



United Dairymen of Idaho

Idaho Dairy Products Commission Idaho Dairy Council

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Dear Idaho Dairy Farm Family,

With farm-level milk prices down by more than 50 percent from last summer, we, as dairy farmers, are facing the worst economic crisis since the Great Depression. Dairy exports have decreased, U.S. consumers are eating out less and feed prices have risen.

It's a tough economic time for everyone. We, like you, have seen how the down turn in the economy has seriously affected our farms and our ability to sustain our farms. We recognize that dairy farmer price volatility is a long standing issue. The global economic crisis has made the recent volatility occur more quickly and more severely than normal.

In this unprecedented time of low prices and high input costs at the farm level, we are writing to share with you an overview of the actions taken by the dairy farmer funded checkoff program to help increase sales and demand.

Rest assured that the Board of Directors of United Dairymen of Idaho, who are dairy producers representing Idaho's dairy farm families, are continually working on your behalf to ensure that your checkoff programs managed through United Dairymen of Idaho and at the national level, Dairy Management, Inc. (DMI) benefit the industry.

The dairy checkoff has taken immediate actions to help increase demand and sales of U.S. dairy products in these difficult economic times. Beginning late last year, Dairy Management Inc. (DMI) and the U.S. Dairy Export Council (USDEC) have adjusted more than \$25 million to further focus on immediate and longer term sales impacting efforts. Remaining true to the long-term strategies of working with and through the industry to extend the producer's investment, the following three pages provide an overview of some of the activities.

Art Lee, Co-Chairman
United Dairymen of Idaho

Jack Davis, Co-Chairman
United Dairymen of Idaho

Actions to Impact Sales



To help build cheese sales for the short- and long term, dairy producers partnered with Domino's Pizza® to introduce Domino's American Legends™, six new specialty pizzas which use up to 40 percent more cheese than traditional Domino's pizzas. Dairy producers will invest \$12 million over two years and Domino's will invest four to five times more than that to support these permanent menu items. Domino's delivers more than 600,000 pizzas in the U.S. each day. This partnership has great volume potential and the ability to be a catalyst for the rest of the industry to return to using more cheese on more pizzas. If every pizza was made with one more ounce of cheese that would use an additional 2.5 billion pounds of milk annually. Domino's reported a 1% increase in first quarter U.S. sales thanks, in part, to the Domino's American Legends™ pizzas. *United Dairymen of Idaho (UDI) extended local marketing efforts in Idaho with a direct mail piece to 230,000 households. Local Idaho Domino's Pizza® stores saw a 25% increase in orders.*



DMI, as part of a longer term strategy, is focused on protecting pizza's place and promoting pizza in schools as a healthy, satisfying and popular item. Pizza is the #1 entrée in schools and twenty-five percent of all school meals include pizzas. DMI and state and regional checkoff organizations are working on a comprehensive program to build the perfect pizza -- one that meets the increasingly restrictive school nutrition standards. The dairy checkoff is working with the same sense of urgency as was done with school milk. Kids represent a significant share of current dairy consumption and 100% of our future consumers. Keeping pizza in schools and keeping kids interested in real cheese are paramount to sustaining long-term sales.

Also part of the long-term strategy, DMI organized a meeting of leading pizza suppliers to identify ways to address the common issues facing the pizza category. The action plans will help revitalize the pizza category as a favorite choice among consumers for quality and value.



Dairy producers have entered into a multi-year partnership with McDonald's® to support McCafe®, their new specialty coffee drinks (which are up to 80% milk) as well as the development and launch of many other dairy-friendly products. Dairy producers will invest \$5 million a year for three years to support new menu items that could include: yogurt smoothies, espresso drinks, new cheeseburgers and new single-serve

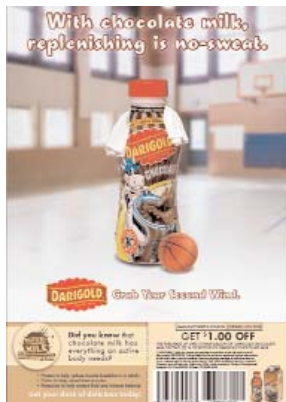
flavored milk options. McDonald's® has said this is one of the biggest launches in company history. They are investing about \$1.2 billion in capital expenditures and \$100 million a year to advertise and market the products. Analysts believe that McDonald's® could "capture a 10-15% share of the specialty coffee market and also grow the entire category. That's the goal of this and the other partnerships: grow overall dairy sales.



