



MCT COMPASS

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Dairy marketing in a recession

In the last month, the dairy markets – and the nation's mood – have gone from bad to worse, with cheese prices dropping to within a few cents of support. Prices have bounced back somewhat, but the economic recession and terrorist attack have trimmed demand, while USDA's inventory mishap boosted the perceived supply.

For the dairy industry, a new world order is upon us. Here are some thoughts on dairy marketing during a recession:

➤ **Economists now believe this recession will be long-term and protracted.** Besides the direct economic fallout that comes from rising layoffs and a whimpering stock market, the continued threat of terrorism has added a degree of paranoia to the American psyche. Despite the

exhortations of President Bush and Mayor Giuliani, the country is finding it impossible to “get back to normal.” Retail sales plunged 2.4% in September, and America's industrial production has fallen for 12 straight months, the longest unbroken streak since 1945. The massive amount of investment and borrowing of the late 1990s has led to a glut in capacity that will have to swing back into balance before any economic recovery can be expected.

➤ **We are entering an era of value.** Overall dairy consumption may not change in a recession, but there will be shifts in the product distribution. The days of “irrational exuberance” are but a faint memory, and consumers will be looking for value in everything they buy. That could mean more private-label cheese vs. brands. It could mean

a decline in high-end cheeses and a bump in basic commodity types. It could mean consumers are less inclined to experiment, preferring to stay with the tried-and-true. And of course, we've already seen consumers “trade down” in their away-from home purchasing patterns, turning away from upscale restaurants while continuing to flock to fast-food outlets.

➤ **“Cocooning” is on the upswing.** Americans are returning to the basics. Travel is way off. Hotel occupancy, normally in the 90% range, is still below 70% in most properties. Traffic at the world's busiest airport, Chicago's O'Hare International, was down 25% last month. Even the World Wide Food Expo, the dairy industry's

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KEN'S CORNER



*by Ken Meyers
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As dairy marketers, we have challenging times ahead. Consumers are retrenching and we have to make sure they continue to make dairy products a

part of their lives. As this month's article discusses, it'll be critical to make sure our products are good values, and that our positioning taps into consumers' needs for comfort and safety. The market has bounced back in the last few days, but we're still in a recession and that means a different marketing mindset than we've had over the last few years.

On the business side, one of those challenges could be dealing with a new breed of price volatility. Sure, we've had volatile prices over the last five years, but in times like these, we may see volatility within smaller ranges. In other words, don't be surprised to see prices move up one day and down the next, rather than moving in the same direction until the absolute top or absolute bottom is reached. □

Holiday bounce

Cheese and butter prices have bounced back in the last few days, spurred by holiday buying activity. Reduced demand could limit upward pressure on prices over the next four to six months. We expect Class III prices to remain below \$11.50 into next spring. □

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
OCT	1.3245	1.2975	14.55	1.4120	12.97
NOV	1.2500	1.2225	11.35	1.4000	12.18
DEC	1.2550	1.2275	11.30	1.3850	12.35
JAN	1.2325	1.2050	11.20	1.2500	11.77
FEB	1.2450	1.2175	11.10	1.3400	11.81
MAR	1.2750	1.2475	11.30	1.4950	12.45

* Block, barrel and butter are monthly averages of CME prices.

Recession ...

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largest trade show, suffered a 20%-drop in registrations for the October show. All that translates into lower consumption at the casual dining and upscale restaurant segments, as well as on airlines. Even candy companies, large buyers of dairy ingredients and milkfat, are affected. Many are concerned about a downturn in trick-or-treating this week, when they typically move 15-20% of their annual production.

➤ **On the other hand, “cocooning” presents opportunities.** In this

environment, consumers will be seeking out comfort foods. Dairy products have a long history of doling out comfort in dishes like grilled cheese, macaroni and cheese, casseroles, soups, and baked goods. The dairy industry should be marketing its products to capitalize on this “cocooning” mindset: advertising and point-of-sale materials should be reaching out to consumers with recipes and usage ideas that touch on the themes of comfort, safety and family. Further, feature activity is likely to have more impact to value-conscious consumers in the months ahead. Marketers also should be touting the excellent “nutritional

value” that dairy products provide in the form of protein and vitamins.

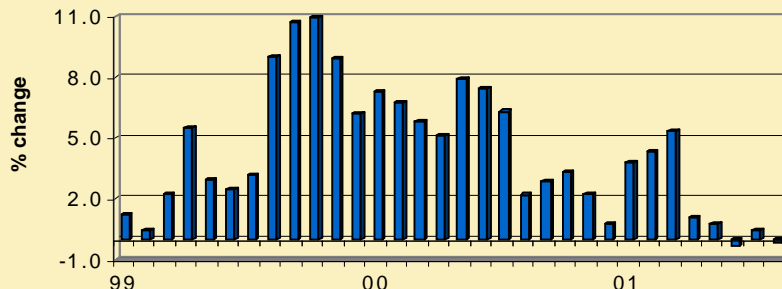
➤ **During recessions, companies typically reduce spending on product development.** The high cost of product entry has already curtailed dairy product innovation in the United States. Companies need to fight the urge to turn their backs on product development, which is critical to creating dairy case excitement.

➤ **Milk and product production gains in the year ahead will be modest, but that may not be enough to tighten the market.**

Without growth in demand to absorb the coming supply, the markets will struggle to climb up off the mat. During this price crash, inventories have accumulated. Cheese prices have already rebounded in the last few days, but it remains to be seen how long this rally can be sustained.

On the other hand, lower milk checks will not be conducive to herd expansion. This winter, once the full effect of the price crash shows up in producers’ milk checks, culling activity should pick up, trimming production in 2002. □

Commercial disappearance, total cheese
(rolling 3-month consumption)



From Feb-Aug 2001, total cheese consumption was up just 0.2% from the prior year, according to USDA. In 1999 and 2000, cheese consumption rose 5.5% and 4.1%, respectively.

