

# Moving to the centre: the future of the New Zealand food industry

Final Report to the Ministry of Economic Development

*October 2010*

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We address all the problems that are involved in growth: strategy, marketing, pricing, innovation, new product development, new markets, organisation, leadership, economic competitiveness.

We bring to our clients specialised industry and functional expertise. We invest significant resources in building knowledge. We see it as our mission to bring this knowledge to our clients and we publish much of it for the benefit of others.

A hallmark of our work is rigorous, fact-based analysis, grounded in proven methodologies. We rely on data because it provides clarity and aligns people.

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### The Coriolis name

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. *To us it means understanding the big picture before you get into the details.*

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## OBJECTIVES & SCOPE

This research was conducted with the following objectives and scope

- There has been a growing recognition of the growth of New Zealand's processed foods exports in a range of past food and beverage related projects including:
  - The Government's Food & Beverage Taskforce (2005/2006)
  - The Food Innovation New Zealand Network project [aka FINNZ] (2009)
  - Work undertaken in developing the Government's Economic Growth Agenda.
- This growth has also been highlighted in a number of past pieces of pro-bono research on the F&B industry by Coriolis (e.g. *A brief overview of the New Zealand food & beverage industry*)
- This past research has highlighted that:
  1. Our exports of processed foods have shown significant growth (11% CAGR) for a decade;
  2. Our export mix to Australia is weighted more towards processed foods
  3. Conceptually, if we could get our global food export mix to resemble our Australian food export mix, our food industry would be more value-added and profitable;
- However, work-to-date has only briefly touched on or highlighted the growth in exports of processed foods. No research has been conducted to build a coherent picture of the nature of this growth.
- The objective of this project is to develop a clear initial overview of New Zealand's processed foods exports. In particular, to understand the drivers of the growth and success of New Zealand's processed foods exports to Australia and whether there are insights which can be applied in other markets.
- This research has been undertaken in the context of the Government's stated growth objectives. Growth in productivity is entirely about changes in products, markets, processes and ways of doing things. It typically manifests itself by firms producing goods and services which are close (in terms of the capabilities and resources needed to produce them) to the country's current productive structure. In other words, we must work with what we already have.
- This document shows that the biggest lever in the New Zealand economy is the food and beverage sector, and that this sector can be a driver of significant growth well into the future.

## LIMITATIONS

### This project has a number of limitations

- This report should be read as a preliminary project to identify potential opportunities for the New Zealand food industry, not as the definitive analysis of New Zealand processed foods.
- The numbers in this report come from multiple sources. While we believe the data are directionally correct, we recognise the limitations in what information is available. In many cases different data sources disagree (e.g. HortResearch vs. MAF vs. Statistics New Zealand vs. FAO vs. USDA vs. UN Comtrade). Many data sources incorporate estimates of industry experts.
  - As one example, in many cases, the value and/or volume recorded as exported by one country does not match the amount recorded as being received as imports by the counterparty.
- Available historical data on the New Zealand, Australian and global food and beverage industry is, in places, limited and inconsistent.
- Coriolis has not been asked to independently verify or audit the information or material provided to it by or on behalf of the Client or any of the data sources used in the project.
- The information contained in the report and any commentary has been compiled from information and material supplied by third party sources and publicly available information which may (in part) be inaccurate or incomplete
- Coriolis makes no representation, warranty or guarantee, whether express or implied, as to the quality, accuracy, reliability, currency or completeness of the information provided in the report
- The opinions expressed in this report represent those of the authors. These do not necessarily represent those of Coriolis Limited or the New Zealand Government.
- If you have any questions about the source or meaning of a number in this report, please contact the project leader, Tim Morris at Coriolis Research on (09) 623 1848.



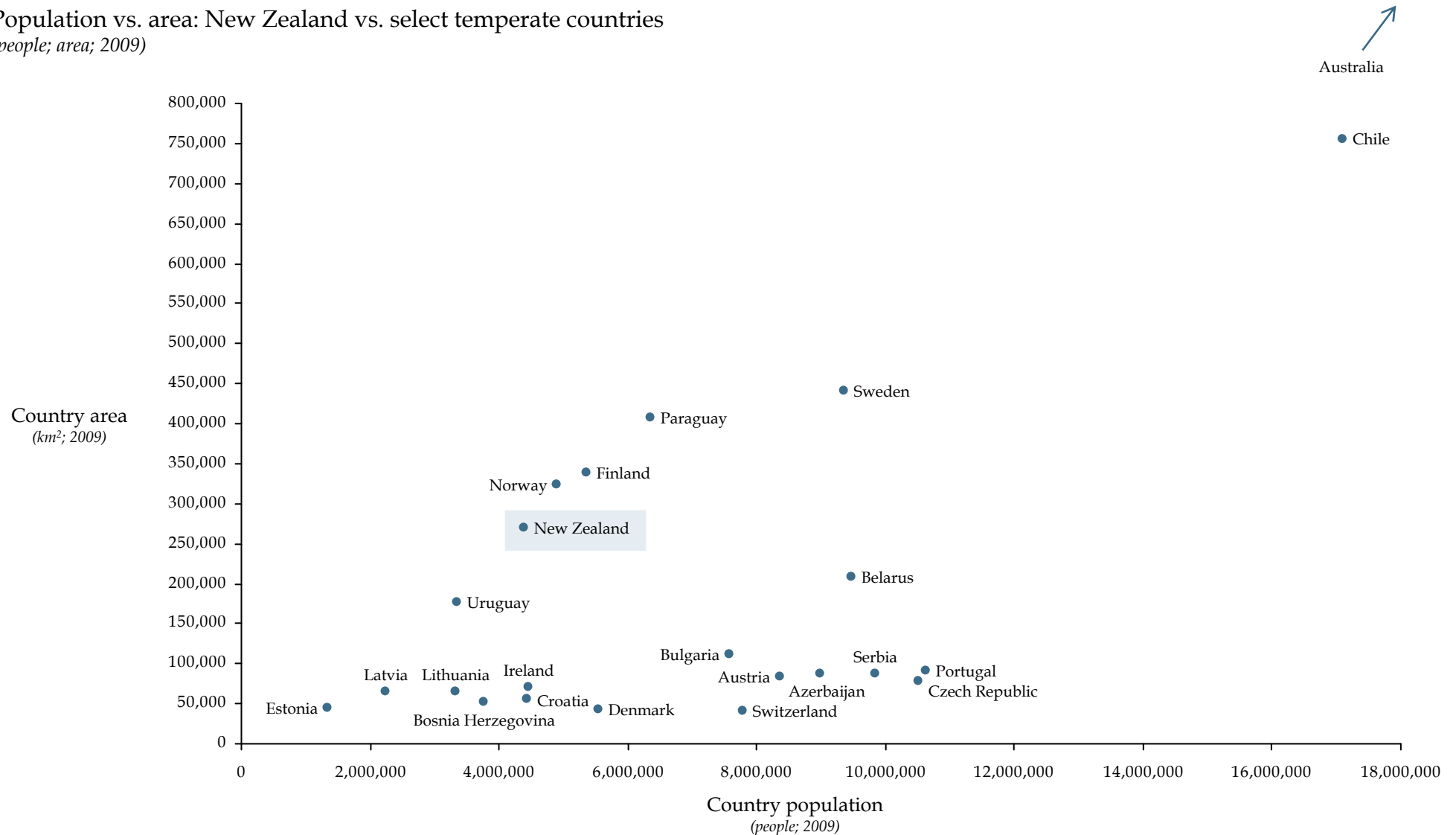
## DOCUMENT STRUCTURE

1. Situation & objective
2. Food & beverages
3. Processed foods to Australia
  - i. Chocolate/Confectionery
  - ii. Baked goods
  - iii. Infant formula
  - iv. Frozen french fries
4. Conclusions, recommendations & next steps

## WHO ARE OUR PEERS?

New Zealand has a wide range of temperate climate peer group countries of a similar size and with similar population

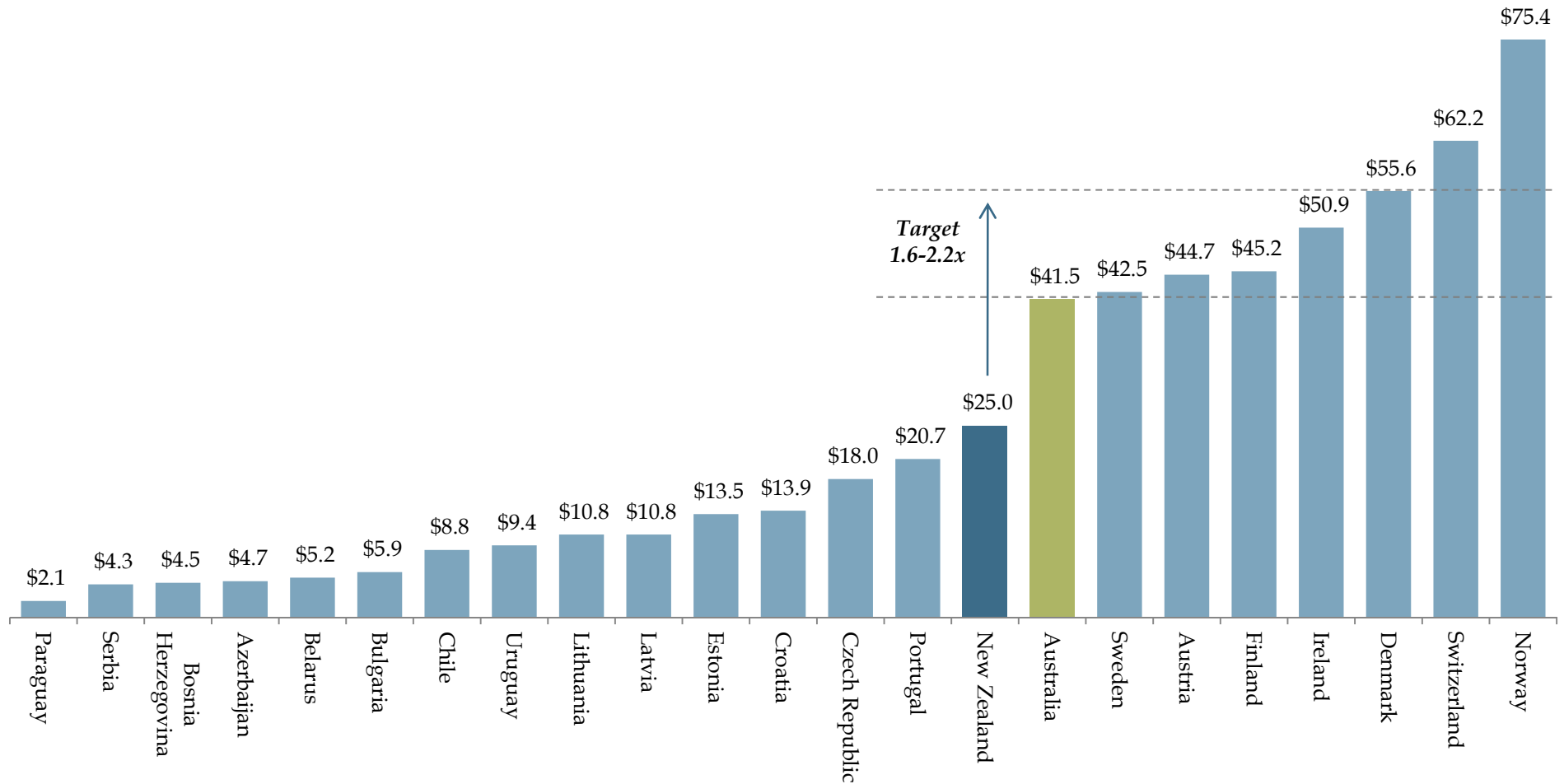
Population vs. area: New Zealand vs. select temperate countries  
(people; area; 2009)



## WHAT IS THE ISSUE?

Relative to peers, New Zealand is in the middle of the range in terms of GDP/capita; we aspire to achieve a +60% increase in our GDP per capita in 15 years (aka “catch up with Australia by 2025”)

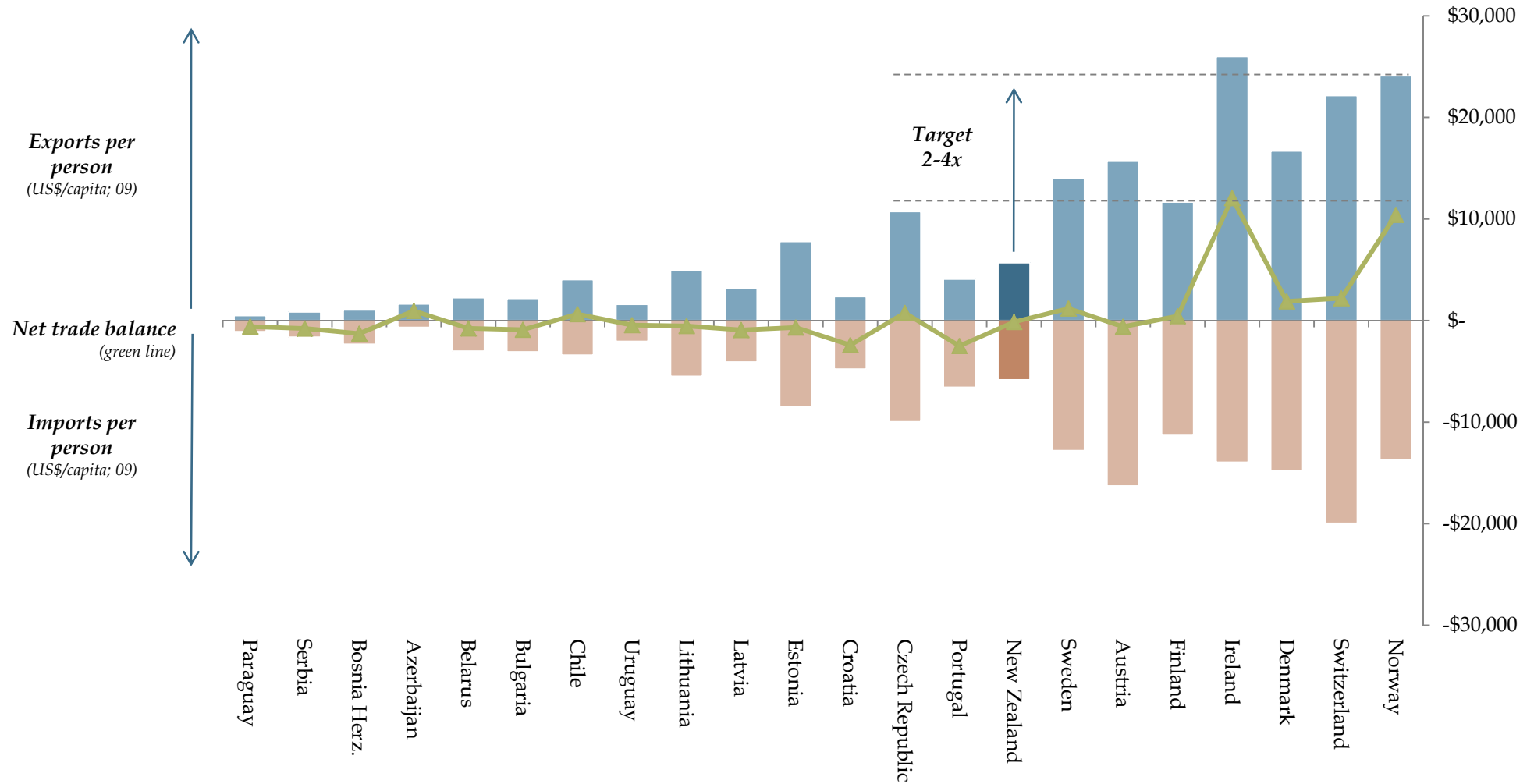
GDP per capita: New Zealand vs. select identified temperate-climate small country peers<sup>1</sup>  
(US\$/person; thousands; 2009)



# HOW?

The experience of peers suggests that this will require us to at least double our exports per capita

Imports vs. exports per person: New Zealand vs. select identified temperate-climate small country peers  
(US\$/capita; 2009)



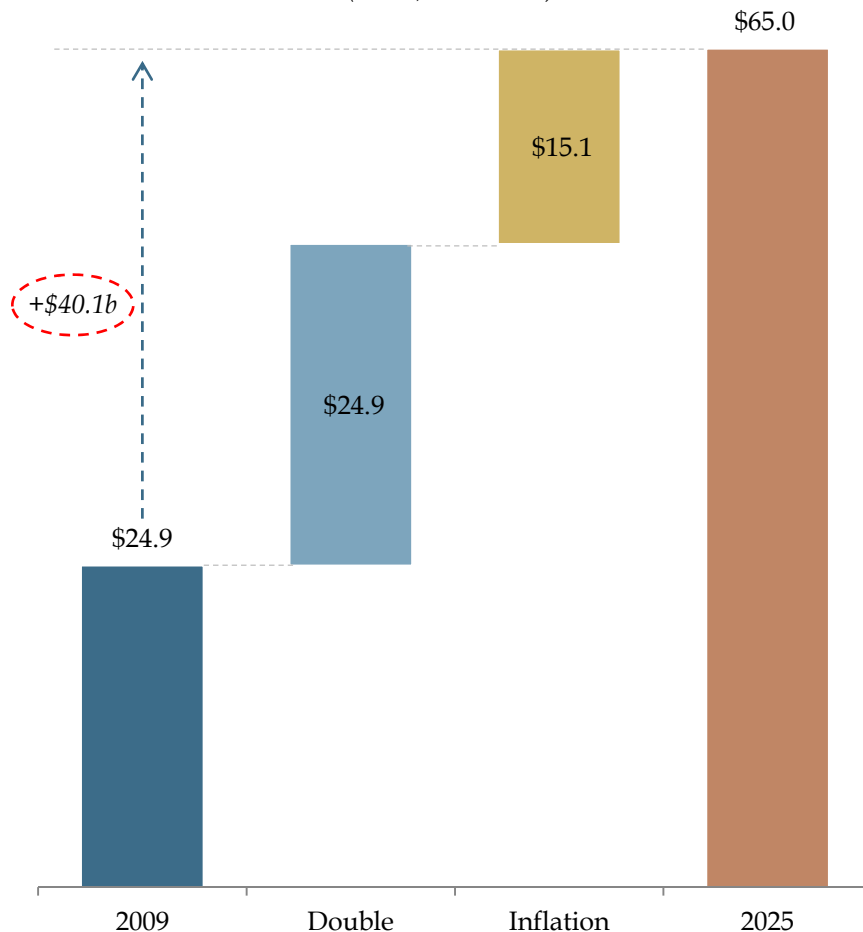


## HOW MUCH? HOW FAST?

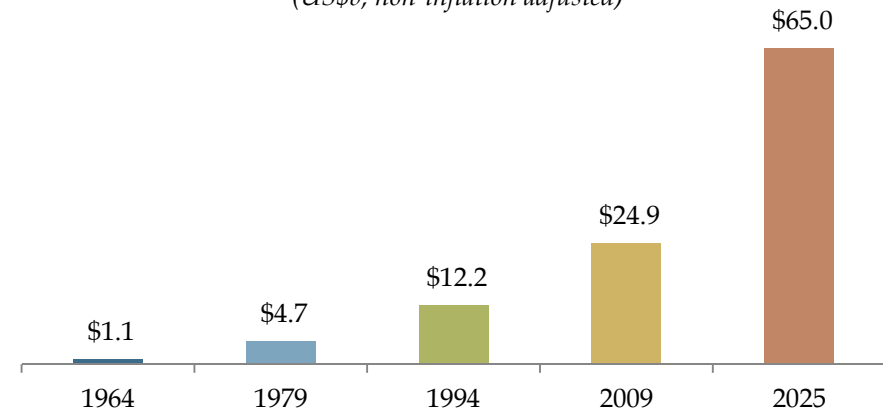
Doubling by 2025 will require adding **+US\$40.1b** in export sales; this will require an annual growth rate of at least **6.2%** per year, which is more than the past 15 years (4.9%), but less than historical rates

How much export value growth is required to double exports by 2025?  
(US\$b; simplified model)

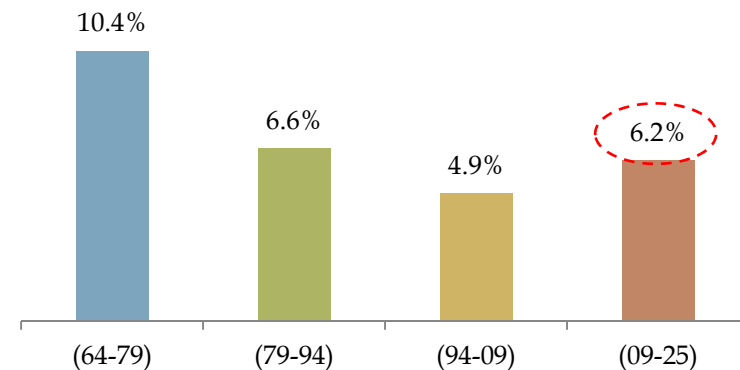
Growth bridge: key components of growth  
(US\$b; 2009-2025)



Historic & projected NZ export value  
(US\$b; non-inflation adjusted)



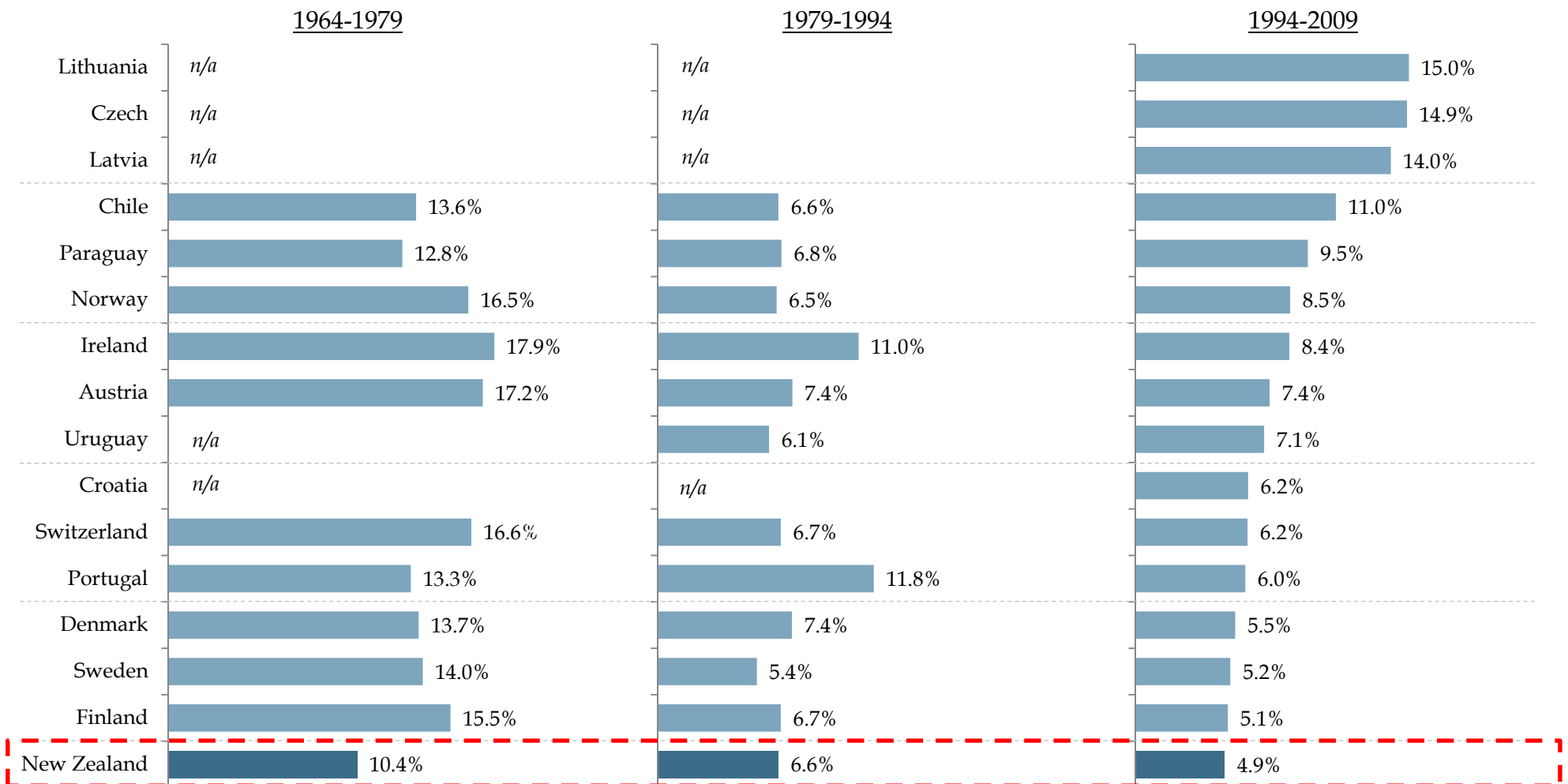
Historic & projected NZ export growth rates  
(US\$b; CAGR)



## VERSUS PEERS

New Zealand's historical export growth has been poor relative to peers; peers show it is possible to achieve much faster growth; in this context, 6.2% (*from previous page*) looks very achievable

