# Improving financial margins: driving costs out of the supply chain through leaner logistic and working efficiently with raw materials

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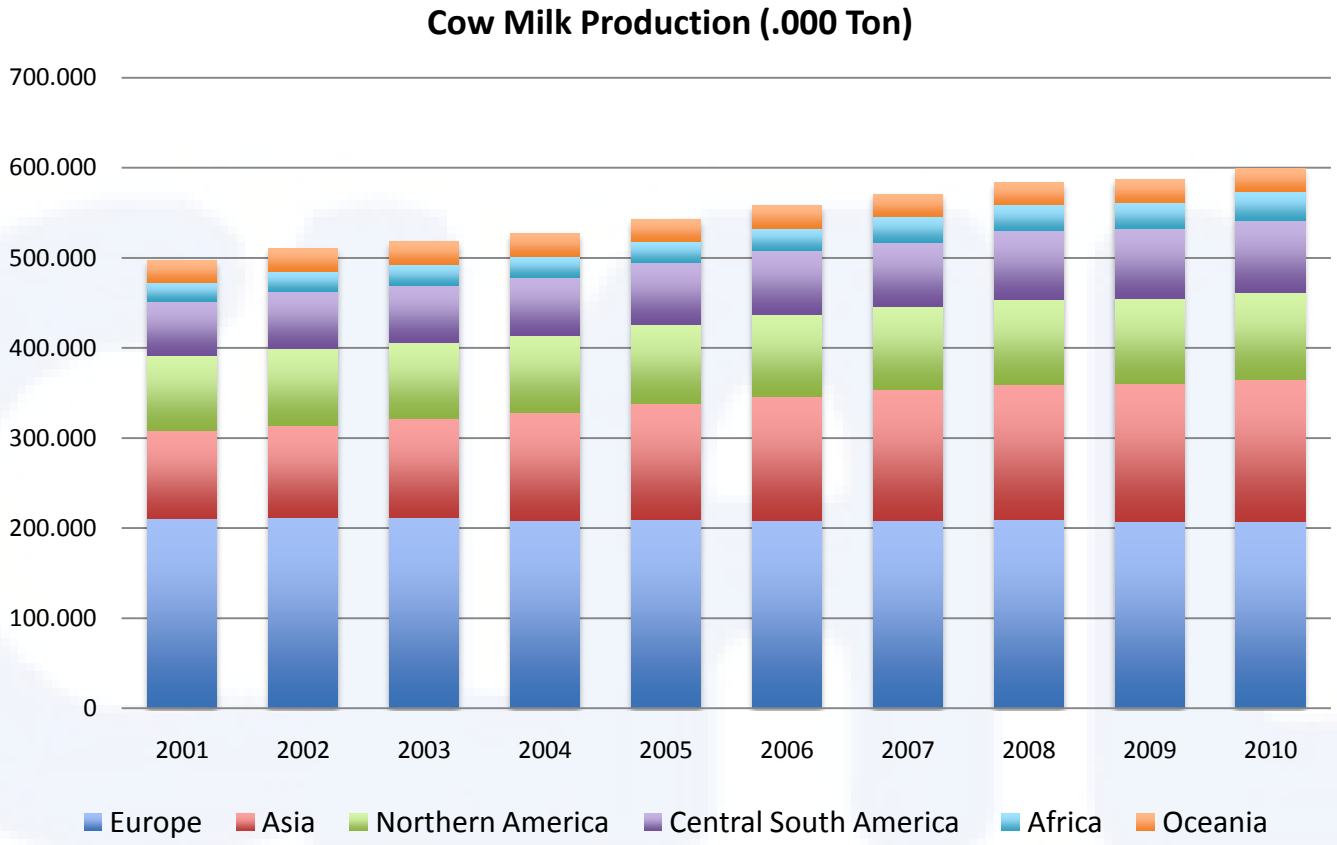
# AGENDA

- Predicting the future cost of raw materials in the dairy industry
  - Dairy products market structure
  - Price volatility
  - Short-mid-long term trends
- Re-evaluating costs in the supply chain – identifying where you can save money
  - Value chain
  - Where potential is
- Finding solutions for keeping costs low when developing healthy or value-added products

