



# DAVISCOPE

DAVISCO FOODS INTERNATIONAL, INC. ■ QUARTERLY NEWSLETTER

## ■ In This Issue

Page 2

Whey Proteins Add Nutritive Value to Foods



Page 5

New Davisco Plant in South Dakota



Page 6

Annual Quality Award Honors Sales Office



## 38 Years of Service

### Flexibility, Humor & Steadfast Commitment Characterize Bob Schwarz 's Years with Davisco

If you ask Bob Schwarz what the best way to retire is, he might suggest, "a little bit at a time." The long-time Davisco employee began semi-retirement in June, but still averages fifty hours of work per month.

"People used to tell me it wouldn't be easy to retire and not go to work everyday. I thought, 'baloney.' But you're used to going to work and you have your habits. It's hard to change them all in a flash," says Bob. "So it is nice that I can still come into the office and help out."

To use his own words, Bob Schwarz has been working for Davisco, since "before Davisco was Davisco." Schwarz began in 1963, "making cheese" in Le Sueur. At that time, there were only eight or ten employees, Schwarz remembers.

"Everyone learned everyone else's jobs so you could fill in if needed," he said.

Mark Davis gives Schwarz credit for the service he offered in those early days. "There was no way it would have worked without Bob. There was no crisis Bob couldn't find a bright spot in."

As Davisco grew, so did Schwarz's role. He went on to hold a supervisory role and worked in whey evaporation. In 1990, he became safety coordinator for all Davisco plants — a position he held until cutting back hours in June, 2002. He remains the safety coordinator for the Lake Norden plant.

Schwarz has worked more than 38 years for Davisco — no small accomplishment at a time when the average employee makes several career changes in a lifetime.

"Bob is extremely hard working. He's extremely loyal, and he's extremely honest," said Davis.

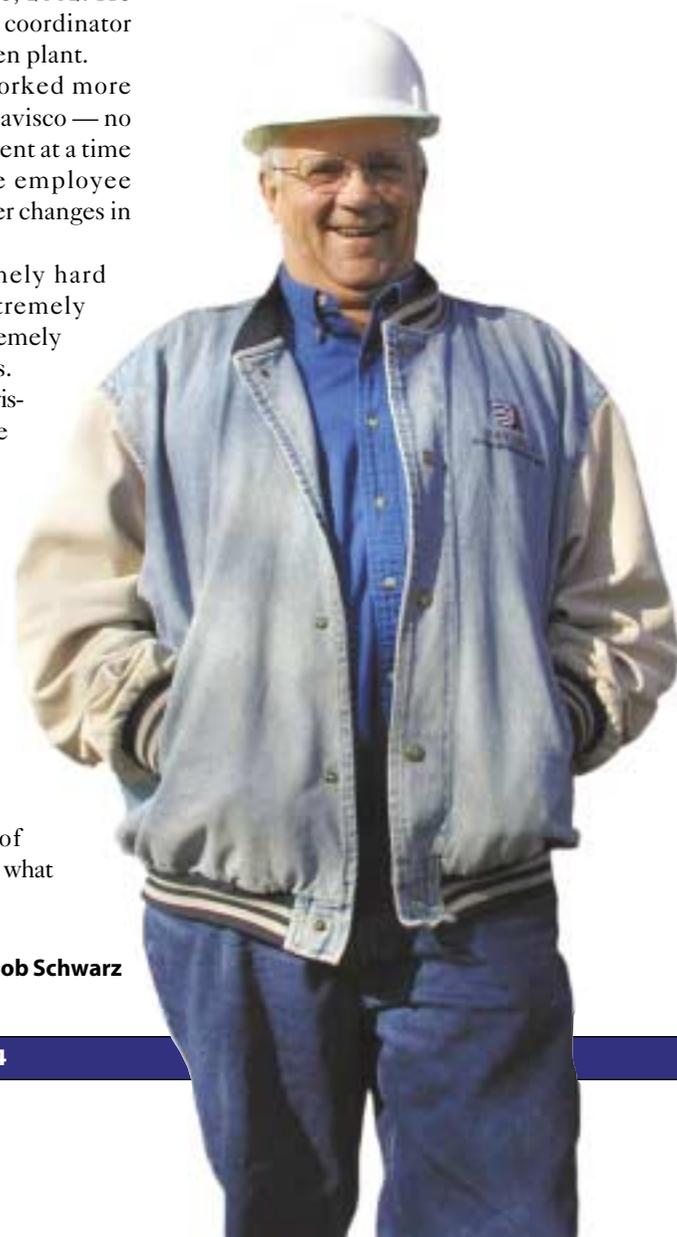
Schwarz says Davisco "is kind of like family."