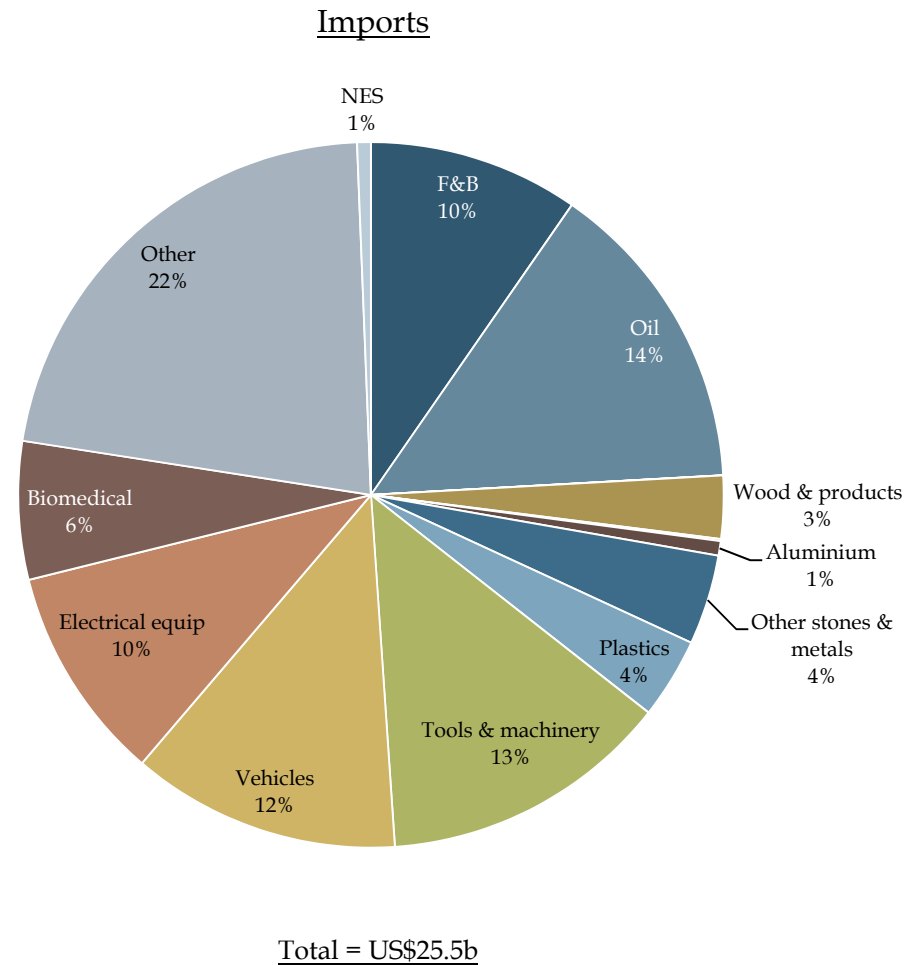
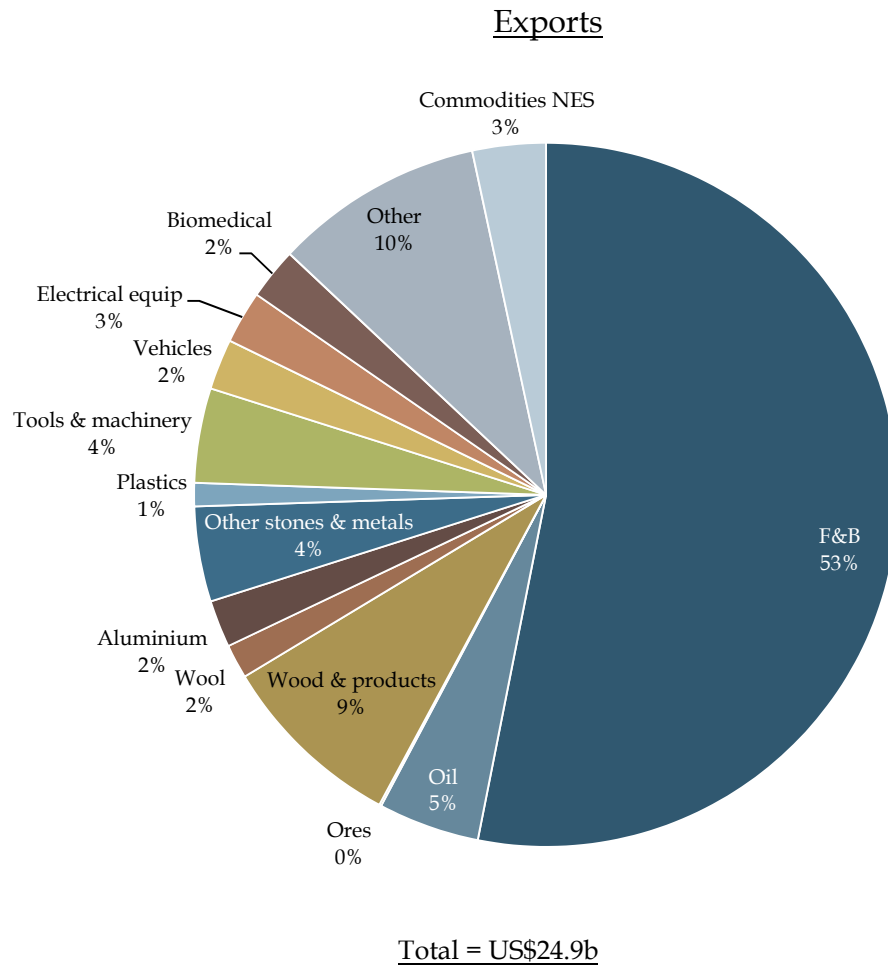
Historic export value growth rate (CAGR) over select 15 year periods: New Zealand vs. select temperate small country peers  
(CAGR; US\$; non-inflation-adjusted; various periods as given)



## WHAT HAVE WE GOT TO WORK WITH?

To double exports in 15 years, we must work with what we've got<sup>1</sup> – the biggest lever available is food & beverage exports (53% of export value) – this document shows how to “move the dial” on these

New Zealand merchandise trade by meta-category by type  
(US\$b; % of value; 2009)



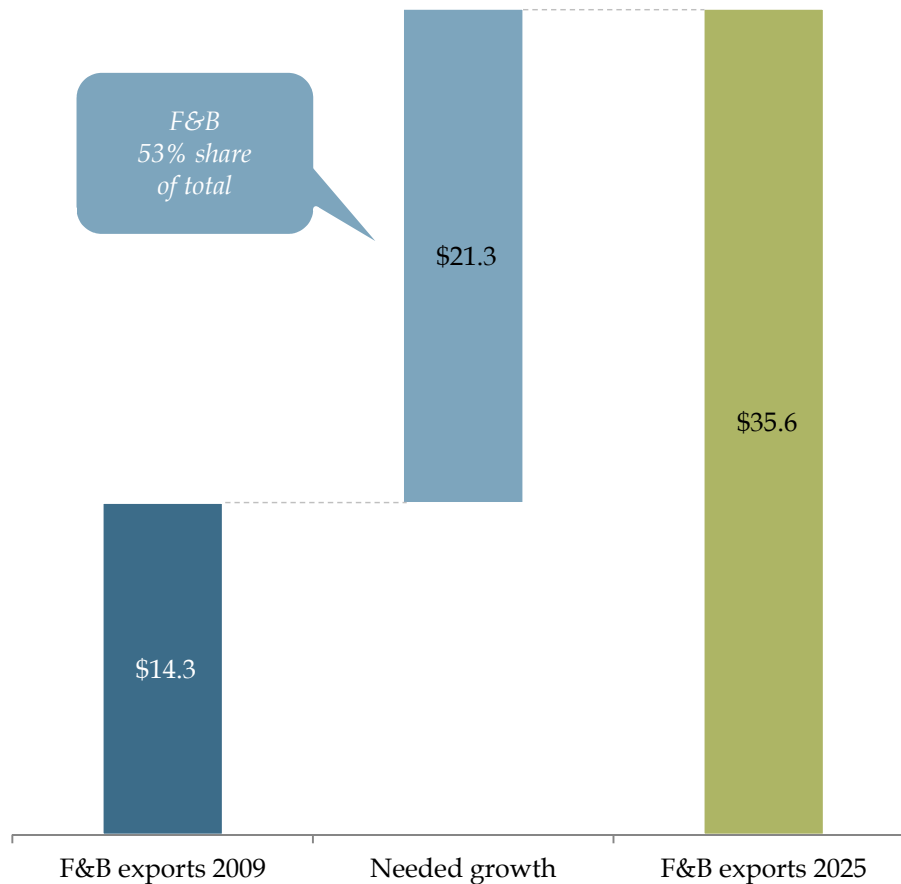
## ROLE OF F&B

Returning to the earlier model, the F&B sector needs to find US\$21.3b in export value growth over the next 15 years; this document attempts to find where that growth could come from

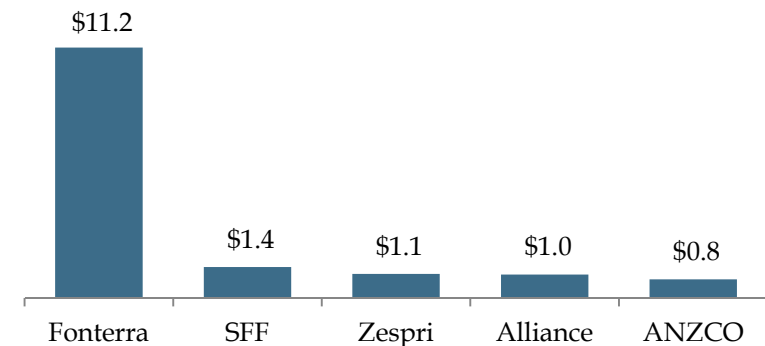
How much F&B export value growth is required to double exports by 2025?  
(US\$b; simplified model)

Turnover of top 5 NZ F&B firms (in US\$)  
(US\$b; at NZ\$1=US\$0.70; 2009)

Note data is FOB value at border



Note firm turnover includes any post-FOB markup and non-NZ sales and, as such, is not directly comparable



## DOCUMENT STRUCTURE

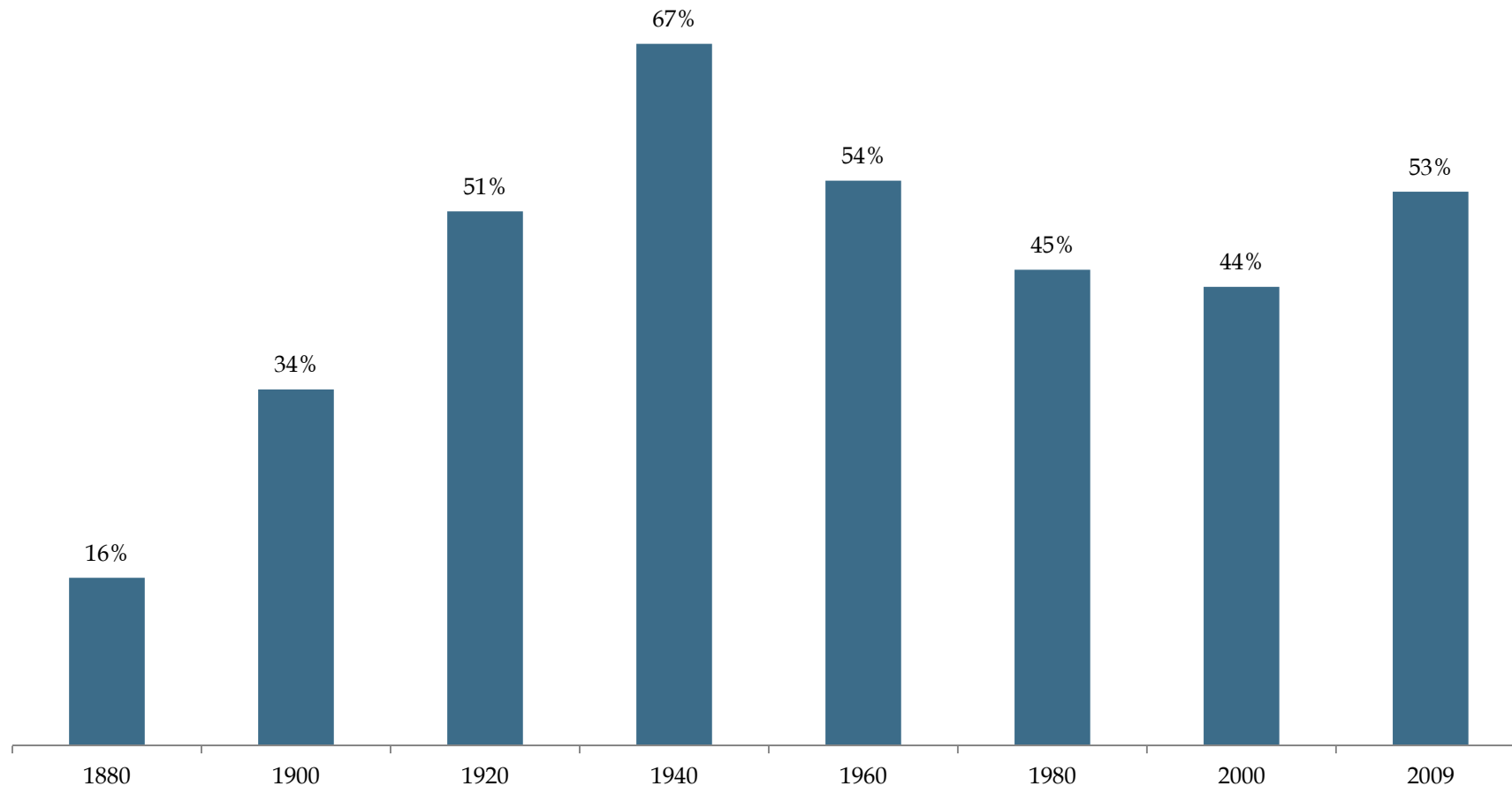
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## F&B AS A % OF EXPORT VALUE

Food & beverages have been New Zealand's largest single export for the last 100 years

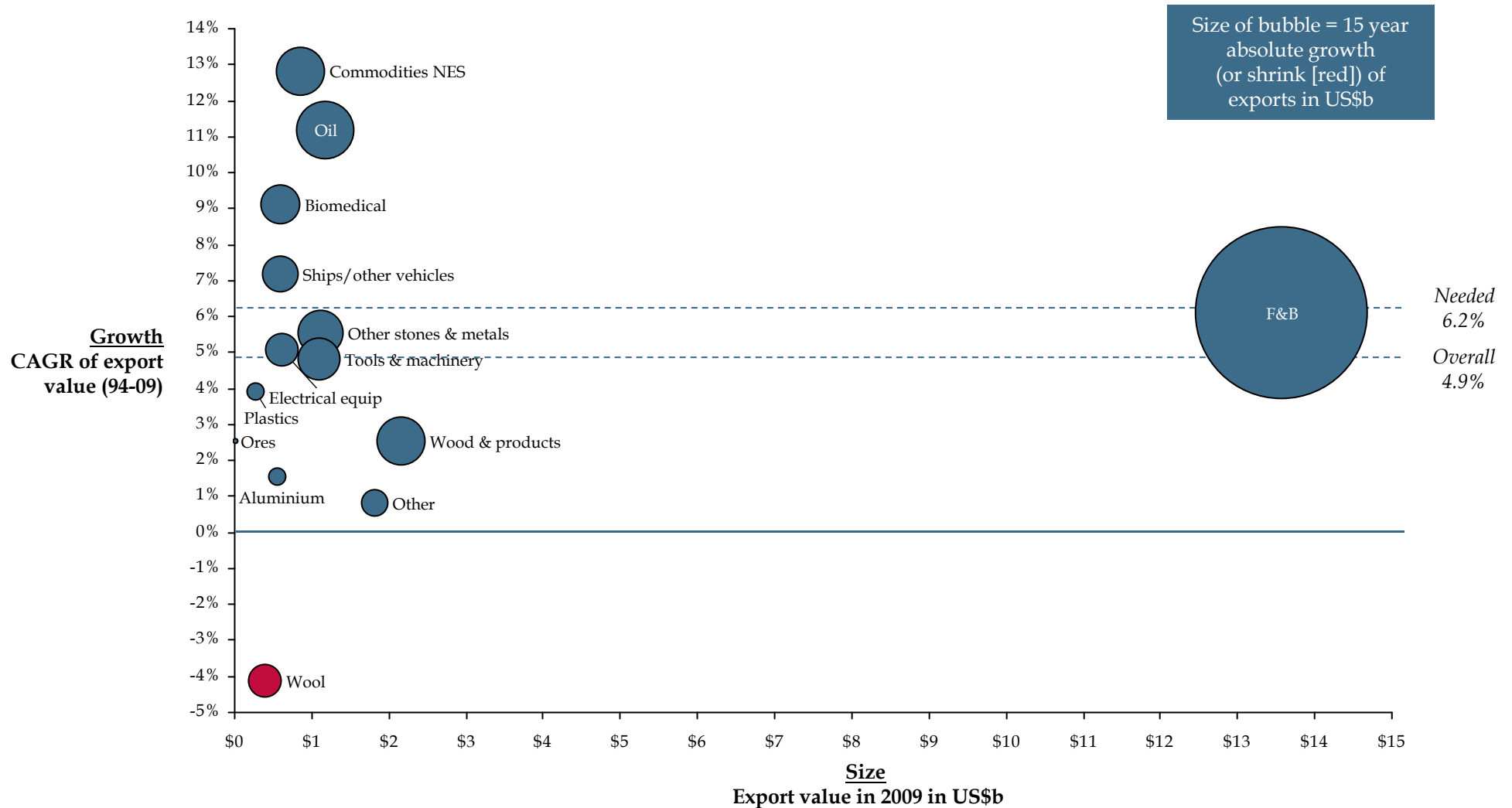
Food & beverages as a percent of New Zealand's total export value for the last 130 years  
(% of export £ or \$; 1880-2009)



# ENGINE OF EXPORTS

The F&B sector has been the engine of New Zealand exports and export growth

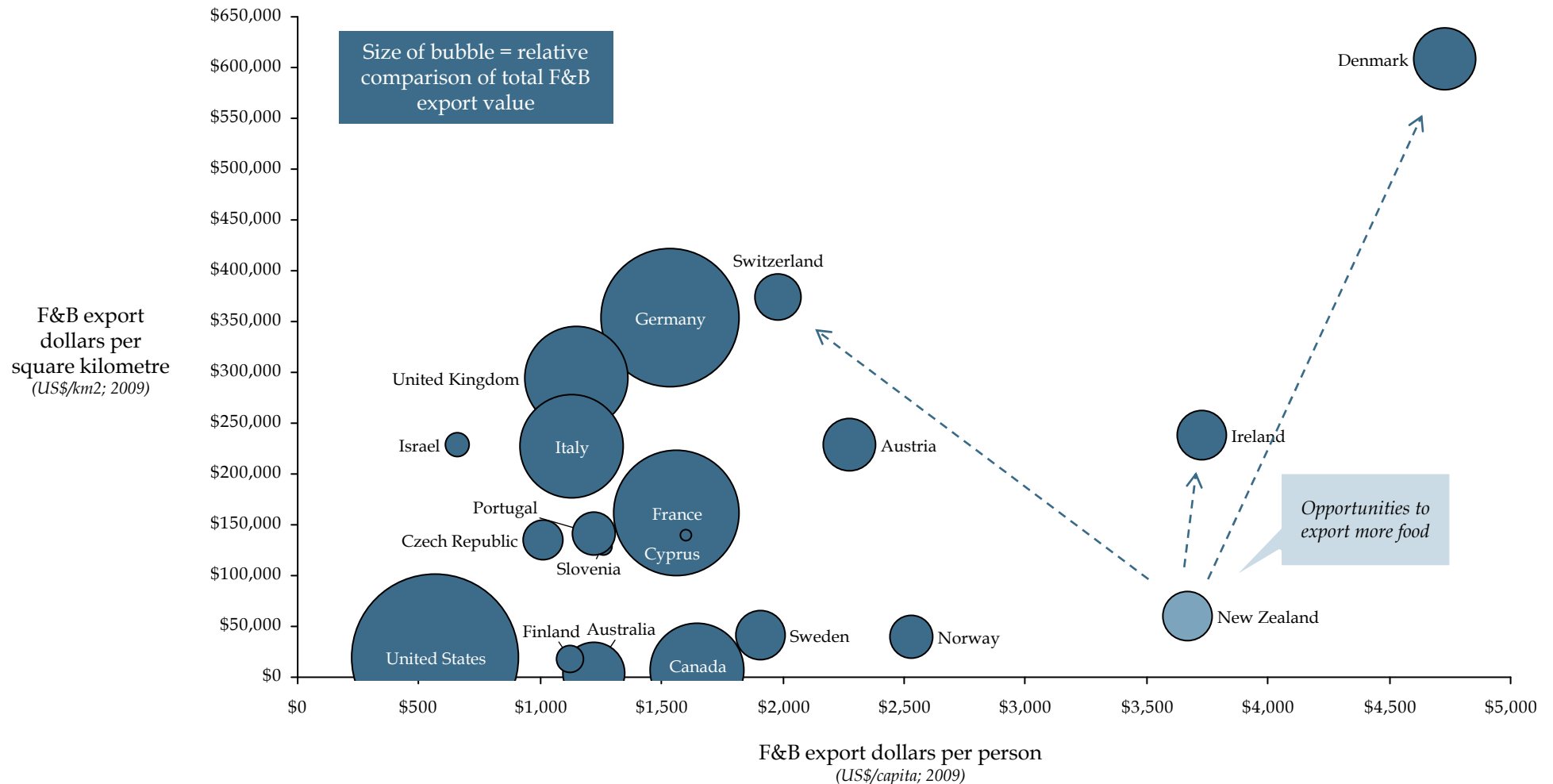
Export value of key products in 2009 vs. 15 year CAGR of export value vs. 15 year absolute growth in exports  
(US\$b; nominal; 1994v2009)



## CAN WE EXPORT MORE?

While New Zealand achieves good F&B exports per capita, it achieves poor F&B exports per square kilometre; we would appear to have “spare capacity” to export more

Export matrix: F&B export value per capita vs. F&B export value per km<sup>2</sup> vs. absolute F&B export value  
(US\$, 2009)

