

# 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



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# 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”



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# Wisconsin DHI Cooperative and AgSource 1992-2007



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# 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



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# 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



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## Situation in 1992



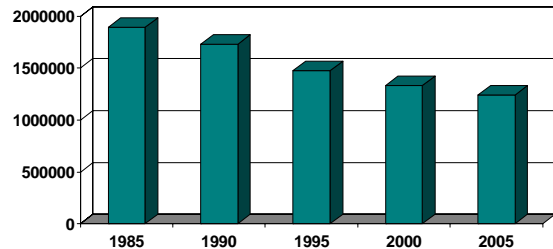
- Declining dairy population

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## Wisconsin Total Cows 1985-2005

-655,000 cows in 20 years



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## Situation in 1992

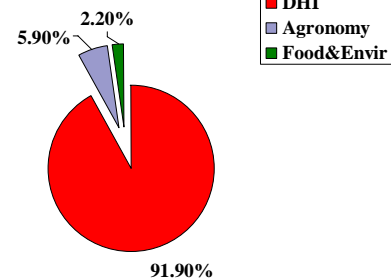


- Declining dairy population
- Largest dairy state in US (still #2 – Calif.)
  - an attractive target to state DHI organizations with small and/or declining dairy populations
  - 75% of US DHI organizations could double their business with less than 10% of WDHC market share
- High debt and fixed costs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

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## Percent of Revenue by Enterprise - 1992



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## Phase 1 - Preparing for Competition

1992 - 1997

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## 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

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## Cooperative Resources International







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


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A subsidiary of Cooperative Resources International

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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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## Competition Emerges


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


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# Phase 2 - Engaging Competition


1997 - 2001



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## 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



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## Percent of Revenue by Enterprise - 1997

Enterprise	Percent of Revenue
DHI	90.10%
Agronomy	9.80%
Food&Envir	0.10%



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## Brand Change and Strategy



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Cooperative Services

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



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**Harris Laboratories**  
A Division of AgSource Cooperative Services

**Central Livestock Association**

**Genex Cooperative, Inc.**

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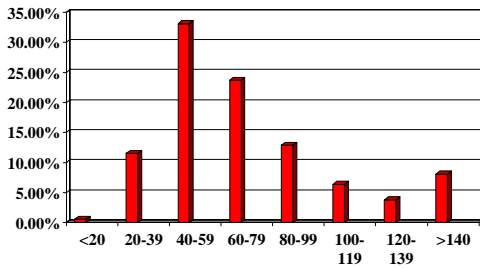
## The Emergence of Market Segmentation in the 1990's



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## 1992 Contribution to Total Milk Supply

AgSource DHI Holstein Herds by Herd Size

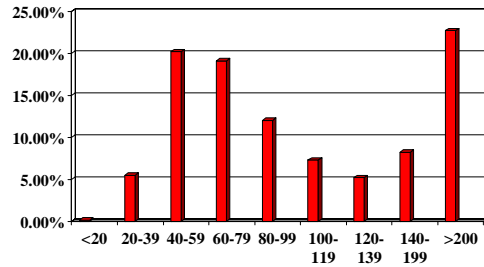


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## 1999 Contribution to Total Milk Supply

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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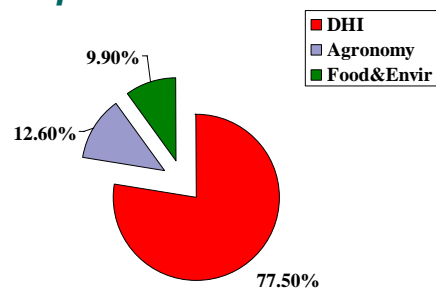
## 2001 Strategic Plan

- 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



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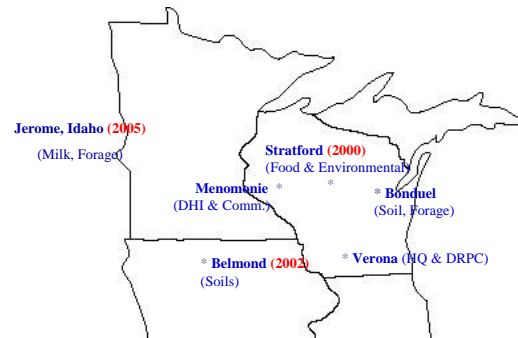
## Major Initiatives – 2001-2005

- 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

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## AgSource Locations 2005



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## 2006 Strategic Plan

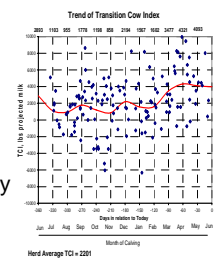
- Further expand markets and more aggressively pursue suitable acquisitions
- Add value to DHI services
  - Farm level services –offer more than data and sample collection
  - Information – benchmarks, recommendations, analysis
  - Employee training – more than record information and take samples

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## Major Initiatives 2006

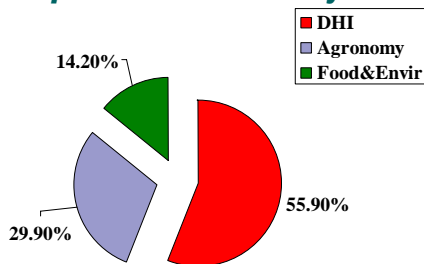
- Transition Cow Index ®
  - The most successful new DHI product introduction in our history
  - Now pursuing licensing opportunities in other markets
- Our largest single acquisition – Harris Laboratories, Lincoln, Nebraska



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## Percent of Revenue by Enterprise – 2007 Projected



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## Lessons Learned from the Transition to a Competitive Environment

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## 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**

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## 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

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## 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

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## Lessons Learned from the Transition to a Competitive Market

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

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## For More Information:

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**Thank you!**

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