



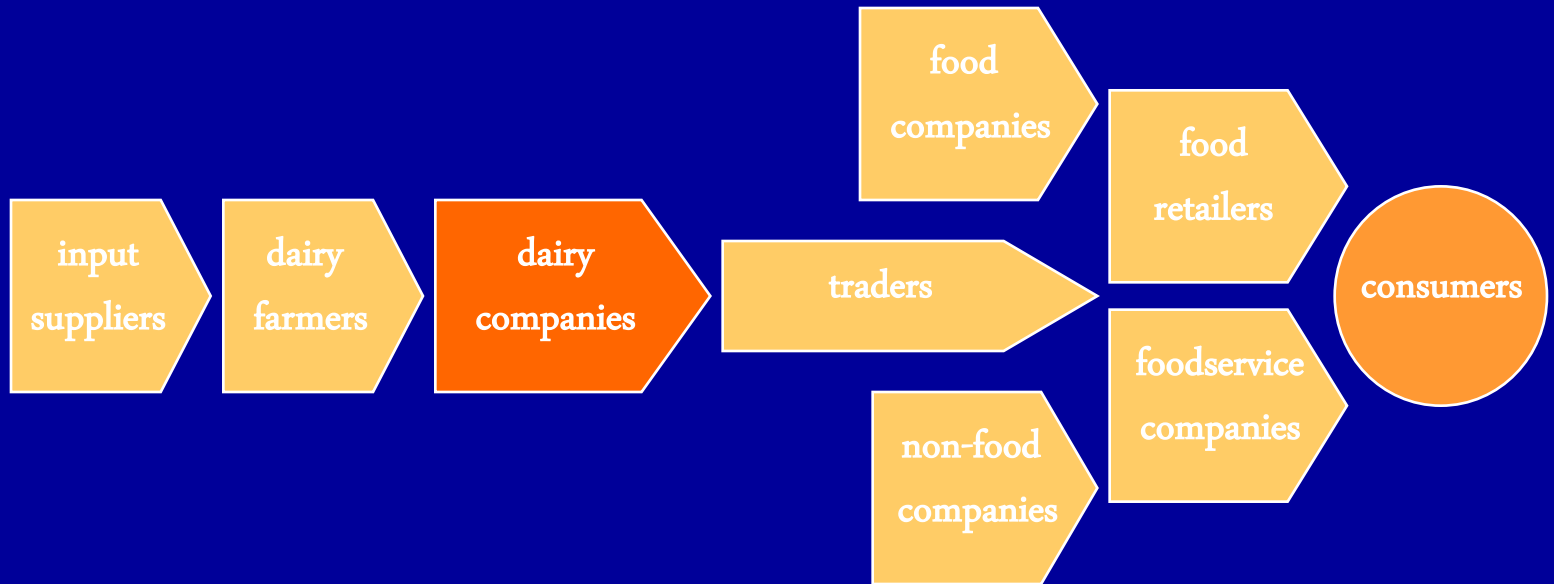
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Globalization and Global Business Arrangements

Marc A.H. Beck
Vice President, Marketing
U.S. Dairy Export Council
Southern Dairy Conference, Atlanta
February 11, 2003