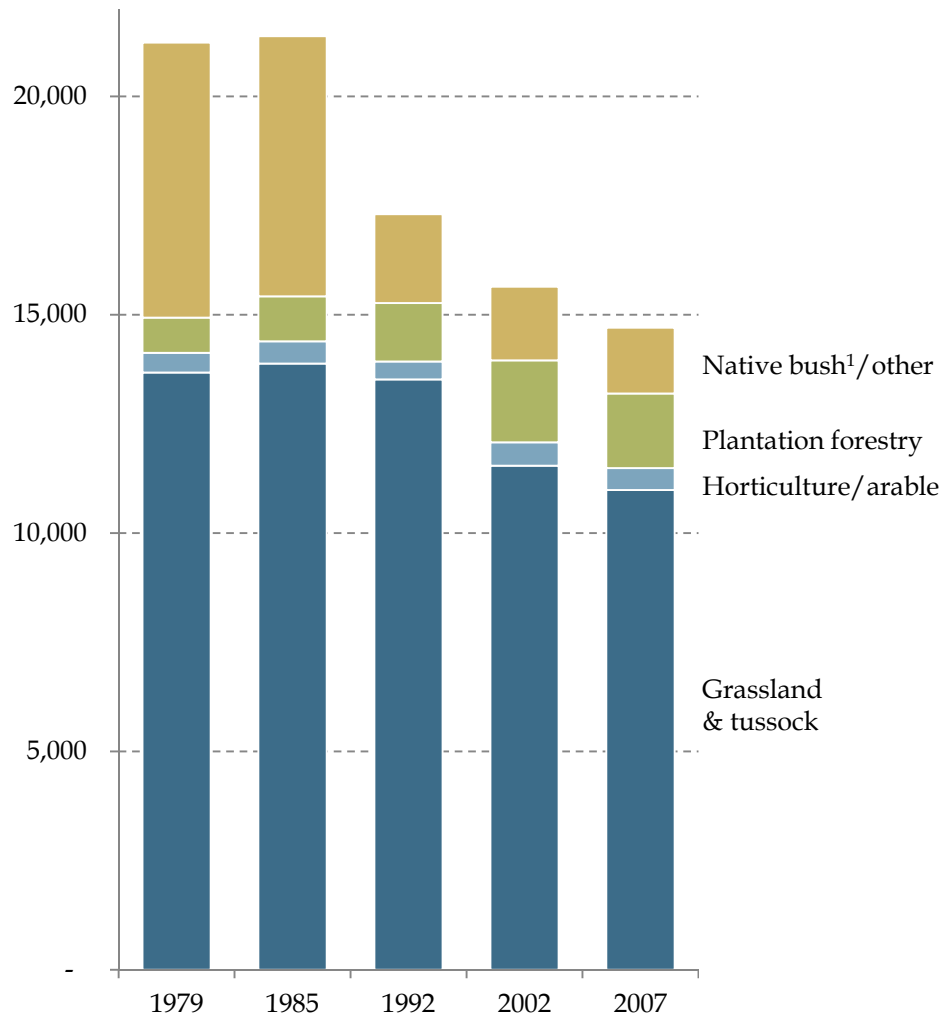




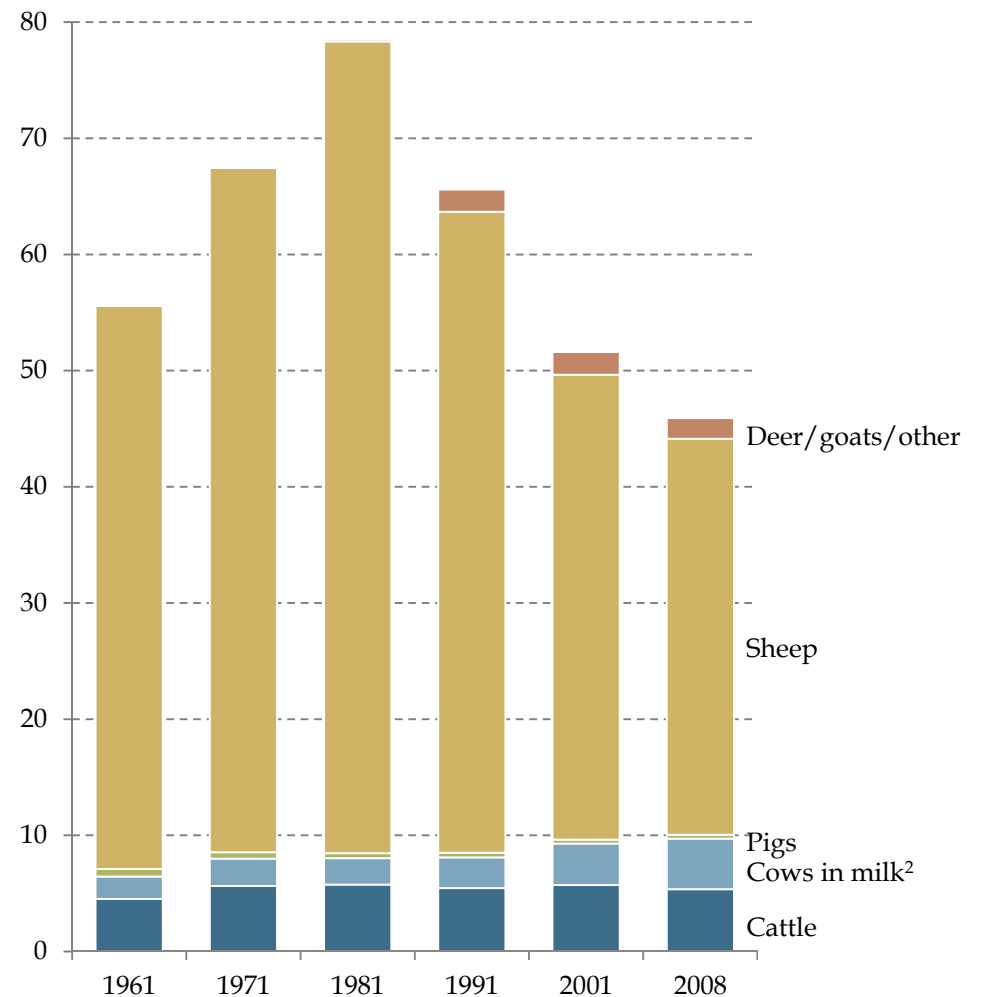
## DECLINING KEY INPUTS

However, declining available farm land and falling overall animal numbers strongly suggest that the path to exporting more F&B in the future is not just “more of the same”

Total farm land in New Zealand by major usage  
(hectares; 000; 1979-2007)



Number of farm animals (excluding poultry) by type  
(animals; m; 1961-2008)



## EXAMPLE: CHILLED LAMB TO CONSUMER

In many traditional sectors, New Zealand has failed to forward integrate along the value chain, as this example from the meat industry shows

EXAMPLE: Flow of New Zealand chilled lamb from the farmer to the consumer  
(simplified model; 2010)

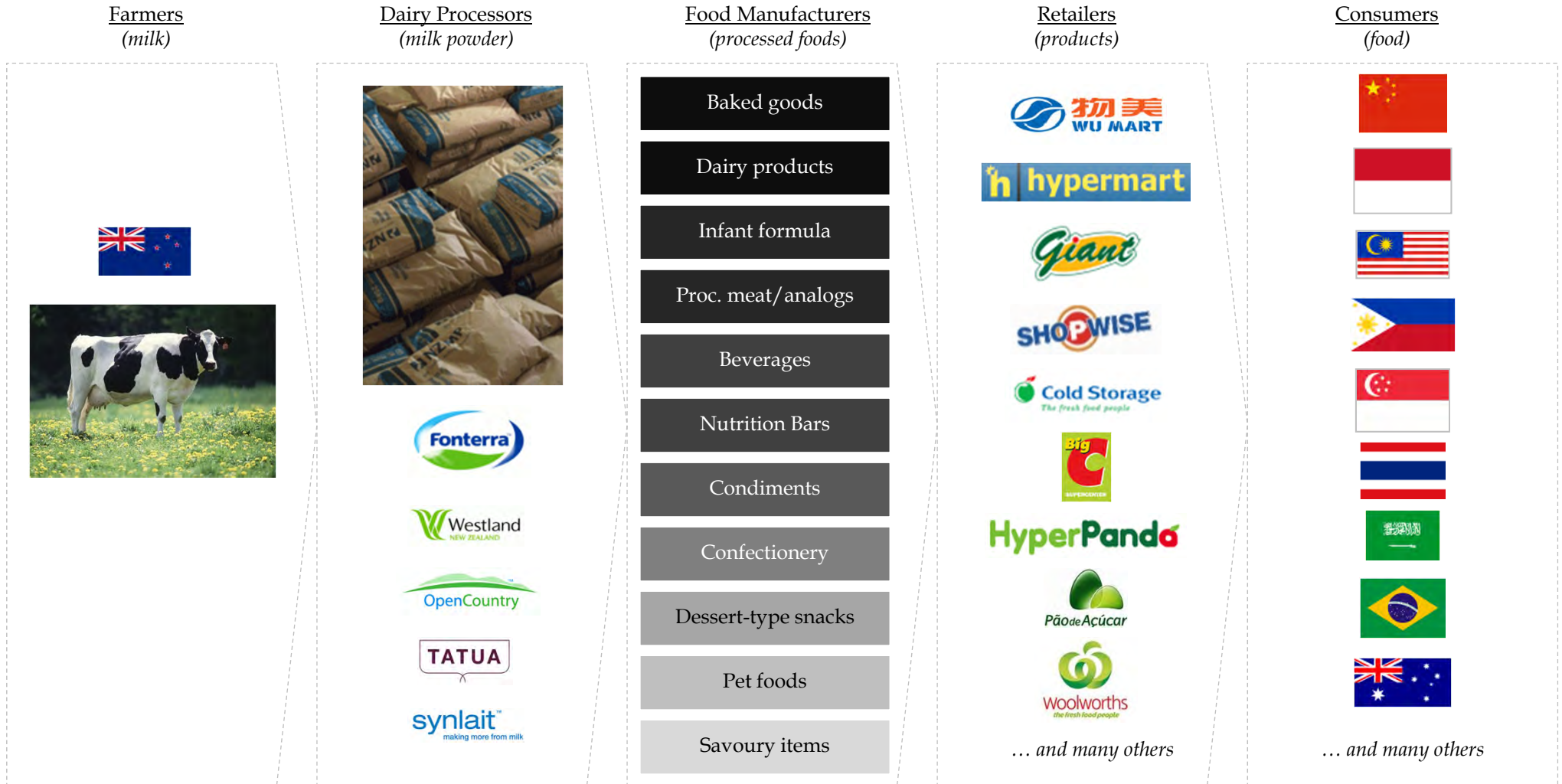


Despite sending meat to the U.K. for over 120 years, we own no major in-market processors

## EXAMPLE: MILK POWDER TO CONSUMER

New Zealand still significantly makes ingredients, which are sold to food manufacturers, who add-value by turning them into processed foods ready for consumers, as this example from dairy shows

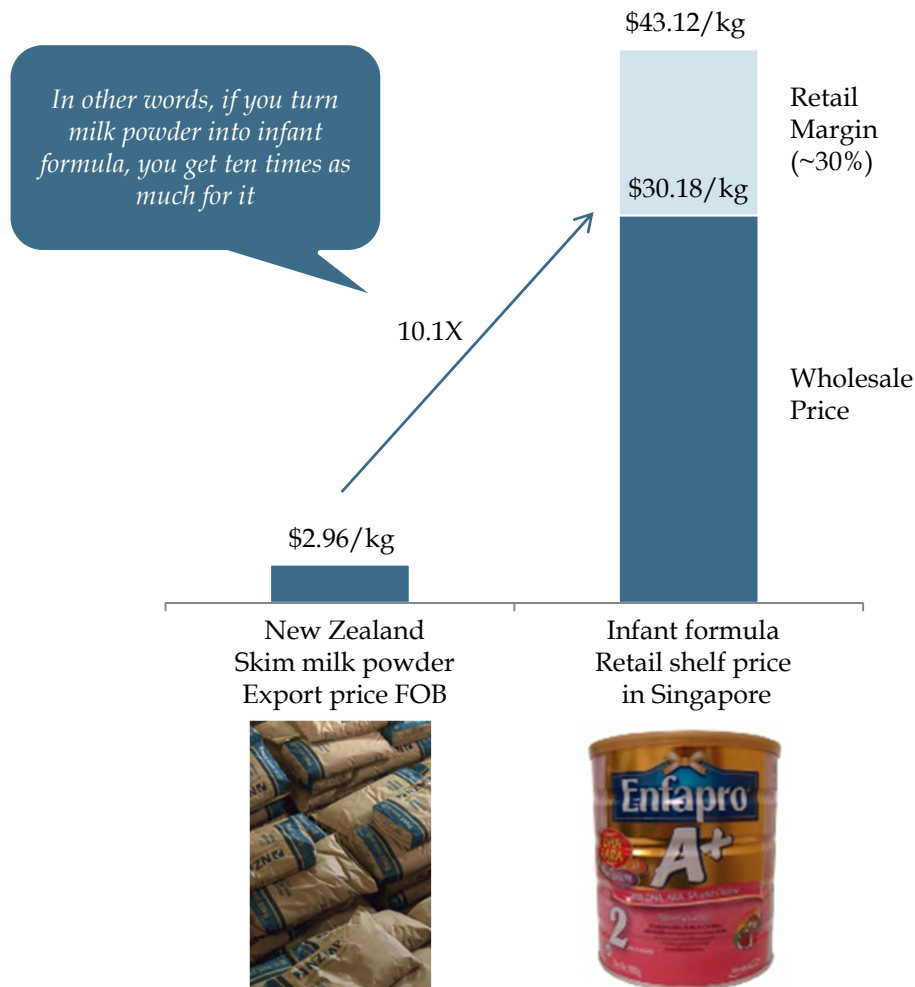
EXAMPLE: Flow of New Zealand milk powder from the farmer to the consumer  
(simplified model; 2010)



## HOW TO ADD VALUE

The phrase “adding value” is often discussed; a comparison of the FOB price New Zealand received for milk powder with the retail price of infant formula gives a real-world example of how this is done

New Zealand FOB price of SMP vs retail price of infant formula in Singapore  
(NZ\$/kilogram; Aug/Sept 2009)



Ingredients: (in order of volume)

Nonfat Milk Powder, Lactose, High Oleic Safflower Oil, Soy Oil, Coconut Oil, Whey Protein Concentrate.

In addition, less than 2% of the following: Potassium Citrate, Calcium Carbonate, Ascorbic Acid, Potassium Chloride, Magnesium Chloride, Ferrous Sulfate, Choline Chloride, Choline Bitartrate, Ascorbyl Palmitate, Sodium Chloride, Taurine, m-Inositol, Zinc Sulfate, Mixed Tocopherols, Niacinamide, d-Alpha-Tocopheryl Acetate, Calcium Pantothenate, L-Carnitine, Cupric Sulfate, Vitamin A Palmitate, Thiamine Chloride Hydrochloride, Riboflavin, Pyridoxine Hydrochloride, Beta-Carotene, Folic Acid, Manganese Sulfate, Phylloquinone, Biotin, Sodium Selenate, Vitamin D<sub>3</sub>, Cyanocobalamin, Calcium Phosphate, Potassium Phosphate, Potassium Hydroxide, and Nucleotides (Adenosine 5'-Monophosphate, Cytidine 5'-Monophosphate, Disodium Guanosine 5'-Monophosphate, Disodium Uridine 5'-Monophosphate)

## HISTORICAL BARRIERS

Adding-value is an obvious idea; historically there have been major barriers limiting the ability of New Zealand food processors to move into value-added processed foods; this will not be true in the future

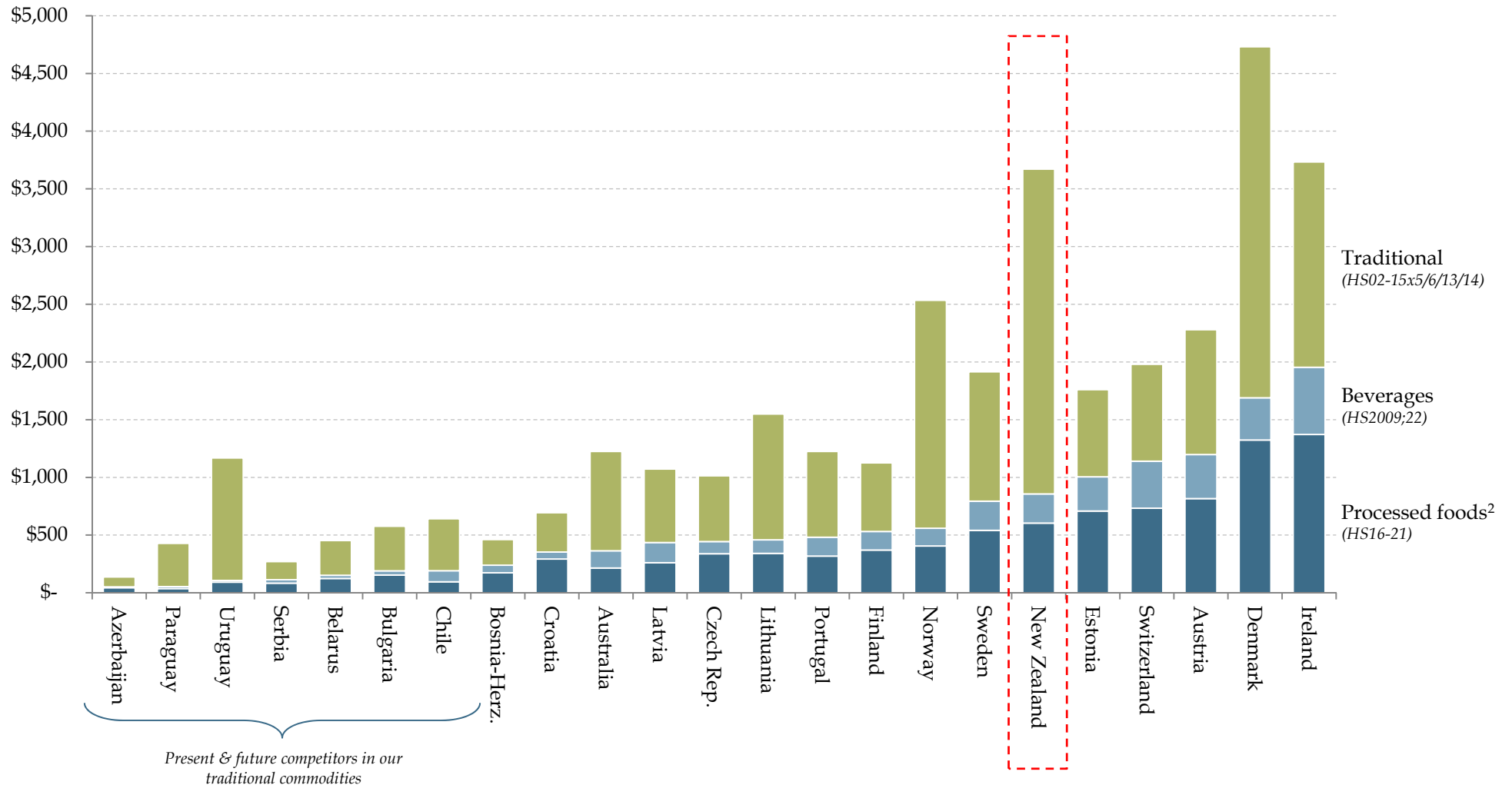
Challenges and barriers to producing and exporting value-added processed foods from New Zealand  
(1960 vs. 2025)

	New Zealand circa 1970	New Zealand circa 2025
Situation	<ul style="list-style-type: none"> <li>- High trade and tariff barriers, particularly on value-added processed foods</li> <li>- Limited market size and access                             <ul style="list-style-type: none"> <li>- Some “grandfather clause” access to U.K.</li> <li>- Low/no access to other rich markets of the world (North America and Europe)</li> <li>- Much of non-Western world yet to industrialise and focused on subsistence agriculture</li> </ul> </li> <li>- Key NZ food &amp; beverage exports run by government mandated producer boards (aka. monopsonies)                             <ul style="list-style-type: none"> <li>- Focused on “selling” production of New Zealand</li> <li>- Culture of risk avoidance</li> <li>- Low innovation</li> <li>- Focused on “disposal” of volume (not shareholder value)</li> <li>- No mandate for in market acquisitions or expansion</li> <li>- No access to capital</li> </ul> </li> <li>- Long shipping time to market and limited available storage technology leading to production of transport friendly items</li> <li>- Not an attractive investment destination due to over-regulated socialist nature of economy (e.g. capital controls)</li> <li>- No major investment in processed foods production for export by leading global multinationals</li> </ul>	<ul style="list-style-type: none"> <li>- Medium to low/no trade and tariff barriers</li> <li>- Excellent tariff-free access into:                             <ul style="list-style-type: none"> <li>- Key Asian markets, particularly China, Indonesia, Thailand, the Philippines and India</li> <li>- South America</li> <li>- Access into Europe still limited</li> </ul> </li> <li>- All food &amp; beverage exports conducted by private firms                             <ul style="list-style-type: none"> <li>- Mixture of domestic firms and global leaders</li> <li>- Handful of strong, well capitalised cooperatives with significant ODI into world markets</li> <li>- Focused on high capital intensity, value-added processed food manufacturing</li> <li>- Many key exports contain significant dairy ingredients</li> </ul> </li> <li>- Best attributes of single-desk structure recreated by IP controlled genetics</li> <li>- Short shipping time to key markets; numerous innovative storage technologies available enabling “fresh-to-market”</li> <li>- An attractive investment destination due to efficient, high productivity, low tax economy</li> <li>- Major investment by global multinationals in processed foods production for export</li> </ul>
Outcome	<ul style="list-style-type: none"> <li>- Produce low cost commodity ingredients</li> </ul>	<ul style="list-style-type: none"> <li>- Manufacture value-added processed foods</li> </ul>

## RELATIVE PERFORMANCE

Relative to peers, New Zealand has good F&B exports per capita; however, our mix is currently skewed towards traditional minimally-processed products; we underperform in added-value processed foods

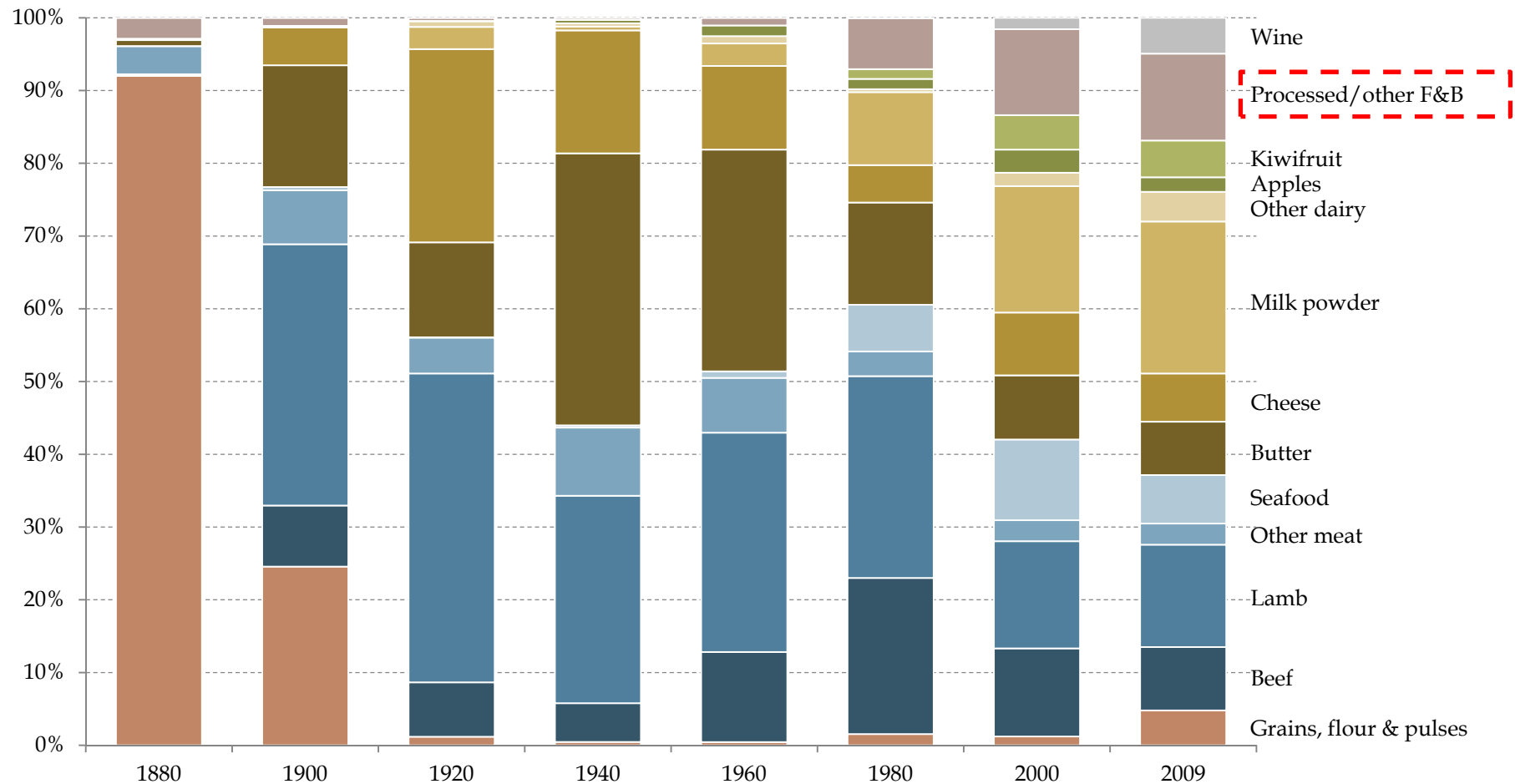
Food & Beverage (F&B) export value per capita by select category: New Zealand vs. select temperate small country peers (US\$; 2009<sup>1</sup>)



## LONG TERM SHIFTS

However, New Zealand's F&B export mix is not "set in stone"; changes have occurred throughout the history of the country; there is currently a shift underway towards more value-added processed foods

