

**RECOMMENDATIONS TO NEW
ZEALAND FOOD & BEVERAGE
INDUSTRY**

Prepared for the Food and Beverage Taskforce

November 2005



Coriolis Research Ltd. is a strategic market research firm founded in 1997 and based in Auckland, New Zealand. Coriolis primarily works with clients in the food and fast moving consumer goods supply chain, from primary producers to retailers. In addition to working with clients, Coriolis regularly produces reports on current industry topics. Recent reports have included an analysis of Retail Globalization: Who's Winning" and an "Overview of the Growth of Foodservice.



The coriolis force, named for French physicist Gaspard Coriolis (1792-1843), may be seen on a large scale in the movement of winds and ocean currents on the rotating earth. It dominates weather patterns, producing the counterclockwise flow observed around low-pressure zones in the Northern Hemisphere and the clockwise flow around such zones in the Southern Hemisphere. It is the result of a centripetal force on a mass moving with a velocity radially outward in a rotating plane. *In market research it means understanding the big picture before you get into the details.*



PO BOX 10 202, Mt. Eden, Auckland 1030, New Zealand
Tel: +64 9 623 1848; Fax: +64 9 353 1515; email: info@coriolisresearch.com
www.coriolisresearch.com



DOCUMENT SCOPE & LIMITATIONS

This report represents our conclusions from our research for the Food & Beverage Taskforce

- **This document does not represent the views of the Food & Beverage Taskforce and was not an “official” part of the client brief.**
- **We developed this document to capture our emerging concerns and conclusions about the future of the New Zealand food and beverage industry. Internally we referred to this document as the “controversy” document. It is designed to challenge the reader to look at old problems in new ways.**
- **This document should be read in conjunction with our report “Mapping the Structure of the New Zealand Food & Beverage Industry”**
- **This material was used by Coriolis Research during an oral presentation; it is not a complete record of the discussion.**

SITUATION

The global food and beverage industry is in terminal consolidation

- Consumers in developed countries already eat too much; there are no indications that food consumption will increase in the next twenty years
- The food and beverage industry is in the mature phase of its lifecycle
 - All industries have lifecycles
 - The food and beverage industry's total lifecycle is obviously made up of numerous component lifecycles
 - However in aggregate most of the F&B industry is mature-to-declining in the developed world
- If F&B companies cannot grow their top line through organic sales growth, they must grow their bottom line through consolidation and rationalisation
- While there are opportunities in the developing world, realising these opportunities requires deep pockets
 - Massive capital investment
 - Willingness to accept losses for long periods
 - The leaders in the developed world tend to be the leaders in the developing world

CAPABILITY ASSESSMENT

Comparing the capabilities of the New Zealand food industry to Frito-Lay, a division of Pepsico with roughly the same turnover, indicates Dairy is currently the best positioned sector

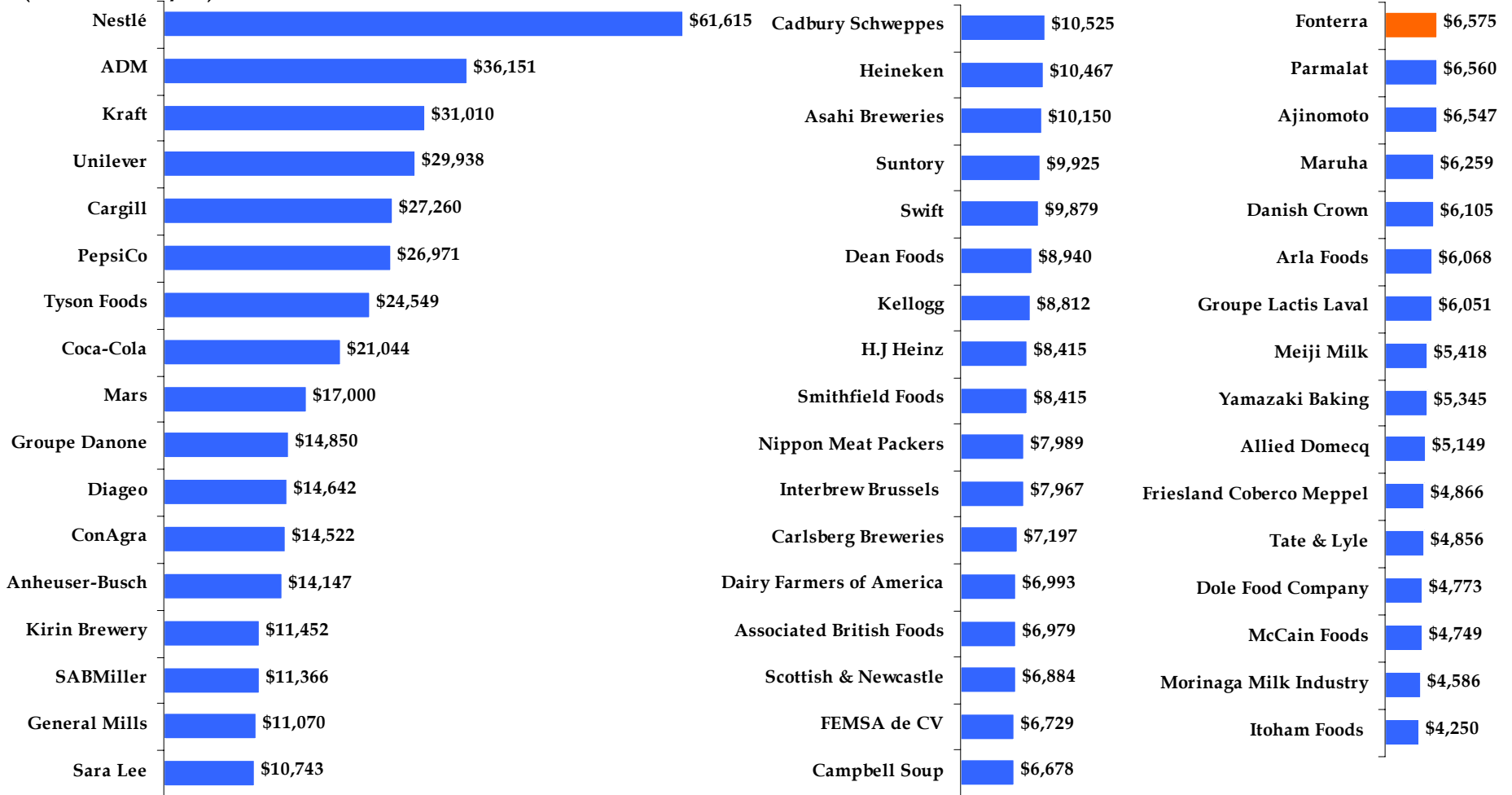
New Zealand Food & Beverage capability assessment (model)

	Global sales force regularly calling on all accounts	Strong brands	Track record of successful innovation	Market share leader in segment	Low cost production infrastructure	Well financed parent
Frito-Lay	●	●	●	●	●	●
Dairy	◐	◐	○	◐	●	◐
Meat	◐	○	○	○	◐	○
Seafood	○	○	○	○	○	○
Horticulture (ex wine)	◐	○	●	◐	○	○
Wine	●	◐	●	○	○	●
Other	○	○	○	○	○	○

TOP 50 GLOBAL FOOD & BEVERAGE COMPANIES

In a globalising and consolidating world, food and beverage multinationals are the winners – we currently have one based in New Zealand; how do we develop more?

Top 50 Global Food and Beverage Companies
(US\$m; FY02/03)

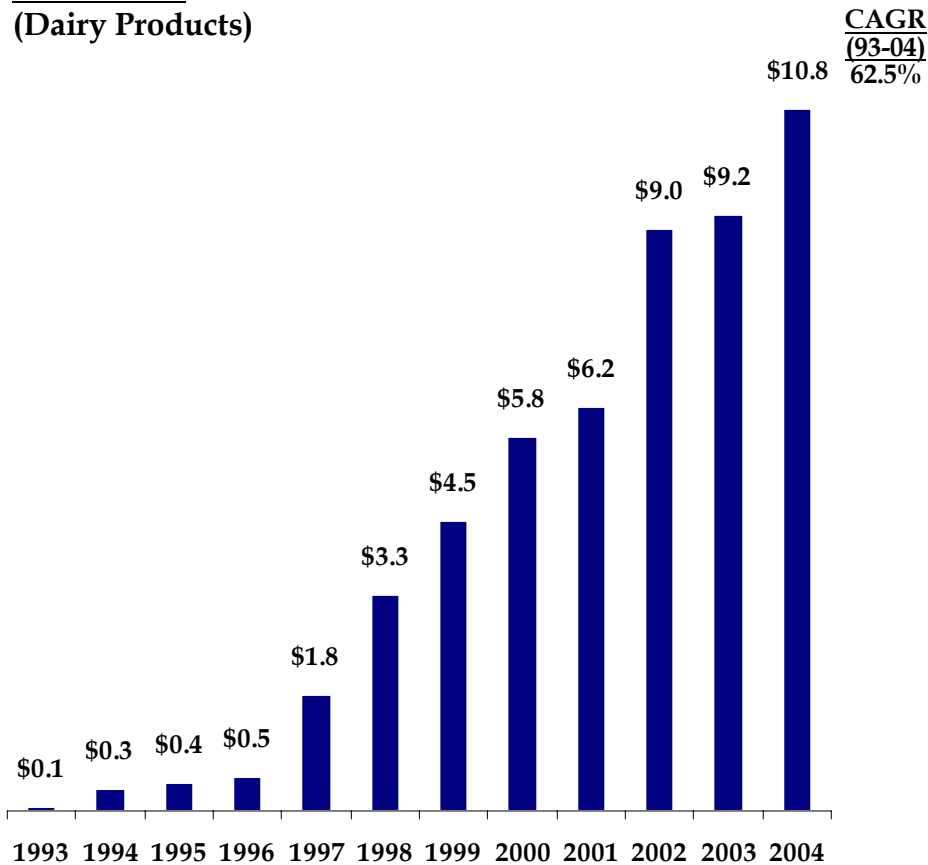


EXAMPLES OF CONSOLIDATION

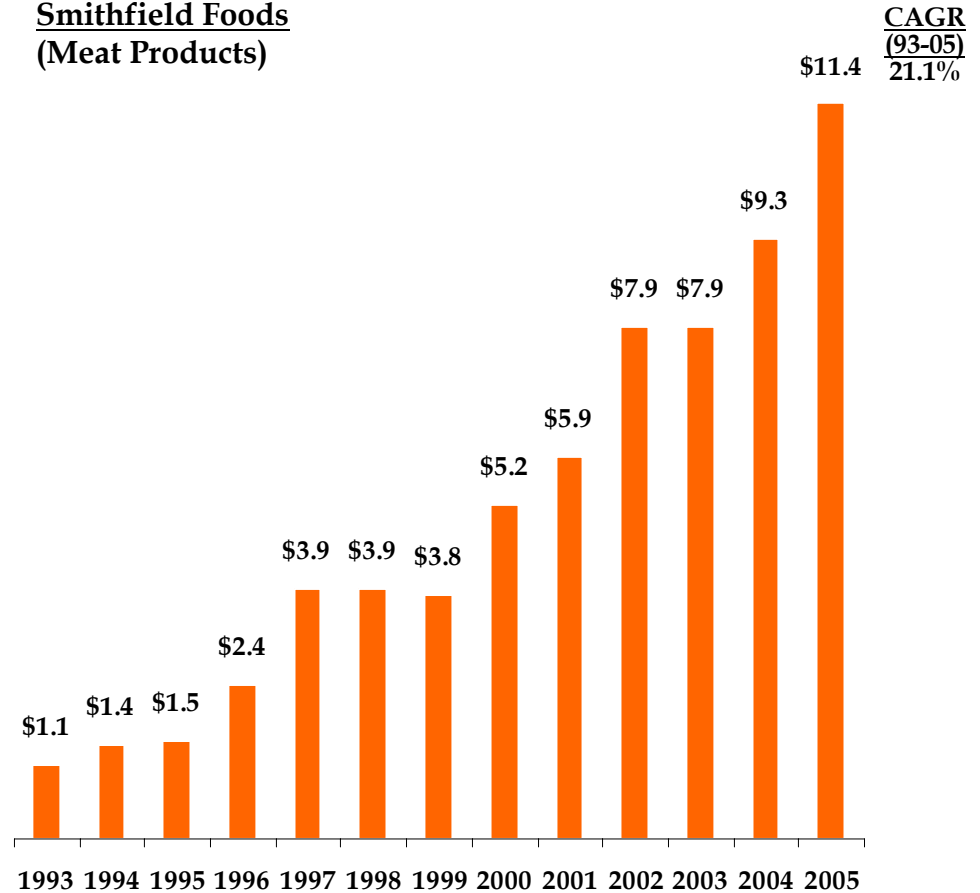
Our competitors are consolidating rapidly

Examples of acquisitions driven sales growth
(US\$; billions; 1993-2004/5)

Dean Foods
(Dairy Products)

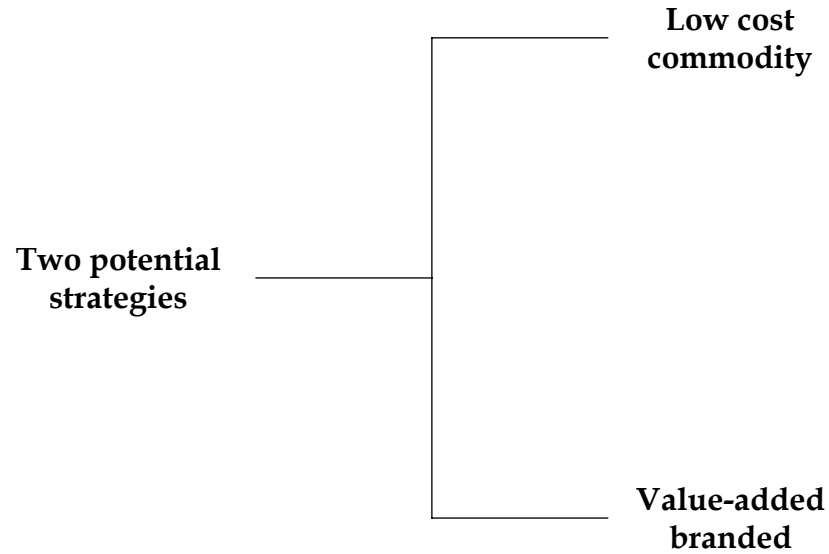


Smithfield Foods
(Meat Products)



TWO POTENTIAL STRATEGIES

There are two potential strategies for NZFBI



THREE POSSIBLE POSITIONS

In addition, there are three possible positions: leader, branch office or backwater

	Leader	Branch Office	Backwater
Definition	Top 10 global leader in category/categories	Local operation of a top 10 global category leader	Minor player in a global industry
Key Characteristics	<ul style="list-style-type: none"> - Defensible position through strong brands and technology - Developing or acquiring innovation - Profitability in excess of industry average - Participation in acquisition and consolidation process 	<ul style="list-style-type: none"> - Parent has leveragable assets (e.g. technology, distribution) - Implementing on a global plan - Scope ranges from sales office to full production centre - Generally does not develop new products or technology 	<ul style="list-style-type: none"> - Constant struggle to achieve cost of capital - Limited ability to invest or innovate - Often cooperative or government owned (or other non-rational capital)
New Zealand Examples	<ul style="list-style-type: none"> - Dairy - Kiwifruit 	<ul style="list-style-type: none"> - Beer & Wine - Processed Vegetables - Seafood (?) 	<ul style="list-style-type: none"> - Meat

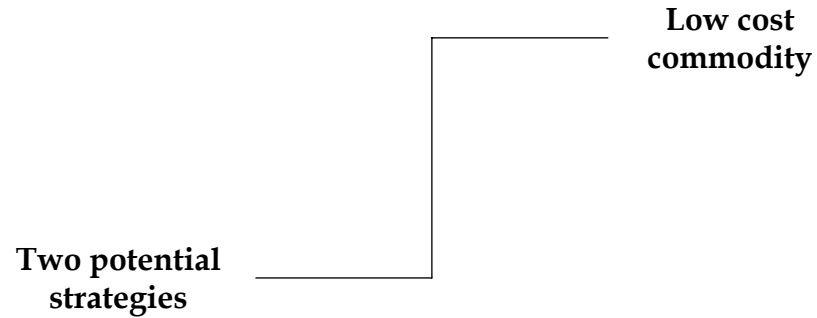
OUTCOMES

NZFBI companies can easily be positioned in some combination of strategies/positions

	Leader	Branch Office	Backwater
Low cost commodity	Fonterra	McCain Nissui/Sealord Nissui/ANZCO	PPCS Alliance
Value-added branded	Zespri	Pernod-Ricard NZ DB Breweries Heinz Watties Goodman Fielder	Sanitarium (?)

