Chapter 5

Global Food Manufacturing Reorients To Meet New Demands

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Consumer-driven adjustments in food supply chains are shaping the strategies and realignments of food manufacturing firms as they strive to take advantage of the shifting and new demands of global consumers.

Global food manufacturing comprises a wide array of industries, each using different inputs and producing goods that require specific marketing expertise and brands for individual markets. Unlike other manufacturing industries, such as the automobile industry, the chemical industry, and the pharmaceutical industry, the food industry is not dominated by large firms with manufacturing facilities in a few locations. Rather, manufacturing activities are dispersed across the globe, as manufacturers prefer to locate their production units relatively close to their consumer base. Both large and small food firms have unique advantages that allow them to coexist in common markets. In the United States, for example, the largest firms are further expanding and, at the same time, many smaller firms are entering the market (Rogers, 2001).

Size, degree of product diversification, and ownership structure are important characteristics of food companies. Some companies are publicly owned, others are privately owned, while others, known as cooperatives, are owned by producers of raw agricultural commodities. Regardless of the size or the ownership structure, successful firms establish a recognized identity by manufacturing products noted for their quality, value, or other attributes desired by consumers. Firms with flexible organizational structures that enable adjustments at various stages in a supply chain are particularly well suited for reorienting themselves in continuously changing markets.

Capital constraints for investment abroad and member resistance to organizational changes render cooperatives less likely to compete globally (Gehlhar et al., 2004). Accordingly, some cooperatives are experiencing difficulties, but others are emerging as players in the global marketplace in part because of their members' willingness to produce products better suited for the supply chain. Given their link to other members of the supply chain, producer-owned cooperatives would seem to be well equipped to respond to changing consumer demand.

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Factors Affecting Firm Size and Orientation

The structure of an industry is influenced by the history of its firms, current brand acquisition patterns, geographic coverage, and propensity or resistance toward expansion, which may be determined by antitrust regulations and firm objectives. The global food industry is characterized by many types of food manufacturing firms operating with different market orientations. Some produce only for a local market while others have extensive geographic coverage. Other important features of firms are diversity in terms of size and uniqueness of products and brands.

History's Role

A firm's history and origin can endow it with long-lasting advantages. Simply being the first in a market has contributed to the success of some of the world's largest food corporations. Large-scale commercial food processing and retailing originated in Western Europe and the United States, and the two regions today account for 35 of the world's 50 largest food manufacturing firms (app. 1). The most renowned food companies today were founded in the late 1800s and early 1900s, an era noted for the Industrial Revolution and rising household incomes. As many households could no longer afford the time to process farm products, entrepreneurs aided by greater access to capital from private and public sources capitalized by launching new food companies. This change spurred strong growth in commercial processing in the United States and Western Europe. Today, large volume of commercial food sales in these markets also allows U.S. and European firms to continue to introduce new products and establish brand loyalty in home markets (table 5-1).

Table 5-1—U.S. and Western Europe share of 2002 world food sales

	United States	Western Europe	Rest of world
		Percent	
Bakery products	25	33	42
Dairy products	22	35	43
Chilled foods	14	29	57
Confectionery	25	34	42
Dried food	14	11	75
Frozen food	37	32	31
Canned food	28	24	48
Sauces, condiments	23	19	58
Snack foods	39	18	43
Oils and fats	10	28	62
Ice cream	29	29	41
Ready meals	40	33	27
Pet food	38	30	31
Noodles	8	2	90
Baby food	31	25	43
Pasta	16	37	47
Spreads	23	34	43
Soup	42	25	33
Meal replacement drinks	66	11	22
Total packaged food	24	29	47

Note: Western Europe includes the EU-25, Turkey, Switzerland, Norway, and Iceland.

Source: Euromonitor, 2003.