"I've worked with all of the boys at one time or another, so I know all of them pretty well," he explains. "Plus, it was pretty convenient. I only live two blocks away," he says.

"There's a lot of satisfaction in seeing what

Davisco's become. It's nice to think I might have done a little bit to help it along."

"I'll keep busy in retirement. There's an awful lot of fish I haven't caught yet," he laughs.



Bob Schwarz

# A Healthy Trend

Informed consumers are choosing fortified foods more than ever, driving research and a thriving functional food market



One of the biggest trends in the food industry today is the rising popularity of fortified foods. In fact, the U.S. functional food market grew 8.5% in 2001 and is expected to see an annual level of growth around 7.5% until 2005.

Fortified foods, also known as nutraceuticals, are foods and beverages that have an added functional ingredient that enhances overall health, helps prevent or treat a disease or condition, or improves physical or mental performance.

Laurie Nelson, Davisco applications manager, says consumers are interested in nutraceuticals because they present a dietary alternative to drugs and dietary supplements.

According to *Food Technology* magazine, in 2001, for the first time ever, “more shoppers opted to use fortified foods and beverages than dietary supplements.”

Because consumers recognize a link between the food they eat and their health, they are asking for more nutrients from their food.

*Food Technology* states that about 81% of shoppers select certain foods or beverages because they contain healthy ingredients or offer health benefits.

Nelson says that people commonly use fortified foods to prevent or treat disease, lose weight, and boost the immune system.

Within the functional food market itself, there is a number of trends taking place, including a strong interest in functional snacks, such as calcium chews, and the mainstreaming of sports bars and drinks. Weight reduction and appetite suppression products are also gaining popularity.

## Nutraceuticals & the Dairy Industry

The fortified food trend establishes a solid market for the dairy industry. In fact, *Food Technology* recently reported that “the dairy industry is sitting on top of a gold mine of functional food ingredients.” That gold mine is whey proteins, such as Davisco’s BiPRO and BioZate products.

Whey provides valuable proteins that are easy to use in functional food production. The following functional food trends indicate that whey proteins will see continued popularity:

- Today’s consumers have an interest in products that give their immune systems a

boost. (Consider the immunity builders vitamin C and echinacea. Both are the top sellers in their categories.) Whey proteins have high sulfur amino acid levels that enhance immune system functions.

- Whey proteins are important ingredients in many sports drinks and nutrition bars, which are no longer viewed as “just for serious athletes.” Today’s general consumers are interested in the benefits of these products, which can now be found on the shelves of mainstream grocery stores.

- According to Nelson, whey proteins are being added to existing functional foods, giving them the benefit of extra protein. One example is the addition of whey proteins to calcium chews.

- Weight control and appetite suppression remain important issues to consumers. One of the major weight control trends today is the high-protein diet, which often includes foods containing whey protein.

In addition, dairy foods themselves are excellent carriers for fortification. Dairy products such as “value-added” milk and calcium-enriched ice cream are proving to be strong, competitive products.

## Davisco’s Responds to Trends

According to Nelson, it is important for Davisco to be knowledgeable of food industry trends.

