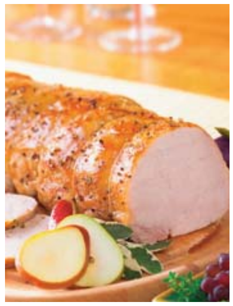


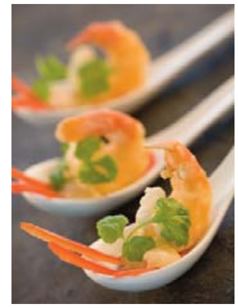

Sysco Columbia, LLC

Food Price Outlook

USDA Projections for 2011/2012 Imply Extremely Tight Supply and Demand for Next 18 Months

By Bill Lapp, Advanced Economic Solutions
March 2, 2011 advancedeconomicsolutions.com

Last week at the United States Department of Agriculture Outlook conference, USDA published estimates of the supply/demand for 2011/12 corn, wheat, soy and rice. This formal forecast by USDA is closely watched each year, and provides guidance for the markets going forward.

This year's report was one of the most bullish in memory. As expected coming into the report, the report projects that acreage is tight and competition for acreage will be intense, stocks at the end of the 11/12 crop year will be very tight through 11/12, and any weather disruptions will be extremely bullish (even from current levels).

A few highlights:

- Total corn/wheat/soybean acreage is projected to increase from 219 mm to 227 mm, +7.8 mm – this compares to the 2008 (recent) peak of 225 mm, and is a bigger yearly increase than we had from 2006 to 2007 (+7.6 mm).
- Corn stocks remain tight at end of 2011/12 crop year – 6.4% of usage. This is true in spite of acreage expanding from 88 mm to 92 mm, 2nd highest in modern history.
- Wheat stocks projected to tighten at end of 11/12 (663 mm or 28.3% of usage) – down from this year but not extreme. World wheat situation is critical driver, as the USDA projections include a decline in US exports as world supplies rebound.
- US rice situation becomes tighter at end of 11/12. Big driver for rice is 15% decline in production due largely to 21% reduction in planted acreage.
- Soybean stocks remain tight at end of 11/12 crop year – 4.8% of usage. This in spite of higher 2011 acreage and no gain in demand (can South America meet all of growth in world demand?)
- Soyoil stocks at end of 11/12 projected to decline to 2073 mm, lowest in 7 years. Overall usage projected to decline, with gain in biodiesel use (3.35 B) offset by sharp reduction in exports.

The market will be sensitive to all fundamental news, and has several landmark dates to focus on.

- March 10: next USDA supply/demand revisions
- March 31: USDA's March 1 stocks report, which will drive changes in feed/residual for each situation (most importantly corn)
- March 31: USDA's survey-based Planting Intentions – this will be extremely important, as it sets the stage for answering the question about how much the universe of acreage can expand.

These estimates incorporate
a) the February estimates for 10/11,
b) 2011 winter wheat acreage forecasts (published in Jan.)
c) 2011 acreage estimates for other crops based on estimated returns
d) trend yields

Throughout 2011/12, competition for acreage will be intense.

Sharing Success: Facing Inflation

By Tom Cortopassi, President & CoOwner Stanislaus Food Products

March, 2011   stanislausfoodproducts.com

Back in 2008, restaurateurs faced a serious economic "double whammy." On the one hand, guest counts were down because loyal customers could no longer afford to visit as often (due to the recession). On the other hand, the cost of food commodities, including grains (wheat and corn), meats (beef, chicken, pork), and dairy (cheese, milk), etc. had jumped 30% to 40% in a relatively short period of time.

While overall guest counts became more stable over time, rising ingredient costs began eroding restaurant profit margins. As profits kept shrinking, most independent pizzeria and Italian restaurant owners recognized that staying in business would require raising their menu prices to help offset the significant increases in food costs.

