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Why balancing capacity is so important to this region

This is the second in a series of articles about PDMP Premier Partners.

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MT. HOLLY SPRINGS, Pa.—The routine here is defined by ups and downs. The busiest workdays? Those would be the days when most of the rest of us are off celebrating holidays or weekends.

Actually, the 120 employees at the Land O'Lakes Carlisle Dairy Foods plant in Mt. Holly Springs, Pa., have this in common with the dairy farm families whose milk they process: They work when most people aren't.

This is the largest butter plant on the East Coast, churning out annually about 65 million pounds of the golden emulsion along with 75 million pounds of skim powder, some whole milk powder and condensed milk products. Most of these products are sold through independent retail brokers. One of their best customers is Hershey Foods. Yum. Milk chocolate.

But perhaps of larger importance than its impressive production totals and product sales is the fact that the facility—since it opened in 1978—continues to serve the dairy farmers of the Northeast/Mid-Atlantic region as a milk supply “balancing” plant. This is not only good for the members of the Land O'Lakes milk cooperative, it's good for the region.

“The most important thing we can do here is be reliable,” says plant manager Alan Vanderneut. “Our reliability let's the whole organization—and the rest of the dairy industry in the region—make plans.”

The plant has capacity to handle more than five million pounds of milk a day. But the actual volumes change with the seasons and circumstances of supply and demand. That's the nature of the business here: Being open when other dairies are closed. Taking milk when others are full. Making butter with cream from bottling plants when raw milk supplies are tight. Year-to-year, week-to-week, change is a constant here.

As plant manager, Vanderneut teams up with other managers to discern the push of the market in order to plan for the milk they will handle and the needs of the customers they have established for their products.

“Our goal is to run the plant efficiently and in the way that makes the most sense for Land O’Lakes and its member farms,” he explains. “The spring flush is our time of highest volume, and when all other dairies are closed, that’s when we’re in our glory.”

Vanderneut, who has been plant manager here for two-and-a-half years, has a strong background in the food and beverage industry. “For awhile I felt buffeted,” he admits, noting the differences between the milk industry and other types of food and beverage production. “The milk is really pushed toward us here, so our job is to try to match up with that. We’re in the middle.”

Toward this end, Vanderneut has focused on planning and execution, bringing protocols to the plant that help build routines around the ever-changing dynamics of the milk market. “We want to build our routines so that one day feels like the next, even though there may be a drastic volume difference,” he explains.

In addition to providing this steadfast dairy-processing outlet, the plant also serves as a collection point for Class I beverage milk heading south.

Over the past few years, the plant has made improvements, streamlined and optimized, all with an emphasis on building routines amid the routine-defying nature of balancing the milk supply. Butter has always been made here for Land O’Lakes, even before the plant became part of the cooperative via the 1997 merger with Atlantic Milk Producers.

“The other aspect that continues today is the plant’s processing of excess milk on the market,” explains former Lancaster County dairyman Gordon Hoover, who a year ago became the cooperative’s director of eastern milk supply.

Having previously served on the board of directors for Land O’Lakes and before that on the Atlantic Milk Producers board, Hoover brought with him a good working knowledge of milk marketing, the milk classification system and Federal Milk Marketing Orders. In his new role working for the cooperative, he has found some of the biggest challenges are in the details. His office is here at the Carlisle/Mt. Holly Springs plant.

There are two balancing aspects for the plant, according to Hoover. The first is to optimize Class I market access for members.

“We have the Class I plants taking milk on an inconsistent basis, depending on retail sales. But even with high Class I utilization in Federal Order One, averaging 45 to 50%, the reality is that on any given day it could be 75 or 80% and the next day it could be 30 or 40%,” he explains. “To have the market swing from 80% to 20 to 50 to 40, brings a situation where if we have access to that market (on the high Class I utilization days), that milk has to go some place (on the low Class I utilization days), so it ends up coming here to the balancing facility.”

In this way, the balancing plant secures member access to the higher value Class I markets. Having a home for large quantities of milk at any given time, gives the cooperative the flexibility to more fully access the higher Class I market, to be there with the milk as soon as it’s needed and have somewhere to go with the milk when the need is not as great.

“Our pledge and purpose to our members is market access,” Hoover notes. “If we don’t have a home for it, then we can’t market it. The most important thing to dairy farmers,

more important than feed prices or anything else, is market access for their milk. It's becoming a huge issue in the country today."

Hoover observes that, in other regions of the U.S., dairy producers who are looking to expand or relocate are looking east for market access.