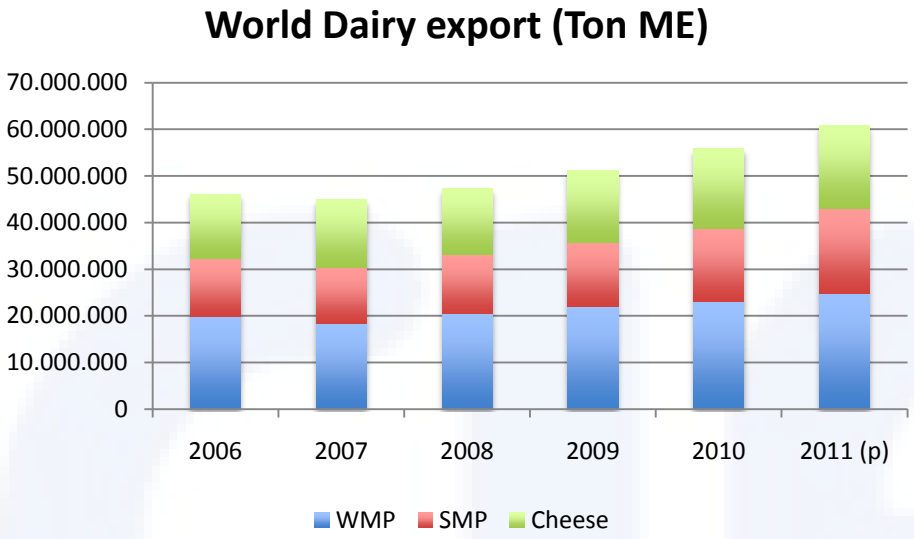
# Milk output has increased by 21% over a decade mostly in developing Areas (while global population grew by 12%)



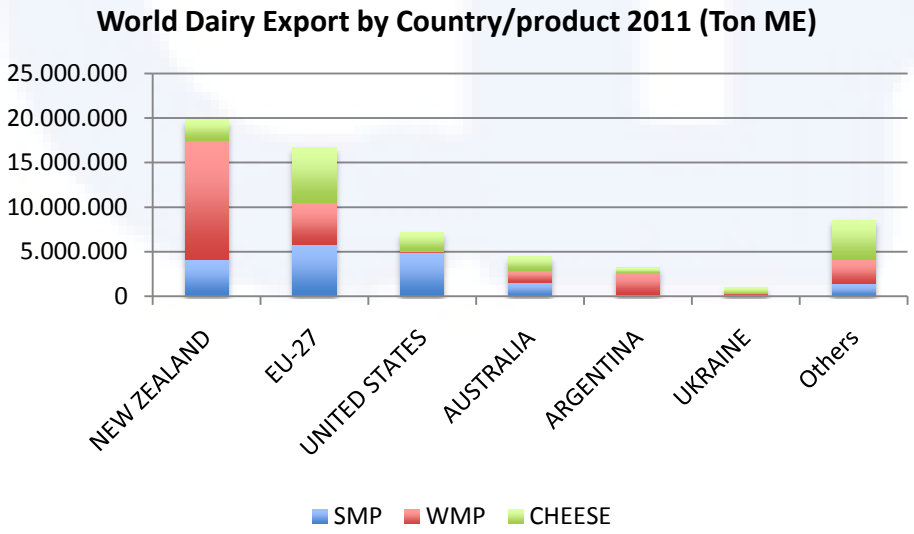

| | | | |
|---|---|---|---|
| Asia | +60% (160MMton) | North Am | .+15% ( 95MMton) |
| Africa | +50% ( 30MMton) | Oceania | +10% ( 26MMton) |
| South Am. | +35% ( 80MMton) | Europe | - 1% (210MMton) |

# World Dairy trade less than 10% of total volumes however influencing local markets in export Countries

(butter/whey pwd not considered here as by-products – other dairy products negligible volume wise )

