Marty Mundy, Vermont Cheese Council:
Responses to questions from Dairy Task Force

Cheese Council
1. Please provide an overview of the Vermont cheese industry
   a. total output in pounds and raw milk equivalent
   b. describe the different segments i.e. pizza and other commodity cheeses, Cabot style cheeses, artisan cheeses - farmstead and other; proportions of each segment in overall production and output

>>> VCC (Vermont Cheese Council): Vermont has approximately 60 cheesemaking organizations in the state, about 2/3 of which are members of VCC. The following Table 1 provides a breakout of our members by revenue/ (i.e. size) and identifies how many dairy farms they tend to work with, by size:

Member Level	Revenue	# Dairy Farms Buy Milk From	# employees often	# of vcc members
LARGE VT cheesemaking org (Principal Member) - REV >$750K	>750k	Cabot - hundreds; others - 8-50+		8
MEDIUM VT cheesemaking org (Principal Member) - REV $500-750K	500-750K	1-4		1
SMALL VT cheesemaking org (Principal Member) - $250-500K	250-500K	1-4		4
MICRO VT cheesemaking org (Principal Member) - REV <$250k	<250K	1-2		31
Associate Membership - Organizations	n/a	n/a		8
Associate Membership - Individuals	n/a	n/a		11
totals				**63**

>>>In the above Table 1 – Associate Members are NOT cheesemaking organizations. Approximately 2/3 of our cheesemaking organization members produce/sell raw milk cheeses. Around 2/3-3/4 of those that do not produce raw milk cheeses produce soft cheeses (like camembert/brie styles or fresh cheeses like mozzarella), which require pasteurization by law. Approximately 2/3 of our membership produce less than 50K pounds of cheese per year.

>>>Vermont produces over 127 million pounds of cheese (as of 2018). This provides $450million in direct revenue in VT as of 2015 (likely more today); the report that is most concise in reporting these numbers may be found here: https://vermontdairy.com/wp-content/uploads/2015/12/VTD_MilkMatters-Brochure_OUT-pages.pdf

>>>We do not have specific business data on how many pounds of cheese are produced by our members at this time, aggregated into the groupings requested, though with time we could gather this information – though not likely until Q1 2022, as Q4 is one of the busiest times of year for cheesemaking organizations and they have extremely limited amounts of free time.

>>>Depending on the chain, I would say that 4-5 of our members often have cheese in grocery stores/sell at the grocery store scale (ie they produce enough product to fit into this market). Many of our cheesemakers would like to do this – even in the grocery's artisan cheese sales areas, and we (VCC) are currently looking for ways to facilitate this in order to help those organizations who wish to grow into this market to do so.

2. Which segment do you see most potential for growth
   a. in return on investment
   b. in use of greater volume use of raw milk production

>>>VCC does not gather ROI data from members, so cannot present data on this by maker. It's difficult to say where the most growth could be – because the audience for the commodity, diary aisle of the grocery store, artisan cheese section of the grocery store, and specialty food/cheese shop vary by age, what interests them, and why they would choose to eat a Vermont cheese (Because it is local? Because it is tasty?). One piece of data that might be of use: When a cheesemaking organization buys milk, the price they pay for milk varies. For smaller cheesemakers, those with revenue <$750K, they tend to pay $30-45 per hundredweight of milk – though they support a smaller number of dairy farms (i.e. buy milk from fewer farms, see Table 1 above column on "# dairy farms buy milk from"). The larger cheesemakers tend to pay less per hundredweight often, though they also support/buy milk from more dairy farms/support more dairy farms. As a result – they each have different kinds of impacts.

>>>For raw milk cheeses, these are produced by all of our scales of members – including about half (5) of our members that have revenue >$750K/year (i.e. out of 8 total). From a consumer standpoint – I would assess that for most of the US population, few know that they are eating raw vs. not raw cheese. That said – raw cheese can drive higher flavor variation in some cases, and is of use from that standpoint. Again – what will have the biggest market growth opportunity depends on audience interest. And some of audience interest depends on what we drive them to be interested in via marketing (as well as what others drive them to be interested in/not be interested in).

3. Please comment on the KK&P Dairy Marketing Assessment and the Atlantic Specialty Cheese Market Research Report and what has been done to implement their recommendations

>>>VCC in general responds both to market opportunities/trends – and also member needs. At this time – the market is also so out of whack from the "norm" due to COVID, that the markets discussed in the report may be problematic/inaccurate right now/for the next couple of years at the very least. For example – any data about something like "home delivery" of food has

shifted drastically as consumers shifted to home food delivery (much of which is still happening to various degrees), and it is unknown if this will last for the next 2 years or the next 20; we have no idea/way of knowing that. Also – much information about the global market applies to our biggest cheesemaking organizations in the state, not the majority that are smaller (i.e. those that produce <50K pounds of cheese a year, about 2/3 of our membership organizations) – when talking about US artisan/farmstead cheeses.

