INTERNATIONAL EXPANSION OF HOCHLAND SE – THE WORLD OF CHEESE

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The authors wrote this case solely to provide material for class discussion. They do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names, data or other identifying information to protect confidentiality.

When Peter Stahl, at only 46 years of age, became Hochland's CEO at the end of 2012, the company was at the tail end of several years of financial decline. At least, it was Stahl's and the company's board's expectation that the rather lean years would soon be over. During the previous few years, revenues had largely been constant, but profitability deteriorating **(Exhibit 1)**. This largely came from increases in supply costs and an industry environment that did not allow these additional costs to be passed on to customers.

As part of the firm's overall strategy, Hochland attempted to introduce more branded products. Branded products were the firm's response to the increasing power of retailers. Towards the end of 2012, sales figures for new product introductions were promising. International expansion was the second leg of Hochland's strategy to grow sales and preserve profitability. Whereas the firm's original steps towards international expansion were somewhat opportunistic and exploited lowered trade barriers within the European Union, Hochland had begun expanding into the transition economies of Eastern Europe with very deliberate steps during the mid-1990s. The firm had identified countries there with consumer affinity for cheese products, sophisticated farming as a basis for quality supplies, and an absence of established competitors and branded products. This approach to market selection had been very successful, with Hochland becoming market leader in several cheese categories and offering highly respected brands in several countries, including Poland, Romania and Russia.

However, these markets were becoming more competitive during the second decade of the 21st century as well and private label products experienced significant growth. Thus maintaining Hochland's superior position in these countries was getting more difficult. After expanding in Eastern Europe for more than a decade, partially via exports and partially by building subsidiaries with manufacturing facilities and increasingly independent marketing organizations, Hochland was now considering other markets to enter. Peter Stahl knew of the importance of this expansion for the future of the firm and his standing as its CEO. At the same time he was keenly aware of the company's limited resources that dictated a deliberate, gradual approach.

Hochland SE

Ever since its founding in 1927 in Southern Germany, Hochland has focused on the production and marketing of processed cheese, hard and sliced cheese, cream cheese and soft cheese. During the first fifty years, the firm mostly sold to large retailers, manufacturing for their private label brands and "me-too" products. However, in the 1980s increased pressures on costs by these types of buyers began to destroy Hochland's margins. Consequently, in the mid-1980s, Hochland began emphasizing branded cheeses and introduced several successful, new product lines.

Hochland's original focus was on processed cheese, which is a Swiss invention from 1911. Processed cheese provides packaging advantages, the ease of adding flavors such as herbs, and a reduced need for cooling[1]. However, slicing processed cheese provided technical challenges that hampered the growth of the market for this type of cheese in the 1950s—not only for Hochland but its competitors as well. Given the importance of processed cheese to the firm, Hochland invested in technology to overcome this problem. After years of development time, Hochland's own machine manufacturing department began to make automated equipment for continuous slicing of processed cheese. Building on this capability, Hochland Natec GmbH was founded in 1974, a subsidiary specializing in innovative machinery for the production, processing and packaging of cheeses[2] that sells its superior machines worldwide wherever Hochland SE does not compete in the cheese business.

Pressures from retailers for ever-lower prices forced Hochland to develop branded products. In 1985 it introduced Almette, a cream cheese in the upper price segment. It also invested more heavily in its French brie and camembert products, Valbrie and Valbon, respectively. Further, it became quite successful with its line of Feta-type cheeses under the brand name Patros **(Exhibit 2)**. Although Hochland has only had a separate marketing department since 1990, advertising emphasized Hochland as a name for competence in cheese in general and various types of cheese as independent brands. These marketing activities were backed by expansion or acquisition of manufacturing facilities to enable growth, as well as the acquisition of additional brand names, such as Grünländer (in 2008), which is cheese made from milk from cows with guaranteed non-genetically modified feed, is lactose free and addresses other health concerns associated with cheese. Today, Hochland is one of the leaders in the fragmented European cheese market. In Germany, Hochland's core market and Europe's largest, the firm holds about a six percent market share (measured by sales value). This represents a significant

[1] Hochland (ed.) 2002. 75 Jahre Hochland – Ein Rückblick auf die Unternehmensgeschichte. Heimenkirch, Germany.
[2] http://www.hochland-natec.de/en/hochland_natec_english.asp, accessed 2/14/2013.

improvement over 2011 and puts Hochland in second place behind the French firm Bongrain[3] **(Exhibit 3)**.

