

Sales potential for California specialty cheeses

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The market is large and growing rapidly

The large, rapidly expanding California market for specialty cheese presents an opportunity for increased manufacture of such products. In a study to define and measure the market in California, we examined 11 types of specialty cheese in detail: blue, Danish, flavored, Gouda and Edam, Greek, Mexican, semisoft, soft ripening, specialty Italian, spreads and coldpacks, and Swiss.

Commodity cheese varieties such as cheddar, Monterey jack, and mozzarella were excluded from this study. These common varieties are manufactured by a large number of plants in California and elsewhere. Because quality is fairly uniform among them, obtaining a low price is the buyer's main concern. We were interested only in unique specialty cheese varieties. This market offers substantial opportunities for higher profits per unit.

Brokers, distributors, retailers, and restaurants all play crucial roles as specialty cheese goes from manufacturer to consumer. The broker arranges sales between cheese manufacturers and potential buyers. The distributor physically delivers the cheese to the point of sale. The distributor takes title to the cheese; the broker does not.

Although not all specialty cheese is imported, imports have most of the market for some varieties. Cheese import quotas were established in 1953 as part of the Agricultural Adjustment Act. According to the Act, a cheese importer must apply to the U.S. Department of Agriculture (USDA) for a license that specifies the cheese type, amount of import allowed under the license, and country of origin.

Survey

To obtain the needed information about the specialty cheese market, during 1984 we distributed questionnaires to all California grocery stores and cheese distributors. Several businesses were initially reluctant to share the complete information requested by the questionnaire. In such cases, we made every effort to acquire all the information that the businesses were willing to supply, a procedure that required repeat visits to sev-

eral of them. When missing information was still a problem, we made reasonable estimates based on what we learned from fully cooperating businesses.

Overall, six major grocery chains and eight distributors provided complete or nearly complete information. Partial information was obtained from one additional grocery chain as well as two additional distributors. U.S. government statistics supplemented the information obtained from the questionnaires.

Estimated total per capita consumption of specialty cheese in California was 2.66 pounds in 1983. It appears that all 11 varieties offer an opportunity for profitable manufacture, but some are more likely to be successful than others (table 1). The distinctions regarding such potential are somewhat arbitrary, but are based on total California sales, the sales growth, the price trend relative to the USDA support price, the level of foreign competition, and the degree to which other manufacturers have already established a niche in the market.

High probability of success

Swiss cheese is made by either the Emmenthal or Gruyère process. The distinction between these two processes is that Gruyère produces a cheese with smaller eyes (holes) and a sharper flavor. The most popular brand names are Cache Valley, Jarlsberg, Kraft, Swiss

Valley Farms, Borden, Swiss Knight, and Lorraine.

Future foreign competition will not be a problem, because imports are close to their quota limit. Furthermore, the price outlook is good, because Swiss cheese prices are negatively related to the USDA support price.

Specialty Italian cheese is defined as that which was first produced in Italy, but it excludes mozzarella, ricotta, parmesan, and romano. The category mainly includes provolone, but also includes fontina and Bel Paese. The major brand names are Stella, Sargento, Frigo, Kraft, and Blarney.

As with Swiss, foreign competition is limited by a quota on imports. The price of specialty Italian cheese is not closely tied to the USDA support price.

Other varieties of specialty cheese likely to be manufactured successfully in California — Danish, flavored, and semi-soft cheese — have the following positive attributes: (1) an independent relationship when compared to USDA support prices in the past, (2) a fast rate of growth, historically, (3) imports at or near the quota limit, and (4) little or no California manufacture.

Medium probability

Mexican cheese is the fastest growing and a unique segment of the specialty cheese industry in California. These varieties have a bland taste and are intended largely for cooking. The major type of Mexican cheese — *queso fresco*, or "fresh cheese" — is a white cheese that serves as a basis for several other types of Mexican cheese. Some of the popular brand names include Cacique, Rancho, Jalisco, and Guadalajara.

The main reason for the growth in demand is the large influx of immigrants from Mexico and other Central and South American countries. A secondary reason is the increasing popularity of Mexican food with non-Hispanic people.

Based on volume and growth alone, Mexican cheese would appear to be the most desirable of all the specialty varieties for potential manufacture. However, unlike those previously mentioned, the Mexican varieties are already produced

TABLE 1. California market potential for 11 types of specialty cheese

Type	1983 sales volume 1,000 lb	Sales growth 1980-83 %	Potential success*
Blue	1,587	12.4	Low
Danish	2,953	13.7	High
Flavored	2,503	16.9	High
Gouda	3,219	9.4	Low
Greek	1,883	16.5	Medium
Mexican	14,570	60.0	Medium
Semisofts	2,439	21.9	High
Soft ripening	2,891	27.3	Low
Specialty Italian	4,404	22.8	High
Spreads, coldpacks	8,343	3.9	Low
Swiss	22,296	16.4	High
Total	67,088	—	—

* Potential success in marketing new California production.

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by several very successful and competitive California companies.

Greek cheese, defined as that first produced in Greece, is often soaked in saltwater brine during manufacture and so is sometimes known as pickled cheese. Subgroups include feta, teleme, and kasari. Popular brand names are Churny and Stella.

Lower probability

The four groups that appear to have a somewhat lower probability of success include blue cheese, Gouda, soft ripening cheese, and spreads and coldpacks. Intense price competition is the main reason for possible problems in future production of these varieties.

Prices of both blue and Gouda are strongly tied to the USDA support price. As a result, manufacturers of these two varieties face considerable competition. A positive note for both of these varieties is that import levels are close to their quota limits.

Soft ripening cheese, such as Brie and Camembert, face extreme competition from foreign imports, because there are no import quotas on these products. One positive note is the 27.3 percent sales growth during the period 1980 to 1983.

Spreads and coldpacks are a major California market at 8.3 million pounds but show the slowest sales growth at 3.9 percent during 1980 to 1983. This type of cheese is mainly made from natural cheese. Because it is so easy to make, price competition is tough.

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