LOW COST COMMODITY STRATEGY

The first possible strategy for the NZFBI is being a low cost commodity producer



OUTCOME

A low cost commodity strategy is the status quo for most of the domestically-owned, export focused New Zealand's F&B industry

- It is unclear whether we can maintain our low cost producer status over the next 20 years
 - Key drivers of low cost producer status
 - Low cost land
 - Low cost or highly productive labour
 - Economies of scale
 - Efficient farming systems
 - Must constantly improve production efficiency every year
 - Vulnerable to technology or systemic shifts (i.e. no defensible position)
 - Vulnerable to consolidation of competitors changing their economics
- We would recommend against this strategy going forward
 - "Difficult to support a first world standard-of-living on a third world economy"
 - Does not deliver returns above the cost of capital
 - Does not create meaningful, high-wage knowledge-based work for people

RECOMMENDATIONS

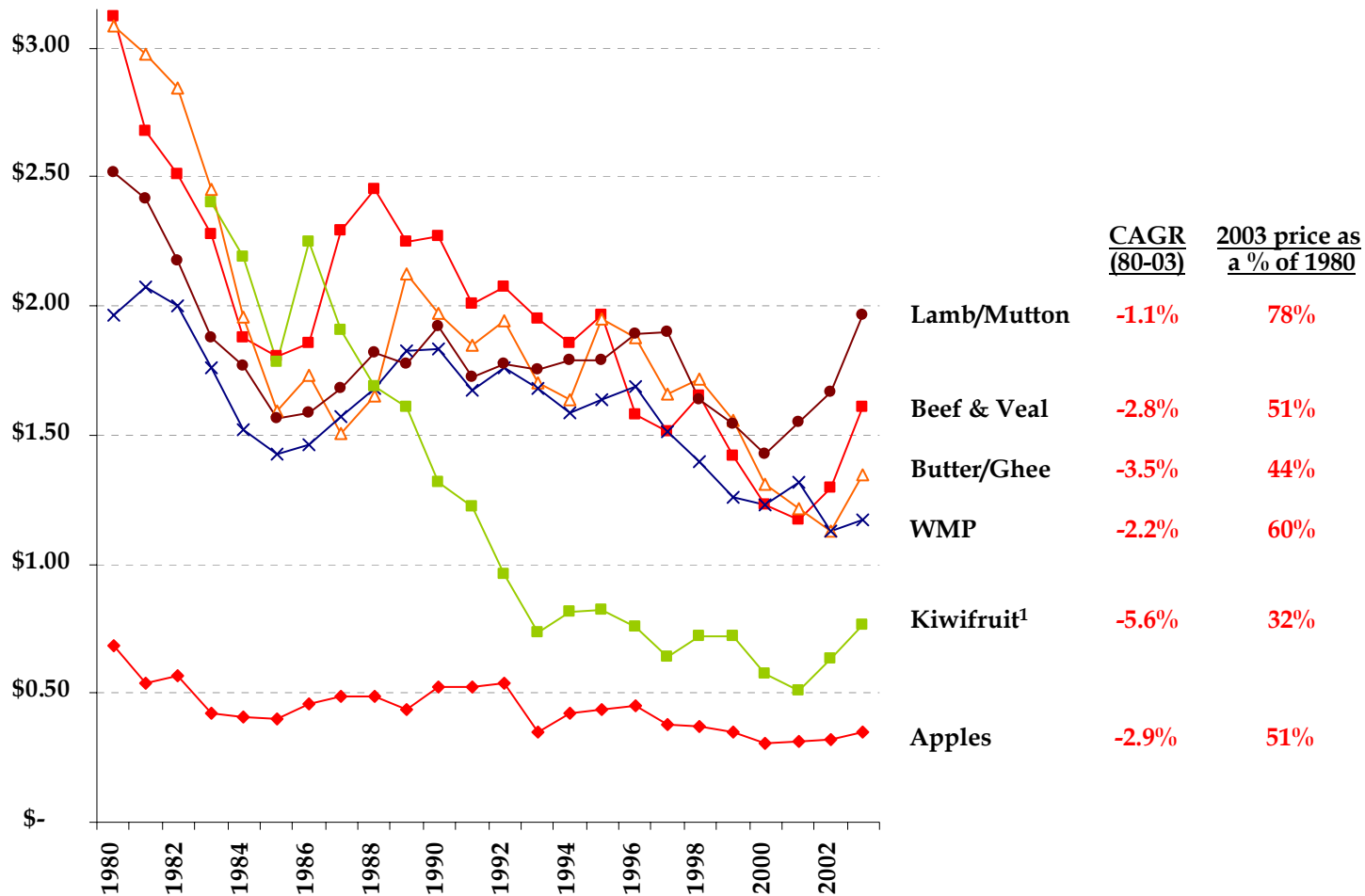
If we continue with this strategy, we make the following recommendations

1. Understand in detail the causes of our current low-cost production capability
2. Benchmark New Zealand farm and industry performance against global competitors on an annual basis
3. Encourage and facilitate the emergence of scale
 - Fewer, larger farms
 - Fewer, larger processing facilities
4. Improve productivity performance every year (running to stand still)

INFLATION-ADJUSTED WORLD PRICES

The inflation-adjusted world price of all of our major commodity exports show long term decline

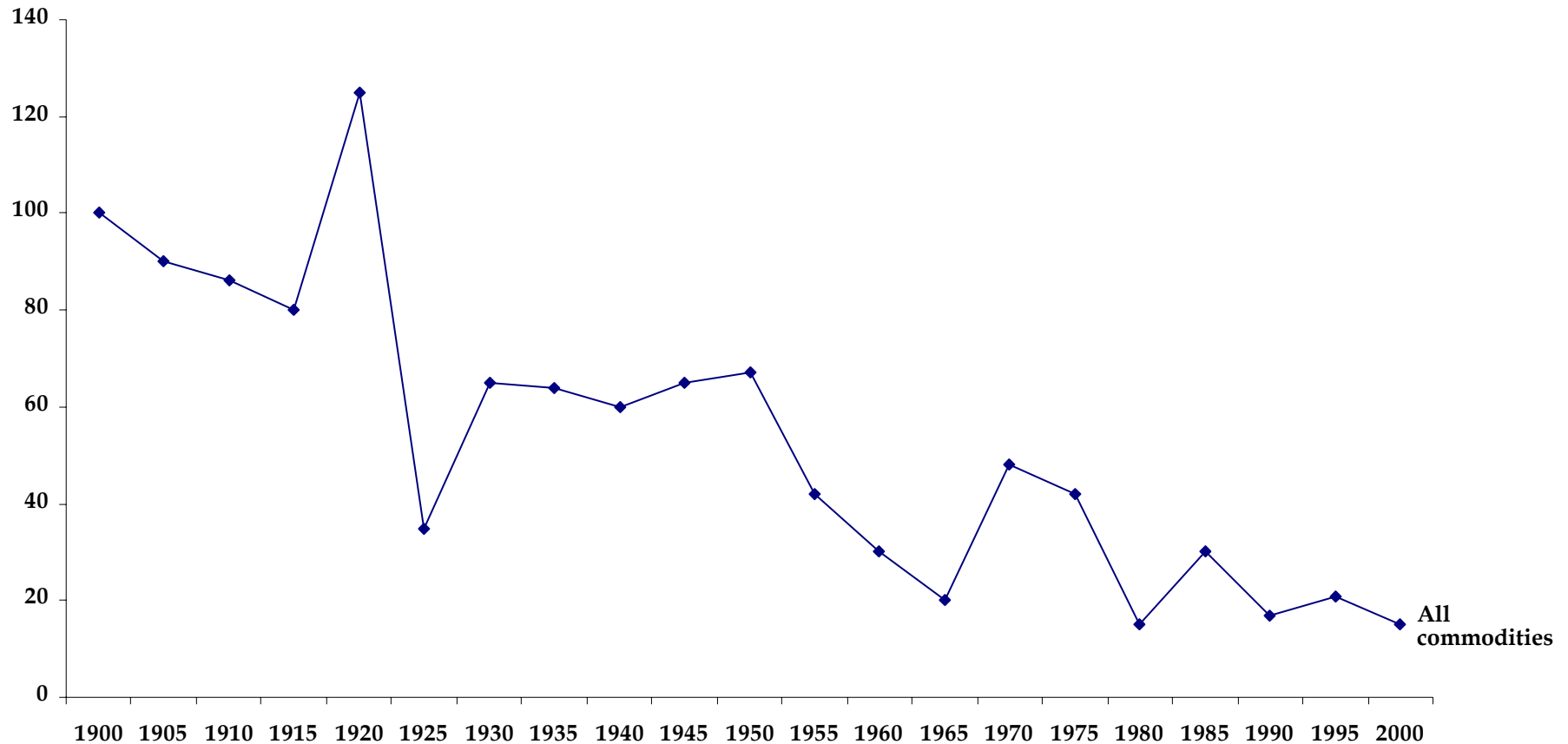
Inflation adjusted world price for select products
(US\$/kg., FOB, inflation adjusted; indexed to 1982 dollars; 1980-2003)



THE CONSTANT DECLINE OF COMMODITY PRICES

This will continue - one of the key features of commodity prices over the last 100 years has been their secular decline

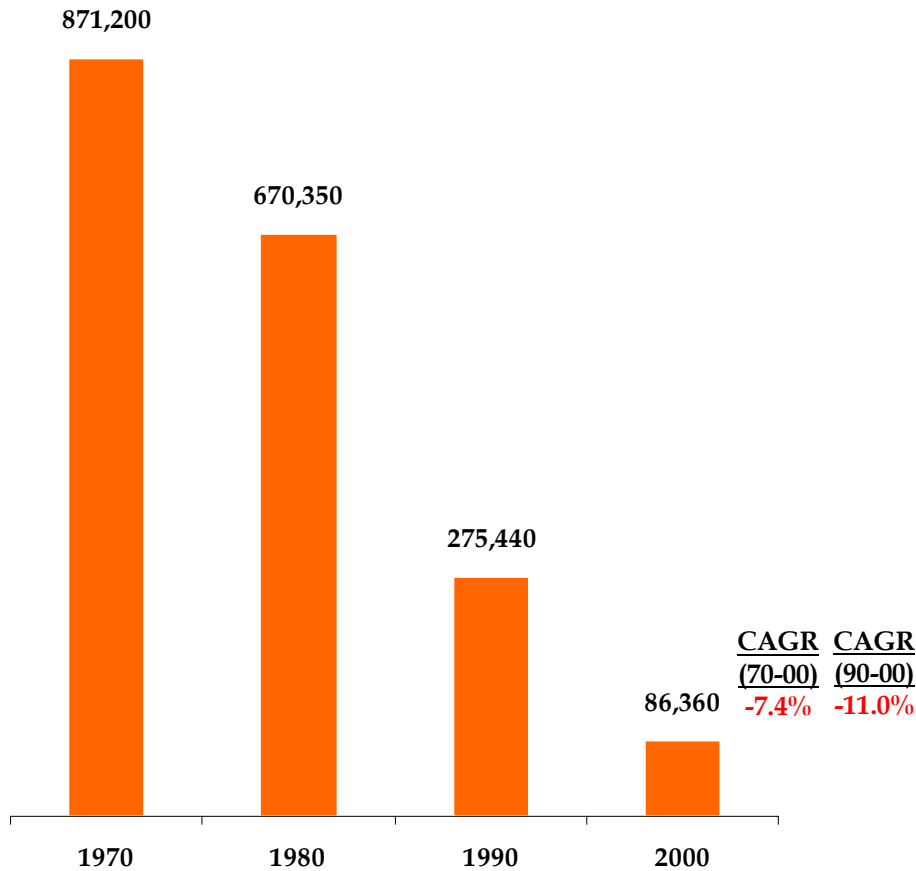
World commodity price index
(representative basket; index; 1990=100; 1990-2000)



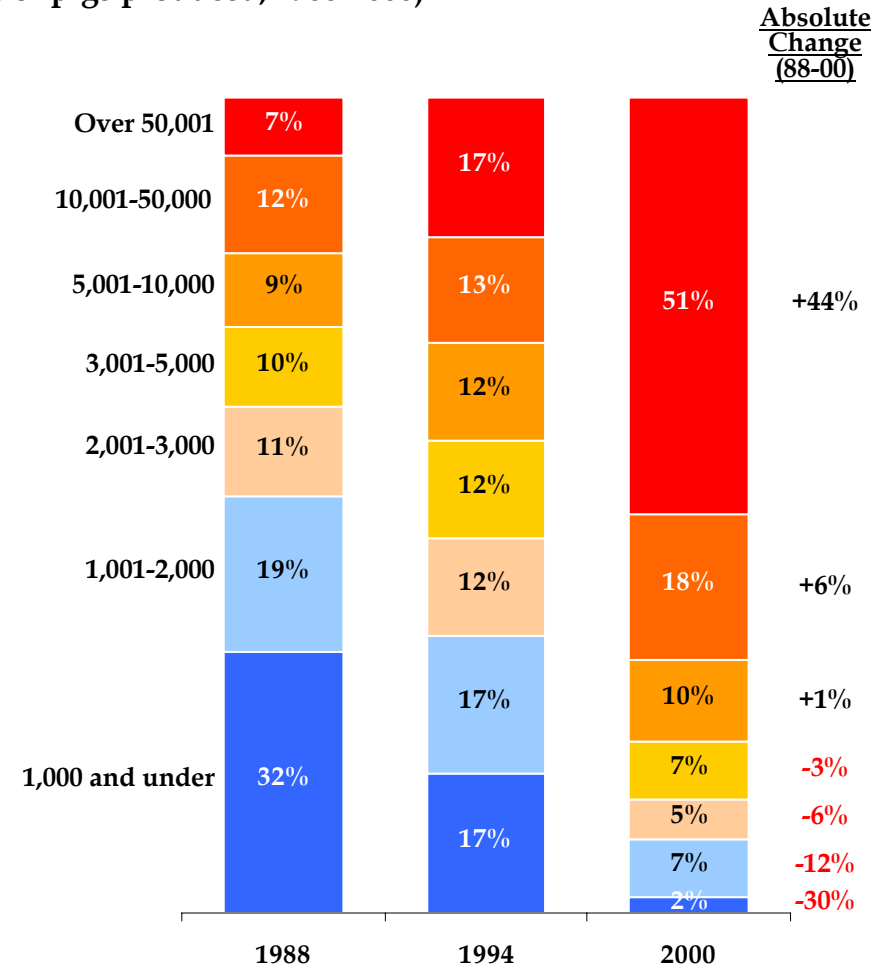
INDUSTRIAL FARMING

The industrial revolution is finally coming to agriculture - the US pig industry provides an excellent example of how this is rapidly changing farming

Changes in number of pig operations
(% of farms, 1970-2000)