Hochland's International Expansion

Hochland's international expansion was originally driven by opportunities generated by the trade union associated with founding the EEC (European Economic Community, later renamed European Union, EU) as well as increasing market pressures in Germany. In particular, the German cheese market became saturated in the 1960s and dominated by two big, foreign competitors, America's Kraft Foods and the British-Dutch company Unilever. In 1964, Hochland began to export cheese to France. But because of low margins from dealing with import agencies and other transaction costs, Hochland established its own sales office in France in 1968. In 1978 Hochland acquired two bankrupt French soft-ripened cheese manufacturers, Löwenbrück in Dieue-sur-Meuse and Fromagerie Henri Hutin in Lacroix, both of which had been exporting to Germany. This also gave Hochland the opportunity to supply Aldi, its largest customer, with original French soft-ripened cheese.

Also in the late 1960s, Hochland entered Luxembourg and Belgium as an extension of its business in France and buoyed by the entry of Aldi. Efforts to enter Italy, another of the founding countries of the EU, failed because of heavy local competition and the success of Kraft Foods, which entered the market at the same time. Even so, for a few years Hochland exported processed cheese for distribution by several of Italy's major cheese manufacturers and in their name.

A partnership in Spain added a second subsidiary abroad in 1981. Initially, Hochland began exporting into the country in 1976. Due to increasing tariffs and local distribution problems, Hochland decided to invest in production and sales capacity in Spain through the formation of a joint venture (JV) with Teodoro Garcia, one of Spain's leading cheese distributors. Synergies between the partners made the JV a success. The partner firm was later renamed into Grupo TGT. Recently, however, differences in leadership style have led to some misunderstandings between the partners.

Hochland's export success during the 70s and 80s in several Arab countries, including Algeria, Saudi Arabia, Iran, Iraq and others is particularly interesting. In these countries, cheese had become known to be part of a healthy diet by efforts from New Zealand and Australia to export cheese made from sheep's milk there **(Exhibit 4)**. Hochland's processed cheese was advantageous in Arab countries because of its limited sensitivity to heat. Local governments supported the purchase and distribution of cheese in schools, and the 1970s oil crises improved the purchasing power of many Arab countries significantly. In addition, transportation costs fell

[3] *Euromonitor International*. Nov. 2012. Country Report: Cheese in Germany.

and the EU subsidized the export of milk products due to the overproduction of milk brought on by EU-guaranteed prices. Thus, for almost two decades, this export business was highly profitable for Hochland. The subsidies, however, also required a burdensome administrative process and Hochland eventually discontinued this particular export business, leaving it to its French competitor, Groupe Bel. Bel seems to sustain rather profitable exports to Arab countries despite discontinuation of the EU subsidies, though only after having moved upmarket in an environment with strongly growing purchasing power[4]. More recently, Groupe Bel has invested in several production sites in North Africa and the Near East.

Hochland's early efforts in international diversification were enhanced by the personal connection between family owners of Hochland directly involved in firm management and counterparts abroad, in particular in the Arab countries, where personal connections and the reputation among business partners was more important than formal contracts. This significantly reduced Hochland's risk associated with its international expansion.

The opening of markets in the formerly communist countries of Central and Eastern Europe created another major international business opportunity for Hochland, in particular in association with the firm's drive to improve its position in branded cheese products. As was typical for planned market economies, the supply of consumer products was rather limited, the differentiation between products weak, product quality and consistency low, and branded products almost unheard of. This was likewise true for the cheese business. In 1989, right after the fall of the Berlin Wall, Hochland expanded into Poland, a large market with a population of about 40 million, where cheese is a traditional part of a regular diet and there are strong farming communities. Following its usual approach to market entry, Hochland first looked for reliable local distributors. Subsequently, it began advertising its products in Poland, initially satisfying the demand generated with 100% imports. However, Hochland's success—and that of other Western importers of groceries—soon hurt the local farming and food industries. Consequently, Poland raised import tariffs for products like cheese to levels that made these foreign imports unaffordable to consumers. Companies with local manufacturing facilities increased their market share significantly.