Since that time, most of the Independent operators I have talked to have said several things happened in their businesses after raising their menu prices:

1) **Loyal customers kept coming back after raising menu prices.**
In fact, many operators said their guests offered little or no negative feedback. Even when they increased menu prices, Italian food was still one of the best dining values around.

2) **They wished they had done it earlier.**
Raising prices allowed them to restore profitability and reduce financial anxiety.

3) **Competitors who tried to cut costs by cutting quality did not last.**
Many mentioned restaurant competitors who had responded to rising food costs by switching to cheaper (lesser quality) ingredients and went out of business as a result.

Since that time, commodity costs relaxed a bit during 2009. However, since July 2010, wholesale prices for many staple foods (flour, meat, cheese, etc.) again ramped up 20% to 50%. The price of feed corn actually increased over 70%, approaching its 2008 high levels.

These commodity increases are impacting small Independents and large chains alike. Even McDonalds recently announced that it was responding by raising menu prices.

As owners of Independent businesses, how each of us chooses to price our offerings is one of the most personal decisions we can make. While I do not pretend to know what is right for your business, as long as commodity costs are rising, I suggest you consider the following:

- All businesses must be profitable to exist. Remaining profitable requires charging more for your offerings than they cost to make. If your input costs significantly increase, eventually, so must your prices.
- All restaurateurs are in the same boat. So you do not have to spend much time wondering what will happen if you change and they do not. They are facing the exact same pressures.
- Have confidence in the superiority of your food. If your food quality is sufficiently superior to attract and keep loyal customers, they will likely remain loyal after reasonable price increases. (If you are NOT confident in your food quality, consider further improving your ingredients until you gain that confidence.

No one knows how long food costs may stay at current levels or even increase.

However, one thing is for sure: regardless of commodity costs, it is serving consistently superior food which keeps loyal restaurant patrons coming back for more!

If your input costs significantly increase, eventually, so must your prices.

NATION'S Restaurant News

Rising Food Costs Spur Tough Pricing Decisions

www.nrn.com February 21, 2011
Article by Steve Coomes

When McDonald's hinted last month in a conference call that it planned to raise prices this year to offset commodities inflation, many quick-service competitors likely were relieved to hear the category giant would do something they've all wanted to do for years.

"For a long time it's been a game of chicken; nobody wanted to raise prices," said Dave Stone, managing partner of the New England Consulting Group. "Now McDonald's is saying it has to, which we think is the right move."

Still, taking action is another matter, and many operators are weighing the need to offset rising commodities costs against the need to keep still tight-fisted customers coming in the door. According to Stone, the wrong move is to do nothing, but he suspects some players will choose that game plan as well.

"Some will try to hold the line and not move prices, but it's a terrible mistake not to respond and take some action to protect margins," Stone said. "It's going to be awfully hard not to manage this commodities crisis without recovering something through increased prices."

Confronting the crisis

The restaurant industry is already dealing with increased costs. Favorable commodities prices — the lone blessing of the recent recession — are quickly disappearing as the U.S. economy slowly emerges from its three-year slump. And according to commodities experts, multiple market factors will continue driving prices for corn, beef, pork, grains and dairy upward well into 2011 and possibly beyond.

"There's no indication they've peaked yet," said Robert Bresnahan, chief executive of Trilateral Inc., a risk management advisor to foodservice companies. "And we're not dealing with a simple fundamental supply and demand situation for grain crops. This is more about liquidity in the commodities market, money from investors who are looking for a financial rate of return."

John Barone, president of Market Vision Inc., a firm that advises restaurant companies on commodities purchases, believes surging international demand for U.S. foodstuffs is the main force behind price hikes.

"Developing countries have rebounded from the recession faster than we have, and their increasing affluence is allowing them to import more protein and dairy," he said. "That demand is pressuring supplies here and moving prices up."