>>> worth noting: The following terms are "murky" and mean different things to different cheesemaking organizations, wholesale buyers/sellers (such as distributors/retailers/grocers), and consumers: Artisan, handmade, natural, specialty cheese. Terms like "artisan", "handmade", "natural", and "farmstead" are also terms that tend to be confusing to the consumers/lack meaning that is distinct (in that all can seem similar to a consumer, for example). A battle over terminology/getting consumers (or even cheesemaking organizations) to better align with cheesemakers on terminology is unlikely to be fruitful/benefit sales – in that these are nationally managed terms/their meaning shifts as to fit the needs of both bigger and smaller manufacturers. VCC does not view pushing better understanding of terms as a useful way to expand overall sales – though it broadly appreciates the impact that each of these terms has for sales, even if there is a lack of understanding of what terms mean for consumers.

>> Understanding VT dairy sustainability practices/weaknesses: It is worth noting that much research about "dairy sustainability" focuses on the farming practices of very large farms, many of which do not share the same practices as many VT dairy farms. We have no data, that I know of, on how VT's dairy farming practices impact land/earth sustainability. There are some international researchers diving into this topic in the UK, for example, because some of their cheesemaking organizations/dairy farmers are facing similar market pushback on dairy – due to consumer assumption that "all dairy practices are the same" and have the same impact on the environment. It may be beneficial to partner with higher education institutes/researcher to gather actual data on Vermont's dairy farming practices to help better inform both the public and our community about where Vermont fits in, with respect to dairy farming and environmental sustainability – given that this is a large market driver for much of the 20s-30s aged population; we believe this audience interest will grow and represent the interests of these adults and current youth that make up the future adult buying market.

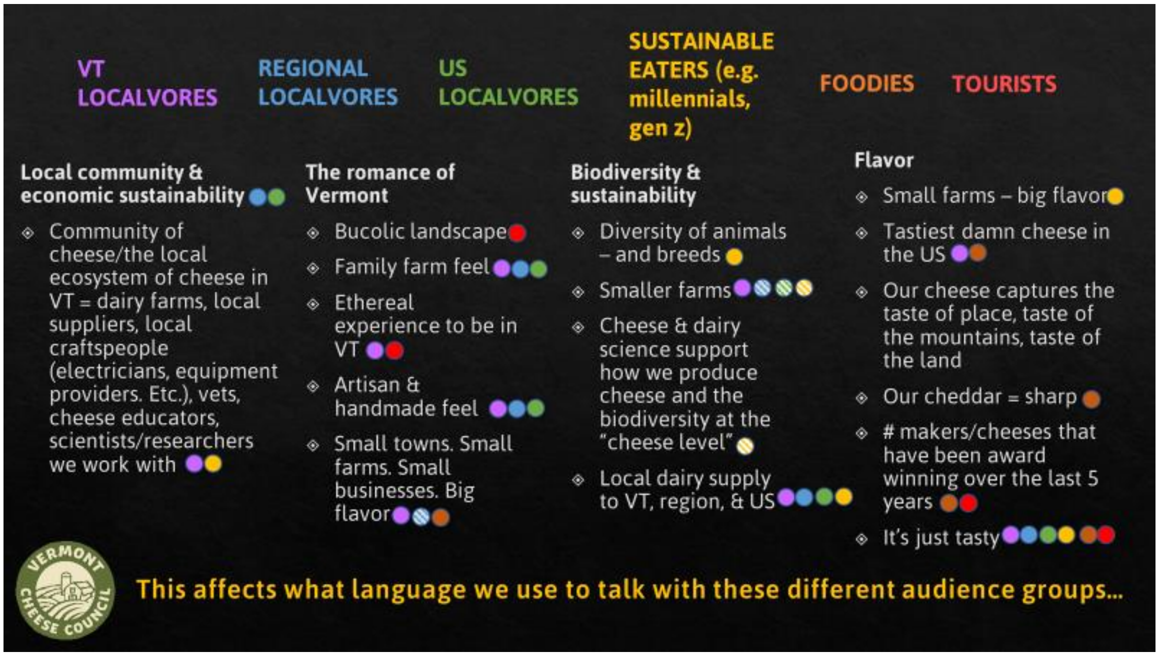
>>> I encourage task force members to visit a regional grocery chain (i.e. not a local coop) and visit both the dairy aisle AND the artisan cheese space in the store (there are sometimes different spaces for this) and assess how many Vermont cheeses they can identify – and how many cheeses come from abroad/other US producers. The Atlantic report refers to a lack of consumer ability to identify "local" products; though VT's coop structure helps with this – the grocery sales structures outside Vermont do not often provide much local detail

or local product support. One are VCC has thought about pursuing is working with grocery chains to help them learn more about local products and shelve local cheeses, as part of a marketing campaign with VCC/VT. Solutions in this marketplace MUST meet the supply needs of groceries, which come with production, supply, contracting, and other hurdles for many cheesemakers. VCC is happy to have further conversation with the state and/or any legislators interested to discuss this further.