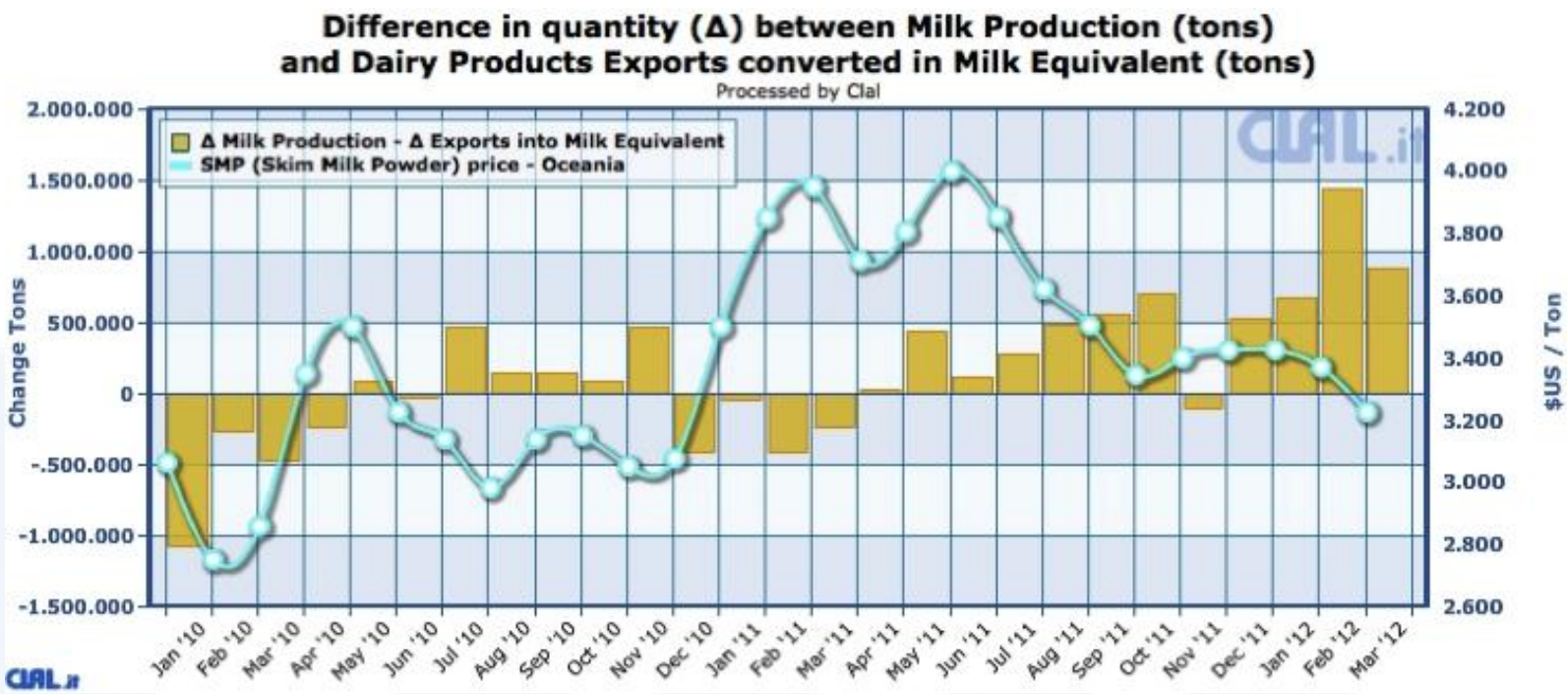



- Volumes growing according to world population and Global GDP growth
- WMP is growing commodity since convenient fat+prot combination




- Oceania leading world trade (most competitive farming -> export at 95% of milk output)
- EU progressively loosing share since export is the way to dispose internal surplus

