

Sunshine Coast Dairy Industry Strategic Plan

**Subtropical Dairy Program, 2017
Phase 1: State of Play
Sunshine Coast's Dairy Value Chain**

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April 2017**



Your Levy at Work



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THANK YOU

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Executive Summary



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Executive Summary

- **Research funding partners** – Sub-tropical Dairy Program, Department of Agriculture and Fisheries Qld, Sunshine Coast Regional Council and USC.
- **Purpose** – Understand the current state of the dairy value chain in the Sunshine Coast region.
- **Outcome** – Pilot study to inform the development of a strategic plan for the Queensland Dairy Industry.
- **Driver** – Challenges faced by the Queensland Dairy Industry:
 - Loss of farmer confidence
 - Lack of viability within the industry
 - Exposure to national and international commercial strategies that do not consider state/regional sustainability issues
 - A lack of milk supply for new market development, which limits post-farm gate supply chain investment



Executive Summary: Environmental scan

Global outlook

- Global markets are slowly improving since the decline of 2015/16.
- Considerable levels of uncertainty remain due to increased production in USA and EU and the geopolitical landscapes in EU, Russia and China.

Australian Dairy Sector

- Industry worth some \$13 billion across farm, processing and export. Australia produces 2% of the world's milk, but is ranked fourth in export volumes.
- Australia has one of the highest per capita consumption of dairy products in the world. With a growing population this represent a strong domestic opportunity.
- Australia's Dairy Industry has been impacted by declining prices for export products. The subsequent reduction in farm-gate prices caused upheaval, with many farming operations struggling to remain viable.
- A strong social media campaign has garnered support for local branded milk, and has seen sales increases of up to 70%.
- There are signs of stabilisation in the export markets, and with a lower Australian dollar, some opportunities are starting to emerge.

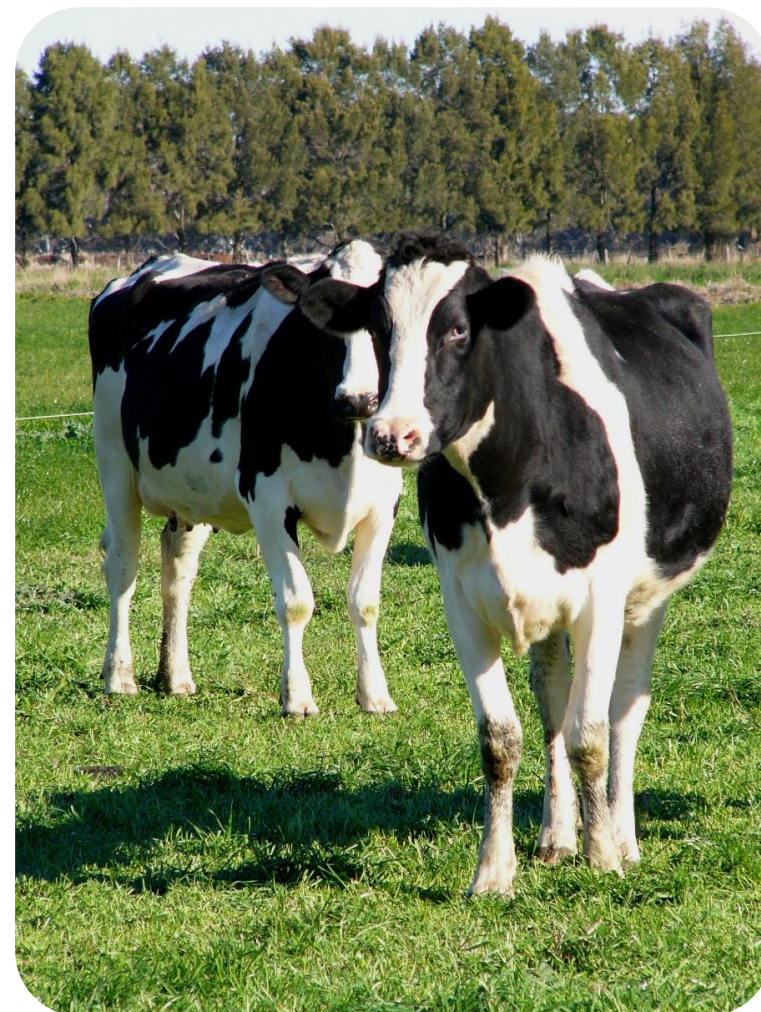
Executive Summary: Trends

- Interest in health and indulgence.
- Concerns regarding processed and artificial ingredients.
 - Increasing demand for all-natural and premium ingredients
- Looking for products with simpler ingredients.
- Incorporating real fats and real food into diets.
- Increased demand for convenient, healthy and satisfying snacks.
 - Not willing to sacrifice taste
 - Seeking more unique and global flavours
- New Products –
 - Kefir
 - Skyr
 - Drinking yoghurt
 - High protein smoothies
 - Coffee



Executive Summary: Queensland

- The Queensland Dairy Industry produces over 411 million litres of milk, at a farm-gate value of \$220 million per year. After processing for drinking milk and manufactured products, this value increases to \$1.1 billion per year.
- There are approximately 430 dairy farmers throughout Queensland, which primarily service the domestic fresh milk market.
- The majority of Queensland dairy farmers are not confident about or were uncertain of the future of their dairy farming business. Only 31% expect to be in dairy farming in 5 years' time.
- In 2015-16, average Queensland dairy farm cash incomes are estimated at 22% below the Australian 10-year average to 2014-15.



Executive Summary: Sunshine Coast

- Milk production valued at \$11.4 million (2013/14).
- Sector has declined by 66% since 2007 (state-wide).
 - Queensland cannot fulfil market demands with milk brought in from southern states to supplement Queensland production
- Sunshine Coast has one of the highest concentrations of value-add dairy in mainland Australia.
- By 2040, Sunshine Coast dairy consumption forecasted to increase 61.3%.
- Major demand drivers: Maroochydore CBD development, new runway and international airport, light rail, housing developments, University Hospital, economic diversification and changing demographics to young families.
- Game changes for the dairy industry include:
 - Construction of the \$35 million infant formula factory in Toowoomba
 - Online retail giant Amazon coming to Australia
- Consumer perspectives:
 - Dairy is the primary food group associated with the Sunshine Coast
 - 96.4% of local residents who purchase local food and beverage do so to support local products/regional communities
 - Traceability is an important purchasing driver
- 15% of the processing sector on the Sunshine Coast is made up of independent processors.

Executive Summary: Primary research

23 interviews conducted across the chain: producers (8), processors (7), retailers (2), confirmation interviews (4), and break-through technologies (2).

| Internal | External |
|---|--|
| Strengths | Opportunities |
| <ul style="list-style-type: none"> • Good quality products • Strong local market • Location and tourism • Independent processors • History of dairying • Long term experienced farmers • Latent capacity in processing plants | <ul style="list-style-type: none"> • Growing local market • High margin niche products • Provenance • Attracting new entrants to the market |
| Weaknesses | Threats |
| <ul style="list-style-type: none"> • Viability of producers • Volume of supply with consistency and reliability • Margin stress across the supply chain • Relationship tensions within the chain • Age of chain members • Infrastructure upgrades needed • Lack of export capability • Lack of an industry marketing strategy | <ul style="list-style-type: none"> • Global downturn in the dairy markets • Increases in input prices • Sustainability of the farms • Lack of consumer education and competition from southern producers |

Executive Summary: Primary results

- The Sunshine Coast is considered unique within the dairy sector as it has a number of independent processors and an independent producer acting as a milk hub for smaller producers and processors.
- Most within the value chain feel the sector does have opportunities with good quality products and better distribution.
- The Sunshine Coast Dairy Sector processes some 80 million litres of milk per year.
- 45% of the goods produced on the Sunshine Coast are consumed here.
- Approximately 47% of products are sold to the retail sector.
- Retailers believe the most important attributes to consumers are taste, support for local farmers and region of origin.

Executive Summary: Primary results

- **Market penetration** – Local brands find it difficult to penetrate the market enough to become the best seller within a category.
- **Communication breakdown** – The most marked observation regarding information in the milk supply chain is that it rarely passes beyond the next link in the chain. For example, farmer quality testing is provided to processors who then provide feedback on quality to farmers.

Supply Chain considerations –

- The distribution channel is complex with multiple types of product and supply partners creating numerous channels to market.
- There are a number of channels that are open and sustainable, which include milk obtained from farm through independent processors or co-ops to own branded milk.
- The figure (on pg. 155) highlights several unsustainable chains, which includes private label milk from multi-national processors, which (due to the low retail prices) is pushing price cuts back down the channel.

Executive Summary: Primary results

- **Milk quality does not move down the chain** – Sales information is provided from the retailers to the processors. Only one processor has a formalised system for communicating with their producers (e.g. newsletters). In fact, most processors are not providing enough information back to their own supply chains.
- **Independent processors have a close working relationships within the region** – This group of independent processors work together on a number of levels. They are located quite close to each other and meet at social and business functions. At second level, they buy from each other and back each other up to smooth out the seasonal cycle of milk.
- For some of the same reasons as the processors, the **farmers also have strong relationships on the Sunshine Coast**. This is due to location and history (they all know each other).
- **Poor relationship between processors and farms** – The impact of deregulation and global surplus driving down farm-gate pricing has broken the relationship between the farmers and the processor, especially multi-national processors.

Executive Summary: Primary research

Margins

| Cheese | Milk |
|--|---|
| <p>There is evidence to indicate that the block cheese mild category is under stress. Industry averages for the chain are not sustainable, therefore compaction of margins across the chain would be occurring. This may be offset by volume sales for some brands.</p> | <p>Margins have been lowered across the chain to accommodate selling price. The \$1/L milk was not analysed as it is obviously an example of a stressed channel. What we are now seeing is the compaction in the channel, including branded labels.</p> |
| Yoghurt | Processors |
| <p>The flavoured yoghurt channel is sustaining above industry averages. The yoghurt category is very competitive at a retail level and discounting on lines is happening on a weekly basis:</p> <ul style="list-style-type: none"> • The best seller category would change weekly depending on discount. • Flavours, probiotics and packaging are influencing price. | <p>Consideration of product mix and channel selection is critical in the current environment.</p> |

Executive Summary: Recommendations

- Local program to raise visibility of local brands.
- Develop a market for local milk, private label milk and other coffee/dairy products such as ice-cream or cold coffee.
- Move up or down the channel to strengthen the overall chain and position it more strongly in the market.
- Consider other revenue options that the farms can implement to lower the risk of producing milk exclusively.
- Develop a range of products targeting growing interest in health and well being:
 - Fermented drinks: kefir, drinking yoghurt, skyr
 - High protein – Fit market
 - Whey products
 - Protein bars
- Gourmet food and cooking is also on trend in the market, so specialty cheeses such as European style cheeses offer opportunities for new products:
 - European style of cheeses
 - Chimay (soaked in ale), Anari (premium fetta).



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Project Purpose and Background

Project purpose and objectives

- This Sunshine Coast Region project is a pilot study towards developing a Strategic Plan for the Queensland Dairy Industry.
- Developing strategies to stimulate industry growth in Queensland is the key goal. As the first step, the purpose of this project is to:

“understand the current state of the dairy value chain in the Sunshine Coast region”.

- Following a value chain analysis approach, the project objectives are to:
 - Identify significant factors in the chain’s internal and external environment (marketing, economic, social, institutional; and global, national, state, regional)
 - Explore what Sunshine Coast consumers value in terms of dairy products
 - Map the existing chain’s physical movement of goods, relationships and communication
 - Identify potential opportunities both domestically and internationally
 - Identify gaps in the value chain or other structural impediments that may limit opportunities

Background justification

- The Queensland Dairy Industry pre-farm gate currently faces several challenges including:
 - Loss of farmer confidence, who are leaving the industry as rising costs and falling incomes make businesses unviable
 - Exposure to national and international commercial strategies that do not consider state/regional sustainability issues
 - A lack of milk supply for new market development, which limits post-farm gate supply chain investment
 - Limited, but sustained growth in current domestic markets up until 2019
 - Limited short-term growth in current export markets
- The dairy industry identifies itself as a production industry and does not take a broader business/marketing focus on what consumers value and how operating as a value chain leads to benefits for all stakeholders.
- Since 2007, Sunshine Coast milk production has decreased by 66%, compared to 20% across Queensland. The Sunshine Coast Dairy Industry represents some 5% of the regional economy. The Sunshine Coast has one of highest concentrations of specialist dairy makers in mainland Australia, with two milk processing plants, five specialist cheese-makers, four yoghurt makers and several ice-cream and gelato makers.
- Research into the Sunshine Coast Dairy Industry will provide insight into existing and potential domestic/export opportunities, as well as allowing the proposed methodology (and budget) to be refined as a basis for a Queensland-wide study with the ultimate goal of developing a strategic plan for the Queensland Dairy Industry.

Expected outcomes

Sunshine Coast Dairy Industry

- Identification of key trends and issues globally, nationally and local.
- Identification of consumer attitudes and behaviours re local Sunshine Coast food including dairy products.
- Identification of opportunities to create further value across the chain.
- Identification of existing and potential domestic and export opportunities.
- Improvement of relationships, communication and product flows along the chain.

Queensland Dairy Industry

- A consolidated environmental analysis that benefits all stakeholders in the dairy industry, but particularly the smaller companies and producers who lack the expertise or resources to source, consolidate and evaluate this information.
- A tested and refined methodology for application to entire Queensland Dairy Industry, including consumer attitudes and behaviour instruments.
- Identification of available opportunities that can be investigated further in the main study.

Environmental Analysis



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Environmental Analysis

Global Dairy Sector



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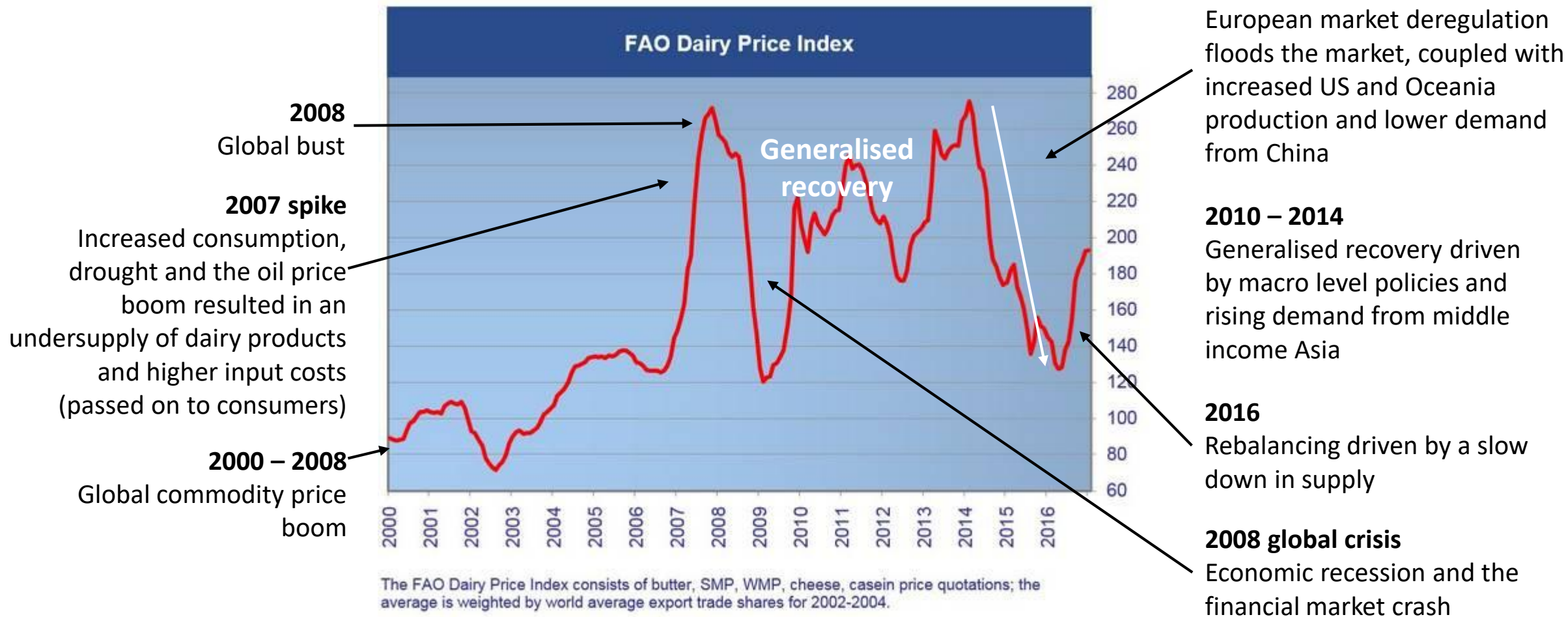
Global outlook for dairy - We live in challenging times!

- Considerable level of uncertainty remains due to increased production in the United States and EU, in addition to the state of the global economy and geopolitical landscapes in the major markets of EU, Russia and China.
- Global markets for dairy are slowly improving, with some degree of price recovery expected in the medium-long term. 2015/2016 have seen prices in decline within most parts of the world, and prices are currently low.



Global outlook for dairy

Despite significant market volatility from mid 2006 to 2016, global dairy prices are recovering from historic lows.



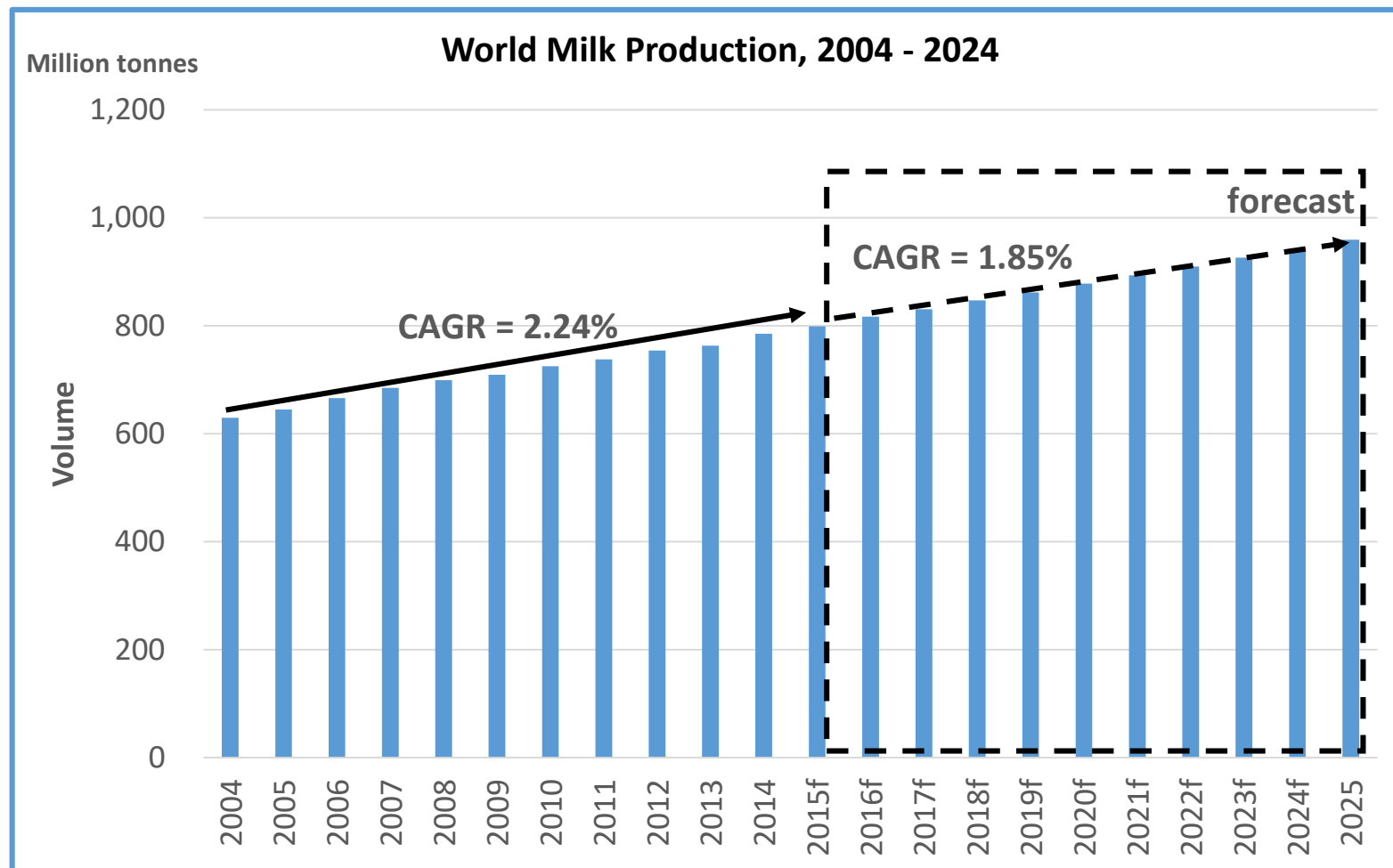
World dairy market snapshot

- World milk production is 656 million tonnes (2014).
- Growth over last decade was 2.24% p.a.
- Largest producer is the EU, with Australia ranked 8th.
- Only 7.5% of the world's dairy production will be traded by 2025.
- The market for dairy products is dominated by fresh milk and fresh milk products.
- Asia (in particular India and China) will become the dominant markets for milk, cheese and whey.



World dairy market snapshot

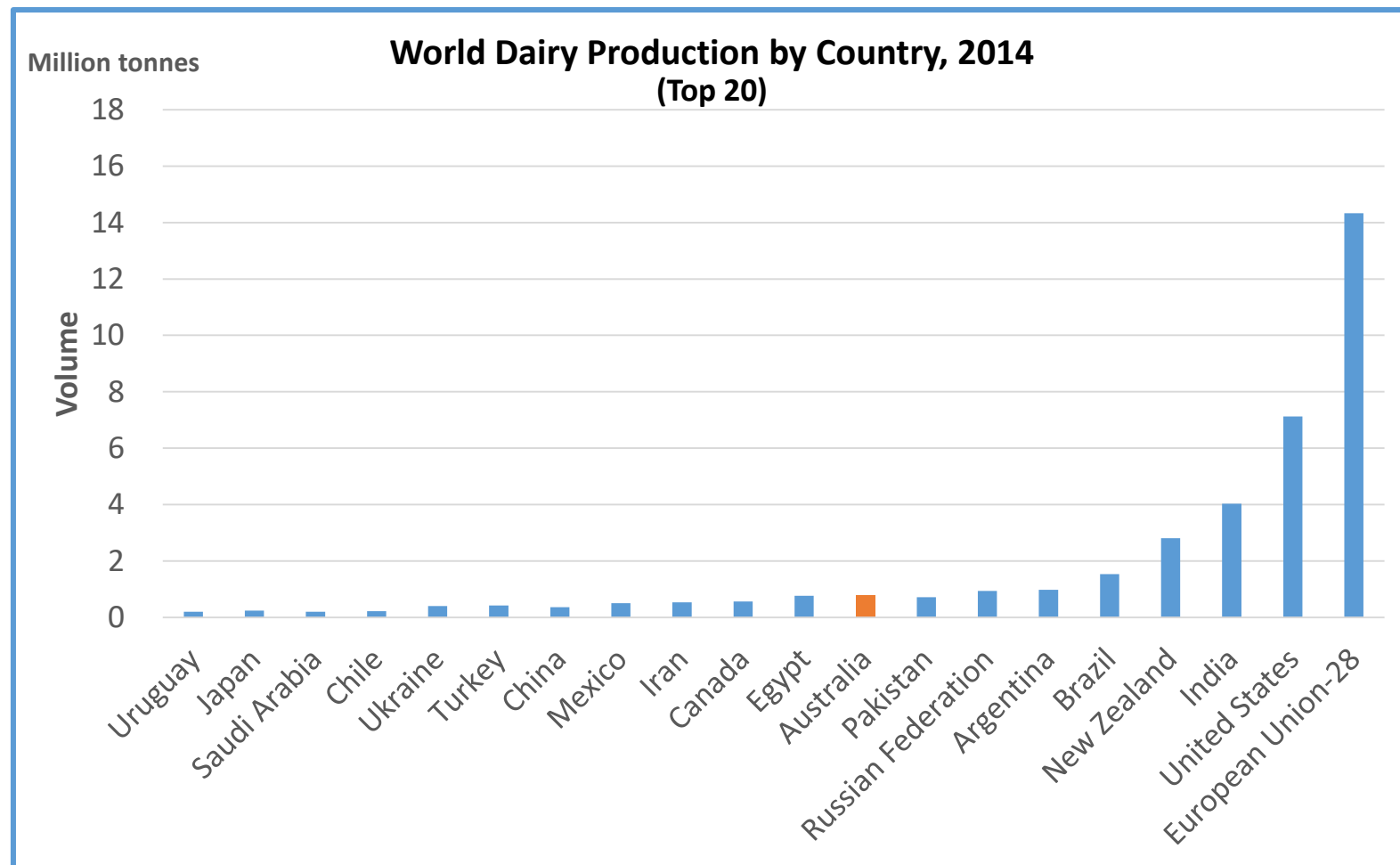
World milk production grew at an annual compound growth rate (CAGR) of 2.24% for the 10 years to 2014, and is forecast to continue growing between 2014 and 2024 at a lower rate of 1.85% p.a.



Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

World dairy market snapshot

In 2014, the EU-28 was the world's largest dairy producer, followed by the United States, India, then New Zealand with Australia ranking 8th.

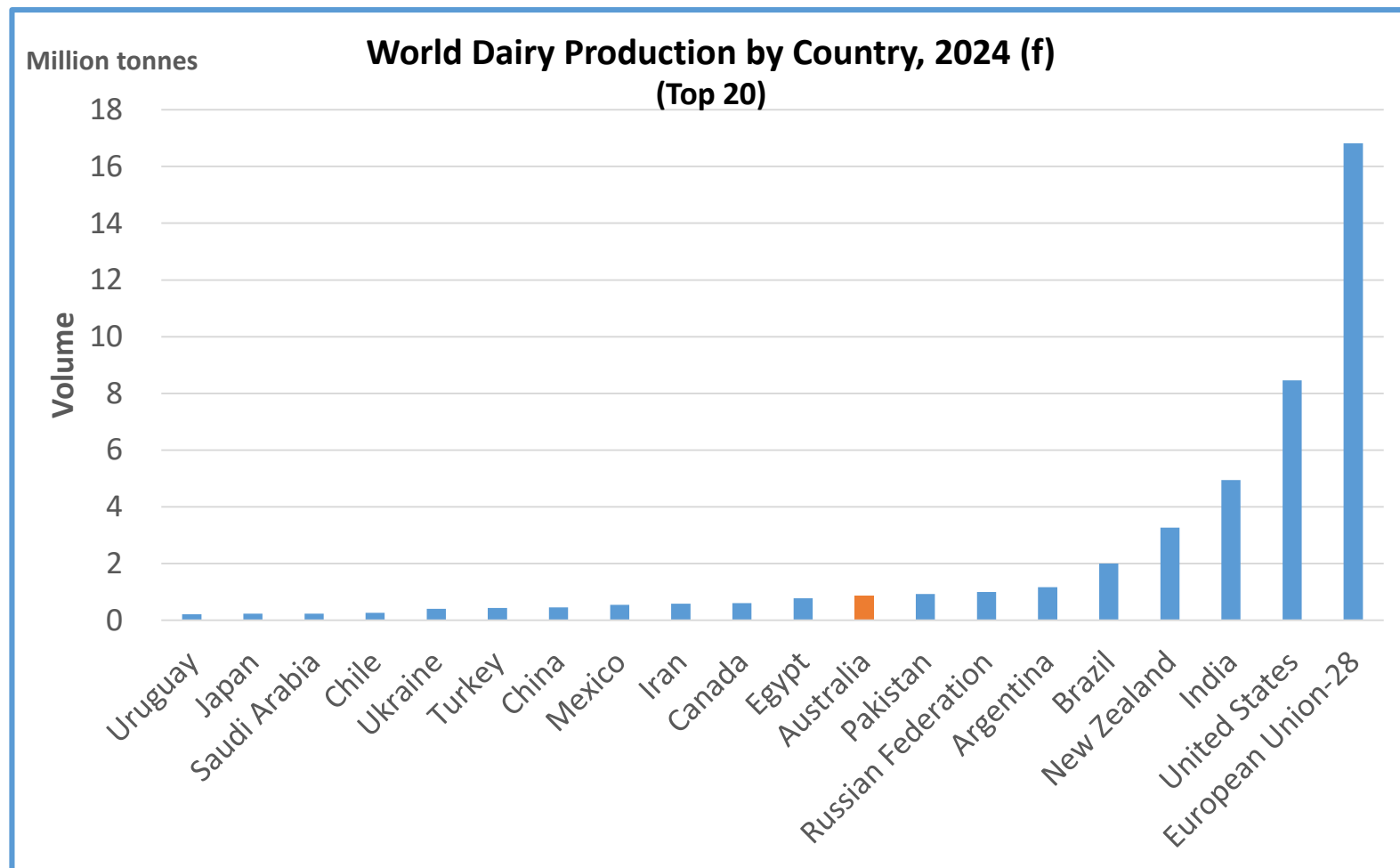


NB: As per FAO's definition of dairy, data only includes cheese, butter, whole milk powder and skim milk powder

Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

World dairy market snapshot

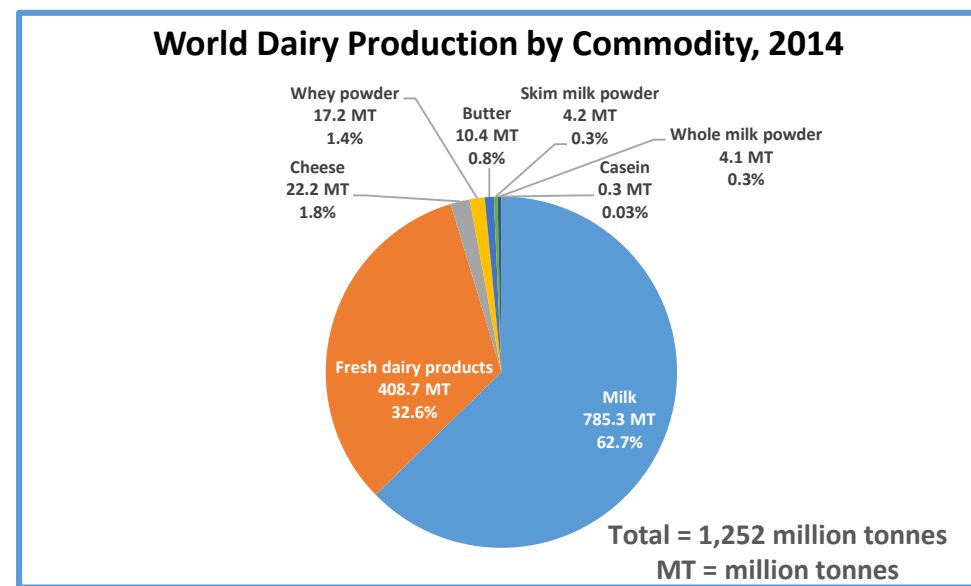
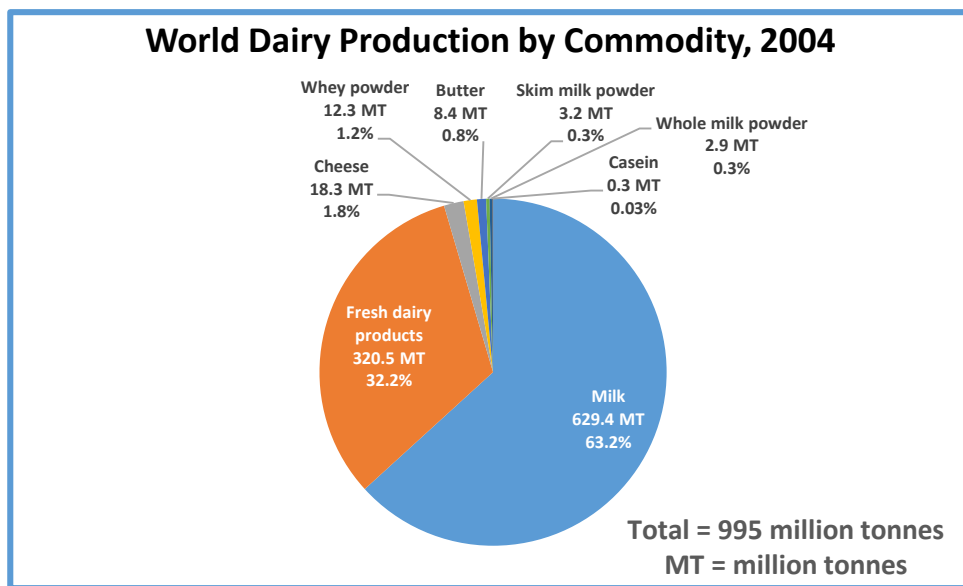
By 2024, the EU-28 is expected to remain the world's largest dairy producer, with no change in the ranking of the Top 20 countries.



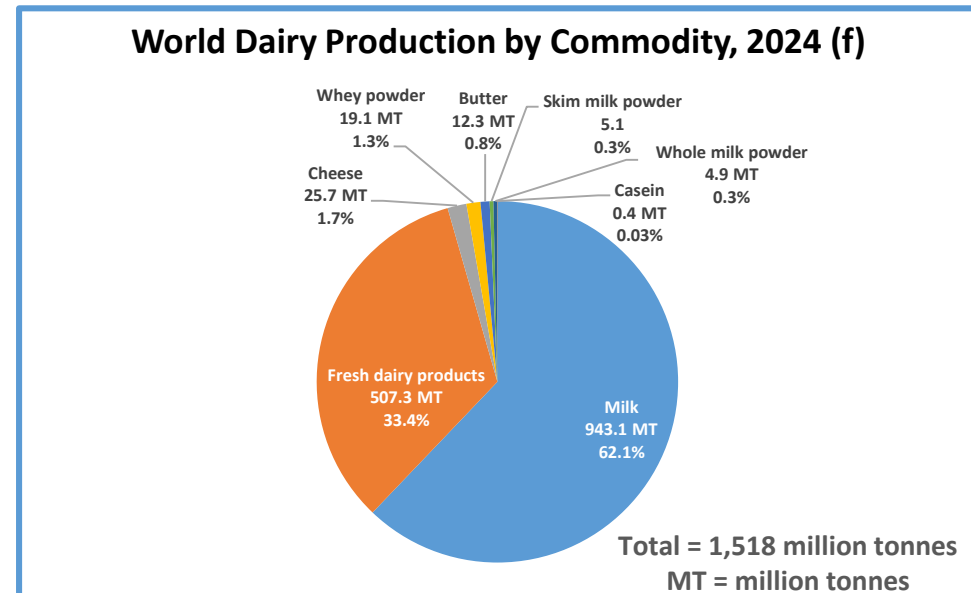
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Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

World dairy market snapshot



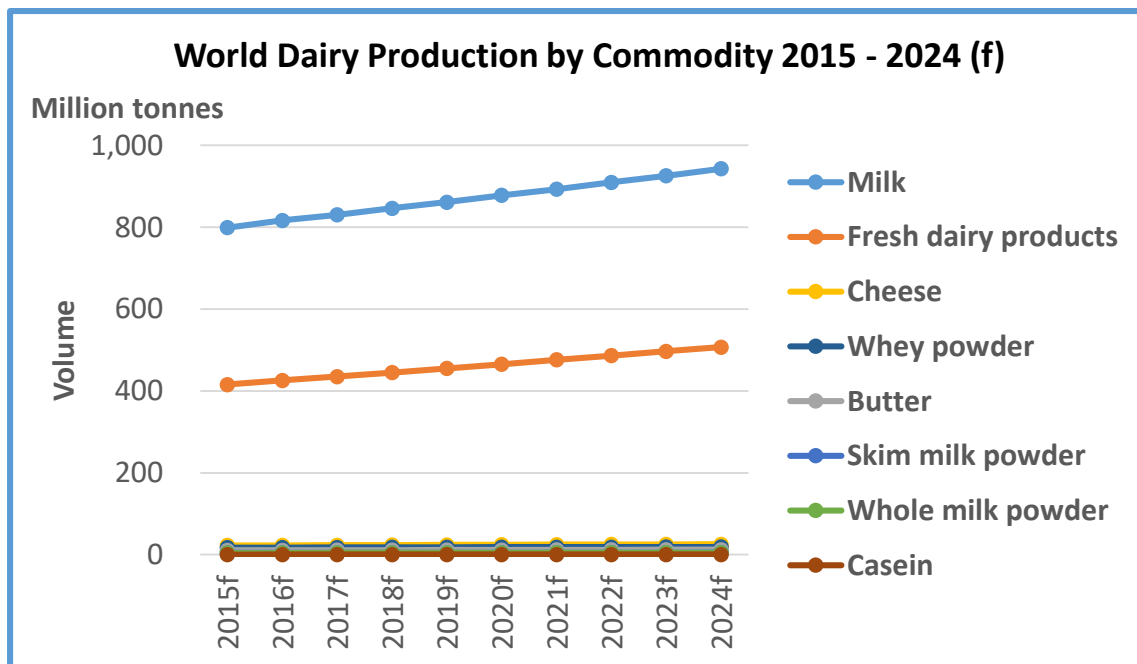
Milk and fresh dairy products have consistently comprised just over 95% of world dairy production in 2004 and 2014, and this trend is forecast to continue to 2024.



Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

World dairy market snapshot

Fresh dairy products and milk have relatively strong underlying volumes and forecast growth, with cheese, whey powder and butter worthy of further investigation.



| Commodity | CAGR 2004-14 | CAGR 2014-24 |
|-------------------|--------------|--------------|
| Milk | 2.24% | 1.85% |
| Fresh dairy | 2.46% | 2.18% |
| Cheese | 1.96% | 1.47% |
| Whey powder | 3.39% | 1.02% |
| Butter | 2.14% | 1.71% |
| Skim milk powder | 2.99% | 1.79% |
| Whole milk powder | 3.49% | 1.86% |
| Casein | 1.17% | 2.33% |

Listed in order of underlying production volume

Relatively large volume and growth

Despite highest growth rate, underlying volume too low

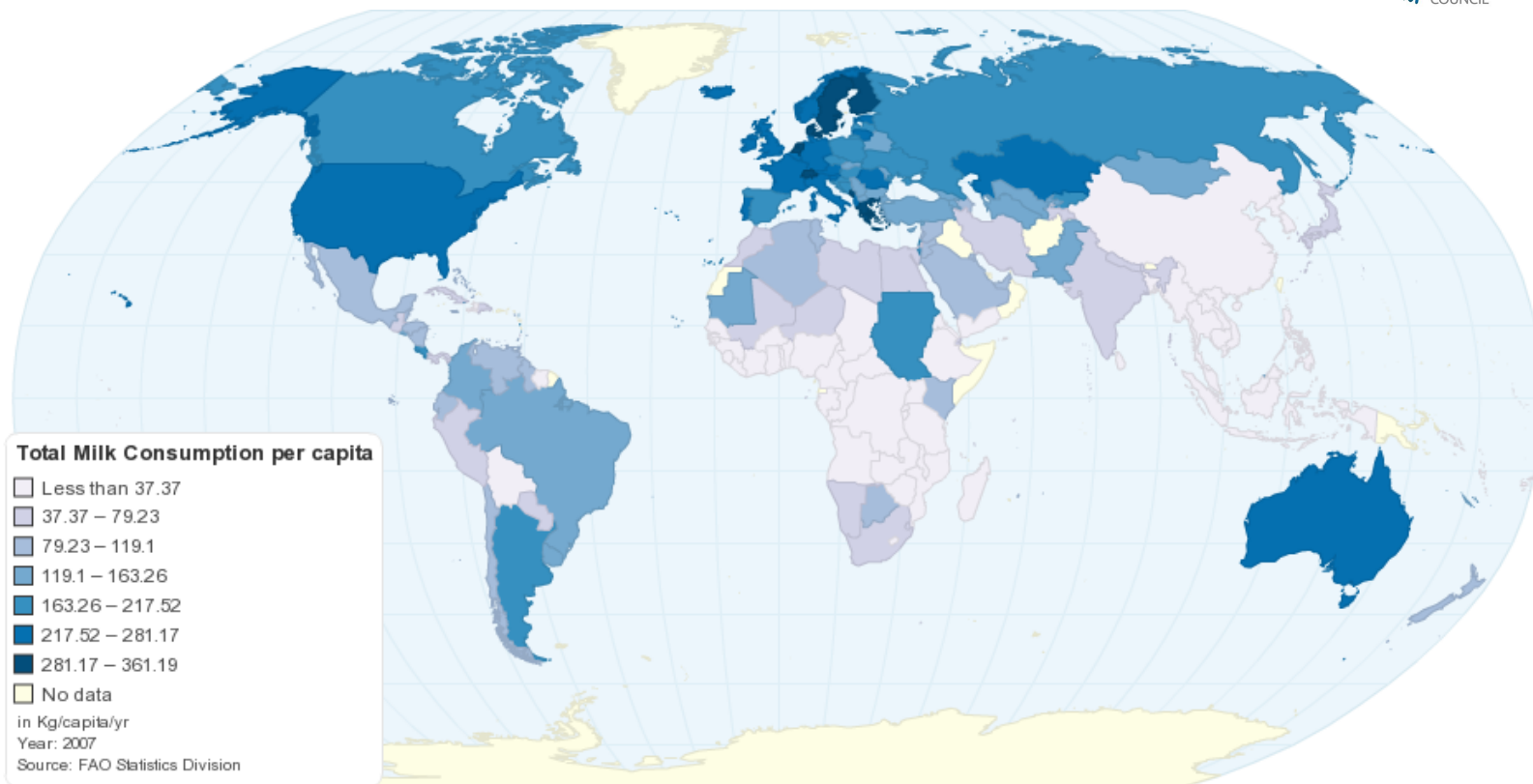
Sources: USC derived from Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

World dairy market snapshot

Per capita milk consumption and population are the two drivers of milk demand. Typically, milk consumption is high in developed countries and low in developing countries.

Per capita milk consumption is:

- **HIGH**
> 150 kg/capita/year in Argentina, Armenia, Australia, Costa Rica, Europe, Israel, Kyrgyzstan, North America and Pakistan.
- **MEDIUM**
30 to 150 kg/capita/year in India, Islamic Republic of Iran, Japan, Kenya, Mexico, Mongolia, New Zealand, North and Southern Africa, most of the Near East and most of Latin America and the Caribbean.
- **LOW**
< 30 kg/capita/year in Viet Nam, Senegal, most of Central Africa and most of East and Southeast Asia.



Sources: FAOSTAT 2007

Global consumption

- On a per capita basis (2014), developing nations consumed 1.27 times more whole milk powder than developed nations.

