The Rise of the Greek Yogurt Industry in Central New York

By David Cole

September 2012

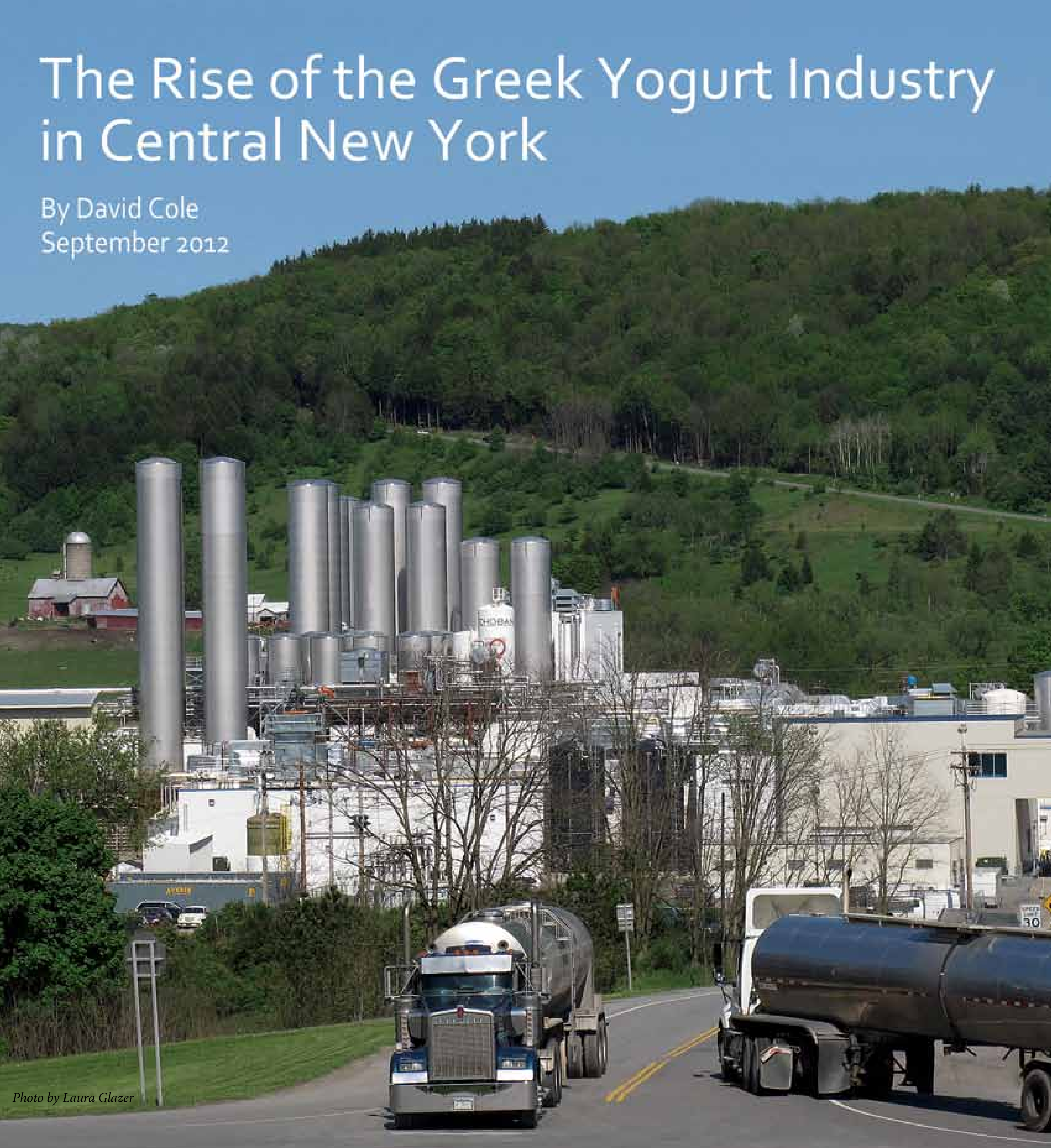


Photo by Laura Glazer

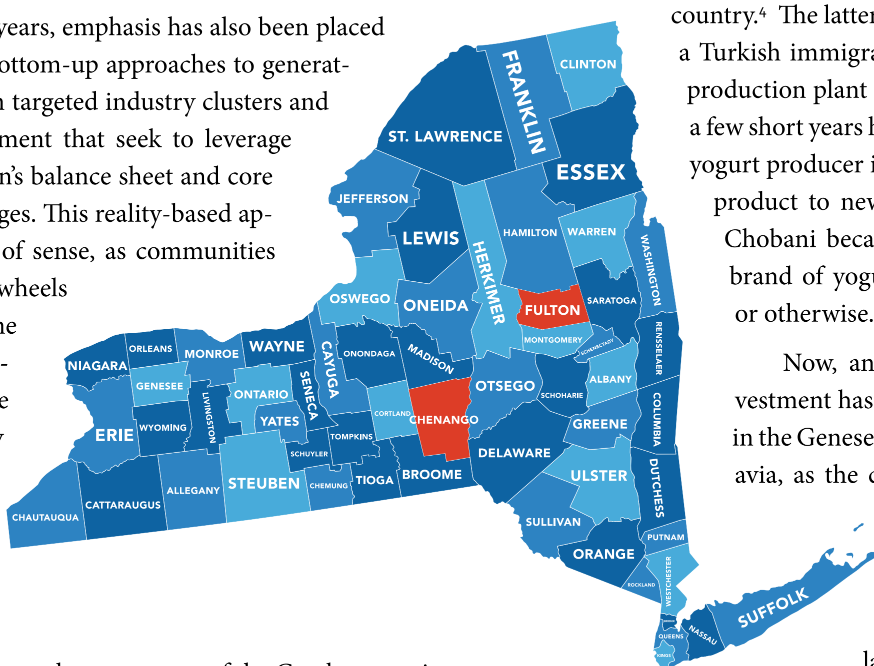
NADO
National Association of Development Organizations
Research Foundation

Greek Yogurt: An Economic Driver in Central New York State

In today's world of economic development, job creation typically comes in modest and often frustrating doses, particularly in rural areas, and even in good economic times. Symptomatic of what many see as a "post-industrial America," numerous areas have seen decades of downsizing in manufacturing employment, the result of mechanization, specialization, shifts in consumer patterns, and off-shoring of production. The opportunity to land jobs in sizeable batches in rural communities is generally limited compared to the time when manufacturing in this country was in its heyday, branch plants were proliferating, and rural areas possessed the natural resources and the general manpower to help drive American production.

These realities have led to an evolution in economic development thinking over the years since the "smoke-stack chasing" era of the 1960s and 1970s, to the "small (business) is beautiful" movement of the 1980s and 1990s, when industrial parks became business or technology parks, and the practice of economic development was broadened to include more focus on small business development and incubation in addition to traditional business attraction and retention activities.

In more recent years, emphasis has also been placed on more strategic, bottom-up approaches to generating jobs, focusing on targeted industry clusters and asset-based development that seek to leverage and enhance a region's balance sheet and core competitive advantages. This reality-based approach makes a lot of sense, as communities can truly spin their wheels by engaging in a "me too" strategy of chasing the flavor of the day without truly possessing the right asset-mix to compete for that particular industry.



With this backdrop, the emergence of the Greek yogurt industry in central New York over the past five years is most impressive, if not extraordinary. Two yogurt makers alone—Chobani and FAGE USA (pronounced Fa-yeh)—have created more than 1,400 jobs, and have provided an important new outlet for hundreds of dairy farms in New York and surrounding areas.[1] (Chobani estimates that it will consume 5 million pounds of milk per day by the end of 2012 by itself.[2])

The rise of this industry has provided a much needed economic stimulus to a decidedly rural region, rippling out to the greater community in terms of additional jobs in transportation and services, and increased local consumer spending fueled by these expanded payrolls. In economic development jargon, central New York has landed "the big one," and that is all too rare these days in rural America.

