

“How to Market with Strategy and Discipline”

Center for Dairy Excellence
Mastering the Dairy Business
Tuesday March 23, 2010

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Discussion Outline

Today

- ◆ Dairy Marketing History
 - ▲ How did we get here?
 - ▲ Where are we now?
- ◆ Strategic Marketing
 - ▲ What does it look like?
 - ▲ Key considerations
- ◆ ----- End -----



Fundamental Beliefs

- ◆ History has taught us important (and sometimes painful) lessons
- ◆ Volatility is here to stay – dramatic price swings are the new normal
- ◆ Marketing can be done well and it requires a strategic approach



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Dairy Marketing History

How did we get here?
Where are we now?



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Economic Background

- ◆ What happened?
 - ▲ Cheap money created heavy investment and lofty demand expectations (carry trades)
 - ▲ Once that level of borrowing could not be sustained...
 - ▲ The world went broke!
 - ▲ New carry trade is in the US Dollar...

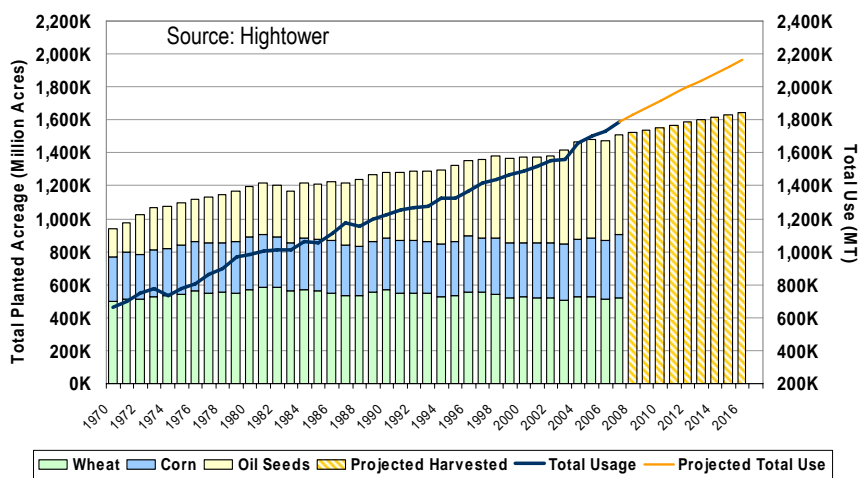
- ◆ Economics
 - ▲ Supply/Demand of Commodities from underlying fundamentals -- Oceania issues
 - ▲ Supply/Demand of Commodities from auxiliary fundamentals -- "Good Times" demand
 - ▲ Boom/Bust cycle

- ◆ Demand destruction
 - ▲ Occurred in 2009, especially in Milk, Hogs, and Ethanol
 - ▲ Back to normal supply/demand curve going into 2010