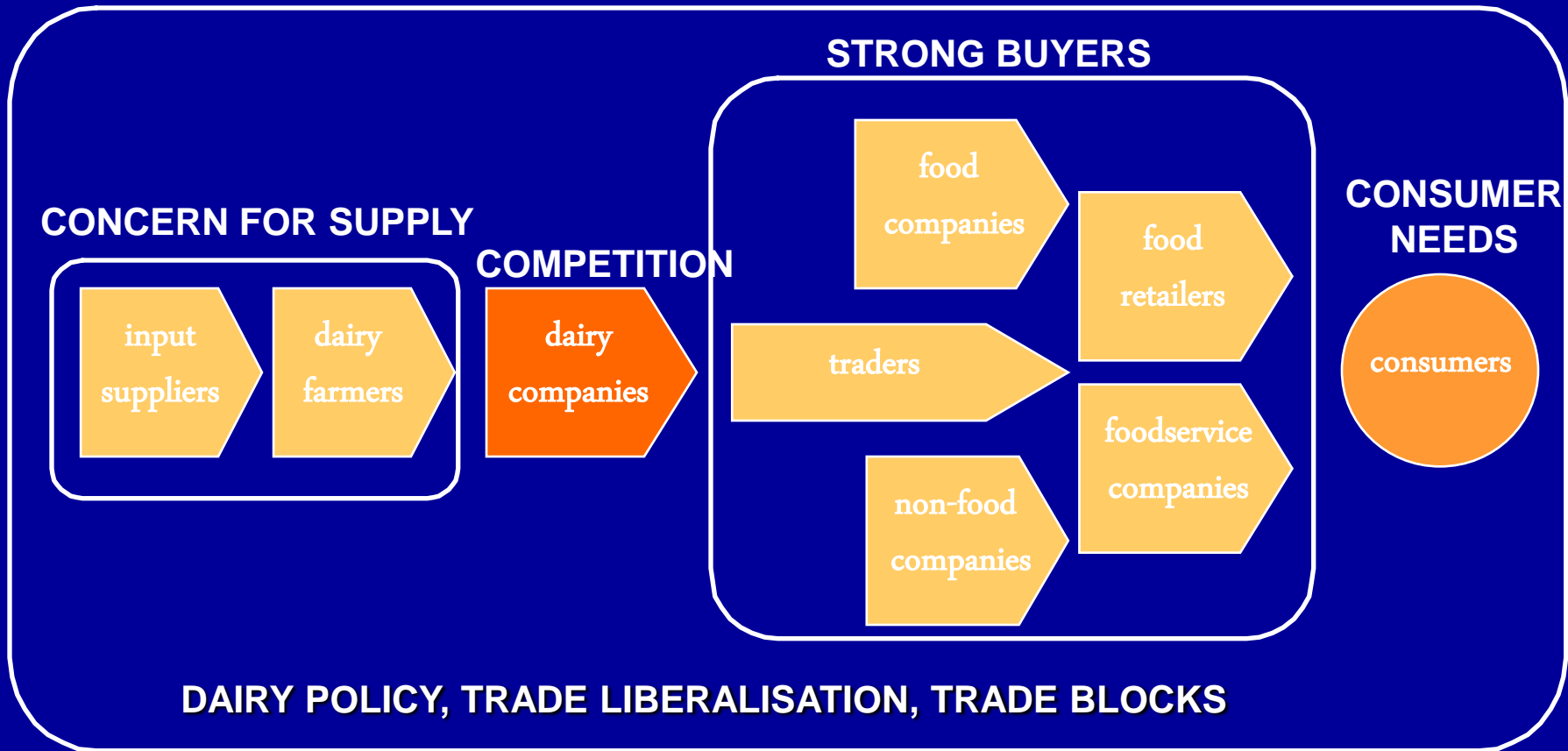


Dairy Companies in the Food Chain





Forces Affecting the Dairy Industry





Success Factors

DRIVERS

- consumer needs
- strong buyers
- competition
- concern for supply
- trade liberalization

STRATEGIC ACTIONS

- market orientation
- value-adding
- cost focus
- consolidation
- value chain management

KEY
SUCCESS
FACTORS



Key Success Factors

- Value-added products
- Low cost levels
- Scale
- Access to raw materials
- Management skills
- Access to capital



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Consolidation/ Globalization

Rationale:

1. Efficiency in manufacturing
2. Opening of new markets
3. Gain market share, market power





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Consolidation/Globalization

Rationale:

4. Expand brand portfolio
5. Secure milk supply
6. Improve access to capital

- 7. Strengthen innovative capacity**





Cross Border Alliances & Investments

- Strategic Need: Milk and Markets
- Short-term Goal: Extend brand into market inside tariff walls
- Long term Goal: Extend brand globally from multiple supply sources



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Competitive Environment the Paradigm - common themes -

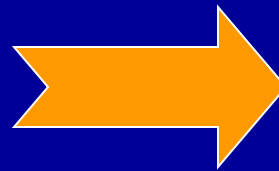
- Customer and competitors are consolidating and globalizing
- The new nature of competitive advantage: value and growth strategies.



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Globalization

- Blurring of the lines and identity spurred by value and growth strategies
- It is all about going from C to C





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How Can Dairy Grow?

‘The essence of strategy lies in creating tomorrow’s competitive advantages faster than competitors can mimic the ones you possess today.’



Growth Prospects

- Not high for commodities
- Deregulation unlikely
- Status quo ⇒ Cost implications?
- Two Options:
 - > Compete Globally
 - > Shrink



Growth

- Direct foreign investment & consolidation
(Acquire your growth)
- Differentiation
(Work your growth- promote value for higher than average returns)



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Change

We change not because we see the light but because we feel the heat.
.... Those of us that don't sense the urgency get burned, change or die!

Strategy for Change



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How do you Manage the Changing Landscape

- Understand your position within the “Value Chain” and the forces driving change
- Understand why you exist!
- Understand where you want to go
- Understand how you are going to get there
- A simple guide for company initiatives

Strategy for Change



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Our Market Place

- Dynamic- Changing-Evolving
 - ...Rapidly
- Opportunities
 - ...There are, but early movers gain advantages.