As in most cases, there have been a number of contributors to this success, some of which are state- and community-driven, and others more a matter of where a region sits on the map. It starts, of course, with a market and the entrepreneurial and business know-how and drive to develop these market opportunities; locational dynamics and logistics (access to supply chains, markets, and workforce); necessary investments in critical infrastructure and support systems; and a welcoming business climate on the state and local levels.

It is also noteworthy that the two major Greek yogurt producers in central New York, FAGE USA, and Chobani, came from very different directions. The former is the U.S. subsidiary of a well-established Greek company that began this story by importing their product into the U.S. and subsequently deciding to manufacture in Fulton County,[3] New York in order to meet what they have characterized as the "ridiculously strong consumer demand" for Greek yogurt in this country.[4] The latter is a start-up business led by a Turkish immigrant who revived a shuttered production plant in Chenango County and in a few short years has become the largest Greek yogurt producer in the country and taken the product to new levels. In fact, as of 2011 Chobani became the number one selling brand of yogurt in America, Greek-style or otherwise.[5]

Now, another "wave" of yogurt investment has hit western New York State, in the Genesee County community of Batavia, as the continued growth of yogurt and Greek-style yogurt in particular brings other players into the market including Alpina Foods, a large South American dairy company, and "Project Wave," a partnership between PepsiCo and German dairy giant Theo Müller (see Sidebar: Project Wave on page 12). Given the success of this growing Greek yogurt cluster, this story of investment and job creation provides a case study on asset-based development useful for regional development organizations and their partners. Just as good yogurt depends on the right mix of ingredients, so too is the case in economic development. And this is a recipe worth sharing.

Chobani and FAGE USA alone have created more than 1,400 jobs and provided an important new outlet for several hundred dairy farms in New York and surrounding areas.

The **Greek Yogurt Phenomenon** and New York's **Dairy Industry**

THE RAPID ASCENT OF GREEK YOGURT

First, a word on the product: What has become branded as "Greek" yogurt in this country is more widely known as "strained yogurt" in other parts of the world. This straining process removes excess whey (the watery part of milk), resulting in a yogurt with a thicker texture that is low in fat and high in protein while retaining the distinctive yogurt taste. Strained yogurt is common in many countries in the eastern Mediterranean region and other parts of Asia.[6]

What is perhaps most compelling about the rise of Greek yogurt is just how quickly it has come on to the scene. The story begins in 1998 when FAGE began flying product from Greece into New York City to introduce its Greek brand to the American market, enjoyed impressive sales growth, and decided to build a U.S. facility.[7] The Chobani brand was subsequently rolled out to the U.S. market in 2007, and has since been the driving force in taking Greek yogurt to a whole new level.[8]

With Greek yogurt rising on the radar screen, global financial services company UBS issued a research report in March 2011, providing an insightful "deep dive" into the Greek yogurt segment.[9] It notes, "Greek yogurt brands such as Chobani and FAGE have captured market share more quickly than almost any segment in a major food ever (13 points in the last 3 years)." The UBS report goes on to note that during the previous three years, Greek yogurt had "evolved from relative obscurity (and a 1 percent market share) to the segment driving the vast majority of category growth." To put it in percentage terms, consumer tracker Nielson reports that sales of Greek yogurt have surged at an impressive rate of over 100 percent a year, while non-Greek yogurt sales grew in single digits.[10]

In the report, UBS assigns Greek yogurt market share for Chobani and FAGE of 48 percent and 22 percent, respectively, for the 12-week period leading up to the 2011 report, reflecting the role of the New York yogurt makers as the epicenter of this burgeoning industry. While FAGE and Chobani pioneered the Greek yogurt revolution, the situation is not static. More recent data (2012)

> "Greek yogurt brands ... have captured market share more quickly than almost any segment in a major food ever..."
>
> *UBS Investment Research*

indicate that global giant Danone (maker of Dannon yogurt) is capturing a larger share of the market (up to a 19.7 percent share as of May 2012), and now holds the second position to Chobani, which sits at 47.3 percent, with FAGE at 13.9 percent.[11]

Danone is aggressively marketing its Oikos Greek brand, including a prominent TV spot during the 2012 Superbowl with Greek-American actor John Stamos.[12] For its part, Chobani is doing some high profile promotion of its own, having signed on as an official sponsor of the 2012 U.S. Olympic Team. Its first Olympic ad focused on the "Chobani story," and how the company with "massive support from our community and fans" has in five short years grown to become the number one yogurt in the country.[13]

All competitors, however, have the opportunity to capitalize on a rising tide, as the proverbial pie is expected to grow bigger. The UBS report states, "Our analysis of Nielson data strongly suggests that Greek yogurt has sustainable growth ahead from increasing shelf space at retail, geographic expansion (beyond the northeast U.S.), and increased in-store promotion activity." While no one can predict the future with absolute certainty, Greek yogurt appears to be here to stay.

WHY GREEK YOGURT?

What is driving this "category killer" that is taking up more and more shelf space in the dairy section of the local market? Health and nutritional considerations appear to be a major force behind the ascent of Greek yogurt. The word has certainly gotten around, as the health benefits of Greek yogurt have been frequently touted in the media as a smart-eater's choice, low in fat and more filling due to the high protein content.

While many of these stories are directed to women, such as a feature in Women's Health that included FAGE Total 0% Nonfat Greek Style among the 15 best snacks 100 calories or less, the product has a broader appeal. For example, Men's Health featured Greek yogurt (displaying Danone's Oikos brand) on its online list of "5 Protein-Packed Gym Snacks," calling it a "lifters dream." Chobani is also tapping into the children's market with Chobani Champions, the first Greek yogurt made with only natural ingredients that is marketed just for kids (and the adults who love them and make the household purchases).[14]

This focus on health and nutrition is backed up by the UBS report, whose analysis indicates that consumers are drawn to Greek yogurt as a "convenient, filling, and healthy meal." The UBS report noted that while health and nutrition benefits top the list of reasons that people consume Greek yogurt, their data surprisingly indicated that taste was not a major motivator, nor was price, as consumers were paying a premium compared to non-Greek yogurt.

Health and nutrition benefits top the list of reasons that people consume Greek yogurt

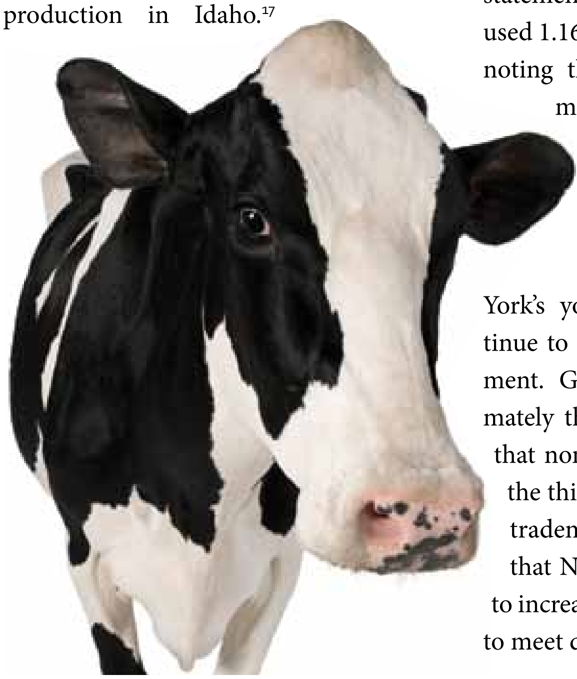
It's interesting to note that Greek yogurt has really come into its own over the last five years, almost in lock-step with the rise of social media, which together with traditional print and television media is spreading the word about the benefits of the product to the American public. Today, word of mouth is leveraged many times over by the loudspeaker of social media outlets, and the New York yogurt producers are making full use of these new-era marketing tools such as Facebook and Twitter. Case in point, FAGE has nearly 1 million "likes" on its Facebook page.

