DAIRY PRODUCTS INDUSTRY CLUSTER REPORT

Stanislaus County, California

Prepared by the

Stanislaus Economic Development & Workforce Alliance

September 2006

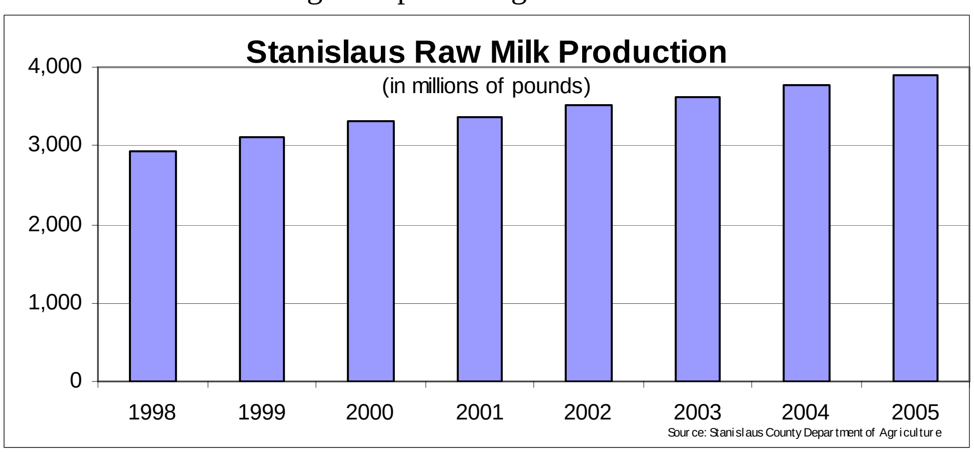
Introduction

By almost any measure, the Dairy Products Cluster is a major contributor to the economy of California's Stanislaus River Valley. Much of the value chain, from dairy farm and supplier network through food processing facility, is well represented in the area. Finished output is consumed locally, in the nearby San Francisco Bay Area, southern California, and beyond, reaching to the global marketplace.

Several factors contribute to the success of the Dairy Products Cluster in Stanislaus. First, the area's mild climate, rich farmland, and skilled farmers combine to create excellent agricultural conditions. Proximity to large and growing California and Pacific Rim markets are also important contributors. Many input costs, including electricity, labor, and land tend to be lower than average for the Golden State. The area's well-developed value chain facilitates the launch of new dairy products and expansions involving existing lines. It also creates opportunities for suppliers of supporting products and services.

Journey From Raw Milk to Finished Product

As of 2003, there were 313 Dairy farms with over 177,000 milk cows operating in Stanislaus County. Farm output is marketed through co-ops, sold to independent processors or transferred within vertically integrated operations. Stanislaus ranks third among California counties in milk production, with output valued at $546.8 million in 2005. Milk is the county's top agricultural commodity and it accounts for approximately 10% of statewide output. Production has risen by about one-third since the mid-1990s to nearly 3.9 billion pounds in 2005. Stanislaus is also situated in the midst of some of California's other leading milk producing counties.



In keeping with the abundant local milk supply, a number of dairy products processors are located in the Stanislaus River Valley. Other attractions include proximity to large regional markets, competitive power rates, and an appropriate workforce. According to the Bureau of Labor Statistics, the area has seven times the national average of employment involved in dairy products manufacturing (NAICS 3115). A growth trend is evident, with employment rising from 853 in 1998 to 1,211 in 2004. The following table lists a number of Stanislaus producers and some of their major product categories.

Stanislaus Dairy Products Manufacturers

Producer	City	Products
California Dairies	Turlock	Butter; Dry Milk
Central Valley Cheese	Turlock	Cheese
Dairy Farmers of America	Hughson	Butter; Evaporated; Dry Milk; Frozen Dairy Dessert; Whipping Cream
Dairy Farmers of America	Turlock	Cheese
Jackson-Mitchell	Turlock	Goat Milk Products
F&A Dairy of California	Newman	Cheese; Dry Whey; Whipping Cream
Fiscalini Cheese	Modesto	Cheese
Foster Farms Dairy	Modesto	Butter; Buttermilk; Evaporated; Dry Milk; Fluid Milk; Frozen Dairy Dessert; Sour Cream; Whipping Cream
Lactalis USA	Turlock	Cheese
Mid Valley Dairy	Turlock	Cottage Cheese; Dry Milk; Fluid Milk; Frozen Dairy Dessert; Sour Cream; Whipping Cream; Yogurt
Nestle USA	Modesto	Evaporated
Oakdale Cheese & Specialties	Oakdale	Cheese
Penguin La Natural	Turlock	Frozen Dairy Dessert
Rizo-Lopez Foods	Riverbank	Cheese; Sour Cream

