



Official Cheese Curds of the MN State Fair

If you attend the Minnesota State Fair, please be sure to patronize the cheese curd vendors there!

As in the past, the Minnesota State Fair expects nothing but the best and we gladly step in to supply the majority of the curds to the 12-day festival.

The event runs August 23 through Labor Day, September 3, 2018. When you visit, please patronize and thank these vendors for proudly serving up our product:

The Best Cheese Curds in MN: The Mouth Trap

Big Cheese

Duke's Poutine

And when you're enjoying your corn on the cob from **The Corn Roast**, it's going to taste even better knowing it's Ellsworth Creamery Butter slathered on it!

See You at the Fair!

Did You Know?

This year's Great Minnesota Get-Together runs August 23—September 3, 2018. During the event attendees enjoy some pretty fine fair-food, including deep fried cheese curds. This year, amaze your friends with these Minnesota State Fair cheese curd facts...

- Ellsworth Cooperative Creamery has been supplying cheese curds to the Minnesota State Fair for 32 years. Talk about withstanding the test of time! But then again, a quality product never goes out of style.
- 55 tons of our all natural cheddar cheese curds head to the fair each year. Picture this... that would fill 110,000 of our 1-lb bags! How long would that many cheese curds last at your house?
- Vendors pick up their cheese curd orders daily during the nearly 2-week long event and serve them up to customers that day. Talk about fresh!
- Each year there's a fear among fair-goers that the cheese curds will run out. But, there's no need to worry. The fair's cheese curd vendors have a long track-record for accurately predicting their cheese curd needs. However, should the unexpected happen, we're on standby and are ready to supply more, if needed.
- Regardless of whether your family heads to the Minnesota State Fair or not, there's a part of you at the event each year. Thanks to your hard work and dedication to quality, approximately 2 million fair attendees get to enjoy the most prized and delicious of all fair foods!

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/EllsworthCheese



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Cheese in China (Part 2)

In our last issue, we shared about John Freyholtz's visit to China earlier this year. This is a continuation of that article to offer perspective on our Chinese buyers. Enjoy!

International sales of our products are growing, mainly due to our expansion into the Chinese market. However, you may be wondering exactly who are Chinese buyers are and how they use our products.

John Freyholtz's learned firsthand when he visited Beijing and Harbin, China, this spring. He met up with Fred Zhang, our broker in China who has been introducing our products to buyers there. Together they met with customers and potential buyers, as well as Christopher Bielecki, Deputy Director at the US Embassy Agricultural Trade Office, and the Deputy Governor (the equivalent of Lieutenant Governor) of the Harbin Province.

One thrilling customer meeting was with **JD.com**, China's second largest e-commerce retailer. JD.com is the Chinese equivalent of what we know as Amazon, only JD.com is larger. JD.com currently sells 4 flavors of Ellsworth Cheese Curds in 5oz bags.

Another interesting business-model and customer is **Yiming Foods**, which owns 1400 milk bars throughout the country. You could compare these milk bars to our Caribou Coffee shops; however, at the milk bar, guests enjoy milk, yogurt, pastries, and Ellsworth Cheese Curds, instead of coffee.

Both of these companies became customers in 2017 as a result of Fred's work on behalf of our cooperative and the many trips that Paul Bauer, Tony Birkel, and John have taken to China in the past 9 years.

One of the most interesting, as well as very challenging, aspects of international sales is "culture". An unfamiliar culture and etiquette can be difficult to navigate alone, which is why we are thankful to have Fred as a member of our team.



A testament to how dairy is trending in China—Yiming Foods Milk Bars look strikingly similar to a U.S. Caribou or Starbucks.

The Chinese culture is people-oriented and trust is valued, which makes these meetings critical to our sales process. Businesses willing to go and visit and invest in building a relationship have a much better chance of selling products into the country.

Considering the current markets and trade challenges between our two countries, the investment we've made into building relationships with our buyers in China has been worthwhile.

These trips have also promoted the sales of whey powder into the country as well. Five years ago we averaged 300,000lbs of whey powder to China each month, in 2017 we averaged 600,000lbs of powder a month. So far we are maintaining this number for 2018.

In 2017 we sold approximately 30,000lbs of cheese curds into China. By May 15, 2018, we had already sold approximately 35,000lbs of curds and were hoping to sell 75,000lbs this year until the tariffs went into effect, at which point all orders halted.

News Bites...

WE CELEBRATED a few BIG retirements recently! Linda Hamilton started in our retail store 30 years ago. She eventually moved into the business office, learning the bookkeeping position from her mother-in-law. From when ledger cards were used to track patron activity, to today's computer era, Linda has worn many hats always helping patrons, customers and our staff with a smile.

Tony Birkel retired after 45 years of service. Tony's most current position was as our Marketing & Sales Director. You can thank him for helping to bring cheese curds to all 50 states! Tony joined ECC as a general laborer before becoming a butter maker and eventually Field Rep Supervisor, where he worked closely with our patron farmers.

Rex Hines retired after 41 years. He got his start as many of our long-time employees have, as a general laborer. He worked many positions in the plant through the years including milk receiving, cheese maker, butter maker, lab, and lab supervisor, to his most recent position of Quality Assurance Supervisor.

Joe Hines retired after 52 years of service. He began his career as a general laborer turning cheese by hand for \$2/hour. Eventually, he received his cheesemaker's license, became responsible for making the cheese, and worked his way to cheese supervisor. Most recently Joe was our Plant Superintendent.

