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new food supply chains in sustainable  
rural development”**

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***‘BeemsterKaas’*  
Marketing quality and image**

**Case study report**

By  
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Eric Hees

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## Summary

This report describes the case of CONO: a cheese cooperative in the North Western region of the Netherlands that produces and markets BeemsterKaas. The case study of CONO BeemsterKaas illustrates the development of a medium sized cheese factory (producer cooperative) that opted for a niche strategy after a crisis in cheese sales and decreasing returns in the mid nineties.

The case shows a different approach towards increased competition on the (international) cheese markets, merging processes in the dairy industry and scale enlargement and intensification on dairy farms. The case describes the shift of a production led strategy towards a marketing led strategy and the increased importance of niche marketing and branding in the sale of BeemsterKaas. CONO cheese makers adopted a strategy of niche marketing, chain integration and product diversification to counteract the pressure on the bulk cheese market of Gouda cheese. CONO markets a variety of labels brands, adapted to market conditions and specific outlets. BeemsterKaas is their target cheese variety.

Currently, 600 farmers are member of the cooperative. Most of the member farmers are based in the Province of North Holland of which some in the Beemsterpolder. The other farmers are based in the Province of Flevoland and Overijssel. The member farmers deliver yearly 280 million kg of milk that is processed into 27 million kg of cheese. The milk from the farmers outside North Holland is processed into butter. The total turnover was € 130 million in 2003. Compared to other dairy companies in The Netherlands, CONO is a medium size player.

The case illustrates that a medium sized dairy cooperative can gain a stronger position on the market by broadening its activities, focussing on quality production and controlling the product throughout the chain.

In the period from 1995 till present, we can distinguish four major, partly overlapping cycles of change. (1) CONO successfully moved the cheese from a bulk market towards a niche market for high quality cheese. (2) In doing this, it started to influence directly the demand by engaging into marketing activities towards consumers directly (establishment of own marketing), (3) by branding a variety of labels with specific claims and images (grazing cows, Beemster Unesco world heritage) and (4) by seeking a diversification of outlets for their cheese (from specialty shops to supermarkets). Recently CONO concentrated on sustaining its market and to explore new innovations in marketing, packaging and quality control, for instance to find a scientific basis for ensuring milk quality.

The potential for creating added value or a premium price at consumer level has increased significantly after CONO has taken up BeemsterKaas as its target label and started to control marketing activities themselves. They succeeded to create a price differential with factory processed Gouda cheese of almost 20%. The value added at producer level becomes evident in the yearly comparisons and analysis of milk price listings of Dutch dairy cooperatives. These listings show that for the past five years CONO was able to pay the highest milk price to its member farmers.

Although in terms of turn over and production CONO is one of the medium size players in the Dutch dairy sector, their case demonstrates that active chain involvement, quality production, higher profit margins and high producer prices can be obtained in a market that is pressurized by international competition and hence cost reduction.

The following factors contribute to CONO's current success:

- Integration of other chain activities (marketing, distribution, packaging)
- Successful creation of a niche, based on semi artisan production
- Product with strong intrinsic value (distinctive quality) linked to strong image and brand value
- Ownership of the brand
- Good story (linking more than product quality attributes only to the image of the cheese).
- Diversification of the market and selective marketing
- Continuous innovation throughout the chain to improve product, image and packaging





# 1 Introduction

## 1.1 Objective

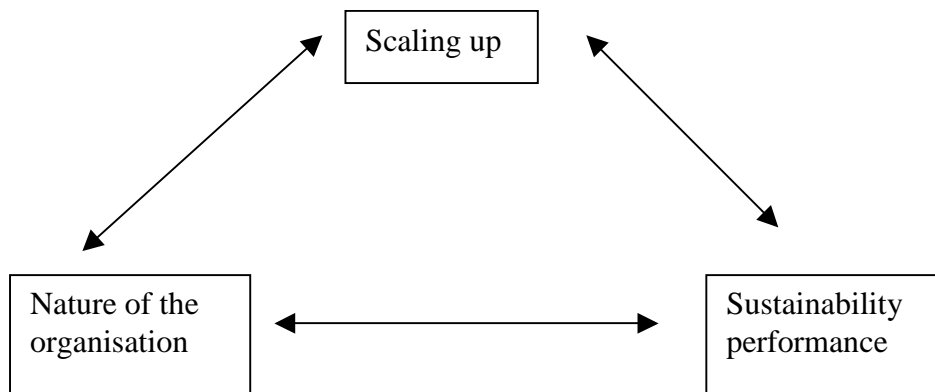
This report describes the case of CONO: a cheese cooperative in the North Western region of the Netherlands that produces and markets BeemsterKaas. The objective of this case study is to describe and analyse one of the various approaches to enhance performance and sustainability in European Food Supply Chain. This case study is part of a European research project 'SUSCHAIN' in which partners in six European countries participate: United Kingdom, Germany, Belgium, Switzerland, Italy, Latvia and The Netherlands. The SUSCHAIN project aims to explore the opportunities and constraints in scaling up sustainable food supply chains. The purpose of SUSCHAIN is to assess the potential role of food supply chains in the enhancement of sustainable food production and rural development by identifying critical points in food supply chains. The project focuses on critical points that currently constrain the further development of sustainable production and of food chains. The output will comprise recommendations for actions that are likely to enhance the prospects for sustainable food markets. Specific attention will be given to factors related to the organisational structure of food supply chains and interactions between different stakeholders in the chain (Technical Annex, 2003).

The case study of CONO BeemsterKaas illustrates the development of a medium sized cheese factory (producer cooperative) that opted for a niche strategy after a crisis in cheese sales and decreasing returns in the mid nineties. The case describes the shift of a production led strategy towards a market led strategy and the increased importance of niche marketing and branding in the sale of BeemsterKaas.

The main hypothesis around which the case of CONO BeemsterKaas is built, is the following:

*Scaling up an initiative in the field of food supply chains changes the nature of the organisation (structures, rules, procedures, values and goals) and its sustainability performance.*

The hypothesis contains three keywords: scaling up, nature of the organisation, sustainability performance. Each of them is linked to the others in a dynamic model, as in the following framework:



The case tests the following sub-hypotheses:

- Successful scaling up depends on commercial performance and public support;
- The nature of the organisation changes with scaling up;
- New food supply chains have a positive effect on rural development;

## **1.2 Methodology**

Both quantitative and qualitative research methods were used to gather data for this case study. The collection of data took place in the period of June 2004 till June 2005. The research started with a review of literature, statistical data and publications on dairy and cheese production in The Netherlands and specifically the situation in the North Western region of the Netherlands. After, we started semi-structured interviews with stakeholders within the CONO cooperative such as the commercial director, the chairman of the board, dairy farmers, the sales representative and the marketing manager. We also interviewed other stakeholders in the chain such as a cheese wholesale representative and owners of cheese specialty shops. The semi-structured interviews focussed on the milestones in the development of the CONO organisation, the strategy in marketing the cheese and the decisions in the production process of milk and cheese. It also included questions on relationships, agreements and developments in the chain and changed marketing concepts. To complement the interviews, we gathered also information in written media and on the Internet.

In addition, we performed a cross national case study on the Emmentaler cheese in Switzerland. Emmentaler cheese has the same production quantity as CONO cheese and also opts for a niche market strategy, in their case based on PGI labelling. We focussed on production and marketing strategies and opportunities and constraints towards the future. To reflect upon the results of the case study and the international case, we organised a group discussion with representatives of CONO, both farmers and employees. We presented the initial results, conclusions and hypotheses in a national seminar and discussed the findings.

## 2 The Context: The Dutch Dairy Chain

### 2.1 Introduction

Scale enlargement, intensification and the bulk production have been the dominant way forward in the dairy sector in the Netherlands since the last three decades. The processing industry followed this scale enlargement process by numerous mergers and take-overs of small regional dairy cooperatives. Cost price reduction is still the key word in current developments getting more apparent as international trade negotiations direct towards less market protection in the EU.

The CONO cooperative has been a stakeholder in this development, but deliberately chose another strategy of niche production and consumer marketing. As a result, they succeeded to create a stable market and can offer a slightly higher price for the milk of their member farmers.

In the following sections, we sketch the current context with an overview of figures that illustrate the situation in the Dutch dairy industry. We will briefly comment on quantity, price and market developments in both milk and cheese and the involved actor network. In the last section we discuss the future of Dutch cheese production in international perspective.

### 2.2 The dairy chain in figures

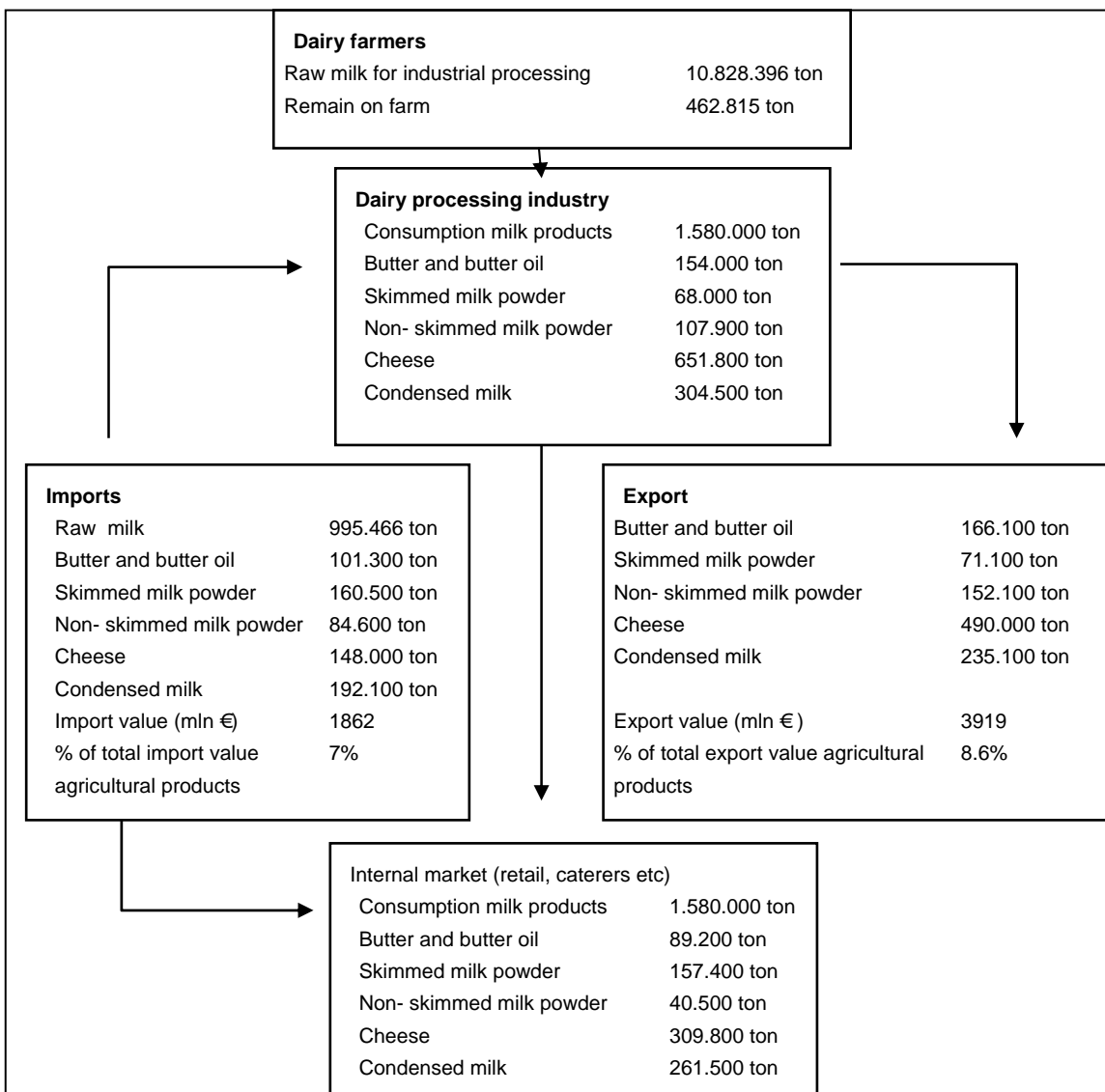


Figure 2.1 (Source: Zuivelzicht, 2002, Productschap Zuivel 2002 in: Broekhuizen et al. 2003)

The above overview (figure 2.1) shows that the Dutch dairy sector is highly export oriented. From the total turnover in processed dairy products of 6,3 billion Euro's, almost 60% is exported. Cheese is the most important export product, followed by condensed milk and butter.

The share of imports of dairy products is relatively small. Raw milk imports are less than 10% of the total raw milk production in the Netherlands itself. In all, the Dutch dairy sector relies heavily on the European and other export markets developments for its success and future prospects.

