

# Glimpse into the Future for Dairy Processors



The Dairy Practices Council

November 4, 2010



# John & Peter Schmid

Combined \$500 of savings with \$300 borrowed from a neighbor.

Bought two horses, two wagons, an assortment of bottles, several dippers & cans, & an ice cream freezer.

Entered the dairy business on January 1, 1909.

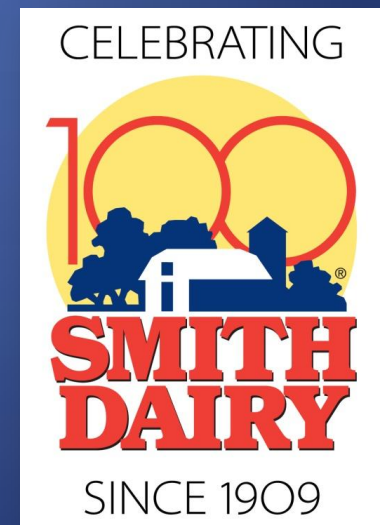
Delivered 60 gallons of milk each day to 200 customers.

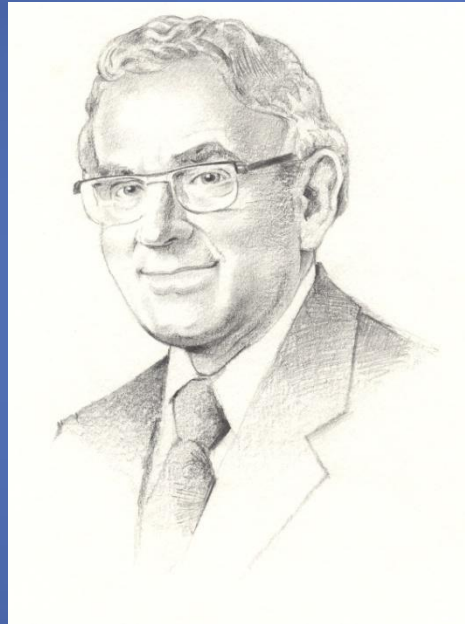
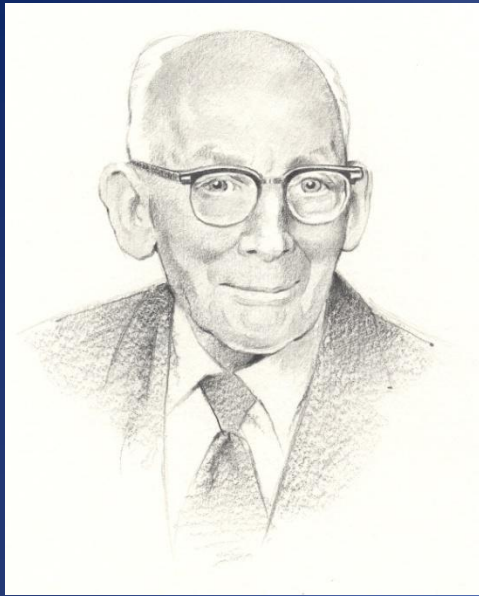




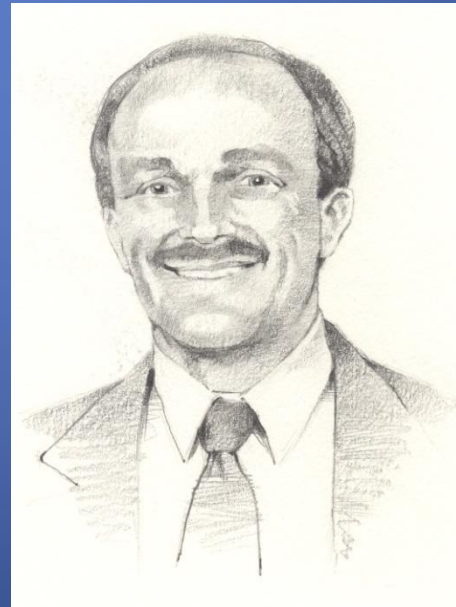
# Name that company

- **City Dairy** – Name on the wagons John & Peter acquired
- **Milk Depot & Ice Cream Parlor** – On the building 1910
- John & Peter were the Smith brothers.
  - Smith Brothers Dairy
- **Smith Dairy**





