

First District Expands To Offer Block/Barrel Flexibility; Relationships Remain Key To Growth

Litchfield, MN—First District Association (FDA) recently celebrated its 100th anniversary, highlighted by the completion of increased processing capabilities, as well as modernizing plant operations.

Those processing capabilities will not come from FDA's traditional production but in a new 40-pound block cheese line, as well as increased higher-end barrel production that the cooperative has been primarily producing for nearly 50 years.

First District Association is an independent, member-owned dairy cooperative located in central Minnesota.

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—Bob Huffman,
First District Association

The modernization plan started nearly 15 years ago when the co-op board decided to re-invest in its facilities, improved process control, employee safety, all the while optimizing current plant operations, said Bob Huffman, president and CEO of FDA.

“There is a 100-year tradition for which this cooperative was

built,” Huffman said. “From a global perspective, our vision has always been, to position ourselves in the marketplace by maximizing our reputation for innovation, quality, production, and strong financial independence, that brings back the most value to our members.”

The co-op has roughly 700 members. Ten years ago, Huffman said membership was over 1,000, though production per farm has increased significantly. Nearly 80 percent of the co-op's milk comes from farms with about 350 head or fewer while the two largest farms provide milk from approximately 7,500 head.

“The expansion really was member and long-term sustainability,” Huffman said. “The operations have always been a lean, mean, well-oiled machine but our owners have continued to increase capacity over the years. It got to the point where processing got to be a constraint.”

Optimizing Litchfield Operations

The expansion project's goal was to get the operation to processing capabilities of 7.5 million pounds a day.

The biggest concern for FDA was the facility's location in the middle of the city and the existing footprint, said Doug Anderson, FDA's director of operations.

“The problem we had was that our footprint wasn't big enough,” Anderson said during a speech at the North Central Cheese Industries Association (NCCIA) meeting last October. “How are we going to guarantee that we were

going to have enough footprint. And what if we get three quarters done and then realize we didn't.”

After a great deal of discussion FDA decided to grow the facility at its current location, optimize and expand the current footprint with the goal of becoming the most efficient plant in the Midwest.

With the expansion, First District Association will manufacture over 700,000 pounds of cheese; roughly 140,000 pounds of whey protein concentrate; and nearly 240,000 pounds of lactose per day.

“That will kind of fill out this site,” Anderson said.

“We are never done growing. In the 30 years I've been at First District, we've never stopped growing. We are probably done growing in Litchfield though.”

Huffman also said that FDA will have to look at a greenfield site outside of Litchfield in the future if membership continues to grow.

“Our members' milk production is growing at nearly 3 to 5 percent a year,” Huffman said. “We have a growing milk supply, we have good demand from our customers and we have owners who are willing to invest. When you put those three things together, it made a lot of sense to expand.”

Huffman said the FDA board demands a five, 10, and 15-year strategic plan for growth.

“That's the cool thing about our cooperative, it's grassroots,” Huffman said. “We are constantly going

through the process of what's the right direction for First District long term, keeping a couple of goals in mind that preserve our heritage.”

First District has always been very financially strong, Huffman said. That has been the strength through 100 years.

“Being able to do these expansions and being virtually debt-free before we start an expansion has been pretty remarkable,” Huffman said.

He said the Upper Midwest region, particularly in the I-29 corridor on the South Dakota/Minnesota border, has really grown.

“The one great thing about our region, when it comes to water and feed, the opportunity

for further growth is going to be there,” Huffman said. “It's going to be there 20, 40, and 60 years from now. So that has to really accommodate FDA's strategy on what that right direction is.”

He looks at the structure that once was primarily a cooperative state now has become very competitive with privately-owned companies. Huffman cited the growth of Agropur's Lake Norden operation, and Valley Queen's growth in Milbank, SD.

“It's becoming more competitive for milk each year. Where the co-ops in the past typically marketed most of the milk to privately-owned plants, today, now with the growth of privately-owned plants, you are seeing more direct sourcing. That creates competition within itself, especially for Class III cheese-type markets,” Huffman said.

“If we are going to be a strong viable player, the co-op can't stand still. Cost of capital is incredible, so we have to find opportunities to reduce the cost in a way that brings more value back to the mailbox for the farmer,” Huffman said.

Block/Barrel Flexibility

With the new capability to package 40-pound blocks, FDA can respond to customer needs as well as more flexibility to adjust to other market conditions.

First District has a long history and is quite a large part of the barrel market, Huffman said.

“The plant that we just built gives us the ability to run 40-pound blocks as well,” Huffman said. “So we can run 7.5 million pounds of milk a day all into 40-pound blocks or barrels or somewhere in between if we choose.”

From a market standpoint, Huffman said he watches the block/barrel spread very closely.

“Sometimes it's a fair price and sometimes it is not.



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FDA puts a little more time into its production than those companies making barrels specifically for their customers, Huffman said.

“If you look at the diversity of our customer’s end-use range, then I would say we are more heavily weighted ratio-wise into these specialty areas versus a foodservice area,” Huffman said about the co-op’s barrel production. “So we’re in that retail or snack food area more than the process cheese area.”

He said FDA puts extra time into the manufacture of their barrels with the intent of hitting the upper end of specifications for high scale end-use.

“That is where we focus from a quality standpoint,” Huffman said. We have always had a good reputation on being able to hit the tight specs and have good quality and that’s something the heritage of First District is proud of.”

Huffman said the co-op really works to meet the needs of its customers.

“There is a piece of the block and barrel market built on customer relationships versus using the CME for a backstop,” Huffman said. “If you really hone in on working with the customers and meet their needs whether it is

high volume, medium volume or small volume, or creating multiple SKUs for them, there is a market, and from my perspective, a valuable one.”

Because most of FDA’s barrel production goes into more of a specialty product arena, Huffman said the co-op was fortunate to maintain production and sales during the country shutting down due to COVID.

“We were pretty fortunate. But that goes with putting in the extra processing time to get the higher end quality and higher specs. Long-term relationships are key.”

Those long-term relationships are another reason to get into the block market, Huffman said.

“A lot of our current customers that we have had long-time relationships within the barrel industry also have needs for 40-pound blocks,” Huffman said.

Huffman said all of the blocks that are in development are sold.

“You can do a lot with 7.5 million pounds of milk,” he said.

He also knows at any time output could be ramped up to serve new customers.

“We didn’t rush our production to fill orders,” Huffman said. “We took the right steps and the right amount of time to make sure we hit the processes and kept any bumps we hit small.”

Going into 40-pound blocks is



not necessarily new for FDA in terms of processing or capability, Huffman said. What is new is the focus on commercializing the cheese on a large scale.

“Between foodservice and retail and the specialty business it can be a gamble, but there is definitely an increasing demand,” Huffman said. “You got to kind of navigate through where the demand is. Outside of domestic, there is demand from a global perspective. We have our eyes set on a portion of the domestic market and a portion on the export market.”

Besides the cheese side of the business, FDA is set up for whey protein concentrate and lactose.

“We have great export markets

where we are geared to meet the tight quality levels and for infant formula,” Huffman said.

FDA has always had the membership that continues to want to be at the forefront of that technology, Huffman said. They’ve always tried to be in the lead.

“For being a CEO working with a board of a cooperative that has that mindset that they do, looking at things from a business standpoint, is pretty nice. It’s crucial,” Huffman said. “I can’t tell you specifically what 15 years out will look like around here, but I can tell you we are heading in the right direction.”

For more information on FDA, please visit www.firstdistrict.com



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