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Consolidation

January 98 to April 2001:
490 mergers

A new merger, acquisition
or alliance every 2.5 days





Worlds' top-20 Dairy Companies, 2001*

1. Nestlé	13.6
2. Dean Foods	8.7
3. Dairy Farmers of America	7.9
4. Fonterra	6.5
5. Kraft Foods	6.3
6. Danone	6.2
7. Parmalat	5.6
8. Unilever*	5.0
9. Lactalis	4.9
10. Meiji Milk Products	4.7

Source: Rabobank International

*Including mergers and acquisitions in 2002

**estimate



Worlds' top-20 Dairy Companies, 2001*

11. Arla Food	4.3
12. Morinaga	4.2
13. Friesland Coberco	3.8
14. Bongrain	3.6
15. Land O'Lakes	3.6
16. Campina	3.5
17. Snow Brand	3.4
18. Sodiaal	2.5
19. National Dairy Holdings	2.3
20. Nordmilch	2.0

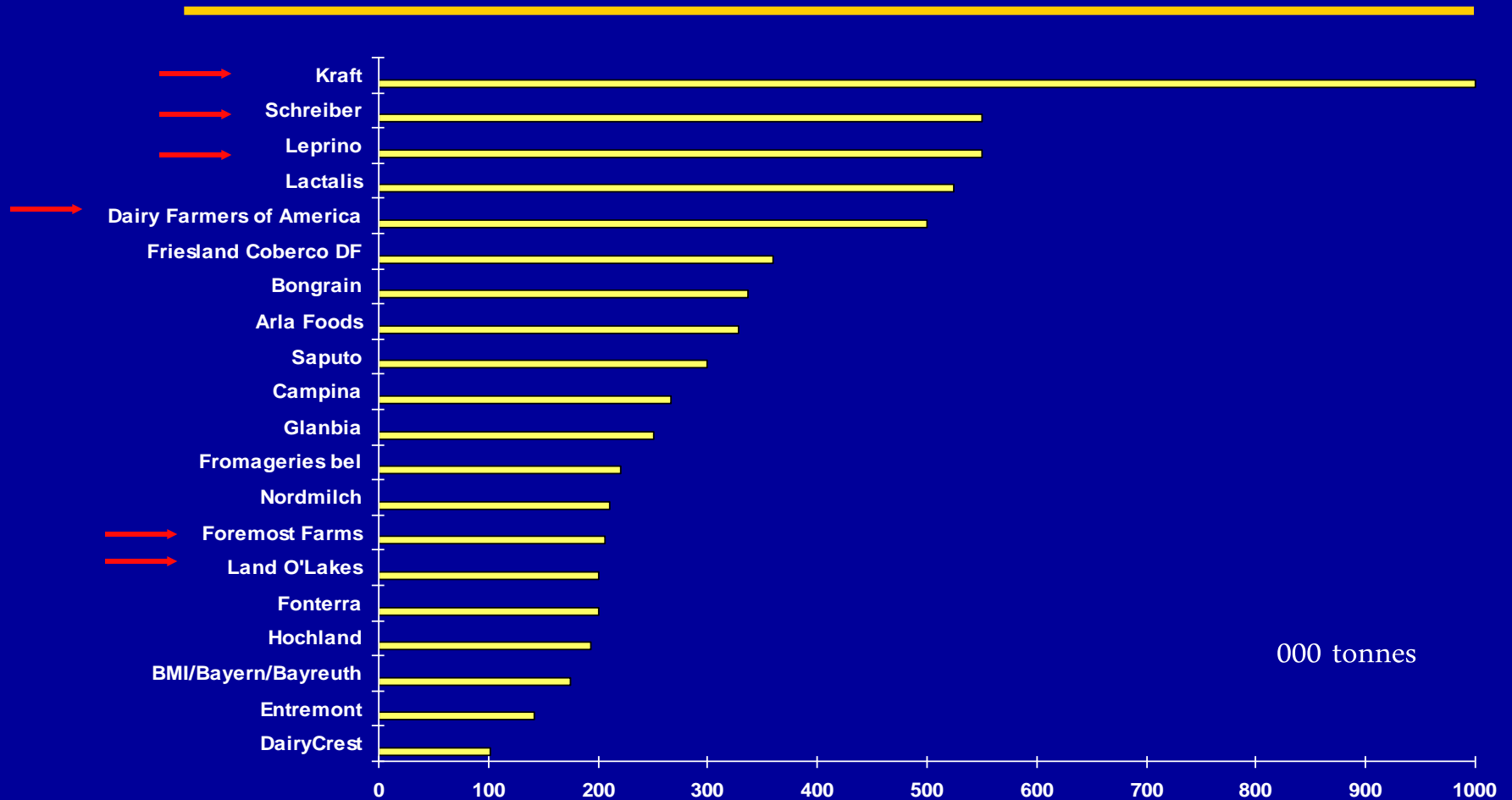
Source: Rabobank International

*Including mergers and acquisitions in 2002



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...And The Cheese Makers Top Includes 6 U.S. companies