# World Market Prices purely driven by Demand/Supply balance with increasing degree of price volatility

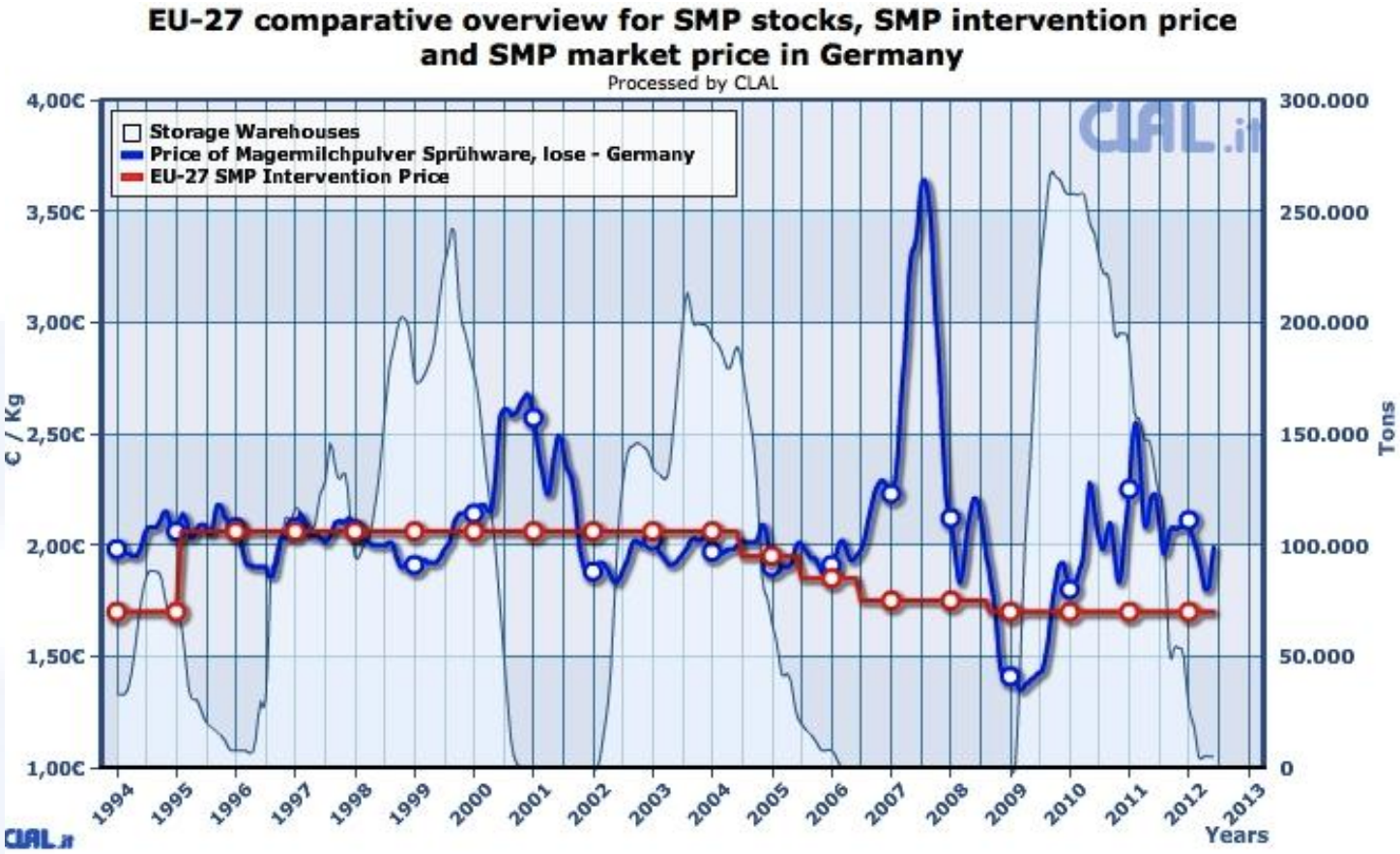



**Demand influenced by**

- Population dynamic
- Welfare / GDP
- Oil price

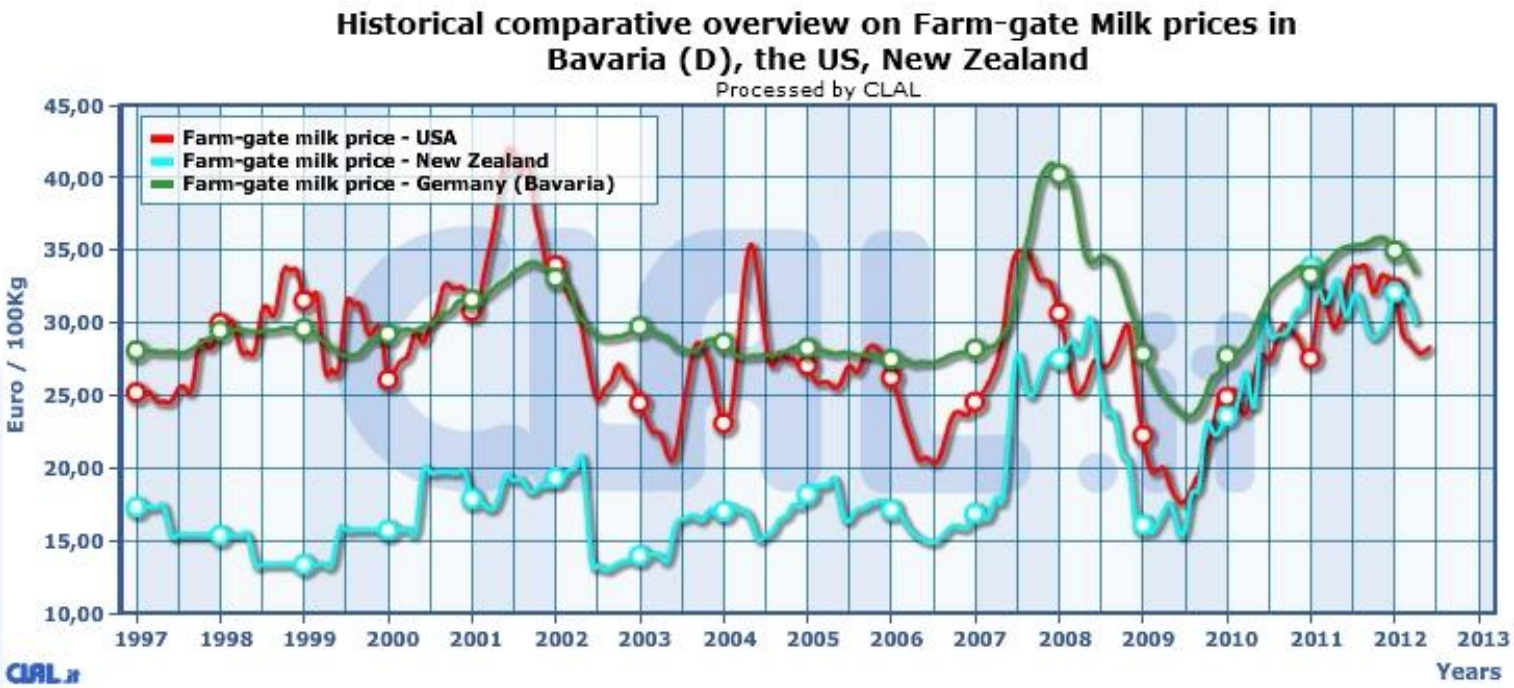
- **Supply influenced by**
- Milk output seasonality
- Weather conditions /animal health
- Farm gate milk price (un-elastic)
- Political regulation

