



By Daniel J. Vance - Photo by Jeff Silker

Cows are boring, really.

They eat grass, mull around, and moo.

Milk is white, also boring. If it weren't for the containers that hold it, milk would be a series of boring white puddles. It can't even moo or chew cud. It's Plain Jane, ho-hum, blah, vanilla, and boring, boring, boring.

Now meet Mark Davis. He loves cows and milk. Yet Mark is not boring.

Mark Davis is president of Le Sueur-based \$450 million Davisco Foods International, the U.S. and Canada's 34th largest dairy processor. He's full of spit and fire, not an ounce of boredom in his genes. He's not afraid to tell you his thoughts. His politics and personal philosophies could be described as libertarian, perhaps, but that term doesn't do the man, the character, justice. He's also perpetually the innovator, the ideas guy, the lightning-quick thinker to effect change at his family-owned business.

In an otherwise boring procession of cows and milk, cows and milk, he's the teaspoon of tangy culture at Davisco Foods International that's added to transform boring milk into tasty cheese. His family business wouldn't be the same without him. And neither would the U.S. dairy industry.

CONNECT: What's the history behind Davisco Foods International?

DAVIS: The company was started in 1943 by my father Stan who had been an apprentice buttermaker in Norseland, near St. Peter, in the late '30s, and then in Frost, Minn., La Mesa, Tex., and finally Arlington, Minn. In those days rounding up capital was a little different than now. Dad borrowed some from his aunt.

My dad kept adding new aspects to his buttermaking business in order to stay competitive and to grow it. I entered the business at St. Peter in the early '60s while attending MSU. In 1969 my dad and I entered into a separate business in Le Sueur with my dad's friend and former classmate from the U of M dairy school, Allen Cords. The new partnership sold cheese in 500-pound barrels to Kraft.

CONNECT: How important today is that relationship with Kraft New Ulm?

DAVIS: First of all, let me say that we probably wouldn't be in the cheese business — or the dairy business — if it hadn't been for the help Kraft gave in 1969 to a young buttermaker who didn't know anything about cheese.

I can't say enough good about Kraft, of its business standards, quality demands, and general ethics. They demand high quality product from suppliers. They are extremely particular about the recipes for their cheese products, and for the various food products they process and sell.

No other food company spends what Kraft does promoting the consumption of dairy products, some \$750 million a year. The Kraft relationship is vital to us. We have supplied them for 35 years. They purchase more than 60 percent of our total Idaho and Minnesota cheese production, amounting to more than 100 million pounds of cheese in 640- and 40-pound blocks, and 500-pound barrels.

Due to their acquisitions of other food companies, they are using increasing volumes of our specialty whey proteins and other dairy components. We have nothing but the greatest respect for them, and value their input into our business.

CONNECT: If you could, name the divisions of Davisco Foods International and describe them.

DAVIS: In Le Sueur we process about 2.1 million pounds of milk daily into cheese, lactose powder and specialty whey proteins. Le Sueur Cheese employs 130.

Across the street from our cheese factory is our Food Ingredients Division spray drying plant. Its 50 employees control the dehydration of our liquid whey products, and also the dehydration of other liquid products from companies such as Kraft Foods, Kikkoman, National Starch, A.E. Staley, Grains Processors Red Arrow, McCormick Flavors and others. My son Marty has grown that business from what was essentially the former St. Peter plant.

Our Nicollet plant with its 20 employees absorbs all the surplus drying needs the other Food Ingredient Plants don't have the capacity to process.

Our whey factory in Lake Norden, South Dakota, employs about 90. It produces lactose and whey protein. For the last ten years we have processed the whey from a Land O' Lakes plant in nearby Volga, South Dakota. Soon the Lake Norden whey factory will add on a \$40 million, 2.5 million pounds of milk per day cheese factory. Land O' Lakes will close its Volga cheese factory and supply the milk to, and buy the cheese from the new Davisco cheese plant. The 60 jobs from Volga will move to Lake Norden. Lake Norden also has a spray drying process that duplicates our Le Sueur Food Ingredient activities for the same clients.

In 1992 we began a 225,000-square-foot cheese and whey protein plant in Jerome, Idaho. It processes 5.2 million pounds of milk a day, and has 200 employees.