Photo courtesy: Times Union, Albany, NY

As for Chobani, it is winning some gold of its own in terms of its marketing campaign among the Olympic advertisers. Social media company AddThis, which monitors websites and users, tracked social media activity among Olympic sponsors and other leading advertisers throughout the London games, including mentions, write-ups, and Twitter followers, and awarded gold, silver, and bronze "brand medals" on a daily basis. Chobani led their overall medal count for the London games and was crowned "Brand Champ" by AddThis, beating out such veteran competitors as McDonalds, Coca-Cola, and VISA—pretty good for a newcomer.[15]

YOGURT AND THE NEW YORK DAIRY INDUSTRY

A drive through upstate New York reveals a landscape with a sizable dairy industry. New York State had just under 5,400 dairy farms as of 2010, based on preliminary figures provided by the New York State Department of Agriculture and Markets.[16] Based on U.S. Department of Agriculture data, New York ranked third among states for milk production for several years, dropping to number four in 2010 due to steadily increasing production in Idaho.[17]



This may reflect to some extent the impact of the recession on farmers, as the New York Farm Bureau estimates that about 400 farms were lost to the 2009 recession—many more than normal.[18]

In addition to milk production, manufacturing of milk-based products is very important to the state economy. According to 2009 Census Bureau figures, New York trailed only California and Wisconsin in terms of manufacturing jobs generated from the dairy sector.[19] Yogurt making is an important component of this value-added activity in New York State. A February 2012 press statement from Governor Andrew Cuomo points out that New York has a total of 29 yogurt plants (traditional and Greek) that employ more than 2,000 people and produced 530 million pounds of yogurt in 2011—more than double 2008 levels.[20] Much of this growth, of course, has been driven by the meteoric rise of Greek yogurt, to date driven by FAGE and Chobani in the state, but soon to have company from western New York.

From a macro standpoint, the growth of the yogurt industry has already had a major effect on the dairy industry in New York and surrounding areas. According to the governor's press statement, New York's yogurt producers used 1.16 billion pounds of milk in 2011, noting that this is comparable to the milk production of 500 average-sized dairy farms in New York, based on an average of 115 cows per farm.[21]

Milk consumption for New York's yogurt production should continue to grow, driven by the Greek segment. Greek yogurt requires approximately three times the amount of milk that non-Greek yogurt does to achieve the thick and creamy texture that is its trademark. In fact, Chobani estimates that New York area farmers will need to increase milk supply 15 percent in 2013 to meet demand.[22]

FROM FARM TO MARKET

Understanding the market, milk pricing and effect down at the micro level, however, becomes more complicated. For over a century, a complex, hybrid system has evolved in the U.S. to deal with production and distribution of milk that is part market-driven and part publicly administered through various pricing regulations.[23] Milk is a "flow" commodity, as it is produced each and every day (there is no off switch on a cow). The Federal government seeks to maintain orderly distribution and to protect the farmers through milk marketing orders, which among other things set a minimum price for the fluid milk.

For distribution and consumption purposes, milk is broken down into grades and classifications according to federal rules. The highest "Grade" of milk is Grade A, with Grade B milk used for non-rated manufacturing purposes.[24] Grade A milk is broken down into four classes for pricing purposes, with Class I used in all beverage milks, Class II used in fluid cream products, yogurts, ice cream, and other perishable products, Class III used in cream cheese and hard manufactured cheese, and Class IV milk used to produce butter and dried milk.[25]

For many years, farmer-owned cooperatives have played a central role in the U.S. dairy industry and in the marketing and distribution of milk. The industry went through a transformation in the 1960s and 1970s when dairy cooperatives, through mergers, consolidations and acquisitions, grew from local to regional organizations, with some stretching across the country.[26]

Dairy Marketing Services (DMS) is the primary supplier of milk to the Chobani plant in Columbus, New York. DMS is a milk-marketing organization that was formed in 1999 through an agreement between Dairy Farmers of America and Dairylea Cooperative, Inc. Today, DMS serves the industry "by combining the milk supplies of independent farms and cooperative farms for the purposes of creating efficiency and the reduction of cost of milk assembly, field services, and transportation."[27] DMS is serviced out of Syracuse, New York, which dispatches about 900 trucks of milk a day to customers throughout the northeast.

Dan Guido is a field representative for DMS, and a veteran of the industry who has lived in the central New York area for some time.[28] Guido notes that New York sits right in a prime location next to the I-95 corridor from Boston to Washington, DC—the largest market for milk in the country. He further points to the quality of milk that is produced in the northeast, a further reason for processors to look to this region for value-added opportunities.

Guido has witnessed plant closings and consolidations over the years, and the surge in Greek yogurt production in his mind has provided a much needed market outlet for Class II milk. This new market helps allow the industry to "keep local milk local," rather than relying on markets "farther and farther away" and the increased transportation costs that have to be borne.

Milk pricing is also a complicated matter, due to how milk is regulated (to protect the farmers and set a minimum price) as well as bought and sold. The price of milk is set in the larger marketplace, and not at the local level. While few would question the overall benefit of the growing yogurt industry to New York State and its farming community, it would appear that an individual farmer located near these production facilities may not necessarily be incented to expand their farms in response to this demand.

> **State and local leaders are stepping up to address the challenges and opportunities facing this growing industry cluster.**

Andrew Novakovic, a Cornell University professor and agricultural economist, has written a paper on the subject of this marketing phenomenon: "The Chobani Paradox: Although the dairy industry, generally and instinctively, desires growth, market and regulatory conditions sometimes make the cost of growth appear larger than the benefit."[29]

Novakovic notes that this is not a reflection of Chobani itself (it's out of their control), but it does provide a good illustration of this conundrum due to the company's dramatic and concentrated growth.

The supply of milk was also the focus of a *Wall Street Journal* article, in which Chobani founder Hamdi Ulukaya commented, "We are coming to a point where the availability of milk is becoming a challenge," in reference to a new plant that Chobani is building in equally milk-rich Idaho and is expected to employ about 400 people in Twin Falls.[30] The article, however, also reports that the owners of FAGE are not worried about milk supply in New York and notes that PepsiCo and Theo Müller are building a new facility near Buffalo, in Batavia, New York where they can better access milk from the Midwest.

State and local leaders are stepping up to address the challenges and opportunities facing this growing industry cluster.[31] In economic development, leadership starts at the top, and Governor Cuomo certainly has been a major booster for New York yogurt. He recently convened the first "New York State Yogurt Summit" in Albany to "hear ideas from industry leaders, farmers, and other stakeholders to help ensure that the yogurt industry continues to grow and create jobs in New York."

Among the issues discussed at the event, the governor announced that the state will take new actions to help the dairy farmers increase their herds and production. The state is proposing to increase its Concentrated Animal Feeding Operation (CAFO) cap from 200 to 300 milking cows, allowing small farms to expand without having to meet the costly requirements of complying with CAFO environmental permitting. The state also intends to work with farmers and yogurt producers to lower energy costs by incentivizing the use of anaerobic digesters to convert waste to energy.

The Greek Yogurt Makers in Central New York: FAGE and CHOBANI

Photo courtesy: Times Union, Albany, NY

Flickr user: nsdis

FAGE AND FULTON COUNTY

Greek-style yogurt was introduced to the U.S. by FAGE, which, not surprisingly, is a Greek company and is Greece's largest yogurt maker. The company was established in Athens, Greece in 1926 by Athanassios Filippou, bringing over eight decades of know-how to the market. The company began exporting to the United Kingdom in 1980, Germany in 1988, and to the U.S. in 1998. FAGE USA was established in 2000 to further promote the product in the U.S. By 2005, the company was importing over 2,000 tons a year to the States. Given strong demand, the company decided to build a state-of-the-art production facility in Johnstown, New York, which opened in 2008 to meet U.S. demand.[32]

Including its original facility and subsequent additions, FAGE has invested over $200 million to date into its 220,000-square-foot complex in the Johnstown Industrial Park, with 230 full-time employees working in two shifts around the clock. FAGE yogurt is now distributed across the country in many specialty and natural food stores and supermarkets under the FAGE Total brand.

