



Food Business and Agribusiness Profitability Profile

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Introduction

Producers are interested in the profitability of various food industries as they consider investments in these industries. Figure 1 shows average return on assets (ROA) over time for all of the firms, broken out by sector. The four sectors are food processing firms (SIC¹ codes 200-209), wholesale grocery firms (SIC code 514), retail supermarkets (SIC code 541) and restaurants (SIC code 581). Note that food wholesalers have had a long downward trend in ROA. In general, there has been a long downward trend in ROA in all of these industries. Producers in North Dakota have recently invested in a restaurant in Washington DC. This industry is very volatile with large numbers of firms entering and exiting this industry.

It makes sense to look at the food processing industry in more detail since that is where most producer investments are occurring. Figure 2 shows ROA for meat processors, dairy manufacturers, and vegetable canners. Note that dairy has been essentially flat averaging -9.25% over this time period compared to 4.28 for meat processing and 3.05% for vegetable canning. Much of the volatility in dairy has occurred in recent years due to greater trade and fluctuations in supply.

Figure 3 shows average ROA in grain milling (including corn milling), bakery manufacturing, and sugar refining. Bakery is the most volatile with a -2.54% ROA over this time period. Not surprisingly, this industry has been characterized by turmoil in some firms due to bankruptcies and accounting issues. Grain milling has been the most profitable due to corn sweetener firms and ethanol companies with an average ROA of 5.97%. Sugar refining has averaged 1.04% although this has been downward trending in recent years due to substitutes and oversupply of sugar.

Figure 4 shows average ROA for fat and oil refiners, beverage companies, and other firms. In general, these have been average performing industries over time.

¹ Standard Industrial Classification (SIC)

The Agricultural Marketing Resource Center has done a number of studies to determine why this variability in ROA is present in various industries. In general, industry factors such as government programs, interest rates, and other macroeconomic factors are a large determinant of profitability. Firm factors such as management are important as well. Producers that want to make investments in a processing plant in these industries should be aware of the volatility in ROA over time and avoid looking at generalities in profitability in any given industry.

Recent research is underway to look at the entry patterns of producer-owned businesses in various industries. In general, producer-owned businesses tend to be of a smaller scale due to lack of equity and have a higher cost structure than similar investments made by larger food manufacturers. Although there have been a few success stories such as Dakota Growers Pasta Company and South Dakota Soybean Processors, there is a lot of risk in investing in large processing plants. Producers require a strong balance sheet to offset the volatility in profitability over time as noted in this data.

