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THE EVOLUTION OF IRELAND'S KERRY GROUP/PLC—IMPLICATIONS FOR THE U.S. AND GLOBAL DAIRY-FOOD INDUSTRIES

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Executive Summary

Introduction

- Headquartered in Tralee, County Kerry Ireland, the Kerry Group/PLC (Public Limited Company) is a diversified food ingredients and consumer foods company with 1998 sales of U.S.$2.6 billion.
- The firm grew from a small dairy cooperative in the early 1970s to a multinational firm that has operations in Ireland, the UK, the U.S., continental Europe, Canada, Mexico, Brazil, Argentina, Chile, New Zealand, Australia, and Malaysia.
- As the firm evolved into a world leader in food ingredients, the sales of Irish-based dairy products declined to about 11% of the firm's overall revenues.
- This Discussion Paper describes how the firm developed core strategies, adjusted effectively to the economic and policy environment that surfaced in the 1970s and 1980s, and found innovative ways to finance growth. The paper also analyzes Kerry's strategies and discusses implications of the firm's strategies for U.S. and other dairy-food exporters and investors.

Core and Supporting Strategies of the Kerry Group/PLC

- The Kerry Group/PLC's core strategy is to diversify and grow the business emphasizing differentiated (value-added) food ingredients and consumer food products.
- Kerry's implementation of this overall strategy has produced a strong emphasis on food ingredients as noted in the firm's divisional sales figures for 1998: Kerry Ingredients (63% of 1998 sales), Kerry Foods (34% of 1998 sales), and Kerry Agribusiness (3% of 1998 sales).

Origins of the Kerry Group/PLC

- The roots of the Kerry Group/PLC date back to a private company formed in 1972.
- Kerry Cooperative Creameries Ltd. began its legal existence in January 1974.
- A brucellosis eradication program reduced Kerry Cooperative's milk supply by about 20% in the early 1970s. This caused the Kerry Cooperative's management and board of directors to realize that if the firm was to grow it needed to reduce the reliance on commodity dairy products and diversify into differentiated (value-added) products.
- Kerry Cooperative's diversification program began in 1979-80 when the cooperative bought 19 Irish firms that sold branded food products.

Financing Strategies of the Kerry Group/PLC

- In June 1986, Kerry Cooperative exchanged its assets for majority shareholding in a PLC, mainly to obtain capital for growth.

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- In October 1986, shares of the Kerry Group/PLC were offered to the public and subsequently listed on the Dublin and London stock exchanges.
- Kerry Group/PLC's shares initially traded for about 52 Irish pence (about U.S.$0.70 per share) when the firm's shares were first issued in 1986. In 1999, the shares traded mostly in the U.S.$11.00 to U.S.$12.50 range. The Price/Earnings ratios for Kerry Group stock in 1999 were approximately twice those for Irish dairy cooperative/PLCs, Golden Vale and Glanbia.
- In 1996, Kerry Cooperative reduced its holdings in Kerry Group/PLC below the 51% level. This action allowed the Kerry Group/PLC to float additional shares to obtain needed funds for expansion capital and increase the liquidity of trading in the Kerry Group's shares.
- Kerry Cooperative and Kerry Group/PLC have effectively handled the conflicts between farmers and non-farmer shareholders that sometimes arise when an agricultural cooperative converts to a PLC.

Kerry Group/PLC's Acquisitions

- The financing capacity gained by Kerry, in part by the move to cooperative/PLC status, allowed the firm to accelerate its overseas acquisitions.
- Kerry Group/PLC opened its first overseas food ingredients plant in Jackson, Wisconsin in 1987 and in 1988 acquired Beatreme Food Ingredients, another U.S. firm.
- Kerry Group/PLC acquired DCA in 1994 from Allied Domecq for U.S.$402 million.
- By 1995, Kerry Group/PLC had made about 43 acquisitions, which had caused the firm to double in size in each of the previous five-year periods.
- Most of Kerry's recent acquisitions have been for food ingredients firms, which typically generate high profit margins. The corporation's capital investments have provided the infrastructure (e.g., technology, R&D and distribution systems) needed by the rapidly growing firm.
- In 1998, 26% of the firm's sales and 38% of the firm's operating profits were obtained from the Americas.
- While Kerry's early acquisitions were made in part with capital raised in the share market, the bulk of the Kerry Group/PLC's acquisitions—especially those made before Kerry Cooperative relinquished majority control in 1996—were made with debt.

Strategies and Practices that Underpin the Kerry Group/PLC's Financing, Expansion, and Diversification Initiatives

- <u>Knowledge is the forerunner of strategy</u>. Mr. Denis Brosnan, the Kerry Group/PLC's long-time Managing Director, contends that to make sound strategic decisions the firm must know which sector it is in or wants to be in, the strengths and weaknesses of competitors, the nature of the marketplace, how consumer demands are changing and, for an international business, which decisions can be made locally and which must be reserved for the corporate office.
- <u>R&D expenditures must increase</u>. According to Brosnan, the food ingredients sector is somewhere between food engineering and pharmaceutical application; 2.5% to 3.0% of the Kerry Group's turnover will continue to be spent on R&D because of its importance.
- <u>Personnel and marketing practices must evolve</u>. Practices relating to these two functions changed markedly as Kerry evolved from a dairy cooperative into a food ingredients and consumer foods company. Kerry stopped exporting through the Irish Dairy Board in about 1990.

An Analysis of Kerry Group/PLC's Corporate Strategies

- The Collis-Montgomery "Triangle of Corporate Strategy" was used to evaluate Kerry's corporate strategies.
- The firm appears to have a well-articulated vision, internally consistent strategies, strategies that fit well with the external environment, and good risk management capabilities.
- It is unclear whether the firm's value creation processes—achieved in part by frequent acquisitions of high profit margin food ingredient companies—will be sustainable over the long-term.
- Kerry acquisitions have been, by most accounts, remarkably successful. However, merger and acquisition studies suggest that most firms should not expect to earn economic rents on assets purchased in the market. The Kerry Group/PLC may confront this reality in future acquisitions.

Implications of Kerry Group/PLC's Strategies for U.S. and other Dairy-Food Exporters and Investors

- Certain ideas flow from Kerry's strategies that have implications for U.S. and other dairy-food exporters and investors.
- Ability to relate a company to its environment is important.
- Continuity in top management is important.
- Knowledge is a key forerunner to strategy.
- Early mover advantages are important.
- Latin America and Asia are growth markets for dairy and other food products.
- A firm's infrastructure must change substantially when it evolves as much as Kerry Group/PLC.
- Kerry Cooperative's conversion to a cooperative/PLC was a necessary but not sufficient condition for success.
- Acquisitions possess inherent drawbacks.
- The Kerry Group/PLC model will not be easily replicated.

THE EVOLUTION OF IRELAND'S KERRY GROUP/PLC—IMPLICATIONS FOR THE U.S. AND GLOBAL DAIRY-FOOD INDUSTRIES

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Introduction

Headquartered in Tralee, County Kerry Ireland, the Kerry Group/PLC (public limited company) is a diversified food ingredients and consumer foods company, which had sales of U.S.$2.6 billion and 12,378 employees in 1998 [13,31]. The firm has operations in Ireland, the UK, the U.S., continental Europe, Canada, Mexico, Brazil, New Zealand, Australia, and Malaysia [31]. It produces and markets specialty food ingredients, food coatings, bakery mixes, fruit preparations, flavorings, and proteins and manufactures consumer food products in the dairy, beef, pork, poultry, savory and convenience product sectors.