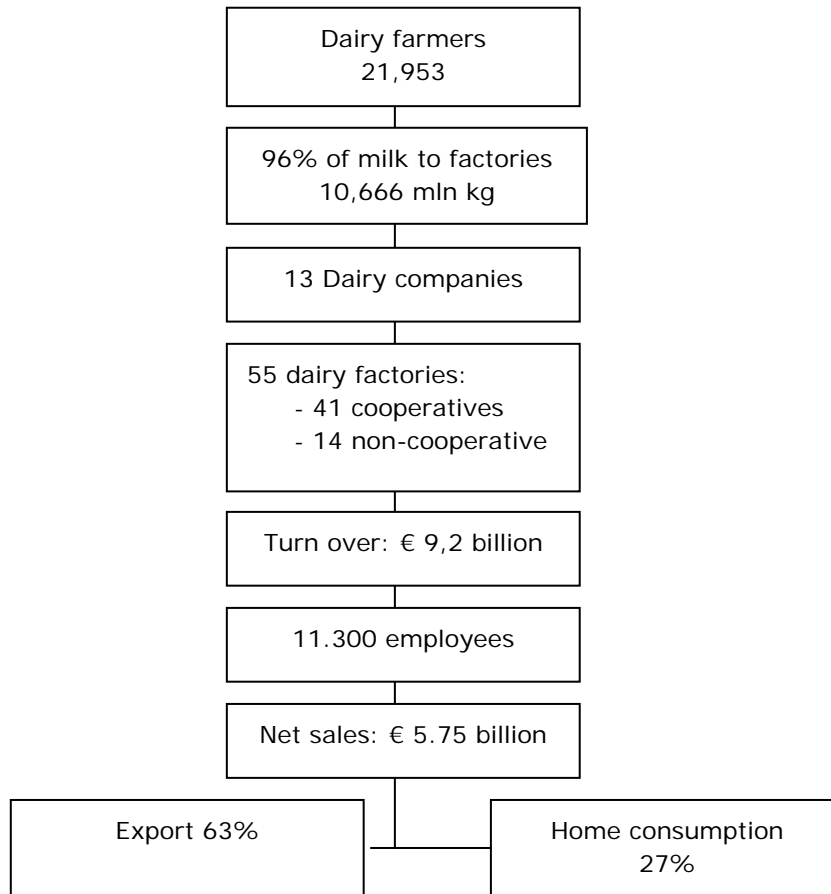


Figure 2.2 The dairy processing chain (source: Productschap Zuivel, 2004)

The number of dairy farms decreased steadily in the past decades. From 1985 till 2003, more than half of the dairy farms dropped out of business. This is not only a trend in dairy farming, also other sectors, such as arable farming and pig husbandry encounter a decline in number of farms. In 2003 nearly 22.000 dairy farms were counted in the statistics (CBS, 2004).

	1985	1995	2003
Number of dairy farms	45,232	31,011	21,953

In 2004, the Central Bureau of Statistics counted approximately 791,000 hectares of permanent grassland and 194,704 hectares of non-permanent grassland, in total 985,708 hectares (CBS, 2004). This grassland is mainly in use for dairy farming.

(x 1000)	1985	1995	2003
Number of milking cows	2367	1708	1478

As part of the further intensification process and further rationalisation of agricultural production, the number of dairy cows decreased with nearly 30%, while the average production per cow increased with nearly 35%!

In kg per year	1985	1995	2003
Average production per cow	5330	7304	8127

Due to the overproduction of milk in the seventies and early eighties, the production of milk was far above the consumer demand and market balance. The implementation of the dairy quota system, the decreasing price for milk and the decreasing structural support to dairy farming has affected the total production of raw milk. The total production of raw milk decreased with appr. 15% in the period 1985-2003.

In 1000 tons	1985	1995	2002
Total production	12,525	11,280	10,667

Home consumption and farm cheese production count for 1.2% of the total milk production in The Netherlands in 2002. This figure slightly decreased over the past twenty years (CBS, 2004).

Comparing the decrease in farms, the decrease in number of cows and the increase of production per cow, the Dutch dairy sector has clearly developed itself in a process of scale enlargement through larger farms and intensification by producing more with lesser cows.

Per 100 kg (average fat)	1985	1995	2002
Producers price of milk	33.32	29.57	30.16

Throughout the period from 1985 till 2003, the price of milk has been decreased slightly with ten percent. Compared to the indexing the price fall is more considerate. In all, the Dutch dairy sector is facing more and more difficulty in positioning itself on the international market as cost prices for land, labour and quota are still increasing and milk prices seem not to follow the costs, resulting in decreasing revenues. In this development, more and more farmers are searching new ways to complement their decreasing income. A diversity of strategies is visible from scale enlargement, cost reduction per kg of milk and further intensification to converting into organic production, developing sideline activities or combining farming with off farm employment.

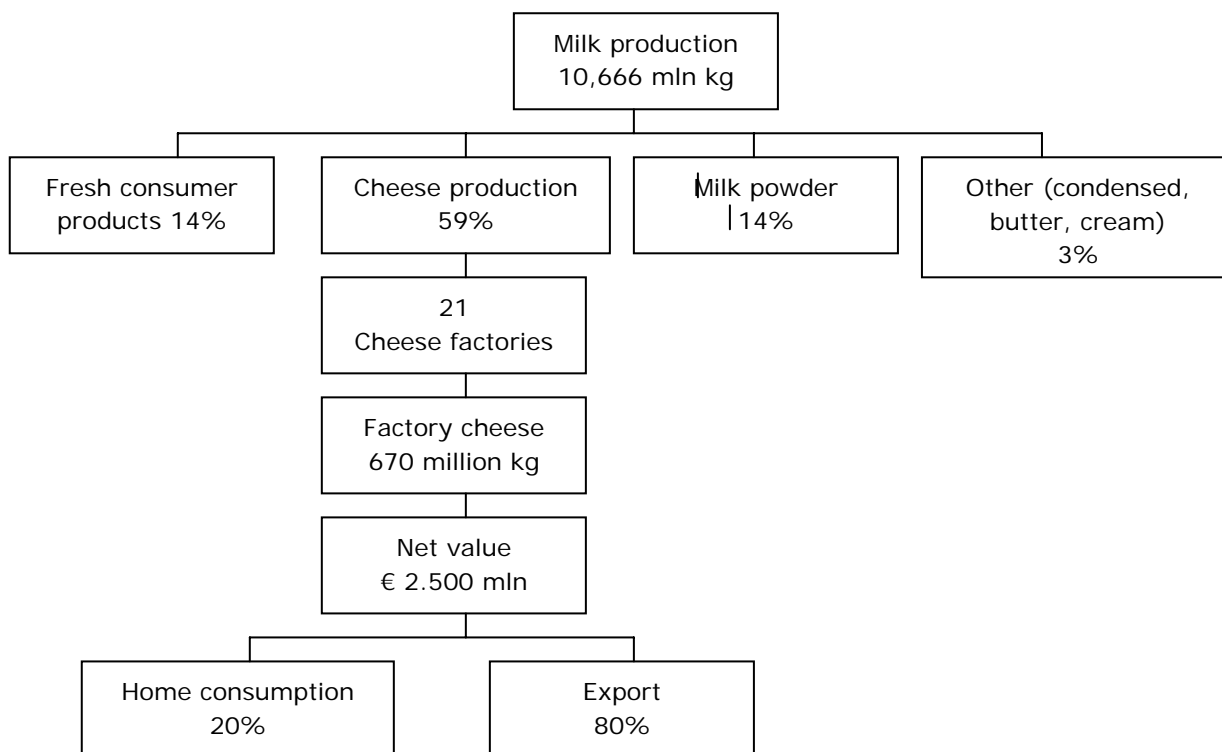


Figure 2.3 Overview of dairy processing industry in numbers

In The Netherlands, 15 dairy companies with a total number of 55 dairy factories are processing raw milk into consumption milk, butter, cheese and other dairy products (see figure 2.3). 59% of all produced milk is processed into cheese. 14% is processed into fresh consumer products (milk, yoghurt, drinks), 14% is condensed into milkpowder and 3% is processed into other products such as butter, cream and condensed milk.

The two largest dairy companies are Campina and Friesland Coberco Dairy Foods (FCDF). These companies are both co-operatives. Campina mainly operates in the Western and Southern part of the Netherlands, Friesland Coberco in the Eastern and Northern part. FCDF has an annual turn over of 4.4 billion euros and ranks 11<sup>th</sup> on the world dairy industry list. Campina has a turn over of 3.7 billion euros and ranks the list at the 14<sup>th</sup> place. The total turn over of the Dutch dairy industry is estimated 10 billion euros (Productschap Zuivel, website).

The Dutch dairy sector has become very concentrated. In the period 1990 – 2002 the number of processing company's decreased from 31 in 1990 to 13 in 2002. The two biggest companies: FCDF and Campina have a 84% market share in the processing of milk in the Netherlands (Van der Schans et al, 2002). They realised this by autonomous growth and mergers.

Besides processing of milk, FCDF and Campina are also engaged in product development, collection, distribution, marketing and selling. The process of concentration and integration of other activities in dairy enterprises is expected to continue. The driving forces of this process are the saturation of the dairy market in Europe, the increase of competition for generic products, concentration by retailers and stringent regulations with respect to: food safety/HACCP, the use of energy, water and packages (Broekhuizen et al, 2003).

In 2005, Campina launched a new product: Valess a dairy product that can be used as a vegetarian meat substitute. This follows the increasing demand for a healthier, less meat-based lifestyle in the Netherlands. Furthermore, at the end of 2004, Campina and Danish dairy giant ARLA engaged in a merger to strengthen their international market position. Due to a difference in expectations and valuation of the cooperative, this merger has been drawn back under pressure of ARLA farmers.

Next to these two giants, a number of smaller private companies (such as Nutricia, Wessanen) and dairy cooperatives (CONO, DOC, CZ Rouveen) are active in processing milk. The number of dairy processing factories decreased steadily over the past 10 years: from 80 factories in 1995, to the remaining 55 in 2003. 80% of the dairy processing factories are organised as a co-operative, 20% is a private company (Productschap Zuivel, 2004). The number of on farm dairies (cheesemaking) decreased as well from 631 in 1985 to 379 in 2002 (CBS, 2004)

In total, the dairy industry in The Netherlands represents a net sales of € 5,750 mln in 2002. This is an increase of appr. 20% compared to figures from 1995. In 2002, 63% of the net sales is exported (€ 3,791 million).

In 2002, 11.300 people are working in the dairy factories. This is less than in 1995 when 14.300 people gained employment in dairy processing (Productschap Zuivel 2004).

Dairy products (1000 tons)	1985	1995	2002
Butter	229	132	119
Factory cheese	514	680	638
Farm cheese	8,1	9,2	7,4
Condensed milk	535	352	276
Milk powder	353	154	163
Wey	183	433	333

### Cheese production

A little more than 1% of the cheese is produced at farms (non pasteurised), more than 98% at dairy factories. From the 55 dairy factories, 21 are specialised in cheese production. In 2004, 59% of all produced milk in the Netherlands is processed into cheese. In total, 670 million kg factory cheese was produced. Gouda cheese dominates with 50% of the total production of factory cheese. Other important

varieties are Edammer and Leerdammer. An estimated 80 % of the total Dutch cheese production is exported at a value of € 2 billion. The Dutch dairy industry relies therefore heavily on the development in the national and international cheese market (van der Werf, 2005).

### Prices for dairy products

The prices for dairy products show a remarkable contradiction often found in agrifood supply chains, where retailers and wholesalers gain more and more power. As off factory prices decrease over the years, consumer prices increase, clearly indicating a larger share of profit is distributed in the distribution and sales part of the chain.

#### Official dairy quotation

<i>In € per kg (from factory)</i>	<b>1985</b>	<b>1995</b>	<b>2002</b>
Butter	3.78	3.22	3.02
Gouda factory cheese	3.17	2.86	n.a.
Edam cheese	3.21	2.95	n.a.

*Source: Productschap Zuivel, 2004*

#### Average consumer prices

<i>In € per kg (retail)</i>	<b>1995</b>	<b>2002</b>
Butter	4.16	4.44
Gouda (4wks, packaged)	5.02	5.59
Gouda (semi matured)	5.74	5.94
Milk (semi skimmed, past.)	0.54	0.69

*Source: Productschap Zuivel, 2004*

## 2.3 Retail and consumption

### Retail

14% of all milk production is processed into fresh consumer dairy products. These products are mainly sold within The Netherlands. Supermarkets take up to 98.5% of the total retail channel for this consumption milk and other fresh dairy products (yoghurt, desserts, etc.).

For cheese the retail channels are slightly different; 83.5% is sold through supermarkets and 16,5% through other channels such as specialty shops, weekly outdoor markets and mobile delivery shops. The percentage sold through supermarkets is steadily increasing. In 1995 supermarkets sales only counted for 75% of the total cheese sales (Productschap, 2004).

### Consumption

On the average in The Netherlands, the human consumption of milk and other fresh dairy products is 125.7 kg per capita per year. When it comes to trends in dairy consumption in the Netherlands, liquid milk consumption tends to go down, while on the other hand the use of value added dairy drinks and fresh dairy desserts has been on the increase over the past years. Especially in yoghurt consumption increased steadily. In 2003, yoghurts with fruits and similar fermented products were among the biggest growers in the market (+22%). Meanwhile, consumption of the more traditional desserts (custards, porridges, plain yoghurts) seems to stabilize. The consumption of milk fats in the form of butter has become less popular over time and is still slightly losing ground, though in bakery and special products it seems to have found solid fields for application. Cheese remains a very popular product in the Netherlands. Per capita consumption has been constantly on the increase over the past years and for factory cheese only, amounted almost 18 kgs in 2003. The average in the EU-15 is 16.5 kg per capita in 2003. In 1995 this was 14.9 kg. Apart from the traditional cheese slices, cheese finds its way to consumers through many food applications, in particular in the fast food and ready-to-eat meal segment (for instance pizzas) (Productschap Zuivel, 2004).

## 2.4 Export and imports

Factory cheese production in the Netherlands comprises 670 million kg a year. This counts for 10% of the total cheese production in the EU-15. Only Germany (1,816 mln kg), France (1,682 mln kg) and Italy (934.5 mln kg) produce more kilograms of factory cheese each year.