# Three Generations



# Facilities

- **Smith Dairy**  
Orrville, Ohio



- **Wayne Dairy**  
Richmond, Indiana

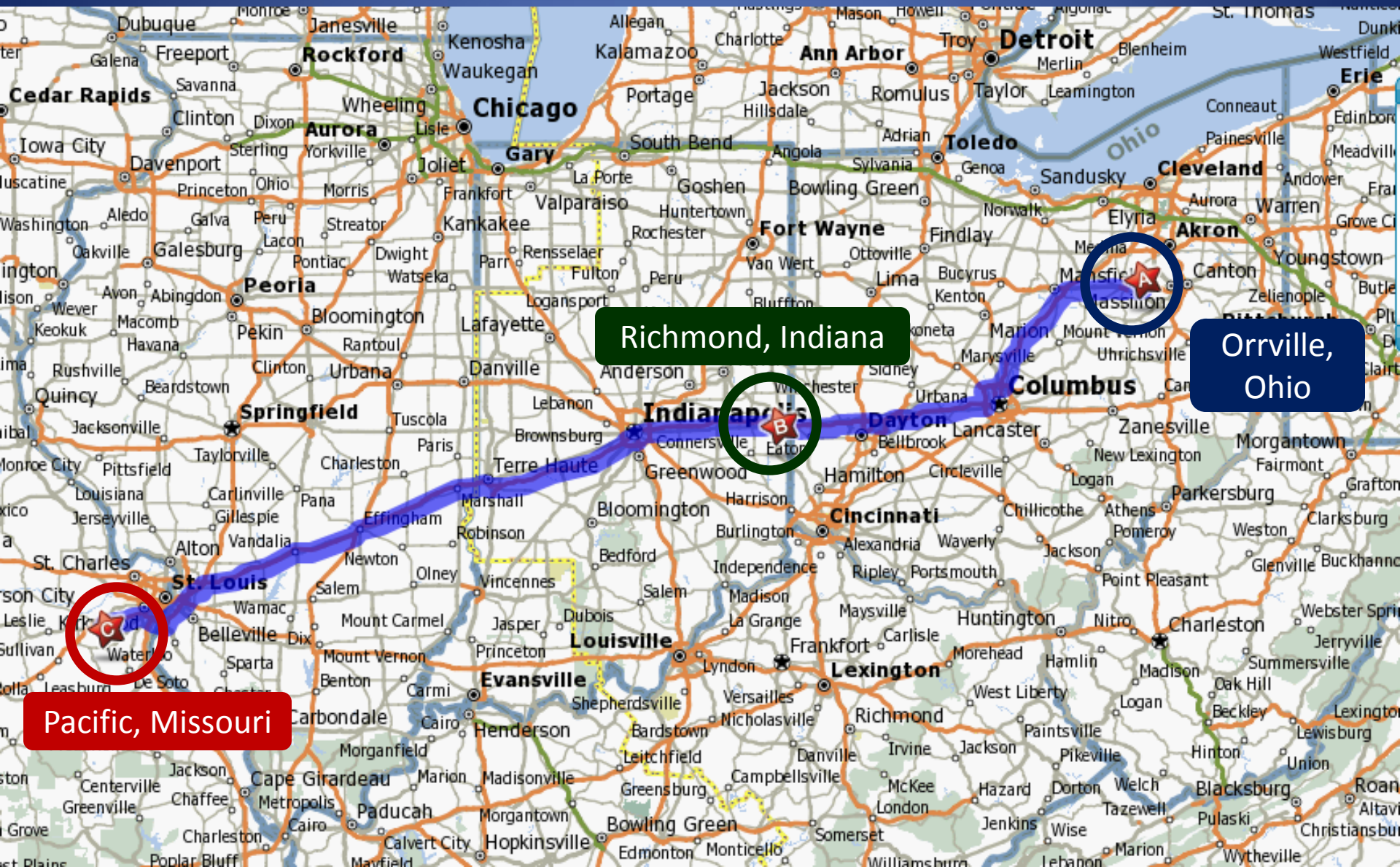


- **Pacific Valley Dairy**  
Pacific, Missouri

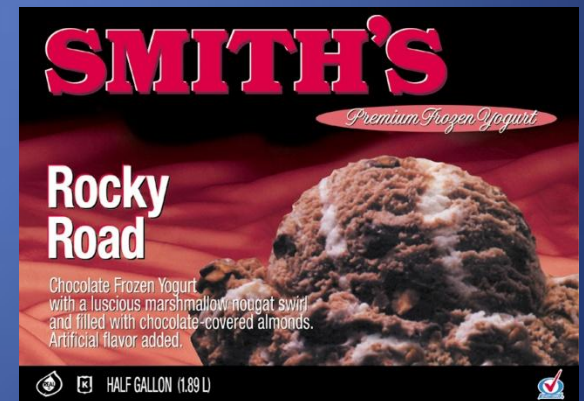




# Pacific, Richmond, & Orrville



# Smith Dairy Product Lines







Yellow  
Pigment  
blocks light

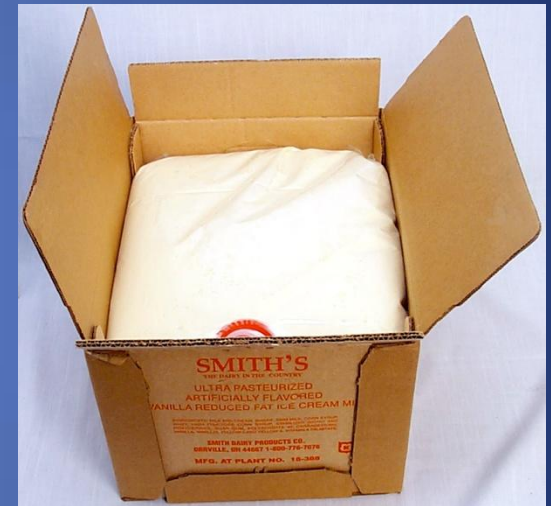
Protects  
Flavor



