

# Financial Performance of Agribusiness Companies with Different Ownership Structures:

## A Comparative Analysis of KRAFT and Land O'Lakes

Yuliya Bolotova  
Carl Womble

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# Presentation Outline

- ❖ 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

# Research Problem

- **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?

## Research Problem (cont.)

- ***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***

- **Annual Reports** (10-K filings): 2007 & 2008; 2013 & 2014
  - EDGAR database ~ U.S. Securities & Exch. Comm. (SEC)
  - Corporate websites

<b>Liquidity and Activity Ratios</b>	<b>KRAFT</b>	<b>Land O'Lakes</b>
	<b>2014 (2013)</b>	<b>2014 (2013)</b>
<b>Efficiency</b>		
<i>Inventory turnover ratio</i> COGS/Average Inventory	7.88 (6.43)	8.65 (8.42)
<i>Accounts receivable turnover ratio</i> Sales/Average Accounts Receivable	17.11 (17.05)	11.34 (10.80)
<b>Financial Strength</b>		
<i>Current ratio</i> Current Assets/Current Liabilities	1.00 (1.44)	1.22 (1.22)
<i>Quick ratio</i> (Cash + Receivables)/Current Liabilities	0.50 (0.80)	0.47 (0.36)
<i>Debt-to-equity ratios</i>		
Total Liabilities/Equity	4.26 (3.46)	3.83 (3.52)
Current Liabilities/Equity	1.09 (0.66)	2.78 (2.60)
Long-term Debt/Equity	1.98 (1.92)	0.71 (0.69)
<i>Debt-to-capital ratio</i> Long-term Debt/(Long-term Debt + Equity)	0.66 (0.66)	0.42 (0.41)

Profitability and Performance Ratios	KRAFT	Land O'Lakes
	2014 (2013)	2014 (2013)
<b>Profitability (Profit Margin, %)</b>		
Gross Profit/Sales	26.61 (37.45)	8.65 (8.78)
Operating Income/Sales	10.38 (25.20)	1.89 (2.20)
Earnings Before Income Tax/Sales	7.72 (22.45)	1.80 (2.03)
Net Income/Sales	5.73 (14.90)	1.78 (2.15)
<b>Effectiveness (%)</b>		
<b><i>Return on equity (ROE)</i></b> Net Income/Equity	20.11 (76.01)	17.78 (25.28)
<b><i>Return on investments (ROI)</i></b> Net Income/(Equity + Long-term Debt)	6.88 (20.05)	10.49 (13.41)
<b><i>Return on assets (ROA)</i></b> Net Income/Assets	4.51 (11.71)	3.93 (4.81)



## ***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

Yuliya Bolotova  
YuliyaB@Clemson.edu