

The tale of *two butters*

*The (true) story of how a former global advertising guru with a passion for making patisserie and a former international banker and property investor with a passion for dung beetles may just have produced that rare prize - a New Zealand value-add dairy export brand. **Nikki Mandow** has the story. (Story courtesy of Newsroom).*

Anyone shopping at the gourmet Central Market grocery store in Austin, Texas last year might have been surprised to know that the middle aged man handing them a slice of bread and butter to taste wasn't a down-on-his-luck casual retail worker, but a high net worth Kiwi businessman on a mission to reform New Zealand dairy.

Former Saatchi & Saatchi global boss Peter Cullinane, better known in New Zealand as the guy that sparked that chocolate milk madness in 2014, was accompanied on those trial-by-in-store-tastings by his Lewis Road colleague and company general manager Nicola O'Rourke.

The pair reckon they spent around 330 hours between them (that's like two weeks of their pre-Covid lives if they did it non-stop) greeting, smiling, spreading, and



In Texas, ordinary butter costs as little as \$US1.60; premium butter might be \$US4-\$4.50 and \$US6.99 was a serious ask for Lewis Road butter, even for the Texans, the global number one consumers of butter. But it seemed they were up for it.

inviting shoppers to try their Kiwi butter.

Each time Cullinane and O'Rourke succeeded in their in-store marketing pitch, a Texan customer would stomp up \$US6.99 (that's more than \$NZ10) for an 8oz (227g) pack of Lewis Road Creamery 'grass-fed and traditionally churned New Zealand butter'.

Quick comparison: At Countdown in Auckland you can get a 500g pack of butter for around \$5.50 - about a quarter of the price, gram for gram. Lewis Road's premium butter (250g) costs only \$6.90.

In Texas, ordinary butter costs as little as \$US1.60; premium butter might be \$US4-\$4.50. Even for the Texans, the global number one consumers of butter, \$US6.99 was a serious ask. But it seemed they were up for it. Central Market ordered more butter for its 10 stores and Cullinane and O'Rourke used what they learned from talking to customers there to develop mini-business cases to take to bigger supermarkets. And they made a lot of calls.

Four other supermarket chains, including the Amazon-owned and Austin-based Whole Foods Market, started taking Lewis Road's export butter, and store numbers climbed to 800.

The first shipment - two pallets of air-freighted butter ("You freeze a pallet of butter, hand stack it and pray a lot no one leaves it on the tarmac," O'Rourke says) turned into container-loads of sea-freighted butter. In the year to October 2021, Lewis Road is expecting to ship 800 tonnes (approximately 3.5 million packs) to the US; by October 2022 they hope to have lifted volumes to 1300 tonnes (5.5 million packs).



Lewis Road's GM Nicola O'Rourke says you should be able to eat butter like cheese. Photo: Nikki Mandow.

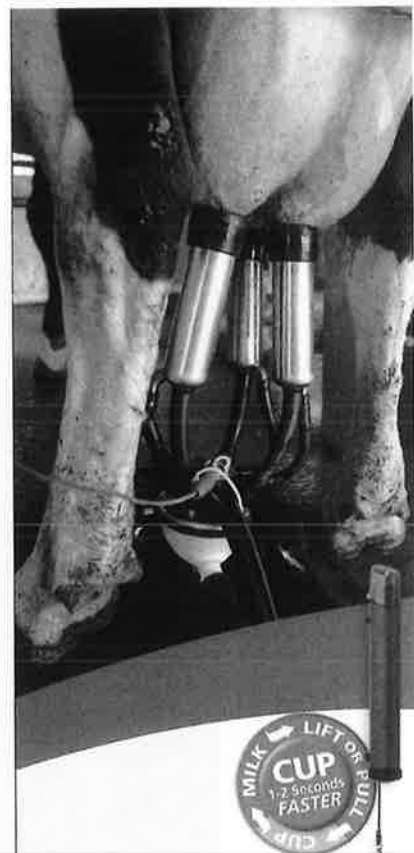
The goal is to have 3000 stores stocking the butter by the end of next year, O'Rourke says. It's already in Australia ("they were willing to stock it at that price range") and discussions are going on with British supermarkets Sainsbury and Waitrose. "We've had early interest from them, but we are certainly not going to be flying there anytime soon."

AHH... COVID

The pandemic is both a curse and a blessing for New Zealand exporters like Lewis Road, says Maury Leyland Penno, a professional director who spent 11 years at Fonterra, including as head of strategy.

Getting attention for a Kiwi brand is hard in a massive market like the US.

"We tend to go offshore and think we are going to punch above our weight, but traditionally consumers aren't thinking about what New Zealand products they



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that delivers economic, social and environmental benefits, and ensures New Zealand's ongoing success as a dairy industry world leader."