80% of the Dutch cheese is exported (509 million kg in 2003), mainly to other countries in Europe. The export value of Dutch factory cheese is € 2 billion a year and remained steady over the past five years. The imports of cheese increased significantly with 40% from € 353 million in 1999 to € 514 million in 2004 (van der Werf, 2005).

## 2.5 The future of Dutch cheese production in international perspective<sup>1</sup>

The European Union is by far the largest dairy producer in the world. In cheese production, The European Union produces almost twice as much as number two: The United States. Dairy products have a limited conservation period. Only 7% of the total dairy production is traded internationally (except intra-European trade). The trade in dairy products on world level remains relatively stable. Changes are mainly driven by political agreements and the ambitions of few private companies.

(in mln kg)	Cheese production
EU-15	6508,2
USA	3919,7
EU-10	882,7
Netherlands	640,9
Canada	366,6
Australia	360,0
New Zealand	275,0

Source: *Productschap Zuivel, 2003*

Traditionally, The EU has a dominant position on the world market for dairy products. However, due to a decrease in export subsidies, the total export volume has decreased significantly since 1995. This is mainly caused by higher cost in the production of milk, compared to other important milk producing regions in the world like New Zealand and Australia. These countries are expected to increase their export volumes in the next years. Also Latin America has potential to become a large exporter of dairy products.

The international trade in cheese is changing less quickly than the trade in butter and milk powder. Cheese is probably the only dairy product that can be exported from the EU in large quantities and a competitive price. European cheese has a high added value. Furthermore, The European tradition of cheese production has resulted in a high quality product and a strong image. Besides, milk and cheese production in the EU is subject to a process of rationalisation: scale enlargement and mechanisation that increases efficiency and reduces the cost price. Even though this cost price remains higher than in other cheese producing countries; the European cheese still remains a wanted product on consumer markets.

Dutch cheese traditionally has been a high quality product, technically spoken, but mainly 'anonymous' product. France is the country with the largest variety of cheeses that are traditionally grounded. In the production of quality cheese, France has a leading role. Cheese producers in the Netherlands did not protect the Gouda cheese with a PDO or PDI. And even though the quality of Gouda cheese produced in the Netherlands is better than the Gouda cheese from Poland or New Zealand; this claim is hard to put into

<sup>1</sup> This paragraph is written by KJ Hin. Sources:

Productschap Zuivel (2004) Statistisch jaaroverzicht marktontwikkelingen. Productschap Zuivel Zoetermeer.

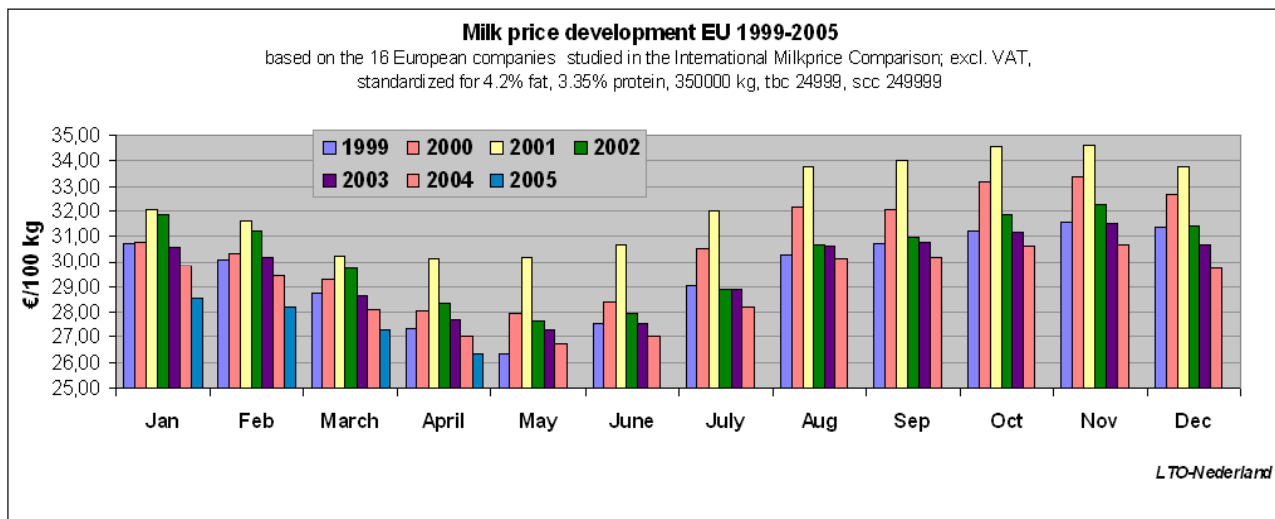
Voorbergen, M. (2004) Global Dairy Trade - a changing landscape. Rabank International Utrecht (Juni 2004)

Interviews with Mark Voorbergen dd. 10 september 2004 (Rabobank International, Food & Agri Research and Advisory) and Jurgen Jansen dd. 10 september 2004 (Productschap Zuivel)



value without an independent quality label such as a PDO. The Dutch Dairy Organisation is currently applying for the label Protected Geographical Indication (PGI) for both Gouda and Edam cheese (Zuivelzicht, 2003)

Ongoing WTO negotiations undoubtedly will result into further liberalisation of the world cheese market. In particular the opening up of markets will have a profound effect. For the Dutch dairy sector this will be both beneficial and constraining. On one side, it will result in greater competition from other countries on the EU bulk market, on the other side lucrative markets in the USA and Japan will be opened to quality products (mainly cheese) for Dutch producers.



Source: LTO website

## 2.6 Challenges in the Cheese Supply Chain

The Dutch dairy sector is facing quite some challenges to remain or improve their position on the world market. The need to reduce costs, the subsequent merging of dairy cooperatives, the decreasing prices for milk and processed products off factory and the liberalisation of the world market also demand the toll from societal and environmental causes. Nitrate pollution of ground and surface waters have resulted in the Nitrate Directive. The Nitrate Directive on its turn has left dairy farmers with the severe consequences of their intense production systems and the need to have a more extensive grassland management. As a result, more and more cows are kept indoors all year around to have a more efficient manure management and to comply with the rules of the Nitrate directive.

As a consequence of the need to reduce costs, also the Dutch dairy cooperatives have from 1995 onwards, taken different paths towards the future. Some of them, continued with the traditional Gouda cheese at a low cost price and large quantities. Scale-enlargement, plant-concentration and cost-reduction are the main driving forces behind this strategy. From time to time, they develop within this strategy a technically based product-innovation, as for example packed cheese in portions, cheese of skimmed milk and cheese toast. Others develop marketing strategies appealing to certain life styles or create strong brand names to distinguish their Gouda cheese from others.

Few dairy producers concluded that in the end, this traditional path of large-scale bulk production would not be sustainable nor to farmers or company. They preferred to develop a niche market based on high quality raw milk production and processing, taking account of the need for strong brands to obtain a position in the competitive cheese market.



## 3 State of the art

### 3.1 Introduction

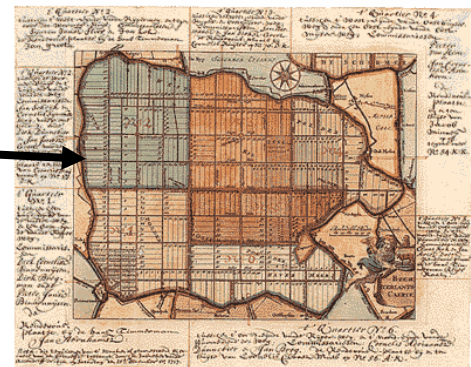
Within the context of the Dutch dairy sector and cheese production for national and international markets, the case study focuses on a medium sized actor in the chain: the CONO cheese cooperative in the North Western part of the Netherlands. The dairy factory is based in the 17th century Beemster polder; a unique man made world heritage (see box 3.1).

CONO cheese makers adopted a strategy of niche marketing and product diversification to counteract the pressure on the bulk cheese market of Gouda cheese. CONO markets a variety of labels brands, adapted to market conditions and specific outlets. BeemsterKaas is their target cheese variety.

The case study deals with the way CONO made choices in production processes, marketing and organisation of the chain. Where possible, we will focus on the BeemsterKaas label.

#### Beemster World Heritage

The Beemster Polder, dating from the early 17th century, is one of the oldest areas of reclaimed land in the Netherlands. The reclamation was commissioned by rich merchants from Amsterdam as an investment and to build country seats. The polder was completed in 1612. The new land was 3.5 metres (11 feet) below sea level and turned out to be fertile clay. It was parcelled out in a rectangular grid, reflecting the 17th-century ideal of the harmonious relationship between man and his environment. The long rectangular plots, which were leased to arable and stock farmers, were just the right size for farming. Originally the area was divided into four areas for water control purposes; now there are seventy. The windmills that kept the Beemster dry have made way for pumping stations, and the country seats of the rich merchants have gone.



Box 3.1 Beemster World Heritage (source: Beemsternet.nl & Unesco World Heritage)

### 3.2 Cono Cheese makers: a profile

CONO cheesemakers is a cooperative dairy enterprise with roots that go back to the beginning of the 20<sup>th</sup> century (1903). The present enterprise dates from several mergers of smaller dairy cooperatives starting in the fifties. In the mid fifties a large dairy co-operative was established through a merger of small dairy co-operatives in the Northern region of North Holland, called CV Noord Holland. A few smaller co-operatives remained independent because they did not want to follow the large cooperatives philosophy. These merged in 1949 into another co-operative: 'De Combinatie'. This cooperative later became CONO Cheese makers. Through several other mergers, including the merger with the cooperative 'De Vechtstreek' in the East of The Netherlands in 1999, the present cooperative was established. Along with the merge process, the milk processing facilities changed from several locations to only one location (Beemster) for both cheese production and whey powder in 2005.

Currently, approximately 600 farmers are supplying milk to the cooperative. Around 90% is member of the cooperative. Most of the member farmers are based in the Province of North Holland of which some in the Beemsterpolder. The other farmers are based in the Province of Flevoland and Overijssel. The member farmers deliver yearly 280 million kg of milk that is processed into 27 million kg of cheese. The milk from the farmers outside North Holland is processed into butter. This is because milk from farms outside North Holland has a different quality of fat, less suitable for CONO cheese. The total turnover was € 130 million in 2003. Compared to other dairy companies, CONO is a medium player.

Company	Kind	Annual turn over 2002 (x mln €)
Friesland Coberco DF	Co-op	4,575
Campina	Co-op	3,655
Nestle NL	Private	334
DOC Hoogeveen	Co-op	273
Leerdammer	Private	269
CONO Cheese makers	Co-op	130
<b>TOTAL</b>		<b>9,236</b>

Source: factsheet Productschap Zuivel, 2003.

Till 1994, CONO produced besides cheese, also fresh dairy products (milk, buttermilk, yoghurt, etc.) and milk powder. In 1994, CONO closed down the latter lines of production as a result of decreasing revenues. Also the processing facility for members in the East of the Netherlands was sold in 1996. Milk is still collected and skimmed on that location though. The fatty contents of the skimmed milk are processed into butter by another processor by means of a contract.

On the Dutch market; 65% of the CONO cheese is sold in specialty shops and 35% is sold in supermarkets. In specialty shops, CONO has a market share of more than 50%. The sale through specialty shops is generally decreasing in favour of sales through supermarkets.

50% of the total cheese production of CONO is exported under various brand names. Belgium imports ca 7 million kg of cheese; the export to Germany, Japan and Spain count for another 7 million kg.

The total turnover increased with appr. 12% between 2000 and 2003, while the number of farmers decreased slightly. This seems to illustrate the general trend of less farmers milking more cows per farm.

Figures CONO	2000	2001	2002	2003
Turnover (in mln €)	113	127	123	126
Balance total (in mln €)	34	40	37	40
Number of employees	123	118	123	130
Number of members	578	549	550	523

Source: NCR Website

The number of employees increased slightly during this four-year period. It is interesting to compare CONO with another mid size cheese cooperative, DOC Hoogeveen, who is producing Gouda cheese for bulk markets. DOC has a double amount of production compared to CONO and the same amount of employees (NCR, 2004). It illustrates the difference in strategy as CONO opts for high quality, niche market production and active marketing strategies in selling their cheese on diversified markets. DOC Hoogeveen mainly produces anonymous or under retailers labels. The price differential of CONO cheese compared to anonymous cheese is around € 1,- per kg (Brouwers, 2003).

### 3.3 Organisational structure of CONO cheese makers

CONO is an independent cooperative of approximately 600 associated dairy farmers. Most of these farmers (appr. 500) are based in the Province of North Holland. 100 farmers are based in the Flevo polder, Friesland or the Eastern part of the Netherlands. The average milk quota of a farm that supplies milk to CONO is around 420 tons of milk a year. This is the average milk quota in the Netherlands. The actual size of the farms is diverse, both large scale as smaller farmers are member.

### **Cooperative history**

Before 1870 all dairy produce was produced on farms. The first dairy factories were established in 1871. By 1910 there were no fewer than 958 butter factories and 291 cheese factories. Since then an ongoing process of concentration and enlargement of scale has been evident in the processing industry as well. As in the case of dairy farming, this process accelerated in the 1970s and 1980s. Nowadays the Dutch dairy industry is one of the most consolidated in the world. It is dominated by the cooperative structure. This situation stems from a longstanding tradition in the Netherlands: cooperatives owned by dairy farmers have been in place since the early days of the dairy industry. Consequently, they were also part of the process of consolidation that accelerated over the past decades.