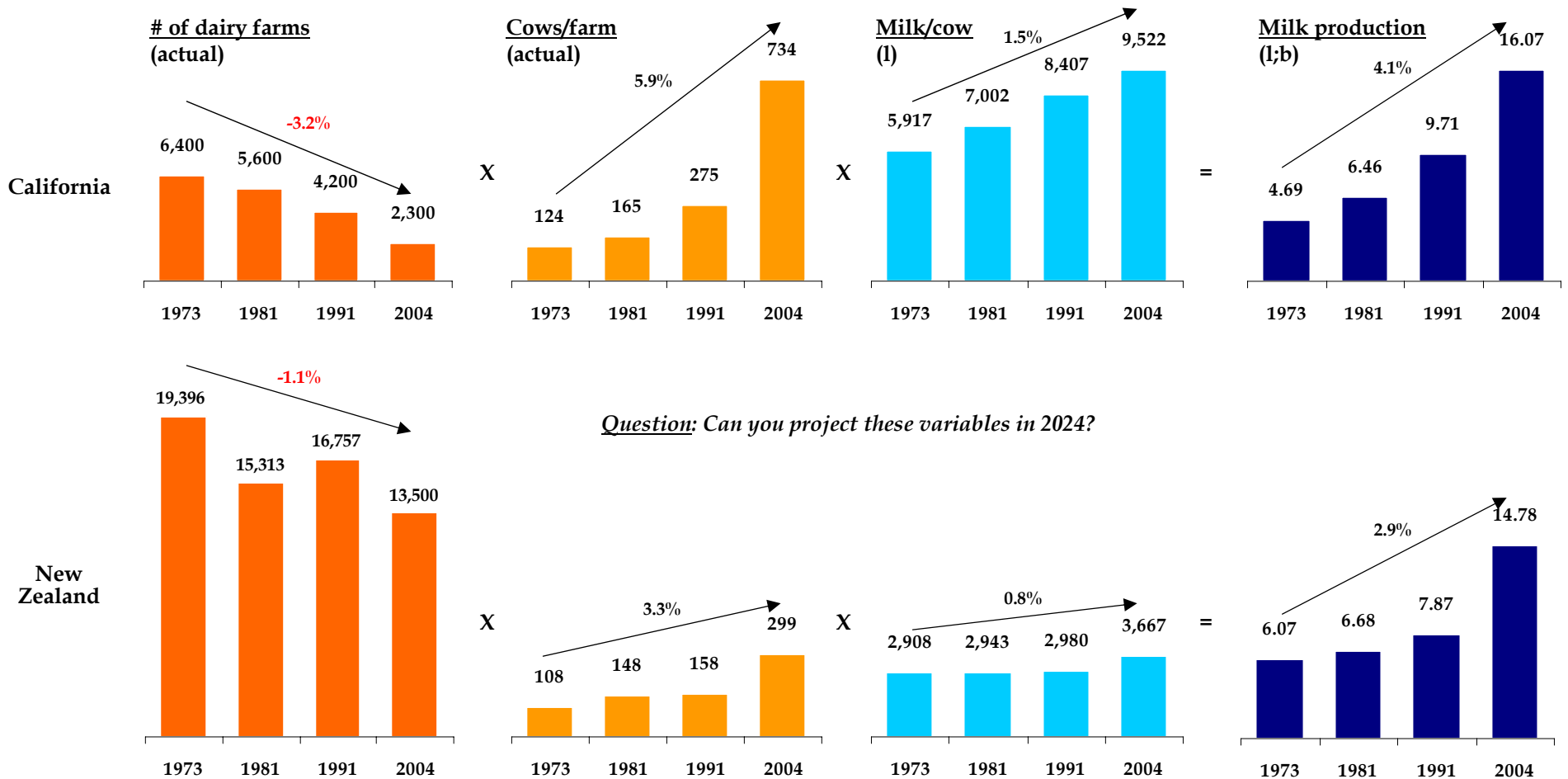
Changes production share by number of pigs marketed per year
(% of pigs produced, 1988-2000)



CHANGING VARIABLES IN MILK PRODUCTION

Commodity producers must constantly improve production efficiency every year; however they remain vulnerable to technology or systemic shifts (i.e. no defensible position)

Changing variables in milk production: California vs. New Zealand (1973-2004)



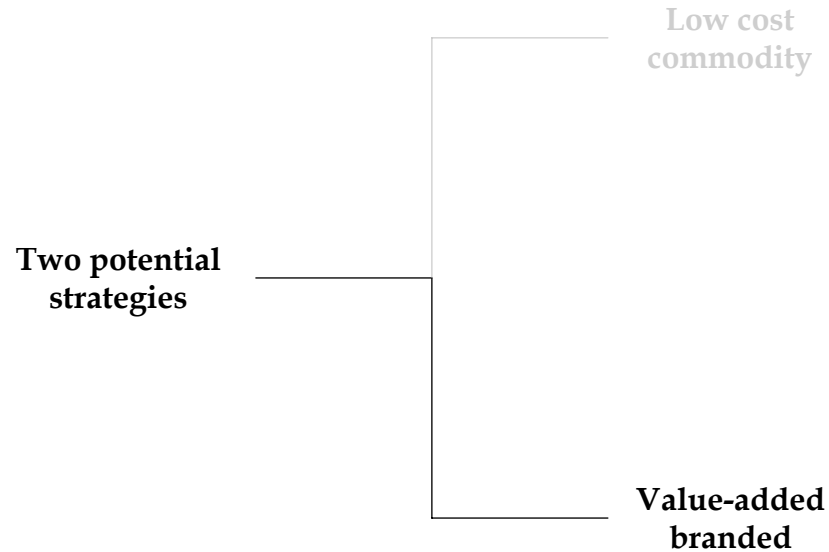
THERE IS ALWAYS SOMETHING...

In addition, if you are a commodity processor, there is always something ...

- **“The 2003/04 processing season was marked by an unpredictable and abnormal production profile. An extremely dry October to January period throughout the South Island created intense processing demand... In February, rain became widespread and lamb availability slowed appreciably... As a result of the appreciating currency, market realisations in New Zealand dollars for many products were below those achieved in 2003... It is very frustrating for industry to see hard won efficiency, productivity and market gains offset by the stroke of a legislator’s pen with little apparent regard for the effect on New Zealand’s international competitiveness... China is the largest sheepmeat producer accounting for 21% of world production while New Zealand produces 7%... High levels of production exceeded the demand for venison and prices fell.” *Alliance Group annual report 2004***
- **“The poorly performing economies of Germany, France and the USA impacted the consumption of expensively positioned food lines such as lamb. SARS, terrorism, the Iraq War and various food safety scares reduced the level of consumption outside the home.” *Alliance Group annual report 2003***
- **“The year has been dominated by the dramatic economic upheavals which started in Malaysia and Thailand and spread to Indonesia, South Korea and Japan and more recently , Russia. The products most affected by the Asian financial crisis were beef and co-products, particularly pelts. Demand dropped off sharply which in return reduced prices. In western markets, sheepmeats and beef have faced intense competition from alternative proteins, especially pork and poultry which have been available in increased volumes at reduced prices.” *Alliance Group annual report 1998***
- **“Looking back at past annual reports, the comments have frequently begun with some crisis or circumstance which has made for a difficult year. You could be forgiven for wondering if there will ever be a year free of outside influence which affects our business. The answer is probably not.” *J F Turner, Chairman, Alliance Group, 1999***

VALUE-ADDED BRANDED STRATEGY

The second strategy is to become a value-added, branded manufacturer



OUTCOME

While this is the preferred outcome, making the transition to this position will be very difficult

- **Being a successful value-added branded manufacturer requires one or more leveragable assets**
 - **Defensible technology**
 - **Large scale capital investment**
 - **Economies of scale**
 - **Strong brands**
 - **Existing distribution network**
 - **Relevant skills (marketing, operations, etc.)**

- **We are arriving late to the game**
 - **Low likelihood of developing defensible breakthrough innovation**
 - **Recommend acquisition of existing assets that can leverage New Zealand capability**

RECOMMENDATIONS

If we intend to make the move to this strategy, we make the following five recommendations to NZFBI

1. **Consolidate leadership in core categories**
2. **Improve new product development (NPD) capability**
3. **Focus the brands portfolio on fewer, stronger brands; consider acquisitions to fill gaps**
4. **Diversify the product portfolio**
5. **Evaluate alternative financial structures**

1. LEADERSHIP

Consolidate leadership in core categories

- NZFBI has a wide portfolio but little strength in categories other than dairy, meat and fresh produce
- Consolidating the Southern Hemisphere would create a defensible barrier to competitors; Australia should be the first priority
- We need fewer, larger companies with global scale
- Past efforts to grow globally have met with mixed success

NZ F&B IN CONTEXT

NZFBI has a wide portfolio but little strength in categories other than dairy, meat and fresh produce

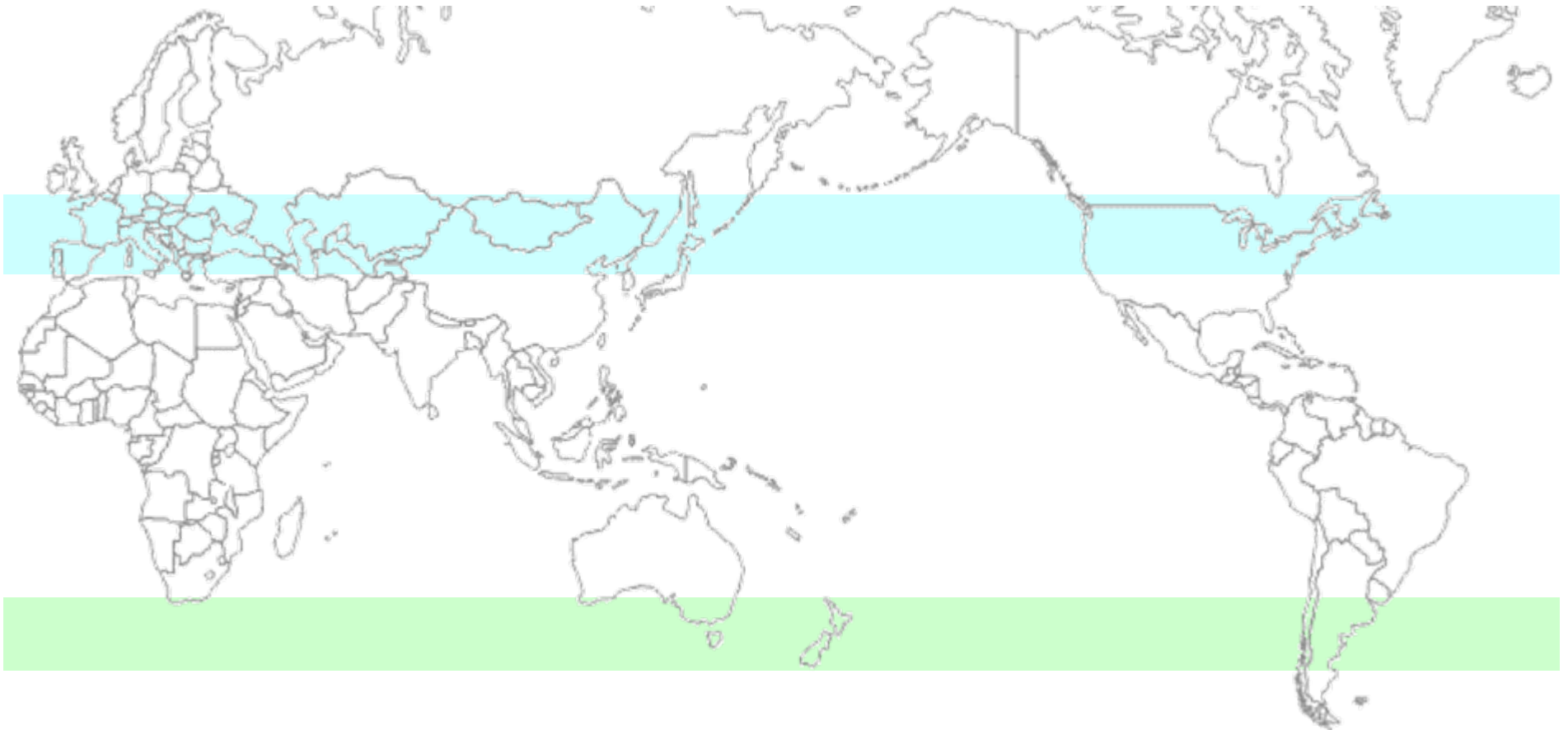
Portfolio comparison of top 14 Global Food and Beverage Companies
(US\$m; FY02/03)

	F&B Sales (US\$;04)	Fresh Produce	Fresh & Processed Meat	Dairy Products	Frozen Food	Processed Grocery	Biscuits & Snacks	Breakfast Cereal	Beverages	Bread & Baked	Confectionery
Nestle	\$61.6b	–	–	●	●	●	–	●	●	–	●
Kraft	\$31.0b	–	–	●	●	●	●	◐	●	–	●
Unilever	\$29.9b	–	–	●	●	●	–	–	●	●	–
Cargill	\$27.2b	–	●	–	◐	◐	–	–	◐	●	◐
PepsiCo	\$27.0b	–	–	–	–	–	●	◐	●	–	–
Tyson	\$24.6b	–	●	–	–	–	–	–	–	–	–
Coca-Cola	\$21.0b	–	–	–	–	–	–	–	●	–	–
Mars	\$17.0b	–	–	–	–	◐	–	–	–	–	●
NZFBI	\$15.3b	◐	◐	●	◐	◐	◐	◐	◐	◐	◐
Danone	\$14.9b	–	–	●	–	◐	●	–	●	–	–
Diageo	\$14.6b	–	–	–	–	–	–	–	●	–	–
ConAgra	\$14.5b	–	●	●	●	●	◐	–	–	–	–
General Mills	\$11.1b	–	–	◐	●	●	–	●	–	●	–
Sara Lee	\$10.7b	–	●	–	–	–	–	–	◐	●	–
Cadbury	\$10.5b	–	–	–	–	–	–	–	◐	–	●

SEASONAL WINDOW

One of New Zealand's key strengths is its narrow seasonal window that it shares with only four competitors (Australia, South Africa, Chile and Argentina)

