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Changes in cheese, dairy industry shine light on merger and acquisition planning

By Rena Archwamety

GREEN BAY, Wis. — Many components go into creating a successful cheese business, from quality ingredients and expert craftsmanship to a comprehensive business strategy and forward-thinking innovation. But as the cheese and dairy industry in Wisconsin long has flourished as one of the state's leading economic sectors, some cheesemakers have struggled with what to do when it comes time to retire.

Creative Business Services (CBS-Global), which specializes in mergers and acquisitions for the cheese and other industries, was founded in 1980 by CEO and Principal Broker Michael Schwantes. The company, which started out working with resorts and restaurants, expanded to other sectors and established a niche in the dairy industry about 12 years ago. Schwantes and Mergers and Acquisitions Advisor Bob Wolter began collaborating with Dan Carter and the Dairy Business Innovation Center, which Carter founded in 2004.

"Dan Carter, as many of us know, was a guru. He helped us get the specialty cheese business to where it is today. He was a spectacular man, really well respected in the community until he died (in December 2017)," Schwantes says. "He impressed upon us that many people were at the age where they were exiting the business. There are virtually no brokers in Wisconsin that understand the dairy industry better because we've been in it so long. It was at his urging, helping these people who didn't know how to exit. We prepare businesses to sell — that's what we do."

As the dairy industry grows and evolves, it also has created an environment with people who want to retire, and they don't have a family or employee to sell it to. That's where CBS-Global steps in, Schwantes says, whether it's time to sell or if a company is not yet

ready but thinking about a long-term plan. CBS-Global also has legal and accounting partners to help a company navigate and minimize tax obligations and clean up balance sheets. Additionally, they may help a client upgrade or expand to bring facilities up to date, improve company competitiveness and make it a more valuable proposition to potential buyers.

"They might be adding product lines, bringing in robotics or hiring new employees with specialization. We will look at different ideas to grow a business until it is ready to sell," Schwantes says.

As the cheese industry in Wisconsin and beyond has grown and dairy consumption patterns have changed, companies have evolved along with these changes to maintain and improve their value both to consumers and potential buyers. Wolter reflects on some of the major changes and disruptors in cheese and dairy production and consumption over the last 40 years.

"The Wisconsin cheese industry over the last 40 years has been nothing short of amazing. Since 1980, there has been more than a 100% increase in per capita consumption in this country, from 16 to a little over 40 pounds per year," Wolter says, noting that a big part of this increase has been due to the rise of Mozzarella and the frozen pizza industry as well as the introduction of the REAL Seal to promote the use of real cheese on pizza and other products.

"When we got into it, another big factor was the rise of specialty cheeses," Wolter recalls. "It came around 20 years ago out of necessity. Cheesemakers were getting squeezed by commodity cheese. In order to survive, they had to be creative and distinguish their product from commodity cheese."

In working with specialty cheesemakers, Wolter says he sees two different approaches. One is from larger manufacturers producing more than 100 million pounds annually that look into

adding or acquiring a specialty cheese business. They have the capability and infrastructure to diversify and produce value-added cheeses in addition to commodity cheeses.

"Then you have the Marieke Pen- termans of the world that come onstage like a rocket. She's so vivacious and successful at what she does, the epitome in my mind of a specialty artisan cheesemaker," Wolter says of the Thorp, Wisconsin-based cheesemaker whose Marieke Gouda has won numerous national and international awards. "As difficult as it is to distinguish yourself from the big guys, there will always be people with creativity and passion to bring it to the next level."

Schwantes notes that another change in the structure of cheese companies over the years has been outsourcing of cheese manufacturing to smaller companies.

"When we were young, Kraft was a major player in the manufacture of cheese," he says. "Now it has downsized manufacturing and outsources, so many other quality cheese companies manufacture for the label."

As the industry continues to consolidate and the cheese and dairy industry presents attractive opportunities for private equity groups, Schwantes notes he sees two types of potential buyers among these groups. One is strategic, where a company might already have a food platform and want to expand that by adding a dairy manufacturer to complement its portfolio. The other is where a company already may have cheesemaking and distribution in place and want to acquire a business to expand its base.

"It can be easy to do a bolt-on to expand that company quickly, to have more outlets for that existing cheese company," Schwantes says.

"One company we recently sold, all they do is move cheese," he adds. "The buyer had no transportation company

under its wing that did cheese, so they saw an opportunity. There are so many unique companies, peripheral companies that are successful as a result of the cheese industry."

Wolter notes vertical integration is another driver for acquisitions. For instance, a buyer who has a large dairy farm may look to acquire a cheese company or distribution company.

CBS-Global works with both sellers and buyers, mainly in Wisconsin and the Midwest, but also from other areas of the country. Among its projects, CBS-Global worked to sell the former Castle Cheese facility in Pennsylvania, WW Dairy in Wisconsin, and currently is working with Maple Leaf Cheese Co-op to find a buyer and partner cheesemaker for its Monroe, Wisconsin, plant.

Schwantes and Wolter even have started reaching out internationally, joining a Wisconsin coalition to attend the largest food show in the world that was held in February in Dubai.

"Many international companies are looking for an opportunity to buy dairy and cheese companies in America, including in Wisconsin. There are several scenarios over the last few years where we have worked with international buyers and sellers," Wolter says.

Schwantes notes one intent in taking Wisconsin cheesemakers to the international show was to help them boost sales and add more value to their company, which would help if and when they decide to sell in the future.

"We're excited about the future and the cheese industry. There are new systems and new technologies. For example, one of our friends just put in robotics. It's a real interesting way of cutting costs and continuing with great consistency," Schwantes says. "From a technical standpoint, I see the industry getting more efficient and producing consistent product. That's exciting." **CMN**