*Source: NZO website*

CONO comprises two factories: a cheese production unit and a whey powder factory, both located in West Beemster since 2005. Furthermore, CONO has an own sales and marketing department. In total, 130 people are working in the factories, office and on the road. The majority, eighty people are working in the cheese production unit, the others in the other departments.

CONO has two logistical trajectories. The first trajectory entails the milk reception and the production of cheese; the second trajectory runs from the warehouse to the retail. Both divisions have separate management that cooperate closely together. The CONO organisation has two managing directors: one responsible for production and one for marketing.

The farmers (officially the owners/shareholders) are represented through a board. Board members are democratically chosen every seven years. The board advises and monitors the management team on general issues. The daily management is the responsibility of the two directors. In contrast with other dairy co-operatives in the Netherlands, which have chosen a more compact representation of the member farmers, the board of CONO comprises nine members. According to interviewed board members, this enhances effective representation of the 600 members. Besides the board, there is a committee of commissioners and a 'panel of young farmers' that also advises the management.

The member farmers (owners of the co-operative) have a say in the management of CONO through an annual shareholder meeting.

The culture of the organisation is characterised by members and management as open, short lines, a bit rebellion, a feeling of unity and like an extended family. Because the cooperative is medium sized, farmers have more say in the management compared to other dairy cooperatives. But even though the open structure is appreciated, farmers mainly like to join or support a cooperative that pays the highest price for their milk. On an average farm one eurocent price difference per litre means € 4000,- difference per year.

For the past six years, CONO paid the highest milk price of all Dutch dairy enterprises. The turnover increased with 12% and despite a slightly decreased number of farmers since 2000, the current members seem to be able to produce enough cheese to follow market demands. Therefore, CONO has currently a waiting list of farmers that would like to join.

## **3.4 Cheese production process**

### **Quality of the milk**

The Province of North Holland is traditionally a cheese production region. The quality of cheese from this region is believed to be better than cheese from other regions. The traditional grass diet of the cows, as opposed to a grass-maize diet more common in other regions, contributes to a smoother taste of North Holland cheese. Gouda cheese from North Holland obtained a PDO label, but CONO does not make active use of the label in the promotion and marketing of its cheese.

The quality of the cheese is greatly determined by the milk quality, the kind of fatty contents and the use of salt in the production process. Farmers that produce milk for CONO have to work according to certain standards that prevent contamination of the milk with dirt and with bacteria that produce butyric acid. Butyric acid affects the quality of cheese in a negative way. To prevent butyric acid, farmers have to protect silage or add other bacteria to prevent contamination. Apart from butyric acid, milk is checked on other criteria (cell counts, freezing point, Ph Value, germ count, anti-biotics traces) as other processors do as well. The milk is checked in an independent laboratory. Farmers with better milk quality get a higher price for their milk.

### **Grazing bonus**

Apart from an extra price for milk quality, farmers get also a higher price when having their cows grazing in the field for a certain period in the year. 95% of the farmers have their cows grazing in the summer and spring. To comply with the grazing criteria of CONO a regulation is developed concerning the number of days and the hours per day cows need to be in the field. Cows need to be outside at least 100 days a year for a minimum of 5 hours a day. CONO offers farmers a higher price of 50 eurocents per 100 kg milk for grazing cows. The extra costs are estimated € 1,36 million per year which are directly charged to consumers through the price of the cheese. Checks are made by a CONO employee and through social control. According to recent studies (see A. Elgersma, Wageningen University), milk from grazing cows seem to produce better and healthier milk than cows that are in doors all year round, due to higher contents of CLA (omega-3 fat acids).

### **The cheese making process**

Apart from the milk, also the way the milk is processed and the recipe used is important in producing a high quality cheese. A good milk quality is important for the CONO cheese production process because CONO does not bactofugate the milk to eliminate the unwanted butyric acid bacteria. The least treatment of milk and also the non-bactofugation result in a higher quality of cheese. CONO also uses a recipe with less salt content compared to industrial Gouda cheese. CONO cheese production is characterised by semi artisan processing of cheese. Unlike artisan farm cheese that is made of raw milk, CONO pasteurizes the milk.

Where in the mid seventies, other Dutch cheese factories started to use a continuous production line production (CASOMATIC), CONO decided to maintain the batch like way of producing cheese to have the opportunity to diversify its range from normal Gouda cheese to cheese with special herbs. At the moment, CONO produces more than forty varieties of cheese under various labels. Part of the production process (the cutting of the 'curd') is still done by hand to ensure a quality product. Another advantage of batch production, as opposed to a continuous production line, is the longer duration the cheese remains in contact with the whey and the longer it remains in open drainage vats, adding to the flavour of the cheese.

### **Maturation of the cheese**

After 14 days of ripening, the cheese leaves the factory to a ripening warehouse. Depending on the desired selling age of the cheese, the cheese is ripened. For BeemsterKaas, the range varies from 'young' (4 weeks), 'semi-matured' (8 weeks), 'matured' (4 months), 'old' (10 months) to 'extra old' (28 months). After, the cheese goes either to the ripening location of a wholesaler or to a contracted ripener. From there the cheese is distributed to specialty shops and supermarkets.

## **3.5 Marketing and sales**

### **Variety of brands**

All cheeses are prepared with the same milk. CONO produces forty different variety of cheeses under various labels. CONO cheese is marketed through different labels, depending on market channel, e.g. specialty shops, supermarkets, the Belgium market and the German market. BeemsterKaas is the most important label, followed by the label Vlaskaas (Belgium) and SMAAQ; a label developed for specialty cheese shops. A decreasing share of cheese is sold as non-labelled cheese for retailers labels or to wholesalers that put their own label.

### **Increased marketing efforts**

Marketing of CONO cheese has been part of the cooperative since the early twenties of last century. To be able to export cheese to Belgium in the mid twenties, it was obligatory to label the cheese. This label has been built into a brand and later it was used in promotion campaigns. The brand BeemsterKaas dates back to 1936. Compared to other medium sized dairy cooperatives, CONO has a distinct and active marketing and labels policy to reach consumers directly.

Till 1995, CONO did not engage itself actively in marketing activities of their cheeses. This was the effort of the wholesaler. After 1995, CONO developed their own marketing department to improve the market position of their cheeses. The past years CONO invested a marketing budget of appr € 1 to 5 million a year (ca 3% of annual turnover) to promote especially their target brand 'BeemsterKaas'.

### **From specialty shops to supermarkets**

The retail price of CONO cheese is around 25% higher than the price of a supermarket brand of Goudse cheese. From 2000 onwards, there is an increase in supply to supermarkets. Before 2000, 95% of annual turn over was sold through specialised shops. After 2000, CONO started to supply to supermarkets with in store fresh departments. In 2004, 34% of the total cheese production goes to supermarkets, 66% to specialty cheese shops. The decrease in percentage of supply to specialised shops is not only due to changed market strategy. In the past years, the number of cheese specialty cheese shops decreased drastically. Another reason for a shift in market outlet is the change in consumer behaviour: more and more consumers buy high quality cheese from Noord Holland in supermarkets instead of visiting a specialised shop.

### **Branding/image/marketing**

The various cheeses from CONO are sold as specialty cheeses with distinctive quality and less salt content. BeemsterKaas is the most known brand and is sold in different varieties and ages. Marketing plays an important role in sales of CONO cheese. The marketing concept uses product features (slow production process, low salt, artisan, taste) and positive production circumstances (animal welfare, fodder, landscape) to position the product in the market.

Apart from marketing efforts, CONO attracts free publicity by sponsoring regional events or organising activities that illustrate their support to grazing cows. Because CONO is a medium sized player in the dairy world, it creates a positive image in the press and with societal organisations. With the latter, there are however no regular relationships to increase promotion.

### **Price setting**

CONO competes on quality and refuses to compete on price to avoid price stunts on the consumer market. Wholesalers and retailers seem to respect this strategy. This might be because of the medium size of CONO and the sympathy they generate with other chain players with their strategy. CONO also allows a higher margin for the retailers and has a loyal share of consumers. During the supermarket war that started in 2004, CONO still has been able to negotiate a fixed price.

## **3.6 Future**

The aim of CONO is to maintain the product volume and increase the share of BeemsterKaas in their total sales. Furthermore they aim to sustain the market by growth in export and a higher market share in supermarket sales in The Netherlands. The introduction of BeemsterKaas in the supermarket has been successful thus far and the objective is to maintain the growth by addressing consumers directly. CONO expects to produce cheese with milk from farmers in Noord Holland in the future. New manure policy or the Nitrate directive might affect the strategy of farmers to have their cows grazing. CONO indicated however to maintain their strategy of paying an extra prize for grazing cow's milk.

CONO does not expect large competition from other parts from Europe because milk from green Dutch pastures has a distinct quality like a better mixture of grass varieties. This quality is important to produce Gouda cheese and this is hard to reach by other European countries. Future competition is mainly expected from New Zealand and Australia, because farmers in those countries can have year round grazing of their cows.

**'CONO on top of milk price list'**

In the past 4 years, CONO paid the highest milk price compared to the eight other dairy cooperatives. CONO also realised the highest efficiency in added value. Even though the added value of 28% of the total turn over is less than those of Arla (38%) or Friesland Coberco (33%), the costs of added value creation of CONO are much lower. In case of CONO, the difference between costs and returns are 4,2% while Arla creates a difference of 2,4% and Friesland Foods 2,2%.

*Source: Rochus Kingmans, Boerderij 90-no 48 (August 30, 2005)*



## 4 The story of BeemsterKaas

### 4.1 Introduction

The story focuses on the strategy of CONO and its development of the BeemsterKaas label. The case shows a different approach towards increased competition on the (international) cheese markets, merging processes in the dairy industry and scale enlargement and intensification on dairy farms. The case illustrates that a medium sized dairy cooperative can gain a stronger position on the market by broadening its activities, focussing on quality production and product and packaging innovations. In the period from 1995 till present, we can distinguish four major, partly overlapping cycles of change. These are represented in figure 4.1.

The case of CONO shows the transition of dairy cooperative towards a cooperative that adjusted its strategy from a supply driven approach towards delivery on demand. It successfully moved the cheese from a bulk market towards a niche market for high quality cheese. CONO is now not only producing cheese, but is also engaged into marketing activities towards consumers (promotion of label), by branding a variety of labels with specific claims and images (artisan, grazing cows, Beemster Unesco world heritage) and by seeking a diversification of outlets for their cheese (from specialty shops to supermarkets). Recently CONO concentrated on sustaining its market and to explore new innovations in packaging and quality control.

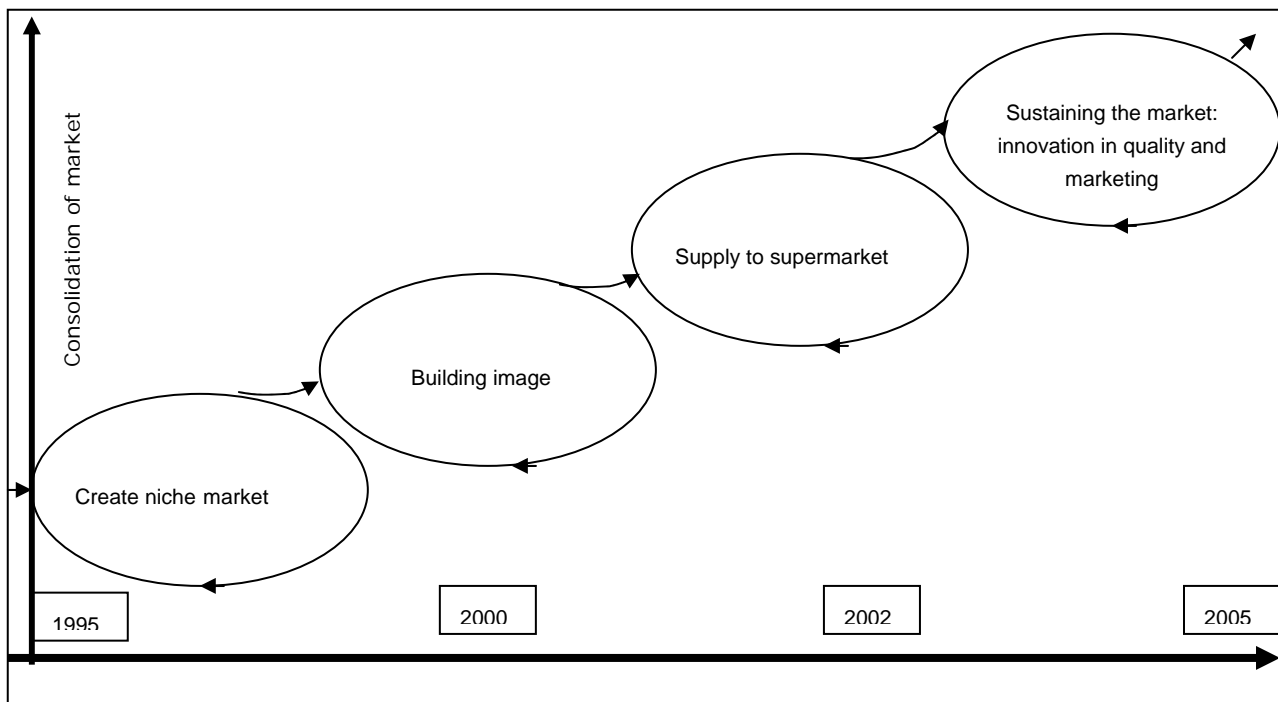


Figure 4.1 Development of BeemsterKaas label: milestones

We identified these four main stages of change after interviews with involved stakeholders, literature research and website review. Changes happen continuously and can be described as a cyclical process in which people enrol around a certain problem, mobilize others and adapt strategies to face changes. The separation of these changes into four different steps, is mainly done to have a better grasp on the description of what happened in the past ten years. We are aware that reconstructing a story means simplification of the actual process that took place. Changes at least partly overlap and that they are intertwined with each other. In the following paragraphs we take a closer look at these changes and milestones reached.