- Per capita (2014), developed nations consume considerably more:

| | |
|------------------------|----------------|
| • Fresh Dairy Products | 2.09 times dn |
| • Butter | 2.71 times dn |
| • Cheese | 13.83 times dn |
| • Skim Milk Powder | 3.40 times dn |

(dn – developing nations)

- However, the greatest growth in per capita consumption will come from developing countries (ex Sub-Saharan Africa):

- 1.13% pa for the next decade to 2024 - compared to developed nations' growth of 0.78% p.a. for the 10 years to 2024
- Fresh, rather than processed, dairy is forecast to be the most demanded product category driving 2.88% p.a. growth (0.65% p.a. in developed nations – particularly in India, China, Pakistan, Turkey and Uruguay)

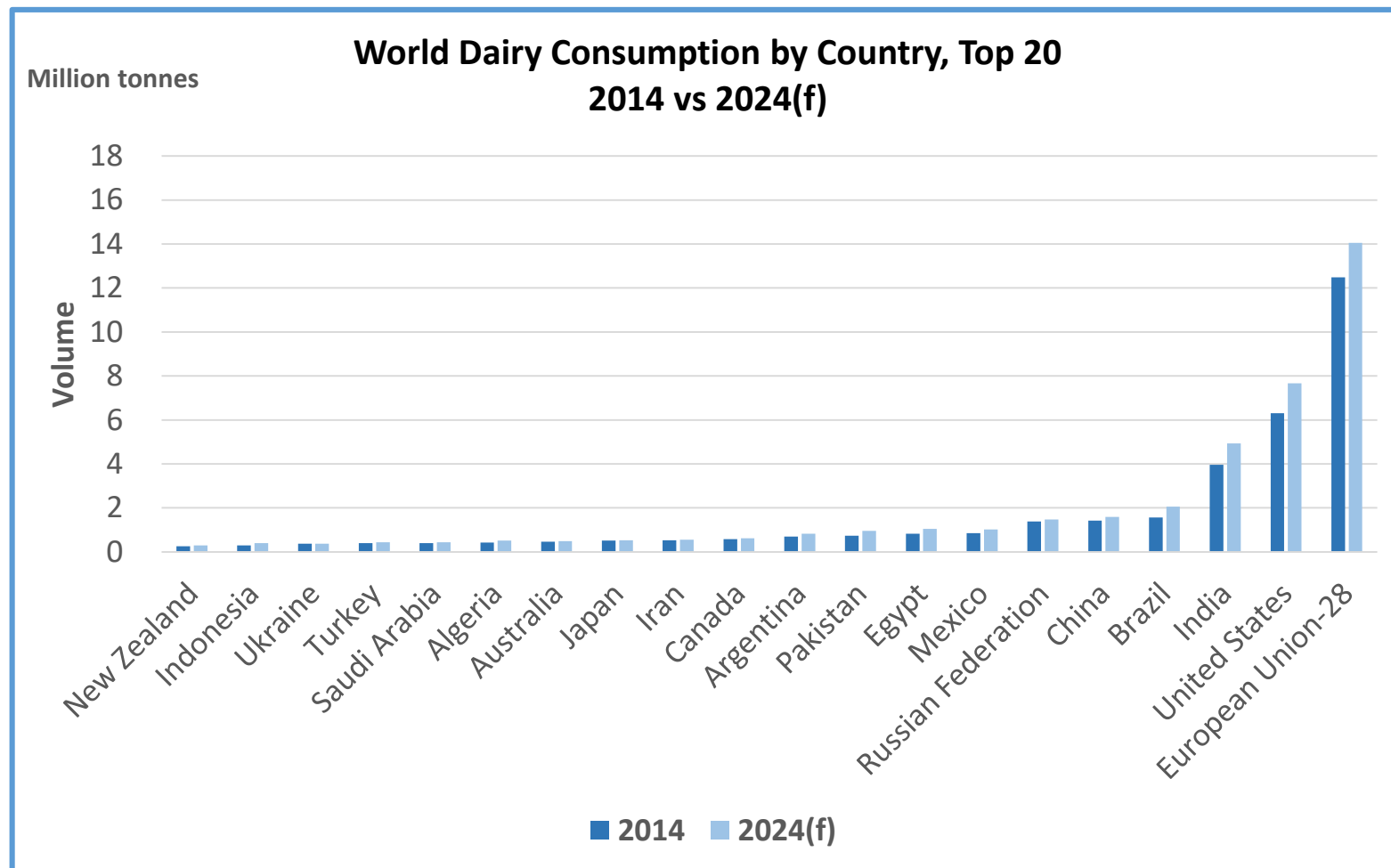


Sources: FAOSTAT 2007; Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

Image: Marco Cappalunga/Shutterstock.com

Global consumption: Consumption patterns

In 2024, consumption patterns are expected to remain the same as in 2014.



Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

Global consumption: Importers

China is forecast to remain the world's largest net importer of dairy to 2024.

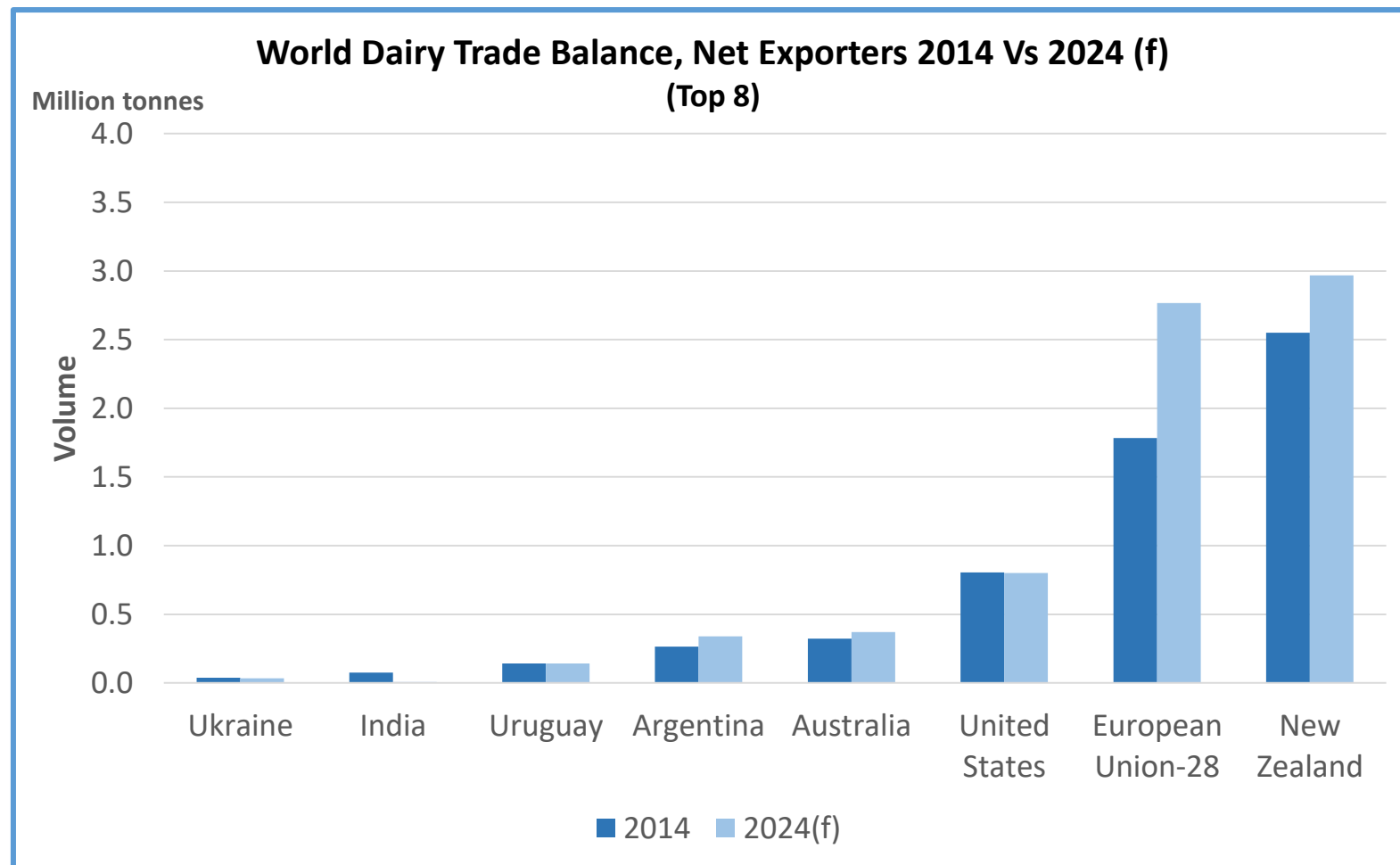
| Trade bal = X - M | 2004 | CAGR 2014 | CAGR 2024(f) |
|--------------------|-------------|-------------|--------------|
| Country | '000 tonnes | '000 tonnes | '000 tonnes |
| China | -154.71 | -1,057.93 | -1,142.71 |
| Russian Federation | -612.09 | -450.24 | -484.84 |
| Algeria | -288.70 | -419.40 | -508.32 |
| Mexico | -367.69 | -338.56 | -472.04 |
| Japan | -263.51 | -281.78 | -298.52 |
| Indonesia | -150.80 | -227.66 | -312.44 |
| Saudi Arabia | -188.86 | -203.92 | -201.46 |
| Viet Nam | -58.84 | -176.66 | -281.15 |
| Malaysia | -122.19 | -146.31 | -206.35 |
| Philippines | -166.85 | -141.94 | -184.50 |
| Korea | -51.00 | -127.22 | -206.00 |
| Thailand | -111.53 | -124.80 | -152.29 |
| Nigeria | 0.00 | -113.16 | -164.72 |
| Bangladesh | -31.22 | -81.76 | -105.87 |
| Egypt | -79.92 | -64.06 | -272.63 |

| Trade bal = X - M | 2004 | CAGR 2014 | CAGR 2024(f) |
|-------------------|-------------|-------------|--------------|
| Country | '000 tonnes | '000 tonnes | '000 tonnes |
| Peru | -19.91 | -54.59 | -81.65 |
| Kazakhstan | -16.95 | -49.50 | -69.54 |
| Brazil | -0.82 | -23.57 | -54.37 |
| Pakistan | -5.61 | -18.20 | -29.03 |
| Colombia | 18.28 | -15.80 | -25.85 |
| Canada | -38.15 | -14.68 | -13.09 |
| Ghana | 0.00 | -14.50 | -22.26 |
| Zambia | -1.80 | -10.73 | -16.21 |
| Israel | 1.71 | -9.75 | -10.01 |
| Mozambique | -1.05 | -6.41 | -9.87 |
| Haiti | -6.07 | -4.18 | -5.17 |
| Chile | 4.63 | -4.13 | -18.26 |
| Tanzania | -1.94 | -1.88 | -7.31 |
| Ethiopia | -0.98 | -1.40 | -2.60 |
| Paraguay | -3.14 | -1.08 | -2.56 |

Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

Global consumption: Exporters

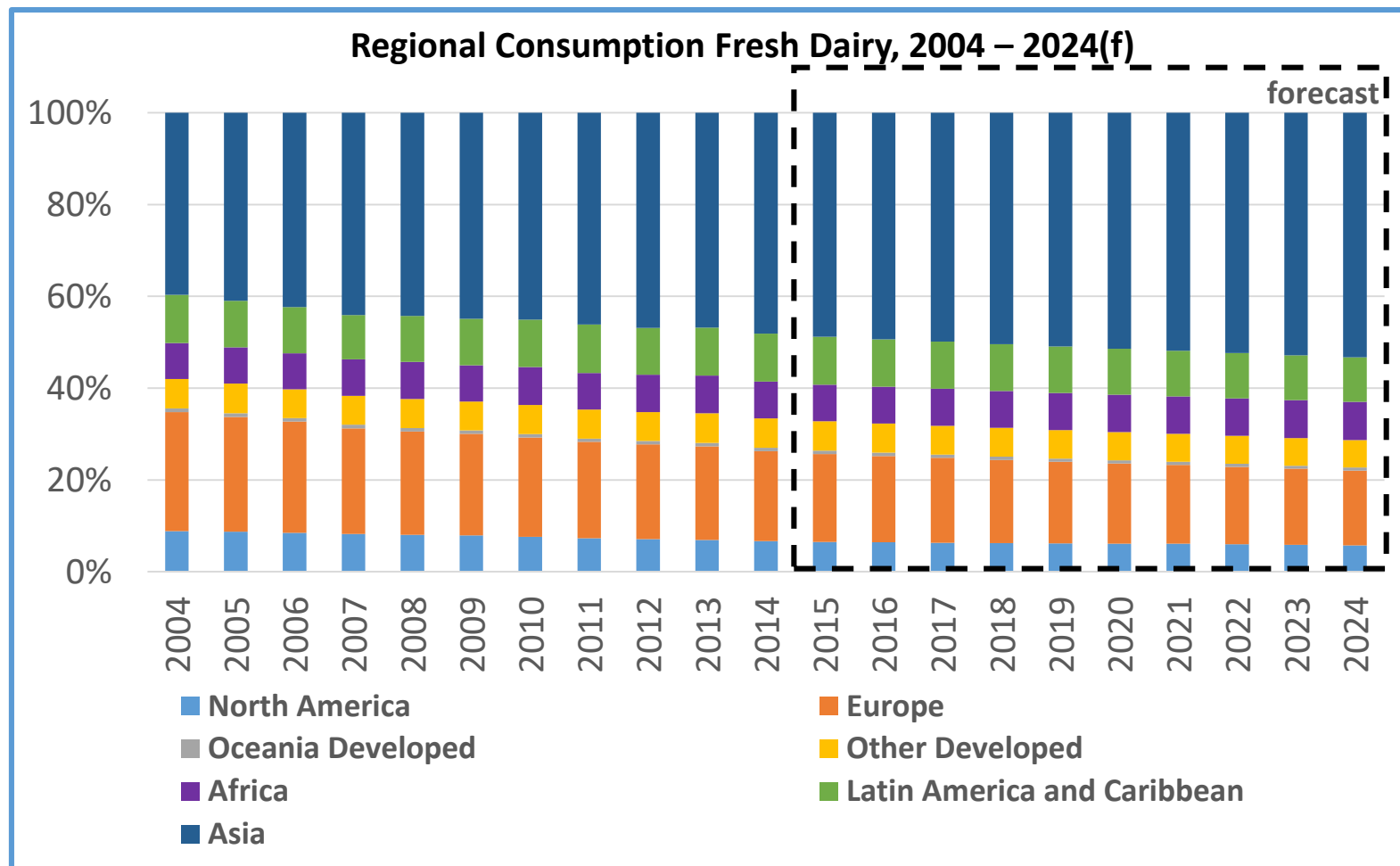
New Zealand and the EU-28 are the world's largest net exporters of dairy, 2014 and 2024(f); Australia is 4th behind the US.



Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

Regional consumption: Exporters

Asia's consumption of fresh dairy products is forecast to dominate the global market by 2018 (50.1%) and represent 53.3% by 2024. Declines are forecast from 2014 to 2024 for Europe (20% to 16%) and North America (7% to 6%).

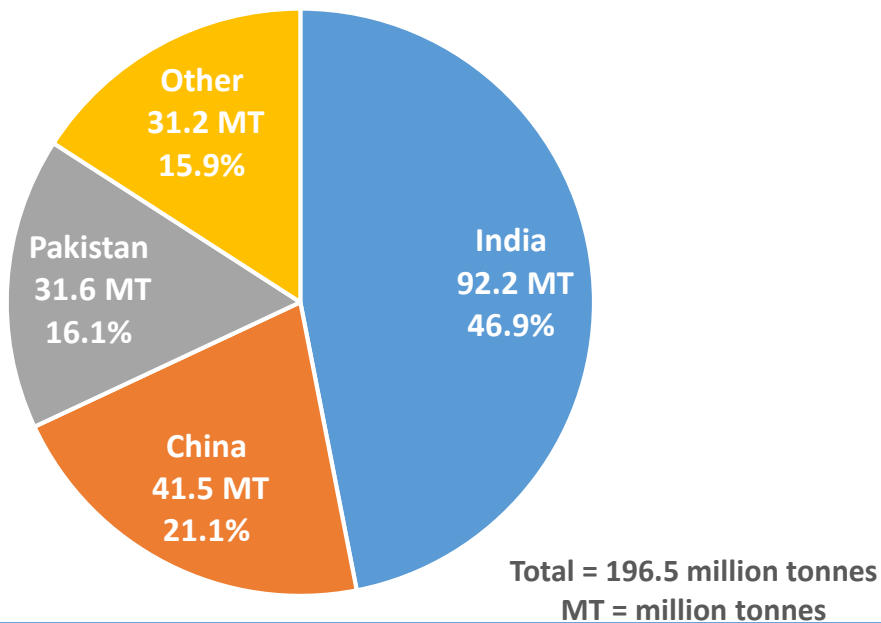


Sources: USC derived from Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

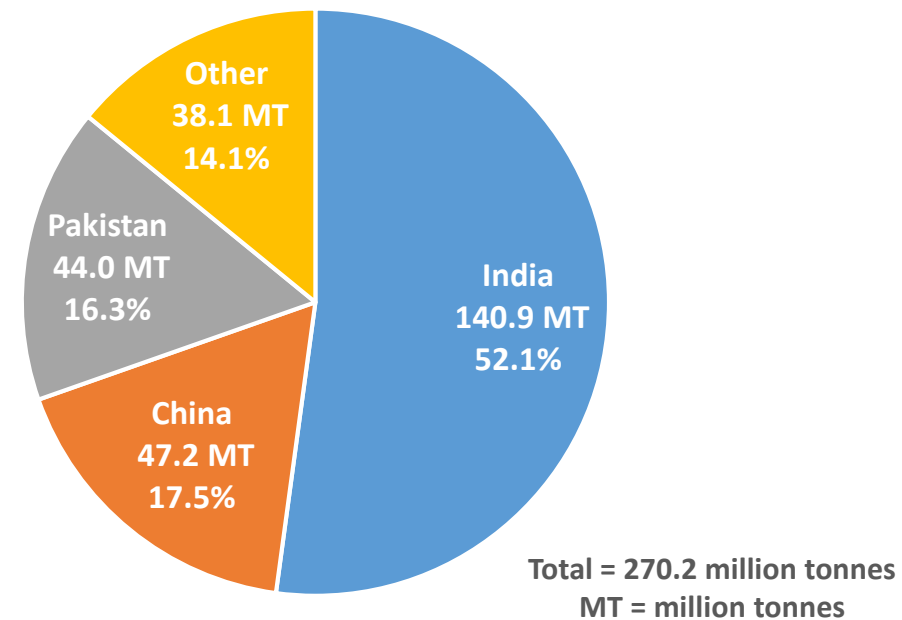
Regional consumption: Asia

India is Asia’s largest consumer of fresh dairy products (47% in 2014, forecasted to reach 52% by 2024); China is the next highest consumer (21% in 2014, forecasted to reach 18% by 2024).

Asian Consumption of Fresh Dairy, 2014



Asian Consumption of Fresh Dairy, 2024(f)

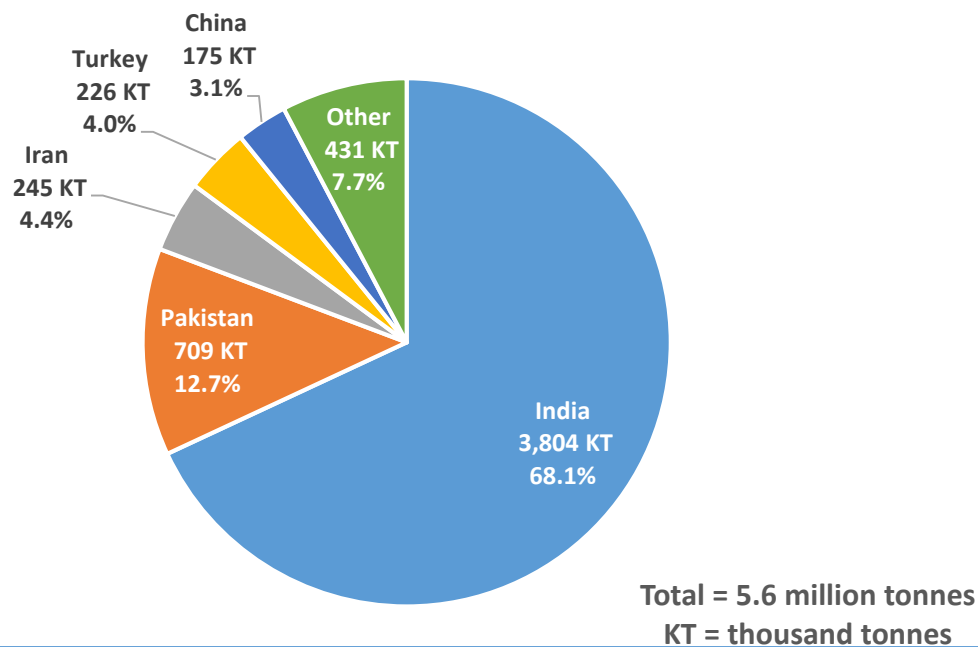


Sources: USC derived from Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

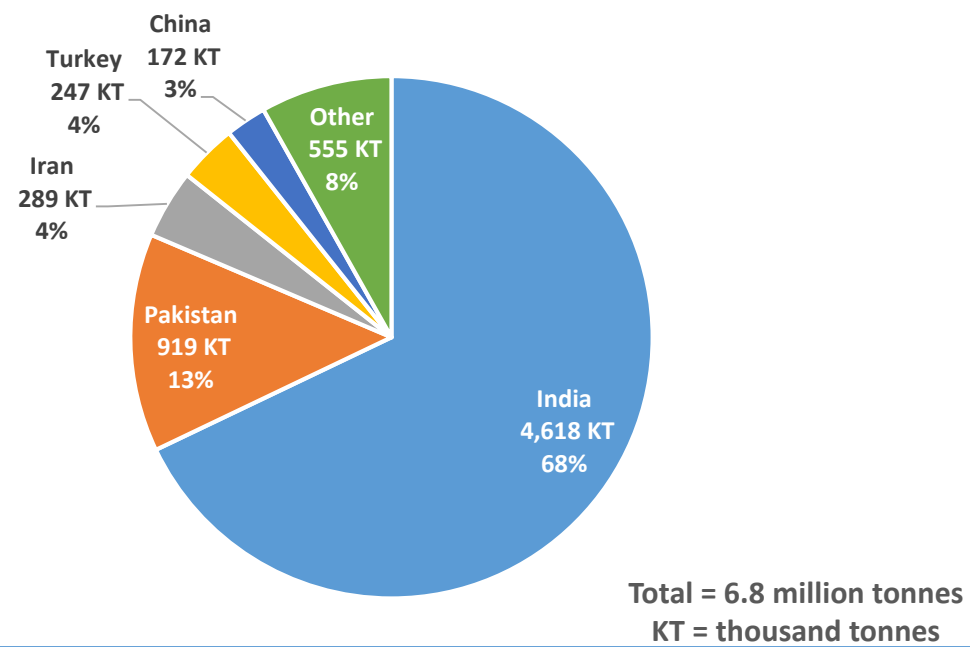
Regional consumption: India

In 2014 and 2024(f), India represents 68% of Asian butter consuming nations.

Asian Consumers of Butter, 2014



Asian Consumers of Butter, 2024(f)

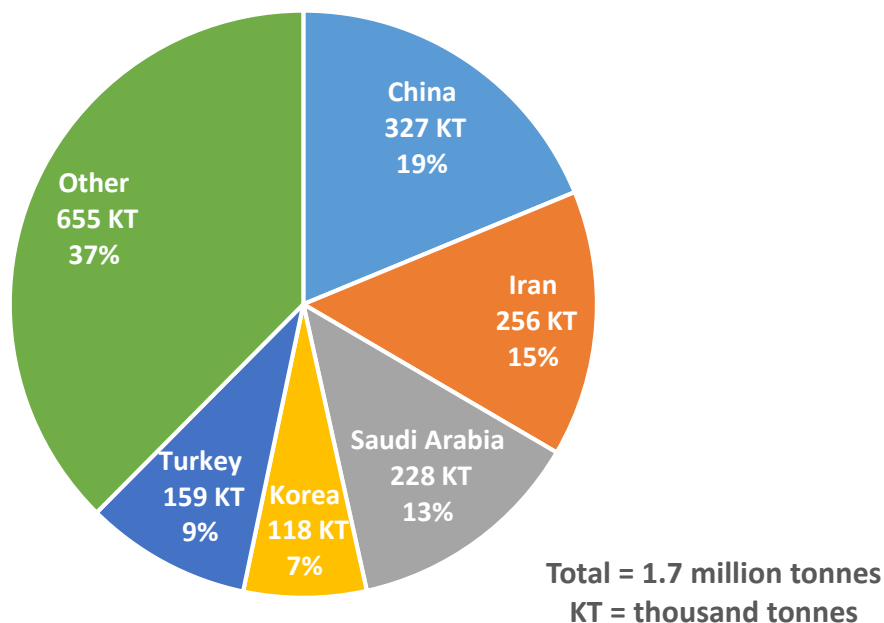


Sources: USC derived from Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

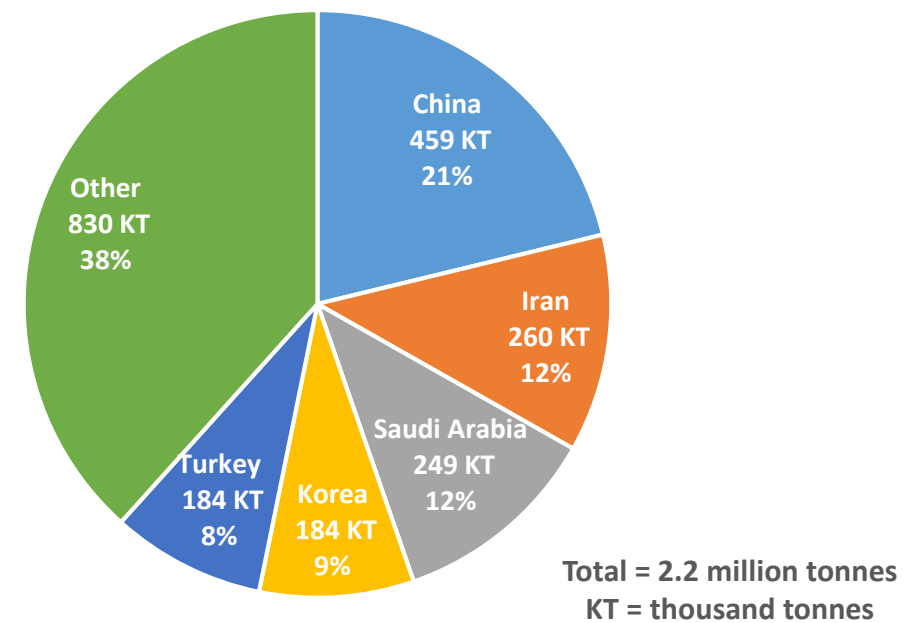
Regional consumption: China

The Chinese market is the largest cheese consumer within Asia; representing 19% of the market in 2014, and forecasted up to 21% by 2024.

Asian Consumption of Cheese, 2014



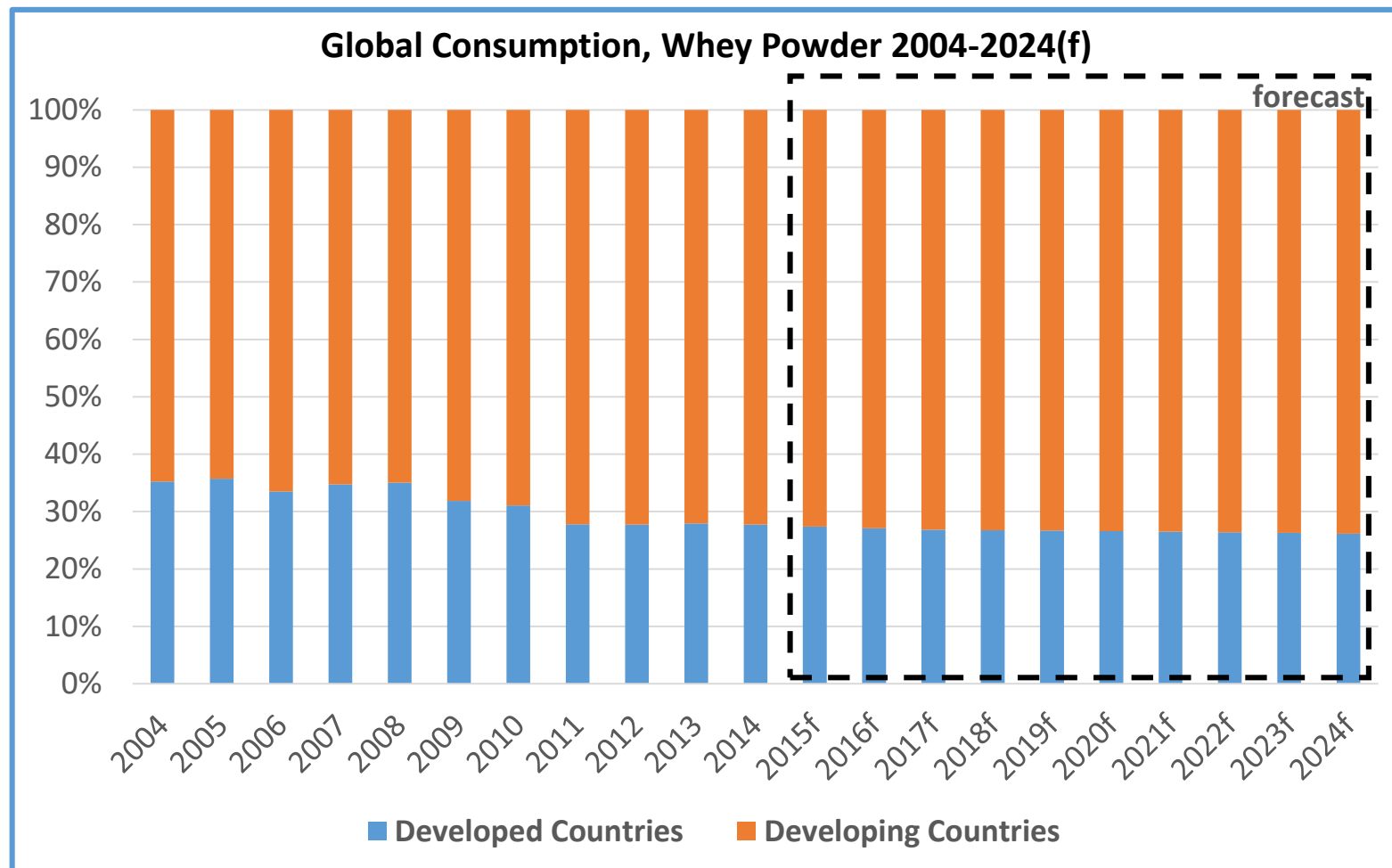
Asian Consumption of Cheese, 2024(f)



Sources: USC derived from Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

Global consumption: Whey Powder

Developing nations are the largest consumers of whey powder and are forecast to grow from 72% in 2014 to 74% in 2024.

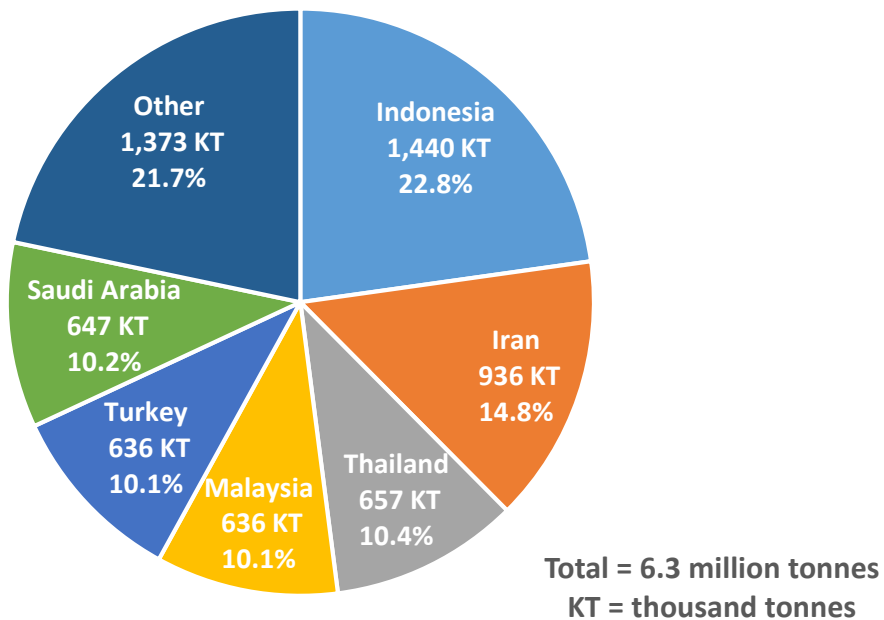


Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

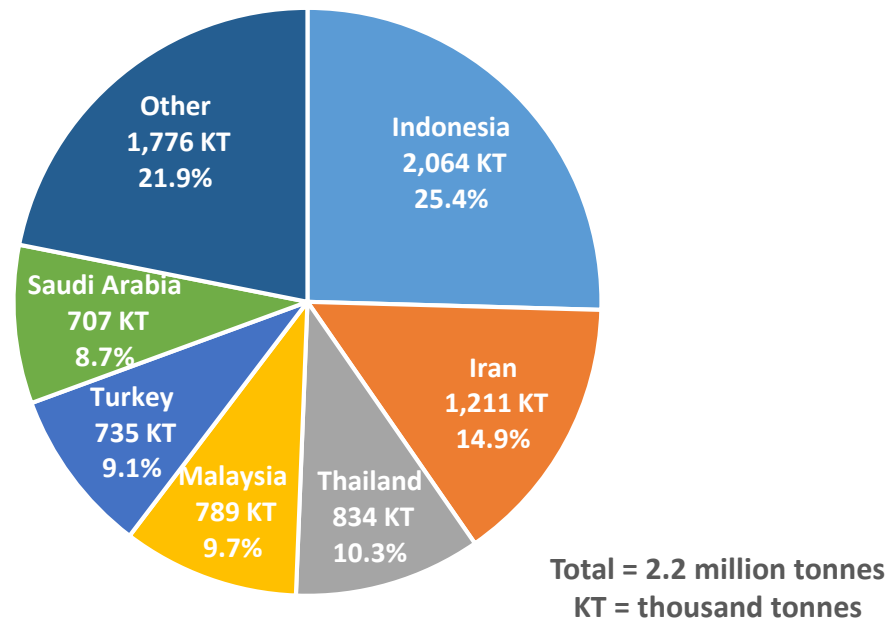
Global consumption: Whey Powder

Indonesia is the largest consumer of whey powder (23% in 2014) growing to 25% by 2024.

Asian Consumption of Whey Powder, 2014



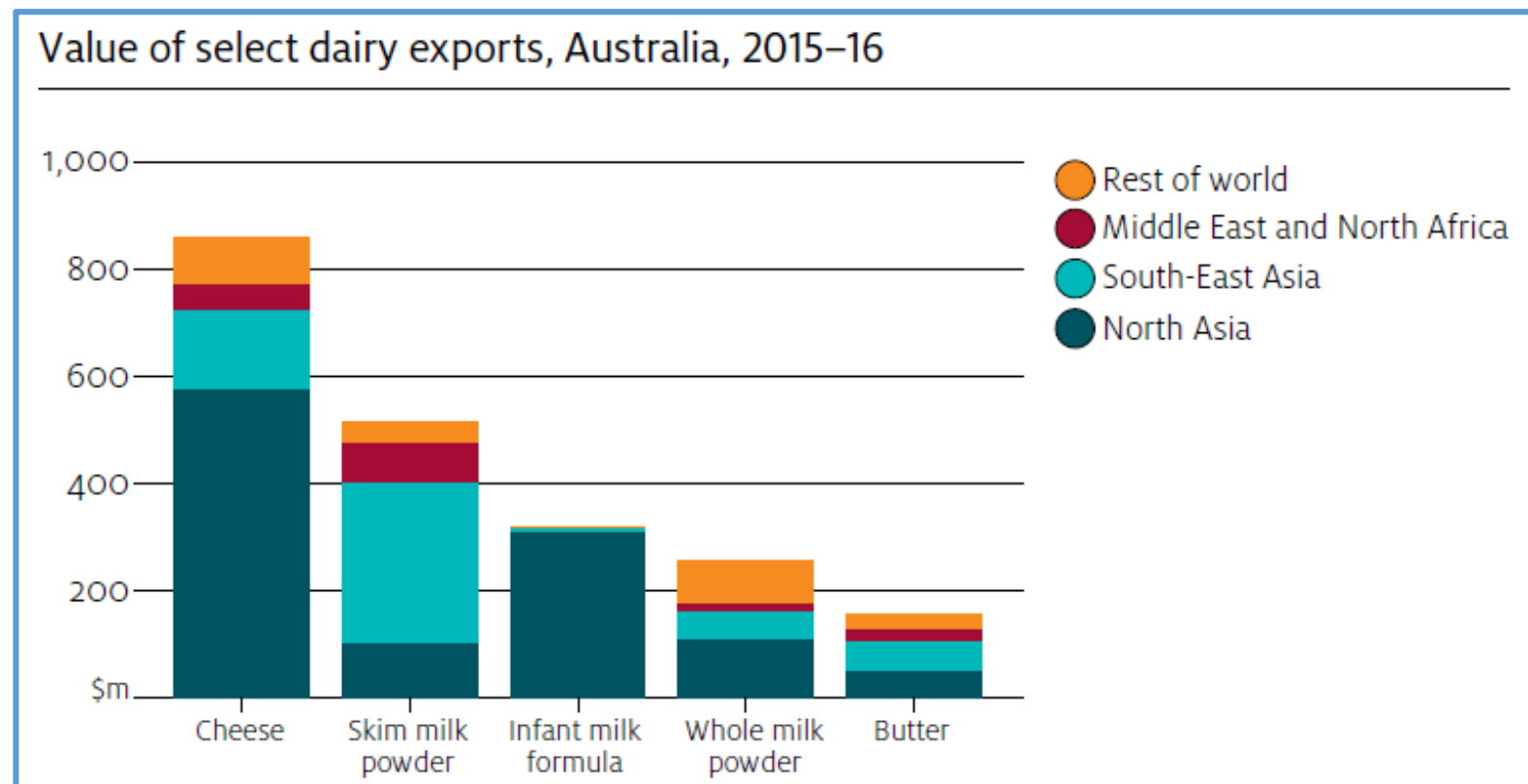
Asian Consumption of Whey Powder, 2024(f)



Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

Global consumption: Value of dairy exports

Australia is a key exporter to Asia with cheese and skim milk powder dominating.



Global demand trends for Asia

- Higher economic growth rates as compared to developed economies.
- The emergence of a consuming 'middle class' due to rising incomes.
- High birth rates and young populations.
- Consumers are becoming more health-conscious.
- Growth in 'modern' retailing and food service.
- Urbanisation is enabling access to more consumers.
- School milk programs and consumer education.
- A desire for parents to include dairy (infant formula) in the diets of children.
- Relatively low levels of dairy consumption, with related growth potential.



Environmental Analysis

Australia's Dairy Sector



Your Levy at Work



Australian Dairy Sector

Australian dairy cattle farmers raise and farm milk dairy cattle, producing high quality raw milk for processing into drinking milk, cream, butter, cheese, ice cream, other dairy desserts, and milk powders.

- Grains and feed stock
- Water
- Power
- Fertiliser
- Plants
- Veterinary services
- Cattle breeding
- Agricultural machinery and supplies
- Labour



- Milk and cream processors
- Butter manufacturers
- Cheese manufacturers
- Ice-cream and dairy dessert manufacturers
- Milk powder manufacturers



Current situation

- The Australian Dairy Industry is a major industry worth some \$13 billion across farm, processing and export. Australia produces 2% of the world's milk, is ranked fourth in dairy trade volumes, and holds a 6% share of the global dairy market.
- Australia has one of highest per capita consumption rates in the world. With a growing population, this represents a strong domestic market opportunity.
- Approximately 45% of milk production (some \$2.4 billion) is exported. Major export markets include Japan, China and Singapore.
- Australia's Dairy Industry has been impacted by declining prices for export products. The subsequent reduction in farm-gate prices caused upheaval, with many farming operations struggling to remain viable.
- A strong social media campaign has garnered support for local branded milk, and has seen increases of up to 70%.
- There are signs of stabilisation in the export markets, and with a lower Australian Dollar, some opportunities are starting to emerge.

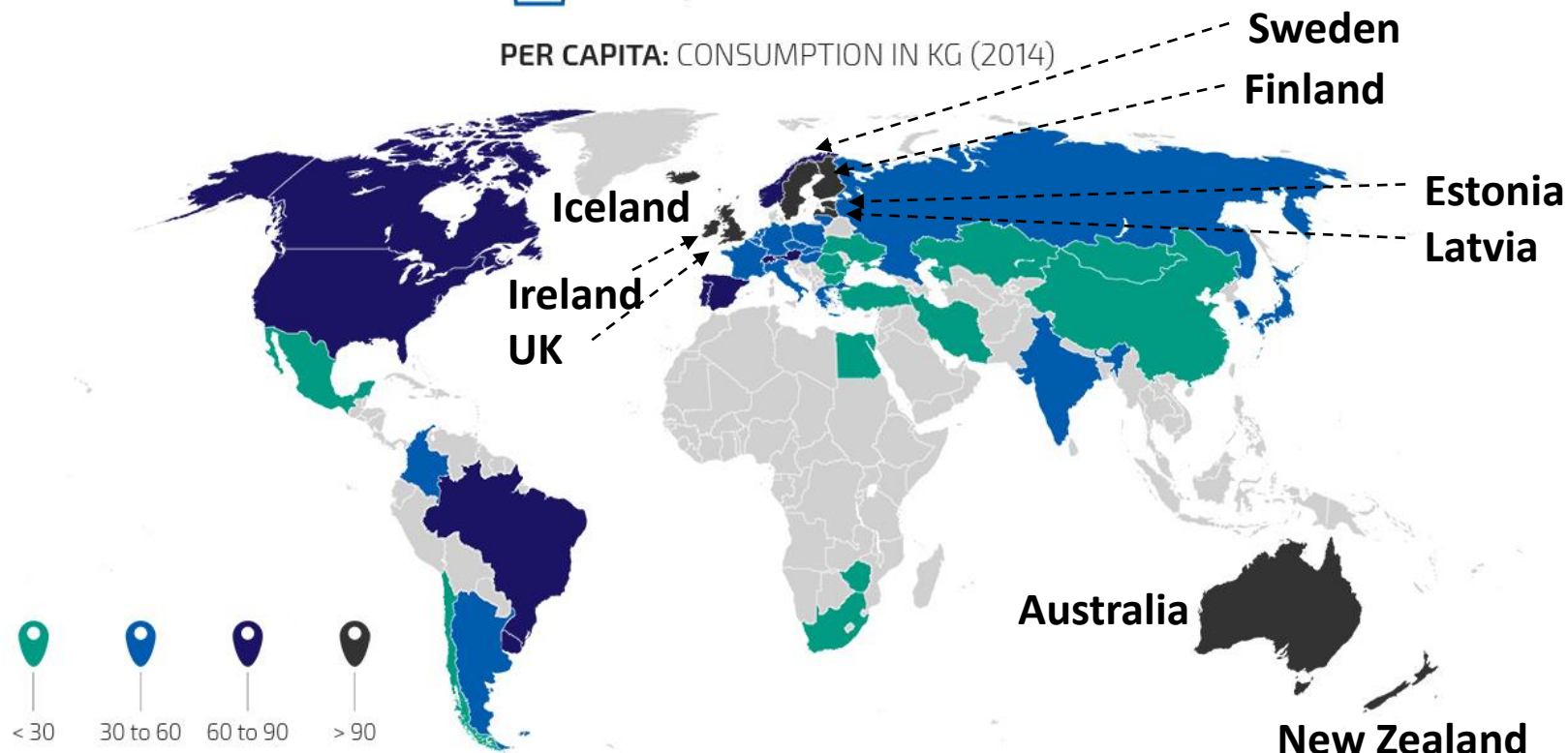
Current situation

In 2014, Australia was one of the highest per capita liquid milk-consuming countries, with Africa relatively underdeveloped and room for growth evident in parts of Asia.



LIQUID MILK

PER CAPITA: CONSUMPTION IN KG (2014)



In 2015/16, Australians consumed an average of 13.9 kg of cheese, 7.1 kg of yoghurt and 105 litres of market milk per person.

Dairy Australia, Australian Dairy Industry In Focus 2016.

May include milk drinks, fermented products

Source: National Committees of IDF, USDA, Eurostat

NB: FAO and IDF per capita consumption figures differ from those sourced from Dairy Australia, however key issues remain the same in terms of relative size and trends.

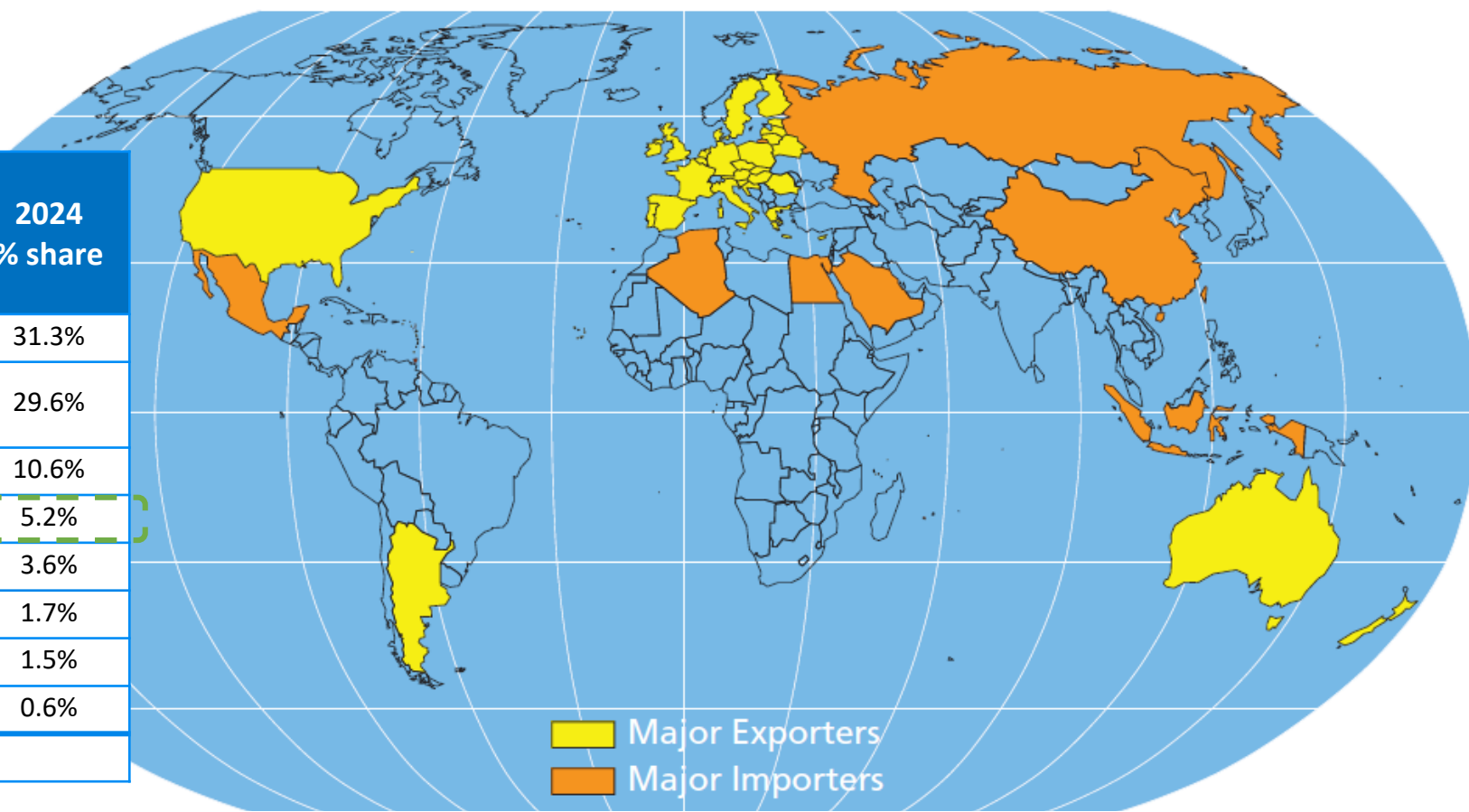
Sources: International Dairy Federation 2017; Dairy Australia 2016a

Current situation

In addition to being a high per capita consumer of dairy, Australia is also a major exporter.

