripe market throughout the U.S. for Hispanic, Middle Eastern and Indian cheeses. The Hispanic cheeses, the largest line, appear under the label La Vacarica, and the others under the English translation: The Rich Cow. The Hispanic cheeses cover varieties prevalent throughout the Hispanic world, including the Caribbean and Central America^[42]. The company’s cheeses are very similar to the authentic cheeses produced in the far-flung corners of the world and are better in many instances simply because they have a longer shelf-life. Many would-be competitors simply can’t be imported because they don’t have the shelf life to make it across the ocean^[43].

Paul Scharfman is expanding his marketing efforts with his concept of “tribal marketing”. Tribal marketing is Scharfman’s attempt to “reach various ethnic groups in America that often aren’t able to get once-familiar cheeses from their homelands”. Specialty Cheese Company has placed itself in small niche markets that are strong and steady niches that have done well for the company. “We do niches,” Scharfman says. “One set of niches is the ethnic market. By luck, we ended up in the diet niche with patented products (see below)^[44]”.

Specialty Cheese Company also recently developed a new baked snack labeled “Just the Cheese Crunch Baked Cheese”. This product has found a niche as a diet food and demand is growing by leaps and bounds. The demand for this product was spurred when Specialty Cheese Company president Paul Scharfman sent a sample to Dr. Atkins—creator of the popular Atkins diet that is rich in protein and fat and low in carbohydrates. With Atkins’ enthusiastic approval, Specialty Cheese Company started

selling its Crunchy Baked Cheese—quite possibly the only cheese in the world that can be considered a diet food—on the Internet to those on the Atkins Diet in 1997. By selling to web users around the world, the product now makes up about 15% of the company's business [45].

Monroe, Wisconsin based Roth Kase promotes and differentiates their cheese by conducting free training and carving demonstrations. One of these training demonstrations led to the development of a cheese made exclusively for Walt Disney World. Roth Kase also brings in foodservice distributor buyers to train them on how to sell their products. They strongly believe that you have to “train the trainers” to sell your product.

Outsourcing Your Promotional Activities: Food Brokers

Hiring a *good* food broker could make or break your attempt to expand beyond your local market area (see section 6.4 for more information on brokers). A broker is a commission salesperson or company that represents a line of products to buyers and works directly with retail and foodservice category managers on positioning your specialty cheeses within your target market. If your specialty cheese products do not have an established market with relatively large weekly volume of sales, a food broker may require a minimum monthly fee for pioneering your products. This minimum is paid to compensate brokers for out-of-pocket expenses in establishing a new product in the market while no regular commission is being collected. Given the time and effort in launching and maintaining a line of products, most food brokers will insist on a one year minimum contract with automatic renewal based on satisfactory performance [46].

Although there are many advantages to working with brokers there are a few drawbacks. First, a broker carries a number of product lines. You may have a hard time finding a broker that has the time to sell your line. A broker's highest priority will be to sell the nationally branded items. These items are the easiest for him to sell in volume because of their recognition. The broker's high volume lines bring him the most revenue for his business so this is where he is going to spend the majority of his time. However, if you choose a broker with a lower percentage of nationally branded items he may not have the clout to arrange the necessary appointments with the food buyers.

Finally, it is important to take the time to research, which brokers specialize in cheese, ideally specialty cheese. These are the brokers who have the contacts and the knowledge to get results. Trade organizations such as the American Cheese Society may be able to direct your efforts. Grocery stores, restaurants, and food service distributors can be surveyed to determine which brokers they see most frequently and for their opinions on the broker's efforts. Once you have a list of brokers, it is best to come up with a list of interview questions (also see section 6.4 on evaluating brokers) to ask each one such as: what is their commission; do they have competing lines; what retailers/foodservice providers do they make regular sales calls to and how frequently they make these calls; what are their contract terms; what trade shows do they have a booth in; and will they allow you to accompany them on some of the more important sales calls to “tell your story”.

Cheese Marketers

Another way to expand your market coverage is by partnering with a cheese marketer. Dan Carter Inc. (DCI) of Mayville, Wisconsin, is an example of a worldwide cheese marketer. Specializing in the support of small dairies and farms, DCI provides marketing and sales consulting to specialty cheese plants. The company works with brokers and distributors to provide the necessary resources and expertise to sell its customer's specialty cheese. As of 1999, the firm represented 17 cheese companies and purchased cheese from 35 others. Dan Carter creates partnerships at each link in the production and marketing chain—with cheesemakers, brokers, distributors, importers, exporters, retailers and restaurateurs. DCI creates customized production and marketing strategies for its clients. In addition to

sales support, DCI provides cutting and shredding consolidation assistance, warehousing and distribution assistance to cheese plants^[47]. Klondike cheese started producing feta cheese with the help of DCI and now supplies a large portion of the U.S. feta cheese market with the marketing assistance provided by Dan Carter^[48].

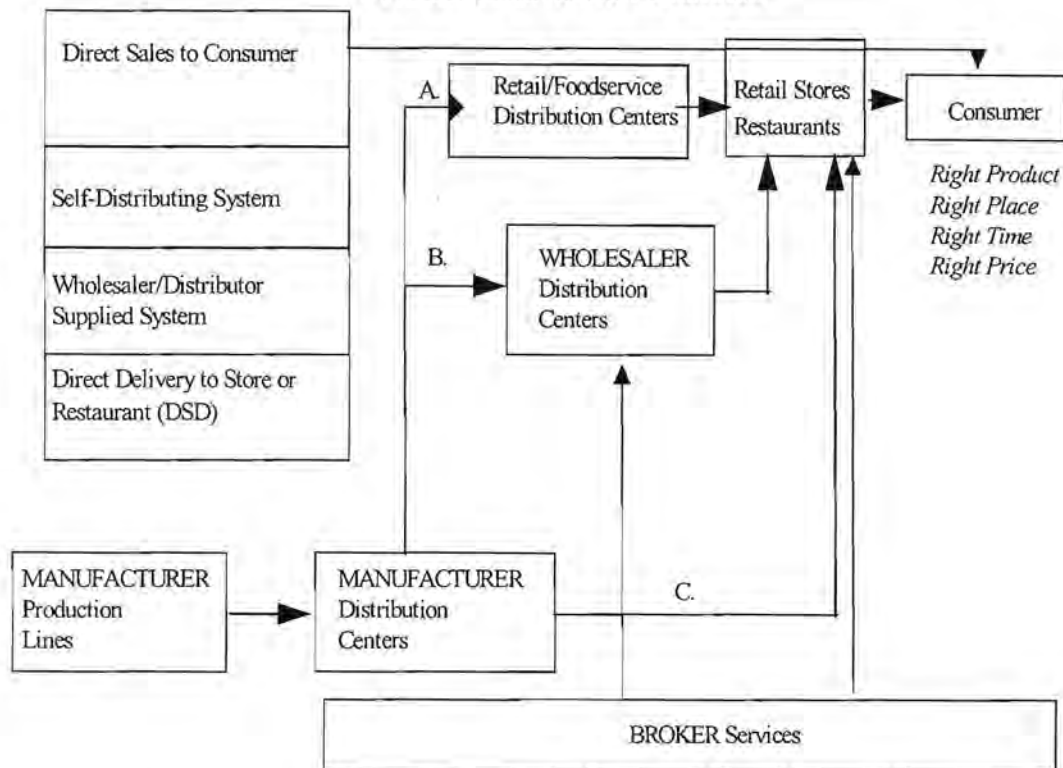
3.3 Place

Place includes all company activities involved in making the product available to target consumers. It includes: methods of distribution, the geographic area to be covered, managing the varieties and quantities of cheeses for different markets, number and types of markets, and the management of inventory, transportation, and logistics. Ultimately, place is involved in making the product *convenient* for the target customers to purchase^[49]. Therefore, the identification of your target customer (see section 3.1) must take place first.

The forms of distribution or ways to get your product to the customer are called channels. A brief overview is presented in this section. Sections 6.1 and 6.2 provide more detailed information on the nature and structure of retail and foodservice distribution. The most common distribution channels include retail, foodservice, and consumer direct. In the distribution of cheese, approximately one-third is distributed to retail stores, one-third to foodservice outlets and the final third to processing (manufacturing). Many beginning entrepreneurs mistakenly believe that introducing a new product into the market place involves only finding a store to sell it in or a distributor to handle it. Finding the market for a new product is not that easy. The distribution chain is a much more complicated system than most entrepreneurs or consumers realize. The first step in learning about the distribution system is to know the process of how a product gets to the consumer.

Food distribution in the United States is a complex system of moving goods from the manufacturer to the consumer. It includes such elements as warehousing and transportation, and involves a number of players, from producers and processors to brokers, distributors and sales representatives to consumers. This section describes the primary channels and key players in the distribution of food products and should help develop a basic understanding of food distribution channels, methods and key players. The drawing on the next page illustrates these channels.

Food Distribution's Three Primary Product Distribution Channels



Direct Sales

The consumer direct channel includes selling to the customer from your farm or place of business or by participating in a farmers market. A business can also sell direct to consumers through mail distribution via the Internet or catalog sales.

The advantage of selling direct to the consumer is that your profits are not split with anyone outside place of business. You control whom you market to and how you market your product. You are able to tell the story on how your product was produced to each customer via yourself, your brochures, and/or the Internet.

The disadvantages of selling direct are that you are responsible for all of the marketing, invoice collection, advertisement, and travel to farmers markets, etc. The growth of your business is dependent on how much time you can put into marketing your product. The Internet, although an excellent resource to provide educational information about products, may have limited use as a sales tool for your business and should not be relied on to grow your business beyond the local market area.

To direct market anything, you must differentiate your product in some way that would be difficult for a large, industrialized company to copy. It is nearly impossible to directly compete with larger corporations. The most important thing a farmer can sell is a sincere, personal relationship with his or her customers. Consultant Earl Wright calls this "relationship marketing", something larger corporations or industrialized agriculture cannot do. He states that there are two workable models of direct marketing. The simplest and maybe the most profitable model is to sell your own animals (in the case of cheese, sell cheese made on your farm), direct from the farm to probably a limited number of

customers. The second is to join with other like-minded individuals in some type of marketing consortium or cooperative organization^[50].

Retail/Foodservice Distribution

When supplying the retail or foodservice market with your product, you are totally and completely responsible for marketing and promoting your product to retail or restaurant chains and independents. You will be responsible for working with each individual store or restaurant on customer service and promotional/advertising campaigns. Many food manufacturers secure broker representation to assist in these activities (see section 3.2 and 6.4).