>>> Additionally, it's worth noting that distributors have been having a hard time finding drivers, as have manufacturers, for months now due to COVID. VCC has found that this is resulting in reductions in distributor operational days/reductions in taking on new customers/expanding customers for distributors in some cases. The outcome: No matter how much we push on the market with the current distributors most often used, they cannot currently move MORE product out of the state, due to a lack of hiring/ability to expand warehouse staff/drivers. We have also heard of challenges both locally (in the northeaster region's distributors) and also the same issues from distributors in the western US.

>>> Compounding this problem: We additionally are hearing from many cheesemakers that current demand is exceeding their supply; this is a "COVID" side effect at this time – related to distribution issues, consumer demand, staffing/hiring issues, and other factors --- each of which may continue to be relevant factors for a year, or for many years; again, we don't know what the longer term impacts of these shifts will be. These cheesemakers are not currently able to make/ship more product than they currently are, due to hiring/staffing issues – which currently are being affected by these key areas that we know of: Housing costs, mental health/staff burnout b/c of current work conditions, decrease in manufacturing workforce (this is discussed also below in the COVID impacts area).

>>>When we (VCC) look at the cheese marketplace – we find that buyers fall into different categories; a few broad ones are assessed here (color coded by what different audience groups care about, broadly speaking):



>>>With regard to future planning, focusing on the needs/interests of "younger" adult generations (those in 20s-30s) outside of VT is likely a good fit for aligning the Vermont "local" values and "sustainable" types of animal/food production practices exhibited by cheese, dairy, and any farmers/food production from VT.

>>>Vermont's need to stay "ahead" in consumer/market "perception" as a leading artisan production cheese state: VT has approximately 60 artisan cheesemakers that I am aware of. According to the American Cheese Society, as of 2018 there are >1000 artisan cheesemakers in the US. In the last 5 years, Vermont has lost position as one of the top 10 cheese production states in the US. If Vermont wants the Vermont Cheese Brand to be perceived as a top cheese brand in the US or, as VCC does, a "cheese category" that should be in every cheese sales case – it must acknowledge the growth in competition and aggressively fight to maintain its brand leadership. Ways to help with brand recognition: Pay for cheesemaking organizations to enter to win to national/international cheese competitions (so the individual makers/VT Cheese Brand can both position as "competitive" internationally), help promote marketing of the Vermont Cheese Brand/individual brands (further commented on below), help educate cheesemakers on quality so that they can continue to "lead" in flavor, shelflife, and consumer perception of "greatness" (as there is more artisan competition in the US marketplace, others will take the "leading" spots if not aggressively defended).

4. What other recommendations do you have for state action to advance the potential of the Vermont cheese industry

The biggest challenges our cheesemakers face are:

- Distribution: We have a limited number of distributers who can/will help transport cheese produced in VT to the midAtlantic, SE, SW, central (Chicago), and Western areas of the US. If distributors are used OR if shippers (i.e. UPS/FEDEX/USPS) are used, this adds transport costs – that then position VT cheese to be very costly in further (e.g. west coast) markets. We believe there may be opportunity in nearer markets however (e.g. Chicago, mid- and lower-Atlantic, central/central southern US markets). VCC is current working to explore these options (See next point for challenges)
- Marketing/Sales/Business Support to Attract Buyers/Distributors: Other states with larger cheese production rates (eg Wisconsin and California) often help subsidize their cheese to get it onto store shelves/spaces. They sometimes help pay for product to go into dairy coolers on the dairy aisle in grocery stores AND/OR to help pay for buyer trips to their states, to visit cheesemakers and taste their products (i.e. to do sales assistance work in conjunction with cheesemakers). They spend a great deal on this.
    - For example, Tillamook appeared in the last year in Hannaford's right alongside all of the Cabot products in my local grocery store – making it "easy" for locals to consider buying Tillamook over Cabot. This presents a competition/marketing challenge since our VT makers are not funded in the same way. If the state can provide more funding to support sales efforts for cheesemakers, that would be useful – either to bring buyers into the state and/or to place product on shelves as marketing programs we/cheesemaking organizations perform in collaboration with groceries.
    - As another example: I was speaking with a western US distributor earlier this year asking if they'd come to the VT Cheesemakers' Festival (Where all of our members sample products for buyers) – and I was told they'd love to, and that they often like to even send their own (western) grocery buyers to these kinds of events. I was then told that states like Wisconsin will subsidize part/all of this kind of cost for them. If VT was able to do this – that might help cheesemakers develop relationships that can help them expand into the market more aggressively.
    - Realize that for smaller cheesemakers – even some who are in Whole Foods, for example, they have no dedicated marketing/sales staff. VCC helps act as a marketing partner, though we are limited in our ability to do this due to limited funds at this time/looking for additional funding to support this. This includes helping matchmake to bring buyers into the state to interact with and get to know these smaller cheesemaking organizations, something these small organizations could not organize/fund with their own time/funding resources.
- Education – Cheese & Business: Another crucial area of support for all dairy processing – raw and pasteurized both – is education; how do you