## 4.2 From bulk to niche market: upgrading the outlet

### From bulk producer to niche provider

In 1995, CONO faced a financial crisis. Due to rapid expansion of production capacity in the mid nineties, the sales lagged behind the production of cheese. Expansion of production capacity was needed to finance the necessary investments to make cheese production more cost efficient. Especially because in the mid-eighties it was decided to continue batch production of cheese instead of changing to a continuous, more efficient production line of the CASOMATIC, like most companies did. BeemsterKaas and all the other varieties produced by CONO were sold as factory Gouda cheese. A large share of the cheese was sold under blank label or the label of others, such as supermarket labels and wholesalers labels. There was no price distinction with other Gouda factory cheeses.

The commercial director, who was appointed in 1995, decided a balance was needed between diversification and volume and to opt for competition on quality instead of price. Furthermore, CONO invested in (re)gaining trust on the wholesale market, especially because some traders offered CONO cheese under the price. Wholesalers were divided into three groups: partners, 'the ones tolerated' and 'disrupters'. The contracts with the latter group were abolished and with the others new contracts were negotiated. The result was to increase the price of cheese drastically according to the higher production costs of the cheese. The remaining wholesalers accepted price raise and were able to translate it into consumer prices at specialty shop level. In this way, it was also clear that CONO cheese had a distinctive quality compared to other Gouda cheeses.

*'The higher cost price of the cheese is mainly due to the higher costs of the way we produce the cheese in batches. We therefore cannot compete on price with factory cheeses that are made in a continuous production line.'* Commercial director CONO

The increase in price also gave way to enter the niche market of quality cheeses. Before, CONO cheese had to compete in price with factory Gouda cheese. Through an increase in price, the consumer could see that the cheese was of higher quality.

*'Before the increase in price, CONO had difficulty to position the cheese on the qualified market. Because the cheese became more expensive consumers started to appreciate the cheese as a specialty'* Commercial director CONO

Valorisation of quality thus became an outcome of the price setting instead of price following production costs and market competition. The current price for BeemsterKaas is appr. € 7,50 a kg while non labelled bottom market Gouda cheese sells at € 3,50 a kg.

*'CONO is a real niche player and has to compete on 'smaller and better' whilst FCDF and Campina compete on scale and efficiency.'* Director wholesale & ripening company.

## 4.3 From label to brand: building an image

### Ripening and marketing

In marketing a cheese, the ripening and the positioning of the cheese in the market plays an important role. There is the choice to sell the cheese after four weeks or after four months depending on demand. To foresee demand for the next two years (in case of 'very old Gouda cheese'), is tricky. There is always the risk to stock too much without finding a market. In the case of BeemsterKaas, this risk was mainly taken by the ripener/wholesaler. The wholesaler however, was also the main beneficiary of the value adding in the ripening, trading and wholesale process.

*'The maturation is only one possibility to add value to a cheese, the other is to market the cheese in a higher segment in the market. For the latter, you have to create a strong brand value. Young Gouda cheese can be found for €3,20 in the supermarket, Beemster X.O. is € 15,90 a kg. On the one*

*side the price is determined by the special recipe and long ripening process, on the other side the brand value is very strong too.'* Director Wholesale and Ripening company

**From producer to marketer**

In 1998 CONO changed their marketing strategy drastically. Before, CONO only produced the cheese and after 15 days of maturation they sold the cheese to wholesalers. Five wholesalers, one in The Netherlands and four in Belgium, used exclusively the BeemsterKaas label appointed by CONO. They were free to use it in their marketing efforts. In practice however, till the beginning of the nineties, the label was mainly used as a 'sticker' on the cheese. The marketing activities of wholesalers were mainly focussed on enhancing consumer loyalty in the specialty cheese shop by occasional offers. In the mid nineties, as result of the increased price and the decrease in cheese specialty shops, the wholesalers started to use a more defined marketing strategy in which they used BeemsterKaas as a target label.

In 1998, CONO decided that they could not obtain a strong market position because of the numerous brands and labels under which they were selling. Furthermore they aimed to diversify the outlets in the future to compensate for the steady decrease of specialty cheese shops. To create more 'added value' to the brand BeemsterKaas, CONO decided to take up marketing itself.

*'We started to market our own cheese to have a better control on the promotion and sales of our products. In this way we were also better able to focus on one brand name: BeemsterKaas. Before we had a variety of brands with more or less the same market share. Now BeemsterKaas is the most important.'* CONO marketing manager

*'For wholesalers and specialty shops it is not necessary to advertise your product. But because we choose to enter a niche market and to ask a higher price for our product, branding becomes necessary. The consumer needs to understand why he pays more for a quality cheese.'* Commercial director CONO

**Marketing cheese: intrinsic quality and brand value**

*'There is a distance between the origin of the product: the milk and the groups of consumers. The chain is rather anonymous. With a brand name you give the product the contents that appeals to the consumer. 'Old Amsterdam (a factory processed Gouda cheese with fastened ripening procedure), has reached a high price/specialty category. In order to maintain that position they have to spend a large part of their revenues into marketing and mass media.'* Director wholesale and ripening company.

*'An effective and strong marketing strategy is more important than the intrinsic product quality. It is a matter of capitalising intrinsic quality by adding value through the brand name. In the case of BeemsterKaas, the intrinsic quality is higher than factory Gouda cheese. In the market BeemsterKaas has therefore a higher price than factory Gouda, based on its quality. But by selling the cheese under a strong brand name, the price differential with factory Gouda is increasing.'* Director Wholesale and Ripening Company.

Box 4.2 Relationship between brand value and price of the product. Source: personal communication Director wholesale & ripening company

CONO negotiated with the wholesalers a transition period in which CONO would eventually regain exclusive use of the brand name 'BeemsterKaas'. A part of the deal was the diversification of brands. The wholesalers would get their own brand names that they could use exclusively for their customers: 'BeemsterKaas Exclusive' and 'SMAAQ'.

*'New agreements with CONO were made. For our outlets, they created a new quality of cheese: BeemsterKaas exclusief. Although this cheese is made with a new recipe, it is mainly the brand name that creates the added value.'* Director Ripening and Wholesale company

### Marketing concept

CONO has chosen the following marketing concept:

- Continuity in sales by direct contact with the consumer
- Using differentiating characteristics in press and free publicity
- PR activities that attract media attention: largest cheese of the world, largest cheese fondue, cheese café (Alkmaar) and sponsoring a sailing team
- Promotion through gifts and samples
- No price offers or lower prices to promote the cheese

According to the commercial director, the success is the result of breaking through the traditional 'cheese thinking pattern' in which cheese is seen as dull and old fashioned. To do so, they used concepts sympathy, involvement, adventure, tradition, authenticity.

*'We are different from other medium sized dairy cooperatives, because of our strong marketing efforts. We think marketing is an important aspect of selling cheese, because in the end you have to earn your money in the market. That means you want to reach the consumer directly. Other smaller cooperatives are more focussing on cost price strategies.'* Commercial director CONO

To make this drastic shift, the approval of the board was needed. It was not easy to convince the board at first, but later it turned out to be beneficial and farmers were rewarded. CONO was able to pay higher milk prices to their farmers and for the past six years, paid the highest price for milk in The Netherlands.

*'Especially the marketing budget sometimes causes friction between the board and the management, since the farmers don't feel easy with spending € 1 million for the promotion of a cheese. But in the end it turned out successful.'* CONO marketing manager

In 1994 CONO spend € 1 million in promotion, in 2004 almost € 5 million into promotion and advertisement. BeemsterKaas became their target brand and is build through several promotional activities, sponsoring and advertisement campaigns in magazines and on television.

*'The most important feature in our marketing is the taste of the cheese. This taste is determined by the use of milk of grazing cows that do not have a maize diet, by the artisan way of production and the natural ripening process of the cheese. In our advertisement campaign we want to address these three things.'* Commercial director CONO

Besides, in 2001, queen Beatrix of the Netherlands has appointed CONO as preferred supplier (hofleverancier). Especially for the Japanese market, this has been an interesting tool to use in promotion of the BeemsterKaas.

## 4.4 From specialty shop to supermarket: diversifying the outlet

### From chain follower to an active chain player

From 1998 onwards the CONO cheese sales through the specialty shops decreased slightly, mainly due to a decrease in shops. In 1980, specialty shops counted for 20% of the total sales of cheese in The Netherlands and in 2004 this dropped to 5,4%. In 1999, 85% of the total CONO cheese was sold through specialty shops. To maintain a market CONO had to change their strategy and started to enter the supermarket channel. In 2002, BeemsterKaas entered the supermarkets.

*'In 1999 we realised that the number of specialty cheese shops was decreasing drastically. It was necessary to expand sales to supermarkets in order to survive. The wholesalers and specialty shops understood that it was necessary to start sales in supermarkets. We offered them a special variety of BeemsterKaas of 16 kg that would be only available in specialty shops.'* Commercial director CONO

Also the ripening and wholesale company with whom they collaborated had to do the same. Even though they are now both active in the same market outlets, competition is not hindering collaboration.

*'After CONO started to use the BeemsterKaas label as their target brand, they also started to sell cheese to supermarkets. We did not see them as a direct competitor, because we weren't delivering to supermarkets yet ourselves. We both had to find an entry in that market. Even now we cooperate in many ways. We are still ripening and distributing the BeemsterKaas because CONO does not have the facilities.'* Director Ripening and Wholesale company

### **Consolidating supermarket sales**

CONO is still facing tough competition from other brands in the struggle for shelf space. To obtain shelf space in a supermarket is a difficult process, especially for supermarkets that are controlled by a central management. CONO invests a large share of their sales efforts to negotiate shelf space at supermarket level.

*'It is a difficult process to get a place in a supermarket. The supermarket buyers are price oriented, not quality oriented. For our products this is a constraint because we have a labour intensive artisan production process, which makes our cheese more expensive. A market entrance for us is the more independent franchise shop that can choose their products. Cheese has a high margin in super markets, so during the price war, supermarkets have lowered their prices but it did not affect us.'* CONO marketing manager

*'Selling through supermarkets means that you have to start from the bottom. They are not waiting for you and that means continuous promotion of your product and conquering shop by shop while competition is lurking. We approach supermarkets one by one and are there noted.'* Commercial director CONO

Selling directly to shops, instead of negotiating contracts at central level with the supermarket management also has advantages: CONO can set its own price and delivers directly to each shop so they are not dependent to the strong supply and logistical regulation at central level. Furthermore, choosing a specific strategy to address supermarkets individually can create good will.

*'SuperUnie is a supermarket chain that has a few smaller independent members. They like that we don't sell to giant Albert Heijn, because they can distinguish themselves with our cheese.'* Commercial director CONO

### **Sales and branding**

In 2004, CONO started with a national account manager to promote the sales of cheese and five sales representatives are full time working to keep the cheese on the shelves in supermarkets. In all, the increased sales through supermarkets has led to an increase in turn over which compensated more than the decreasing sales through specialty shops.

*'To get the cheese in the supermarket, you first have to convince the 17 members of SuperUnie and after the shop managers. This means you have to proof yourself first. Because of the quality of the cheese we do better than other brands. It appeared that after three months our cheese is selling better than those of our competitors. That is also because we try to put 'emotion' in our product such as our artisan way of production.'* CONO national retail manager

Together with the sales through supermarkets, marketing efforts needed to be intensified to distinguish the BeemsterKaas brand from other Gouda cheese labels. Branding takes place at the level of supermarket managers and consumers. For supermarket owners, CONO's strong position in the specialty shop outlets is appealing and also the loyalty of the consumers that buy BeemsterKaas in specialty shops.

*'When your cheese is sold in a supermarket; it needs more attention to distinguish the brand from ordinary Gouda cheese. That's why extra marketing efforts were necessary, also because supermarket employees don't have the knowledge to promote the cheese themselves. We therefore expanded our sales and marketing department. In this way we would be able to inform potential consumers about the special quality of our cheese.'* Commercial director CONO

### **Vertical chain integration**

The CONO chain diversified from farmers, CONO and wholesalers to addressing supermarkets directly. This also had consequences for the logistic part of the chain. Supermarkets increasingly demand for short-term supplies and pre-packed cheeses. The logistical organisation had to adapt to their demands.

*'Supermarkets are facing higher labour costs for a fresh department (where cheeses are packed on the spot) and therefore demand more and more pre-packed cheeses with a freshly packed outlook: the fresh pack. Even though this package results in a shorter conservation period; it follows consumer preference for a more artisan looking cheese.'* Commercial director CONO

CONO therefore contracted a pre-package company to pack the cheese in fresh packs according to supermarket demands. For supermarkets and the BeemsterKaas brand, CONO considers itself the chain director by setting consumer prices and controlling the logistical part of the chain. For retail through wholesalers and specialty shops, the chain is more controlled by the wholesalers who can set their own consumer prices.

According to the director of the ripening and wholesale company however, retail is determining the market of cheese and claims most of its profit. This is mainly due to the process of integration and merging of chain actors. According to him, this process went more rapid and was more effective on retail level than on the other levels of the chain such as wholesale. For ripening and wholesale companies there is a need to adapt and diversify activities to survive in a chain that is concentrating at rapid speed.