Retail and foodservice distribution, which is the movement of product from manufacturer to individual stores or restaurants, can take one of three primary channels:

1. Wholesale Supplied System

In the Wholesale Supplied System, the distributor purchases (takes ownership) products from food manufacturers for resale to the retail or foodservice chains and independents they service. To operate in this distribution channel, you must first get an account ("slot") with the wholesale/distributor, i.e. Fleming, Sysco, Nash Finch, Supervalu, etc. In many cases, to get this account ("slot") you may be required to pay an up-front fee or allowance (percentage of your sales) back to the distributor (see section 6.2).

Foodservice distributors usually employ sales and marketing personnel (see section 6.2 for more information). However, retail wholesalers/distributors do not employ sales or marketing personnel. With a retail distributor, the manufacturer is completely responsible for generating sales and working with the individual stores on in-store promotions, demonstrations, etc.

To get an account ("slot") with a retail or foodservice wholesaler/distributor, you must convince their category buyer or product line manager that your products will be ordered by the retail stores or restaurants that they deliver to. The most important question buyers will ask you is, "what is it about your product, marketing and promotional plan that will generate sufficient interest at the retail or restaurant level for us to carry your product?" If the answer comes across as just another "me-too" supplier and product, they will not carry (warehouse) the product.

After you get an account ("slot"), the *retail* distributor will purchase product from you (take ownership), warehouse, and notify the grocery chains and independents of product availability, while the *foodservice* distributor will purchase product, warehouse, and then begin selling the product to its foodservice accounts. The distributor will also notify the retail stores or restaurants of any supplier promotions or incentives that will be passed on to them, i.e. off-invoice allowances for temporary price reductions. When orders are received from the retail stores or restaurants, the distributor ships/distributes products from the warehouse to its accounts. Distributors carry minimum amounts of inventory in the warehouse. When possible, distributors purchase product from you based upon orders received from the retail stores or restaurants.

2. Self-Distribution

Self-distribution is very similar to Wholesale Supplied System. The only real difference is that the distribution/warehouse company or center is owned by the retail or foodservice chain. You must first get an account ("slot") with the warehouse/distribution center. To get this account ("slot") you may be required to pay up-front slotting fees. Then individual *retail* stores may ask for an up-front fee for shelf space. The warehouse/distribution center does not employ sales or marketing personnel. You will be completely responsible for generating orders from the individual stores or

restaurants and working with store/department managers on in-store promotions and demonstrations.

3. Direct-Store-Delivery (DSD)

With DSD, you become another vendor who ships product directly to the individual stores or restaurants as orders are received. You will be completely responsible for generating orders, shipping, in-store promotions and demonstrations.

DSD may create additional operating costs for the individual stores or restaurants due to the increase in paperwork, record keeping, etc. Stores purchasing items from a wholesaler/distributor have only one account payable, while each DSD arrangement results in an additional accounts payable.

In the foodservice sector, the cheesemaker will need to deliver the product in a way that matches the needs of the chef or manager. The restaurant may only accept deliveries during certain hours of the day to avoid their lunch or dinner rush.

Many retail and restaurant chains may have a DSD program that individual vendors must belong to. Specific requirements of these programs may include billing procedures and bar coding of cases and pallets for inventory control purposes.

Most new cheesemakers get their start through direct store or direct restaurant delivery. They build their business store-by-store, restaurant-by-restaurant, until their distribution is large enough (or the delivery task is cumbersome enough) to warrant distribution through a distributor. In addition, with a customer base of many stores and restaurants, their product will be a much easier sell to the distributor.

3.4 Price

The last, not the first, consideration for any market is price. Price is completely dependent upon supply and demand. Premium priced products that are not supported by consumer demand will fail due to insufficient volume. Increasing consumer perception of *value*, through differentiation, increases consumer demand for products. Consequently, consumers are willing to pay a higher price for these products. Consumer perception of *value* MUST be determined PRIOR to determining price (see section 3.2 Promotion).

Price is the only element in the marketing mix that produces revenue; all other elements represent costs. All profit organizations, and many non-profit organizations, must set prices on their goods or services. In the narrowest sense, price is the amount of money charged for a product. More broadly, price is the sum of all the values that consumers exchange for the benefits of having or using the product. Price is also one of the most flexible elements of the marketing mix. Unlike product features and channel commitments, price can be changed quickly, particularly in the short term through allowances and discounts. At the same time, pricing and price competition is the number one problem facing many marketing executives. Yet, many companies do not handle pricing well. The most common mistakes are:

- Pricing that is too cost oriented;
- Prices that are not revised often enough to reflect changes in the market;
- Prices that do not take the entire marketing mix into account;
- Prices that are not varied enough for different products, different market segments, and different

purchase occasions^[51].

As mentioned above, some prices do not take the entire marketing mix into account, with some cheesemakers pricing their product based on their production costs plus a profit. Your promotional need to be built into your price. These are any costs associated with the promotion of your product such as your time conducting demonstrations and making sales presentations (this is critical because many new entrepreneurs donate their time instead of making sure they pay themselves a "salary" for their services), samples given at demonstrations to store owners and restaurants, advertising expenses, broker and distributor fees or allowances, spoilage, and any other costs related to the promotion, selling, distribution, and servicing of your product. There are also costs associated with the revenue collection of your product. There are customers that will pay after their bill is due or in some cases will try to get away with not paying at all. Many customers will also negotiate a discount on paying early—such as one or two percent in the first 10 days—but pay late and still take the discount.

It is important to guard against under pricing. The price you give to a product lends a certain *value* to the item in the mind of the consumer. Under pricing often leads the consumer to believe that the item is of little value or of inferior quality in relation to others on the market. However, it is equally as important to guard against over-pricing your product. If your product is over-priced, then you will not be able to compete in the market place.

When pricing your product, you are placing a value on your product, your company's strengths and your customer service. You are not just selling a product. You are selling a package, which includes the unique features, advantages, and benefits of your product, your company and your customer service.

Pricing Factors

While it is important to consider product costs to determine if the price is in the right ballpark, you should take other factors into account as you determine the price of your product.

Quality of Product

Is product quality consistent? In other words, does your product taste and/or look the same every time you make it? What ingredients do you use and are they suitable for the product being made? Do ingredient costs fluctuate and how will that affect your product?

Product Differentiation

See Section 4.2 on Promotion

Company Image and Strengths

What is your image? Are you a discount seller, a gourmet producer, a "country" product? Decide on your image and make sure your price matches that image.

Competitors' Prices

Do some basic marketing research. Know the prices of all competitors' products. Also track the kinds of promotions they do. This will help you determine factors that may affect competitors' pricing.

Your Customer Service

Will you guarantee sales? What is your policy on damaged product? Will you offer a full refund if the customer is not satisfied with the product?

Your Costs

You must calculate all your production costs in order to know what profit you can make on the product.

Once you take the previous factors into account, you then determine how much you need to sell the product for in order to recover costs and make a profit. The price you decide must reflect all of these factors.

Gross Margin, Gross Profit and Mark-Up

In determining your price, you need to understand how the retail price and/or end-user price is determined. The retail grocery stores typically work off a minimum required gross margin within each food category. The foodservice industry typically works off a mark-up. Margins and mark-ups are very different. When calculating the margins and mark-ups your product offers, price minus cost of goods sold gives you gross profit. Gross profit divided by price equals gross margin. Gross profit divided by cost of goods sold equals mark-up. The example shown on the next page illustrates gross margin, gross profit and mark-up.

Hypothetical example gross profit, gross margin and mark-ups are calculated

	Dollars	% Of Price (Margin)	% Of Cost (Mark-Up)
Price at Retail/End-User	\$5.00	100%	165.67%
Cost-of-Goods Sold	\$3.00	60%	100.00%
Retail Gross Profit/Margin/Mark-Up	\$2.00	40%	65.67%
Price to Retailer	\$3.00	100%	111.11%
Warehouse/Distribution Up-Charge	\$0.30	10%	11.11%
Price/Cost to Wholesale	\$2.70	90%	100.00%
Price from Manufacturer to Wholesale	\$2.70	100%	182.43%
Manufacturer's Cost of Goods Sold	\$1.48	55%	100.00%
Manufacturer's Gross Profit/Margin/Mark-Up	\$1.22	45%	82.43%

In the above example, the retail store or end-user will pay \$3.00 per unit and then have a gross margin of 40% and a mark-up on cost of 65.67%. The wholesale distributor will purchase the product from the manufacturer at wholesale for \$2.70 and then mark the product up by 11.11%, giving the wholesale distributor a gross margin of 10%. The manufacturer sells the product at wholesale for \$2.70. The manufacturer's cost of goods sold is 55% of wholesale price, giving the manufacturer a gross margin of 45% and a mark-up on cost of 82.43%. There are three methods that may be used to determine unit cost and pricing, Full-Cost Pricing; Variable-Cost Pricing; and Market-Based Pricing. These models are presented in section 6.3.

Example

In setting her price, Sara Bredesen surveyed the market. She states in her guide Developing the

Farmstead Goat Cheese Business in Wisconsin that she made a record of each goat cheese product sold in area grocery, deli, and specialty food stores. She also writes, “it is a good idea to canvas the grocery and specialty food stores to find your competition, but that doesn’t mean those are the best places to sell your product. Direct retail sales are much more profitable than wholesale. A storeowner expects a 30 to 50% mark-up (23.1% to 33.1% gross margin) for specialty cheeses and will require you to come in with a wholesale price that will make the final sale price palatable to the consumer”. She also states that “if you choose to go this route, keep your pricing consistent from store to store, and work out the details with the store buyer before delivering any product. Those details would include how to deal with spoilage, how much free product is available for samples, what labeling is required and who will do it, how will deliveries and payments be handled and how will your products be presented in the refrigerator case”^[52].

4.0 Niche Markets

As portrayed in the product development section (section 3.1), one of the keys to success in the specialty cheese industry is to discover a niche market when deciding on a product development path to choose. This section details with what we have identified as two rapidly growing niche markets: the ethnic cheese market and the farmstead cheese market.

4.1 Ethnic Cheese Market

A way to position your product in the market place is to market to a particular ethnic group. International or ethnic foods are big business and getting bigger—both for imports and products made in the United States. By 2010, ethnic food sales should reach \$75 billion a year, accounting for 15% of growth in U.S. food sales this decade^[53].

Hispanic Cheese Market

The fastest growing ethnic market is the Hispanic community. The Hispanic consumer, with \$421 billion of spending power, is very attractive to grocery retailers and suppliers. Hispanic food sales are expected to grow 5.5% per year over the next 50 years^[54].

