

Fraser Valley

Milk Break

1997

The Dairyworld Foods Digest

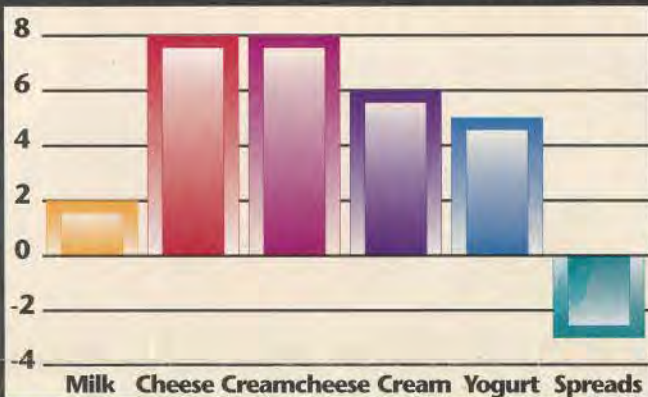
Dairyworld
F O O D S
VOL 4 • NO.2 • FALL 1997

In Brief

Fast Facts

- According to *Western Grocer Magazine*, out-of-store sales of dairy products have been going up. All categories have increased except spreadable butters and margarines, led by cheese (up 8% overall), cream cheese (8% nationally and 9% in the west), and processed cheese (3% nationally and 6% in the west). Milk, cream, and yogurt were also

National Out-of-Store Dairy Sales (% Change)



up. Other interesting figures: 96% of grocery shoppers visit the dairy case. Fluid milk accounts for 65% of all refrigerated and frozen product sales, and accounts for the largest dollar value of all grocery sales at \$952 per linear foot (vs. an all-product average of \$347). Despite all this, the average shopper spends only 56 seconds at the dairy case. Source: *Western Grocer Magazine*, May, 1997.

- Despite all the changes that have taken place in Canada's dairy marketplace, we're still up there. *Dairy Foods* magazine lists Dairyworld Foods as the sixth largest dairy cooperative in North America based on 1996 sales. The largest is Land O'Lakes of Arden Hills, Minnesota. Interestingly, *Dairy Foods* didn't include cooperatives in its list of the continent's top 60 dairy companies, but if it had, Dairyworld would have been in the top fifteen. The largest is Kraft Foods. Source: *Dairy Foods Magazine*, July, 1997.

Not So Super

- This summer, speculation grew that the United States, responding to concerns brought forward by major US dairy associations, would launch a 'Super 301' challenge against Canada. The nub of the argument is expected to be that Canada is bypassing its international commitments to reduce dairy export subsidies by using special milk classes.

Super 301 is a special provision of American trade law which allows the US Trade Representative (USTR) to launch investigations into the practices of other countries where it is suspected that those practices either restrict US access to foreign markets or give the country in question an unfair advantage in pursuing other markets. Should Super 301 find that the concerns are justified, the USTR can request negotiations with the Canadian government, or refer the entire matter to a World Trade Organization dispute settlement panel.

Free trade, GATT, NAFTA, WTO ... it's not over yet, folks.

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Global Milk Shake Up Hits Canada

The things that can happen in a short period of time ...

When the clock struck midnight last New Year, who would have thought that within six months, two of Canada's largest dairy processors would have disappeared, and that the largest dairy company in the country would be headquartered in Milan, Italy?

David Coe had an inkling. Five years ago, Dairyworld Foods' CEO identified a fundamental shift in the Canadian marketplace: "Today," he said, "our principal competitors are national and international food companies,

dairy products business to Quebec's Agropur, making Agropur the largest dairy cooperative and processor in the country. That same month, Italian food giant Parmalat SpA agreed to purchase the operations of financially troubled Beatrice Foods Inc., then Canada's fourth largest dairy processor;

- In May, Dairyworld Foods sold its ice cream business to Nestlé. Later that month, Montreal-based cheese supplier Saputo Group Inc. launched an unsolicited takeover bid for Ault;
- In an effort to thwart Saputo, Ault solicited offers from other

pursue Ault any further. As a result, by early July, Parmalat had successfully obtained majority control of Ault.

