

Responding to Foreign Market Opportunities: A Survey of U.S. Dairy Manufacturers

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Survey Background

During the Summer of 1999, a mail survey of dairy manufacturers was conducted to gauge manufacturers' interest in serving foreign markets. Through secondary sources, supplemented with interviews, 131 firms were identified as reportedly being involved in foreign activities. From this list, trading firms and subsidiaries of foreign firms were eliminated, leaving a total of 82 firms. The largest 112 U.S. dairy firms, not already on our list, were added for a final sample of 200 U.S. dairy manufacturers. Of this sample, 93 responses were received for a response rate of 47 percent.

Findings—Summary

Among dairy manufacturers, there is a widely held belief that the future competitiveness of the U.S. dairy industry will require that U.S. manufacturers increasingly serve foreign markets. Somewhat fewer firms (but still more than one-half of our sample) expressed interest in starting or increasing their participation in foreign markets with motivations including slow growth in the U.S. markets, the need to follow customers to foreign markets, and competitive pressures as domestic regulation and trade barriers fall world-wide. The strategy that was most mentioned in commencing foreign activity was indirect export. Very few firms expressed interest in licensing, co-packing, or foreign direct investment though a huge majority of those intending to start or to expand foreign operations were interested in alliances with international food retailers, foreign competitors, and U.S. non-dairy firms having international networks, in that order of preference.

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Findings—Detail

Expectations Within the Industry of Future Expansion into Foreign Markets

- Forty-one percent of the respondents said that their U.S. dairy operations were threatened by foreign competition.
- Seventy-two percent said that, in order to remain competitive, the U.S. dairy industry should increase its foreign involvement.
- The explanations given for this need to increase foreign involvement included increasing opportunities caused by market deregulation and the likelihood of foreign competitors entering the U.S. market.

Motivation for Participation in Foreign Markets

- In reference to their own firms' strategies, 61 respondents (65 percent) said that their firms were interested in starting or increasing foreign activities. A decrease in growth rates of U.S. demand for some dairy products and the need to follow customers abroad were the most important factors they gave.
- The motivation for firms' interest in foreign markets was influenced by their product specialization. The most common motivators were:
 - ice cream and fluid milk firms—slow domestic demand growth;
 - cheese firms—need to supply customers abroad, answer unsolicited orders, and escape from domestic competition; and
 - ingredients firms—fall of trade barriers.

Foreign Market Entry and Expansion Strategies

- Firms interested in starting foreign activities were interested in indirect exports (exports through U.S. intermediaries). Most of these

firms were interested in starting strategic alliances with firms that have international knowledge and networks. Strategic alliances were particularly preferred by firms expressing a lack of international marketing knowledge.

- The most desired type of alliance partner was international food retailer (40 firms),

followed by a foreign competitor (34 firms) and by a U.S. firm not in the dairy industry but having international networks (27 firms). Co-packing arrangements with foreign firms (such that the foreign firm would manufacture the product by contract for the U.S. firm) accounted for 38 firms.