The firm's sales and net income for 1998 and the average yearly increases in these two financial items during 1994-98 appear below [31]:

	Sales	Net Income
	(Millions U.S. Dollars)	
1998	$2,578.34	$111.10
1994-98 Growth Rate	14.51%	20.93%

Kerry Group/PLC's three main divisions and the percentage of the firm's revenues generated by each division in 1998 are noted below [9]:

Division	% of 1998 Revenues
Kerry Ingredients	63
Kerry Foods	34
Kerry Agribusiness	3

Food Ingredients produced by Kerry Group/PLC include cheese powders, mozzarella cheese products for restaurant chains, doughnut mixes, other batter mixes, bread crumbs, specialty proteins for nutritional diets, flavorings for snack foods, and clouding agents. In recent years, the firm has acquired a substantial presence in the particulates technology business—e.g., small pieces of fruit, nuts, cheese, and chocolate that are used in processed foods such as breakfast cereals, nutritional bars, and premium ice creams.

Kerry Foods brands (which are well known in Ireland, the UK, and other parts of Europe) include Wall's, Mattesson's, Richmond, Denny, Lawson's, Miller's, Golden Bridge, Homepride, Ballyfree, Kerrymaid, Low Low, Dawn (fluid milk and juices), and Kerry Spring (water). The Kerry Group's Foods Division also does private label work for other firms.

Kerry Agribusiness sells animal feeds and fertilizers, operates creameries, and provides livestock artificial insemination services, trucking services, and on-farm technical services.

Kerry Group/PLC traces its beginnings to 1972 when it began operations as a relatively small private firm that evolved into a small dairy cooperative in 1974.

Kerry Group/PLC is frequently described by analysts as a successful international food ingredients and consumer food products firm that grew rapidly—mainly by acquiring other companies—during the late 1980s and 1990s. Information on how the Kerry Group/PLC arrived at its present position should be useful to U.S. and other firms with interests in exporting and foreign direct investment in global dairy-food businesses. In particular, it should be useful for dairy-food exporters and investors to see how the firm developed core, consistent strategies, adjusted effectively to changes in the economic and policy environment that surfaced in the 1970s and 1980s, and found innovative ways to finance growth of the business. These points are considered in the paper, together with an analysis of Kerry's strategies and a discussion of implications of the firm's strategies for dairy-food exporters and investors in the U.S. and other countries.

I. Core and Supporting Strategies of the Kerry Group/PLC

The Kerry Group/PLC's core strategy is to diversify and grow the business emphasizing differentiated (value-added) food ingredients and consumer food products [2]. This core strategy has been supported and complemented by the other strategies and practices that:

- Converted the business from a dairy cooperative to a cooperative/PLC to raise expansion capital.
- Facilitated growth of the firm both by acquisitions (mostly outside of Ireland) and expanding existing businesses.
- Involved large Research and Development (R&D) expenditures to support expansion of the food ingredients business and consumer food product businesses.
- Implemented personnel policies and marketing practices that supported the firm's growth and diversification strategies.

II. Origins of the Kerry Group/PLC

Michael Porter of Harvard's Business School contends that "The essence of formulating competitive strategy is relating a company to its environment" [28, p. 3]. The Kerry Group/PLC developed strategies that dealt effectively with the economic and policy environment facing the firm in the 1970s and 1980s. It is useful to briefly examine the firm's early history to see the milieu from which the firm's strategies emerged.

The Private Company

The roots of the Kerry Group/PLC date back to a private company formed in 1972. The private company in question was created when three shareholders—(a) the state-owned Dairy Disposal Company, (b) a federation of eight small farmer cooperatives in County Kerry Ireland, and (c) the Erie Casein Company in the U.S.—invested 150,000 Irish pounds to finance a casein plant that would manufacture casein for export to the U.S. Ownership of the casein manufacturing firm, known as North Kerry Milk Products Ltd. (NKMP), was split as follows [12]:

- Dairy Disposal Company 42.5%
- Federation of eight farmer cooperatives 42.5%
- Erie Casein Company 15.0%

Formation of Kerry Cooperative

When Ireland joined the then European Economic Community (EEC) in 1973, many small dairy firms and cooperatives merged to compete with the larger milk companies in the EEC. Kerry Cooperative Creameries Ltd. was formed when milk producers in County Kerry contributed capital to acquire the state-owned Dairy Disposal Company and its 42.5% stake in the private NKMP. In addition, six of the eight independent farmer cooperatives (part owners of the other 42.5% of NKMP) merged and the private company created became a subsidiary of the newly formed Kerry Cooperative Creameries Ltd. Kerry Cooperative Creameries Ltd. began its legal existence in

January 1774. The smallest of Ireland's six major agricultural cooperatives, the Kerry Cooperative, had sales of 23 million Irish pounds (about U.S.$50 million) in 1974.

Growth through Dairy Processing, 1974-78

During 1974-80, Kerry Cooperative Creameries Ltd. acquired or merged with the Killarney, Limerick, and Ballinahina Dairies and witnessed an increase in its milk supply from 67 million to 87 million gallons (+30%). The cooperative recorded satisfactory profits through its milk processing activities. But in 1979-80, as a result of an unusually wet summer and the workings of a brucellosis eradication scheme, the cooperative lost 20% of its milk supply. In 1986, Mr. Denis Brosnan, Managing Director of Kerry Group/PLC or its predecessor firms from 1972 to the present, described the impact of the brucellosis eradication program, which led to the slaughter of thousands of dairy cattle in Kerry Cooperative's milk supply area, as follows [29]:

> It was either going to be a disaster or a blessing. Our cow population was immediately cut by 20% but we still had the same overheads. We were forced to reorganize.

It became clear to Kerry Cooperative's management and board of directors that if the organization was to grow and develop, it needed to reduce its reliance on commodity dairy products and diversify into more differentiated (value-added) products. Thus, the firm introduced the concept of corporate planning and corporate strategy into its management systems and culture [30]. This, in turn, led the organization to agree to a five-year corporate plan that emphasized R&D, diversification, and overseas growth.

Kerry Cooperative's management and board of directors began efforts to diversify into value added products before the EEC adopted milk production quotas in 1984. Thus, the wisdom of the firm's decision to emphasize overseas investment, as well as production and marketing of differentiated food ingredients and food products, was validated when the EEC decided to impose milk production-limiting quotas. In 1995, Brosnan explained Kerry's continued lack of interest in expanding investment in Ireland's milk business, as follows [19]:

> If anybody could point out the advantage of merging with or taking over another Irish company, then we would do so. I do not see any advantage, we would simply be buying into a milk business which is heavily regulated by the EU and which is very cyclical.

Management Takes New Directions, 1979-85

Brosnan reported how the new directions first began to materialize as follows[30]:

> We started in 1979-80 to get away from dependence on milk, and began buying companies in Ireland—19 altogether. We specifically bought the top brands that were available, and that put us firmly in the food business. We got into ingredients when we decided to follow our casein to the U.S.

Structures were put in place during 1980-85 to help Kerry Cooperative Creameries, Ltd. become an international food business. Management recognized that the Kerry Cooperative's milk protein was being used in sophisticated food products. It was also apparent to management that greater value could be generated by supplying specialty food ingredients to the convenience food industry rather than sell the firm's dairy products as dairy commodities. Accordingly, Kerry bought Erie Casein's interest in NKMP, acquiring full ownership in a large food ingredient base in the U.S. In 1983, Kerry Cooperative established U.S. and UK headquarters offices in Chicago and London, respectively.

