# Marketing methods for NZ dairy products

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**MARKETING METHODS FOR DAIRY PRODUCTS**

New Zealand is one of the top five dairy exporters in the world who supply around 95% of dairy products traded on the international market.

The Dairy Industry in New Zealand has historically sold and marketed its product under the single seller concept – all the produce has been sold through one organisation – the Dairy Board.

This was changed in 2002 when the Dairy Board was legislated. It was taken over by Fonterra Co-operative Group. Fonterra has taken over all of the Dairy Board functions as well as all of the processing of milk in New Zealand. It is responsible for all facets of the marketing chain - processing, transportation, marketing, support, selling, and research.

The exceptions to this are the following independent dairy co-operatives: Tatua, Westland, Open Country Cheese, Synlait and Miraka.

**Smaller Dairy Companies in New Zealand**

* **Tatua**

Tatua is a co-operative company. The Board of Directors comprise of six elected shareholder Directors and two appointed independent Directors.

The 109 shareholder farmers who supply milk to Tatua are all located within 12 kilometres of the manufacturing facilities. This small tightly-knit supply base allows for careful control over milk quality and the ability to ensure a consistently fresh milk source.

A total of 190 million litres of milk is processed at Tatua per year. From this raw milk, Tatua manufactures a wide range of dairy ingredients, dairy flavour ingredients, specialty nutritional products, bionutrients, and foodservice and consumer products, of which 94% are exported worldwide.

* **Open Country Dairy Limited**

Open Country was formed in 2001. The Board of Directors comprises of seven directors including two independents. Its main shareholders are the South Island's Talley family and Singapore's Olam International. The Company's strategy has been to site its factories in the pre-eminent dairying areas of New Zealand. Open Country sources its milk from the areas surrounding its factories and is now supplied by over 500 independent dairy farmers.

The combined capacity of the three sites: Waharoa, Awarua and Wanganui is approximately 900 million litres of milk per annum.

* **Westland**

Westland is a 100 per cent independent dairy farmer-owned cooperative. Currently there are nine directors including one independent director.

The company specialises in the sourcing and processing of more than 600 million litres of milk annually, producing a range of dairy ingredients and finished products including butter, milk powders, caseinates and milk protein to more than 50 countries worldwide. There are approximately 400 farmer shareholders.

* **Synlait**

Synlait was formed in 2000. Based in Canterbury the company started with dairy farms and moved into milk processing. The Synlait milk factory processes more than 500 million litres of milk annually. It was a privately owned company, but now some international companies own part of the business. Japanese corporation Mitsui owns 13.5% of Synlait Limited and Chinese company Bright Dairy owns 51% of Synlait Milk. Currently there are six directors and one non-executive director.

* **Miraka**

Miraka Limited, a new entrant to the New Zealand dairy processing industry is backed by a group of Maori trusts and incorporations. These organisations include Wairarapa Moana, Tuaropaki Trust, Waipapa 9 Trust, Hauhangaroa Partnership, Tauhara Moana Trust and Huiarau Farms. Their strategic partners and investors include the Maori Trustee, Te Awahohonu Forest Trust Limited, Vinamilk, a leading enterprise in Vietnam in manufacturing milk and dairy products and Global Dairy Network who bring experience and knowledge in dairy sales and marketing across the world. Currently there are five directors including one independent director.

**FONTERRA HISTORY AND BACKGROUND**

Formed in October 2001, Fonterra is co-operatively owned by over 10,500 dairy farmers. Fonterra has an annual turnover of NZ$19.8 billion, assets of NZ$15.1 billion and total equity of NZ$6.7 billion.

According to a report released by the New Zealand Institute of Economic Research (NZIER) in December last year, the dairy sector accounts for 2.8% of the nation’s gross domestic product – or $5b. This contribution is greater than the GDP contribution of the combined fishing, forestry and mining sectors and around 10 times as large as the GDP of the wine sector. The dairy sector is also a major employer, providing jobs for around 35,000 workers in farms and processing plants.

