



# DairyCo Case

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## Instructions and Ground Rules

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1	Read through the case in its entirety ( <a href="#">pages 5 to 7</a> ) and supporting exhibits ( <a href="#">pages 9 to 12</a> ).
2	Leverage the provided questions to formulate your response ( <a href="#">pages 14 to 18</a> ).
3	<b>No additional external research or data is required</b> to support your recommendations and solutions. However, you <b>may include relevant research and data</b> on your slides if deemed necessary
4	If you have any questions, make assumptions and state them as well during your presentation.
5	Cases are evaluated based on creativity of the solution provided and potential impact it has on the client.
6	Presentations are limited to a <b>maximum of 15 slides, excluding</b> exhibits, references, and the cover slide. Any additional content beyond this will not be considered.
7	Submit your final result via email to <a href="mailto:info@ubcsmcc.com">info@ubcsmcc.com</a> . Ensure that the subject line includes your team name and the competition title, for example: 'EY-P Case Competition - SVTCONSULTING.'
8	<b>All submissions must be received by Sunday, October 20th at 11:59 PM (PST). Late submissions will not be accepted.</b>

# DairyCo Case Background

## DairyCo Background (Page 1/3)

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It was a warm summer morning when Alix Lee stepped into her workplace at DairyCo, a leading Canadian dairy company based out of Alberta. DairyCo produces, markets, and distributes a wide array of dairy products, including cheese, fluid milk, extended shelf-life milk and cream products, cultured products and dairy ingredients and is one of the top five dairy processors in the world. Alix had recently completed a Bachelors in Commerce from a prestigious business school and joined DairyCo a month ago as a Business Analyst in their Strategic Planning and Advisory function. The purpose of this function is to provide internal consulting services, strategy and business optimization recommendations to DairyCo's Senior and Executive Management for decision making. Alix was recently assigned to a highly sensitive project to research and recommend a growth strategy for DairyCo over the next five years.

Established by master cheesemakers in Canmore, Alberta in the 1960s, DairyCo experienced tremendous growth in the 1970s to 1990s as demand for its products increased. It became Canada's largest manufacturer of Cheddar in the 1990s. Over the past decade, DairyCo has expanded through Mergers and Acquisitions and continues to be a very acquisitive company. Its products are sold in over 50 countries worldwide, operating in Canada, the United States, Brazil, New Zealand, United Kingdom and Germany, with more than 55% of its revenue coming from its U.S. operations. In addition to dairy, the company also owned a very large commercial bakery operation in Canada and U.S. which it recently divested to a New York based private equity firm.

In late 2022, DairyCo struggled in its second quarter with declining profitability despite having stable revenue. COVID-19 disruptions, labour shortages and supply chain shortages linked to the Russo-Ukrainian war amongst other factors took its toll on the company's bottom line later in the fiscal year. "We're clearly facing rough seas ahead", said Micah Alden CEO of DairyCo when addressing analysts during a year-end press conference.

Each of DairyCo's divisions face a different reality and challenge. Canada has performed strongly over the past year with demand driven by the foodservice market segment following COVID-19. Canada was able to increase prices to offset rising inflation and implement cost containment initiatives. The Canadian business was resilient through a diverse customer base and product mix along with a stable commodity market, and effective distribution network.

## DairyCo Background (Page 2/3)

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The U.S. division faced challenges from labour, inflation, supply chain, and commodity prices. Measures have been initiated to improve pricing, increase labour, and recover production. DairyCo has also indicated it could take at least another 12 months before the availability of labour, particularly in the United States, normalizes. While DairyCo has ushered price increases in the U.S. to cope with inflation, those higher prices are failing to keep up with rising costs. The company's higher costs, including overtime wages, transportation, fuel, consumables and packaging, are expected to remain at elevated levels in the U.S.

Brazil has performed strongly with potential to increase exports; however, the New Zealand market faces some challenges due to a reduction in milk intake, increasing prices, and unfavourable contracts locked in. In the European operations, service levels were maintained but the division faced challenges due to declining milk consumption, input cost increases, and weaker returns on wholesale sales of dairy ingredients.