The Erie Casein acquisition marked the beginning of Kerry Cooperative's major efforts to serve overseas markets. The firm secured the funds required to purchase overseas companies partly from equity capital obtained by converting the organization to a cooperative/PLC in 1986.

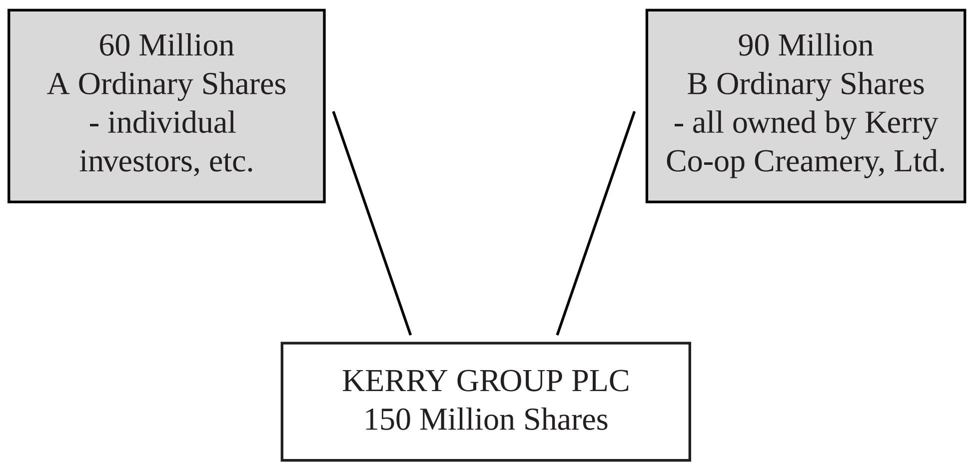
III. Financing Strategies of the Kerry Group/PLC

While Kerry Group/PLC has used complex debt, equity, and cash financing practices in recent years, the firm made a pioneering move in equity financing in 1986 that warrants attention. In June of 1986, Kerry Cooperative Creameries, Ltd. exchanged its assets for majority shareholding in a public limited company, mainly to obtain capital for growth. Other Irish cooperatives (then Avonmore Foods, Waterford Foods, and Golden Vale Cooperative) followed suit shortly thereafter.

Jacobson and O'Leary described Kerry Cooperative's initial share offering in these terms [7, p. 131]:

> A total of 150 million shares represented the ownership of Kerry Group PLC. Sixty million of the shares were identified as A ordinary shares and were owned by individual investors and other investment groups. The other 90 million shares were owned by Kerry Cooperative Creameries Ltd. The 6,000 shareholders in Kerry Cooperative indirectly owned the 90 million B ordinary shares in Kerry Group PLC.

Figure 1. Initial Ownership of Kerry Group/PLC*



* Source: Jacobson and O'Leary [7].

Kerry Cooperative, Ltd. owned the ordinary B shares of the newly formed Kerry Group/PLC (Figure 1). Rules of the PLC stipulated that the Cooperative was required to retain a controlling interest (at least 51%) of the new company. In October 1986, the A shares of Kerry Group/PLC were offered to the public and subsequently listed on the Dublin and London stock exchanges.

Fifteen of the 20 directors for Kerry Group/PLC were farmer-directors of Kerry Cooperative, Ltd. The other five directors were executives of the new PLC firm.

Why Did Kerry Cooperative and Other Irish Agricultural Cooperatives Opt to Form PLC's?

In the mid-1980s, it was unusual for agricultural cooperatives to become cooperative/PLCs. Why did Kerry Cooperative and other Irish agricultural cooperatives take this step?

Prior to the mid-1980s, farmer members of Irish agricultural cooperatives said that they required three things from investments in their organizations [7, p. 52]:

- Capital growth.
- Reasonable dividends.
- Tradability.

In Ireland during this period, the PLC mechanism held promise for addressing these matters while existing cooperative financing models did not.

The failure of the existing cooperative financing models to address these needs has complex origins. But, the management and operating practices of Irish agricultural cooperatives exhibited characteristics during this period that encouraged the formation of PLC's, including those noted below:

- The ownership structure of the cooperatives had a high proportion of inactive shareholders. In some cooperatives, a substantial number of farmer patrons were not members.
- Equity redemption polices among dairy cooperatives were almost nonexistent.
- There were problems with capital and/or share valuation.

The last two items are perhaps the most important. Prior to the mid-1980s, Irish agricultural cooperatives had pursued financing practices that discouraged farmers from providing expansion capital to the organizations. In particular, many Irish agricultural cooperatives retained profits generated from operations in the form of unallocated reserves.

This contrasts with the U.S. situation where frequently a large percentage of the profits of an agricultural cooperative are allocated to individual members on the books of the cooperative and some minimum amount of profits is paid out to members in cash each year. (U.S. agricultural cooperatives are legally obligated to pay out at least 20% of net earnings in cash each year.) The record of U.S. cooperatives in handling reserves certainly does not satisfy all farmers. However, many U.S. cooperatives operate revolving funds under which profits are (a) revolved back to members using 8 to 15 year revolving period arrangements, and (b) revolve back to the farmer member or his/her heirs the allocated reserves when the farmer leaves the cooperative, retires or dies. These practices give value to farmers' claims on the cooperatives allocated reserves.

In the mid-1980s, many Irish agricultural cooperatives had on their books sizeable accumulations of retained earnings in the form of unallocated reserves. Farmer members held shares in the Irish cooperatives, which they felt gave them claims to the cooperatives' unallocated reserves and other assets. But, farmer members correctly perceived that there was little chance that unallocated reserves would be paid to them. Thus, their shares had little value but implicitly represented valuable assets if they could cash them in.

While some farmer members received dividends on allocated reserves, these reserves typically were such a small percentage of the total reserves of the cooperatives that the payments were minimal. Jacobson and O'Leary report, for example, that in 1988 allocated reserves accounted for an average of only about 7% of the reserves of 15 Irish dairy cooperatives studied [7, p. 32].

The presence of unallocated reserves also made a few cooperatives targets for takeover by private firms. Thus, in January 1988, the shareholders of Bailieboro Cooperative Agricultural and Dairy Society Ltd. voted by more than two to one to accept an offer for their shares from the Goodman/Food Industries Group, a public limited company [7, pp. 16-17]. These shareholders had found a way to obtain cash for the potentially valuable shares. One other cooperative followed suit.

