



Opportunities for Dairy Product Co-Packing

Megan L. Bruch
Extension Specialist
Center for Profitable Agriculture

Introduction

Recently, increased interest in milk processing opportunities has been expressed by several dairy farmers in Tennessee. With slim margins at the commodity level, producers are looking for ways to earn more of the consumer dollar. Processing fluid milk products and marketing them under a farm label is often seen as a method to add value to commodity milk.

Building, equipping and operating a milk processing facility, however, comes with its own challenges. Two major challenges are the capital investment or financing required as well as time and expense necessary to meet the regulations associated with the processing facility. These two challenges may be transferred by using a co-packer, who will process the milk from a dairy and package it under a private label. The co-packer may even offer some distribution services, further assisting with challenges of marketing logistics.

In November 2003, the *Center for Profitable Agriculture* investigated the potential for co-packing opportunities for one Tennessee dairy farm by contacting four processing facilities within approximately 100 miles of the operation. Two of the four plants indicated some willingness to co-pack fluid milk products, and one plant expressed interest in co-packing ice cream products. None of the plants contacted could provide an estimate of cost as it would depend greatly on the products, packaging and other specific arrangements. A summary of the willingness of the plants to co-pack is discussed below as well as some implications of the responses.

Plant #1

Plant #1 only processes milk from its own dairies. The plant is not presently considering processing for a private label, although the contact did not totally rule it out for the future. The plant processes fluid milk as well as juices and teas. Milk is processed into whole, 2% and skim products. Plastic containers are used in gallon, ½ gallon, quarts and pints. The plant is currently running at about 40 percent of capacity.

Plant #2

Plant #2 currently processes milk for its own label. They are not currently processing for a private farm label but may be willing to consider doing so in the future. The plant only receives milk 5 days a week and could handle approximately 20,000 additional gallons/week depending on the products processed and packaging desired. The plant capacity is approximately 25,000 gallons/day. Plant #2 currently produces whole, 2%, skim, buttermilk, eggnog, vanilla, strawberry and chocolate fluid milk products. Plastic containers are used in gallons, ½ gallons, quarts and pints. A minimum volume would be required depending on product and packaging desired. The cost would vary with these variables as well. The plant may be willing to provide distribution service if it was in their current shipping area.

Plant #3

Plant #3 currently processes for its own label as well as private label with milk from the same source. The plant is open to the possibilities of processing a specific farm's milk for that farm's label, if it was profitable for the plant. The plant currently processes fluid milk for whole, 2%, buttermilk and chocolate milk. They package in plastic containers in gallons, ½ gallons and pints. The plant currently operates 3 days/week and runs 300 gallons/hour in 8 hour shifts. Up to three additional days of operation could be added to reach capacity. They would require a minimum volume depending on the circumstances of the co-packing arrangements. The cost of processing would also depend on the volume and processing details. It is not likely that they would offer any distribution service.

Plant #4

Plant #4 does not process milk for private label for entities other than their sister companies. The plant does process ice cream for a private label at this time. The plant would not consider co-packing milk products for private label due to their special processing procedures that they feel give them a competitive advantage in the marketplace. Co-packing ice cream products may be considered if a large enough volume could be processed in items like the ones currently processed. The plant produce stick items, quarts, pints, ½ gallon squares, ½ gallon rounds, sandwiches, cones, cups and more. The plant would require a minimum of 400-500 gallons of ice cream mix per week that would yield approximately 2,000 half-gallons of finished product per. The cost of the processing, packaging and labeling would depend greatly upon the types of items produced. The plant would most likely not offer distribution services for a private label.

Implications

Opportunities may exist for Tennessee dairies to have their milk processed and packaged by a co-packer. Capacity and willingness by some processors to co-pack for producers exists, depending on the volume, processing and packaging needs of the producers. Co-packing arrangements could assist dairy producers in adding value to their commodity milk without facing the challenges of a significant capital investment and regulation requirements. Producers should be prepared, however, to pay for the service they receive and face additional challenges of marketing and distribution. The Center was not able to acquire cost estimates for the co-packing services. Co-packing arrangements would also

provide processors with an opportunity to use existing facilities to generate additional income. The results of this investigation suggest that further study of co-packing opportunities for Tennessee dairies is warranted.

Additional Resource

A publication from Oklahoma State University titled *Food Processing Using a Co-Packer* discusses some of the reasons for using a co-packer, what someone should look for in a co-packer and how to determine the best co-packer for a certain situation. The article can be found online at <http://www.agmrc.org/markets/info/foodcopacker.pdf>.