Once Alix concluded a review of DairyCo's divisions she turned her attention to focus on consumer habits. To add to the pressures faced by DairyCo's divisions, there has been a significant development in consumption habits that has threatened the Dairy industry over the past decade. Milk consumption is down 42% from what it was a half-century ago — from 247 pounds per person in 1975 to just 144 pounds today in North America, and that has put a squeeze on dairy operators; “Milk is falling out of fashion” as one CNN report suggests. A new competing sector is on the rise: plant-based milks have grown nearly 14% in the past two years alone, according to a report from the Good Food Institute. From April 2018 to April of 2019, sales of oat milk jumped 222% (source: GFI). The beverage is certainly trendy as most high-end coffee shops now sell pricey almond-, oat- and coconut-milk lattes.

Health-conscious consumers, who increasingly seek low-calorie drinks with a nutritional boost or jolt of caffeine, may be swapping dairy milk out for sports drinks, tea, coffee or bottled water – a growing category. Stagnating breakfast cereal sales are also contributing to the problem. The shift to plant based alternatives is also appealing to younger environmentally-conscious consumers. Contrary to the aforementioned, per-capita consumption of butter and cheese is growing, suggesting that the plant-based trend hasn't affected all dairy categories overall. Evolving tastes are just part of the story.

## DairyCo Background (Page 3/3)

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To add to the woes faced by DairyCo, recently a prominent short seller, Holtman Capital, believes the company has “an untenable cost structure in a thin-margin, low-to-no-growth industry”. In its recent scathing 178 page report Holtman Capital claimed DairyCo faces a failing international strategy, declining business and financial health, trouble paying its modest dividend and stagnation of the dairy industry. DairyCo’s Alberta HQ dismissed this report as baseless and without merit.

Holtman Capital believes the brand power that companies like DairyCo used to have is eroding as consumers increasingly switch to non-dairy alternatives and no-name labels. Underlying all the problems is a Canadian, United States, U.K. and New Zealand dairy market that is declining in annual per capita milk consumption. DairyCo has tried to grow itself away from the stagnating Canadian market by buying small players in the U.S. and overseas, benefitting by integrating local and regional companies in its operations. However, that game is ending as the dairy industry is now mostly consolidated and other competitors are making new acquisitions costly and rare, said Holtman Capital. If Holtman Capital’s analysis of DairyCo is accurate, share price will fall when investors worry the shares are overpriced and sell en masse.

Given these key challenges faced by DairyCo, Alix wonders what recommendation to make to Executive Management. **What should Alix recommend in DairyCo’s five year plan?**

Prompts to facilitate final recommendations (you are encouraged to look beyond these prompts in your recommendations). You may also leverage additional information provided in the [exhibits section](#) for your analysis:

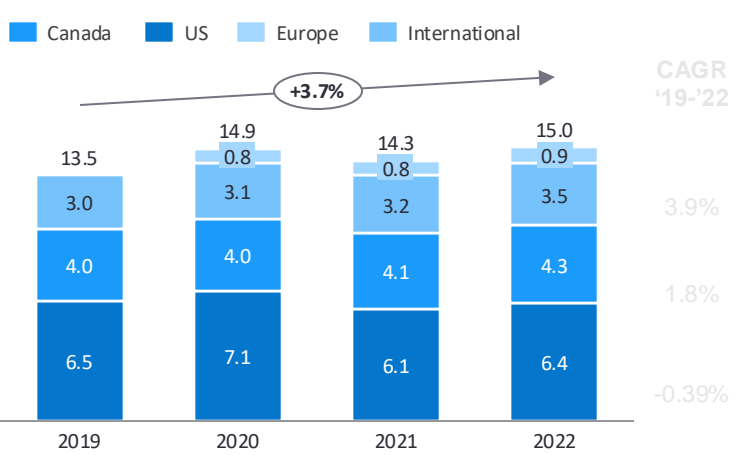
- How can DairyCo continue to create efficiency and capacity internationally from an operational standpoint?
- What can DairyCo do to build resiliency in an inflationary economy with rising commodity prices?
- How can DairyCo innovate and become a market leader in new product segments while maintaining an optimal lineup of existing dairy based products?
- How can DairyCo create new growth strategies in the ecommerce space?