Today, the United States is the world’s fifth largest Hispanic marketplace. Likewise the Census Bureau predicts that the Hispanic segment is projected to grow at 10 times the rate of non-Hispanics over the next 50 years^[55]. The table below illustrates the current (2000 U.S. Census) and projected racial breakdown in the United States. As you can see below, the Hispanic population is projected to more than double in the next 60 years, while the Caucasian/white –Non Hispanic population will slip below 50% of the total U.S. Population by the year 2060.

	2000	2005	2010	2025	2050	2060
	%	%	%	%	%	%
White	69.1	69.3	67.3	62	52.8	49.6
Black/African American	12.3	12.3	12.5	12.9	13.2	13.3
Asian/Pacific Islander	3.7	4.3	4.8	6.2	8.9	9.8
Hispanic	12.5	13.3	14.6	18.2	24.3	26.8
American Indian	0.8	0.8	0.8	0.8	0.8	0.8

Source: 2000 U.S. Census of Population and Housing and Earlier Projections (Projections Are “Middle” Estimate)

Not only is the Hispanic population growing rapidly nationwide, but it growing at a tremendous rate on a regional basis—especially in the Midwest (see table on the next page). Nebraska and Iowa’s Hispanic population grew over 150% between 1990 and 2000, while Wisconsin and Missouri’s Hispanic population doubled.

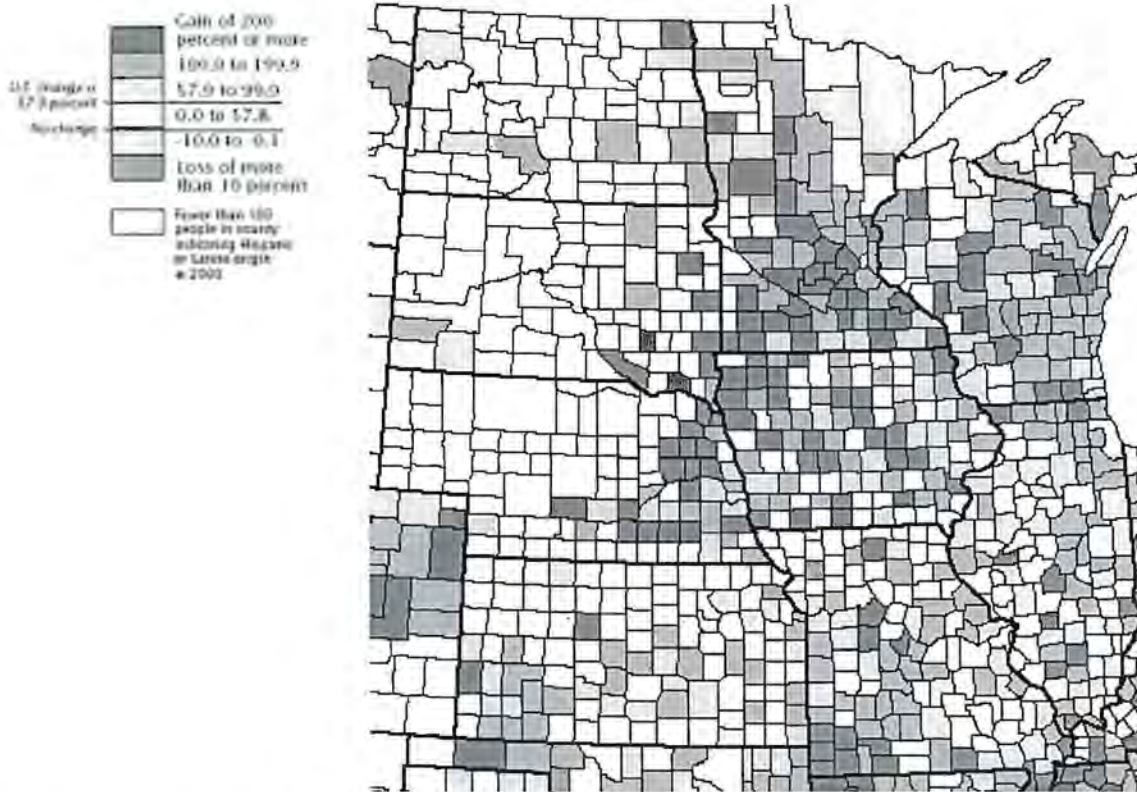
Change in Hispanic Population

	% Change	% of Pop	% of Pop
	1990-2000	1990	2000
Nebraska	155%	2.3	5.5
Wisconsin	107%	1.9	3.6
Iowa	153%	1.2	2.8
Missouri	92%	1.2	2.1

Source: 1990 and 2000 U.S. Census of Population and Housing

The map below illustrates the Hispanic population increase in the Midwest by county. Note that numerous counties in Minnesota, Wisconsin, Iowa, and Nebraska had percentage increases of more than 100% between 1990 and 2000.

**Percent Change
1990 to 2000
Hispanic or Latino Population by County**



Data Sources: U.S. Census Bureau, Census 2000
Redistricting Data (PL 94-171) Summary File and 1990 Census.
Cartography: Population Division, U.S. Census Bureau.

To serve this market, Hispanic cheese production has grown rapidly in recent years, escalating 43% since 1996. Hispanic cheese production totaled 95.3 million pounds in 2000, up 11.5% from 1999 and sustaining a trend of double-digit growth that started in 1998 (see below). There were 26 plants producing Hispanic cheese last year up four plants from 1999.

Hispanic Cheese Production

(In Thousands)

	# Plants	Total Production	% Change From Prev Yr	% Change 1996-2000
2000	26	96,340	11.5%	42.9%
1999	22	86,400	13.9%	
1998	25	76,000	10.4%	
1997	26	68,800	2.1%	
1996	28	67,400		

Source: National Agriculture Statistics Service

The growing Latino population and an increasing taste among all U.S. residents for Mexican-style dishes have fueled the Hispanic cheese market. Sales of Hispanic cheese have risen more than three-fold in the past 12 years. California based Ariza Cheese Company, which distributes Hispanic cheese nationwide, says, "there's even a demand for Hispanic cheeses in Kansas City, not a traditionally Spanish-speaking area. Our sales consistently go up 10% a year"^[56].

Hispanic Cheeses Increase Total Supermarket Cheese Sales

A recent study from a 1,000 household sample of Hispanic consumers commissioned by the International Dairy-Deli-Bakery Association, indicates that supermarkets can dramatically increase their sales by responding to the needs of Hispanic Americans. Sixty-seven percent of Hispanics cook dinner at home on average 5.6 times a week, with 53% cooking dinner every night at home. The majority of Hispanics (57%) agree with the statement that they are less calorie conscious than Anglos. Hispanics shop the dairy case on average 2.2 times per week and 91% consider cheese a good source of calcium for their families. Sixty-two percent of Hispanics often put cheese in sandwiches, 42% often use cheese as an ingredient in cooking and 40% often snack on cheese. Forty-eight percent of Hispanics most often buy chunk cheese and 41% most often buy sliced cheese. Eighty-six percent often or sometimes buy national brands, 75% often or sometimes buy store brands and 68% often or sometimes buy Hispanic brands^[57].

Hispanic consumers have large families, they are younger than the general population, their population is rapidly increasing and they are rapidly advancing into the middle and upper-middle class. Those factors mean they tend to buy more products, have more years to buy them, and are gaining the income to make more purchases. In addition, Hispanics tend to regard shopping as a recreational activity for the entire family, and therefore spend three times the amount of time in stores than average shopper^[58].

Marketing to Hispanics

Although the Hispanic market can be very lucrative for a specialty cheesemaker to pursue, there are some words of caution that need to be addressed. First, not all Hispanic ethnic populations are alike. One study conducted by ACNielsen found that the Hispanic market actually consists of several markets— for example, the market in Miami is quite different from the Hispanic audience in California. Meanwhile, consumption and buying habits among Mexican Americans aren't the same as Puerto Rican Americans, Cuban-Americans or those who emigrate from Latin American countries. Hispanics also express brand preference. Eighty-six percent often or sometimes buy national brands. In addition, if someone doesn't communicate to them in Spanish, if they don't make an attempt, 52% of Hispanics say that they will stay away from that product^[59].

Hispanics want what they pay for. While non-Hispanic consumers are more likely to let their whims move them from brand to brand and store-to-store, Hispanics loathe giving up something they've developed a loyalty to. They are more loyal to brands than Anglos. Hispanics are more in a needs mode than a wants mode. "They're looking first for quality and durability and then price, and will save and spend to buy the best says Jo Musser of Mendoza Dillon, an advertising agency involved in Sears' Hispanic marketing efforts". A common misconception is that all Hispanics are non-white, low income and/or non-English speaking. It is a mistake to only look at Hispanic's spendable income. Areas with a high density of Hispanics may be low income resulting in some price limitations, but the Hispanic population living in these areas still desires good brands and quality^[60].

Deborah Gonderil of Strategy Research Corp. spoke at the Arizona Hispanic Chamber of Commerce's "Focus on the Hispanic Market" conference. In her presentation she discussed strategies to successfully market to the Hispanic Market. These successful marketing efforts include the following themes:

- Hispanics' aspirations for upward mobility, which means portrayals as "solid citizens," are well received.
- Their focus on the group. Family and community settings are more popular than "rugged individual" themes that go over with other Americans.
- The importance of personal appearance and fashion. Advertising targeted to Hispanics thus will feature carefully groomed and well-dressed men and women of all ages.
- Pride in heritage and family. Companies can tap this trend by sponsoring community and educational events important to Hispanics.
- The trend among second and third-generation Hispanics to maintain their roots yet tries to balance that with American culture.

The specialty Hispanic cheesemaker's promotional plan should address as many of the above themes as possible.

Sanchelima Dairy Products of Miami, Florida has experienced tremendous growth in the Hispanic Cheese Market. Sanchelima's markets it's authenticity, combined with an emphasis on high quality to become a leading brand in the Puerto Rican market and a well-known name in supermarkets with a strong Cuban and Hispanic customer base. Their brand name for fresh Queso Blanco Fresco (Mambi) is named after an old Cuban warrior. The company advertises on Spanish radio stations and in Spanish newspapers. Forty percent of their sales are in Cuban delicatessens, leading the company to believe that there is a huge retail market for Hispanic style cheese in U.S. retailer delis. Sanchelima's current production is about 1 million pounds a year. The company hopes to break ground on a new plant this year that will have a capacity of 3 million pounds annually^[61].

