Managing Competition

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Greetings from Verona!

Population 11,000 with winners of three Olympic Gold Medals
Milk Recording Capital of the U.S., Home of...
- National Dairy Herd Information Association
- AgSource Cooperative Services

Managing Competition?
- A curious title
- In a free market environment it is the way business is done
  - The market will drive needs to be filled
  - Monopolies are allowed only in special cases
- Competition is not “managed” but fundamental to our daily business
- “TRANSITIONING TO COMPETITIVE MARKETS”

Wisconsin DHI Cooperative and AgSource 1992-2007

US Milk Recording Competition
- Open competition for Record Processing and Laboratory Services to Field Associations for many years
- Dairy Herd Improvement (DHI) Field Service monopolies until early 1990’s
  - One responsible organization per State
  - Exclusive right to service in State
  - Responsibility to service all producers

Elimination of DHI State Lines
- Government authority ended in the 1980’s as public funding declined.
- U.S. Dept. of Justice anti-trust inquiry.
- 1992 - County association seceded from Pennsylvania DHIA without challenge
- Territorial restrictions formally eliminated July 1, 1993
Situation in 1992

- Declining dairy population
- Largest dairy state in US (still #2 – Calif.)
  - an attractive target to state DHI organizations with small and/or declining dairy populations
  - 75% of US DHI organizations could double their business with less than 10% of WDHIC market share
- High debt and fixed costs due to office and lab expansions in early ‘80’s.
- WE WERE A TARGET!

Wisconsin Total Cows 1985-2005

-655,000 cows in 20 years

Percent of Revenue by Enterprise - 1992

1992 Strategic Plan

- DHI competition identified as inevitable, and as an opportunity for the cooperative
- Priority Initiatives:
  - Identify and pursue strategic alliances
  - Diversification of product and service offering
  - Market expansion
  - Reduce fixed cost and overhead

Phase 1 - Preparing for Competition

1992 - 1997
** Formed January 1993
** First US Holding Cooperative
** First formal alignment of a US cattle breeding and DHI organization

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** Competition Emerges**

- First herd transferred its DHI service from Wisconsin to Colorado DHI in August 1993

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** Competition Emerges**

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- Prophesy fulfilled: Competition will not come first from border states but rather in electronic form from small dairy states with no options to grow from within

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** The Sky is Falling!**

- “They Can’t Do That!”
- We can’t survive!

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** Major cost reductions…**

- Sold headquarters and downsized administrative offices
- Closed large laboratory and consolidated
- Reduced staff
- Eliminated over $1 million in base costs (~8%) in a two year period in order to reduce rates and improve short-term competitive position
Phase 2 - Engaging Competition
1997 - 2001

1997 Strategic Plan
- Focused marketing
  - Targeted geographical areas
  - Targeted segments
- Broaden the scope of the Cooperative
  - How it is viewed by us and others
  - Beyond DHI and beyond Wisconsin

Percent of Revenue by Enterprise - 1997

Brand Change and Strategy
- "Source" of broad agricultural services
- Denotes our Cooperative (member ownership) structure
- Logo consistency within CRI including Divisional and Affiliate applications

The Emergence of Market Segmentation in the 1990’s
**1992 Contribution to Total Milk Supply**
AgSource DHI Holstein Herds by Herd Size

**1999 Contribution to Total Milk Supply**
AgSource DHI Holstein Herds by Herd Size

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**Market Segmentation in a Competitive Environment**
- Competition primarily for large herds – smaller operations were less profitable to service
- Market segments that represent the future of the business are targeted
- Major changes in pricing philosophy
  - "Cost" basis is replaced by "Value" and "competitive balance."
- Changes in service availability – “specialists” for certain herds and clients

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**Phase 3 - Thriving on Competition**
2001 - 2007

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**2001 Strategic Plan**
- Accelerate Growth in Agricultural Testing
  - Driven by “growth channels” in
    - Environmental regulations
    - Food safety (real and perceived)
    - Animal health and welfare
- Upgrade DHI Information Systems
- Increased emphasis on GROWTH and PROFITABILITY

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**Percent of Revenue by Enterprise - 2002**
- DHI: 77.50%
- Agronomy: 12.60%
- Food&Envir: 9.90%
**Major Initiatives – 2001-2005**

- Completion of major conversions in DHI data collection and information systems
  - Client server processing system
  - Integration with Dairy Comp 305 for data collection and on-farm reporting
- Synergies with DHI and commercial milk testing operations
  - Mastitis culturing and sample transportation
- Acquisitions of three laboratories

**2006 Strategic Plan**

- Further expand markets and more aggressively pursue suitable acquisitions
- Add value to DHI services
  - Farm level services – offer more than data and sample collection
  - Information – benchmarks, recommendations, analysis
  - Employee training – more than record information and take samples

**Major Initiatives 2006**

- Transition Cow Index ®
  - The most successful new DHI product introduction in our history
  - Now pursuing licensing opportunities in other markets
- Our largest single acquisition – Harris Laboratories, Lincoln, Nebraska

**Percent of Revenue by Enterprise – 2007 Projected**

- DHI: 55.90%
- Agronomy: 29.90%
- Food & Envir: 14.20%

**Lessons Learned from the Transition to a Competitive Environment**
Failures and Disappointments
- On-farm software
- Major internet-based services
- Idaho expansion
- Significant DHI market growth

Must be willing to take measured risks and to fail, but learn from the process

Lessons Learned from the Transition to a Competitive Market
- View competition as an opportunity
- Competition will make you better – there is nothing that inspires improvement more than a rival
- Have a plan. Decide what you want your organization to be and how to get there.
- Compete on the basis of VALUE – do not allow your product or service to become a commodity
- More choices must be offered

Lessons Learned from the Transition to a Competitive Market
- You may need new people – an organization without competitive experience needs it
- Be proactive. Reaction is sometimes necessary but overreaction is frequently worse.
- Accept that you will lose some market share in your traditional territory.
- It’s not what the farmer/customer needs, but what he or she wants to buy – you must sell the need.
- Positive LEADERSHIP is critical

Lessons Learned from the Transition to a Competitive Market

Your Attitude will determine the success of your organization more than any other single factor

For More Information:
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Thank you!