This example of capturing foreign direct (or inward) investment was certainly a feather in New York's cap, as the jobs associated with meeting this market demand are now focused stateside. But why New York State and Johnstown? Certainly proximity and access to major markets and an extensive milk-shed seem like obvious reasons to look at New York State as a prime location for the manufacturing of dairy products.

Mike Reese is president of the Fulton County Center for Regional Growth (FCCRG), an organization that worked closely with state and local officials to site the project in Johnstown and develop the incentive package to help attract FAGE to the community, which included local property tax relief and certification under the New York State Empire Zone program making the project eligible for certain benefits such as tax credits.[33] Reese notes that while Fulton County is not a major milk producer, there is an ample supply of milk within an hour's drive. The FCCRG was also in the position to offer a prepared and serviced site at the Johnstown Industrial Park with access to I-90 (the New York State Thruway) just south of Fulton County.

However, he points to the capacity of the local wastewater treatment plant as a key competitive advantage that set Johnstown apart from other locations. In fact, the Johnstown-Gloversville Joint Wastewater Treatment Plant is actually located in the industrial park in close proximity to the FAGE plant. As Reese explains, the plant was originally built to service the needs of the leather tanning industry, a treatment-intensive business. When several tanneries closed their doors a few years ago, not only did the unemployment rate in the area rise into the teens, but those treatment plant users who remained were left to absorb the additional burden of the sunk costs associated with this extra capacity.

In this case, however, the community was able to turn a liability into an asset. George Bevington, general manager of the Gloversville-Johnstown Joint Wastewater Treatment Facility, explains that the plant handles both the processing of cleaning water from the FAGE facility, as well as the high strength waste—the whey (the watery part of milk that separates from curds in the processing) generated in the act of converting milk to yogurt.[34] And given that the process of making Greek yogurt generates more whey than traditional yogurt, this capacity helped support FAGE's location at the Park. Bevington notes that FAGE is now their number one customer, which has helped stabilize rates for all users.

From the federal level, both the industrial park and wastewater treatment plant received valuable assistance from the U.S. Economic Development Administration (EDA) to help develop this critical infrastructure. Fulton County is included within the Mohawk Valley Economic Development District (MVEDD), the EDA-designated Economic Development District which helps set priorities for the region and develop a regional economic development plan.

According to Greg Eisenhut, MVEDD's chief operating officer, the organization helped secure a $1 million EDA grant that supported the 300-acre Johnstown Industrial Park project in 1989.[35] In 2008, EDA awarded a $2.2 million grant toward an $11 million upgrade of the wastewater treatment facility, focused on anticipated growth in food processing at the industrial park.

It is also interesting to note that Euphrates, a feta cheese manufacturer, is also located in the Johnstown Industrial Park and has benefited from these investments, as well as revolving loans from both MVEDD and FCCRG. Euphrates was started in the early 2000s by Hamdi Ulukaya, the entrepreneur who subsequently went on to found Chobani, in nearby Chenango County.[36]

Beyond the EDA grant, the wastewater treatment facility was also quite entrepreneurial in raising funds toward the balance of the $11 million treatment plant upgrade, including a $1.4 million New York State Energy Research and Development Authority (NYSERDA) grant, and a $6 million Green Innovation Grant from the New York State Environmental Facilities Corporation, funded through the 2009 American Recovery and Reinvestment Act.[37] The upgrades also include a cogeneration project that takes advantage of the growing quantities of methane gas being produced from the waste stream and converts it into electricity for plant use. Bevington indicates that visitors from Beijing to Mexico City have traveled to learn about the cogeneration project, which in 2011 supplied 91 percent of the facility's power needs.

In addition to the more site-specific issues, Reese also points to the efforts of the New York State Department of Agriculture's Office of Milk Control, which developed the key initial relationship with FAGE when the company was first importing its product from Greece into metropolitan New York markets. As Casey McCue of the Office of Milk Control explains, New York State worked with FAGE as the lead state to develop a plan to meet federal requirements under the Pasteurized Milk Ordinance.[38] In economic development as well as business, it's all about relationships.

New York State government continues to support FAGE through its most recent expansion in Johnstown. According to the state, the project cost is estimated at over $100 million for the construction of the 80,000-square-foot addition, and includes a state incentive package valued at over $1.5 million to support the creation of 130 new jobs over three years and the retention of 160 existing jobs.[39]

Photos inside the FAGE facility, Johnstown, NY, Feb. 2012 by Marc Schultz, The Daily Gazette, Schenectady, NY

GROWING JOBS FROM THE ENTREPRENEUR UP: THE CHOBANI STORY IN CHENANGO COUNTY

Chobani founder and CEO Hamdi Ulukaya accepts the national 2012 SBA Entrepreneurial Success Award Award. Photo by Risdon Photography.

While FAGE is a good example of promoting economic development within a region through successful business recruitment and expansion, the emergence of Chobani in central New York provides a profile in entrepreneurship and homegrown jobs. The Chobani story began in 2005 when Hamdi Ulukaya, a feta cheese producer in Johnstown, New York, purchased a yogurt facility approximately 60 miles away in Chenango County that had been recently closed by Kraft Foods.[40]

This 100-year-old property was purchased with the help of a Small Business Administration (SBA) loan package through the agency's 504 program (SBA and Key Bank), and the company's meteoric rise began. Additional funding was also secured in 2006 and 2007 from numerous local economic development financing programs as well as a U.S. Department of Housing and Urban Development Community Development Block Grant from New York State, providing Ulukaya the foundation to build a successful business model, beginning with the manufacturing of private label yogurts at the Chenango County facility.[41]

Ulukaya, with the help of a "yogurt master" from Turkey, also proceeded over this time to develop the recipe for a strained yogurt that would be rolled out in 2007 as the highly popular Chobani brand. In just seven short years from start-up, and five years from the Chobani brand launch, the results have been nothing short of extraordinary, as Ulukaya and his team have proven to be master marketers as well as yogurt makers.

The company has grown from five people to over 1,200 employees (1,000 of which are in Central New York), and a new facility under construction in Idaho in 2012 is expected to employ an additional 400 people. After starting out in the Northeastern United States, Chobani products are now available nationwide and in Canada, the United Kingdom, and Australia. Sales have grown at a dizzying pace since 2007, and Ulukaya expects to hit $1 billion in annual revenues by the end of 2012, according to a recent interview.[42] As any experienced economic developer or commercial loan officer can see, this level of success is rarely seen among start-ups, where only about half survive their first five years.

The SBA certainly took note when it awarded Ulukaya the prestigious national 2012 Entrepreneurial Success Award, which recognizes business ventures that have received SBA assistance and have performed at the highest levels based on such factors as sales growth, employment, and financial performance.[43] In summarizing the award, SBA not only pointed to the company's impressive sales growth, but also its accumulated net worth.