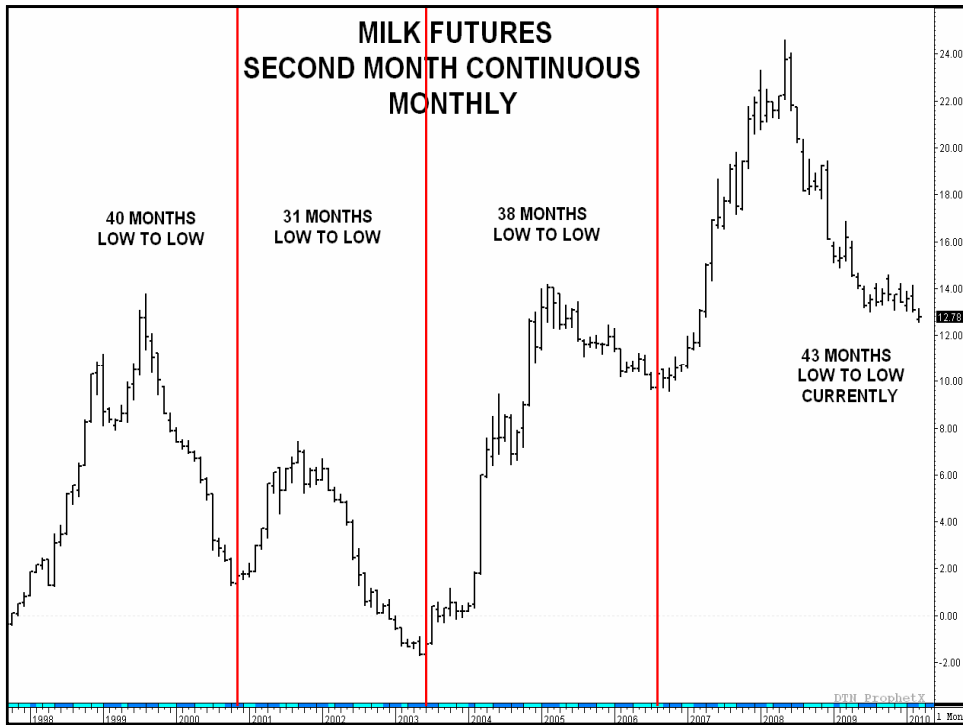
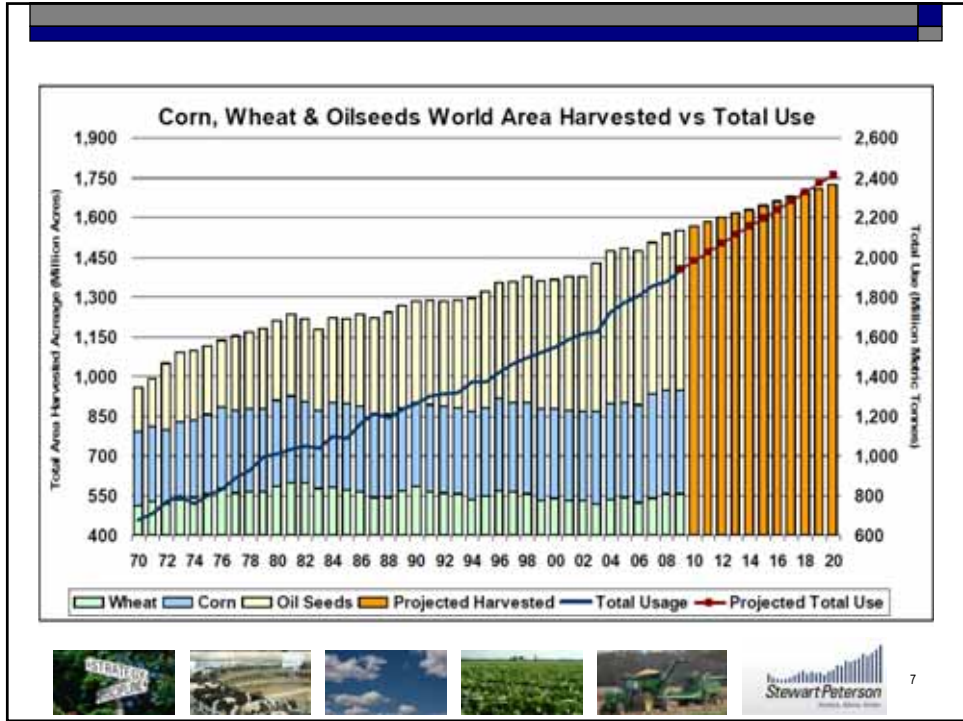


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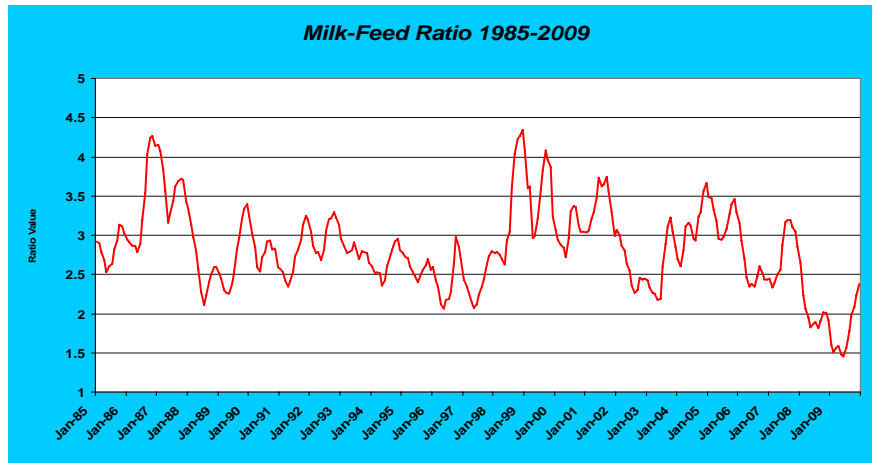
Corn, Wheat & Oilseeds World Planted Acreage vs Total Use



