

Globalization of the Dairy Industry: Firms, Foreign Direct Investment, and Partnerships

A major challenge for participants in global dairy markets is responding to changing local market conditions while competing for reliable supplies of raw milk, dairy products, and, increasingly, dairy-based ingredients. For example, coordinating the supply of fluid milk and whole milk powders for fast-growing retail markets in China and Brazil requires considerable management expertise, technology, and financial resources. Global linkages among dairy markets are formed not only by trade flows but also by the formation of management and financial linkages by dairy companies across regions. Multinational dairy companies are playing a growing role, with FDI and international partnerships linking milk producers and consumers in countries around the world.

Strategies are evolving that change the nature of competitiveness in dairy markets. Strategic alliances, foreign partnerships, and FDI give companies flexibility in specific regional markets. A major benefit of having international operations is reduced revenue risk from regional economic fluctuations and product price volatility. Multinationals also benefit from the ability to achieve economies of scale in terms of production, distribution, and marketing. At the same time, multinational firms must be flexible in adapting brands to suit local tastes and crafting sensible strategic alliances combined with effective local market research.

Attractiveness of U.S. Dairy Market

Three characteristics of the U.S. dairy industry attract foreign investment, alliances, and partnerships: (1) the sheer size of the market and the dynamism of U.S. consumer demand; (2) the absence of supply controls for raw milk production; and (3) liberal foreign investment policies in the United States, compared with other high-income markets.

The U.S. consumer market for dairy products is one of the strongest in the world, with high per capita income, freezers and refrigerators in most households, and a broad range of cultures that enjoy a variety of dairy products. The absence of production quotas also attracts investments in the U.S. dairy sector. At the same time, the long-term competitiveness of the U.S. dairy industry may be enhanced by investments from abroad—investments that have been steadily growing over the past two decades. In 2000, large foreign-owned proprietary firms had U.S. sales of \$6.4 billion, accounting for about 3 percent of U.S. dairy sales. By 2003, the stock of foreign direct investment to the U.S. dairy industry amounted to \$2 billion. Foreign companies now own \$4.6 billion of assets in the U.S. dairy industry. Foreign firms have a significant presence in various “less-tradable” product markets, such as ice cream (Unilever), and yogurt (Danone and Sodiaal).

Some of the most prominent global dairy manufacturers include Nestlé (Switzerland), Kraft Foods (U.S.), Dean Foods (U.S.), Groupe Danone (France), Parmalat (Italy), Sodiaal and Bongrain SA (both France), and

Fonterra (New Zealand) (table 2). Each firm, regardless of its presence in particular countries or markets, possesses a different level of expertise in consumer marketing and branded products, research and development, milk processing and dairy product manufacturing, international trade, and milk production and distribution. Because they differ in specialization and locations, these firms can mutually benefit from partnering.

New Zealand's Involvement in U.S. Dairy and Global Partnerships

New Zealand is a formidable competitor in global dairy markets. Fonterra, its leading dairy firm and the world's largest dairy product exporter with sales in 140 countries, has strengthened itself by forming a global network of partnerships (fig. 9). A primary rationale for such partnerships is to develop stable and secure supplies of milk, dairy products, and dairy-based ingredients using suppliers in other countries. Manufacturers wishing to use dairy ingredients to develop new products are likely to remain loyal to a supplier when they know customized ingredients are stable and readily available, regardless of where they, the customer, are located.

In the United States, Fonterra entered into a 50/50 limited partnership, called DairiConcepts, with Dairy Farmers of America (DFA), the largest U.S. producer-owned dairy cooperative, to provide products, including milk protein concentrates. DFA members expect this relationship to ultimately lead to increased demand for their milk. In addition, Fonterra has an agreement with Dairy America to be the major exporter of its nonfat dry milk and receives a commission on sales of the product. Dairy America is an association of seven U.S. producer-owned dairy cooperatives that markets 100 percent of the milk powder produced by the member cooperatives: Dairy Farmers of America, California Dairies, Land O' Lakes, AgriMark, United Dairymen of Arizona, O-At-KA Milk producers, and Maryland and Virginia Milk Producers. Dairy America's arrangement with Fonterra combines

