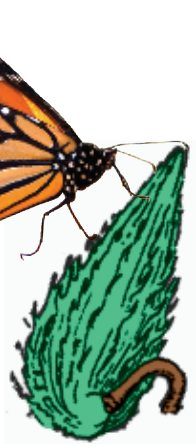


The Milkweed

Dairy's best information and insights

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Butter Better: McDonald's to Quit Use of Margarine & Veggie Oil

by Pete Hardin

In late August, McDonald's announced that it will eliminate margarine and vegetable oil products in from its restaurants. Instead, "Mickey-D's" will shift to butter. Sources in the U.S. dairy industry are scrambling to figure out how much additional yearly demand that upgrade to butter might mean. One commonly-heard butter boost estimate driven by McDonald's upcoming shift to butter: 25 million lbs. annually.

Further, plans now in the works to shift McDonald's outlets to an "all-day" breakfast menu mean that butter-using entrees — pancakes and Egg McMuffins — will be available all business hours.

McDonald's management is struggling to reformat the fare, focusing on higher-quality, more nutritious offerings. While McDonald's remains the nation's most prominent fast-food chain, competitors have been gaining ground with better-quality, healthier items and meals. Two such competitors swiping away-from-home meal business from McDonald's include Panera Bread and Subway. Panera offers a wide array of sandwiches, soups and other quality menu choices. Subway's business model is simple ... quick, well-priced, quality submarine sandwiches.

The shift to higher-quality products is a top-down policy. In the past year, McDonald's designated a new CEO, Steve Easterbrook, whose resume includes a track record for boosting quality food offerings in Great Britain. While in that country, he brought in organic milk to McDonald's stores. Earlier this year, McDonald's announced that it would serve only "rbGH or rbST-Free" milk at its stores. Also, McDonald's announced it would sell chicken products only from poultry raised without antibiotics in the feed at a future date.

McDonald's changes are part of a "catch-up" game that's playing out across much of the U.S. food industry — from restaurants and supermarkets, to farmers' markets ... right to the home kitchens. U.S. consumers are increasingly aware of the foods they eat and want healthier fare. That's good.

It is anticipated that McDonald's has wisely already lined up butter from several different suppliers to meet its big butter needs. Meeting those needs will stress available domestic supplies of butter and cream — likely helping drive up prices for butter, cheese, ice cream, milk ... and Jersey cows (producers of high fat-content farm milk).

But only a few days after that important, late August announcement, cautionary dairy industry sources warned *The Milkweed* that McDonald's shift to butter could seriously disrupt dairy's supply chain and price structures for products containing relatively high levels of milk fat, such as cheese, higher-end beverage milks (Whole and 2%), butter and ice cream. Butter is already showing strong gains in retail sales (up an estimated 9.6% for January-March 2015 and 2.1% for April-June 2015.) Other higher-fat content dairy products — such as Whole Milk — are also registering market share gains.

Industry sources worry that an overall lack of production infrastructure leaves the butter sector hard pressed to meet expanded demand for "quarters" — 1-lb. packages with wrapped quarter-lb. sticks. Future availability of cream is listed as another concern, if demand trends for milk fat-laden products continue.

So significant demand boosts for butter and high-fat dairy products represent clear opportunities ... for marketers willing to make the investments.



Butter is Better! In late August, McDonald's announced that its chain will replace margarine and vegetable oil products with butter. Industry estimates project McDonald's new demand will add at least 25 million lbs. use for butter.

Butter Is, and Will Be, Dairy's Price-Driver

by Pete Hardin

The longer a person watches the U.S. dairy industry, the more things change. And some of those changing trends are merely re-cycling what used to be.

That's the story with butter and certain other high-milk fat products. Consumer demand for butter is solid and growing; commodity prices are strong and rising. Prices paid to producers for milk's butterfat content are becoming an increasingly strong component in this period of low milk prices. How strong? For August 2015, the ratio of monthly averages for butter to nonfat dry milk prices in USDA's monthly classified pricing surveys showed the greatest-ever swing towards butter. (See related article, pages 8-9.)

Butter is riding at least two popular, growing food marketing trends — it's a natural product, and butter is also enjoying increased demand for animal fats in the diet. Natural? At a time when many consumers are looking for foods with simple ingredients lists, nothing simpler than unsalted butter's one ingredient: Cream. Like your butter salted? Then the ingredients list is expanded 100% to include cream and salt. That's all.

Butter is a major element in the nutrition renaissance for animal fats. Back in the 1950s, 1960s and 1970s, "nutrition experts" convinced the likes of the American Heart Association and government agencies that animal fats in the diet were bad — causing heart disease and clogging arteries. Unofficial and official dietary guidelines evolved favoring mar-

garine and scorning butter (along with other animal fats). However, the nation's general shift away from dietary butterfat (and animal fats) didn't slow rates of health problems such as heart disease and diabetes. In fact, during the "Margarine Era," those problems worsened. (Note: We cannot pin all the blame on margarine for such diseases. Other "fake foods" such as high fructose corn syrup also merit credit.)

Butter and animal fats are once again popular. TV chefs are touting butter's flavor, nutritional attributes, and value in preparing meals. The "back to butter" trend is well-documented in Nina Teicholz's book, *"The Big Fat Surprise: Why Butter, Meat and Cheese Belong in a Healthy Diet."*

So the critical, two-part question for dairy farmers, and all in the industry, becomes:

Is growing butter demand for "REAL," and what is the U.S. dairy industry doing to promote butterfat production on the farm and boost overall consumer demand?

Improved butter sales are only one measure of the "milkfat is back" marketing trend. Novel uses? Of late, butter is even finding its way into coffee cups — part of the "Bulletproof"® coffee trend growing quickly in popularity. ("Bulletproof"® coffee features grass-fed, unsalted butter along with a medium-chain fatty acid derived from coconut oil.) Currently, butter imports from Ireland ("Kerrygold") are the major available source of grass-fed, unsalted butter at U.S. supermarkets. In truth, strong import demand for



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Feature
by Jan Shepel
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