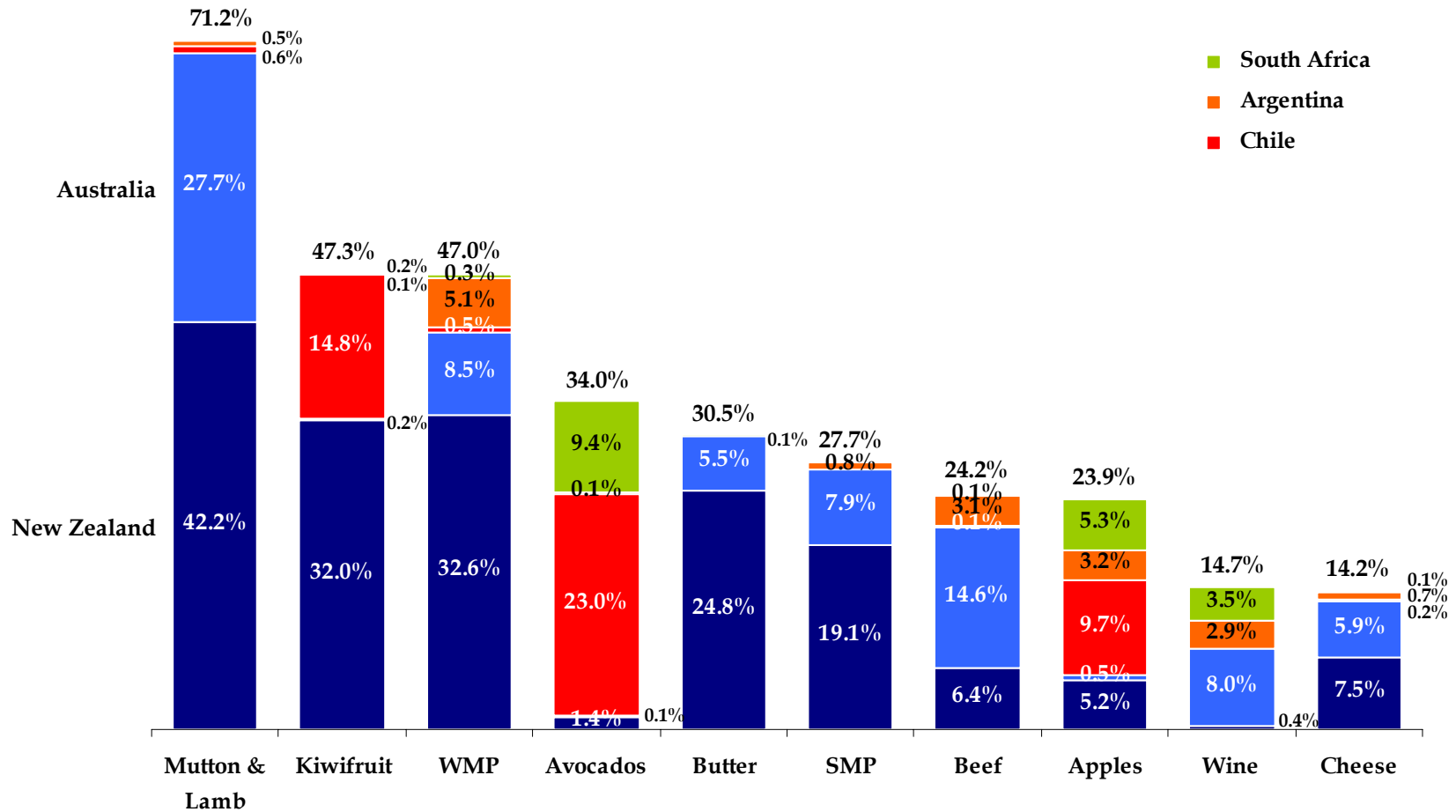
New Zealand seasonal window in global horticulture



SHARE OF WORLD TRADE

Consolidating the Southern Hemisphere would create a defensible barrier to competitors; Australia should be the first priority

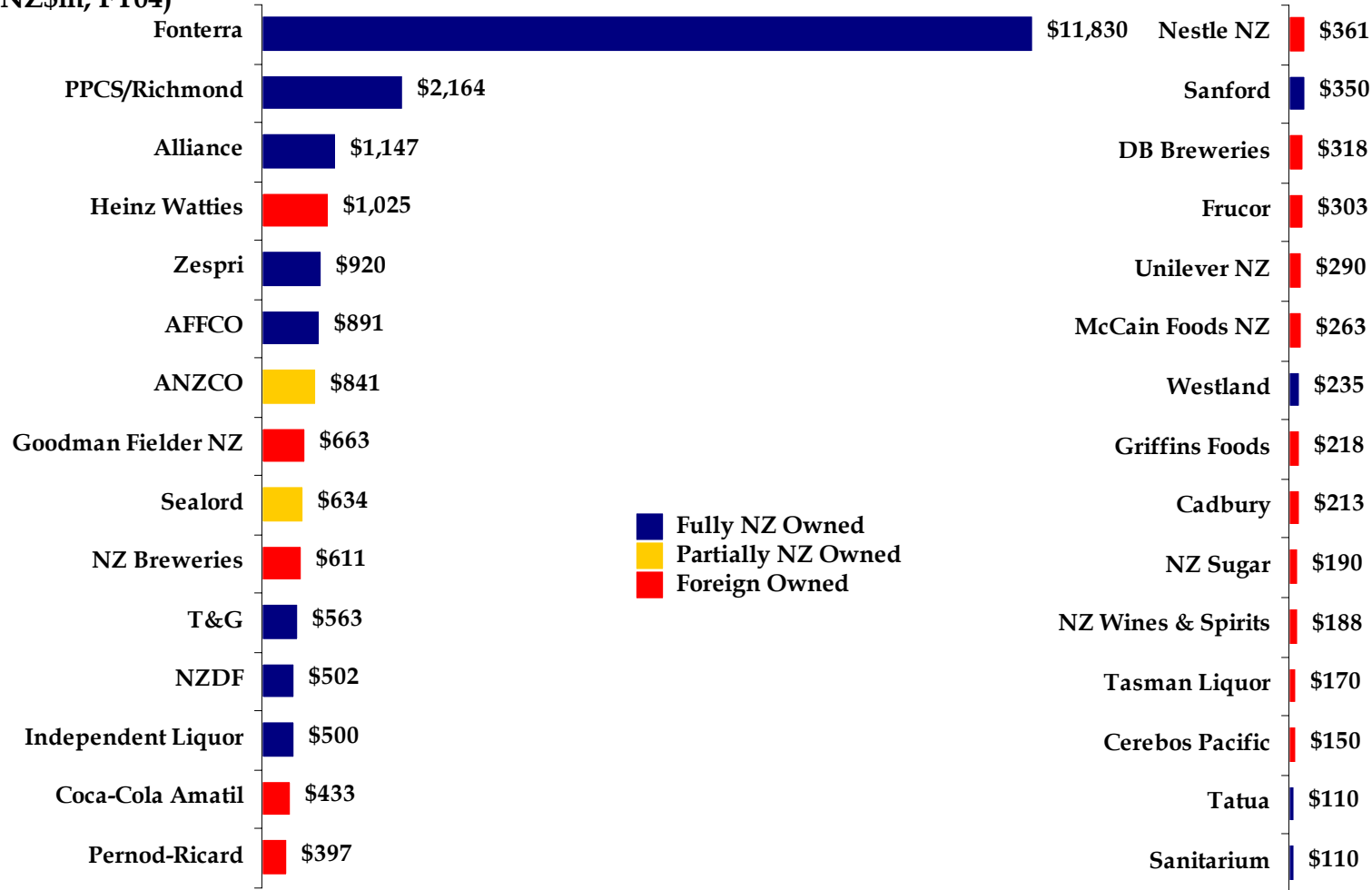
Share of world trade of select products by select Southern Hemisphere countries (% of volume; 2003)



FEWER/LARGER

We need fewer, larger companies with global scale

Sales and ownership of top 30 New Zealand food & beverage companies (NZ\$m; FY04)



MIXED SUCCESS

Past efforts by New Zealand food & beverage companies to grow globally have met with mixed success

Differences between successful and failed New Zealand international expansion efforts (model)

	Successful International Expansion	Failed International Expansion
Market Characteristics	<ul style="list-style-type: none"> - Culturally similar - Limited/weak competition - No presence of global category leaders 	<ul style="list-style-type: none"> - Culturally different - Strong world-class competition - Intense competition from entrenched global category leaders
Company Characteristics	<ul style="list-style-type: none"> - Market leader at home - Superior management or technology relative to competitive set - More profitable/deeper pockets than competitive set 	<ul style="list-style-type: none"> - Number 2 or 3 at home - Inferior management or technology than competitive set - Less profitable/weaker balance sheet
Entry Strategy	<ul style="list-style-type: none"> - Roll-up of group of existing small players in a fragmented market 	<ul style="list-style-type: none"> - Organic growth in an already developed market - Acquisition of a struggling #3 or #4 against strong leaders
Example	<ul style="list-style-type: none"> - Lion Breweries in Australia - Fonterra in Australia 	<ul style="list-style-type: none"> - Affco in China - Lion in China

2. IMPROVE NPD

Improve new product development (NPD) capability

- To date NZFBI has a limited track record of success at new product development relative to global competitors
- Focus NPD in two areas: improving existing and new adjacent products
- Focus on products for growth markets of the future
 - World population and GDP vary significantly by region, with Asia being the standout in terms of absolute wealth creation
 - There is huge scope to grow with the growing food industry in the developing world
 - However, it is important to recognise that the growing regions of the world have different religious and cultural food and beverage consumption patterns than Western countries

LIMITED TRACK RECORD OF SUCCESS

To date NZFBI has a limited track record of success at new product development relative to global competitors

New food & beverage products developed with sales over \$100m: Kraft Foods vs. New Zealand
(20th century)

Kraft Foods

Product	Year	Description
Kraft Processed Cheese	1915	Shelf-stable processed "American" cheese in tins for use by U.S. Army
Kraft Processed Cheese	1921	Processed cheese now available in consumer friendly boxed 5lb foil loaves
Velveeta Cheese	1928	Shelf-stable cooking cheese loaf
Milk carton	1929	Milk packaged in paraffin-lined paper cartons
Miracle Whip	1933	Shelf stable combination boiled salad dressing and mayonnaise
Kraft Macaroni & Cheese	1937	Instant macaroni and shelf stable cheese in a box
Kraft Singles	1947	Sliced and wrapped single slices of cheese
Cheez Whiz	1953	Shelf-stable processed cheese sauce
Tang	1957	Fruit-flavored concentrated breakfast drink; as used on moon mission
Maxim	1964	Freeze-dried coffee
Shake 'n Bake	1965	Seasoning and coating mix for chicken
Cool Whip	1965	"Whipped-cream-like" product that costs less
Minute Rice	1950	Fast cooking shelf-stable rice
Pop Rocks	1974	Carbon-dioxide impregnated candy
Lunchables	1988	Meat, cheese and crackers snacks

... and numerous others

New Zealand

Product	Year	Description
Kiwifruit	1905	Commercial cultivation of Chinese gooseberry imported from China; name developed by US distributor
Coopworth	1960's	Terminal female bred for lamb production
Venison/Cervena	1970's	Commercial farming of deer
Royal Gala	1960's	Apple variety
Braeburn	1950's	Apple variety
Sauvignon Blanc variety	1970's	Developed distinctive characteristics of a French grape (cf Sancerre)
Pacific Rose	1980's	Gala/Splendour cross
Kiwi Gold	1990's	New variety developed from seeds imported from China in 1987
Composite Sheep	1990's	Sheep with superior lambing percentage and meat production

FOCUS NPD

Focus NPD in two areas: improving existing and new adjacent products

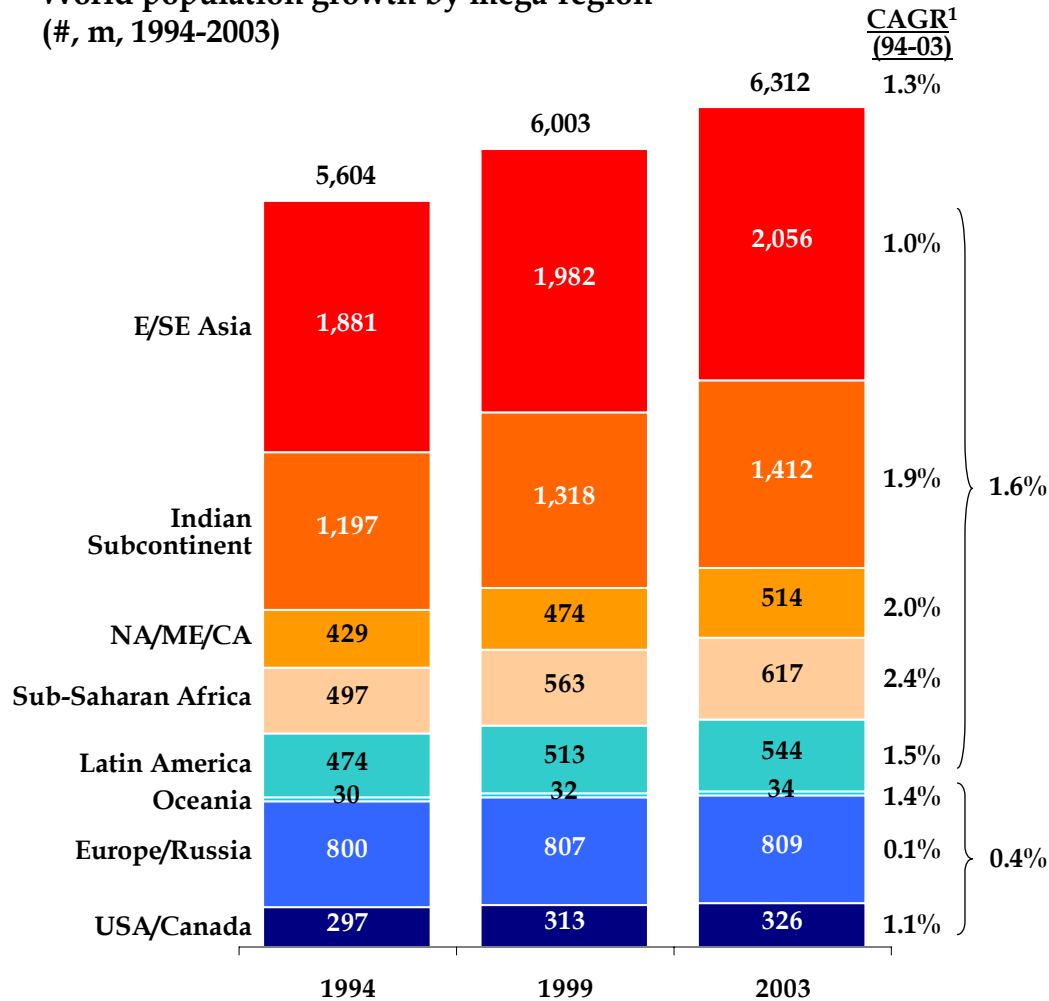
Range of new product development goals
(model)

	Improve Existing	New Adjacent	New Platform Existing Competitors	Breakthrough Innovation
Objectives	<ul style="list-style-type: none"> - Improve productivity variable (e.g. yield) - Improve taste or performance - Improve transportability 	<ul style="list-style-type: none"> - Leverage existing strength into related space - Develop derivative product 	<ul style="list-style-type: none"> - Enter new attractive growth market - Leverage technological change - Diversify portfolio 	<ul style="list-style-type: none"> - Create an all new product category - Capture market leadership - Diversify portfolio
Challenges	<ul style="list-style-type: none"> - Limits on natural genetic variability - Resistance to genetic modification 	<ul style="list-style-type: none"> - Developing ideas - Limits on natural genetic variability 	<ul style="list-style-type: none"> - Existing competitors in a strong position - Creating a point-of-difference (i.e. not just a me-too) 	<ul style="list-style-type: none"> - Developing ideas - Creating a defensible position - Creating product awareness
Examples	<ul style="list-style-type: none"> - Composite sheep 	<ul style="list-style-type: none"> - Kiwi Gold 	<ul style="list-style-type: none"> - Avocados - Cervená 	<ul style="list-style-type: none"> - Kiwifruit

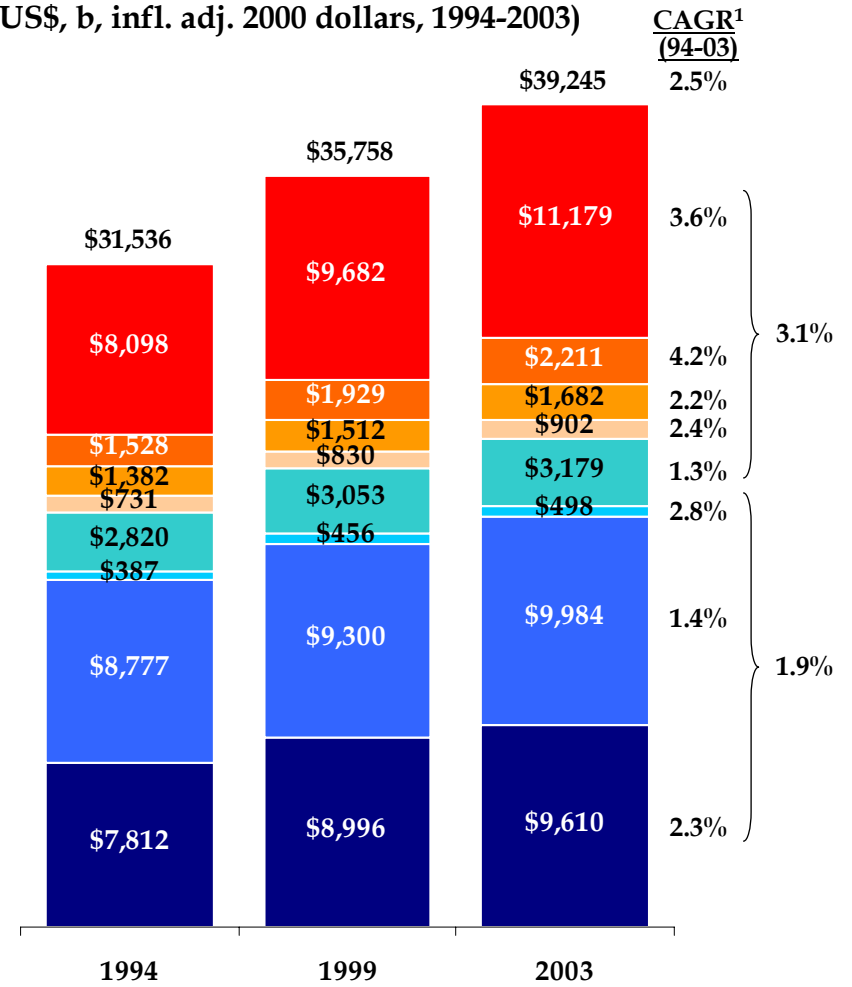
GROWTH BY MEGA-REGION

World population and GDP vary significantly by region, with Asia being the standout in terms of absolute wealth creation

