The European feed industry is a mature but also fragmented market. The top 15 feed players in Europe only have a 35% market share. Local, medium-sized feed companies are important suppliers for a large part of the European livestock farming sector. However, these local feed players’ customer base is shrinking, and product demand is changing, challenging their competitive position.

Feed production is a local business

Animal feed production often dates back to local grain-milling activity, with local feed companies serving the livestock farmers in a specific region with prepared feeds. Because of the high transport costs of compound feed, every region used to have its own feed mill. And although the sector has consolidated over time, it remains fragmented today, with many independent, medium-sized feed manufacturers. The 15 largest feed manufacturers in Europe only produce about one-third of Europe’s total annual compound feed. In Europe’s largest feed market, Germany, the top-ten compound feed producers have a market share of 60%, in a home market with more than 300 competitors, according to the German industry association DVT.

Access to the farmgate is key

The business models of the local, medium-sized feed producers range from product specialists, who for example focus on pig feed, to all-round agricultural cooperatives, who operate a combined farm input supply and grain origination model. What these feed players also have in common are largely depreciated assets and a high solvency ratio. Cost-efficiency is a challenge, as operational costs can make a significant margin difference. Sometimes, companies join forces in activities such as purchasing, to benefit from economies of scale and mitigate risks. However, the most important advantage—and pitfall—of these local feed players is their strong network of loyal customers in the region, often embedded in a cooperative structure: these feed players’ access to the farmgate is their right to exist.

A shrinking customer base requires improved positioning

But what happens when these farmgates eventually disappear? The total number of livestock farms in Europe is declining, and the average farm is becoming larger (see Figure 1). The Pareto principle applies here: most animals are held in a small group of farms. But particularly the developments around the large group of smaller farms with fewer animals are of interest to the mid-market feed players. On top of that, regular volume expansion is very limited in the European compound feed market, partly driven by farmers switching to alternative feeding strategies.

So, local feed players have two challenges cut out for them:

1. To ensure feed volumes to fully utilise their capacity in this shrinking market
2. To build a business model that meets the demand of the farmers of tomorrow.
Efficient operations are a prerequisite. An opportunity lies in the rise of independent farm advisory services, which support farmers to improve their performance, allowing the local feed specialist to evolve into a trusted farm advisor.

**Figure 1: The number of livestock farms is declining, while the average farm is growing**

Source: Eurostat 2017