

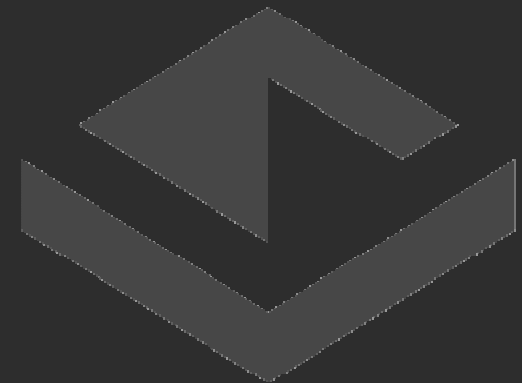


SIGNALDEMAND®

The New Economic Reality: Growing through Volatility

October 27, 2009

AMI Foundation
AMERICAN MEAT INSTITUTE





SIGNALDEMAND®

Leading Optimization Software for the Global Food Industry

PRICES

Determine the Best Price
Points, Everyday

SUPPLY

Develop Optimal
Supply Plans

MIX

Define the Most
Profitable Mix

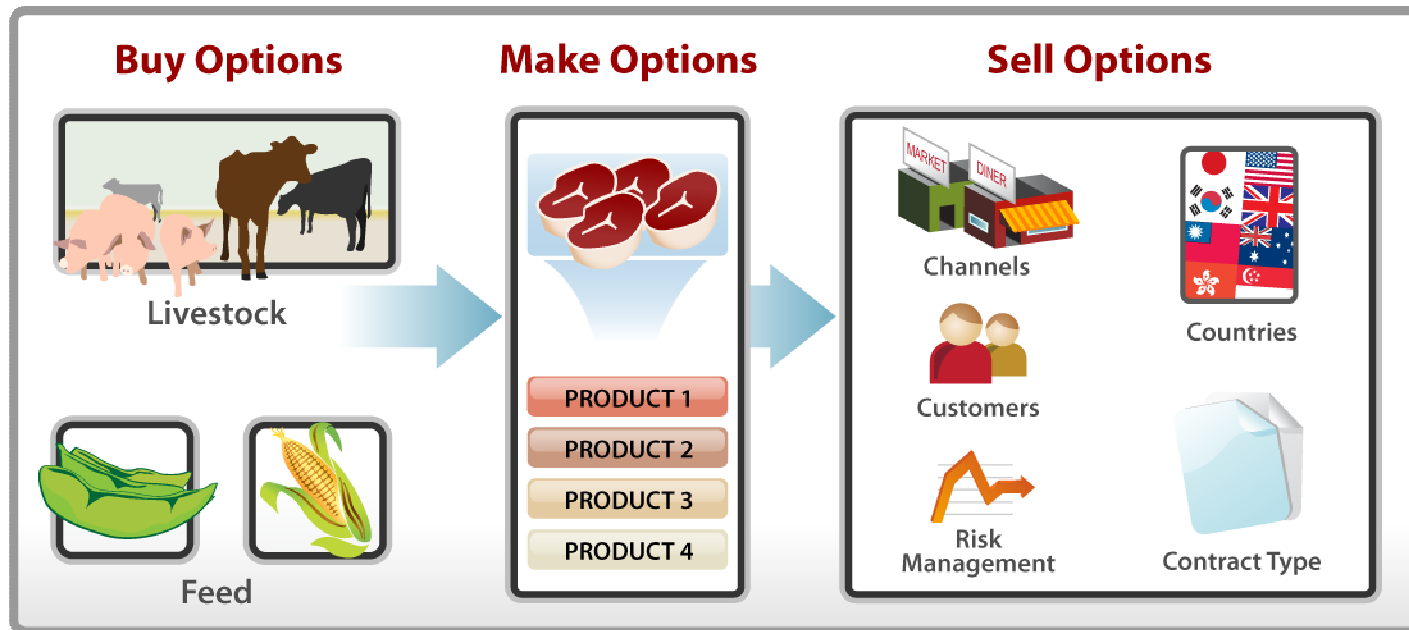
across:

Products. Customers. Channels.