“We keep up with the trends. It allows us to assist our customers with their development work,” she explains.

When a new product comes on the market, competitive companies often race to develop products of the same genre.

In order to become familiar with the challenges in producing a certain product, Davisco often develops a product that is similar.

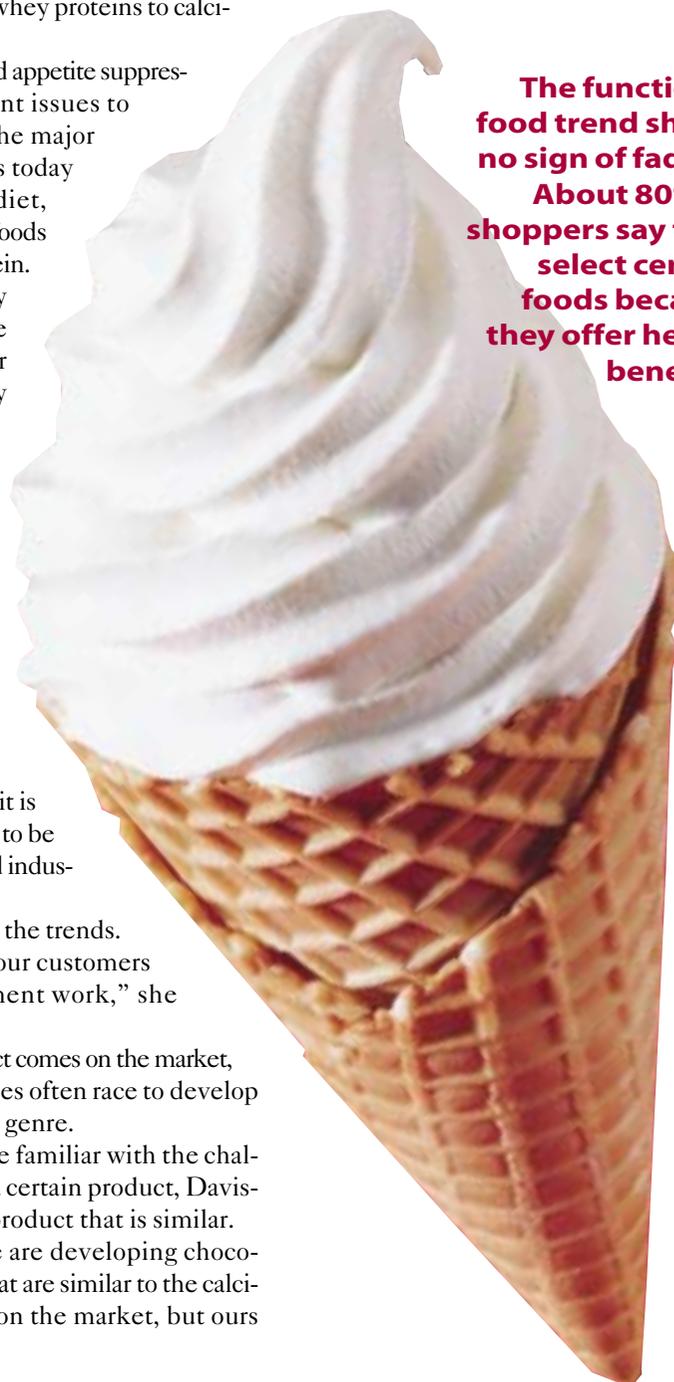
“For example, we are developing chocolate flavored chews that are similar to the calcium chews currently on the market, but ours

feature our bioactive whey proteins as the active ingredient, instead of calcium,” explains Nelson.

“We will develop a series of formulas that we can share with customers,” says Nelson. “It lets us help them with their challenges and answer their questions.”

Davisco often develops application formulas to present to customers who may not currently be producing a certain product but would benefit from doing so.