Ulukaya also recently received the Ernst & Young Entrepreneur Of The Year Award for the New York area as the winner in the Retail and Consumer Products category, selected by his peers in the private sector. The Bloomberg Billionaire's Index estimates that Ulukaya, as the founder and sole owner, has a net worth of $1.1 billion.[44]

The success of Chobani has certainly given Chenango County and surrounding areas a much-needed shot in the arm. Chenango County sits within the service area of the Southern Tier East Regional Planning Development Board (STERPDB), which serves as the EDA-designated Economic Development District as well as the Local Development District under the multi-

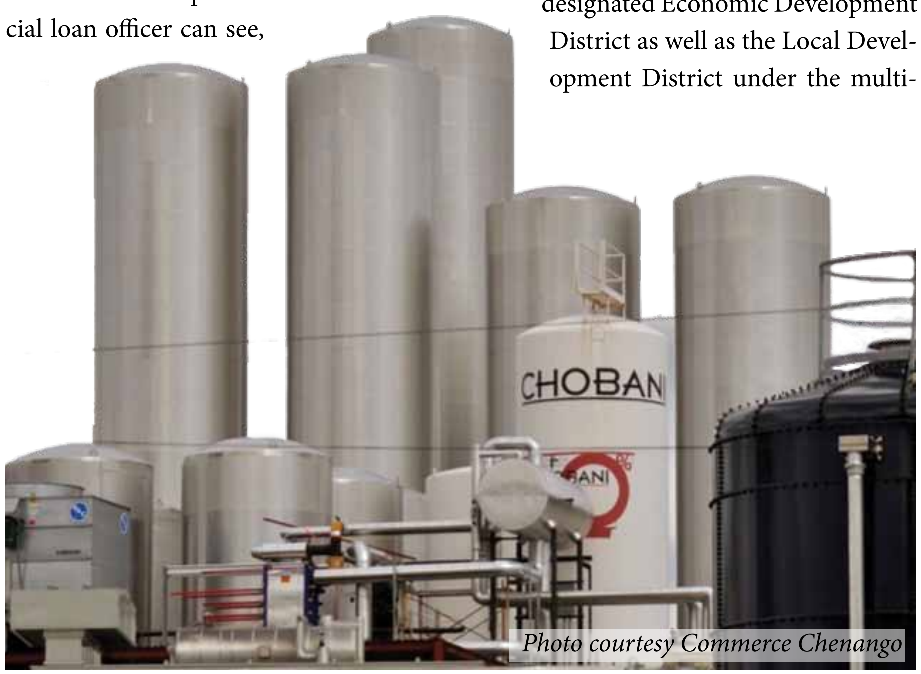


Photo courtesy Commerce Chenango

state Appalachian Regional Commission. According to Dick McCormick, Deputy Director of the STERPDB, the 2010 per capita income for Chenango County was $31,792, which is slightly less than 80 percent of the national average, qualifying the county as "economically distressed" under the guidelines of the U.S. Economic Development Administration.[45] Population in the Chenango County was also projected to decline by 2.2 percent from 1990 – 2010, compared to a 10.5 percent increase in the state as a whole over this period according to data provided in the Chenango County Economic Development Strategic Plan.[46]

Jennifer Tavares is the economic development director with Commerce Chenango and is charged with connecting county businesses with economic development resources and capital sources.[47] She has held this position since 2007 and thus has been on the front lines of the Greek yogurt boom in Chenango County. As Tavares outlines, the impacts have been substantial.[48] Based on April 2012 data, the company has made approximately $193 million in capital investments at their Chenango County locations, including the construction of a new state-of-the-art distribution facility in Columbus and the purchase of the corporate campus in Norwich, both in 2010.[49] These facilities have a far-reaching impact, drawing over 1,000 employees from a 17-county region with an annual payroll estimated at around $30 million.

Chobani, Inc.: Total Benefits/Assistance as of July 31, 2012

Funding Name	Funding Type	Funding Amount	Funding Agent	Year
Development Chenango BALF	Loan	$100,000	Local	2006
Chenango County RLF	Loan	$75,000	Local	2006
Broom County IDA-STEED	Loan	$168,000	Local	2006
Empire Zone	Tax credits	$9,388,877	State	2007-2010
CDBG Loan/Forgivable Loan	Loan/Grant	$590,000	State/ County	2007
IDA	Tax Abatement	$1,001,200	State	2010
IDA	Tax Abatement	$2,445,286	Local	2010
IDA Phase III	Tax Abatement	$3,837,297	Local/ State	2011-2012
2011 CDBG Loan/Forgivable Loan	Loan/Grant	$984,000	State	2011
NMTC (cash)	Grant	$2,000,000	State	2011
NYSERDA Grant	Grant	$3,000,000	State	2011
Empire State Development Grant	Grant	$1,500,000	State	2011-2012
Excelsior Tax Credits	Tax credit	$8,500,000	State	2011
Total:		**$33,589,660**		

- Funding amount is estimated, the actual funding received may differ.
- Some funding is still in process and funding has not yet received.

NOTES

Percent loans:	2.43%		$840,000
Percent tax credits:	51.72%	Eligible until 2015	$17,888,877
Percent grant/equity:	24.80%		$8,577,000
Percent tax abatements:	21.06%	Until 2021	$7,283,783

Source: Commerce Chenango

Chobani also purchases vast quantities of milk to make its yogurt, as approximately 4.5 million pounds of milk is delivered each day to the New Berlin plant, benefiting farmers throughout the state.[50] "Through the enormous increase in demand for Class II milk, prices have increased, thereby providing farmers with greater income and larger margin on their product," according to Commerce Chenango.

For their part, the state and local authorities have certainly kept up their end of this private-public partnership, as outlined by Commerce Chenango in the table above of state and local benefits and assistance provided to Chobani since its inception through the end of April 2012. The package includes potential benefits of up to $33.6 million, consisting of various forms of tax relief, grants, and loans from different entities and programs. Based on an estimated 1,200 jobs created to date, this represents about one job created per $28,000 invested, assuming Chobani realizes the full value of all the programs—an exceptional deal under any economic development return-on-investment (ROI) standard.[51]

Chobani groundbreaking (above) for new warehouse and distribution facility, 2010. Photo courtesy Commerce Chenango

Sidebar: Project Wave Hits Western New York

The 211-acre Genesee Valley Agri-Business Park has a 363,000-square-foot Muller Quaker Dairy (MQD) facility under construction on the left, and Alpina's 42,000-square-foot facility under construction in an adjacent lot on the right. Alpina is scheduled to open in the fall of 2012 and MQD in the summer of 2013. Bottom photos highlight various stages of construction. Photos courtesy of GCEDC.

The expanding market for Greek-style yogurt is bringing new players to the table, with a second "wave" of investment hitting the state in the western New York town of Batavia, located in Genesee County, strategically nestled between Rochester and Buffalo on I-90. The project was initially known locally only as "Project Wave," until February 2012, when Governor Cuomo announced that PepsiCo, the world's second largest snack and beverage operation, and Theo Müller, Germany's largest privately held dairy business, had chosen New York State and Batavia as the site for their first yogurt production facility in the U.S.[52] Their joint venture company, Muller Quaker Dairy (MQD), is spending an estimated $206 million to build a 363,000-square-foot, state-of-the-art production plant at the 211-acre shovel-ready Genesee Valley Agri-Business Park in Batavia, creating 186 new manufacturing and support jobs, a major boost to the community and surrounding area.

Wave considered other sites both inside and outside New York, and took into account such factors as access to dairy resources, water supply, and distribution routes to key markets in making its final selection. Further, the state stepped up with $13.3 million in tax credits, and $1 million from the New York State Homes and Community Renewal program, while Genesee County is also providing an estimated $12 million in sales and property tax relief.

The driving force at the local level is the Genesee County Economic Development Center (GCEDC), headed up by President and CEO Steve Hyde.[53] GCEDC worked with state and local officials to assemble the incentives package, attend to the company's site location needs, and meet the projects' ambitious timetable. As Hyde notes, Genesee County is a good choice for dairy manufacturing, as about 40 percent of the state's milk production is situated in surrounding counties, plus Batavia is about a 10-hour drive to a population of 125 million people—hardly remote.

The development of the Genesee Valley Agri-Business Park, over nine years in the making, offers fully-serviced sites catering specifically to the food products industry.[54] This effort appears right on target, given the strong growth in the nutritional dairy market, as evidenced by the growth of Greek yogurt. The Wave investment comes on top of the announcement of Alpina Foods in 2011, which is expected to open its new 42,000-square-foot yogurt production facility in the 211 acre Agri-Business Park in 2012, in close proximity to the site of the MQD facility. That project is expected to create an initial 50 jobs according to Hyde, making 2012 a major year for economic development in the region.

The region is situated between two powerful economic corridors that represent upwards of 40 percent of the Gross Domestic Product in the U.S. and Canada.

Location, Transportation & Logistics

CENTRAL NEW YORK—BLINDED BY THE LIGHT

If "location, location, location" is the mantra of real estate, "location, transportation, and logistics" is the driving force in economic development. Business site location decisions tend to be shaped by proximity to markets and supply chains (raw materials, intermediate goods, labor accessibility, and services), and access to the transportation and logistics systems needed to move goods, services, and people in a timely and cost-effective manner, smartly managed over different modes as needed.

