



800-4BUTTER
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Dairy is more than our business.
It's our passion.



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What is Driving Up the Cost of Butter?

Butter has become a pricey golden commodity. On August 22, 2014, the Chicago Mercantile Exchange butter price was at an all-time high at \$2.8225, breaking the 16 year record of \$2.81.

Butter followed milk and cheese on a steep ride to record-breaking prices caused by a confluence of inclement weather and the rising price of beef, high fuel costs and increasing global demand.

Inclement Weather and Rising Beef Prices

From a prolonged drought to a rough, cold winter, the weather has conspired to increase the price of butter. There is a direct correlation between the supply of beef and the supply of butter and other dairy products.

When feed prices spiked a few years ago, many ranchers sold off and prematurely brought large parts of their beef herd to market in order to have fewer animals to feed during a high investment period. That drove the nation's beef cattle population down to 87.7 million — the lowest since 1951. U.S. commercial beef output will drop 5.4 percent this year to 24.32 billion pounds, the lowest since 1994, which marks the fourth straight year of declining production.

Long, cold winters freeze grazing lands, making it difficult for cattle to eat and gain weight. Less rain means lower yield on hay, alfalfa and corn, the primary feedstock for beef cattle. It takes three years for beef cattle to mature, so ranchers have a long investment period raising and maintaining these animals until they're slaughtered.

Agricultural economists have predicted rising prices for several years due to increasing fuel and feed costs and increased global demand for beef. "Really, the story's pretty simple, and it begins back in 2007, 2008," said Ricky

Volpe, research economist at the U.S. Department of Agriculture. "In both those years, we saw basically every macroeconomic factor that influences food prices start working in the same direction to start driving up food price inflation."



Fuel Costs

Year after year, crude oil prices rise causing gasoline and diesel prices to follow. With West Texas Crude hovering at \$100 per barrel, consumers have succumbed to \$3.50 per gallon of gasoline. Ranchers and truck drivers routinely pay \$3.50 or more per gallon and must pass those costs on to distributors, grocers and ultimately, consumers.

In addition, federal government policies continue to encourage the burning of corn for fuel with ethanol subsidizes. This is a double whammy as it takes more energy to create ethanol than it provides, and more corn leaves the feed market as growers can sell their crops at a premium.

Global Demand

We are part of a growing global economy that is in love with butter. Between the densely-populated countries of

Continued next page...



High Costs of Butter continued....

China, India and Brazil demanding U.S. butter products, there is an obvious strain on supply, strongly affecting its price. In addition, the U.S. butter per capita consumption is at its highest since World War II – 5.6 pounds.

Arthur Laffer, a former economics professor at the University of Chicago, was fond of saying, “A rising tide raises all boats.” When economics improve, everyone prospers. This is certainly true in China, India and other developing countries where there is a growing middle-class. As income levels increase, demand for all proteins has also risen.

Domestic demand is also rising in the United States. Consumers are turning away from hydrogenated vegetable oils and turning to products with no artificial ingredients. Natural, fresh foods are all the rage again, and butter is naturally a simple ingredient. The popularity of celebrity chefs and cooking shows is another attributing factor to the rising demand for butter.

The U.S. is one of the leading protein producers in the world. In the long run, production will increase internationally to meet the rising protein demand. Over the next 5-10 years, strains on the U.S. dairy and beef production system will keep prices high.

What can you do about it?

High protein prices are here to stay. Restaurant operators and consumers must adjust their price expectations of cheese, butter and hamburger on menus. Operators must keep track of food expenses in order to maintain their bottom line.

This is a good time to look at menu prices and promote products with lower food cost in order to drive additional gross profit. However not all ingredients should be forfeited; staples like butter enhance food flavor and quality and keep the customers coming back for more.

Butter Market Update: August 2014

Back in January, a butter industry insider said he thought the butter market could reach \$2.50/lb. by summer. At \$1.77, he seemed off base. Butter at \$2.77 as of this writing is eye popping.

CME spot butter prices hit an all-time record high last week but have since fallen back. With year-over year milk production increases gaining momentum and European butter suppliers looking for new markets due to the Russian ban, world and U.S. butter prices could soften headed into the strong holiday demand period.

The world market is out-of-step with the U.S. domestic market, more evidence of a swoon. Traders may see an arbitrage opportunity, but those of us who actually buy

butter to sell for consumers who use it suffer these high markets.

Several months of talk about “boats on the water” is now fact; additional cheese and butter are being imported into the U.S. We do not expect to see significant volumes of imports for another month or two. This butter is not for retailers though; remember, foreign butter does not have the Grade A shield, so bulk product cannot legally enter a USDA inspected and graded plant; no legal repacking for retail. This butter is headed to ingredient folks - candy, bakery, processed cheese, etc. This, in turn, makes domestic butter available for retail sales.



Grassland Dairy Products and West Point Dairy Products use sources that we believe to be reliable, but it cannot warrant the accuracy of any of the data or forecasts included in this report.



Customer Profile

Orange Bakery: Innovators in Production and Quality Baked Goods

Orange Bakery, the creators of fine croissants, bread, puff pastries and more, claims the quality in the bakery section of the American supermarket is like the high-class bakeries you would find in Vienna.