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Milk / Feed Price Ratio



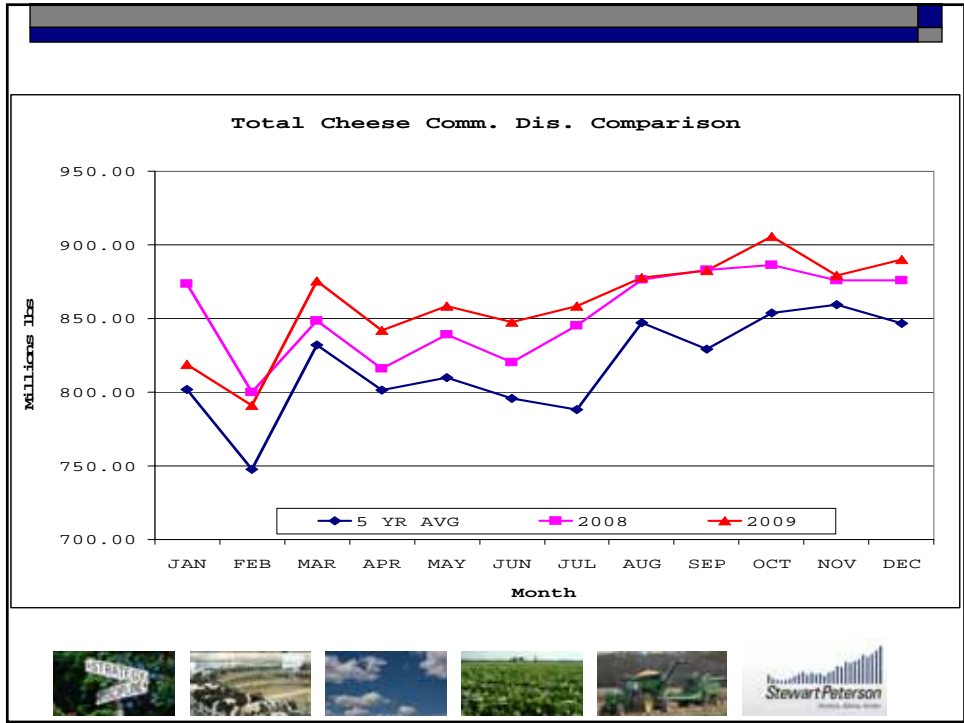
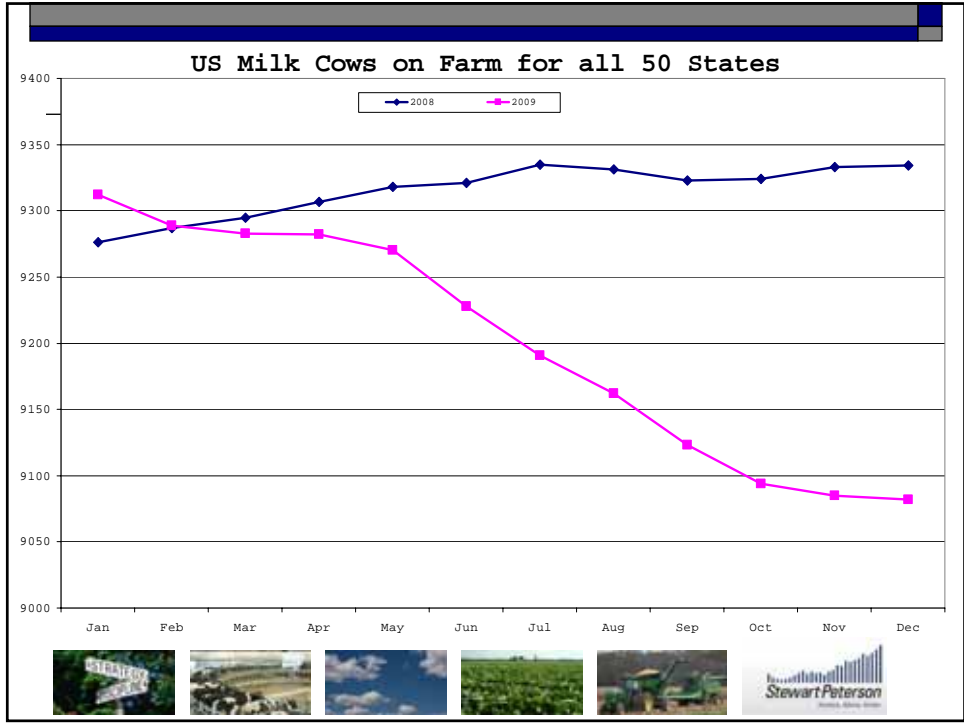
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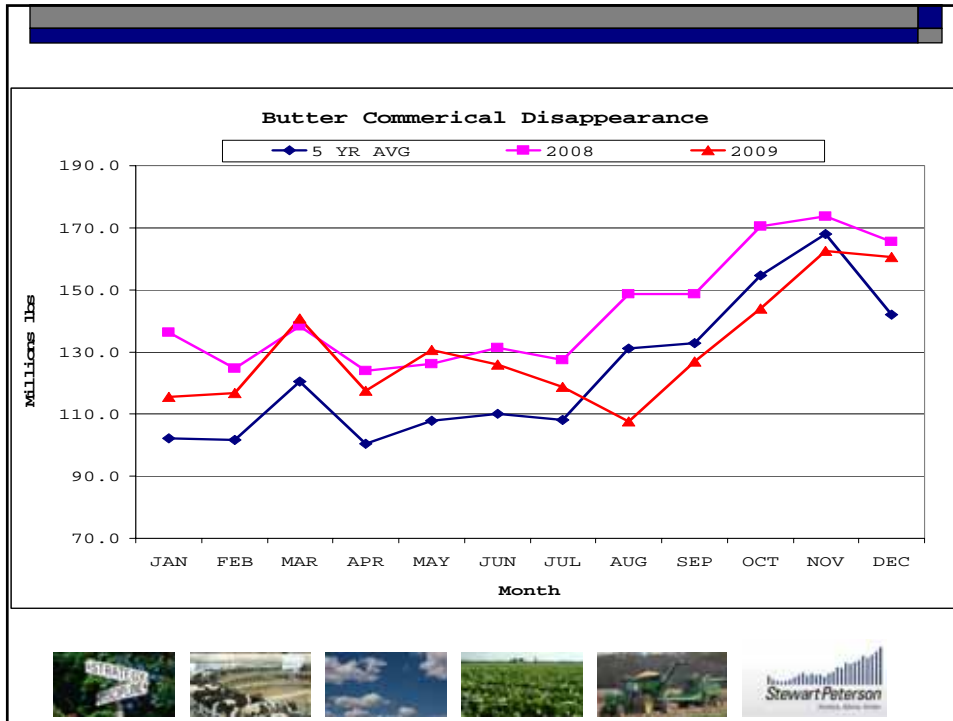
Where are we now?

- ◆ Starting to see some positive development
 - ▲ Cow numbers are lower
 - ▲ Total Cheese disappearance is better than last year and the 5 year average
 - ▲ Big picture cycle has potential to turn the corner
- ◆ Worries?
 - ▲ Butter is not disappearing as fast as cheese or the 5 year average
 - ▲ Prices are still at or below breakeven on front month contracts



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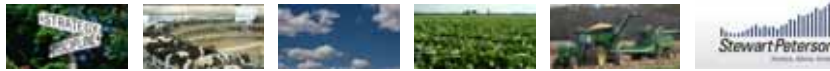
Critical Questions

- ◆ Information is great, but what do you *do with it?*
- ◆ How do you make marketing decisions to affect your operation in a positive manner?