Most people would agree that the countryside of central and upstate New York is picture postcard material. But, as the NASA photo graphically illustrates, the region is rural, but far from remote. The region is situated between two powerful economic corridors that represent upwards of 40 percent of the GDP in the U.S. and Canada: the Boston to Washington (I-95) corridor to the south, and the Chicago to Quebec corridor (St. Lawrence/Great Lakes) to the west.[55] If a company's objective is national market penetration, then this jumping off spot is a pretty good start, as central New York is nestled between several major cities only a few hours away, including Boston, Montreal, Buffalo, Cleveland, Philadelphia, and, of course, the Big Apple: New York City.

CONNECTING TO MARKETS AND SUPPLIERS

The New York State Department of Transportation (NYSDOT) has a good appreciation of the importance of its transportation systems to business and economic success, both transporting within the state as well as links to national and international markets. NYSDOT, in conjunction with the New York State Thruway Authority and New York State Canal Corporation, have over the last two years conducted an extensive study of the "Mohawk-Erie Multimodal Transportation Corridor," which extends 400 miles through the heart of upstate New York and represents one of New York's critical trade gateways for trade between the east coast and the Midwest, as well as Canada.[56]

NYSDOT's study covers multi-modal transportation investments and strategies that will support the economic future of the corridor, focusing primarily on the transportation needs of the economic drivers (key businesses) in the corridor. According to David Rosenberg of NYSDOT, the study has been guided by a Corridor-wide Project Advisory Committee (CPAC), plus four Regional Project Advisory Committees (RPACs), including one in the Central New York/Mohawk Valley region.[57] All four RPACs identified both agriculture and manufacturing as among the economic drivers in their regions. The economic development community was also involved, including the input of the Empire State Development Corporation as a member of the Project Advisory Committee.

Rosenberg indicated that, through the Project Advisory Committee input, NYSDOT heard that overall the transportation system was generally working well and serving industry needs in the corridor. He pointed to the Interstate system, several Class I railroads serving the state (including Canadian Pacific, CSX, and Norfolk Southern), and the accessibility to major U.S., Canadian, and most international markets within 24 hours.

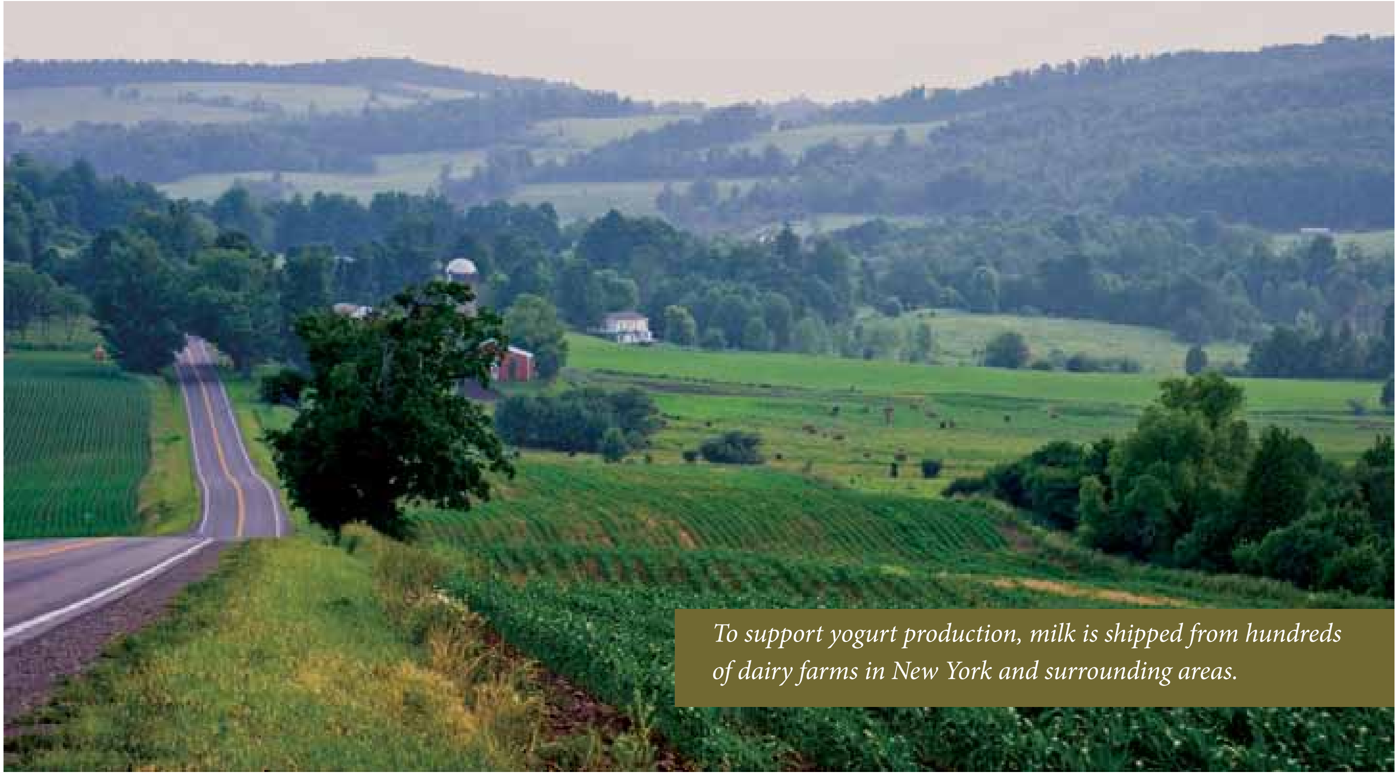
Ray Hessinger, acting director of the Rail Bureau of NYSDOT, notes that neither Chobani nor FAGE are currently on rail. However, the Chobani facility could be in the future, as the rail line servicing that area was washed out in a flood in 2006, and there have been some local discussions regarding resurrecting the line.[58]

Flickr user: SNarvasa

Photo by Laura Glazer

Chobani integrates social media with traditional marketing in a billboard (above). Trucks come and go at the company's yogurt plant (right). RailEx provides express refrigerated rail service between Rotterdam, NY and the West Coast (below).

Photo courtesy of RailEx



To support yogurt production, milk is shipped from hundreds of dairy farms in New York and surrounding areas.

Hessinger also points to RailEx, an express rail service which operates refrigerated unit trains between the U.S. West Coast and Rotterdam, New York, which is near Albany. The majority of goods on the line are come from west to east from Walla Walla, Washington, and Delano, California, thus providing a good back-haul opportunity for those in the Northeast region that need access to West Coast markets. According to RailEx, yogurt (including Greek-style) has been shipped to the West Coast over their system.[59] RailEx uses short haul trucks to pick up goods from area shippers and bring them to their 225,000-square-foot consolidation/deconsolidation facility in Rotterdam for five-day shipment to the West Coast.[60] RailEx offers a green alternative, as its saves over 200,000 gallons of fuel per week and results in three times fewer emissions versus long-haul trucking.

The workhorse of any state transportation system is the highway system, with the federal Interstate acting as the backbone. New York State is well served by the Interstate system in terms of access to regional and national markets. I-90 passes east-west through the heart of central New York and connects to Boston via the Massachusetts Turnpike to the east, and Buffalo and Cleveland to the west. I-81 runs north-south through the center of the state, from the Canadian border to the north, to the Mid-Atlantic region (Pennsylvania and Virginia) to the south running parallel to the I-95 corridor, and generally providing a less congested alternative to that busy route. New York City can be accessed from central New York via I-90 east and I-87 south, and for more southerly locations I-81 south to Scranton, Pennsylvania, and I-80 from east into New York City.