...across the value chain: ***From farm to fork.***

Why Do We Care About Volatility?

- Every step in the supply chain involves a complex set of decisions
- Volatility in purchase costs and selling prices make managing the supply chain even harder



Volatility can create *great risk* or provide *great opportunity*

Volatility: A Double Edged Sword

■ Risk

- *“Should I take a position on Futures?”*
- *“Should I try to negotiate more long term contracts?”*
- *“How forward sold should I be to prevent dumping?”*

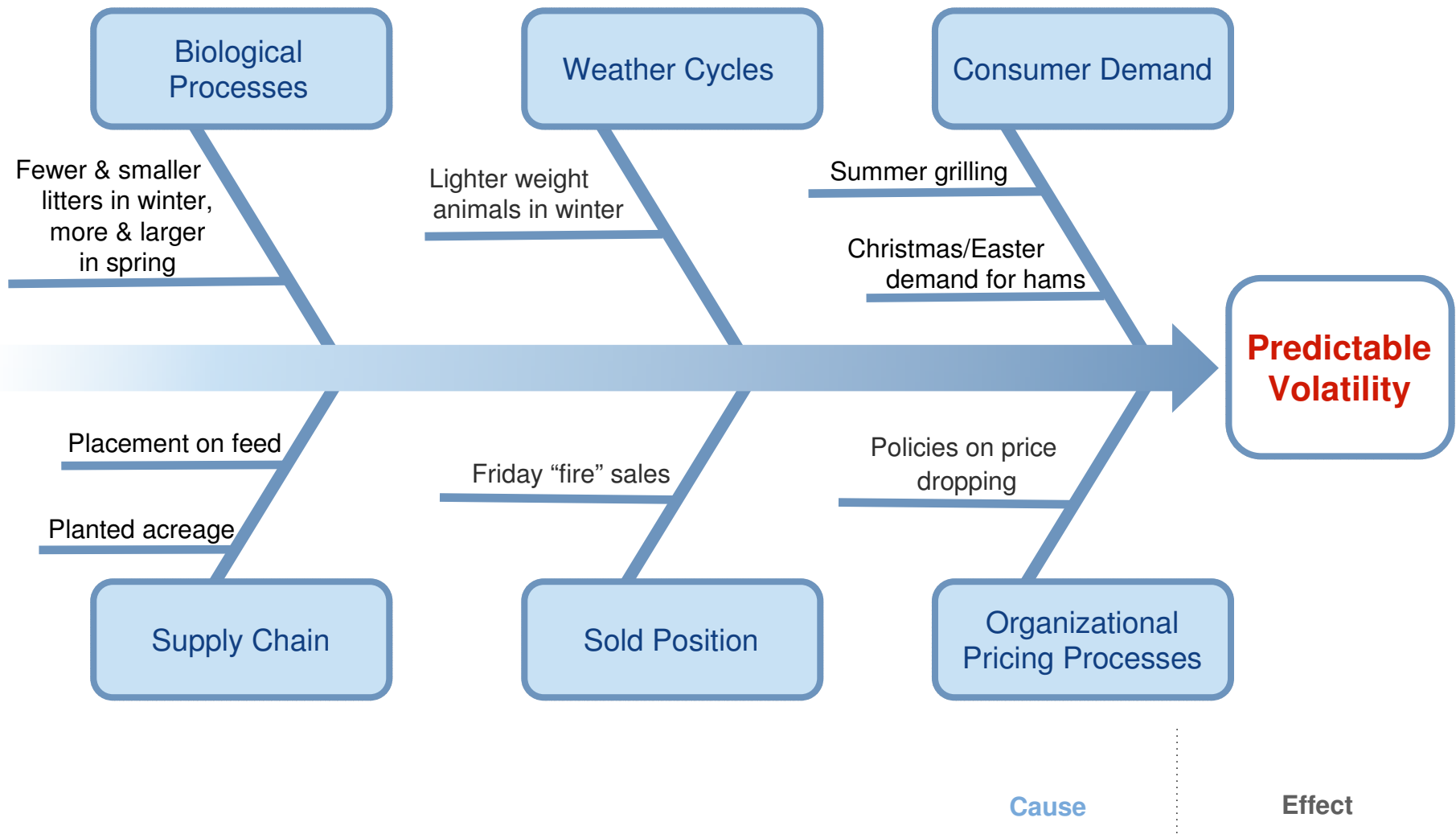


■ Reward

- *“Am I better prepared to handle price shifts than my competitors?”*
- *“Do I have price forecasts that are responsive to market shocks?”*
- *“Do I have a clear picture of the best product and channel mix to make the most margin?”*