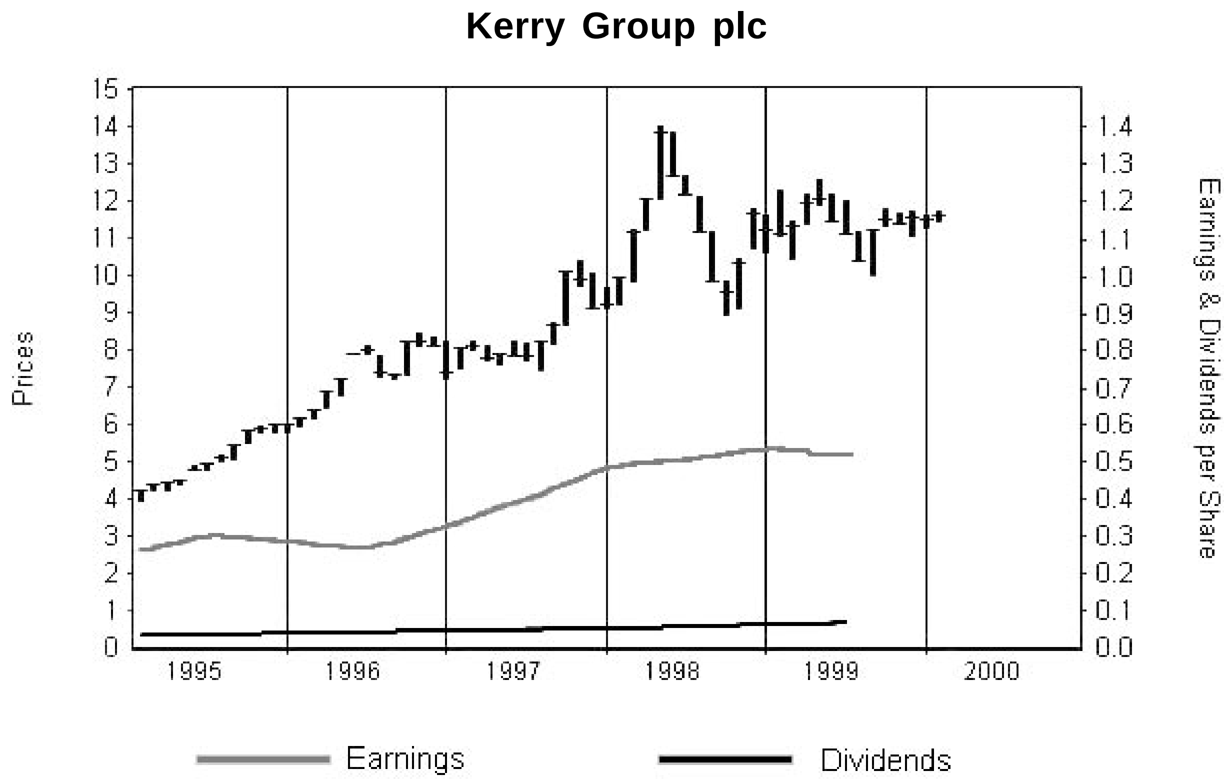
A number of Irish agricultural cooperatives opted for the PLC model rather than adopt a U.S.-type system of allocating more reserves to members and dealing with other financing problems affecting the cooperatives. This choice stemmed partly from the cooperatives' needs to expand the scale of processing operations. For several Irish cooperatives, this expansion would have required more capital than could have been raised even with a U.S. style management and financing system for the cooperatives. In part this was because many Irish farmers who needed capital to expand or upgrade their own operations were not in a position to make large capital contributions to the cooperatives.

It was against this backdrop that Kerry Cooperative's initiative to form a cooperative PLC to raise needed expansion capital received a cordial reception.

Kerry Group/PLC's Stock Prices

Kerry Group/PLC shares traded for about 52 Irish pence (about U.S.$0.70 per share) when the firm's shares were first issued in 1986 [12]. Original cooperative shareholders were offered shares in Kerry Group/PLC at 35 Irish pence (about U.S.$0.47 per share) before the 1986 flotation. Thus, by early 1996 when the price rose to about U.S.$6.00, the firm's shareholders had already realized substantial price appreciation (Figure 2).

Figure 2. Kerry Group/PLC's Share Prices, Earnings, and Dividends, 1995-2000 (U.S.$)*



* Source: Wright Investors' Service [32], the analysis is reported in U.S. dollars.
http://profiles.wisi.com/profiles/scripts/largechart.asp?cusip=C372ER900&curconv=978.

Kerry Group/PLC adopted a rule change in 1996, which permitted the Kerry Cooperative's share holdings to drop below 51% of those for the corporation. (The Cooperative's share of the Kerry Group's stock cannot decline below 20% without an additional rule change.) After gaining the approval of over 75% of Kerry Cooperative's members, Kerry Cooperative transferred a quarter of its PLC holdings directly to coop shareholders [14]. Prior to this action, Kerry Cooperative shareholders individually held about 10% of the PLC shares. The transfer increased the coop shareholders direct stake in the PLC to about 23%.

This change allowed the firm to float additional shares on the public market, increased the market liquidity for Kerry's shares making the share more attractive to foreign investors in particular, and permitted share appreciation for farmers who held shares in the firm. Subsequently, the Kerry Cooperative's stake in the public company fell to 37% in May 1999 [17].

Coincident with this change, the number of Kerry Cooperative directors on the Group's board of directors was reduced from 15 to nine. The increase in the amount of public ownership of the firm increased trading in the Kerry Group/PLC's stock and also increased the volatility of the stock price (Figure 2). In 1998 the Kerry Group/PLC's stock traded for several months in the U.S.$11.00 to U.S.$14.00 range before leveling off to trade in the U.S.$11.00 to U.S.$12.50 range during much of 1999.

The stock of Kerry Group/PLC in 1999 traded at approximately double the P/E ratio of Irish dairy companies Golden Vale and Glanbia (merged Avonmore/Waterford organization) [17]. Kerry's higher P/E ratios presumably reflect the impact of many developments, including Kerry's decision to emphasize food ingredients.

Kerry's Handling of Potential Conflicts Between Non-Cooperative Stockholders and Farmer-Members of Kerry Cooperative

When a farmer cooperative converts to a cooperative/PLC, it sometimes creates conflicts between farmer-members of the cooperative and non-cooperative shareholders in the PLC.

In part the conflict arises over issues of control. Kerry appears to have resolved this issue successfully. Kerry Cooperative, Inc. still held 37% of the stock of the Kerry Group/PLC and placed nine members on the board of directors for the Kerry Group after the 1996 action. This appeared to satisfy farmer-members of the cooperative that they retained appropriate amounts of control over Kerry Group/PLC. In addition, in 1996 after Kerry Cooperative's holdings in Kerry Group were reduced, the Kerry Group/PLC gave Kerry Cooperative the option to buy the Kerry Group/PLC's Agribusiness Division between the years 2001 and 2020 [26]. The purchase could be made to ensure that the Agribusiness Division's farm inputs and services would continue to be available to members of the Cooperative. If the Cooperative elects to buy the Kerry Group's Agribusiness Division, it likely will finance the purchase with stock held in the Kerry Group/PLC.

Conflicts can also arise between milk suppliers and non-farmer shareholders in a PLC. For example, farmer-members supplying milk to a dairy cooperative/PLC often prefer to receive high milk prices rather than capital appreciation or elevated stock dividends. Non-farmer shareholders in the organization, on the other hand, typically prefer management activities that emphasize stock appreciation and/or large stock dividends.

This potential source of conflict appears not to have been a problem for Kerry. Members of Kerry Cooperative have benefited both as milk suppliers and stockholders. They have realized stock appreciation and have received stock dividends and competitive milk prices. Hugh Friel, Deputy Managing Director of Kerry/PLC, reported that "milk prices are not an issue" for Kerry [6]. Presumably this means that Kerry generates enough profit to pay competitive milk prices through efficient and profitable milk processing and marketing operations. Moreover, the firm could, if it chose to do so, cross subsidize milk producers with profits generated by other parts of the firm.

Particularly before the 1996 action, which reduced Kerry Cooperative's holdings of Kerry Group/PLC below 51%, non-farmer shareholders sought additional shares in the thinly-traded Kerry Group stock, presumably because they thought it represented an attractive investment. The high P/E ratios enjoyed by Kerry compared to other Irish cooperative/PLC firms in 1999 suggests that it is still regarded as a relatively attractive investment.

