

To or Not to Go Buffalo Part A

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Arend van Waart looked across the table at his brother Adrian and asked him, “What do you think, should we or shouldn’t we? Should we buy the herd? They want \$15,000 US per head and some are old cows and the bulls are not worth much at all. It’s an all or nothing deal.”

The two brothers had been discussing the offer that they needed to put together on a herd of 400 water buffalo that had come for sale recently in Florida. It was April of 2008 and the herd of buffalo was 2000 km south of their operation in the U.S.A. The brothers’ farm was located 150 km outside of Toronto, the largest city in Canada with a metropolitan population in excess of six million people and the most cosmopolitan in the world according to the United Nations.

The two brothers had grown their dairy farm to 500 Holsteins after acquiring a few local operations in recent years. This was no small operation according to local standards and represented a significant investment. Each heifer or cow was valued at between \$1500 and \$2500 each and were in many cases worth significantly more as a result of the brothers’ own breeding program. Each cow represented much more though. In the Supply Management System in Ontario, quota currently had a market value of approximately \$30,000 per cow. Combined with the value of the land, buildings and equipment the whole incorporated farm operations was valued significantly more than \$25,000,000. Included in the assets was a barn and milking parlour in the farm next door, one of their recent acquisitions, which was sitting idle.

Adrian asked to see the marketing information they had. All of this information was obtained as the result of a presentation that was made at the local Agricultural College on ethnic demands for dairy products the previous year. Arend had asked the professor for some background information the previous month and had received copies of two MBA research papers that were conducted in the past two years. One paper identified a significant demand for buffalo milk among the south Asian community of Toronto, an ethnic community that numbered almost one million in population. The total population of the Greater Toronto Area (GTA) exceeded six (6) million people with another 2 million within another 2 hour drive. Toronto had been identified as the most cosmopolitan city in the world by the United Nations a couple of years earlier. The largest school board in Canada, the Toronto District School Board reported a population where 40% of the students had English as their second language. Only Miami, Florida, U.S.A. was more foreign born than Toronto. The Italian-Canadian Community was also very significant in the GTA even to the extent that they elected representatives to the Italian Parliament and the Chairman of FIAT was Canadian-Italian.

The report noted that in India and Pakistan the primary animal for milk was none other than the Buffalo, representing in excess of 50% of the milk produced in India and over 60% of the milk produced in Pakistan according to the Food and Agriculture Organization of the United Nations (FAO). Of other note was that almost 40,000 people from those two countries were immigrating to Canada every year with 80% of them settling in the Toronto area. (See figure 1.1 for the makeup of immigration to Canada) The

report did note that the south Asian grocery stores would welcome the buffalo milk providing it was at the same price as the cow milk that would be placed right alongside it in the coolers. And many of the vendors advised that they expected many of their customers to purchase the milk and produce their preferred foods in their own kitchens just like back home.

Currently the brothers were receiving \$0.60 per litre for the milk sold in the quota system. Buffalo, like goats and sheep were excluded from the quota system as they were not classified as Bovine in Canada. There was even mention in one report that the market for milk was growing globally with bovine cows providing the largest portion of the milk but growing at a slower rate of production than buffalo. India was competing with the U.S.A. as the largest milk producing country in the world, and the majority was buffalo milk.

The other paper made mention of the demand for Buffalo Mozzarella and the market in the delicatessen and higher end restaurant market. Currently the majority of the Buffalo Mozzarella sold in Canada came from Italy. Normally this would not make much of an issue but the customers in the survey insisted that the cheese be available as fresh as possible, reducing the potential shelf life of the imported unripened cheese which in Italy was generally eaten with 2 to 3 days. It was noted that at one store the proprietor insisted that the cheese from Italy had only a five to six day shelf life. Any Mozzarella that could be available with a longer shelf life would be appreciated. However he did mention that the demand rarely left anything on the shelves for the full 6 days. Supply was another issue. To obtain the Italian cheese it was difficult to ensure supply when desired as the demand was not being met from Italy and new farms were springing up in the Netherlands and Belgium. Columbia and Venezuela and other Central and South American countries had raised the animals for centuries after being introduced by the Spanish from Italy. Australia also raised the animals for the production of Mozzarella and related products. The animals in Australia had been sourced from nearby lands of South-East Asia and were well suited to the climate of northern Australia.