Other Ethnic Markets

Greek

Feta cheese, popular in food service for several years, has recently become a fast growing cheese in the retail sector jumping 15.8% in retail dollar growth in 1999. According to Cheese Market News, Klondike Cheese of Monroe, Wisconsin, is responding to the feta market growth by adding 43,000 square feet to its current 38,000 square foot production facility. With the production of the current plant at capacity, the expansion was the only way that Klondike could increase its feta production to keep up

with demand. The plant is fully automated and will initially increase production by about 5 million pounds annually over the course of the next two to three years. With the addition of even more equipment though, the plant will have the capacity to produce more than 10 million pounds of cheese over its current production^[62].

Kosher

As kosher certification of food products becomes more appealing to non-Semitic consumers, mainstream food companies continue to seek the kosher seal of approval for many of their brands. Most of the food companies that have made the kosher connection have watched it pay off through increased sales either in the overall kosher market or within the "core" market. This market consists of dedicated observers of the kosher diet, particularly Jews, Muslims and Seventh-day Adventists. Dannon Yogurt experienced a 25% increase in Jewish household penetration as a result of recently being certified as kosher. Korbel Champagne Cellars increased sales considerably after introducing its first kosher-certified champagne in 1997. Beech-Nut Baby Food began to certify its foods kosher and as a result established itself as the top-selling baby food among Orthodox Jewish consumers, who on average have 4.8 children per household, the study states^[63].

English

Wisconsin Farmers Union Specialty Cheese Company, a cooperative formed to support Wisconsin family farms, produces and distributes a line of English Style Cheeses. Their label emphasizes the fact that they are a Wisconsin cheese co-op and that a product's purchase support Wisconsin family farms. The co-op found it challenging to market their English Cheese. It was a market that they had to go out and develop because consumers were not familiar with English style cheeses, in other words they had to educate the consumers on the types and uses of English Cheeses.

4.2 Farmstead Cheese Market

Another unique way to position your product in the growing specialty cheese market is by entering the farmstead cheese business. A farmstead cheese is an "artisan" cheese—one handmade in small quantities that are produced on the farm using only milk from the herd located on that farm. The farmstead producer is able to direct the cheesemaking process from determining the milk producing animal's diet through final aging of the cheese^[64]. Producing and selling farmstead cheeses may be labor intensive but offers an opportunity to develop a niche product and market that cannot be readily tapped by the large cheese manufacturers.

In 1997, California had just three farmstead cow's milk cheesemakers. Today the state boasts eight producers and at least two more are scheduled to start production this year. While farmstead and artisan cheesemaking represent a very small percentage of the approximately 1.5 billion pounds of cheese produced in California last year, it contributes significantly to the overall image of California cheesemaking. Point Reyes Farmstead Cheese Company produces the state's first European-style blue cheese. Two more dairy families in California's Central Valley will start farmstead cheese production this year, and several others are in the preliminary planning stages^[65].

Farmstead cheese production is also rapidly growing in Wisconsin. The paragraphs below describe the experiences of three successful Wisconsin cheesemakers who chose to explore the farmstead cheese market in their recent entry into the specialty cheese industry.

Sara Bredesen owns a farmstead goat dairy in Wisconsin. Her primary market is the tourists that flock to the northern Wisconsin woods from April to October. She sells her cheese at farmers markets, flea markets, upscale restaurants (who feature her product on their menu), and wineries. Bredesen promotes through her sampling at these establishments and her ability to visit with potential customers in this area to tell the story on how her cheese is produced. She says that people like the idea of knowing exactly where the milk comes from. In addition to samples, she brings pictures of the animals and the cheese plant. She also promotes by giving interviews to publications and at booths at various conferences.

Bredesen's greatest obstacle growth is the extensive amount of time required to make sales calls and presentations. Her role as cheesemaker, production manager, and business manager, and leaves her very little time for marketing her product. However, maintaining total control enables her to achieve high quality standards and provide individualized customer service.

Her advice to future cheesemakers is to be aware of everything you need to have in place before you start producing cheese. This includes the needs of your customers (determined through market research), your business needs such as capital (land and equipment) investment, and the legal requirements for production and distribution (including the liability insurance necessary). Bredesen covers a great deal of this information in her booklet entitled Developing the Farmstead Goat Cheese Business in Wisconsin. She would like to encourage future producers to do their market research first by going to the grocery store and accessing their potential competition's packaging, display, labeling, and price. Future cheesemakers need to survey grocery store owners on *good* wholesale and retail prices especially for hand made products where excessive time and effort has been put into the product. One of her mottos is to find out what you have to offer that your competitors don't (product differentiation) and market this aspect.

Mary Falk, Wisconsin, operates a farmstead sheep dairy. Falk markets her product as "cheese with the North Woods flavor." She promotes the wildlife aspect of the Wisconsin North Woods area where her cheese is produced and feels that the cheese you produce should be reflective of your environment. Falk also benefited from participating in an American Cheese Society competition where she took the top honor during her first year of production. Before starting her business, Falk counseled with several established cheesemakers on how they began their business. They indicated that she should not expect to see a profit for at least five years. Falk's product mix features specialty-aged cheese (time from production to sales could be years) which garner a significant price premium. To meet her short-term cash flow needs, Falk also produces a "young" cheese with a short production time and fast inventory turnover.

This illustrates a VERY significant point that all potential cheesemakers MUST take into consideration. How do you cash flow a business operation that requires a significant monetary investment in cheeses that are being aged? Although Falk produces a specialty-aged cheese to increase her notoriety, she uses a "young" cheese to build her cash flow. The fact that she doesn't rely on a specialty low volume product for her cash flow is a good business practice to follow. This allows you to build your business with your unique commodity type cheese and gives you the financial support to then expand your customer base with an aged specialty product. For example, if a cheesemaker produced a cheese that was aged 18 months and this was the only cheese that was produced, the owner would not have any revenue for 18 months, yet he or she would have all of the start up expenses of the cheese plant.

When deciding on a cheese to produce, Falk interviewed a number of chefs for their ideas about which niches might offer her the best opportunities. Not only did she establish relationships with chefs but she also networked with retail buyers. Falk commented that one of the obstacles in her business development was after she worked to build relationships with the retail cheese department managers, the manager or cheese buyer left the position and she had to start the process over again. This is why it is important to keep up your communication with your accounts on a regular basis, and why it is critical to

not only build a relationship with the cheese buyer but also get to know the store manager, the wine and beverage manager (for cross-merchandising—displaying items in departments other than their normal in-store location—purposes), and the meat and deli manager. So, if one of your contacts transfers to another store, you have other personnel that know you and your product.

Valerie Dantoin of Wisconsin's Full Circle Farm is banking on the current interest in a naturally occurring fatty acid that is found in dairy products that may have cancer-fighting abilities. Dantoin introduced her cheese produced from the milk of grass-fed cows to promote these health benefits. She uses pamphlets and her web site to promote the health benefits of using her product.

Dantoin chose to make a white cheddar cheese so that she would be able to promote a widely known type of cheese. She used a Wisconsin Department of Agriculture grant to test CLA levels (see Dantoin's website—<http://www.fullcirclefarm.net>—for more information). Dantoin has also been promoting the low-cholesterol aspects of her cheese—which according to hers tests, has 1/3 less cholesterol than ordinary cheddar. She works with a food broker to promote this aspect of her product. The broker has successfully used it as a selling point in trade shows. Her product has been popular with upscale delis on the west coast and at a recent International Dairy, Deli, and Bakery trade show.

Aside from the CLA health benefits, Valerie Dantoin also promotes the North Wood's environment in which she lives. She advises cheesemakers to figure out what natural advantages your area has and promote these aspects in your literature. On her website, Dantoin gives a detailed description of her farm including the quietness, the humane treatment of the animals, the fresh grass and clove, as well as the farm's family history. Customers will remember this story when they are purchasing and consuming the cheese, and just as important, they will pay more to experience this quality of life, even if they can only experience it by eating cheese, for it is an encounter that they cannot receive from a mass produced commodity cheese.

Mike Gingrich of Uplands cheese has found success in his grass-based cheese. Gingrich has started making and selling Pleasant Ridge Reserve, a 'Beaufort style' artisan cheese made from grass fed cow's milk. He markets his farmstead cheese to specialty stores and restaurants. He gets very little business over the Internet because "you can't get the taste experience. Really, it's taste, taste, taste...the three most important features of cheese"^[66]. He has been successful in marketing the cheese to natural foods stores and to foodservice outlets in various parts of the country. He chose to produce a specialty French Gruyere type of cheese. He ages and turns the cheese in a cold room that is controlled to the same temperature and humidity as the limestone caves in southeastern France. This labor-intensive effort is evident in the taste of the cheese and has enabled him to successfully sell his product to an upscale clientele. However, he promotes the unique flavor that the grass-based diet gives to his cheese rather than the health benefits that come from the diet.

5.0 Conclusions

- With retail sales of 2.4 billion in 2000 and expected to increase by 22% in the next five years, the

specialty cheese market is growing rapidly.

- Retailers and restaurants are expanding their specialty cheese selections because of its high gross profit margin potential.
- Specialty cheese needs to be promoted in order for it to sell. A cheesemaker should not only know his product inside and out but should also be able to assist retailers and restaurants in promoting his or her cheese. To accomplish this, a producer/business owner needs to know how the industry promotes cheese. Retailers promote cheese through deli counters staffed with employees trained in the use and preparation of cheese, as well as through staff recommendations to customers, sampling and demonstrations of cheese, and signage with wine/beer pairings with cheese. Restaurants promote cheese through their cheese course offerings, wait staff recommendations, and pairings with wine and beer.
- Producers need to be in tune to the marketing mix referred to in this report as the “Four P’s of Specialty Cheese”. These “Four P’s” include product, promotion, place (distribution), and price. Although parts of the marketing mix can be outsourced (such as when a cheesemaker uses a cheese marketer for promotional support), someone within the organization should have the final responsibility for each component of the marketing mix.
- A cheesemaker must use marketing research to determine which product to produce and to gauge the size and demographics of his or her target market. Marketing research should also be used to uncover trends and identify possible market niches.
- Food Safety is an issue that must be given serious consideration. Your state and/or federal inspectors are a good source to answer any questions concerning regulatory issues. You should meet with your inspector early on—before any product development or equipment investment takes place.
- Differentiate your product from your competition and know your competition’s marketing mix inside and out.
- Establish working relationships with your retail and foodservice customers and use the Internet as a promotional and education tool. Sell your sincere, personal relationship with your customer.
- Gain brand recognition by selling direct to local restaurants and retailers.
- Make sure all of your marketing mix costs (including your time) are given consideration in determining the price of your item.
- Be aware of everything you need to have in place before you start producing cheese. This includes the needs of your customers (determined through market research), your business needs such as capital (land and equipment) investment, and the legal requirements for production and distribution (including the liability insurance and all federal/state regulations necessary).
- Choose a “young” (not aged) specialty type cheese with good volume potential to cover the business’ cash flow needs and produce an artisan or aged specialty type cheese with lower volume potential to build your notoriety as a cheese craftsman. Note that the “young” cheese will have a lower profit margin but higher sales volumes to cover the cash cost of running the business, while the artisan cheese will offer higher profit margins and in turn greater profitability.