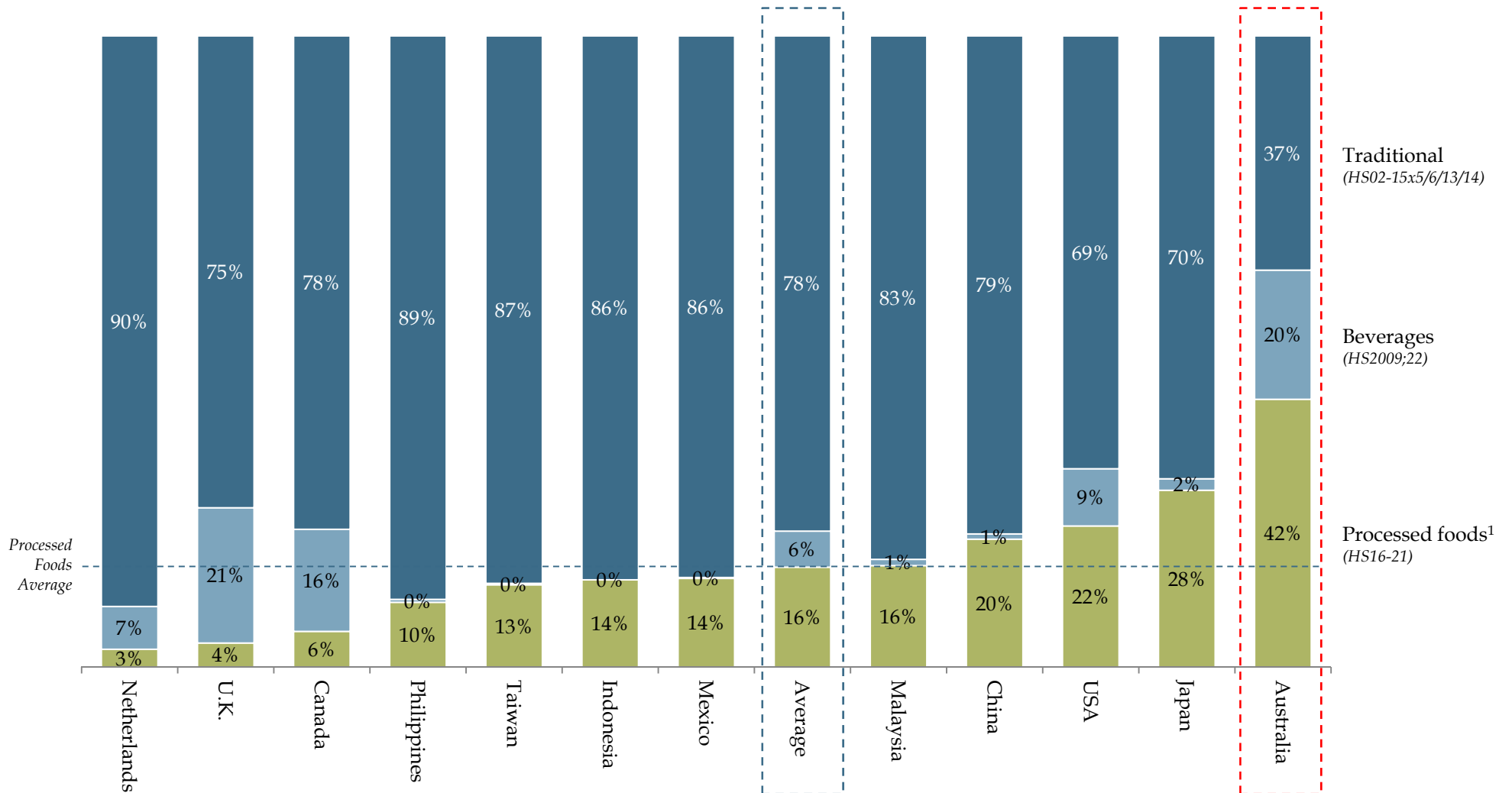
130 year change in value mix of New Zealand's food and beverage exports  
(% of total F&B sales; given years)



## MIX BY EXPORT MARKET

While only 16% of our overall F&B exports are processed foods, Australia demonstrates that we can achieve better performance; the rest of this document analyses our experience in Australia for lessons

New Zealand F&B export value mix by select key export market  
(% of NZ\$, 2009)





## DOCUMENT STRUCTURE

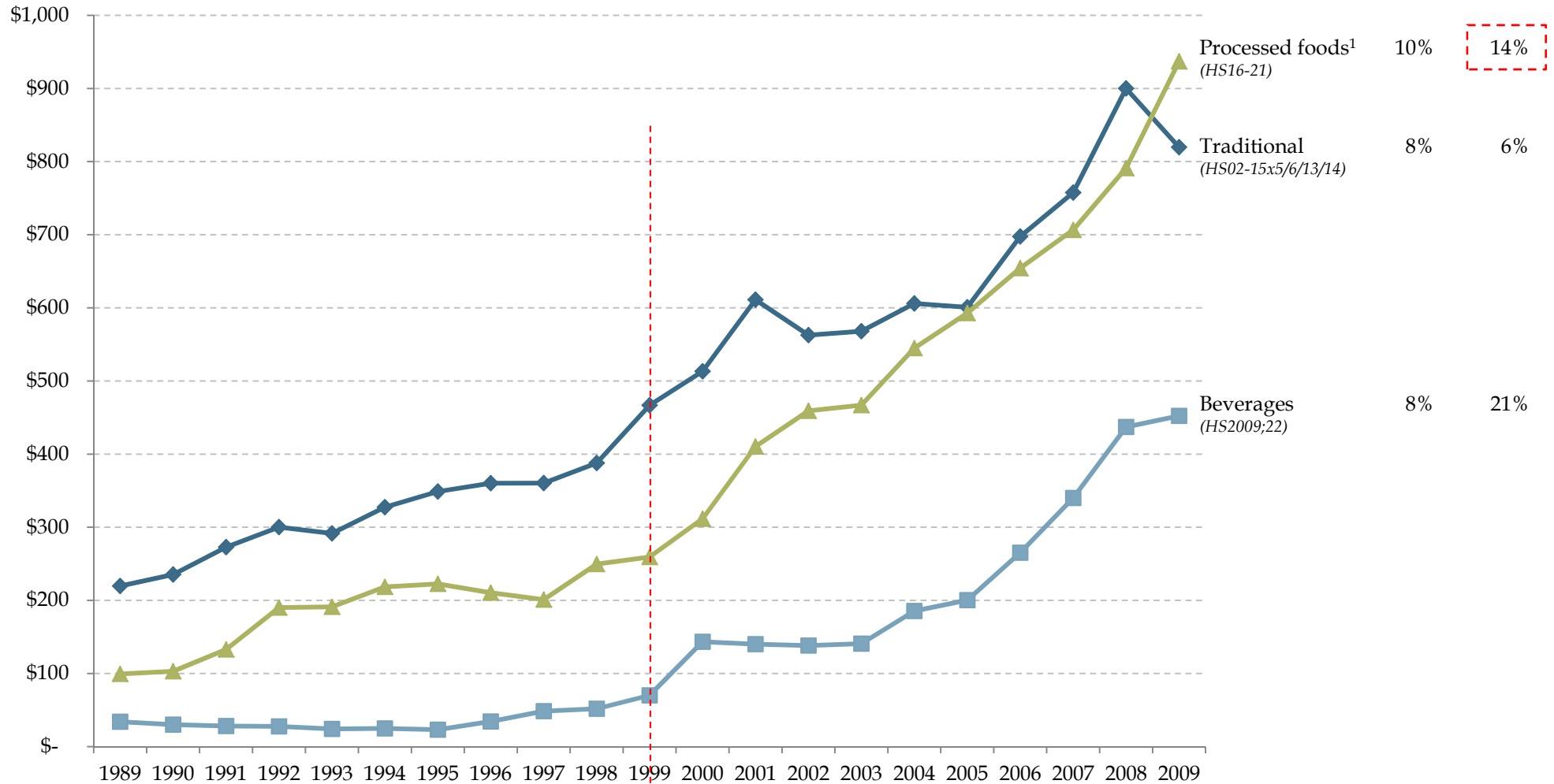
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## EXPORT GROWTH TO AUSTRALIA

Processed foods exports to Australia are not just large, they are also growing rapidly; interestingly, our Australia processed food exports took-off in around 1999

Value of New Zealand F&B exports to Australia by major defined type  
(NZ\$m; 1989-2009)



## DRIVER OF INCREASE

It is difficult to identify a single event which has driven the growth of processed food exports; however, it is clear a range of events have triggered a mindset change among many

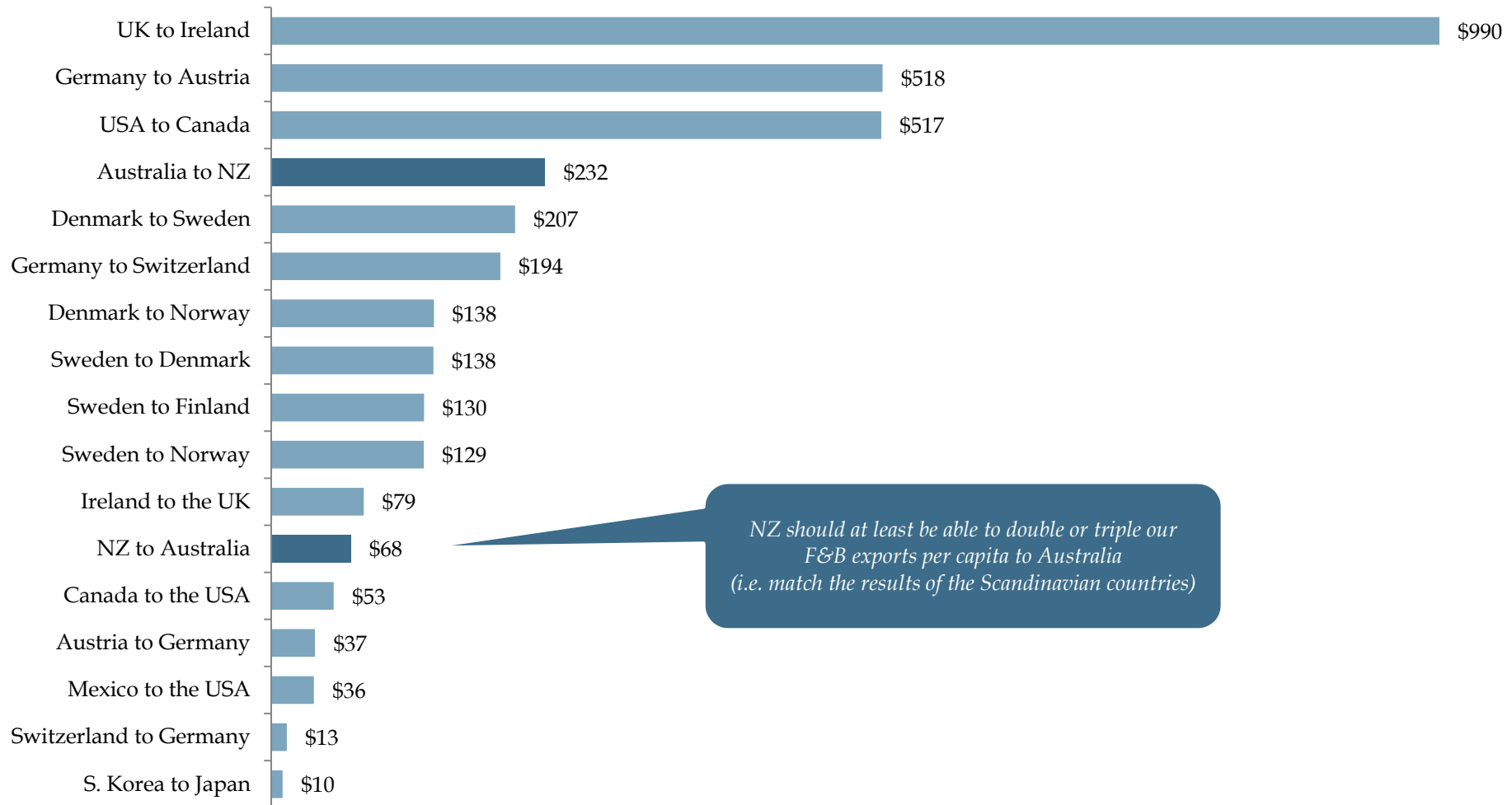
Potential driver of growth of exports of New Zealand processed foods to Australia  
(1999-2001)

	New Zealand	Australia
Market	<ul style="list-style-type: none"> <li>- In May 2001, Progressive Enterprises (Foodtown &amp; Countdown) seeks commerce commission permission to acquire Woolworths NZ from Dairy Farm International (of Hong Kong); deal challenged, goes to Privy Council and is completed May 2002</li> <li>- In May 2005, Woolworths Australia acquired Progressive Enterprises NZ; begins treating "New Zealand as a state of Australia"</li> <li>- Woolworths Australia pushes store brands in AU and NZ</li> <li>- Greater coordination by Foodstuffs of buying &amp; increased push on store brands in response to arrival of Woolworths Australia</li> </ul>	<ul style="list-style-type: none"> <li>- In January 2001 Aldi, a global limited assortment supermarket chain from Germany, opened its first store in Australia; 90%+ of products sold by chain are store brands (aka private label)</li> <li>- Ongoing growth of store brands in Australia in response to arrival of Aldi and when economy slows 2001+ and 2007+ there is a cyclical increase in demand for store brands</li> <li>- Dec 2008, Aldi celebrates opening of 200<sup>th</sup> store in Australia</li> <li>- In Jul 2009, Costco (a Warehouse Club chain from the US) opens its first Australia store in Melbourne ; second store planned but struggling to get sites due to Australian planning laws (required larger sites than Aldi); +6 new stores planned</li> </ul>
Firm	<ul style="list-style-type: none"> <li>- New Zealand firms more willing to supply Aldi (and others) with high quality private label</li> <li>- In Oct 2001, Fonterra formed in New Zealand dairy industry mega-merger</li> <li>- In Dec 2005, Charlie's buys Phoenix Beverages</li> <li>- In March 2006, Danone sells Griffins biscuits to Pacific Equity Partners (PEP) of Australia</li> <li>- In Dec 2006 PEP buys Independent Liquor</li> <li>- In Oct 2008 Simplot (#2 frozen french fry global) buys Mr Chips</li> </ul>	<ul style="list-style-type: none"> <li>- Australian firms initially (ca. 2000/2001) less willing to supply Aldi due to fear of reprisals from Woolworth Australia and Coles</li> <li>- Most "Australian" processed food producers actually owned by global multinationals; <ul style="list-style-type: none"> <li>- Global firms are less willing to supply private label (e.g. Kellogg's does not supply private label as a global rule, creating an opportunity in cereal)</li> <li>- Global firms can in some cases be less nimble (though no clear change in this; perhaps NZ firms became more nimble or aggressive?)</li> </ul> </li> </ul>
Regulatory	<ul style="list-style-type: none"> <li>- Formation of Fonterra</li> <li>- Allowing Progressive acquisition of WW-NZ</li> <li>- Allowing Woolworths AU acquisition of Progressive</li> <li>- Formation of ANZFA (in 1995/96)</li> </ul>	<ul style="list-style-type: none"> <li>- Formation of ANZFA (in 1995/96)</li> </ul>

## F&B EXPORT DOLLARS PER CAPITA

New Zealand's F&B export dollars per capita to Australia is particularly poor relative to peers, indicating there is still lots of potential future growth available in this market

Select countries food and beverage FOB export dollars per capita to closest neighbour(s)  
(US\$/person in destination country; FOB; 08 or 09 depending on availability)

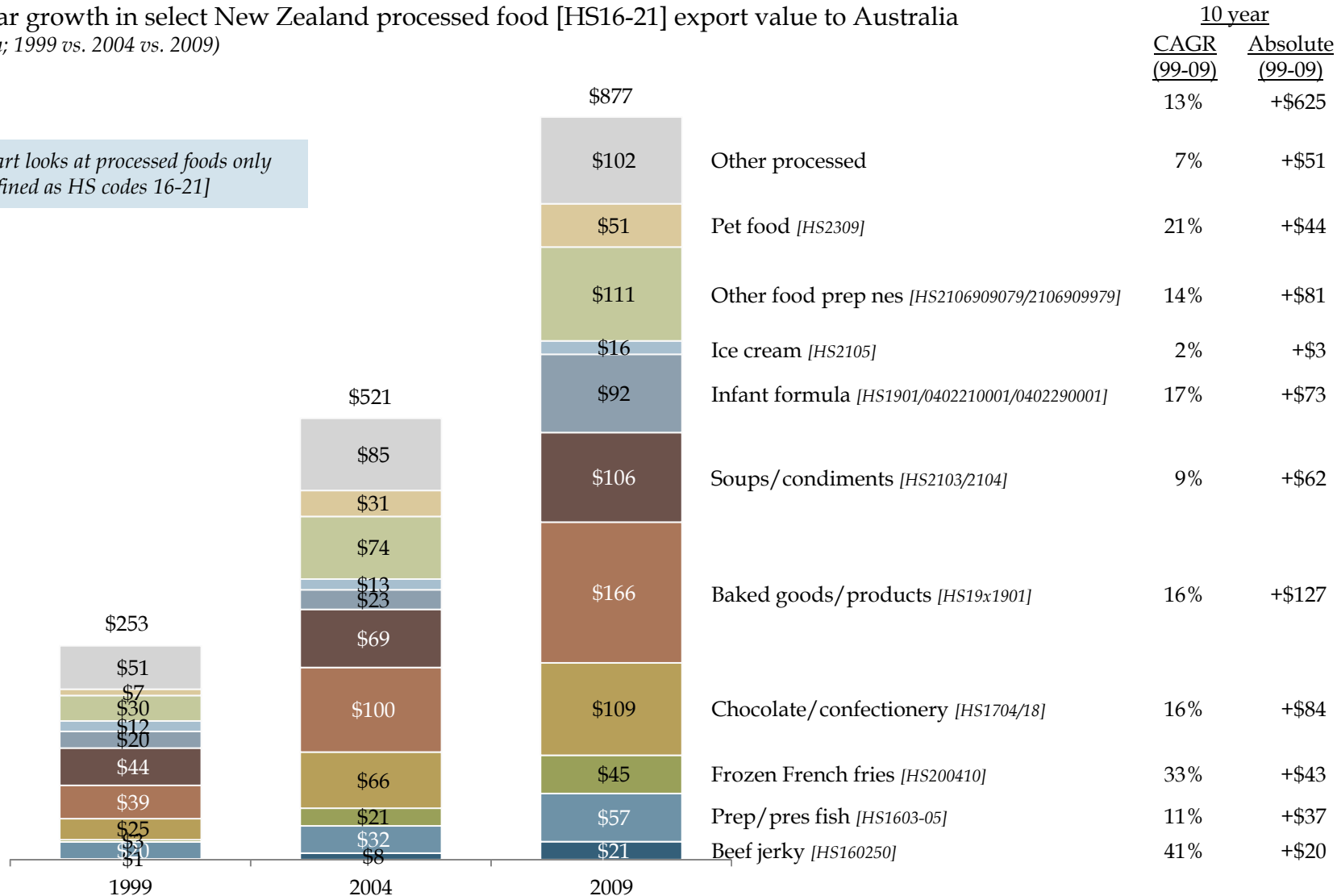


## NZ FOOD TO AU - PROCESSED

New Zealand is achieving success in Australia across a wide range of non-traditional foods and beverages; these are our growth stars and the foundation of future export growth to the world

10 year growth in select New Zealand processed food [HS16-21] export value to Australia  
(NZ\$m; 1999 vs. 2004 vs. 2009)

Chart looks at processed foods only  
[defined as HS codes 16-21]



## NZ PROCESSED FOOD - EXAMPLES

The success of New Zealand processed food & beverages is across a wide range of products and companies, as these example show

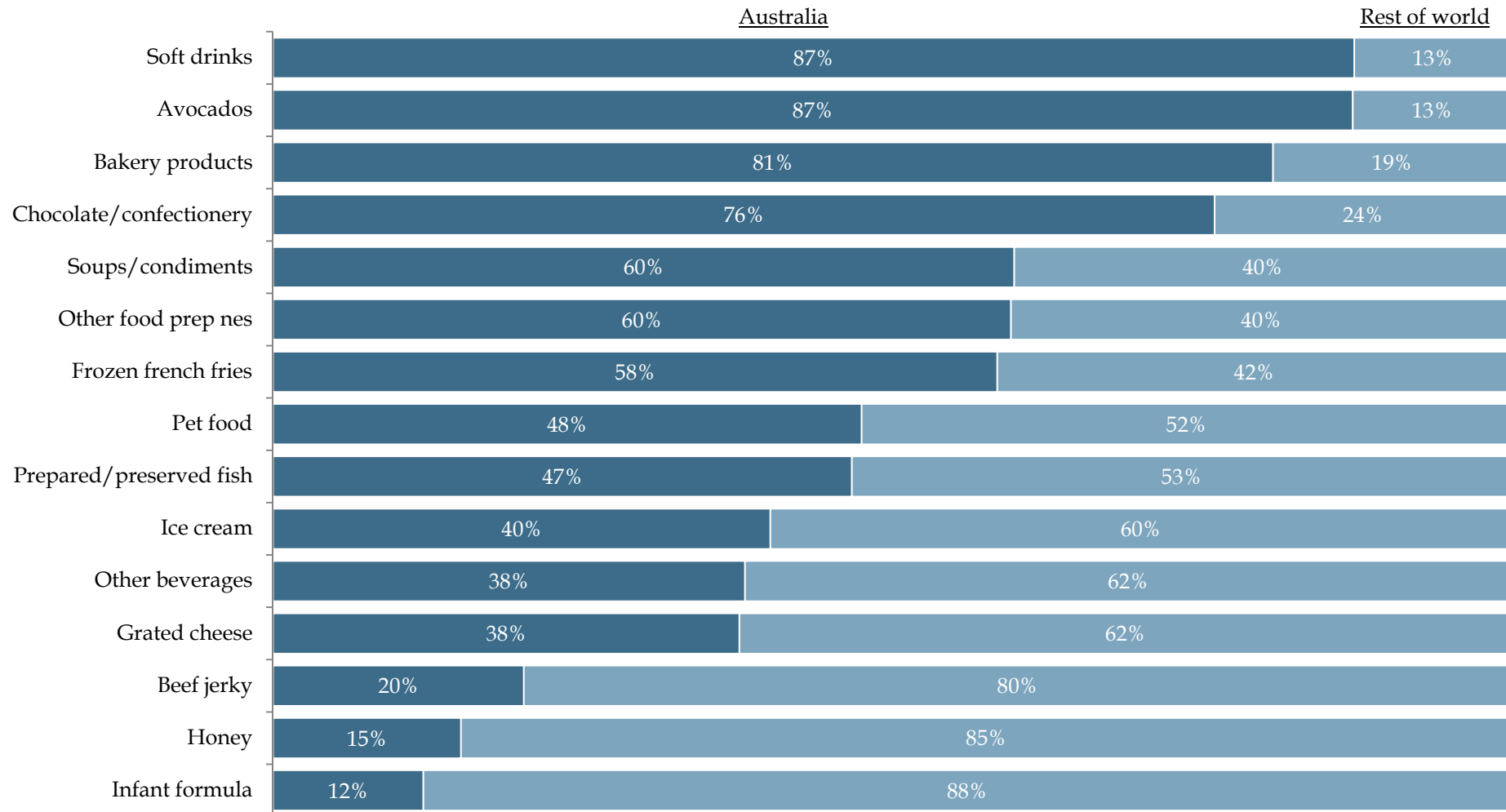
EXAMPLES: New Zealand processed foods and beverages exported to Australia (and elsewhere) (2010)



## HOW IMPORTANT IS AU?

The importance of Australia varies by product; in general Australia is more important in new emergent categories or categories without large firms at a scale comparable to global peers (in the segment)

Australia as a percent of total export value of product  
(% of NZ\$, 2009)



## KEY FIRMS

Success in processed foods is coming from across a range of firms

Identified key firms by category by ownership  
(2010)

**PRELIMINARY**

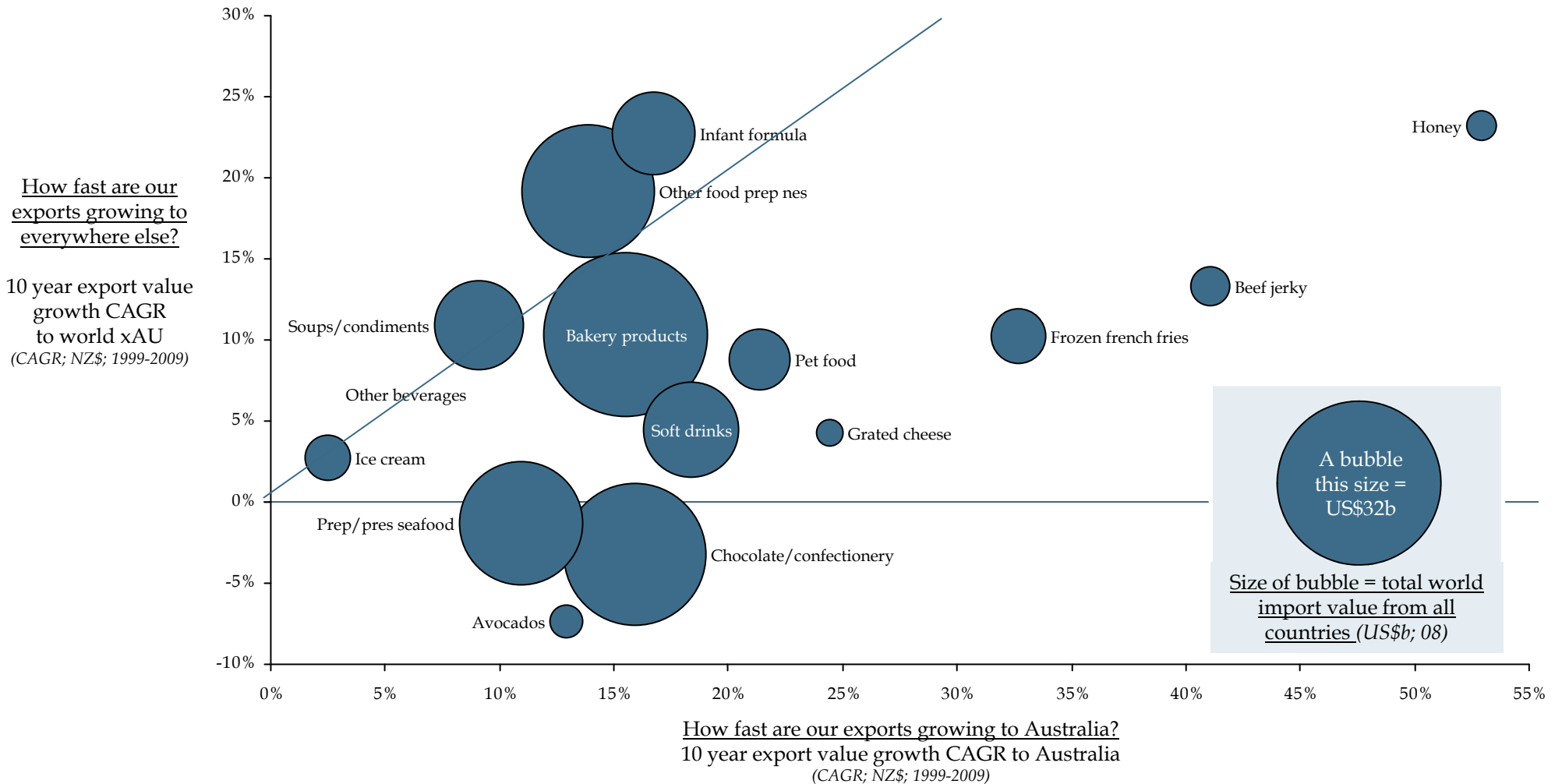
	New Zealand resident with local ownership	New Zealand resident with partial/total foreign investment/capital	Foreign multinational investment (or global category leader)
Beef jerky	 	No major	
Prepared/pres. fish			-
Froz. french fries	 	-	  
Chocolate & confectionery	      		
Bakery products	         	    	 
Soups & condiments	TBD	TBD	
Infant formula & baby food	   	 	 
Ice cream	     	-	-
Other food prep nes.	       	TBD	