Wayne Dairy



# Wayne Dairy Product Lines



UHT  
&  
HTST

# Pacific Valley Dairy

## Product Line

- Ice cream mix
- & ONLY ice cream mix

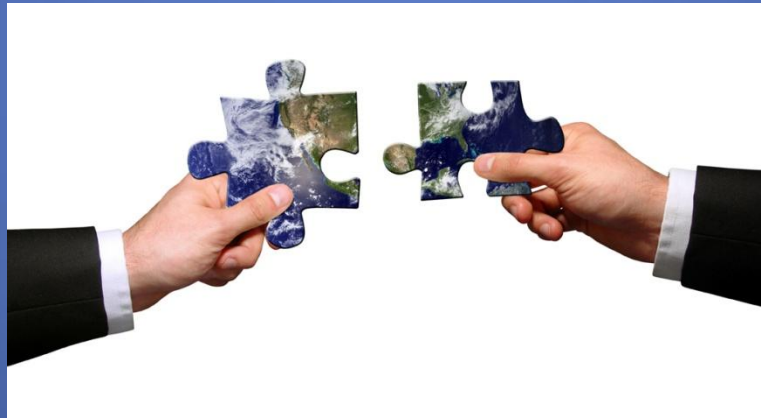




# REORGANIZATION:

**SMITH DAIRY** WAS SPLIT:

- FOR FAMILY ESTATE ISSUES
- &
- TO MINIMIZE SOME RISKS



**SMITH DAIRY & SCHMID INC**

Smith,  
Wayne, &  
Pacific  
manufacture.

Smith Dairy

Dairy  
Enterprises  
sells to all  
customers.