- Figure out what natural advantages your area has and promote these aspects in your literature.
- Find a great signature cheese and promote it.

6.0 Appendix

The following appendix includes detailed information on margins and product introduction into the retail and foodservice industry, information on the role and selection on food brokers, pricing strategies and a glossary of popular specialty cheeses. The section concludes with important contact information.

6.1 The Retail Grocery Industry—Margins and Product Introduction

The retail grocery industry is driven by total sales, volume (total units sold per week), the need to minimum margins, and overall profitability.* Why is the retail market driven by sales, volume, and margins? Supermarket Business's 1999 Consumer Expenditure Study reported a 32.4% margin for total foods in supermarkets with annual sales over \$2 million and a 2.9% growth in sales for the entire retail grocery industry much of which was due to price inflation. Food Marketing Institute's 1997-98 Annual Financial Review reported a 1.22% net profit margin (net profit divided by total sales/revenue) for the entire retail grocery industry.

The slow growth in total sales and need to protect margins has contributed to the wave of consolidations in retail grocery industry, with the largest grocery chains buying up large and mid-sized regional chains.

Through consolidations, these very large chains are able to exercise more buying power and increase total sales. The increased buying power enables them to purchase products in greater volume, from their suppliers, at lower cost. This activity is putting the smaller stores and chains at risk. They are not able to purchase from their suppliers at the same volume and therefore they are not able to purchase at the lower cost. These smaller members of the industry are surviving through non-price competition. Suppliers to the smaller stores and chains must be aware of the problems these stores face and work with them to develop non-price competitive strategies such as locally produced specialty cheese.

Total store volume and sales determines minimum average margin requirements and the combination of volume and dollar margin determine total dollar margin.^{**} Total dollar margin minus all other expenses equals net profit (profitability) for the entire store.^{***} Retail grocery stores are typically divided into major product categories, such as frozen foods, dairy, produce, dry grocery food, meat/fish/poultry, etc. The stores have established profit (margin and volume) targets for each major category. Typically, each major category is assigned a manager and the category manager is responsible for at least maintaining the established profit targets for the category and the manager's performance is based upon maintaining or exceeding the established profit targets for category. Each category is also divided into subcategories for example a partial listing of subcategories under dry grocery food could include the following (see next page):

Dry Grocery Food

- Breakfast Foods
- Canned Prepared Foods
- Desserts
- Jams, Jellies, Preserves
- Snacks
- Pasta

Within each subcategory, there are additional breakdowns as the following example illustrates:

Condiments

- BBQ sauces
- Condiment Sauces
- Flavor Enhancers/Meat Tenderizers
- Ketchup
- Mexican Sauces

The category manager is responsible for managing the volume and margins (profitability) for each of the subcategories and products within each subcategory.

At the individual store level, the success or failure of an individual product/brand is determined by sales, percent margin, dollar margin, volume and overall profitability. The following example illustrates the performance, at the individual store level, of two salsa brands that are given the same amount of shelf space in the condiment category. Brand A is price at \$2.50 per unit and is promoted as a specialty/gourmet item with an average weekly unit volume of 1,000 units. Brand B is price at \$2.00

per unit and is a non-gourmet/specialty item with an average weekly unit volume 1,688. Which of these two brands is the best performing salsa? A category manager would view these two as equal because their total weekly dollar margins are equal.

Product A	Dollar	Percent	Product B	Dollar	Percent	A & B Totals
Price Per Unit	\$ 2.50	100%	Price Per Unit	\$ 2.00	100%	\$5,876
Cost of Item	(1.69)	67.60%	Cost of Item	(1.52)	75.00%	
Margins	0.81	32.40%	Margins	0.48	24.00%	
Volume (Units sold per Week)	1,000		Volume (Units sold per Week)	1,688		2,688
Total Dollar Margin	\$ 810		Total Dollar Margin	\$ 810		\$1,620

Retail grocery stores vary a great deal in the amount of flexibility the individual stores have in selecting products to carry, pricing, promotions and general business operations. With some retail channels, most decisions are made at the corporate headquarters where buyers, merchandisers, and category managers make virtually all decisions, which are passed down to the individual stores. In these situations supplier attempting to gain entry into the market with their product must work directly with the corporate office. There are other chains where the individual stores have a great deal of autonomy in making decisions relative to product selection, pricing, promotion, and general business decisions. A supplier attempting to gain entry into the market with their product is encouraged by the corporate office to work with the individual stores on product introductions. After a product has established a successful track record at the individual store level, then corporate will take an interest and work with the supplier. These type of retail grocery stores are the easiest to work with and where many new suppliers are given an opportunity to test market their product.

There are also individual stores that are not allowed (with some limited exception) to carry products that are not warehoused by the distribution center that serves the retail chain. In these situations, a supplier attempting to gain entry must approach the distribution center's category buyer.

6.2 Foodservice Industry—Product Introduction and Distribution

The foodservice industry is extremely fragmented. Each segment fills different consumer needs. The segments within the industry vary by types of products offered, types of services rendered and profit objectives. In general, foodservice can be partitioned into two sectors: the commercial sector and the non-commercial sector.

The institutional segment includes hospitals, nursing homes, schools, and prisons. This is a captive market where the consumers have no or limited choice in their menu selection. Because this is a "captive" market, it may not be an ideal segment to sell specialty cheese. However, there has been some success in selling these types of products to Colleges and Universities. In addition to servicing diverse groups of students including foreign students, colleges and universities also participate in frequent catering functions. It is important to note that in a survey conducted by Spectra Marketing that consumers who were college graduates were 48% more likely to purchase imported cheese and those who had attained a post graduate degree were 82% more likely (see section 3.1).

The commercial sector includes independent and chain restaurants, delis, hotels and professional catering. The commercial sector is profit motivated and their menu is dependent on consumer's ability to make a choice. This may be the most lucrative market for specialty cheese due to the increasing use of specialty cheese by restaurant chefs.

Foodservice distribution can take one of two primary channels. The first (and most common form for small producers) is direct delivery to restaurants by the cheesemaker (see section 3.3). The other form of delivery is through a food service distributor.

Food Service Distributors

A food service distributor distributes a line of products to both commercial and institutional customers. A full-line foodservice distributor may carry more than 10,000 line items including frozen, refrigerated, canned food, as well as non-food items. The top 10 full-line foodservice distributors are shown on the next page.

Top 10 Broadline Distributors, 2000

Company	Location	2000 Sales (Millions)
Sysco Corp.	Houston, TX	\$20,645.0
U.S. Foodservice	Columbia, MD	\$12,000.0
Alliant Exchange, Inc.	Deerfield, IL	\$6,600.0
Performance Foods Group	Richmond, VA	\$2,605.6
Gordon Food Service	Grand Rapids, MI	\$2,300.0
Food Services of America	Seattle, WA	\$1,280.0
Reinhart Foodservice, Inc.	La Crosse, WI	\$1,066.0
Shamrock Foods Co.	Phoenix, AZ	\$985.0
Maines Paper & Foodservice	Conklin, NY	\$750.0
Ben E. Keith Foods	Fort Worth, TX	\$618.0

Source: The Food Institute Report, March 5, 2001

Many distribution centers (also called houses) operate independently. They each have their own set of buyers, sales personnel—both street sales (non-chain account) and chain account (restaurants that have multiple locations regionally or nationally) sales staff, and customer service personnel. It is important to note that if you want to have your product in stock at all of the houses, you may need to make individual sales at each branch. However, although as mentioned the houses operate independently, they do have to follow corporate set guidelines for distributor labeled (such as SYSCO labeled) and National Branded items (such as Nabisco and Nestle Brands).

These corporate guidelines are part of an overall program that the distributor has with the manufacturer. A program is a package that is provided to the distributor, which goes beyond just selling your product for a competitive price. Manufacturers compete with each other based on their quality, service, price and manufacturer provided allowances. The buyer (both at corporate and branch level) looks at this entire picture when deciding to stock one brand over another. A program can consist of several different types of allowances. The first is a marketing allowance, which may be referred to as a sales merchandising allowance (SMR). A SMR is a percentage of the sales of your product to the distributor that is returned (paid back) to the distributor in the form of an off-invoice allowance or is billed back to the manufacturer at the end of the month. This allowance can range from 3% to over 10% of your price. The allowance is to reimburse the distributor for its costs in storing, distributing, and marketing your product. Other allowances may include terms of payment (such as a 2% allowance for payment

within 10 days after the delivery), flyer (advertisement) allowances, and damage or spoilage allowances.

Foodservice distributors stock both nationally branded items and distributor labeled items. Corporate approval is required to produce a distributor labeled product. Every distributor branded product has to conform to the distributor's standards for food safety, sanitation and consistency. Distributor representatives will periodically check production facilities and packaged products for their quality and consistency standards. These quality standards are provided to the production facility in the form of a written specification, which needs to be closely followed. Most foodservice distributors have several levels of labels usually ranked by quality of the product.

To obtain corporate approval, a business will have to present their product to the appropriate product line manager at the corporate office. A product line manager will evaluate the product based on its price, quality and competitiveness with other distributor branded items. The overall program including allowances will also be evaluated. It is extremely important that the production facility can produce and distribute products to a number of distribution centers and be able to increase production if demand increases. At the same time, the production facility has to be able to cut production if demand decreases on the distributor labeled product. Consequently, one disadvantage of private labeling a product is that the cheesemaker has no outlet for private labeled cheese that isn't moving.

To get a product or product line brought into stock into a foodservice distributor's warehouse (or house) there are several steps a seller typically has to go through. The seller will need to approach the purchasing department. Many of the foodservice distributor houses break their purchasing department down into following chain of command: Purchasing Director—Merchandising Manager—Buyer—possibly Assistant Buyers. The Purchasing Director may only be involved in the purchasing decisions of items that will have a high sales volume (such as distributor labeled shredded cheddar cheese). Initially, one would want to approach the cheese buyer by telephone and/or letter. The purpose of telephone contact or letter is to create interest and should be viewed as the initial sales call. In this initial contact, the seller will need to give a brief description of their product's features and benefits and ask the buyer if there would be a convenient time to demonstrate the product or line of products.