They've been working at Ellsworth Cooperative Creamery since before cheese curds were cool and we thank them for their hard work and dedication to our organization.

Trade Wars

By Paul Bauer, CEO, Manager
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Yes, you are in the middle of a trade war! What is it costing you? Lower whey and cheese prices. Whey prices are down 15%, cheese prices are down 15-20%.

The cost of those tariffs is reflected in the milk price you receive. Why? Because dairy has the inelasticity of supply and demand—Any disruption or surplus in the supply chain will dramatically change the price. The only force great enough to overcome this is the government. Hence, the Act 32 support that was announced by the USDA a few weeks ago.

How much our farmers are paying in lost market value is quite substantial. I estimate that the loss, based on the current market conditions, is around \$45,000 per year, per farm.

So what has happened to lead to this loss?

A million more pounds of cheese has entered the market, as reported by the USDA AMS Data Service since the tariffs were imposed by other countries. The milk that was going abroad is now being turning into barrel cheese and sold at a low price at the Chicago Mercantile Exchange (CME).

Block/barrel price spread also has a huge impact to your milk check. When barrels dropped to \$1.20, as it did in July of this year, that means an \$11 milk price to you. Every \$.10 difference in spread is equal to \$1.58/cwt loss. So while the spread grows to \$.30 that's a

\$1.76/cwt loss of economic value in the month of July. We can only pay in milk price what we get from the products we sell. That's why the recent Class 3 price calculation and announcements are nearly meaningless to the actual price paid for commodities in today's environment.

This lowers prices.

Who wins a trade war? Currently, Europe is winning. Since they don't have higher tariffs, they are able to take higher prices and still be competitive to our prices. European firms are selling the tonnage that we would normally supply to our trading partners.

On the plus side, Ellsworth Cooperative Creamery has experienced some recent growth and opportunity. Many of you saw the recent Kwik Trip promotion, where we shipped 14 semi loads to fulfil their promotion for June Dairy Month. Our bulk sales have continued to grow to the point that we are now approaching 40% of our volume as added-value sales. Cheese curd growth continues to be up over 20% for the year.

What does this do for your milk check? Value-added contributed \$1.13/cwt for the first 6 months of the year. This would not have happened without the prior investment in capital, sales, and resources to provide that kind of return.

As we look to the future, it's tough to predict. We'll be watching market conditions closely, and as always, will focus on finding the best ways to continuously gather more value for every pound of member milk.

Strategy Behind Our New Look



Visitors to our Ellsworth retail store this summer will notice a few changes. The store's walls were updated with a fresh neutral white paint, which allows our merchandise to shine.

New fixtures were designed and built by Scott Swere, Regional Retail Sales Manager for Ellsworth and Comstock. The combination of stained wood and metal makes for a modern and updated look, which customers love.

And a new mix of merchandise is also being carried in the store, with a shift away from small items at lower price-points to unique specialty items that generate higher revenues for their space. Now customers can find unique items themed around cheese, country life, and entertaining, along with a great selection of Wisconsin cheese and local and regionals beer, wine, hard cider, and spirits.

"We've been hearing a lot of positive feedback from our customers," says Scott. "I built the fixtures to the space, which allows us to better merchandise and departmentalize."

The success of the new layout and product-line is reflected in sales numbers with an increase in average customer spend.

The smaller footprint of the store makes it a challenge to accommodate large numbers of customers. "It's not

uncommon to have a line of customers circle the store waiting to check out," says Scott. "A line extending into the store makes shopping and browsing difficult. Rather than attract more customers, we're selling more items to every customer who visits."

Another exciting addition is found before customers even walk through the doors. A new Cheese Curd Frying trailer stands out in the parking lot next to the popular Cheese Curd Capital of Wisconsin mural. The trailer was purchased used and wrapped to create the look of a Twin Cities food truck.

Our own line of frozen pre-breaded and pre-battered cheese curds are fried up and sold at the trailer Thursday through Sunday, 10:30am-5pm.

An average of 147 customers visit the Cheese Curd Wagon daily. While this also has a positive impact on store revenue, the strategy is about more than just offering fried curds to guests.

"We own the Twin Cities fresh curd market, but our frozen pre-breaded and pre-battered curd line is still fairly new," says Paul Bauer, CEO/Manager. "We're creating demand and introducing the product to customers who already know and love us. We know this creates demand on the foodservice side of the business."



Cheese Curd Festival: One for the Record Books

This year's 17th Annual Cheese Curd Festival, held this past June, was one for the record books. Event attendance grew by 6 times this year, approaching 30,000. Apparently, we underestimated people's love for cheese curds (silly us). Needless to say, Ellsworth saw its first traffic jam.

The 12 person festival committee, hundreds of community volunteers, and many of our own staff, rallied to make the 1 1/2 day festival a great experience for guests.

ECC staff managed the Cheese Curd Central Booth on the festival grounds. They pulled long shifts frying curds for guests, keeping dipping sauces filled and pumping, and cheese curds supplied for the various festival tasting events.

At our retail store, guests made their cheese, ice cream, and souvenir purchases as lines grew to wrap the entire length of the store, extending out the door and halfway across the parking lot!

Cheese curd fans are a die-hard and passionate bunch! Even with the long lines and parking snarls, guests loved it!

The events was a great way to showcase our signature product and generated exposure for our retail store, too! 40% of event attendees were from are target metro Twin Cities market!

If you missed attending, or have yet to join us for Cheese Curd Festival, mark your calendar for Friday, June 21 and Saturday, June 22, 2019. It's an event you won't want to miss!

www.CheeseCurdFestival.com