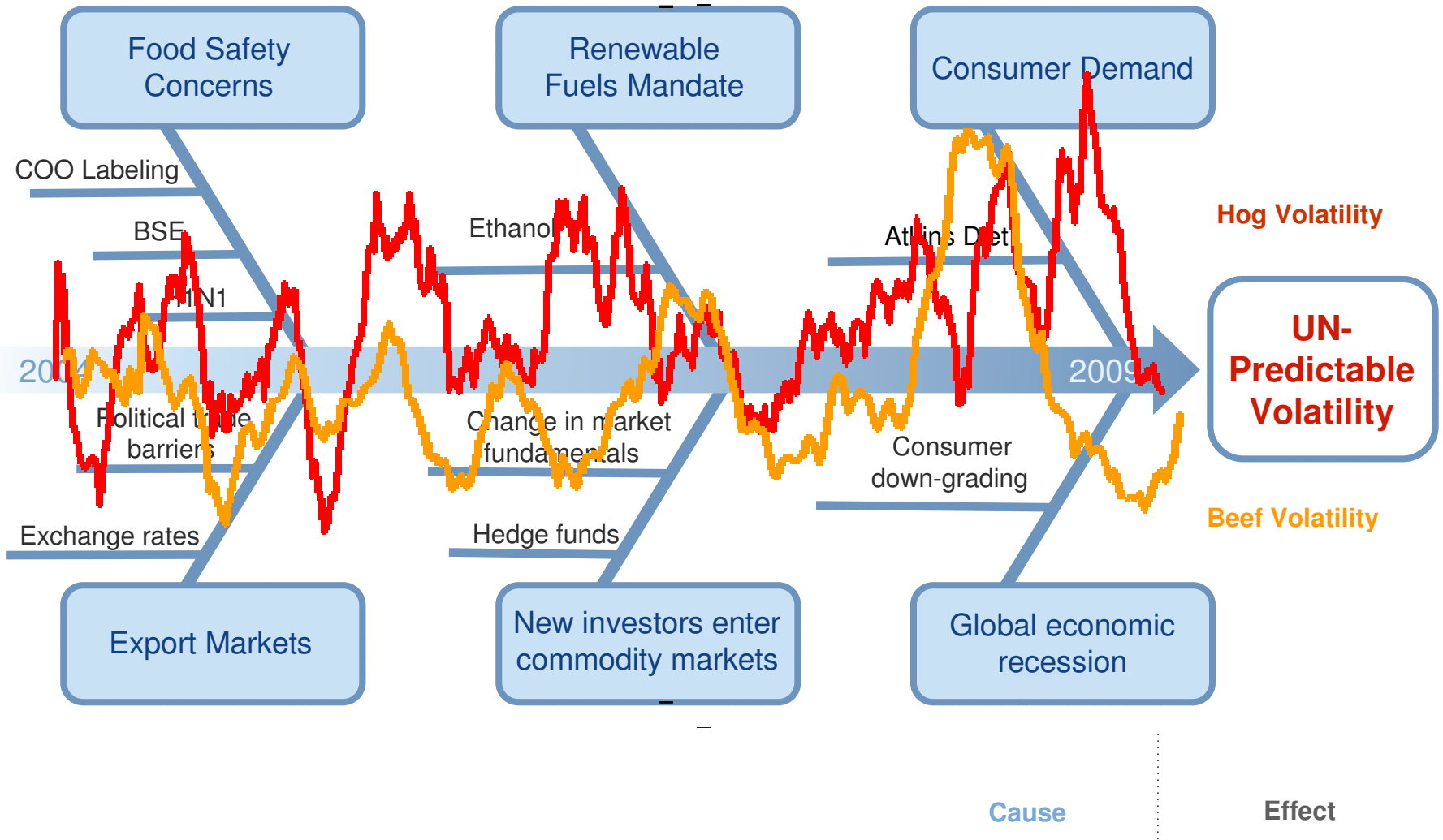
The strategy to manage these depends on which type of volatility you face...

