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EXPORTING AND FOREIGN DIRECT INVESTMENT STRATEGIES: TOP FIVE U.S. DAIRY COMPANIES

Five U.S. companies were among the world's top twenty dairy firms in terms of value of dairy sales in 2006. The strategies of these U.S. dairy companies will influence the future volume of U.S. dairy exports—particularly of value-added dairy products—and U.S. foreign direct investment (FDI) in dairy-food businesses. The top five U.S. firms (with the value of their 2006 dairy sales in parenthesis) and selected strategies of the companies are briefly discussed below.

- Dean Foods ($9.3 billion) is focusing increasingly on the domestic market for fluid milk products. The firm's decision to divest itself of its operations in Spain and Portugal in 2006 and 2007 is the most recent confirmation of that strategy.
- Kraft Foods ($6.4 billion) has recently targeted its expansion efforts in foreign dairy food businesses in growth markets where the firm has sufficient scale, including Mexico and Brazil. However, the firm's big foreign acquisition in 2007 was the purchase of Groupe Danone's biscuit (cookie) business for $7.2 billion.
- Dairy Farmers of America ($7.9 billion) has entered into joint ventures and alliances with Fonterra of New Zealand and Glanbia of Ireland. DFA also has become an important exporter of whey products. However, DFA's participation in the Dairy America program to outsource nonfat dry milk (NDM) exports to Fonterra denies the firm valuable exporting experience for an important export item. Why DFA continues to put the firm's NDM exports in the hands of Fonterra, DFA's principal competitor for international milk powder sales, is unclear.
- Land O'Lakes ($2.8 billion) is focusing increasingly on expanding domestic sales of value-added dairy products. This strategy is evident from the cooperative's sale of its Cheese & Protein International plant (industrial cheese plant) in Tulare, California to a U.S. subsidiary of Canada-based Saputo, Inc. in 2007.
- Schreiber Foods ($3.1 billion) is a rapidly growing cheese company that is likely to be a noteworthy player in expanding U.S. dairy exports and dairy FDI in future years. The firm's foreign acquisitions include a 51 percent share of Dynamix Dairy Industries, Ltd. in India.

The U.S. Dairy Export Council (USDEC) notes that Dean Foods and Kraft Foods failed to expand dairy sales as rapidly as Nestle, Lactalis and Group Danone (other top twenty dairy firms) during the five-year period ending in 2006. USDEC attributes the faster sales growth of the three foreign firms in part to their rapid expansion of sales outside their domestic markets.

Except for Schreiber Foods, the top five U.S. companies do not appear to be gearing up to take full advantage of the growth in foreign dairy markets, especially for NDM and whey products. But both DFA and Land O'Lakes are strategically positioned to expand dairy exports and dairy FDI fairly quickly if profit prospects support such a change.

The USDA's Economic Research Service points out that, in recent years, FDI in U.S. dairy businesses by foreign companies have exceeded similar U.S. investments abroad. Partly because of the weak U.S. dollar, this FDI pattern is likely to continue for the foreseeable future. If the dollar remains weak, dairy exports rather than FDI will be the chief opportunity for the U.S. dairy industry to increase its footprint in world dairy markets.

For a more complete discussion of the exporting and FDI strategies of U.S. dairy companies see the new Babcock Institute Discussion Paper entitled "2008-1: The Future Role of the U.S. in World Dairy Markets" at http://babcock.cals.wisc.edu/publications/disc.lasso.

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