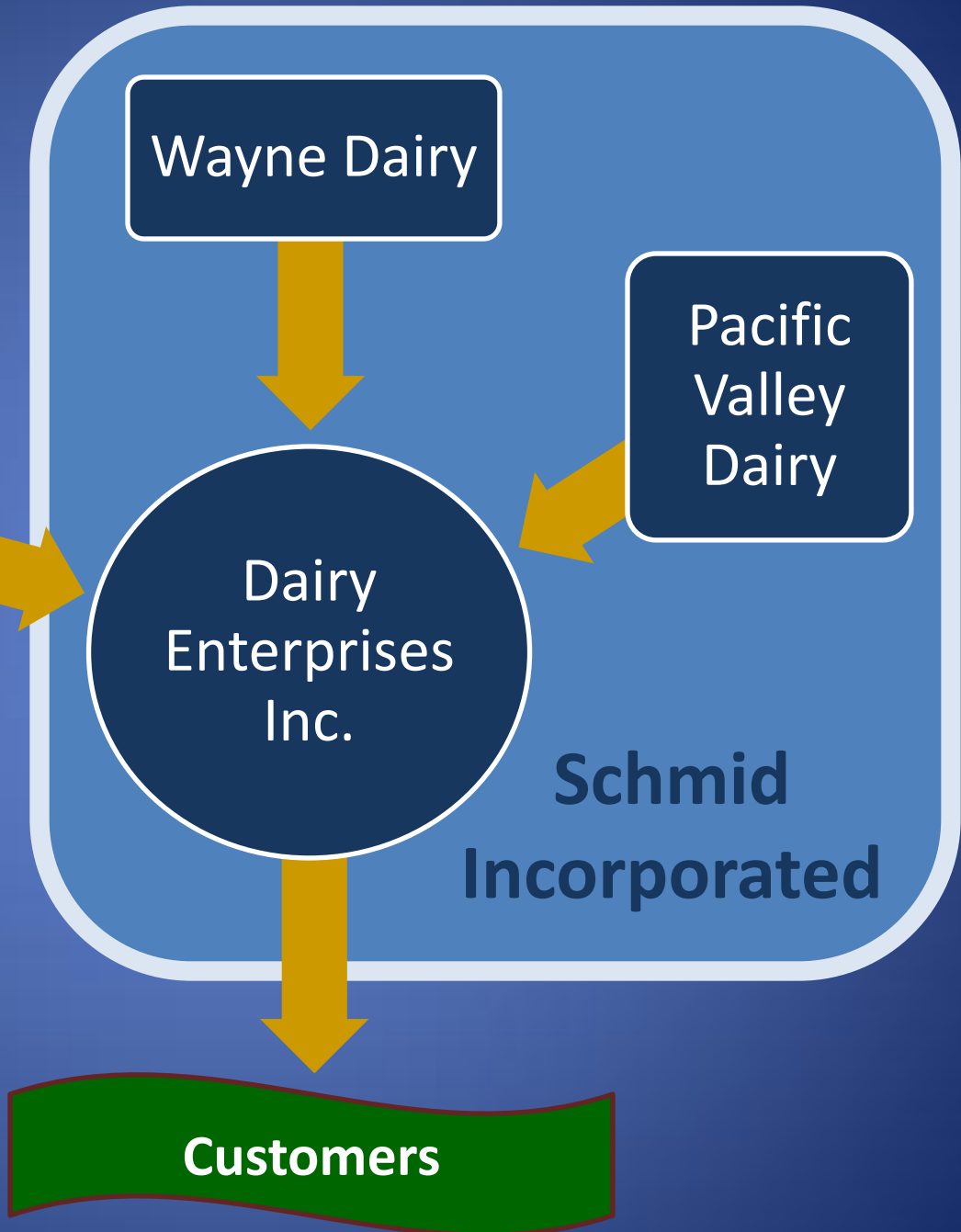
Wayne Dairy

Pacific  
Valley  
Dairy

Dairy  
Enterprises  
Inc.