Arend pulled out the two graphs from one paper that showed the consumption of fluid milk in Canada and the demand for Cheeses (see figures 1.2 and 1.3). The highest margin product for the dairy farmers was the marketing of fluid milk but that demand was declining. Conversely the demand for cheese was changing. The overall demand was increasing but not in the traditional products, the growth was in specialty cheeses.

One of the largest issues to catch the brothers' eyes was the tariff on the imported cheese, 285%. No wonder the Buffalo Mozzarella was selling for between \$15 and \$21 per 100-150 gm ball of cheese. The survey conducted by the MBA's made mention of the fact that the delicatessen owners and chefs that were surveyed ignored the question of price and prioritized the criteria for the cheese as firstly taste, secondly quality and finally service. Price issues were ignored by the potential customers as they said they can sell whatever they can get at the delicatessens and the chefs considered the taste and quality essential.

“Okay” said Adrian, “we can probably cash flow the purchase from the Holsteins. But how do we get them here? Won’t the Food Inspection Agency require all kinds of certificates of origin and veterinary testing before we can import the animals? What about BSE?”

There had been many issues that had interfered with the trading of beef and related products between Canada and the USA over the past 5 years and the rules were not being eased for older animals. “The process looks a bit too simple; we may need a lot of veterinary and other technical help. They are asking for country of origin of the animals. Do we know that?” (See figure 1.4)

The brothers then considered the expected future of their current operation. Sales of fluid milk were decreasing per capita but overall sales were increasing, in particular in the cheese and specialty products. Total sales continued strong but with diminishing growth. The cheese sales looked the most promising primarily of the specialty cheeses. Dairy farmers tended to receive a lower price for the milk sold for the production of cheese under the supply management system in Ontario.

“So Adrian, do you know how to make mozzarella? When was the last time either of us were in Toronto other than to catch a plane?” asked Arend. There was no real need for the brothers to visit Toronto as the sales of milk were conducted by the Dairy Farmers of Ontario that represents the cow milk producers of the province. The issue of selling the milk was left up in the air as neither brother had been much involved in the matter before.

“The animals take 11 months gestation similar to cattle so that is easily managed, I guess. Where would we get the bull?...That makes it next spring before we can start selling any milk or making and selling any cheese.” mused Arend.

Adrian replied, “We aren’t even permitted to make cheese on the same operation as the milk is produced. You know the rules.” By law in Ontario the processing of milk must be separated from the production of the milk. All milk must be pasteurized in Ontario.

Arend’s reaction was, “We don’t even know how to make some of the cheeses or yoghurts or whatever they make from buffalo milk let alone cow milk. But at least they can be milked in our idle parlour. I am concerned over to whom or where we should sell the milk. The milk is reputed to be over 8% butter fat and 5.5% protein, we can’t get anywhere near that with the Holsteins. ”

“So what do you say?”

Assignment questions

1. Using whatever analysis method you deem appropriate, assess whether this is a good industry to enter and substantiate your decision.
2. What issues must the brothers overcome should it be decided to proceed with the purchase?
3. Prepare a basic pro forma set of financial estimates of the cost to proceed with the acquisition.

4. When can it be projected that the farm will commence generating revenue from the buffalo, how will they generate the revenue, how much will they generate and ultimately is this a profitable venture?
5. Prepare any other analysis that you deem may be required by the brothers to decide to proceed.
6. Should the brothers enter the buffalo rearing business?

Figure 1.1: Place of Birth by Period of Immigration, Canada, 2001

	Period of Immigration									
	Before 1961		1961-1970		1971-1980		1981-1990		1991-2001	
	Number	%	Number	%	Number	%	Number	%	Number	%
Total Immigration	894,465	100	745,565	100	936,275	100	1,041,495	100	1,830,680	100
United States	34,805	3.9	46,880	6.3	62,835	6.7	41,965	4.0	51,440	2.8
Europe	809,330	90.5	515,675	69.2	338,520	36.2	266,185	25.6	357,845	19.5
Asia	28,850	3.2	90,420	12.1	311,960	33.3	491,720	47.2	1,066,230	58.2
Africa	4,635	0.5	23,830	3.2	54,655	5.8	59,715	5.7	139,770	7.6
Caribbean, Central and South America	12,895	1.4	59,895	8.0	154,395	16.5	171,495	16.5	200,010	10.9
Oceania and other countries	3,950	0.4	8,865	1.2	13,910	1.5	10,415	1.0	15,385	0.8