Competition...Ongoing Consolidation

1999: 175 M&A activities in dairy

	deals with origin...		deals with target...		
Europe	133	76%	102	58%	
North America	29	17%	35	20%	
South America	2	1%	20	11%	
Oceania	7	4%	8	5%	
Asia		3	2%	7	4%
Africa		1	1%	2	1%
Middle East		0	0%	1	1%



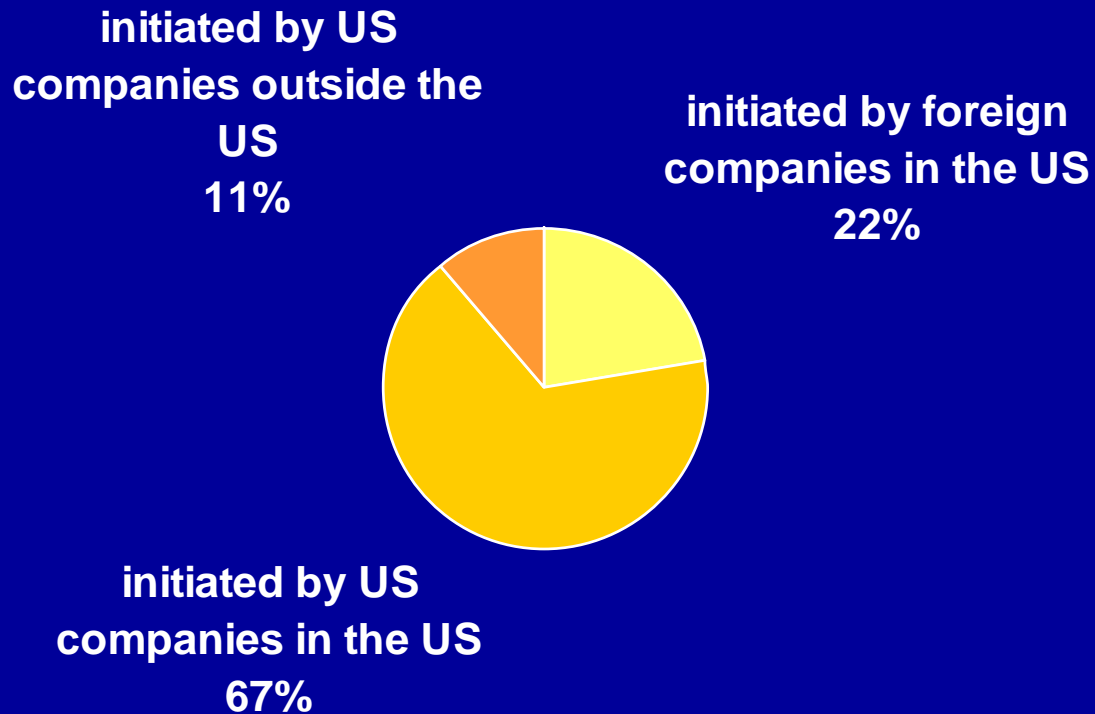
World Dairy Industry January 1998 - April 2002: Every 2.5 days a merger, acquisition or alliances

	deals with origin...		deals with target...	
Europe	411	69%	341	58%
USA	111	19%	127	21%
other North America	8	1%	11	2%
Oceania	43	7%	42	7%
South America	9	2%	42	7%
Asia	9	2%	18	3%
Africa	1	0%	7	1%
Middle East	0	0%	4	1%
Total	592	100%	592	100%