"Our markets here are valued higher," he states, adding that cost of production here is also higher. "When Class I sales slow, a lot of milk goes through this balancing facility. We have a beautiful product line here, but when the Class I demand turns, the milk is already here, there's plenty of milk in the system to meet Class I demand. Last year, more volume went into Class I, and the balancing plant had the challenge of getting enough milk. This year, we're running full."

So how do they keep their plant running efficiently, when Class I retail sales are at their peak? "When the market changes like that, the plant accesses more cream from bottlers and other areas," explains Hoover. The pauses in milk flow also provide time to do repairs and renovations.

Aside from balancing the milk supply for the membership to keep them positioned for higher Class I market access, the Land O'Lakes Carlisle plant also balances milk supply in the region.

"Because this is one of the largest balancing plants in the Northeast, other cooperatives that either don't have facilities or are looking to balance their milk supply, bring their milk here," Hoover confirms. "When milk gets long in the region, we see leap-frogging, with everyone trying to get their milk to the closest plant. That's when we see milk coming here from New York, even Southern milk, even Mideast milk."

But as Hoover points out, "our first responsibility to the members is to get their Class I utilization. Then we can add value by taking the excess milk and turning it from a burden into retail sales, with revenue that comes back to the members through their patronage earnings (yearly dividend)."

The cooperative is required by law to disperse at least 20% of annual earnings in cash to the members in order to avoid corporate taxation on those earnings. The remaining 80% of annual earnings is retained and returned to the member over a period of years based on the amount of milk shipped per member.

As the dairy industry changes, the need for facilities that balance the milk supply has perhaps never been greater. The supermarket world has changed and consolidated its milk distribution patterns. The growth and acquisitions by Dean Foods have also consolidated the Class I fluid milk bottling industry.

In the past five years, increasing numbers of independent bottlers have sold their plants to Dean, and some were re-shuffled through National Dairy Holdings.

Adapting to these changes, Land O'Lakes works with Dairy Marketing Services (DMS) to gain a larger footprint and better penetration in Class I markets. Hoover notes this is an example of cooperatives working together to bring advantages to dairy members and for them to have greater market access.

"We've seen more change in the last five years than in the 25 years before that," Hoover observes, noting the expanding export market as another example. "How long we can hang on to that will depend on our ability to produce the product they want. This will require capital to retrofit manufacturing sectors to meet the demand. We are enjoying a huge demand for butter right now."

All told, the region leans more toward excess capacity in fluid milk bottling per the needs of consolidated distribution patterns, so that today bottling plants might operate a few days a week versus daily. When inconsistent demand meets cows that are giving milk every day, consistently, balancing capacity fills the void.

At the same time, notes Hoover, “The challenge for the industry is that there are some balancing facilities that have some age to them. We haven’t seen any new stainless steel erected in the Northeast in quite a few years. Two years ago, we had excess balancing capacity. Today, we can’t find enough facilities to balance or take the risk.”

Looking to the future, Hoover notes that the antiquated infrastructure in the Northeast could inhibit the dairy farmer’s ability to adjust in the market. He notes that California has performed well, having newer facilities and cheaper costs of production for dairy product manufacturing. “If we look at the last 100 years, we used to have a lot of local creameries,” he reflects. “In the Northeast, we now rely on our Class I use.”

Having a modernized balancing plant, like the Land O’Lakes Carlisle Dairy Foods facility, adds value to excess milk through manufacturing. The focus of these operations is to preserve Class I market access, optimize milk sales, and add value to excess milk for the cooperative’s members. At the same time, the plant enhances market stability for all dairy farmers in the region.

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PHOTO CAPTIONS INFORMATION:

- 1. Gordon Hoover, director of eastern milk supply talks about the Land O’Lakes Carlisle Dairy Foods plant. There are six receiving bays, each with full unload and wash-down capabilities. On a busy day, more than 100 trucks can come through the scales at the entrance to the offload and wash bays, where the milk samples are collected for on-site lab testing. Silos are dedicated, some to raw milk, some to cream, some to rbST-free raw milk headed to the Southern market.*
- 2. Load-out bays for outgoing product are on the opposite side of the facility. The plant processes about 1.2 billion pounds of milk annually into butter, powder and condensed milk products.*
- 3. Alan Vanderneut, plant manager, talks about the challenges and rewards of being “in the middle,” manufacturing dairy products and serving as a reliable outlet for balancing the region’s milk supply.*