Source: Statistics Canada, 2003a

Figure 1.2 Canadian Per Capita Consumption of Cheese 1980-2004

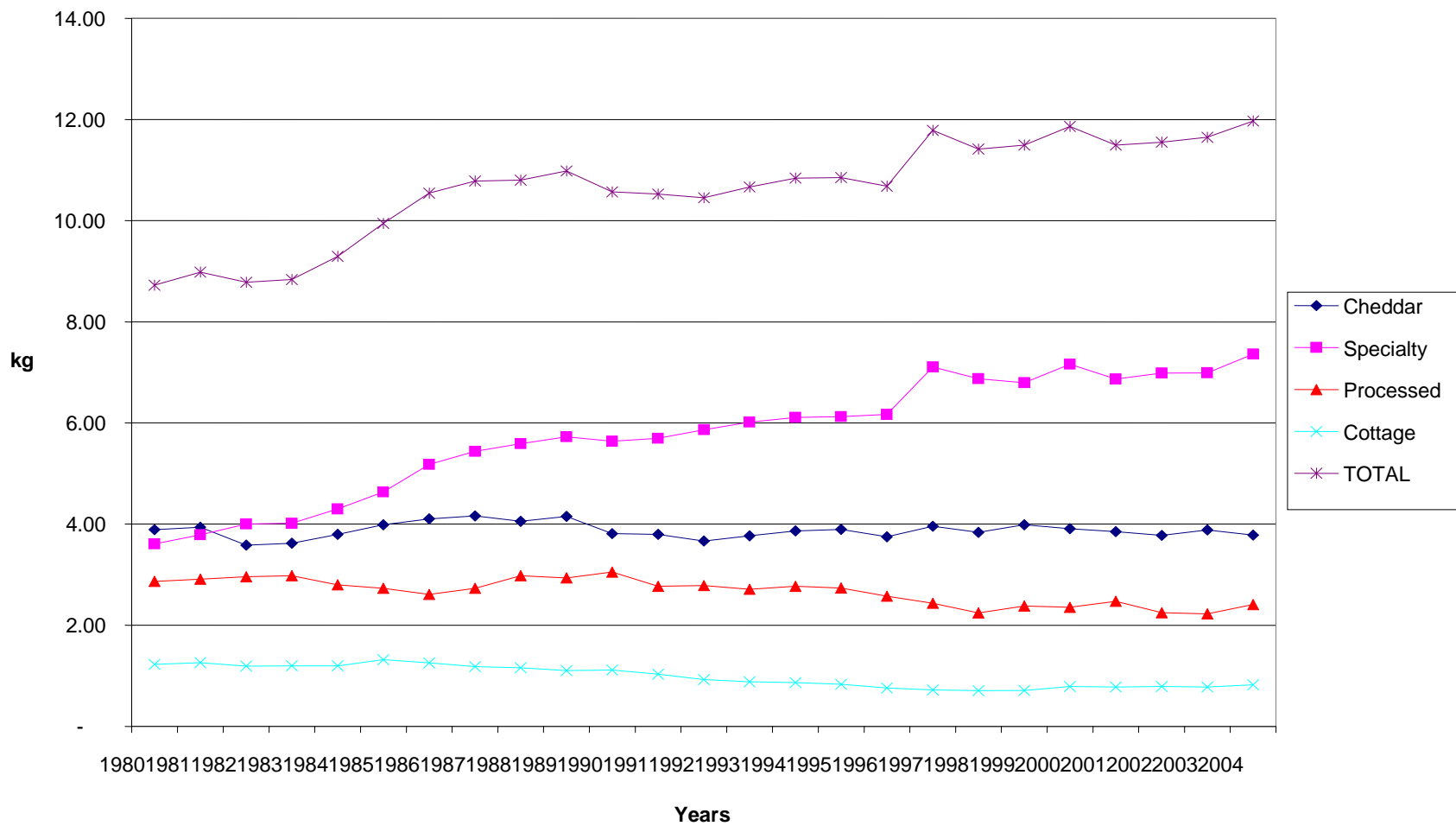