If the seller's initial contact has created any interest the cheese buyer will ask the manufacturer to come in for a product demonstration to the cheese buyer and possibly the merchandising manager, and/or other buyers for their opinions on the product. Some distribution centers may also have a buying committee. A buying committee is a group of the distributor's buyers, sales and marketing associates that meet on a periodic basis (such as once a week or twice a month) to look at new products and determine if they will fit into their current listing of products. However, the cheese buyer should still be the seller's primary contact in this case.

Specialty Distributors

Klondike cheese, one of the leading manufacturers of Feta cheese, started its Feta distribution through Kronos products. Kronos is a distributor of Greek food products. The company buys products from manufacturers and then redistributes them to restaurants and food service distributors who in turn sell these products to restaurants. Other specialty distributors and cheese distributors can be found on the American Cheese Society's website (<http://www.cheesesociety.org>).

6.3 Pricing Strategies

There are basically three alternative methods that are used to determine unit cost and pricing, Full-Cost Pricing; Variable-Cost Pricing; and Market-Based Pricing^[67].

Full-Cost Pricing: Is the most widely used method for determining unit price. It is based on a product's full-cost plus a certain percentage of profit. Full-cost pricing requires considerable overhead cost

allocation. Usage of this method requires proper and accurate overhead cost allocation and production costing.

Variable-Cost Pricing: Is also called “Profit Maximization Model” and uses variable cost to determine unit price. Variable costs are costs that change as your manufacturing costs or the cost of any of the “Four P’s” change. In economic terms, your unit price is set equal to a dollar value where marginal cost equals marginal revenue. *Marginal cost* is the difference in total cost between one rate of output and another. Usually, unless stated otherwise, the marginal cost is the change in cost that results from changing the output by one unit. *Marginal revenue* is defined as the addition to total revenue that comes increasing the rate at which you sell your product by one unit.

This model is also used to determine the optimal or profit maximizing volume/unit price relationship. Variable cost pricing requires the company to determine the change in total costs that results from each unit change in quantity being produced and the change in quantity sold that results from each unit change in price.

Market-Based Pricing: Is also called “Target Costing” or “Competitive Pricing.” This method sets unit price equal to the long-run cost that a customer will bear or a market-based cost that is calculated using a price necessary to capture a predetermined market share.

A combination of these three methods is often used in the highly competitive food industry. Whatever method or combination of methods you use, Market-Based Pricing **MUST** be a consideration in determination of price.

6.4 Food Brokers

A broker is an independent company providing local and regional sales representation to manufacturers of food products. A broker calls on multiple classes of trade (accounts) such as distributor buyers, chain store buyers and individual store managers in a defined *territory* designated for coverage by the broker. Brokers represent several manufacturers’ products within each defined territory with no conflict of interest. Many brokers employ *Retail Persons* (also called *Retail Merchandisers* or *Retail Salesperson*) who call on retailers to service a product or group of products, render sales assistance, arrange displays, set up in-store demonstrations, etc. Other brokers employ *Combination Salespersons* who have both wholesale and retail sales responsibilities.

Brokers should have the ability and resources to monitor consumer preferences, understand local market conditions, and maintain long-standing relationships with buyers. In addition, brokers should have the latest in consumer demographic data available, data needed for new product launches, general competitive activity data or data specific to a particular product, consumer or circumstance. In general, the broker becomes your selling arm responsible for making sure that your product(s) are distributed and placed where they should be.

Prospecting and Product Introduction

Your broker should work with you in the development of your advertising and promotional plan. Your broker will also have the “Product Presentation/Introduction Forms” for the warehouses and retail chains in their market territory. Your broker will schedule and make product presentations to the warehouse/distributor buyers and retail chain buyers. Typically, a broker will need a two to three month lead time for getting a new product into distribution.

Territory Coverage and Sales Coverage

Your broker should present you with a plan or program for calling on wholesale and retail accounts in their market territory. In addition, your broker should make regular progress reports to you on sales

calls made according to the pre-set plan.

Micro-Marketing

Your broker should have in-depth knowledge of the local markets and the customer demographic/profile for grocery chains, independents and individual stores. You and your broker should direct your marketing efforts toward a specific group of potential customers/stores rather than the general population as a whole. For example, your marketing and promotional efforts in Omaha may be different than your efforts in Des Moines, Madison or St. Louis.

Distribution

The broker represents you and your product(s) to the buyers for each retail grocery wholesaler/distributor in their territory and makes sure that distribution runs smoothly (to the retail stores or restaurants). Your broker should regularly contact retailers to ensure that your products are in distribution and placed properly on the retail shelf. Your broker should also ensure that your products are ordered correctly, shipments are received and priced correctly, and unsaleable items are credited and disposed of properly.

Pricing in the Stores

Your broker should check the pricing of your products in the stores on a regular basis. If you have given *Off-Invoice Allowances* to be passed on to the retail stores for "Specials", have the individual stores actually lowered the price to reflect the allowance? The broker should also keep you informed of your competitors' prices and specials. Will you respond with a *Temporary Allowance* to match your competition? Your broker should help make this decision.

Merchandising.

Your broker should work with the retail chains, independents and distributors on developing and implementing special efforts and techniques by which your products are presented to shoppers in the stores for maximum sales. Are their *Cross Merchandising* opportunities for your products? Cross Merchandising is displaying items in departments other than their normal in-store location, usually departments where the products have a tie-in or related item usage.

Promotions and Allowances.

Brokers help the seller in developing and conducting in-store promotions and demonstrations. The broker is most helpful when it comes to services requiring their experience and knowledge of promotions. It is the broker's job to make sure your timing is coordinated with case-off incentives (off-invoice allowances for specials) promotions. Your broker can assist you with: marketing plan development and implementation, coupon programs, radio spots, in-store displays and product demonstrations.

How to Evaluate A Broker

The food broker you select should already be selling cheese or dairy products. Many brokers tend to specialize in departments such as Frozen Food or Confection. To assign either of them a deli product would not be wise. Consideration should also be given to relative size of the manufacturer to the food broker. The food brokers capabilities should be in proportion to the level of revenue that a particular line of products pays. Interviewing a few potential food brokers will give a good feel for their differences. You might find that if your product has no present business, no food brokers will be interested in your line in the absence of a guaranteed minimum commission. Given the extraordinarily competitive environment, the time between assigning a food broker and actually getting an order is about 6 months. Getting appointments, presenting the products, product approval, and shelf resets have added greatly to the time line. Some buyers review categories only at specific times of the year; others have added a step of securing a distributor for the line of products before they can be presented to the

trade^[68].

A food service food broker operates the same way as a retail broker but will promote your product directly to food service distributors and restaurants. He will set the appointments, conduct the presentations, and even handle the ordering. Many food service distributors actually place their order and check on shipments and pricing through the broker.

Broker evaluations should include^[69]:

- Local market knowledge
- Knowledge of the buyer's company
- Retail level support capabilities
- General credibility in the marketplace
- Value-added services
- Knowledge of the buyers' needs and the customers' goals and objectives
- Execution of programs
- Product knowledge
- Sales presentation skills
- Depth of resources
- Management capability

Broker Commissions

Brokers receive a commission on all products sold in their designated territory. Broker commissions of 5% are quite common for an established product. Additional fees and charges will depend on what functions you want the broker to perform. Brokers would view representation of an entrepreneur's product as pioneering, representing a company or product that does not have an established market or brand recognition. Many broker firms will not do pioneering. They view pioneering as a costly activity with limited commission potential. Those brokers who are willing to do pioneering activities usually require a minimum monthly compensation on top of their normal commission until the market for the product has been established.

Description of Marketing, Sales & Merchandising Services
Broker Activity Chart ^[70]



- Present HQ
- Present Retail

- Develop/Conduct Shelf Management
- POS Placement

- Delivery
- Order Follow-up

- MDF Administration
- Promotion Administration

Retailer Business Review

- Develop Presentation
- Execute Presentation

Principal Business Review

- Develop Presentation
- Execute Presentation

Category Management/ Consumer Marketing

- Conduct Consumer Marketing
- New Item Category Management
- Analyze Category Data
- All Other Category Management

New Item Intro

- Home Sampling
- Conduct Store Demos
- Develop Presentation
- Execute Presentation

Food Stores

- Plan Food Shows
- Food Show Admin.
- Conduct/Attend Food Show

Call Reporting

- Monitor Retail Pricing
- Monitor Competitive Activity
- Prepare Product Surveys
- Retail Photography

Retail Travel

- Conduct Retail Travel

Special Requests

- Product Recall
- Customer Complaints
- Transfer Product
- Quote Commodity Pricing

Sales Administration

- Sales Reporting
- Monitor Distribution
- Monitor FSI's
- Order/Maintain POS racks
- Management Reporting

6.5 Glossary of Popular Cheeses

Listed below is a glossary of popular cheeses by texture (hard, semi-hard, semi-soft and soft). The glossary is not meant to be inclusive of all cheeses that are currently popular, but it does contain most of the specialty cheeses mentioned in this report. The information was collected from <http://www.cheese.com>.

Hard Cheeses

Anejo Enchilado:

Country of Origin: Mexico

Milk: Goat's Milk

This cheese is not as strongly flavored as Cotija, but can be easily shredded or grated. It is commonly used as a topping or stuffing for enchiladas burritos and tacos. Enchilado Anejo has a mild and slightly spicy flavor. It has a red, spicy coating with white interior. Enchilado Anejo has a hard and dry texture. The cheese softens but does not melt under heat.

Asiago:

Country of Origin: Italy

Milk: Cow's Milk

Asiago is made in the region of Vicenza and Trento. It is a traditional, farmhouse and creamery, unpasteurized, hard cheese. Originally made of ewe's milk, now is made entirely of cow's milk. There

are two types of Asiago: first one (mistakenly taken for Pressato) is a lightly pressed cheese made from whole milk matured for 20-30 days. Another one (Asiago d'Alleva) is the mature cheese made with skimmed milk. Long and slow maturation process creates fruity, slightly sharp cheese with a compact, granular interior full of small holes. Matured over 2 years, becomes intensely flavored. Can be grated and used as a condiment.

Blue:

Country of Origin: U.S.A.