Thus, the firm's successes, the 35%+ shareholdings retained by Kerry Cooperative, and the agreement to give Kerry Cooperative an option to buy the Group's Agribusiness Division appear to have eliminated most potential sources of conflict among Kerry Cooperative, the Kerry Group's farmer shareholders and other shareholder groups.

IV. Kerry Group/PLC's Acquisitions and Capital Investments

Acquisitions

The financing capacity gained in part by the move to cooperative/PLC status enabled the Kerry Group to accelerate the firm's acquisitions—especially overseas. Kerry Group/PLC opened its first overseas food ingredients manufacturing plant in Jackson, Wisconsin in 1987 and in 1988 acquired Beatreme Food Ingredients, a division of Beatrice Corporation [12, p. 3]. Kerry officials described Beatreme Food Ingredients, which was acquired for U.S.$130 million, as the "premier specialty food ingredient supplier in the U.S. market" [12, p.3].

The Kerry Group in 1993 acquired Malcolm Foods of St. George, Ontario and Research Foods in Toronto, Ontario, Canada.

The Kerry Group/PLC initially developed its European food ingredients business in the dairy, confectionery and convenience food sector from the Listowel plant in Ireland and the Wadersloh

Table 1. Partial List of Kerry Group/PLC's Acquisitions, 1995-99*

Year, Company and Country	Nature of Acquired Firm
1995	
Broadheath, UK	Fruit preparations for bakers
Ciprial, France and Italy	Candied fruit and fruit ingredients for patisserie and marron glaces
Solutech DCA, Australia	Food ingredients for Australia, Pacific Basin, and S.E. Asia
1997	
Glen Arrow Products, Canada	Specialty food ingredients
Ciprial & Margretts, France	Merger
G.R. Spinks, UK	Fruit ingredients
Johor Bahru Food Ingredients Plant, Malaysia	Food ingredients processing
Star & Arty Ingredientes, Alimenticios LTDA, Brazil	Ingredients for the chilled dairy and bakery industries, and snack and fast food sectors
1998	
SDF Foods, Malaysia	Food ingredients for S.E. Asia customers
Dalgety Food Ingredients, Eight European Countries	Food coatings, ingredients, seasonings, bakery products, consumer foods
Burns Philip Ingredients, Australia & New Zealand	Food ingredients
Spinks & Co., Ireland/UK	Fruit preparations
1999	
Completed acquisition of Tukania Proca Gmbh in Rodgau, Germany	Snack foods
Shade Food Group, USA and SFI, Europe	Flavored particulates, high protein inclusions, specialty chocolate, and compound coatings

* Source: Sevmour-Cooke, Ltd., "Europe's Top Food Groups, Kerry Group, Tralee, Co. Kerry, Ireland," 1998 and Kerry Group/PLC Corporate History [12].

plant in Germany [12, p. 3]. Later, through the acquisition of Eastleigh Flavors and Tingles Ltd. in 1993, the Kerry Group became a leading supplier to the UK and Continental Europe snack food and food processing industries [12, p. 4].

Kerry Group/PLC acquired DCA in 1994 from Allied Domecq, PLC for U.S.$402 million. The acquisition was financed with loans from three Irish Banks plus a share issue. At the time of the acquisition, DCA had operations in five countries with two-thirds of the value residing in the U.S. B. McGrath, Markets Editor for The Irish Times, described the acquisition as follows [15]:

> DCA brings the group into cereal based ingredients and the fruit flavor markets and complements Kerry's existing strengths in dairy-based ingredients. Like the existing Kerry business, DCA has operations in five countries and specializes in the manufacture of food ingredients for the baking, food processing, and food service industries.

This DCA deal made Kerry Group/PLC a world leader in the food ingredients business.

By 1995, Kerry Group/PLC had made about 43 acquisitions, which allowed the firm to double in size in each of the previous five-year periods [30]. Table 1 shows recent acquisitions together with the geographic areas and products emphasized.

While the acquisitions in Table 1 do not comprise an exhaustive list, the table does show the nature of the Kerry Group/PLC's recent acquisitions—many have been in the food ingredients business. They also show the firm is establishing the foundation for further expansion into Latin America and South Asia—growth markets for food businesses. Kerry reports that the expansion into Latin America enables the firm to supply fast food businesses that are expanding rapidly in these growth markets.

Brosnan provided insights on the firm's acquisition strategies in a 1995 interview. His views on the Beatreme acquisition, investments in Eastern Europe, and investments in North America are summarized below [30]:

> (Beatreme) In 1983, we began tracking Beatrice Foods Specialties, which eventually became Beatreme. We tried to buy it from '83 to '88. So we were in closest when it was put up for sale…At the time of purchase, we were about the same size. Kerry paid U.S.$135 million for Beatreme back in 1988. Many thought it was way too much. But we had a different view and followed our judgment.
>
> (Investments in Eastern Europe) In purchasing DCA, we acquired an operation in Poland. We've looked at Eastern Europe quite a lot. Our view is that it's going to take longer than earlier thought for Eastern Europe to advance. So far, we've decided to stay out, but keep it under review 'til about the year 2000. Like everyone else, we looked at Poland, Hungary and Czechoslovakia when the barriers came down a few years ago, but decided to wait. There's a lot of money to be made, but it depends on the time frame. Although it will cost a bit more to go in later, we'll wait until we're closer to those countries becoming part of the EU.
>
> (Investments in North America) Kerry has major investments in Mexico and Canada. We've often said that if we were as wise in 1973 when Ireland joined the EC, we could have perhaps made a lot more money earlier. Joining the EC gave Ireland a much larger marketplace. NAFTA will bring huge opportunities on the North American continent, and we'll be investing further in all countries. It's good for North America.

Capital Investments

The firm's capital investments during 1995-1998 appear in Appendix Table 1. The pattern is different from that of the acquisitions. The investments were directed substantially toward building new warehouses, distribution centers, technical centers, and research centers. Among other things, these expenditures establish the infrastructure to support the functioning of the expanded firm. Capital expenditures also were made to upgrade, and expand ready meals processing plants, upgrade and expand meat and poultry processing capacity, and fruit preparation. Capital expenditures were distributed geographically across a host of countries including the U.S., France, the UK, Ireland, Canada, Poland, and the Asia Pacific region.

Kerry made capital investments in Poland in 1998 (Appendix Table 1). The firm invested 2.0 million Irish pounds in fruit preparation facilities at its plant in Kielce, Poland to serve markets in Central and Eastern Europe [9, p. 13]. Apparently Kerry's management concluded that Poland was sufficiently promising that it warranted the additional investment despite the firm's reluctance to expand its presence in Eastern Europe.

Kerry Group/PLC's current configuration of course was not entirely determined by acquisitions and capital investment. Divestitures—while not numerous—also have shaped the company. Kerry's first acquisition in the U.S.—an imitation cheese company—was later sold [30]. In 1995, the firm sold its Irish beef processing operations in Rathdowney, Waterford, and Clones. In 1996, the DCA headquarters in New York and the Fenton, Missouri offices of the coatings division were closed and administration transferred to Beloit, Wisconsin. In 1998, following the acquisition of Dalgety's food ingredients division, eight Spillers mills and Fleming Howden were sold to Tompkins, PLC.