# GROWTH MATRIX

In general, New Zealand processed foods are growing faster in Australia than elsewhere; many of these categories represent huge potential opportunities for New Zealand if we can “crack the case”

Growth matrix: growth into Australia vs growth to rest of world vs. size of world imports  
(various as given; 1999-2009)



## GROWTH METRICS

Export growth varies by category, with a number of standout “stars”; we selected<sup>1</sup> four categories to analyse in detail

Profile of growth metrics of key identified processed foods categories  
(NZ\$m; 2009)

	Overall Ranking	Australia			Rest-of-World (ex-AU)			Comments/issues
		Value (NZ\$m; 09)	Growth rate (CAGR; 99-09)	ABS growth (NZ\$m; 99-09)	Value (NZ\$m; 09)	Growth rate (CAGR; 99-09)	ABS growth (NZ\$m; 99-09)	
Beef jerky	●	\$21m	41%	+\$20m	\$83m	13%	+\$59m	~single firm (Jack Link)
Prep/pres. fish	●	\$57m	11%	+\$37m	\$65m	-1%	-\$10m	Primarily Sealord; down ROW
4 Froz. french fries	●	\$45m	33%	+\$43m	\$32m	10%	+\$20m	Good growth into AU
1 Chocolate/confect.	●	\$109m	16%	+\$84m	\$34m	-3%	-\$13m	Good AU; bad elsewhere; why?
2 Bakery products	●	\$166m	16%	+\$127m	\$40m	10%	+\$25m	Great absolute growth to AU
Soups/condiments	●	\$106m	9%	+\$62m	\$71m	11%	+\$46m	What are the barriers?
3 Infant formula	●	\$92m	17%	+\$73m	\$669m	23%	+\$582m	WOW! Superstar
Ice cream	○	\$16m	2%	+\$3m	\$24m	3%	+\$6m	Why are we so bad at Ice Cream
Other food prep nes	●	\$111m	14%	+\$81m	\$75m	19%	+\$62m	Catch-all category; needs work
Pet food	●	\$51m	21%	+\$44m	\$56m	9%	+\$32m	Good growth; low base
All other proc. food	●	\$102m	7%	+\$51m	\$357m	12%	+\$241m	Wide range of smaller categories
TOTAL		\$877m	13%	+\$625	\$1,506	13%	+\$1,050	



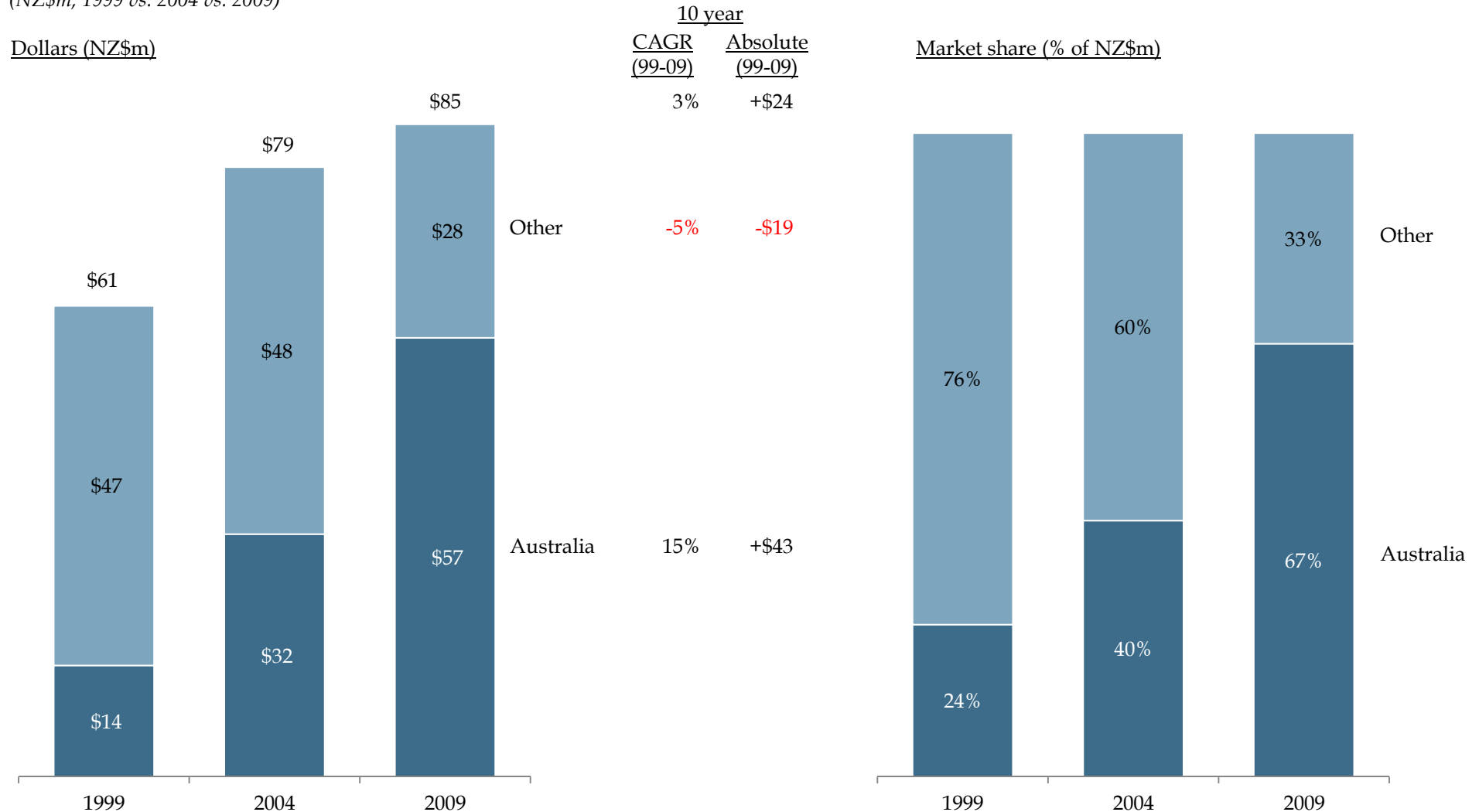
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## CHOCOLATE - NZ EXPORTS OVERVIEW

Australia is growing in importance to our total chocolate exports; concerningly, New Zealand chocolate exports are falling to other countries

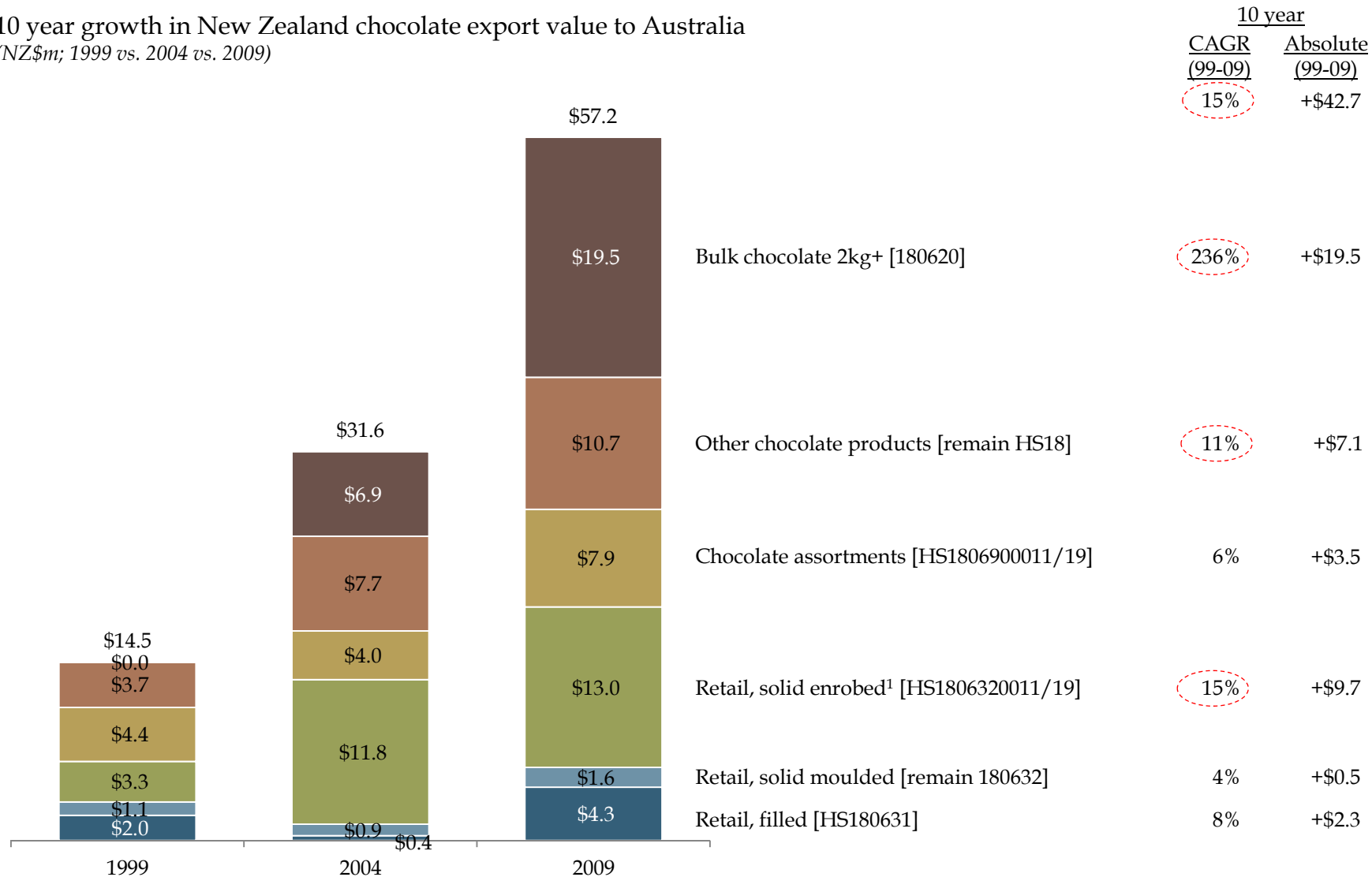
10 year growth in New Zealand chocolate export value: Australia and total world  
(NZ\$m; 1999 vs. 2004 vs. 2009)



## CHOCOLATE - NZ EXPORT VALUE TO AU

New Zealand chocolate exports have shown strong growth to Australia, growing at a NZ\$ CAGR of 15% for a decade

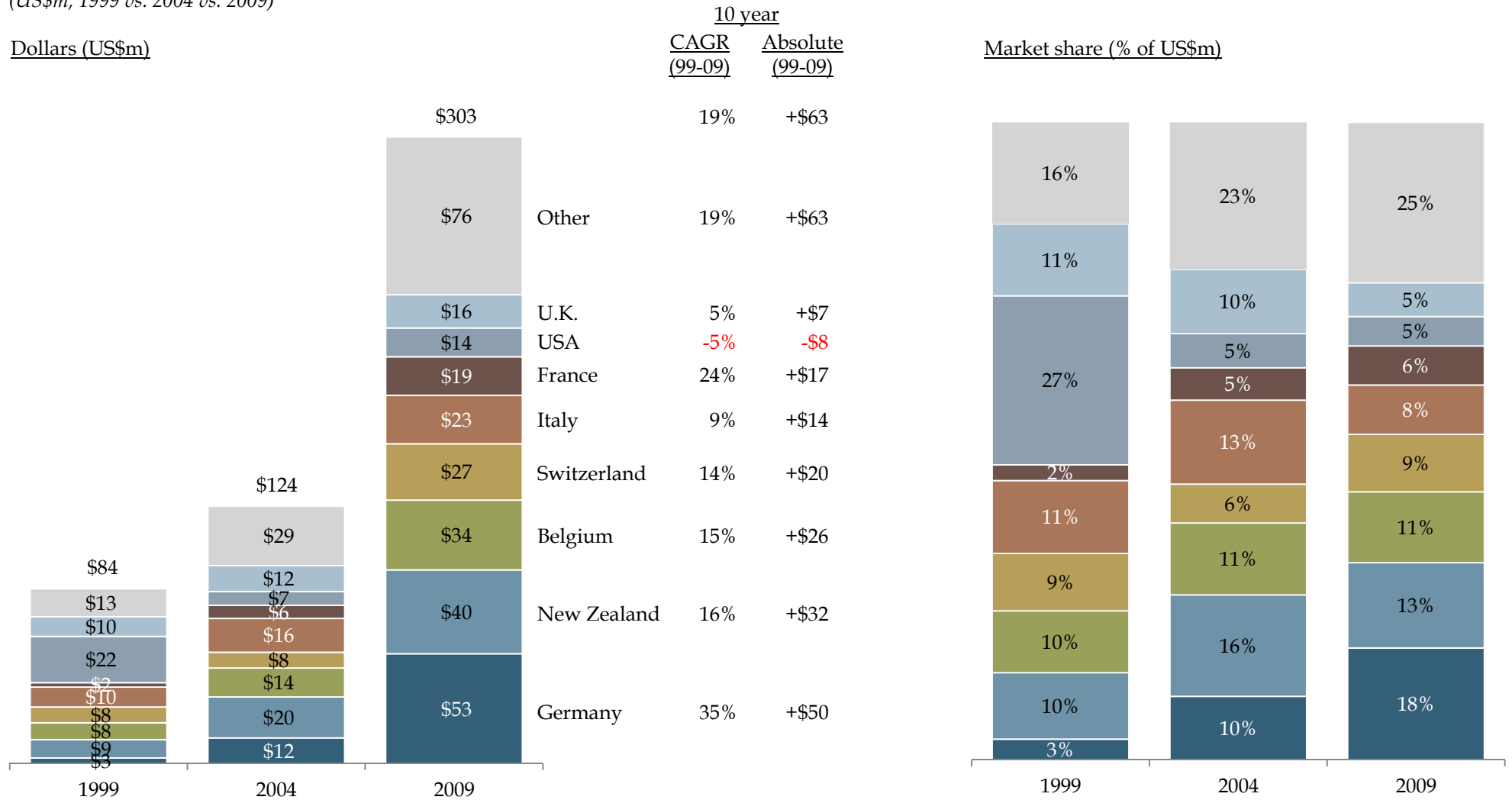
10 year growth in New Zealand chocolate export value to Australia  
(NZ\$m; 1999 vs. 2004 vs. 2009)



# CHOCOLATE - AU IMPORT MARKET SHARE BY COUNTRY

After a period of growth, New Zealand has recently been losing chocolate market share in Australia to Germany and others

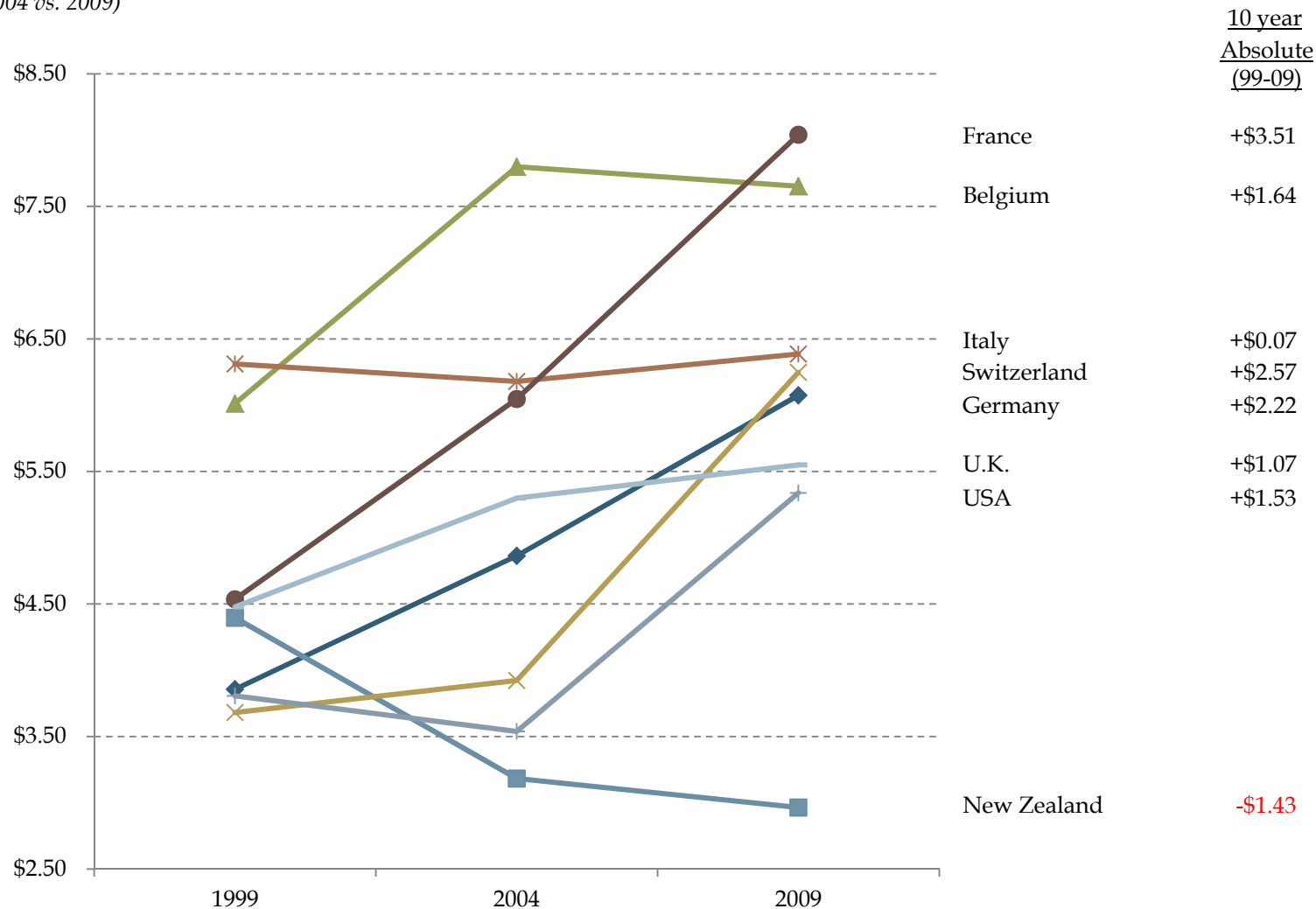
Total import value of chocolate [HS1806] into Australia: NZ vs. competitors  
(US\$m; 1999 vs. 2004 vs. 2009)



## CHOCOLATE - AU IMPORT \$/KG

New Zealand received significantly lower for its chocolate than competitors (likely as a result of moves by Cadbury); unlike peers, NZ returns per kg are trending down

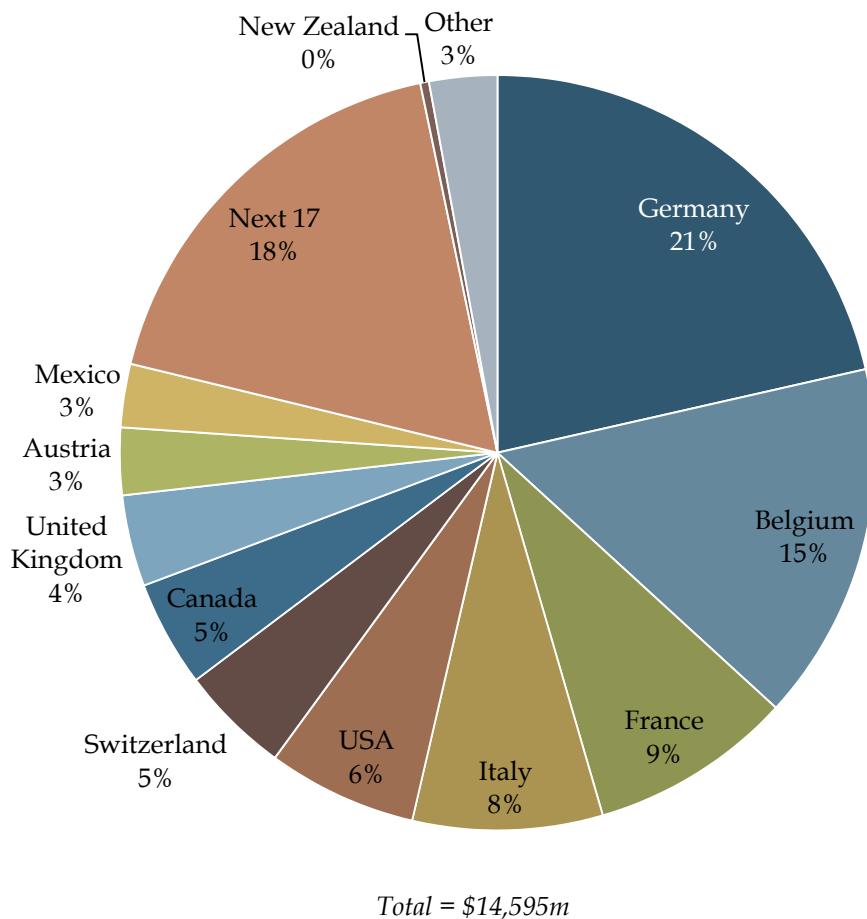
Total import value of chocolate per kilogram [HS1806] into Australia: NZ vs. key competitors  
(US\$m; 1999 vs. 2004 vs. 2009)



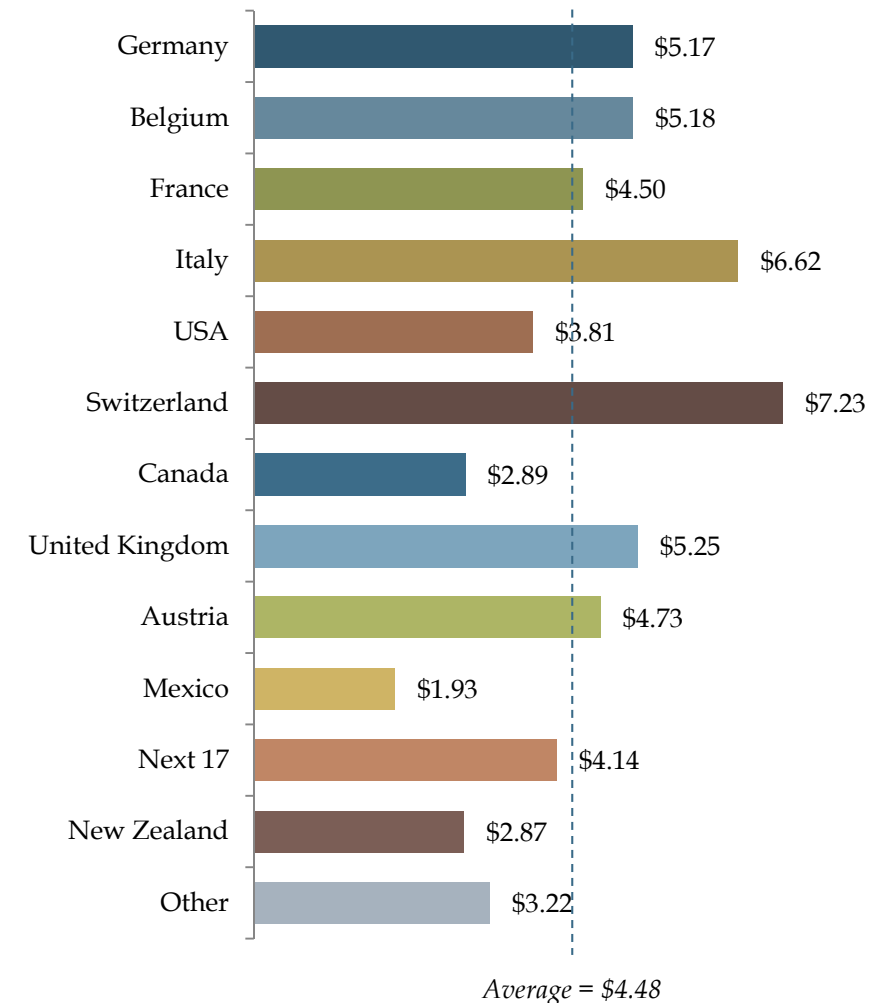
## GLOBAL CHOCOLATE EXPORT SHARE

Generally the leaders into Australia are the leaders globally; NZ underperforms relative to peers in realised \$/kg – other countries suggest much higher returns can be achieved