BiPRO, a proprietary Davisco product, continues to be in high demand, especially for beverages and bars. Nelson says the bland



**The functional food trend shows no sign of fading. About 80% of shoppers say they select certain foods because they offer health benefits.**

flavored whey protein continues to be successful because it is easy to use and food developers are used to working with it.

She adds that BioZate 1, which has been shown to lower blood pressure in a study at the University of Minnesota, is also seeing increased interest and demand.

### The Future

The functional food trend shows no signs of fading soon. Whey proteins are also expected to see continued and increased popularity.

Although soy proteins have received the most attention in recent years, *Food Technology* predicts that “as the dairy industry begins to promote whey protein’s higher biological value, expansive complement of sulfur, branched-chain amino acids, and other bioactive health benefits, the source of protein becomes an important consumer issue.” Simply put, whey proteins have unique and highly functional features that draw consumers.



**The year 2002 saw a return to comfort foods that provide warmth and remind eaters of their childhood. One of the country’s favorite comfort foods remains macaroni and cheese. The Chicago Tribune named it dish of the year, just in time for the 65th anniversary of Kraft Macaroni & Cheese, which features cheese from Davisco.**



## Functional Food Trends

A feature story in the April 2002 issue of *Food Technology* magazine identified these top ten trends in functional foods:

- ① Increased nutrient and specialty ingredient fortification;
- ② Marketing for specific physical conditions;
- ③ Lifestyle enhancing products, as in energy, immunity and mental performance;
- ④ Crossover products from sports nutrition;
- ⑤ Children’s health;
- ⑥ Marketing towards gender, age and ethnicity;
- ⑦ Weight reduction, satiety and appetite suppression;
- ⑧ Functional snacks;
- ⑨ Natural ingredients such as those containing essential fatty acids, herbals, and probiotics;
- ⑩ Nontraditional food markets, including eye health, oral health, and the medical foods market.



## In Focus

Mark Davis

Bob Schwarz’s 38-year career has coincided with a multitude of rapid evolutionary changes in the dairy industry.

The industry has experienced wholesale mergers and acquisitions amongst manufacturers and processors, a dramatic contraction in the number of dairy farms (while increasing size and productivity has significantly and continuously increased milk production) and the computerization of formerly mechanically controlled production processes. All of these dynamics have had a positive impact on the variety and quality of milk products available, and more importantly, they have impacted new product development in the dairy industry.

One of the results of those changes, and, with the potential to have far greater marketplace impact for dairy products, is the multitude of research projects that are proving that the functional and nutritional attributes of milk and its various and isolated components, specifically whey proteins, are superior to similar components that may be derived from other sources, i.e.—soy proteins.

Dairy components (whey proteins) and milk have been discovered to be complimentary, beneficial, even advantageous for treating or otherwise positively effecting such human maladies as appetite suppressive (obesity), high blood pressure, breast cancer, dental caries, digestive disorders and the immune system.

Whey protein research has just scratched the surface of potential medical and health benefits.

### DAVISCOPY

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# Producer Update

## Dairy Management Software: Tips for Choosing a Program

The use of computers to record and manage records is common in today's dairy industry. A good dairy management program helps managers organize and analyze herd records, reduces paperwork, and increases efficiencies. The number of software options available can make program selection difficult, however.

One way to begin is to decide what sort of tasks will be required of the program. Requirements will vary for each dairy operation. Integrated programs that can be linked to milk meters, grain feeding systems, and a DHI association may be a huge asset to large operations, while smaller producers may want to invest in a simpler program with basic event recording and analysis. Once there is a clear understanding of need, evaluating the following program features narrows the choices.

### Ease of Use

Is the program user-friendly? If a program is well-designed, a user with basic computer knowledge can install the software, input herd information, and have a basic understanding of the program in approximately 10 hours. After an initial orientation period, users can expect to spend 15-30 minutes per day to maintain the system.

### Retrieval & Analysis of Data

What reports can the software produce? Lists, graphs, charts and tables can make information easier to use. Some programs

have advanced automated reporting, while others require the user to define the report's terms.

