



# **Strategic Planning For A Changing Marketplace**

October 3, 2011 Amman Jordan



# Agenda

- Wheat Prices and Volatility
- Wheat Quality/Price vs. Extraction Rates
- Protein Spreads and Flour Functionality
- Customer Service and Consistency
- Conclusions



# Wheat Price Volatility

## CBOT Wheat



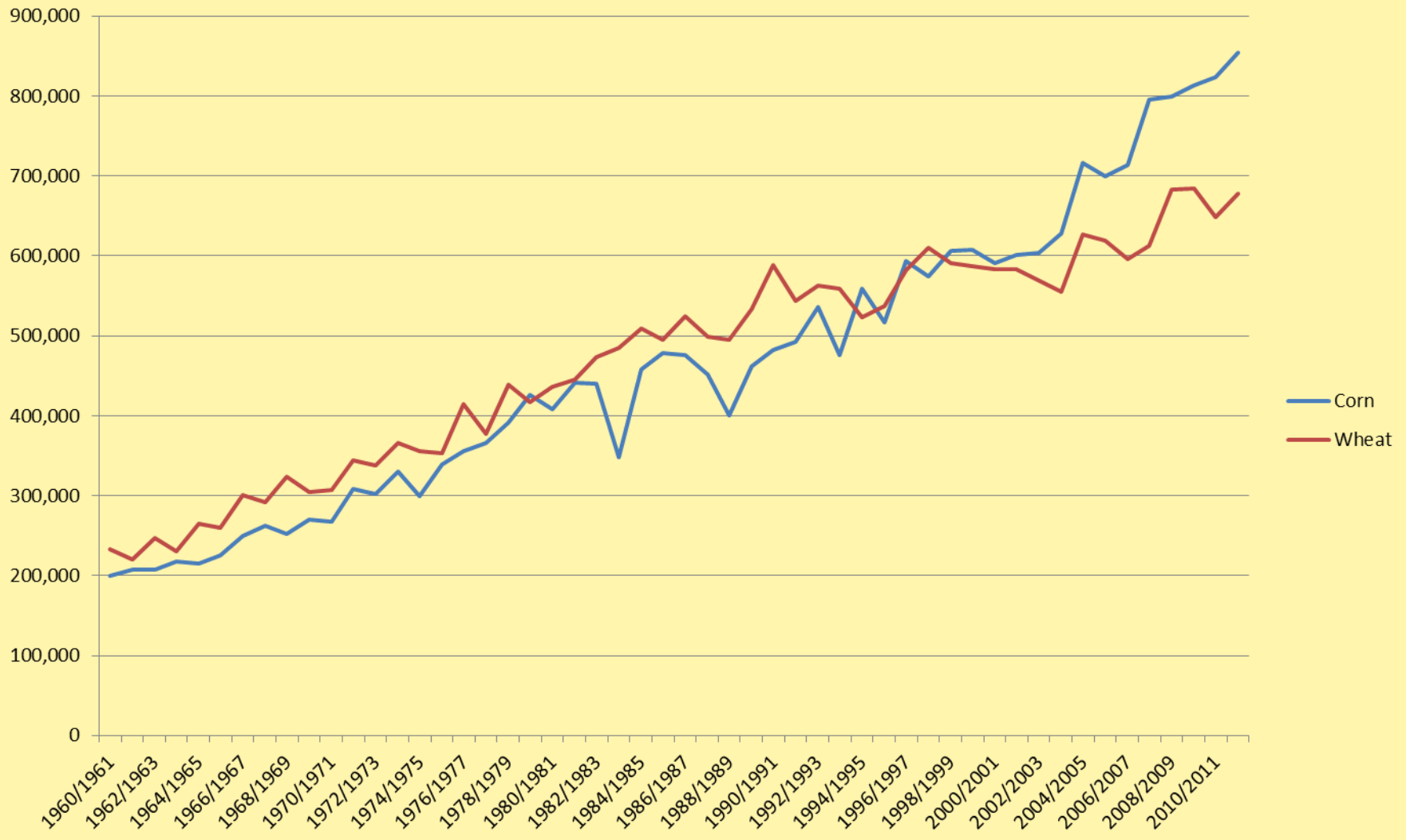


# Wheat Price Volatility

- Many Reasons:
  - Competition from other grains for production area.