Predictable Volatility in Protein Markets





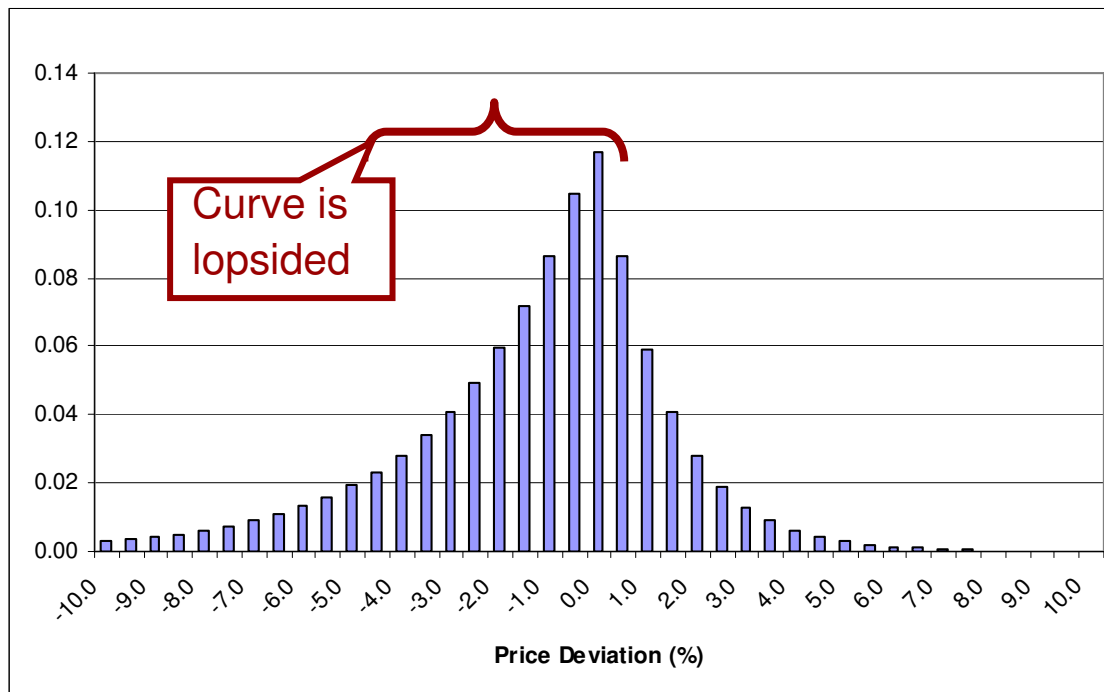
Unpredictable Volatility in Protein Markets



*Lines represent 13 week moving average of price volatility

Volatility Uncovered

- Years of sales transactions from a large US meatpacker (data modified to protect anonymity)
- More revenue was generated at BELOW average prices
 - Poor visibility to market turns
 - Poor management of forward sales
 - Inconsistent sales strategies
- Mistakes on the low side are more significant than wins on the high side



- Horizontal axis: % deviation from weekly average price
- Vertical axis: fraction of annual revenue generated by transactions at each deviation