Global chocolate<sup>1</sup> export market share: NZ vs. select country  
(% of US\$m; 2009)



Global chocolate export \$/kg FOB: NZ vs. select country  
(% of US\$m; 2009)

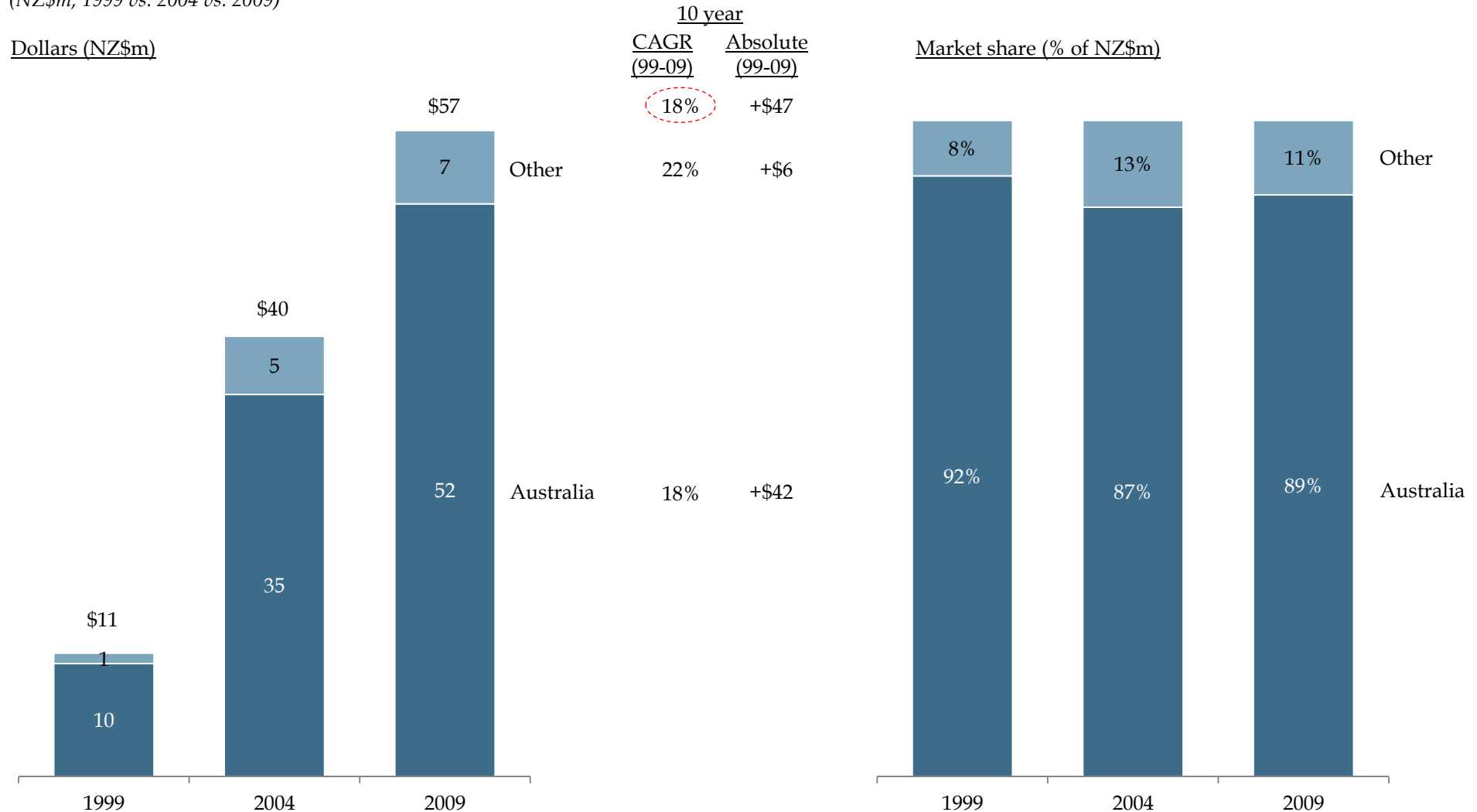




# SUGAR CONFECTIONERY - NZ EXPORTS OVERVIEW

Australia remains the primary destination for our sugar confectionery exports

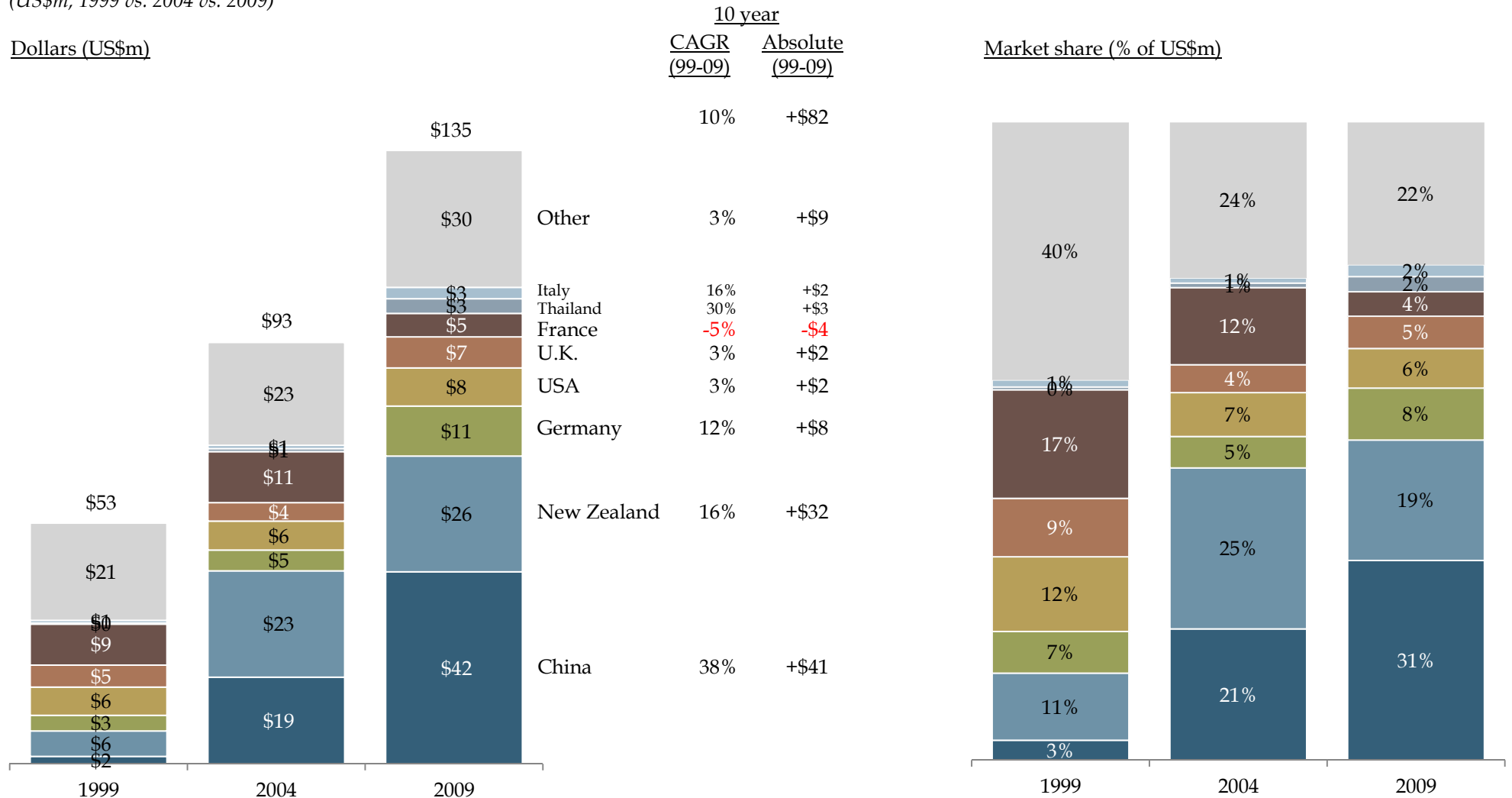
10 year growth in New Zealand sugar confectionery<sup>1</sup> export value: Australia and total world  
 (NZ\$m; 1999 vs. 2004 vs. 2009)



## SUGAR CONFECTIONERY - AU IMPORT MARKET SHARE BY COUNTRY

While New Zealand is the number two supplier of sugar confectionery into Australia, share growth has been going backwards over the past five years




Total import value of sugar confectionery<sup>1</sup> into Australia: NZ vs. competitors  
(US\$m; 1999 vs. 2004 vs. 2009)



## CHOCOLATE/CONFECTIONERY - KEY FIRMS

There are three key large firms producing and exporting chocolate and confectionery from New Zealand...







Key producers and exporters of chocolate from New Zealand  
(profiles; 2010 or as given)

	Turnover (2009)	Employees (2009)	Ownership	Brands/products	Comments/notes
	NZ\$283m (08)	1,000+ (website)	Kraft Foods (USA) (NYSE: KFT)	Cadbury Moro Crunchie Pinky Flake Time Out Picnic Milk Tray / Roses Pascall Pineapple Lumps Others	<ul style="list-style-type: none"> <li>- Parent recently acquired by Kraft</li> <li>- Entered market 1930 via acquisition of Dunedin chocolate maker R Hudson (founded 1868)</li> <li>- Recently fired 145 workers and consolidated production of many lines to non-NZ sites (08)</li> <li>- Invested NZ\$69m in Dunedin site to focus on boxed choc, Pinky Bars, Marshmallow Eggs, others &amp; chocolate "crumb" [bulk] (08)</li> <li>- Sold Mother Earth snacks to Prolife Foods (08)</li> </ul>
	n/a	50++	Andrew & Brian Whittaker	Whittaker's Peanut Slab Almond Gold K-Bar (fruit chew bars) Toffee Milks (toffee) Others	<ul style="list-style-type: none"> <li>- Since 1896</li> <li>- Formed J.H. Whittaker's Australia in 1992</li> </ul>
	n/a	TBD	NZ Food Group Kartono Widjaja 33% (Singapore) Campbell family 31% Rex Valentine 10% Others	Richfield's Richfield's Dark Bulk/industrial chocolate Contract pack/store brand Foodservice	<ul style="list-style-type: none"> <li>- Formed 1980's by Arch Campbell (died 2004); now run by daughter Sarah Campbell</li> <li>- Also manufacturers bulk industrial chocolate (chips, budlets, buttons and large industrial blocks)</li> <li>- Distributes Snows &amp; Double 'D' confectionery</li> <li>- Mnfr. Gift boxes, Easter eggs, etc. contract packed for Australasian retailers</li> <li>- Exports to distribution hub in Singapore, then Asia</li> </ul>

## CHOCOLATE/CONFECTIONERY - KEY FIRMS

... and numerous other successful smaller firms

Key producers and exporters of chocolate from New Zealand  
(profiles; 2010 or as given)

	Turnover (2009)	Employees (2009)	Ownership	Brands/products	Comments/notes
	~\$15m+	55+	Halliwell family	RJ's	<ul style="list-style-type: none"> <li>- Started and based in Levin</li> <li>- Competes with Nestle &amp; Cadbury (50%+ share)</li> <li>- Exports to AU, US, UK, &amp; Canada</li> </ul>
	~\$15m+	45+	Thornton family Betty family Others	Rainbow	<ul style="list-style-type: none"> <li>- Has origins in 1884 Julius Rominson/Romison's Confectionery/Regina Confectionery</li> <li>- Business sold to Nestle in 1995; closed 2001</li> <li>- Oamaru plant reopened by Innovex/Rainbow</li> <li>- Contract pack for others; export</li> </ul>
	TBD	10	Stuart Walker Others	None	<ul style="list-style-type: none"> <li>- 100s-&amp;-1000s manufacturer</li> <li>- Supplies manufacturers and contract packs</li> </ul>
	TBD	TBD	Bennett family	Bennett's	<ul style="list-style-type: none"> <li>- Founded in 1989</li> <li>- Bars &amp; gift boxes</li> <li>- Won London chocolate awards</li> </ul>
	TBD	TBD	Donovan family	Donovans, Donovan Brothers	<ul style="list-style-type: none"> <li>- Started in 1991 by Pat &amp; Gail Donovan; now run by their children; shop in Hamilton</li> <li>- Bars, eggs, boxed chocolates &amp; gift sets</li> </ul>
	TBD	TBD	Bradshaw family	Van H	<ul style="list-style-type: none"> <li>- Produce boxed assortments and seasonal</li> <li>- Since 1985</li> </ul>

## CHOCOLATE/CONFECTIONERY - SITUATION

Australia is a key market for New Zealand chocolate & confectionery; at this point in the evolution of the sector, continued success is highly dependent on the actions & decisions of three key firms

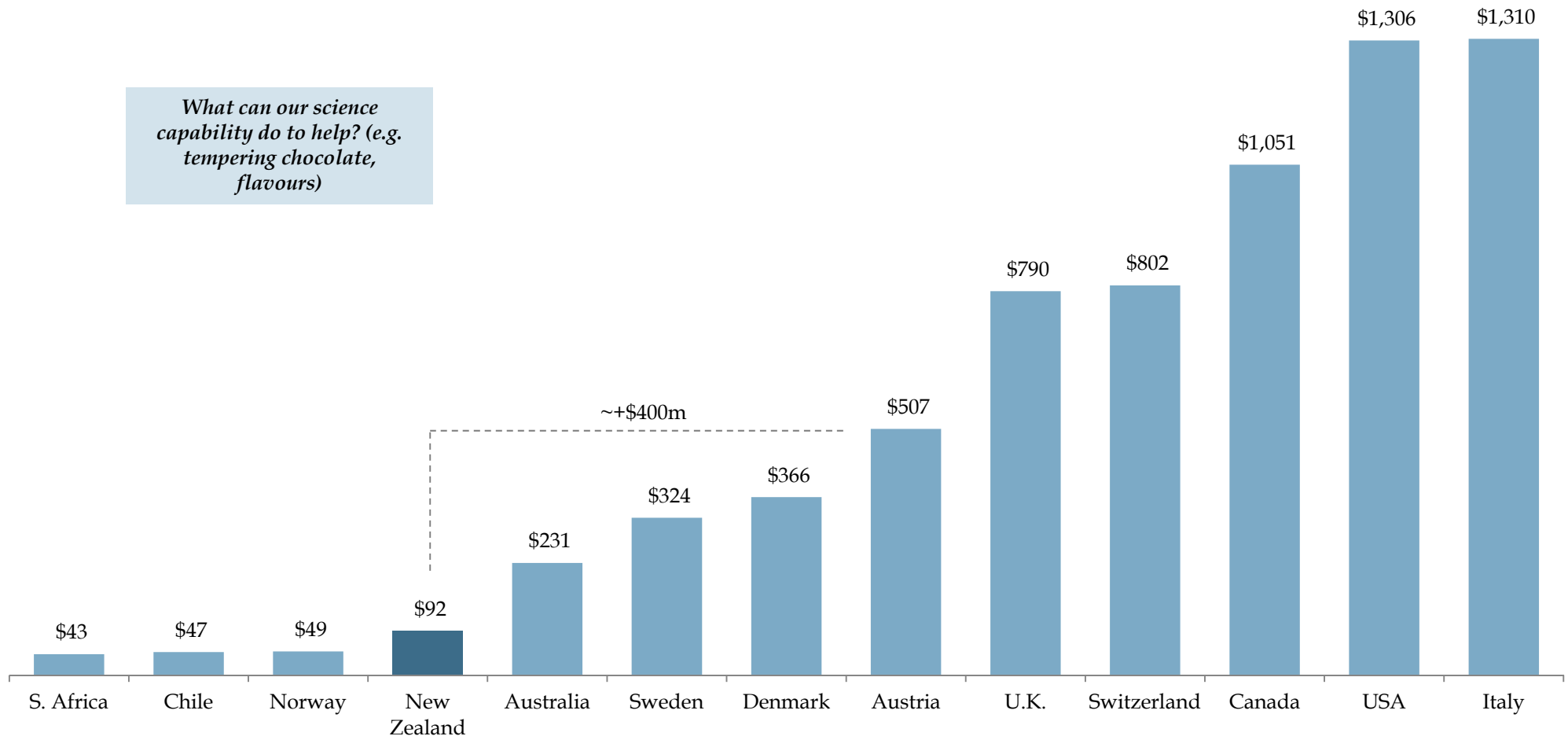
Situation summary – chocolate  
(June 2010)

Observations	Opportunities
<ul style="list-style-type: none"> <li>- New Zealand has a long history of chocolate production</li> <li>- Rich countries can and do produce chocolate (e.g. Switzerland, Belgium)</li> <li>- Many types of chocolate contain significant dairy ingredients</li> <li>- Growth of bulk chocolate primarily driven by Cadbury (TBC)</li> <li>- “Bean to bar” production by four companies (Cadbury, Whittakers, Richfields &amp; Donovans)</li> <li>- NZ appears to be growing in “assortment” gift type products</li> <li>- There are a large number of smaller, strong growth “emergent” firms in this space, suggesting some form or comparative advantage</li> </ul>	<ul style="list-style-type: none"> <li>- Reignite growth in Australian market; stop losing market share</li> <li>- Continued growth and success of Whittaker’s in Australia</li> <li>- Attracting other major global chocolate manufacturers to NZ (there are 20+ confectionery firms with US\$1b+ turnover)</li> <li>- New Zealand chocolate manufacturers move upmarket</li> <li>- Fairtrade chocolate</li> </ul>
Open questions	Challenges
<ul style="list-style-type: none"> <li>- Confirm Mars/Masterfoods does not manufacture in NZ?</li> <li>- Current position of NZFG/Richfield in Australia?</li> <li>- Current activities of Cadbury in NZ?</li> <li>- What tariff barriers do NZ produced chocolates face into key growth markets?</li> <li>- Why are we losing share in Australia?</li> <li>- Role of Cadbury in shift of sales to Australia?</li> </ul>	<ul style="list-style-type: none"> <li>- Will Kraft require more cost savings to pay for Kraft/Cadbury acquisition (paid US\$19.6b) leading to closure of Dunedin plant?</li> <li>- R&amp;D around tempering chocolate</li> </ul>

## CHOCOLATE/CONFECTIONERY - TOTAL EXPORT VALUE

The experience of select peers strongly suggests we can achieve further growth in chocolate and sugar confectionery; we suggest a target of 5x current value (*i.e.* ~US\$500m; equivalent of Austria)

Total export value of chocolate and sugar confectionery to all countries: NZ vs. competitors  
(US\$m; 2009)





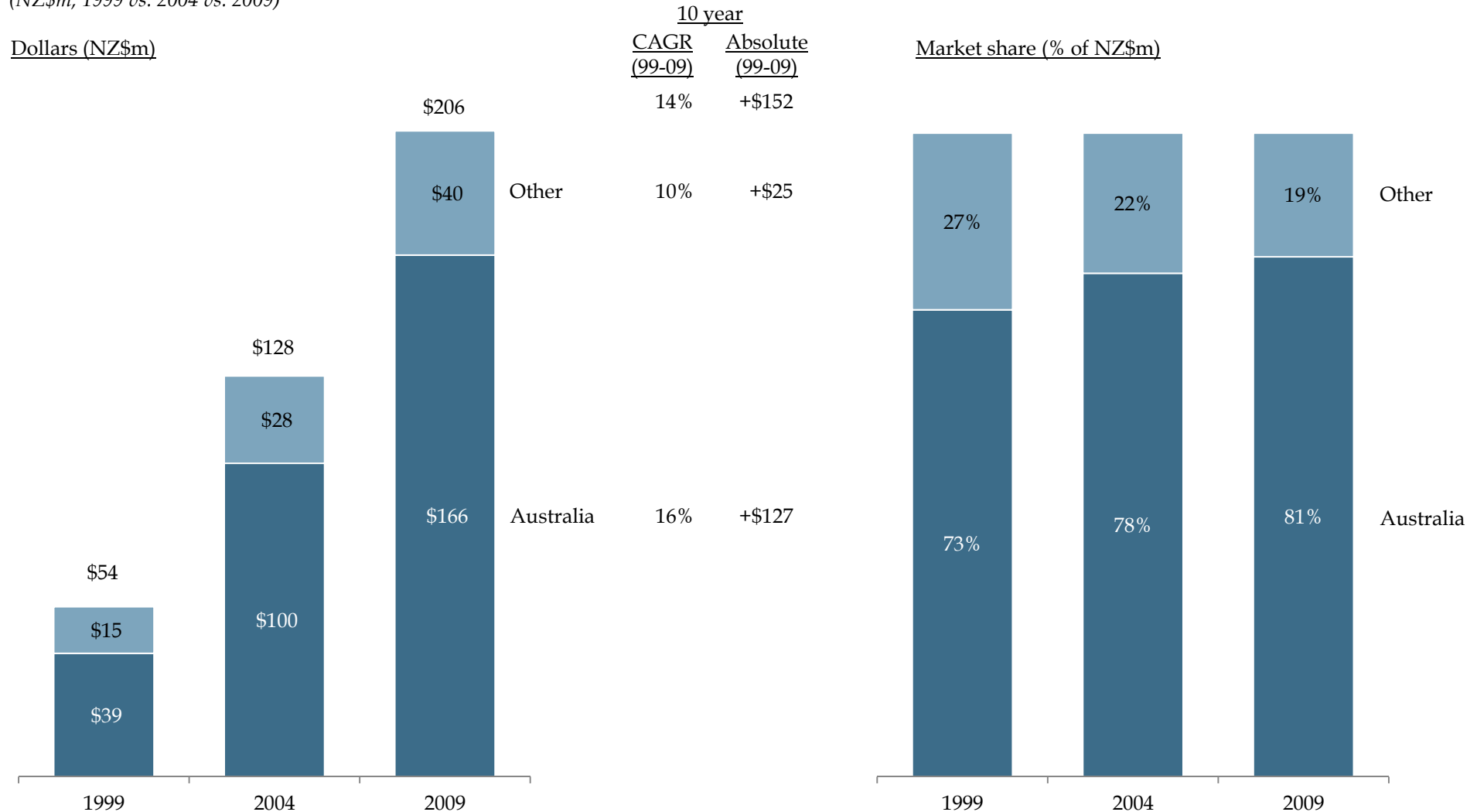
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# BAKED GOODS - NZ EXPORTS OVERVIEW

Australia is driving the growth of our baked/bakery product exports

10 year growth in New Zealand bakery products<sup>1</sup> export value: Australia and total world  
 (NZ\$m; 1999 vs. 2004 vs. 2009)