# King Corn





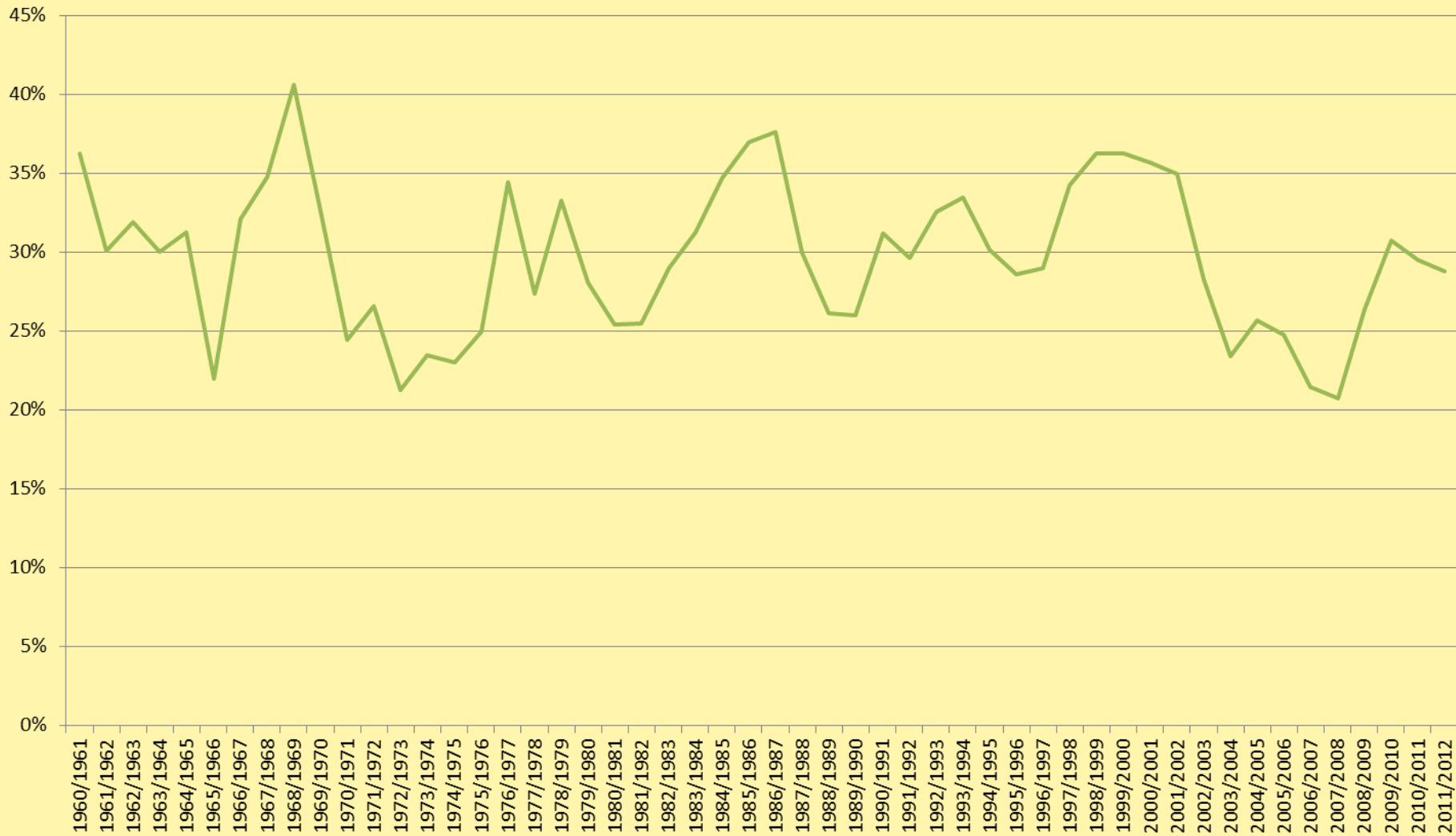
# Wheat Price Volatility

- Many Reasons:
  - Competition from other grains for production area.
  - World wheat consumption growth rates.



