

U.S. Dairy Competing in a New Decade

In either a domestic or a global sense, the U.S. dairy industry is coming under greater pressure to compete more aggressively for a share of the consumer's food budget and for resources to keep the industry moving forward. Competition in the food industry is marked by offerings to consumers of an ever-expanding array of products, including high-quality, nutritious, nondairy substitutes. To remain competitive, the U.S. dairy industry is faced with assessing and responding to changing supply and demand trends. Efficient farm-level milk production and use of that milk in high-demand products are keys to providing both producers and investors adequate returns on their investments. Ensuring the development of well-coordinated supply chains will also help dairy firms and producers compete in a global industry.

The operational structures of modern dairy firms and global supply chains are becoming a new source of competitive advantage for the U.S. dairy industry. Multinational firms are investing and partnering in the U.S. market because of its sheer size, the dynamism of U.S. consumer demand, the steady and reliable supply of raw milk, and foreign investment policies considered to be more liberal than those in other high-income markets. In the U.S. market, multinationals can take advantage of economies of scale in terms of production distribution and marketing. When companies have greater flexibility to procure inputs and sell outputs in a more liberal trading environment, returns to milk producers are improved.

Companies adjust their production and marketing strategies because of market conditions and policy environment. Dairy policies can either facilitate changes or prove to be a bottleneck as the dairy industry adapts to a changing environment.

On a global basis, dairy product demand and the dynamics of international trade are changing—milk supply is becoming more constrained in some parts of the world and less so in other regions. This alone requires international dairy companies to reposition themselves in global markets. New Zealand, where the dairy industry is not protected through domestic support, is a leader in responding to changes in global demand and developing new foreign markets and the production, processing, and marketing mechanisms to reach them. As long-term growth is less certain due to domestic resource constraints, the industry has responded by procuring dairy inputs elsewhere. Other lower cost milk-producing countries, such as the United States, are benefiting in this environment. If subsidized exports from countries with heavily protected dairy industries and import barriers were reduced further, the U.S. dairy sector may benefit even more. Moreover, the role and extent of U.S. dairy policy is less clear today than in the past. The efforts of U.S. milk suppliers, processors, and product marketers to improve competitiveness depends more on innovation, flexibility, and investment than on policy support.