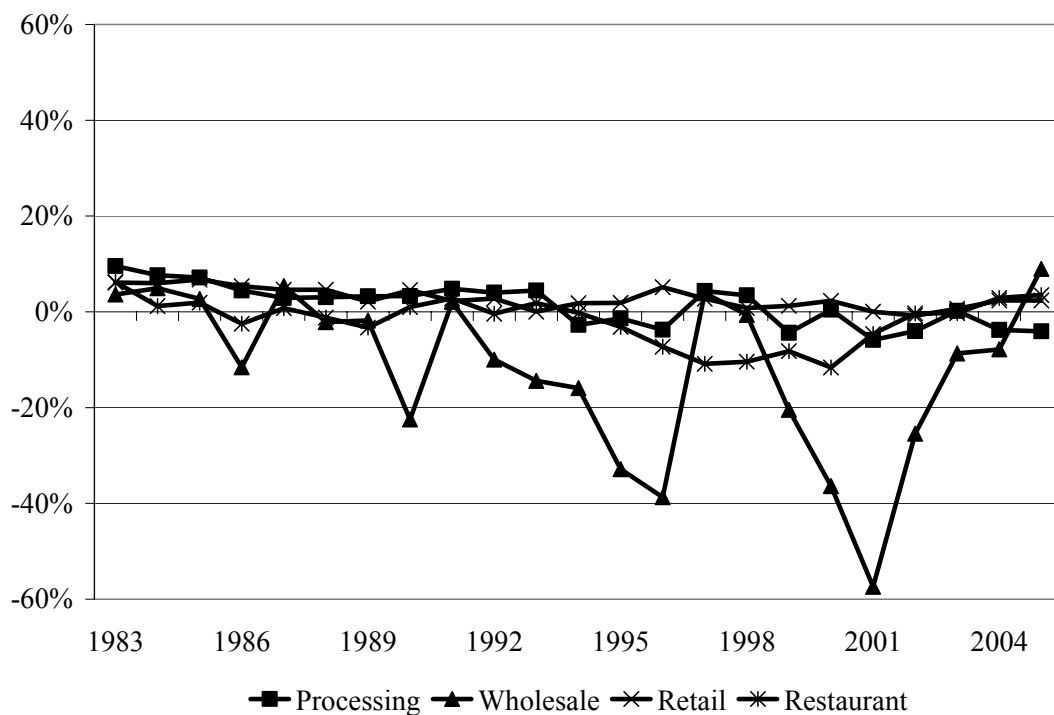


Figure 1. Return on assets for food processors, wholesalers, retail grocery stores, and restaurants, 1983 to 2005

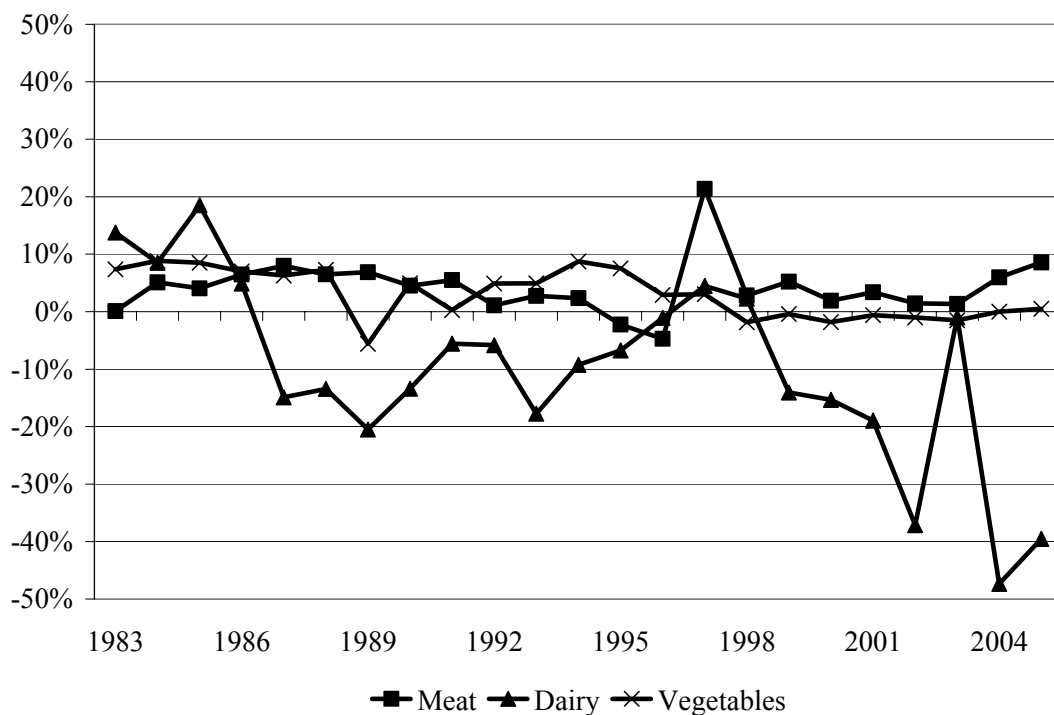


Figure 2. Average ROA for meat processors, dairy manufacturers, and vegetable canners, 1983 to 2005