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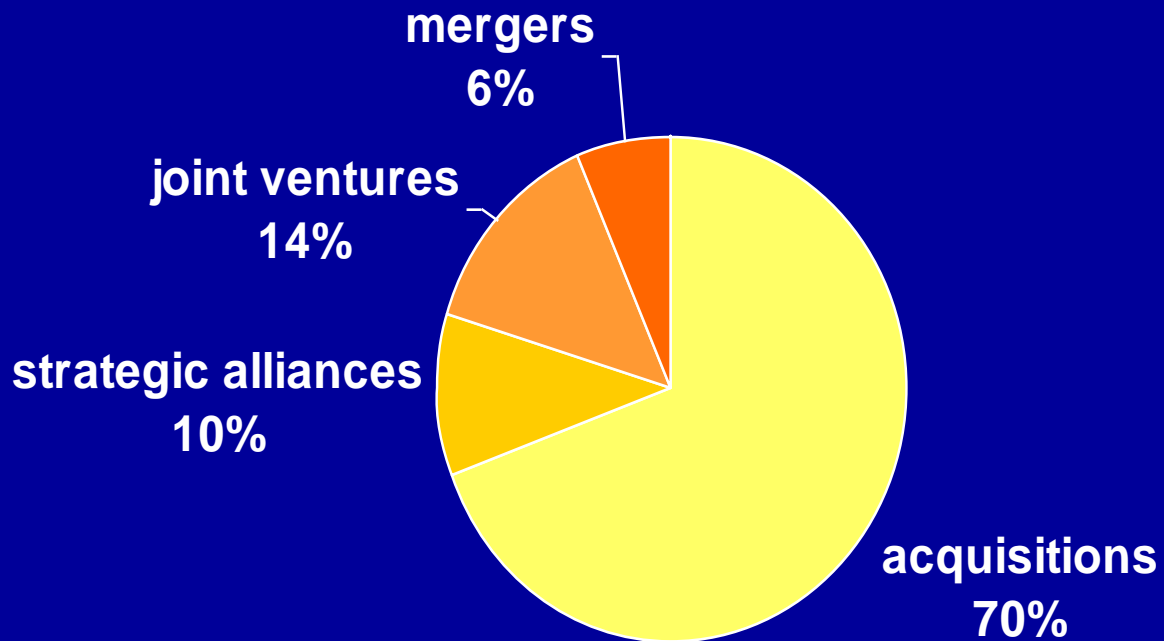
Every 11 Days, U.S. Industry Involved in M&A Dairy Deal... 143 deals since January 1998





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... Of Which 24% is JV or Strategic Alliance
(World: 18%)