Major Dairy Exporters and Importers

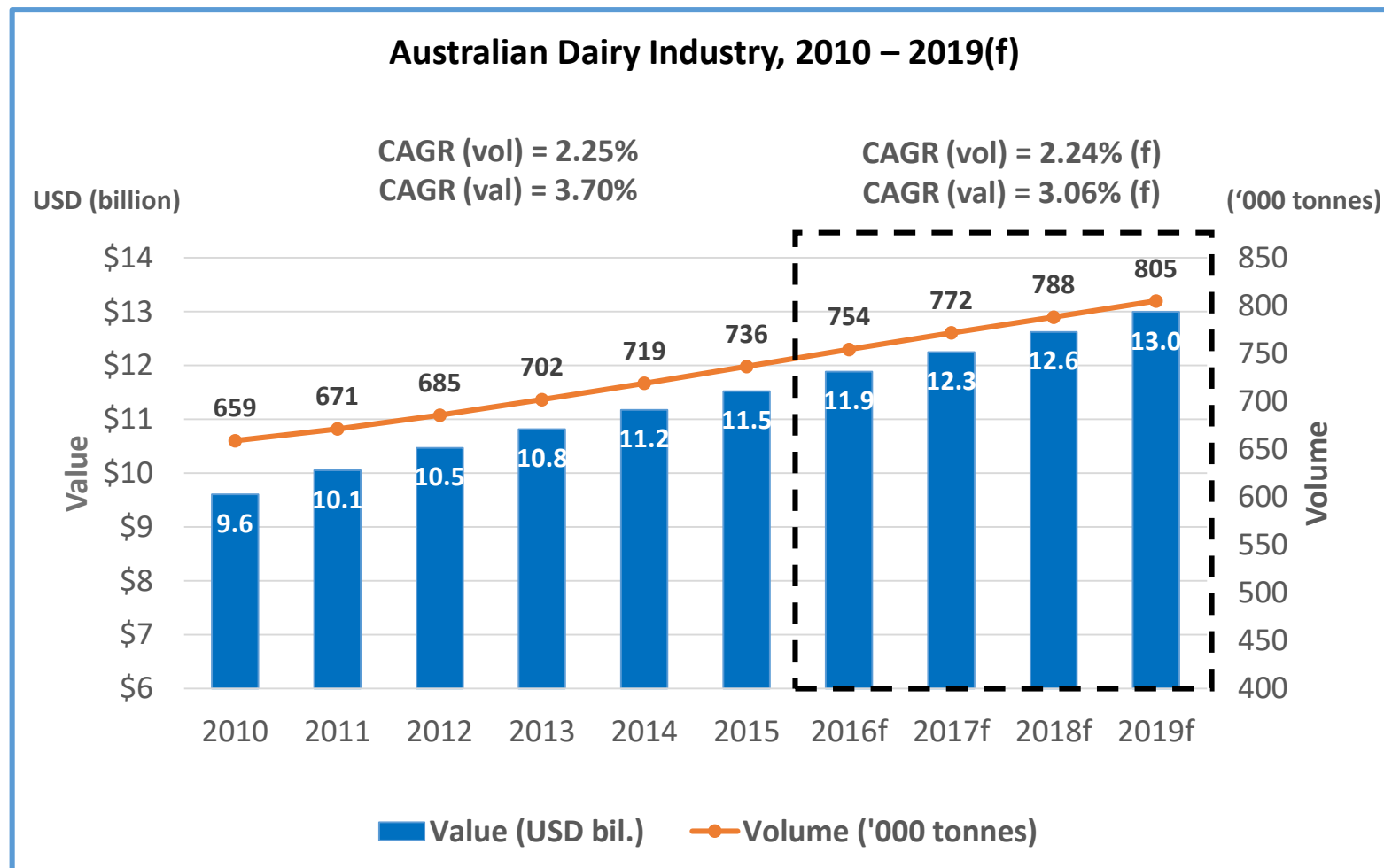
| Top 8 Exporters | 2014 | 2024 | 2014 % share | 2024 % share |
|-------------------|-------------|-------------|--------------|--------------|
| | '000 tonnes | '000 tonnes | | |
| New Zealand | 2,567.56 | 2,987.29 | 31.9% | 31.3% |
| European Union-28 | 1,888.60 | 2,830.31 | 23.4% | 29.6% |
| United States | 1,002.57 | 1,008.07 | 12.4% | 10.6% |
| Australia | 437.51 | 499.55 | 5.4% | 5.2% |
| Argentina | 265.60 | 341.61 | 3.3% | 3.6% |
| Saudi Arabia | 160.50 | 158.20 | 2.0% | 1.7% |
| Uruguay | 145.40 | 147.02 | 1.8% | 1.5% |
| Egypt | 121.15 | 60.89 | 1.5% | 0.6% |
| World | 8,058.26 | 9,547.45 | | |



Sources: Food and Agriculture Organization of the United Nations 2016a, 2016b; Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

Current situation

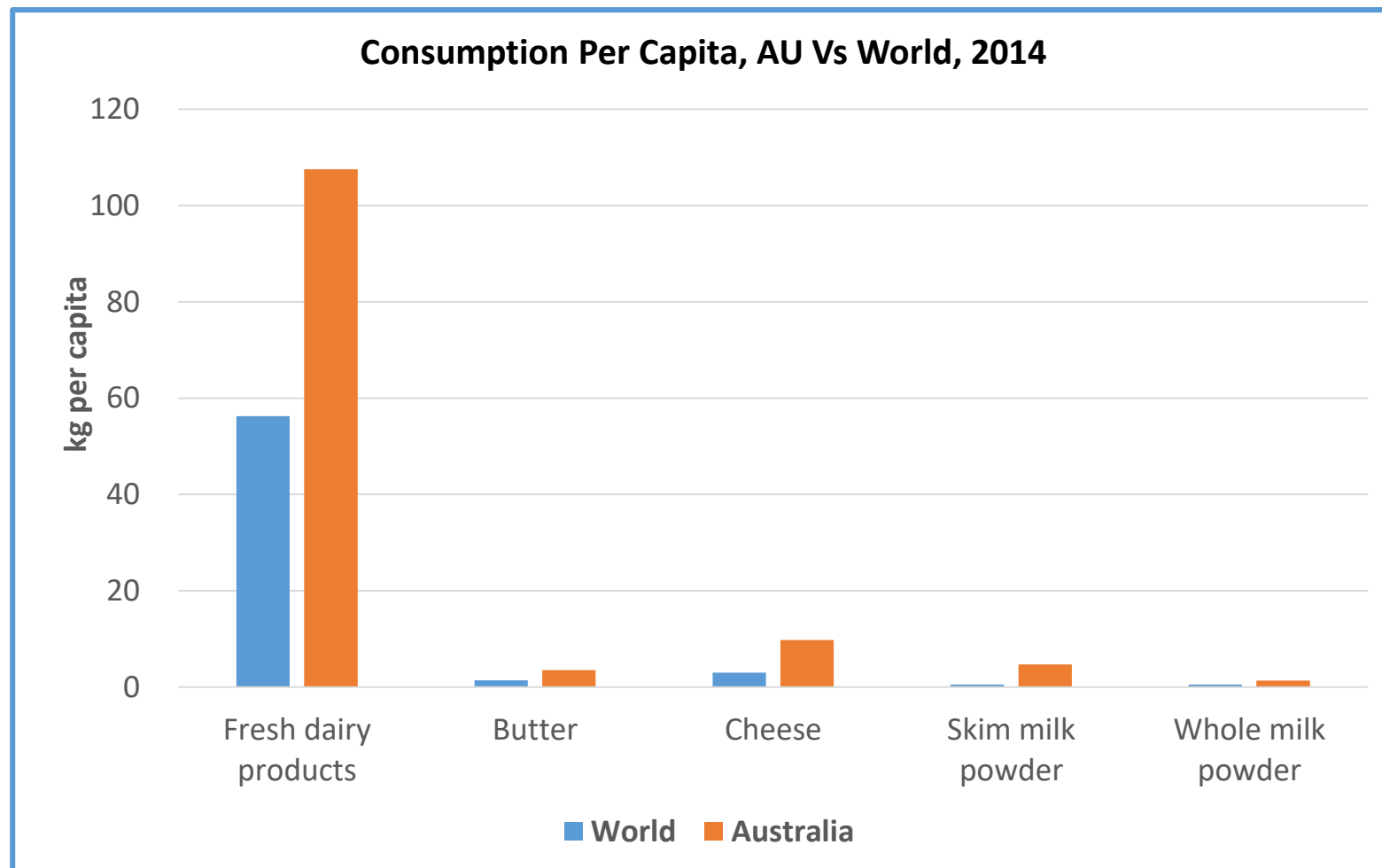
Whilst continuing to show positive growth between 2015-19, a slowdown in the Australian Dairy Industry's compound annual growth rates is forecast for both volume (2.25% to 2.24%) and value (3.70% to 3.06%).



Sources: MarketLine 2015, 2016a, 2016b

Current situation

Australia has one of highest per capita consumption rates in the world for fresh dairy products...

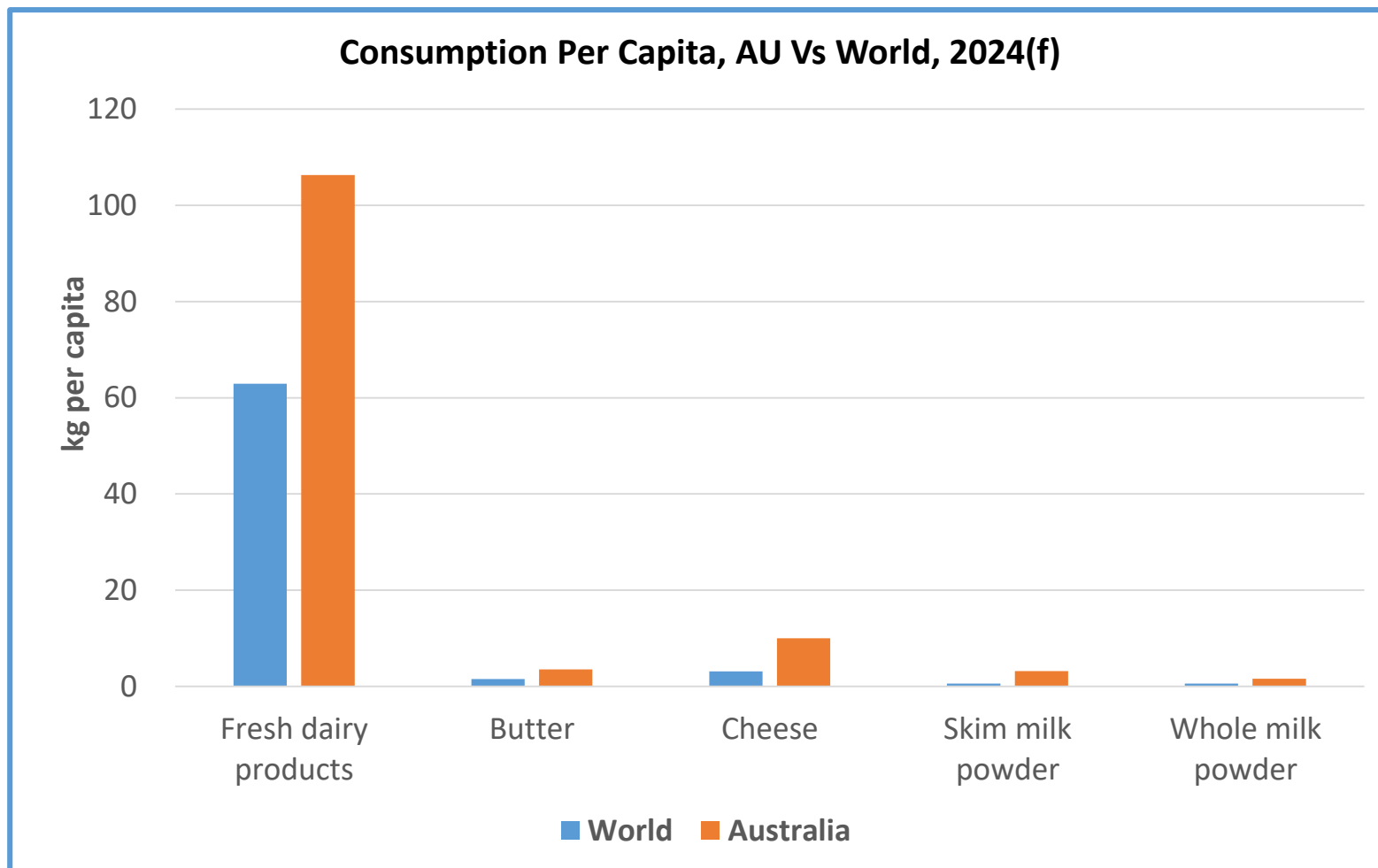


NB: World average includes Australia

Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

Current situation

...and this is expected to continue into the next decade to 2024, giving rise to strong domestic market opportunities.

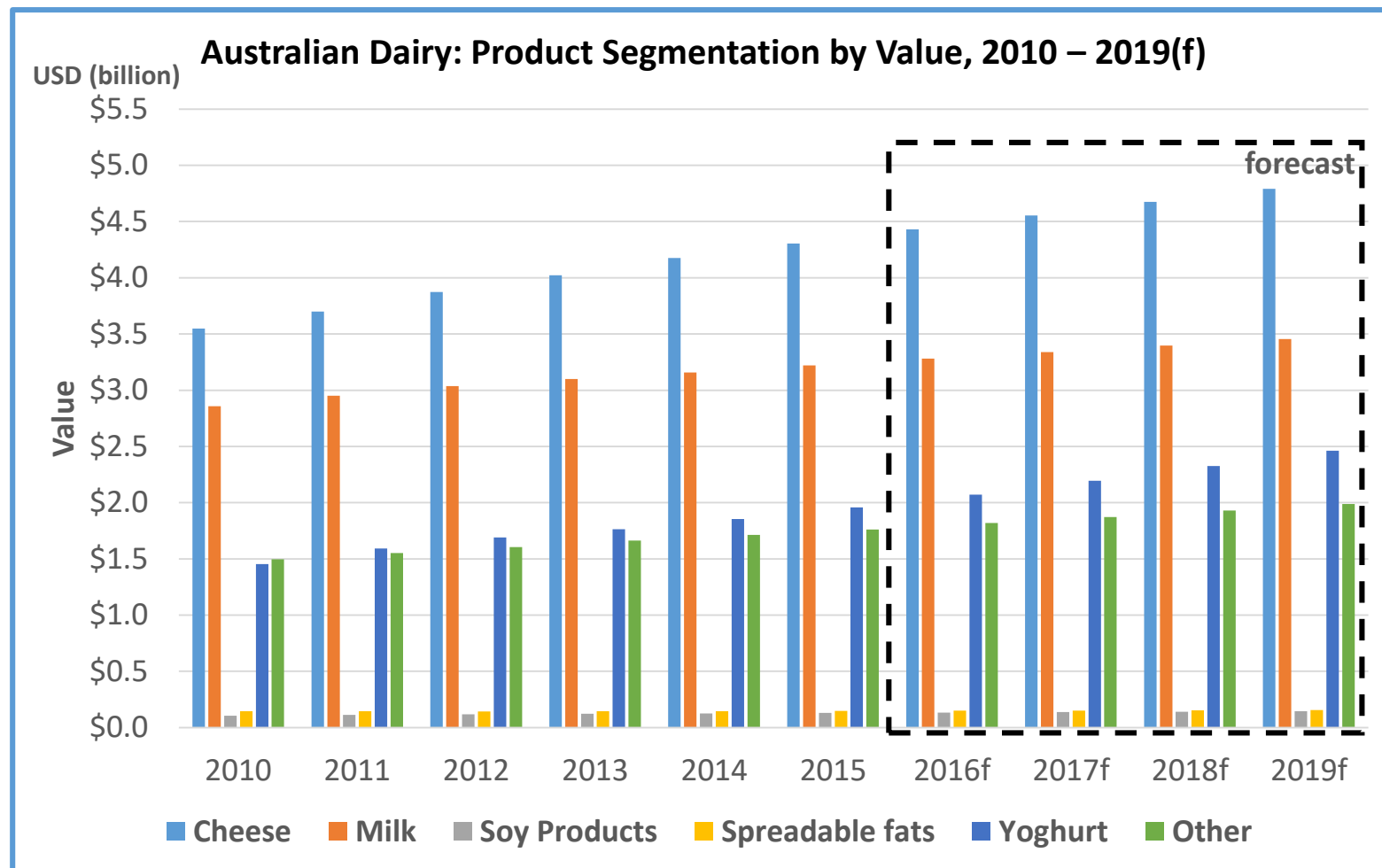


NB: World average includes Australia

Sources: Organisation for Economic Co-operation and Development, and Food and Agriculture Organization of the United Nations 2016

Current situation

Cheese and milk are of the greatest value to the Australian Dairy Industry worth US\$7.89 billion in 2017(f) growing to US\$8.24 billion in 2019(f).

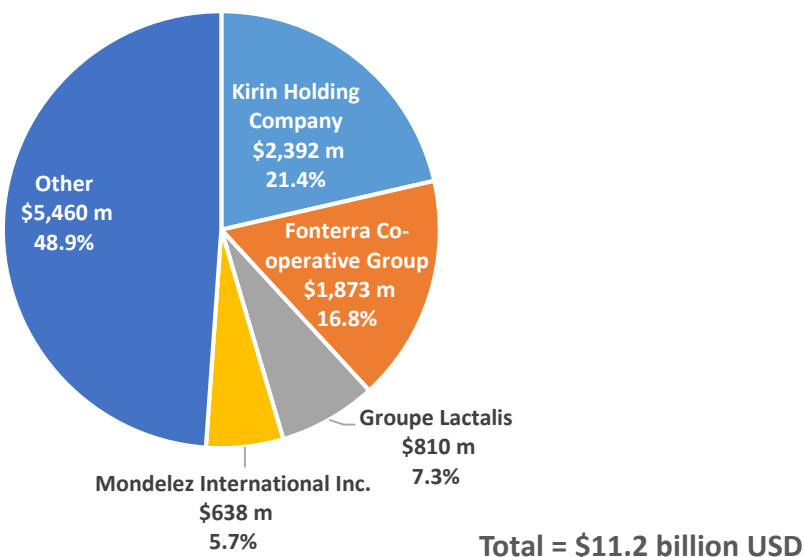


NB: data may differ from Dairy Australia, however indicative trends are useful

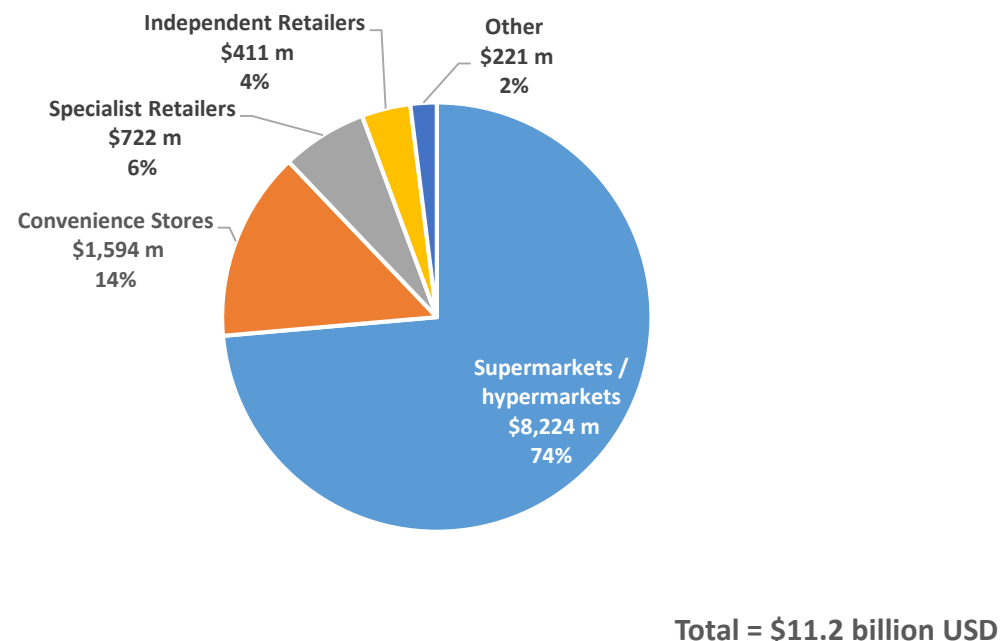
Current situation

In 2014, four companies held 51% market share of the Australian Dairy Industry, with supermarkets being the primary distributors (74%).

Australian Dairy: Market Share 2014



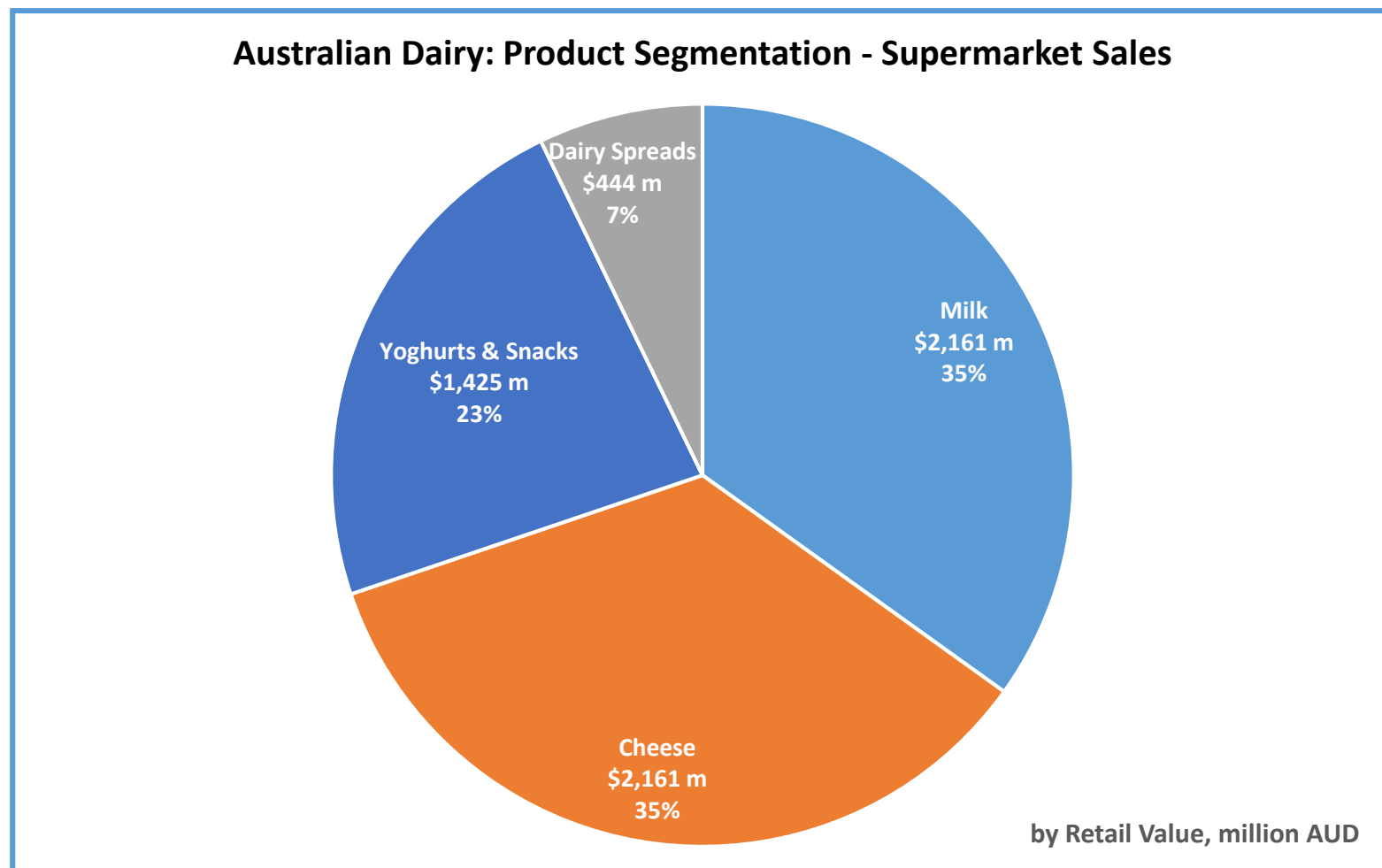
Australian Dairy: Distribution 2014



Sources: MarketLine 2015, 2016a, 2016b

Current situation

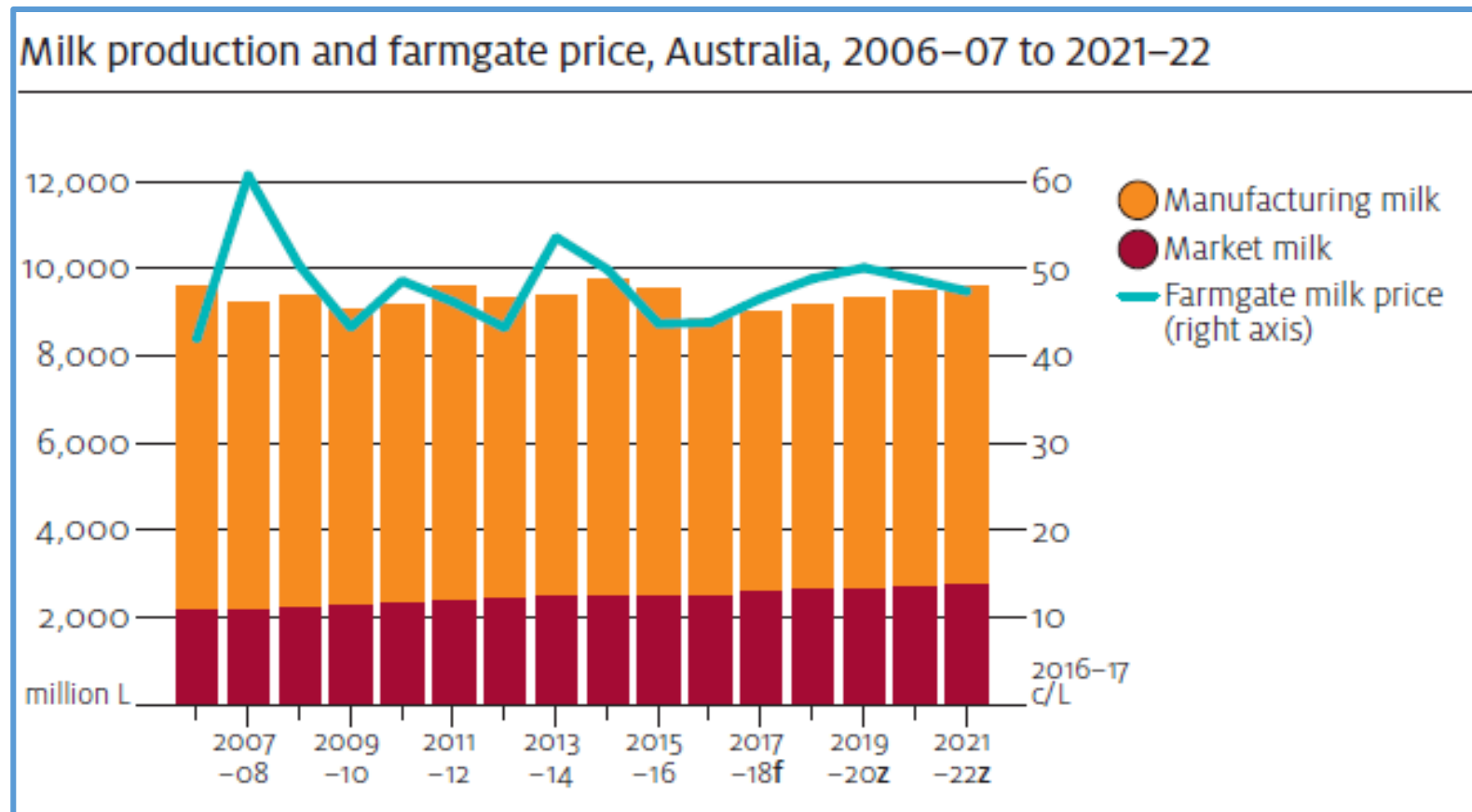
Within the supermarket sector (74% of total distribution), milk and cheese equally contribute to 70% of dairy section supermarket sales; yoghurts and snacks follow at 23% contribution.



NB: Available data are from differing periods: milk and dairy spreads from MAT 21/08/2016; cheese, and yoghurt & dairy snacks from MAT 03/04/2016

Current situation

Australia's farm-gate milk price peaked in 2007/08 at just over 60c/l and is expected to settle around 50c/l by 2021/22, with market and manufacturing milk forecast to increase.



Sources: Australian Bureau of Agricultural and Resource Economics and Sciences 2017

Overview of Australian Dairy Sector



Source: IRI

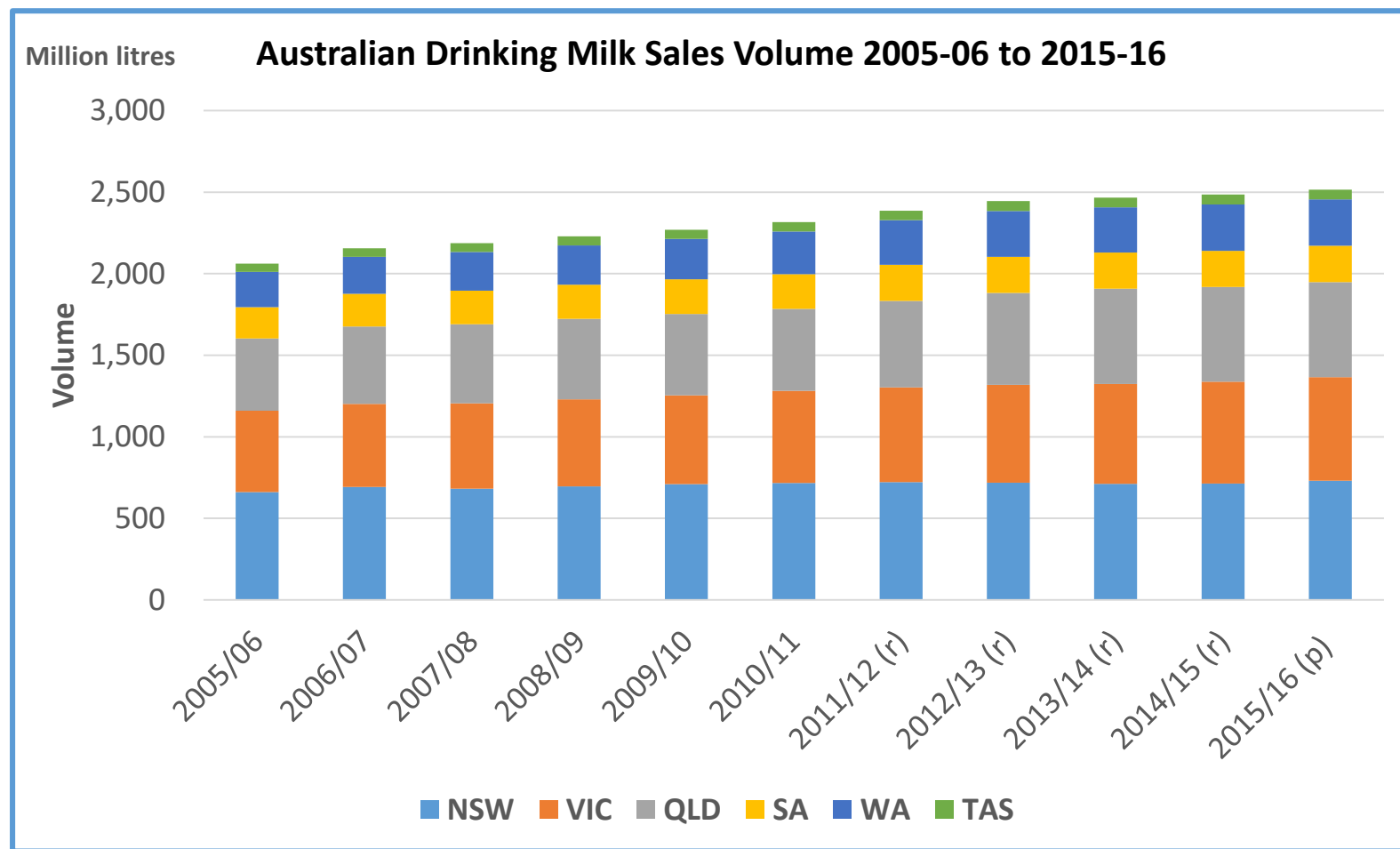
Note: Available data is taken from differing periods; milk and dairy spreads figures from MAT 08/01/2017; cheese, yoghurt and dairy snacks from MAT 04/10/2016.

Milk - Overview

- Total milk sales grew by 1.25% over the 12 months to June 2016. Australia's population increased by 1.4% during this same period.
- Branded fresh white milk has regained market share from supermarkets' private label fresh white milk category, with branded milk sales volumes increasing by 21% year-on-year to 439 million litres. The share of company branded fresh white milk was 34%, however, in response to prominent social media campaigns, this increased to 48% in June; since easing to 43% by December.
- Reduced fat lost 5.46% volume dropping from 659 to 623 million litres over 2015/16.
- Low fat also lost 14.94% volume dropping from 87 to 74 million litres over 2015/16.
- Growth was noted for:
 - Regular 5.31% up from 1,242 to 1,308 million litres from 2014/15 to 2015/16
 - Flavoured 2.50% up from 240 to 246 million litres from 2014/15 to 2015/16 (after 3 years of zero growth)
 - UHT 3.11% up from 257 to 265 million litres from 2014/15 to 2015/16

Milk - Overview

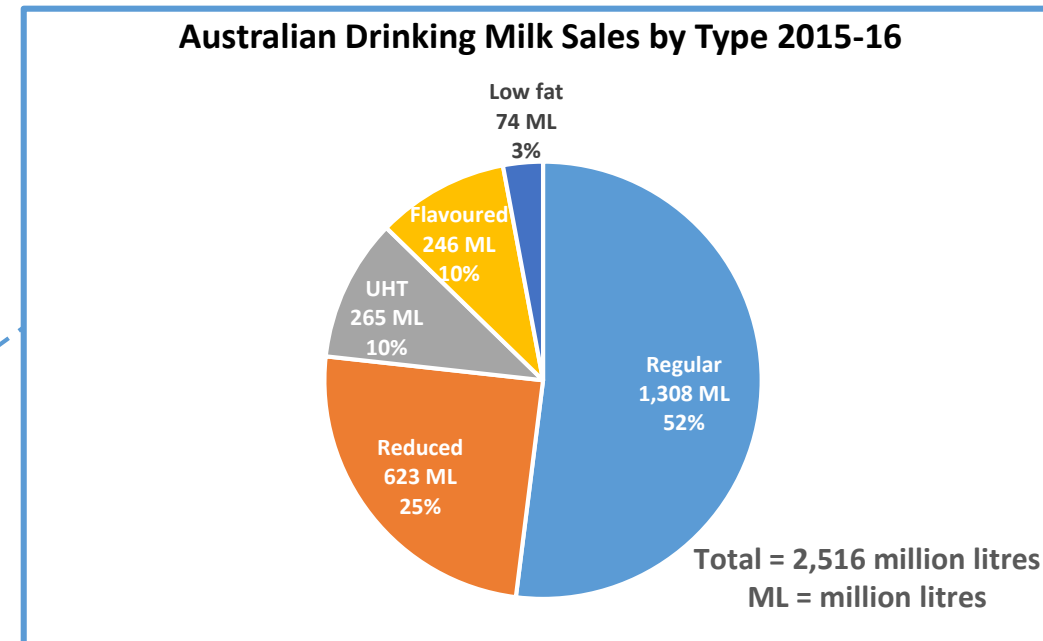
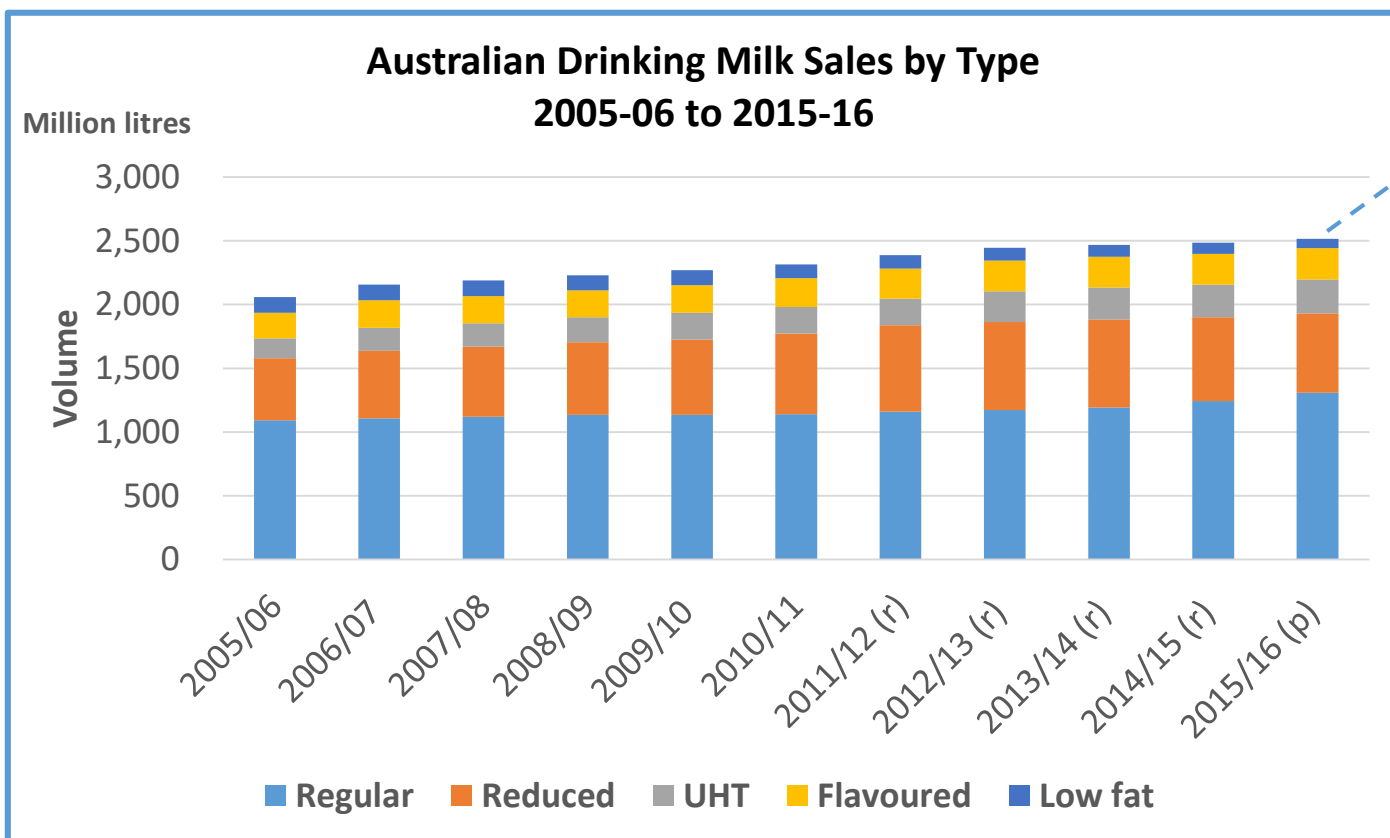
Total milk sales volumes grew by 1.25% p.a. to 2,516 million litres over the 12 months to June 2016, with an average growth of 2.02% p.a. over the ten years to 2015/16.



r – Revised data
p – Provisional data

Milk - Overview

Regular whole milk sales have dominated over the ten years to 2015/16, growing 5.31% over the 2015/16 year.

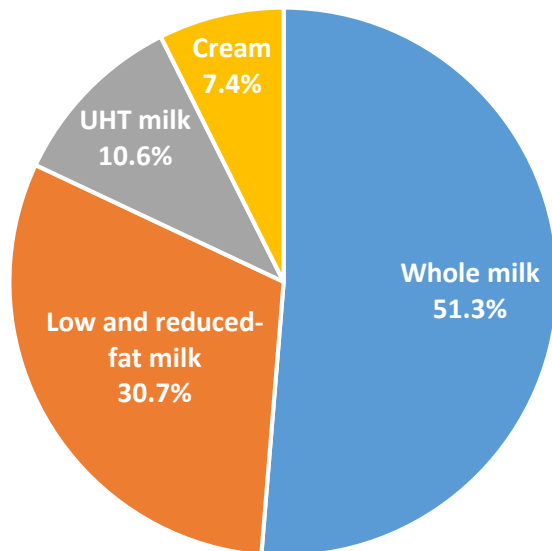


r – Revised data
p – Provisional data

Milk - Overview

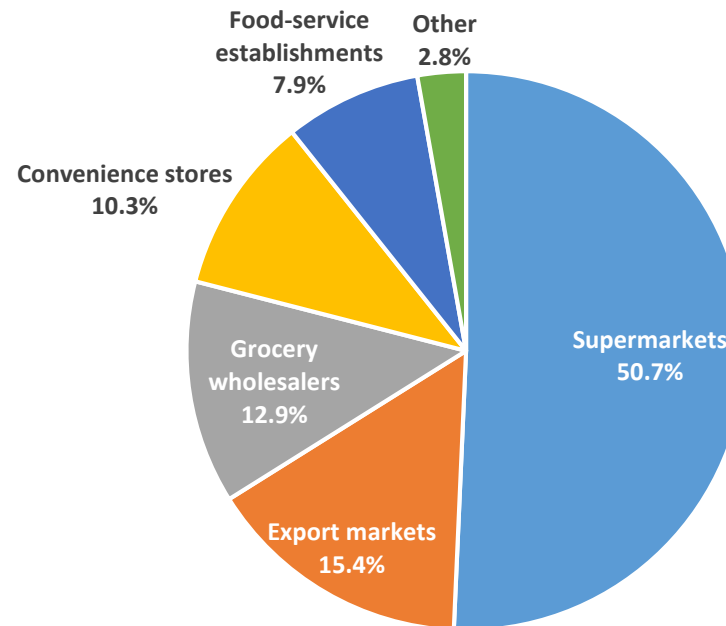
In 2016-17, whole milk is expected to form 51.3% of the market for milk and cream processors, with the main distribution channel being supermarkets (50.7%).

