



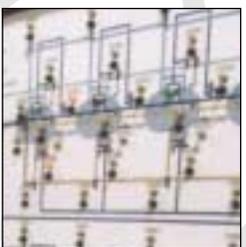
DAVISCO

DAVISCO FOODS INTERNATIONAL, INC. ■ QUARTERLY NEWSLETTER

In This Issue



Resources
They're at the tip of your fingers.
Page 3



Getting down to work in Jerome
Page 4



Starting from Scratch
Producer Update
Page 1

Can the dairy industry work in harmony with the Environment?

New economic and social realities are changing the food industry worldwide. Advances in communications encourage trade. New technologies impact production. Global markets influence price. Increased international contact changes tastes, and the pace of life in many parts of the world is creating a demand for nutritious, prepared foods.

Food producers and processors are finding it necessary to change in order to survive. For the dairy industry this means investment, new paradigms, action based on proactive thinking, education, and flexibility.

Even more than in the past, positive change in the dairy industry relies on environmental awareness and good stewardship of natural resources.

Awareness on the farm
Food producers juggle an array of variables and for most, active

conservation practice and good land stewardship influence every management decision. Profit is important, but milk producers are not prone to choose an environmentally hazardous practice for short-term gain if the decision creates long-term instability. A strong sense of place, a deep appreciation of the land, and a desire to protect the environment tend to prevail.

In the processing plant

Processors take responsibility for food safety and cleanliness, work to use every nutrient in basic food products, and distribute food to markets where milk producers, processors and consumers benefit. Resources such as water, electricity and petroleum are fundamental to this work, as is a high-quality raw milk product.

The environmental impact of processing is regulated by government and closely scrutinized by plant owners. While costly, emissions control technology is required of all

Environment
Continued on page 2



processing plants and becomes a universal cost of doing business.

What impact does the dairy industry have on our air, land & water?

Groundwater use, air and water quality, and stewardship of the land are areas of environmental concern for milk producers and processors. Facility design and maintenance, production, chemical use, tilling, soil enhancement, herd management, and animal waste management have a direct effect on the quality of the environment and require attention and awareness. Daily management decisions make the difference.

AIR

How do processors protect air quality?

Municipal, state, and federal agencies dictate standards for heat, particle, and odor emissions from processing plants. Emissions are controlled by recovery devices installed on all exhaust system vents. Processors are required to know and implement these standards; governmental agencies track compliance.

How does milk production affect air quality?

Odor is the primary air quality concern on a dairy farm. While it's a fact that where there

are animals there's manure, dairy neighbors in some locations have become sensitive to the issue of odor as it affects their quality of life. Manure is a valuable resource, and whether or not it becomes a problem depends on both management practices and perspective.

Current technologies help dairy owners eliminate odor. A "flush-system" dairy cleans barns three times a day, flushing waste to a storage basin where it is treated. With this method, a crust forms on the basin, working as a natural biofilter that can be enhanced with straw or a geotextile cover as necessary.

A second treatment — judged to be the most effective for elimination of odor — separates waste liquids and solids, composts solids for use as bedding and fertilizer, and anaerobically treats liquids in an underground tank before releasing them to a storage basin, essentially odorless.

Continued on page 5



Attention to best-management practices makes the difference in both production & processing.



In Focus
Mark Davis

People, their life choices, the challenges they are willing to accept, and the sacrifices they are willing to make are prominent in this issue.

In an era of relative prosperity, where public sector growth is exploding in terms of employment — a public sector where short work weeks and lavish fringe benefits are attracting ever-increasing numbers of this Country's, State's, County's and City's most promising new workforce entrants — it is most refreshing to read about the Kopplins, Carlson, the Vierstras, Todd Penning and Bill Riebesell.

These are folks who believe there's more to life than a 40-hour week, 15 paid holidays and 4 weeks of vacation.

They are people who get maximum gratification from putting in long hours and solving challenging problems, and who then receive pleasure from successfully completing a tough job.

At Davisco we celebrate these marvelous, dedicated and hard-working people.

"I leave you with the words of Professor Alexander Tyler, written more than 200 years ago, 'A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largess from the public treasury. From that moment on, the majority always votes for the candidates promising the most benefits from the public treasury, with the result that democracy always collapses over loose fiscal policy, always followed by a dictatorship.' If we do not learn from history we are doomed to repeat it."