The three largest food companies, Nestlé, Kraft, and Unilever, continue to have their highest volumes of sales in products they established early in their history. The Nestlé Company, founded in 1865 in Switzerland by Henri Nestlé, initially focused on infant nutrition and later expanded to other milk-based and confectionery products. Nestlé is now the world's largest food company and continues its focus on its initial core products. In 1903, James Kraft began a wholesale cheese business in Chicago that later became Kraft Foods. It is now the leading food company in North America. Unilever's roots can be traced to the 1930 merger between a Dutch margarine manufacturer, Margarine Unie and the British company, Lever Brothers, a company that had previously diversified into ice cream from soap. Currently, Unilever is the global leader in ice cream and oils and fats.

Companies have long realized the need to differentiate their products from those of competitors to retain and expand their customer base. Initially, technology employed by food processing firms was relatively unsophisticated and could easily be replicated by competing firms. Thus, firms find it essential to establish brands as a way to preserve product identity and prevent displacement by competitors using similar processing technology. For example, Kraft Foods would not have attained its global presence without its famous brands, patented trademarks, and the longstanding goodwill earned from consumers. In the food industry, such intangible assets are often more important than capital and technology, and may generate higher returns (Reyner, 2000).

Brand Acquisition

In today's global food market, it is uncommon for firms to use the introduction of new products and brands as a strategy for expansion. Rather, food companies typically expand by acquiring existing brands. Most of the largest food manufacturers entering new markets in recent years have employed this strategy. U.S. firms entered foreign markets through acquisitions, and foreign firms entered the U.S. market by acquiring familiar U.S. brands.[2]

Large diversified companies have achieved growth by accumulating premium brands in their core product categories. Firms vie for leadership positions in new markets by acquiring products and high-performance brands. For example, Nestlé and Unilever compete in ice cream markets globally by acquiring the most successful brands. In 2000, Unilever acquired the U.S. ice cream manufacturer Ben and Jerry's Homemade Ice Cream. Nestlé, on the other hand expanded its ice cream core business by acquiring General Mill's stake in Ice Cream Partners USA, giving it ownership of the premium Häagen-Dazs in the U.S. market. In 2002, Nestlé also acquired a majority stake in Breyer's Grand Ice Cream, further expanding its popular brands in the U.S. ice cream sector.

Firm rivalries in U.S. and foreign markets often drive brand acquisition strategies. For example, as Nestlé acquired a pet food company with highly recognizable brands in the United States, the U.S.-based Mars Company counteracted by acquiring pet food brands in the Western European market.[3] A strategy combining technology and branding has helped Unilever differentiate its oils and fats products against its rival ConAgra in the U.S.

[2] For example, Unilever's acquisition of the successful meal replacement drink (Slim Fast) significantly helped the company in this product category in the U.S. market.

[3] Nestlé acquired Ralston Purina in 2001, which was followed by Mars acquiring Royal Canin in 2002 and regaining its global market share.

market. This strategy has been particularly helpful in allowing Unilever to compete with ConAgra's strong domestic margarine brands.

Geographical Expansion

As mentioned earlier in this report, geographical expansion is becoming more important as a future growth strategy as the North American, Japanese, and Western European markets become saturated and incomes and population grow more rapidly outside these regions. U.S. and European firms are increasingly seeking stronger footholds in Latin America and Asia. In addition to helping firms expand sales, a wider geographic coverage helps firms mitigate the effects of temporary economic downturns in individual regional markets.

