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STRATEGY PURSUED BY INTERNATIONAL DAIRY PROCESSORS:
IMPLICATIONS FOR FONTERRA

A 152.800 (100 points) thesis presented in partial fulfilment of the requirements for the degree of

Master of Management (MMmgt)

in Management

at Massey University,
Palmerston North, New Zealand

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2003
To my parents,
From whom I have learned that life is not a straightforward road, and yet a wonderful journey. Your lives inspire me everyday!
ABSTRACT

The ‘dairy industry’ accounts for a significant amount of wealth creation in New Zealand. It contributes 7% of the country’s GDP, and between 20-25% of its export earnings. Given the absolute export orientation of land-based industries in the country, and particularly of the dairy processing industry, where 95% of output is exported, the long-term competitiveness of New Zealand dairy processors is set firmly in the international environment.

An exploratory investigation of the contextual environment of the global food value system has identified the complex relationships between food processors, food retailers, and food consumers. The observation of the actions and decisions – strategy – pursued by a group of international dairy processors over recent years reveals a strong convergence of patterns among apparently ‘dissimilar’ organisations.

A multiple case study approach to the research was used, supported by extensive primary and secondary data collected over a twelve month period. Nine case study companies were selected and their strategic orientation revealed. There was a high level of convergence between stated and observed strategies, and subsequent outcomes. Industry concentration, consolidation activities, and internationalisation of companies are strategies being pursued among all of the case study companies. Meanwhile, various ownership structures were found to neither hinder large dairy processors from pursuing growth strategies nor hinder them from pursuing added-value strategies.

The creation of Fonterra Co-operative Group, the country’s largest organisation, and largest exporter of processed dairy products in the world, was a response by the dairy sector to the wider global consolidation/concentration trend. Now, consolidation and concentration in the dairy processing industry in New Zealand has reached a plateau. Without compromising its co-operative structure Fonterra faces the dual challenges of further internationalisation and the continued pursuit of value-added strategies as constructive means to improve shareholders’ returns.
ACKNOWLEDGMENTS

I would like to thank my supervisors, Dr. James Lockhart and Prof. Ralph Stablein for their academic supervision, encouragement, and positive attitude throughout this project. Their expert insights were fundamental in the process of bringing together a vast array of thoughts and ideas. Your numerous suggestions and challenging questions contributed greatly to the completion of this research. Thanks Ralph for cheering me up so many times!

I would like to acknowledge the insights provided by: Eivind Hougaard Pedersen from Arla Foods; Ken Burgess from Dairy Crest; Harry Bayliss, Craig Norgate, David Pilkington, and Jay Waldvogel from Fonterra Co-operative Group; Erik Elgersma from Friesland Coberco Dairy Foods; Luc Morelon from Lactalis; Michelle Helms from Murray Goulburn Co-operative, and Birgit Habenicht from Nordmilch. Their contributions enriched this study enormously, and offered a better understanding of the complex reality of their organisations. Your messages of appreciation and interest were motivating and encouraging. Thanks so much for your precious time!

To the Department of Management team, especially to Josie Grace, Office Goddess and friendly hand in times of need (there were many!), to Brigit Eames, and Bob Goddard. Heartfelt thanks to friends and family, in New Zealand and in Brazil, for their support, not only throughout this period, but in many, many other occasions. Special thanks to Susy, for your hands-on help in this project and for your dearest friendship, and to Patricia, for your many tips, suggestions and hours of good talk!

Thanks to you, Chris and Michelle, for your unconditional friendship. Words cannot express how much I admire you two. And, finally, thanks to you Stuart, for your admirable strength, endless energy and practicality. The many discussions we had about the New Zealand ‘dairy industry’ were crucial. Thanks for being by my side at all times, and for supporting me. The love we share is the greatest achievement of all!
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