

**Department of Agriculture, Trade and Consumer Protection  
Division of Agricultural Development  
Agricultural Development & Diversification Program (ADD)  
Grant Project Final Report**

Contract Number: 15071

Grant Project Title: **The Wisconsin Sheep Dairy Co-op – Expanding and Stabilizing the Nation’s Largest Cooperative  
Producer of Sheep Milk (Year 2)**

Project Beginning Date: **June 2000**

Project End Date: **June 2002 (extended 1 year beyond  
original end date of June 2001)**

Amount of Funding Awarded: **\$23,500**

Name of Principal Contact Person: **Daniel P. Guertin**

Telephone: **651/430-3732**

Fax Number: **651/430-3732**

E-Mail Address: **dpguertin@attbi.com**

WEB Address: **www.sheepmilk.biz**

Report Submitted on: **09Mar2003**

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Please use the following questions as a guide for your grant project final report. Please answer each question as it relates to your grant project.

**1) What did you want to accomplish with the grant?**

The primary goals for this project were to:

- 1) diversify the milk marketing programs of the WSDC by
  - a) expanding raw milk sales,
  - b) entering into partnerships and/or joint ventures and
  - c) developing, producing and marketing one or more proprietary cheeses.
- 2) reach the economy of scale needed to employ a modest staff.
- 3) establish more efficient, economical methods for transporting fresh and frozen milk.
- 4) investigate the feasibility of producing milk on a year round basis.
- 5) develop a long-range plan for future capital development utilizing a combination of options including restructuring of the cooperative, traditional loans, joint ventures and outside capital investment.

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**1. What steps did you take to reach your goal?**

- **What worked?**
  - Improved quality systems used to produce and insure excellent quality of milk
  - Improved transportation systems for fresh and frozen milk resulting in reduced transportation costs and improved quality of milk received by customers
  - Maintained a diversified customer base so the coop was not solely dependent on the success of a single customer
  
- **What did not work?**
  - Hiring a modest staff, due to insufficient cash flow
  - Giving 'free rein' to an outside consultant to oversee and run sales, marketing, and business development activities
  - Significantly increasing the number of processors purchasing sheep milk.
  
- **What would you do differently?**
  - Have BoD retain control of all activities related to sales, marketing, and business development
  - Use outside consultants to complete targeted activities that are well defined and have specific deadlines and deliverables
  - Involve the expertise of an outside mentor to oversee activities of coop and to help establish, and provide feedback on, the direction and pace of activities
  - Pay consultants and mentors on a commission or contingency fee, instead of a flat hourly fee.
  - Establish long term contracts with milk customers prior to recruiting and accepting new members
  - Hire part time support staff, or enlist member volunteers, to handle day to day activities and free up Board members time.

**2) What were you able to accomplish?**

- 1) diversify the milk marketing programs of the WSDC by
  - a) expanding raw milk sales
    - Actual milk sales grew from 250,000 lbs in 2000 to 370,000 in 2002. This increase was realized through increased sales to existing customers as well as sales to several new customers. Increases in sales were seen for both fresh and frozen milk, with the largest increase seen in fresh milk sales.
    - The coop completed a comprehensive survey of all cheese plants in the state of WI to determine which plants had an interest in producing sheep milk cheeses as well as which plant had the capability to handle the smaller volumes of sheep milk that are available, e.g. less than 10,000 lb vats. These companies were targeted for sheep milk sales, potential partnering opportunities, and as potential contract manufacturing sites for coop branded products.
  - b) entering into partnerships and/or joint ventures
    - The coop established a partnership with the largest domestic sheep cheese marketer in the US to market a cheese produced exclusively for the coop. This cheese was marketed nationally under the brand name of our partner.
  - c) developing, producing and marketing one or more proprietary cheeses

During 2001 and 2002, the coop contracted with a cheese processor in WI to produce a specialty cheese for the coop. This cheese had been developed by the processor but the processor had decided not to continue to pursue marketing the cheese. The processor agreed to produce the cheese exclusively for the coop. 8,574 pounds and 11,272 pounds of cheese were produced for the coop in 2001 and 2002, respectively. These value added sales contributed an additional \$37,000 in 2001 and an additional \$60,000 in 2002.