Then add in another 80 or so employees for our sales and marketing, research and development, engineering and instrumentation, and information and technology departments. These functions are split between Le Sueur and an Eden Prairie sales office. We have other sales offices in Mexico City and Geneva, Switzerland.

Separate from the above, we recently built a 175,000-square-foot Cambria plant in Le Sueur. It has 120 employees. It's the only U.S. company that manufactures quartz countertops and floor tile according to a special process that completely resists cracking, chipping, stains and scratches. As part of the Cambria effort, Marty has established a fabrication shop in St. Peter, employing almost 50.

If you were to add all the plants together, including Cambria, you'd have more than 560 employees and gross sales approaching \$450 million.

CONNECT: Now back to your past. Why did St. Peter Creamery succeed when so many others failed?

DAVIS: The 1960s-'70s were a microcosm within the dairy industry of what has been happening today across our entire economy: mergers and acquisitions. Large co-operatives, mainly from the South, entered the Upper Midwest, selling the idea that bigger was better. Many small, traditional Midwestern processors, both cooperatives and proprietary, were convinced to either merge or sell out to these co-operatives for the purpose of gaining economic and political power.

Given the economic climate, Dad either had to expand our business or be out of it completely. So we expanded in Le Sueur Cheese and the Nicollet Creamery.

WITH LIBERTY FOR ALL

Davisco Foods International's Mark Davis, 61, has a mile-wide libertarian streak. He especially enjoys the *Cato Journal* and *Regulation Magazine*, publications of the Cato Institute. It's a nonprofit organization that stands for, according to its website, "the traditional American principles of limited government, individual liberty, free markets and peace." (By coincidence, the *National Opinion* article on page 55 this issue was authored by Cato Institute expert Chris Edwards.) In addition, Davis is involved with the Club for Growth, a politically active organization that supports Cato Institute-style candidates.

CONNECT: I'm sure you must have been tempted to sell Davisco. Surely a number of co-operatives approached you to buy your business.

DAVIS: I'm aware of only one approach to buy us, and Dad was insulted by their offer. It got the hair on the back of his neck up. He wasn't going to give his business away because he had worked at it too long. So instead we expanded.

CONNECT: Explain further your relationship with Allen Cords, and also that with Bob Wettergren, one of your first bosses in high school, who owned Wettergren Dairy in St. Peter. What did you learn from them?

DAVIS: From those two, and also my Dad, I learned the importance of detail as it relates to production, quality and yield. I learned the importance of sanitation to the nth degree. All three of them had similar experiences and education. They went nuts, literally nuts over sanitation issues.

CONNECT: Do you keep in touch with them?

DAVIS: Weekly, and sometimes daily. Allen works down the street here in Le Sueur. For an 85-year-old man to be so up-to-date on the dairy processing industry, and also business activity in general, and to be so forward thinking, is truly amazing. Bob enjoys reminiscing and talking about the way things were. It's quite a conversation when you get them together: two men in their eighties, one talking of the past, the other of the future.

CONNECT: As a private company, you have the ability to make quick decisions. Is it frustrating when you deal with publicly owned companies, co-ops and government agencies that often operate at a snail's pace?

DAVIS: Certainly this is frustrating. We have the incredible frustrations of wading through government regulations and paperwork. We still have to attract money for our projects, and that process has become more and more time consuming because of all the government-mandated paperwork and regulation. But yes, we are able to move faster because we're a private family business.

CONNECT: Why did you move your St. Peter operations to Le Sueur in 1993?

DAVIS: That's old news, but once again — the electric rates were too high in St. Peter. It was costing us an extra \$100,000 a year, and that would have grown to \$250,000 as we expanded to our present size. Even though our family goes back 150 years in St. Peter, I was also attached to Le Sueur, having had my office located there due to my cheese responsibilities. It was my father who ran St. Peter Creamery as a separate business. When we merged the businesses in 1993, we had to make a decision based on the business atmosphere then of Le Sueur, and that of St. Peter. We used then, and still do, a tremendous amount of electricity. In our minds we had no other choice but to move. Since then we've made several efforts to reinvest in St. Peter, but nothing has worked out yet.

