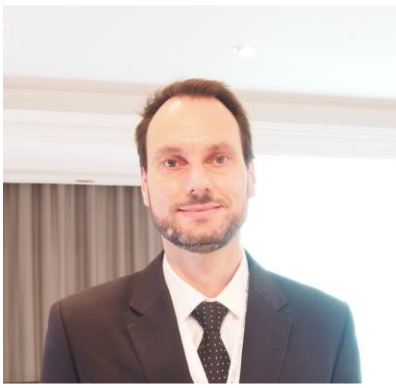
INTERNATIONAL DAIRY magazine

Strategies under the microscope

Crédit Agricole analyses dairy farmers' and dairy companies strategies at the EDA Congress in Nice

Europe's leading co-operative bank Crédit Agricole, told the Economic Breakout Session organized at the annual congress of European Dairy Association (EDA) on 1 December in Nice, France, that dairy farmers today must be business managers as well. This, said Baptiste Lelyon, Dairy Sector Economist at the bank, is a direct consequence of the new CAP that has brought deregulation and direct exposure of dairy farms to world market developments.



Farmers have a choice of choosing the right strategy for their individual enterprise, namely specialization, extension of farm size or intensification. But all strategy plans face one big constraint which is land availability. Lelyon has made an EU wide comparison of how much land a dairy farm in average owns: in the Netherlands it is 60% (the rest of the land used is always on lease), in the UK it is 65%, Denmark it is 70%, in Germany 40% and in

France it is only 21%. Land prices, which also determine the leasing prices, differ between €6,000 in France and more than €60,000 in the Netherlands. In turn, this also has an effect on farm debts. In Denmark, for instance, which leads the ranking of the most indebted dairy farms in Europe, total debts stand at an average of about €18,000 per cow in production and €2.2m on farm level. In some countries, Lelyon said, the banks are the real owners of the farms. While €500,000 were required to establish a new dairy farm in France in 2015, this figure has grown to over €700,000 by now.

Global benchmark dairy

Benoit Busquet, Senior Advisor Dairy at Crédit Agricole, presented an interesting comparison of the worldwide active dairy companies. For this purpose, he has created an artificial dairy company made up of the balance sheet results of 31 dairy companies worldwide. The combined sales figure stands at €119bn, the EBITDA at €8.8bn, net cash flow comes to €7bn and total aggregated debts are €19bn. Between 2011 and 2015 this "control /benchmark dairy" has had a growth of 16% in sales (+ 5% CAGR) while there was a decline of 3.7% in 2015, effected by the global milk market crisis. Multiproduct companies in the benchmark group seem to have done better than specialists as the first group showed a growth in sales of €5.3bn whereas the others had only €2.7bn of growth. The development of debts was relatively stable in Europe but companies in Oceania and China have increased their debts significantly. Interestingly, co-ops did quite well in the export business as they in average sell more added-value product to other countries than private or multinational companies, said Busquet.