One of the top six dairy companies in the world, Fonterra is the leading exporter of dairy products and is responsible for more than a third of international dairy trade. New Zealand is a world leader in large-scale milk procurement and processing.

Fonterra is the world's largest diversified milk processing company and one of the world's top producers of dairy nutrition for export, including milk powders, cheese and butter.

Fonterra has built strong partnerships with other leading global dairy companies through supply chain integration and innovation. We sell our products globally with sales and marketing being managed through our principal hubs in Auckland, Singapore, Tokyo, Santiago, Shanghai, Melbourne, Dubai, Mexico City, Chicago and Amsterdam.

Fonterra’s global supply chain stretches from farms in New Zealand to customers and consumers in 140 countries, with some of the best known dairy brands, world leading manufacturing sites, quality and cost marketing and distribution from cow to customer

**Fast facts (The New Zealand Dairy Industry – March 2012)**

• Major dairy export markets are China, with 18 percent share, the Philippines (4 percent), Algeria (4 percent), Australia (4 percent) and Saudi Arabia (4 percent) in 2011.

• New Zealand produces approximately 2 percent of total world production of milk at around 16 billion litres per annum.

• Main dairy exports are concentrated milk, with 58 percent share, butter (21 percent), cheese (11 percent), whey and milk products (6 percent) and not-concentrated milk (2 percent) in 2011.

• New Zealand dairy farms processed 17.3 billion litres of milk in 2011.

• New Zealand’s cow population is rapidly growing, at a rate faster than the country’s population.

• Approximately 95 percent of all New Zealand dairy production is exported.

• The dairy production has increased by 77 percent during the past 20 years in New Zealand.

**Fonterra Overview**

Total Assets Employed NZ$15.1 billion\*

Total Equity NZ$6.7 billion\*

Annual Turnover NZ$19.8 billion

Dairy Ingredients Manufactured New Zealand 2.4 million metric tonnes\*

Sales Volumes 2.7 million metric tonnes\*

Employees 17,300\*

Shareholders 10,578\*

\*Data correct as at 31 July 2012 - Fonterra's annual report 2012

**Fonterra’s Group Strategy Refresh**

Fonterra’s Group Strategy Refresh aims to grow volumes and value by focusing more tightly on emerging markets, and products that meet growing consumer demand for dairy nutrition. It follows an in-depth look at the Co-op's strengths, social and economic trends as well as underlying projections for a marked increase in global demand for milk.

The full strategic refresh amounts to over 100 discrete projects - many already underway - to focus Fonterra's efforts going forward. It includes:

* A strong push on the fast-growing emerging markets of China, ASEAN and Latin America where Fonterra already has a strong presence.
* Optimising the New Zealand milk business to drive cash and improve return on capital.
* Building integrated milk pools (secure, high-quality sources of milk integrated with Fonterra's business) offshore to bring higher value returns back to New Zealand and protect New Zealand exports.
* Growing volumes of higher value consumer branded and out-of-home nutrition.
* A tighter focus on meeting the advanced nutrition needs of mothers and babies, as well as ageing populations supported by targeted innovation in these areas as well as out-of-home nutrition.

**Fonterra Structure**

 As a co-operatively owned dairy company Fonterra is governed by four external groups:

1. **New Zealand Dairy Farmers**

Fonterra is owned by nearly 10,500 New Zealand dairy farmers who supply more than 14 billion litres of milk each year. The shareholders represent 95 per cent of the country's dairy farmers and are spread throughout New Zealand from Cape Reinga in the Far North to Bluff in the south.

1. **Fonterra Board of Directors**

There are up to 13 directors on the Board of Directors. Nine are elected by shareholders and the rest are appointed by the Board.

1. **Shareholders' Council**

The Shareholders' Council looks after the shareholders. It is made up of 35 shareholders representing 35 wards all over New Zealand. The Council operates independently of Fonterra and its main responsibility is to make sure the needs of supplier shareholders are recognised by the Board.