Parmalat has started to combine the operations of Ault and Beatrice, thereby making it Canada's largest dairy processor. Agropur is number two, and Dairyworld Foods number three. Ault and Beatrice, formerly two of the largest dairy suppliers in the country, have for all intents and purposes ceased to exist.

In the blink of an eye, the Canadian dairy industry has been completely transformed. But the events of 1997 are merely an extension of changes that have

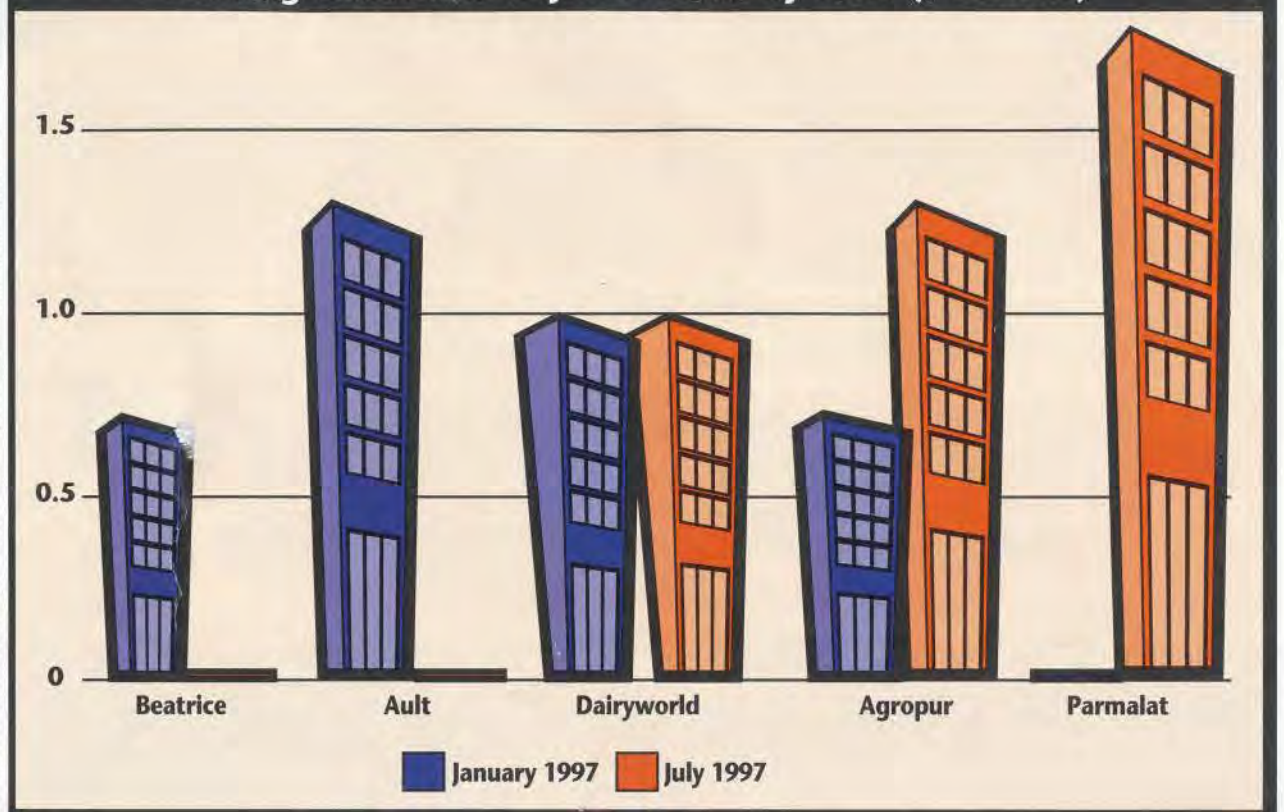
yogurt giant Danone had purchased Delisle Foods Ltd., and of course Dairyworld Foods had merged with Dairy Producers Co-operative Limited.

