

Is accepting the market price worth the risk?



Because milk prices fluctuate daily, dairy farmers experience monthly swings – sometimes extreme swings – in farm revenue. As a result, many dairy farmers don't focus on the average price they get for their milk over the long haul. Instead, they think about their revenue month to month and how to ensure that this month's revenue can cover this month's costs.

Focusing on the short-term may have long-term impact

We hear producers say that the market price is good enough. Their thought is that over time, they'll take the highs and they'll take the lows, and at the end, they'll get the market's average price for their milk. Theoretically, they also maintain an even playing field with other producers. While this philosophy seems reasonable, taking the market price and settling for average in a volatile market can be costlier than you think:

1. You need to set a cost structure to endure market lows. As a result, it becomes difficult to pull the trigger on business decisions that add cost, and your growth potential becomes limited.
2. It becomes imperative to save aggressively during good times to help endure bad times, eroding your confidence to invest in your business.
3. You expose yourself to the full volatility of the market. Saving won't protect your operation from the full extent of downside risk.

Uncertainty is one of the biggest threats to long-term success. As a business owner, you take steps every day to manage farm risk. Doesn't it make sense to think about improving your average price and reducing the volatility in your revenue stream?

Accepting the market price can be costlier than you think.

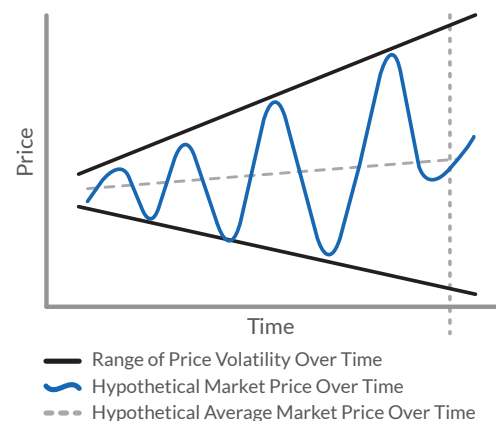


Fig.1: This illustration depicts the action of the market over time. Taking the market price means absorbing the full volatility of the market over time and accepting an average price.

Is accepting the market price worth the risk?

Effective marketing helps you manage price *and* volatility.

Sadly, many producers are sold something that ends up being too good to be true: good marketing means hitting the market highs and avoiding the lows. This outlook-based approach to marketing is called market timing, and it's a risky approach to managing your farm revenue.

At Stewart-Peterson, we take a different, strategic approach to managing milk price that focuses on two goals:

1. Reduce the volatility of your milk revenue so that you can manage your cash flow – and your business – with more consistency.
2. Improve your average price through the ups and downs in market trends. This will help you outpace the market and make more confident investments in your business over time.

The benefits to a more strategic approach are clear. Yes, you may give up some market highs in exchange for giving up market lows. However, a potentially higher average price over time in addition to reduced volatility can give you more control and certainty over the decisions you make for your business and your conversations with your lender. As an added benefit, marketing can help deliver more peace of mind.

Effective marketing no matter where you sell.

Regardless of who buys your milk, we can help you manage your price with a strategic, business-oriented approach to marketing your milk.

Interested in finding out more? Call us at 800-334-9779.

Gain more control and confidence for the decisions that impact your business.

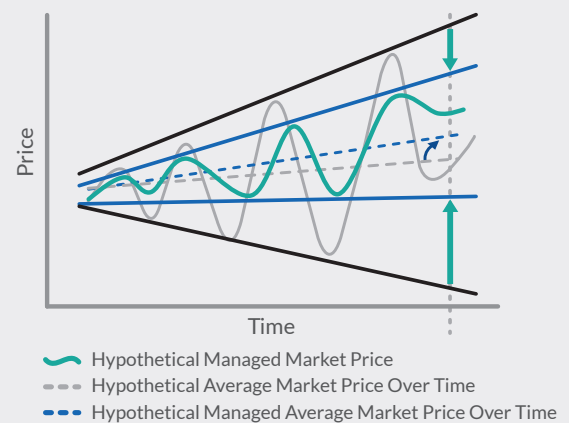


Fig.2: This illustration depicts the impact to price over time when managed effectively, including a possible reduction in volatility and improvement in the average price over time above the market price.

About Us.

Stewart-Peterson helps manage commodity price opportunities and risks for businesses whose margins are affected by market price fluctuations. The businesses we work with range from 800-acre corn growers to billion-dollar food companies; from trucking companies to 5,000-head dairies; and from commodity sellers to commodity purchasers. To learn how we help businesses build a favorable average price in any market, please call 800-334-9779 or visit Stewart-Peterson.com/Market360.