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Testimony of Tim Button, Heartland Creamery
May 2009 Federal Milk Marketing Order Hearing
Docket No. AO-14-A78, et al.

My name is Tim Button. I am the general manager for Heartland Creamery. As Mr. Sharpe described, before working as the general manager for Heartland, I worked in the bottling operations of H.P. Hood. Before that, I was employed in the bottling operations of Crowley Foods. Both of those companies are great organizations. And, yes, I did chuckle when I saw the Heartland bottling operation.

Heartland Producer Handler Experience

Heartland became a producer handler in January of 2008. Before we opened the Creamery, our Heartland farm was a producer member of DFA, the dominant cooperative operating in Missouri. We sold our milk to DFA, as other dairy producers do. When we opened Heartland Creamery, we became DFA's customer as well.

By late 2005, we were producing, hauling, bottling and distributing our own milk. As a customer, DFA charged us a variety of fees on the milk "sold" to us. Actually, during that time, we trucked our own milk from our farm to our plant. DFA picked up and marketed what we did not need at the plant. The difference in what we got paid for our the milk we produced and what we paid for the milk we bought for the creamery significantly reduced the money we could reinvest in the business to grow and ultimately reduced our profits, which would be contributed to the Heartland ministry.

As a producer-handler, we continue to produce, haul, bottle and distribute our own milk and we are no longer paying fees to the cooperative. Instead we have the full responsibility for finding our own customers, and balancing our own milk supplies to ensure that we have sufficient volume to supply our own customers. We make some cheese and also sell our excess milk in compliance with the Central Order regulations, generally through a broker or a customer we find ourselves. The price we receive for excess milk sold on the open market is usually at below the Class III price.

Heartland Creamery produces a variety of fluid milk products: gallon milk in plastic jugs (whole, 2%, 1%, skim, chocolate, half and half, and heavy cream), milk in glass bottles (half-gallons, quarts, and pints), half and half and cream in pints. We also produce goat milk in quarts bottles. We also produce some goat's milk and cow's milk cheeses.

Our customers choose us for the same reasons customers choose any suppliers- quality, service and price. We do not have a price advantage over the regulated market. As I have said, our processing plant is very small, our set-up is very labor intensive and our business is not even big enough to justify having a blow mold. Our bottle costs are about \$0.10 higher than a larger operation with a blow mold. Every unit we produced is handled by hand, we are not automated.

Rather than growing as a result of our producer-handler status, the opposite is true. In fact the size of our herd has shrunk since we became a producer-handler. At our peak we milked 4200 cows; today we are milking 3,000. Our Class I volumes have similarly decreased.

We have also recently secured Star-K Kosher Certification for all of our products, which are sold under the Samuel Joseph's brand. A copy of our certification is attached. Our integrated farm and processing operation is very well suited to the constant on-site supervision required to secure and maintain certification for this important niche market.

I want to address specific allegations from two witnesses in this hearing about our business dealings with HyVee stores. The implication is that we are selling at a price that cannot be met by fully regulated handlers. I know that is not the case because we serviced those accounts as a regulated handler. In many stores, our Heartland branded milk is priced below the HyVee store brand price. But we began placing our gallon milk in HyVee stores in 2005 and in Kansas City HyVee stores in 2007, during the time when Heartland Creamery was buying our milk back from DFA and accounting to the Central Order market administrator as a fully regulated distributing plant.

We were able to place our milk in those stores for a number of reasons. First, despite our small plant and its associated higher costs, we do not have high overhead costs, as do handlers like Anderson Erickson. Second, because of the nature of our business, we are likely willing to operate at a lower margin than other bottlers, whether cooperative or proprietary. Third, where we can, we do look for efficiencies and savings in our operations. Since we transitioned to producer-handler status, our pricing strategy has not changed. It isn't the case that others cannot match our prices, it is that they choose not to.

In addition, what we have learned from the testimony in the hearing about Heartland provides a small part of a large picture. The retail price alone, which I understand was not even specifically mentioned, doesn't tell us anything about the markup by the retailer, the profit margin of the supplier, or the costs of the supplier. Any one of those factors, and possibly others, can be reflected in a retail price or explain why certain products or suppliers are selected.

Accounts move on price, product quality, service, and other intangible factors. Some customers have elected to stock our product in part because of our dedication to the Heartland community. Others have selected our product based on our accountability for the product from a single source. Both as a regulated handler and as a producer-handler, we gained customer and lost customers. But in all instances our price was not one that could not be met by a fully regulated plant.

Effect of the Proposals

Neither Mr. Sharpe nor I am an expert on federal milk marketing orders. What we understand is that the combination of proposals from NMPPF and IDFA will eliminate the current producer-handler status and grandfather in only certain producer-handler operations at 3 million pounds of Class I production per month, with further limitations on labeling and marketing. We oppose any changes to the current producer-handler definition. But if the Secretary believes that the current producer-handler regulations should be changed, then in conjunction with the other members AIDA, we support the AIDA proposals to exempt own-farm production for all handlers or to establish individual handler pools. While we have limited retail sales, we support the AIDA proposal to exempt retail sales by producer-handlers.

If the current producer-handler status is eliminated, Heartland would likely be forced into a situation similar what we had before. We would sell our milk to a cooperative and buy back what we need, in addition to accounting to the pool. We knew almost two years ago that situation was ^{not} our best long-term option. We hope to grow as our community grows, and we intend to do so self-sufficiently. We should be afforded that opportunity.

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