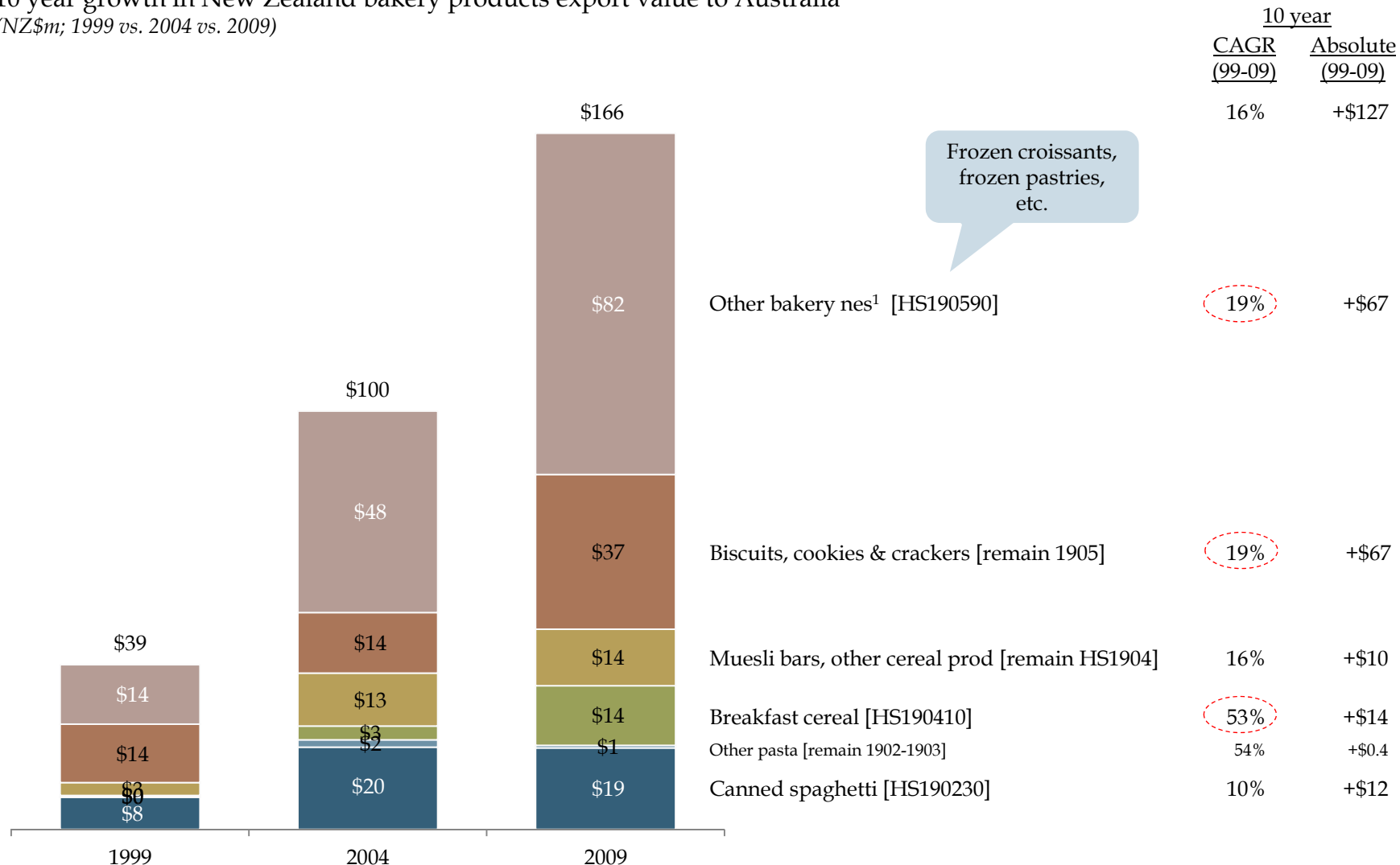




## BAKED GOODS - NZ EXPORT VALUE TO AU

New Zealand is achieving good growth in bakery products to Australia

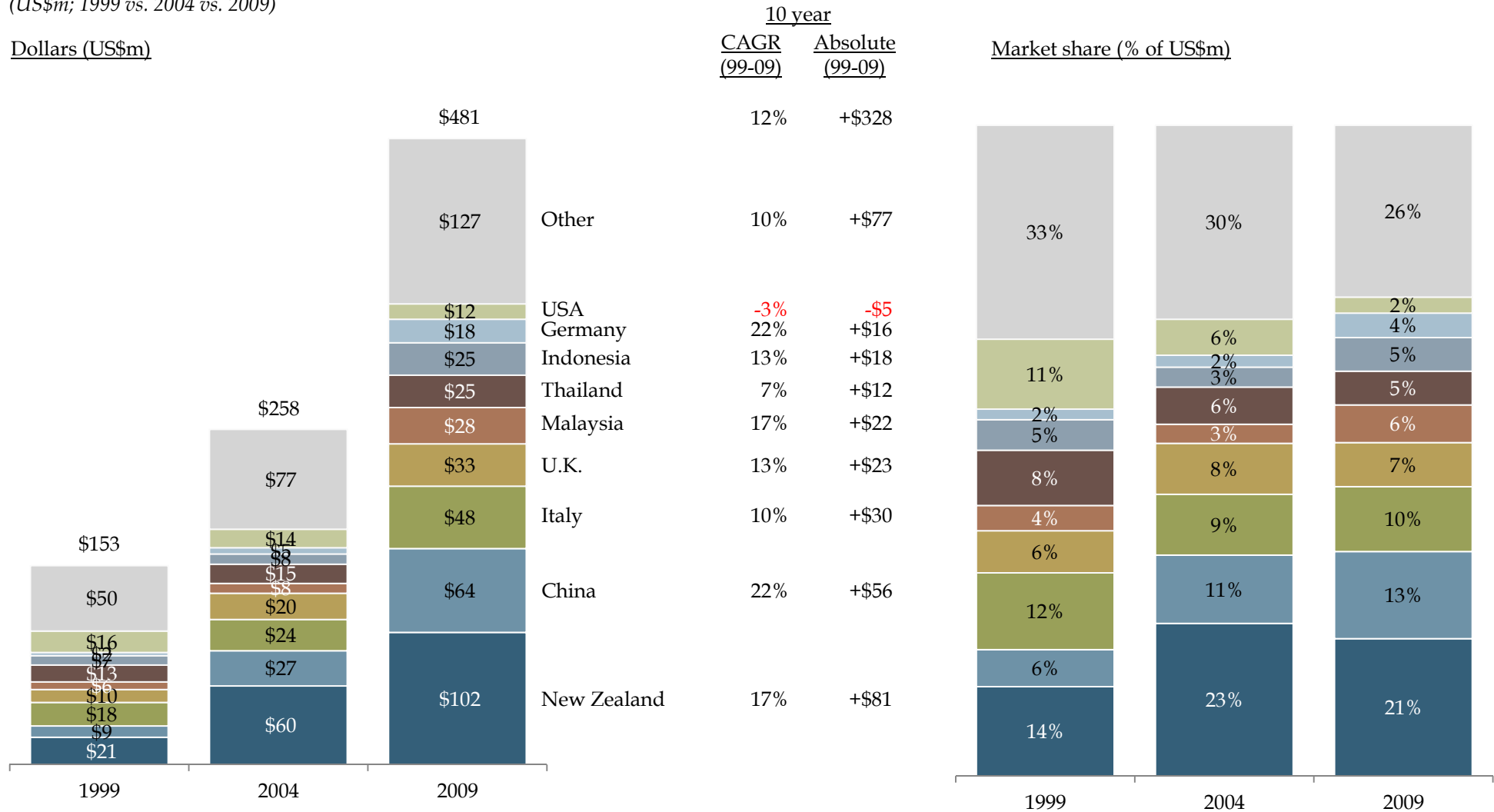
10 year growth in New Zealand bakery products export value to Australia  
(NZ\$m; 1999 vs. 2004 vs. 2009)



# BAKED GOODS - AU IMPORT MARKET SHARE BY COUNTRY

New Zealand has been growing faster than the market in Australia, hence taking share; concerningly share gains have eroded recently

Total import value of bakery products<sup>1</sup> into Australia: NZ vs. competitors  
 (US\$m; 1999 vs. 2004 vs. 2009)









## BAKED GOODS – KEY FIRMS

There are a number of key firms producing and exporting baked goods from New Zealand...

Key producers and exporters of baked goods from New Zealand  
(profiles; 2010 or as given)

PRELIMINARY







	Turnover in NZ (09)	Employees (2009)	Ownership	Brands/products	Comments/notes
	A\$952m (09)	TBD	Goodman Fielder (Australia) (ASX/NZX: GFF)	Quality Bakers, Vogels <sup>1</sup> , MacKenzie, Freya's, Edmonds, Meadow Fresh, Chesdale, Tararua, Ernest Adams, Huttons, Kiwi, MeadowLea, others	<ul style="list-style-type: none"> <li>- Quality Bakers founded in NZ by Pat Goodman</li> <li>- Merger with Fielder Gillespie (AU) in 1986</li> <li>- Acquired/relisted by Graeme Hart/Burns Philp</li> <li>- Acquired/swapped dairy business w/Fonterra</li> <li>- Sold Bluebird to PepsiCo/Frito-Lay in 2006</li> <li>- Sold Uncle Toby's to Nestle in 2006 (for A\$890m)</li> </ul>
	\$712.4m (09)	1,900 (350 pt)	H.J. Heinz (USA) (NYSE: HNZ)	Wattie's, Heinz, Craig's, Farex, Eta, Oak, Good Taste Company, Green seas, Earth's Best, Complian, Chef and Champ	<ul style="list-style-type: none"> <li>- Founded in 1934 as canning operation Coop</li> <li>- Acquired by Heinz in 1992 from GFW</li> <li>- 3 production sites (2 Hastings, 1 Christchurch)</li> <li>- Acquired Cottie's &amp; Rose's (from Cadbury) in 07</li> <li>- Sold Tegel to PEP for ~\$250m in 06</li> </ul>
	\$241m (08)	800+	Pacific Equity Partners (Australia)	Griffins (biscuits), various biscuits, Cookie Bear, Eta, Solay, Huntley & Palmers, Nice & Natural (museli bars), contract pack	<ul style="list-style-type: none"> <li>- Founded in Nelson in 1864 by John Griffin</li> <li>- Was owned by Danone (France); sold to Australian private equity</li> <li>- Acquired Nice &amp; Natural muesli bars</li> </ul>
 	\$208m (09)	500+ (website)	ABF (Listed UK; Weston Family 54%)	Tip Top, Burgen, Golden, Big Ben, others	<ul style="list-style-type: none"> <li>- Entered NZ via acquisition in 1950's</li> <li>- Primarily fresh bread; not a major exporter</li> </ul>
	\$120m+ est (09)	TBD	Seventh-day Adventist Church (charity)	Weet-Bix, Skippy, other cereal brands, Sanitarium, Marmite, So Good (soy products), Lisa's, Bean Supreme, Naked Organics	<ul style="list-style-type: none"> <li>- Founded in 1900 by Edward Halsey</li> <li>- Owned by NZ Church; Sanitarium AU by AU church; effectively run as separate divisions of same firm</li> </ul>

## BAKED GOODS – KEY FIRMS

... continued

### Key producers and exporters of baked goods from New Zealand





(profiles; 2010 or as given)

	Turnover in NZ (09)	Employees (2009)	Ownership	Brands/products	Comments/notes
	\$160m (09)	TBD	Next Capital (AU private equity)	Healtheries, Nutra-Life, Aussie Bodies, others	<ul style="list-style-type: none"> <li>- Primarily make vitamins, GL mussel extract, etc.; 50%+ exported; some health foods, etc.</li> <li>- New \$25m plant in East Tamaki in 2009</li> </ul>
	~\$100m+ Est (09)	500+ (article)	Paul Yarrow & family	Yarrow's, contract pack for others	<ul style="list-style-type: none"> <li>- Founded in Manaia, Taranaki in 1923</li> <li>- Makes breads, croissants, pastries and rolls,</li> <li>- Pioneered frozen croissants as tariff buster to get butter into US market</li> <li>- Major supplier of frozen dough to Subway in Asia</li> <li>- Manufacture in Manaia, Rotorua, Sydney &amp; Perth</li> </ul>
	\$109m (09)	TBD	V. Supachok 25% (Thailand) Ross Mackenzie 22% Others	Aunt Betty's, Alfa One, Empire, Hansell's, King, Sucaryl, Vitafresh, others, contract pack for others	<ul style="list-style-type: none"> <li>- Old Fashioned Foods developed self-saucing pudding; export to AU, UK, elsewhere</li> <li>- Acquired Hansell's in 2006 from Gary Lane</li> <li>- Sales mix: 50% NZ, 35% Aus, 15% UK/Others</li> </ul>
	\$80-100m est (09)	TBD	Simon Hall	Tasti, Weight Watchers (license), Sunfield, contract packs for others	<ul style="list-style-type: none"> <li>- Strong in muesli bars, breakfast cereals; also baking products and oils</li> <li>- AU has been a major growth engine for the firm</li> </ul>
	\$40-50m est (09)	130 (website)	Dick Hubbard 64.4% Rotorua Energy Charitable Trust 35.6%	Hubbards (cereal), contract packs for others	<ul style="list-style-type: none"> <li>- Founded in 1987 by ex-Tasti Chief Executive (under whom Tasti grew from \$1m to \$16m)</li> <li>- Recently brought in new shareholder</li> </ul>
	TBD	TBD	Fonterra (Cooperative)	The Pastryhouse	<ul style="list-style-type: none"> <li>- Established in NZ in 1983; Fonterra acquired 2006</li> <li>- Makes 30 varieties of ready to use pastry/bakery products "high in dairy content"</li> <li>- Supplies McCafe across Australasia</li> </ul>

## BAKED GOODS – KEY FIRMS

... continued

Key producers and exporters of baked goods from New Zealand  
(profiles; 2010 or as given)

	Turnover in NZ (09)	Employees (2009)	Ownership	Brands/products	Comments/notes
	TBD	130	John Cockburn; Peter Rewi; others	Breadcraft, Cockburns, Contract pack	<ul style="list-style-type: none"> <li>- Since 1942</li> <li>- bread, cakes and pastry goods (Cockburn brand)</li> <li>- Export to Australia</li> <li>- Contract pack for Goodman Fielder and others (primarily foodservice)</li> </ul>
	~\$10m est (09)	TBD	Hudson family	Harraways, Nicola's Organic, contract pack, ingredients	<ul style="list-style-type: none"> <li>- Founded in Dunedin in 1893</li> <li>- Domestic, export and ingredients (to others)</li> </ul>
	~\$10m est (09)	TBD	Justin Hall Others	Vogel's <sup>1</sup> , contract pack	<ul style="list-style-type: none"> <li>- License Vogel's name from Swiss owners</li> <li>- Export private label/store brand to Australia</li> </ul>
	TBD	TBD	Glensor family	Purebread	<ul style="list-style-type: none"> <li>- Firm is Paraoa Bakehouse</li> </ul>

*Firms are in NZ sales order, not necessarily NZ export value order; we suspect, for example, that Goodman Fielder is not the largest exporter from NZ on this list*

## BAKED GOODS – SITUATION

Australia is clearly acting as a nursery for our rapidly growing baked goods industry

### Situation summary – bakery products

(June 2010)

Observations	Opportunities
<ul style="list-style-type: none"> <li>- Something of an unsung success story for New Zealand with both a long history and recent successes</li> <li>- Large number of domestic origin, ownership and residence interesting in many ways; likely indicative of some form of “glue” or comparative advantage; we should be able to build \$1b+ firms in this space</li> <li>- Likely role of low cost/high quality dairy as a key ingredient in many segments; springboard to scale and comparative advantage</li> <li>- Yarrow’s a key historic driver of success, particularly in frozen croissants</li> <li>- Success is more than just a Fonterra story (which is good and somewhat unexpected based on past commentary)</li> </ul>	<ul style="list-style-type: none"> <li>- Leverage Australian learnings and success into other markets</li> <li>- Continued growth of breakfast cereals, muesli bars and biscuits to Australia</li> <li>- Ensure continued NZ ownership of key firms; while at the same time...</li> <li>- Attract greenfields investment in new manufacturing by global MNC’s</li> <li>- Building total NZ core competency/capability in this space leading to comparative advantage/cluster/etc.</li> <li>- Further development/growth of frozen par-bake butter-dense premium pastries (e.g. frozen croissants &amp; danish pastries)</li> </ul>
Open questions	Challenges
<ul style="list-style-type: none"> <li>- How do we grow the industry from its current size to a handful of NZ based \$1b+ firms (thus creating a globally competitive sector)</li> <li>- What is the current role of Goodman Fielder in exports? [TBD]</li> <li>- Are there big picture ways to reduce cost of imported grains (or increase NZ production) [e.g. mega-barges from Australia] – these would also benefit other sectors (e.g. pork/poultry); what do other countries (e.g. Ireland) do?</li> </ul>	<ul style="list-style-type: none"> <li>- NZ not a major grain producer; how much is imported? Risks associated with this?</li> <li>- How much NZ science capability pointed in this direction relative to traditional sectors such as wool? Clearly there must be more problems we can ask our scientists to solve.</li> </ul>



## DOCUMENT STRUCTURE

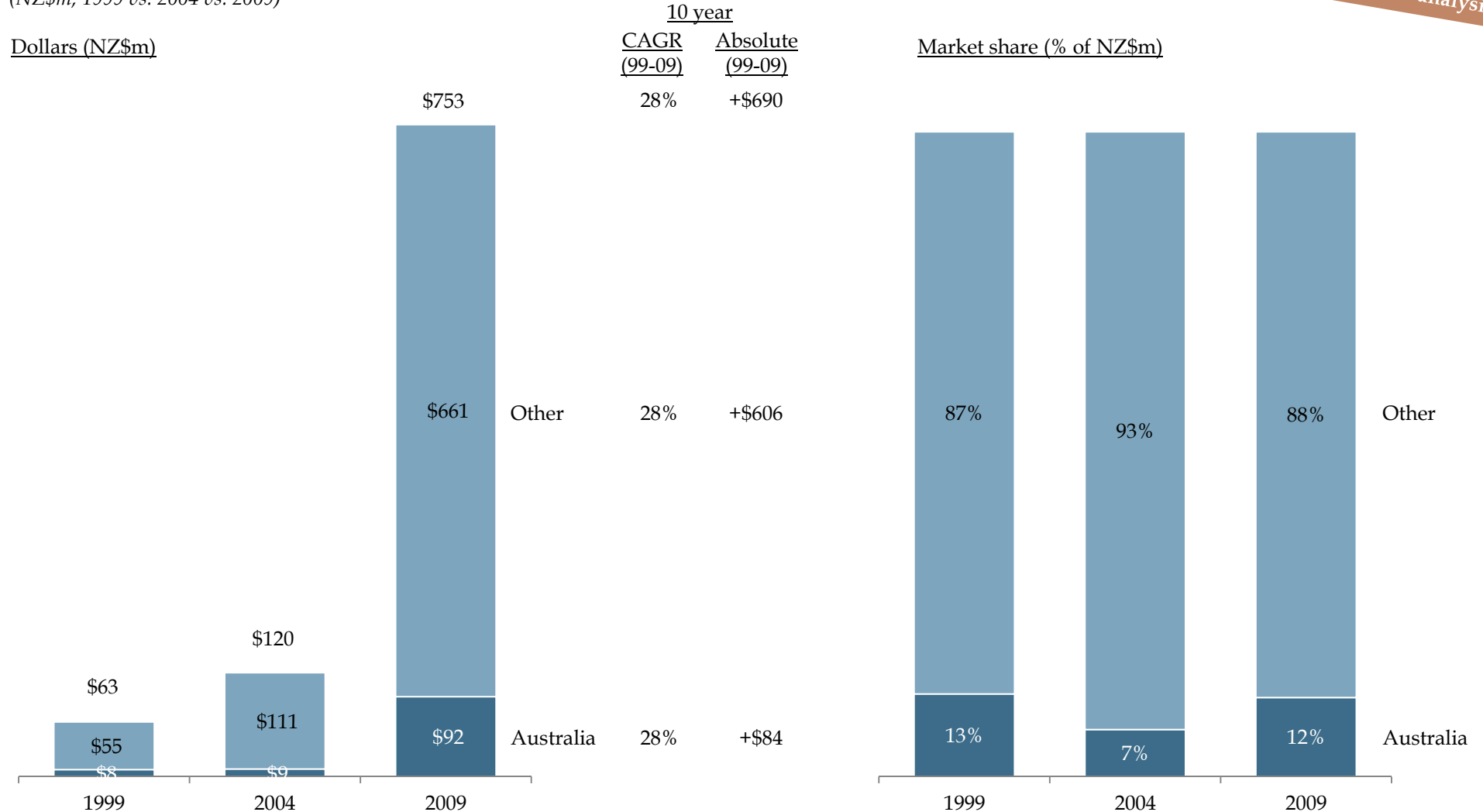
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# INFANT FORMULA - NZ EXPORTS OVERVIEW

Australia has been a solid growth market for infant formula/food, along with the rest of the world

10 year growth in New Zealand infant formula<sup>1</sup> export value: Australia and total world  
 (NZ\$m; 1999 vs. 2004 vs. 2009)

Uses only HS1901 for ease of analysis

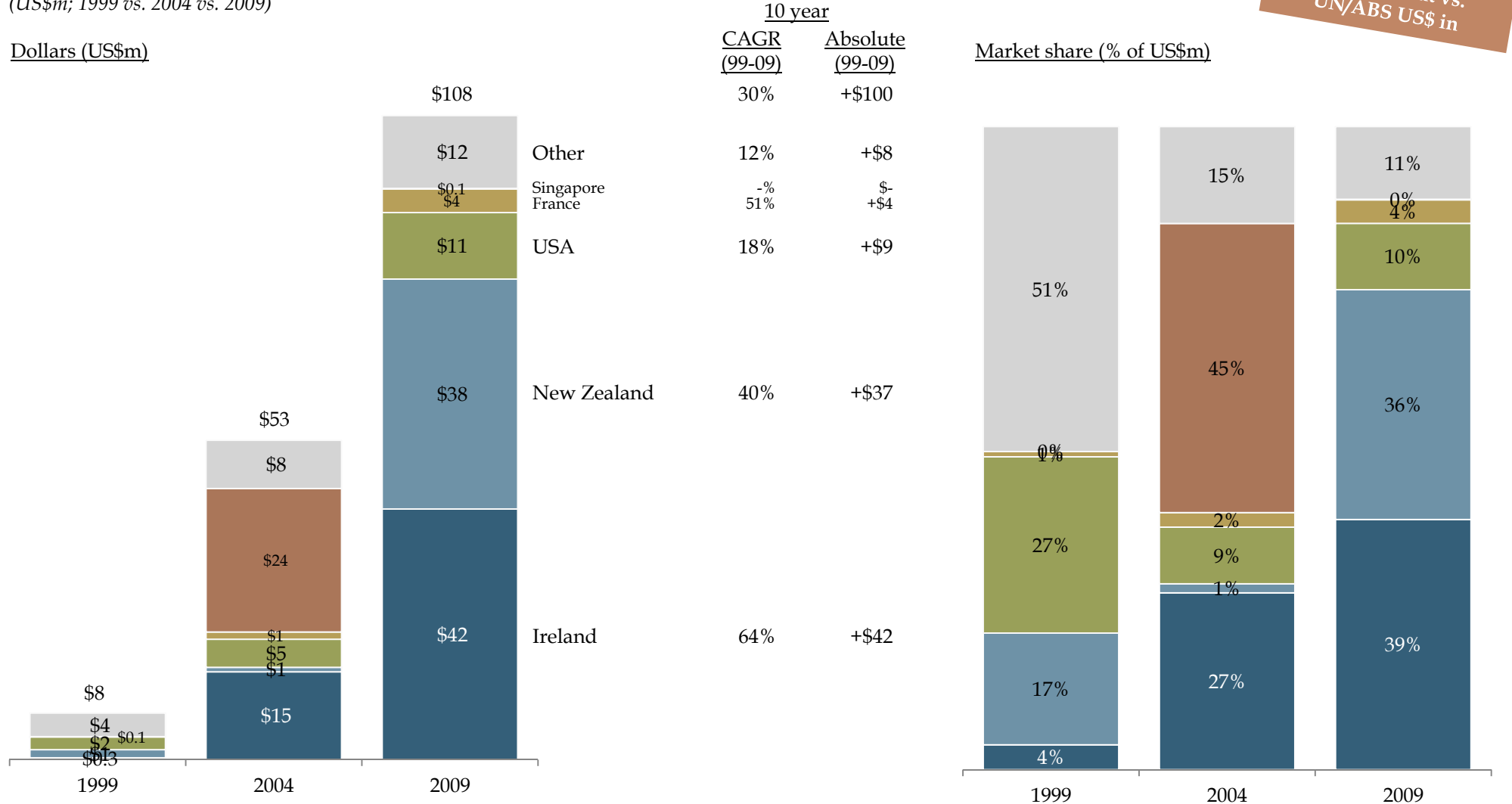




# INFANT FORMULA - AU IMPORT MARKET SHARE BY COUNTRY

New Zealand has grown faster than the market in Australia and, as a result, taken market share; Ireland appears to be the key competitor

Total import value of infant formula/food<sup>1</sup> into Australia: NZ vs. competitors  
(US\$m; 1999 vs. 2004 vs. 2009)










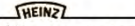


## INFANT FORMULA - KEY FIRMS

There are a number of infant formula manufacturers in New Zealand

### New Zealand dairy industry - infant formula players

(various; 2006/2007)

Company	Turnover	Ownership	Home Country	Dairy products	Key Dairy Brands	Notes/comments
 	~\$500m+ (IF only)	Fonterra (cooperative)	New Zealand	Milk powder Infant formula	Anchor Annum Others	IF minor part of business; primarily Annum to SE Asia and bulk precursor for others (e.g. Nestle/Abbott)
	\$99m (2009)	Nutritek	Russia	Milk powder Infant formula	NZDL?	<a href="http://www.nzdairies.com">www.nzdairies.com</a> "troubled" Russian parent Rumoured for sale
	\$70m (2009)	Danone	France	Infant formula	Nutricia Karicare SHS	<a href="http://www.nutricia.co.nz">www.nutricia.co.nz</a> Danone recently purchased Royal Numico to take leading position in IF
	\$67m (2009)	Co-operative Barry Foote 5% Stanley Wilson 5% Numerous others	New Zealand	Infant formula Milk powder UHT milk	Karihome DG-1/DG-2	In Malaysia & Thailand (others?) <a href="http://www.dgc.co.nz">www.dgc.co.nz</a>
 	?	Pfizer	Swiss	Infant formula	S-26 SMA	<a href="http://www.wyethnutrition.co.nz">www.wyethnutrition.co.nz</a> 1 plant in NZ (also Ireland, Singapore, China, Philippines & Mexico) Recent \$100m upgrade to SNG plant
Sell in New Zealand but do not manufacture here						
 Bayer	?	Bayer	Germany	Infant formula	Novalac	<a href="http://www.novalac.co.nz">www.novalac.co.nz</a>
	?	Nestle	Swiss	Infant formula	NAN	<a href="http://www.nestlebaby.co.nz">www.nestlebaby.co.nz</a>
 Nurture baby	~\$50-60m (est)	H.J. Heinz	United States	Infant formula Sports nutrition	Heinz Nuture Complan	Do they manufacture in NZ? Do they export? <a href="http://www.watties.co.nz">www.watties.co.nz</a>