Kerry Group/PLC's acquisitions and divestitures contributed to the following pattern of sales and operating profits in 1998 [9]:

Geographic Area	% of Sales	% of Operating Profit
Ireland	26.7	18.6
Rest of Europe	43.9	41.6
Americas	26.3	38.5
Rest of the World	3.1	1.3
Total	100.0	100.0

As noted earlier, the Kerry Ingredients division accounted for 63% of the firm's sales in 1998. The firm's acquisitions of large firms and—especially ingredients firms—promise to be the hallmark of Kerry's future acquisitions. Brosnan commented as follows on these points[30]:

> …we seldom buy small companies any longer. We're growing internationally in ingredients, and in Europe we're growing in consumer foods…. I think the percentages (ratio of food ingredients to consumer foods) will have to change as food ingredients on an international basis give us more scope than food products in Northern Europe. But we're very good at both.

The higher profit margins on ingredients are likely to push the firm to emphasize food ingredients. Curran, an analyst who investigated Kerry Group/PLC's operations, reported that "The food business can yield margins of about 7%, but when a company invests in the technology to mass produce ingredients such as cheese powder, or coatings for fried products, margins can increase to over 12%" [5]. It is not clear whether the spread between the margins on ingredients and consumer food products is as large as the five percentage point difference mentioned by Curran. But it is likely that food ingredients will remain more profitable for Kerry than consumer food products in the highly competitive European and North American consumer food product markets.

Kerry's push toward the ingredients business has been accompanied by a sharp reduction in revenues from Irish milk sales. After the DCA acquisition in 1994, the dairying business based in Ireland formed only about 11% of Kerry's total sales [15].

Financing of Recent Acquisitions

While some of the Kerry Group/PLC's early acquisitions were made substantially with equity funds, McGrath reports that the firm has funded the "vast bulk of its 800 million Irish pounds of acquisitions of the past 10 years (1988 to 1998) through debt" [22]. McGrath described the financial impact of Kerry's acquisition of the Dalgety food ingredients business in 1998 as follows [22]:

> When this deal is completed, Kerry will have total debt of around 660 million Irish pounds on shareholders funds of just 120 million pounds. This represents a debt/equity level of over 500%—an astronomical level of debt for a company the size of Kerry…. Increasingly, analysts are ignoring gearing (debt load) when assessing companies after heavily leveraged acquisitions like Kerry's purchase of the Dalgety food ingredients business. Interest cover and cash flow generation are used as more accurate gauges of a company's ability to meet its debt obligations…. Kerry will be able to reduce the 660 million net debt figure to 590 million pounds by the end of 1998 and reduce it substantially further in succeeding years.

Why the heavy emphasis on debt use to finance acquisitions? Part of the reason lies in the constraint that until 1996 required Kerry Cooperative to maintain a 51% controlling interest in the PLC. McGrath notes that Kerry apparently has not had to walk away from any acquisitions because of money. However, Brosnan and Friel noted that in the case of the U.S.$402 million spent on DCA, Kerry would have preferred to use more than 25 million Irish pounds of equity funding and would have done so if it had not been for the 51% rule [20].

V. Strategies and Practices that Underpin the Kerry Group/PLC's Financing, Expansion and Diversification Initiatives

The Kerry Group/PLC's financing, expansion, and diversification initiatives during the past 25 years have required major changes in infrastructure and methods of operation. Those relating to knowledge generation, personnel practices, R&D, and marketing practices are discussed briefly below.

Knowledge is the Forerunner of Strategy

Brosnan's comments indicate that the firm's major acquisitions, capital investment decisions, and divestitures were preceded by substantial analysis. In 1995, he described guidelines that have shaped the firm's product line and the geographic location of the firm's production and marketing activities, as follow [3]:

- Know which sector you are in or want to be in.
- Know your competitors.
- Know the marketplace.
- Know or anticipate the rapidly changing demands of consumers of your product.
- Know in an international business which decisions can be made by decentralized (local) management and which decisions must be reserved for the corporate office.

Brosnan summarized the importance of these points, saying that knowledge is the forerunner of strategy. How important knowledge is to the firm's strategies is suggested by comments made by Kerry officials in connection with the Beatreme and DCA acquisitions.

Recall that Kerry had accumulated knowledge about Beatreme (or its predecessor organization) from about 1983 until the 1988 purchase date. In 1988, some financial analysts argued that Kerry paid too much for Beatreme. Kerry rejected this reasoning partly because it had followed Beatreme's progress for about five years and had thoroughly assessed the value of the firm. As it turned out, the large profit margins generated by Beatreme helped Kerry manage, and pay down rapidly, a significant part of the potentially burdensome debt load taken on by Kerry for the DCA purchase in 1994.

Kerry's preparations for submitting the bid for DCA provide additional insights about the amount of effort put into knowledge generation. In assembling the bid for DCA, Kerry

Group/PLC put in four months of work involving up to 40 people in the final stages of the effort, working on the due diligence and financing arrangements. This allowed Kerry to develop a bid package that permitted it to acquire DCA despite strong competition from the British foods group, Dalgety. However, Kerry purchased DCA before all important information was known. In conceding this point, Brosnan told his bankers that it "would take all of 1995 to fully understand DCA and where it will fit in with our existing businesses [24]."

R&D Expenditures

As the firm evolved heavily into the food ingredients business, the importance of expanding R&D quickly became apparent. Thus, Kerry Cooperative set up an in-house R&D program in the early 1980s, opting not to rely on the R&D provided by a national government agency.

Brosnan's views on the importance of investments in technology and R&D are revealed in part by a 1995 interview [5]:

> The ingredients sector is somewhere between food engineering and pharmaceutical application. It requires companies to invest heavily in technology, as well as research and development…Continuing with the development of new products in an industry where technology and innovation are so important requires a significant expenditure on research and development…2.5% to 3.0% of turnover will continue to be spent on R&D because of its importance.

In another 1995 interview, Brosnan commented as follows about the importance of R&D [30]:

> You must plan for the long-term. Kerry would be millions of dollars more profitable if it downsized R&D tomorrow morning. We spend heavily in our venture group which is trying to create the technology of the future. Since we are a technology company, R&D is part of our strategy. Shareholders have seen Kerry stock outperform the market, so they are very happy. Of course, we're also open to short-term ideas that can boost profits overnight.

Changes in Personnel Recruitment Practices

As Kerry Group/PLC has evolved into an international food ingredients and consumer food products company, its personnel needs have changed. The firm's emphasis on technology development and R&D necessitated recruitment of larger numbers of employees with food science, engineering, and technology backgrounds. The firm's acquisitions also necessitated having substantial in-house capabilities in finance.

The firm's global expansion has placed a premium on diversity and language capabilities. Brosnan commented on this point as follows [30]:

> We find differences in American and European thinking, particularly relating to language. We now recruit people out of college who speak two languages plus their native language. In the Kerry organization, managers are from different backgrounds, nationalities, cultures and have different language skills. It's very important when you to go a new continent to have a mix.

Changes in Marketing Practices

Like those relating to personnel, the firm's marketing practices of necessity changed as it moved away from being a dairy cooperative increasingly into food ingredients and consumer foods. Part of the difference relates to the need to work closely with final customers for food ingredients and consumer foods.