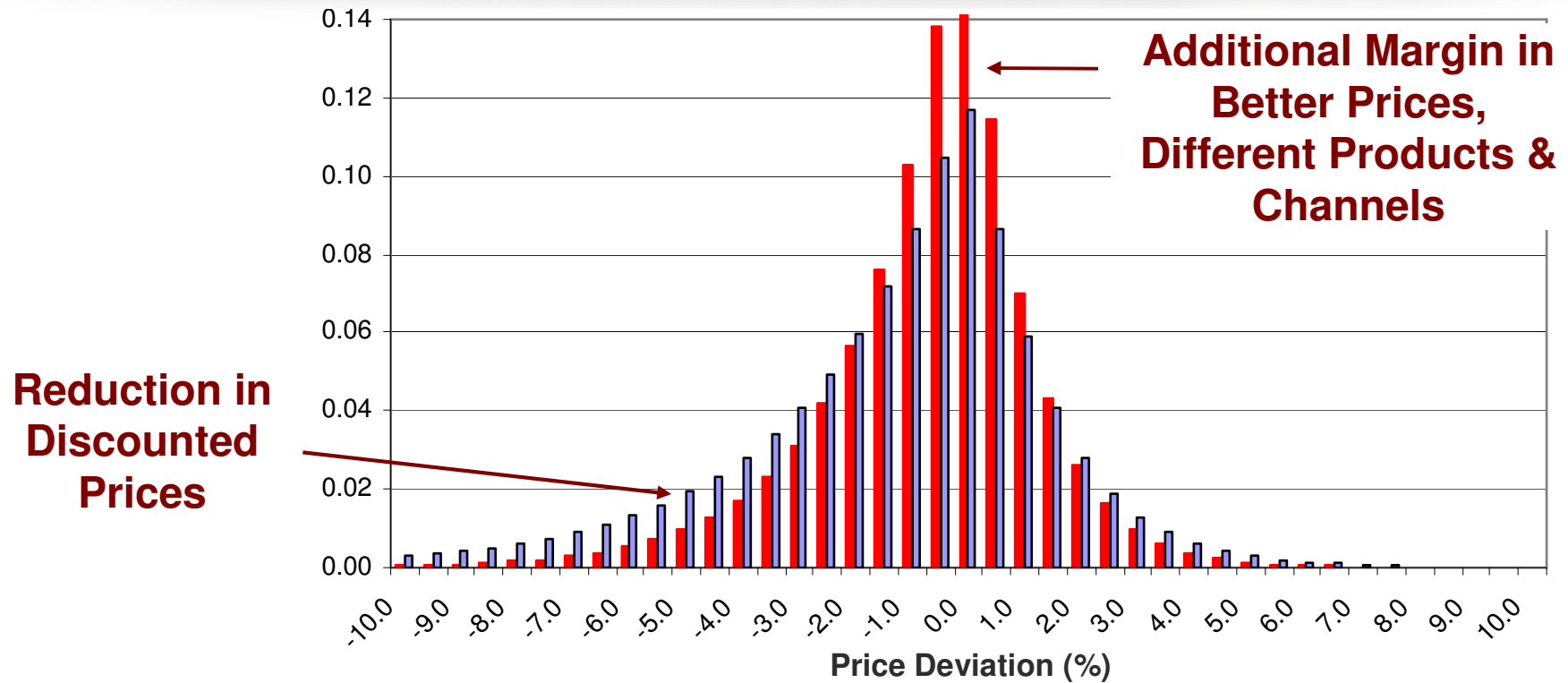
1. Predictable Volatility

- *Short term: forecasting and better visibility*
- *Long term:*
 - Build pricing courage through rigorous pricing processes
 - Determine the right target forward sales profile
 - Establish the optimal mix of products and channels
- *Always: collaborate with your trading partners*

2. Unpredictable Volatility

- *Short term:*
 - Use price forecasts responsive to market shocks
 - Understand price sensitivity to set prices that clear supply
- *Long term:*
 - Incorporate risk management into the sales process
 - Establish and institutionalize a rigorous pricing process
- *Always: collaborate with your trading partners*

Volatility Uncovered



- Strategies to manage volatility reduce the within week variation of prices
 - Better forecasting of market turns
 - Better management of forward sales
 - Consistent sales strategy
- Less revenue generated at below average prices
 - Higher average price
 - Higher overall revenue

BOTH!

Two Part Strategy Required

1. Separate random volatility from predictable market movements through mathematical models
 - *More accurate forecasting*
 - *Optimizing product and channel mix*
2. Institutionalize pricing processes, practices and policies
 - *Ensure rigor and consistency*
 - *Build pricing courage*
 - *Succession planning*
 - *Build in processes to collaborate with trading partners*



Thank you!

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