According to a report issued by Piper Jaffray & Co. in January, the effect of rising corn prices is pushing nearly all other major grains produced in the United States to near-record highs. A staple in livestock feed and the core ingredient in ethanol, corn costs are expected to soar between 35 percent and 58 percent in 2011, according U.S. Department of Agriculture estimates. More modest projections place its price at a 25 percent premium over last year, which is still well above historical averages. Either way, higher corn prices equate to higher livestock and dairy prices, as well as cost increases for oils, sweeteners and other corn derivatives used in packaged foods.

Wheat costs also are up sharply. While some analysts point to droughts in Russia and Ukraine and flooding in Australia as triggers for wheat price increases, Bresnahan said producer fears of shortages are unfounded because world wheat stocks are more plentiful this year than two years ago, when wheat prices skyrocketed. Piper Jaffray's report supports his view, stating that while U.S. wheat prices in 2010 finished 0.1 percent lower year-over-year between 2009 and 2010, prices leapt 54.2 percent in December 2010 over December 2009.

Though Piper Jaffray researchers predicted wheat supplies to tighten some this year, they still expect them to remain above 10-year averages. Meanwhile, the USDA is predicting that 2011 wheat prices will increase between 9 percent and 17 percent, a bump that will inevitably affect other commodities prices, Barone said.

"Everything is interrelated, so it's tough to point to any specific commodity that hasn't had an effect on another," he said. "With the global market so intertwined, what's happening here is only a part of what's happening to affect all prices."

Not to be left out, cheese prices also are flirting with high levels for late winter — bad news for pizza companies that have enjoyed nearly two years of low cheese costs. Prices for block cheddar traded on the Chicago Mercantile Exchange have rocketed 49 cents in 2011 to $1.91 in early February, a time of year when blocks typically hover in the $1.40 range. Prices for Class III milk futures also are way up for April, the spring turning point marked by rising production and plunging prices.

"Prices should be lower now and even begin falling further as we move toward April," said Bresnahan, who cited strong overseas demand for butter and powdered milk as other price drivers in the segment. "But people are investing in dairy the way they're investing in everything else: not to buy product, but as an investment."

Mum on price hikes

While there are plenty of rumors that large quick-service players will boost prices, finding any that will share their strategies is next to impossible. Like McDonald's, Starbucks was equally vague in an earnings call about "recent price initiatives" taken to offset rising dairy, cocoa and coffee prices.

And in a separate earnings call, Chipotle Mexican Grill's David West, chief executive of the company's North American Commercial Group, was no clearer about whether the burrito chain might wrap its prices differently for 2011. He made no bones, however, about his reluctance to talk about prices in general: "We are very limited on what we can say about price. We just don't like to comment on it at all," he told analysts.

Yum! Brands Inc. CFO Richard Carucci said he believes the parent of Taco Bell, Pizza Hut, KFC, Long John Silver's and A&W All-American Foods will pay 4 percent more for commodities this year. He added, however, that he's comfortable long-term contracts will pad Yum's bottom line some and soften some of the impact. Anticipating this year's commodities run-up, he said the company increased prices incrementally at some of its brands last year.

"We think that generally the consumer handles that better," Carucci said in an earnings call. He also stated that the company plans to continue a pricing strategy employed in 2010 of strategic positioning of bargain and premium offerings, such as 99-cent menus and the $5 box options at Taco Bell and KFC. "We'll continue to... do things like that as we get into 2011," he said.

Michael Lawton, chief financial officer for Domino's Pizza, said on an earnings call that the world's second-largest pizza chain is comfortably locked in on wheat and chicken prices through at least the third quarter, but he expects cheese prices, which make up about a third of Domino's food cost, to continue rising.

Lawton added that, as a corporation, Domino's is somewhat insulated from commodities price fluctuations because its domestic pizzeria system is 90 percent franchised.

"So we are not as highly impacted... as some of our less franchised peers," he said. "However, commodity prices obviously are an important factor for our corporate stores and for our franchisees' profits and their overall health."

Harry Balzer, chief industry analyst at The NPD Group, predicts commodity price increases will appear first on grocers' shelves, and they will trigger consumer backlash that may benefit restaurants.