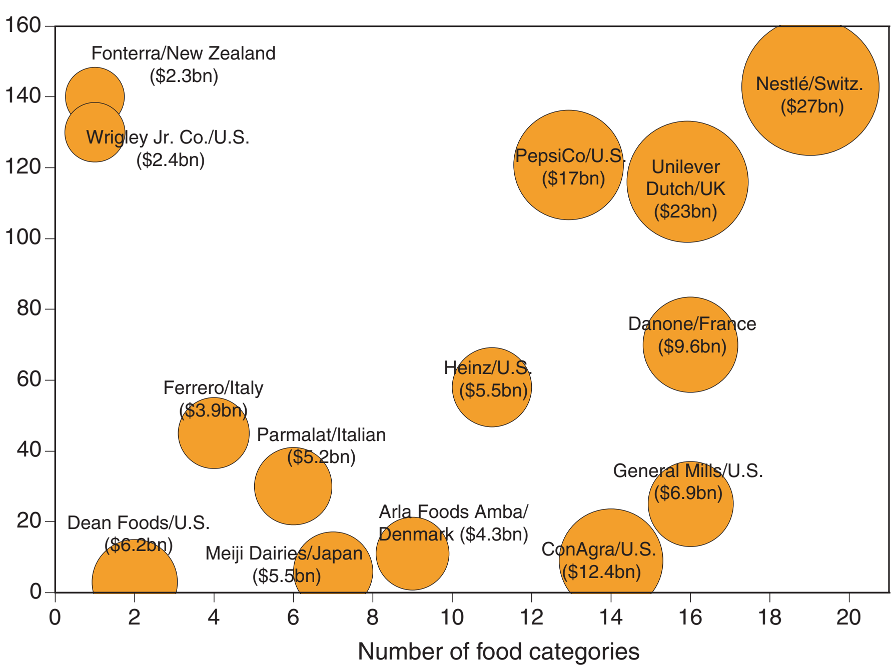
Some food manufacturing firms seek geographic expansion, while others tend to operate in regional markets (fig. 5-1). A more specialized firm with wide geographic coverage can reap benefits from economies of scale in sales and distribution. In some cases, geographic specialization helps firms focus on specific tastes and preferences of a region using differentiated local brands. Yet, in other cases, large multinational companies have both a wide geographic coverage and a diversified product portfolio.

Firms with a global presence almost always have extensive expertise in certain product categories, which provides them with inherent technological and marketing advantages. Product category expertise helps manufacturers strengthen relationships with worldwide retailers demanding higher quality and reliable suppliers. Nestlé, with extensive geographic reach, relies on the strength of its core products—baby foods—to gain a foothold in new

Figure 5-1

Food firms: Size and orientation

Number of countries



Note: Dollar amounts are values of packaged food sales only, in billions.
Source: Euromonitor, 2003.

markets (table 5-2). Nestlé's success in the global baby food market is partly due to its extensive research and development program in infant food formulation. Similarly, smaller firms have relied on product development and marketing expertise to help them become global players. For example, the Wrigley Jr. Company, which specializes in confectionery, and the Fonterra Group, which specializes in dairy, sell their products in over 140 countries.

Most companies continuously seek new markets to expand their sales. PepsiCo is focusing on expanding its snack foods sales in Eastern Europe and Asia. Danone is developing a stronger presence in Africa and the Middle East through investments in fresh dairy products and bakery products. Similarly, Heinz is capitalizing on strong growth potential in Eastern Europe and Asia-Pacific by strengthening its presence in those regions through local acquisitions and joint ventures. Italy's leading confectionery company, Ferrero, is expanding its operations in North America, Australia, Asia-Pacific and Eastern Europe. Firms that have not previously had much exposure outside their home markets are also exporting geographic expansion. Arla Foods Amba, Europe's largest cooperative operating mainly in Western Europe, is venturing out to the Middle East with the establishment of a subsidiary in the United Arab Emirates. Meiji, a leading Japanese dairy, ice cream, and baby food manufacturer, is targeting Southeast Asia through its subsidiaries in Indonesia and Thailand.

Resistance to Firm Expansion

A multinational firm's quest for geographic expansion may at times be constrained in certain foreign markets. National firms with a long historical