World population growth by mega-region
(#, m, 1994-2003)



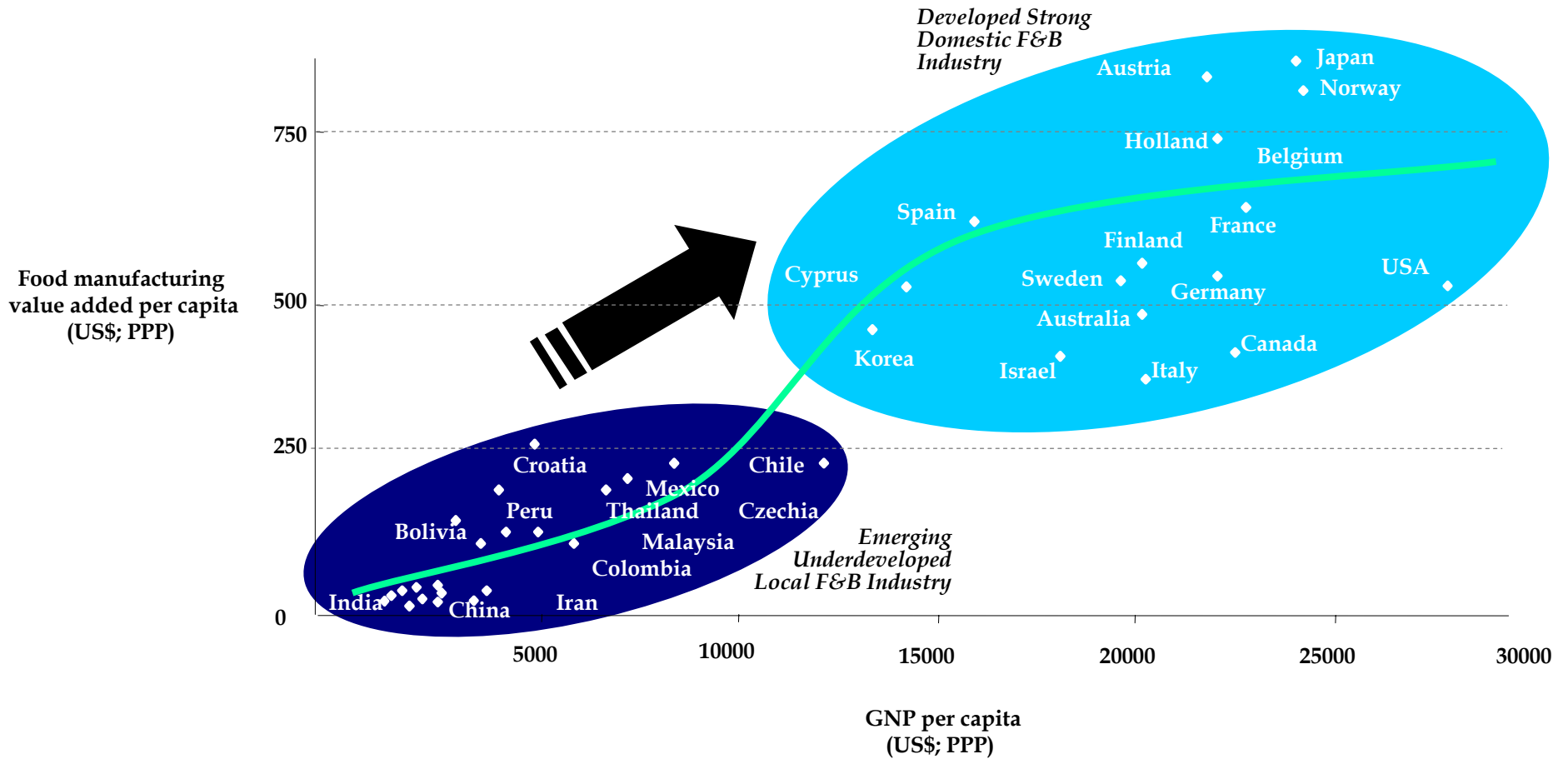
World real GDP growth by mega-region
(US\$, b, infl. adj. 2000 dollars, 1994-2003)



POTENTIAL FOR PROCESSED FOOD

There is huge scope to grow with the growing food industry in the developing world

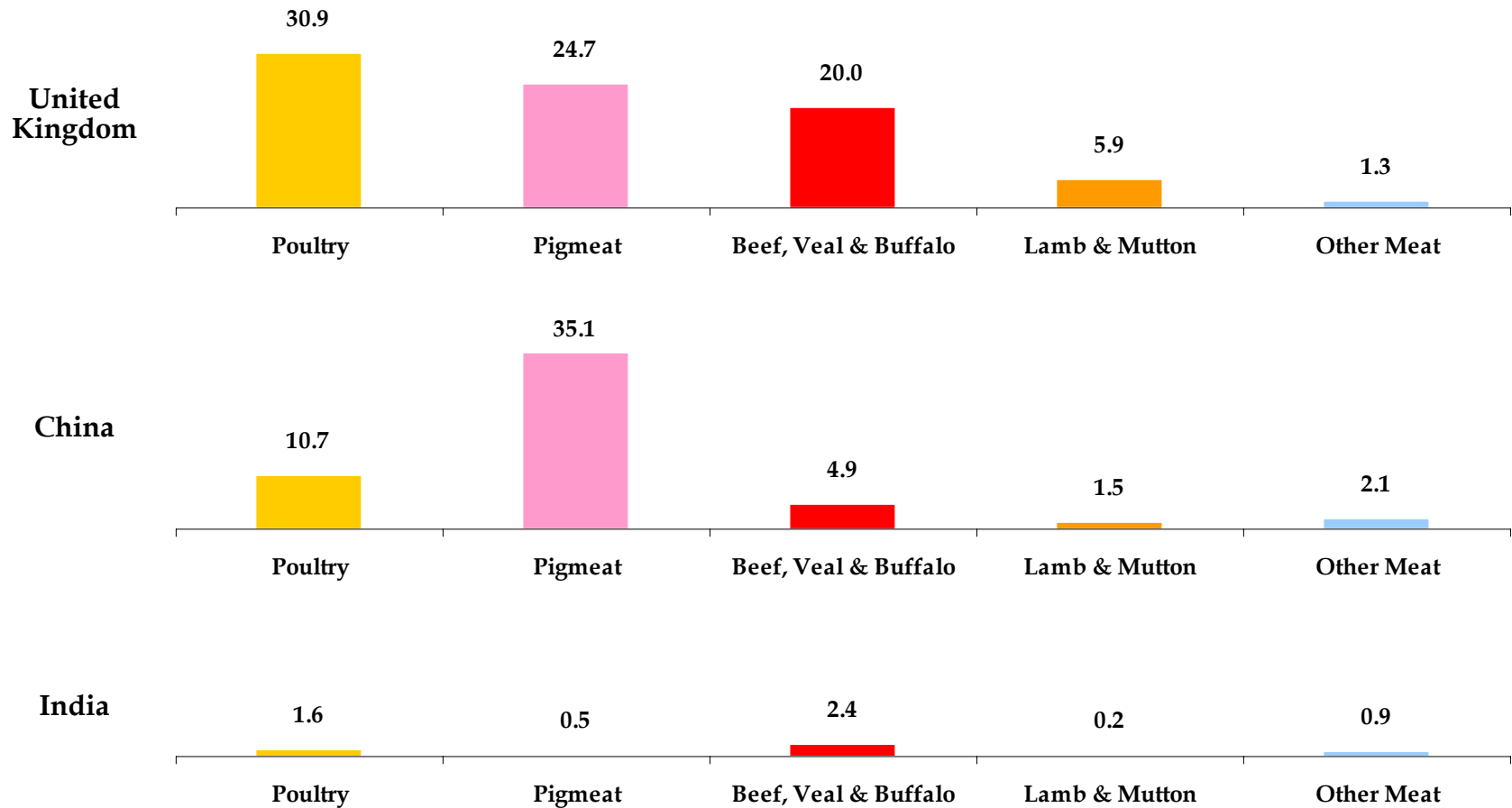
Potential for the food processing industry (2001)



REAL DIFFERENCES EXIST - MEAT EXAMPLE

However, it is important to recognise that the growing regions of the world have different religious and cultural food and beverage consumption patterns than Western countries

Meat consumption per capita by species
(kg/capita, bone-in weight, 2003)



3. FEWER/STRONGER BRANDS

Focus the brands portfolio on fewer, stronger brands; consider acquisitions to fill gaps

- The business currently has a very limited portfolio of leveragable brands relative to global competitors
- Building new global brands in mature categories is impossible
 - New brands are the result of real innovation not will
 - NZFBI has limited ability to generate consumer pull through consumer marketing
 - NZFBI lacks a leveragable global sales force able to push products into the market
- There are a number of international orphan heritage brands that could be bought and leveraged

LIMITED PORTFOLIO

The NZFBI currently has a very limited portfolio of leveragable brands relative to global competitors

Brands with over US \$100m in sales: Kraft vs. New Zealand (2001)



Billion Dollar Brands	\$100m+ Brands		
Philadelphia	A.1.steaksauce	Triscuit crackers	Marabou confectionery
Nabisco	Freia confectionery,	Jack's Pizza	Snack Well's cookies
Oscar Mayer	Post cereal	Premium crackers	Chips Ahoy! cookies
Kraft	Tang drink mix	Oscar Mayer Lunchables	Kaffee HAG coffee
Maxwell House	Tombstone pizza	Breyer's All Natural Yogurt	Country Time drink mix
Jacobs	Cote d'Or candy	CapriSun juice drinks	Crystal Light drink mix
	Knudsen sour cream	Jacques Vabre coffee	Carte Noire coffee
	Di Giorno pizza	Suchard confectionery	Kraft Velveeta cheese
	Sathers confectionery	Miracle Whip dressing	Philadelphia cream cheese
	Polly-O cheese	Cracker Barrel cheese	Altoids candy
	Newtons cookies	Jell-O desserts	General Foods coffees
	Cool Whip toppings	Ritz crackers	Terry's chocolate,
	Royal desserts	Oreo cookies	Breakstone's cottage cheese
	Kraft Minute Brand rice	Milka confectionery	Chez Whiz cheese sauce
	Kraft Macaroni & Cheese	Louis Rich bacon	Toblerone chocolate
	Oscar Mayer hot dogs	Planters nuts	Life Savers candy
	Nabisco Grahams crackers	Lacta confectionery	Balance energy bars
	Wheat Thins crackers	Stove Top Oven stuffing	
	Milk-Bone Brand dog food	Kenco coffee	
	Gevalia coffee	Handi-Snacks snacks	
	Kool-Aid drink mix	Maxwell House coffee	
	Jacobs coffee	Claussen pickles	

\$100m+ Brands

- Anchor
- Anlene
- Annum
- Mainland
- NZMP
- Peters & Browns
- Tip Top
- Zespri

ROLE OF INNOVATION

New brands are generally the result of innovation not will

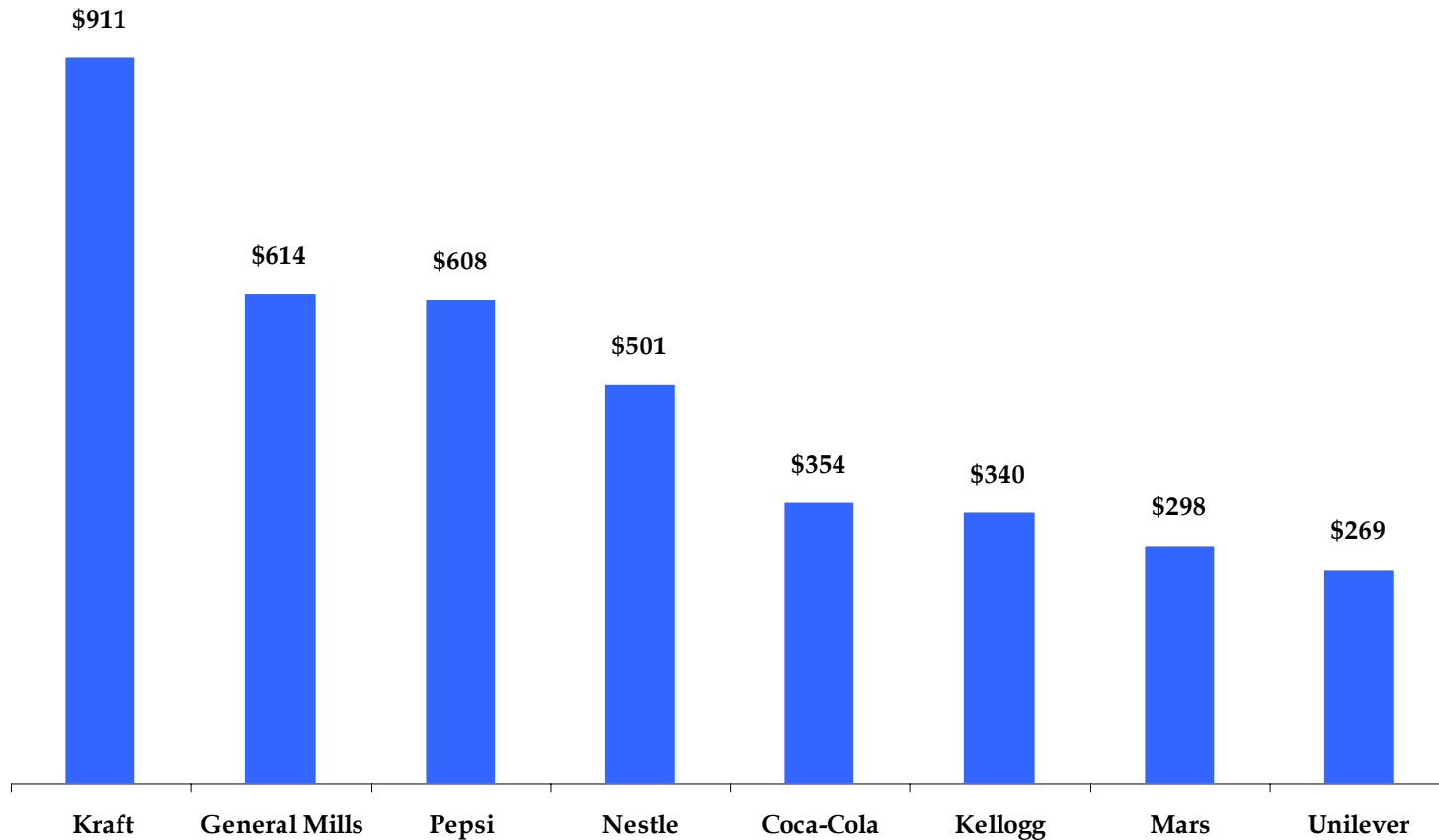
Examples of brands with their origins in innovation
(select)