"As they see prices rise at the supermarket, they say, 'That's nutty! It's cheaper to eat out,'" Balzer said. "Of course, it's never cheaper to eat out than it is to eat at home, but it feels like you're getting less for your dollar at supermarkets because you know instantly when prices go up. Restaurants have more ways to absorb those cost increases in ways consumers don't always recognize."

But, he warned, consumers eventually catch on, and sometimes they react by spending less, buying smaller portions or sharing their food with others.

"What we know is the average cost per person for a restaurant meal goes up by 2 percent [annually]," he said. "And I think consumers generally accept a 2 percent increase. But if it goes above that, then they make behavioral changes like going to different restaurants or eating different meals."

Managing the menu

While price-slashing efforts helped maintain quick-service traffic in tough times, Stone said it also conditioned customers to become too reliant on dollar menus and meal deals. The smart way out of the low-price trap, he added, is not just boosting prices all across the menu board, but taking "the emphasis off dollar menus in constructive ways that attract customers' attention elsewhere."

A veteran of the soft drink industry, Stone recalled times when producers pushed 2-liter prices down to a margin-crushing 99 cents and saw bottles fly off the shelves. But when prices moved back up to a more favorable $1.29, customers stopped buying them until they returned the price to 99 cents.

"What broke that pattern was when the industry came up with new portion sizes and different packaging," Stone said. To customers' thinking, those were new products, and they gravitated to those novel options, he explained.

"In the same way, this would be an interesting time to start messing with certain products and menu bundles," Stone said. "Maybe you reduce the size of the burger or fries or the drink in a bundle, and introduce it in the $2- or $3-range." The result is lower food cost for the operator, lower prices for customers and new opportunities to sell add-ons, he said.

Stone said operators also have cornered themselves by marketing products by weight, such as McDonald's legendary Quarter Pounder. Since size matters in the eyes and hands of well-conditioned customers, there's no changing the portion, and that leaves operators with little choice but to raise the price if they are going to profit from that item, he said.

"I'd much rather be selling a Big Mac and not have to say what the weight is in case I want to change something," he said. When he recently consulted with a Mexican fast-food chain, he said, "We really resisted talking about a 1-pound or a two-hand burrito. Once that's done, you can't really get away from it."

Carlos Nuñez, a director at Simon-Kucher Partners, a marketing advisory firm, agreed that altering flagship products is never a good idea, and upping prices on the value menu is equally risky. Where he sees opportunities for change is somewhere in the middle, possibly on items that could survive subtle, targeted alterations.

"You can especially do this with à la carte items," said Nuñez. Changing portion sizes and altering ingredients converts to pennies saved, which add up to dollars earned.

"With commodities the way they are, there's dire need for some pricing moves," he said. "Things have to change, and this is one way to change them."

Brian Rassel, a colleague of Stone's at the New England Consulting Group, pointed to the success airlines have had with "unbundling services" to leverage their climbing cost burdens off their balance sheets and onto customers' shoulders.

"They were under severe pressure three years ago with fuel prices, but they tried to take on a lot of the pain in the beginning," said Rassel, a project manager specializing in the firm's restaurant practice.

Pointing to new charges for extra luggage, snacks, beverages, blankets and pillows, he said, "Airlines retrained their customers by unbundling almost every service related to taking a flight. I think that kind of approach could work in quick service."

Consumers Should Get Used to Higher Food Prices, IMF Says

By By Whitney McFerron and Luzi Ann Javier, Bloomberg News

March 4, 2011 businessweek.com

Consumers should get used to paying more for food, after prices rose to a record, because farmers will take years to expand production enough to meet demand and drive down costs, the International Monetary Fund said.

People in developing countries are becoming richer and eating more meat and dairy, meaning more grain for livestock feed and land for grazing animals, Thomas Helbling, an adviser for the IMF's research department, and economist Shaun Roache wrote in an article. Rising demand for biofuels and bad weather also tightened supply, they said.