Initially, Hochland lost substantial market share. However, it began subsidizing its imports to Poland—i.e., selling at a loss or with very low margins—and quickly built its own manufacturing capacity in Poland. To become independent from distributors that imported Hochland products into Poland, the firm had founded a sales subsidiary, Hochland Polska, in 1993. In 1995, it began local production in Kaźmierz, about 350 km west of the capital Warsaw, where it purchased and subsequently upgraded a subpar cheese manufacturing plant in form of a brownfield acquisition. Today, Hochland is the second-best known brand in Poland—after Coca Cola.

[4] Interview with Erwin Reich, former managing director at Hochland, on 1/23/2013.

Management believes this success comes from being one of the first to enter the market, facilitated by imports, heavy advertising, and quickly building local manufacturing capacity. Originally, in its attempt to establish brands in Poland, Hochland sold branded cheeses with German packaging and labeling. Consumers preferred Western products and perceived the German labels as a sign of quality. Packaging design was not adapted to the local market until several years later[5]. Nowadays, marketing in Poland is driven locally. Thus, Hochland established itself as the market leader in its product categories—with the associated profitability—in a growing economy.

Market leadership (defined as market share twice that of the next biggest competitor), strong brand awareness, and profitability have become the goals of Hochland's international expansion into Eastern Europe. Hochland has also entered several other countries there, largely by exporting from its plant in Poland, which it continuously expanded. In 2000, a second plant was opened in Baranow, and in 2002, Hochland acquired a third cheese production site in Węgrów, east of Warsaw. The firm realized, however, that entry was most successful when combined with local production. When looking for new markets to enter, Hochland prefers to first import its cheeses into the country to get to know the industry and consumers. Population size is important, in particular that of the middle class that can consistently afford Hochland's upmarket, branded products. Consumer affinity for milk and cheese products is also important and is not a given everywhere. In Eastern Europe, Hochland recognized the potential of Romania and Russia. After testing these markets with prices that assumed local production, Hochland was the first among its Western competitors to build a cheese manufacturing plant in Romania, in 1998. In 2000, it began manufacturing in Russia, where it now operates two production plants. Whereas Romania has an entire population of only 20 million people, there are approximately 100 million potential customers for Hochland in Russia **(Exhibit 5)**. Since 2006, the management of Hochland's sales and production subsidiaries has become more and more localized, including the firms' marketing activities, which were previously largely run from Hochland's headquarters in Heimenkirch in Bavaria, Germany **(Exhibit 6, 7)**.

The most recent example of new market entry efforts through exports in Eastern Europe hails from the Ukrainian cheese market. In order to reach high market penetration and to defend the company's market share against upcoming competitors, *Hochland Ukraine* was founded in 2006. TV campaigns and the development of a sophisticated distribution system helped make Hochland one of the top competitors in the country. It imports cheese from Hochland's manufacturing facilities in Russia.[6]

[5] Interview with Johannes Rogg, Division Manager New Business Development, on 1/24/2013.
[6] Hochland SE, 2011 Annual Report.

In 2009, Hochland decided to revive its market activities in the Middle East and attempted to enter the Iranian market. With approximately 70 million citizens and a tradition of eating cream and Feta-type cheeses, Iran provides significant market potential. However, Hochland was facing severe, politically-motivated trade barriers and hence was not able to penetrate the local market with exports. As a strategic alternative, Hochland entered into a joint venture comprising production sites and a sales organization with an Iranian partner and initially held a majority share of 75 percent. The underlying motives for the entry with a local partner were the very fragmented network of distribution channels and a complex political situation requiring intensive contact to local authorities and government institutions. However, Hochland soon identified some disparities with its partner and was looking to be able to make faster decisions, eventually resulting in the resolution of the JV. To gain full control over all activities, Hochland acquired the remaining 25 percent owned by its partner and today has a wholly-owned Iranian production and sales subsidiary.[7]