make safe cheese? Good cheese? How do you run a "successful" business and grow/maintain great staff? All of these have great impacts on the market and the cheesemaking businesses in Vermont. A safety issue tied to "Vermont" or "raw" milk cheeses can result in buyers pulling back on orders from Vermont. In addition our members have called out a number of education needs they have well outside of cheesemaking (leadership training, marketing/sales training, business/strategic training, financial training, management and lean production training) – which are educational needs often addressed in other manufacturing industries, though not often cheese's.

  - VCC is currently looking for pathways to develop a VT Artisan Cheese & Dairy Education Center (a "without walls" program/structure) to provide cheesemaking, as well as business, training for cheesemakers. VIAC, which previously provided cheesemaking training in VT, closed a few years back and this has left a "hole" in the training resources provided to cheesemakers in Vermont. VCC hopes to expand our educational programming to address this gap. We currently lack funding for all of these areas of programming at this time and are looking for funding sources. I am happy to provide more information on this for anyone interested.
  - As we have many cheesemakers who will be retiring in the next 5ish years, we will need to recruit/support new cheesemakers with the same level of excellence in training that those who have been producing cheese in the state hold right now. This is a higher degree of educational knowledge/know how/depth of microbiological understanding than many other states provide. If we want Vermont to maintain its leadership position in artisan cheese, it is crucial we help new cheesemaking businesses launch quickly, make great product, and face minimal barriers to business entry/growth alongside these retiring business owners. VCC is working to provide/develop "new cheesemaking business/cheesemaker" support materials/programs, though we lack funding for this at this time and are looking for funding sources.

- COVID impacts: These continue to be ongoing.
  - One of the most recent which may have lasting impact: Many of our mid-sized and larger cheese production organization are facing immense hiring challenges. Many have executives, marketing/sales staff, and others working on production lines instead of doing their "normal" work. Many have commented that their schools have expanded class sizes – and that over the last two years, many who have moved to Vermont are working remotely for businesses outside VT and have taken housing normally used by VT's workforce. VT's manufacturing workforce tends to be lower in pay rate, making it difficult/impossible to afford housing in the current market. The current cost of housing/living in VT is making it difficult to recruit/hire higher level employees for bigger organizations. The

cost of housing is also making it difficult for lower wage employees to be recruited into Vermont, in that if they are leaving an area where they can afford a $250K home and moving to Vermont – the equivalent home/cost of living is seeming to be higher for some. As of September, the average house sales price in Vermont was >$392K (source: https://www.vermontrealtors.com/category/market-reports/); this is not often affordable for those who work in much of the cheese manufacturing industry – many of whom make $15-30.

- Of note: Because business owners and staff in manufacturing (including cheese) have had to pivot, and pivot, and pivot how they have tried to respond to shifting market/supply situations – many are exhausted. We have heard reports of staff leaving due to exhaustion – and we want to note that we foresee the uncertain market/COVID impacts continuing for 1-2 more years at least, and that we are very concerned about the toll this is taking on the cheese – and other – manufacturing teams in Vermont.
- As Vermont attracts more "new" Vermonters to the state, VCC would also note that this audience group may not have the same inherent value on supporting small local businesses/the intertwined nature inherent to Vermont's communities/the value of buying local foods; additional marketing/communications/education work towards this audience might be a good idea – to help shift them to being "Vermont localvores" (see above market audience breakout slide – with the black background).

Our strategic plan – specifically Appendix A – helps outline the full list of needs that our cheesemaking organization members have, while the body of our plan aligns with the biggest needs cheesemakers have identified having. It has been developed directly from our members' input/direction on what kind of support they need. That plan can be found here: https://vermontcheesecouncil.wildapricot.org/resources/Website%20Files/2021%20annual%20meeting%20files/FULL%202021-2025%20strategic%20plan%20FOR%20ANNUAL%20MEETING-s.pdf