"Rising food prices may be here to stay," Helbling and Roache wrote in the article published in the agency's Finance & Development magazine. "The main reasons for rising demand for food reflect structural changes in the global economy that will not be reversed."

The world food price index tracked by the United Nations rose to a record in February. Food inflation fueled political unrest across North Africa and the Middle East that toppled leaders in Tunisia and Egypt, the largest wheat importer.

"Over time, supply growth can be expected to respond to higher prices, as it has in previous decades, easing pressure on food markets, but this will take time counted in years, rather than months," the IMF's Helbling and Roache said.

Pig Meat

Food output will have to climb by 70 percent by 2050 as the world population swells to 9 billion and rising wealth boosts meat and dairy consumption, the UN's Food and Agriculture Organization says. Producing 1 kilogram (2.2 pounds) of pig meat can take 3.5 kilograms of feed, U.S. Department of Agriculture data show.

The surge in oil and other commodity prices probably won't cause a permanent increase in broader inflation, U.S. Federal Reserve Chairman Ben S. Bernanke said in testimony to the Senate Banking Committee on March 1. Crude oil traded in New York rose 28 percent in the past 12 months.

Corn futures in Chicago surged 93 percent in the past year as rising demand for livestock and ethanol in the U.S. pushes the global stocks-to-use ratio to the lowest in 37 years.

Wheat jumped 65 percent in the past year after drought last year in Russia and Eastern Europe prompted countries to restrict exports. Dry weather curbed corn output in the U.S., and floods in Asia restricted rice supplies, the IMF said.

Rebuild Inventories

"There's a risk that the current price spike could persist for longer than the 2007-2008 experience," said Luke Mathews, a commodity strategist at Commonwealth Bank of Australia in Sydney. "There are more commodities involved in this current spike and that means it's going to take longer to rebuild the inventories."

Global inventories for all grains will drop 13 percent before the next harvest, the USDA estimates. That's the first decline since 2007. Surging food prices the following year sparked more than 60 riots from Haiti to Egypt. Increasing demand is causing isolated food shortages and accelerating inflation in developing countries even as it boosts farmers' incomes and shifts planting strategies.

Rice has lagged behind gains in other grains, and may be the commodity "separating us from a food crisis," said Abdolreza Abbassian, a senior economist at the FAO. Prices may climb as consumers seek cheaper alternatives to wheat and if drought spreads to China's growing regions, according to the International Rice Research Institute.

Asian Benchmark

Thai grade-B white rice, the Asian benchmark, has fallen almost 3 percent from a year ago to $533 a ton this week, according to the Thai Rice Exporters Association. The price of rice from Thailand, the world's largest exporter of the grain, reached $1,038 a ton in May 2008.

Global farm prices including wheat, soybeans and sugar may drop from next year as their advance prompts farmers to boost planting, potentially cutting record food costs, the Australian Bureau of Agricultural & Resource Economics & Sciences, a government forecaster, said in a report March 1.

The surge in food prices in 2008 was cut short after the global financial crisis pushed the world economy into recession and slowed demand, Mathews said. It will take the same "type of economic calamity" to curb demand for food enough to allow farmers to keep pace with production, he said.

Three-quarters of the global growth in demand for major crops in the past decade has been in emerging markets, according to the IMF article. High food costs still have the biggest impact on developing countries, where consumers spend a greater percentage of their incomes on food, the IMF said.

Good Harvests

It will take at least two years of good harvests to rebuild food stockpiles that were drained after drought and excessive rains damaged crops in some of the world's biggest exporting nations, Dominic Schnider, director for wealth management research at UBS, said March 2.

Policy makers "will likely have to continue confronting the challenges posed by food prices that are both higher and more volatile than the world has been used to," Helbling and Roache wrote.