Brand	Innovation	Year	Current Situation
Nestle	Infant formula	1866	#1 global infant formula brand
Cadbury	Drinking chocolate	1866	#1 global drinking chocolate
John West	Canned salmon	1870	#1 global canned seafood brand
Kraft	Processed cheese	1915	#1 global cheese brand
Hormel	Canned ham; later canned shoulder ham (spam)	1926	#1 global canned ham brand
Wonder	Sliced bread	1928	#1 US bread brand
Nescafe	Instant coffee	1938	#1 global instant coffee brand
Kellogg	Corn flakes	1898	#1 global breakfast cereal brand
Campbell's	Canned condensed soup	1897	#1 global soup brand
Borden	Condensed milk	1857	#1 US condensed milk brand
Coca-Cola	Carbonated cola beverage	1886	#1 global carbonated beverage
Gerber	Strained, jarred baby food	1928	#1 US baby food
Yoplait	Distinct yogurt process	1964	#1 global yoghurt brand

LIMITED ABILITY TO CREATE PULL

NZFBI has limited ability to generate consumer pull through consumer marketing

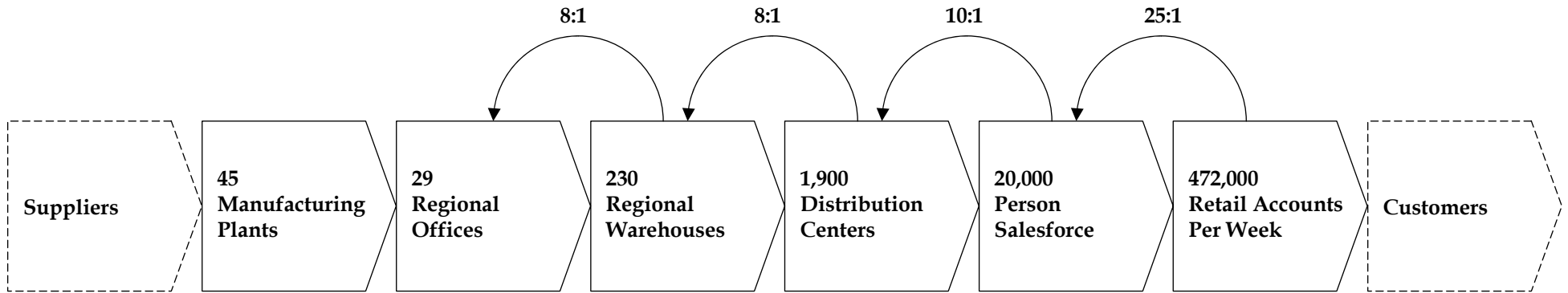
Spending on food & beverage advertising in the United States by top 8 F&B companies
(dollars, millions, pro-forma, 2000)



NO ABILITY TO PUSH

NZFBI lacks a leveragable global sales force and distribution system able to push products into the market

Overview of the Frito-Lay supply chain
(various, 2002)



- Contract growers
- R&D
- Genetically modified potatoes
- Technological support for farmers

- 120 patents in last 15 years
- Custom equipment design

- Use own long-haul trucks

- Excellent technology
- Order/Ship and Route Sales
- Use own trucks

- Strong merchandising presence
- Regular resets

- Major branded advertising

4. DIVERSIFY PORTFOLIO

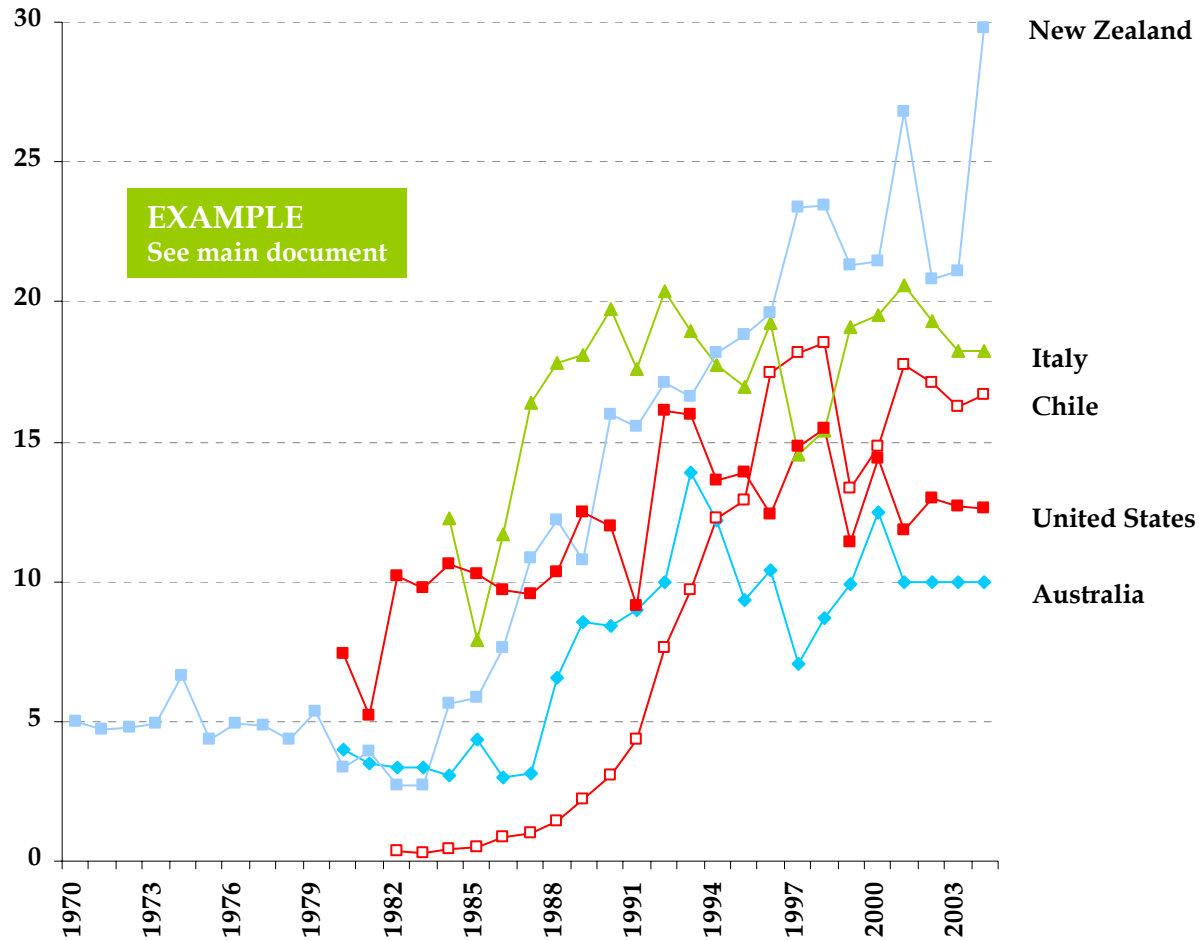
Diversify the product portfolio

- Currently too dependant on a small range of products with limited ability to grow production
 - Relatively efficient production in core categories
 - However, there is a limited ability to increase production in core categories
- Leverage existing core competencies into adjacent categories
- Avoid well developed categories with strong incumbents
- Where is the next venison industry?

HIGH KIWIFRUIT YIELDS PER HECTARE

Relatively efficient production in core categories

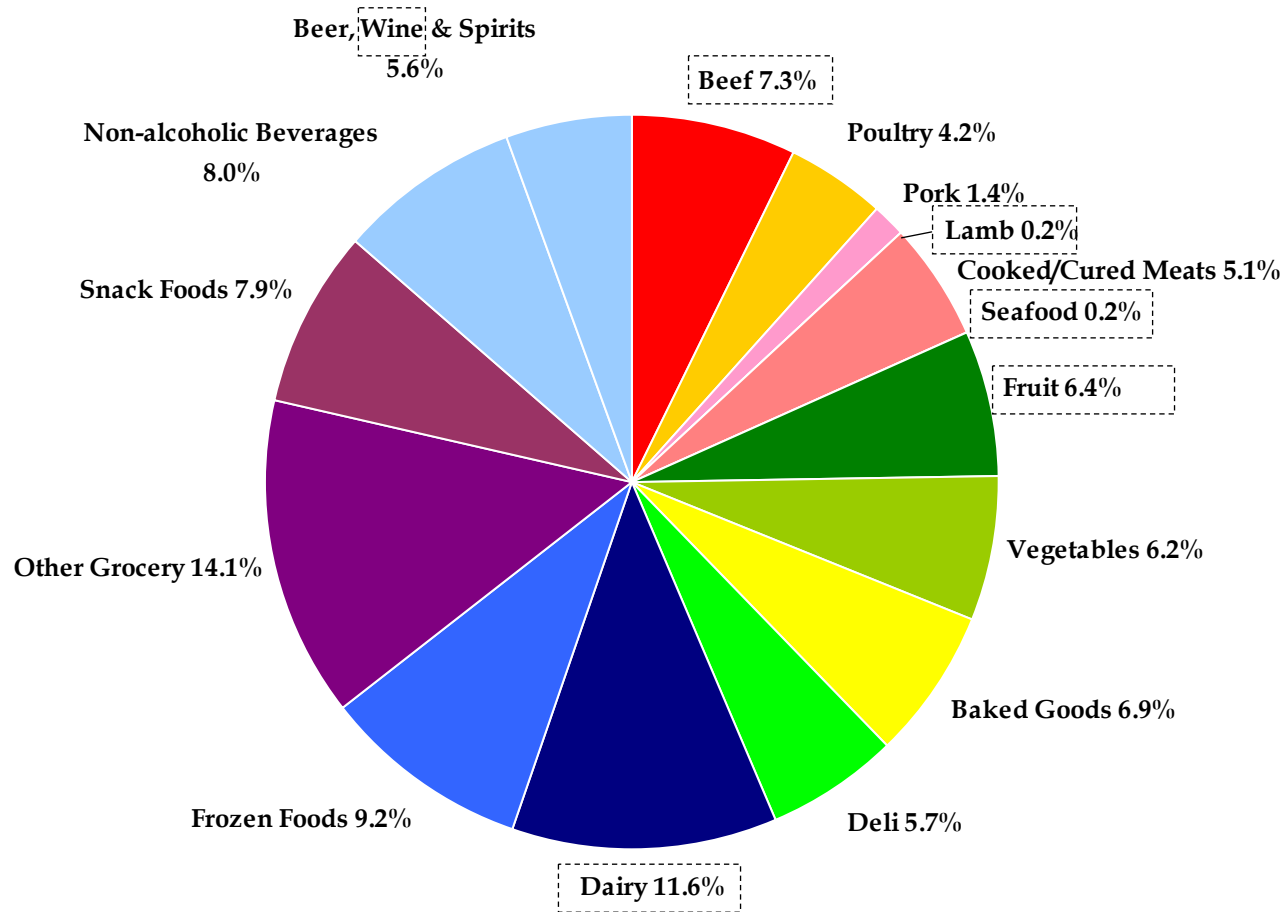
Kiwifruit production per hectare by select country
(tonnes; 1961-2004)



LIMITED PRESENCE

Currently have strength in a limited number of categories – where are the opportunities?

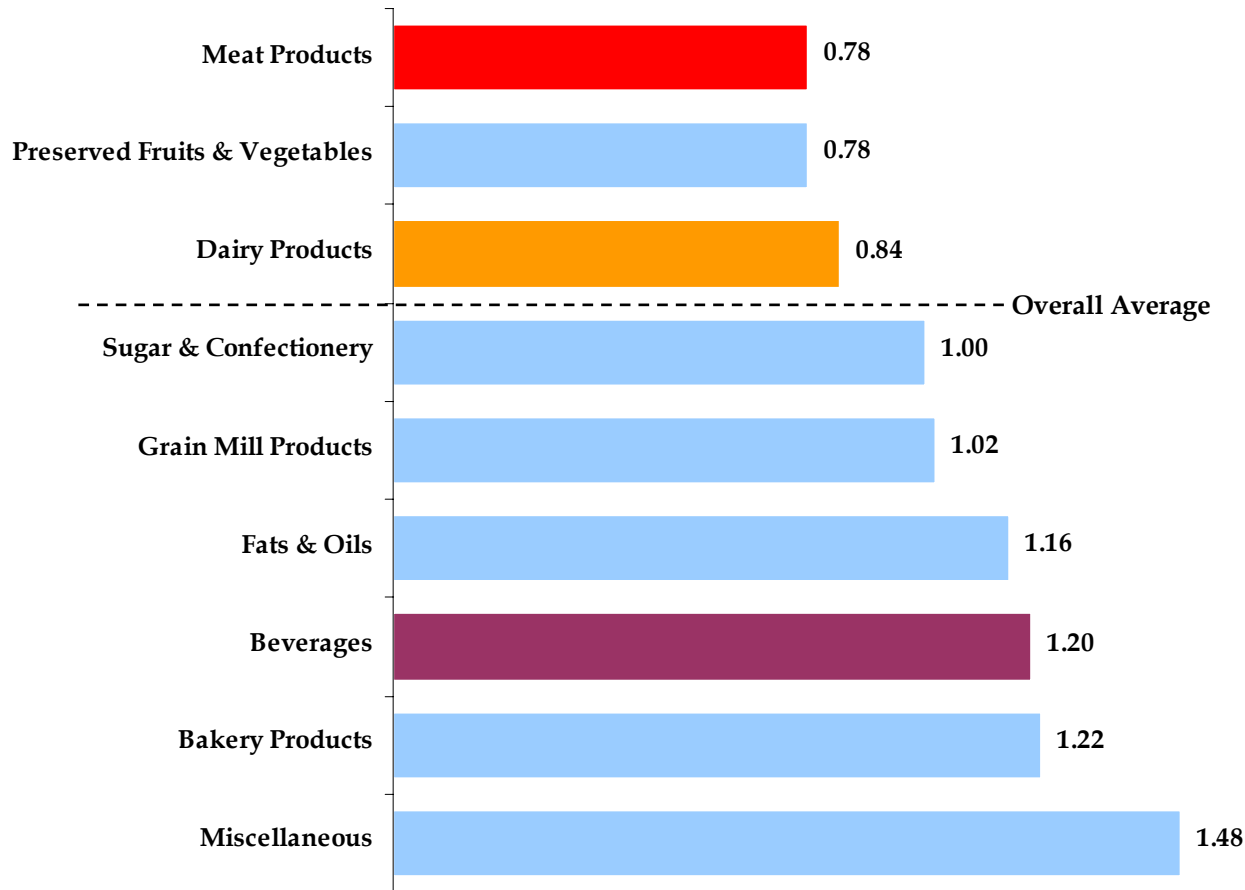
Average US supermarket F&B sales by department
(% of sales; 2004)



NOT CURRENTLY ATTRACTIVE

Of our major food exports, only beverages scores well on Bernstein Research’s category attractiveness index...

