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CoBank: Evolving consumer demands reshaping dairy supply chains

Transparency and sense of connection emerge as leading drivers for dairy consumer decisions.

forming opinions about farm management practices, ranging from the use of GMO [genetically modified organism] feed to animal welfare and antibiotic use.”

Product labels and assurances

At the retail level, customers are looking for labels that indicate farm management practices, CoBank explained. In fact, nearly a third of all food is now sold with at least one transparency claim on the label. In many categories where conventional product sales are declining, sales of products with transparency claims are growing, the bank noted.

However, dairy producers taking advantage of the opportunity to serve this diversifying market face challenges. With the expansion of product offerings, CoBank said the risk rises that retailers will require differing and potentially conflicting farm management practices from their suppliers. To mitigate this, the National Milk Producers Federation (NMPF) developed the National Dairy Farmers Assuring Responsible Management (FARM) Program as a proactive step to define and audit responsible farm management as an industry. This prevents individual farms from being susceptible to unique requirements based on the retailer they ultimately supply, CoBank said.

Supply chain challenges

According to the report, managing price and input volatility can be more challenging for producers that sell a niche product. One example is organic milk, which involves a costly three-year transition period for a conventional farm, followed by ongoing higher feed costs.

“This desire for transparency has also led to a restructuring of the way dairy

contracts for a premium elsewhere. Many farms, however, will still prefer the stability of cooperative membership in the wake of highly publicized contract cancellations in the recent past between producers and milk processors, CoBank said.

Some cooperatives may also look for opportunities to segment portions of their member milk supply, which can meet some of these new criteria and handle premiums internally, adding a logistical benefit to customers.

Bridging the connection gap

The report explained that many consumers are seeking opportunities to feel more of a connection to the farmers who produce their food, which has contributed to the increased desire for locally produced foods.

CoBank said although the definition of “local” varies by consumer, it generates a sense of being part of a regional ecosystem rather than an anonymous global supply chain and carries with it a sense of reduced transportation and environmental impact. This has driven a growing range of direct marketing opportunities for dairy producers, the bank noted.

One of those opportunities for producers or artisan cheese-makers is farmers markets. While often commanding a premium price, CoBank said farmers markets have grown in popularity as an opportunity for consumers to interact directly with farmers, ask questions, build trust and feel a connection.

“While directly marketing to consumers can add a premium value to dairy products, it requires the benefit of being located in proximity to a metro area and a willingness to alter the business model and become actively involved in marketing.” Leino added. “This carries additional risk and there