# INFANT FORMULA - SITUATION

While Australia has been a good growth market for infant formula, it is just part of the wider puzzle

Situation summary – infant formula/food<sup>1</sup>  
(June 2010)

See various Coriolis infant formula documents for further discussions/details

Observations	Opportunities
<ul style="list-style-type: none"> <li>- New Zealand has a long history of infant food manufacturing (the Glaxo in global pharmaceutical firm GSK started in Bunnythorpe, NZ in 1904)</li> <li>- Rich countries can and do produce infant formula (e.g. USA, Germany)</li> <li>- Infant formula is milk powder and a handful of additives</li> <li>- NZ Dairy Board considered moving strongly into branded infant formula in 80's, but decided not to in order not to compete with key customers (e.g. Nestle); this is still Fonterra's position</li> <li>- Fonterra sells IF under the Annum brand in select SE Asian markets</li> <li>- Ireland and Singapore have targeted IF via focus on building pharmaceutical cluster through incentives</li> </ul>	<ul style="list-style-type: none"> <li>- Sector is 75% size of wine industry and growing faster</li> <li>- Infant formula exports now exceed wool exports (value in 09)</li> <li>- Australia: focus on growing IF exports</li> <li>- Other countries suggest we could easily export 5x as much (i.e. an industry 4x current size of wine industry)</li> <li>- Attracting other major global infant formula manufacturers to NZ (likely a tariff/access issue to key markets; assume China now an opportunity?)</li> <li>- New owners for NZDL/Nutritek doing a better job</li> <li>- Bright Foods Group investment in Synlait (1) allowing firm to enter infant formula and (2) providing in-market brand and route-to-market</li> <li>- Continued growth of Dairy Goat Cooperative (double digit growth for a decade)</li> <li>- Potential investment by emerging Chinese IF manufacturers (e.g. Beingmate) in NZ to guarantee quality raw materials supply</li> </ul>
Open questions	Challenges
<ul style="list-style-type: none"> <li>- What is required for success in infant formula?</li> <li>- Can our dairy science capabilities do more?</li> <li>- Why doesn't Heinz Watties make IF in NZ?</li> <li>- Does the DG Coop sell DG-1/2 in Australia?</li> <li>- What would be required for Fonterra to sell Annum in AU and NZ?</li> </ul>	<ul style="list-style-type: none"> <li>- Fonterra's disinterest and capital constraints</li> <li>- Danone/Nutricia failure to date to use NZ as Asia-Pacific production centre</li> <li>- Capital constraints of other current and aspirational producers (e.g. Synlait)</li> <li>- How much focus on infant formula across all aspects of NZ government (science through to FDI attraction)?</li> <li>- Recent investment of \$100m in Pfizer formula plant in Singapore significantly increasing capacity may test the viability of the Wyeth plant in New Zealand (currently with limited lines)</li> </ul>

## DOCUMENT STRUCTURE

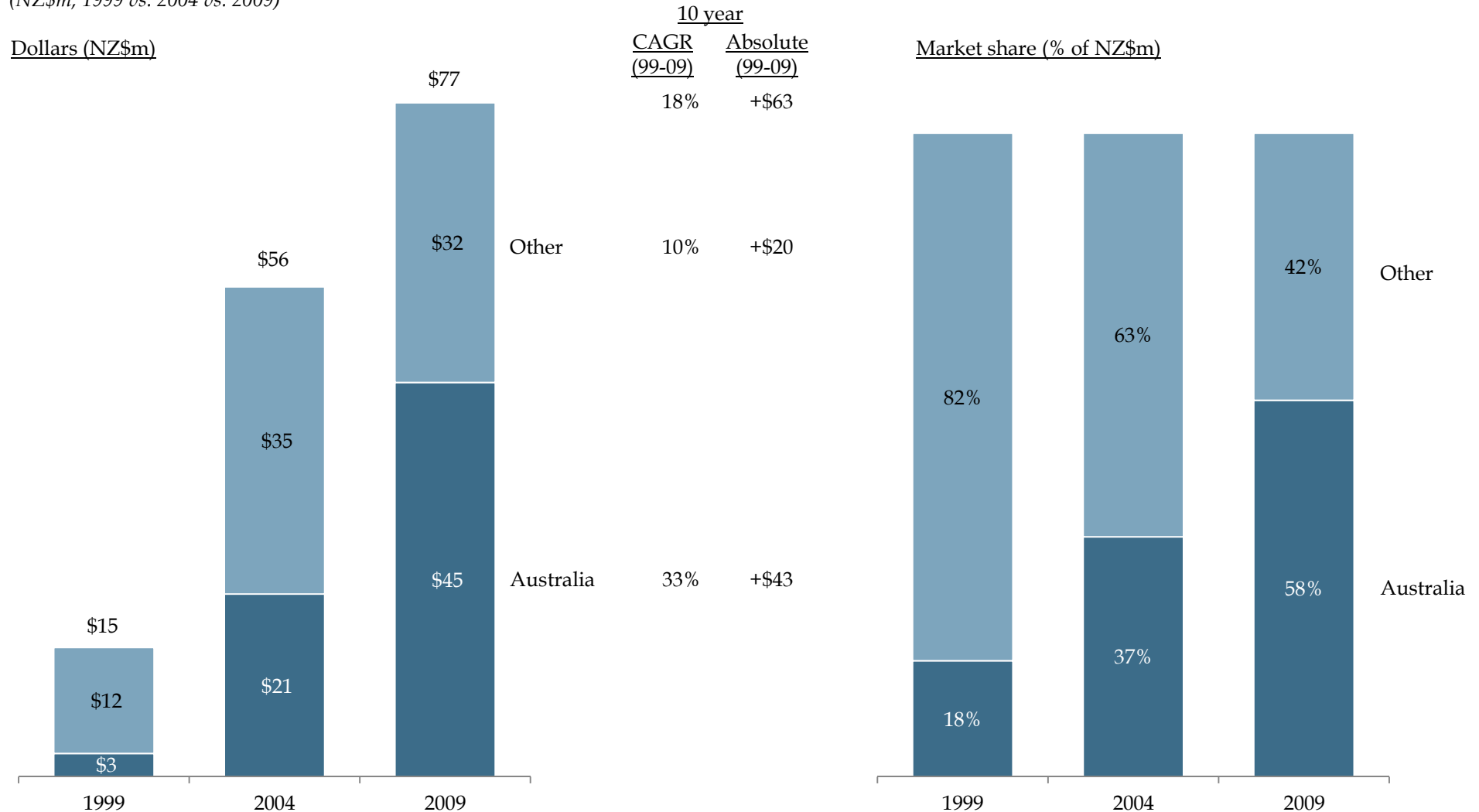
1. Situation & objective
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## FROZEN FRENCH FRIES - NZ EXPORTS OVERVIEW

Australia is rapidly growing in importance to our total french fry exports; concerningly our exports to the rest of the world have fallen over the last 5 years

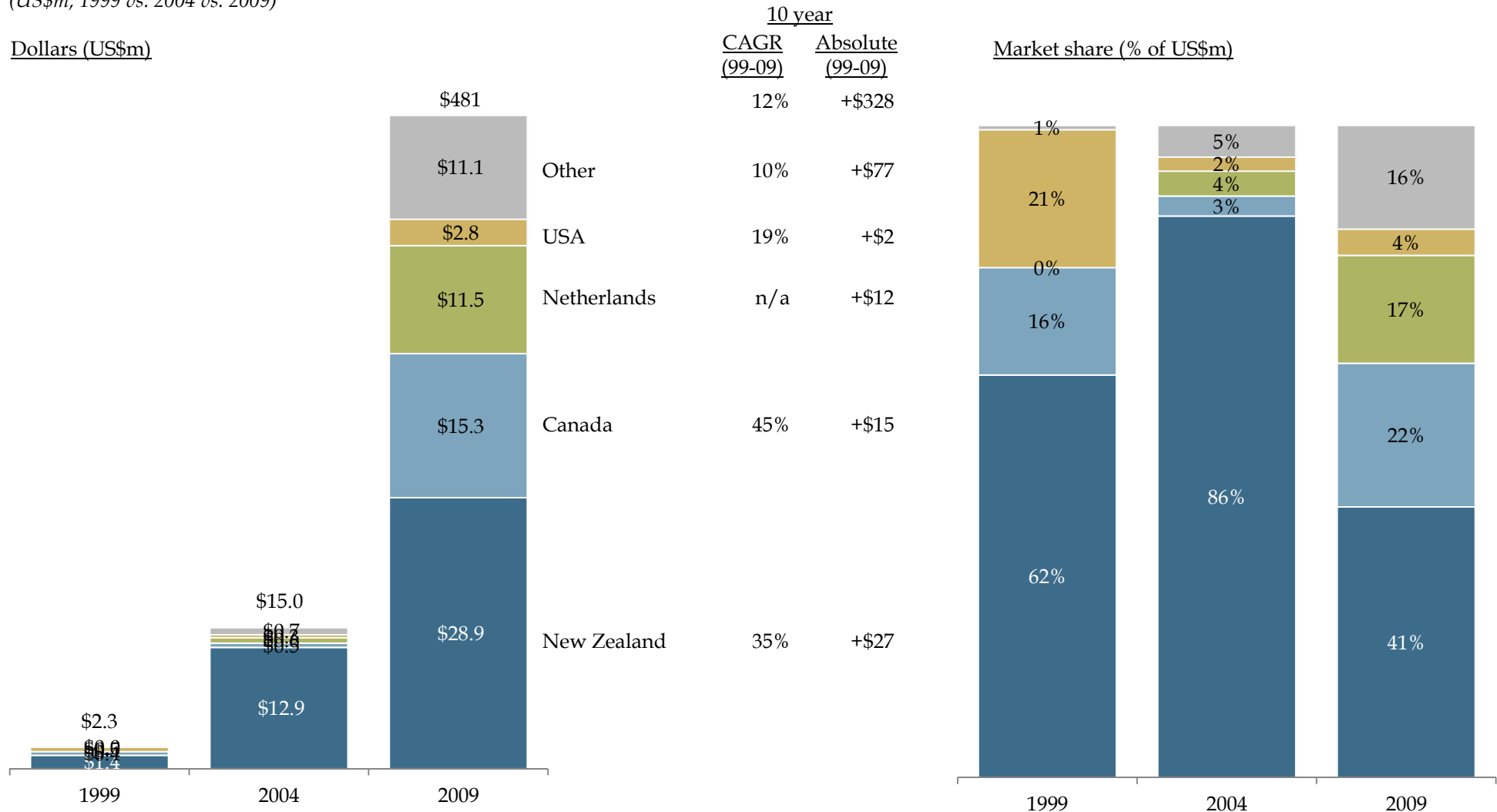
10 year growth in New Zealand frozen french fries<sup>1</sup> export value: Australia and total world  
(NZ\$m; 1999 vs. 2004 vs. 2009)



## FROZEN FRENCH FRIES – AU IMPORT MARKET SHARE BY COUNTRY

While New Zealand has experienced strong growth in Australia, competitors are coming on strong, leading to a loss of share

Total import value of frozen french fries<sup>1</sup> into Australia: NZ vs. competitors  
(US\$m; 1999 vs. 2004 vs. 2009)







## FROZEN FRENCH FRIES – KEY FIRMS

Five firms produce frozen french fries in New Zealand in any volume; three of these firms are the three largest french fry manufacturers in the world

Key producers and exporters of frozen french fries<sup>1</sup> from New Zealand  
(profiles; 2010 or as given)

PRELIMINARY

	Turnover (2009)	Employees (2009)	Ownership	Brands/products	Comments/notes
	\$712.4m (09)	1,900 (350 pt)	H.J. Heinz [USA] (NYSE: HNZ)	Wattie's, Heinz, Craig's, Farex, Eta, Oak, Good Taste Company, Greenseas, Earth's Best, Complian, Chef and Champ.	<ul style="list-style-type: none"> <li>- Founded in 1934 as canning operation</li> <li>- Acquired by Heinz in 1992 from GFW</li> <li>- 3 production sites (2 Hastings, 1 Christchurch)</li> <li>- Acquired Cottie's &amp; Rose's (from Cadbury) in 07</li> <li>- Sold Tegel to PEP for ~\$250m in 06</li> </ul>
	\$249m (09)	TBD	McCain Foods [Canada] (McCain family)	McCain	<ul style="list-style-type: none"> <li>- Formed in New Brunswick, Canada in 1959 to produce frozen potatoes; greenfields AU in 1969</li> <li>- Acquired frozen veg NZ Alpine Foods in Timaru in 1990; build greenfields same site 1994</li> <li>- Acquired Growers Foods (Hastings) in 1996</li> <li>- 2 mnfg. facilities: Hastings, Timaru</li> <li>- #1 french fry maker globally</li> </ul>
	\$51m (09)	TBD	J.R. Simplot Co. [USA] (Simplot family)	Simplot Mr. Chips	<ul style="list-style-type: none"> <li>- Global #2 french fry producer</li> <li>- Acquired Mr Chips in 2008 (100t/day capacity)</li> </ul>
	n/a	TBD	Talley's family (Andrew, Michael & Peter)	Talley's Crème de la Creme	<ul style="list-style-type: none"> <li>- Founded in 1936 as seafood business; has expanded into frozen veg and ice cream</li> <li>- Significant shareholder in AFFCO and Open Country Dairy</li> </ul>
Fresher Foods	n/a	40 (web)	Steven Wong	Fresher Foods	<ul style="list-style-type: none"> <li>- Formed in 1979 by immigrant fish &amp; chip shop owner Steven Wong (Huang Wei Zhang)</li> <li>- Produce frozen french fries and potato chips</li> <li>- Invested \$2.8m on new equipment in 2008</li> <li>- 800t/week</li> </ul>

## FROZEN FRENCH FRIES – SITUATION

Frozen french fries are an untold New Zealand success story; focus should be placed on understanding and growing this success

Situation summary – frozen french fries  
(June 2010)

Observations	Opportunities
<ul style="list-style-type: none"> <li>- New Zealand is clearly an attractive location for frozen french fry manufacturing to have attracted three of the top global manufacturers</li> <li>- While it may not be as “sexy” as other industries, potato production is highly productive and automated</li> </ul>	<ul style="list-style-type: none"> <li>- Continued investment by global leaders in NZ, particularly in high value added products</li> <li>- Growth into tropical Asia as a supplier to McDonald’s and other fast food restaurant systems in those markets</li> <li>- Other global french fry manufacturers could be targeted for greenfields construction in New Zealand? (e.g. Aviko of the Netherlands, ConAgra’s Lamb Weston division)</li> </ul>
Open questions	Challenges
<ul style="list-style-type: none"> <li>- Role of exchange rate in declining role of Asia, growing role of Australia</li> <li>- With whom do we compete? Tasmania &amp; South Australia or further afield?</li> <li>- What is required to grow our exports to SE Asia?</li> <li>- Is there a basis for sustainable comparative advantage? How important is climate and S.H. location?</li> <li>- Why aren’t our exports of other frozen vegetables as successful? What lessons can be learned?</li> </ul>	<ul style="list-style-type: none"> <li>- Sector perceived (incorrectly) as low value added and with apathy/distain by some [out of line with real world results]; manufacturing sector adds more value per kg than lamb (cost of inputs to FOB to retail)</li> <li>- Talley’s &amp; Fresher are the only NZ owned firms; decisions to invest in New Zealand by multinationals made for highly cost-driven, functional reasons</li> <li>- Does sector receive sufficient NZ science focus?</li> </ul>





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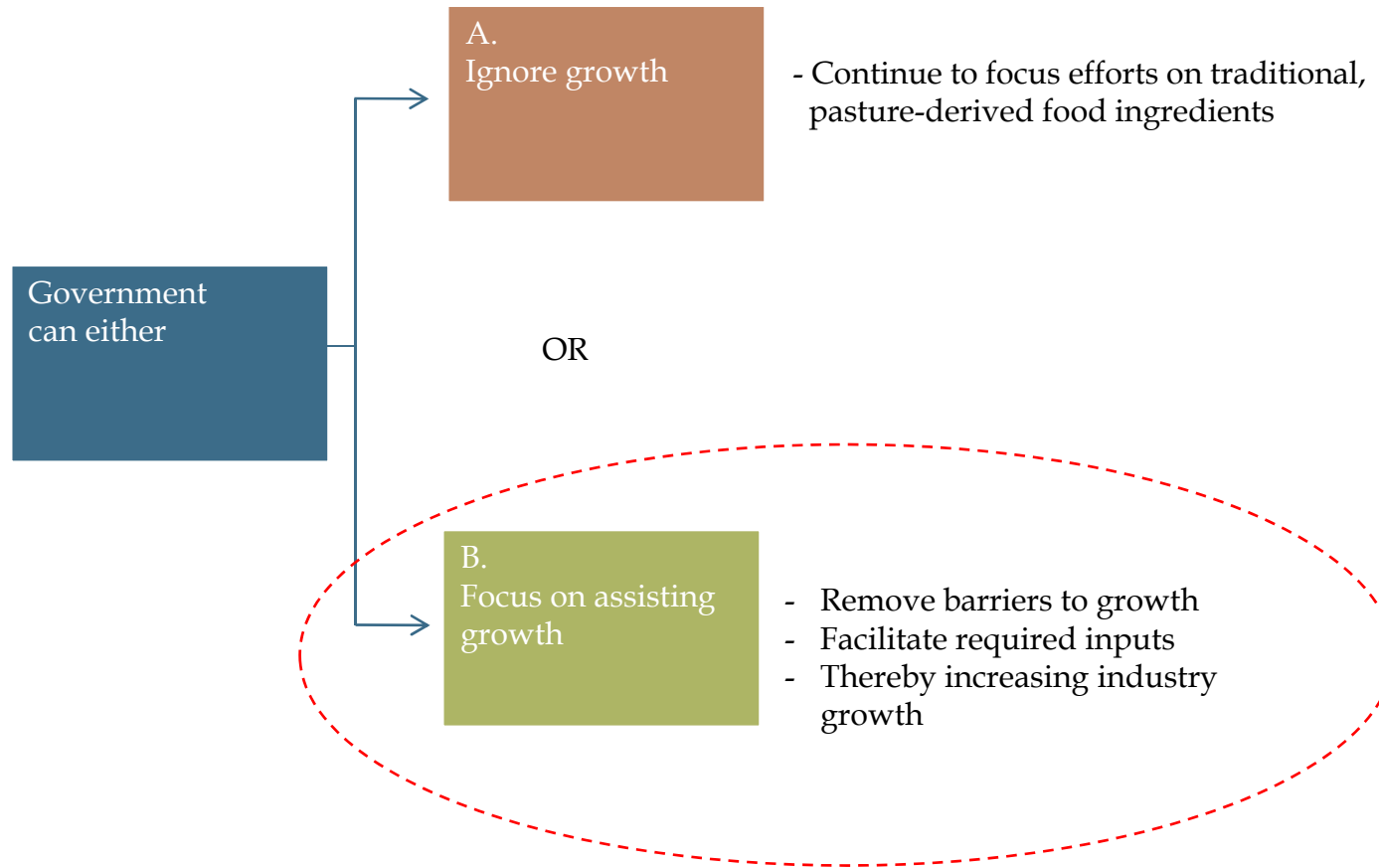
## CONCLUSIONS

Processed foods is a positive growth story for New Zealand, that leverages our core competencies and capabilities

Why processed foods?	
1	New Zealand has had a nascent processed foods industry for a long time – for example in 1880 our biscuit and confectionery exports both exceeded our cheese exports. With the removal of government-imposed industry structures and barriers in the 1980-90’s, the industry has come back to life. Many of the firms we are discussing have origins in New Zealand in the 1880’s-1930’s.
2	Processed foods build on our existing competitive advantages; in particular, success is happening in categories and products where one (or more) of the major ingredients is dairy-derived. Historical strengths in grain and potatoes <sup>1</sup> (in the South Island), clearly visible in the historical records, have also led to the emergence of a number of current growth areas.
3	We don’t need to invent an industry from scratch. Processed foods are happening. They are a trend achieving solid double digit export growth over a long timeframe (i.e. they are not a fly-by-night fad). With some foresight and vision, government can take an already growing industry and, by removing barriers and obstacles, add another percent or two to its growth rate. Helping winners to keep winning is a lot easier than turning around losers or starting from scratch.
4	Growth is coming from a range of firms, from local champions through to major global multinationals, from private, family-owned firms through to publicly listed entities. This isn’t a single-firm success story. The fact that success is so widespread strongly suggests there is some underlying competitive or comparative advantage at work.
5	Processed foods take low cost New Zealand ingredients and adds value to them - in New Zealand rather than overseas. Conceptually we need to stop selling food ingredients to others, who then turn our ingredients into something consumers want to eat, profiting massively at our expense. The easiest way to make New Zealand as a whole significantly richer is, instead, to do this ourselves. As one example, a tin of infant formula is worth ten times as much delivered to the supermarket warehouse as the same amount of milk powder at our border.
6	Processed foods leverages New Zealand manufacturing capabilities, particularly continuous product and process improvement, efficient small runs, and daily real-world innovation. A lot of the “IP” in processed foods is in the manufacturing and packaging process. We should be able to do this as well as countries like Canada or the Netherlands.
7	Processed foods are a future industry. Processed foods are sold directly to the final consumer, in a package branded with the name of the manufacturer; they have high added value and are capital intensive. In addition, they provide a platform on which to commercialise innovation. By working together, CRI’s can develop “neutraceuticals and functional foods” <sup>2</sup> and the packaged foods companies can turn them into export dollars.
8	It is an industry that is active and successful in rich countries and not poor. There is this idea that we are all doomed – that everything will shortly be made in China. It is not true. Processed foods are made in rich countries like Switzerland, Denmark, Germany and Canada. These are the type of countries we want to be competing with in the future. Not Uruguay, Uzbekistan or the Ukraine.

## RECOMMENDATION

Success will be achieved through numerous individual firm motivations and investment decisions; the potential role of Government is purely as an enabler



## NEXT STEPS

If Government decides to assist, then there are a three key preliminary next steps

Focus on growth

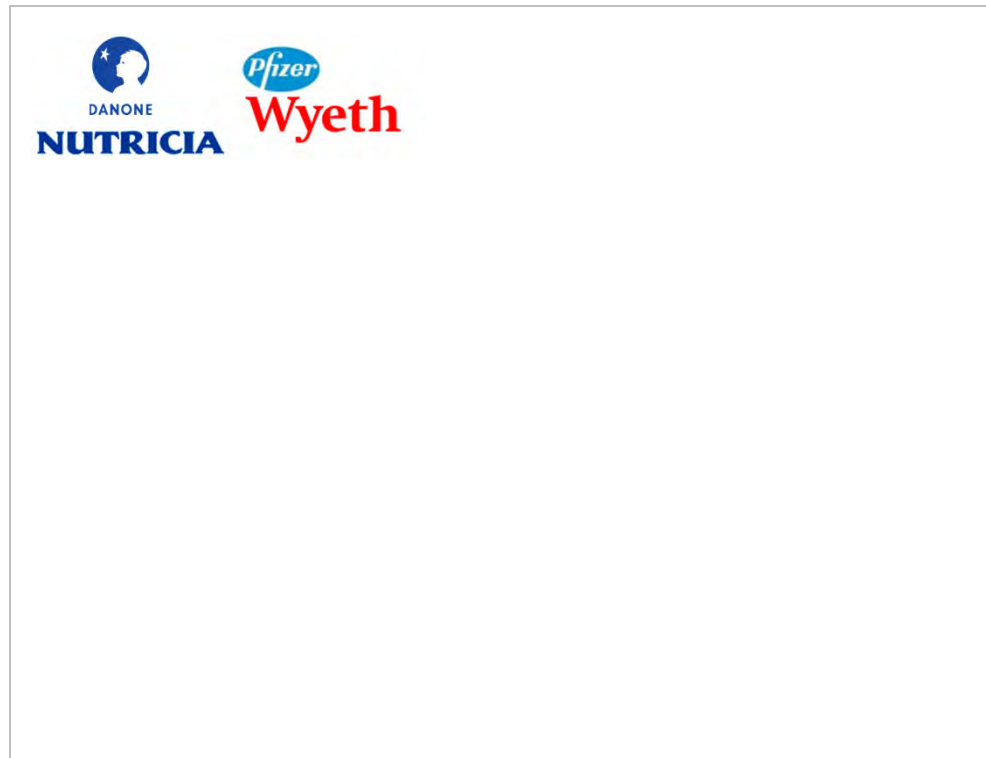
1. Proper in-depth analysis of identified high potential processed foods sectors
2. Survey of processed foods manufactures to understand barriers to growth and gaps analysis
3. Project to identify high potential, global MNC or FDI investment opportunities in growth sectors

## WHO'S MISSING?

As an example, given New Zealand makes all of the key ingredients for infant formula - safely and at a low cost - we suggest there may be an opportunity to attract more manufacturers

EXAMPLE: Major global infant formula manufacturers who manufacture in New Zealand (2010)

Major global infant formula firms who manufacture in New Zealand



Major global infant formula firms who do not manufacture in New Zealand