How You Can Fight Food Cost Inflation

RUN A TIGHT SHIP

Menu Analysis- Know the food cost of every plate. You can't serve an item at a loss. Concentrate on the gross profit dollars per plate, not the margin percentage. Evaluate portion cost, sell price, and gross profit dollars per plate served, then make decisions to make your menu more profitable.

Portion Control- Make sure portion sizes are consistent with the recipe specifications. It will keep customers more satisfied and help keep costs in line. Digital scales, portion bags, and containers help control what is prepared for production.

Limit Food Waste and Spoilage- Investigate how your kitchen is managing this valuable resource. Train your staff on proper preparation and storage techniques to keep food fresh and the yield of raw product as high as possible. The color-coded Day Dots system quickly and clearly identifies food preparation dates.

Purchase Differently- Consider purchasing portion controlled, value added, further prepared or frozen items wherever you can without compromising quality. These items save labor, waste, and offer consistency of product.

Conserving Energy- Turn off lights and keep cooler doors closed. Old light bulbs should be replaced with more energy efficient bulbs. Consider limiting hours of operation during slow, unprofitable times. Inspect gaskets on coolers and freezers to maintain efficiency. Get your entire team involved in auditing energy usage to find ways to save energy and reduce energy costs.

MENU ENGINEERING

Change up the Mix of Offerings- Add additional, more profitable items to your menu. Consider expanding offerings in the more profitable areas and discontinue slower moving, more unprofitable items from menus.

Reprint Effective and Nimble Menus- Consider reprinting your menus in a way that is easily updatable and allows you to change prices and update offerings quickly and inexpensively.

Offer Different Portion Sizes- Consider offering half portions at a lower price, but with a healthier margin. Today's health conscious consumers appreciate having the flexibility of being able to order different portion sizes.

Leverage Culinary and Product Experts at Sysco- Our Associates can offer creative preparations with less expensive protein items. Consider offering sub primal cuts of Beef. In addition, items like Side Dishes, Soups, Salads and Desserts offer great profit and help increase customer check averages.

Raise Menu Prices- Consider raising prices where you have to.

ADDITIONAL EDUCATION AND TRAINING

Train the Staff- Educate your staff about rising food costs and train them to conserve energy and watch food waste in the kitchen. Leverage your highly skilled culinary team members to mentor those with lesser preparation skills.

Educate Your Customers- It's more than likely that restaurant consumers already understand food inflation because of the rise in prices at their retail grocer's. Explain how the establishment is affected and the things you are doing to keep costs down.

Fire up the Sales Team- Train your staff to promote areas that drive gross profit. Beverages, Appetizers, and Desserts will increase check averages and gross profit per customer. Create internal competition and promotions to drive sales in these categories.

HOW SYSCO CAN HELP

Sysco is layered with experienced foodservice professionals that can support you in combating today's industry challenges. Our team ranges from your Marketing Associate, Sales Management, Product Specialists, Business Resource Managers, Graphic Designers as well as our in-house Chefs. Each department understands that Our Mission is Your Success.

Service and Support Review

Our team can help you determine how you can best fight back against food inflation. From Menu Analysis to Menu Layout and Design to tips on motivating your employees, we can guide your business toward continued growth and success.

Good things come from Sysco®

Stay Informed

The best way to prepare for whatever the future holds is to stay informed.

You can find up to date market reports at our website:
http://www.sysco.com/customer-solutions/market-reports.html

For the most comprehensive source of of free market information,
visit the USDA's Economic Research Service site: **http://www.ers.usda.gov**

Sysco Cares About Your Success

Sysco Columbia is committed to exceeding your expectations by delivering the best customer service available form the foodservice industry. We continue to invest in information technology and e-commerce to provide you with more accurate and timely deliveries, ease of order entry, as well as information services you need to be more successful. Sysco also provides you with the highest quality products available, more menu variety and many fresh health-conscious offerings. Our largest asset is the people who are committed to do their very best for you every day. Change is constant; our adaptability to change will play a major roll in the success of foodservice operations long into the future.

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