Yes it can

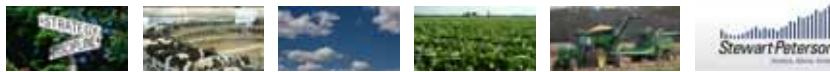
◆ Marketing can be done well!!!

◆ It pays to do it well!!!



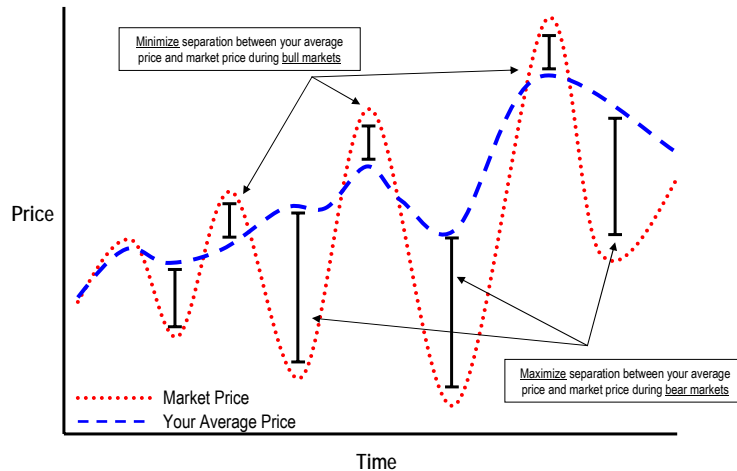
Strategic Marketing

- ◆ What does it look like?
- ◆ Key principals?



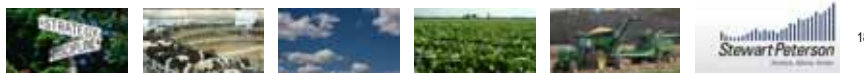
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What does strategic marketing look like?



Key Principals

1. Base your decisions on strategy – not outlook
2. Be positioned for the unexpected
3. Using futures and options is a necessity
4. Focus on building a weighted average price for your milk
5. Have the discipline to execute



Prior Planning Prevents Poor Performance

◆ We Pre-Plan:

- * Entry Signals
- * Entry Points
- * % Hedge
- * Exit Signals
- * Buy Back Points

◆ Strategy Choices

- * Futures
- * Options
- * Cash Contracts
 - * Cash sale delta = 1
- * Cash Sales
 - * Basis Contract
 - * Hedge to Arrive
 - * Forward Contract

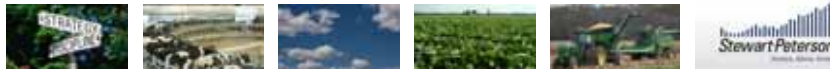
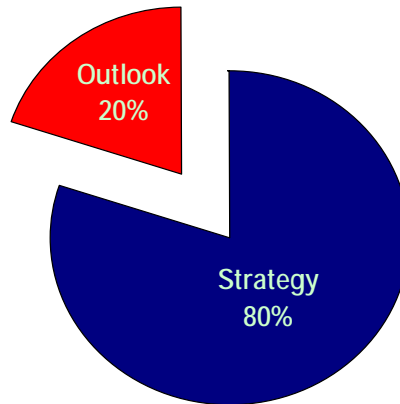


Scenario Planning

We do not focus on where prices might go – rather, we prepare you with strategies for what the market may do.

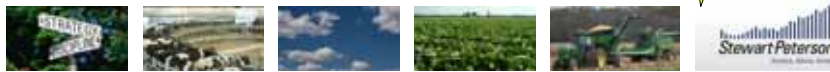


The *scenario* for great marketing!