*'Producers are integrating chain activities on the one side and retailers on the other side. For wholesalers who do not offer more than collecting and redistribution, will have a difficult time. Creativity and flexibility is important to keep your position.'* Director Ripening and Wholesale company

*'The relationship with CONO is sustainable. They operate from an underdog position and that generates sympathy.'* Director Ripening and Wholesale Company

The director of the wholesale and ripening company believes that this process of chain integration results in a more transparent view on where value is added in the chain and will make the chain more cost efficient.

*'We are now analysing our role in the chain to see where we can offer added value or where we can link our activities to those of others to make our part of the chain more cost efficient.'* Director Ripening and Wholesale Company

### **Increased power of retailers**

The director of the wholesale company acknowledges that retail actors are very powerful and can claim most profit, especially because they are closest to the consumer. According to him, they can even break the power of a brand by using their own labels.

One of the strategies of CONO to maintain itself in the retail market is to allow retailers a higher profit margin compared to other labels. Also because of their long experience in selling their product through specialty shops they can use this experience in positioning the cheese in the supermarkets to create a higher turn over.

*'After we start selling in a supermarket, it turns out that after three months we do better than our competitors. That is in the first place because of our cheese quality, but also because we succeed to 'load' our cheese with emotions that appeal to the consumer.'*

## 4.5 Sustaining the market: innovation

### A successful strategy to create added value

From 1995 till present, CONO has taken up a more active role in the marketing and sales of their product. As a company selling non-labelled cheese to different suppliers they could not benefit from the added value created by branding their cheese. Even though the quality of the cheese was acknowledged to be better than other industrial processed cheeses, they were not able to create a surplus value.

In their strategy to put more added value to their product, they decided to engage more into marketing themselves. From 1995 onwards CONO gained more and more control over the marketing and sales by integrating marketing and publicity activities in their cooperative. BeemsterKaas became a target brand and nowadays a large share of the total production is sold under that name.

In this process they also shifted a large share of the sales from specialty shops to supermarkets. Even though this turns out to be a tough process, they succeeded to get shelf space in a growing number of supermarkets.

Over the past six years CONO paid the highest milk price to their farmers. A recent study it shows that they managed to create the highest efficiency in added value to their products compared to the other Dutch dairy cooperatives (Boerderij, august 2005). Innovation in branding and improving product quality are key factors in maintaining the market share in the future.

Recently CONO also started to enrol actors from research institutes to gain better understanding in milk quality in the production process and to investigate how the quality of milk can be improved. CONO also enrolled new actors in the logistical chain to be better able to comply with the demands of large retailers, such as packaging cheese in 'fresh packs'.

### Maintaining a strong brand name in a higher price segment

The challenge for the future is to maintain and further develop the strong brand name of BeemsterKaas, to maintain the added value and to gain more shelf space in supermarkets in the Netherlands and abroad. According to CONO's commercial director several factors are important in sustaining the market position:

- High quality of cheese (taste and quality of milk)
- Broad range of cheese ages
- Non negotiable consumer price
- Not allowing dumping to prevent price distortions
- Selective outlets (e.g. only in supermarkets and shops that have 'fresh department'.)
- Innovation in packaging (e.g. paperlook package that has the image of freshly packed cheese)
- Innovation in cheese recipes and cheese images (e.g. developing new brand of 'light' cheese)
- Promotion/marketing: continuous promotion is necessary to maintain the attention of consumers.

*'Depending the market, you have to select the message you want to tell your consumers. In Japan, consumers are interested in status and the 'appointed by the queen label' and the 'Unesco world heritage status of the Beemster' are doing well there. In Belgium consumers are mostly interested in taste and in The Netherlands, consumers are interested in the grazing cows in the fields. In Germany and Spain, we found a good market for our low fat products.'* Commercial director CONO

### Exploring improvement of product quality: grazing cows and CLA's

One of the features that determine the quality of the cheese is the 'soft' butter fat in milk. Soft butter fat in milk is characteristic for milk of grazing cows in Noord Holland. Because they don't have maize in their diet and are only fed on grass and fodder, the fatty contents in the milk are softer. Keeping cows indoors all year round, will affect their diet and consequently the quality of milk and cheese. In 2000 CONO therefore started to pay an extra price for farmers who have their cows grazing during a certain period a year.

*'The idea to promote grazing cows came the board. The management team was immediately enthusiastic too. It turned out to be beneficial for free promotion. Off course, the results of this effort have to be economically interesting for our farmers as well. We have the highest milk price over the*

*past six years, so that also contributed to the acceptance of reward for grazing!* Commercial director CONO

Recent research shows that milk from grazing cows also has a better concentration of CLA's (Omega 3) that makes the milk healthier. Together with Wageningen University, The Dutch Institute of Dairy Research (NIZO), a grass breeder and an animal fodder producer, CONO started to investigate the type of grass and fodder that enhances the health of milk in summer and in winter when the cows cannot graze.

*'Research shows that most types of grass lose their content of linoleum acid, an ingredient that influences taste and quality of cheese, within 30 minutes after cutting. We investigate if we can stop this process.'* CONO marketing manager

At the moment CONO does not have the intention to use the health issue and CLA findings in their marketing strategy. According to the director and marketing manager, health is not associated with cheese and can even affect the image in a negative way.

*'In the Netherlands, we market our cheese using mainly grazing cows and landscape. Health is also an issue that is important to consumers. That is why we use it as well in our marketing, but at the same time we try to avoid the connection with dietary products. In the future, we would also like to use artisan production process as a marketing tool.'* Marketing manager CONO

In total, using winter fodder that substitutes the CLA's in grass and the certification system will cost € 0,01 per kg milk which is an increase of appr. € 0,10 per kg cheese. According to the commercial director of CONO, it will be hard to earn these extra costs in the market. Even so, CONO decided to pay a surplus to farmers of € 0,50 per 100 kg for milk that contains a higher level of CLA (Agriholland, 14/9/05).

### **Keeping quality and taste a core value**

CONO produces the cheese in batches: the whey and the curd are still stirred by hand and the production is slower than with a Casomatic, leaving the cheese longer in contact with the whey in vats. This enhances the taste of the cheese. Even though the choice to continue producing cheese in batches was at first a practical choice: producing more varieties than in a continuous production line, producing in batches also affects the taste of the cheese.

*'In 1996 we discussed whether we should change to a Casomatic production line. In the end we decided not, because we want to keep our distinctive taste. We choose to differentiate from our competitors by producing a cheese with better taste. You have to differentiate as a mid size dairy cooperative because you don't have the advantages of scale like FCDF or Campina. These are not direct competitors since we moved ourselves to a niche market, but they still can be a threat.'* Commercial director CONO

CONO profiles itself as an artisan cheese maker. Their production process takes place in a factory, but their production process is distinctive from other cheese factories and has still artisan elements. The choice of producing high quality cheese with high quality milk gives them a better position on the cheese market as a medium sized player. CONO addresses the niche of 5-10% of the population that is willing to buy a high quality product.

*The concept of taste, quality and health of raw milk is linked to the size of the cheese factory: for larger dairy companies with other products besides cheese this is less interesting. On the one hand because they mainly supply for bulk markets and compete on cost price; on the other hand they can process inferior milk in other products, such as desserts.* CONO marketing manager

*'We need the intrinsic quality of the cheese to position ourselves better on the market. We need this quality to obtain the price for our product that is also beneficiary for the dairy farmers. If you calculate the costs of batch production and open drainage tanks than we are not producing cost efficient. But if quality is your strategy; our production process results in added value in the consumer market. That is our strategy.'* National retail manager CONO



This quality is appreciated consumers and resulted in increasing sales through supermarkets over the past five years. The share of non-branded cheese in the total CONO cheese production has become almost zero, while own brands such as BeemsterKaas and Vlaskaas are doing better and better on the market.

*'We have BeemsterKaas in our assortment of cheeses because we want to offer the best quality to our clients. Cono supplies the best quality of cheese. The value of BeemsterKaas is the sum of intrinsic quality and brand value. However the intrinsic value is good, it does not add much to the price differential with factory Gouda cheese. This shows how important brand value is on the market nowadays.'* Director Ripening and Wholesale Company.

According to the commercial director of CONO the taste of BeemsterKaas is the leading principle in its success. Other values are linked to the concept of taste such as 'time' referring to the slow production process (batch production) and the time you take as a consumer to savour the taste of BeemsterKaas.

### **Branding and quality hand in hand**

The intrinsic product quality of the cheese is not the only ingredient in their marketing efforts. CONO makes use effectively other image features that are directly or indirectly linked to their product.

*'The brand BeemsterKaas refers to the Beemsterpolder; Unesco world heritage. It does not mean, however, that all the milk is produced in this polder. We don't think that is relevant, because the factory is based in this polder. For cheese the recipe and manner of processing is as important as the milk quality in producing a high quality cheese. We therefore think it is not relevant that some milk we use is not from this polder.'* Commercial director CONO

*'To protect the niche from which CONO operates, a clever mix between intrinsic product quality and branding is needed. The production process does play a role, such as the open drainage tanks, cows grazing etcetera. In the market you can create a distance between you and competitors by using a specific production process. To take your production process at the basis of your marketing efforts will not work however. You have to take out only the elements that make the cheese unique and those who appeal to consumers.'* Director Ripening and Wholesale Company.

### **No 'hitchhiking' by competitors: no PDO application**

Gouda cheese from milk that is produced in the Province of North Holland can obtain a Protected Denomination of Origin (PDO) label. Campina, the large dairy cooperative is already producing cheese under this PDO label. Also CONO is entitled to use this label on the cheeses produced from milk of suppliers in North Holland. CONO however, did not make much use of this label because it does not distinguish them from their competitors. As the director of CONO explains: a brand name is stronger than a EU label in creating a niche in the market.

*'We don't want to use the PDO label, because it resembles too much a private label and this will only help competitors to 'hitchhike' with your marketing efforts. For us, the power of our own brand is stronger.'* National Retail Manager CONO

*'A PDO label is not attractive for CONO. They never made use of it because it is more seen as a restriction than as an enhancement of their production and marketing. Brand value has more marketing power than origin.'* Director Ripening and Wholesale Company

### **Developing by maintaining size**

According to the commercial director of CONO, scale enlargement is not a target. Their production process and marketing strategies are based on being a niche player. CONO has one employee per 1 million kg of milk. At DOC (bulk cheese producer) there is one employee for 2 million kg of milk. The efficiency in the production of cheese is less, but this is rewarded with a better price in the market. The niche of CONO is consumers who don't choose their cheese on price only. The production is limited to 28 million kg of cheese a year. On the one side it limits the scale in which CONO can operate and it makes the production process less efficient, but it also permits more focus on niche marketing.

*'It is our strength to be small and remain small. We choose to produce high quality and to market the cheese in a higher market segment and that puts boundaries to the production capacity. We would like to keep our underdog position of a small player as long as possible, because it offers us a better position in the market.'* National retail manager CONO

*'We are margin driven-not volume driven. We have advantages compared to large supplier because of our scale.'* Commercial director CONO

## 5 Organisation and performance

### 5.1 Introduction

The Dutch dairy sector is characterized by scale enlargement, intensification and cost price reduction, both at farm level and at the level of dairy cooperatives. The need to reduce costs and the subsequent merging of dairy cooperatives have led to a concentration of dairy processing resulting in higher efficiency and producing large quantities at low costs. In these large, internationally operating dairy chains, the large cooperatives seek also added value in product diversification, product innovation and intense branding activities. Despite these efforts, world market prices and increased competition together with a growing market power of retailers have its effect on more and more dairy farmers that are faced by decreasing returns. These characteristics of the Dutch dairy chain put the sustainability and future livelihood opportunities of dairy farmers in the Netherlands at risk since increasing costs of land and labour put a limit to further reduction of costs.

In chapter 3 and 4 we described a counter response to these developments: the case of CONO cheese-makers and their production and marketing of BeemsterKaas. The central theme of the case is how a farmers cooperative can produce, process and market their products with an added value that both contributes to economic sustainability, quality production, rural development, environmental sustainability and better future prospects of dairy farming in The Netherlands.

This chapter provides a more in depth reflection on the organisational characteristics of CONO and BeemsterKaas and its sustainability performance as is conceptualised in the SUSCHAIN project. This will be done in a comparative way, by illustrating differences and similarities with Emmentaler cheese production in Switzerland.

#### **Emmentaler Switzerland: a profile**

The name of this famous cheese comes from the valley of the Emme in the canton of Berne. It has been produced there from the 13th century. Since the construction of the first cheese dairies in the valley from around 1815, the production of Emmentaler cheese has spread throughout the whole midlands.

Emmentaler cheese does not have a protected origin label. Emmentaler Switzerland cheese is competing with industrially processed Emmentaler cheeses from France and Germany. Emmentaler Switzerland has applied for a protected origin label that will only apply to Emmentaler cheese production in Switzerland

Emmentaler Switzerland cheese is made from unpasteurised milk from cows fed on grass and hay but not silage. It takes approximately twelve litres of milk to make one kilo of cheese. The use of any additives is prohibited, as is the use of genetically modified ingredients. The diameter of the wheel is between 80 to 100 cm, its height is 16 to 27 cm and weighs from 75 to 120 kg. Each wheel of cheese is subject to a number of quality control checks, during which the texture, body, aroma and appearance of the wheel are assessed together with its shelf life. The holes in the texture readily distinguish Emmentaler Switzerland cheese from any other cheeses. They appear during the fermentation process and vary in size between that of a cherry and a walnut. Mild Emmentaler Switzerland cheese is sold after a minimum of 4 months, after 8 months, it will be known as mature and then fully mature after 12 months.