Table 5-2—Global sales share of top six manufacturers by product category, 2002

	Nestlé	Kraft	Unilever	PepsiCo	Danone	Mars
			Percent			
Confectionery	9.0	5.6				9.4
Bakery products	0.5	3.0	1.0	1.2	1.7	
Ice cream	8.9	0.1	19.3		0.2	1.9
Dairy products	4.4	3.7	0.3		4.8	
Savory snacks	0.1	3.0		32.4	0.3	0.3
Snack bars	3.1	4.0	5.7	9.9	1.3	1.7
Meal replacement drinks	0.2		38.7			
Ready meals	9.7	5.7	3.0	0.2		0.8
Soup	6.9	0.2	17.3			
Pasta	4.6	3.1	0.1	0.4		
Noodles	1.3	0.4	1.3			
Canned food	0.7	0.6	1.1	0.4		
Frozen food	6.1	2.6	4.2			0.4
Dried food	2.3	3.2	3.3	0.2		0.8
Chilled food	0.9	2.6	0.2			
Oils and fats	0.3	0.4	13.4		0.6	
Sauces, dressings, condiments	3.0	4.3	10.7	0.8	0.7	0.7
Baby food	16.9	0.2	0.2	0.1	2.6	
Spreads	0.6	2.2	7.1		0.2	0.4
Dog and cat food	25.7	0.5				24.0

Source: Euromonitor, 2003.

presence in a country establish strong customer loyalties, making it more difficult for foreign firms to enter these markets. For example, multinational firms have a more difficult time expanding to Scandinavian countries, where national firms lead in total food sales (app. 2). Similarly, local companies lead in total food sales in East Asian countries, where consumers traditionally show strong support for locally owned and managed companies. For example, nationally owned companies make up the top four food manufacturing firms in Korea (Lotte, Nong Shim, Namyang Dairy Products, and Cheil Jedang) and Japan (Meiji, Morinaga, Yamazki, and Snow Brand).

In addition to customer loyalty to local manufacturers, resistance toward foreign firms is also influenced by national regulations regarding foreign direct investments. Liberalization of investment laws in many developing countries has greatly enhanced the ability of multinational manufacturers to locate in these countries, particularly in Latin America, where the leading manufacturing companies are Nestlé, Unilever, Danone, and other multinationals. In contrast, investment laws in many Asian countries are more restrictive, requiring substantial participation by local entities and the use of local raw materials. This factor has partly contributed to the slower penetration of multinational manufacturers into Asian markets.

Sometimes resistance to foreign firm expansion is reflected by local efforts to block mergers and acquisitions. For example, Nestlé's takeover of the U.S. Hershey company in 2002 was prevented by legal stipulations attached to the takeover by authorities in the State of Pennsylvania, under strong pressure from the local public. More often, oppositions to mergers and acquisitions involve Federal competition authorities.[4] Acquisition approval requires meeting various criteria that serve to allay concerns regarding the likelihood of increased industry concentration following the acquisition.

[4] The U.S. Federal Trade Commission considered blocking the merger between Nestlé and Dreyers as it believed it would eliminate competition and raise prices for super-premium ice cream. In order to gain approval for the takeover of the pet food manufacturer Ralston Purina, Nestlé had to sell two of Ralston's dry cat food brands.

Food Manufacturers Lean Toward Focused Growth

Food companies today are increasingly sharpening their focus and rationalizing their portfolios, in sharp contrast to portfolio expansion strategies of past decades. Globalization and consolidation in the food retail sector has forced leading food manufacturers to take necessary actions to improve their competitiveness. Many companies have chosen to expand in those areas where they have the greatest competency through selective acquisitions and divestitures of many of their noncore product categories.[5] For example, the Heinz Company in 2002 reorganized to stay focused on what it calls "power brands" in condiments, frozen meals, and snack foods. As part of its restructuring, it sold some of its noncore categories, such as pet food and canned soups and vegetables, to Del Monte Foods. Many specialized firms, such as Wrigley and Ferrero, are reluctant to expand beyond core products. These firms have historically not been active in acquisitions. Ferrero has resisted the temptation of going public to raise capital for acquisition of other brands, and has instead invested a higher share of sales on research and development leading to expansion of existing brands into new products.

[5] A notable example is the acquisition of Bestfoods in the United States by Unilever in 2001. This was followed by a period of almost no further acquisition activity, but over 30 disposals, many related to the Bestfoods acquisition.

Given the trend toward focused growth, no food manufacturer commands a substantial share of total world processed food sales. In fact, Nestlé, the largest food manufacturer, accounts for only 3 percent of global packaged food sales (table 5-3). The world's top 25 firms together account for less than 25 percent of global packaged food sales. However, as a consequence of focused growth, concentrated markets are visible at specific product and country levels.