### Assistance

For the times when problems arise, are manual and onscreen help features easy to understand? What sort of technical support can be expected from the software company? Often, the price of the software includes technical support for a certain period of time, from a few months to a full year or longer. This support is an asset, and may be in the form of phone calls, faxes or e-mails.

### Prices

Average prices range from \$200-\$1000, or more. But price should not be the main deciding factor. A higher-priced system may be well worth the cost, considering the increased efficiency it can offer an operation.

### Updates

What, if any, additional features will be added in the near future? If a software update is planned, will it be covered in the service agreements, or will the buyer be expected to pay an additional charge for it?

Perhaps the best way to evaluate a program is to take it for a test drive. Most software companies provide a demonstration version of their program free of charge, giving managers the opportunity to get a feeling for the program and what it can offer.



*A few of the programs available*

PROGRAM	DISTRIBUTOR	PHONE	WEBSITE
DairyCHAMP 3.0	Agricultural Information Management	651/335-5585	www.dairychamp.net
Dairy COMP 305	Minnesota DHIA	800/827-3442	www.mndhia.org
Dairyman	Agpro	250/652-8557	www.islandnet.com/~agpro/agpro.htm
DairyQuest	ProfitSource	715/536-7159	www.dairyquest.com
Scout	Minnesota DHIA	800/827-3442	www.mndhia.org



## Dutch Dairy Family Finds a Home in SD

Although Thijs, Tom, and Wouter Hammink are growing up in a different country than their parents, Wim and Nicolien, they share a tradition of growing up on a family-owned dairy.

Originally from Holland, the Hamminks now live and work on their dairy near Bruce, South Dakota.

Following school in Holland, Wim began his own dairy with a small rented farm and 25 cows. Eventually he bought the dairy and land, and expanded to about 70 cows.



**The Hammink Family (l-r) Wouter, Thijs, Tom, Nicolien and Wim.**

In 1983, Holland began using a milk production quota system to regulate milk supply and prices. The system allows each producer to supply a specified amount, or quota, of milk.

When the system was initiated, the Hamminks were given a quota for just 40 cows, limiting

their production abilities. While it is possible to buy more quota, it is an expensive venture—about \$15,000 per cow.

In 1994, the Hamminks began researching the possibility of relocating to the United States. They were ready to sell and make the move, but they weren't sure where they would like to settle.

"I had gone to school in Wisconsin and was impressed by the available land and space there," said Wim.

But after the family learned more about South Dakota, they decided it was the place they were looking for.

"We were used to a country that was very crowded. There is a lot of space out here, a lot of land. Feed

is reasonable. There's good hay and a good milk market with four good milk buyers in the area," explains Wim.

The couple emigrated and settled in their current home in 1995. They started with 300 head and now milk 1,000 cows.

South Dakota offered a resolution to many of the problems the Hammink's faced on their dairy in Holland.

According to Wim, South Dakota is five-times larger than Holland, however Holland has a population of 17.5 million, compared to South Dakota's 756,600. It is difficult to get the permits and land necessary to run a dairy properly in the over-crowded country.

"In Holland, you often have to pay to dispose of manure. Here, the neighbors want it for their crops and will pay a little for it," said Nicolien.

The couple also believes that South Dakota is a nice place to raise their family.

"People are open to new people here and make them feel welcome," explains Nicolien.

Until two years ago, the Hamminks were the only Dutch family in the area. Now there are six additional Dutch producers in the area.

The Hamminks serve as consultants for other Dutch producers who are interested in immigrating to the U.S. They assist families in the process of starting a dairy in the United States. For example, they help to locate land or dairies that are for sale. The new mozzarella cheese plant that Davisco is building in Lake Norden, they say, helps make the area attractive to farmers.

"We're happy with the new Davisco plant. It helps make the milk market strong here," says Wim.

Currently, the Hamminks are working with four families who are considering a relocation to the United States.