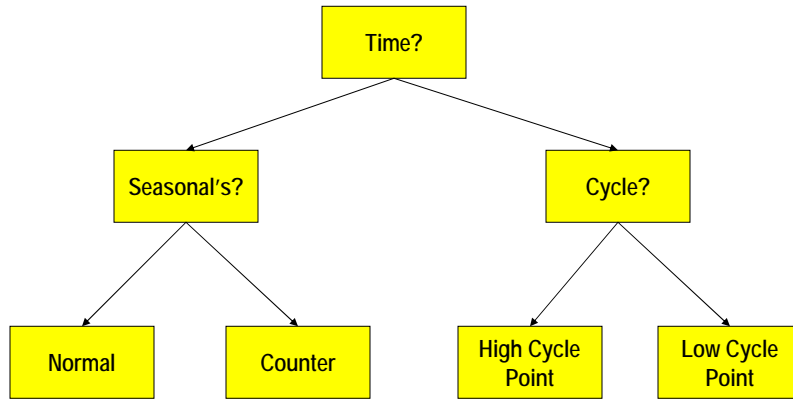


What to do?

- ◆ Establish decision criteria
 - ▲ When – is a Good time to Buy/Sell?
 - ▲ Where – is the Right price to Buy/Sell?
 - ▲ How – do I decide what hat tool to use?
- ◆ *Key notes:*
 - ▲ Every strategy decision that is made today will affect your average price for tomorrow
 - ▲ No strategy decision is an independent one
- ◆ What does the market move mean for your average price?
 - ▲ What if milk goes \$2.00 higher?
 - ▲ What if milk goes \$2.00 Lower?
 - ▲ What if milk goes \$5.00 higher?
 - ▲ What if milk goes \$5.00 lower?

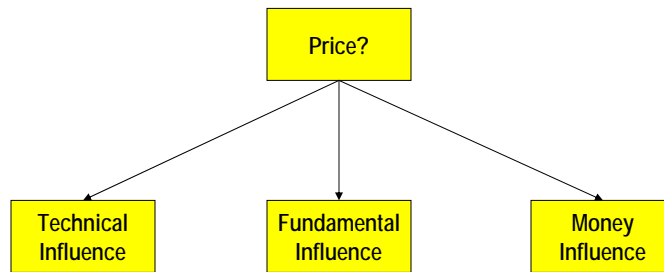


When – What month to Buy or Sell?



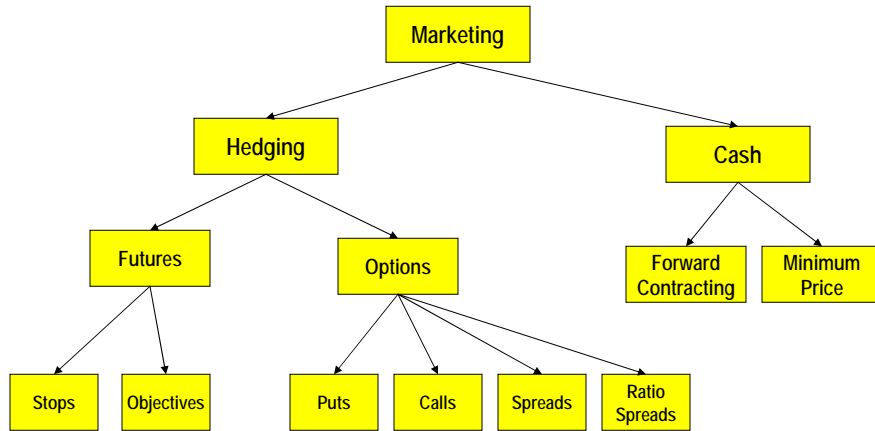
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Where – What price to Buy or Sell at?