Source: California Department of Food and Agriculture; Alliance phone survey

Local output includes everything from bulk and private label products to specialty and ethnic lines. Accordingly, production plants range in scale from 100,000 square feet or larger to artisan-sized facilities. This diversity is reflected in the variety of locally made cheese, including artisan, cheddar, goat, gouda, mozzarella, provolone, queso fresco, and many more.

Industry Challenges

- Environmental/Regulatory issues, especially those related to air quality and wastewater disposal.
- Urbanization and related farmland encroachment, which has been more than offset to date by rising dairy productivity and advances in farming techniques.

Local Supplier Dynamics

The supply network supporting dairy products manufacturing in the area is robust. However, interviews with Stanislaus processors indicated potential opportunities for local production of items such as containers (plastic bags and buckets; boxes) and ingredients including stabilizers and cultures.

A supply chain study was conducted under the supervision of faculty at California State University, Stanislaus. It may point to further opportunities for local supply. Data was generated using IMPLANPro input-output modeling software. Four dairy manufacturing sectors were identified: fluid milk, cheese, dry, condensed, & evaporated milk, and ice cream & frozen dessert. Combined output for these four categories was calculated at $666.17 million for 2002. Below are some of the major suppliers to dairy manufacturing.

Fluid Milk Mfg Suppliers (inputs in millions of dollars)	**Gross Inputs**	**Regional Inputs**	**% Local**
Cattle ranching & farming	147.94	142.05	96.00%
Wholesale trade	13.95	7.82	56.10%
Management of companies & enterprises	12.63	10.10	80.00%
Paperboard container manufacturing	9.37	0.04	0.40%
Finance, insurance, & real estate	8.47	4.52	53.40%
Lessors of nonfinancial intangible assets	6.57	0.13	2.00%
Plastics bottle manu.	5.93	5.64	95.10%
Dry, condensed, & evaporated dairy products	4.83	3.95	81.80%

Cheese Mfg Suppliers (inputs in millions of dollars)	**Gross Inputs**	**Regional Inputs**	**% Local**
Cattle ranching & farming	57.22	54.94	96.00%
Wholesale trade	13.42	7.52	56.00%
Management of companies & enterprises	3.71	2.97	80.10%
Finance, insurance, & real estate	3.53	1.86	52.70%
Lessors of nonfinancial intangible assets	2.92	0.06	2.10%
Paperboard container manufacturing	2.17	0.01	0.50%
Power generation & supply	1.23	0.60	48.80%
Truck transportation	1.15	0.89	77.40%

Dry/Condensed/Evaporated Mfg Suppliers (inputs in millions of dollars)	**Gross Inputs**	**Regional Inputs**	**% Local**
Cattle ranching & farming	12.52	12.02	96.00%
Wholesale trade	5.19	2.19	42.20%
Management of companies & enterprises	1.43	1.15	80.40%
Finance, insurance, & real estate	1.38	0.72	52.20%
Metal can, box, & other container manu.	1.29	0.61	47.30%

Ice Cream & Frozen Dessert Mfg Suppliers (inputs in millions of dollars)	**Gross Inputs**	**Regional Inputs**	**% Local**
Wholesale trade	2.28	1.28	56.10%
Paperboard container manufacturing	2.13	0.10	4.70%

Source: California State University, Stanislaus

Data Sources:
California Department of Food and Agriculture
California State University, Stanislaus
Stanislaus County Department of Agriculture
United States Bureau of Labor Statistics
United States Census Bureau, Censtats

Additional information, including the IMPLANPro report, is available upon request.