# EU competitiveness highly influenced by political protection




- Common Agricultural Policy on SMP & Butter to artificially sustain farm gate milk price slowed down farmers ability to structure efficiently
- To reduce support system costs, agri-policy progressively reformed towards “open market rules (production quota system to stop by 2015)
- Domestic markets more exposed to price volatility

# Farm gate milk prices getting closer across main production areas



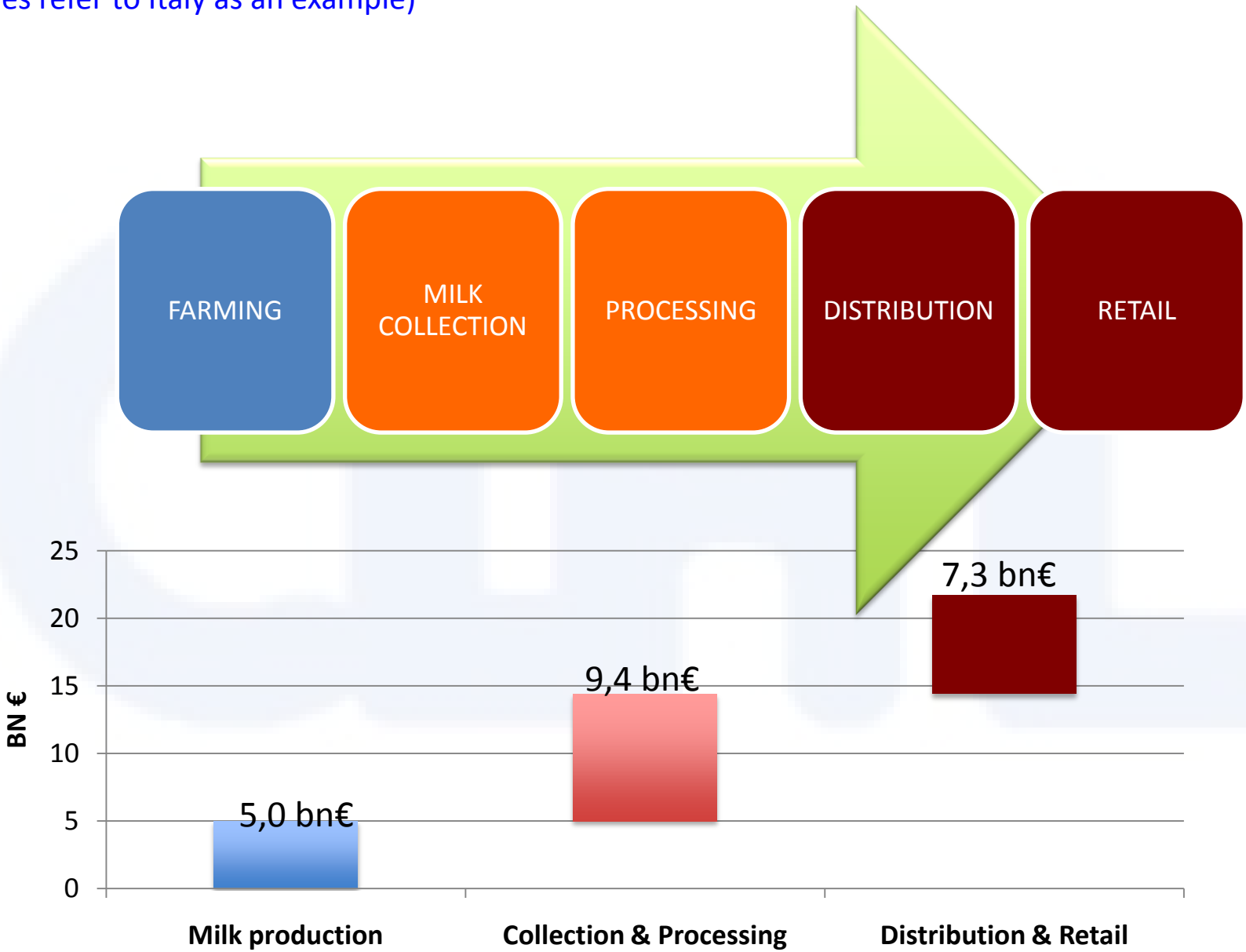

- Average world milk price increases making farming more attractive in low cost Countries
- "High cost" Countries to quickly gain competitiveness or to be progressively kicked off the market
