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**PROFESSIONAL DAIRY
MANAGERS OF PENNSYLVANIA**
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Bring your milk check!

June Forum focus is milk pricing

By **SHERRY BUNTING**
Special for Farmshine

LOYSVILLE, Pa.—A large cheese plant closes in California... Dean Foods to cut 400 jobs after dismal first quarter earnings... U.S. dairy exports soar 71% over year ago in March... Butter prices push Class IV milk price above Class III for two months... USDA lowers earlier estimates for average farm milk prices in 2010 and 2011... Milk supply-management bill is introduced in Congress... Lawmakers sign on to seek funds for better reporting and auditing... Chicago Mercantile Exchange (CME) to delay start of skim milk powder trade... CME to launch “cheese futures” in June... USDA begins reporting domestic production of MPC’s... U.S. participates in trade negotiations with New Zealand... Pennsylvania Milk Marketing Board delays decision on changes to over-order premium calculations...

The list of headlines about the dairy economy, global trade, and milk pricing factors at the federal and state levels is seemingly endless. It is difficult to keep up with all the news, much less to understand all the numbers on your milk check.

On Thursday, June 3, dairy producers will

have the opportunity to learn more about both at the first of three Dairy Issue Forums planned this year by the Professional Dairy Managers of Pennsylvania (PDMP).

The June Forum will be interactive... So bring your milk check along!

Two weeks ago, we offered a “mark your calendars” preview of all three 2010 Forums. This week, we draw your attention to registering for the June Forum on “Milk Pricing and Your Milk Check.”

The program begins at 8:30 a.m. at the Perry Reception Center in Elliptsburg. After lunch, attendees will tour Moo-Echo Farms in nearby Loysville. The progressive rotational grazing dairy is owned and managed by Duane and June Hertzler and their son and daughter-in-law Neil and Kilah.

During the morning session, the featured speakers are Dr. Mark Stephenson, dairy economist with Cornell University and Carl Herbein, CPA, of Herbein & Company, Reading.

Dr. Stephenson will talk about “Milk Pricing: How it works and how it got that way.”

Dr. Stephenson began his career on the pro-



Dr. Mark Stephenson, dairy economist at Cornell University, will keynote PDMP's June 3 Dairy Issue Forum on milk pricing.



The scene here at Moo-Echo Farms will look a little different on June 3 when the Professional Dairy Managers of Pennsylvania (PDMP) tour the Perry County dairy farm after their first of three Dairy Issue Forums on tap for 2010. The June Forum will focus on milk pricing, and the morning session begins at 8:30 a.m. at the Perry Reception Center, Elliptsburg. After lunch, attendees will head over to the Hertzler family's Moo-Echo Farms in nearby Loysville. This photo from last fall depicts the grazing season nearing its end. In June, dairy producers will see the rotational grazing set up with the grass in its prime.

Photo by Sherry Bunting

duction side of the dairy industry. He earned his dairy science degree from Michigan State and returned to school at Cornell for his Ph.D. in agricultural economics with an emphasis on dairy marketing. His current work at Cornell focuses on dairy markets and policy issues at the farm and processor levels.

He traveled to Australia last year and has written informative articles about the dairy industry there. He is also working with former Cornell faculty member Chuck Nicholson, who is now at Cal Poly, to prepare an economic analysis of various supply management proposals in addition to the Growth Management Plan devised in 2006 by the California-based Milk Producers Council, which was adapted in 2009 by Holstein USA as its Dairy Price Stabilization Program (DPSP).

The main elements of the DPSP were written into bill form in April. Just this week, the bill, called the Dairy Price Stabilization Act, was introduced in the U.S. House of Representatives by Congressman Jim Costa (D-CA), along with co-sponsoring Reps. Peter Welch (D-VT.), Joe Courtney, (D-CN) Rick Larsen (D-WA) and John B. Larson (D-CN).

And there are other proposals afoot in Washington and Harrisburg.

Alan Novak, executive director of PDMP and Dennis Wolff, government relations consultant for the Dairy Policy Action Coalition (DPAC) will talk about those “Changes in the Making” during the morning session as well.

Guest speaker Carl Herbein, CPA, will then focus on helping dairy farmers “Understand your milk check.” This will be an interactive session. So, bring it along!