Firm dominance is most evident within a market sector covering a firm's core categories in individual countries. For example, shares of total packaged food sales for Nestlé range from 1.3 percent in Asia-Pacific to 6.3 percent in Latin America. But Nestlé's shares are substantially higher in its core baby food products, exceeding 60 percent in Latin America. At a more detailed subproduct/country level, Nestlé has a near-monopoly position (over 91 percent) in baby milk formula in Brazil, where it has marketed its products using popular local brands. Similarly, market shares for other core products in regional markets are much higher, with Nestlé capturing almost 60 percent of the dehydrated soup market in Russia, almost 50 percent of the milk market in the Philippines, and 40 percent of the cat food market in the United States.

Food manufacturers may choose to focus on different core products in different markets. Similar to Nestlé, Unilever, the world's second largest food manufacturer, has extensive geographic coverage. However, Unilever's market shares vary considerably in core products in specific markets. For example, in the Western European ice cream market, Unilever captures almost 60 percent of total ice cream sales in Austria (table 5-4). Unilever's market shares for the impulse category are even higher, accounting for over 81 percent of total individual-bought nonstore sales in Austria.[6] In contrast, in Norway, Unilever is not visible in the ice cream sector.

The same is true for Unilever's core products in other markets. Although, its oils and fats market in the Asia-Pacific region is generally weak due to strong

[6] The "impulse" category refers to sales from vending machines, street-side kiosks, and other outlets where ice cream is sold in individually packaged pieces.

Table 5-3—Nestlé's market share at regional, country, and product levels

Product category			**Total packaged food**			
Market			*Global*			
Market share %			3.2			
Market	*W. Europe*	*E. Europe*	*N. America*	*Latin America*	*Asia-Pacific*	*Africa and Middle East*
Market share %	4.0	2.3	2.3	6.3	1.3	5.8
Product category	**Confectionery**	**Soup**	**Pet food**	**Baby food**	**Dairy products**	**Bakery products**
Market	*Global*	*Global*	*Global*	*Global*	*Global*	*Global*
Market share %	9.0	17.3	25.7	13.0	4.4	0.5
Market	*W. Europe*	*E. Europe*	*N. America*	*Latin America*	*Asia-Pacific*	*Africa and Middle East*
Market share %	12.5	25.7	30.7	60.7	5.2	1.5
Market	*U.K.*	*Slovakia*	*United States*	*Brazil*	*Philippines*	*Israel*
Market share %	20.2	52.5	31.0	82.4	37.2	8.0
Product category	**Chocolate**	**Dehydrated soup**	**Cat food**	**Milk formula**	**Milk**	**Biscuits**
Market	*U.K.*	*Russia*	*United States*	*Brazil*	*Philippines*	*Israel*
Market share %	24.6	58.9	40.0	91.2	48.3	42.4

Source: Euromonitor, 2003.

Table 5-4—Unilever's market share at regional, country, and product levels

Product category			Total packaged food			
Market			*Global*			
Market share %			2.7			
Market	*W. Europe*	*E. Europe*	*N. America*	*Latin America*	*Asia Pacific*	*Africa and Middle East*
Market share %	4.2	1.4	2.7	3.6	0.9	3.0
Product category	**Ice cream**	**Soup**	**Replacement drinks**	**Sauces, condiments**	**Oils, fats**	**Spreads**
Market	*Global*	*Global*	*Global*	*Global*	*Global*	*Global*
Market share %	19.3	32.9	38.7	10.7	13.4	7.1
Market	*W. Europe*	*E. Europe*	*N. America*	*Latin America*	*Asia Pacific*	*Africa and Middle East*
Market share %	30.5	25.7	49.9	32.6	4.4	22.0
Market	*Austria*	*Poland*	*United States*	*Argentina*	*Indonesia*	*South Africa*
Market share %	59.6	38.4	50.1	43.0	37.2	46.6
Product category	**Impulse**	**Instant**	**Slimming drinks**	**Catsup**	**Spreadables**	**Yeast-based spreads**
Market	*Austria*	*Poland*	*United States*	*Argentina*	*Indonesia*	*South Africa*
Market share %	81.2	76.5	79.1	76.8	83.9	94.9

