

Homegrown Dairy

By Jamie Huish Stum, Utah Business Magazine, November 12, 2008



Now and then, we all get touched with nostalgia. Remember your childhood days when the milkman would drop off those shiny glass bottles filled with fresh milk to a cooler on your front porch? No late night milk runs, no shortage of your favorite brand on the grocery aisle. The milkman would tip his hat and whistle back to his truck, but not before leaving a little bottle of chocolate milk hidden in the back of the cooler.

That picturesque scene rings true for many Utahns, except today they're adding Thai chicken, two-cheese quiche and tilapia with mango salsa to the roster of favorite foods delivered to their homes. Thanks to Winder Farms, the traditional milkman has met modern convenience.

It is somewhat untimely for a resurgence of a milk delivery service. The cost of food is rising nationwide; the price of gas has already skyrocketed. And the Utah dairy industry has faced struggles for years as the cost of feed increases and competition gets stiffer. So how can this tough environment equal 40 percent annual growth for one of Utah's oldest dairy companies?

Vice president of marketing and Winder family member Mike Winder sums it up nicely: "We're in the same business as the Tooth Fairy and Santa Claus. We make deliveries in the night that delight people in the morning." From stagnation to success, Winder Farms has managed to survive tough economical times and grow for tomorrow.

Harking Back

The six-generation history of Winder Dairy starts with the era of small town America. In 1880, farmer John R. Winder kept a herd of prize-winning jersey cows on his property in south Salt Lake. He stored his milk in a deep well, which kept it colder and elevated the flavor. It wasn't long before neighbors were knocking on Winder's door asking to buy the fresh and creamy milk. Winder's wife, Elizabeth, eventually began making butter from the milk and the family started delivering the products to a few hotels and neighbors under the name Winder Dairy. To date, the dairy has made more than 100 million deliveries in its 128-year history, initially loading milk into horse-drawn wagons before today's refrigerated trucks. In 1932, the family moved to its current location in West Valley City.

Milk Money

Through six generations of Winders, the dairy proved its longevity, but the stability of the demand for Winder milk made keeping up with the times less of a priority. Winder Dairy expanded to St. George in the mid 1990s, but by 2004, "We had really been treading water for the past 10 years or so," says Mike Winder.

The company was also in desperate need of capital to continue operations. For the first time in its history, Winder considered looking outside the family for direction.

"We had our backs against the wall. We had some creditors that we owed, we had a controller who cooked the books," Winder says. "To go from that sort of position took outside help. While family members brought a lot to the table, there was that missing piece."

Partners of Dolphin Capital, a venture capital firm headquartered in Park City, got wind of the company's predicament and became intrigued.

"It was a classic multi-generational family business," says Eric Jacobsen, partner with Dolphin Capital. "There were a lot of different shareholders with the typical demands or hopes for various things that people want out of the business. It was the family's cash flow generator, they were not interested in investing in the company and growing it, they used the company to pay their bills. With the company in trouble, there were issues, there always are."

While the venture capitalists recognized that milk was the core of the business' offerings, they saw that Winder had hit dynamite with its home delivery system. Families are busy, gas is expensive and as any pizza deliveryman can attest, people just like having things dropped off at their door. "When the company talked about itself, it talked about itself like a dairy," says Mike Dutton, current CEO of Winder Farms. "They said, 'We have this great dairy', but we said, 'You have this great delivery system.'"

Dolphin Capital invested \$2.5 million into Winder Dairy in 2004. Salt Lake-based venture capital firm Peterson Partners also invested soon after.

"[Winder] was one of the oldest companies in Utah and was in some financial distress, but still had loyal customers despite all the customer service issues we heard about. We decided there must be something there," says Rick Stratford, partner with Peterson Partners. "We back talented management teams and sound business models with growth opportunities and that's exactly what Winder is."

Special Delivery

With new money on board, all parties involved realized the time for massive changes had come.

"To appeal to customers, you need more products than just milk, and that's hard for a company that had been marching in one direction for 100 years," says Dutton.

Market research showed that more than 90 percent of the Utah market had already heard of the Winder brand, creating a ready opportunity for reinvention and expansion. The company had already crossed one of business' biggest hurdles—creating a distribution model that worked. And it didn't hurt that direct competition in Utah was zilch.

Dolphin partner Eric Jacobsen stepped in as the new CEO and brought personnel from Dolphin Capital's team, including Mike Dutton, to help lay the groundwork for a dramatically new strategy for the company. Plans were laid to rebuild the infrastructure, penetrate the existing footprint more effectively, enlarge the product line and expand geographically.