Table 2

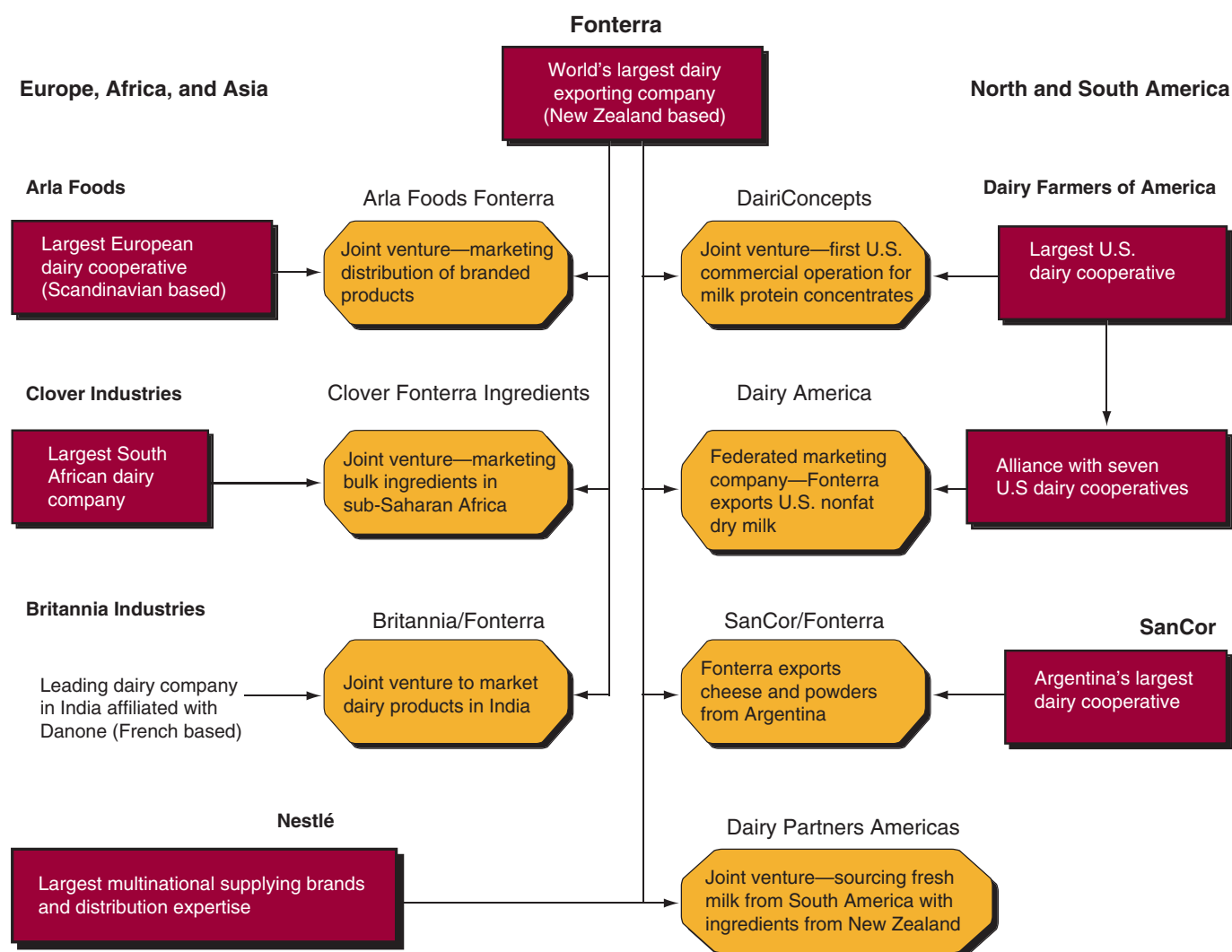
Global dairy market leaders, 2004

Company	Country	Sales	Geographic presence
		<i>U.S. dollars (billions)</i>	
Nestlé	Switzerland	17.5	Global
Dean Foods	United States	7.6	U.S.
Danone (Dannon)	France	7.4	Global
Dairy Farmers of America	United States	7.3	U.S.
Fonterra	New Zealand	7.3	Global
Arla Foods	Denmark/Sweden	6.7	Europe/Middle East
Lactalis	France	6.5	Europe/North America/Middle East
Unilever	Netherlands/United Kingdom	6.2	Global
Kraft Foods	United States	5.5	Global
Parmalat	Italy	5.3	Global
Royal Friesland Foods	Netherlands	5.3	Europe/Asia/Latin America
Bongrain	France	4.8	Global
Meiji Dairies	Japan	4.2	East Asia
Campina	Netherlands	4.1	Europe, East Asia, South America
Morinaga Milk	Japan	4.0	East Asia

Source: Prepared by USDA, Economic Research Service using data from Euromonitor International.

Figure 9

Global networks arising from partnerships among major dairy companies



Source: Prepared by USDA, Economic Research Service.

Fonterra's marketing services and a stable supply of U.S. nonfat dry milk, which benefits milk producers in both New Zealand and the United States. Similarly, Fonterra signed an agreement in 2004 with Argentina's largest dairy cooperative, SanCor, to export milk powders and cheese.

Although New Zealand historically accounts for a significant share of nonfat dry milk in world trade, Fonterra is increasingly emphasizing production and exports of whole milk powders to improve overall returns to New Zealand milk producers. By entering into agreements in other dairy-producing countries, Fonterra can effectively coordinate shipments of nonfat dry milk to international markets, potentially lessening price volatility and improving returns to New Zealand milk producers, actions that would be more difficult without such partnerships. In recent years when New Zealand had shortfalls in milk production, Fonterra has been able to tap the U.S. market for nonfat dry milk to supply many East Asian markets.