CONNECT: Right now Davisco is the thirty-fourth largest dairy processor in the U.S. and Canada. For comparison, Dannon Yogurt is No. 33. (New Ulm-based AMPI is No. 17.) Would your current ranking have shocked you ten years ago? Where will you be in ten years?

DAVIS: Frankly I wouldn't have thought of it at all ten years ago. We just try to run our business, and don't pay much attention to rankings.

Another nuance of dairy companies, anyway, is that gross sales and ranking in size revolve around the price of milk. It's possible to process a lot of milk, and have big sales dollars, and still run a small business. Eight-five percent of a dairy processor's revenue dollar goes to pay for the milk. Said another way, for every dollar we take in 85 cents goes back to the farmer. After that we have 15 cents

on every dollar with which to run our business. The raw material cost in our industry is huge. Really, Davisco is just a little business that happens to handle an awful lot of raw material, in relatively few plants.

CONNECT: This might explain why it was so important to cut your electric costs by moving the plant in St. Peter to Le Sueur.

DAVIS: Definitely. I get criticized both outside and inside the company because of my insanity over pennies. In my mind each penny wasted is attached to a unit of product going through the plant. A lot of product. A lot of pennies. They add up. In this day and age, if you're not paying attention to costs, you're not going to last long. In the 1970s, the companies that didn't address cost issues went out of business.

One cost issue is economies of scale. You can't get around employing economies of scale in an age when costs and margins are so tight. The same issue affects dairy farmers in Minnesota. We are at a disadvantage in this state in dairy farming because we're not as competitive on costs of production (economies of scale) as other regions of the country.

On the farm level, having economies of scale means having bigger herds. Once a dairy farmer makes the decision to expand, then he better watch the pennies again. The pennies add up. Again, watching pennies is the difference between being in and out of business.

CONNECT: Essentially, aren't milk prices controlled by Washington?

DAVIS: No, but they are influenced by Washington.

CONNECT: For a person like yourself who believes in free markets, does government influence over pricing frustrate you?

DAVIS: It's very frustrating. In truth, the influence is a detriment to the growth and profitability of our whole industry. We don't make marketplace decisions in this industry. The government pricing formula imposed on the dairy industry dampens innovation and limits the product mix.

CONNECT: Give me an example?

DAVIS: It restricts us economically, in that there may be products out there that are desired by processors upstream because of their functionality to the consumer. Because of the dairy support program we are economically and competitively restricted. Economically, in order to be competitive, you either have to make cheese, butter or powder. If you try to make a derivative of one of those the economics won't flow. You are better off making nonfat milk, selling it to the government, and having the taxpayers supporting it. That whole system frustrates the marketing and innovation of the dairy industry.

CONNECT: What about your innovation in whey products?

DAVIS: That question in itself addresses your previous question. There is no government interference in the whey price. The markets are what they are. You can develop, research and invest in the manufacturing of those products without running into an artificial roadblock created by the government. Whey processing is an expanding industry right now because of the lack of regulation and government interference.

CONNECT: I'm noticing more and more products with whey in them.

DAVIS: And for good reason. Researchers are starting to find out that as whey solids are subdivided into their various components they contain huge health and nutrition benefits. It also has functionality, which means the housewife considers it user-friendly. Whey has those attributes. We've been active in the whey industry since the early 1980s. Now more and more companies are producing whey derivatives. Again, the reason for the growth in this industry is that it is unhindered by pricing interference from regulatory bodies.

WHEY PROTEIN DEFINED

One of Davisco Foods International's products is whey protein. To make it, they separate liquid whey and milk during the cheese making process. The whey is purified and concentrated to form whey protein, a protein that naturally makes up 20 percent of the total protein in milk. The other milk protein, casein, stays with the cheese.

Whey proteins are quickly and easily digested, can aid in weight loss or muscle gain, and they are easily dissolved in water. They also contain high concentrations of branched chain amino acids (BCAA), namely leucine, isoleucine, and valine. The human body seems to prefer BCAAs as an energy source during exercise.

CONNECT: Explain the mechanics of a typical sales call that Davisco would have with Kraft or General Mills, for instance.