Milk & Cream Processors: Product Segmentation (2016-17)



Total = \$2.2 billion AUD

Milk & Cream Processors: Markets (2016-17)

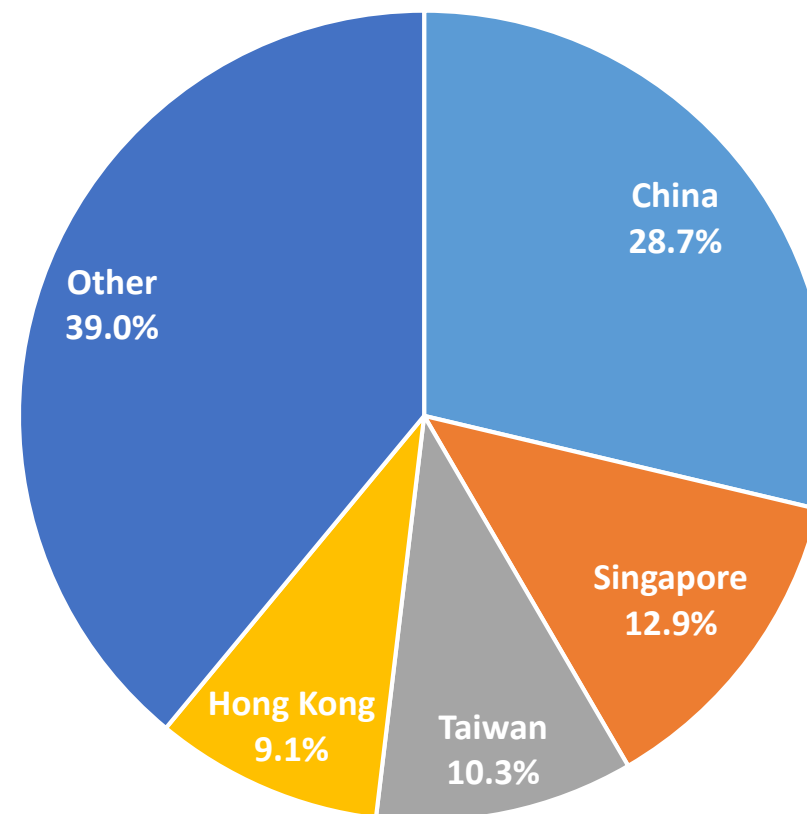


Total = \$2.2 billion AUD

Milk - Overview

In 2016-17, exports of milk and cream are expected to total \$345.3m, with our biggest export markets being China (28.7%), Singapore (12.9%), Taiwan (10.3%), and Hong Kong (9.1%).

Milk & Cream Processors: Major Export Markets (2016-17)



Total = \$345.3 million AUD

Tariff reductions (e.g. ChAFTA), advances in overcoming perishability issues, food security (Australia is noted as high quality), and economic development within Asia are expected to drive growth in international trade.

Cheese - Overview

- Cheese sales volumes have grown steadily over the last 12 months to October 2016, increasing by 3%, while values are up 1.3%.
- Deli cheese has increased around 5% in terms of volume, to 22,450 tonnes. Despite accounting for under 16% of all supermarket cheese volumes, deli cheese now represents over 25% of the cheese category's sales value.
- Average per kilogram price for chilled cheese declined by 2%, falling from \$13.55/kg to \$13.27/kg.
- Private label cheese has experienced significant growth in market share, expanding from 36% in the twelve months to October 2014 to 43% by October 2016.

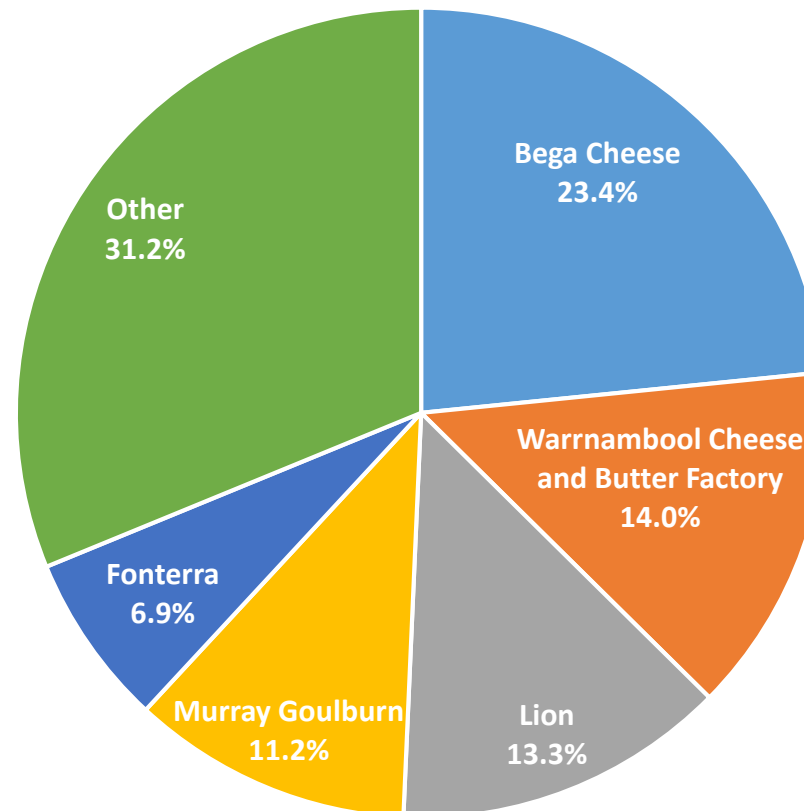


Cheese - Overview

In 2016-17, cheese manufacturing is expected to generate \$2.6bn in revenue.

| | |
|----------|----------------------|
| \$2.6bn | Revenue |
| -1.3% | Annual growth, 12-17 |
| 2.0% | Annual growth, 17-22 |
| \$108.1m | Profit |
| \$826.9m | Exports |
| 126 | Businesses |

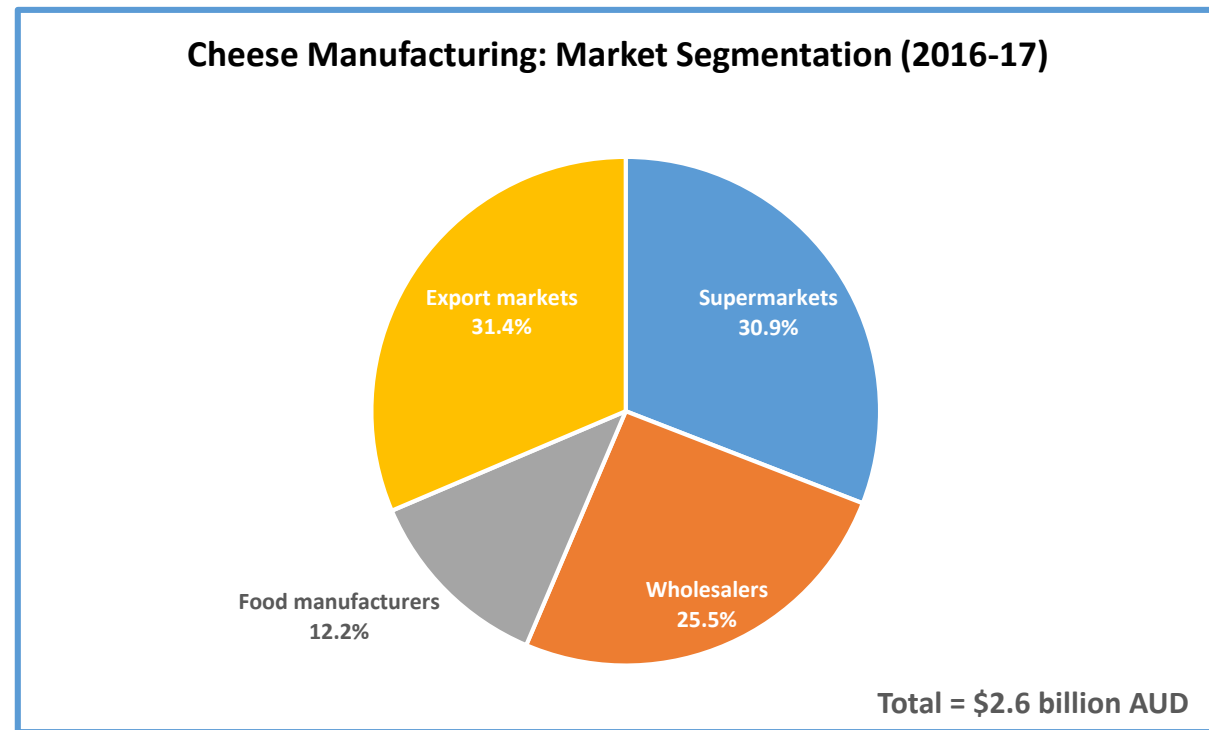
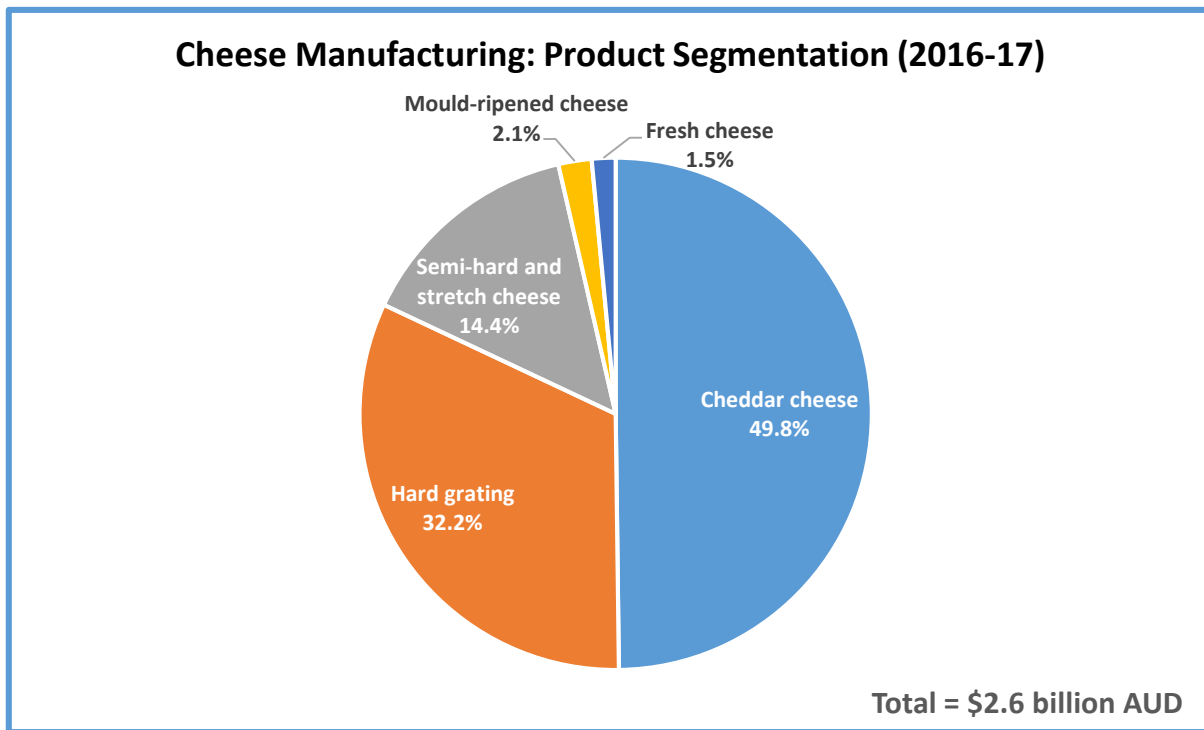
Cheese Manufacturing: Major Manufacturers (2016-17)



Total = \$2.6 billion AUD

Cheese - Overview

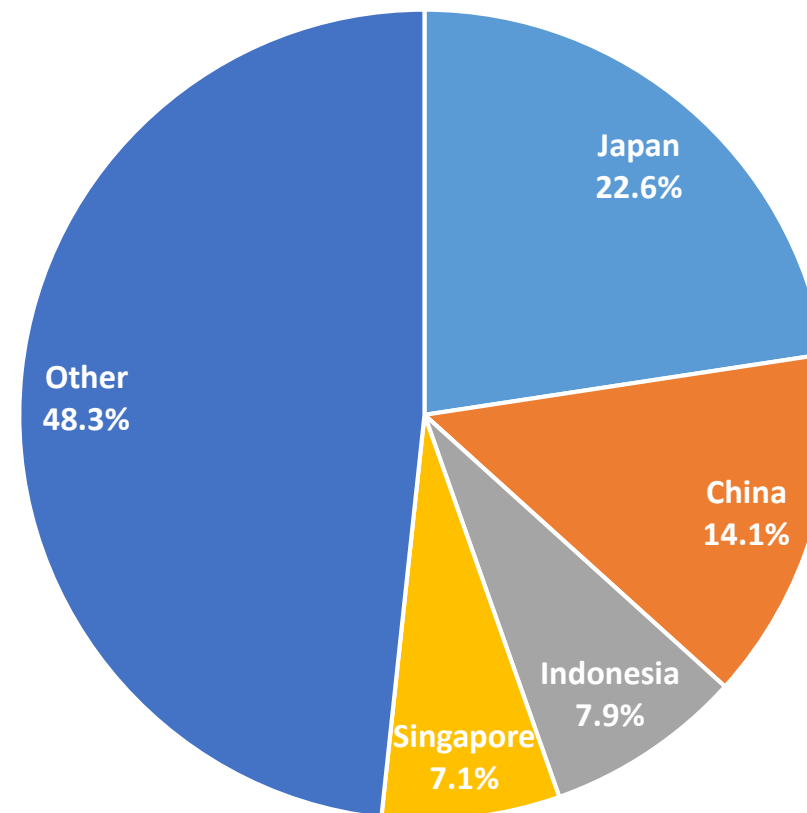
Nearly 50% of cheese produced is cheddar. Export markets (31.4%) are the leading market segment, closely followed by supermarkets (30.9%) and wholesalers (25.5%).



Cheese - Overview

Export markets are key contributors to the Australian cheese industry, with Japan (22.6%), and China (14.1%) being our two largest export markets.

Cheese Manufacturing: Major Export Markets (2016-17)



Total = \$826.9 million AUD

Tariff reductions (e.g. ChAFTA), advances in overcoming perishability issues, food security (Australia is noted as high quality), and economic development within Asia are expected to drive growth in international trade.

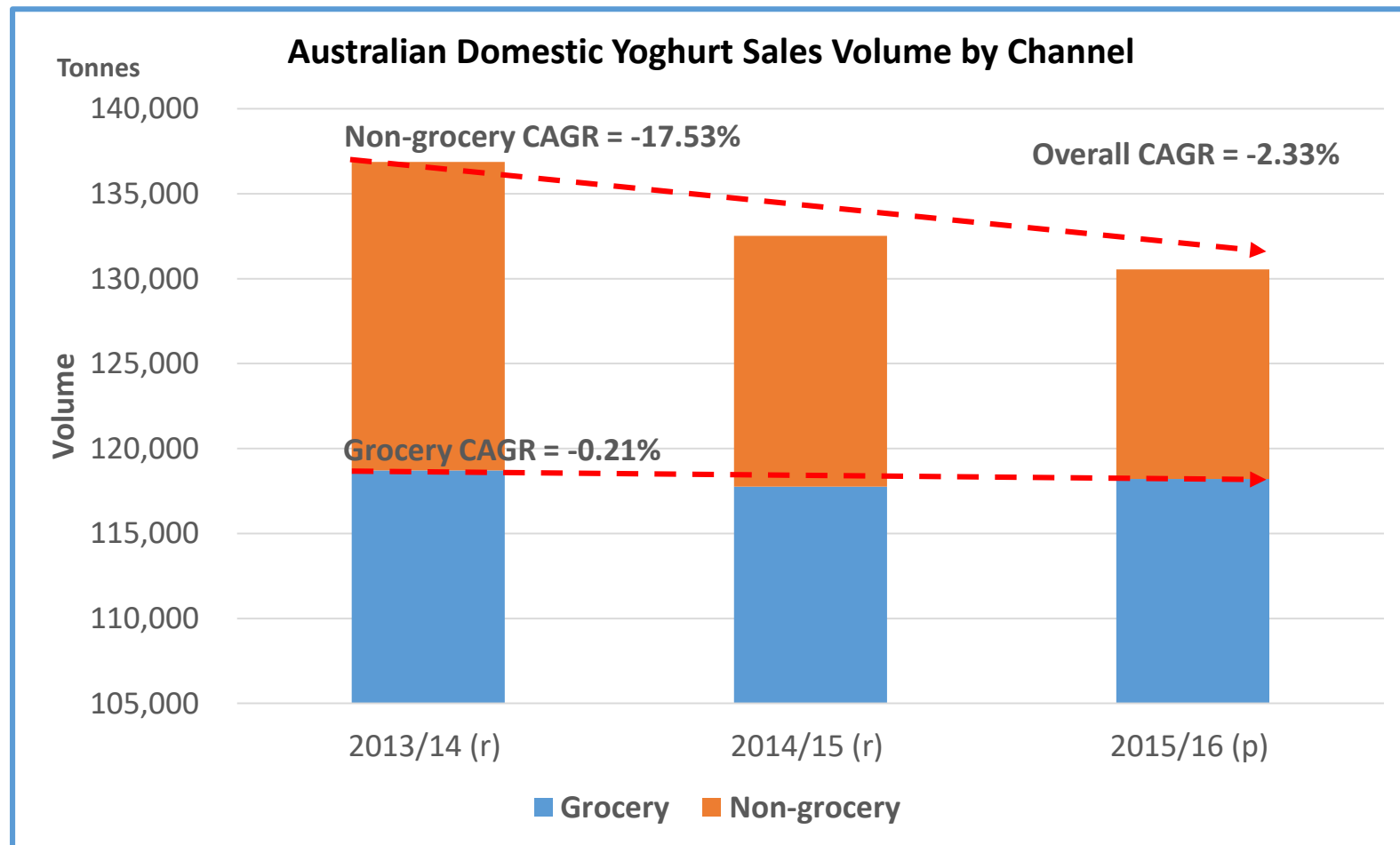
Yoghurt - Overview

- Domestic Australian yoghurt sales have declined 2.33% p.a. over the three years to 2015/16.
- The greatest decline is within the non-grocery channel, decreasing 17.53% p.a. for the three years to 2015/16. Non-grocery includes convenience stores, food service, and industrial channels.
- Ongoing trend away from sweetened and flavoured yoghurts to 'healthier' yoghurts such as natural and Greek style. Natural yoghurt varieties now account for nearly 60% of the market (83,900 tonnes for the 12 months to April 2016).
- Growth within the segment is driven by innovative packaging, flavour combinations, probiotic cultures, and the introduction of new products such as drinking yoghurts and health conscious yoghurts (i.e. low fat, low sugar).



Yoghurt - Overview

Domestic Australian yoghurt sales have declined 2.33% p.a. for the three years to 2015/16 with the greatest decline within the non-grocery channel (-17.53% p.a.).



r – Revised data
p – Provisional data

Yoghurt - Overview

Domestic Australian yoghurt sales are transitioning from sweetened to traditional yoghurts with a 72.83% increase over three years in the 'healthier' traditional (unsweetened) yoghurts and a 26.75% decrease in sweetened yoghurts.

| Yoghurt sales (domestic) | 2013 | 2016 | Growth |
|---------------------------|--------|--------|----------------|
| Sweetened (tonnes) | 78,000 | 57,500 | -26.28% |
| Traditional (tonnes) | 52,000 | 83,900 | 61.35% |
| Sweetened (AUD million) | \$415 | \$304 | -26.75% |
| Traditional (AUD million) | \$357 | \$617 | 72.83% |

| Yoghurt sales (domestic) | 12 mths to April | | Growth |
|----------------------------------|------------------|---------|---------------|
| | 2015 | 2016 | |
| Yoghurt (tonnes) | 166,667 | 160,000 | -4.00% |
| Yoghurt (AUD million) | \$1,076 | \$1,076 | flat |
| Sweetened (tonnes) | 62,500 | 57,500 | -8.00% |
| Traditional (tonnes) | 76,972 | 83,900 | 9.00% |
| Sweetened (\$ per kg – retail) | | \$5.29 | |
| Traditional (\$ per kg – retail) | | \$7.36 | |
| Sweetened (AUD million) | \$336 | \$304 | -9.50% |
| Traditional (AUD million) | \$566 | \$617 | 9.10% |

Butter - Overview

- Butter represents 53.5% of total dairy spreads in terms of volume and 49.2% in terms of value.
- Trend towards 'healthier' unsalted butter evident in volume and value growth figures:
 - 10.2% growth in unsalted butter volumes relative to overall butter growth of 3.4%
 - 8.5% growth in unsalted butter value relative to overall butter growth of 2.6%
- Sale increases have helped reverse the 20-year decline in butter sales experienced during the 1970s & 1980s.
- Consumer preference for healthier food is decreasing margarine demand, and shifting towards butter and other dairy spreads:
 - Dairy spreads market share of table spreads has increased from 30% in 2000/01 to 50% in more recent years
- Majority of domestic butter sales are through retail and food service outlets:
 - 50% of dairy spread sales are through supermarkets
 - 500 gram pack sizes have captured 60.33% of supermarket butter sales with a price of \$8.09 per kilogram in 2015/16
- Domestic dairy-spreads account for 75% of the Australian butter market by volume.
- Exports of Australian dairy spreads vary depending on milk availability and international price competitiveness:
 - 68.5% of Australian butter exports go to Asia (2015/16) which showed a 10% decline from 2014/15 to 2015/16
 - Export volumes declined 23.6% between 2014/15 and 2015/16 and 40.9% since 2013/14
 - Declines from Middle East, Africa, Pacific and Europe (with Americas the only growth market over the period)

Butter - Overview

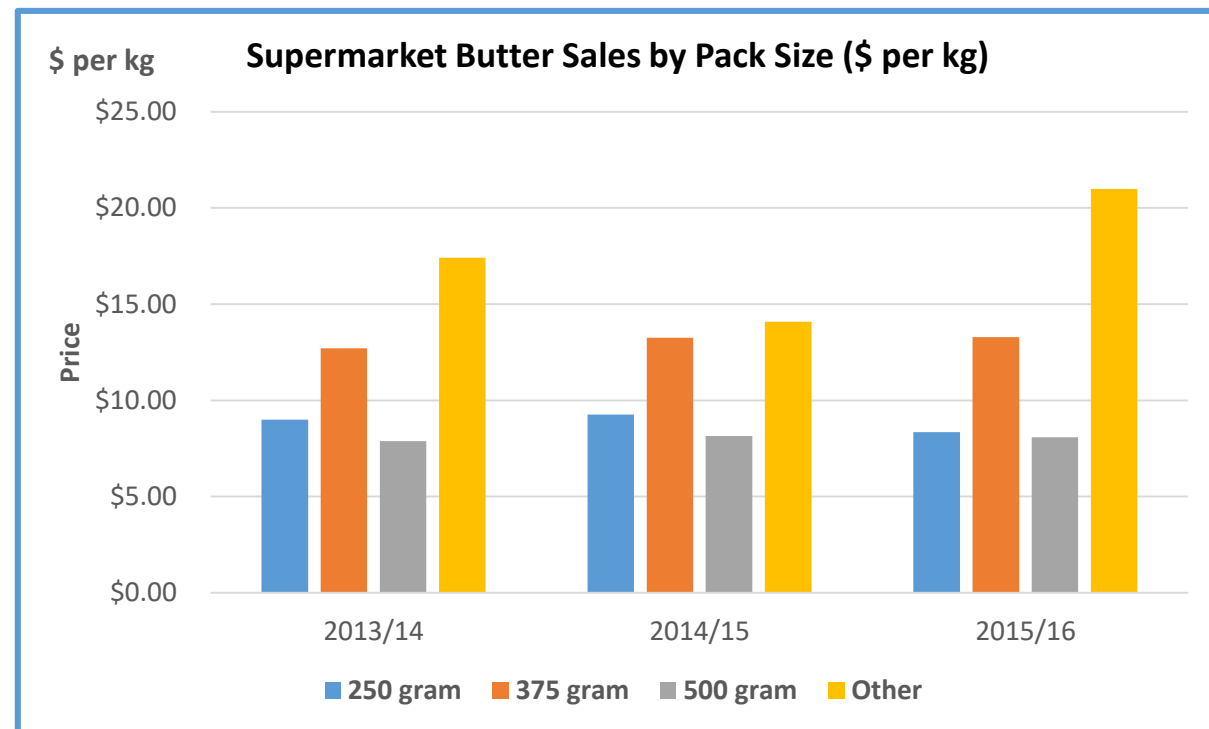
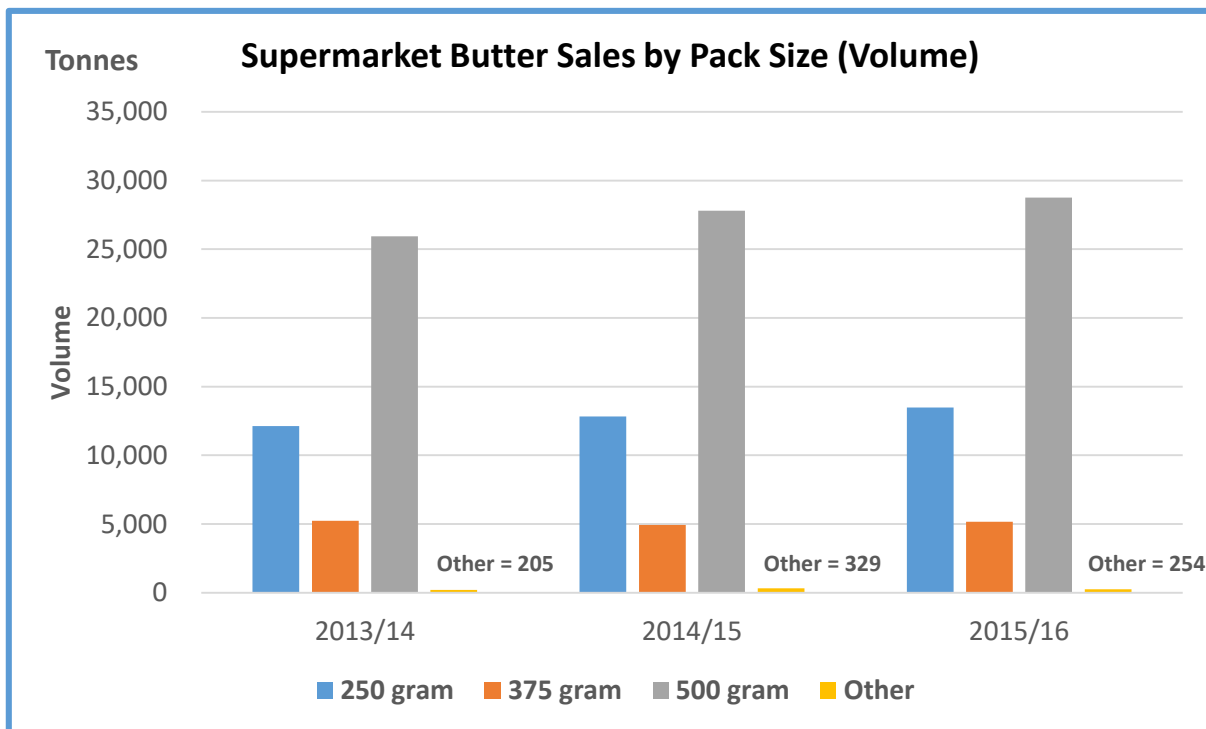
Butter represents 53.5% of total dairy spreads in terms of volume and 49.2% in terms of value, with a trend towards 'healthier' unsalted butter evident in volume and value growth figures.

| Total dairy spreads sales | 12 mths to September | | Growth |
|-----------------------------|----------------------|---------|--------|
| | 2015 | 2016 | |
| Dairy spreads (tonnes) | 49,348 | 47,633 | 3.60% |
| Dairy spreads (AUD million) | \$450.1 | \$432.8 | 4.00% |

| Butter | 12 mths to September | | Growth |
|---------------------------------------|----------------------|---------|--------|
| | 2015 | 2016 | |
| Butter (tonnes) | 24,624 | 25,461 | 3.40% |
| Butter (AUD million) | \$207.4 | \$212.8 | 2.60% |
| Butter (\$ per kg – retail) | | \$8.36 | |
| Butter (share of dairy spread volume) | 49.90% | 53.45% | 3.55% |
| Butter (share of dairy spread value) | 46.08% | 49.17% | 3.09% |
| Unsalted (tonnes) | | | 10.20% |
| Unsalted (AUD million) | | | 8.50% |
| Blends (tonnes) | | | 3.60% |
| Blends (AUD million) | | | 5.00% |
| Blends (\$ per kg – retail) | | \$9.92 | |

Butter - Overview

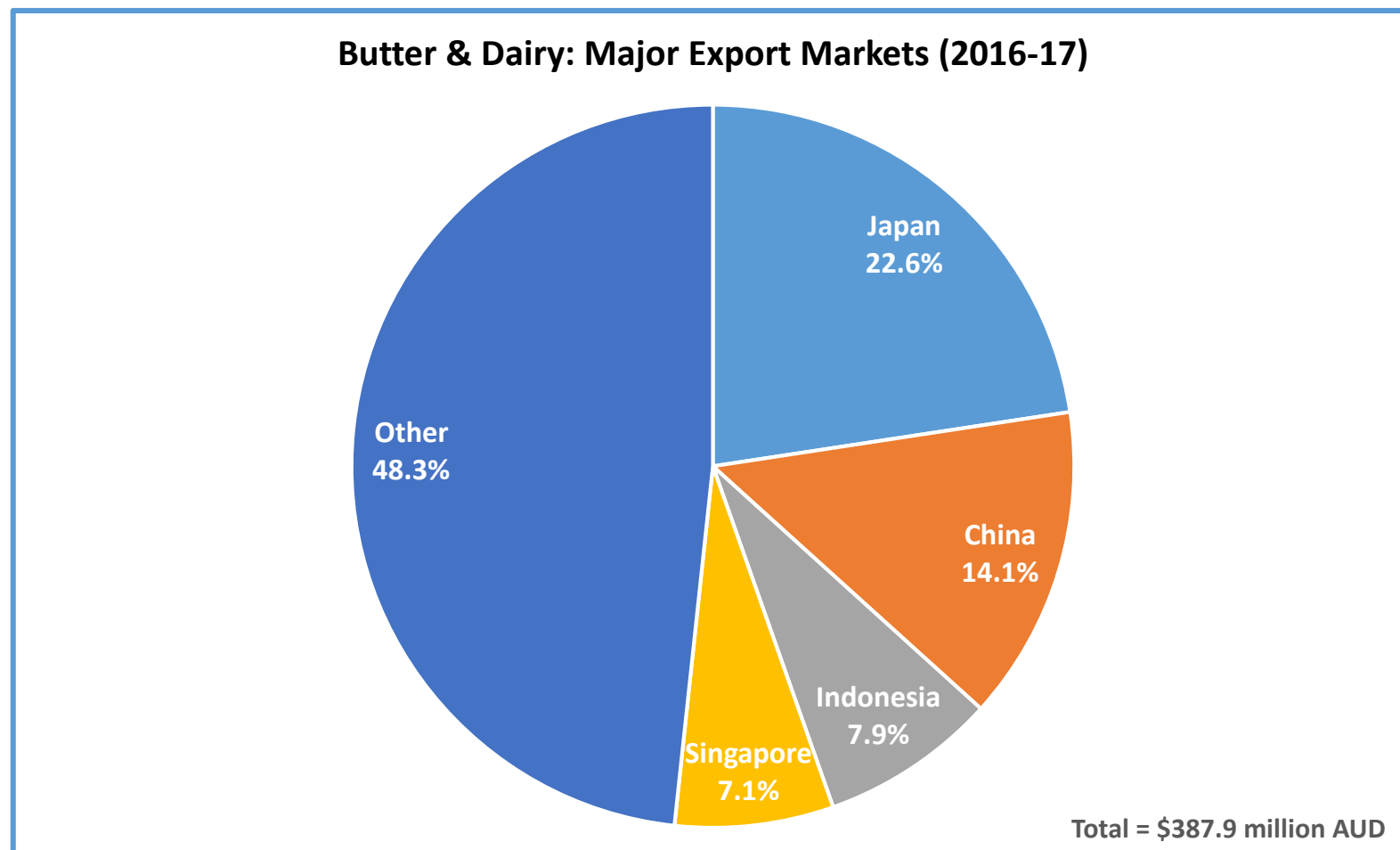
500 gram pack sizes have captured 60.33% of supermarket butter sales with a price of \$8.09 per kilogram in 2015/16.



Sources: Dairy Australia 2016a

Butter - Overview

Australia's geographic proximity to Asia has benefited our butter and dairy product export market with Japan expecting to take 22.6%, China 14.1%, Indonesia 7.9% and Singapore 7.1% in 2016-17.

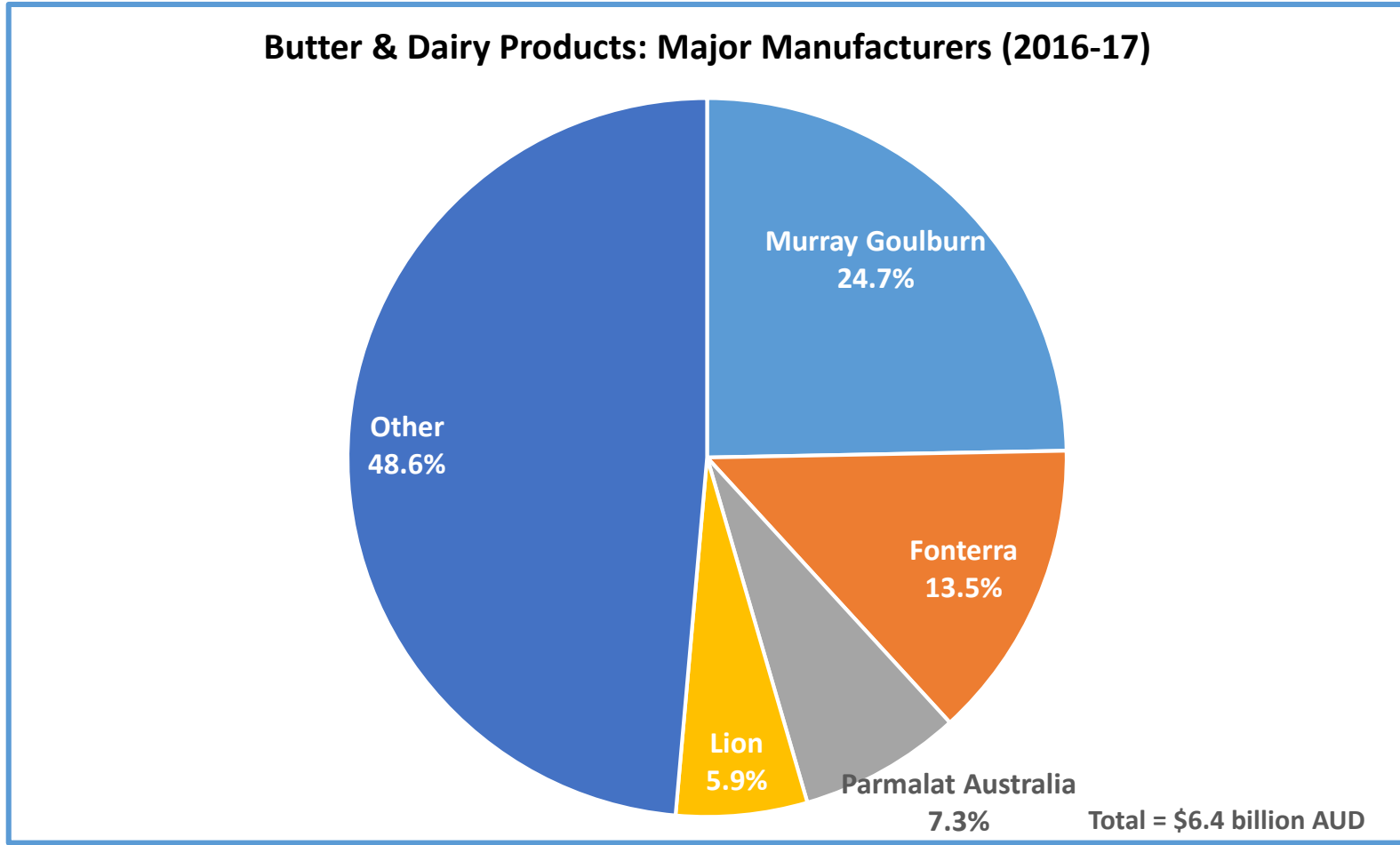


Tariff reductions (e.g. ChAFTA), advances in overcoming perishability issues, food security (Australia is noted as high quality), and economic development within Asia are expected to drive growth in international trade.

Butter - Overview

In 2016-17, four companies held over 51% market share of the Australian dairy butter and dairy product manufacturing industry.

| | |
|----------|----------------------|
| \$6.4bn | Revenue |
| 0.9% | Annual growth, 12-17 |
| 1.9% | Annual growth, 17-22 |
| \$216.8m | Profit |
| \$387.9m | Exports |
| 105 | Businesses |

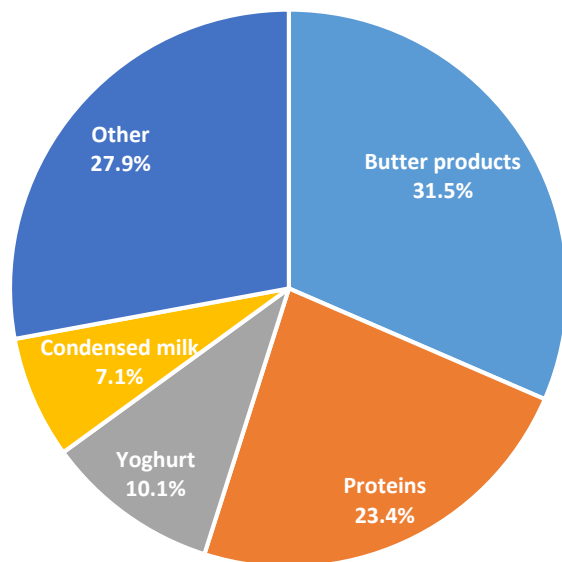


Sources: IBISWorld 2016i

Butter - Overview

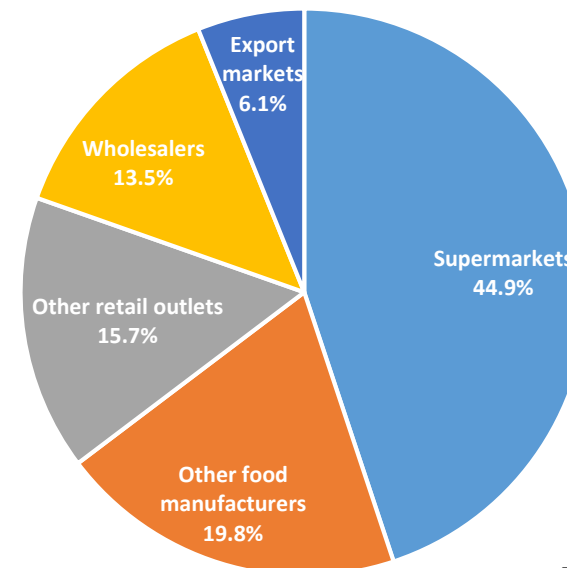
In 2016-17, butter products held over 31% revenue market share of the Australian butter and dairy product manufacturing industry, with supermarkets being the leading market channel (44.9%).

Butter & Dairy: Product Segmentation (2016-17)



Total = \$6.4 billion AUD

Butter & Dairy: Market Segmentation (2016-17)



Total = \$6.4 billion AUD

*includes butter, yoghurts, condensed milk and other dairy products

Sources: IBISWorld 2016i

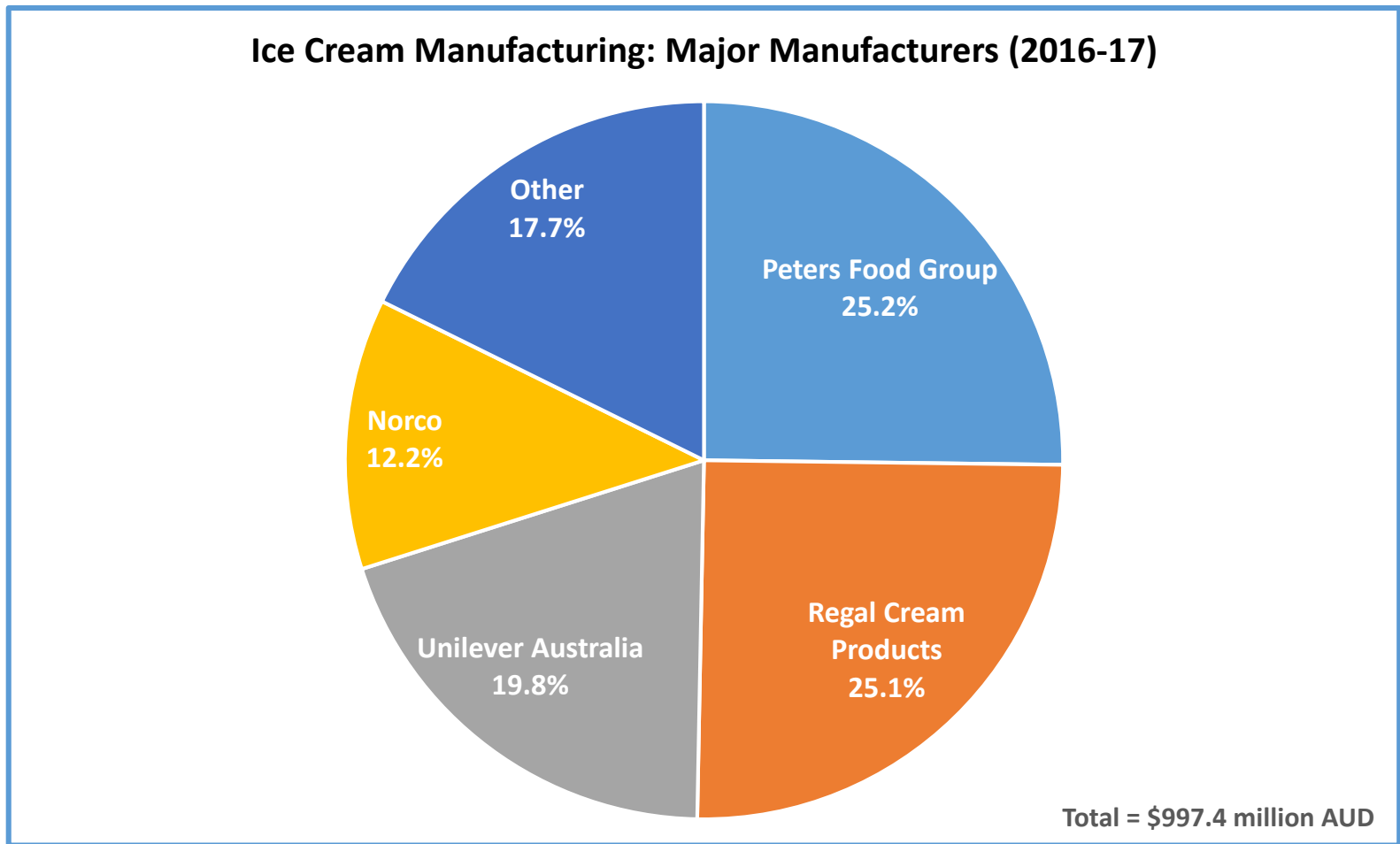
Ice cream - Overview

- In 2016-17, Peters and Regal command 50.3% of the Australian ice cream manufacturing market.
- Smaller niche operators (17.7% of the market) have performed well in the industry's premium and scoop-and-serve segments.
- Australia's ice cream manufacturing industry is composed of take-home (75.5%), unpackaged scoop and serve (15.9%), and individually wrapped products (8.6%).
- While exports represent only 2.6% of the Australian ice cream manufacturing market, they are worth \$26m (2016/17) with the majority going to New Zealand (50.2%) and the United States (25.1%).
- Tariff reductions (e.g. ChAFTA), advances in overcoming perishability issues, food security (AUS is noted as high quality), and economic development within Asia, are factors expected to drive growth in international trade.

Ice cream - Overview

In 2016-17, Peters and Regal command 50.3% of the Australian ice cream manufacturing market, with niche operators falling within the 'Other' category at 17.7%.

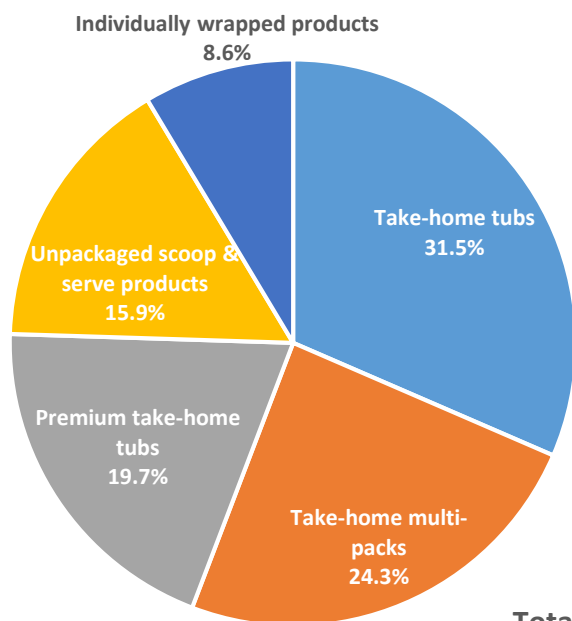
| | |
|----------|----------------------|
| \$997.4m | Revenue |
| 10.3% | Annual growth, 12-17 |
| 4.6% | Annual growth, 17-22 |
| \$95.8m | Profit |
| \$26m | Exports |
| 190 | Businesses |



Ice cream - Overview

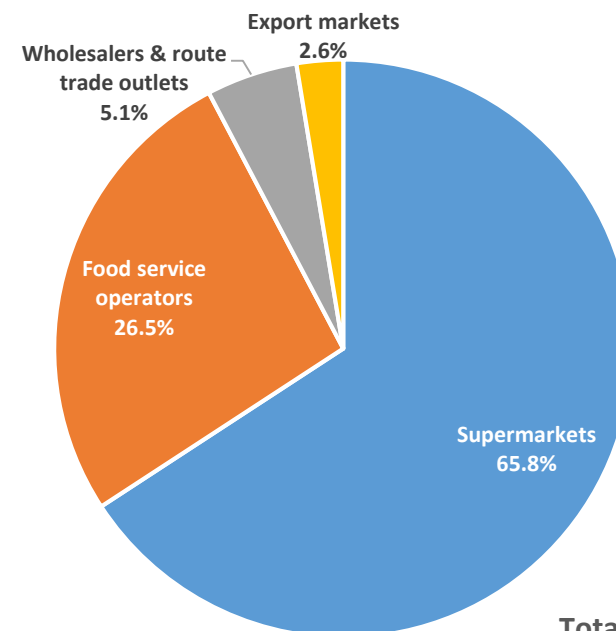
Australia's ice cream manufacturing industry is composed of take-home (75.5%), unpackaged scoop and serve (15.9%), and individually wrapped products (8.6%). Supermarkets represent the largest distribution channel of ice cream products (65.8%).