Category attractiveness index
(index; industry average =1)



Discussion Points

- a

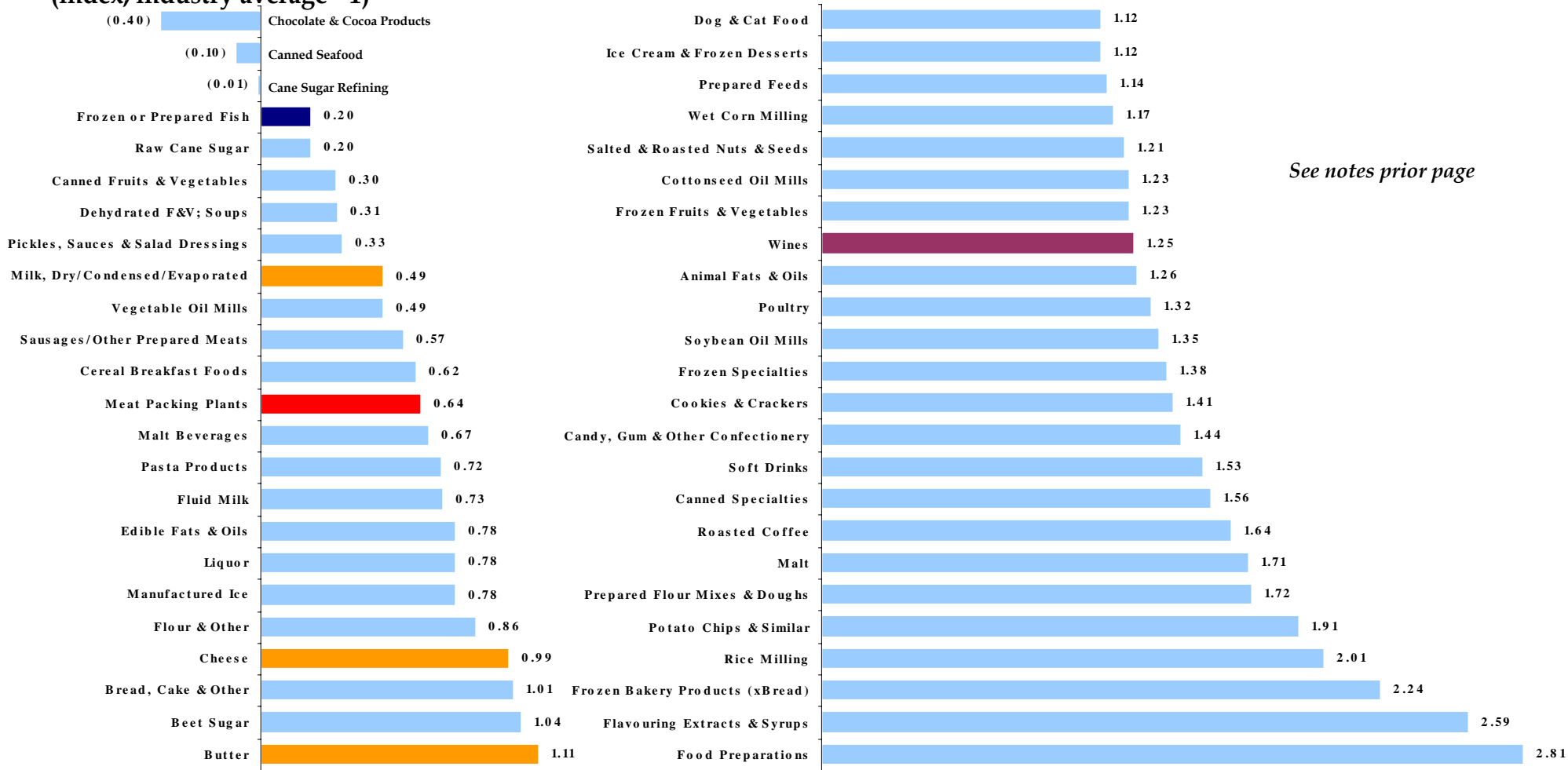
Notes

- Attractiveness is the average of return on capital index and category growth index based on 1996 US Bureau of Census data
 - Return on capital proxy is category profit margin x capital intensity proxy (sales/sum of depreciable assets + inventories)
 - Category growth index is based on CAGR in sales from 1992-1996
- Does not measure fresh fruit and vegetables as these are not manufactured/processed
- Detailed sub-categories on next page

NOT CURRENTLY ATTRACTIVE

... continued (detailed sub-categories)

Category attractiveness index
(index; industry average =1)

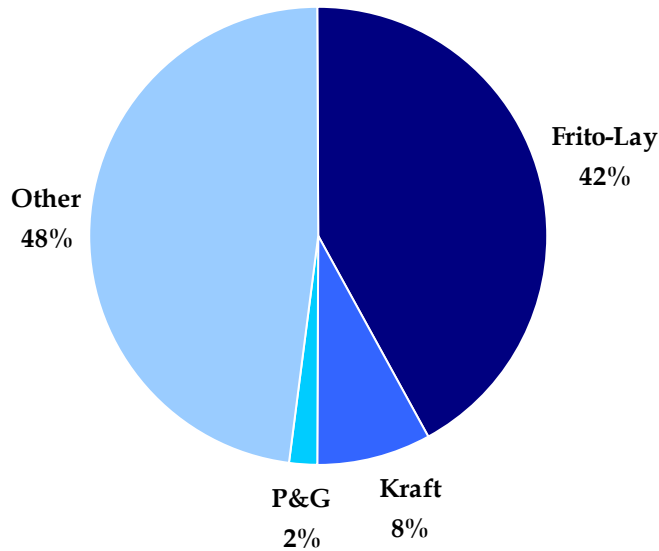


AVOID CONSOLIDATED CATEGORIES

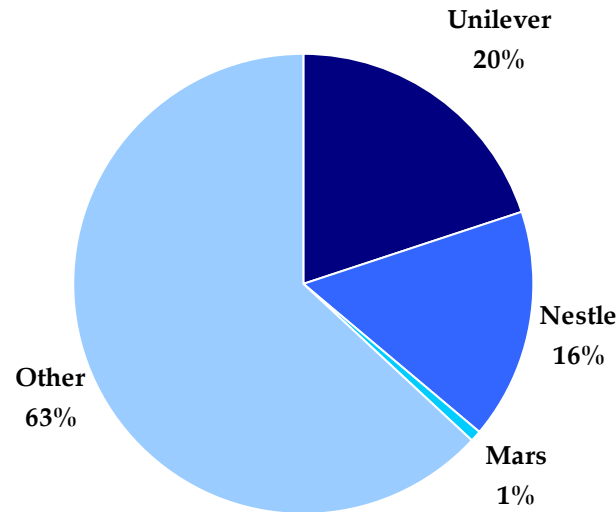
Avoid well developed categories with strong incumbents

Examples of globally consolidated categories
(% of global sales by company, 2004)

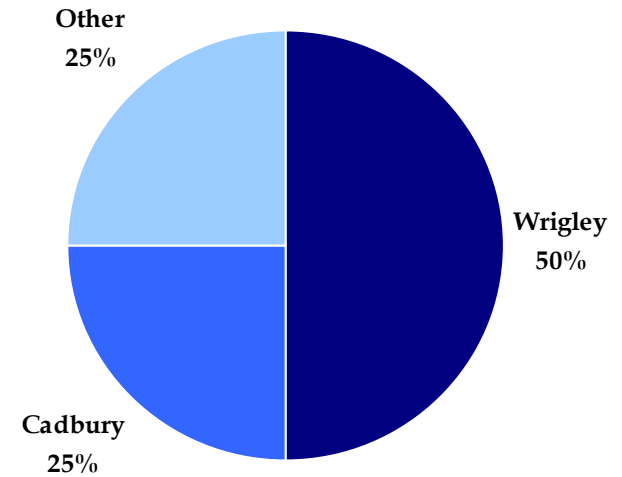
Snack Chips



Ice Cream



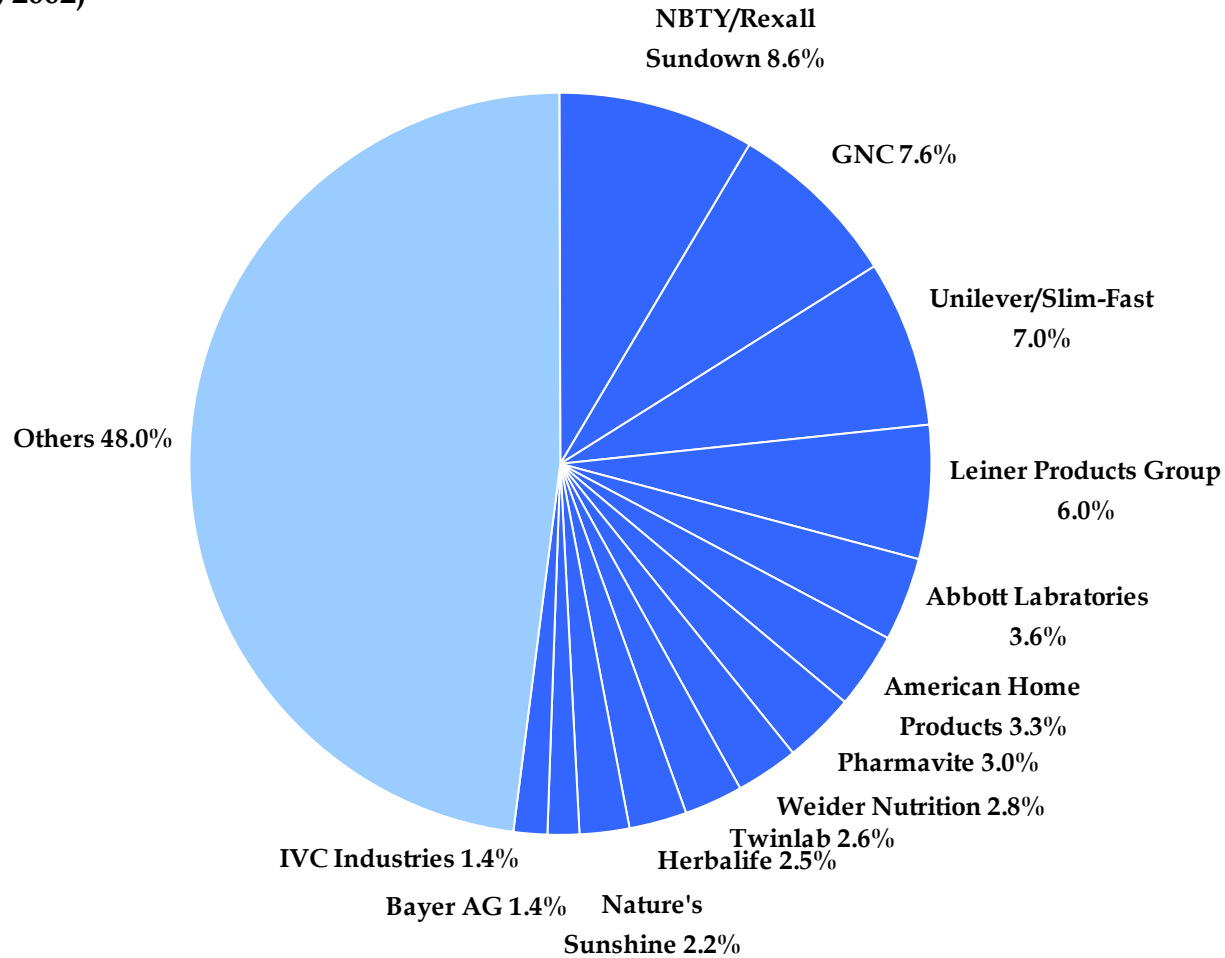
Chewing Gum



TARGET FRAGMENTED CATEGORIES

Target fragmented categories

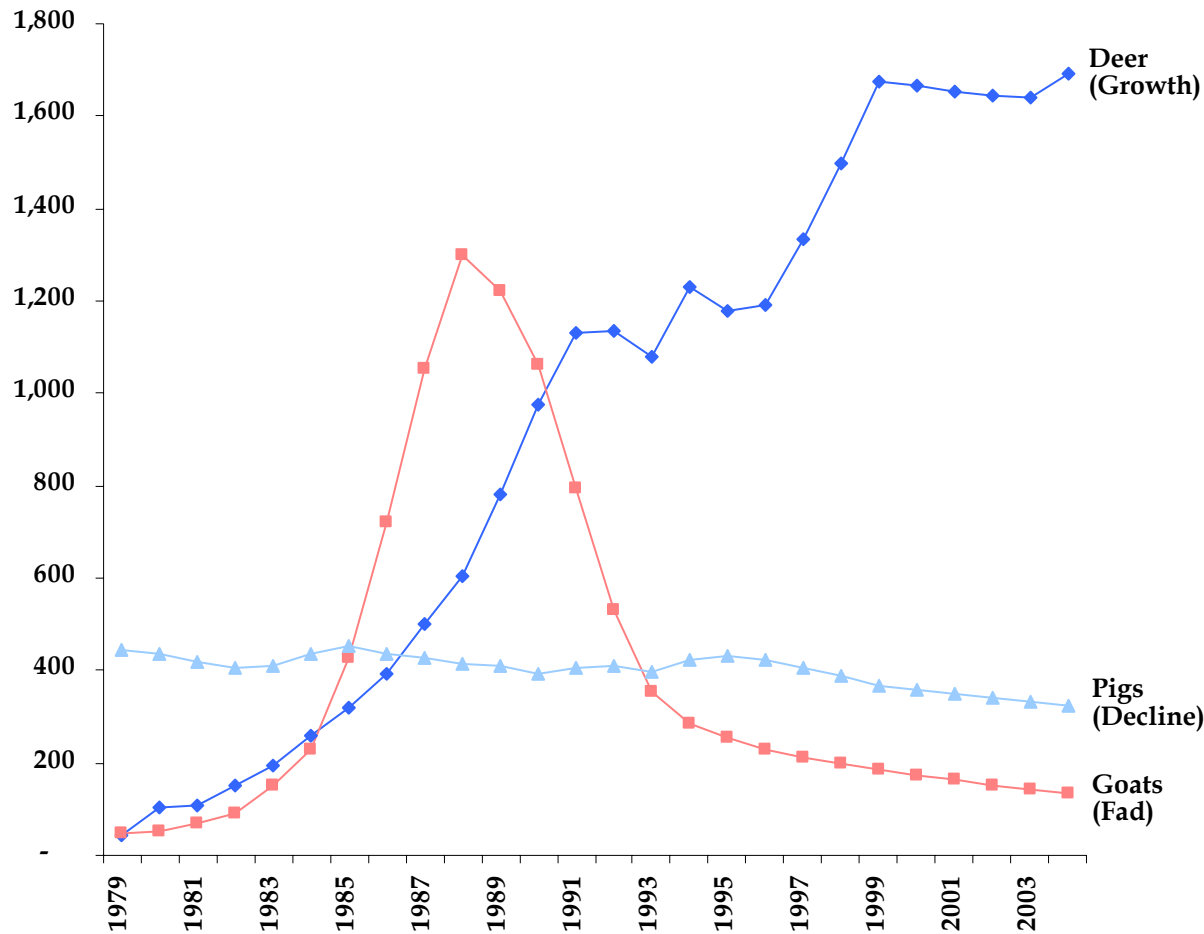
Examples of a fragmented category: nutritional supplements in the US market
 (% of sales by company, 2002)



THREE MODELS FOR NEW LIVESTOCK - DEER, PIGS & GOATS

Where is the next venison industry?

Number of livestock by type
(animals, thousands, 1979-2004)



Discussion Points

- Role of government in new species development
- Ultimate potential of deer?
- Potential for new species:
 - Water buffalo
 - Milking sheep
 - Ostrich/Emu
 - Llama/Alpaca
 - Yak/Bison
 - Other?
- New Zealand is good at sheep; New Zealand is good at dairy; what else is required for success at milking sheep?