Source: Euromonitor, 2003.

competition from Japanese brands, Unilever accounts for more than a third of Indonesia's oils and fats market. Strong colonial ties of the Dutch-based firm and the use of a single well-recognized brand (Blue Brand) has allowed Unilever to capture nearly 84 percent of Indonesia's spreadable oils and fats market. Similarly, Unilever's focused category management strategy has also been highly successful, with the Knorr brand of soup in Europe, and with the Hellman's brand of catsup and condiments in Latin America.

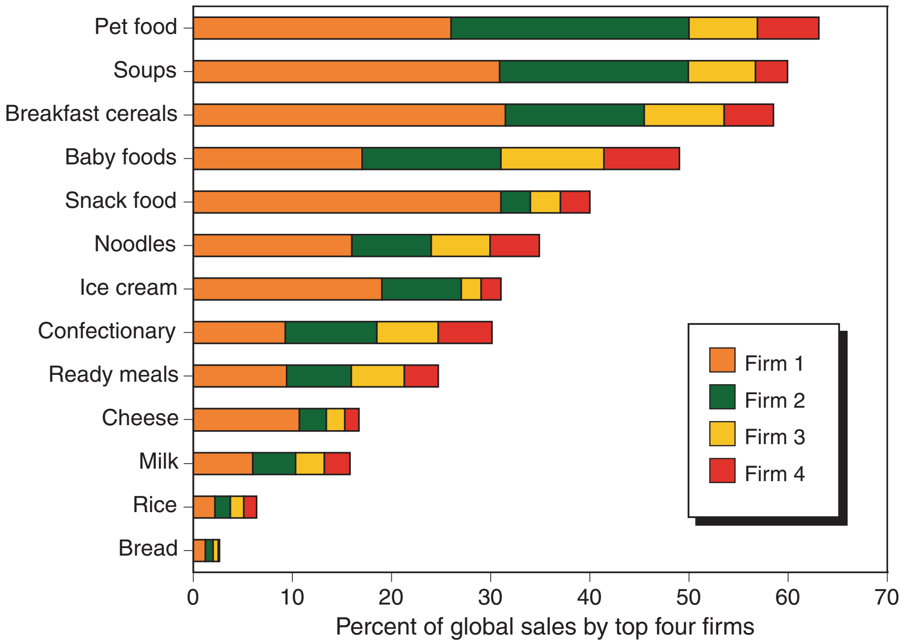
The trend for the largest firms to focus and acquire brands in core categories has contributed to higher firm concentration among certain high-margin products with globally recognized premium brands. For example, the markets for pet food, soups, breakfast cereals, and baby food are heavily concentrated with the top four firms accounting for over 50 percent of global sales (fig. 5-2). Nestlé alone accounts for 26 percent of global baby food sales, with brands such as Enfamil, Gerber, and Similac dominating the world market. Similarly, Campbell's, Knorr, and Maggi brands together account for nearly 50 percent of global soup sales. Small firms have been less successful in markets, such as soups, where differentiation is achieved through heavy advertising of popular brands.

Role of Producer-Owned Firms in Evolving Food Markets

As restructuring continues in the global food industry, producer-owned firms, also known as cooperatives, have taken on new roles in response to the changing marketplace. Some of the largest U.S. cooperatives face financial constraints, raising concerns about their viability, but others thrive by making necessary adjustments to adapt to new consumer-driven forces in the market. Given these mixed signals, the outlook for cooperatives in the

Figure 5-2

Higher market concentration in sales of branded products



Source: Euromonitor, 2003.

evolving world food industry appears to be unclear. In some cases, it may even appear that the inherent business structure of a cooperative is an impediment to success.