United Dairymen of Idaho is working with the local McDonald franchises to implement several dairy friendly menu programs throughout 2009. Through your investment in UDI programs, Treasure Valley area McDonald's® not only promoted their new McCafé® line of specialty coffee drinks, but they also raised money for the Ronald McDonald House. During the month of May, local McDonald's® restaurants served more than 7,200 new McCafé® mocha samples. Another Idaho program will feature "Good Fit Meals," that will include dairy items for families looking for healthier food options at quick serve restaurants.



Emerging science, initially funded by dairy producers, suggests that chocolate milk is an excellent post-exercise beverage because it contains protein and other essential nutrients. DMI partnered with Shamrock Farms® to test the sales opportunity for their chocolate milk product, "Rockin' Refuel," which has additional protein and naturally occurring electrolytes. Tests indicate the product is popular with men ages 18 to 25 and with moms looking for new and healthy options for their families. Now, DMI is working across the industry to identify sales opportunities for post-exercise dairy beverages through other flavors and packaging options, as well as new places to buy the product such as schools and vending machines.



UDI partnered with Dairy Farmers of Washington and Darigold to capitalize on the research that shows flavored milk is a better recovery drink than many sports drinks.

The promotion offered consumers \$1.00 off of 1/2 gallons or 2-16 oz. chocolate milks. The promotion included newspaper coupon inserts, floor graphics, sampling at events, at Winco and Albertsons stores.

During the promotion period, chocolate milk sales showed a 13% increase in the Boise market over chocolate milk sales from last year.



The number of outlets offering single serve, re-sealable flavored milk continues to grow. Pizza Hut is rolling out Nestle chocolate milk in its 4,000 stores, bringing the grand total to more than 65,000 outlets. Adding to the quick-serve outlets are the 11,000+ schools serving the improved package. Collectively, that means that kids get the milk they want, in the packaging they want it, 1.2 billion times a year. That helps us recapture milk as the beverage of choice for kids and which means incremental sales this year and each year as they grow. It also means future generations of kids have a much higher likelihood of becoming and remaining milk drinkers for life.

To date, dairy producers have invested a total of \$6 million with our partners on single serve milk at foodservice. The partners collectively invest about \$135 million each year, year after year, to promote, advertise and sustain this kids milk franchise. The result is 250 million incremental pounds of milk sold, each year -- year after year.



United Dairymen of Idaho (UDI), on behalf of Idaho's dairy farm families, partnered with Idaho native, Kristin Armstrong, who won a gold medal at the 2008 Beijing Olympics as a member of the U.S.A. Olympic Cycling Team.

Armstrong is working with UDI to promote better eating habits and physical activity. UDI's partnership with Armstrong was forged because she understands that good nutrition and exercise are key factors in a healthy lifestyle.

Kristin has made numerous appearances, and participated in radio and television interviews touting the benefits of milk. In addition, a media campaign helped to give chocolate milk sales a boost in the Idaho market. Sales of chocolate milk remain strong in Idaho.



General Mills, owner of the Yoplait brand, in concert with DMI, developed yogurt chips that are blended with milk to make a nutritious smoothie. In 2009, General Mills tested the product in club stores and, at the conclusion of the test, commented that this was one of the most successful product tests ever across all General Mills brands, including cereal, frozen vegetables and dairy. In 2009, the product will roll out nationwide.



On a daily basis, U.S. Dairy Export Council helps its member companies clear hurdles to get their products to international markets. These market access issues range from unexpected changes in documentation rules, to identifying favorable tariff lines, to correcting false contamination findings. Their efforts reduce the risks for U.S. suppliers and mean that more U.S. dairy products arrive at their buyers quickly to ensure their satisfaction in tough competitive times.



In 2009, DMI - in collaboration with National Milk Producers Federation and the International Dairy Foods Association - established the Innovation Center for U.S. Dairy, comprised of the leadership of more than 70% of the U.S. dairy industry. These companies are working together to address industry-wide barriers to become more consumer-driven. In just one short year more than 100 companies and 200 individuals are volunteering their time and resources to support dairy producers' priorities. This includes making dairy more prominent in schools and other venues, renewing consumers' reason to believe in dairy and uncovering new products and sales opportunities. *Dairy farmers from Idaho have participated and will continue to participate in the innovation center to ensure that Idaho's dairy farmers have a voice in issues affecting the dairy industry.*