The Cheese Industry in Europe

In 2012, the European cheese industry, and in particular its largest market, Germany, was experiencing several trends. The industry remained fragmented, although some consolidation was evident, largely driven by acquisitions. Bongrain, the French firm, remained Hochland's largest competitor, with almost twice its market share **(Exhibit 3)**. However, the private label brands of retailers combined made up a share of almost 50 percent of the market. For the manufacturers of the cheese for these private label brands, which includes Hochland, prices barely covered costs, as retailers selected suppliers mostly on price. In addition to consolidation in the groceries retail business, a move by private label brands into higher-cost products was notable, putting additional pressure on market shares of the branded cheese manufacturers. Moreover, retailers had begun advertising their brands like manufacturers[8]. While these trends were weaker in Eastern Europe, they were gaining momentum there, too, in particular in Poland. Here too, price elasticity of demand was becoming very high.

Other trends in the groceries industry are less clearly identifiable as threats or opportunities for Hochland. Consumers have become increasingly concerned with freshness, organically-grown foods, and regional origin of groceries, partially associated with the environmental impact of transportation. Another consumer concern is with weight gain, which is particularly associated with fatty foods. The decreasing size of households also affects the cheese business, as they require smaller packaging.[9] While a firm like Hochland might consider these changes as threats, such socio-cultural and demographic developments also provide the opportunity for innovation

[7] Interview with Peter Stahl, CEO of Hochland SE, on 1/23/2013.
[8] Hochland SE, 2001 Annual Report
[9] Interview with Peter Stahl, CEO of Hochland SE, on 1/23/2013

and potentially charging higher prices to discerning consumers focused on quality and receiving the exact product they want.

Hochland's main competitors in Germany and Eastern Europe were the French firms Bongrain, Groupe Bel, and Lactalis, as well as newcomer Arla, a Danish-Swedish cooperative. Traditional competitors like Kraft and Unilever have reduced their efforts in Hochlands' core markets. Bongrain, the largest competitor, has grown worldwide largely through the acquisition of established brands, such as Milkana from Unilever. In Germany, its main brands include Bresso and Geramont; in the U.S., Alouette and Ile de France. Except for Australia and New Zealand (and, of course, Antarctica), it operates on all continents.[10] Unlike Hochland, it is a publically-owned company, with its shares traded on Euronext Paris. The Bongrain family, however, remains majority owner. In 2011, worldwide revenues were almost 4 billion Euros, with a net income of nearly €44 million.

Similarly, Groupe Bel is pursuing a focused strategy on branded cheese and has increased in size through an active growth strategy. Besides five company-own and internally-developed core brands, amongst them Kiri and BabyBel, Bel has strengthened through key acquisitions such as Leerdammer in 2002 and Boursin in 2007. All in all, the company markets 30 international and local brands and its products are available in 120 countries worldwide. In 33 subsidiaries and 27 fully-owned production sites Bel currently employs 11 400 people and generated €2.5 billion in sales in 2011—an increase of 4.5% from 2010. Since its founding in 1865, Groupe Bel is led by members of the founding family.[11]

Lactalis, another major competitor from France, is a family-owned and managed dairy producer, pursuing a very active acquisition strategy and frequently taking over local brands in the cheese segment. Examples for this external growth strategy include the 1999 takeover of Simplot Dairy in the U.S., Italian Cademartori in 2005 and Parmalat in 2011, and the Swiss cheese maker Baer in 2008. Additionally, the company puts emphasis on its own strong cheese brand President, which is marketed worldwide. With over €15 billion in sales in 2011, Lactalis is world-leader in dairy products and a difficult competitor for Hochland—over 35% of its revenue is generated in cheese-related businesses. The company's products are currently available in nearly 150 nations and it employs 54 000 people world-wide.[12]

The U.S.-based company Kraft Foods used to be one of Hochland's strongest competitors, particular because of its technological strength in processed cheese and resourcefulness due to the global size of the company. In Germany, it lost its dominant position, which it established after World War II, after it abandoned cooperation with wholesalers and began dealing directly

[10] www.bongrain.com/en, accessed on 2/20/2013.
[11] www.groupe-bel.com, accessed on 03/17/2013
[12] www.lactalis.fr, accessed on 03/17/2013

with the retail trade[13]. In Poland, too, Kraft started out very strong, but lost top market position to Hochland in the late 1990s and sold its plant to French competitor Groupe Bel, which, however, uses this plant largely for exports to Arab countries.