# Tighter Wheat Supplies

**% Carryout**





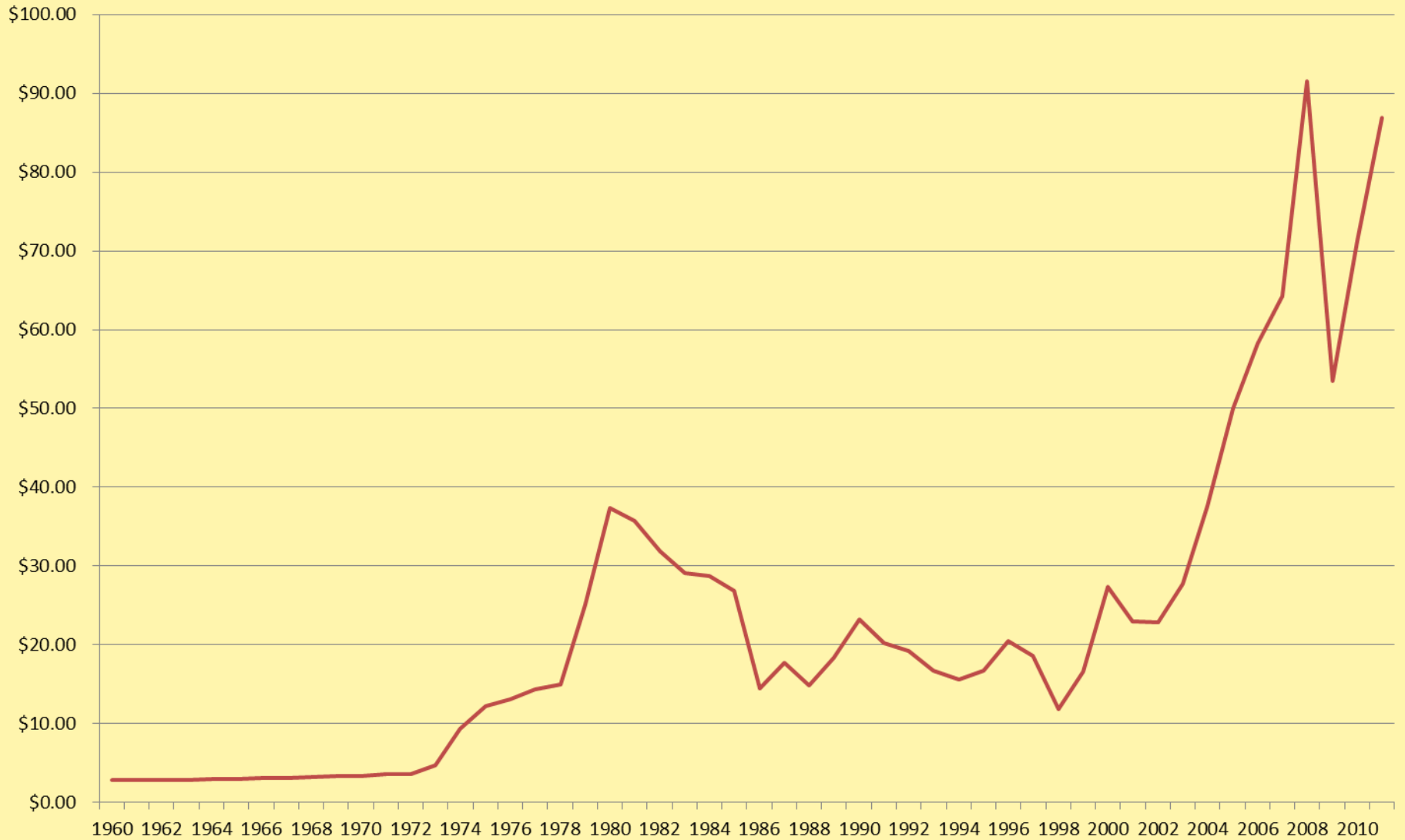
# Wheat Price Volatility

- Many Reasons:
  - Competition from other grains for production area.
  - World wheat consumption growth rates.
  - Higher transportation costs.





# Oil Prices





# Flour Extraction Is Key

- Factors effecting flour extraction
  - Mill flow and equipment
  - Mill Operator
  - Wheat Quality



# Flour Extraction Is Key

- Each % increase in flour extraction is 3 times more profitable than 3 years ago.
- Understand what yield is worth for your location.
- Focus on improving extraction rates by:
  - Well maintained, modern milling equipment.
  - Well trained, motivated operators.
  - Consistent supply of high quality wheat.



# Protein Premiums

- High protein premiums require customizing flours for each application..
- Increasing the # of flour blends require segregating wheat by protein and milling separately.
- Customers demand of specific protein requirements require specific flours for specific applications. Mills cannot afford to “give away” protein.



# Consistency

- Bakery automation demands highly consistent flours.
- Consistent flours start with consistent wheat blends.
- Consistent wheat blends require close association with wheat providers to insure a consistent supply chain.



# Customer Service

- High price of flour have forced bakeries to minimize flour inventories for financial reasons.
- Low flour inventories require flour millers to react to unexpected demands.
- Overall supply chain management is a must to meet this customer requirement.



# Customer Service

- Direct delivery vs. distributors
- Value added offerings
  - Retail package
  - Custom mixes
  - Custom blends
  - Branded flour products
- Proactive marketing and advertising.



# Conclusions

- 30 years ago in the U.S., flour was regarded as a commodity and treated as such.
- Flour Mills had a “tons are us” mentality offering few flours and buying the cheapest wheat possible.
- Reinvestment in this low margin business was low and mills were old and antiquated.





# Conclusions

- Then, the consumers started to demand different products (not just white pan bread)
- Quality was demanded by the all.
- Flour was “de-commoditized” to a certain extent.
- Wheat prices increased dramatically.
- Some mills studied these trends and reacted.....



# Conclusions

- .....and some mills did not!
  - 1982 – 247 flour mills in U.S.
    - » Top 10 Companies owned 68% of capacity.
  - 2009 – 169 flour mills in U.S.
    - » Top 10 Companies owned 83% of capacity.



# Conclusions

- The Survivors:
  - Understood their market.
  - Understood their customer.
  - Understood their local economics.
  - Understood their supply chain.



**Thank You!**

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