FIRST MILE CHALLENGES

Beyond the major arterials that serve a region, it is not unusual for some rural locations to face "first mile challenges" (figuratively speaking), in terms of accessing the larger system. In the case of the Chobani facilities, they are situated in a very rural area, as the 2010 population for all of Chenango County was 50,477, with 7,190 people living in the City of Norwich (where Chobani's offices are located).[61] From a highway standpoint, the business is located within the interior of a triangle formed by I-90, I-88, and I-81, putting the plant roughly about 30 – 45 minutes from the Interstate system, depending on the direction.

Accordingly, Chobani depends on the non-Interstate system to a greater extent to move over 1,000 area employees who commute from 17 surrounding counties, bring in approximately 4.5 million pounds per day of milk, and will soon ship out over 2 million cases of product a week.[62] New York State Route 8 to Utica in particular is an important corridor, as many employees commute from that direction. Utica is about 45 minutes away, and is a primary connection point with I-90, the major east-west highway serving New York State.

In 2012, local residents near the production facilities raised concerns regarding the impacts of commuter and truck traffic on the community.[63] It is hard to imagine there not being some growing pains for any company that has seen such rapid growth as Chobani's, particularly in a small town environment. Chobani has met with residents of South Edmeston, which lies across the river in Otsego County, with much of the truck traffic passing through this village on the way to the plant. Elected officials, planning and development staff, and a representative of NYSDOT Region 9 also attended the meeting to discuss concerns.

Jack Williams is the Regional Manager for NYSDOT for Region 9 and has responsibility for the state highway system that serves these local communities and the Chobani facilities.[64] Region 9 engineers are working with all parties concerned to assess the needs and address traffic and safety concerns on the system, including a review of intersections and signing along Route 8, as well as the need for warning and advanced-warning signage. According to Williams, much of the system in the area comprises rural, two-lane roads, with narrow shoulders and a curvilinear alignment, most of which has pavement in fair to good condition. He doesn't anticipate any major capacity improvements that will be needed to accommodate Chobani's growth at this time.

While the extraordinary growth of Chobani has created some additional challenges for the system, Williams also sees the new jobs as beneficial for the area: "How can you not be excited?"

Concluding Remarks: **A Yogurt Empire?**

The extraordinary growth of Greek yogurt manufacturing in central New York is impressive, to say the least. Credit must go to the businesses—FAGE and Chobani—that pioneered the market opportunity and made this region their base of operations to capitalize on the public's demand for healthy, nutritious, and tasty food options. Proximity to markets and an extensive milk-shed were built-in advantages for New York State, but timely local, state, and federal assistance, and a welcoming business climate on all levels have also supported the state's yogurt industry. New players arriving in Western New York provide further affirmation of the state's role in the yogurt industry, anchored by the Greek segment.

Recognizing that the yogurt tide has and will continue to have the potential to lift many ships, stakeholders are working together to ensure its ongoing growth. There are always challenges, of course, in this case milk production and keeping pace with ever-upward demand fueled by the Greek phenomenon. Collaboration and alliances are the watchword for successful industry clusters, and the August 2012 New York State Yogurt Summit held in Albany brought together all the right players to tackle these challenges and opportunities.

Dean Norton, the president of the New York Farm Bureau commented at the summit that yogurt could provide New York with an agricultural version of Silicon Valley, becoming the "yogurt empire."[65] While some may see this as thinking large, Greek yogurt was not even on the radar screen a few years ago, and other currently unknown opportunities may exist for dairy-based products in the expanding nutritional food market.

Greek yogurt seems to be everywhere these days, and New York State should continue to benefit from this positive brand image while stakeholders work together to further grow this industry. New York State has featured FAGE among other companies in its recent business attraction advertising campaign, narrated by no less than acting legend Robert De Niro. And, Chobani's community-focused ads during the 2012 London Olympics were certainly great promotion for the Empire State as well, and had to be a source of pride for people all across the state. All a story worth sharing!

David Lainchbury of The Dannon Company, left, and James McConeghy of Chobani speak during the Governor Andrew M. Cuomo New York State Yogurt Summit in Albany, NY, Wednesday August 15, 2012. (Michael P. Farrell/Times Union)

Governor Andrew Cuomo, joined by PepsiCo Chairman and CEO Indra Nooyi and Theo Müller Group CEO Heiner Kamps in the Genesee Valley Agri-Business Park, for the 2012 MQD groundbreaking in Batavia. Photo courtesy of GCEDC.

End Notes

1 Accessed at http://www.chobani.com and http://www.fageusa.com

2 Personal communication with Kelly LaCorte, Chobani, September 25, 2012

3 Accessed at http://www.fageusa.com/our-greek-heritage/the-fage-story

4 Accessed at http://www.fageusa.com/our-new-location-fage-to-open-state-of-the-art-us-plant/

5 Accessed at http://chobani.com/who-we-are/

6 Accessed at http://en.wikipedia.org/widi/Strained_yoghurt

7 Accessed at http://www.fageusa.com/our-greek-heritage/the-fage-story

8 Accessed at http://chobani.com/who-we-are

9 "The Rise of Greek Yogurt," UBS Investment Research, March 22, 2011

10 "Greek Yogurt Causes a Stir with Triple Digit Gains," *Chicago Tribune,* March 16, 2012

11 "Who's Winning the Greek-Yogurt 'Revolution'?," *Ad Age,* June 6, 2012

12 Ibid.

13 "Proudly With You," Chobani Olympic TV commercial, published by Chobani Yogurt, July 26, 2012, accessed at http://www.youtube.com/watch?v=oeKNvaU3W68

14 Accessed at http://chobanichampions.com

15 Accessed at http://www.addthis.com/insights/olympics#.UCwAp6OotLM

16 "New York State Dairy Summary," New York State Department of Agriculture and Markets, 2010

17 "2010 Milk Production," U.S. Department of Agriculture (USDA) Marketing Service Bulletin

18 "Dairy Farms Toast Prices," timesunion.com, May 2, 2012

19 "Yogurt Boom Leaves Dairy Farmers Behind," *Wall Street Journal*, June 26, 2012

20 "Governor Cuomo Announces that PepsiCo and Theo Muller Choose NYS to Launch Their Joint Venture into Yogurt Business," media release, Office of the Governor, Feb. 24, 2012

21 Ibid.

22 Personal communication with LaCorte; "Greek Yogurt Gives Boost to Flagging Dairy Industry," Buffalonews.com, July 9, 2012

23 "How the Milk Pricing System Evolved," *Milk Pricing in the United States/AIB-761,* Economic Research Service (ERS), USDA

24 "U.S. Dairy Industry in Brief," *Milk Pricing in the United States/AIB-761,* ERS, USDA

25 Accessed at http://www.ers.usda.gov/topics/animal-products/dairy/definitions.aspx

26 "U.S. Dairy Industry in Brief"

27 Personal communication with Jennifer Huson, Dairylea Inc. and Dairy Farmers of America, September 7, 2012

28 Personal communication with Dan Guido, Dairy Farmers of America, May 4, 2012

29 Andrew M. Novakovic, "The Chobani Paradox," Cornell University, March 2012

30 "Yogurt Boom Leaves Dairy Farmers Behind," *Wall Street Journal,* June 26, 2012

31 "Governor Cuomo Hosts First New York State Yogurt Summit," media release, Office of the Governor, August 15, 2012

32 Accessed at http://www.fageusa.com/our-greek-heritage/the-fage-story

33 Personal communication with Mike Reese, president, Fulton County Economic Development Corporation, April 11, 2012

34 Personal communication with George Bevington, general manager, Gloversville-Johnstown Joint Wastewater Treatment Plant, April 10, 2012

35 Personal communication with Greg Eisenhut, chief operating officer, Mohawk Valley Economic Development District, April 13, 2012

36 Personal communication with Reese and Eisenhut

37 Annual Reports, Gloversville-Johnstown Joint Wastewater Treatment Facility, 2008 – 2011

38 Personal communication with Casey McCue, Office of Milk Control, New York State Department of Agriculture and Markets, May 30, 2012

