



Consolidation in the Dairy Industry

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Dean + Suiza

- **\$10 bil. annual revenues**
- **129 plants, 39 states,
150,000 customers**
- **Milk, dairy products and
specialty products**
- **US, Puerto Rico & Spain**

Dean & Suiza Acquisitions

	Dean		Suiza	
Year	Firms	Sales	Firms	Sales
2000	2	\$323m	2	\$1,509m
1999	5	\$625m	2	\$350m
1998	7	\$665m	2	\$987m
1997	1	--	2	\$495m

DFA

- **16,900 dairy producer members, 36 bil. lb. of milk**
- **33 manufacturing plants**
- **National & international business relationships**

What Next?

- **Can we expect more mergers?**
 - **Why do firms merge?**
 - **How does dairy compare to other industries?**
- **Implications for producer cooperatives**

1. Why Consolidate?

- **Profit motive**
 - Synergy or *sin*-ergy?
- **Risk reduction**
- **Ego**
- **Can gain benefits faster than through growth**

Why Do Firms Consolidate?

- **Some are offensive moves**
- **Often it is a defensive response to perceived changes in their industry, e.g., global competition, food safety, gain political influence**

Why Do Firms Consolidate?

- **Track record on mergers is mixed**
 - **About half reduced shareholder value**
 - **About one-third failed to add shareholder value**
 - ➔ **Only 1 in 6 were successes**

Synergy

- **2 + 2 = 5**
- **Combined value is more than the original value of the firms separately, after allowing for merger costs and premiums paid**

Synergy

- **Likely to be cost related
not revenue related**
- **Most benefits are
achieved within two years**
- **Don't pay more than 20
cents on the dollar**

Synergy

- **Focus on cutting unit costs**
 - **Production**
 - **Sales & marketing**
 - **Assembly & distribution**
 - **Overhead**

Sin-ergy

- **Consolidate to increase profits by creating and using market power**
- **Ego -- I wanna be the biggest**
- **Imitation**

Market Power

- **Differentiate your product**
- **Create or exploit barriers to new firms entering your market**
- **Gain a large share of the market -- horizontal integration**

Anti-Trust

- **Government acts on behalf of consumers to prevent monopoly or conspiracies to “restrain” trade**
- **Sherman & Clayton Acts**
- **Federal Trade Commission & Justice Department**

Market Power

- **Competition & market power**
 - **Global**
 - **National**
 - **Regional**
 - **Local**

Anti-Trust

- **Federal government approved the Suiza & Dean merger but required some plant divestitures**

Mergers & Business Risk

- **Diversification can be a risk management strategy**
- **Don't diversify in hopes of finding more profitable industries--the grass is seldom greener**

Mergers & Business Risk

➤ **Diversification**

- **Into unrelated fields -- conglomerates**
- **Into related fields -- vertical integration**
 - **Backwards**
 - **Forwards**

Dairy Concentration, 1997

- **Dairy processing: Largest 4 firms = 16.5% of total sales**
- **Fluid milk processing = 31.0%**
- **Cheese processing = 34.6%**
- ****Producer co-ops, raw milk supply, 2000, = 40.8%***