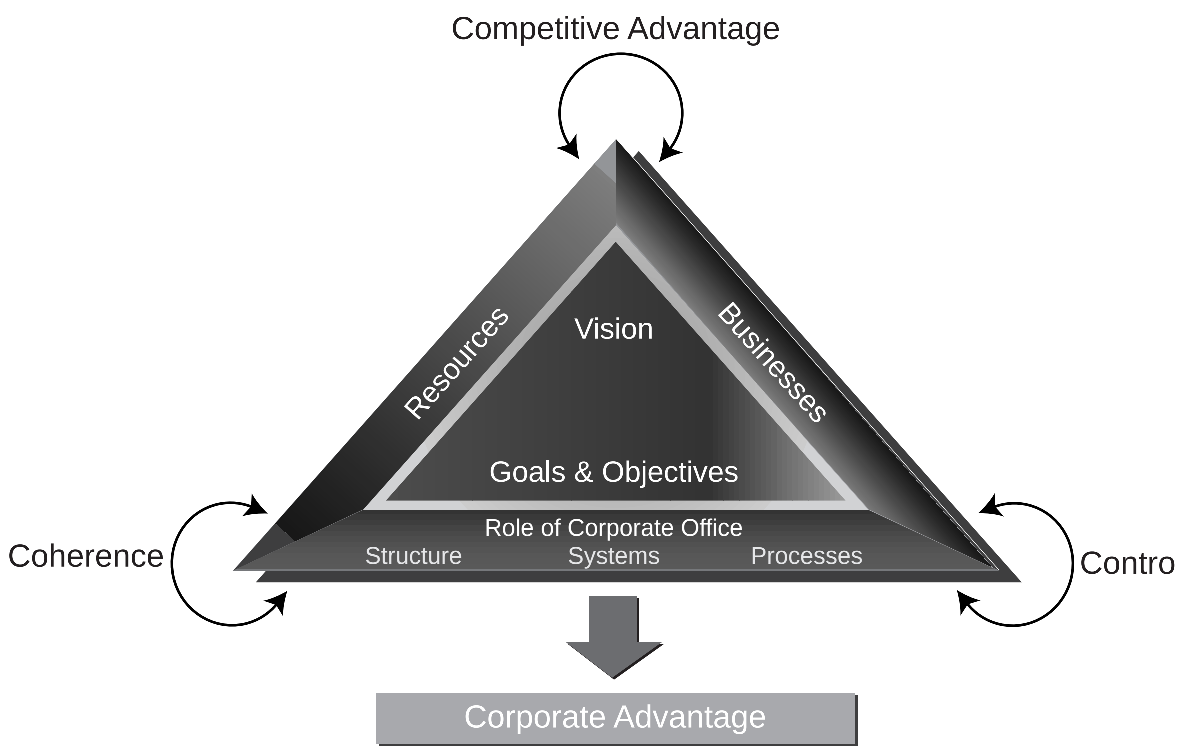
Hugh Friel, Deputy Managing Director of Kerry Group/PLC, said that the changing nature of the firm forced Kerry to stop exporting through the Irish Dairy Board (IDB) in about 1990 [6]. Kerry needed to be in position to work with final customers to explain the technical characteristics of the products and applications of the products. Kerry also wished to be positioned to offer price concessions when necessary to final customers. It is difficult to explain technical characteristics or make needed price concessions if sales are made through an intermediary such as the IDB.

VI. An Evaluation of Kerry Group/PLC's Corporate Strategies

As noted earlier, the Kerry Group/PLC's corporate strategy is to diversify and grow the business emphasizing differentiated (value-added) food ingredients and consumer food products. This core strategy is supported by a number of other strategies and practices, notably one that emphasizes growth by acquisition.

Collis and Montgomery provide a "Triangle of Corporate Strategy" (Figure 3) that is useful for evaluating the Kerry Group/PLC's corporate strategies. Points relating to Kerry that are raised by the Collis-Montgomery Triangle are addressed below in a Q &A (Question & Answer) format.

Figure 3. The Collis-Montgomery Triangle of Corporate Strategy*



* Source: Collis and Montgomery [4].

Q1: Is there a clear and well-articulated vision for the firm?

A1: Brosnan has stated that his business philosophy—which is probably a suitable proxy for a vision for the firm—is "Technological creativity, superior product service, superior customer service, and wholehearted commitment of each employee" [30]. This vision statement seems to be a viable guiding vision for the different facets of the business.

Brosnan's other goals such as the 15% per year growth target are perhaps less useful as a vision. While the 15% growth target generally has been met in the past, such growth may not be sustainable over the longer-run. After a firm acquires a certain large size, such growth targets prove difficult to meet consistently.

Q2: Are the elements of the firm's corporate strategy internally consistent—i.e., are they aligned with one another to form a coherent whole?

A2: This is difficult to assess meaningfully with available information. Certainly the two main divisions of the firm—food ingredients and consumer food products—are closely related. It is feasible for the firm to implement strategies and practices that allow the divisions to produce economies of scope and complementarities. However, it is unclear whether technologies used to advantage in one division or location are quickly adopted where appropriate in others. This is doubtful given the short time between major acquisitions of food ingredient firms by Kerry. However, it is clear that officers of the firm recognize the need for internally consistent strategies.

Q3: Does the firm's strategy fit with the external environment?

A3: The point of this question is that "firms should never forget to assess the underlying attractiveness of the external environment (industries) in which they compete. No matter how effective the corporate strategy, if the firm's businesses are tough to make money in, the financial results of the strategy are likely to be poor" [4, pp. 174-175].

Kerry appears to have developed strategies that address this question exceedingly well. The firm recognized early that it was advantageous to de-emphasize businesses that were affected by weather, diseases and EEC (now EU) milk quotas. Kerry has also recognized that food ingredients businesses carry substantially higher profit margins than either the consumer foods business or the agribusiness functions. Hence, the firm's acquisitions during the late 1980s and 1990s focused heavily on ingredient firms. Finally, Kerry's divestitures—e.g., Spiller mills—have purged components of acquired firms that generated low margins or failed to complement other aspects of the divisions.

Q4: Is the strategy too risky? Specifically, is the organization being asked to do too much in too short a time?

A4: Brosnan and other senior managers of Kerry Group/PLC appear to be advocates of "stretch" targets. Collis and Montgomery point out that striking an appropriate balance between setting challenging targets and overextending an organization is a difficult task [4, p. 175].

Kerry's managers recognize that firm's employees need time to assimilate major new acquisitions. Moreover, Brosnan and other senior managers didn't make new acquisitions until after existing segments of the firm had generated profits needed to pay down debt on previous acquisitions to manageable levels. However, Kerry's new acquisitions during the 1990's certainly were not made at a leisurely pace. Excessive attention was not paid to these constraints.

Q5: Does the strategy produce value creation that is sustainable?

A5: Kerry's value creation appears to be consistent with ideas advanced by Drucker, Prahalad and Hamel, and other business strategists who claim that the essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today. Kerry creates competitive advantage partly by being an early mover in acquiring high profit margin food ingredients businesses. The firm probably can continue to find attractive food ingredients firms to acquire for a few more years, but it is difficult to imagine that these acquisitions can continue indefinitely. This means that, at some point, the firm will need to squeeze more profits out of existing businesses or begin to acquire another group of high profit businesses. Value creation in the latter areas may be more difficult to achieve than selecting desirable food ingredients companies to acquire.

Q6: Are there consistencies between the firm's (a) resources and businesses, (b) businesses and corporate structures, systems and processes, and (c) resources and corporate structures, systems and processes? These points are potentially important for reasons of competitive advantage, control and coherence.

A6: Certain aspects of this question are addressed above and need no further discussion. However, Q6 does raise questions about the fit between the acquired firms and Kerry and the long-term profitability of the acquisitions.