Nothing succeeds like success, which then breeds excess.

DAVISCOPÉ
DAVISCO FOODS INTERNATIONAL, INC. • QUARTERLY NEWSLETTER
AUTUMN 1999 VOLUME 5 NUMBER 2

Martin Davis: Editor
ENVISION: Publisher

DAVISCOPÉ, a newsletter for employees of Davisco Foods International, Inc. and their families, is published quarterly by Davisco Foods International, Inc. 620 North Main Street, Le Sueur, Minnesota 56058.



DAVISCO
FOODS INTERNATIONAL, INC.



Producer Update

Start-up Success: KCC Dairy Builds a Business from the Ground Up

Most midwestern dairies pass ownership from generation to generation, building success on a healthy combination of tradition, innovation and hard work. Continuity often helps these businesses; owners choose the work but also grow into it, working from experience as they make business and herd management decisions.

In Meeker County, Minnesota, near Litchfield, Bob and Connie Kopplin are exceptions. Ready for a change in 1996, the two sold a successful propane business and looked for a new way to earn a living. At the suggestion of a local banker they explored the potential of dairying.

“We took a look at our options,” says Bob Kopplin, “and dairying appealed to us. The resources necessary for success are here: plenty of land, people with a good work ethic, and Minnesota’s great dairy processing infrastructure. We could see there was a clear opportunity for success, and we made the decision to go ahead.”

Andy Carlson, KCC Dairy’s herd manager, joined the business in December, 1996. The next two months were spent visiting dairies on the east and west coasts, in Canada, and in eastern Wisconsin.

“We wanted to learn everything we could and took a particularly close look at management styles,” explains Kopplin. “We saw real differences — while everyone seemed

to be going in the same direction, there were a lot of ways to get there.”

Kopplin and Carlson made the decision to build the dairy in two phases, and to begin with heifers. The first calf was purchased in August, 1997; by January 1998 herd size reached 700.

Starting “from scratch,” the two say, had definite advantages.

“The construction phase required an amazing amount of work,” explains Carlson, “and the cows would have suffered if we’d been handling both

tasks. I’d advise anyone looking

at an expansion to sell the herd, focus on

construction, and start over with heifers in the larger facility.”

Disadvantages they say were few, “The cooperative

nature of an operation like this,” says Kopplin, “made up for technical dairy experience I lacked. KCC employees take a personal interest in the operation and we’ve worked to give them the benefits they need to make good lives with their families. This is essentially an 18-family farm. Its size allows us to create efficiencies that aren’t possible in a smaller dairy, and the shared nature of the work gives people vacation, health insurance and a life beyond the dairy.”



Parlor facilities designed to accommodate future expansion.



A welcoming workplace



KCC managers (left to right) Andy Carlson, Bob Kopplin, Karen Felger & Jason Maahs



We believe the success of dairying depends on an awareness of the forces at work in the marketplace and our ability to take control together.



Optimal Dairy Financing Reduces Cash Flow Pressures

Midwest dairies have traditionally financed the purchase of cows using a term debt structure. While familiar, this method of financing is not the optimal choice for dairy owners. It can, in fact, create real problems. For example, when cows must be culled before a 4 to 5 year note is paid, the owner continues to pay for the cow he doesn't have, and very possibly lacks the cash to replace that cow for income.

Bank on Success

The ideal financing structure for dairies is a combination of term debt (for fixed assets), and two separate lines of credit for feed and cows. This structure offers a great deal of flexibility to the dairy owner, and protects the bank through a dairy position report (sometimes referred to as a borrowing base certificate). The bank uses this monthly update of the dairy's feed and cow inventories to set a borrowing limit for the producer. The producer may then freely use cash from either credit line, up to a total equalling the position report's adjusted collateral total.

How does a dairy make the switch?

- 1. Determine your need.** If cash flow is tight and restricts the success of the business, a new debt structure will help.
- 2. Talk to your banker.** Many Midwest banks are unfamiliar with this method of dairy finance, so be prepared to explain what you want. Pam Cords, owner of Financial Standards Connection, Mankato, MN says she often accompanies producers to help negotiate a new arrangement.
- 3. Change banks if necessary.** If your current banker will not consider a more flexible lending structure, another bank will. Some families ease this transition by leaving term debt for real estate with the current bank.