Schmid  
Incorporated

Customers





# Quality Excellence since 1909



From an Ohio & Indiana perspective

# MILK PROCESSORS: WHAT IS GOING ON?







So big & dominating



Impacts all players



# Build Sales

- Program for Walmart
- Gained the lion share of their business







## Press Release: August 3, 2010

- Earnings are well below last year.
- Gregg Engles stated:

"While the challenges in the fluid milk category continue to negatively impact results, we remain focused on significantly lowering our cost structure to position us to win over the longer term."



# Streamline brands



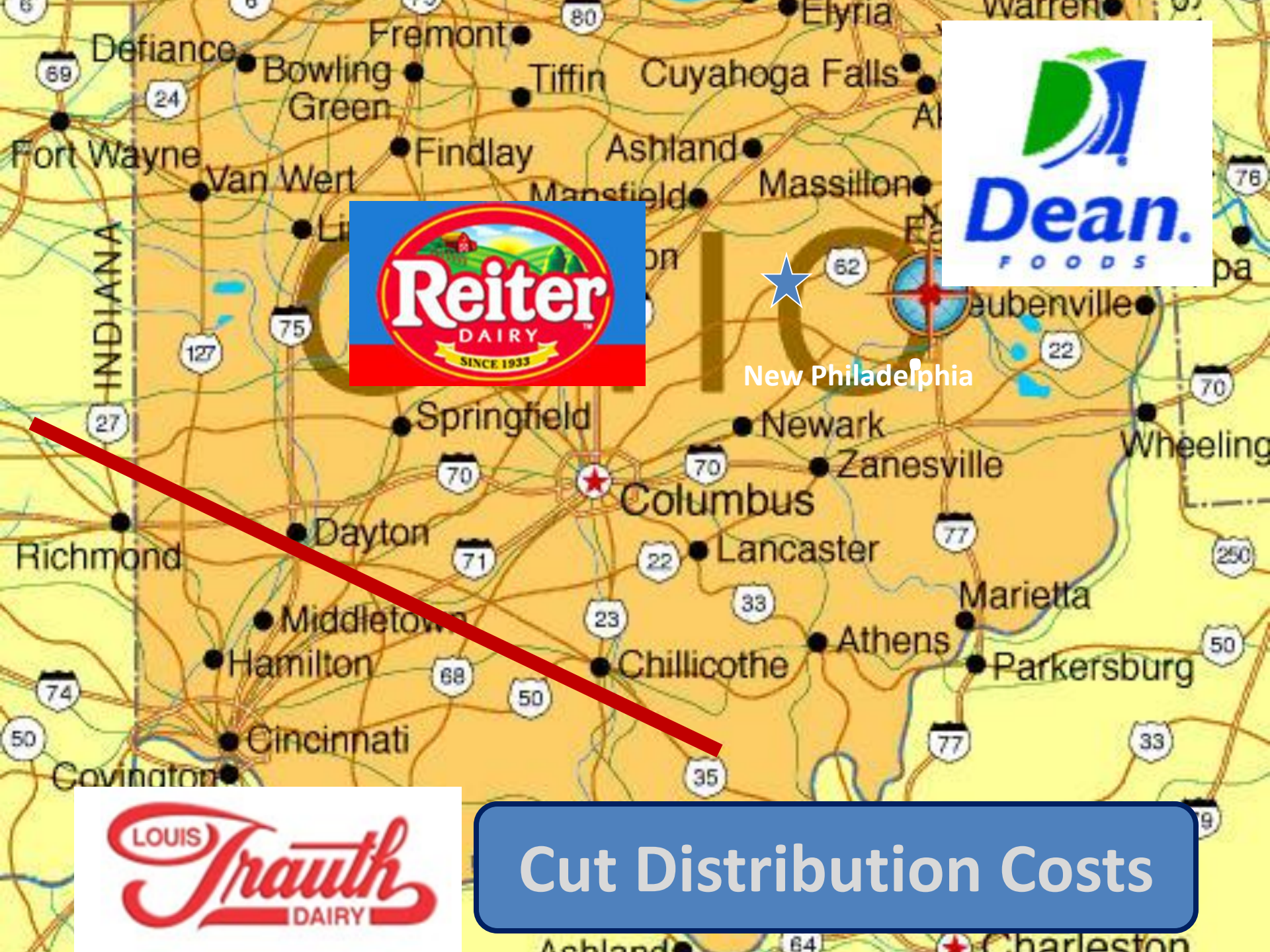
*Dallas*



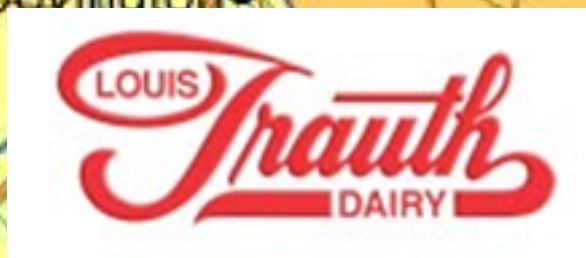








★  
New Philadelphia



Cut Distribution Costs

# Facilities



Consolidation

Streamline

Modernize



# How will this impact Dean's competitors?



## Short Term

- Lost sales
- Gain sales



- Retailers do the cha them
- Consumer brand l

## Long Term Dean

- Nearly national sales abilities
- Takes to land
- SS
- Marketing
- cost

Competitors:  
Get ready for  
tougher  
competition.





Tough national & regional players

## RETAILERS





# Changing Shopping Patterns

- Spend fewer dollars wisely in the store
  - Example: Organic
    - Past: Solid growth every year
    - Current: Flat to small growth
- Selecting a store
  - Low cost options attract shoppers
  - Others are shrinking
  - Consumers continually search for a better option



# Dollar Stores Buck Trend

Sales are up despite poor economy. Wal-Mart tries to duplicate success

The logo for Dollar General, featuring the words "DOLLAR" and "GENERAL" in bold, black, sans-serif capital letters. The text is set against a bright yellow rectangular background, which is itself enclosed within a thin red border.




By Stephanie Clifford  
New York Times

Published on Sunday, Sep 26, 2010