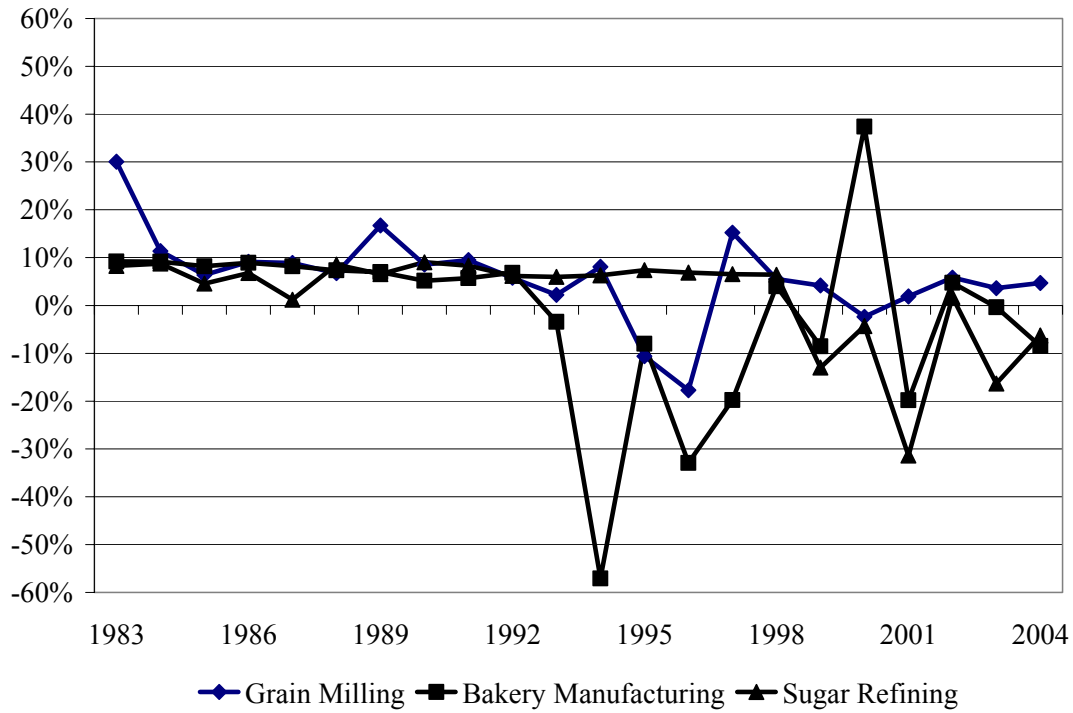


Figure 3. Average ROA for grain millers, bakery manufacturers, and sugar refiners, 1983 to 2005

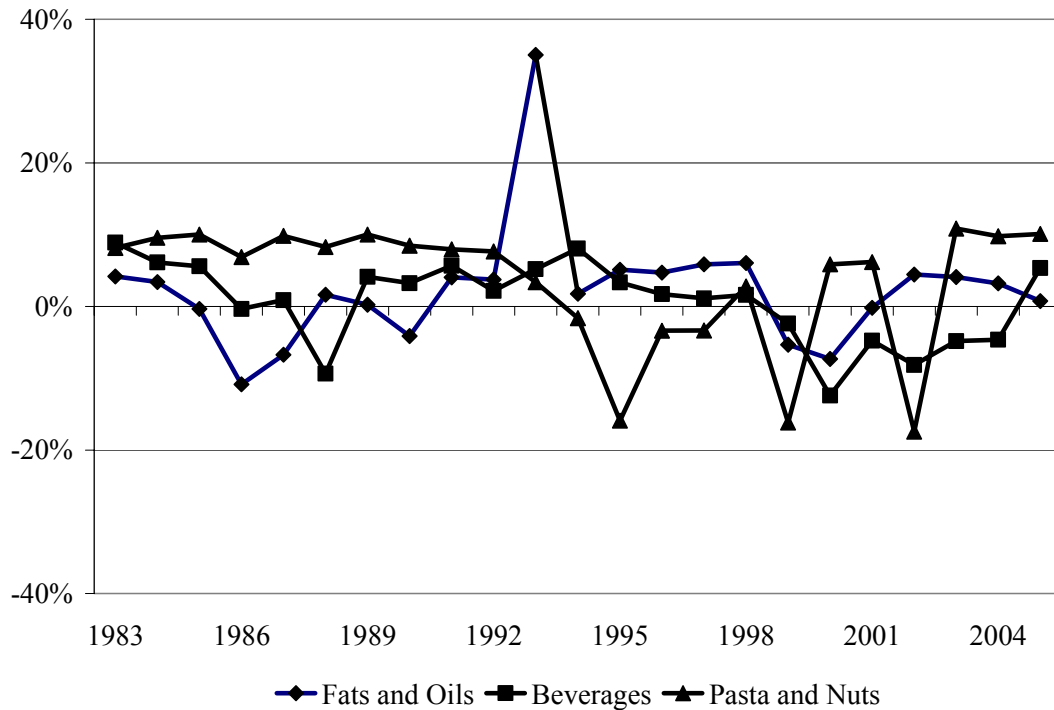


Figure 4. Average ROA for fats and oil refiners, beverage companies, and pasta manufacturers, nut companies, and spice companies, 1983 to 2005