1. **Milk Commissioner**

The Milk Commissioner is appointed by the Shareholders' Council to mediate any disputes between shareholders and Fonterra.

**Complete Structure including Operating Divisions**

**MILK COMMISSIONER**

**Appointed by Shareholders council**

**Mediates between the**

**shareholders and Fonterra**

**SHAREHOLDERS’ COUNCIL**

**35 shareholders elected**

**by the shareholders**

**BOARD OF DIRECTORS**

**13 directors**

**(9 elected and 4 appointed)**

 **10,000 New Zealand dairy farmer shareholders**

**FONTERRA CO-OPERATIVE GROUP**

**FONTERRA INGREDIENTS**

Fonterra’s ingredients business is the heart of Fonterra and the largest dairy ingredients operation in the world. Its scope is huge, encompassing milk collection from 11,500 suppliers, the manufacture and packaging of more than 600 product specifications and the operation of a supply chain linking production plants in New Zealand and offshore.

 The ingredients business markets products under the NZMP brand in over 100 countries, operating a network of offices covering every continent except Antarctica. It is responsible for the entire cow-to-customer value chain from milk collection, through manufacturing and logistics and ultimately to the marketing of quality ingredients to the international food industry.

The dairy ingredients produced are in four main product groups: milk proteins, cheese ingredients, milk powders and cream products.

Fonterra is a global leader in dairy innovation and the world’s biggest investor in new dairy technology, research and product development.

The Fonterra Research Centre in Palmerston North is the world's largest dairy research centre with one of the world's largest registered dairy pilot plants. Fonterra also has research and development centres in: Chicago, USA; Melbourne, Australia; and Hamburg, Germany. The locations of these centres allow innovations to be tailored specifically to the needs of their customers operating within specific markets.

**NZ Milk**

New Zealand milk provides dairy-based consumer and food branded products for customers around the world and is Fonterra’s fast-moving consumer good business.

 It leverages New Zealand’s positive environmental image and a reputation for quality through its leading brands Anchor, Anlene, Anmum, Chesdale and Mainland.

New Zealand Milk’s primary business operations are in sales, marketing and distribution.

• Is involved in the global consumer business

• Produces and markets consumer dairy products

• NZ Milk Food Services is an associated business and provides dairy products and services to food service boards in hospitality, airline catering and fast foods.

**Fonterra Enterprises**

Innovative ventures and growth businesses in support of Fonterra’s core business. These include the company’s biotechnology company, ViaLactia Biosciences; technology development business Fonterra Tech; rural retailer RD1 and agricultural website Fencepost.com.

**Consumer Brands**

Fonterra Brands is the consumer products division of Fonterra. This division produces, distributes, markets and sells ready-to-use dairy products throughout the world. They are the part of Fonterra that is most closely linked to consumers across the globe.

Fonterra Brands produce a wide range of products from ready-to-drink milk and nutritional milk powders, to butter, yoghurt, superbly crafted specialty cheeses and indulgent ice creams. The wide range of products caters to many differing consumer needs. These products range from Growing Up Milk formulas specifically for children right through to enriched calcium milk such as Anlene for adults.

The brands that support all these products are some of Fonterra's most important assets.

Fonterra has five core brands whose products encompass the dairy spectrum - from milk and cheese to prenatal, infant and growing up formulas, yoghurt, ice cream and innovative snacks. The best known brands are:

1.ANCHOR

2.ANLENE

3.ANMUM

4.MAINLAND

5.TIP TOP

6.FRESH n FRUITY

The emphasis for Fonterra has been to focus on consumer trends internationally; and using this knowledge to develop new innovative and healthy dairy products.

**CO-OPERATIVES**

Most of the manufactured dairy products in New Zealand come from co-operatively owned factories. Fonterra is our largest Co-operative processing the majority of NZ’s milk. The other five major companies are mentioned above.