## Producer Profile



## groundbreaking of Mozzarella Cheese Plant

On August 27, 2002, Davisco broke ground on its state-of-the-art mozzarella cheese plant in Lake Norden, SD. The plant, which will take approximately 15-18 months to complete, will create 60 jobs and will initially support milk production from 30,000 cows. Eventually the new dairy plant will expand to require the milk production of 75,000 cows. Land O' Lakes will market and sell the cheese.

"This is a major investment for us at Davisco that represents an expanded partnership between the state of South Dakota, Lake Norden, Davisco, Land O' Lakes and area milk producers," Mark Davis said in a news release.



Photo courtesy of Watertown Public Opinion

**South Dakota Agriculture Secretary Larry Gabriel & former Governor Bill Janklow look on as Mitch Davis and young friends turn the soil to begin construction of a state-of-the-art cheese plant in South Dakota.**

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.

## Variety & Challenge Keep Baumann & Erdmann Motivated, In Motion at Jerome Cheese Company

There's no such thing as a typical day for Jerome Cheese Company employee Nate Baumann. As Isolate Manager, his job can vary from day to day, from milk load to milk load.

"It's different every day. Every day I come to work and there are new challenges," says Baumann.

Baumann started working at Jerome in January, 2000. He has a background in the dairy industry and, as a young adult, worked at an animal supply store under his mother's management.

He was also active in his local 4-H and FFA organizations, competing with the state FFA dairy judging team.

Baumann is in charge of everything that happens in the BiPRO isolate room. He is responsible for producing both a high yield and a high quality product.

Variety and challenge make Baumann's position the perfect fit.

"The bigger the challenge, the more I like it," he says. "You never know what will happen from one day to the next. I just take what's in front of me and tackle it."



**Nate Baumann**  
Isolate Manager,  
Jerome Cheese Company

Prior to joining Davisco in December, 1992, Brett Erdmann had never worked indoors. Although his family lived in town, Brett says he grew up and worked on a farm. "My dad farmed and operated a dairy, and he still does," Erdmann said.



**Brett Erdmann**  
Production Supervisor,  
Jerome Cheese Company

When Erdmann went from working outside full time to working inside at the Jerome Cheese Company, he was concerned he would get bored. As production supervisor for the night shift, however, he now says he doesn't have time to get bored.

"Every shift is different," he explains. "I'm learning new things daily about the electronics, computers, and machinery."

Erdmann appreciates the laid-back, family-owned atmosphere of Davisco. "I've heard of places where people are always worried about being fired or getting laid off. This isn't one of those places."

When he's not on the job, Erdmann spends his time working on the family farm with his father. "I take my kids along to the farm, so they can learn the value of working on a farm with family," he said.



### 2002 Quality Award presented to Davisco Sales Office

Davisco Foods International has built a strong reputation in the food industry by offering high-quality products. This level of quality is the result of consistent, conscientious, behind-the-scenes efforts by our employees.

To recognize these efforts, Davisco presents an annual award that honors individual employees, teams, or factories that are in relentless pursuit of quality. The Dawn Shafer Award of Merit for Excellence in Quality is given in memory of a woman who successfully pursued and achieved superior quality performance during her six years of work with the Jerome Cheese Company.

Shafer, who died of cancer in February, 1999, had a strong ability to structure quality systems and train personnel in all departments. In her role as quality lab manager at the Jerome Cheese Company, she had an impact on the operation of the company and the quality of products produced.

The 2002 quality award was presented to the Davisco Sales Office for excellent teamwork with the Quality Office and adherence to the company Quality Standard Operating Procedure manual.

According to Matt Davis, Davisco Director of Quality Assurance, the sales office has worked to improve communication with the quality office in recent years, leading to better overall customer service.

"The Quality Office is pleased to recognize the entire sales staff this year, and we look forward to similar teamwork and attention to quality-related details from the team in years to come," said Davis.