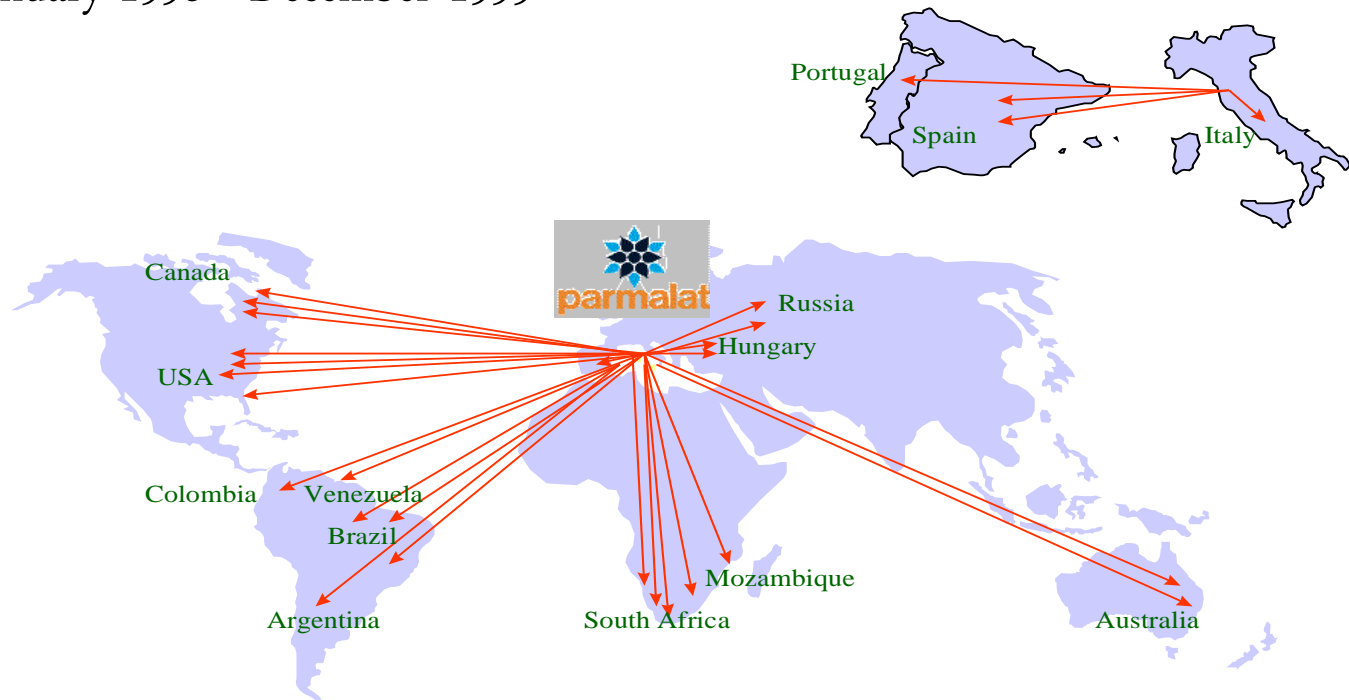




Parmalat Example

32 take-overs and joint ventures

January 1996 - December 1999





Pre & 1999- New Zealand Dairy Industry Structure

4 Major Entities



1 -Also in 1999: EU = 37% market share, Australia = 13%, USA = 4%



Pre & 1999- New Zealand Dairy Industry Structure

4 Major Entities

Milk Supply Share 1998-99

Co-operative	million kgs milk solids
New Zealand Dairy Group	570
Kiwi Co-operative Dairies Ltd.	272
Northland Co-operative	87
Westland Co-operative	24
Tasman Milk Products	14
Tatua Co-operative Dairy Co.	8
Marlborough Cheese Coop Dairy Co	5
Kaikoura Coop Dairy Co	3
Total	983
(10.6 million tons of milk)	



New Zealand Dairy Board Mission Statements

Pre 1996

“ To be the most profitable unsubsidized dairy industry leader in the world, providing dairy farmers with increasing wealth”

1996

“To be the world’s best dairy marketing organization and to deliver superior value and sustainable wealth to its shareholders”

1999

“We are a dynamic, global, dairy based marketing organization, committed to our customers, consumers and people, delivering superior and sustainable wealth to our shareholders”

“When you sit down at the Global Dairy Table. You can either eat or be eaten. We chose to eat”.

Greg Ghent
Chairman Kiwi Dairy Group
Chicago, May 2001



1999–2000- New Zealand Dairy Industry Structure

3 Major Entities

1

New Zealand Dairy Board

9,800 staff
98 subsidiaries
19 associated companies
860 product specifications; 1,700 product variants

Divided into 2 Strategic Business Units
“SBU” organized and run as separate
businesses

New Zealand Milk Products - NZMP

(1st Strategic Business Unit formed 1999)

Ingredients sales

- Accounts for two thirds Board sales - approx.. \$2.1 Billion
- Owns “Whey Products NZ Ltd.....” Whey specialty ingredients = 8% volume but deliver 30% profits

New Zealand Milk - NZM

(2nd Strategic Business Unit formed 1999)

Consumer Products

Branded Food Service

- \$1.4 billion sales
- ≅ \$150 million impact from EU butter TRQ
- 15% annual growth