In contrast to investor-owned firms, cooperatives are owned and controlled by members who also share the benefits of the organization. While the primary purpose of cooperatives is to generate benefits for their members, they are also considered a means of correcting or mitigating market failures (Rogers and Petraglia, 1994). Therefore, public policy has generally been geared toward differential treatment of cooperative business entities in the United States and other countries.[7]

Historically, agricultural cooperatives have emerged as an avenue for producers to market farm products. Currently, some cooperatives struggle to sell their products, as they lack coordination mechanisms and operate with little information about market conditions and consumer preferences. At times, these cooperatives are faced with oversupplies, which in turn depress market prices for their products. Some agricultural cooperatives have looked to expand to value-added products to capture a greater share of consumer sales. However, the experience of Ocean Spray Cranberries proves this strategy may not guarantee success if supply control is not coordinated with demand. While Ocean Spray enjoyed growing consumer popularity, overproduction in the 1990s, resulting from lack of supply control pushed cranberry growers toward financial ruin (Ananor-Boadu et al., 2003).

Some other cooperatives involved in value-added products have not been able to compete and respond to market signals as well as investor-owned firms. For example, Tri Valley Growers was the largest fruit and vegetables cooperative in the United States, competing directly with Hunts, Heinz, Campbell's Soup, and

[7] The Capper-Volstead Act of 1922 gave U.S. agricultural cooperatives limited exemption from antitrust laws. In addition, the 2002 Farm Act and other ongoing USDA programs address issues related to rural development and cooperative business.

Del Monte. It purchased raw products at a noncompetitive price from its members and sold processed goods through a diversified portfolio of marketing channels. But because of its overly generous payment to producers, it accumulated excessive debt and was forced to declare bankruptcy in 2000. Despite its generous payments to members, the cooperative business structure did not directly contribute to Tri Valley Growers failure (Sexton and Hariyoga, 2004). Rather, it was unable to meet shifting consumer demand for different tomato-based products and generate sufficient revenues to cover its expenses.

Overdiversified portfolios have affected some of the largest U.S. cooperatives in recent years. As previously discussed, many of the large global food firms have restructured to attain the right portfolio size and focus. However, U.S. cooperatives have been slow to make the necessary restructuring decisions. Agway, once the largest U.S. cooperative, ranking 97th on the Fortune 500 list, filed for bankruptcy in 2002. Similarly, too vast a portfolio led Farmland Industries to sell its assets and declare bankruptcy in 2003.

Although these examples highlight failed agricultural cooperatives, it is not clear that the cooperative business structure is itself an impediment. Some cooperatives are taking the necessary steps to realign their operations to meet consumer demands. For example, the U.S. cooperative Sunkist Growers has started sourcing products from foreign producers to meet retailer and consumer demand for year-round supply of citrus. Similarly, other cooperatives are performing successfully in global markets. The Fonterra Dairy Cooperative of New Zealand and Danish Crown of Denmark have strong international orientations, each exporting over 80 percent of its products.

A characteristic common among successful international cooperatives is close vertical and horizontal coordination from primary production to final consumers. The cooperative structure of a vertically integrated firm enables it to tailor products to specific markets and respond to changing consumer demands at the farm level and higher. Second, greater vertical and horizontal coordination enable a firm to reduce transaction costs while enhancing product quality. The cooperative business structure is best suited for producing and marketing certain agricultural commodities, such as meats, dairy, and horticultural products, with strong backward links to the producers.

The Danish livestock cooperative has successfully evolved in response to changing consumer demands. As with all successful food firms, the cooperative is supported by a strong research and technology base, and an organizational framework that allows quality-assured products to be developed as desired by consumers. In 1998, Danish Crown and Vestjyske Slagterier, another Danish cooperative, merged to create the largest hog producing and slaughter cooperative in Europe.[8] Despite an inherent cost disadvantage due to limited natural resources, this cooperative operates an exceedingly well coordinated supply chain management system from genetics in primary hog production to processing and exporting final products. The strength of the cooperative lies in its superior knowledge of different foreign markets and close coordination along the supply chain, which enables it to respond to specific consumer needs. For example, the cooperative raises pigs for the UK market that must conform to special animal welfare and food safety requirements. Farmers contracted for the UK market are paid premiums, subject to meeting the additional requirements.