DAVIS: When I was starting in the business, and a good deal of the time I was involved in selling, we usually sent basic samples of our products to the Pillsburys of the world. Then they would do research and try to find applications for our products. That has changed dramatically. Now we have our own product research and development department, and now we bring finished products to the 'Pillsburys' with our new ingredients utilized in their products. Now we take a finished product to them instead of handing them a bag of 'magic' powder. This change was brought about primarily by my sons' initiative. Mitch, Marty, Matt and Jon certainly have more education and experience in those areas than I have.

CONNECT: At one point you were trucking milk from Minnesota to your plant in Idaho for processing. I've heard some people say that this was a public relations stunt. Was it?

DAVIS: It may have looked that way. But it was really an opportunity to test the system in Idaho where we didn't have sufficient milk supply at the time. We used the milk as a test run. It wasn't meant to be a public relations effort. Some people spend too much time worrying about subjects that don't concern them.

CONNECT: Now to Cambria, the business headquartered atop the hill in Le Sueur along Highway 169. In a way it's a \$35 million gamble. It's your first non-foods venture. You can sell cheese in a down economy because people have to eat. But people don't have to buy quartz countertops and floor tile. Do you have worries about this business?

DAVIS: I worry about all our businesses daily. That's my job. With Cambria we are certainly having to learn the dynamics of a new market. But so far, at least, the home and commercial building sectors are strong. They seem to be holding up the economy. There is great interest in and demand for the product.

The process of making the Cambria product struck me initially as being almost identical to manufacturing cheese: ingredients are 'cooked' over time to a certain temperature. We sold our bankers on the idea of Cambria by explaining this similarity in the manufacturing processes. The main difference between Davisco dairy products and Cambria is in the area of marketing. Marty is doing a terrific job tackling Cambria, as he is with our whey ingredients. He is the marketer of our family.

CONNECT: Have you lost Davisco employees to Cambria? They're separated by only a few miles.

DAVIS: No. But we have created synergies. The construction and equipping of a manufacturing plant is really quite compatible, regardless of the product being manufactured. The instrumentation and computerization of the processes are also the same. It is only the specifics of the process that demand special and unique signals from all of those controls. We have a terrific group of skilled and experienced technicians, who, with Marvin Bartlett's leadership, have been responsible for building and commissioning a considerable amount of manufacturing capability in the last 12-15 years.

CONNECT: Tell me about the decision-making process to begin Cambria?

DAVIS: Pretty high tech. If there hadn't been a blizzard to delay the auction of the original equipment, we wouldn't have bought it because we wouldn't have been at the auction. The extra time following the cancelled auction precipitated a discussion here. The opportunity presented itself, and we moved on it. We participated in the auction by telephone.

Over the last five years, for major decisions like this one, the Davis Family has gathered with its financial officer. Prior to that there wasn't a decision-making group. On big decisions in general we don't have a formal process. We get criticized for that, and in some cases perhaps justifiably so. At the same time, each of my sons — and there are four in the business — has a great amount of autonomy in their area of responsibility.

CONNECT: In regard to your sons, what role does each fill?

DAVIS: Presently Mitch is learning dairy farming, an area he wanted to become more involved in. With Northern Plains Dairy we

see what we think has been a missed opportunity, by and large, by our dairy industry in Minnesota. Right now Mitch is involved with constructing Northern Plains near St. Peter. He also oversees two smaller milk production operations.

Cambria is Marty's challenge, and he's focused on it. He's also in charge of marketing our specialty dairy products, such as our whey by-products. Matt is in charge of quality, for both Cambria and the dairy companies. Jon is in charge of cheese production and milk procurement. He has responsibility over our plants in Idaho and Le Sueur, and will have responsibility for our cheese partnership with Land O' Lakes at Lake Norden, South Dakota, when that facility comes on line.

CONNECT: Now to specifics with Northern Plains Dairy. With all the milk your new 3,000-head dairy herd near St. Peter will be producing, will you have to expand your operations in Le Sueur?

DAVIS: With what's happening with the Minnesota dairy industry overall, such as the declining milk supply and declining number of dairy farms, Northern Plains will simply be picking up the slack. The milk supply of Northern Plains Dairy will amount to only 7-10 percent of the full capacity of Le Sueur Cheese. We're not going to have any trouble at all handling the amount of milk produced there.