What's Next?

Taken together, these developments raise questions about the future shape and direction of the Canadian dairy industry.

What's clear is that the industry has 'gone global' in a big way. Canada is now just one battlefield in the worldwide competition among multinational food giants. For example, Unilever and Nestlé, the two

Leading Canadian Dairy Processors by Sales (\$ Billions)



much more so than local dairies. Increasingly, the multinational food companies will have a direct presence in the Canadian marketplace."

But even Dairyworld was taken aback by the events that took place between January and June:

- In January, Ault Foods Ltd., then Canada's largest dairy processor, sold its ice cream business to Nestlé Canada Inc.;
- In February, Ault sold its Ontario fluid and cultured

parties. On June 10, it was announced that Parmalat, having just completed its purchase of Beatrice, would launch its own bid for Ault;

By late June, Saputo announced that it would not

been unfolding for several years. Prior to January, Beatrice and Agropur had already sold their ice cream businesses to Unilever Canada Limited. An American investment group had purchased Astro Dairy Products, international

largest food companies in the world, are locked in a heated battle for global supremacy in the ice cream business. And Parmalat makes no bones about its

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Changing Beverage Container Regulations Sweep Western Canada

So what do you do with all those juice containers and pop cans once you've emptied them?

If you live in Ontario, you probably put them in your blue box. If you live in Alberta, you probably take them to the local depot. If you live in B.C....

The fact is, what you do with the empties depends on where you live. That's because the regulations covering used beverage containers is a provincial government responsibility. And sometimes the provinces have different views on how the containers should be handled.

"Right now Canada has a hodgepodge of beverage

container regulations," says Dan Wong, Manager of Corporate Relations. "For example, in Ontario beverage containers are treated like other household waste, and are collected primarily through the blue box. At the other extreme is Saskatchewan, where most containers are subject to deposits and, if not deposits, to environmental levies. This really complicates matters from an administrative and marketing point of view."

Having said that, the regulations in western Canada are starting to show some similarities. "Over the past six months, the wave has crested for beverage container regulations in the

west," says Wong. "B.C. has announced a full expansion of its deposit system. Alberta is adding non-milk gable-top and aseptic cartons to its system. And Saskatchewan is reviewing its handling fees on aseptic cartons."

At the end of the day, the goal for all provinces is to prevent those containers from ending up in the landfill. But how they do it is a big political issue, frequently putting beverage manufacturers at odds with environmental groups and government officials.

"It's controversial because it pits environmental benefits against economic costs," says Wong. "Beverage containers account for approximately two

percent of total solid waste. With a severe system, you could probably keep all of them out of the dump, but at what cost?"

Deposit or Not?

The governments of B.C., Alberta, and Saskatchewan have all pressed forward with deposit systems. That's where the consumer pays an up front charge for the full container, which is then refunded when the empties are returned.

But deposit systems are controversial too. On the one hand, they're simple, effective ways of collecting used containers and encouraging recycling. On the other hand, they tend to be expensive. That's because in addition to charging the actual deposit, the systems need to cover the costs of handling empty containers, too. As a result, most deposit systems now include a handling charge, which isn't refunded.

"In Alberta, the new regulations call for a 20 cent deposit on a two litre paperboard carton, plus a 20 cent handling fee," explains Dan Wong. "So the question is, will consumers accept an effective 40 cent increase in the store price of the product?" Wong adds that in general, blue box and community collection systems are less expensive, but to some governments, they're less attractive politically.

Why Not Milk?

So far, no jurisdiction in North America has imposed deposits or environmental levies on milk. Why not?