Notes

- Goats number is correct
- Data is a point-in-time inventory

5. ALTERNATIVE FINANCIAL STRUCTURES

Evaluate alternative financial structures

- **There is clearly a value in having a cornerstone shareholder**
- **However, the NZFBI in many cases lacks the discipline and oversight of financial markets**
- **Publicly listed companies have better access to capital for expansions/acquisitions**

VALUE IN CORNERSTONE

There is clearly a value in having a cornerstone shareholder

Ownership structure of top 70 global food companies
(2004)

36

Public (34)	Public with cornerstone (21)	Private/Family (8)	Cooperative (7)
- Nestle	- Tyson (Tyson family 80% voting)	- Cargill	- Dairy Farmers of America (dairy)
- Unilever	- Anheuser-Busch (Busch family)	- Mars	- Fonterra (dairy)
- Kraft (Altria)	- Heineken (Heineken family)	- McCain Foods	- Danish Crown (pork)
- ADM	- Kellogg (Kellogg foundation 30%)	- Lactalis	- Arla Foods (dairy)
- Pepsico	- Smithfield (Murphy family 15%)	- Dole Foods	- Royal Friesland Foods (dairy)
- Coca-Cola	- Carlsberg (Carlsberg foundation)	- Schwan Foods	- Campina Melkunie (dairy)
- Diageo	- Associated British Foods (Weston family 54%)	- Barilla	- Land O'Lakes (dairy)
- ConAgra	- FEMSA (Trust 36%)	- Oetker	
- Danone	- Campbell's (Dorrance family 43%)		
- General Mills	- Hormel Foods (Hormel foundation 46%)		
- SAB Miller	- Kerry Group (Kerry dairy cooperative 30%)		
- Sara Lee	- Hershey Foods (Hershey trust 77% voting stock)		
- Cadbury	- Bongrain (Bongrain family)		
- Dean Foods	- Molson Coors (Coors/Molson families 37%)		
- Kirin	- Sudzucker (SZVG sugar beet cooperative 56%)		
- Asahi	- Constellation Brands (Sands family 88% voting)		
- Suntory	- Grupo Bimbo (Servitje family)		
- Heinz	- Maple Leaf Foods (McCain family 33%)		
- Nippon Meat	- George Weston (Weston family 62%)		
- InBev	- Grupo Modelo (Anheuser-Busch 50%)		
- Scottish & Newcastle	- Wrigley (Wrigley family 30%)		
- Ajinomoto			
- Maruha			
- Meiji Dairies			
- Pernod Ricard			
- Tate & Lyle			
- Morinaga milk			
- Itoham Foods			
- Nippon Suisan Kaisha			
- Pernod Ricard			
- CSM			
- Interstate Bakeries			
- Sapporo			
- Royal Numico			

NEW ZEALAND FOOD INDUSTRY OWNERSHIP

However, in many cases NZFBI lacks the discipline and oversight of financial markets

Sales and ownership of top 30 New Zealand food & beverage companies
(NZ\$m; FY04)

Company	Sales	Ownership	Country of Ownership	Company	Sales	Ownership	Country of Ownership
Fonterra	\$11,830	Cooperative	New Zealand	Nestle NZ	\$361	Subsidiary	Switzerland
PPCS/Richmond	\$2,164	Cooperative	New Zealand	Sanford	\$350	Public/Cornerstone	New Zealand
Alliance	\$1,147	Cooperative	New Zealand	DB Breweries	\$318	Subsidiary	Netherlands/UK
Heinz Watties	\$1,025	Subsidiary	United States	Frucor	\$303	Subsidiary	France
Zespri	\$920	Cooperative	New Zealand	Unilever NZ	\$290	Subsidiary	UK/Netherlands
AFFCO	\$891	Public/Cornerstone	New Zealand	McCain Foods NZ	\$263	Subsidiary	Canada
ANZCO	\$841	Subsidiary/Private	Japan/New Zealand	Westland	\$235	Cooperative	New Zealand
Goodman Fielder	\$663	Subsidiary	Australia	Griffins Foods	\$218	Subsidiary	France
Sealord	\$634	Subsidiary/Private	Japan/New Zealand	Cadbury	\$213	Subsidiary	UK
NZ Breweries	\$611	Subsidiary	Australia/Japan	NZ Sugar	\$190	Subsidiary	Australia
T&G	\$563	Public/Cornerstone	New Zealand	NZ Wines & Spirits	\$188	Subsidiary	Australia
NZDF	\$502	Private	New Zealand	Tasman Liquor	\$170	Subsidiary	Australia
Independent Liquor	\$500	Private	New Zealand	Cerebos Pacific	\$150	Subsidiary	Singapore/Japan
Coca-Cola Amatil	\$433	Subsidiary	Australia	Tatua	\$110	Cooperative	New Zealand
Pernod-Ricard	\$397	Subsidiary	France	Sanitarium	\$110	Charity	New Zealand

Only three of the top 30 New Zealand food companies are publicly listed; all have a cornerstone shareholder; six are cooperatives

APPENDIX: TURKEY CASE-STUDY

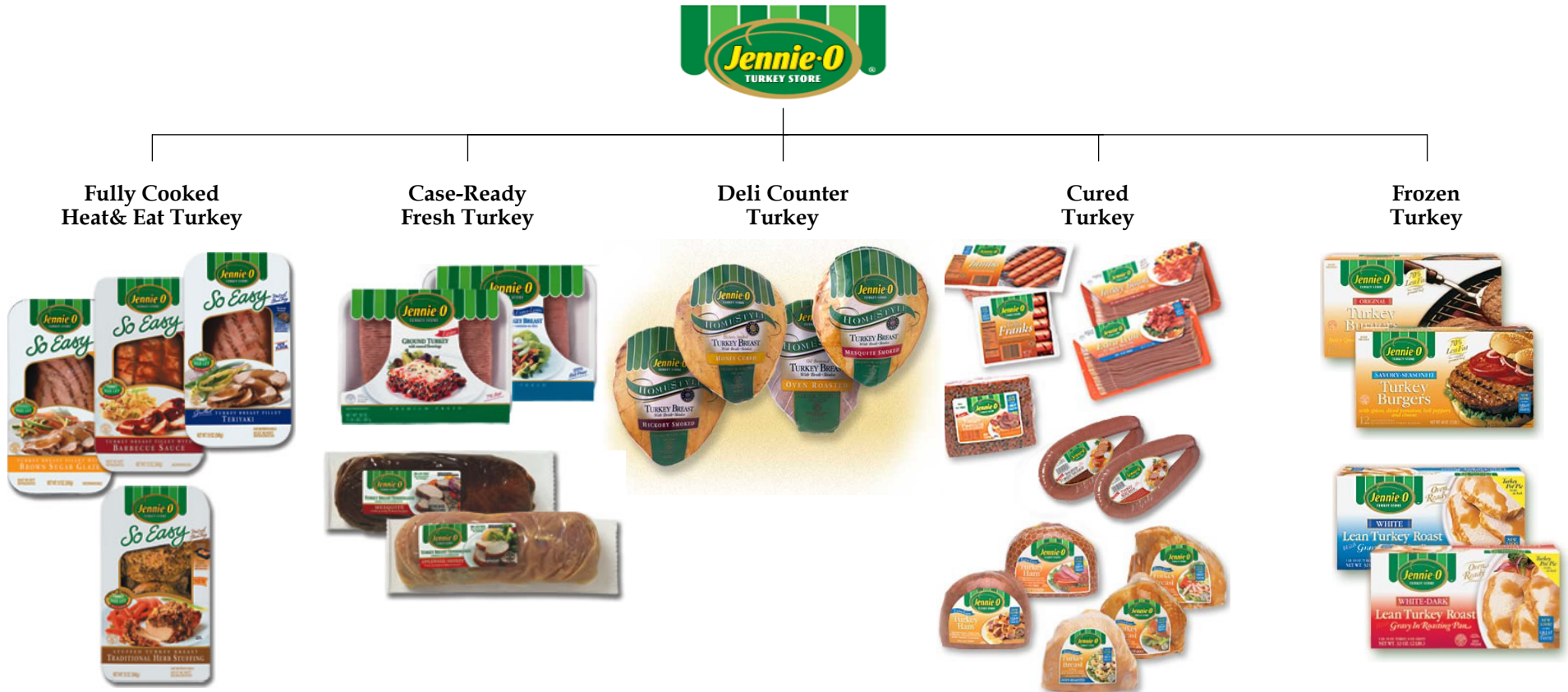
Up until the early 1980's, turkey in the US was sold frozen in a whole, unprocessed form to be eaten at Thanksgiving, Christmas and Easter



WIDE RANGE

Following a period of intense competition and innovation turkey is now sold in a wide range of forms, from pre-cooked microwave meals to sliced from formed pieces in the service deli

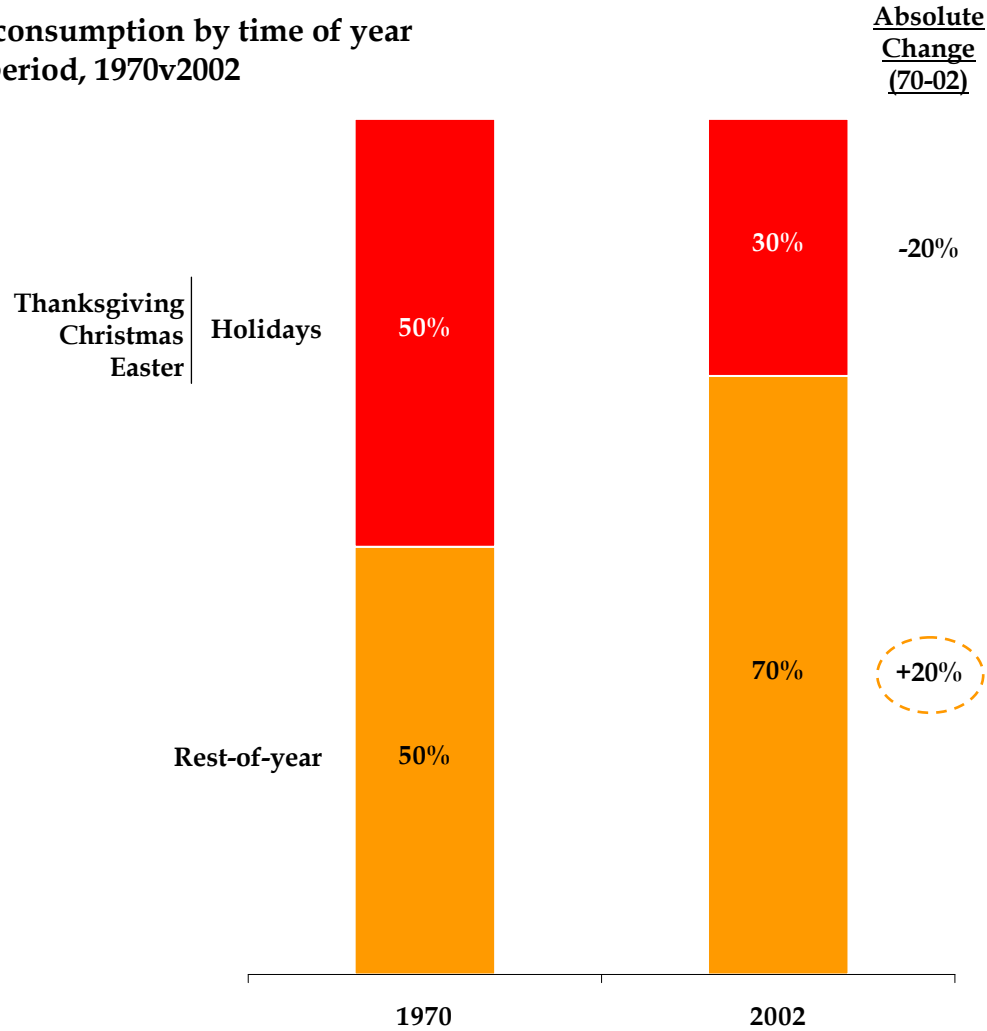
Jennie-O Turkey Store range across categories (2004)



SEASONALITY OF TURKEY CONSUMPTION

As a result, turkey consumption is becoming less seasonal as convenient, case-ready products make it easy to use throughout the year

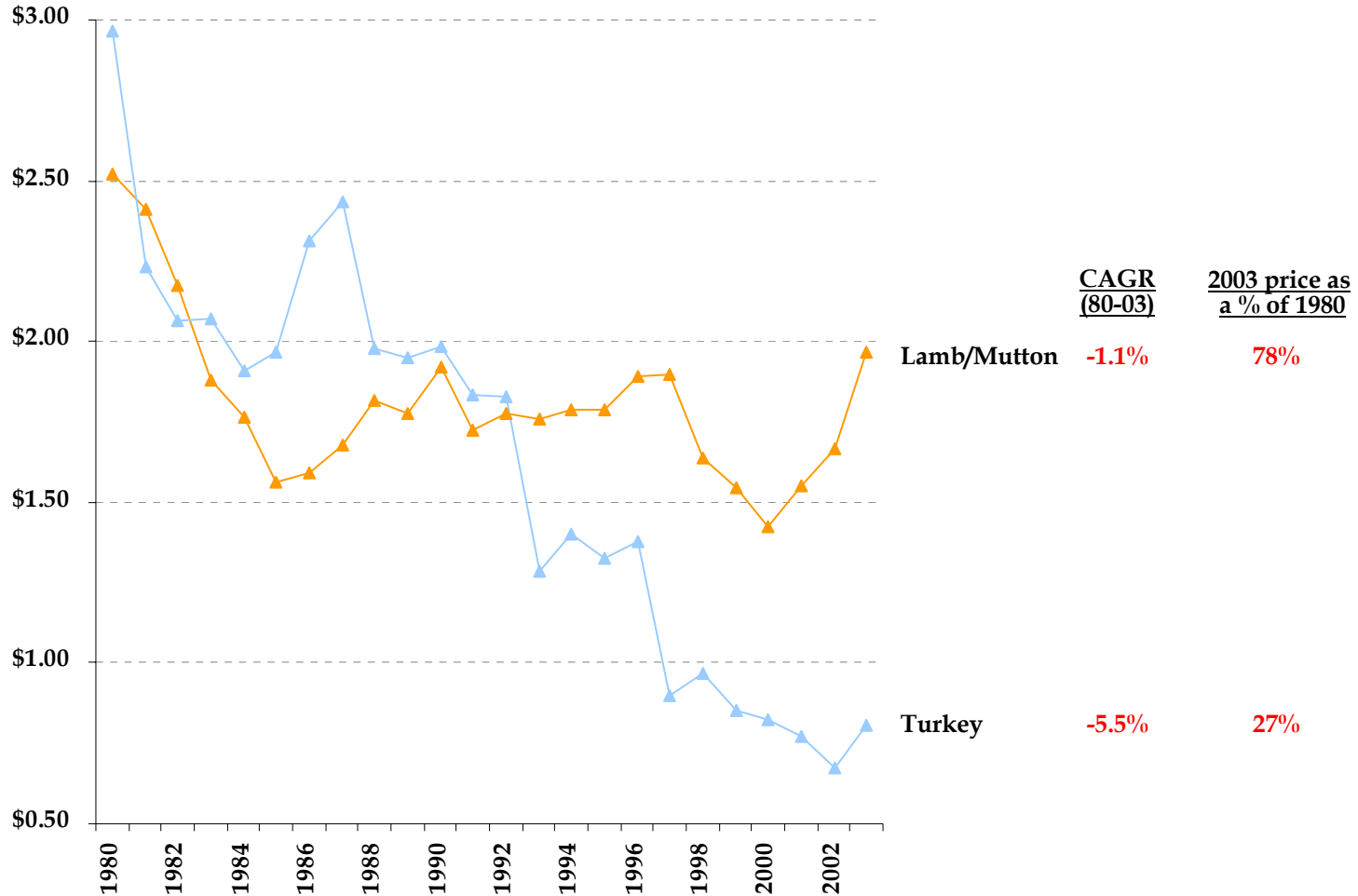
United States turkey consumption by time of year
%, consumption, by period, 1970v2002



INFLATION-ADJUSTED PRICE OF MEAT

Turkey has not been hurt by its rapidly falling real price

Inflation adjusted world price: lamb vs. turkey
 (US\$/kg., inflation adjusted; indexed to 1982 dollars; 1980-2003)



PER CAPITA CONSUMPTION: LAMB VS. TURKEY

As a result, turkey consumption is growing; in 1949, per capita lamb and turkey consumption were equal in the United States; today per capita turkey consumption is 28 times that of lamb

Changing per capita turkey and lamb consumption in the United States
(pounds per person; 1940-2004)