This simple change can reduce stress for dairy owners and significantly improve their financial success.

Producer Profile

No mixed rations. No automatic take-offs. No BST. No feed trucks or time spent hauling manure and growing feed. Plenty of attention paid to the details of cow health and milk production keeps Classic Dairy focused on a simple and straight-forward approach, according to Bud Vierstra. He and wife, Norma, are partners with son, Greg, and wife, Darla, in the 600-cow dairy located in beautiful farm country near Twin Falls, Idaho.

"We keep it simple and specialize in milking cows," says Vierstra. "All we do is milk cows and take care of them." A veterinarian comes weekly to "maintain cows to the peak." One-ton bales of alfalfa are fed in the feed lane and concentrate is fed inside the parlor. Cows are housed outside on dry lots, with straw bedding utilized as needed.

Classic Dairy employs eight people; the work force includes four full-time milkers, one relief milker, one feeder and two outside calf people. "We want to raise the standards of our employees' livings. We have some of the best employees around, and we try to pay top wage," says Vierstra. Many have remained with the dairy for 7 to 10 years.

The dairy was established in 1971 when Bud and Norma moved to Idaho from northern California with 4 cows, 4 heifers and \$8,000.

There were lots of 25-30 cow dairies here then, and the good old days weren't really so good. It was a lot of hard work," remembers Vierstra. The couple built a new double-10 parlor, 600-cow set-up 3 miles outside of Twin Falls in 1977. They also have 80 acres of pasture, 400 heifers, and raise their calves and bulls.

Classic Dairy gets impressive results, with a 15% cull rate and a rolling herd average of 23,000 pounds. Somatic cell count runs 125,000-175,000 cells/ml., says Vierstra. "We're highly competitive with producers in the Northwest and we've maintained a pretty good net profit." Their number one goal is to eliminate all debt.

Classic Dairy works to maintain good relationships within their community. "There are 60-70 houses within a mile of the dairy. We have white fences and a pasture up front. The dairy is well-managed and maintained, and we have a minimum of complaints," Vierstra says.

Jerome Cheese Company works in tandem with the area's dairies to keep the industry strong, according to Vierstra. "We're thrilled to have Jerome Cheese here. They're a high-tech independent and don't use a contract, which in my view is an advantage. I can talk to any of the Davises face to face."

Do you manage for optimum profits?

Look around for low feed prices. Ask questions. Evaluate costs per cow, per day/feed cost/cwt.

Minnesota	Spot Load	OND	
Cottonseed	\$172	\$146	
Hay	\$95-110		(RFV 150-160)
Distillers	\$85		
Corn Gluten	\$75		
Corn	\$2/bushel		
Soy Meal 44%	\$140	\$135	
Soy Meal HP	\$148	\$143	

Feed for milk component value, not volume.

Work creatively with your nutritionist to match feed price and nutrient content with component value results.

Le Sueur Cheese Company April 1, 1999

Butterfat (Value on Surplus Fat)	\$0.139/point/cwt
Protein	\$0.23/point/cwt
Somatic Cell Count	\$1.065/cwt per 100,000 below standard of 350,000

Jerome Cheese Company April 1, 1999

Butterfat (Value on Surplus Fat)	\$0.131/point/cwt
Protein	\$0.20/point/cwt
Somatic Cell Count	Bonuses ranging from \$.04 to \$.45/cwt are given for counts 0-500,000. \$.04-\$.45 is deducted for counts 501,000-1,000,000

Point= 1/10 of 1% (For example: 3.2-3.1=1 point)
Note: Each dairy is individually evaluated. This is a simple overview of point value.

Working the Numbers

State water quality laws and discharge limits are established individually, but must be consistent with federal Environmental Protection Agency standards. Strong local (county) programs work with industry and agriculture to educate and enforce, with support from state-level pollution control agencies.

Continued from page 2

The anaerobic digester concurrently treats waste and captures methane. It is the most expensive and labor-intensive method of three, but does produce a useful energy source. Anaerobic digestion relies on heat, and therefore is somewhat more complicated to use in cold climates.