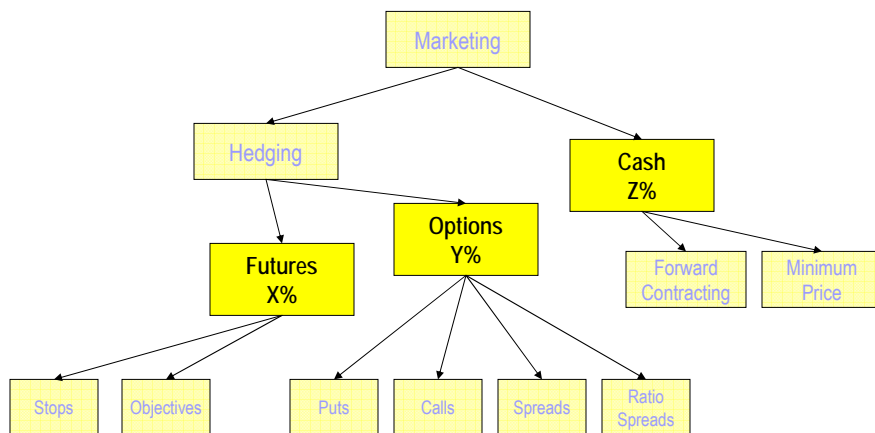
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How – What tool to Use?



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What about a combination?



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\$14.00 Milk

What if Milk
drops to
\$10?

What if Milk
rallies to
\$18?

Scenario
Planning

What if Milk
hovers
around \$14?



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Lets try some different scenario's

- ◆ Ask the following questions as we walk through the next few slides:
 - ▲ How does selling affect a downturn?
 - ▲ How does selling affect an upturn?
 - ▲ Which one is better?
 - ▲ /S there a better way?
 - ▲ Do we need more tools?



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\$10.00 Milk



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\$18.00 Milk



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Better Solution

- ◆ Set up the classic win-win scenario
- ◆ Get more milk going in the direction of the trend
 - ▲ Which way will the market trend?
 - ▲ How much to do?

◆ 70/70*

- ◆ *for illustration purposes only



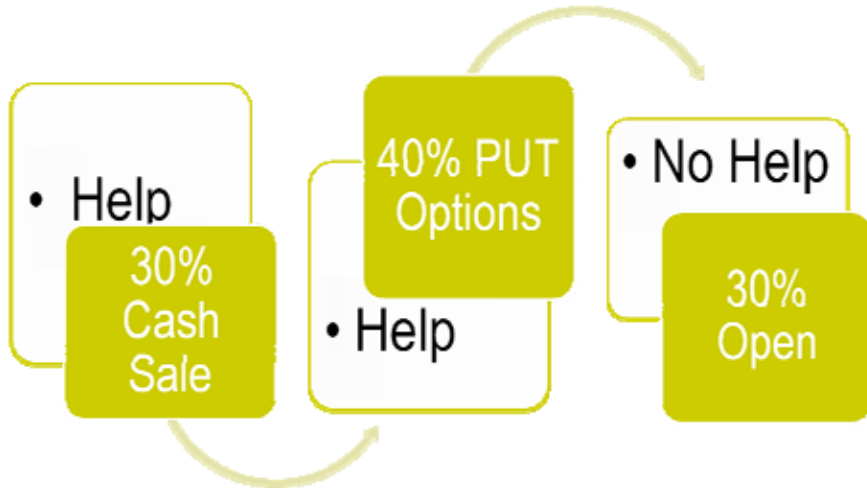
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The set-up

- ◆ What does the risk profile look like using a combination of tools?
- ◆ Here is a simple example:
 - ▲ Sell 30% of the cash production; currently at \$14.00
 - ▲ Buy 40% \$14.00 put options
 - ▲ Leave 30% of production open (unpriced and uncovered)