In economic terms, the project was aiming for an additional \$2.7 billion in benefits to New Zealand every year by 2025, and one of the four key goals was "enabling innovative but sustainable development of new products".

The final project report, and a follow-on review in November 2019, showed good results in several areas, including a significant increase in on-farm productivity. But value-add export brands? Not so much.

The report talks about some cool new Fonterra mozzarella and UHT creams, and new infant and adult formulas under the Annum and Anlene brands, also made by Fonterra.

But as I wrote in a story about Fonterra in 2018 (Fonterra fails - again - to cash in on dairy value-added), and Newsroom's Rod Oram wrote in his December 2019 story Fonterra: a lesson in how to sell your future, our main dairy producer has struggled to get nearly as much of its production into higher value food service and consumer products as it would have liked.

"Its financial performance and its rewards to farmers are still fundamentally driven by commodity booms and busts," Oram says.

Even some of our more nimble dairy companies - a2 milk, Synlait, even Tatua - are arguably not doing enough in the branded export space.

A POINT OF DIFFERENCE

Branding and marketing a premium product is something Lewis Road has done pretty well - in the



Our butter - cultured

local market at least. Although the initial advertising spend for the chocolate milk was minuscule - \$20,000 - the company has used social media well, and with all its products has tapped into mid- to high-socio economic consumers and into the growing retail trend away from mass market products and towards craft, authenticity, health and wellness.

The Lewis Road/Southern Pastures export butter takes the branding one step further, into supply chain transparency, and authentication of claims, Maan says.

Early on in the process, Southern Pastures developed its own 10-point ethical and healthy production certification, which it is working with government-owned food standards body AsureQuality to convert into a full-blown accreditation programme over the next 6-12 months.

The 10-star commitment is written on the back of every pack. Grass-fed cows, GMO-, palm oil and hormone-free production, 365-day free range cows and "care for the environment, our people and our animals".

Maan says the company realised there were a bunch of consumers in the US willing to pay a premium for ethically-sourced and fully-traceable products. And before teaming up with Lewis Road it found a dairy company, Westland Milk Products, willing to make its butter, even though that meant cleaning out the whole production system between non-Southern Pastures and Southern Pastures butter batches to make sure no non-traceable milk snuck in.

Which is part of the reason the butter is so expensive.

IT'S ABOUT THE STORY

But Southern Pastures also needed a brand - which is where Lewis Road came in. It bought a 25 percent stake in the creamery in 2017.

Pat English is a former NZ Trade Commissioner in China, now working as an international trade consultant, including as chair of the Agricultural Growth Partnership for MPI. He says with many exporting companies he's seen, success isn't just about the innovation, it's as much about the story that goes with it.

"There are a whole load of trust factors in there. People see the wonderful images of New Zealand and they translate it into the whole product."



Southern Pastures 10-point ethical and production certification commitment is written on the back of every pack.

True, says Maan, but as an exporter in a crowded market like US dairy where there might be two dozen butters on the shelf, you'd be foolish to rely too heavily on New Zealand's reputation for your unique selling point.

"You have to sweat 'Why am I different and why would people be spending so much more on my product?' Brand New Zealand is quite far down the list.

"We targeted the new conscious consumer. People want to know where your product is really from, is it really sustainable, is it ethically sourced, how can I validate that?"

The number one target market for Lewis Road in the US is millennial moms - mothers aged from the mid-20s to the early-40s.

Maan says research suggests 25-30 percent of these millennial moms - or rather moms - might be in an income bracket to choose a more sustainable product - even if it's more expensive.

"These millennial moms want to know they are making good choices, not just buying great tasting butter. When they switch brands they might be OK with paying more, but they are looking for validation they have a better product - carbon neutral, or a B-corp [a company balancing purpose and profit], or one that comes with certification."

ONE COMPANY, TWO BUTTERS

Which is part of the reason why the Lewis Road butter in our supermarkets is different from the US one.

The original Lewis Road butter takes



Southern Pastures sets store by its soil, its grass and its cows. Photo supplied

milk from a range of suppliers and mixes it together - for an individual pack of butter you can't be sure exactly what sort of grass or feed the cows have eaten or whether they have been in or outside.

Whereas all the export butter comes from milk Southern Farm Pastures farms, and everything is tracked, Maan says.

But that's not the only difference. The two products are also quite different butters.

Peter Cullinane's Lewis Road butter - the Lewis Road we get in supermarkets in New Zealand - is what is called a 'cultured butter' - or sometimes a 'European-style' or a 'lactic' butter.

The cream is mixed with lactic cultures to trigger fermentation (like with yogurt), and then churned. That gives a different taste to normal New Zealand butters, the European flavour Cullinane wanted.

It also gives a high butterfat content that produces great results in baking.