Figure 1.3 Canadian Per Capita Consumption of Milk 1980-2004

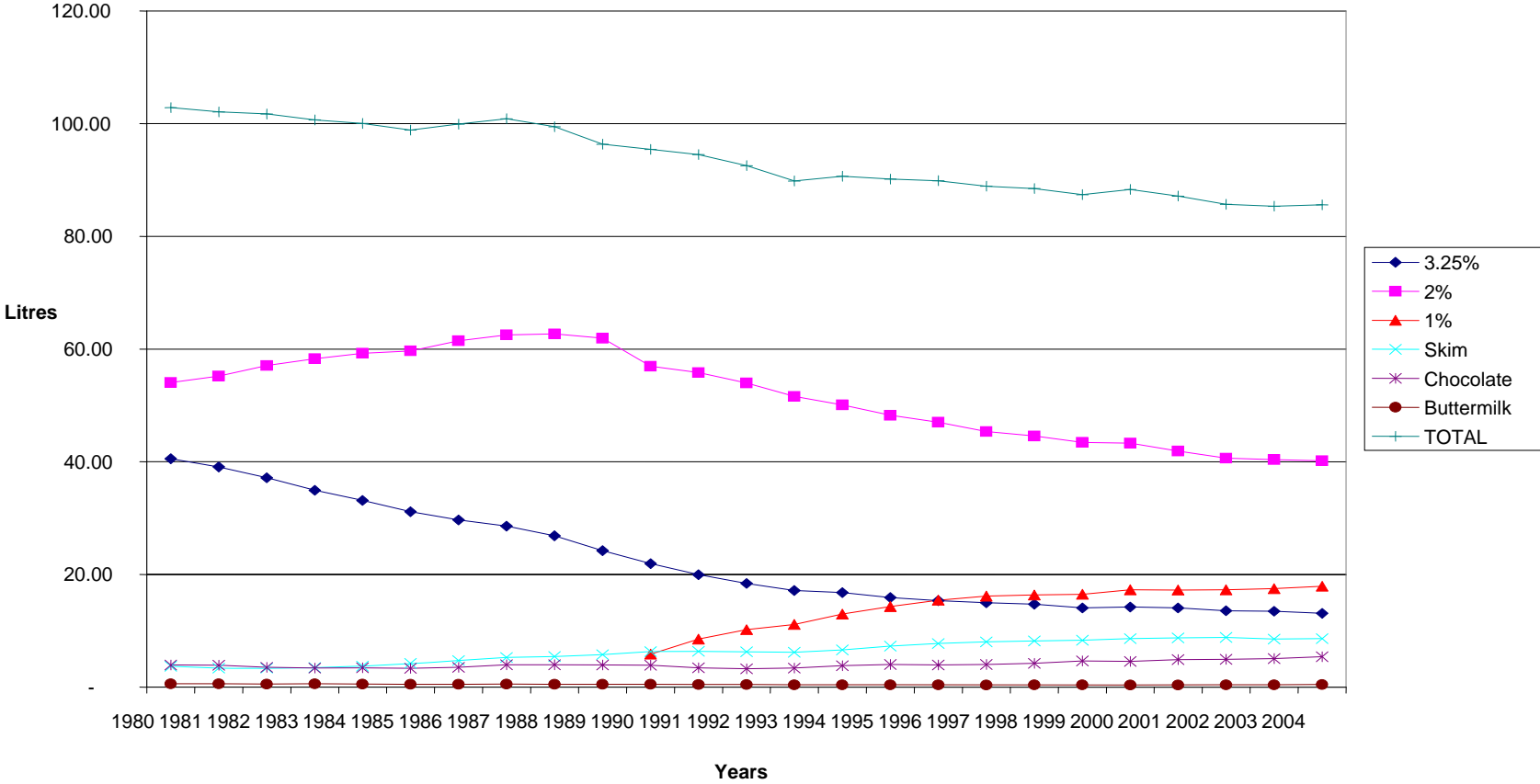


Figure 1.4 Application for Permit to Import