Expansion to new markets is a principal motivation behind many of Fonterra's recent alliances and partnerships. Fonterra established a joint venture with Britannia Industries to gain further access to the emerging dairy market in India. This joint venture combines Fonterra's production expertise and marketing acumen with Britannia's knowledge of the region and distribution network. In addition to forming alliances with small local companies, Fonterra and other large firms target international expansion through large-scale strategic alliances between multinational partners. In many cases, large firms in partnerships benefit mutually through symbiotic advantages stemming from each other's inherent capabilities and specialization. Those relationships, however, are country or market specific; that is, firms that enter partnerships in one market can, at the same time, be rivals elsewhere. For example, Fonterra and Nestlé, rivals in other markets, formally established a 50/50 alliance—Dairy Partners Americas—to establish joint dairy ventures in Latin American markets, initially including Argentina, Brazil, Paraguay, Uruguay, and Venezuela. The joint venture companies in each country benefit from the partners' logistical and marketing resources.

European Investment in U.S. Dairy

Nestlé has been active in the United States for nearly a century but has only recently moved into U.S. dairy products through recent purchases of well-known domestic dairy companies, such as Dreyers. Nestlé also formed a joint venture, Ice Cream Partners, a General Mills subsidiary, which includes such popular brands as Haagen-Dazs and Drum Stick. Nestlé and Unilever, an Anglo-Dutch company, together account for 30 percent of the U.S. supermarket sales of ice cream. The U.S. dairy industry benefits from the presence of these global marketing giants through their expertise in meeting the demands of consumers as well as their purchases of U.S. milk and its components.

Several French dairy firms have a significant and growing presence in the U.S. market. Fromageries Bel produces Kaukauna, a cold pack (Cheddar) cheese produced for the U.S. market. Sodiaal is a French cooperative that previously made investments in U.S. butter processing plants, and Yoplait yogurt is one of the cooperative's premier brands in the U.S. market. Bongrain has a strong presence in aseptic food products in North America through a partnership with the Land O' Lakes Dairy Group, supplying cheese sauces, beverages, and puddings. Bongrain also sells a wide variety of dairy products in the United States, such as ice cream, fluid milk, natural and processed cheese, powdered milk, and yogurt.