The Family Dollar logo, featuring the word "FAMILY" in red, a circular icon with two stylized figures, and the word "DOLLAR" in orange. Below this, the tagline "my family. my family dollar." is written in a smaller, orange, sans-serif font.



# Dollar Stores

-  & 
  - Same-store sales increased for 10 consecutive quarters.
- 
  - Problem: Same-store sales declined for 5 quarters.
  - Solution: Aggressive discounts on items like milk
  - Another Problem: These did not attract huge traffic.

Underwater sales

# **RETAIL REALITY IN OHIO**

# Hot Ads by Major Ohio Retailers



**Giant Eagle**  
\$1.89 - \$1.99

Beat the best

\$1.99 for 6 of  
weeks



\$1.69 - \$1.89

**Independents  
demand deals to  
match these.**

Kohl's



**Discount Drug Mart**





# Steve's Biased View of the Retail Market

- 
  - Great deal from Dean
  - Sales below expectations
  - Hot promotions to drive sales
- Other retailers
  - Know about the Dean deal
  - Compete with hot promotions
  - Demand better deals from suppliers

Tough competition

Demanding retailers

Changing consumers


**SO, WHAT SHOULD A DAIRY DO?**

# Thrive by:

- Reducing costs
- Gaining business with aggressive pricing
- Building your brand
- Doing one thing better than the rest
- ...



Dean is forcing these to happen.



What are some doing?



# Caseless Bottle



# Caseless Retail Display



# Do One Thing Better than Others

- Sov

**How could we do MILK  
differently than others?**



A photograph of two men standing in a lush green field with several brown and white cows grazing in the background. The man on the left is wearing a grey polo shirt and khaki pants, while the man on the right is wearing a striped button-down shirt and blue trousers. Three speech bubbles are overlaid on the image: a blue one above the man on the left, a green one above the man on the right, and a teal one pointing towards the man on the right. A dark brown rounded rectangle is in the bottom left corner.