Scandinavian company Arla is a fairly recent addition to Hochland's most notable competitors. Arla offers a complete line of dairy products, including cheese, butter and yoghurt. Revenues have grown to €8.5 billion in 2012 and are projected to increase dynamically in the future. Although Arla products are available in more than 100 countries, the focus of its international activities are in European nations, for example Germany, Great Britain and the Netherlands. The company, which is fully owned by milk producers in the form of a cooperative, currently possesses 30 sales subsidiaries and 12 production sites across the globe. In 2012, the company counted 18 000 employees worldwide. In the cheese segment, premium brand Castello contains the company's most renowned products. With a mixture of organic growth and carefully selected acquisitions, Arla thrives to expand its international presence and continues to assail Hochland's markets, as the 2011 acquisition of Allgäuland Käsereien in 2011 demonstrates.[14]

Hochland SE in 2012

Considering firm performance in recent years, Hochland management realizes that it has made some strategic gains, but the financial performance has still been disappointing. Despite innovation and successful marketing efforts, the firm had seen little sales growth and depressed profitability over the past few years due to an increasingly powerful retail trade combined with fragmented, highly competitive rivals. In the past, however, Hochland found an escape from threats to growth and profitability in its traditional markets with the expansion to foreign markets. Management had also learned what makes international expansion successful. It found that in markets with weaker distribution channels and few established competitors, a focus on branded products allowed for innovation, adaptation to market conditions, communication of product benefits to consumers and thus true differentiation with the associated willingness by customers to pay for the products. Further, they had learned that in the long run, internationalization works best when involving foreign direct investments (FDI).[15] Hochland had experienced success when owning 100 percent of the foreign subsidiary, resulting in full control and eliminating conflict with local partners. Its only successful JV was the partnership with Grupo TGT in Spain, although the relationship also has become more difficult recently.

[13] Interview with Erwin Reich, former managing director of Hochland, 1/23/2013.
[14] www.arla.com, accessed on 03/17/2013
[15] Interview with Peter Stahl, CEO of Hochland SE, on 1/23/2013

While the formation of JVs in cases such as Spain serves Hochland with relatively fast market access and limits the amount of resources required at the point of entry, it has mostly been avoided in the company's internationalization attempts. This is due to the lack of full control over all business activities and commonly diverging interests between the venture partners. JVs thus only play a role in international expansion for the penetration of otherwise inaccessible markets at Hochland. In these cases, full ownership is usually aspired after an initial and only temporary phase of shared ownership in the respective ventures.[16]

Furthermore, the company had done well with developing wholly-owned subsidiaries (WOS) from the ground up rather than engaging in acquisitions. An acquisition of a Swiss firm, Fromalp, in 2006, was considered a failure because cultural differences prevented integration of the firm into Hochland. Thus, Fromalp was divested in 2010. On the other hand, the subsidiaries in Eastern Europe, particularly in Poland and Romania, were very successful. Both ventures, with a focus on growth, branded products, strong distribution and high productivity, resulted in strong returns just two to three years after the initial investments. In these countries too, Hochland hired local managers, trained them, and built strong personal relationships. Subsequently, these managers were able to use their freedom and responsibility granted by headquarters to the advantage of their organization. This required significant initial time commitment by top management, but paid off eventually.

These successes built the impetus for Hochland, especially its new CEO, to look for new international markets. Stahl knew he had to be very selective since the positive experiences described above depended on appropriate conditions. Also, the limited resources of a largely self-financed and focused firm created significant constraints. While the family owners allowed most profits to be retained, which enabled significant investments, Stahl and the entire management team felt a strong responsibility towards these families and their invested capital. Also, management felt gratitude toward the company's employees, most of whom considered their position as lifetime employment and had devoted significant efforts toward the goals of the organization, but also expected growth and opportunity within the firm.