"Milk containers are very product specific," says Wong.

consumer backlash, opposes the use of rBST at this time. Dairy Farmers of Canada has taken a somewhat softer position, although recently it too has called for a delay in licensing.

For its part, Dairyworld Foods recognizes that rBST is still not a legal product in Canada. At the same time, we are listening to our customers' and members' views on this issue, which promises to be highly controversial no matter what Health Canada's final decision might be.

In Brief (Continued)

This One Is Super

- Congratulations to Ken Gamble, Stan Wright, and Eugene Holowatuik, all of whom fared well at the Saskatchewan Trucking Association's annual driving competition this June. Ken finished third in the southern region Straight Truck Event, while Stan took a second and Eugene a third in both the southern region and provincial Single Tandem Event.
- Similarly, Dairyworld Foods drivers dominated the 1997 B.C. Truck Rodeo, taking home the prestigious ICBC Team Trophy for the ninth time! In addition, Abbotsford's Dean Grant took first place in the B-Train competition while John Chase of DSD took third in the Straight Truck competition.

Best Booth:

- Finally, kudos to the sales staff in northern Alberta for taking 'best booth' (below) and 'best costume' honours at the Grocery People Trade Show on June 9. To say the booth's gangster movie theme was a 'reel hit' with trade show participants would be an understatement.

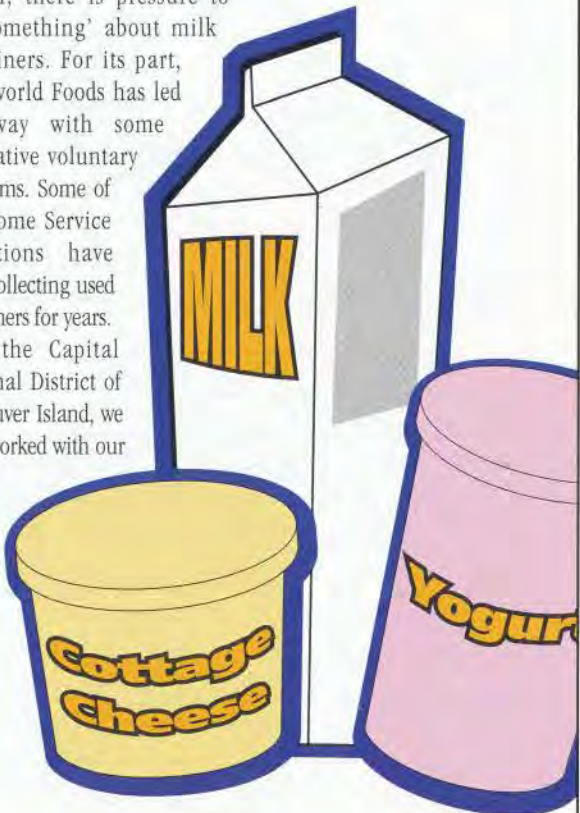


"Typically, they're designed to maximize the freshness and quality of the milk inside. Moreover, if not properly handled, used milk containers are a potential public health hazard, since the residues can be a significant contaminant. Finally, governments are still uneasy about up-charging essential foods."

Still, there is pressure to 'do something' about milk containers. For its part, Dairyworld Foods has led the way with some innovative voluntary programs. Some of our Home Service operations have been collecting used containers for years.

In the Capital Regional District of Vancouver Island, we have worked with our

suppliers at Tetra Pak to recycle used milk and juice cartons through municipal depots. And in Saskatchewan, discussions are under way with SARCAN, operator of the province's beverage container collection system, to include milk jugs on a voluntary basis.



