

## Tillamook County Creamery Association (TCCA)

### I. Background of the enterprise (initial strategy, evolution of strategy and enterprise structure, dynamics and resources involved in getting started; amount of start-up capital required?)

Tillamook County Creamery Association (TCCA) is a farmer-owned cooperative of approximately 142 members. Tillamook County, Oregon has historically been known for quality cheeses. In 1909, the ten independent cheese factories formed the Tillamook County Creamery Association for quality control, and by 1968 they had consolidated into a central cheese making facility. To facilitate outreach to customers, a visitor center with self-guided tours, video presentation and museum was constructed in 1979. It now accommodates over 1 million visitors annually. In 2000 they constructed an additional facility for the storage, aging and retrieval of an additional 35 million pounds of cheese.

### II. Organizational form / scale / leadership (nature & legal form of the enterprise, number of members, capitalization and other major financial indicators, amount of product, leadership & decision-making structures, changes over time and reasons for changes)

TCCA is incorporated as a cooperative of 142 area dairy families. The member dairies elect a board member and an alternate for each of the 9 districts. The board functions as a policy setting entity and hires an executive to manage the day to day operation of the company. The farmer members are all active farmers who share in both the risk and the profits of the cooperative. They place a value on their history as a “quality-oriented marketing cooperative” and recognize the importance of their nearly 100 year history for keeping them viable in the dairy industry. TCCA accounts for nearly 1/3 of the dairy production in Oregon.

TCCA provides a member handbook to each of its farmers outlining their responsibilities and opportunities as members. The key element of member responsibility is the production of high-quality milk. The milk produced averages a somatic cell count of 166,000 and they have a quality milk incentive program in which they pay a premium for high quality milk.

### III. Nature of products and the “value chain”

TCCA produces a variety of dairy products, nearly 85% of which is cheddar cheese. They are the #1 brand of natural chunk cheese in almost all western markets, and market through many of the largest consolidated retailers on the west coast. They have received numerous awards for their cheeses, and consider the brand recognition of their cheese a critical element of their product. Specific products include:

*Cheeses: Cheddar varieties: Medium, Medium Smoked, Kosher Medium, Reduced-Fat (all aged 60 days), Sharp (aged 9 months), Special Reserve Extra Sharp (aged 15 months), Vintage White Extra Sharp, and Vintage White Extra Sharp Smoked (both aged 2 years). Also: Monterey Jack, Pepper Jack, Colby, Colby Jack, Reduced Fat Monterey.*

*Other Products: Butter, Ice Cream, Sour Cream, Yogurt and Dried Whey.*

Another key aspect of the “value chain” is their emphasis on connecting with the consumer. They recognize that consumers are becoming more aware and concerned about the methods of production as they are with the final product. Member producers have responded to environmental concerns by working with state and federal regulators and agencies to improve their environmental practices. Examples of these efforts include:

- *Fencing over 480,000 feet (91 miles) of streamside to keep dairy cows from damaging riparian areas.*
- *Installing over 120 alternate cattle watering facilities.*
- *Planting over 400,000 native trees and shrubs to enhance existing riparian areas and cool local streams and rivers.*
- *Managing cattle manure as a valuable natural fertilizer and an alternative to commercial fertilizers.*
- *Building on-site manure storage facilities to provide the operational flexibility necessary to allow farmers to apply manure when, and where, it is most needed.*
- *Working with the scientific community to implement unique, and experimental, environmental enhancement projects.*

- *Participating in state and local environmental planning, including representation on the Tillamook Bay National Estuary Project, participation in the Tillamook County Performance Partnership, and representing dairy interests in the Senate Bill 1010 planning process.*
- *Developing and implementing a culvert survey on dairy pastureland that will expand salmon habitat.”*

In addition, members are currently discussing other issues related to consumer interest in production practices, such as animal welfare. They believe that within five years the dairy industry as a whole will need to be able to respond to consumer concerns – and they want TCCA to be in position to respond to increasing consumer concern. They are exploring options for responding to consumer needs, such as Food Alliance certification, but have not yet made any decisions about how they will proceed.

TCCA also maintains an interactive website with history, recipes, product information, tour information and a “kid’s zone” – all of which are consistent with their emphasis on connecting with the end customer – in spite of the wholesale orientation of their business.