Milk: Cow's/Goat's Milk

It is a white cheese with blue veins and sometimes-crumbly interior. This cheese usually has tangy, piquant, spicy and peppery flavor. Use in salad dressings with cream cheese for spreads.

Cotija:

Country of Origin: Mexico

Milk: Cow's Milk

It is a Hispanic-style cheese, known as the "Parmesan of Mexico". It was originally made with goat's milk but today cow's milk is preferred. This cheese is strongly flavored, firm and perfect for grating. It is used in Hispanic cooking, in a manner similar to the way Parmesan is used in Italian cooking. Cotija is commonly used to add a lively garnish to common dishes: simply sprinkle on top of refried beans, salads, chili or lasagna. In Mexico, it is also widely used to enhance the flavor of many savory dishes by mixing directly into the casserole or recipe. In the U.S. it is increasingly popular on pasta.

Gruyere:

Country of Origin: Switzerland

Milk: Cow's Milk

Gruyere is named after a Swiss village. It is a traditional, creamy, unpasteurized, semi-soft cheese. The natural, rusty brown rind is hard, dry and pitted with tiny holes. The cheese is darker yellow than Emmental but the texture is more dense and compact. Slightly grainy, the cheese has a wonderful complexity of flavors - at first fruity, later becomes more earthy and nutty. To make Gruyere, raw milk is heated to 93 degrees F and liquid rennet is added for curdling. The resulting curd is cut into small pieces, which release whey while being stirred. Curd is cooked at 110 degrees F and raised quickly to 130 degrees F. The pieces become shriveled which is the cue to place the curd in molds for pressing. The cheese is salted in brine for 8 days and ripened for two months at room temperature or a quick method: 10 days at 50 degrees F. Curing lasts from 3 to 10 months (the longer the curing period the better the cheese).

Parmesan (Parmigiano):

Country of Origin: Italy

Milk: Cow's Milk

Named after an area in Italy (Parma). Parmesan is one of the world's most popular and widely enjoyed cheeses. Milk used for Parmesan is heated and curdled in copper containers but not before most of the milk's cream has been separated and removed. Curd is cut and then heated to 125 degrees F, all the while stirring the curd to encourage whey runoff. The curd is further cooked at temperatures of up to 131 degrees F, and then pressed in cheesecloth-lined moulds. After two days, the cheeses are removed and salted in brine for a month, then allowed to mature for up to two years in very humid conditions.

Romano:

Country of Origin: Italy

Milk: Cow's Milk

Romano is one of the oldest Italian cheeses. It is made by a special method, known as "rummaging curd" or draining the curd quickly after molding, and then piercing the surfaces slightly before salt is applied. In Europe, Romano is known by its original name Pecorino-Romano. The cheese has a fat content of 27 per cent and water content of 32 per cent.

Smoked Gouda:

Country of Origin: Holland

Milk: Cow's Milk

Smoked slowly in ancient, brick ovens over smoldering hickory chip embers, this sausage shaped cheese is perfect for impromptu picnics party platters or midnight snacks. Sensational with beer, this hard cheese has an edible, brown rind and a creamy, yellow interior.

Raclette:

Country of Origin: France

Milk: Cow's Milk

Raclette is a cow's milk cheese that has a light-brown rind and a firm texture. It has a round or square shape with smooth, pink to deep orange, slightly sticky, natural rind. Although the cheese has a pleasant enough flavor, it is not special until it is heated in front of a fire or under a hot grill. Then the full nutty, sweet and slightly fruity aroma intensifies and the elasticity of the melting cheese makes it truly magnificent. It is used in a dish called raclette, the name is derived from the French verb racler (to scrape). Also known as Valais Raclette, the generic class name is Walliser. It is a hard cheese with a subtle flavor, good aftertaste and firm texture. Raclette is pale yellow inside. Raclette is famous for a Swiss dish, made by melting thin slices over broiled potatoes.

Swiss:

Country of Origin: U.S.A.

Milk: Cow's Milk

Swiss has a firmer texture than baby Swiss, and is known for being shiny, pale yellow with large holes. Flavor is mild, sweet and nut-like. It is an American imitation of the Swiss Emmental. The process is specifically designed so that no rind forms on the cheese (maturing takes place in vacuum-packed plastic wrapping) for mass-production purposes. The taste of the cheese is very mild. It can be eaten with apples, pears, grapes and thinly-sliced prosciutto ham and salami, fruity white wine, aged red wine, cran-raspberry juice, tomato or vegetable juice.

Semi-Hard Cheese

Brick:

Country of Origin: U.S.A.

Milk: Cow's Milk

Brick's roots lie in Wisconsin at the end of the 1800's. Its name is perhaps derived from early moulding techniques, the pressing of the cheeses with actual bricks. The cheese has a number of small and irregular holes and an open texture. It suggests a mixture of sweet, spicy and nutty flavor. Brick tastes delicious with any kind of fruit, crackers, wine, beer or apple juice.

Cheddar:

Country of Origin: England/U.S.A.

Milk: Cow's Milk

Cheddar is the most widely purchased and eaten cheese in the world. Cheddar cheeses were originally made in England, however today they are manufactured in many countries all over the world. Fully cured Cheddar is a hard, natural cheese. It is shaped like a drum, 15 inches in diameter, with natural rind bound in cloth. Normally, the color of Cheddar ranges from white to pale yellow. Some Cheddars, however, have a color added, giving the cheese a yellow-orange color. Cheddar is always made from cow's milk and has a slightly crumbly texture if properly cured. If the cheese is too young, the texture is smooth. Cheddar gets a sharper taste the longer it matures. It is generally matured between 9 and 24 months. The important thing in purchasing Cheddar, is to consider the age of the cheese. Milk is heated to 86 degrees F and inoculated with a lactic starter culture. After an hour rennet is added. When the curd is firm, it is ground down to marble-sized bits which are heated to 100 degrees F. The whey is discarded and it is sliced into slabs. The curd is pressed overnight and stands for 4 days in a cool atmosphere. Unlike other well known cheeses, Cheddar's name is not protected so it has been used and abused by many producers around the world.

Chevres:

Country of Origin: France

Milk: Goat's Milk

These cheeses are made from goat's milk. They come in many sizes and shapes, such as round patties, log-shapes, drum-shapes, pyramids, round loaves, long loaves etc.; their textures vary from soft, but like cream cheese to extremely hard. Chevres are excellent dessert cheeses, often served as snacks or before dinner drinks. Goat cheese is often served as an ingredient in many fine dishes.

Edam:

Country of Origin: Holland

Milk: Cow's Milk

This is a pressed, semi-hard to hard cheese, made from cow's milk. It comes in a shape of ball covered with distinctive red wax. Edam is produced from skimmed or semi-skimmed milk. It is usually consumed young, when the texture is elastic and supple and the flavor is smooth, sweet and nutty. Black-wax coating means that Edam has been matured for at least 17 weeks.

Gouda:

Country of Origin: Holland

Milk: Cow's Milk

Named after the Dutch town of Gouda, just outside Rotterdam. It accounts for more than 60% of the cheese produced in Holland and it has a very long history. Gouda is a traditional, creamery, hard cheese. It is round with very smooth, yellow, waxed rind. The flavor is sweet and fruity. As time passes, the taste intensifies and becomes more complex. Mature Gouda (18 months plus) is coated in black wax, which provides a stark contrast to the deep yellow interior. Gouda is considered to be one of the world's great cheeses. It is both a table cheese and a dessert cheese, excellent with fruit and wine. Gouda is now made globally in a style similar to the creation of Edam.

Monterey Jack:

Country of Origin: U.S.A.

Milk: Cow's Milk

Monterey Jack was developed by a Californian Scot, David Jacks in 1882 (some sources state 1916). Monterey Jack's consistency depends on its maturity; most softer varieties (common in American supermarkets) is aged for one month, while grating Jack is aged for upwards of 6 months. Older Jacks are smeared with oil and pepper to maintain softer rinds. Monterey Jack has a buttery, bland taste and melts easily.

Provolone:

Country of Origin: Italy

Milk: Cow's Milk

Provolone is an all-purpose cheese used for cooking, dessert purposes and even grating. It is traditional, creamery, stretched, curd cheese. This cheese appears in various shapes. The thin, hard rind is golden-yellow and shiny. Sometimes it is waxed. Provolone cheese can be of various types. Dolce (mild Provolone) is aged for two to three months, and it is supple and smooth with a thin waxed rind. It is generally used as a table cheese. Aged for six months to two years, it is darker with small holes and a spicy flavor.

Semi-soft**Baby Swiss:**

Country of Origin: U.S.A.

Milk: Cow's Milk

Its appearance and texture is ivory to pale yellow. It is a creamy cheese with small holes and it melts well when shredded. Baby Swiss has a buttery, slightly nutty and sweet flavor. It goes well with sweet fruits and berries croissants and muffins, white and red wine, juices and even ice-cold milk.

Butterkase:

Country of Origin: Germany

Milk: Cow's Milk

Butterkase is a loaf or wheel-shaped cheese with golden to red, natural rind. It is a creamery, semi-soft cheese made both in Germany and Austria. As the name says, it has a buttery taste and color. It is very good with a glass of beer. This cheese ripens in one month and has a fat content of 50 percent.

Colby:

Country of Origin: U.S.A.

Milk: Cow's Milk

Traditional, creamery, semi-soft cheese made from cow's milk. The sizes vary, but they are generally block-shaped and free of rind. It was named after the town in Wisconsin where it was first made. It is a washed-curd cheese, which means that the curds are thoroughly rinsed in fresh water to remove all excess whey and any stray lactose. This prevents the acidity in the curd from rising, so the cheese remains soft and springy, with a sweet and mild flavor. Colby has a higher moisture content than Cheddar and feels more elastic. It is also sweet, rather than savory. This cheese ripens in four months. It is made with a special procedure: when whey is drained off, cold water is poured on the curd until its temperature dips to 80 degrees F. Colby must be consumed shortly after purchase or it will dry out and lose its flavor.

Fontina Val d'Aosta:

Country of Origin: Italy**Milk:** Cow's Milk

Genuine Fontina comes from the Val d'Aosta region of Italy in the Alps near the French and Swiss borders. Fontina is dense, smooth and slightly elastic. The straw-colored interior with its small round holes has a delicate nuttiness with a hint of mild honey. When melted, as it frequently is, the flavor is earthy with a taste of mushrooms and a fresh acidity. Fontina is the primary ingredient of Italian fonduta and is a pristine table or dessert cheese. Fontina ripens in about three months and has a fat content of 45 percent.