Orange Bakery was founded in Irvine, California in 1978. Rheon Line, the parent company, engineers food processing machinery and equipment. Rheon started the Bakery to showcase its quality and great tasting products. In 1987, Orange Bakery 3 in Huntersville, North Carolina was established. Orange Bakery currently has three operating facilities, with a fourth opening in October 2014.



Each facility produces a variety of products. Orange Bakery 3 currently produces croissants, filled croissants and bread. The California Bakeries produce puff pastries, strudel bites, cinnamon rolls, croissants and an assortment of other products. Customers can also request specialty products.

Products are sold through a distributor to restaurants and cafes. “We build close relationships with our customers. We offer a high quality product at a reasonable price point

that many of our competitors are unable to beat,” said Portia Rankin, Quality Control of Orange Bakery.

When selecting ingredients for the Bakery’s products, the main focus is quality. The company also factors in cost, lead time and flexibility of the vendor. Orange Bakery selected Grassland Dairy Products, Inc. for the quality of their butter products. All of the Bakery’s products on the East Coast, with the exception of bread, are made using some form of fat: butter, margarine or shortening.

“Customers are moving towards more natural options, butter is becoming a prevalent option. Many of our customers have

requested that we research and develop products that use butter instead of the fat in the current recipe,” Rankin stated. Butter is used in the extruding and mixing process for some of the Bakery’s major products.

In the future, Orange Bakery plans to expand the North Carolina facility, which may include an additional line and storage space. The company continues to build their success with quality products, starting with quality ingredients.

Product Profile

Wüthrich Clarified Butter – Part of the Family Tradition of Excellence

Wüthrich Clarified Butter is developed in the finest

European tradition, the same tradition in which the Wuethrich family has built its butter making business for more than 100 years.

Wüthrich Clarified Butter is the product that culinary professionals choose for superior quality



and consistent results every time. It is formulated with our all-natural, World Champion Butter for a full, rich butter flavor. Our innovative black tub keeps light from reaching the product, thereby maintaining the integrity and quality of our product at the highest level, 99.9% pure butter without refrigeration, even after opening.

Clarified Butter is ideal for finishing chops and steaks, sautéing vegetables and proteins, topping fresh seafood and for delectable sauces such as Hollandaise and Béarnaise. This product can be used at higher temperatures without burning due to high smoke point and low melt point. This is a ready-to-use product that does not require personnel training and is convenient for grill side use.

The Wüthrich Clarified Butter is available in cases of four, 5-pound tubs (20-pound case).



The Verdict Is In: Butter the Clear Winner over Margarine

Earlier this year, the news wires were filled with stories announcing the new winner in the Butter vs. Margarine debates ... Yes, Butter is Back! One of the best commentaries – a New York Times column by Mark Bittman – emphasized that good meat and dairy has been found to be much better for health than the highly processed, no-fat, high sugar “fake” foods that have come to dominate the grocery aisles.

The source of this proclamation was a study published earlier this year in March, in the “Annals of Internal Medicine,” which was based on 72 research papers. The study stated that there is no evidence that saturated fat increases the risk of heart disease.

The news may have raised some eyebrows, but eating habits have been changing. Just look at the competition between butter and margarine: butter consumption has risen more than 20 percent since hitting its nadir in 1997. Margarine consumption has decreased by 70 percent since its zenith in the mid-1970s.

The Minneapolis Star Tribune may have said it best, stating U.S. butter sales have increased another five percent in 2013 as:

“The once demonized fat is downright de rigueur in cooking circles, a star on celebrity chef shows. It has become a natural food darling ... Butter owes much of its comeback to its simplicity. Consumers have become increasingly picky about processed foods with lists of indecipherable ingredients.”

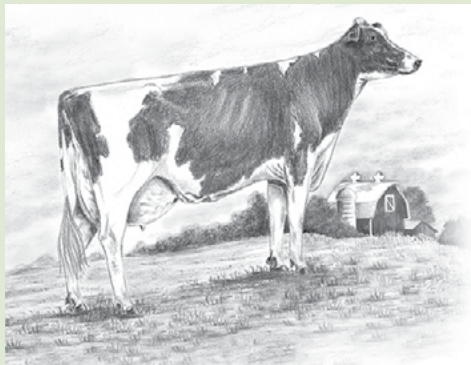
For more information, check out [Bittman’s column in the Times](#):



About Us

A Passion for Dairy 100 Years Strong

Grassland Dairy Products and West Point Dairy Products are leading manufacturers of high-quality butter and dairy products, serving the retail, foodservice and industrial markets. We offer refreshing innovation while maintaining



the traditions that have made us a family favorite for more than one hundred years. Our success is built on a fundamental commitment to delivering unsurpassed quality and value in everything we do.

For more than a century, we have been delighting our customers with the finest butter and dairy products, crafted with care and developed with innovation. We insist upon uncompromising quality and exceptional value in every item we produce, always striving to exceed expectations.

Dairy is our passion at Grassland and West Point, and we recognize that it all begins with the milk cow in the barn. Verna, a Holstein cow bred in Clark County, Wisconsin, the home of Grassland, was a 4-H project of our founder’s great-granddaughter and won Grand Champion honors at the Wisconsin State Fair Junior Show in 1978. Our newly re-designed butter packaging now includes the image of Verna in the hope that our customers around the country will understand the important role the dairy cow plays in our daily nutrition.

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