"It was a shift in thinking," says Dutton. "It's a localized business but groceries are a massive market."

Capitalizing on old strengths while pursuing new directions, the team recreated the Winder brand.

"We did a lot of market research before we made an investment in the company and the consistent response we got was, 'Incredible product, terrible service,'" Jacobsen says. "The Winder driver team made that delivery rain or shine, but what customers learned was that if they changed their order, [the company] wouldn't get it right."

Today, the customer base remains incredibly loyal and attaches a familial element to the milk, says Jacobsen. "We hear stories of when people come to visit Utah and see that people still get a milkman. Anyone over 35 years old here probably went on a tour of the Winder plant in elementary school," he says.

Addressing the company's major customer service issues required an overhaul of Winder's systems. Previously, customers' orders were jotted down by phone and handed off to the truck drivers. Today, a revamped Website, expanded customer service center and

electronic tracking system have helped customers feel much more satisfied. Thus far, company officials say Winder has a 99.8 percent accuracy rating on orders for the entire year.

The company also spent more than a million dollars to increase plant efficiency, implement information technology and higher accuracy ordering systems. Drivers now use a handheld device with routes optimized by GPS to get them to their destinations on time. New financial accounting and metrics systems track and measure average revenues per customer. "We used to just get monthly reports; it's often too late to change the system at that point. With this system, we're able to fly the airplane with real time controls," Winder says.

The company has also taken an extended approach to customer service by developing a management training program. New management employees go on a rotation through all aspects of the business, from bottling milk on the plant bottling lines to driving delivery trucks.

Farmed Fresh

It's 10 a.m. at the Winder Farms' headquarters and the massive warehouse is mostly empty. Crates of fresh butter, cheese, produce and, of course, gallons and gallons of milk have already been delivered to households across the state in the dusky morning hours. Soon, more products will arrive from farmers and vendors for delivery in Utah homes within a few days.

Though Winder Farms is no longer crammed with cows, (the company contracts with a farmer in Heber Valley) consumers still say the milk is the freshest they've ever tasted.

That freshness is what Winder's executive team relies on as the company's defining aspect. With all new systems go, the Winder team set out to fill their trucks with more than just milk, which at the time was 90 percent of the company's revenue. Focus groups show that today's consumers are looking for fresh, convenient products. Utahns asked for a solution that would provide fresh, great tasting products delivered from the source to the customer in as short a time as possible. Sound like a tall order? Winder Dairy didn't think so.

The executive team realized it was the delivery system that kept customers on board as much as the taste of the milk. The thought arose: If they were already delivering milk, why not add other staples that customers need, like bread, eggs, cheese and produce?

"We wanted people to expand their thoughts beyond great milk when they thought of Winder," says Dutton. "We think of ourselves as a farmers market on wheels."

In conjunction with its 125-year anniversary in 2005, Winder Dairy officially rebranded itself as Winder Farms and began providing all types of fresh products from local vendors and growers right to customers' front doors.

Winder Farms ramped up offerings to more than 300 products, including meat, juices and bakery items. And although Winder is selling more milk than ever before, milk now only accounts for 40 percent of its revenue.

"We have a product management team that's out scouring the globe to find the latest and greatest products and we can deliver freshness," Winder says. "We look at all the categories in a grocery store and say, 'What are or what aren't we delivering in those categories?'"

The company launches 10 to 20 new products every month, and offers many items seasonally such as fresh cranberries at Thanksgiving or raspberries in the summer months. Above all, the focus is fresh and local. "We'll never be able to compete if we deliver Campbell's Soup. We have to deliver fresher, higher end products than what you can get in the grocery store," Dutton says.

To deliver local products besides dairy items, Winder Farms partners with local vendors. For example, bread delivered from Winder carries both the Winder Farms and the Paradise Bakery label. Other local vendors include Rico's and Colosimos.

Winder Farms has also tried to tap into the eclectic tastes of today's American consumer with prepared meal solutions such as cheese tortellini with creamy pesto and Cajun stuffed pork chops. Reflecting the national trend toward healthier products, items are always free of trans fat, Winder says. "Everything goes through a health filter," he says. "At the end of the day, we do whatever we can to keep the products healthy."

A Winder Farms customer for four years and a mother of four, Stephanie Halliday says she receives deliveries to her Cedar Hills home because of the convenience it provides a busy family and the freshness of the food.

"Their sour cream is my favorite and their yogurt is the creamiest around. Their bacon is heavenly; I have a hard time if I run out, and there's nothing fresher than their cheese," she says.