Provincial Beverage Container Regulations Affecting Dairyworld Foods Products

Province	System	How It's Paid For
British Columbia	Existing deposit system will be expanded to all beverages except milk in Spring, 1998.	Consumers will pay refundable deposits of 5¢ to 30¢ per container depending on size, and handling fees (rates to be determined) depending on container type.
Alberta	Existing deposit system expanded to include non-milk gable-top and aseptic cartons on Sept. 1, 1997.	Consumers pay refundable deposits of 5¢ to 35¢ per container depending on size, and handling fees of up to 20¢ depending on container type.
Saskatchewan	Deposit system on all non-milk containers except aseptic, which are covered by an environmental handling charge.	Consumers pay refundable deposits of 10¢ to 40¢ per container depending on size, and handling fees of 5¢ to 8¢ depending on container type.
Manitoba	A flat environmental levy applies to all non-milk containers.	Consumers pay a non-refundable levy of 2¢ per container.
Ontario	Containers collected primarily through curbside (blue box programs).	Beverage manufacturers contribute voluntarily (0.03% of sales) to an industry fund which helps offset municipal collection and recycling costs.

rBST: The Saga Continues...

There's a buzz going through the Canadian dairy industry, and its call letters are rBST.

Recombinant Bovine Somatotropin (rBST), the synthetic growth hormone said to increase milk production in dairy cows, was rumoured to be bound for approval this summer following more than two years of intense review by Health Canada, the federal agency responsible for licensing new pharmaceutical products.

At the time this article was written, it hadn't happened. On

the contrary, a controversy over approval processes at Health Canada and the continued refusal of certain countries (notably Australia, New Zealand, and the entire European Union) to license the product appeared to have delayed the federal government's decision.

All of which adds to the uneasiness in the dairy industry, which continues to wrestle with the controversy over what some consider a major breakthrough in farm production management and others consider an unnecessary

intrusion of biotechnology into the food supply.

The controversy is compounded by the fact that rBST cannot be tested for, which only adds to the concerns of those who doubt scientific analyses saying that milk from cows treated with rBST is safe for human consumption.

The diversity of opinion on this subject is reflected in the different positions taken by the industry's major trade associations. The National Dairy Council of Canada, citing concerns over a potential

consumer backlash, opposes the use of rBST at this time. Dairy Farmers of Canada has taken a somewhat softer position, although recently it too has called for a delay in licensing.

For its part, Dairyworld Foods recognizes that rBST is still not a legal product in Canada. At the same time, we are listening to our customers' and members' views on this issue, which promises to be highly controversial no matter what Health Canada's final decision might be.

Playing Games

After a tough spring marked by floods and dislocation, summer brought good news to residents of southern Manitoba. The Canada Games, a Canadian sports institution, were held in Brandon from August 9 to 23.

And when the games began, Dairyworld Foods was there to share the spotlight.

The two week affair featured the best amateur athletes from Vancouver Island to Newfoundland. Dairyworld Foods

participated as both a supplier to the athletes and spectators, and a sponsor of the Kids' Feast Tent, where *Caring For Kids* mascots Cody and Cara (the Code Kids) joined other youngsters for milk and cookies each afternoon.

"Over the course of the games Dairyworld Foods donated more than 16,000 units of various products in addition to normal sales to the event itself," explains Jeff Martin, Regional Director of Manitoba Dairy Operations. "It kept us going flat out, seven days a week, for 14 days. But we handled it well; it was a credit to

the entire Manitoba operation."

Most of all, it was a positive experience for everyone involved. "Given their exposure, the games helped us raise the profile of the *Dairyland* brand throughout the province and across the country," says Jeff Martin. "And it reiterated our commitment to supporting the local community."

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The Product Line

... Lots of action in the area of new products this summer.

Here are some highlights:

Tampico:

Another 'big name' addition to the Dairyworld Foods lineup. *Tampico* beverages are tasty blends of fruit juices and flavourings developed primarily for the 3 to 13 year old market segment. *Tampico* is already one of the top chilled juice/drink brands in western Canada, and the number one brand in Manitoba/Saskatchewan. Currently available in two flavours — Citrus and Mango — *Tampico* products boast long shelf lives and 'value pricing' for consumers.