Based on its previous experience, Hochland is considering a small number of countries for future entry. Attractive markets include Turkey and India. With a population of 75 million, the market size of Turkey is potentially appealing. The domestic cheese market has been constantly growing in recent years and reached € 813 million in 2012. Local cheese production has increased by nearly nine percent over the past five years. The seven largest brands are all

[16] Interview with Peter Stahl, CEO of Hochland SE, on 1/23/2013

owned by Turkish firms, controlling roughly 45 percent of total market share. The dominating brand is Sütas by Sütas AS, which had a 16.3 percent market share in 2012.[17]

Although admission of Turkey into the EU is currently under consideration, so far the country is not well integrated into the trade union across cultural and economic dimensions. As a consequence, trade barriers in the form of import tariffs and quotas continue to exist and exacerbate attempts of cross-border activities into the country. As a consequence, the Turkish market cannot competitively be served through exporting methods by Hochland and alternative entry modes become necessary. Among the possible strategic alternatives is the acquisition of domestic production and sales facilities in Turkey. However, differences in accounting standards, managerial style and compliance make such endeavors more risky and expensive than appropriate. FDI in the form of brownfield investment with subsequently following organic development of production and sales capacities is an interesting alternative.

The giant market of India (population size about 1.2 billion) might also be an opportunity for Hochland. Whereas large parts of the Indian population do not have the standard of living that would allow the purchase of higher-priced, quality products such as Hochland's, India's middle class, which has more purchasing power, is constantly growing. Additionally, domestic milk production in India is currently the largest worldwide, which indicates a potential affinity towards products produced by Hochland. The Indian cheese market is growing rapidly and reached a size of € 136 million in 2012. Unlike Turkey, however, the market appears dominated by two large cheese brands, which share 65 percent of the total market. Gujarat Co-operative Milk Marketing Federation Ltd. offers its products under the brand name Amul and has a share of approximately 50 percent. The Gujarat Co-operative was formed by milk producers located around Gujarat and initiated the so-called white revolution in India, during which the country's milk deficit was resolved. Amul products are traditionally vegetarian, which is important in India as it is the country with the most vegetarians in the world. Aside from Gujarat Co-operative, Britannia New Zealand Foods, a joint venture formed in 2002, holds 15 percent market share. The company supplies various dairy products, with a strong focus on the cheese segment. More than half of Britannia Foods' annual revenues are generated in the market for processed cheese. Only two other, domestic firms have market shares larger than one percent.[18]

The quality of domestic Indian cheeses is often relatively poor and Hochland's premium quality standards could be leveraged against local competitors. However, while India might appear very attractive on first sight, trade barriers and tariff burdens of up to 30 percent make market penetration through exporting disadvantageous compared to local production. Perhaps a joint venture might be an option again, also to overcome challenges associated with the well-known

[17] *Euromonitor International*, 2012. Country Report: Cheese in Turkey
[18] *Euromonitor International*, 2012. Country Report: Cheese in India

highly fragmented retail conditions in India. Yet, whether the specific challenges of the Indian market, which are best overcome together with a strong local partner, justify the formation of a JV for Hochland—despite their mixed experience—remains questionable.

In addition to emerging markets, several developed countries also seem to have potential for Hochland, for instance, in North America. The task of the firm is to identify profitable opportunities for growth that require limited investments. Hochland's new CEO and its loyal employees have interesting and challenging years ahead.

Exhibit 1: Hochland SE Financial History

€ Millions	2011	2010	2009	2008	2005	2002	1999	1996
Sales Vol. (in 1 000 t)	269	274	285	279	224	213	193	169
P&L Statement								
Sales	1 110	1 055	1 076	1 161	787	788	664	626
Labor expenses	142	143	148	144	93	86	73	70
Advertising exp.	38	38	46	43	28	26	17	8
EBITDA	54	59	100	95	72			
EBITDA margin (%)	4.9	5.6	9.3	8.2	9.1			
EBT	19	23	61	58	38	29	43	31
EBT margin (%)	1.7	2.2	5.7	5.0	4.9	3.7	6.5	4.9
ROE (%)	3.5	4.3	11.0	12.1	13.8	14.4	25.8	26.2
Asset Structure								
Fixed assets	284	275	299	317	186	184	106	119
Current assets	334	342	313	268	230	175	181	173
Capital Structure								
Equity	412	402	387	352	278	205	166	114
Equity ratio (%)	66.6	65.1	63.2	60.1	66.8	56.7	56.0	40
Financial debts	21	33	36	59	2	31	19	29
Employees								
...in Germany	1 518	1 572	1 580	1 573	1 284	1 439	1 499	1 581
...abroad	2 664	2 553	2 725	2 718	2 038	1 859	901	566