2

New Zealand Dairy Group

- 3,500 staff
- Largest dairy business in NZ

Kiwi Dairy
Group



Northland
Co-op

3

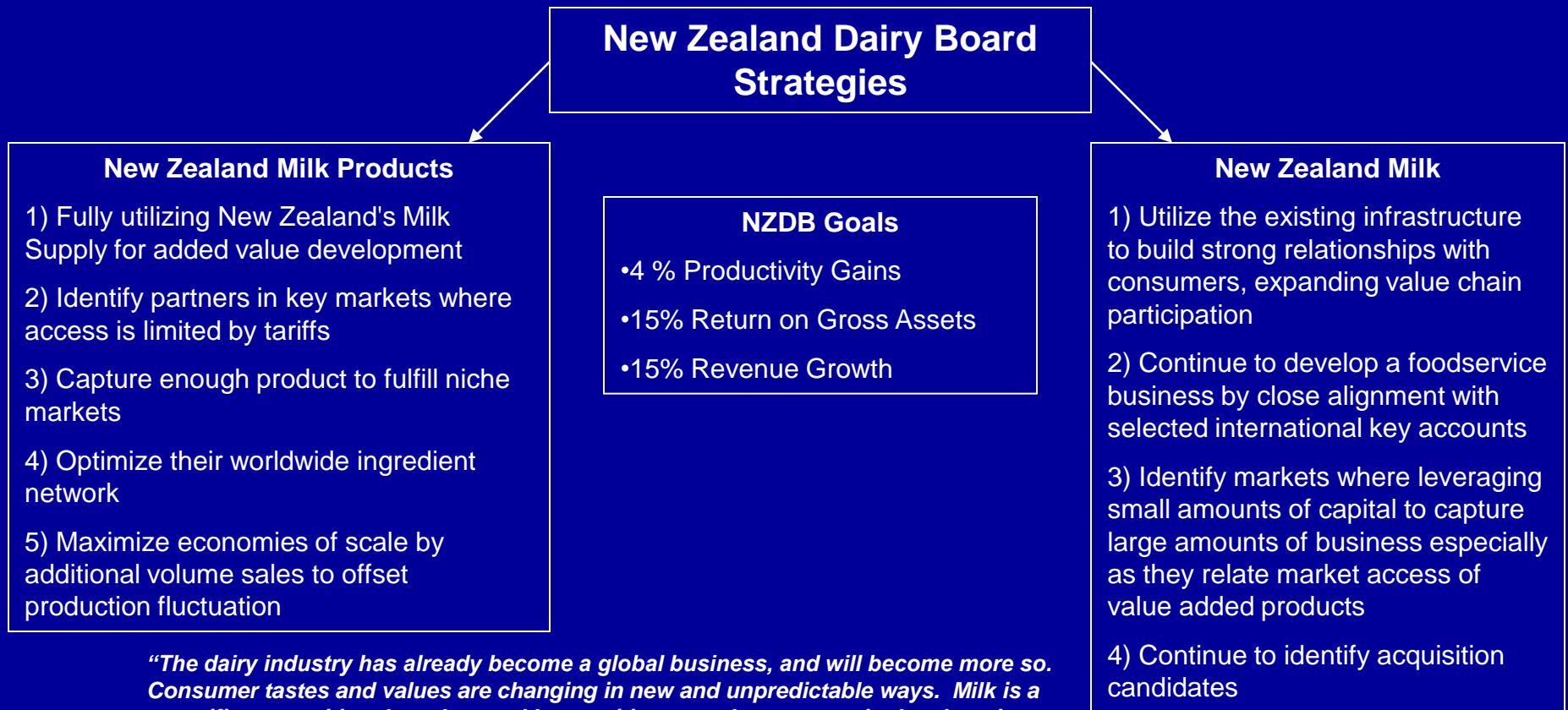
Merge

Kiwi Co-operative Dairies Ltd.

(merged organization)
39% of NZ milk supply



New Zealand Dairy Industry Structure



“The dairy industry has already become a global business, and will become more so. Consumer tastes and values are changing in new and unpredictable ways. Milk is a magnificent nutritional product and has exciting growth prospects in the changing pattern of global nutrition.”



2001- New Zealand Dairy Industry Structure

3 Merge into 1 Unified Entity

New Zealand Dairy Board

- 100% Noche Buena in Mexico
- 25% ownership in Australian Bonlac
- 50/50 JV ingredient marketing Bonlac
- 51% ownership Chile Soprole (25% milk supply)
- 95% ownership Venezuela Cadipro dairy products
- 51% NZM ownership Venezuela Inlaca dairy
- 51% ownership Brazil (talks delayed) S.A. Fabrica de Produtos Alimenticios Vigor - Sao Paulo
- 30% ownership Malaysia Solid Side Food
 - Solid Fresh Food & Beverage
 - Solid Milk Industries

“Integrated” into the new **Co-operative**

1

New Zealand Dairy Group

- 18% ownership Australian National Foods

Merged

Kiwi Cooperative Dairies Ltd.

- 5,900 shareholders
- 4,000 employees
- Accounts for 9% of NZ total export earnings
- 39% of total NZ milk production
- Processing capacity per day = 23 million liters of milk
- 80% ownership Australian Peters and Brownes Co. (ship raw bulk milk to Singapore for ESL pkg.. and dist.)
- 30% JV in Israel with Tnuva
- 75% products are value added, branded consumer, “specialist” ingredients, food service
- % of world trade: butter/AMF=23%; SMP=11%; WMP=18%; cheese=9%
- WPC, WPI

Global Dairy Company(1) - “GlobalCo”

- (June 18,2001 farmer shareholders vote to merge; legislative approval by September 2001)
- One, NZ Farmer owned, vertically integrated, dairy production & marketing system; incorporating assets of all merged entities
 - 95% of NZ milk supply
 - Growth goal of 15% avg.. annual growth over next 10 years achieving 4 fold increase in size, to become 60% of the size of the US dairy industry (measured by milk processed) but with 90% produced for export.