39 "Governor Cuomo Announces Launch of Statewide Business Ad Campaign," media release, Office of the Governor, June 21, 2012

40 Accessed at http://chobani.com/who-we-are

41 Commerce Chenango

42 "Old Factory, Snap Decision Spawn Greek-Yogurt Craze," *Wall Street Journal,* June 20, 2012

43 Accessed at http://www.sba.gov/about-offices-content/2/3136/success-stories/144391

44 Gourmet News, June 22, 2012; "Hidden Chobani Billionaire Emerges as Greek Yogurt Soars," Bloomberg, accessed at http://www.bloomberg.com/news/2012-09-14/hidden-chobani-billionaire-emerges-as-greek-yogurt-soars.html

45 Personal communication with Dick McCormick, Southern Tier East Regional Planning and Development Board, June 2012

46 Chenango County Economic Development Strategic Plan, 2006, page 20

47 Personal communication with Jennifer Tavares, Commerce Chenango, April 2, 2012

48 Personal communication with Tavares, including Chobani Economic Impacts, and Chobani, Inc.: Total Benefits/Assistance to Date, April 2, 2012, April 30, August 28, 2012

49 Accessed at http://chobani.com/who-we-are

50 Personal communication with Tavares, LaCorte

51 Author's calculation, based on data from Commerce Chenango

52 "Governor Cuomo Announces PepsiCo and Theo Muller Choose NYS"

53 Personal communication with Steve Hyde, president of the Genesee County Economic Development Center

54 Accessed at http://www.gcedc.com/index.php/sites/genesee-valley-agri-business-park

55 "Northeast CanAm Connections: Intergrating the Economy and Transportation," presentation to the Conference of New England Governors and Eastern Canadian premiers, September 16, 2008

56 Accessed at http://www.dot.ny.gov/mohawk-erie-study

57 Personal communication with David Rosenberg, New York State Department of Transportation (NYSDOT), April 19, 2012

58 Personal communication with Ray Hessinger, NYSDOT, June 24, 2012

59 Personal communication with Fellicia Thompson, account manager, RailEx, July 15, 2012

60 Accessed at http://www.railexusa.com/site

61 Personal communication with McCormick, June 2012

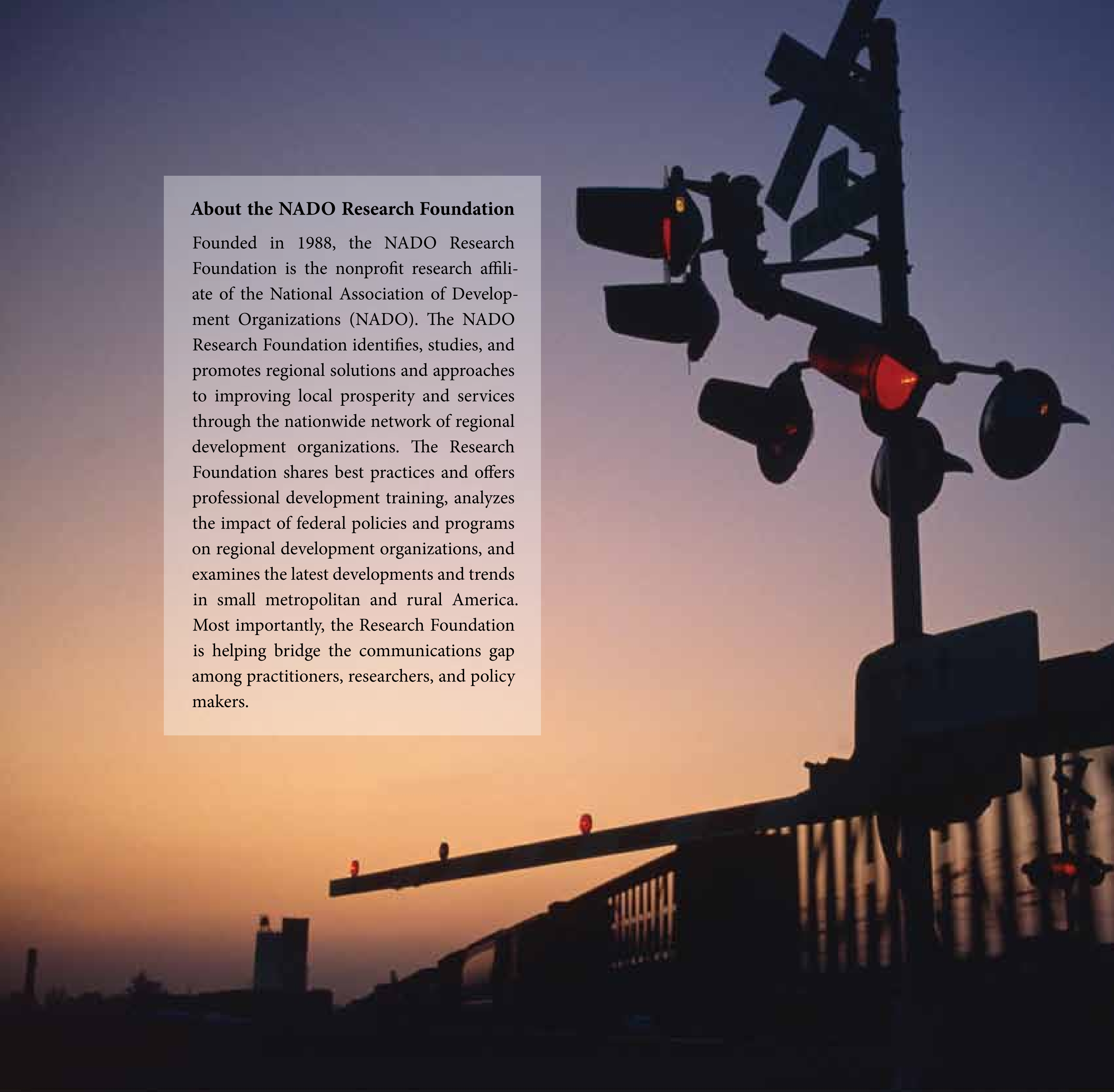
62 "Old Factory, Snap Decision"

63 "Area residents seek to fix Chobani issues," thedailystar.com, March 29, 2012

64 Personal communication with Jack Williams, regional director, Region 9, NYSDOT, April 30, 2012

65 "In Albany, Hopes of Making New York State a Yogurt Empire," *New York Times,* August 15, 2012

Flickr user: messycupcakes



About the NADO Research Foundation

Founded in 1988, the NADO Research Foundation is the nonprofit research affiliate of the National Association of Development Organizations (NADO). The NADO Research Foundation identifies, studies, and promotes regional solutions and approaches to improving local prosperity and services through the nationwide network of regional development organizations. The Research Foundation shares best practices and offers professional development training, analyzes the impact of federal policies and programs on regional development organizations, and examines the latest developments and trends in small metropolitan and rural America. Most importantly, the Research Foundation is helping bridge the communications gap among practitioners, researchers, and policy makers.

This report was authored by consultant David Cole, formerly commissioner of the Maine Department of Transportation and CEO of Eastern Maine Development Corporation, under the editorial guidance of NADO Associate Director Carrie Kissel. We thank all the individuals who provided information and images and those who consented to be interviewed. Images from Flickr are used under a Creative Commons License.

This work is supported by the Federal Highway Administration under contract number DTFH61-06-H-0029 through the NADO Research Foundation's Center for Transportation Advancement and Regional Development (www.RuralTransportation.org). Any opinions, findings and conclusions, or recommendations expressed in this publication are those of the author and do not necessarily reflect the views of FHWA or the NADO Research Foundation.

NADO
NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
RESEARCH FOUNDATION

REGIONAL STRATEGIES. PARTNERSHIPS. SOLUTIONS.

An Affiliate of the National Association of Development Organizations
400 North Capitol Street, NW, Suite 390
Washington, DC 20001

202.624.7806
202.624.8813 (fax)
info@nado.org
www.NADO.org
www.RuralTransportation.org
www.KnowYourRegion.org