# DairyCo Exhibits

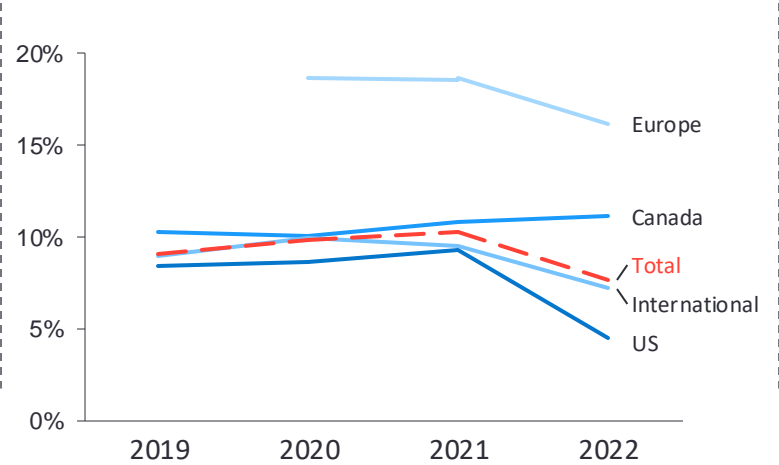


# DairyCo is achieving strong growth in sales with decreasing margins and ROC

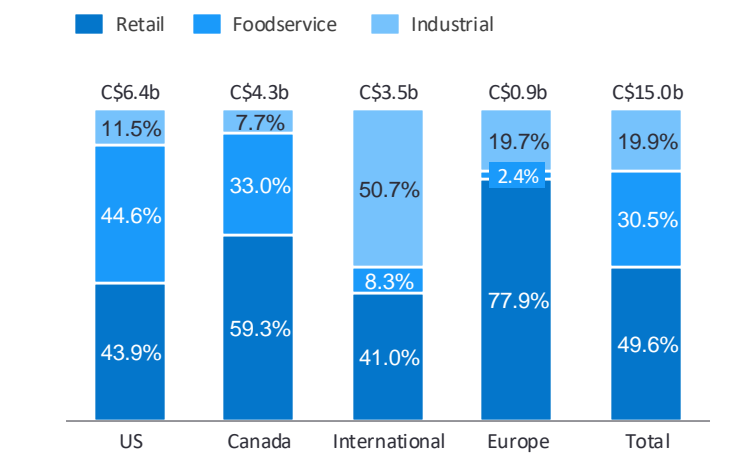
Revenue grew at a 3.7% CAGR from FY2019-2022 (CAD Bn)



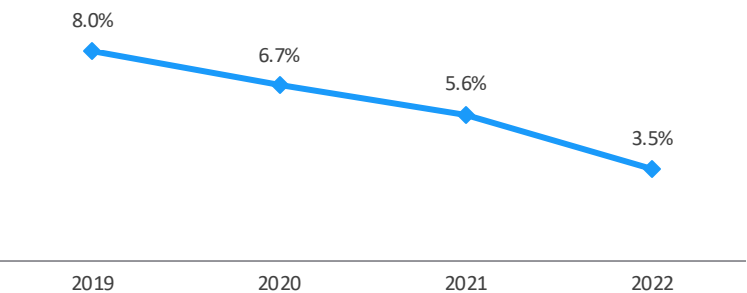
Adjusted EBITDA margin declined at 5.3% CAGR overall and 18.7% in the US from FY2019-2022



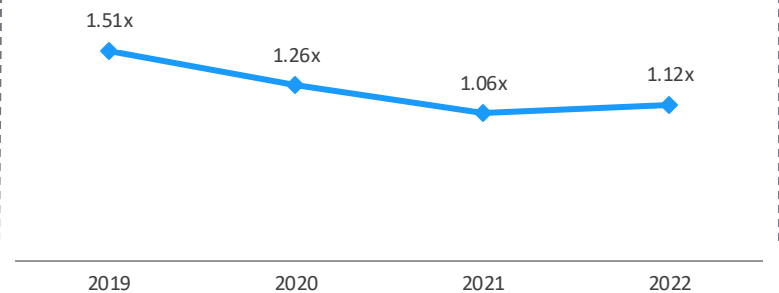
Over half of revenue attributed to Retail channel in FY2022