Ice Cream Manufacturing: Product Segmentation (2016-17)



Total = \$997.4 million AUD

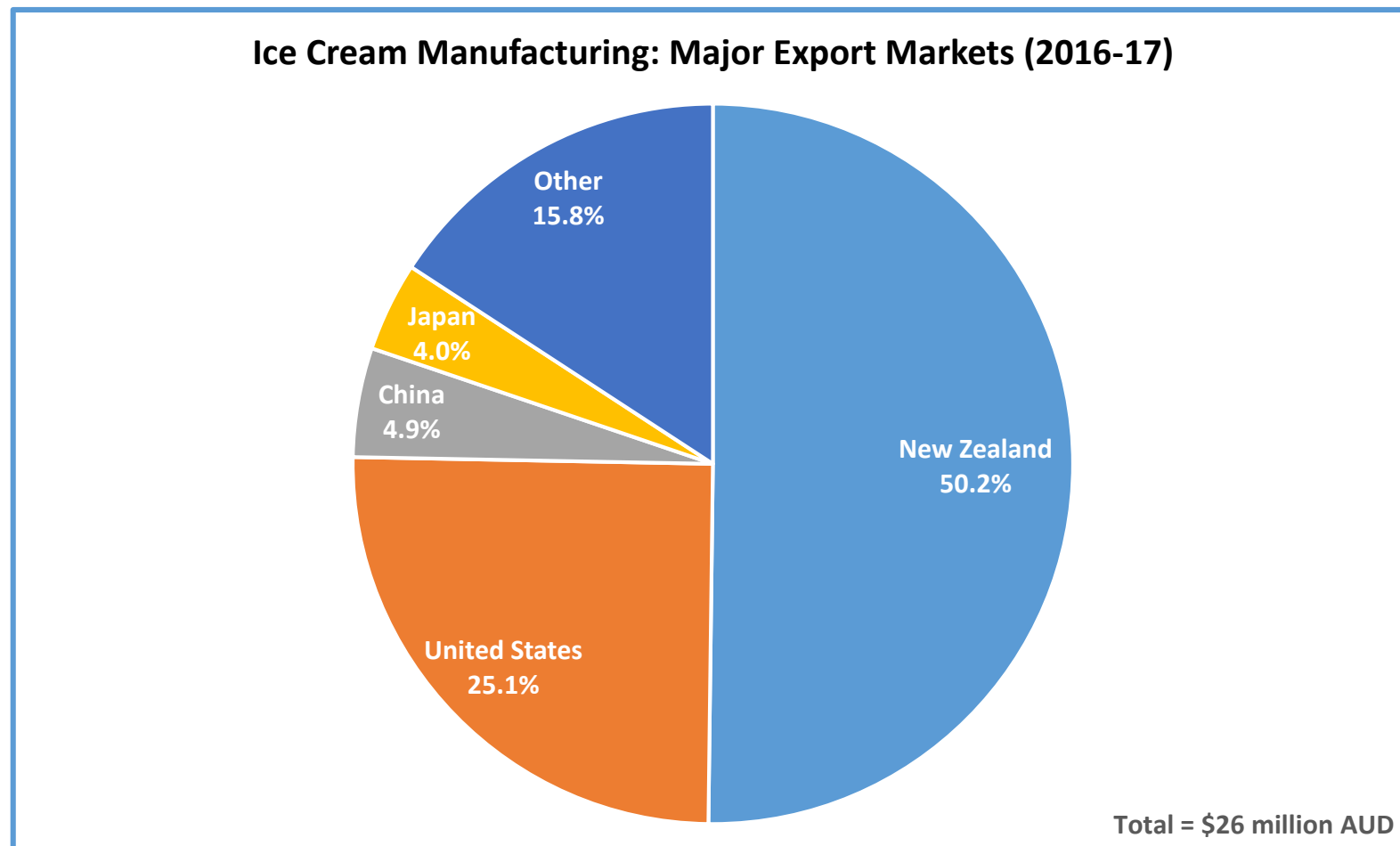
Ice Cream Manufacturing: Market Segmentation (2016-17)



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Ice cream - Overview

While exports represent only 2.6% of the Australian ice cream manufacturing market, they are worth \$26m (2016/17), with the majority going to New Zealand (50.2%) and the United States (25.1%).



Tariff reductions (e.g. ChAFTA), advances in overcoming perishability issues, food security (Australia is noted as high quality), and economic development within Asia are expected to drive growth in international trade.

Australian Dairy Industry June 2016

- Perfect storm of forces:
 - Drought conditions in large areas of Southern Australia
 - European market surplus leads to declining global prices for powdered milk
 - Downturn in demand from China as they buy cheaper European products
 - Russian trade embargo
- This led to:
 - Murray Goulburn reducing prices to \$4.31/kg milk solids – reduction of 10-15%
 - Price not covering cost of production
 - Fonterra following and reducing price from \$5.50-\$5kg
 - Bega Cheese reducing milk solids prices to \$6.08 from the Bega Valley and \$5 from Victoria
- Further, retrospective payments involving almost two-thirds of Australia's milk producers with average payments between \$100,000 and \$150,000.



Australian Dairy Industry June 2016

This has led to a
shrinking milking herd...

| Reduction in the Australian milking herd | | | | | | | |
|--|---------|---------|---------|---------|---------|-----------------------|----------------------|
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 (forecast) | Overall reduction |
| Milking herd size (million) | 1.70 | 1.69 | 1.65 | 1.69 | 1.66 | 1.60 | -5.9% |



Sources: Australian Bureau of Agricultural and Resource Economics and Sciences 2017

Australian Dairy Industry June 2016

...and significantly reduced farm numbers.

| Reduction in the Australian milking herd | | | |
|--|-----------|-----------|----------|
| As at June 30 | 2000 | 2016 | % growth |
| Dairy cows | 2,171,000 | 1,663,000 | -23.4% |
| Farm numbers | 12,896 | 6,102 | -52.7% |

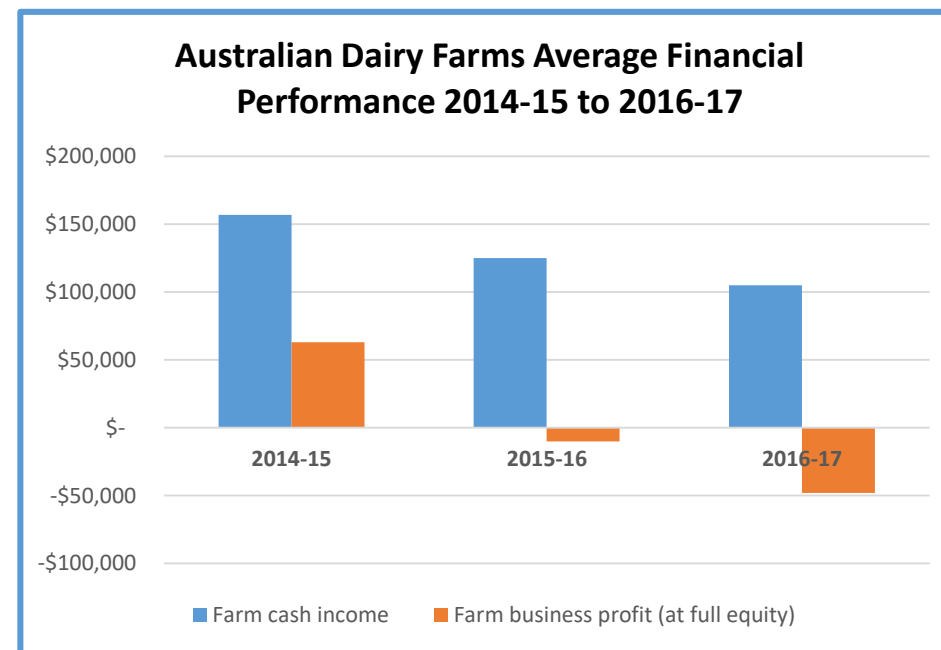
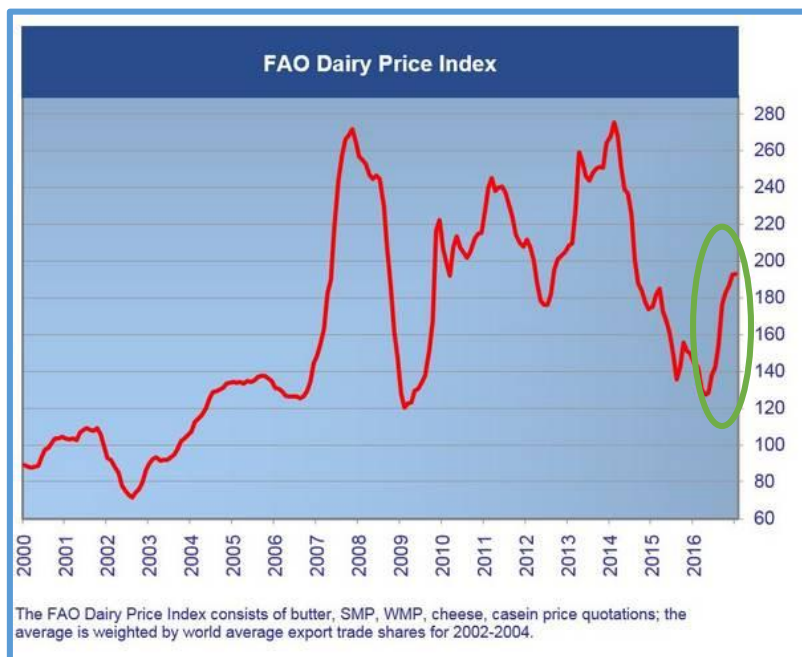
More than the 41.4% reduction witnessed in the 20 years between 1980 and 2000



Australian Dairy Industry June 2016

Australian Dairy Industry is showing signs of improvement in 2017.

- Signs of positive improvement in the Australian market –
 - Better balance between supply and demand globally
 - Increase in global prices
- However, production margins remain tight or negative. Many farmers face a significant task rebuilding their equity position after the tumultuous 12 months.



Sources: Australian Bureau of Agricultural and Resource Economics and Sciences 2017; Food and Agriculture Organization of the United Nations 2017;

Australian Dairy Industry June 2016

The butter and dairy products industry is expected to generate the greatest profit of \$216.8 million during 2016-17.

| Australian Dairy Industry – Overview | Businesses # | Profit \$m | Exports \$m | Revenue \$m | Growth (12-17) | Growth (17-22f) | Primary activities |
|--------------------------------------|--------------|------------|-------------|-------------|----------------|-----------------|--|
| Milk and cream processing | 64 | 100.9 | 345.3 | 2,242.0 | 6.8% | 2.4% | Pasteurises and separates raw milk to make milk and cream products with varying levels of fat content (excludes the manufacture of cultured buttermilk, flavoured milk (whole and skim), sour cream and yoghurt) |
| Butter & dairy products | 105 | 216.8 | 387.9 | 6,375.5 | 0.9% | 1.9% | Butter, yoghurt, condensed milk, evaporated milk and other dairy products (excludes cheese, ice cream, milk and milk powder) |
| Cheese | 126 | 108.1 | 826.9 | 2,637.3 | -1.3% | 2.0% | Manufacturing cheese |
| Ice cream | 190 | 95.8 | 26.0 | 997.4 | 10.3% | 4.6% | Manufacture ice cream, gelato, sorbet and frozen confectionery |
| Milk powder | 31 | 14.4 | 678.8 | 757.0 | -9.1% | 1.9% | Manufacture milk powder, powdered milk-based beverages and baby foods in powder form |

NB: data are from differing time period estimates across 2016 and 2017 though relate to 2016-17

Australian trends

Trends: *Healthy, indulgent, natural, simple, real, convenient and flavoursome* are key consumer preferences driving the dairy market

Consumer driven trends

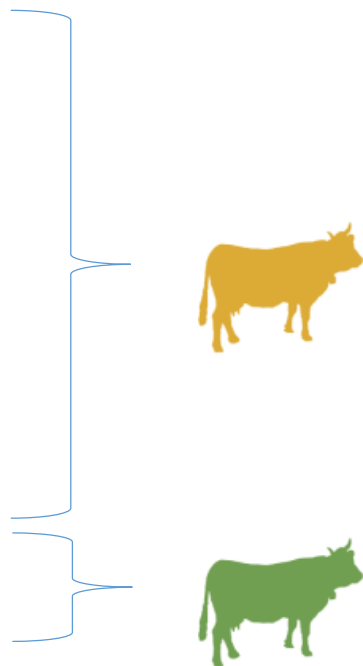
- Interest in health and indulgence.
- Concerns regarding processed and artificial ingredients:
 - Increasing demand for all-natural and premium ingredients
- Looking for products with simpler ingredients.
- Incorporating real fats and real food into diets.
- Increased demand for convenient, healthy and satisfying snacks:
 - Not willing to sacrifice taste
 - Seeking more unique and global flavours

Producer implications




- Growth in value-added and niche segments:
 - Whole-fat dairy products (e.g. half and half, organic butter, organic cheese)
 - Organic (e.g. organic butter, organic cheese)
 - Yoghurt – Drinking yoghurts, real fruit yoghurts
 - Beverages – Challenge soft drinks with healthier, milk-based alternatives (e.g. sparkling milk and fruit drinks, milk and tea drinks, energy drinks)

Potential Opportunities for New Products – Australia

- Kefir
- Skyr
- Drinking Yoghurt
- High Protein Smoothies
- Coffee



Legend

| | |
|---|-----------------------|
|  | Move ahead |
|  | Carefully herd |
|  | Cull |

Kefir



- Derived from Turkish word 'kief', which means 'good feeling'.
- Has thousands of years of history, originating from the Caucasus Mountains region between Europe and Asia. Is considered a traditional drink in Russia and Eastern Europe, and has been exposed to Western Europe over the past few decades.
- Kefir is a fermented dairy beverage with a consistency of thin yoghurt. Kefir grain is added to fresh milk (cow, goat, sheep, coconut, rice, or soy), which activates the fermentation process. These grains are then strained out to make the yoghurt more drinkable.
- Promoted as a healthy natural probiotic and high in protein, Kefir is currently experiencing a surge of popularity in Western Europe and the USA due to its purported health benefits, which include both strengthening gut health and the immune system.
- Kefir is the main driver of growth in the Australian sour milk segment, which overall has increased by 7% in retail value and 4% in retail volume within 2016.
- Australian consumer demand for health-orientated products represents growth opportunities for a higher-value yoghurt product such as Kefir.
- Kefir sales in the USA have grown from \$58 million USD in 2009 to more than \$130 million USD in 2014.
- In the USA, commercial producers and home brewers are experimenting with new recipes and flavoured variants of Kefir.

Skyr



Your Levy at Work



- Pronounced Skee-er.
- Skyr is a cultured dairy product which originates from Iceland – where it has been consumed for thousands of years.
- Promoted and described as a yoghurt but is more like a skim milk-based soft cheese. Skyr is made by incubating live active cultures with skim milk, then straining away the whey and water to produce a thicker, high protein non-fat yoghurt.
- The boom in skyr's international profile has been driven by its 'superfood' status, being high in protein, low in sugar and has no fat.
- It's promoted as an 'on the go' breakfast food or daytime snack that boosts energy and keeps you satisfied throughout the day.
- The leading manufacturer of skyr in the US, Siggi's Dairy, experienced 120% sales growth from 2014-2015 and is now the fastest growing national yoghurt brand in the USD\$9bn a year US yoghurt market.
- Skyr is quickly produced, taking as little as four days to go 'from cow to supermarket'.
- Is sold unflavoured or produced in a range of flavours including vanilla, strawberry, blueberry and peach.

Drinking Yoghurt

- Drinking yoghurt has experienced a global resurgence and represented 8.5% of all dairy product launches in the year preceding October 2015.
- Consumption of dairy products, including drinking yoghurts, is expected to increase 1.6% during 2016-17. Part of the growth rests on a growing health and well-being movement and the desire for Australians to be healthier overall.
- Sales of drinking yoghurt in Australia has increased by 12.4% over the last 4 years to nearly AUD\$80mn in 2016 and is forecast to increase a further 11.2% through 2021.
- Drinking yoghurt combines a healthy image and suits both in-home or 'on-the-go' consumption to tap into renewed consumer focus on convenience.



High Protein Smoothies

- Consumers buying liquid breakfasts, a category dominated by high protein smoothies, doubled through 2010-2014 reflecting consumer demand for having breakfast on the run.
- Sales of whole protein smoothies marketed as having 'farm fresh protein' (without the addition of protein powder) produced 200% growth in year on year sales in 2015. This sector was estimated to exceed AUD\$10m in sales in 2016.



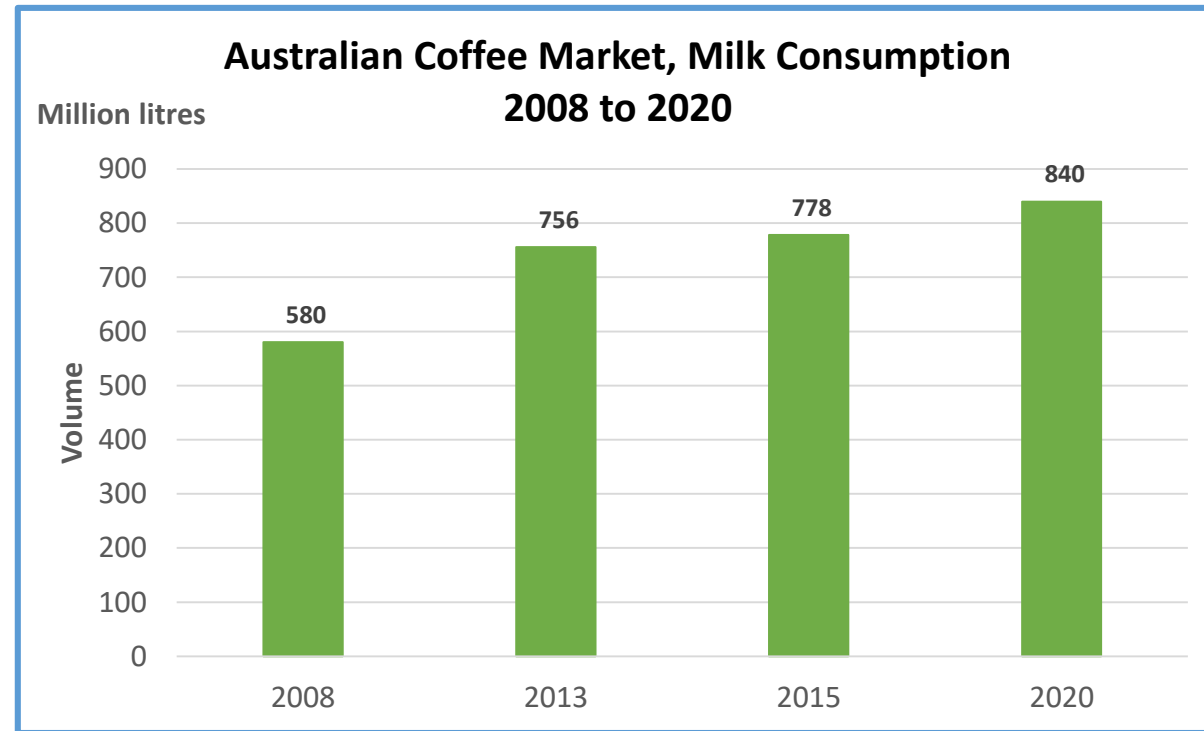
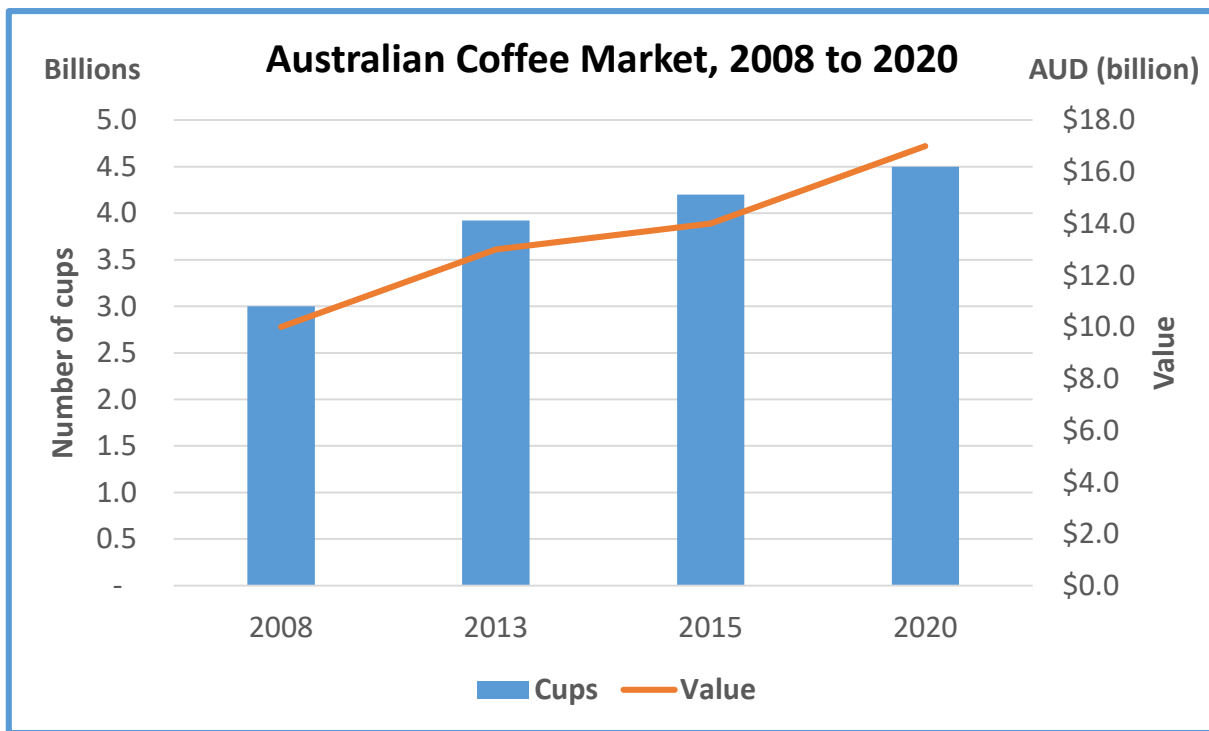
Your Levy at Work



Coffee



\$14 billion industry selling 4.2 billion cups per annum (2015) growing to \$17 billion and 4.5 billion cups by 2020. Milk demand rising from 778 million litres in 2015 to 840 million litres by 2020.



Sources: Café Pulse 2015

Coffee

- **No. 1** out-of-home beverage.
- **93%** of all coffee is milk-based - despite milk-based coffees being under threat due to consumers beginning to limit number of milk-based drinks consumed per day.
- **840 million litre market** by 2020.
- **Taste** is most important - more so than convenience or price.
- **Emerging trends** include single origin and innovative brewing styles.
- **Target market 31–40 years (33%)** – with 82% < 51 years.



Sunshine Coast opportunities –

- Provide milk specifically designed to enhance taste.
- Changing demographics to young families fits with coffee's target market.
- Even 1% of 840 million litres will make a difference to our farmers i.e. 8.4m litres @ 0.55c = **\$4.62 million** (just under the entire value of the Sunshine Coast dairy farm industry as reported by ABS for 2014/15 at \$4.68 million).



Environmental Analysis

Queensland's Dairy Sector



Your Levy at Work



Queensland Coast Dairy Sector

- The Queensland Dairy Industry produces over 411 million litres of milk, at a farm-gate value of \$220 million per year. After processing for drinking milk and manufactured products, this value increases to \$1.1 billion per year.
- The region is uniquely characterised by hot and humid summers and mild and dry winters. Average annual rainfalls often exceed 2000mm in northern parts of the state, with cyclones, flooding and drought all common events that challenge farm production and profitability.
- There are approximately 430 dairy farmers throughout the region which primarily service the domestic fresh milk market.
- Subtropical Dairy farms are typically family owned and operated. The average herd size is 200 – 250 cows producing 6,250 litres per cow annually. Average farm size is 200 – 250 hectares.
- Within the region there are seven major processing plants operated by Lion Nathan and Parmalat. There is one co-operative, Norco (a producer owned co-operative), and more than 50 boutique processing factories. When combined, there are over 3,000 dairy farmers and manufacturing employees. Investment by dairy farmers amount to over \$2.1 billion in farms, cattle and equipment.

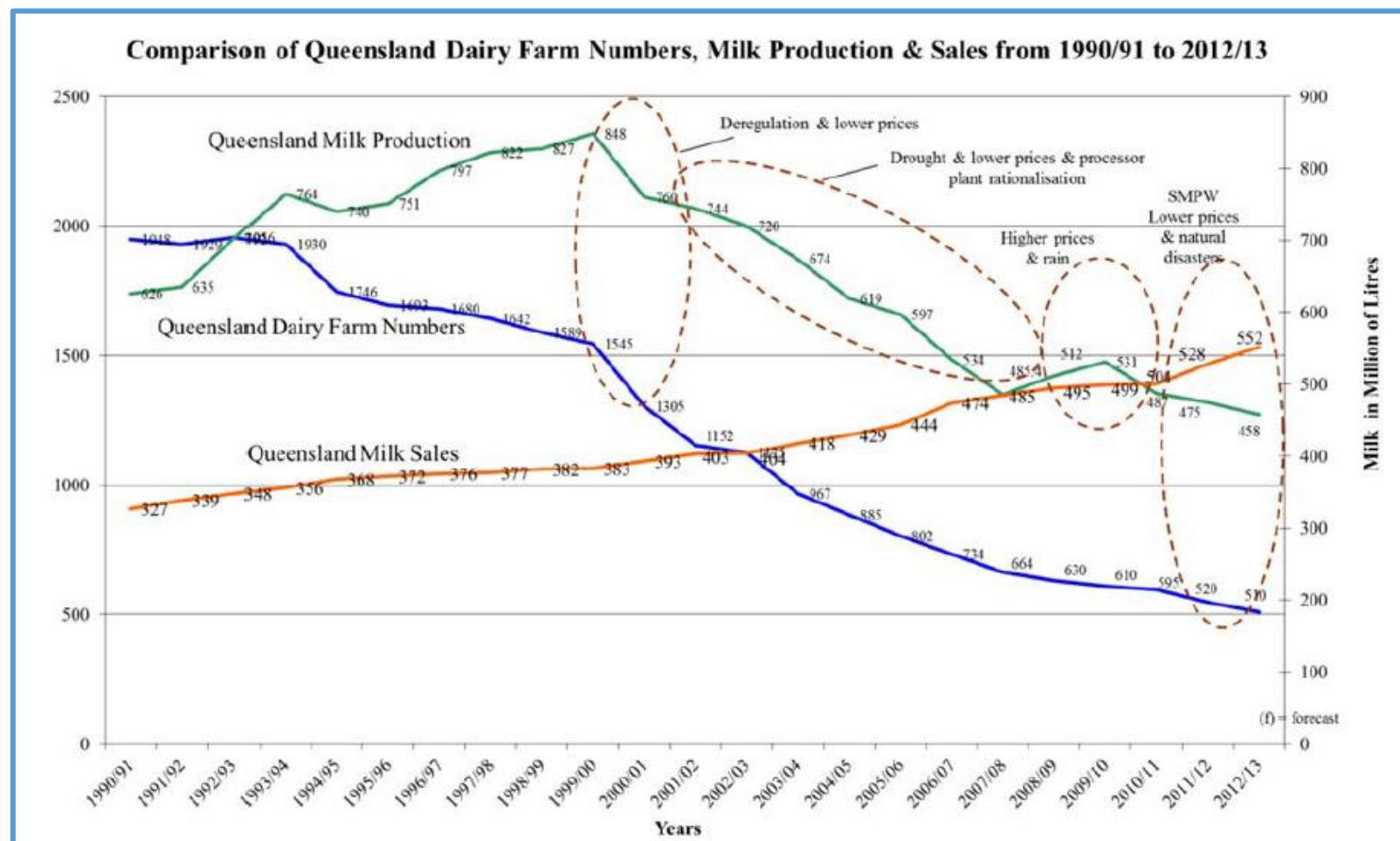
Queensland Coast Dairy Sector



Queensland Coast Dairy Sector

Queensland's dairy farm numbers and milk production have significantly declined since deregulation; however, milk sales have been increasing.

| Year | QLD herd size |
|------|---------------|
| 2006 | 127,000 |
| 2007 | 121,000 |
| 2008 | 100,000 |
| 2009 | 107,000 |
| 2010 | 98,000 |
| 2011 | 97,000 |
| 2012 | 101,000 |
| 2013 | 96,000 |
| 2014 | 98,000 |
| 2015 | 91,000 |
| 2016 | 91,000 |



Sources: Dairy Australia 2017a; Queensland Dairyfarmers' Organisation 2013

Queensland Coast Dairy Sector

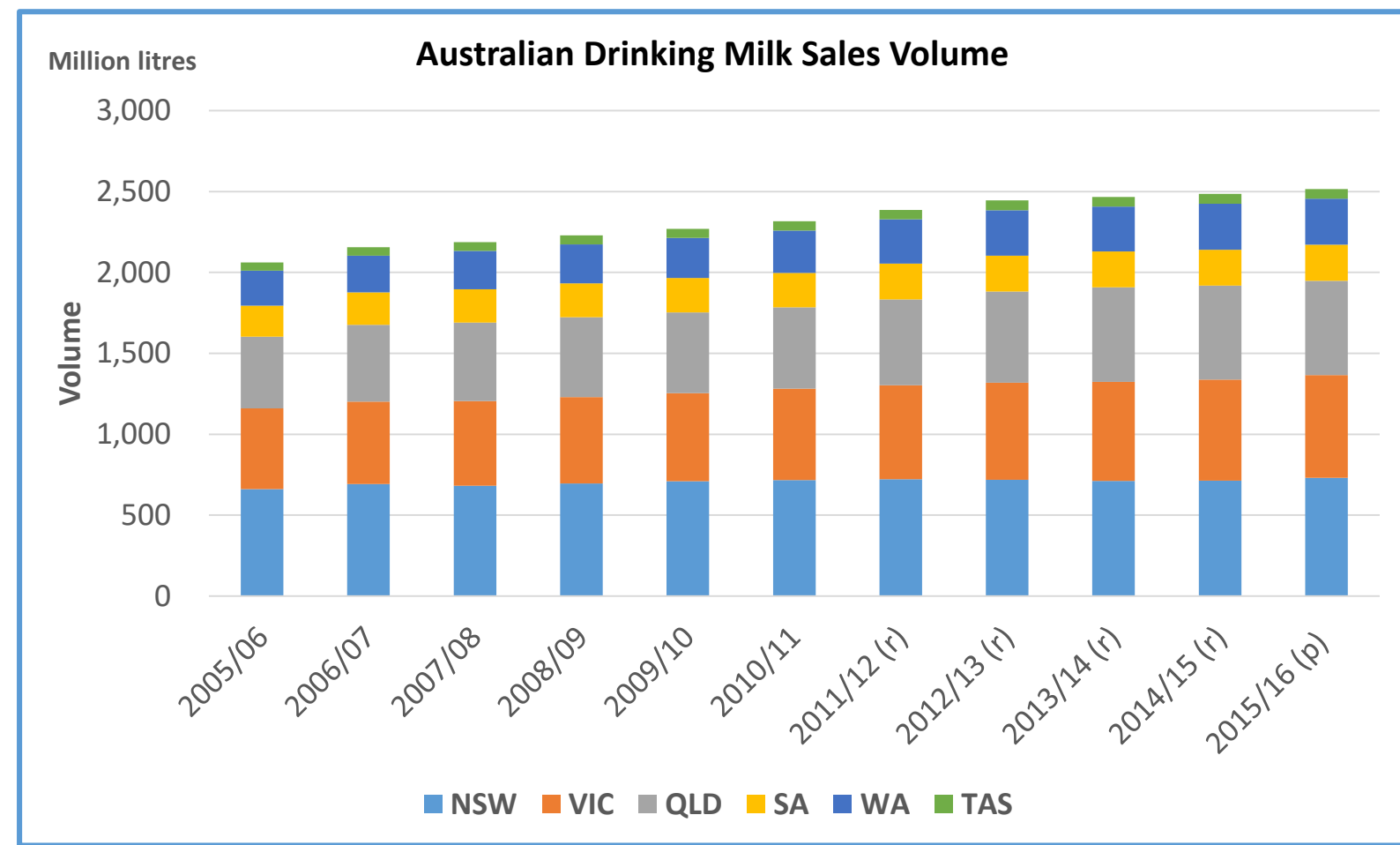
Queensland Dairyfarmers' Organisation Survey

- The majority of Queensland dairy farmers are not confident about or were uncertain of the future of their dairy farming business.
- 74% of those expecting to leave the industry listed 'lack of profitability' as the major reason.
- 52% of farmers could not pay all their monthly bills.
- 71% have deferred or cancelled operating (repairs and maintenance) and capital expenditure.



Queensland Coast Dairy Sector

However, Queensland has the third highest drinking milk sales in Australia in terms of volume.

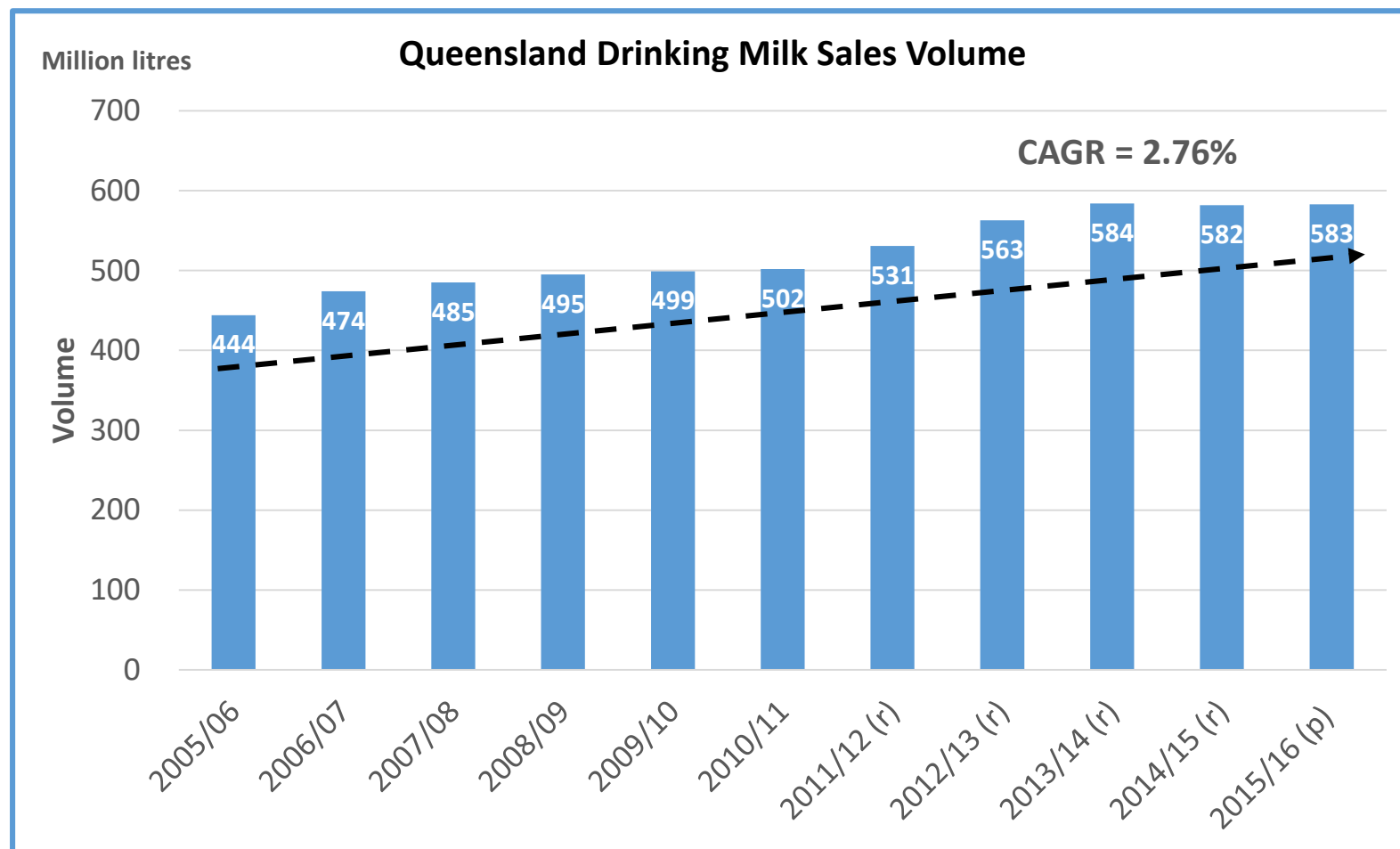


r – Revised data
p – Provisional data

Sources: Dairy Australia 2016d

Queensland Coast Dairy Sector

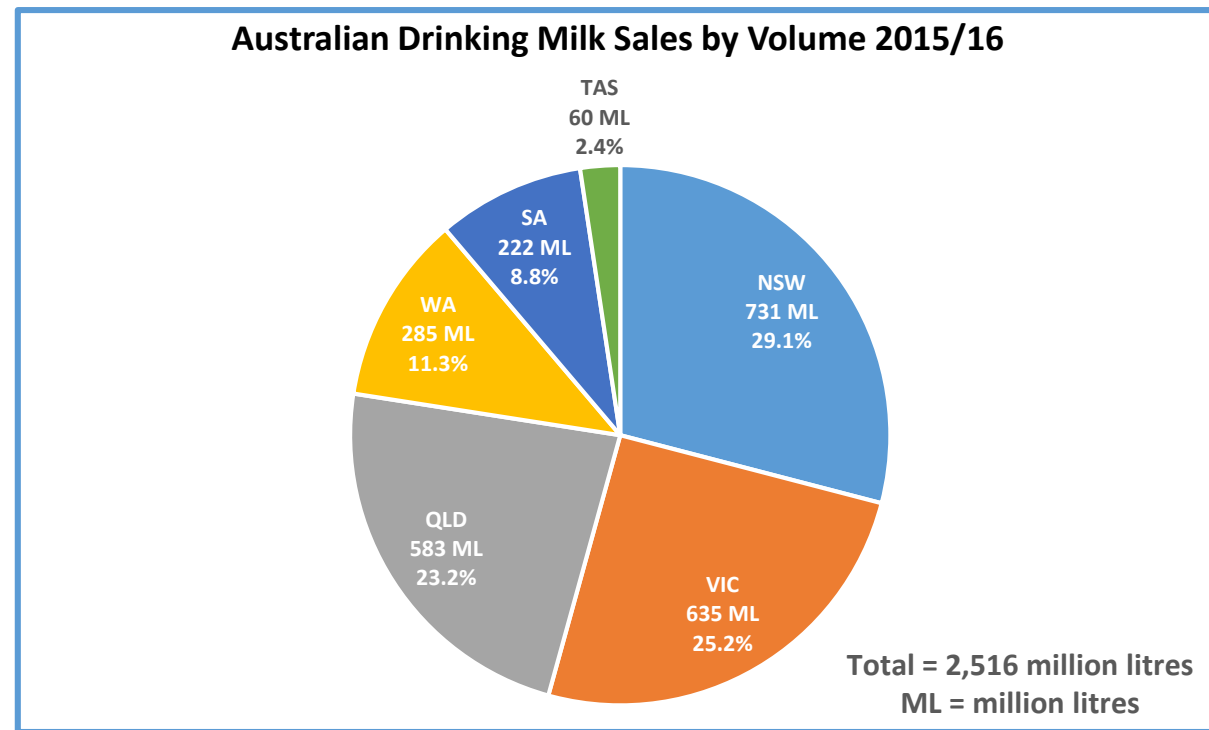
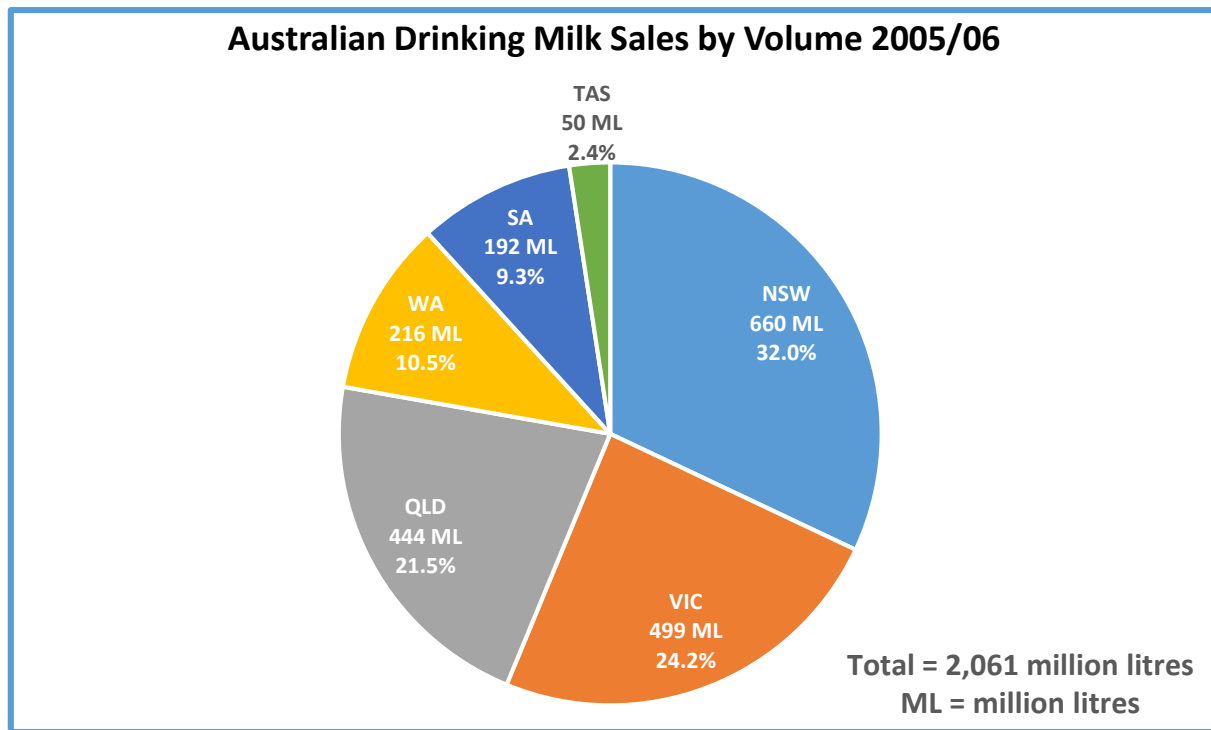
Queensland drinking milk sales have increased over the ten years to 2015/16 by an average of 2.76% p.a., increasing from 444 million litres in 2005/06 to 583 million litres in 2015/16...



r – Revised data
p – Provisional data

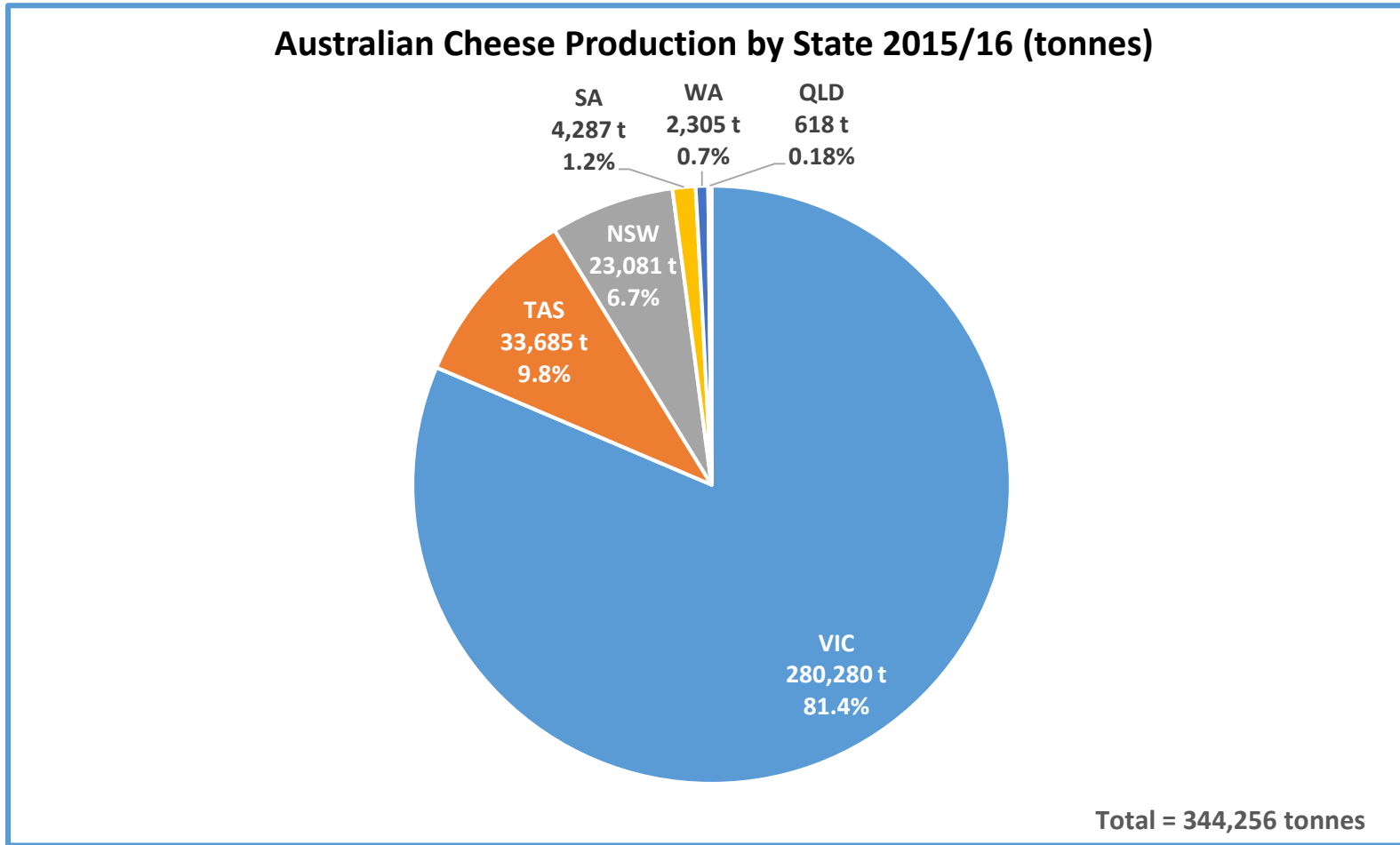
Queensland Coast Dairy Sector

...and Queensland and Victoria increased their shares of the drinking milk sales market whilst NSW, SA, and Tasmania lost market share.



