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Adding value to milk not easy

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Adding more value to dairy products makes a great soundbite, but it is not as simple as it seems.

It cost dairy businesses money, time and was dependent on key customer relationships, the country's dairy leaders told farmers in a panel discussion at the DairyNZ Farmers Forum at Mystery Creek.

Speaking at the panel were Tatua chief executive Paul McGilvary, Open Country Dairy chairman Laurie Margrain, Miraka chief executive Richard Wyeth, Fonterra's director of global food service Grant Watson and Lewis Road Creamery founder Peter Cullinane.

Miraka chief executive Richard Wyeth said he was often asked why the industry as a whole did not add more value to its milk products.

"The reality is, it costs a lot of money to add value.

"For us, we have to invest a huge amount of capital before you get the return."

The company's board and shareholders had to be willing to make that investment before there was a return whereas it was far easier building a dryer and selling milk powder.

Value-added products also required a brand and distribution in the market, he said.

"That's huge. It's one thing having a brand but if you can't get it in front of consumers it's a real challenge, you won't succeed.

"Every company wants to add more value but it's not as simple as saying, 'Hey put it in a consumer pack and send it to China'."

By 2020, Miraka hoped to have 50 per cent of its milk going into its value added streams. The company was also researching other higher value products but these were five to ten years away. They required a significant level of investment and time.



Ensuring customers paid more for a value-added product meant adding something extra while keeping costs down, Open Country Dairy chairman Laurie Margrain says. From left: Fonterra's director of global food service Grant Watson, Lewis Road Creamery founder Peter Cullinane, Margrain, Tatua chief executive Paul McGilvary and Miraka chief executive Richard Wyeth.

executive Paul McGilvary said.

"That will get competed away in a nanosecond."

It was about relationships, understanding customers and how companies added value to them, rather than what was inside the milk packet. That took time, he said.

Tatua was still learning from some of its Japanese customers who it had a 40-year relationship with.

The recent earthquake in Japan forced these customers to re-evaluate where and how they stored their dairy products because reliability of supply was the most important thing in this

as it was a dairy company. He saw that added value component growing as much as 65 per cent in the future.

Fonterra's director of global food service Grant Watson said the co-operative hoped in the next seven years to increase the 8 per cent of milk it currently used in its value added products to 17 per cent as it targeted becoming a \$5 billion business.

The food service business was growing at about 6 per cent per year with bakeries in Asia the largest area of growth for Fonterra in the value-added space, he said.

By 2023 it hoped to grow its consumer and food service to 60

Companies must also be market driven, be efficient producers, understand their route to the market and who the customer was.

"If you are not adding more value to their business you're almost certainly not adding more value to the consumer. If you don't add value to both, it's a false equation."

Businesses also needed to be ensure they were not directly competing against their customers if they wanted to add value to their route to market.

More needed to be done to take advantage of New Zealand's good, clean green reputation.

commoditised that national brands were selling for less than bottled town supply water, Lewis Road Creamery founder Peter Cullinane said.

The mantra "milk is milk" had resulted in so many of the problems the industry now faced and farmers worked too hard for the process to be cheapened.

He called the practise of producing a highly standardised, permeate-rich dairy product as "madness". Quality not quantity was key for the dairy industry in the future. Not all consumers could afford more expensive dairy options, but many could.