#### **IV. Economics of the Enterprise**

TCCA has a significant market share in the dairy product industry on the west coast. They do not provide specific data regarding the volume of their sales other than to suggest they are the #1 brand of natural chunk cheese on the west coast. They have 460 employees. They market a diverse array of products through the consolidated retail grocery chains and are still able to command premium prices for their products. Thus far, the consolidated retailers have respected TCCA’s values of a high-quality product at a premium price. They do acknowledge that they are responsive to the need to be a cost-effective business. With that in mind, they have consistently made investments in high-tech equipment to improve the efficiency of their operation. They will not allow improvements in efficiency to compromise the quality, consistency or taste of their products.

Efforts to expand markets for TCCA products are dictated by the expansion of their retail market partners and controlled by the quality and time-sensitive nature of their aged cheese products. They have had recent success in market expansion into Texas.

#### **V. Key opportunities & challenges engaged**

One of the key challenges faced by the members of TCCA is complying with local, state and federal regulations for dairy farming, in particular for nutrient management. Specific characteristics of Tillamook County, including limited pastureland, nearly 100 inches of annual precipitation, proximity to the Pacific Ocean exacerbate the impacts of these regulations for Tillamook dairies. The Port of Tillamook Bay (POTB) has created the MEAD (Methane Energy and Agricultural Development) project to assist Tillamook dairies with the manure management problem. The POTB has constructed an anaerobic digester in the middle of a cluster of dairy farms to manage manure, generate electricity and other value-added by-products. This digester is operational, but income generated by the digester is lagging behind expectations due to the cost of transporting manure. They are seeking a \$1 million appropriation for the construction of a second digester. Expectations are that the revenue generated from the first two digesters will help finance additional digesters until each dairy in the county has a digester within reasonable distance. Members of the TCCA are involved with the MEAD project, but the TCCA cooperative is not an official partner.

Another key challenge facing the TCCA is the nature of consolidation in the retail food industry. TCCA’s significant market share enables them to operate in an industry that many farmer-owned cooperatives are too small for. However, TCCA has concerns about “placing all their eggs in one basket” – and the risks associated with the consolidated retail industry. To this point, they have been successful with these marketing relationships – even capturing premium prices, but are conscious of the importance of customer valuation and brand recognition to maintaining market share in the larger retail stores.

Another challenge facing TCCA is the down cycle in the dairy industry over the past few years. Like every other dairy farmer cooperative or association they have needed to balance their milk supply with demand. They have entered into a cooperative supply management plan with other dairy farmers in the country in an attempt to balance supply and demand and raise the price of milk back to a more profitable level for the farmers. As far as pricing of our milk supply we have one the best payout to our members in the past two years averaging \$3.00 over the federal order price. TCCA has been remarkably successful in reducing milk supply, having balanced their supply with demand in 12 months.

Individual members have had to change long-term expansion plans to achieve this balance, but they recognized the importance of this step and are cooperating.

#### **VI. Replicability in other settings**

TCCA has nearly 100 years of history as a cooperative. It's relative scale, and the "brand" recognition of its products give it a tremendous market advantage over smaller, newer dairy cooperatives. However, TCCA values, such as providing a differentiated, higher-quality product to customers and responding to changing customer concerns and interests are critical to the replicability of farmer-owned, wholesale food enterprises. For example, other dairy cooperatives of similar or larger scales, such as Darigold in neighboring Washington State (762 dairies), are currently struggling to maintain market share in the consolidated retail sector. There is much to be learned from TCCA about the value of reaching out to and appealing to consumers, by dairy cooperatives and other agricultural cooperatives alike. In addition, TCCA has demonstrated the need to accommodate changing conditions to be successful.

#### **VII. Research, education/demonstration, or policy changes that would strengthen the enterprise or similar enterprises**

The TCCA cooperative and its members would benefit from a variety of research, education and policy efforts directed at their needs. The cooperative's interest in understanding changing consumer interests and needs would benefit from further research on the changing nature of the food system identified in the White Paper written by the Agriculture of the Middle Task Force. Another potential benefit would come from research on marketing the "valuation of non-market benefits" of agriculture – such as efforts to improve soil and water quality, reducing greenhouse gas emissions from dairies, community economic development, etc. Individual farmers would continue to benefit from research on nutrient management, especially economic assessment of nutrient management technologies.

TCCA has been contacted a number of times over the years with inquiries by researchers about their business, but has received very little feedback or communication after the fact. They place a value on the knowledge that others have gained by investigating their cooperative and would invite more feedback and collaboration by researchers, educators and policy-makers who have learned from them.