Queensland Coast Dairy Sector

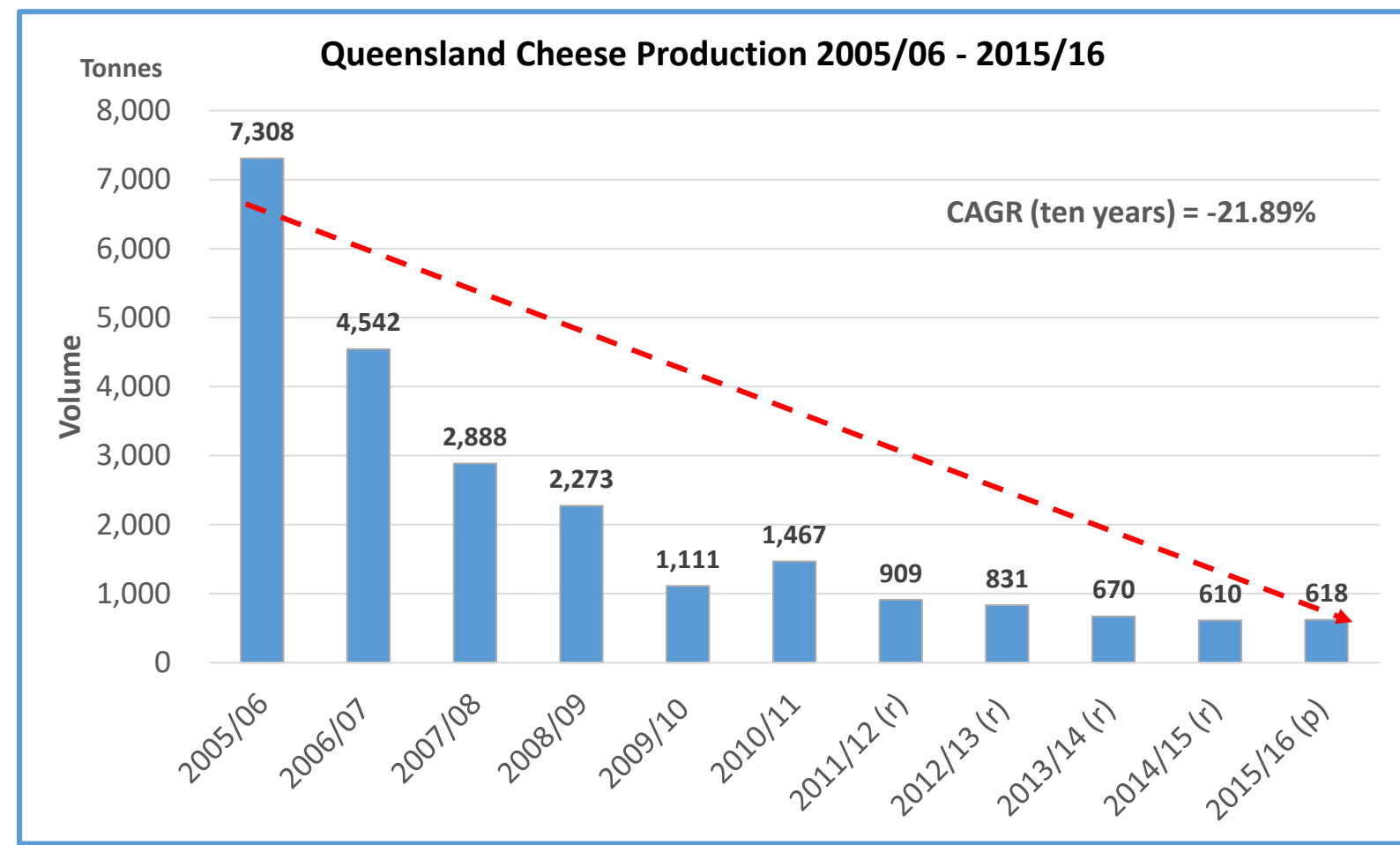
81.42% of Australian cheese was produced in Victoria in 2015/16, with Queensland having 0.18% market share.



Sources: Dairy Australia 2016a

Queensland Coast Dairy Sector

Queensland's cheese production has declined 21.89% p.a. over the ten years to 2015/16...

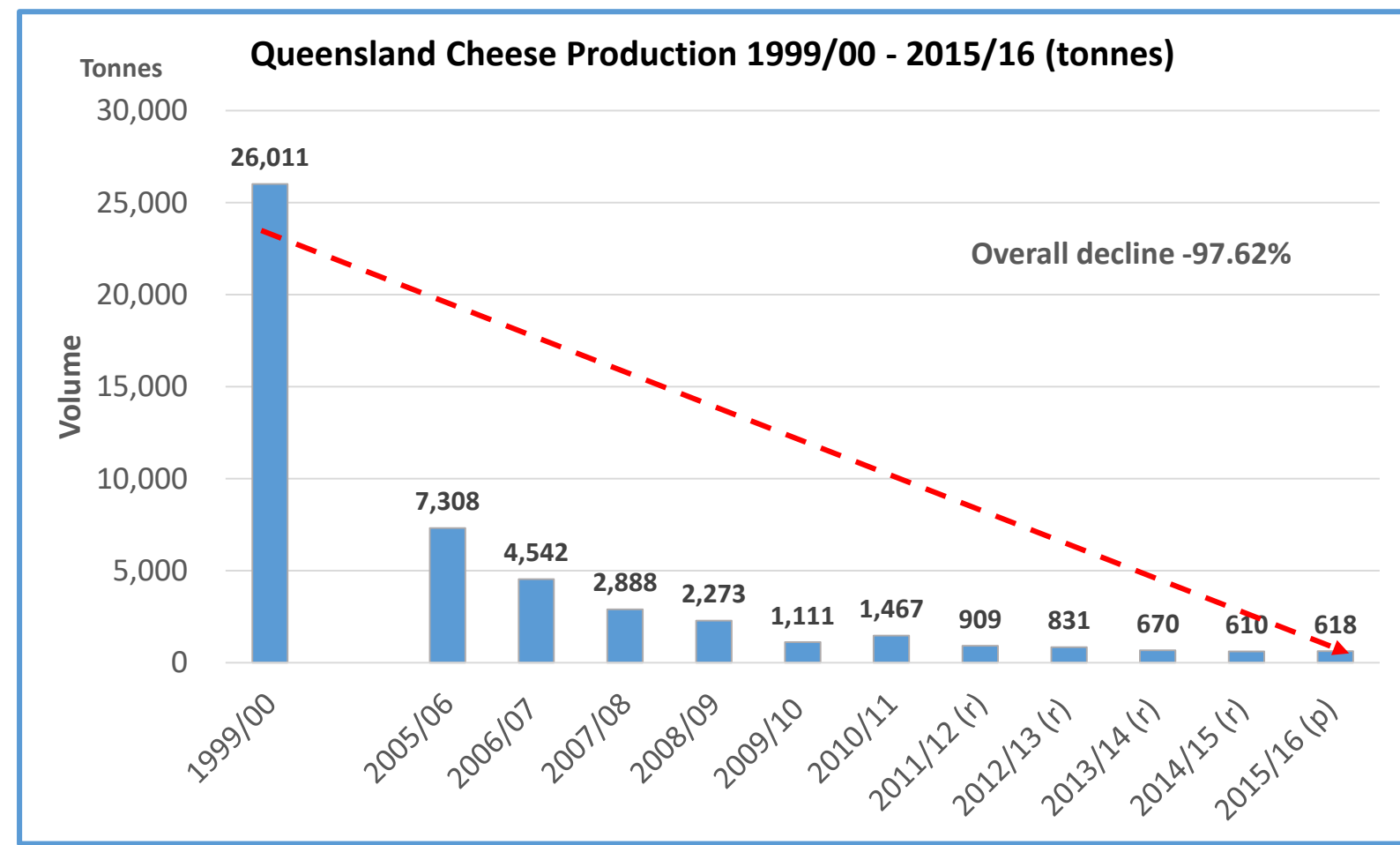


r – Revised data
p – Provisional data

Sources: Dairy Australia 2016a

Queensland Coast Dairy Sector

... and has declined 97.62% since 1999/2000.

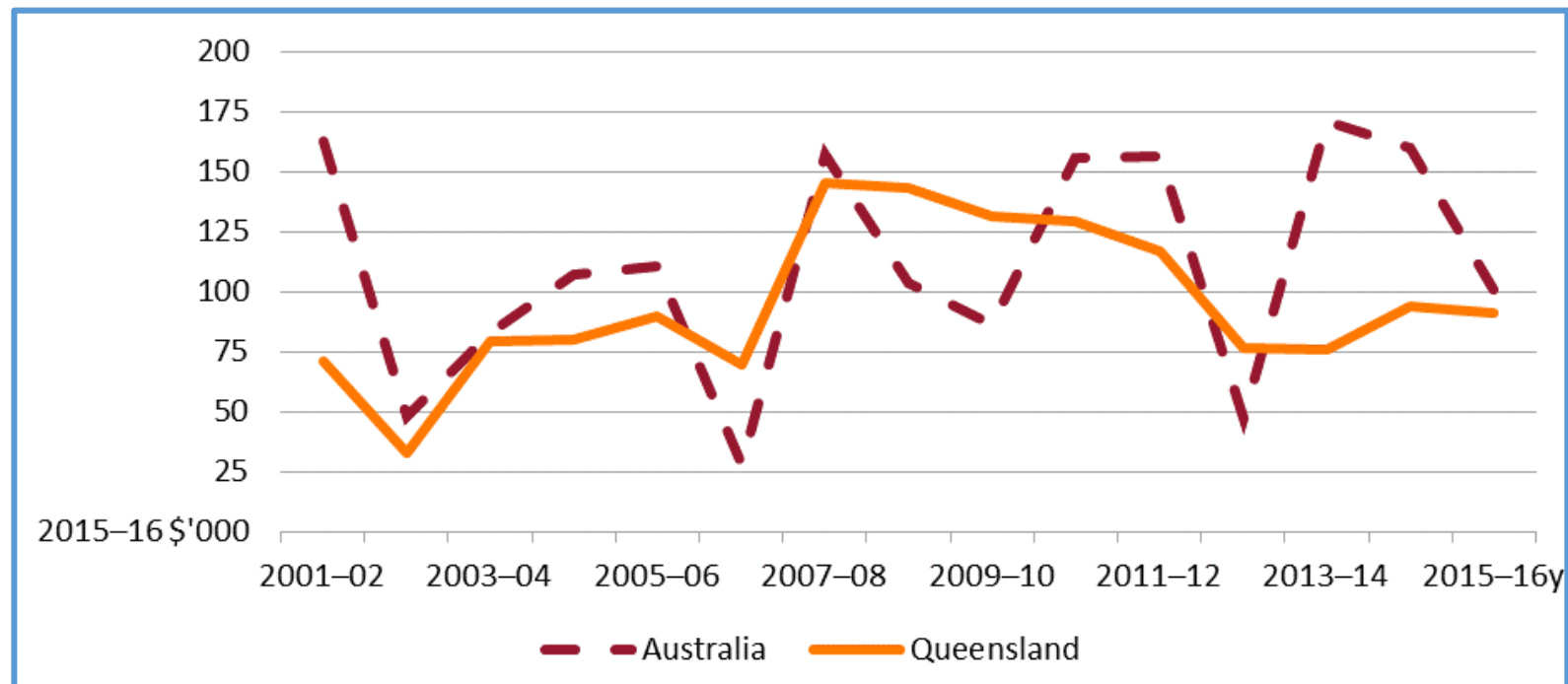


r – Revised data
p – Provisional data

Sources: Dairy Australia 2016a

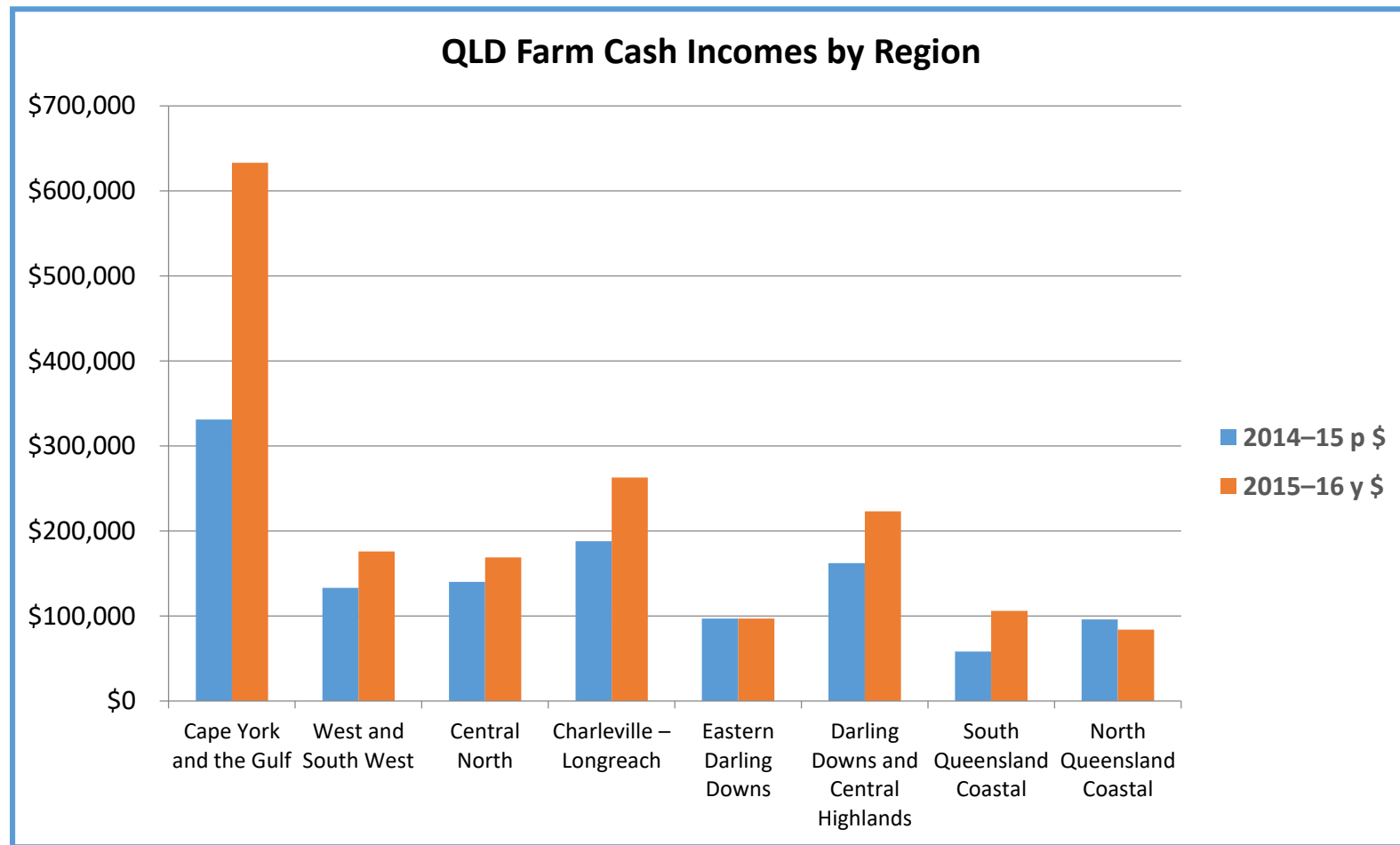
Queensland Coast Dairy Sector

In 2015-2016, average Queensland dairy farm cash incomes are estimated at 22% below the Australian 10 year average to 2014-15.



Queensland Coast Dairy Sector

South Queensland Coastal is the second lowest cash income earning broadacre farming region in Queensland, earning an average of \$58,000 in 2014-15 and \$106,000 in 2015-16.



NB: Broadacre includes: dairy, beef, grains, vegetables, sheep.

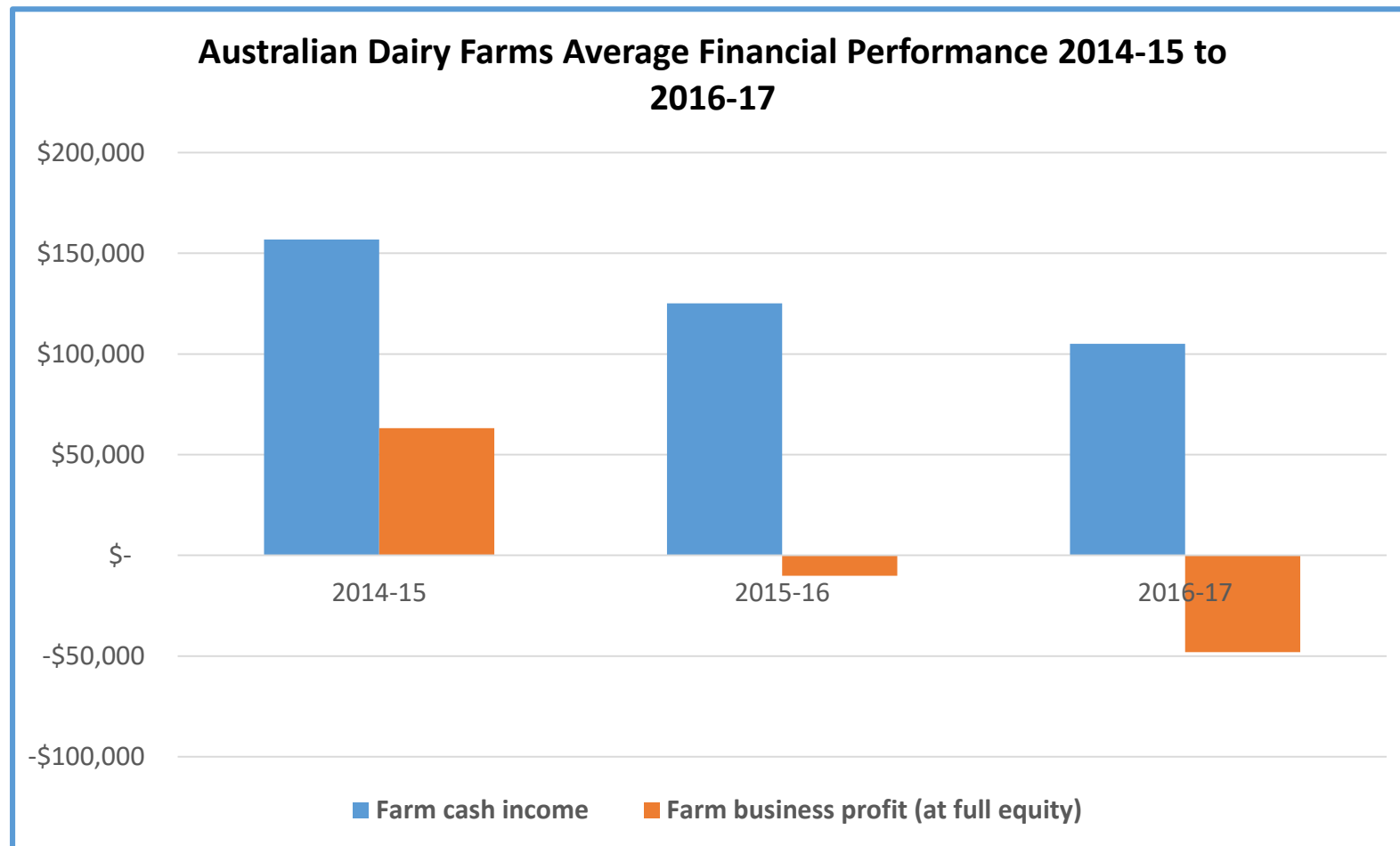
South East Coastal: Beaudesert, Moreton, Brisbane Valley and Gympie

p - Preliminary estimate

y - Provisional estimate

Queensland Coast Dairy Sector

Farmers are not viable!



Sources: Australian Bureau of Agriculture and Resource Economics and Sciences 2017

Environmental Analysis

The Sunshine Coast's Dairy Sector

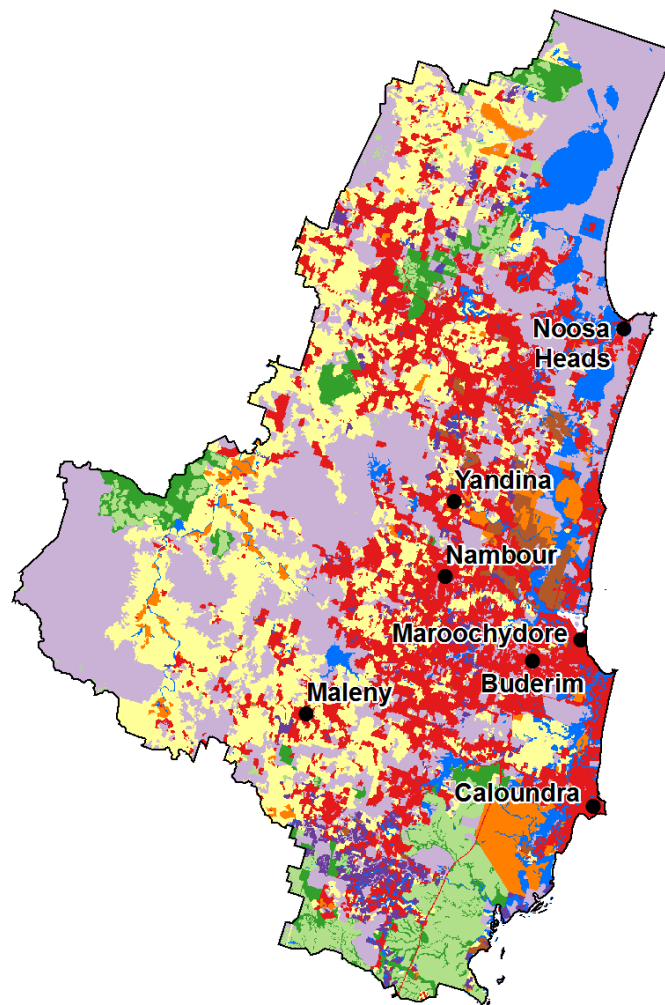


Your Levy at Work












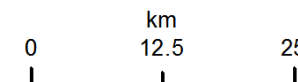
Sunshine Coast Dairy Sector

The Sunshine Coast is located in Queensland's south-east, approximately 100km north of Brisbane.



Broad land use

-  Nature conservation, protected areas and minimal use
-  Grazing native vegetation
-  Production forestry
-  Grazing modified pastures
-  Plantation forestry
-  Cropping
-  Horticulture
-  Intensive uses
-  Water



Current Situation: Sunshine Coast

- In 2015, we profiled the dairy industry as part of the Building the Links project for the Sunshine Coast Council.
- Milk production was valued at \$11.4 million (2013/14):
 - Latest ABS statistics report Sunshine Coast milk value at \$4.7m (2014/15), a 59% decline between 2013/14 and 2014/15
 - Per farm average turnover valued at \$1.4 million (for milk production) with 23 farms identified, which suggests the Sunshine Coast's actual industry value to be closer to \$32.2 million
- The sector has declined by 66% since 2007 (statewide):
 - Queensland cannot fulfil market demands with milk brought in from southern states to supplement Queensland production
- The Sunshine Coast has one of the highest concentrations of value-add dairy in mainland Australia.
- The Coast is serviced by four major processing plants operated by Parmalat, Cooloola Milk, Maleny Dairies, and Norco; the other major drinking milk processor supplied by the Sunshine Coast Dairy Industry is Lion Dairy & Drinks.
- Other direct buyers of Sunshine Coast milk include Maleny Cheese, Kenilworth Country Foods, Queensland Yoghurt, Olympus Cheese, and Woombye Cheese.
- Challenges still remain on securing supply lines into the future.

Current Situation: Challenges

- Falling farmer confidence, who are also leaving the industry due to rising costs and falling incomes making their businesses unviable.
- Exposure to national and international commercial strategies that do not consider state and regional sustainability issues.
- A lack of milk supply for new market development, which limits post-farm gate supply chain investment.
- Limited, but sustained growth in current domestic markets up until 2019.
- Limited short term growth in current export markets.



Current Situation: Consumption

61.3% increase in Sunshine Coast dairy consumption is forecast to 2040.

| | 2015/16 | 2040 |
|---|--------------|--------------|
| Sunshine Coast Estimated Population | | |
| | 341,054 | 550,000 |
| Sunshine Coast Estimated Consumption | | |
| Milk | 35,810,670L | 57,750,000L |
| Yoghurt | 2,421,483L | 3,905,000L |
| Cheese | 47,406,500L* | 76,450,000L* |
| Sunshine Coast Total Estimated Consumption | | |
| | 85,638,653L | 138,105,000L |
| Total Growth | | |
| | 52,466,347L | 61.26% |

*Cheese consumption converted into milk litres based on the assumption that 1kg of cheese is produced with 10L of milk

Sunshine Coast Airport

- A new runway is planned for the Sunshine Coast airport, a \$347 million development that will accommodate large planes and direct flights from Asia and the Western Pacific by 2020.
- Currently, there are 1 million passenger movements per year.
- Potential to attract up to 2 million more passengers annually by 2040.
- \$4.1 billion contribution to the Sunshine Coast economy (2020-2040).



Game changes for the industry

- Construction is underway of an innovative \$35 million infant formula factory in Toowoomba to export some 30 million tins annually.
- The Toowoomba Integrated Milk Project also plans to export fresh milk to Asia, aiming to supply two jumbo jets a day of fresh milk from Toowoomba's new private international airport.

Toowoomba milk powder plant a positive for dairy industry

1000 new jobs with \$35m factory in Queensland first

JOBS: \$35 million factory wins council approval

\$35 million baby formula factory shows region can cash in

“Projected volume of milk needed for this project is estimated at some 150 million litres.”

E. Danzi QDO, pers. comm.

Current Situation: Consumption

By 2040: “...locals know that they can do whatever they want to do, locally.”
– Bernard Salt, KPMG

Key demand drivers

- Maroochydore CBD development (53 hectare site).
- New runway and international airport development (direct access to Asia).
- Light rail (Caloundra – airport).
- Housing estate developments (e.g. Bli Bli, Caloundra, Birtinya, Maroochydore).
- University hospitals (\$1.8 bn public and \$150m private).
- Economic diversification (into sectors including technology, aviation, renewable energy and professional services).
- Changing demographics from aging population to young families and children.

“The key difference between the Sunshine Coast of 2040 and the Sunshine Coast of today is not [the infrastructure and population growth]...it is the sense that locals know that they can do whatever they want to do, locally. This is an important cultural distinction in regional Australia.”

Bernard Salt, *The Activated City: Imagining the Sunshine Coast in 2040*

Game changes for the industry

- Online retail giant Amazon has recently announced its intention to establish distribution centres in Australia to pursue the domestic retail market. Expected to attain over 5% market share within many retail categories within 5 years.
- Thousands of Australian businesses already use Amazon Marketplace as a platform to sell their products overseas. The number of Australian businesses using the platform will increase due to greater traffic from the domestic market.
- AmazonFresh is expected to be rolled out in late 2017 or early 2018. In the US, the service delivers groceries (fruit and vegetables, bread, cheese , milk etc.) via trucks to customers' homes. Delivery can be requested on the same day or next morning.



“Amazingly convenient to realise you are out of milk at night and just pull out your smartphone, place an order and find a gallon of milk on your stoop at 7am the next morning”.

US AmazonFresh customer

Sources: Amazon 2017; Colangelo 2016; Pash 2017

Image: SounderBruce 2015

Changes in retailing

More opportunities for distribution!



Aldi is opening more stores with more products and moving upmarket.



Lidl cut price stores are coming to Australia and are taking the low price position.



David Jones is opening high end Food Halls with fresh cut fruit and vegetables and meal solutions as a feature.

Sources: Australian Food News 2017; Greenblat 2015; Low 2016

Images: Aljona83 2011 via Wikimedia Commons; Bidgee 2009 via Wikimedia Commons; Kgbo 2014 via Wikimedia Commons

Game changes for the industry

Key technologies that have the potential to impact the Sunshine Coast's Dairy Industry.

Naturo (<http://www.naturotechnologies.com/about-naturo/>)

- “Naturo Pty Ltd develops original and healthy technologies and products for businesses in the food sector, focusing on natural ways to extend shelf life and enhance nutritional value.” Dairy solution is soon to be released.



Freeze Dry Industries (<https://www.freezedryindustries.com.au/>)

- “The state of the art factory is right in the heart of the beautiful Sunshine Coast in Yandina, Queensland and is the first of its kind acting not only as a manufacturer but also a showroom for products, equipment and innovation.” Freeze drying adds value in terms of long shelf life, light weight and preserved nutrition.



Sunshine Coast Dairy

We are good at what we do. Sunshine Coast dairy cows produce the greatest average gross value of milk (\$1,728) per head...

2014-15

| | Unit | Queensland | Darling Downs | Wide Bay | Cairns | Toowoomba | Sunshine Coast |
|------------------------------|------|---------------|---------------|--------------|--------------|--------------|----------------|
| Dairy cattle, total | # | 168,512 | 37,703 | 29,953 | 26,243 | 12,927 | 2,711 |
| Businesses | # | 848 | 281 | 132 | 67 | 43 | 9 |
| Gross Value, Milk | \$ | \$235,798,702 | \$50,925,005 | \$48,621,998 | \$41,649,013 | \$21,074,102 | \$4,684,474 |
| GV(milk) : DC | \$/# | \$1,399 | \$1,351 | \$1,643 | \$1,587 | \$1,630 | \$1,728 |
| GV(milk) : Businesses | \$/# | \$277,937 | \$181,196 | \$367,652 | \$621,720 | \$494,465 | \$494,143 |
| Business : Queensland | % | 100.00% | 33.13% | 15.59% | 7.90% | 5.02% | 1.12% |
| GV(milk) : Queensland | % | 100.00% | 21.60% | 20.62% | 17.66% | 8.94% | 1.99% |

Sunshine Coast Dairy

...and our dairy livestock businesses generate high average gross milk values:
equivalent to Toowoomba at \$494k per business

2014-15

| | Unit | Queensland | Darling Downs | Wide Bay | Cairns | Toowoomba | Sunshine Coast |
|------------------------------|------|---------------|---------------|--------------|--------------|--------------|------------------|
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| GV(milk) : Queensland | % | 100.00% | 21.60% | 20.62% | 17.66% | 8.94% | 1.99% |

Consumer perspectives: Overview

- Dairy is the primary food group associated with the Sunshine Coast.
- 68.1% of local SEQ residents view buying local food and beverages favourably, with the female demographic being more favourable than males.
- 79% of visitors to SEQ feel they should try local food and beverages.
- 79.5% of visitors to SEQ view buying local food and beverages favourably, with the female demographic more so than males.
- Local SEQ residents are more likely than future visitors to buy local food and beverage because they like the local producer connection or want to support local retailers.
- The top five barriers to local SEQ consumers' willingness to purchase local food beverage are poor promotion, availability of information on where to buy, unclear local branding, limited availability, and poor labelling.
- Key barriers for future visitors are travel, requiring extra effort, and inconvenience.



Consumer perspectives: Overview

Local residents

- 96.4% of local SEQ residents who purchase local food and beverage [more than infrequently] do so to support local products and / or the regional economy.
- Traceability is also an important purchasing driver. 90.1% agree with 'I like the connection with local producers' and 'I know where it comes from'.
- Females were more likely to agree more so than males that they purchase local food and beverage because it is quality, has a good appearance, they can trust it, it meets Australian safety standards, it supports the local community, producers, retailers and the regional economy, it tastes good, it is sustainable and reduces packaging, and shopping for it is fun.
- People aged 35 years and older are more likely to agree that freshness is the key driver (rather than being local, safe, organic, chemical free, ethical, considers animal welfare, nostalgia, fun, guilt, premium priced, variety, and nationally available).



Consumer perspectives: Overview

Visitors

- 86.6% of past visitors agree that freshness is a key purchasing driver.
- Future visitors are driven by being preservative free (88.8%), quality (86.3), freshness (85.1%), tastes good (84.5%), healthy (84.5%), and natural (83.2%).
- Future visitors are also driven by 'feel good' factors (such as interesting and/or novel, satisfying shopping experience, traditional to the region, makes me feel good), support factors (such as supporting the local community (83.2%), regional economy (82.0%), and local producers (80.7%).



Consumer perspectives: Overview

'Dairy' is the primary food group associated with the Sunshine Coast by local SEQ residents.

| Top of mind associations for South East Queensland local residents | |
|--|--|
| Word / Phrase | Consumer Association |
| Local food and beverages | Being locally grown, caught, produced; or support for local farmers, producers, businesses, the local community and economy. |
| Seafood | Primary food group associated with the Gold Coast and Bayside / Redland regions. |
| Dairy | Primary food group associated with the Sunshine Coast. |
| Markets (farmers' markets) | Sunshine Coast and Gold Coast (less so the Bayside / Redland region). |

Consumer perspectives: Overview

Whilst dairy products are the fourth highest weekly purchases of SEQ's local residents, 16.3% of locals never purchase dairy products and 21.8% do not know if their purchases are local.

| Product category | > once per day (%) | Weekly (%) | Fort-Nightly (%) | Monthly (%) | About every 3 months (%) | Less than 3 months (%) | Less than 6 months (%) | Never (%) | Don't know if local (%) |
|--|--------------------|------------|------------------|-------------|--------------------------|------------------------|------------------------|-----------|-------------------------|
| Fruit | 8.5 | 32.2 | 14.7 | 10.7 | 3.3 | 3.9 | 4.6 | 3.6 | 18.6 |
| Vegetables | 6.8 | 31.3 | 17.6 | 10.1 | 4.2 | 3.6 | 3.6 | 3.3 | 19.5 |
| Bread / baked good / cereals | 8.8 | 25.7 | 16.0 | 8.1 | 5.2 | 3.6 | 5.5 | 13.4 | 12.7 |
| Dairy food / beverage (e.g. milk, cheese, yoghurt) | 5.5 | 22.1 | 10.7 | 12.1 | 4.2 | 2.6 | 4.6 | 16.3 | 21.8 |

Consumer perspectives: Overview

Local SEQ residents view buying local food and beverages favourably with the female demographic being more favourable than males.

- 68.1%, and females more so than males, agree that buying local food and beverage in the next fortnight would be favourable.
- 67.8%, and females in particular, agree that they would feel good if they bought local food and beverage.
- 57.2% of Sunshine Coast respondents were more likely to purchase local food and beverage in the next fortnight than Bayside/Redland (37.8%) and Gold Coast (39.4%).

| Statement | Local Mean | % Agreeing |
|---|------------|------------|
| Buying local food and beverage from [insert area] in the next fortnight would be favorable. | 5.1 | 68.1 |
| Overall, I feel that I should buy local food and beverage from [insert area] in the next fortnight. | 4.9 | 64.2 |
| I would feel good if I buy local food and beverage [insert area] in the next fortnight. | 5.0 | 67.8 |
| People who are important to me would approve of me buying local food and beverage from [insert area] in the next fortnight. | 4.7 | 55.0 |
| Buying local food and beverage from [insert area] in the next fortnight would be easy. | 4.4 | 45.0 |
| Scale: 1 = Strongly disagree to 7 = Strongly agree | | |

Consumer perspectives: Overview

Visitors to SEQ are even more strongly agreeable to buying local food and beverages.

“Findings indicate that both local SEQ residents and visitors to SEQ, and older females in particular, feel favourably toward purchasing local food and beverage and may feel a sense of obligation to do so”

Dawn Birch, Understanding drivers and barriers to consumption of South East Queensland local and regional foods.

| Statement | Past Visitors (n=370) | | Future Visitors (n=176) | |
|--|-----------------------|------|-------------------------|------|
| | n | % | n | % |
| Overall, I feel that I should try local food and beverage when visiting South East Queensland. | 5.5 | 81.4 | 5.6 | 79.0 |
| Buying local food and beverage when visiting South East Queensland would be favorable. | 5.3 | 76.2 | 5.5 | 79.5 |
| I would feel good if I bought local food and beverage when visiting South East Queensland. | 5.2 | 69.7 | 5.5 | 75.6 |
| People who are important to me would approve of me buying local food and beverage when visiting South East Queensland. | 5.0 | 57.0 | 5.2 | 65.3 |
| Buying local food and beverage when visiting South East Queensland would be easy. | 4.9 | 60.8 | 5.2 | 67.0 |

Scale: 1 = Strongly disagree to 7 = Strongly agree

Value-add dairy

We also have a valuable processing sector

- One multi-national, one national and smaller independent processors whose products are based on high quality, high priced marketing.
- Support farms, input suppliers, services and logistical firms.
- Impacted by the lack of milk and this is an increasing problem.
- A need for long-term sustainability of the supply chain.

| | | | |
|------------------------|-------------------------|----------------------------|-------------------|
| Maleny Dairies | Maleny Cheese | Queensland Yoghurt Company | Kenilworth Cheese |
| Cedar Street Cheeserie | Woombye Cheese | Maleny Food Company | Cooloola Milk |
| Sajani Ice cream | Georges Yoghurt Company | Norco | Parmalat |

15% of the processing sector on the Sunshine Coast is from local independent processors.

Primary Research Sunshine Coast



Your Levy at Work



Primary Research Sunshine Coast: Overview

- Methodology
- Profile of respondents
- Situation Analysis
- Main products produced by Sunshine Coast Dairy Industry
- Best sellers across the retailing sector
- Supply chain considerations
- Margins



Primary Research Sunshine Coast

Methodology and Respondent Profiles



Your Levy at Work



Methodology: Primary objectives

The ultimate aim of this project is to act as the starting point for the development of a Strategic Plan for the Queensland Dairy industry.

Research objectives

- Identifying significant factors in the chain's internal and external environment (marketing, economic, social, institutional) in global, national, state, regional contexts.
- Explore what Sunshine Coast consumers value in terms of dairy products.
- Mapping the existing chain in terms of physical movement of goods, relationships and communication.
- Identifying potential opportunities both domestically and internationally.
- Identifying gaps in the value chain or other structural impediments that may limit opportunities.