Source: Hochland SE Annual Reports

Exhibit 2: Hochland Brands

Exhibit 3: Market Shares of Hochland and Major Competitors (2012 values, in percent) [a]

Company/Country	Germany	Poland	Romania	Russia *
Arla	2	0.5	n/a	5
Bongrain	11	3	10	n/a
Groupe Bel	6	0.2	1	n/a
Hochland	6	11	25	20
Lactalis	2	2	5	8
Private Label	50	32	17	2

[a] Company market shares for branded products only

* The data for Russia are based on the combined turnover in the segments processed cheese, hard cheese, fresh cream cheese and white cheese. The combined market shares are statistically not fully reliable.

Sources: Nielsen, Hochland SE, Euromonitor International 2012, author calculations

Exhibit 4: Major Cheese Exporting Countries [a]

Country/Year	2011	2009	2007
EU total	682	578	594
New Zealand	264	303	323
USA	224	110	99
Australia	158	162	217
Belarus	122	121	92
Ukraine	80	77	61
Argentina	61	48	47
Switzerland	60	57	59
Uruguay	43	35	28
Russia	13	21	21
Chile	10	9	16
Norway	10	13	13
Canada	9	10	9
Brazil	3	6	8
South Africa	2	2	1

[a] Exports per country or region in 1 000 tons of cheese

Sources: ZMB, Comtrade, FAOSTAT, national statistics

Exhibit 5: Dairy Production in Eastern and Central Europe [a]

Country Years		Poland			Romania			Russia	
	2007	2009	2011	2007	2009	2011	2007	2009	2011
Cow's milk production	12 096	12 447	12 414	4 997	4 654	4 075	32 000	32 592	31 742
Cheese production	583	610	642	62	64	58	434	428	425
Butter production	182	169	169	8	11	9	245	215	216
Cheese Exports	134	144	151	1	2	3	21	21	13
Cheese Imports	27	39	51	19	30	33	330	353	411
Population (in millions)	38.1	38.1	38.2	21.6	21.5	21.4	141	142	143

[a] In 1 000 tons

Sources: ZMB, FAOSTAT, Hochland SE

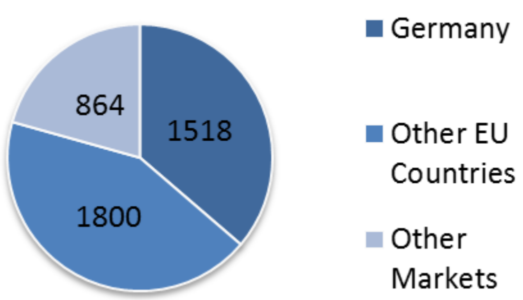
Exhibit 6: Hochland's Regional Sales Distribution [a]

Region / Year	2011	2008	2005	2002	1999	1996
Germany only	46	41	52			81
Germany, Austria, Switzerland				57	66	
Eastern Europe				22	13	
Other EU countries	38	43	35	18	15	16
Non-European Markets				3	2	
Other Countries	16	16	13			3

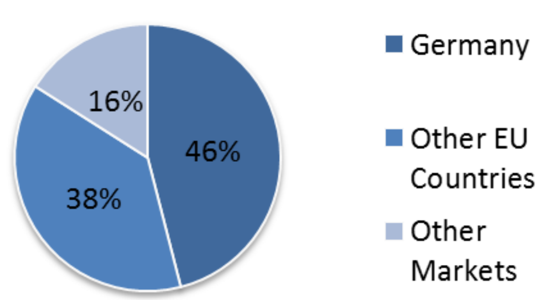
[a] In percent of total sales. Because of different reporting and some Eastern European countries joining the EU, consistent country reports are not available.

Source: Hochland SE Annual Reports

Exhibit 7: Number of Employees and Sales per Region in 2011



Employees



Sales

Source: Hochland SE, 2011 Annual Report