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- Work on additional proprietary cheeses was suspended in 2000 and 2001 due to lack of sufficient milk for WSDC product development.
- 2) reach the economy of scale needed to employ a modest staff.
    - During the grant period, the coop was unable to reach the economy of scale needed to employ a modest staff. All work continues to be done by the Board and several member volunteers.
  - 3) establish more efficient, economical methods for transporting fresh and frozen milk.
    - This objective was achieved for fresh milk through the use of a commercial bulk milk truck for collection of milk from member farms and subsequent delivery to customer processing plants.
    - This objective was achieved for frozen milk through the use of refrigerated semi-trailers to collect milk from member farms and subsequent delivery to customer processing plants
  - 4) investigate the feasibility of producing milk on a year round basis.
    - This objective was not pursued due to insufficient interest by customers during the grant period.
  - 5) develop a long-range plan for future capital development utilizing a combination of options including restructuring of the cooperative, traditional loans, joint ventures and outside capital investment.
    - The coop has completed a preliminary evaluation of several types capital development models but has decided to wait until more information has been gathered, especially with respect to establishing a processing plant for the coop, before pursuing any alternative type of capital development.

### **3) What challenges did you face?**

One of the primary challenges faced by the coop is the balance of milk supply with actual milk demand. For example, inquiries for sheep milk in late 2000 and early 2001 indicated potential milk sales in the neighborhood of 645,000 - 790,000 lbs/year. The actual milk market for 2001 was about 325,000 lbs. This high level of volatility and uncertainty, due to processors who have big plans but little money and processors who get into and out of the market faster than we are able to bring new producers on line to increase milk supply, make matching supply and demand very challenging. Our experience is that it typically takes a minimum of 2 years, from the time a farmer decides to begin milking sheep, until they are up and running productively. Bringing on an excess number of producers is also a problem since there is no secondary market for sheep milk. Thus, any excess production will be wasted and result in losses for the coop and the producer.

A second major challenge is recruiting new members within a defined target area. As the number of producers increase, the logistics of shipping milk and keeping track of quality are pushing us towards limiting the defined target area for new producers. The increasing interest in fluid milk is also a major contributing factor in limiting the distance between member farms. This target area will grow as demand for milk grows and the shape of the target area is expected to change depending on the location of new cheese processors.

The third major challenge is the cost of sheep milk. Currently sheep milk is being sold by weight, at \$63.50 cwt, plus packaging and shipping. At this price, sheep milk products must retail for more than \$10.00 - \$12.00 per pound in order for the processor to make enough profit. The higher prices for retail products limits the customer base for sheep milk products. Alternatives for milk pricing, and identifying methods for producing milk more economically, will be important factors in lowering the price for sheep milk and expanding the market for sheep milk products.

A fourth major challenge for the coop was interesting new cheese processors in developing and marketing sheep milk products. As stated above, the coop performed a comprehensive survey of WI cheesemakers and found that only a very small number of plants had vats small enough to handle less than 10,000 pounds of milk at a time. Although the amount of fresh milk we can provide in a shipment has increased dramatically over the last several

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years, as we have added new producers and increased production on existing member farms, we are still unable to provide more than 10,000 pounds of fresh milk in a shipment. Larger amounts of milk are available as frozen milk but the use of frozen milk introduces a whole new set of logistical and handling problems. The coop continues to try to increase the amount of fresh milk available per shipment in order to interest these larger cheesemakers in sheep milk products.

**4) What do you plan to do in the future as a result of this project?**

The coop still exists as a very viable organization. We will continue to work on increasing sales of raw milk as well as investigating partnering opportunities with WI cheesemakers. Activities also continue in expanding the number and types of branded cheese products produced by the coop. These value added products can add tremendously to the income of our members as well as provide us with more price flexibility in the base cost of our milk so that additional processors can afford to begin making sheep milk products.

**5) How should the agricultural industry or the State of Wisconsin use the results from your grant project?**

Starting a new industry, or introducing a new industry into an area where it previously didn't exist, is an extremely tricky and challenging pursuit. There have been many new agricultural industries that have begun with enormous promise, only to quickly fade as the promise for new markets proved to be elusive or non-existent. Trying to introduce and grow a new industry using a cooperative structure introduces even more challenges because each decision affects the livelihood of all of the members, instead of only one family as in the case of a farmstead operation. It also means that you have to find a market for a much larger amount of milk and/or value added product. Whereas a farmstead operation may only produce 50,000 pounds of milk that may be made into 10,000 pounds of cheese, our cooperative is currently looking at 7-10 times as much milk and/or product to market. The WSDC has been extremely conservative in the sheep dairy industry in order to curb tendencies to try to grow this business faster than the market will allow. To date, we have been successful at closely matching production to demand. We see a continually growing, long term demand for sheep milk but realize that it will take time for the American consumer to accept and embrace domestically produced sheep milk products at a level that will support a 100 plus member cooperative.