With a weekly order of about \$30, Halliday says she now goes to the grocery store about once every week and a half and relies on Winder for her staple items. "It frees up your time to do other things," she says. "I don't have to worry about it; the food is always delivered right to me. And on a health level, the dairy products are better than what you can get in a grocery store because I know the milk hasn't been processed. It's just like I went to the dairy myself and got it."

The idea of Winder Farms taking on the grocery industry may seem like an insurmountable task. There are almost 35,000 supermarkets in the United States that sold more than \$535 billion worth of products in 2007, according to the Food Marketing Institute. Jacobsen says, in fact, Winder Farms is not even trying to tackle that Goliath. "I don't think our model will ever fundamentally change people going to the grocery store," Jacobsen says. "But we milk the cows yesterday and have it on your doorstep tomorrow; that's the value proposition we provide."

Trucking Onward

Today, Winder Farms has its sights set outside the Wasatch Front. An aggressive growth plan will take Winder's products to several neighboring markets, while keeping the headquarters in Utah, a fact company executives see as a strength for the state and the company. "I like to say Winder is the state's fastest exporter of Utah's agricultural products," Winder says. Company executives drew an 11-hour radius around Utah, the distance a Winder driver could legally drive in one day. That circle includes a handful of possible markets such as southern California, Colorado, Idaho and Nevada.

The company made its first out-of-state foray with an expansion into Las Vegas in 2007. Winder salesmen signed up 2,500 customers in the first year; currently, the business has 5,000 customers in Las Vegas and signs up 700 to 800 customers each month in the area.

Though company officials insist Winder will always remain true to its Utah roots, the strengths and challenges of expansion are many. Economies of scale and sourcing products make sense from a larger perspective, but going the distance is much more difficult.

"We found that even going into Las Vegas, it's a balancing act when you have a small amount of customers," Winder says. "The name of the game is fresh but it's expensive to ship fresh, there are no economies of scale. The first few months aren't as profitable."

Outside of Utah, the company doesn't retain its brand loyalty, which has presented both a challenge and an opportunity. Though it's a different pitch to potential customers, Las Vegas consumers maintain no association with the Winder Dairy name. So, they easily view Winder Farms from the company's "farmer's market on wheels" perspective, and have proven to be very interested in healthy, organic products and a little less price sensitive than Utah consumers: The average order for a Las Vegas customer is typically \$30 a week, almost a third more than the average order for a Utah customer.

With one successful expansion under their belts, company officials say it wouldn't be too far of a stretch to continue down the road a few more hours to southern California.

"Southern California is such a massive market, it's 10 times the size of the Wasatch Front," says Jacobsen. "What we're looking for is upper income moms with kids and you've got those in spades in southern California. It's expensive to launch there; so many people think that we've got to bite that off in chunks, but it's an attractive market for us."

The Word Spreads

The hometown-milkman-meets-down-town-convenience idea has hit a note with consumers. Winder Farms currently adds about 2,000 customers a month with about a third of the new additions coming through customer referrals. "We've gone from 12,000 customers to 30,000 customers today," says Dutton.

Company officials have also been able to focus on Winder's consumer spectrum. While there will always be a strong contingent of retirees who are familiar with the brand and appreciate the porchside delivery, Winder's new target consumer is upper income families with at least one child in the home between the ages of three and 16. "The penetration in that market goes up substantially," says Dutton. "These are parents who are running this frantic lifestyle, but they want their children to eat healthy and enjoy meal times as a family."

This rebranding and today's changing lifestyles have helped loyal milk-drinkers utilize Winder's greatest strengths. "People are always looking for more convenience, the benefit of saving one trip to the grocery store. Those late night milk runs, our customers don't make those. That's quality of life," says Winder.

RaKell Yancey Gardner of South Jordan has been receiving Winder's products for 27 years. Winder was a part of her childhood in Taylorsville, she says, and she was determined to have a milkman after she got married. Though Gardner admits they are pricey, the company's meal solutions, such as chicken Florentine or grilled salmon, have been an easy option for weeknight dinners.

"It's convenient for me because I'm a workaholic and it's wonderful to not have to go to the store every night and pick something up," says Gardner.

Some customers also say they are saving money by using Winder's service. The average American consumer makes two trips to the supermarket per week, according to the Food Marketing Institute. Delivery service jives nicely with today's lifestyles.

Though the company is still trying to prove it can adapt nimbly, Mike Winder says Utahns can count on Winder sticking around for another 128 years. "We'll be a 12th generation company in numerous states delivering hundreds of products."