

MARKET CONCENTRATION ISSUES IN TODAY'S DAIRY INDUSTRY

Hal Harris

Clemson University

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CURRENT SITUATION

Latest Studies, Dairy
Processing

USDA-ERS-1997

GAO-2001

US MARKET SHARE, TOP FOUR COMPANIES

	<u>1992</u>	<u>1982</u>
Fluid Milk	22	16
Butter	49	41
Cheese	42	34
Ice Cream	24	22

Source: ERS

MARKET SHARE, TOP FOUR PROCESSORS, 1999 AND 1997

	<u>1997</u>	<u>1999</u>
National	22	--
Atlanta	38	52
Dallas	85	79
Minneapolis	84	83
Denver	69	67
14 Markets	69	76

Source: GAO

MY ESTIMATES, 2002-2003

**Methodology: Top 50 Lists of
Dairy Foods, Dairy Field,
Hoards Dairyman, Compared
to Industry Estimates of Total
Sales in Sector**

Fluid Milk

Sales, mil. \$

Dean

8,120

Kroger

2,793

NDH-DFA

3,885

Prairie Farms

1,425

Total

16,223

Cheese

Sales, mil. \$

Kraft 4,100

Land O' Lakes 2,900

Schreiber 2,000

Leprino 1,501

Total 10,501

CURRENT MARKET SHARE, TOP FOUR COMPANIES

Percent

Fluid

54-65

Cheese

75-85

ADDITIONAL THOUGHTS:

- **True Fluid Milk Top 4 Market**
- **Share Possibly 58-69 Percent**



Cheese Market is Highly Segmented

CHEESE MARKET SEGMENTS

Dominant Firms

Supermarkets – Kraft

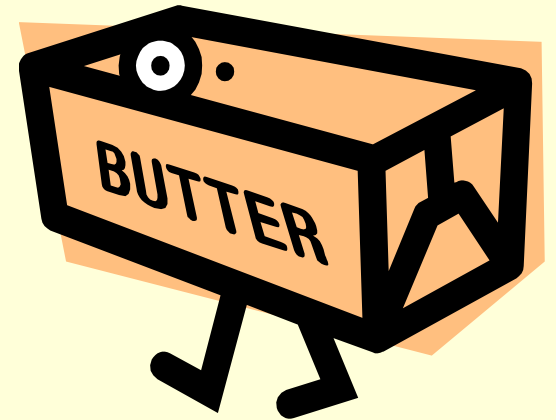
Italian-Leprino

LOL-Deli

Schreiber-Fast Foods

Kraft – major buyer as well as seller

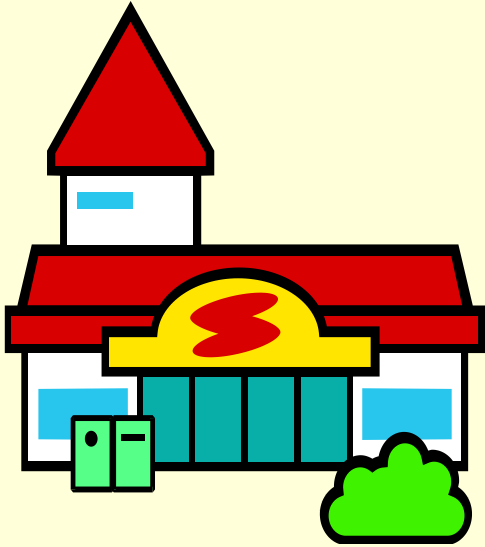
**Concentration in Butter
is Also Very High**



**Concentration in
Ice Cream???**

**Bigness Begets
Bigness**

SUPERMARKETS!!!



**About 70% of Foodstore Sales
are Through Supermarkets:
Annual Sales (2000) \$484 bil.**



Primary Outlet for Dairy Sales

THE BIG FOUR

Current Sales (bil)

Walmart 53

Kroger 51

Albertson 38

Safeway 35

Total 177

Conclusion:

**The Top Four Account for
35% of Foodstore Sales,
51% of Supermarket Sales**

**2000 Four Firm Concentration
Reported by ERS to be 27.4%**

**Since then Walmart Food
Sales Have Increased from
\$22.9 Billion to \$53 Billion**

Going Back in the Market Channel -- Cooperatives

Handle 86% of Marketings

THE TOP 4, 2002

	<u>Bil. Lbs.</u>	<u>Farms</u>
DFA	35,108	14,329
Cal. Dairies	14,639	672
Land O'Lakes	12,185	4,610
NWDA	8,400	732

Source: Hoards

MARKET SHARE

Top Four 41%

Top Eight 58%

**It goes without saying,
as previous studies &
common sense tell us, local
and regional markets at all
three levels of the market
channel are even more
concentrated.**

RECENT EVENTS

**Parmalait Bankruptcy (No. 25),
No. 23 Hood Purchase of
Crowley, Marigold**

**Ahold (No. 5 Supermarket) on
Sales Block**

**DFA Purchase No. 2
Butter Firm**

Conclusion:

**Relevant Dairy Markets are
Highly Concentrated and
Concentration Levels are
Increasing**

**Should this
Concern Us?**

The Answer:

MAYBE!!!!

THE THEORETICAL MODEL

Structure → Conduct → Performance

More Specifically:

Concentrated Structure → Anticompetitive Conduct → Poor Market Performance

In the 1960's & 70's, The Dairy Industry Was a Hotbed of Antitrust Activity

Phase 1: The National Dairies

Phase 2: Co-Ops

**Post Reagan:
Very Little Aggressive
Antitrust Activity Except
Computers, Communications**

NATIONAL DAIRY COMPANIES, 1975

Fluid Sales (Mil.\$)

Kraft	2,280
Beatrice	1,374
Borden	925
Foremost	452
Carnation	813
Pet	312
Fairmont	218

WHO BENEFITS, WHO LOSES FROM MARKET POWER?

- **Efficiency – Everybody Wins**
- **Gains May Be Wrested from the
Bargaining Opponent**
- **Gains May Be Passed Along –
Consumers Lose**

WHO BENEFITS, WHO LOSES FROM MARKET POWER? (cont.)

- **Difficult to Separate Efficiency,
Bargaining Gains**
- **Farmers No Longer at the Mercy of
Processors**
- **Gains May Be Shifted Within the
Sector**

FIVE LAWS OF POWER

- I. Power Fills Any Vacuum in Human Organization**
 - II. Power is Invariably Personal**
 - III. Power is Based on a System of Ideas, Philosophy**
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Source: Berle

FIVE LAWS OF POWER (cont.)

IV. Power is Exercised Through, and Depends on, Institutions

V. With Power Goes Responsibility

Source: Berle

IMPLICATIONS FOR FEDERAL, STATE AGENCIES

- **Agencies Watchdog Role More Critical**
- **Need for Better Price Data**
- **Pooling Issues**
- **Regulator/Regulatee Interrelationships**

CONCLUSION

“Lots of people had worried about this problem (concentration), but nobody had come up with much of an answer . . . corporate momentum was so overwhelming that nobody had done much of anything at all. And Carol Loomis was not even sure that it was bad. But it troubled her.”