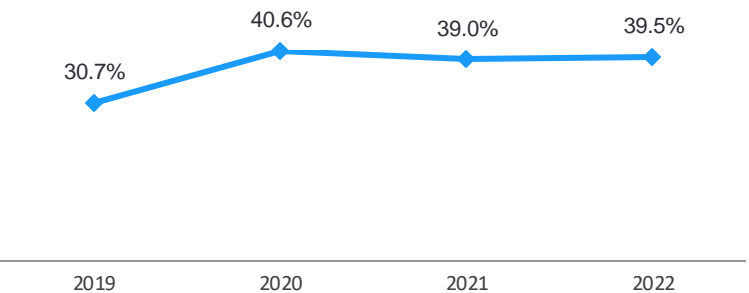
Declining return on capital



Asset turnover ratio

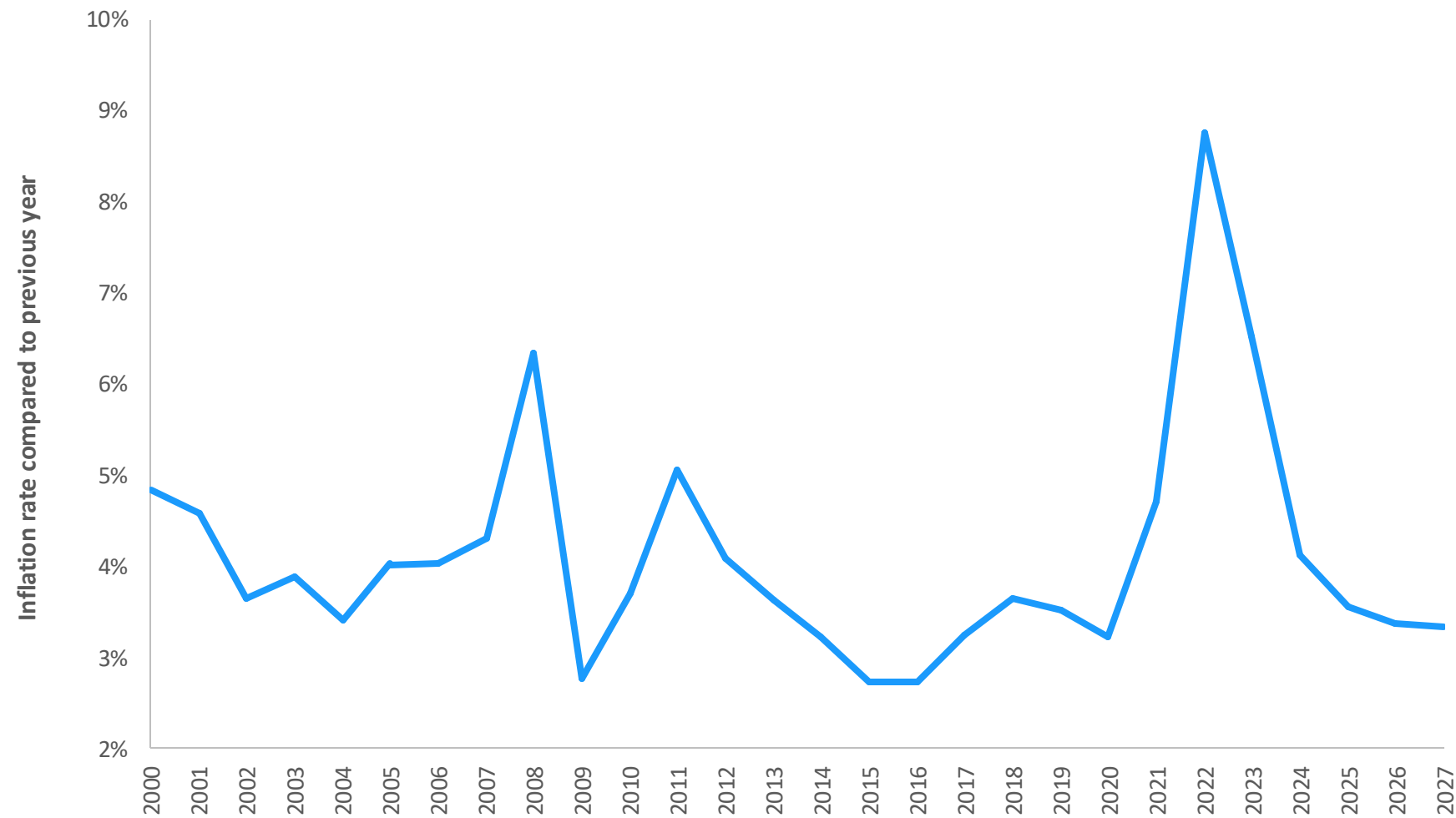


Total debt / capital



The past few years have seen reduced ROA and an increase in debt / capital as a result of a capex cycle and investments for growth