No  
rBST?

It's just a  
hormone  
already in the  
cow.

What will  
you prohibit  
next?

rBST  
discussion

**GIVE CONSUMERS & CUSTOMERS  
WHAT THEY WANT.**





# Differentiate Milk

rBST  
Free

Organic

?

Milk is  
~~not just~~  
milk.

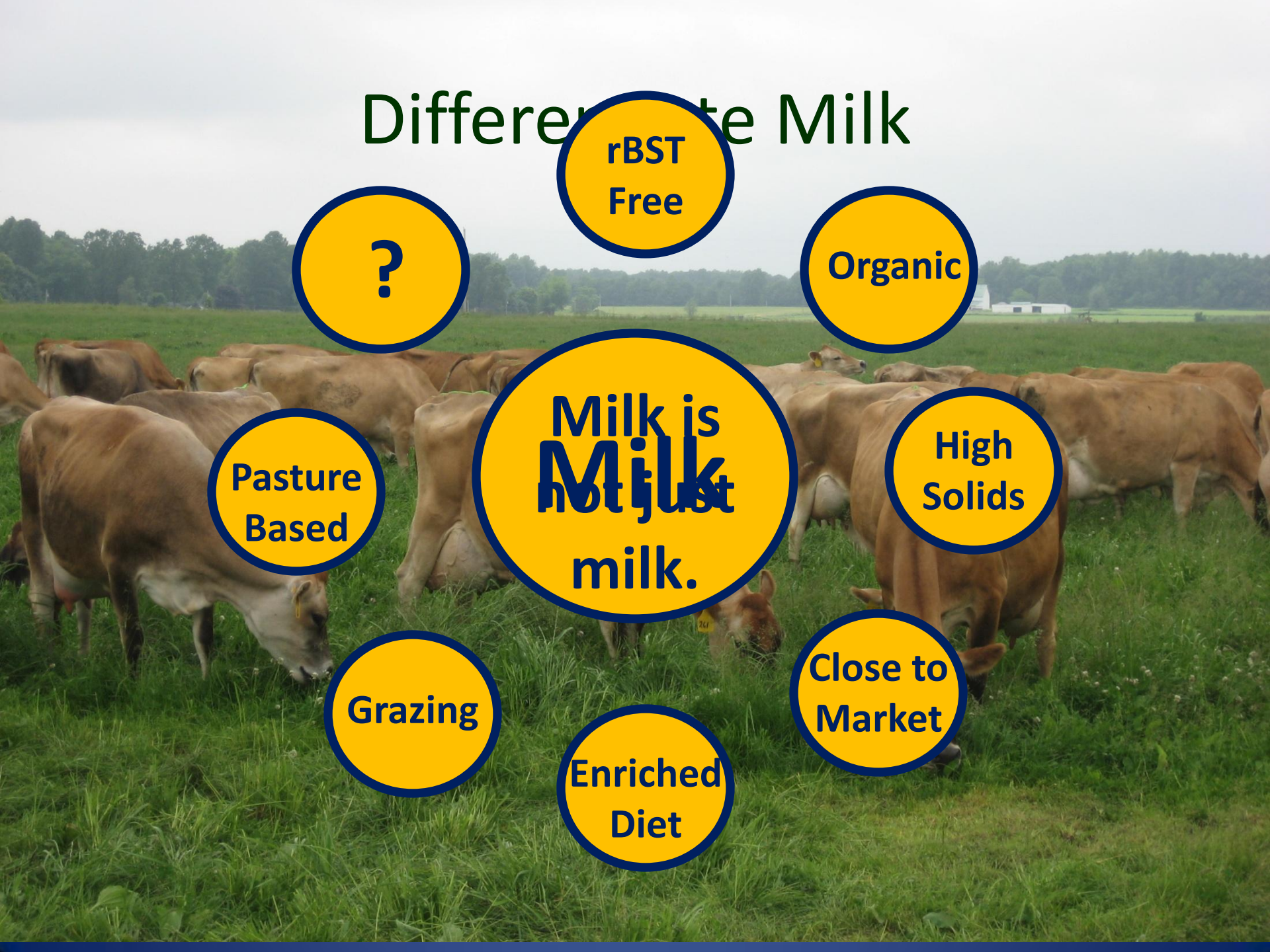
High  
Solids

Pasture  
Based

Close to  
Market

Grazing

Enriched  
Diet





# Do Any of These Make a Difference?



## **Grazing**

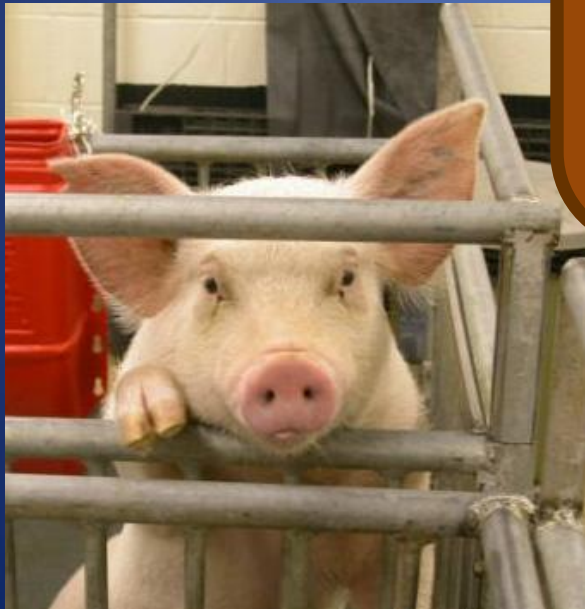
Omega 3 acids