With this Forum on milk pricing, PDMP offers a great opportunity to the state's dairy producers on Thursday, June 3. There will be lots to learn to prepare dairy producers for the months ahead and to be better informed about what's happening, how it affects your milk check, and what changes could be coming down the road.

Each Forum includes lunch between the morning program and the afternoon farm tour. Members enjoy a substantial discount on the registration cost.

To register for this event by May 28, call 877.326.5993 or visit www.pdmp.org to download a registration and/or membership form.

Dean Foods first quarter earnings

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Responding to questions during the earnings call, company officials acknowledged a 51-cent average margin (per gallon) on regional brands. They said it does no good to lower this margin to offer the regional brands at a more cost-competitive price because the retailers will just mark the brand up in order to keep their private label lower as a loss-leader to attract shoppers to their stores.

Dean's margin on private label is far less than on regional brands, so the higher volumes of private label sales in the “mix” have eaten into the company's volume of favorable margins on regional brands.

“We entered the year facing substantial margin pressure in our milk business as retailers compressed private label margins to attract value-conscious consumers,” said Engles. “These very low private label retails drained the profit pool of our regional brands, and led to consolidated results that were below our expectations.”

For the first quarter ending March 31, Dean's net income declined to \$43.2 million (24 cents per share) compared with \$76.2 million (48 cents per share) in the first quarter of 2009.

While the value-added products of the WhiteWave-Alpro segment had strong growth in operating income, 60% of the increase in total adjusted operating costs (for both traditional and value-added segments combined) came from Dean's three acquisitions in 2009—including Alpro.

The remaining expenses—including distribution, selling, marketing and general administrative costs—were primarily driven by allocations to support the company's “transformation initiative,” higher fuel/freight costs and increased marketing support for WhiteWave-Alpro.

The underlying message here is that Dean is willing to spend more of its operating capital to aggressively “market” its alternative products (organic milk, soy and plant based “milks,” including their new almond “milk”).

With Monday's earnings report, Dean Foods announced its realignment of reporting segments to better reflect two completely different marketing strategies. The traditional dairy business now operates under Fresh Dairy Direct-Morningstar, where low-cost and high volume share are deemed critical for products sold under both the retailers' pri-

private labels and Dean-owned regional brands. The value-added businesses now operate under WhiteWave-Alpro, where the strategy is described as profitable growth through marketing and “consumer-resonant” innovation.

In the traditional private label and regional brand sector (Fresh Dairy Direct-Morningstar) Dean Foods saw its share of the milk market gain by 3.2% over the balance of the industry in the first quarter. That's a year-over-year net gain for Dean of 1.2%, while the rest of the industry had a 2% loss in year-over-year milk sales volume.

Dean's volume growth and the “pass-through” of higher average dairy commodity costs in the first quarter resulted in the Fresh Dairy Direct-Morningstar sector netting sales of \$2.5 billion—up more than 6% from year ago.

Looking at Dean's market share and volumes relative to the balance of the industry, an investor on the earnings call asked an interesting question: “Provided your financial situation cooperates and you can remain cash-flow positive: Is it the plan to just push the pain on these guys ‘til they can't take anymore in the hopes of realizing a stronger position in the future?”

“It's hard to say we have a plan because the marketplace at some points in time doesn't give you a lot of choice,” Engles replied. “As we've said before, we're going to hold share

in this category and in fact grow in share. We're going to aggressively defend volume in this category, and the way that we're aligning with growing customers and the way we're pursuing our strategy is playing out as growing share. Until capacity starts to shake out here, that will be the path that the market dictates to us.”

A follow-up question was asked: “In this period of time where you are really not out there buying and shutting down capacity, (are your regional competitors) getting more and more desperate the more share you take from them? Do you hear any news or see any sign that competitive capacity is coming out in any pockets where you compete?”

“We haven't seen any capacity come out yet,” Engles replied. “But keep in mind we are a quarter and a half into this and it takes some time to see that play out. We are in that hyper-competitive phase, where our competitors are very seriously being de-leveraged. So, on an apples-to-apples basis (excluding the acquisition), we still are growing 2 to 2.5 percentage points more than our competitors... and we're seeing price realization in the category down 4 or 5 points. So, this is very serious de-leveraging of our competitors. We see that in their competitive bidding. We are seeing more price competition and that's a reflection of the stress on the rest of the industry.”