# Global inflation rate from 2000 to 2021, with forecasts until 2027 (percent change from previous year)



## Key insights:

Despite the economic impact of the coronavirus pandemic, the global inflation rate fell to 3.23 percent in the pandemic's first year, before rising to 4.7 percent in 2021. This increase came as the impact of supply chain delays began to take more of an effect on consumer prices, before the Russo-Ukrainian war exacerbated this further. A series of compounding issues such as rising energy and food prices, fiscal instability in the wake of the pandemic, and consumer insecurity have created a new global recession, and global inflation in 2022 is estimated to have reached 8.75 percent. This is the highest annual increase in inflation since 1996.

## Consumers are turning to healthier and more convenient food products

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Buying in bulk

Increased frozen food purchases

Increased non-perishable food purchases

Buying versatile food staples

### Plant based nutrition

- The use of plants as replacements for meat has been on the rise
- Sources of plant protein – such as peas – are expected to grow.
- The global pea protein market is expected to grow at nearly 20% annually until 2025

### Food functionality

- Consumers now buy products based on what they will gain from them
- Technology has allowed the production of tasty foods containing fiber, probiotics or other beneficial ingredients

### Alternative food space

- Primarily to address allergen issues, alternative food options have now grown into a category of their own (e.g. soy milk)

# New trends are shaping the dairy industry

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## 5 important food trends that will shape the 2020s:

- **Sophisticated snacking** – the changing lifestyle of consumers, including the decision to opt for smaller meals, is driving the demand for new innovative, healthy, on-the-go dairy snack options. This change in consumer behavior has forced established brands such as Kraft Heinz and Danone to expand their portfolios with guilt-free, indulgent practical versions of their products.
- **Ditch the dairy** – Health-centric consumers are gravitating towards dairy alternatives at a rapid rate; young consumers are the most predominant demographic to swap to dairy alternatives due to increased awareness of animal welfare and their environmental footprint.
- **A switch towards vegan options** – the global Vegan Cheese Market to Reach \$2.5Bn By End of 2020 - opportunity assessment projects a compound annual growth rate of 10%, which means it would reach USD \$7Bn by 2030. Consumers continue to demand healthier and more environmentally sustainable alternatives to their favorite foods; the vegan cheese market is becoming increasingly competitive, and scalable.
- **Gut feeling: the benefits of fermented dairy** – Consumer awareness around gut health continues to rise in 2020 with people becoming increasingly educated on the importance of a healthy, functioning gut and how it can determine consumers overall well-being. To reach optimal gut health, researchers suggest eating more dairy that is rich in probiotics, fiber and prebiotics which can be found in fermented dairy products such as kefir, milk, cheese, yogurt and gut shots. As we move into the 2020s, we can expect to witness significant momentum in fermented dairy due to the positive influence on gut health and digestive wellness.
- **Technology transformation** – Lab-created dairy: with this technology, dairy proteins will be produced in the lab, for use in fluid milk products and processed dairy products such as yogurt and cheese.

# DairyCo Response Template

# Summary of the Situation and Value Proposition

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## WHAT ARE THE CHALLENGES?

- What are the challenges you are solving for?
- What would happen if DairyCo does not address these challenges?

## WHAT IS YOUR VALUE PROPOSITION?

- How does your solution address the problem or challenge?
- What makes your solution unique?

# Recommendation #1

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## WHAT IS YOUR RECOMMENDATION

- E.g., to create efficiency and capacity internationally DairyCo should...
- What are the benefits of your recommendation?
- What investment(s) are required to action your recommendation?

## Recommendation #2

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### WHAT IS YOUR RECOMMENDATION

- E.g., to build business resiliency DairyCo should...
- What are the benefits of your recommendation?
- What investment(s) are required to action your recommendation?



## Recommendation #3

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### WHAT IS YOUR RECOMMENDATION

- E.g., to innovate in the market DairyCo should...
- What are the benefits of your recommendation?
- What investment(s) are required to action your recommendation?

## Recommendation #4

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### WHAT IS YOUR RECOMMENDATION

- E.g., to create new growth strategies DairyCo should...
- What are the benefits of your recommendation?
- What investment(s) are required to action your recommendation?