Financial Performance of Agribusiness Companies with Different Ownership Structures: A Comparative Analysis of KRAFT and Land O’Lakes

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**Research Problem Background**
- Conventional agribusiness firms and ag cooperatives
- Differences in objectives and ownership
- Antitrust legal perspective
- Performance

**Case Study**
- KRAFT and Land O’Lakes

**Methodology and Data**
- Financial ratio analysis
- Annual reports (10-K filings)

**Selected Results**

**Discussion & Conclusion**
• **Ag cooperatives vs. conventional firms**
  - Long a concern of business and policy decision makers

• **Modern agribusiness system (domestic -> global)**
  - Competition has become more complex
  - Ag co-ops have increased in size and scope of operation
  - Market shares have increased
    -> Antitrust policy concerns

• **Legal treatment of ag cooperatives (antitrust exemption)**
  - Clayton (1914) and Capper-Volstead (1922) Acts
  - Allow *joint activities* of ag producers when conforming to law
  - Otherwise illegal under Sherman Act (1890)

• **Modern antitrust policy concerns**
  - Larger market shares of ag co-ops
    -> Increase in market power?
    -> Higher prices paid by final consumers?
The complexity of competition in modern agribusiness

• Ag co-ops and conventional agribusinesses both cooperate and compete with one another
• Cooperate in bulk transactions (“supplier-buyer” symbiosis)
• Compete for same consumers in retail sales
  -> pricing strategies and the retail price level

Conventional agribusinesses (food)

• Act on behalf of shareholders
• Branded, highly differentiated products -> target “final” consumers
• Large advertising and R&D expenditures
• National or global scopes of operation

Ag cooperatives

• Act on behalf of producer-members
• Name brand, generic and undifferentiated products
• Raise profit margins of members (lower costs/higher revenue)
• Regional, national or (for the largest co-ops) global scopes
Case Study: KRAFT & Land O’Lakes

*Kraft Foods Group, Inc. (conventional agribusiness)*
- **Product segments:** *cheese*, refrigerated meals, beverages, meals & desserts, enhancers, and snack nuts
- **2014:** total assets $22,947; revenue $18,205; net earnings $1,043
- **2012 Spin-off:** Kraft Foods Global, Inc. -> Kraft Foods Group
- **2007:** Kraft total assets $67,993; revenue $36,134; net earnings $2,590

*Land O’Lakes, Inc. (ag cooperative)*
- **Product segments:** *dairy foods* (butter, spreads, *cheese*, refrigerated desserts), feed (Purina Animal Nutrition, LLC: lifestyle animals and livestock feed) and crop inputs (Winfield Solutions, LLC: crop seeds and crop protection products)
- **2014:** total assets $6,992; revenue $14,965.5; net earnings $266.5
- **Considerable recent growth**
- **2007:** total assets $4,419; revenue $8,925; net earnings $161

(All figures in millions of dollars)
Financial Ratio Analysis

• Liquidity and Activity
  • Current & quick ratios
  • Inventory & receivables turnover and speed ratios
  • Debt-to-equity & debt-to-capital ratios

• Profitability and Performance
  • Profit margin (various measures of income-to-sales)
  • Return on equity (ROE)
  • Return on investment (ROI)
  • Return on assets (ROA)

Data

  • EDGAR database ~ U.S. Securities & Exch. Comm. (SEC)
  • Corporate websites
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<tbody>
<tr>
<td><strong>Efficiency</strong></td>
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<tr>
<td><em>Inventory turnover ratio</em></td>
<td></td>
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<tr>
<td>COGS/Average Inventory</td>
<td>7.88 (6.43)</td>
<td>8.65 (8.42)</td>
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<tr>
<td><em>Accounts receivable turnover ratio</em></td>
<td></td>
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<tr>
<td>Sales/Average Accounts Receivable</td>
<td>17.11 (17.05)</td>
<td>11.34 (10.80)</td>
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<tr>
<td><strong>Financial Strength</strong></td>
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<td><em>Current ratio</em></td>
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<tr>
<td>Current Assets/Current Liabilities</td>
<td>1.00 (1.44)</td>
<td>1.22 (1.22)</td>
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<td><em>Quick ratio</em></td>
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<td>(Cash + Receivables)/Current Liabilities</td>
<td>0.50 (0.80)</td>
<td>0.47 (0.36)</td>
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<td><em>Debt-to-equity ratios</em></td>
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<tr>
<td>Total Liabilities/Equity</td>
<td>4.26 (3.46)</td>
<td>3.83 (3.52)</td>
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<tr>
<td>Current Liabilities/Equity</td>
<td>1.09 (0.66)</td>
<td>2.78 (2.60)</td>
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<tr>
<td>Long-term Debt/Equity</td>
<td>1.98 (1.92)</td>
<td>0.71 (0.69)</td>
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<tr>
<td><em>Debt-to-capital ratio</em></td>
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<tr>
<td>Long-term Debt/(Long-term Debt + Equity)</td>
<td>0.66 (0.66)</td>
<td>0.42 (0.41)</td>
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## Profitability and Performance Ratios

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<tr>
<th></th>
<th>KRAFT</th>
<th>Land O’Lakes</th>
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<tr>
<td><strong>Profitability (Profit Margin, %)</strong></td>
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<tr>
<td>Gross Profit/Sales</td>
<td>26.61 (37.45)</td>
<td>8.65 (8.78)</td>
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<tr>
<td>Operating Income/Sales</td>
<td>10.38 (25.20)</td>
<td>1.89 (2.20)</td>
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<tr>
<td>Earnings Before Income Tax/Sales</td>
<td>7.72 (22.45)</td>
<td>1.80 (2.03)</td>
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<tr>
<td>Net Income/Sales</td>
<td>5.73 (14.90)</td>
<td>1.78 (2.15)</td>
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<td><strong>Effectiveness (%)</strong></td>
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<td><em>Return on equity (ROE)</em></td>
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<tr>
<td>Net Income/Equity</td>
<td>20.11 (76.01)</td>
<td>17.78 (25.28)</td>
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<td><em>Return on investments (ROI)</em></td>
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<tr>
<td>Net Income/(Equity + Long-term Debt)</td>
<td>6.88 (20.05)</td>
<td>10.49 (13.41)</td>
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<td><em>Return on assets (ROA)</em></td>
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<tr>
<td>Net Income/Assets</td>
<td>4.51 (11.71)</td>
<td>3.93 (4.81)</td>
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How do KRAFT & Land O’Lakes compare?

- Relatively *similar* efficiency, financial strength and effectiveness

- **Systematically different profitability**

  - Using multiple relative profitability measures, KRAFT’s profit margins are higher than Land O’Lakes’
    - > 2 times in 2014
    - > 4 times in 2013

- Reflects differences in business objectives, marketing strategies, ownership, and legal status

- Results should be interpreted with caution
  - Based on 2014 and 2013 data
  - Must consider KRAFT restructuring of 2012
Implications for business and policy analysis

- Ag cooperatives are a major factor in modern agribusiness
  - Antitrust protection ensures place at table

- Ag cooperatives unlikely to increase market power
  - Unique ownership structure
  - Profit margins lower than their conventional competitors’

BUT...

- **Agricultural cooperatives empower producers to secure higher individual profitability**
  - Which promotes a sustainable & globally competitive agricultural production sector
Questions ???

Comments ...

Thank You

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