Havarti:**Country of Origin:** Denmark**Milk:** Cow's Milk

Havarti is a traditional, creamy and semi-soft cheese. It is a simple, washed-rind cheese with irregular holes throughout. There is an enriched version, with added cream, which is softer and feels more luxurious in the mouth. There is also a version with caraway seeds. Havarti is named after the farm in Denmark where Hanne Nielsen first made it.

Soft Cheese**Brie:****Country of Origin:** France**Milk:** Cow's Milk

Brie is the best known French cheese and has a nickname "The Queen of Cheeses". In France, Brie is very different from the cheese exported to the United States. "Real" French Brie is unstabilized and the flavor is complex when the surface turns slightly brown. When the cheese is still pure-white, it is not matured. If the cheese is cut before the maturing process is finished, it will never develop properly. Exported Brie, however, is stabilized and never matures. Stabilized Brie has a much longer shelf life and is not susceptible to bacteriological infections. Brie, one of the great dessert cheeses, comes as either a 1 or 2 kilogram wheel and is packed in a wooden box. In order to enjoy the taste fully, Brie must be served at room temperature.

Camembert de Normandie:**Country of Origin:** France**Milk:** Cow's Milk

A very famous French cheese, Camembert dates back to the 18th century and is named for a Norman village in which there is a statue of the creator of this particular variety (Marie Harel). Originally, this cheese was dry and yellow-brown, but after a few modifications it became softer and more earthy. In 1855 one of Marie Harel's daughters presented Napoleon with a piece of that cheese, saying that it came from village called Camembert. He liked it a lot and from that moment Camembert became known by its contemporary name. At the beginning of its ripening, Camembert is crumbly and soft and gets creamier over time (usually 2-3 weeks). A genuine Camembert has a delicate salty taste.

Gorgonzola:**Country of Origin:** Italy**Milk:** Cow's Milk

Gorgonzola is a traditional, creamery and co-operative, blue cheese. The greenish-blue penicillin mould

imparts a sharp, spicy flavor and provides an excellent contrast to the rich, creamy cheese. Gorgonzola is made in the northern Italian village, according to which the cheese has its name, either from unpasteurized or pasteurized milk to which the mould is added. At about four weeks the cheeses are pierced with thick needles to encourage the spread of the mould. Gorgonzola ripens in three to six months. The cheese is usually wrapped in foil to keep it moist. Its color ranges from white to straw-yellow with an unmistakable marbled green or bluish-green mould. The taste ranges from mild to sharp, depending on age. Gorgonzola is also excellent in salads and dips.

Limburger:

Country of Origin: Belgium

Milk: Cow's Milk

Limburger is creamery, washed-rind cheese. The smooth, sticky, washed rind is reddish-brown with corrugated ridges. The yellow interior hints at sweetness but the taste is spicy and aromatic, almost meaty. Milk is pasteurized at a temperature of 161 degrees F, then cooled to 86 degrees F. The milk is then inoculated with cultures, and then rennet is added for curdling. Curd is cut up, and then heated to 95 degrees F. The cheese is formed in rectangular moulds, and then it is salted and left to ripen in high-humidity conditions for two weeks. The temperature is lowered to 50 degrees F and the cheese matures for several months. Limburger has a legendary aroma, which is due to enzymes, breaking down proteins on the surface of the cheese. The cheese ripens in 6 to 12 weeks and has a fat content that fluctuates between 20 and 50 percent.

Feta:

Country of Origin: Greece

Milk: Cow's, Ewe and Goat's Milk

Feta is one of the most famous cheeses in Greece. It is made in various sizes, often as a loaf-shape. Feta is solid, but crumbly with some fissures. Pure white, it has a milky fresh acidity. Feta was originally made with either ewe's milk or a mixture of ewe's and goat's milk, but today most feta is made with pasteurized milk and tastes of little besides salt. Some people are put off by the strong salt content but the salt is intended only as a preservative and is not supposed to overpower the taste of the cheese. Feta can be soaked in fresh, cold water or milk for a few minutes or longer, if necessary, to make it less salty.

Mozzarella:

Country of Origin: Italy

Milk: Cow's Milk

The plastic, spun-curd buffalo milk cheese Mozzarella, originated from southern Italy. Pasteurized milk is curdled at 90 degrees F and the curd is cut. Extra time in the vat is allowed so that the curd can sink to the bottom and so that the lactic acids can soften the curd to make it easier to knead. The curd is treated with extremely hot water (200 degrees F) and is kneaded into a shiny lump. Bits of the mass are taken off, cooled, salted and are soon ready to be marketed.

Munster:

Country of Origin: France

Milk: Cow's Milk

Munster is a creamery, washed-rind cheese made from cow's milk. It has a round shape with sticky, orange, washed skin. The cheese is very smooth, fairly soft and has a mildly piquant flavor that can become quite pungent with regular washings. Munster is dark yellow with a strong flavor. It should be served with dark bread and beer. Munster is made with pasteurized milk, which is cooled to 90 degrees

F, inoculated with starter cultures and curdled with rennet. Cut curd is heated in whey for 30 minutes, stirred often to accelerate whey run off. Curd is lightly salted, molded and drained for half a day and soon thereafter is sent to market. French Munster is one of the few cheeses, which ripen from the inside out. French Munster has nothing in common with Domestic Munster, which is a white, mild cheese. In the U.S.A this cheese is known as Muenster.

Neufchatel:

Country of Origin: France

Milk: Cow's Milk

Neufchatel is a traditional, soft-white, table cheese, originating from northern Normandy. It has aroma and taste of mushrooms. The rind of this cheese is dry and velvety, while the p ate is firm but supple. Unlike other soft-white-rinded cheeses, Neufchatel has a grainy texture. Some lovers of this cheese prefer it when it has been kept until rind develops reddish pigmentation and a smell of ammonia. At this stage, the taste is bitter salty and acrid. Neufchatel comes in a variety of shapes, such as squares, cylinders and hearts.

Queso Blanco:

Country of Origin: Mexico

Milk: Cow's Milk

Traditional, creamery, fresh cheese made from cow's milk. The name simply means, "white cheese". It resembles a cross between mozzarella and salty cottage cheese. Traditionally, it is produced from skimmed milk or whey, coagulated with lemon juice, although recently some creameries have begun making it with full-cream milk, coagulated with rennet. The curd is scaled and pressed to create an elastic texture, which holds its shape when heated. The flavor is milky, creamy and lemon-fresh. It is wonderful to cook with, because unlike American-type cheeses, it will become soft and creamy when heated but will not melt! With this cheese you can make stuffed chicken breasts, stuffed peppers, enchiladas and burritos.

Queso Fresco:

Country of Origin: Mexico

Milk: Cow's and Goat's Milk

One of the most favorite Mexican cheeses, it is based on the Spanish cheese Burgos. It is fresh cheese of various sizes and shapes made from the mixture of cow's and goat's milk. The cheese has a grainy feel and very mild, fresh acidity. Queso Fresco is used for grilling and baking and it can also be used in salads. It softens but does not melt when heated.

6.6 Contacts/Links

Shown below is a list of important contacts and web links that may be helpful to future cheese makers. This list will be updated over time with additional entries added to the list.

Organizations

American Cheese Society: Trade organization emphasizing specialty and farmstead cheese. Marketing, networking and educational resource for specialty cheesemakers, chefs, distributors, and cheese marketers

Administrative Office: Louisville, KY 502-583-3783

<http://www.cheesesociety.org>

American Dairy Association: Dairy marketing and promotional support organization.

Dairy Council of Nebraska 402-592-3355
 Missouri/Iowa Midwest Dairy Council 800-406-6455 <http://www.midwestdairy.com>
 Wisconsin Dairy Council 800-213-6455 <http://www.dcwnet.org>

Cheese.com: Cheese facts, information and descriptions <http://www.cheese.com>

CheeseNet: Cheese Information, Vendors, Newsgroups <http://cheesenet.wgx.com>

Creamline: a quarterly publication devoted to bringing small dairies together to share information and to facilitate the revival of the small local creamery. The publication is funded as part of a project of Southern Region Sustainable Agriculture Research and Education (SARE) program of USDA. This program (The Hometown Creamery Revival) promotes on-farm and small-scale processing as a means of making dairying a sustainable way of life for small farms. The publication and other program outreach materials can be found at the site. <http://www.ibiblio.org/creamery>.

Dairy.com: Business to business online exchange of information <http://www.dairy.com>

Dairy Management Incorporated: Cheese technology, fact sheets, and research Rosemont, IL
 847-803-2000 <http://www.extraordinarydairy.com>

University of Nebraska Food Processing Center: offers a range of business development capabilities in market research, product costing, ingredient sourcing, market testing, and business venture development.

Lincoln, NE 402-472-2831 <http://www.fpc.unl.edu>
Wisconsin Center For Dairy Research: links its staff and University faculty, students and the dairy/food industries to address key issues resulting in transfer of technology and communication of information.
 Madison, WI 608-262-5970 <http://www.cdr.wisc.edu>

Wisconsin Milk Marketing Board: Dairy marketing support organization to help grow the demand for Wisconsin raw milk by providing value-creating programs.
 Madison, WI 800-373-9662 <http://prodcom.wislink.org>

Wisconsin Specialty Cheese Institute: promotes the development in Wisconsin of a profitable specialty cheese industry through marketing, educational, and promotional activities.
 800-697-8861 <http://www.wisspecialcheese.org>

Cheese Distributors/Brokers/Importer/Marketers

The American Cheese Society maintains a database of cheese distributors, brokers, importers, and market who are members of the organization. This database can be accessed from their website.
<http://www.cheesesociety.org/memblists.htm>.

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- [17] "More Sophisticated Palates Driving Growth of Specialty Cheese," Market Not Saturated", Cheese Reporter, July 27, 2001
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- [28] "The Cheese Stands Alone," Restaurant Business, May 1, 2000
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- * A list of educational resources and trade organizations can be found in section 6.6
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- [32] "Farmstead Cheesemaking: One of Fastest-Growing Segments of California Cheese Industry; Number of Cow's Milk Producers Projected to Triple Over 1997," Business Wire, March 6, 2001
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- [41] See <http://www.uplandscheese.com/about.html> and <http://www.fullcirclefarm.net/>
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- [46] <http://www.foodbrokerusa.com>
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* Dollar margin equals retail price minus cost of item. percent margin equals dollar margin divided by price (sales). Volume times dollar margin equals total dollar margin.

** Money available to pay for advertising, overhead, labor, taxes, etc.

*** Total dollar margin minus all expenses other than cost of item such as advertising, overhead, labor, taxes, etc equals net profit.

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