New Stuff From Yoplait:

In June, *Yoplait* introduced three new ideas to increase consumer attractiveness. The new 12 x 60g *Minigo* multipacks, each containing six different flavours of the popular fromage frais, offer greater variety for the kids. Multipacks have also been developed for the popular *Yoplait* stirred yogurts, with two 8 x 125g packs containing selections of fat free flavours and a third containing a selection of regular flavours. Finally, a new flavour — cherry — has replaced fruit punch in the *Yop* lineup of drinkable yogurts.

So Good Non-Dairy Beverage

So Good is a leading brand worldwide in the soy beverages market. Characterized by superior quality and supported by a substantial marketing program, *So Good* is a powerful presence in the fast growing non-dairy beverage market. Under agreement with Australia's Sanitarium group, Dairyworld is the western Canadian distributor and co-packer of the *So Good* line.



Country Time Lemonade:

Dairyworld Foods is now the exclusive Canadian manufacturer of *Country Time* refrigerated lemonade in gable-top cartons. *Country Time* is by far the leading branded lemonade in North America. This fact, combined with the



tremendous growth of the chilled juice and drink category, should make the product an instant success with retail customers and consumers alike.

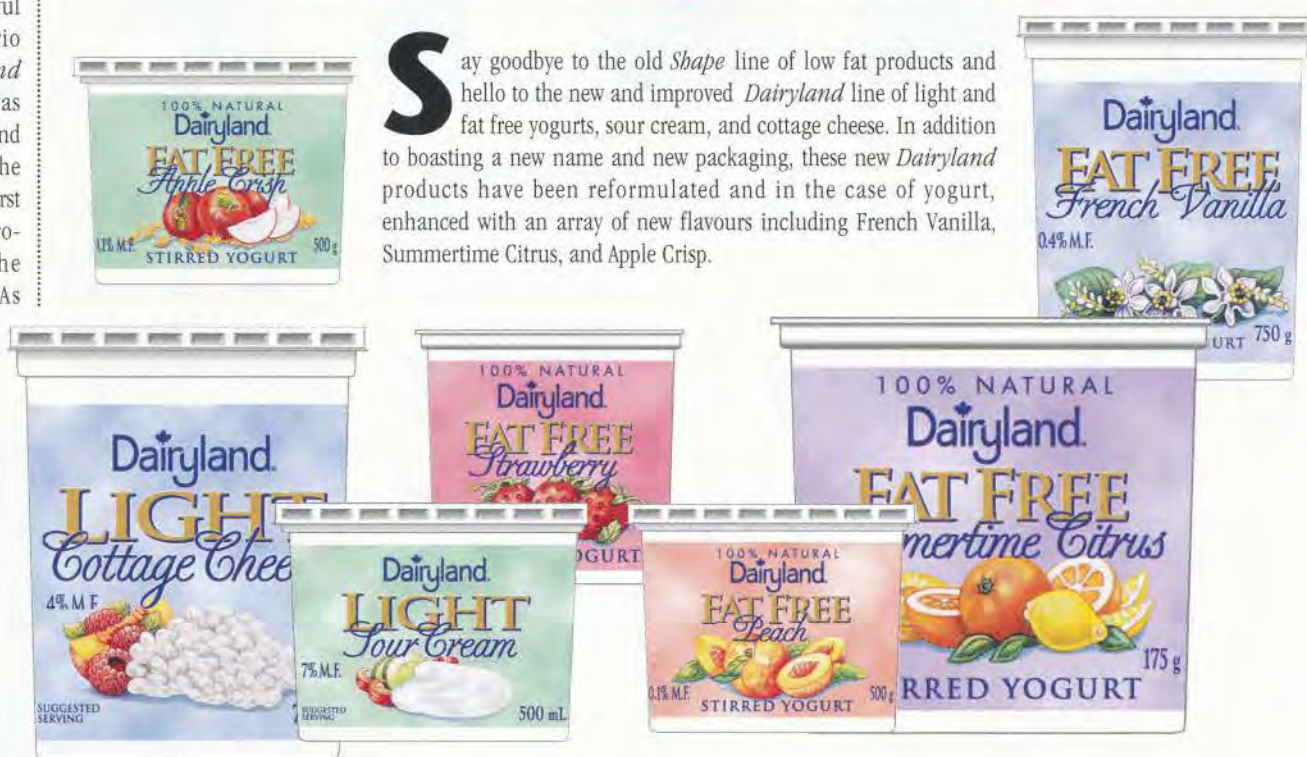
Dairyland Pure'n Fresh milk:

Following a successful launch in Ontario last fall, *Dairyland Pure'n Fresh* milk was introduced in B.C. and Alberta this June. The launch marked the first appearance of micro-filtered milk in the western Canada. As readers of previous Dairyworld Digests are aware, micro-filtration removes more bacteria from milk than pasteurization alone, resulting in a fuller, cleaner tasting product with twice the shelf life of regular milk. In western Canada, *Pure'n Fresh* is made at our Sperling plant.



Dairyland Fat Free & Light cultured products:

Say goodbye to the old *Shape* line of low fat products and hello to the new and improved *Dairyland* line of light and fat free yogurts, sour cream, and cottage cheese. In addition to boasting a new name and new packaging, these new *Dairyland* products have been reformulated and in the case of yogurt, enhanced with an array of new flavours including French Vanilla, Summertime Citrus, and Apple Crisp.



Who Are These Guys?

All Systems Go

Thumbnail Sketches of Other Major Players in the Canadian Dairy Industry

	Agropur	Kraft Foods	Nestlé	Parmalat	Unilever
Head Office	Granby, Quebec	Rye Brook, NY (USA)	Vevey, Switzerland	Milan, Italy	London, England, and Rotterdam, Netherlands
Annual Sales	\$1.4 billion	Canada: \$2.2 billion World: \$30 billion	Canada: > \$1 billion World: \$68 billion	Canada: \$1.9 billion World: \$5.6 billion	Canada: \$1.4 billion World: \$71 billion
Employees	2,700	Canada: 4,100 World: 80,000	Canada: over 4,000 World: 221,000	Canada: 4,300 World: 13,000	Canada: 3,800 World: 306,000
Main Markets	Quebec, Ontario.	Worldwide.	Worldwide.	Europe, South America, Now North America.	Worldwide.
Products	Fluid milk and creams, cultured products, cheese, fine cheese, butter.	Natural cheese, processed cheese, other processed food products.	Ice cream, refrigerated dairy products; extensive range of other food products and confections; pharmaceuticals.	Fluid milk and creams, cultured products, cheese, butter, dairy ingredients, biscuits, tomato products.	Ice cream, cheese, beverages and an extensive range of other food products; detergents; personal care products.
Notes:	Canada's largest dairy cooperative.	Canada's largest cheese supplier.	World's second largest food company, according to <i>Fortune</i> magazine's Global 500.	Stated goal is to make the Parmalat brand the "Coca Cola of the milk business."	World's largest food company, according to <i>Fortune</i> magazine's Global 500.

Shake Up continued

intention to become the dominant marketer of branded milk throughout the world.

One thing's for sure: the competition within Canada is only going to get tougher. For

Dairyworld Foods, this means continued focus and an unswerving commitment to meeting the needs of the marketplace are absolutely critical.

"We've done very well over the past few years to create the kind of organization that can

compete in this rapidly changing environment," says David Coe. "Now the age of global competitors is upon us. The multinational food companies have deep pockets, huge economies of scale, and access to global marketing expertise.

They will challenge us to be even stronger and more agile than we were before. We will have to make some critical strategic decisions, and continue to deliver exceptional value to customers to maintain our status as market leaders."