*Source: [www.emmentaler.ch](http://www.emmentaler.ch)*

### 5.2 Emmentaler Switzerland – BeemsterKaas: a comparison

One of the goals of the SUSCHAIN project is to compare results of the investigation and exchange ideas with similar initiatives in other countries linked to sustainable food chain development. In July 2005, a Dutch and Swiss delegation of the SUSCHAIN project visited farmers, representatives of the Emmentaler Switzerland organisation, creameries and ripening locations of Emmentaler Switzerland. The purpose of the visit was to discuss how a high quality cheese with several sustainability aspects (economic, social, environmental) can be successfully marketed and which factors contribute to or endanger its success.

A comparison between Emmentaler Switzerland and CONO is particularly interesting because of several similarities:

- Same production volume (ca 30.00 tons of cheese a year)
- High quality product in which 'taste' is an important concept in marketing.

- Both interested in 'turning the product into a brand'
- Production features: (semi) artisan production, no use of maize in diet of cows
- Competition from other producers (Emmentaler: France, Germany; CONO: other Gouda cheese producers) that have industrial production from pasteurized milk.

In table 5.1 several features are presented to compare the Emmentaler Switzerland organisation with CONO.

Features	CONO	Emmentaler Switzerland
Total cheese production in kg (tons)	28.000	30.000
Total number of creameries/dairies	1	220
Average kg of milk processed per dairy (tons)	280.000	148
Number of employees in creameries	130	500
Export of cheese	50%	75%
Processing of milk	pasteurization	Raw (within 24 hours)
Distance farm-creamery	No regulation	Max. 30 km (in case of PDO)
Cost of Emmentaler Switzerland label per kg		€ 0,14
Total number of farms	600	6500
Average farm size	60 cows	12 cows
Average farmer milk price per 100 kg	€ 33,-	€ 32,-
State subsidies on milk per 100 kg	-	€ 15,-
Wholesale price of cheese per kg (3 months)	€	€ 4,45
Consumer price of cheese per kg (ca 4 months)	€	€ 14,50

Source: interviews, websites, etc

### Emmentaler production

Appr. 220 creameries produce for the ® Emmentaler Switzerland trade mark. In many cases an association of farmers owns the creamery, but there are also privately owned creameries. Apart from farmers that are co-owners, also other farmers can deliver to these cooperative creameries. They don't receive however the profit made by the creamery on the cheese (appr. € 0,03 per litre). The cheese makers are mostly employed by the association of farmers or by the owner of the creamery. The fresh milk is processed within 24 hours and will remain stored at several temperatures until it is three months old.

#### Characteristics of Emmentaler cheese

- Farmers are not allowed to use silage (or other fermented products) as fodder for cows (applies to all raw milk cheeses). Non use of gen tech products
- Cows have to graze in the fields for certain periods in summer and have to be aired in winter.
- Milk should be processed raw into cheese
- Milk is standardized to 3%-3,5% fat contents for producing Emmentaler.
- For the cheese streptococcus, lactobacillus and the propionibactor (for the holes) is used.
- Cheese remains in salt water tank for 1-2 days before maturing process starts (salt 22%).
- Maturation process: 1 week at 15 degrees after 6-8 weeks in 22 degrees. After the cheese matures with a minimum of 4 months in total and a maximum of 24 months in a cellar at 12 degrees.
- Whey is mainly used by farmers as pig fodder (milk collectors have two tanks on their truck)

Emmentaler cheese remains in general in the creamery up till three months and is transported after to a ripening company or association, such as MILKA. MILKA (in Berthoud) is owned by FROMARTE; an association of almost all the Swiss creameries that ripens, trades and export 5,500 tons of cheese a year of which 3,500 tons of Emmentaler and 2,000 tons of Gruyere. The cheese of MILKA comes from appr. 60 cheese creameries. These supplying dairies have a yearly exclusivity contract with MILKA (in which prices are fixed). 95% of all Emmentaler Switzerland cheeses that are exported are exported just after 4 months. This indicates that is hard to find a matured Emmentaler Switzerland abroad.

75% of Emmentaler Switzerland cheese is exported (the most exported cheese from Switzerland, followed by Gruyere) : the pressure of price is very high due to intense competition of industrial Emmentaler abroad, especially in France and Germany

#### **Emmentaler farmer profile**

- 10-15 hectares (both grass land and arable land)
- 10-15 cows (in mixed farm system with pigs, chicken, heifers)
- Average production per cow 5000-6000 kg per year
- Quotum of 60.000-90.000 kg milk a year
- Average price of land: € 50.000 per ha (hill € 35.000 per ha; valley € 70.000 per ha)
- Average brut income of a farmer € 20.000 per year (based on € 12,60 per hour, 1600 hours a year)
- Diversity of other income sources: tourism, off farm labour, woodland
- 7% of the land has to be cultivated in ecological manner. Integrated pest management as a basis rule.
- For taking over a farm, a special family succession price is paid. This price is set by experts and non negotiable by the others in the family. For buying land and all farmer physical assets, special non interest loans can be obtained by public loan offices (subsidised 50% by federal State and 50% by cantonal State).

*Box 5.3 Farmer profile Emmentaler. Compiled from interviews*

#### **Emmentaler Switzerland corporation**

95% of all milk producers, creameries and trading companies are member of the Emmentaler Switzerland (ES), established some 5 years ago after the collapse of the governmental Cheese Union in 1999. In those days Emmentaler was produced state-subsidised to get rid of the overproduction of milk. As a result prices fell down and Emmentaler was dumped everywhere. The ES-corporation now is considering its product as a brand and is introducing a strict set of conditions to allow the use of the brand (certificate).

The Emmentaler Switzerland association has four main tasks:

- Consumer marketing
- Quantity monitoring (match between demand and production to stop overproduction)
- Quality control (several conditions are now fixed, and the end of the process and before the selling, the cheese is graded; maximum 20 points, minimum 18 points)
- Trademark protection (ES logo)

The corporation does not set the price of Emmentaler Switzerland cheese. This is why internal competition can take place among the several traders within the Emmentaler Switzerland corporation. According to a representative of Emmentaler Switzerland n: 'neutrality towards trading companies has to be respected'. This internal battle/competition on price is often problematic.

Key values within the Emmentaler Switzerland-corporation (6,500 farmers, 220 creameries, 17 trading companies inland and abroad): family farming, no silage, non-pasteurised milk, small dairies, etc. Those values are, however, not communicated as such into the market. In order to valorise the extra costs, Emmentaler Switzerland tries to keep Emmentaler in the top-segment of the cheese market. Contribution to Emmentaler Switzerland is appr. € 0,14 per KG of cheese. This is organised by a patented labelling system (trademark).

The corporation has three types of members (farmers, cheesemakers and trading companies), it has a committee/board and delegates from every type of member; it has a show dairy for promotional goals and so on. The central office has 5-6 employees.

#### **Development of Emmentaler Switzerland**

From 1999 to 2004, growth hasn't taken place, on the contrary, the production has been reduced in order to restructure the collapsed Emmentaler market. Since last year a stabilisation is on its way. In the meantime, thanks to the fast diminution of the number of cheese creamery, scale enlargement per cheese maker is taken place. For instance, in 1955 there were 852 cheese makers, in 2005 there are 216. This number will reduce some further – but very slower as for the last 5 year - because of the fall of the Emmentaler Switzerland production.

From 2007 onwards, the Swiss market will be open for foreign products (without the high levies) and the subsidies on milk (processed milk into cheese) and direct payments will be reduced (see table 5.3).

Also the milk quota system will be abolished gradually, but is expected to remain organised by farmers organisation. As a result prices of milk are estimated to decrease with at least € 7 cents per litre to comply with EU price standards. A PDO label might help to obtain higher price and maintain quality of produce.

Swiss subsidies in dairy sector	EURO
Official milk price without subsidies (per kg, follows EU market price)	0,32
Milk price for farmers (per kg, incl State subsidies)	0,47
Milk price (organic) for farmers (per kg, incl state subsidies)	0,60
Subsidy for milk that is produced into cheese (per kg)	0,13
Subsidy for non use of silage	0,028
Yearly subsidy per milking cow	560
Yearly subsidy per hectare	840

Table 5.3 Swiss subsidies. Compiled from interviews

### PDO application

The Emmentaler Switzerland consortium applied for PDO label in 2002 for several reasons. First, they want to protect Emmentaler Switzerland cheese against industrial copies. Secondly they want to protect the specific production process (artisan, non silage, raw milk) in order to prevent downscale to low quality. Other reasons to apply for a PDO label are:

- Reinforce creation of value
- Protection of traditional production
- Clearly defined production rules and shared values.

In 2007 the Swiss market will be opened and new challenges emerge such as more close cooperation between trading companies and the PDO protection being accepted in EU (now PDO is only protected in Suisse, but is closely linked to EU PDO's).

The proposed PDO regulation includes the following new rules:

- Cows have to be fed with grass or hay that is produced within the region
- Milk should be processed within 24 hours
- Milk should be produced within radius of 30 km from creamery

## 5.3 Commercial performance

In terms of commercial performance, CONO has improved its financial situation drastically over the past ten years. In 1995 at the verge of a financial crisis, it shifted its strategy and in recently published market analysis (Boerderij, 2005) it is noted to be the most efficient in realising net added value. The commercial performance is linked to the following indicators:

- Potential for creating added value
- Market share
- Degree of market differentiation

### Potential for creating added value

The potential for creating added value or a premium price at consumer level has increased significantly after CONO has taken up BeemsterKaas as its target label and started to control marketing activities themselves. By integration of marketing activities in their initial activities of cheese production and a strong focus on creating a brand in a niche market, they succeeded to create a price differential with factory processed Gouda cheese of almost 20%. This price differential is partly taken by higher production costs compared to industrial processed cheese due to CONO's batch production process. These additional costs are however limited to an estimated 5%. Interestingly, as commented by actors from the CONO chain, the added value not only linked to its intrinsic quality, but for a large part to the effective branding of BeemsterKaas. Intrinsic quality is however seen as a prerequisite that enabled to enter a higher price segment in the consumer market.

The value added at producer level becomes evident in the yearly comparisons and analysis of milk price listings of Dutch dairy cooperatives. These listings show that for the past five years CONO was able to pay the highest milk price to its member farmers. In the past four years CONO paid an average price of

€33,54 per 100 kg of milk while Campina paid € 32,72 per 100 kg. On an average farm with a production 450.000 kg of milk each year, the difference in value added between a CONO farmer and a Campina farmer can be an estimated € 3690,-. The cooperative is rather small and has a relatively large board of farmers enabling fast decision making and strong coherence between milk producers. This is seen as a key factor in their successful performance over the past five years.

### **Market share**

The cheese market in The Netherlands is characterised by a large variety of cheeses offered in different price-quality segments. Most cheese is sold through supermarkets and this share is increasing year after year as the number of specialty cheese shops is decreasing steadily. In 2004, 83.5% of the cheese is sold through supermarkets.

Up till 2000 CONO only sold cheese through these specialty shops, but due to their declining number, they started to enter the supermarket channel. In specialty shops, CONO still owns a market share of an estimated 60%. The market share in supermarkets will be much less though increasing. In 2004, 34% of the CONO cheese is sold through supermarkets, 66% through specialty shops. The relationship between CONO and wholesalers who supply to the specialty shops is historically grounded and has survived the change of course of CONO in opening up outlets to supermarkets.

### **Degree of market differentiation**

Up till 1995 CONO was operating in the competitive market for mass products in which differentiation was nearly lacking and the cost price of the cheese was determining its selling price. From 1995 onwards entered the medium competitive market that is segmented by branding. Even though CONO can apply for PDO status for their cheese (as Gouda cheese from North Holland has a PDO status), it is not interested doing so. The philosophy is that a strong brand name is harder to compete than a PDO label that can be used by other Gouda cheese producers in North Holland as well. CONO's main competitors are other cheese producers that opt for strong branding such as Leerdammer, Old Amsterdam and Milner. These are industrial processed cheeses that can be produced at lower costs, but do have a large added value through intense branding.

### **Commercial performance Emmentaler Switzerland**

In many Swiss cases, dairy farming (often part-time) seems to be based on government subsidies and family income from other sources. It is quite questionable if this 'system' will survive after 2007. Rationalisation and professionalisation will be necessary to accomplish with the ambitions of the Emmentaler Switzerland-consortium. But even then, if the mountain-based milk production for Emmentaler Switzerland wants to survive (under its actual cost-price rising conditions), subsidies for disadvantaged regions, with societal and landscaping goals, will be inevitable.

Also the production Emmentaler cheese is still very much based on subsidies (almost 30% of total revenues). The cost price of Emmentaler Switzerland cheese production is quite high and it is questionable whether this will be valorised in the free market from 2007 onwards. The positioning of Emmentaler Switzerland cheese on the market might be difficult due to strong international competition with cheaper brands. Also strict rules concerning cheese production resulting in an increase of production costs might affect a strong market position. Furthermore there is a strong internal competition between cheese traders that are all marketing the same Emmentaler Switzerland brand

## **5.4 Nature of the organisation**

The nature of the organisation refers to the ability to operate within changing circumstances, the ability to apply changes in its organisation to accommodate new market situations and the way the organisation can maintain and strengthen its position in a process of scaling up.