Conjugated Linoleic Acid (CLA)

# Non-Dairy Example



Which  
generates the  
best tasting  
pork?



# Are there differences?

## Is there a market?

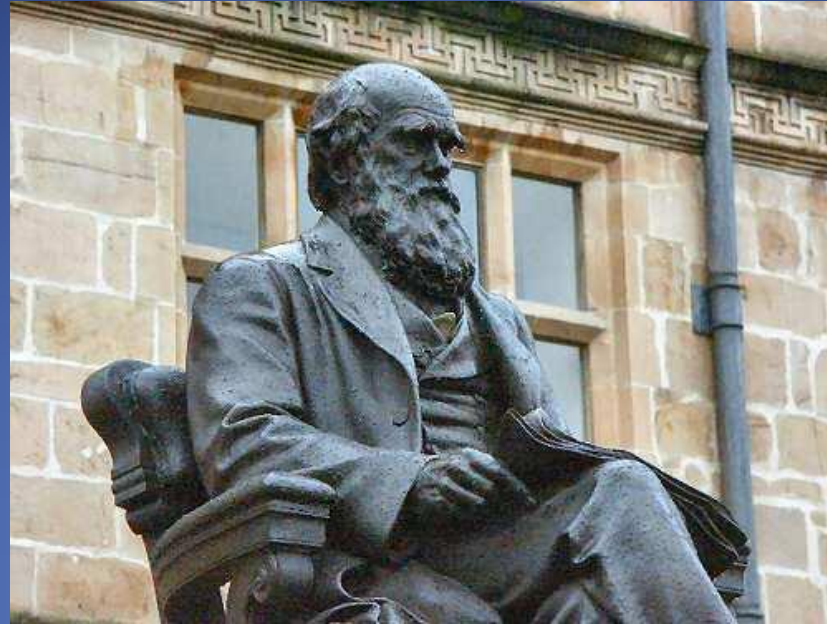
## Listen to shopping decision makers.



## Are you an entrepreneur?

Yes?  
Go build a  
business.

## Advice for the future



It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.

Charles Darwin



**Processors must adopt to the  
changes going on around us.**

**Questions?**