Show Me The Way

Remember 1992? That was only five years ago, but when it comes to the dairy industry, it might as well have been a lifetime. In the 1990s, the operative word in the food business is 'change'.

The magnitude of change becomes clear when you look at Dairyworld Foods' mission and vision statements, which were written in 1992. Since that time, much of what we used to think of as crystal ball-gazing has actually come to pass.

In part, that's because Dairyworld Foods has been able to implement far-reaching business strategies successfully. Not all companies can make that claim.

"Managing change is like winning in football," says Tom Low, Manager of Training and Development. "Leadership is the key. You can have all the talent and the best systems in the world, but it doesn't mean anything if it's not focused on the right results. That takes leadership."

Companies can improve the

way they manage change by establishing a common culture, common ways of doing things, and a common understanding of what's expected of employees. That's where training comes in. "Corporate training provides leverage to support the business strategies that produce desired outcomes," says Tom Low.

Many Dairyworld employees are familiar with the Managerial GRID, which helps establish desired relationships between individuals and work teams. Some are also acquainted with the Managerial Skills Workshop (MSW), which lays out guidelines under which Dairyworld managers work with their people. And most know that the company is committed to Continuous Improvement by focusing on the mindset and behaviours needed to operate our day-to-day business.

Last year, Dairyworld Foods test launched the Dairyworld Way, an advanced management training program focusing on direction and leadership as we head into a challenging and unfamiliar future. Building on earlier, 'core' training, the Dairyworld Way goes above and beyond.

The program is unlike other management training programs in that it aligns key skills and abilities with defined management expectations, leadership challenges, and personal characteristics which exemplify a distinct 'Dairyworld' way of doing things. As the name implies, it is unique to the company, drawing heavily on GRID theory and MSW experiences. It is also designed to be personally enriching, helping to generate individual growth and development plans in order to enhance personal satisfaction and professional performance.

"The trials were well-received, and the Dairyworld Way is now a full-fledged training opportunity within the company," says Tom Low. "So far, 25 managers have taken part in the program. Most have found that it helps them focus on their roles in taking the company where it needs to go."

One more Dairyworld Way session is scheduled for 1997. Tom Low anticipates that there may be as many as six next year.



Top Agents (left to right) Tim Nickason, David Lynn, and Chris Rogerson pose with the big award.

Focus On Good Food

Peach Cream Cake

Cake

3 cups	all-purpose flour	750 ml
1 tbsp	baking powder	15 ml
1 tsp	baking soda	5 ml
1/2 tsp	salt	2 ml
1/2 cup	Dairyland butter (softened)	125 ml
1/2 cup	margarine	125 ml
1 1/2 cups	sugar	375 ml
3	eggs	3
1 tbsp	grated orange rind	15 ml
3 cups	grated fresh peach (peel skin off)	750 ml
1/2 cup	Looney Tunes orange yogurt	125 ml
2 tbsp	Dairyland milk	30 ml

To make the cake:

In a large mixing bowl, combine flour, baking powder, baking soda and salt. In a separate bowl, using an electric mixer, mix butter, margarine and sugar until fluffy. Beat in eggs one at a time; add orange rind. Fold in peaches, yogurt and milk. Gradually add flour mixture to creamed mixture until well combined. Spoon batter into greased 9" (3L) tube pan. Bake in 350°F (180°C) oven for 60 - 70 minutes or until toothpick inserted comes out clean. Let stand in a pan or wire rack until completely cool.

Whipped Cream Topping

2 cups	Dairyland whipping cream	500 ml
1/4 cup	icing sugar	50 ml
1 tsp	vanilla	5 ml



To make the topping:

Whip cream, gradually beating in icing sugar and vanilla. Cover cake with frosting. Garnish with slices of peaches.

Dairyworld
F O O D S

The Dairyworld Digest is published by the Human Resources and Marketing Departments to offer news and information about the company to employees.

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