Most farm odor complaints are made when the storage basin is emptied, or when manure is spread on fields. Injection technology now virtually eliminates odors when spreading because the manure is not exposed to the air.

WATER

How do processors dispose of waste water and conserve fresh water?

To remain viable in a competitive marketplace and to comply with state and federal regulation, processors design systems that recycle and conserve water wherever possible. ‘Milk water’ — what remains of the milk when cheese is made — is recycled for other uses in the plant. Employees work to conserve wherever possible and water is treated on the premises, by the processor, before it is discharged to the municipal wastewater treatment system.



What methods do milk producers use to protect water resources?

Milk producers protect water resources with the help of effective technology and create systems that allow them to conserve and recycle whenever possible. A dairy uses water to feed cows, wash facilities, and cool milk; owners also work to protect regional water sources with effective waste treatment methods.

Water, as the most important nutrient in animal feeding and health, is in constant use on a dairy farm. Lactating dairy cows, of all farm animals, require the greatest amount of water in proportion to their size because water constitutes 86-88% of the milk they yield. Most dairies recycle water wherever possible. Waste water from

the parlor or liquid from the storage basin is used to flush barns, and water from underground sources cools milk as it moves to the barn to be fed to cows.

Construction of waste treatment facilities is regulated by federal and state law. Professionally-designed systems meet or exceed standards to protect groundwater from contamination.



LAND

The condition of the soil is affected by the dairy industry primarily at the producer level, in the area of animal waste and soil augmentation. Manure has proven to be a less expensive and more effective fertilizer, and soil testing and scientifically managed spreading have made it possible to improve the soil without risk of damage.

How do current economic trends affect stewardship of natural resources in the industry?

In the words of one county environmental protection agent,

“Industry and agriculture as evolving today have a much better chance of success in the area of environmental protection than in the past, because facilities are built well to begin with. Statistics have revealed that the worst environmental problems occur on smaller, older farms and in older industrial facilities.”

How can we work together for a clean environment?

An attitude of common ownership and a desire to understand issues are the foundation of successful environmental action. Tina Rosenstein, Director of Environmental Services, Nicollet County, MN, put it succinctly, “The key is to be as open-minded as we can, work with true data, analyze well, and speak honestly and directly with those involved when we perceive a problem. If we sit down and talk with people face to face we have a much better opportunity to achieve our goals.” ■

“I see people interested in doing the right thing. If rules exist to prohibit certain activities, people may not like it but in most cases they respect it. That’s the way a prosperous society works — everybody does better that way.”

— Don Hauge
Minnesota Pollution Control Agency

Dairy Processing

The Minnesota Department of Agriculture will release the 2nd edition of its *Dairy Processing Plant Capacity Study* in October, 1999. This report touches on issues in processing & provides current statistics for the industry in North Dakota, South Dakota and Minnesota.

To receive this report, call the MN Dept. of Agriculture: 218-739-7632.

Resources

For more about environmental issues in dairying, check out these resources:

ON THE WORLDWIDE WEB

minnlink.com

News, trends, updates: Minnesota dairying

National Dairy Database

Use your web search engine to access comprehensive US dairy industry information & links to related web sites.

www.epa.gov

United State Environmental Protection Agency

www.mncounties.org

Association of Minnesota Counties

www.state.mn.us

Access current information related to the dairy industry from these State of Minnesota agencies: MN Dept. of Agriculture, MN Geological Survey, MN Pollution Control Agency, University of MN Extension Services.

wisclink.com

News, trends, updates: Wisconsin dairying

PERIODICALS

- Dairy Initiatives Newsletter**
- Dairy Today**
- Farm Industry News**
- Hoads Dairy**
- Midwest Dairy Business**
- Western Dairyman**

Optimism and Perseverance Get the Job Done in Jerome

Employee Profiles

A can-do attitude spurs success at Jerome Cheese Company in Jerome, Idaho, and the willingness to go the extra mile starts with General Manager, Jon Davis. When the first milk started flowing through the new plant's cheese vats on December 28, 1992, Davis made the cheese-producing starter, just ten days after receiving his college degree in finance and marketing. Davis learned up-front about each phase of the plant's operations, working in each area for ten-week periods. Eventually Davis also handled milk pricing, a task done initially by his brother, Mitch.