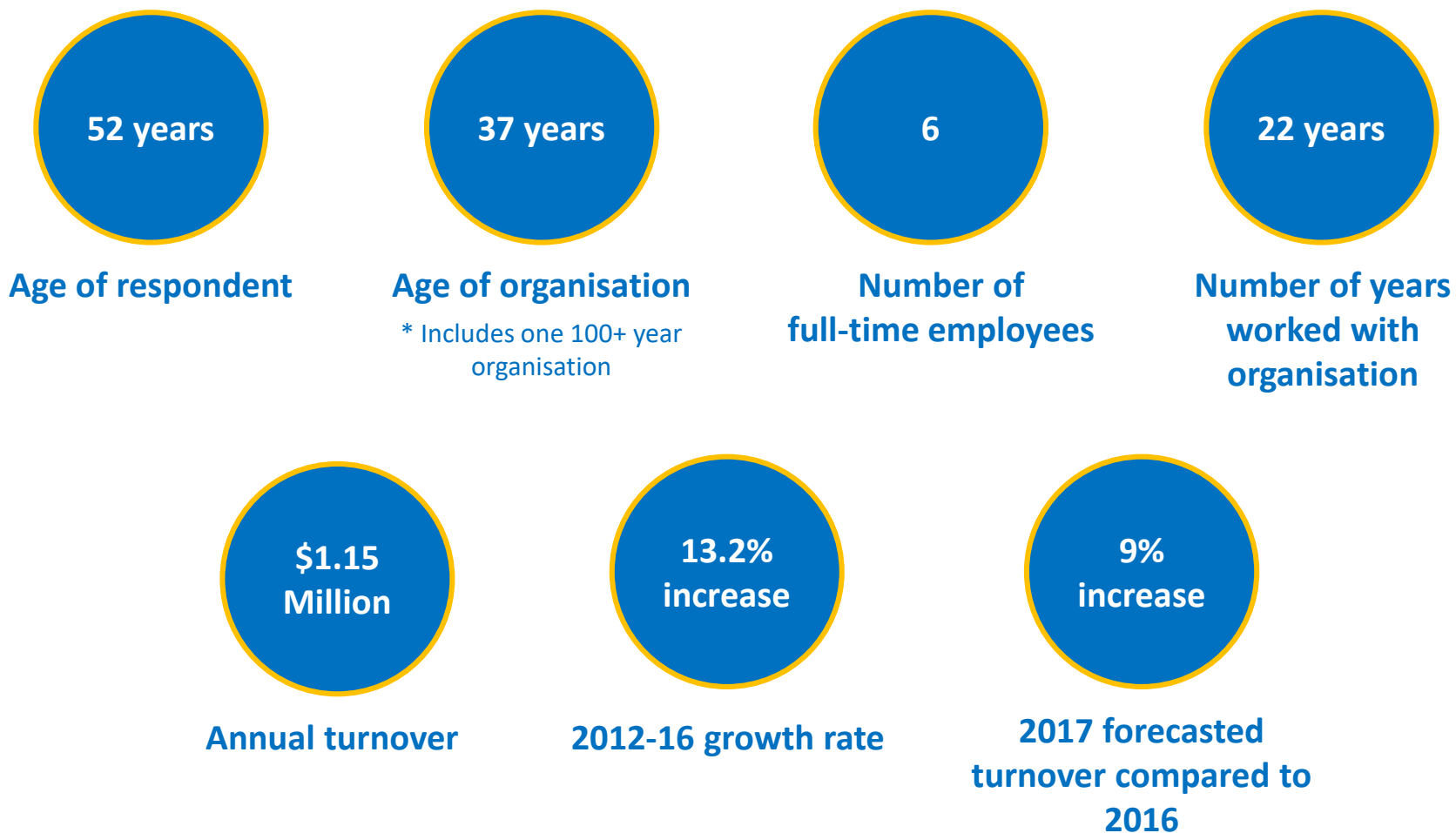
Methodology: Depth interview respondents

- Producers –
 - 4 responses via in-depth interviews
 - 4 responses via online survey
- Processors –
 - 7 responses via in-depth interviews
- Retailers –
 - 2 responses via in-depth interviews
- Confirmation Interviews –
 - 2 National Retail chains
 - 1 Peak Industry Association
 - 1 Government Department
- Break-through Technology Interviews –
 - Sunlife Superfoods
 - Naturo All Natural Technologies



Respondent profile: Producers

Profile of Respondents for Producers (Avg.) (n = 8)



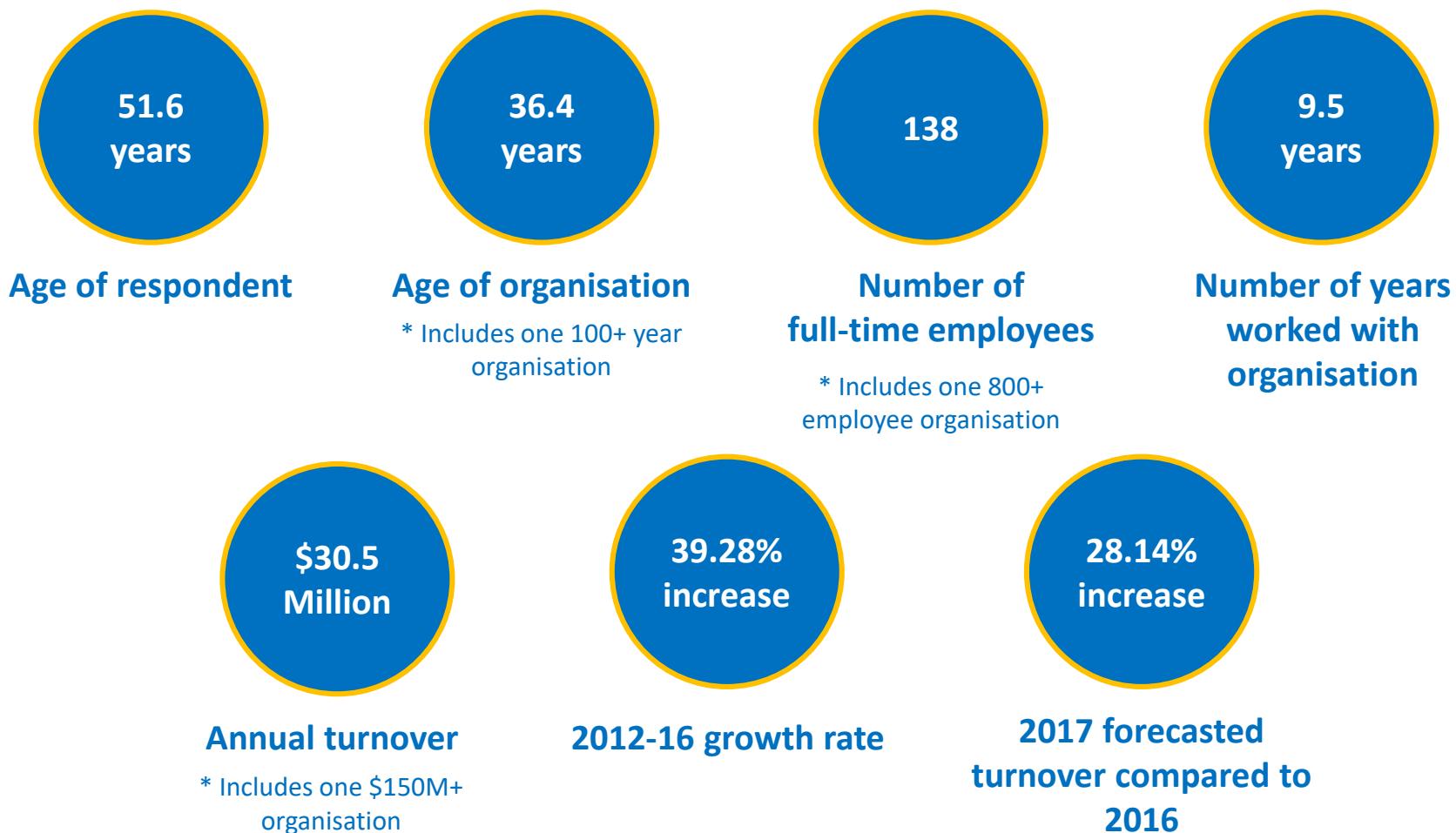
Respondent profile: Farming operations

Details of farming operation (n = 8)



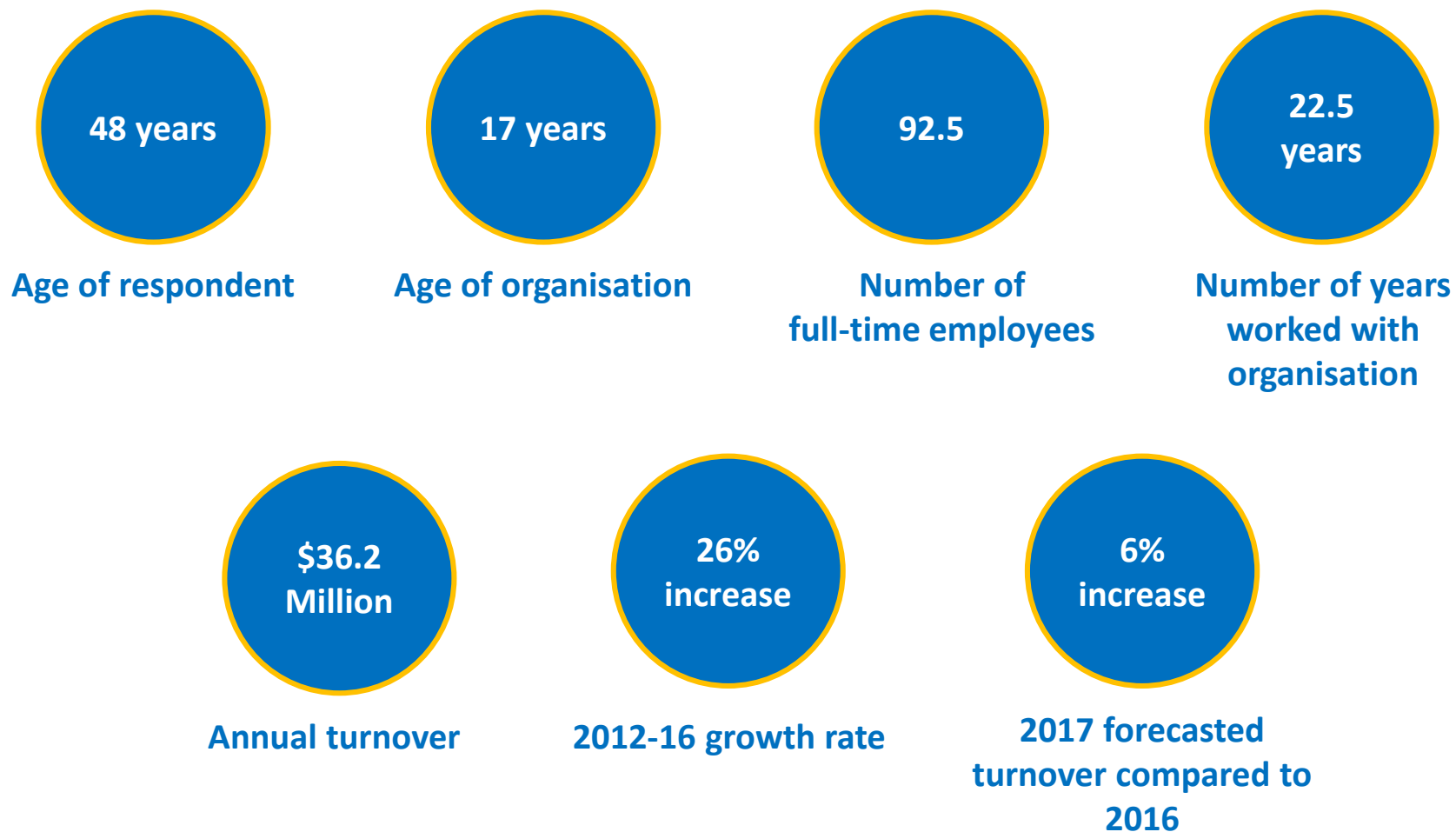
Respondent profile: Processors

Profile of Respondents for Processors (Avg.) (n = 7)



Respondent profile: Retailers

Profile of Respondents for Retailers (Avg.) (n = 2)



Primary Research Sunshine Coast

Situation Analysis



Your Levy at Work



Situation analysis: Challenges and advantages across the chain

| Internal | External |
|---|--|
| Strengths | Opportunities |
| <ul style="list-style-type: none"> • Good quality products • Strong local market • Location and tourism • Independent processors • History of dairying • Long term experienced farmers • Latent capacity in processing plants | <ul style="list-style-type: none"> • Growing local market • High margin niche products • Provenance • Attracting new entrants to the market |
| Weaknesses | Challenges/Threats |
| <ul style="list-style-type: none"> • Viability of producers • Volume of supply with consistency and reliability • Margin stress across the supply chain • Relationship tensions within the chain • Age of chain members • Infrastructure upgrades needed • Lack of export capability • Lack of an industry marketing strategy | <ul style="list-style-type: none"> • Global downturn in the dairy markets • Increases in input prices • Sustainability of the farms • Lack of consumer education and competition from southern producers |

Situation analysis: SWOT Analysis - Producers

“I feel that the dairy industry is dying. There are only two pockets left in this area.”

| Internal | External | |
|--|---|---|
| Strengths | Opportunities | |
| <ul style="list-style-type: none"> • Good quality products • Location and tourism • Long-term experienced farmers • Water availability • Breed • Independent processors | <ul style="list-style-type: none"> • Local branding • Growing population • Growth of independent processors • Niche products • Education of consumers (to understand their milk) • Become more efficient • Investigate new supply chain opportunities • Investigate new markets • Investigate export opportunities | |
| Weaknesses | Challenges/Threats | |
| <ul style="list-style-type: none"> • Relationships between processor and farmer at an all-time low • Current contracts make it difficult to change • Treatment by processors (price takers) • Labour intensive operations • Commodity-based price • Reliance on bought-in feed | <ul style="list-style-type: none"> • Product promotion • Working together • Price received for milk • Workplace health and safety compliance • Rising input costs (power, feed, fertilizer, chemicals) • Climatic conditions drought/flood | <ul style="list-style-type: none"> • Water restrictions • On-farm debt • Lack of capital investment • Agenda of multi-national processors • Sub-division of dairy farms for urban development • Succession planning |

“Very strong, very exciting times.”



Situation analysis: SWOT Analysis - Processors

| Internal | External |
|---|--|
| Strengths | Opportunities |
| <ul style="list-style-type: none"> • Agility/Quick responders • Competitive • Embedded in community • Good quality and range • Local | <ul style="list-style-type: none"> • Local to local • Use provenance branding • Understand the consumer • High quality, premium products • New products (organic, local, healthy) • Build brands |
| Weaknesses | Challenges/Threats |
| <ul style="list-style-type: none"> • Customers perceive as not price competitive • staffing maintaining quality and consistency • Keeping suppliers | <ul style="list-style-type: none"> • Competitiveness/sustainability • Educate the consumer • Volume • Keeping the producers in place • Taking milk away from being a commodity |

“Not as bad as other parts of the country.”

Situation analysis: SWOT Analysis - Retailers

| Internal | | External | |
|--|---|--|--|
| Strengths | | Opportunities | |
| <ul style="list-style-type: none"> • Location • Brand name • History • Good quality products • Established relationships with corporate staff, quality long term staff • Portraying product provenance | <ul style="list-style-type: none"> • Clients • Low debt • Tourism • Good management/board • Individual niche position • Innovative recipes and processing techniques • Good business model • Good growth | <ul style="list-style-type: none"> • New products • Stronger distribution channels • Marketing strategy • Move to higher margin and/or premium products • Provenance - the local story • Latent demand as population increases | <ul style="list-style-type: none"> • Market to local region • Careful planned growth • Expand role of independents in the market • Build a sustainable business model on pricing 62-70c/L • Be innovative • Look for efficiencies • Succession planning |
| Weaknesses | | Challenges/Threats | |
| <ul style="list-style-type: none"> • Dealing in industry politics/dairy crisis • Easy to get distracted • Maintaining experienced workers • Government policies: local and regulations e.g. Water • Time • Lack of direction/focus | <ul style="list-style-type: none"> • Ageing infrastructure • Distribution chaos • Securing supply • Age and health • Product consistency • How to expand / lack of space to expand • Business model restricts growth • Logistic distance and low-shelf life • Volume | <ul style="list-style-type: none"> • Stability • Conducive environment for new entrants • Marketing • Distribution • Social media to get the story out • Money for capital investment • Maintaining raw material supply • Sustainability | <ul style="list-style-type: none"> • Aging farmers, how do we revamp the industry? • Lack of profitability driving farmers out of industry • Efficiency • Consistency |

Situation analysis: Respondent feedback

How would you describe the current situation within the dairy industry on the Sunshine Coast?

- The Sunshine Coast is considered to be unique within the dairy sector as it has a number of independent processors and an independent producer acting as a milk hub for smaller producers and processors.
- Most within the value chain feel the sector does have opportunities with good quality products and better distribution.
- It is acknowledged that the farms are in decline and more needs to be done to safeguard supply.
- There has been a lack of capital investment into farms, so herds, pastures, and fences are in decline.

“Industry non-existent!”

“There are good opportunities!”

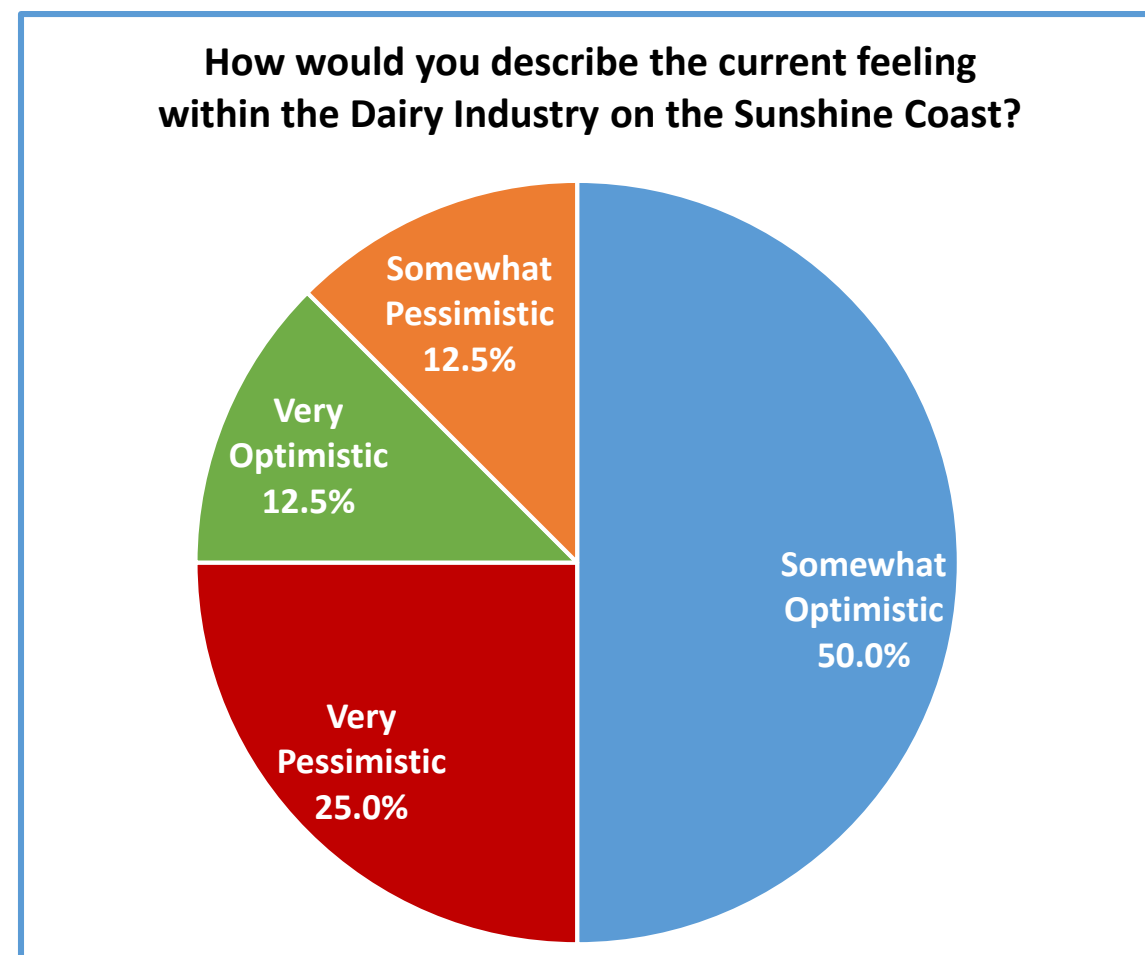
“It is an issue to safeguard supply!”

“No capital investment in farms!”

Situation analysis: Respondent feedback

How would you describe the current feeling within the Dairy Industry on the Sunshine Coast?

- The industry is showing resilience and is quite optimistic about the future.
- 62.5% are optimistic about the Sunshine Coast Dairy Sector, while 37.5% are pessimistic about the Sunshine Coast Dairy Sector.
- This outlook may be due to the fact that the Sunshine Coast has not had the severe discounting that occurred in the Victorian sector by the processor, and because there is a higher proportion of independent processors in this region, therefore farmers are receiving a higher income per litre for their milk.



Primary Research Sunshine Coast

The Market

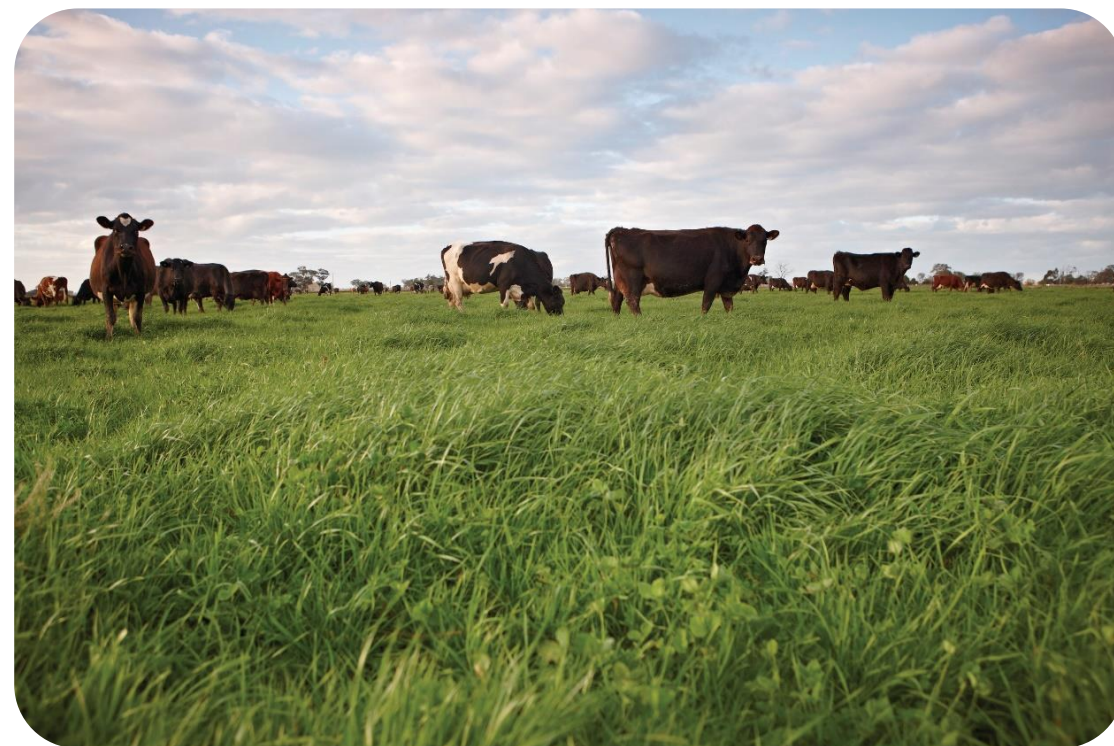


Your Levy at Work



The market: Sunshine Coast Dairy Sector

- It is estimated that the Sunshine Coast Dairy Sector processes some 80 million litres of milk per year.
- Key markets are from Rockhampton to Sydney, with the focus on the Sunshine Coast and Brisbane.
- Over 50% of the sector has national retailers and corporate clients in their distribution networks.
- Only two processors export.
- The remainder are concentrating on new market segments and/or new products to sustain growth targets.
- Approximately 47% of the products produced are sold to the retail sector, with 49% to distributors.
- 45% of the goods produced here are consumed here!
- 54% is consumed within Australia.



The market: Respondent feedback

What attributes of dairy products do chain members value?

The attributes which chain members believe are important to consumers changes across the chain. Note 'taste'.

Producers

- #1 – Clean green products
- #2 – Region of origin
- #3 – Animal welfare
- #10 – Taste
- #11 – Brand name
- #13 – Texture

Processors

- #1 – Taste
- #2 – Texture
- #3 – Brand name
- #4 – Region of origin
- #5 – Clean and green

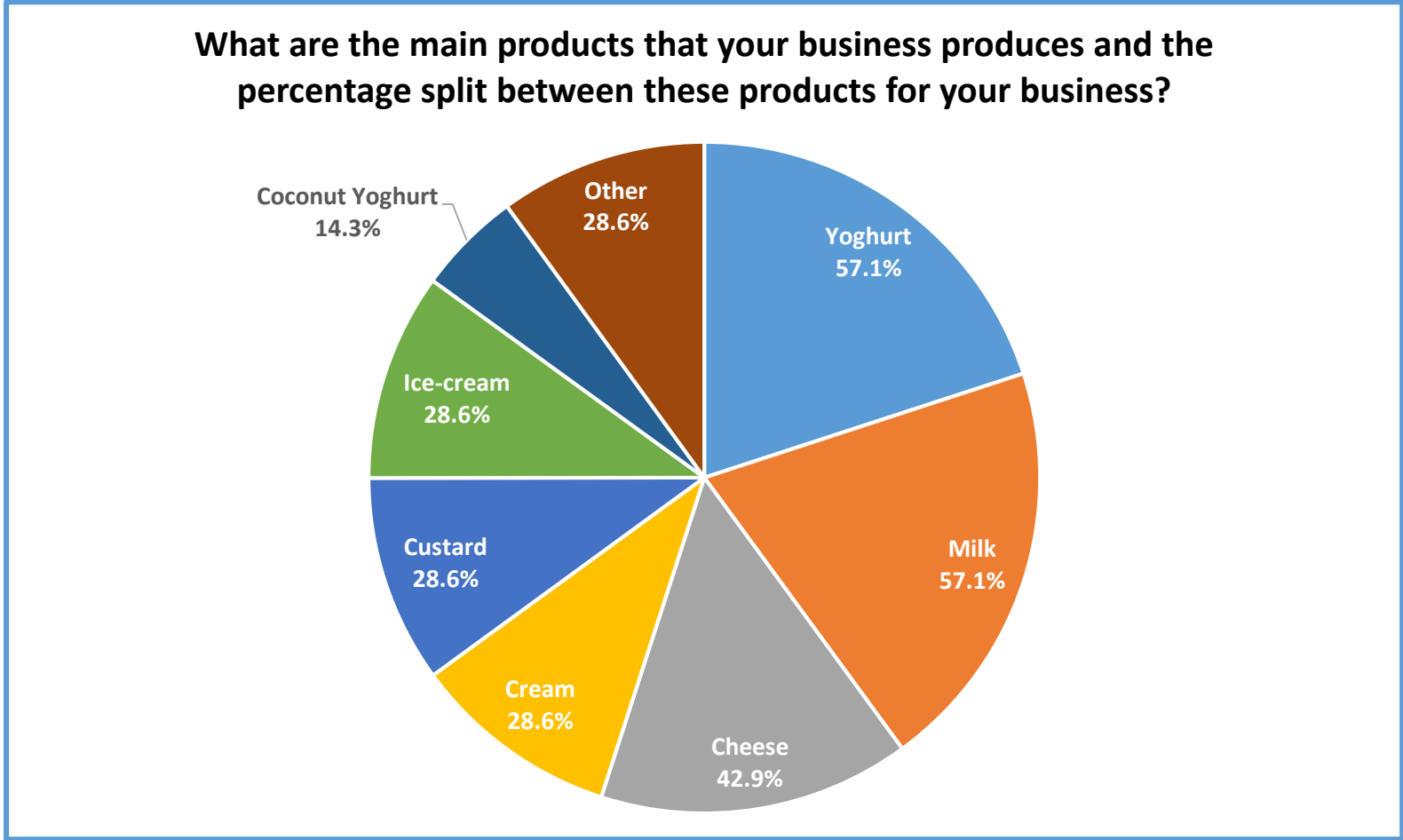
Retailers

- #1 – Taste
- #2 – Support local farmers and communities
- #3 – Region of origin
- #4 – Country of origin
- #5 – Presentation
- #6 – Texture
- #7 – Clean and green

The market: Respondent feedback

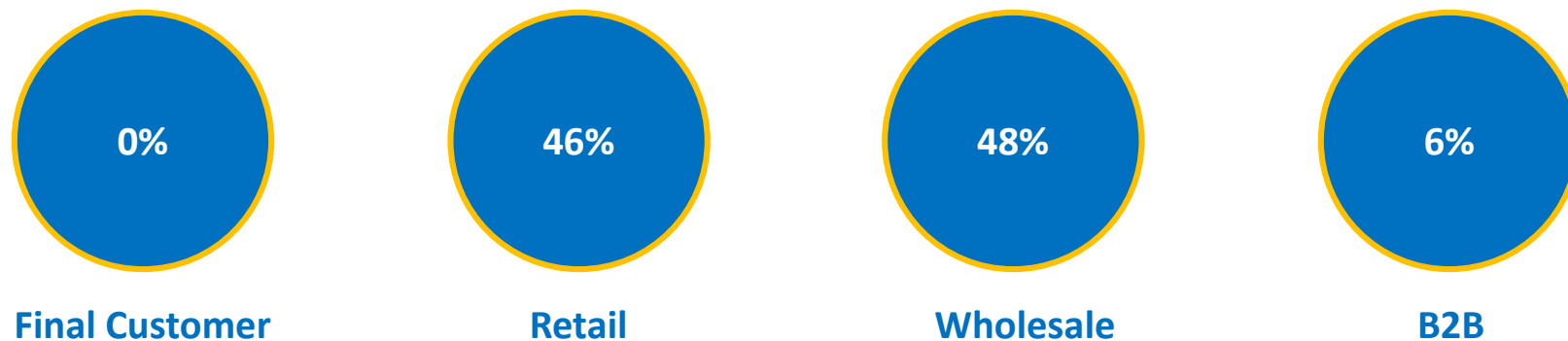
What are the main products that your business produces and the percentage split between these products for your business?

Yoghurt is being produced in increasing volumes across the Sunshine Coast.



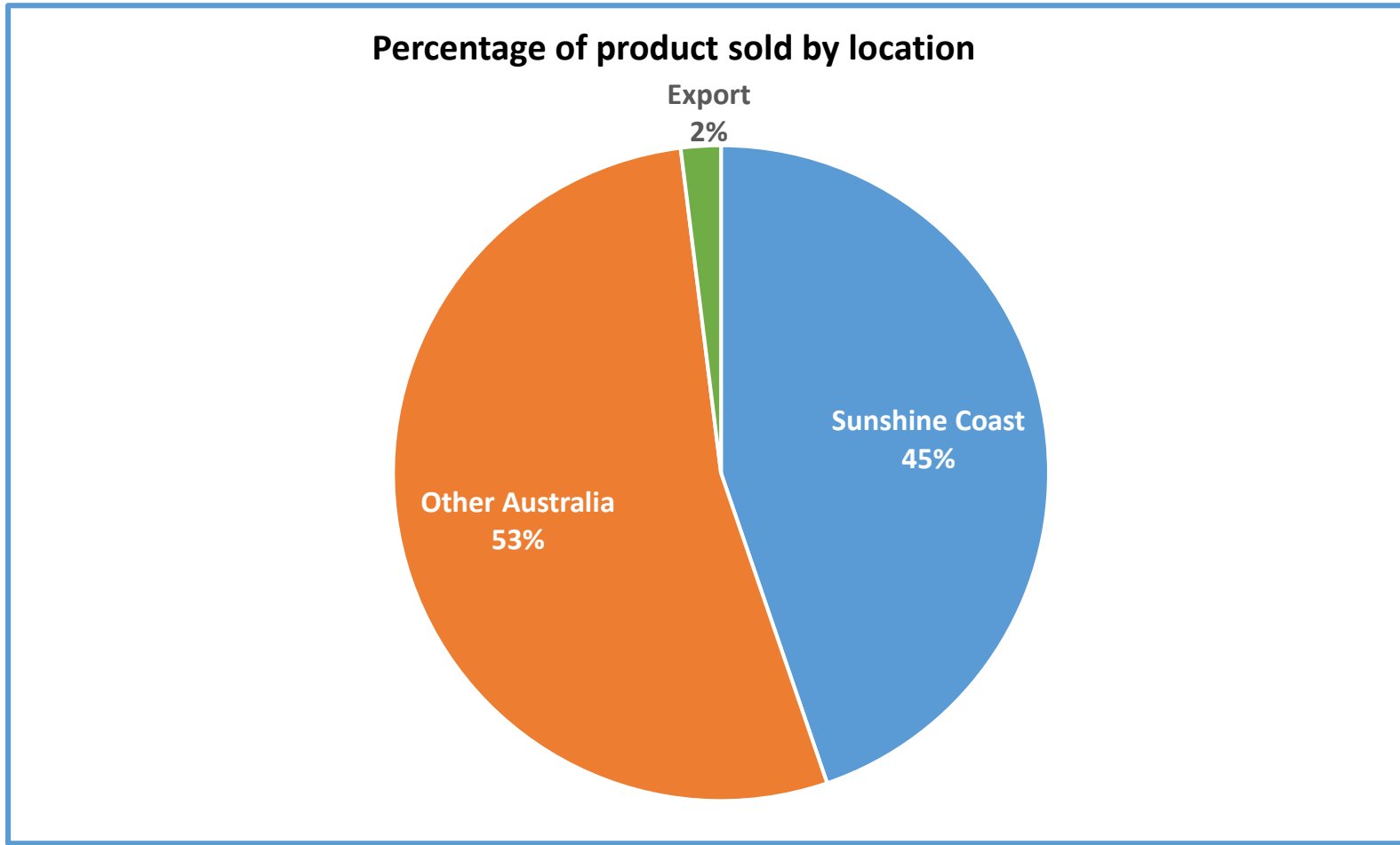
The market: By market segment

Percentage of business that is final customer, retail, wholesale or b2b (Avg.)



The market: Sales by location

What is the percentage of product sold by sales location?



Primary Research Sunshine Coast

Supply Chain Considerations



Your Levy at Work



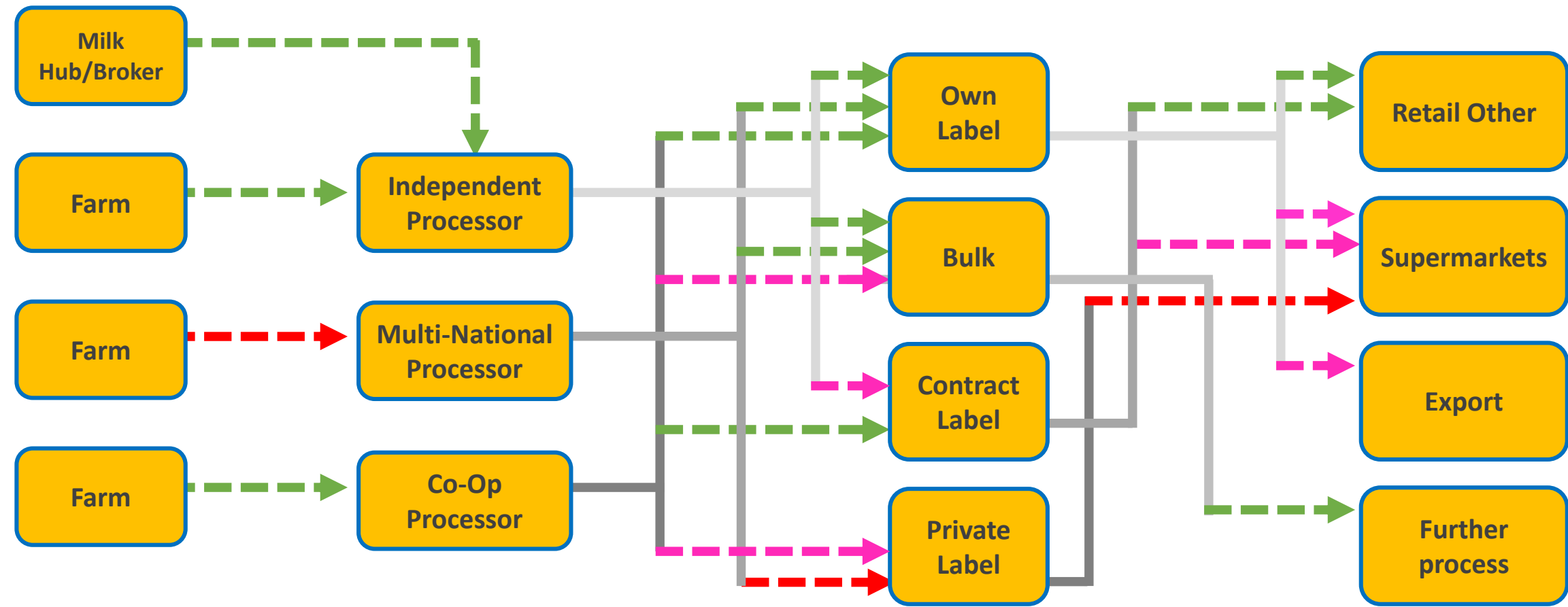
Supply Chain: Considerations

The supply chain

- The physical flow of products through the chain.
- The relationship flow within the supply chain.
- The information flow along the supply chain.

“Relationships between processor and farmer are at an all time low.”

Supply Chain: Physical flow Sunshine Coast

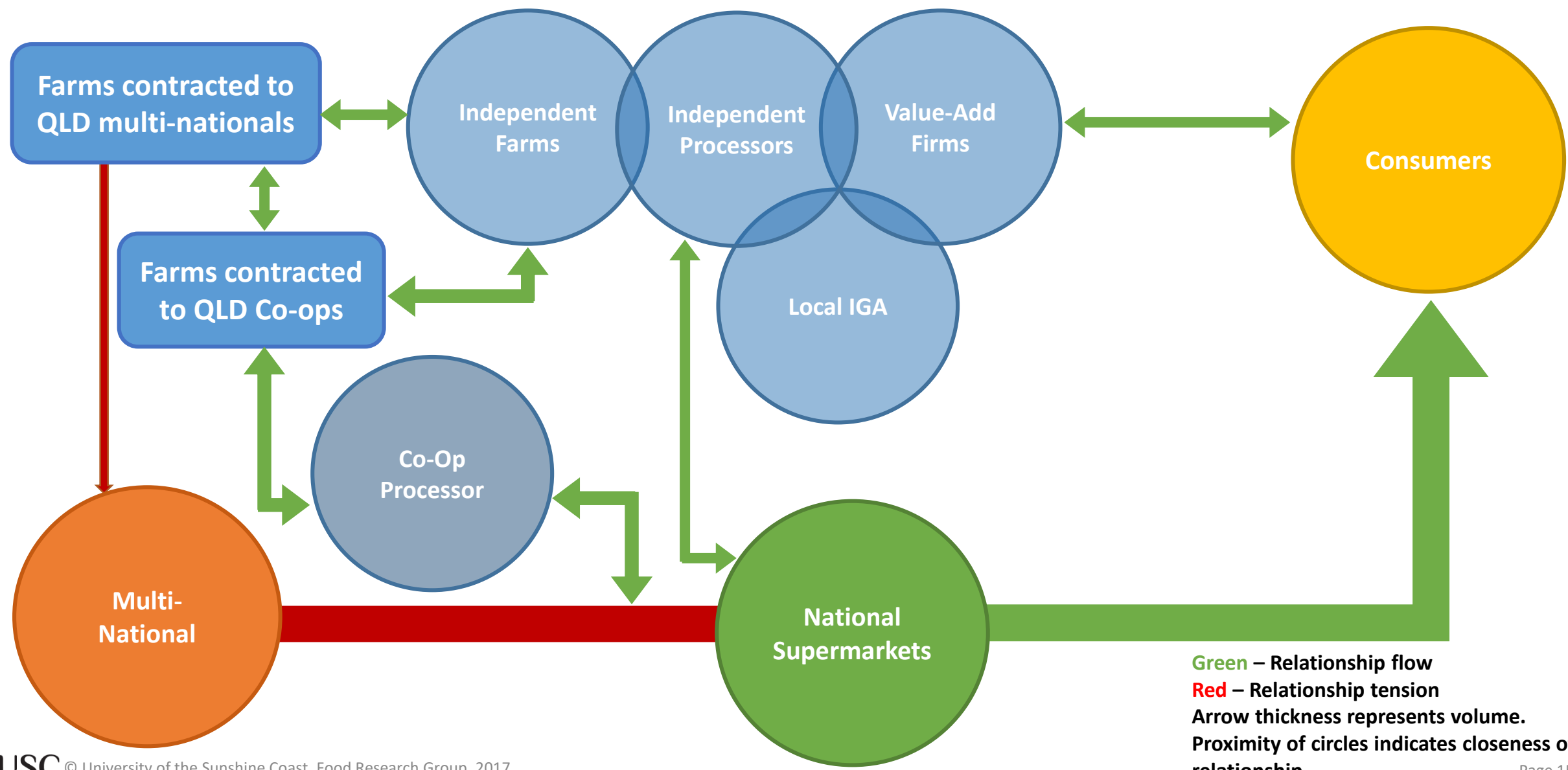


Green – Open and sustainable
Pink – Under stress
Red – Unsustainable

Supply Chain: Physical flow

- The distribution channel for milk is complex, with contracts and structures governing the flow from the farm to the processors and then the multiple types of product and supply partners create numerous channels to market.
- With reference to the Supply Chain – Physical Flow diagram, there are a number of channels that are open and sustainable indicated on the chart in **green**. These channels include milk obtained from farm through independent processors or co-ops to own branded milk.
- The figure highlights several unsustainable chains in **red**, which includes private label milk from multi-national processors which (due to the low retail price achieved for this product) is pushing price cuts back down the channel.
- Channels that are constricting and now showing stress are displayed in **pink**. These channels include branded milk from multi-national suppliers to supermarkets. This indicates that the supply chain contraction which started with the \$1 milk is still evolving and spreading across branded products to within these channels.
- There is only a small amount of exported milk from the Sunshine Coast region due to the high costs within the international supply chain and the time taken to establish the channel.

Supply Chain: Relationships Sunshine Coast



Supply Chain: Relationships

- The Sunshine Coast Dairy Sector is quite unique. Independent processors and value-add businesses comprise some 15% of the market. In other parts of Queensland this figure is 5%.
- This group of independent processors are quite close and work together on a number of levels. They are located quite close to each other and meet at social and business functions. At second level, they buy from each other and back each other up to smooth out the seasonal cycle of milk. There are close working relationships within the region.
- For some of the same reasons as the processors, the farmers are also have strong relationships on the Sunshine Coast. This is due to location and history (they all know each other).
- The impact of deregulation and global surplus driving down farm-gate pricing has broken the relationship between the farmers and the processor, especially multi-national processors. There is a perception within the producer sector that the processors cannot be trusted. The lack of trust extends to the large retailers, whom many producers blame for the demise of the industry due to the \$1 per litre milk strategy.
- As you move down the chain the relationship becomes more distant and the farmers have little contact with their end consumer.

Supply Chain

Most important interactions across the Value Chain?

- Most important interactions are with suppliers and customers, note that producers don't rate customers.
- Government and R & D very low on interactions across the chain.

Producers

- #1 – Suppliers
- #2 – Personal networks
- #3 – Partners/other dairy industry players

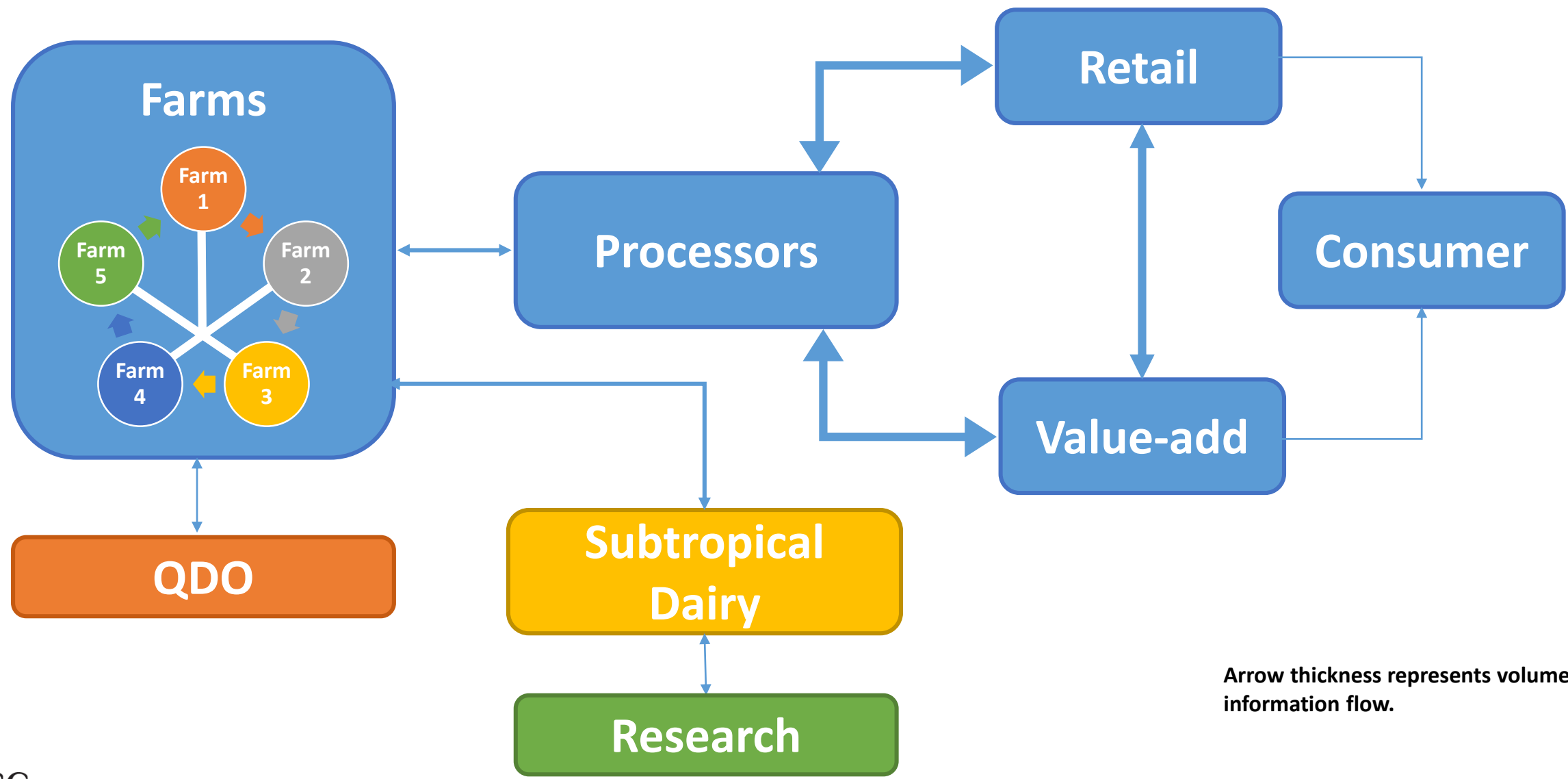
Processors

- #1 – Customers
- #2 – Suppliers
- #3 – Partners/other industry player

Retailers

- #1 – Customers
- #2 – Suppliers
- #3 – Personal networks

Supply Chain: Information Sunshine Coast



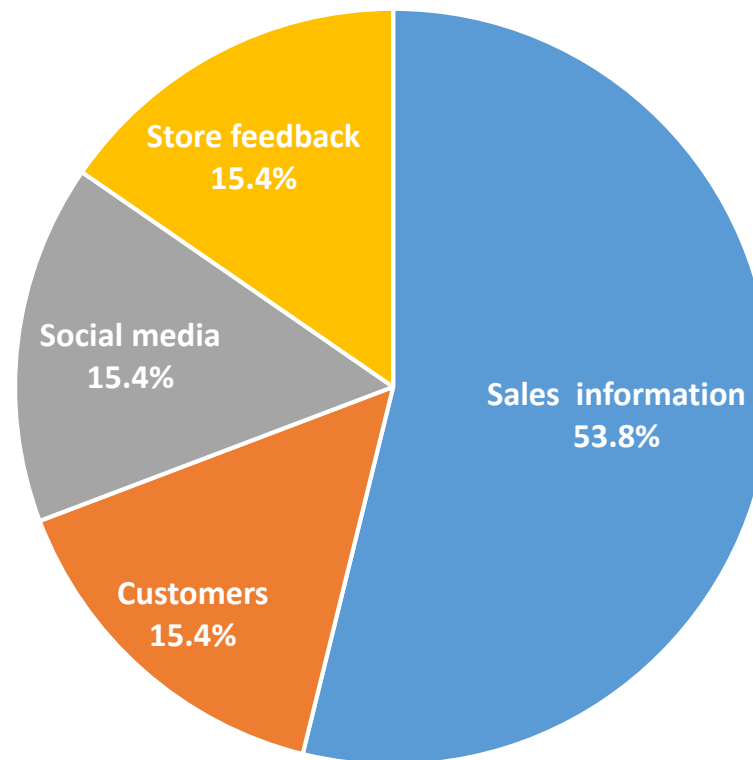
Supply Chain: Information

- The most marked observation regarding information in the milk supply chain is that it rarely passes beyond the next link in the chain. For example, farmer quality testing is provided to processors who then provide feedback on quality to farmers. Milk quality does not move down the chain. Sales information is provided from the retailers to the processors. Only one processor has a formalised system for communicating with their producers. In fact, most processors are not providing enough information back to their own supply chains.
- All processors agreed that they could do more to capture the provenance story of their farmers for their consumers. Only one processor has a Facebook page and a social media presence. One processor does not have a website.
- Within the Supply Chain – Information diagram, the information flow is strong between the farmers and their processors, but the processors talk to retail and value-add and these sectors talk to the consumer.
- Peak bodies such as QDO have a strong information flow to farmers, while Subtropical Dairy and Dairy Australia also has information flows to research institutions, farmers, processors, and interested consumers.
- Social media can play a larger role in linking the consumer and the farmer.