Maan didn't want that for the US market. He went for standard non-cultured butter, but adapted the soil, the grass and the cows to produce what he claims is the best butter in the world, in terms of health.

In particular, he says the Lewis Road export butter has a good balance of omega-3 and omega-6 fats, is high in conjugated linoleic acid (believed to have health benefits) and higher in certain vitamins than other butters.

THE FUTURE

Having progressively increased its Lewis Road stake to 50 percent after 2017, Southern Pastures finally took full control last month and Cullinane stepped down from the company. *Newsroom* approached him for this story, but he was off fishing.

What of the future, I ask Maan and O'Rourke, over crackers and slabs of butter as thick and yellow as cheese.

"The next stage is to invite more farmers to join us, as we will need more supply," Maan says. "Once we get to Britain, it becomes very exciting. The New Zealand provenance story becomes very useful there, as our dairy carbon footprint is significantly lower than the Irish.

"It depends on our dear friend Boris."

In terms of other products, the company is trialling 10-star certified flavoured butters. Ghee (clarified butter which has the milk solids taken out) is a potential next product.

"Ghee isn't huge here, but it's huge in America," Maan says. "It's shelf-stable, so you don't have to keep it in the fridge. And it's regarded as a non-dairy product in the US, so people on a dairy-free diet can use it."

Like in their butter coffees - or the branded version, the Bulletproof coffee. Apparently it's all the rage in America...

On the other hand, the Americans won't

be getting Lewis Road chocolate milk - too short a shelf life.

But maybe ice cream. Lewis Road is trialling that at Central Market at the moment, but without the 10-star certification (which the ice cream doesn't have at the moment), persuading the Americans to part with \$US12.99 for a small tub is a stretch, Maan says.

"We're looking at making a 10-star high protein ice cream, but it's still early days. That would have more export potential. Otherwise you are just competing on flavour and indulgence - and that's the same market as everyone else."

Business commentator and *Newsroom* columnist Rod Oram says whether Lewis Road has what it takes to produce that elusive elixir - a value-add New Zealand dairy export brand - remains to be seen.

"There are three key tests for a pure brand: the margin they make over their competition, their strong customer loyalty and whether they are spread by word of mouth," he says.

All three could apply to Lewis Road chocolate milk, but can the company repeat it with export products? And if it does, will it make a difference to New Zealand's 20 billion litres of milk a year, most of which is sent out of the country to commodity products?

Maan says Southern Pastures is inspired by the successes of the New Zealand wine industry.

"There's a whole lot of niche players, some of which are actually very large. Selling their wine is a branding exercise.

"Part of the problem for dairy is because we produce so much, we've focused on just trying to sell it all. At Lewis Road we've focused on just trying to sell a small part for a premium price."

He says while any export success for Lewis Road isn't going to make a difference to New Zealand's overall value add problem in the short term, he hopes it could change attitudes.

"I'd like to think we could make a difference. Not in terms of volume, but leadership. We are trying to show the way - that there's a path for high value New Zealand branded and traceable dairy products being sold in overseas markets.

"We hope other farmers will join us if we get some volume, but at the moment we are happy to share our learnings with the dairy industry - even our competitors.

"Our journey has just begun, but it's going well."



southern Pastures executive chairman Prem Maan.

want to buy. Capturing their attention and making them make a new buying response is hard and very expensive.

"But now is a great time for NZ brands. Companies everywhere are facing a whole load of disadvantages [around Covid-related restrictions], but we have advantages as well.

"We have the freedom to work together, and the world is saying 'We want some of what they have got'."

O'Rourke agrees the pandemic has levelled the playing field.

Lewis Road can't stand in a supermarket and give out samples, but then no one can. And when no one can travel easily, a company in an end-of-the-world place like New Zealand isn't more disadvantaged than someone closer. The other positive for the company is that shopping - particularly supermarket shopping - has a bigger role in people's lives now so many other activities aren't available, she says.

"US consumers are treating the supermarket as a playground; they are staying there longer. That's given us an uplift."

In the UK, future success could depend partly on Prime Minister Boris Johnson and his



their butter - uncultured, production-wise

Brexit negotiations, O'Rourke says. Kiwi butter would become significantly more competitive in England if Irish butter manufacturers were paying similar import tariffs.

THERE'S BUTTER AND THERE'S BUTTER

O'Rourke says New Zealanders should get the chance to buy Lewis Road export butter early next year, if we are prepared to pay the premium.

What? Don't we have Lewis Road butter already? Aren't we spreading over here what they are spreading over there?

The answer is No. The packaging may look similar, but their Lewis Road butter and our Lewis Road butter is quite different - in butter terms.