[8] The company accounts for 50 percent of Denmark's total exports and is the world's largest exporter of pork, with sales reaching more than $2 billion in 2002.

Similarly, the cooperative structure has successfully propelled New Zealand's dairy cooperative into prominence in international markets. The Fonterra Cooperative Group is heavily export oriented. It is the world's leading dairy exporter and the 12th largest dairy product manufacturer. Owned by 13,000 dairy farmers, Fonterra is fully vertically integrated and manages dairy herds, manufactures milk products, and distributes final products in retail markets. It integrates packaging, transportation, shipping and quality control. Similar to the success of Danish Crown, Fonterra's success has much to do with superior knowledge of milk production, processing technology, and consumer markets, and its vertically integrated structure.

Despite strong competition from multinationals, such as Danone, Parmalat, and Nestlé, Fonterra has become a global company, marketing dairy ingredients and consumer dairy products for retail and food service through a strong research base, a flexible integrated supply chain, and key business alliances with companies in foreign markets.[9] Marketing dairy products internationally requires flexibility in tailoring products to specific markets, a strength of Fonterra. While servicing markets with strict requirements, such as the UK, Fonterra maintains tight control over the raw products. In other markets with less stringent regulations, Fonterra may resort to outsourcing within the supply chain.

[9] In 2002, Fonterra Group formed an agreement with Dairy America, a marketing company representing major U.S. cooperatives, for exporting skimmed milk powder from the United States. It established the first commercial production of milk protein concentrate in the United States with an agreement with Dairy Farmers of America.

As evident from these examples, the key to success lies with cooperatives developing an understanding of their markets and having an integrated structure that allows them to cater specifically to individual markets. Moreover, gaining thorough knowledge of markets and developing an ability to cater to markets is only possible if cooperatives limit their focus to a few sectors. With sound business decisions and appropriately sized portfolios, the cooperative business structure is very well suited for the global food industry. An allegiance to suppliers, control and flexibility of the supply chain, product traceability, member loyalty, and the growing positive attitudes of consumers toward cooperatives portend well for future growth possibilities. Recent changes in consumer values and preferences offer cooperatives, which have close ties to primary producers, the opportunity to market specific product attributes, such as organic and free range. For example, Fonterra has promoted its brands through its wholesome image of cows feeding off natural New Zealand pastures, the image simultaneously reinforcing its rural identity while signaling the product to be high quality, healthful, natural, and ecologically responsible.

Looking Ahead

A wide range of food firms with diverse orientations and sizes are expected to remain sustainable as they make greater strides to specialize and better cater to consumer demands. In doing so, food manufacturers will adjust to consumer demand signals as transmitted via the retail sector, which is increasingly becoming consolidated. Both large and small firms with specific expertise are now able to enter the market through alliances with retailers. These current market trends indicate a positive outlook for the coexistence of diverse manufacturing firms.

With increasing consumer demand for higher value products, food firms are likely to secure or increase their market shares in value-added products in which they have greater competencies. These demand patterns have led to a focused growth strategy among many food firms, which in turn has contributed to a more concentrated regional market for specific products. While the largest multinational food companies will likely become even larger in the next decade as they continue to expand in developing countries, the increasing diversity in consumer demand presents opportunities for many small firms to successfully compete in the same markets. Establishing brand names may remain a significant barrier for small firms, but small-scale manufacturing involving expertise in specific processing technologies of different ingredients and flavorings offers potential for new entrants.

In the evolving global food industry, food manufacturers have to continuously reorient themselves to remain competitive. Firms that respond to market signals are better able to adjust and maintain their positions in the industry. Manufacturers with flexible organizational structures that enable them to adjust the production process at various stages in response to consumer demands will be well suited to compete in the world food market. A flexible organizational structure is possible if firms operate in close coordination with producers and other sectors of the food supply chain. Therefore, producer-owned cooperatives involved in value-added production activities have the potential to succeed in global food markets.

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