Supply Chain: Information

In terms of information, processors rely on sales information.

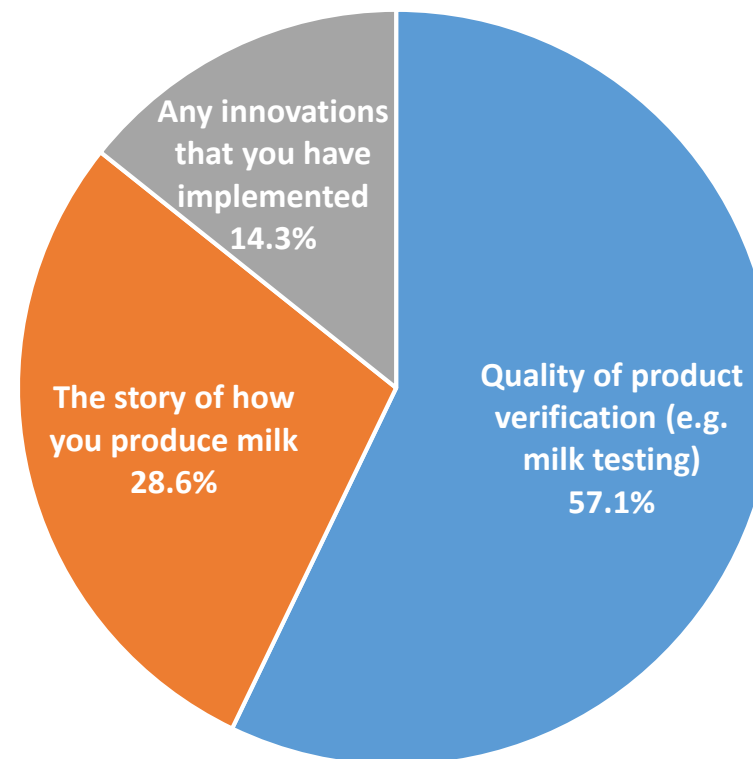
Do you receive feedback from your market on your product and market response?



Supply Chain: Information

Producers provide information to members of the supply chain based on quality.

Have you ever provided any of the following information to members of your supply chain?



Supply Chain: Margins

- Assumptions.
- Profit margin on cheese.
- Profit margin on milk.
- Profit margin on yoghurt.

“We need to get our share out of the market.”

Supply Chain: Assumptions

- Average figures used across retailers and processors to get average pricing.
- Actual retail prices were used and averaged by category (e.g. flavoured yoghurt).
- On farm cost to produce 1 litre milk on the Sunshine Coast = 57c
- Processing cost (excl. milk) to produce 1 litre milk:
Independent Processors = 40c: Multi Nationals = 30c
- On average, multi nationals pay farmers on the Sunshine Coast 58c/litre farm-gate.
- Independent processors on the Sunshine Coast pay farmers 63-68c/litre.
- Cost to manufacture 1 litre yoghurt = \$2.95 (natural) and \$3.10 (flavoured).
- 10 litres of milk is required to make 1kg cheese (all types).

Supply Chain: Margins on cheese

Cheese margins for selected products across the supply chain –

| Cheese | Processor | Unit | Retail Price | Margin Retail % | Processor Sell Price | Margin Processor % | Farmer Sell Price (Milk Equiv.) | Margin Farmer % |
|--------|-------------|------|--------------|-----------------|----------------------|--------------------|---------------------------------|-----------------|
| Mild | Independent | 500g | 9.49 | 30 | 6.64 | 30.4 | 3.40 | 17.6 |
| | Independent | 500g | 10.90 | 45 | 6.21 | 25.6 | 3.40 | 17.6 |
| | National | 500g | 7.29 | 30 | 5.10 | 9.4 | 2.20 | -21.7 |
| | National | 500g | 8.80 | 45 | 5.02 | 7.8 | 2.30 | -21.7 |

**Stress in channel.
Compaction would be
happening retail/
processor.**

Supply Chain: Discussion points on cheese margins

- There is evidence to indicate that the block cheese mild category is under stress. Industry averages for the chain are not sustainable, therefore compaction of margins across the chain would be occurring. This may be offset by volume sales for some brands.
- Higher margins can be made through specialty cheeses in smaller branded packaging or through deli sales. For example:
 - Herb and Garlic Cheese (80g pack) \$89.38 kg
 - Onion and Chive (200g) \$22.55kg
 - Deli Examples:
 - Haloumi \$48kg
 - Blue \$66.70kg
 - Tilba \$46kg
 - Camembert \$45kg

Supply Chain: Milk margins

Milk margins for 2L full cream milk across the supply chain –

| Milk | Processor | Unit | Retail Price | Margin Retail % | Processor Sell Price | Margin Processor % | Farmer Sell Price (Milk Equiv.) | Margin Farmer % |
|------------|-------------|------|--------------|-----------------|----------------------|--------------------|---------------------------------|-----------------|
| Full Cream | Independent | 2L | 4.59 | 30 | 3.21 | 35.9 | 1.26 | 11.1 |
| | Independent | 2L | 4.60 | 43 | 2.62 | 21.4 | 1.26 | 11.1 |
| | National | 2L | 2.29 | 30 | 1.60 | -9.8 | 1.16 | 3.5 |
| | National | 2L | 2.29 | 43 | 1.31 | -34.8 | 1.16 | 3.5 |

Figures indicate stress in channel. Evidence of compaction.

Supply Chain: Discussion points on milk margins

- There is evidence of compaction in branded milk. Again, margins have been lowered across the chain to accommodate selling price. The \$1/L milk was not analysed as it is obviously an example of a stressed channel. What we are now seeing is the compaction in the channel.
- There are higher margins in premium (Jersey/Guernsey), modified milk and organics.
 - Full Cream \$2.45/L
 - Farmers Choice Gold \$2.59/L
 - Organic Skim \$2.50/L

Supply Chain: Yoghurt margins

Yoghurt margins for selected products across the supply chain –

Getting skinny.

| Yoghurt | Processor | Unit | | Retail Price | Margin Retail % | Processor Sell Price | Margin Processor % | Farmer Sell Price (Milk Equiv.) | Margin Farmer % |
|-----------|-------------|------|--|--------------|-----------------|----------------------|--------------------|---------------------------------|-----------------|
| Flavoured | Independent | 350g | | 3.75 | 30 | 2.79 | 53.3 | 0.22 | 11.1 |
| | Independent | 350g | | 3.49 | 46 | 1.88 | 30.7 | 0.22 | 11.1 |
| | National | 350g | | 3.49 | 30 | 2.44 | 47.3 | 0.20 | 3.5 |
| | National | 350g | | 3.49 | 46 | 1.88 | 31.7 | 0.20 | 3.45 |

Supply Chain: Discussion points on yoghurt margins

- Yoghurt flavoured channel is sustaining above industry averages.
- The yoghurt category is very competitive at a retail level and discounting on lines is happening on a weekly basis.
 - The best seller category would change weekly depending on discount.
 - Flavours, probiotics and packaging are influencing price.
 - Lemon and Macadamia \$1.20/100g
 - Toffee Honeycomb/Mango Blood Orange \$1.96/100g
 - Banana Caramel Sundae, Boysenberry and Super Acai, Sticky Apple and Organic Honey and Blood Orange and Passion Compote \$1.72/100g

Supply Chain: Summary of margin analysis

For processors, consideration of product mix and channel selection is critical in the current environment.

- Push to higher margins.
- Move to keep products on trend.
- Deal with major supermarkets through select categories or products. Keep balance.
- Processors and farmers need to understand the supply chain and product mix, to exercise corporate agility – remain agile.



SUMMARY

Opportunities for the Sunshine Coast Dairy Sector

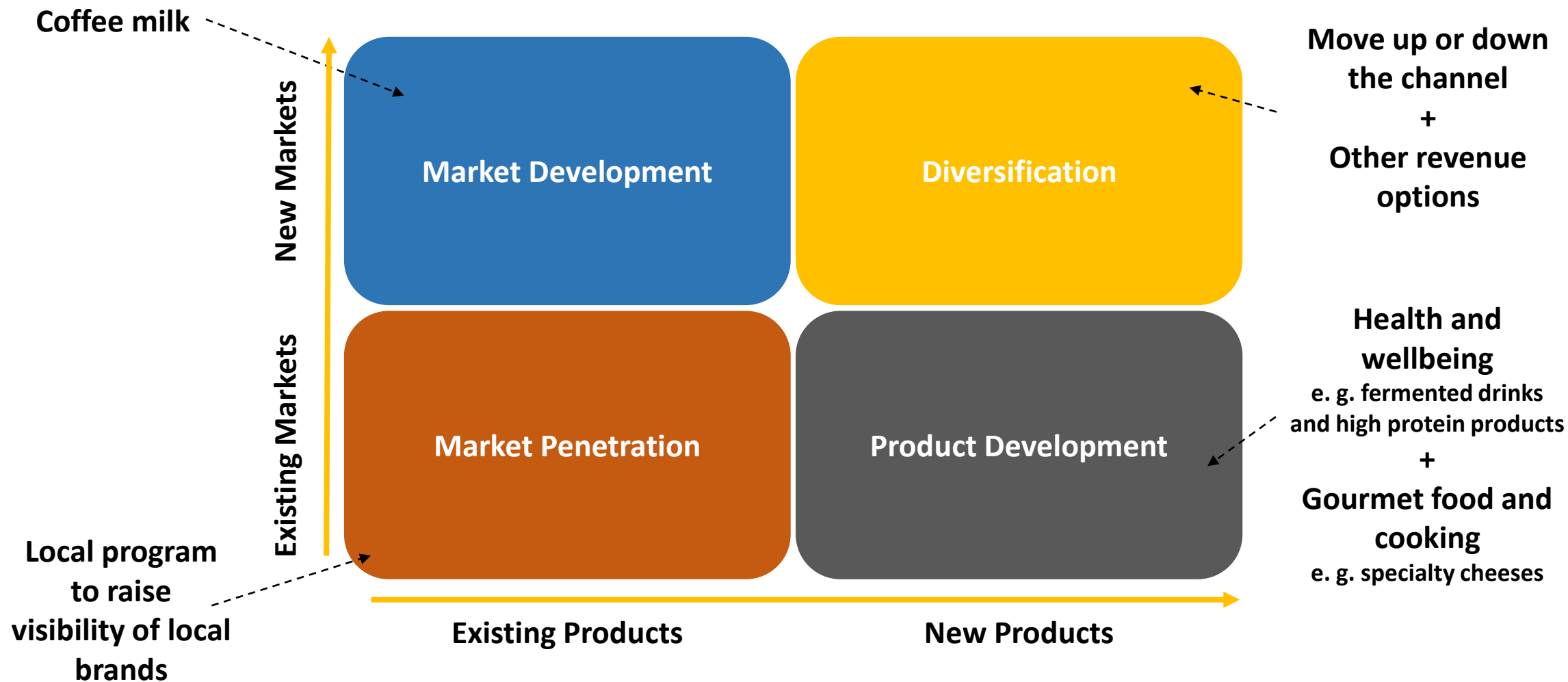


Your Levy at Work



Opportunities: Ansoff Matrix

The Ansoff Matrix





Your Levy at Work



Opportunity: Market Penetration – Local market

Drivers –

- The yoghurt category is very competitive at a retail level and discounting on lines is happening on a weekly basis
- Strong growing local market
- Strong support for local products
- Currently only supplying 45% of products to the local market
- Local firms lack a profile in the local market
- Opportunity to penetrate the market

Consumer recognition – There needs to be consumer recognition of local brands as there is high value in supporting the local farmer/communities.

Storytelling – Delivering the local story through provenance would assist in positioning the Sunshine Coast Dairy Sector.





Opportunity: Market development - Coffee

Drivers –

- Strong growth, large market growing from 778 million litres in 2015 to 840 million litres by 2020 - 1% of 840 million litres => \$4.62 million farmer production revenues (8.4m litres x \$0.55)
- Local Coffee Guild to collaborate with
- Quality products
- Shared interest in provenance

Develop a market for local milk – private label milk and other coffee/dairy products such as ice-cream or cold coffee.

Collaborate with local coffee brands – through the Coffee Guild, build a market within local cafes for coffee based on local milk. The Sunshine Coast supports a vibrant coffee market, having over a dozen roasters and private labels, including Tim Adams, Clandestino Roasters, Montville Coffee, HumDrum Espresso, Tome, Padre Coffee.



Opportunity: Diversification



Your Levy at Work



Drivers –

- Producers are very specialised to milk production (98% of farm revenue)
- Need to increase margin and control - investing down the supply chain to increase margin and control within the channel from a producers point of view
- Desire to strengthen supply chains and safeguard against future milk supply shortages by investing back into farms
 - Potential increased demand for milk supply if projects such as Toowoomba go ahead
 - Demand increases will also arise if market penetration and development opportunities are capitalised by implementing strategies recommended
- **Move up or down the channel** to strengthen the overall chain and position it more strongly in the market.
- **Consider other revenue options** that the farms can implement to lower the risk of producing milk exclusively e.g. veal, lucerne production, high value horticulture such as Morello cherries, gourmet products such as truffles, free-range eggs and chickens. There is a surprising growth in free-range pork!

Opportunity: Product development

Drivers –

- Interest in health and well being
- Interest in gourmet food
- High margin, high end products increase profit margins



Image: ifong/Shutterstock.com



Your Levy at Work



Develop a range of products targeting growing interest in health and well being –

- Fermented drinks: kefir, drinking yoghurt, skyr
- High protein – Fit market
 - Whey products
 - Protein bars

Gourmet food and cooking is also on trend in the market, so specialty cheeses such as European style cheeses offer opportunities for new products –

- European style of cheeses
- Chimay (soaked in ale), Anari (premium fetta).

Opportunity: Constraints

Opportunities

Export market

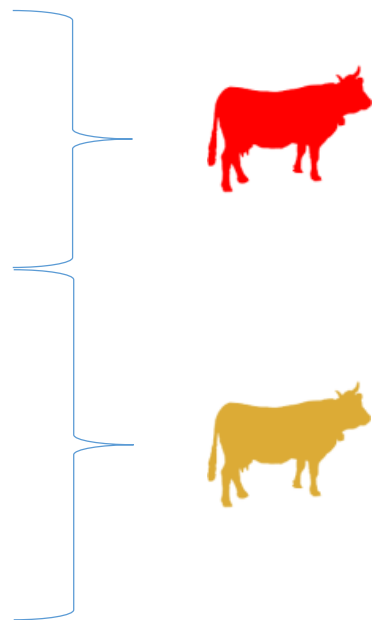
- Pacific Islands (Yoghurt, Milk)
- China (fresh milk)

Ice cream (Gourmet)

- High margin

Butter

- Volume



Limiting Factors

Export market

- AQIS accreditation
- Challenges in setting up and implementing export strategy, particularly to China

Ice cream (Gourmet)

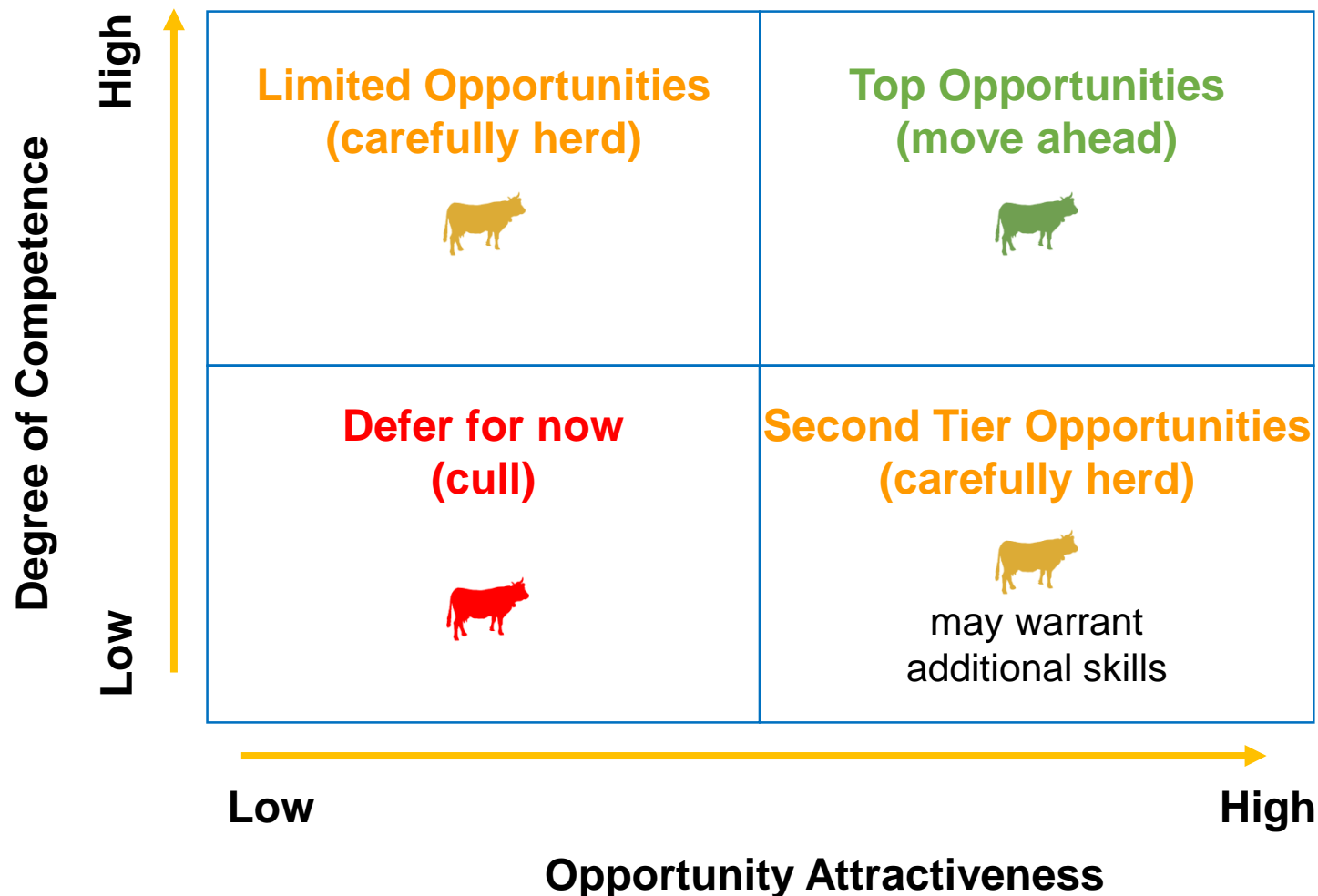
- High margin, small volume
- Gaining distribution

Butter

- High volume but low margin

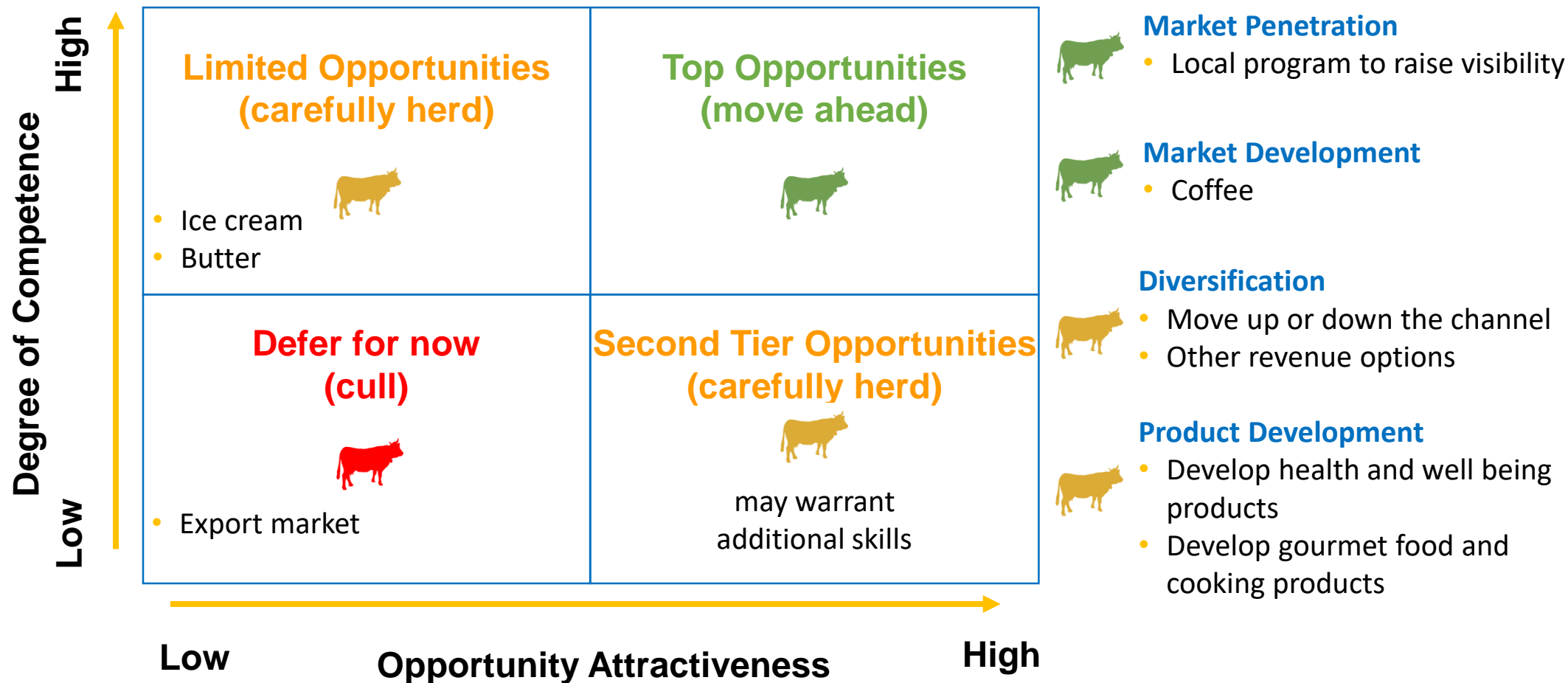
Opportunity: Sunshine Coast Industry

Aligning high level assessments of macro level opportunity attractiveness and the Sunshine Coast Dairy Industry's competitive strengths will help identify market opportunities that ensure successful and sustainable growth for the Sunshine Coast's Dairy Industry.



Opportunity: Sunshine Coast Industry













Developing a market to penetrate the local market is the most attractive opportunity, with market development of coffee. Diversification, and product development provide second tier opportunities.



Opportunity: Attractiveness

Legend:

- 5 = most favourable 4 to 5 move ahead
- 3 = average 2 to 3 carefully herd
- 1 = least favourable 1 cull

| Element | Local Brands | 4.0 | Channel Integration | 2.8 | Other Revenue Options | 2.8 | Health and Wellness | 3.0 | Gourmet | 3.0 | Coffee | 3.8 |
|----------------------|---|--|--|--|---|--|--|--|--|--|---|--|
| Opportunities | <ul style="list-style-type: none"> Strong growing local market Strong support for local products Currently only supplying 45% of products to the local market Local firms lack a profile in the local market Full supply chain opportunity | <p>5.0</p>  | <ul style="list-style-type: none"> Need to increase margin and control Desire to strengthen supply chains and safeguard against future milk supply shortages | <p>3.0</p>  | <ul style="list-style-type: none"> Other revenue options that the farms can implement to lower the risk of producing milk exclusively e.g veal, lucerne production, high value horticulture such as Morello cherries, gourmet products such as truffles, and free-range eggs, chickens and pork | <p>3.0</p>  | <ul style="list-style-type: none"> Public interest in health and well being Interest in gourmet food High margin, high end products increase profit margins | <p>3.0</p>  | <ul style="list-style-type: none"> Public interest in health and well being Interest in gourmet food High margin, high end products increase profit margins | <p>3.0</p>  | <ul style="list-style-type: none"> 778ML market growing to 840ML Growing local coffee guild | <p>4.5</p>  |
| Threats | <ul style="list-style-type: none"> Local firms lack a profile in the local market Existing products with large corporate retail contracts | <p>3.0</p>  | <ul style="list-style-type: none"> Producers are very specialised to milk production (98% of farm revenue) | <p>2.5</p>  | <ul style="list-style-type: none"> Lack of profile as supplier Existing contracted suppliers | <p>2.5</p>  | <ul style="list-style-type: none"> Passing trend and short lived opportunity May need additional training | <p>3.0</p>  | <ul style="list-style-type: none"> Passing trend and short lived opportunity May need additional training | <p>3.0</p>  | <ul style="list-style-type: none"> Existing supplier contracts | <p>3.0</p>  |

Opportunity: Competence

Degree of Competence – Sunshine Coast Dairy Industry

Legend:

- 5 = most favourable
 - 3 = average
 - 1 = least favourable
- | | |
|--------|----------------|
| 4 to 5 | move ahead |
| 2 to 3 | carefully herd |
| 1 | cull |

| Element | Local Brands | 3.8 | Channel Integration | 2.0 | Other Revenue Options | 2.0 | Health and Wellness | 2.3 | Gourmet | 2.3 | Coffee | 3.8 |
|-------------------|---|---------|---|---------|---|---------|---|---------|---|---------|--|---------|
| Strengths | <ul style="list-style-type: none"> Quality of milk Provenance (producer's passion) & traceability | 5.0 | <ul style="list-style-type: none"> Established markets and channels in place Latent capacity | 2.0 | <ul style="list-style-type: none"> Farming experience Love for producing quality food Desire to remain in the farming business Desire to create a profitably sustainable business | 3.0 | <ul style="list-style-type: none"> Love for producing quality food Ability to produce quality food | 2.5 | <ul style="list-style-type: none"> Love for producing quality food Ability to produce quality food | 2.5 | <ul style="list-style-type: none"> Local community mindfulness Capitalise on existing milk production capabilities | 5.0 |
| Weaknesses | <ul style="list-style-type: none"> Marketing capability Quality of distribution service Relationships (community, supply chain) Customer experience | 2.5 | <ul style="list-style-type: none"> Lack of sufficient capital Lack of skilled resources to facilitate integration | 2.0 | <ul style="list-style-type: none"> 98% of farm revenue relies on milk production May need training May need a change in mind set | 1.0 | <ul style="list-style-type: none"> May need additional training Need to build supply contacts and relationships | 2.0 | <ul style="list-style-type: none"> May need additional training Need to build supply contacts and relationships | 2.0 | <ul style="list-style-type: none"> Historical mindset to stick to farming Business relationship building and communication | 2.5 |

Recommendations



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Recommendations

Local market penetration by developing a Sunshine Coast brand associated with premium milk

- Local program to raise visibility of local brands:
- Develop the Sunshine Coast as a premium dairy region through branding and positioning.
- Deliver the local story through a provenance program / campaign.

Coffee market development

- Develop a market for local milk, private label milk and other coffee/dairy products such as ice-cream or cold coffee.
- Collaborate with local coffee brands through the Coffee Guild i.e. build a market within local cafes for coffee based on local milk.
- The Sunshine Coast supports a vibrant coffee market, having over a dozen roasters and private labels, including Tim Adams, Clandestino Roasters, Montville Coffee, HumDrum Espresso, Tome and Padre Coffee.
- Co-branding options to include Barista milk, iced coffee, coffee sorbet.

Next steps



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Next Steps

- **Complete pilot study** for the Industry Strategy. We will be submitting an application for the larger Queensland study with Dairy Australia for an ARC linkage grant.
- **Consult with the Dairy Cluster Group** to assess the interest in developing a project around one of the growth strategies and assessing its outcome for the sector.
- **Undertake further consumer research** to understand the needs and wants of the consumer and how this could be incorporated into individual firms marketing plans.



Evaluation: Where, when and who

Workshop held at Maleny Community Centre 28/4/2017

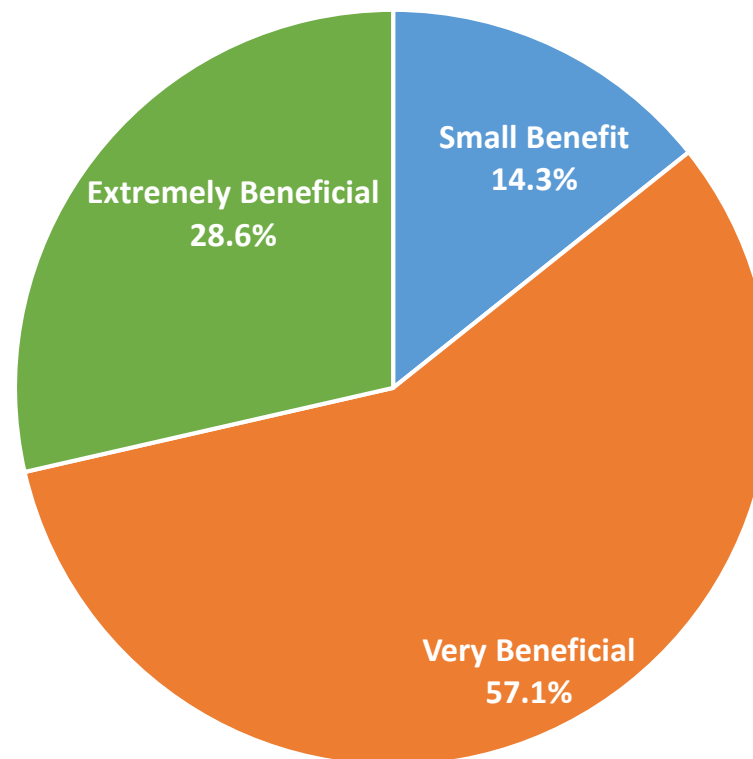
- 9 attendees –
 - 4 Processors
 - 1 Retail
 - 2 Farmers and Board members (Norco)
 - 1 FAN
 - 1 Camel milk producer



Evaluation: Feedback

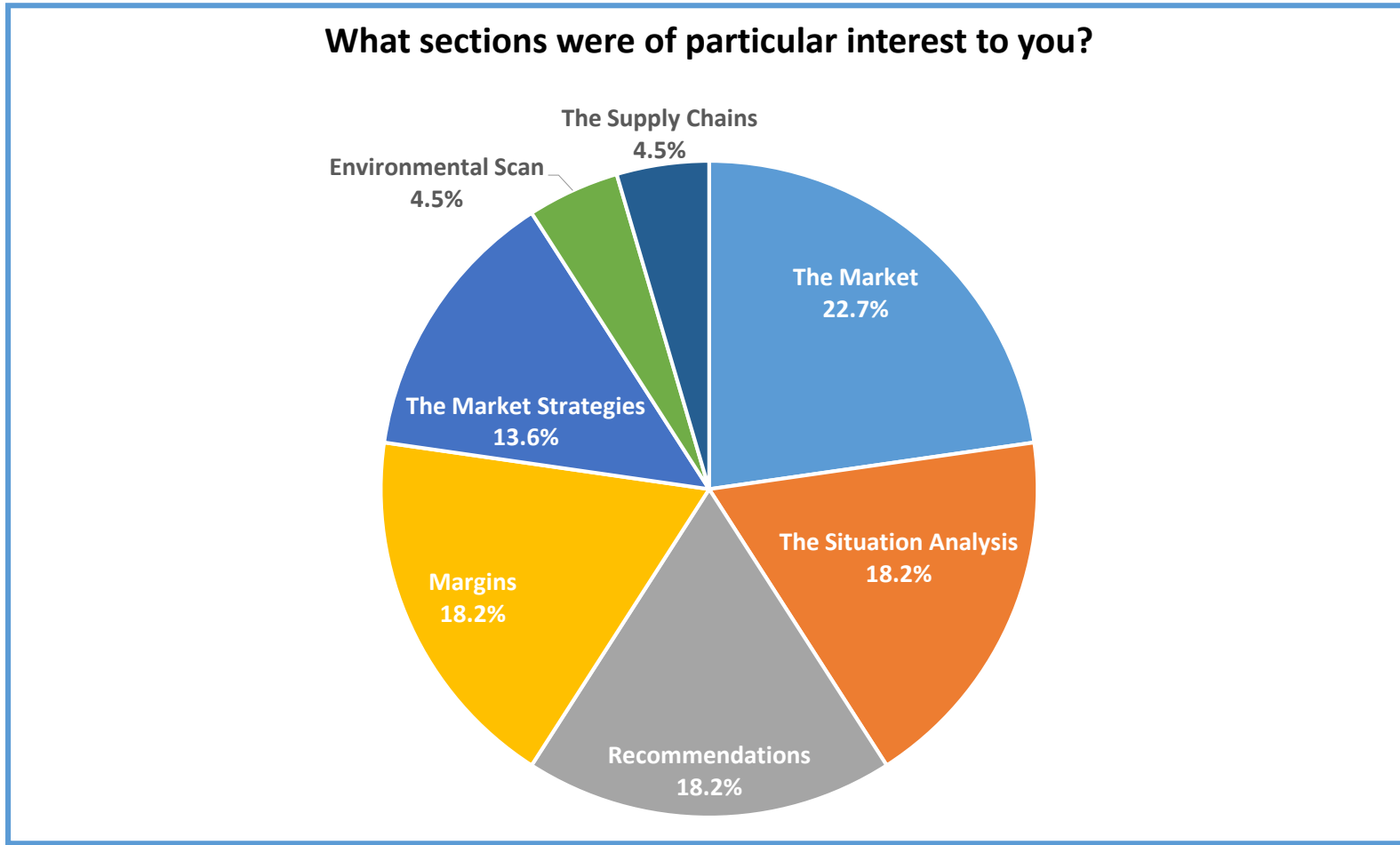
How beneficial was the presentation to your knowledge of the Sunshine Coast Dairy Sector?

How beneficial was the presentation to your knowledge of the Sunshine Coast Dairy Sector?



Evaluation: Feedback

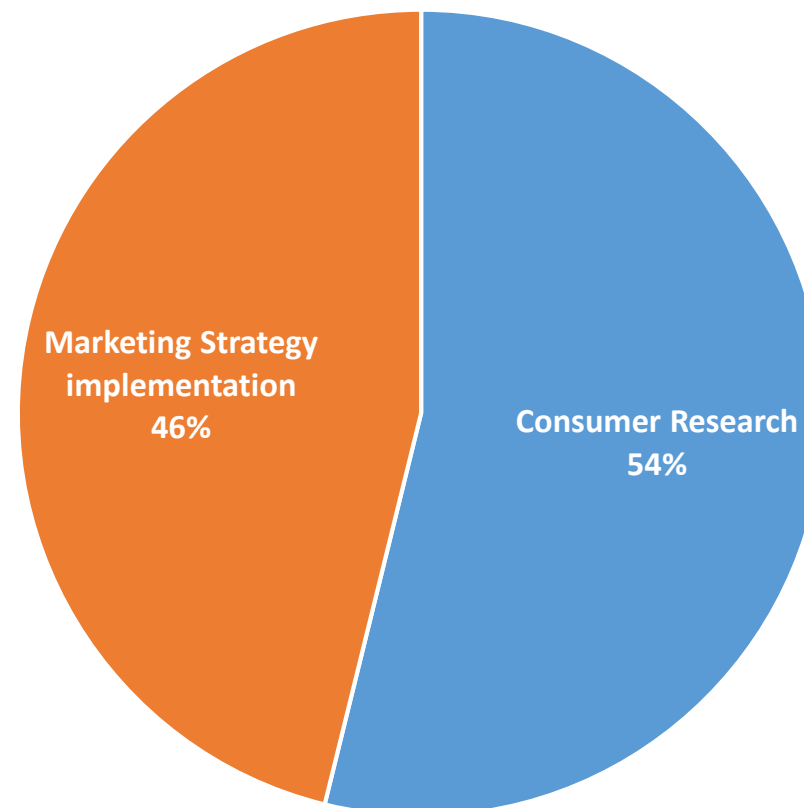
What sections were of particular interest to you?



Evaluation: Feedback

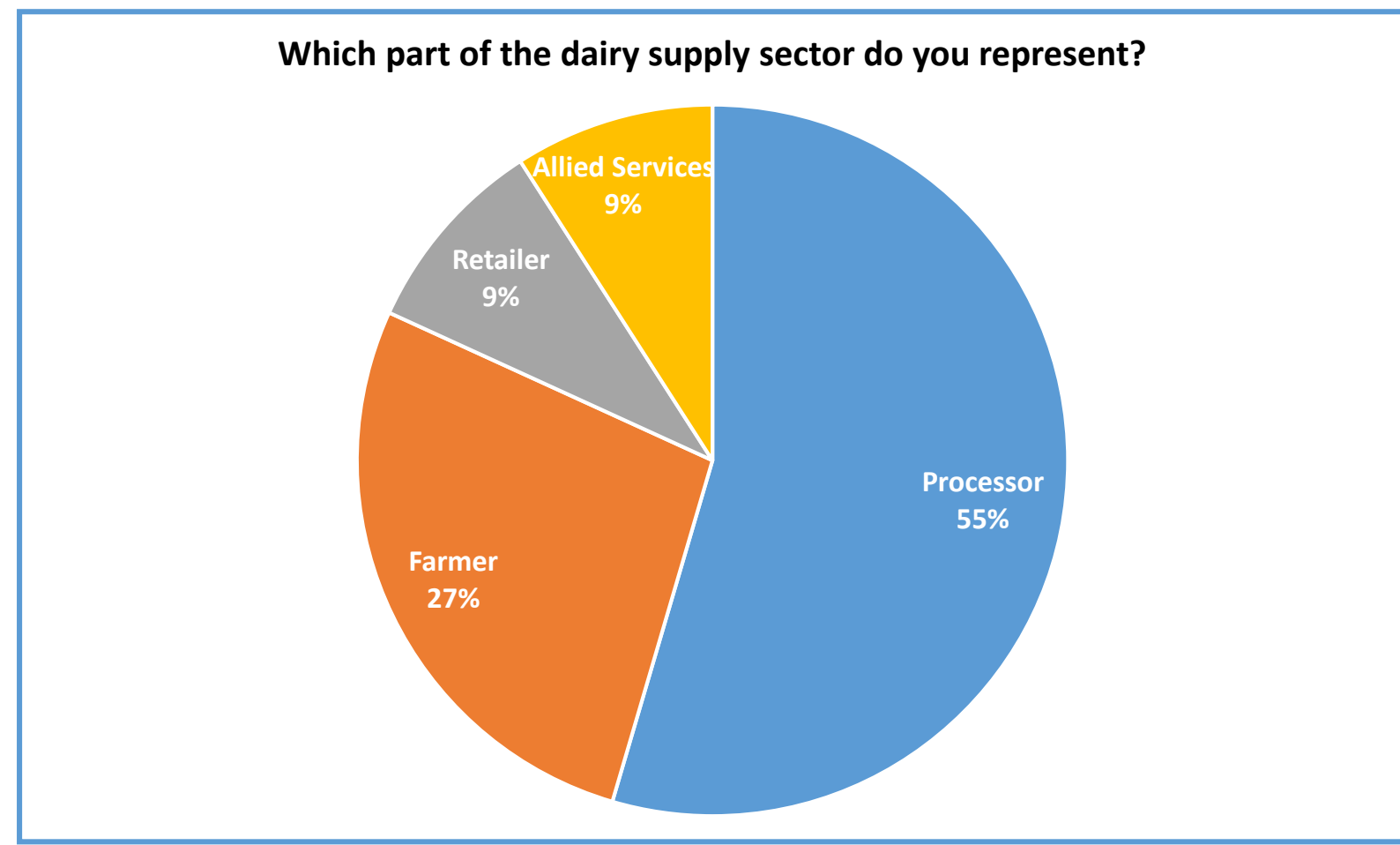
Where would you like to see further research on the dairy sector?

Where would you like to see further research on the dairy sector?



Evaluation: Feedback

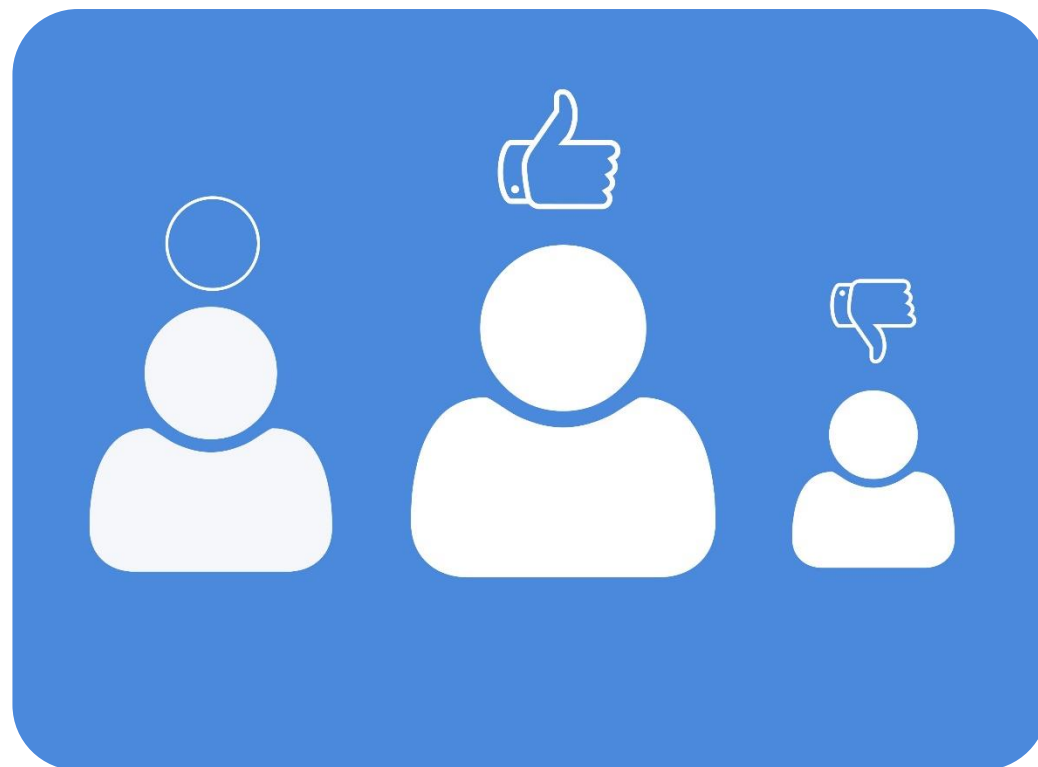
Which part of the dairy supply sector do you represent?



Evaluation: Feedback

Any additional comments?

- “Very informative.”
- “It is a very comprehensive report.”
- “Thanks again for sending through such a wonderful comprehensive report.”
- “Industry specific. The unique opportunity our region has over other dairy regions in Australia. I would like a copy of the PowerPoint to share.”
- “Thank you and your team for the report and the information shared within. I look forward to the opportunity of assisting with implementing the strategy and testing the results.”
- “I'm amazed at how much effort you lot put in. Appreciate the time you took interviewing people to gain a picture on how the industry is going. It certainly will take a bit of effort for all concerned to stop it deteriorating like it is. You never know, with your ideas it might work. It would be good to have it at least stable.”



References



Your Levy at Work



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