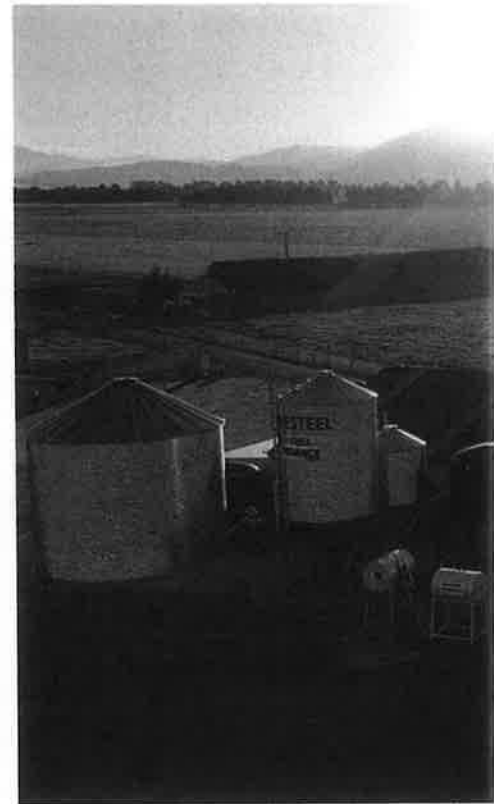
That's where the story gets even more interesting, and where our second middle-aged man enters the Lewis Road picture.

Remember the first one is Peter Cullinane, the former Saatchi & Saatchi ad agency supremo who founded Lewis Road out of a converted shipping container in 2012 because he hated New Zealand's "mucked about with" butter being sold basically as a commodity product. Cullinane wanted to make a butter that tasted as good, and made pastry and patisserie, as well as European butters.

He's also a former university dropout who went on to get two postgraduate degrees from the University of Auckland and an MBA from Harvard and has been a director of SkyCity and chair of NZME.

Prem Maan, the new(ish) owner of Lewis Road, has a totally different, though no less interesting back story. Born in Fiji and educated at the University of Canterbury, Maan worked in banking and finance for a few years - Banque Indosuez, Deutsche Bank and Citibank, mostly in New Zealand - before founding an investment company, Maan Martin Capital in 2001, with his wife Lynette, and then an investment fund called Foundation Capital.

The Maans targeted institutional investors, often from overseas, and they were particularly interested in housing projects. One of the offerings was the country's first Islamic home mortgage programme. In total, Foundation Capital raised \$250 million, but then in 2007/2008 the GFC hit. Times got tough as the government moved to guarantee banks and finance companies but wholesale funds such as Foundation



were left unguaranteed and found it hard to issue new bonds.

But at the same time farm prices fell - and Prem Maan's direction changed completely.

"I had always looked at setting up a farming fund, but in the past people used to farm for capital gains. We wanted farms where we could get cash returns. In 2008/2009 we saw an opportunity to set up a fund."

They set up dairy farm fund Southern Pastures Limited Partnership in 2009 and bought the first farms in 2012. These days, the company owns 20 farms in Canterbury and the Waikato.

"Our key driver was to buy farms with a long term focus - where we could improve the land so when we exit we leave a better footprint."

Of course, every farmer and his dog is talking about sustainable farming practices, but Maan says he wants to be a leader and a motivator in the field. He has coined the term 'inter-generative farming' - farming for other generations - to describe what Southern Pastures is trying to do.

"Soil can hold two times the carbon of the air and plants combined - yet modern



Peter Cullinane in the Lewis Road head office kitchen. Photo: University of Auckland.

farming methods are releasing carbon, and even more harmfully, water vapour into the atmosphere.

"We need to find ways of farming our way out of climate change and climate volatility. And in New Zealand's case, not through reduction in production - humanity needs to eat and New Zealand is already the most efficient pastoral farmer in the world by a country mile - but through more sustainable farming methods."

At a practical level, Maan has a passion for earthworms and dung beetles - he has a box of specimen dung beetles and their dung balls in the office to show to other enthusiasts.

He started trialling dung beetles on his farms four years ago as a way to improve soils and reduce methane outputs.

But carbon-neutral, methane-reduced dairy farming is not just about a more sustainable world and climate change, Maan says. It's also about improving farming profitability and moving towards higher value export dairy.

"Our key investors are pension funds - it's a long term investment for them," Maan says.

"Our policy from the start was to make the best, healthiest dairy products in the world. For us it starts with the best soil, then the best grass and the best cows, from that we want to make the healthiest milk, then the best butter."

Best butter that costs \$US6.99 for 227g.

THAT OLD CHESTNUT: VALUE-ADDED DAIRY

In 2018, the Ministry for Primary Industries issued its final project report on a wide-ranging, seven-year, \$170 million, innovation programme led by DairyNZ and Fonterra and called "Transforming the dairy value chain".

The main aim was "to enable a transformation of the dairy sector creating increased value for New Zealand by 2025 through game-changing innovation and research in the dairy value chain



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