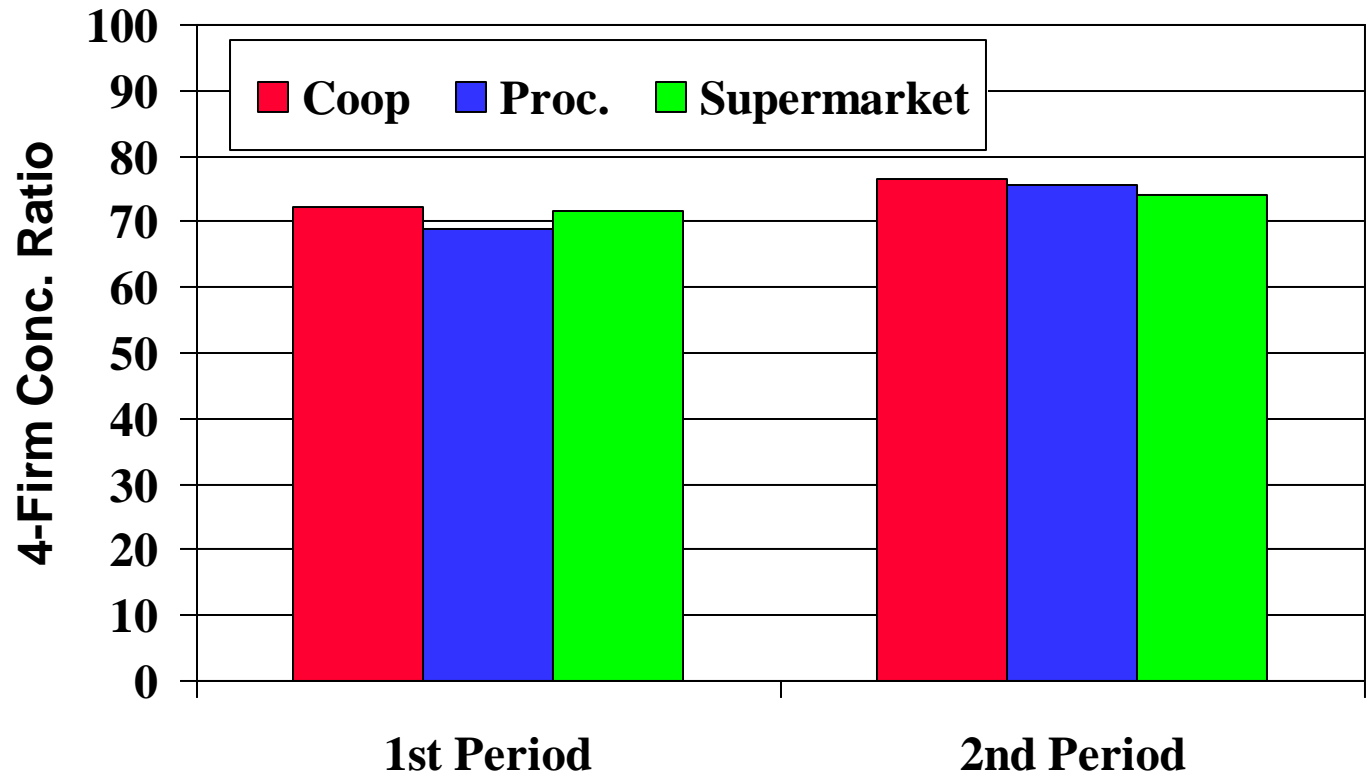
Fluid Processor 4-Firm Share

	12/97	12/99
Atlanta	38.5%	52.4%
Charlotte	64.4%	73.9%
Miami	89.4%	96.3%
Wash. DC	45.7%	54.5%
14-Mkt Avg	69.0%	75.6%

4-Firm Coop Market Share

	12/97	12/99
Atlanta	61.5%	71.5%
Charlotte	77.6%	85.2%
Miami	*	*
Wash. DC	77.1%	76.8%
14-Mkt Avg	72.5%	76.5%

14 Mkt Concentration Ratio



Market Power

- **A review of studies of national dairy, beef, pork, poultry meat, eggs, fresh fruit and fresh vegetables markets showed little evidence of market power**

3. Implications for Co-ops

Business Volume	1991 \$bil.	2000 \$bil.
Dairy	18.8	22.7
All Farm	56.2	72.1
Supplies	17.9	24.1
Total	76.6	99.7

Dairy Coops, 1992 & 2000

Type	1992	Exits	New	2000
Barg.	179	48	21	157
Mfg.	86	36	11	56
All	265	84	32	213

Reasons Coops Merge

- **Enhanced bargaining power**
- **Reduce costs – economies of scale and streamlining**
 - **Hauling cost efficiencies**
 - **Administrative overhead**
 - **Use plant capacity more efficiently**

Reasons Coops Merge

- **Fewer farms**
- **Higher costs**
- **Lower profits**
- **Increased competition**
- **Industrialization of agriculture**
- **Reduced sales**
- **Government regulations**
- **Needed cash**

Reasons for Coop M & A

- **All these reasons are negative, defensive, or “reactive,” not “pro-active”**

Ready! Fire! Aim!

- **In a 1998 survey, half of US farmer coops had developed long-range strategic plans (only)**

Strategic Planning

- **1. Set long- & short-term goals; write them down**
- **2. Inventory business resources**
- **3. Analyze past performance**
- **4. Identify alternatives**
- **5. Evaluate the business environment**

Strategic Planning

- **6. Evaluate production, marketing and financial feasibility of alternatives**
- **7. Make a decision**
- **8. Develop an implementation plan**
- **9. Develop a plan for evaluating outcomes and performance**

Merger Success Factors

- **Communication**
- **Trust**
- **Achieving overall synergies**
- **Managers work well together**
- **More efficient use of employees**

Merger Success Factors

- **Keeping egos in check**
- **Decreased costs**
- **Having common goals**
- **Financial stability**
- **Increased sales**

Conclusions

- **Consolidation in food processing, distribution and retailing will continue**
- **Trends of fewer & larger dairy processing firms and co-ops will continue**

Conclusion

- **Firms & co-ops should be planning a take-over, planning to be taken over, or finding a special niche**