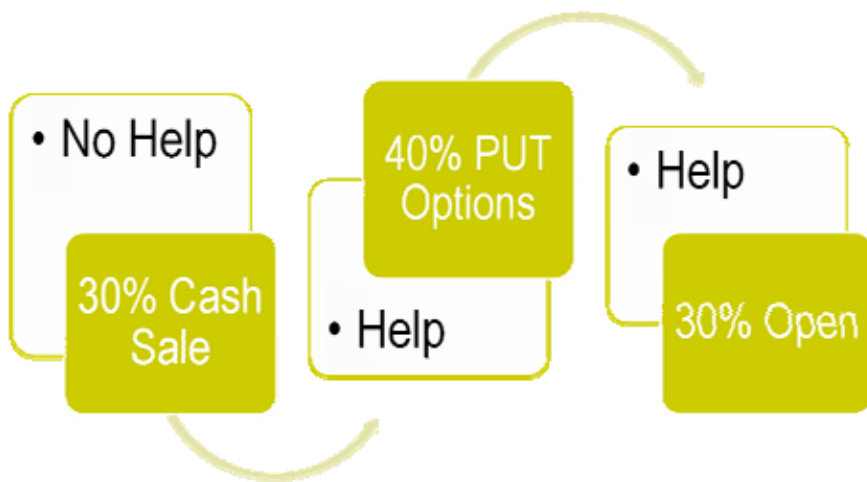
Down Market



Stewart Peterson
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Up Market



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Fence 100% using a \$14.00/\$18.00 for 30 cents



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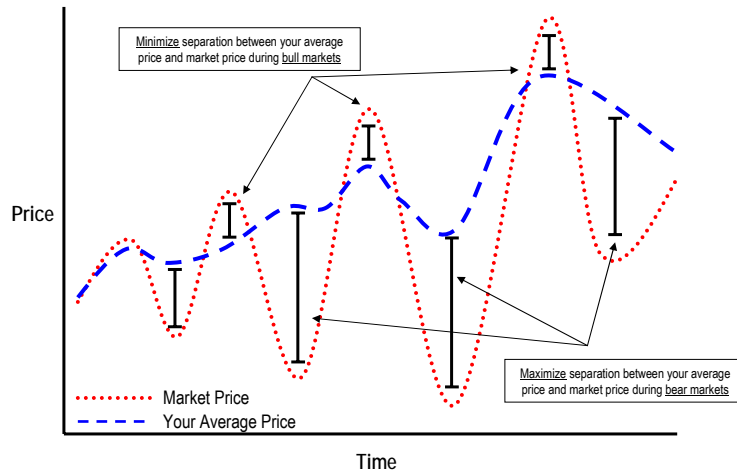
Plans B through...

- ◆ You implement strategy A then...
 - ▲ You eliminate or control risk in a certain direction
- ◆ What if the market moves against you?
 - ▲ Now have a defined area of focus – "The Hole"
 - ▲ If you have a hole you...
 - ▲ Plug it!



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What does strategic marketing look like?



Golden Rule of Strategic Marketing

Marketing done well is about
what you do
not about what you know.



Become an expert or hire one...then get started!

- ◆ Marketing takes time, effort, discipline, and knowledge
- ◆ Going it alone? Know your strengths and limitations
- ◆ Hiring an expert? Find one that...
 - ▲ Is not driven by his or her market opinions
 - ▲ Has the experience to envision all possible scenarios of what the market may do
 - ▲ Strategically prepares you to act no matter what the market does
 - ▲ Helps you maintain discipline in decision-making
 - ▲ Is an accountable and trustworthy professional



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Stewart-Peterson Overview

- ◆ Who we are:
 - ▲ Commodity consulting and marketing services firm
 - ▲ Offering opportunity and risk management services for grain and dairy producers
 - ▲ Since 1985, we have built our client base on two main philosophies of business:
 - √ Strategy
 - √ Discipline
- ◆ What we do:
 - ▲ By focusing on a strategic disciplined approach to farm marketing, we help you gain confidence in your marketing and take it to the next level.
 - ▲ We do NOT focus on where prices might go (outlook) – rather, we prepare you with strategies for what the market does. Having strategies in place AND the discipline to carry them out are key elements of successful marketing.



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Stewart-Peterson Overview

◆ How we do it:

- ▲ Provide an objective assessment of your marketing
- ▲ Educate you on farm marketing principles
- ▲ Help you become disciplined and reduce your stress
- ▲ Earn your trust by addressing your specific marketing constraints
- ▲ Customize strategies to your operation



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Resources available:

- ◆ Industry Market Update (e-newsletter)
- ◆ e-book: Get Started Marketing Well
- ◆ Gain Marketing Confidence kit
- ◆ New Times, New Rules:
Take Control of Your Farm Marketing
- ◆ Educational videos

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