In 1995, Jon Davis accepted the responsibility of being the plant's General Manager. Jerome Cheese Company has so far enjoyed hard-won success, to which Davis gives credit to teamwork among the plant's managers and employees. "There is almost an aura to



Jon Davis

our teamwork. We have worked together and and consider each other friends. We have a family atmosphere here. The managers at Jerome Cheese know my parents and brothers and some of us have been with the business since we were sixteen or seventeen years old. Everyone is cut from the same cloth of hard work, perseverance, and thick skin — and we are able to keep the goal in sight no matter what it takes," says Davis.

Finding and managing employees is key to successful plant management. When hiring, Davis seeks people with more than a strong work ethic, "We look for somebody that's optimistic and able to handle failure.

If they aren't able to get it right the first time, we want them to come back and do things better next time. We want people that see the glass as half full instead of half empty. Cynical people don't get far here." The plant enjoys low turnover; 85 of 150 employees have been with the company for two or more years.

"Our goal," says Davis, "is to have a positive working environment for employees — including health and family life. We work to offer a milk price that keeps milk producers profitable, and we want to keep the bankers happy with good financial results."

Davisco's Idaho operation is the company's newest. "The work is dynamic here," says Davis. "We never know what new challenges we'll face, and we're energetic and young enough to have something to prove. Our challenges lie in maintaining the quality of products already on line and in production of new products. We conceive, plan, design and build new products, and then produce them on a commercial scale."

The plant produces cheese for Kraft, as well as whey products marketed through the company's Eden Prairie, Minnesota sales office. Davis believes that his formal education is an asset, but that many important lessons have been learned on the job. "I use my formal training to analyze economies in the plant," Davis says, "but I've also learned a lot from my dad. He's taught me to do things on my own, and to persevere — not letting a few failures get me down to the point where I can't come back and be ultimately successful." ■

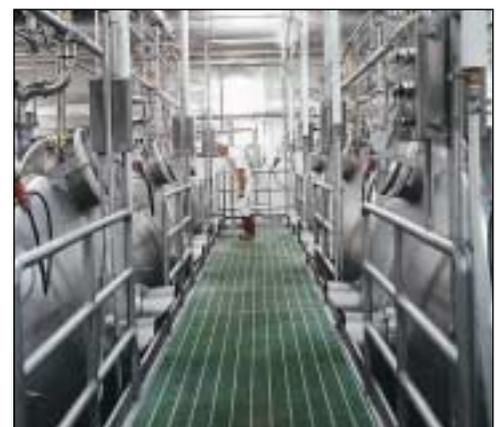
Challenge Lies in Saving Dollars, Creating Efficiencies

"I believe that even if things are running perfectly, we can do better. I enjoy the challenges of figuring out how to save money," says Todd Pennings, Whey Side Manager at Jerome Cheese Company. From making the company's day-to-day tasks easier for employees to handle, to finding a process to save dollars in whey processing techniques, Pennings strives to get work done efficiently and cost-effectively.

Pennings has been with Jerome Cheese almost from its beginning, starting as a bagging operator in August, 1993. From the Sapac bagging room, he worked through all phases of the plant's whey separator room, whey evaporator and cheese vats to his present position. As a manager, Pennings handles whey product processing, yield sheets, and customer complaints. He works as a team member with plant General

Manager, Jon Davis, and plant Superintendent, Bill Riebesell. "At Jerome Cheese, we're always willing to listen to employees. A lot of ideas come from them," says Pennings.

One of Pennings' ideas saved the company \$100,000 to \$150,000 per year — money added to the company's profit-sharing plan. Condensed whey had been added to the animal feed tank, which contains a mixture of waste milk and whey with a 15% solid content that is given away to farmers as livestock feed. The condensed whey is now dried and sold as powder. Another waste product, animal feed powder, is added instead, to raise solid levels to 15%. Another initiative by Pennings, automation of tank and line flushes, has helped employees



do a better job, with less hassle, and has saved more marketable product.

"I like my job, and I find it interesting," says Pennings. "For anyone with initiative, there's room for growth here. Davisco takes care of its employees — if you do things for them, they'll take care of you." Pennings, hails from Wisconsin, and says he misses the "green atmosphere" — the landscape, and the Packers! ■