Many Alliances Between U.S. Companies

U.S. co-operatives



U.S. non co-operatives

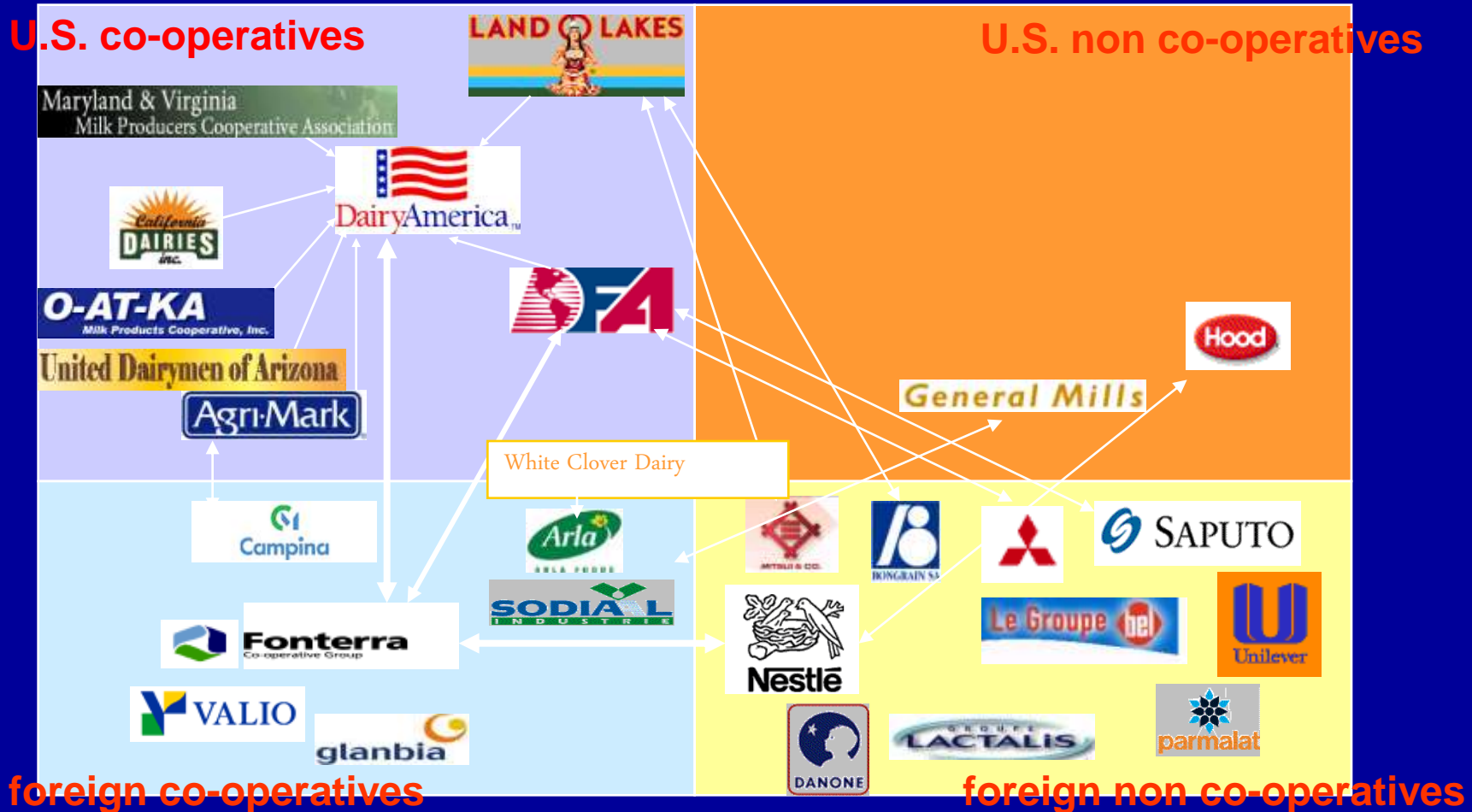


- milk supply alliances
- production alliances
- marketing alliances



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Foreign Companies Very Active in U.S. Dairy Industry





Globalization - Consequences

- Higher price volatility for commodities
- Products with raw material (milk) contents will be sources from areas with low farm prices



Globalization - Consequences (cont)

- Global companies with global brands will take market share from national companies
- Winners: Global strategy focusing on growth segments
- Losers: National/regional companies with “slim strategies”



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Where Does the U.S. Fit In?

- Strategic alliances
- U.S. as a supplier; global companies as marketers?!
 - > DFA/Fonterra
 - > DairyAmerica/Fonterra
 - > LOL/Mitsui



Conclusions

Strong forces drive dairy companies to reconsider their strategies

- Demand is growing steadily
- Quantity and quality of milk supply is general concern
- The consumer is increasingly demanding
- Customers are very powerful and demanding
- Future policy is not clear
- Consolidation wave goes on and on
- ● Good opportunities, tough competition



Conclusions

US companies have many reasons to go into M&A deals

- To become more efficient in manufacturing
- To open new markets
- To gain market share and market power
- To expand brand portfolio
- To strengthen innovative capacity
- To secure milk supply
- To improve access to capital



Conclusions

To respond to the major drivers,
US dairy companies should be active on many fronts:





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“Success is intrinsically linked to
the ability to innovate and adapt to
the market”



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Thank You

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