CONNECT: Are there hard feelings between you and Gustavus Adolphus College for their initial opposition to Northern Plains Dairy?

DAVIS: Not at all. In fact, what started out as being quite contentious ended up the opposite. I can't say enough good things about how progressive Gustavus was in being willing to learn the techniques we would be using to safeguard the environment. Gustavus was marvelous to deal with because they took a logical and scientific approach.

Our permit is for three thousand head. The technology we will be using to reduce odor has been used for a number of years here and in Europe. Gustavus hired at their own expense an industry consultant. When the consultant told them the technology was sound, and that it would work, Gustavus was most flexible and accommodating.

The site for the dairy did move twice, with three proposed sites. The first site I thought was a good one, but there were political pressures against it. It was a mile and a half from Seven Mile Creek. Gustavus suggested a second site, and I thought that site was horrible — in the front yard of several homes on Highway 99. The third and final site was beautiful, only a half-mile west of the first site.

With Northern Plains Dairy, I'm a partner, the family partnership which Mitch manages is a partner, and grain farmer David Mogensen, who owns land adjacent to the site, is the third.

CONNECT: I know several businessmen who have dealt with Japanese companies. They say the Japanese can be picky dealing with vendors. Some of your products are hits in Japan. How did you go about winning their trust?

DAVIS: We did it by responding to their concerns. They have very tight standards. The Europeans are the same way when it comes to product quality and food safety. In the case of the Japanese, though, you have to prove yourself. Customer service is very important to them. When they have a problem, they want it handled.

I remember one incident very early in our relationship in the 1980s with our Japanese customers. They had called to tell us that one of our products had turned 'hard.' The powder had acquired moisture. Right away I bought an airplane ticket for me and my production manager. Three days later we were in a Yokohama Bay warehouse looking over our product. Responses like that impressed the Japanese. We saw the problem, they were right, and we adjusted our processes by implementing more critical control points to alleviate the potential of it happening again.

CONNECT: Did you feel you had to first school yourself in Japanese culture before meeting them? If so, how did you do it?

DAVIS: We don't do that. We went to Japan as if we were average tourists. If anything, they received great pleasure and delight in teaching us their culture. It was a good experience for me. They are very fine, diligent, hard-working people.

CONNECT: I've heard you're a strong advocate of free markets. In your opinion, does the U.S. have too much government?

DAVIS: Very definitely, and it's getting worse. Government is getting into areas that should not be its responsibility. For instance, some government regulatory body now determines the height of the railing on your deck and the way a business is to teach its employees how to wash their hands. There are more and more areas that should be the responsibility of each citizen. My God, our

mothers taught us how to wash our hands, then our Kindergarten teacher, and finally our employers — if that function is to be performed for one's job.

Recently I read an article that said twelve grants of about \$50,000 each were awarded throughout the country. Nicollet County received \$48,000. So the government spent \$500,000 in taxpayer dollars to employ people to see if other people at restaurants are washing their hands correctly, something that has already been taught to them and is their personal job responsibility. Are we then to hire more people to patrol these food establishments to make sure everyone conforms? I take exception to that. This is not a legitimate use of taxpayer money.

There are so many things the federal and state governments can and would do well if they would only concentrate their resources on those legitimate areas. Governments should do what governments were originally intended to do. Government employee growth, aggressive employment policies and liberal fringe benefits also are attracting qualified employees away from private taxpaying businesses. Businesses can't compete and at the same time fund these government activities with the ever-increasing taxes necessary to support all that bureaucracy. And society in the future won't be able to fund those benefits.

The Cato Institute has a study out that says government regulations in the U.S. cost consumers \$780 billion annually. This breaks down to about \$8,000 per capita in the U.S. People don't even know they are paying for regulations. They believe regulations don't cost anything.

I am losing faith in our political system and political parties. Now that our society has dug itself into thinking government can solve its problems, it will be hard for us to dig our way out. Personally, I like the Cato Institute. It takes a bipartisan look at, and dissects issues. They arrive at valid and less costly alternatives to what we're doing in government. They assess government regulation in the nation, and comment on its effect on the economy.

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