Solving the problems facing the dairy sector

Dr David Dobbin CBE
The largest indigenous UK Cooperative
Vertically integrated Dairy Coop

One integrated supply chain from animal feed & farm inputs through to consumer products & food ingredients
Specialist powders

Exported across the world

Customised for end user

Enriched milk powders

Whey protein powders
One of the UK’s largest dairy exporters
Dairy UK - trade association for British dairy supply chain

Bringing together farmers, co-operatives and manufacturers, bottle milk buyers and milkmen across the UK

Dairy UK’s objectives: To create an environment:

- in which dairy foods are seen as safe, sustainable and integral to the nation’s diet

- that allows the dairy sector to compete and grow without an undue burden of regulation

Dairy UK's members collect and process about 85% of UK milk production
The mandate for the Task Force is to discuss relevant issues, such as market transparency, access for farmers to financial instruments and futures markets to hedge price risks, options for arranging contractual relations within the chain and legal possibilities for organising farmers' collective actions. All of this with a view to improving the position of farmers in the food chain.
Lowest real returns in 20 years

Extended down cycle

2007 peak
2011 Peak
2013 Peak
2009 trough
2012 trough
2016 trough
Growth in milk supply mainly in EU & Northern Hemisphere

Changes in milk volumes in important regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Change in Milk Volumes (± 1,000 tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-28</td>
<td>3,175</td>
</tr>
<tr>
<td>USA</td>
<td>1,173</td>
</tr>
<tr>
<td>Belarus</td>
<td>339</td>
</tr>
<tr>
<td>Turkey</td>
<td>309</td>
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<tr>
<td>Canada</td>
<td>277</td>
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<tr>
<td>Mexico</td>
<td>276</td>
</tr>
<tr>
<td>Australia</td>
<td>217</td>
</tr>
<tr>
<td>Switzerland</td>
<td>-54</td>
</tr>
<tr>
<td>Argentina</td>
<td>-91</td>
</tr>
<tr>
<td>New Zealand</td>
<td>-310</td>
</tr>
<tr>
<td>Brazil*</td>
<td>-464</td>
</tr>
<tr>
<td>Ukraine</td>
<td>-548</td>
</tr>
</tbody>
</table>

* until Sept.
Source: ZMB acc. to national statistics.

Impact of strong El-Nino-Event lower than expected
Post Quotas

Milk price is the main control mechanism of output
Post Quotas

The net growth in EU milk output has to be exported
The net growth in EU milk output has to be exported

The EU has to be globally competitive to grow
Increasing volatility

- Demand relatively constant so volatility largely supply related
- Weather always a factor – climate change more erratic patterns?
- Removal of EU market management measures
- Knock on volatility from currency, oil and other commodities
- Faster transaction speed & transmission of information
- Increasing trade liberalisation - global flows of product & money
- Speculation and investment in commodities
Volatility what’s the problem?

• Surviving deep or extended down cycles

• Uncertainty - more difficult to plan investments
  - more difficult to obtain finance

• Challenge - managing increased risk
Global water withdrawals, population and diet: scenario 2050... We have a problem!

Source: A. Zehnder, Swiss Federal Institute of Aquatic Science and Technology ETHZ 1999 and 2030 Water Resources Group

Need sustainable business model that is viable for processors & farmers

Pursue sustainable growth

Become better not just bigger

Be market rather than production led

Be better at managing risk and volatility

Strategies to grow market in value as well as volume
Predicted annual growth rate in Dairy Product Consumption: 2014 to 2024

- World production & consumption = +1.9%
- Developed Countries = +0.9%
- Developing Countries = +3.0%
- Imports (traded products) = +2.4%

Consumption of milk solids to increase by 25% by 2024

400M more mouths to feed in the world by 2020
Record NI Milk Production (‘000 litres)

- 2.3 billion litres
Up our game  *Taking charge of our destiny*

**Market led**
- Grow in response to customer demand
- Grow/stimulate demand

**Be more competitive**
- Up our game along the supply chain
- Take out cost, be more efficient
- Build USP – improve our offering, food integrity

**Add value**
- Hunt out opportunities in domestic & export markets
- Promote our products
NPD Pillars

Health & Wellbeing
- Clean label
- No sugar
- Low salt
- Protein
- Functional
- Whole foods
- Pure/natural
- Sports products
- Enriched products
- Products without
- Natural sweeteners
- Functional foods
- Slimming products

Indulgent
- Dairy fat +ve
- Quality Ingredients
- Flavours-savoury
- Authenticity e.g. Greek
- Healthy
- Speciality Cheeses
- Exotic flavour products
- Ice Cream heritage
- Upper tier yogurts
- Low calorie treats

Convenience
- Range
- Format
- Snacking
- Food Service
- Consumer Friendly packs
- Cheese snacking
- One handed food
- On the go
- Meal solutions
- Small portions
- Sports Adult Milkshakes

Provenance
- Sustainable
- Fair Trade
- Organic
- Locally Sourced
- Environmental
- Responsible sourcing
- Organic
- Farmhouse made
- Local/micro brands
- Recyclable Packaging
Current dairy trends

1. Beverages Redefined
2. Snackification
3. Dairy 2.0
4. Redefining Sweetness
5. The Great Fragmentation
6. Naturally Functional
7. Plant-Based Foods
8. Direct-to-Consumer
9. Protein
10. Free-From
How to turn 17.5p/100g into 35.5p/100g

Source: http://www.mysupermarket.co.uk/Heinz_-_Tomato_Ketchup_In_Tesco.html 15/10/11
3 A Day Campaign

• Milk, cheese and yogurt are nutrient rich. They provide good quality protein, calcium and a range of other vitamins and minerals

• To get the same amount of calcium as the body can absorb from one glass of milk we’d have to eat 63 Brussel spouts, 11 servings of spinach and 4 servings of broccoli

• Government guidelines in some countries recommend 3 A Day of dairy as a simple way to ensure people meet their daily calcium needs
The time is right for UK farmers to be more ambitious

Productivity needs to improve

The current 1.4% annual improvement is woeful

AHDB’S Sir Peter Kendall
Getting better on Farm

Upper quartile

Median

Bottom quartile

3 ppl opportunity

5 ppl opportunity
Getting better on Farm

Genetic improvement = 1.5%
  - yield, health, quality

Improved Management – best practice = 1.5%
  - grassland, nutrition, recording, financial, technology

  3.0%

Target annual improvement = 2.5%
Agri Markets Task Force 
Expert Group

- Strengthen the farmer’s position in the supply chain

- Looking at net margins not just prices

- Clearly a role for Coops/milk processors to manage volatility and transmit market requirements for output & quality

- Solutions which will kick in during the next upturn
Emerging Themes

• Price transparency improving price/demand signals to farmers
• Futures & financial instruments
• Role of contracts - longer term and forward
• Encouraging innovation & new technology adoption
• Access to finance
• Improving productivity & competitiveness
• Eliminating unfair trading practices
The Challenge

Economic sustainability
Need Business model that is viable for processors & farmers

Need to pursue sustainable growth

Be market rather than production led

Work on growing market in value as well as volume

Be more competitive, becoming better not just bigger
Key goal

Profitable dairy processors paying a competitive and sustainable milk price