  - Higher efficiency / effectiveness
  - Added value product proposition (PDO, AOP, DOP), niche markets development

# What next?

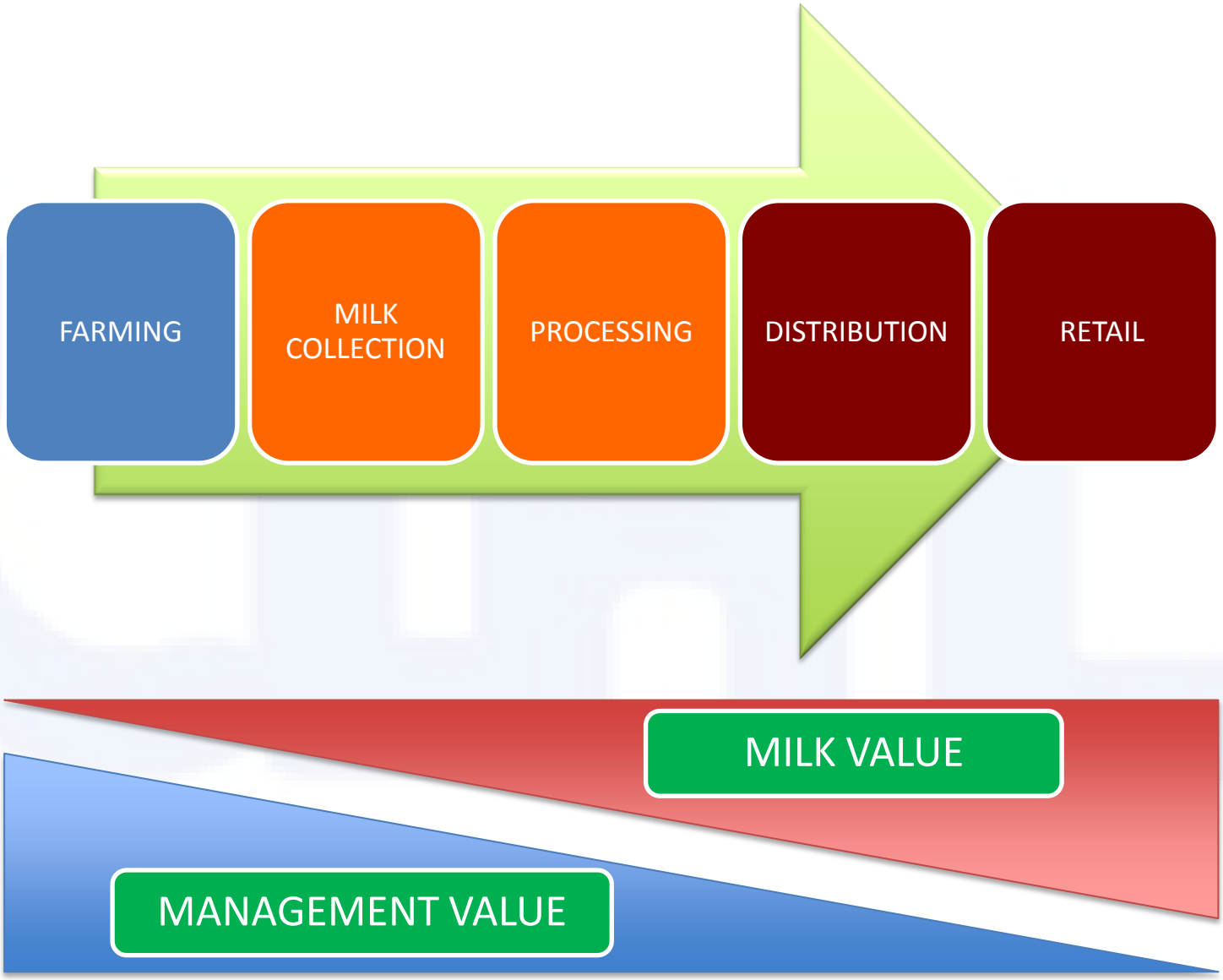
- World population still hungry: more food is required
- Developing Countries hugely investing in farming (China, India, Pakistan, Russia, Ukraine, Brazil,…)
- Developed Countries can hardly afford structural investments in farming
  - High investment intensity
  - Footprint regulation
- Increasing price volatility preventing long term investments
  - Future market possible?
- Dairy products more and more “commoditized”: price vs. brand competition
- Selling prices lowered in last years