Collis and Montgomery point out that the benefits and drawbacks associated with acquisitions include those noted below [4, p. 90]:

Benefits	**Drawbacks**
Speed	Cost of acquisition
Access to complementary assets	Unnecessary adjunct businesses
Removal of potential competitor	Organizational clashes may impede integration
Upgrade corporate resources	Major commitment

Several of these points have been mentioned in previous sections. Speed of growth was a factor in several of the acquisitions. The Dalgety acquisition resulted in "acquiring an acquirer" which had snapped up food ingredients businesses in Europe prior to the acquisition by Kerry. Thus the Dalgety acquisition eliminated a competitor for high profit margin ingredients business in Europe. Kerry's acquisitions in North America gave the firm access to valuable corporate resources in the form of customer bases on the North American continent.

Among the drawbacks, the cost of acquisition is perhaps most important and worthy of special comment. As noted previously, analysts questioned whether Kerry had paid too much for both Beatreme and DCA. Such questions are raised for the following reasons noted by Collis and Montgomery [4, p. 91]:

> When making an acquisition, managers often lose sight of the fact that acquisitions are purchased in a market—the market for corporate control—that functions reasonably well. Importantly, the going price for a firm reflects not only the value of the firm as a stand alone concern, but also incorporates the incremental value the market feels the assets would have to a host of potential acquirers. Unless the winning bidder can use the assets in an unusual way, and create value that other bidders could not, it should not expect to earn economic rents on assets it purchases in the market…value created in most mergers is captured by the shareholders of the acquired firms.

Kerry recognizes these points. Moreover, it is possible that Kerry can use the acquired resources in unusual ways. Certainly complementarities between the Kerry's dairy ingredients businesses and the cereal-based and fruit-based ingredients businesses acquired in the 1990s might make some of those later acquisitions more valuable to Kerry than to competing bidders. Moreover, Kerry did thoroughly analyze the potential profitability of the acquisitions before making them under its "knowledge is the forerunner to strategy" operating procedure. It also must be conceded that Kerry's acquisitions in the ingredients business appear to be profitable or at least not a problem for the firm.

Nonetheless, the "cost of acquisition" drawback will face Kerry in the future. This is not a trivial point. Some of Kerry's future acquisitions could fit the description of the typical acquisition, which earns no economic rent for the purchaser.

VII. Implications of the Strategies of the Kerry Group/PLC for U.S. and Other Dairy-Food Exporters and Investors

Certain ideas flow from Kerry's strategies and practices that have implications for U.S. and other dairy-food exporters and investors:

1) <u>Ability to relate a company to its environment is important</u>. Faced with difficult conditions in the 1970s and mid-1980s, the firm exhibited a noteworthy ability to recognize opportunities for diversification into value-added products. The firm recognized early that its basic options were to "diversify or merge." If the firm had chosen to merge rather than diversify, it probably would now be a small part of one of Ireland's larger dairy companies rather than a multi-billion dollar multinational firm.

2) <u>Continuity of top management is important</u>. Denis Brosnan, Managing Director of the Kerry Group/PLC, has served as top manager of the firm or its predecessors since 1972. Moreover, two of the firm's Deputy Managing Directors have been with firm since 1972 and a number of Kerry's other top managers have been with the firm since the mid-1970s. This has permitted the firm to pursue consistent strategies over an extended time period. The continuity and trust generated by Brosnan, in particular, has permitted the firm to change from a position where Kerry Cooperative, Inc. held 51% control to a position where the Cooperative held about 37% of the Group's stock. This change in control permitted greater use of equity capital for expansion purposes and helped the firm gain other important advantages.
3) <u>Knowledge is a key forerunner to strategy</u>. The Kerry Group has made important acquisitions and other strategic moves only after careful (and sometimes lengthy) analysis. The analysis appears to have converted certain of Kerry's acquisitions from the excessively risky category to the manageable risk category.
4) <u>Early mover advantages are important</u>. The firm has evolved into one of the world's largest food ingredients firms, partly because of early recognition of the importance of acquiring Beatreme and DCA. While corporate "stretch" was involved in these acquisitions, the company probably would now be the poorer if it had not made the acquisitions. The two acquired firms exhibit complementarities and strong profit generating capacity.
5) <u>Latin America and Asia are growth markets for dairy and other food products</u>. Kerry's decision to expand its food ingredients business into Latin America and Asia recognizes that these markets are growth markets. The firm's ability to serve fast food companies that are expanding rapidly in these markets should contribute to profits.
6) <u>A firm's infrastructure must change substantially when it evolves as dramatically as Kerry Group/PLC</u>. The firm changed its financing, R&D, personnel recruitment, and marketing practices to reflect what it has become. Kerry's capital investment decisions were also made to support the changing nature of the firm as it evolved from a commodity-oriented dairy cooperative into a global food ingredients and consumer foods company.
7) <u>Kerry's conversion to a cooperative/PLC was a necessary but not sufficient condition for success</u>. In the business environment of the mid-1980s, Kerry Cooperative's decision to convert to a cooperative/PLC was a sound strategic move. This move helped Kerry to make certain early acquisitions. But many of the firm's acquisitions in the late 1980s and 1990s were made mostly with debt rather than stock equity. The continuity of top management, the Managing Director's vision, the firm's bold acquisition practices, and the firm's knowledge of customers, competitors, and markets go further in explaining Kerry's success than its PLC structure.
8) <u>Acquisitions possess inherent drawbacks</u>. Kerry appears to have made mostly successful acquisitions to build the firm into a world leader in food ingredients. However, unless Kerry can continue to use acquired assets in an unusually productive way, and create value that other bidders cannot, it should not expect to earn economic rents on assets it purchases in the market. This fact of life will affect Kerry's future acquisitions.
9) <u>The Kerry Group/PLC model will not be easily replicated</u>. Kerry's experience should be of interest to U.S. firms that are contemplating expansion into international dairy-food markets, and to organizations, such as the New Zealand Dairy Board, that are considering fundamental changes in global marketing practices. However, it is apparent that unique conditions in the business environment in the 1970s in Ireland, a complex bundle of mutually-reinforcing strategies, and early mover advantages (which will make it expensive for others to gain large positions in international ingredients markets in particular) have contributed to the Kerry Group PLC's successes. Opportunities to assemble this combination of developments and strategies will not occur frequently.

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Appendix. Kerry Group/PLC's Capital Investments, 1995-98*

Year and Country of Capital Investment	Nature of Capital Investment
1995	
UK	A new central warehouse and distribution facility was completed at Hyde.
1996	
US	An investment program for a technical center in Beloit, Wisconsin was started. Investment was made in Evansville, Indiana food coatings plant.
France	A fruit research center was established at Apt as part of the Ciprial operations.
UK	Investments were made in the fruit processing sector and in the Hyde and Durham meat and ready meals processing plants.
Ireland	The Limerick meat processing facility was upgraded.
1997	
UK	The direct sales division was relocated to new headquarters in Andover, 50 new vans were secured, and two new distribution centers were opened in Carlisle and Newbury. A facility was being developed at Burton on Trent site to handle premium chilled ready meals.
Ireland	Limerick site extended for increased production of value-added chicken products. Forty vehicles were delivered to aid in-house distribution.
US	Culinary unit developed at R&D Center in Beloit, Wisconsin.
Asia Pacific Region	Technical center/administrative headquarters built to serve region.
1998	
UK	Completed investment program at Attleborough site to provide extended facilities for ready-to-cook meats.
Canada	Major investment program at Glen Arrow Products following acquisition.
Poland	Investment in fruit preparation facilities.

* Source: Sevmour-Cooke Ltd., “Europe’s Tops Food Groups, Kerry Group, Tralee, Co. Kerry, Ireland,” 1998.