In a period of ten years, CONO transformed the organisation from a mere cheese producer to a company that integrates other chain activities such as:

- Creation of added value through ripening and packaging,
- Marketing and branding focussing on target brand BeemsterKaas
- Sales & distribution.
- Innovation

In this process, the production volume did not increase significantly, so scaling up in terms of increased output or annual turnover did not happen. In CONO's case added value and profit increase is mainly sought in integrating chain activities that used to be performed by other chain members, by diversifying outlets and by shifting the cheese sales to a premium price niche market segment. In short, by changing

a produce led strategy into a marketing led strategy. The increased revenues are mainly the result of selling the same amount of cheese under a strong brand name rather than selling it as non-branded cheese to other chain actors who add the premium value. CONO could consolidate its market by shifting to supermarket outlets when initial market partners were decreasing.

In this process, the nature of the chain organisation changed as CONO took up other tasks that formerly belonged to wholesalers, ripeners and distributors. Due to mutual dependence (CONO still sells a large share of its cheese through wholesalers), cooperation (CONO still makes use of the facilities of the ripening and wholesale company) and agreements about alternative brands and recipes (distributors now operate under a different brand name), the initial chain remained a part of the new chain.

When analysing the strength of the chain and the ability to maintain a strong position as a cheese producer, several key factors that determine performance can be distinguished:

- Control of volume and new entrants: a waiting list to become a member of the CONO cooperative
- Dependence and reciprocity between chain actors enhanced by a larger profit margin for wholesalers and retailers compared to other cheese suppliers
- Ownership of BeemsterKaas brand in hands of cooperative/farmers so that milk is non replaceable by cheaper milk.
- Strong leadership and guiding by CONO management in change and transformation process.
- Trust relationship between management and member farmers.
- No competition on price, prices are non negotiable, prevention of dumping.
- Relatively small cooperative does not pose real threat to large cooperatives and gains more easy sympathy with consumers & press

The current size and turn over seems to suit the strategy CONO has laid out and it seems also to pose no real threats to other chain actors and competitors. Scaling up might change this balance.

#### **Nature of the organisation of Emmentaler Switzerland**

Typical for the Emmentaler Switzerland-organisation seems to be the central place for the cheese maker. The cheese maker is mostly employee of the owners of the creamery. In most cases these are farmers who deliver themselves the milk daily to the creamery. The cheese maker has mostly a tailor-made contract with partly a fixed salary, partly a bonus on production and price results. Also he may buy part of the milk deliverance for other dairy products, to sell in a shop in place.

Apart from the central place of the creamery, a more powerful position is likely to be taken by the trading companies, EMMI in the first place. The ability of the regionally based farmers to control the organisation (self-governance) seems rather small and will suffer once the subsidies and protection by the government will diminish by 2007. It remains unsure whether the Emmentaler Switzerland-consortium will be able to control Emmentaler production after milk quota disappeared.

At the same time, flexibility of the ES corporation seems constrained by the integration of so different actors as farmers and cheese makers on one side and traders on the other. Interests not necessarily coincide and taking notice of the actual distribution of margins between different chain parties, the position of the primary producer appears to be weak. Furthermore, the Emmentaler Switzerland corporation still permits competition on price between the traders (members of Emmentaler Switzerland) and has limited power to implement their own price policy. This might constrain the development of a viable market in the future, because internal competition on price might prevail over competition on quality (with foreign Emmentaler cheeses).

## **5.5 Marketing and communication**

Marketing and communication refers to the competence of the organisation to build consumer involvement, to increase demand. It is assumed that unique selling propositions, ownership of the brand or label and strong vertical integration in communication efforts are significant factors in determining performance of a company.

Since the mid nineties, CONO has taken up marketing as part of their core activities. The BeemsterKaas label that was used by wholesalers and retailers became the target brand of CONO. Strong marketing investments increased the brand value significantly. Through the development of a strong brand name, CONO could create a niche and could receive added value as an extra surplus on the intrinsic product value. Several factors have contributed to this performance:

- Ownership of the brand name
- Investing in brand name recognition by consumers



- Building a brand on both intrinsic quality and image
- Integration of marketing activities and niche focus: from mere producer to marketer.
- Strong price/no competition on price
- Apart from economic values, additional values link chain actors and other actors, such as interdependence, rebellion attitude, sympathy. Benefit from free publicity.
- Quality (high intrinsic value) linked to other positive attributes and USP's such as the factor time, grazing cows, artisan production process, Unesco world heritage preferred supplier appointed by the queen, etc.
- The importance of a clear communication strategy that is shared and communicated by all actors in the chain (vertical linkage).

CONO's strategy is based on developing a strong BeemsterKaas label that appeals to the emotion of consumers. The niche is at least partly based on the 'story told' by the brand name. Intrinsic product quality features (taste, production process) are also contributing to the strength of the brand name. The question is whether competitor producers are capable and interested in copying this strategy? Due to the rather small scale of the niche and the specific product features that can only be copied by adjusting the chain from farmer to distributor, CONO might have an important advantage.

#### **Marketing and communication of Emmentaler Switzerland**

In communication and marketing a lot of value is given to the PDO. The successful PDO of Gruyere is often taken as an example. Reasons to apply for PDO are to protect the market and to protect artisan way of production. The PDO application could help in defending the Emmentaler Switzerland against foreign Emmentaler (assuming that Switzerland and the EU will sign an agreement on it), but as the production of Emmentaler as such is rather easy to copy and may be done without the costly non-silage and non-pasteurisation, the competition on taste and price will be hard. The expectations of the PDO are rather high. Besides, PDO is likely to be more promising in the French speaking part of the country.

ES is seen as a brand and not as a label, according to a representative of the Emmentaler Switzerland corporation. To market Emmentaler Switzerland as a brand, the association should have a strong marketing policy in which she can control: price, place, promotion and product. The Emmentaler Switzerland association does not control the price and only partly the place of their marketing (eg EMMI plays an important role too). Furthermore seems cooperation between the various actors in the chain, both horizontally and vertically not facing the same direction yet.

## **5.6 Impact on sustainable rural development**

Rural development is the growth, advancement and evolution of rural communities businesses and people. Assessing the impact of food chains on rural development is central to the SUSCHAIN project. Rural development is, however, recognised as having multiple dimensions. These make straightforward answers to whether or not an economic activity in the region is contributing to its sustainable development rather difficult. To give a more general overview we compared factory Gouda cheese, BeemsterKaas and Farm cheese on economic, social and environmental indicators.

#### **Contribution of Emmentaler Switzerland on sustainable rural development**

The future of the Emmentaler Switzerland as a sustainable food chain will depend on many external factors; as far as self-governance and farmers-incomes are concerned. Much will depend on the ability of farmers and their organisations (not necessarily the consortium) to realise an empowerment process (restructuring, production control, negotiations with government and trading parties) and to maintain a qualitative and competitive product.

The PDO label might be a way to create a stronger brand, hence to protect farmers, creameries and employees in the Emmental region. However, a strong regulation of production features might also hinder developments in the future to make the cheese more competitive on the international market. For instance in implementing measures that reduce the production price such as scale enlargement on farms and concentration of creameries.

Indicators	Factory Gouda	BeemsterKaas	Farmcheese
Economic	<ul style="list-style-type: none"> <li>59% of milk is processed in factory cheese for national and international bulkmarket</li> <li>Large cheese producing coops can balance and divide production according to market</li> <li>Cheese market under pressure</li> </ul>	<ul style="list-style-type: none"> <li>Created a niche and 25% higher price, but also higher costs because semi artisan production.</li> <li>For 6 years highest milk price to farmers.</li> <li>Vulnerable because 100% cheese production but niche market seems strong enough</li> </ul>	<ul style="list-style-type: none"> <li>Less than 1% of total Dutch cheese production.</li> <li>Number of farm dairies decreasing steadily because of labour intensive process.</li> <li>Suffers from Gouda cheese market competition and supermarket war</li> </ul>
Social	<ul style="list-style-type: none"> <li>Two largest coops process 84% of Dutch milk and industrial cheese.</li> <li>Farmers have less say in large coops than small ones.</li> <li>Anonymous</li> </ul>	<ul style="list-style-type: none"> <li>Medium sized coop with direct lines and larger board to represent farmers.</li> <li>Feeling of unity and rebellion is noted by farmers, board and employees.</li> <li>130 people working in rural region</li> </ul>	<ul style="list-style-type: none"> <li>Production taking place at one farm, mainly by wife of farmer.</li> <li>Labour pressure and small rewards in relation to labour intensity</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>Milk quality and environmental factors do not have to exceed normal quality because inferior milk can also be processed in diversity of other products than cheese.</li> <li>No norms on cow diet, animal welfare or other than national norms.</li> </ul>	<ul style="list-style-type: none"> <li>Milk quality has to be high (no maize, only fresh grass in diet) and clean (no butyric acid) because of specific production process.</li> <li>Grazing cows rewarded.</li> <li>Landscape benefits(no maize tillage and grazing)</li> <li>No extra efforts that surpass national norms.</li> </ul>	<ul style="list-style-type: none"> <li>Milk quality needs to be high because of specific proces and use of raw milk (unpasteurised).</li> <li>No extra efforts needed than national norms.</li> </ul>

## 5.7 Conclusions

Based on the previous chapters we can conclude that CONO and its brand BeemsterKaas can be seen as an example of how medium sized companies that produce goods with high intrinsic value can have a strong position on a (niche) market. The following factors contribute to its current success:

- Integration of other chain activities (marketing, distribution, packaging)
- Successful creation of a niche, based on semi artisan production
- Product with strong intrinsic value (distinctive quality)
- Ownership of the brand
- Strong image and brand value
- Good story (linking more than product quality attributes only to the image of the cheese).
- Diversification of the market and selective marketing
- The vertical chain benefits because of higher margins they can put on the product
- Continuous innovation throughout the chain to improve product, image and packaging

Based on these factors of success we also formulated lessons and points for discussion:

- Quality and sustainability have to be rewarded in the market: as a producer you can only take up those measures that directly contribute to the quality of your product or that can be earned back through higher consumer prices. Measures that are not been paid back in the market are increasing production costs. This might put a constraint on the implementation of sustainable measures on farm level or production level that do not have a direct link with added consumer value (such as grazing, use of raw milk in production process, natural ripening).
- 'Sustainability' as such does not sell on the market. Sustainable product attributes often compete with strong labels that are mainly built on image, sensation, feeling, rather than on better intrinsic product quality, hence more expensive to produce products.

- Maintenance of scale can contribute to continuity in market position. Medium sized companies producing for a niche market might gain more by optimizing margins on their products than opting for a scale enlargement of their production. The relative small scale of medium sized companies is not attracting large scale producers. Though competition with more powerful companies is less likely to occur. More so, small & medium scale producers seem to get more sympathy from chain actors and consumers.
- Producers who take up marketing of their product can acquire a better position in the market and more power in the chain. When taking up marketing, the added value of the product generated by the label or brand name is benefiting primary producers instead of the wholesale or retail.
- PDO does not help per se producers to gain a better position in the market. PDO production might protect a certain product and prevent imitation, but it can also counteract its intentions by making the production process regulation so rigid that necessary rationalisation of the production process might be hindered. This might lead to a higher cost price of the product that cannot be earned back in the market.
- To sustain the position on the market as a small player you have to innovate continuously. This not only counts for product innovation, but also in packaging, brand value and image. A strong market position is not reached by producing a good quality product only.



## 6 Conclusions

### 6.1 Introduction

The main hypothesis of the SUSCHAIN project is:

*Scaling up an initiative in the field of food supply chains changes the nature of the organisation (structures, rules, procedures, values and goals) and its sustainability performance.*

The case tests the following sub-hypotheses:

- Successful scaling up depends on commercial performance and public support;
- The nature of the organisation changes with scaling up;
- New food supply chains have a positive effect on rural development;

### 6.2 Scaling up depends on commercial performance

In the case of CONO scaling up has not been a process of expanding production. After its crisis in 1995, it sought a reorientation and consolidation of its position in the market. In this process CONO incorporated new activities such as marketing, ripening, packaging and distribution of its cheeses. From a mere producer of cheese it integrated vertical chain tasks. In doing so, CONO succeeded to market the same amount of produce at a higher price, hence increasing the margin and added value. This has benefited the farmers. In the past six years CONO paid the highest milk price of The Netherlands to its members. CONO's strategy is to maintain current production levels and to create higher margin in price, not in volume. Their strategy is to benefit from being a small player on a niche market that because of its medium scale is not of interest of the larger dairy cooperatives.

### 6.3 The nature of the organisation changes with scaling up

CONO changed its focus from being a mere producer of dairy products into a cheese producer. From 1995 onwards it integrated vertical chain activities to benefit more from added value created in the other parts of the chain (using a label, packaging, distribution). It also broadened the market outlet to counter balance decreasing sales through traditional outlets. As a result, CONO set up a marketing and sales department. The relationship with other partners in the chain is built upon trust.

### 6.4 New food supply chains contribute to rural development

Dairy farmers are the formal owners/shareholders of the CONO cooperative. Management will not be able to make purely management-inspired measures as for example getting cheaper milk from abroad, closing down fabrics, etc. This implies a strong relationship between CONO and the farmers based in the region than other companies/regions. Furthermore the intrinsic quality of the product is strongly linked to the characteristics of milk production in the region of North Holland: no maize silage, grazing of cows and prevention of butyric acids. The link between quality of milk and quality of cheese will even be enhanced by new innovations such as the production of milk with higher CLA levels.



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