# Where and how to extract value out of the Dairy chain

(values refer to Italy as an example)



# Upsizing both managerial skills and dairy products value are key



# Various working streams along the chain to materialize value (short-mid term)

**Farming :**

- Specialize herds per destination

**Collection & Processing**

- Dairy Product Innovation
- PDO / AOP / DOP
- Milk components exploitation

**Distribution & Retail**

- Develop new markets
- Niche Markets / Boutiques

MILK VALUE

MANAGEMENT VALUE

**Farming :** Increase "marginal milk"

- Genetic improvement
- Feed efficiency
- Supply costs
- Non-milk revenues
- Kw/Ha

**Collection & Processing**

- Primary logistic
- Leaner intake planning
- Plant capacity
- Water footprint

**Distribution & Retail**

- Modern vs. Normal trade

# Thank you by

# CUAL

# Team

# BACK UP

# World Milk Output

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2010/2001 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | 210.460 | 212.311 | 211.527 | 208.843 | 209.617 | 209.001 | 208.648 | 209.179 | 207.266 | 207.523 | |
| | | 0,9% | -0,4% | -1,3% | 0,4% | -0,3% | -0,2% | 0,3% | -0,9% | 0,1% | -1,4% |
| **Northern America** | 83.100 | 85.104 | 85.023 | 85.440 | 88.060 | 90.504 | 92.334 | 94.317 | 94.094 | 95.704 | |
| | | 2,4% | -0,1% | 0,5% | 3,1% | 2,8% | 2,0% | 2,1% | -0,2% | 1,7% | 15,2% |
| **Central South America** | 60.157 | 63.110 | 62.989 | 64.801 | 68.060 | 70.940 | 70.664 | 76.118 | 77.677 | 80.520 | |
| | | 4,9% | -0,2% | 2,9% | 5,0% | 4,2% | -0,4% | 7,7% | 2,0% | 3,7% | 33,8% |
| **Oceania** | 23.733 | 25.203 | 24.743 | 25.164 | 24.830 | 25.327 | 25.268 | 24.507 | 25.123 | 26.103 | |
| | | 6,2% | -1,8% | 1,7% | -1,3% | 2,0% | -0,2% | -3,0% | 2,5% | 3,9% | 10,0% |
| **Asia** | 98.367 | 102.141 | 109.910 | 119.487 | 128.648 | 137.596 | 145.506 | 150.410 | 153.259 | 157.839 | |
| | | 3,8% | 7,6% | 8,7% | 7,7% | 7,0% | 5,7% | 3,4% | 1,9% | 3,0% | 60,5% |
| **Africa** | 21.088 | 22.490 | 23.546 | 23.348 | 23.861 | 25.014 | 28.479 | 28.719 | 29.053 | 31.749 | |
| | | 6,6% | 4,7% | -0,8% | 2,2% | 4,8% | 13,9% | 0,8% | 1,2% | 9,3% | 50,6% |
| **WORLD** | 496.905 | 510.359 | 517.738 | 527.083 | 543.076 | 558.382 | 570.899 | 583.250 | 586.472 | 599.438 | |
| | | 2,7% | 1,4% | 1,8% | 3,0% | 2,8% | 2,2% | 2,2% | 0,6% | 2,2% | 20,6% |

