Global Dairy Top-20

Jostling for position in a changing global market

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The latest Rabobank survey of the world's largest dairy companies highlights not just the 'who's who of dairy', but also the continuing spate of merger and acquisition activity and the tensions between the past and future of the dairy industry. The top rankings in the list are still largely filled by companies from the developed world, while most of the growth prospects lie beyond OECD boundaries. The ability of these companies to respond to changing global market dynamics will determine their prospects for survival and success in coming years.

Top-20 remains dominated by OECD-based companies

The latest Rabobank survey of the world's largest dairy companies (ranked by dairy product turnover[1]) has some familiar features. Nestlé and Danone remain at the top of the table and 18 of the 20 companies are the same as 12 months prior.

Figure 1: Global dairy top-20, 2012

#	Last year	Company	Country	Dairy turnover, 2011 (USD billion)	Dairy turnover, 2011 (EUR billion)
1	1	Nestlé	Switzerland	25.9	18.6
2	2	Danone	France	19.5	14.0
3	4	Lactalis	France	18.8	13.5
4	3	Fonterra	New Zealand	15.7	11.3
5	5	FrieslandCampina	Netherlands	13.4	9.7
6	7	Dairy Farmers of America	US	13.0	9.3
7	6	Dean Foods	US	11.7	8.4
8	8	Arla Foods	Denmark/Sweden	10.3	7.4
9	9	Kraft Foods	US	7.7	5.5
10	12	Meiji	Japan	7.4	5.3
11	10	Unilever*	Netherlands/UK	7.2	5.2
12	11	Saputo	Canada	6.9	4.9
13	13	DMK	Germany	6.4	4.6
14	14	Sodiaal*	France	6.1	4.4
15	19	Yili	China	5.8	4.2
16	18	Mengniu	China	5.8	4.2
17	17	Bongrain	France	5.5	4.0
18	--	Müller*	Germany	4.6	3.3
19	20	Schreiber Foods*	US	4.5	3.2
20	--	Land O'Lakes	US	4.3	3.1

*Estimate
Note: Turnover data are dairy sales only, based on 2011 financials and M&A transactions completed between 1 January and 15 June 2012; pending acquisitions that are not included in the dairy sales are Pfizer's acquisition by Nestlé, IDB Belgium's acquisition by FrieslandCampina, and Milk Link and Milch-Union Hocheifel's acquisition by Arla Foods

Source: Rabobank, 2012

However, the survey also demonstrates some significant changes. The most notable shift at the top end of the table is the continued rise of Lactalis. With ongoing sales growth and the acquisition of Parmalat and Skånemejerier, Lactalis has moved from fourth into third position, and is now within striking distance of Danone. But the biggest strides up the table were made by the Chinese giants. Having entered the top-20 for the first time in 2010, Yili moved up four places into 15th and Mengniu moved up two places into 16th, riding the wave of domestic market sales growth.

Perhaps most striking is that despite the rise of the Chinese, the list of the world's 20 largest dairy companies remains dominated by those based in OECD countries. The headquarters for 18 of the 20 are in the EU, North America, Japan or New Zealand.

Shifting global dynamics call for strategic change

This highlights one of the key challenges facing the world's largest dairy companies. As outlined in Rabobank's January 2012 report *Show me the money,* growth is expected to slow in these traditional dairy markets over the next five years, as the industry battles economic and demographic headwinds, already high dairy consumption levels, overweight consumers and concerns over the cost of dairy. By contrast, emerging markets such as China, South East Asia, India and Latin America are expected to offer good sales growth, with almost the opposite trends in place.

These dynamics have been developing for some time, and many of the world's largest dairy companies have been working for years to ensure they are well placed to survive and thrive in this shifting market place. Those who are less well placed are now moving quickly to do so. In slowing home markets, companies are building larger, leaner businesses and trying to tap into the pockets of faster growth that remain, sparking national and regional consolidation moves. At the same time, most are working hard to acquire the products, brands and competencies to build footholds in newer growth arenas. Today, 16 of the largest 20 dairy companies have investments in manufacturing in Asia and/or Latin America; 15 of them have investments in China alone.

Companies are jostling for position

But an increased sense of urgency has entered the game of late, as the market trends accelerate and each new acquisition or merger narrows the remaining field of targets. These strategic imperatives have generated a wave of M&A activity over the last 18 months, much of it cross border. The majority of the companies in our top-20 have bought other companies or entered joint ventures to strengthen their position during this period. The most significant moves have included:

- Nestlé's acquisition of Pfizer's nutrition business, to buy improved entry into the rapidly growing infant nutrition sector in emerging markets;
- Lactalis's acquisition of Parmalat, giving them access to several new markets around the world;
- FrieslandCampina's acquisition of Alaska Milk in the Philippines, expanding their foothold in a fast-growing market;
- Arla's proposed merger with Milk Link in the UK, and Milch-Union Hocheifel in Germany, consolidating their Northern European footprint;
- Canadian-based Saputo's acquisition of the US cheese maker DCI to bolster its product portfolio in the US cheese market;
- Müller's acquisition of Robert Wiseman Dairies in the UK and joint venture with PepsiCo in the US to tap into the expanding US yoghurt category.

Rabobank expects to see companies continue to vigorously pursue merger and acquisition targets in the next 12 months as they jostle to position themselves for growth and profit in a changing market environment.

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