

Joint ventures Help Fonterra's Global Expansion

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Fonterra, a co-operative owned by over 11,000 farmers in New Zealand (around 96% of all dairy farms in the country) was formed in 2001 from the merger of New Zealand Dairy Board, New Zealand Dairy Group and Kiwi Co-operative Dairies.

In May 2010, it collected 14,746 mn litres of milk, some 89% of New Zealand's milk supply. It claims to be the world's leading exporter of dairy products, exporting a variety of ingredients and consumer goods around the world.

As well as using New Zealand milk, it also has dairy farms across the world which it uses to supply local markets.

New Zealand accounts for the majority of the group's sales with over half of its NZ\$16,726 mn revenue coming from Fonterra's local market. Fonterra cite the US, Western Europe and Asian countries including Japan and Indonesia as key regions, however, the US still only accounts for 7% of its revenue.

Although Fonterra has its roots in New Zealand, and still continues to use milk predominantly from New Zealand dairy farms, it has become a global company through its export operations and its willingness to form joint ventures with strategic partners.

Unlike its main rivals, it hasn't got a track record of acquiring ingredient companies to expand its product range and regional scope - the few acquisitions it has made have targeted the consumer goods side of the business. On the one hand, this shows that it is focused on dairy ingredients and becoming experts in this area in its own right.

However, on the other hand, this could mean that it is left behind – competitors such as Kerry Foods have grown significantly via acquisitions and has broadened its portfolio of ingredients as a result.

However, Fonterra has invested in partnerships and joint ventures, which have helped it expand into new regions including South and North America and South Africa.

These include partnering with Nestl , Dairy Farmers of America, Clover Industries Ltd and Friesland Campina. Its most recent expansion has been in acquiring Friesland Campina's pharmaceutical lactose business and manufacturing unit.

These joint ventures are win-win situations for both Fonterra and its partners. For example, its joint venture with Nestl , called Dairy Partners of America, sees Fonterra providing the expertise in milk procurement and processing, while Nestl  provide its portfolio of brands, product development and distribution network.

Analyst Insight by John Madden.

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