# World Population

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2010/2001 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | 728.366 | 727.814 | 727.140 | 728.406 | 727.569 | 726.577 | 734.757 | 736.392 | 737.945 | 739.301 | |
| | | -0,1% | -0,1% | 0,2% | -0,1% | -0,1% | 1,1% | 0,2% | 0,2% | 0,2% | 1,5% |
| **Northern America** | 319.050 | 322.309 | 325.553 | 328.787 | 332.010 | 335.206 | 335.319 | 338.374 | 341.419 | 344.458 | |
| | | 1,0% | 1,0% | 1,0% | 1,0% | 1,0% | 0,0% | 0,9% | 0,9% | 0,9% | 8,0% |
| **Central South America** | 527.495 | 535.165 | 542.778 | 550.326 | 557.798 | 565.022 | 570.516 | 577.086 | 583.621 | 590.156 | |
| | | 1,5% | 1,4% | 1,4% | 1,4% | 1,3% | 1,0% | 1,2% | 1,1% | 1,1% | 11,9% |
| **Oceania** | 31.018 | 31.406 | 31.787 | 32.164 | 32.533 | 32.890 | 34.610 | 35.248 | 35.873 | 36.592 | |
| | | 1,3% | 1,2% | 1,2% | 1,1% | 1,1% | 5,2% | 1,8% | 1,8% | 2,0% | 18,0% |
| **Asia** | 3.749.350 | 3.797.306 | 3.814.756 | 3.861.826 | 3.910.915 | 3.958.615 | 4.032.172 | 4.076.046 | 4.119.726 | 4.163.148 | |
| | | 1,3% | 0,5% | 1,2% | 1,3% | 1,2% | 1,9% | 1,1% | 1,1% | 1,1% | 11,0% |
| **Africa** | 813.326 | 831.603 | 850.058 | 868.670 | 887.439 | 906.677 | 954.149 | 976.349 | 999.042 | 1.022.233 | |
| | | 2,2% | 2,2% | 2,2% | 2,2% | 2,2% | 5,2% | 2,3% | 2,3% | 2,3% | 25,7% |
| **WORLD** | 6.168.605 | 6.245.603 | 6.292.072 | 6.370.179 | 6.448.264 | 6.524.987 | 6.661.523 | 6.739.495 | 6.817.626 | 6.895.888 | |
| | | 1,2% | 0,7% | 1,2% | 1,2% | 1,2% | 2,1% | 1,2% | 1,2% | 1,1% | 11,8% |

# Dairy products world trade (Ton. - as is & me)

| | 11,29 | 12,11 | 9,11 | | | |
|---|---|---|---|---|---|---|
| | SMP | WMP | CHEESE | total Ton ME | WHEY | BUTTER |
| ARGENTINA | 18.531 | 200.630 | 60.105 | | - | 26.572 |
| AUSTRALIA | 139.898 | 110.908 | 167.606 | | - | 41.394 |
| EU-27 | 518.067 | 382.877 | 681.867 | | 523.930 | 126.240 |
| NEW ZEALAND | 361.625 | 1.108.367 | 252.858 | | 89.961 | 413.685 |
| SWITZERLAND | 14.403 | - | 60.060 | | - | 9.517 |
| UKRAINE | 22.274 | 2.122 | 80.267 | | - | 2.139 |
| UNITED STATES | 436.233 | 13.636 | 225.933 | | 465.830 | 64.031 |
| BRAZIL | - | 1.208 | 3.159 | | - | - |
| NORWAY | - | - | 14.046 | | - | - |

total Ton ME

| | SMP | WMP | CHEESE | total Ton ME | WHEY | BUTTER | Gran Total |
|---|---|---|---|---|---|---|---|
| NEW ZEALAND | 4.082.746 | 13.422.324 | 2.303.536 | 19.808.607 | 89.961 | 413.685 | 20.312.253 |
| EU-27 | 5.848.976 | 4.636.640 | 6.211.808 | 16.697.425 | 523.930 | 126.240 | 17.347.595 |
| UNITED STATES | 4.925.071 | 165.132 | 2.058.250 | 7.148.452 | 465.830 | 64.031 | 7.678.313 |
| AUSTRALIA | 1.579.448 | 1.343.096 | 1.526.891 | 4.449.435 | - | 41.394 | 4.490.829 |
| ARGENTINA | 209.215 | 2.429.629 | 547.557 | 3.186.401 | - | 26.572 | 3.212.973 |
| UKRAINE | 251.473 | 25.697 | 731.232 | 1.008.403 | - | 2.139 | 1.010.542 |
| Others | 1.381.128 | 2.733.711 | 4.422.787 | 8.537.626 | | | |