

Champions Trophy

Case Competition 2013



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About Fonterra

Fonterra Co-operative Group Limited is a farmer owned co-operative dairy company. The company was established in 2001 after government deregulations allowing for the merger of the two largest New Zealand dairy co-operatives at the time, New Zealand Dairy Group and Kiwi Co-operative Dairies. Since then, Fonterra has expanded to over 100 countries worldwide, becoming the world's largest dairy exporter.

Company Structure

At the heart of Fonterra is a unique co-operative structure where every shareholder must be a farmer. Though the company has recently partially listed on the New Zealand Stock Exchange (NZX), public investors can buy only the economic rights linked to Fonterra's financial performance through the Fonterra Shareholders' Fund. This means the company remains 100% controlled and owned by farmers. Any individual or entity wishing to buy Fonterra milk products will do so by negotiating with Fonterra itself rather than with individual farmers. This significantly reduces buyers' bargaining power, giving Fonterra more control over the pricing and supply of dairy products globally. The structure also allows for Fonterra to gain operational scale, owning over \$15 billion of assets and some of the largest and most efficient milk dryer plants in the world.





Dairy for life

Production & Products

Fonterra sources milk from farmers, collecting around 17 billion litres per year, representing around 89% of New Zealand's milk production. Fonterra also collects over 4.9 billion litres of milk overseas through farmers and joint ventures. It then processes the milk into many different products, ranging from milk powder to butter to ice cream. The products are then packaged, marketed, and distributed around the world. A wide variety of brands are established to cater for the needs of different markets around the world. High nutrition and health-oriented brands such as Anlene and Anmum are prevalent throughout developing countries where nutritional commodities are scarce. Differentiated, taste-oriented brands such as Anchor and Tip Top have a stronger presence in developed countries.

Research & Innovation

In line with the core values of the New Zealand economy, Fonterra also strives for innovation. Large-scale research and development on the nutrition, flavour, and packaging of Fonterra's products create a sustainable competitive edge. The world-renowned quality of New Zealand dairy is also a key point of differentiation for all Fonterra products, especially given the sensitivity of consumers towards the health and safety of dairy products.

Fonterra has also been a world leader in dairy trading, creating the GlobalDairyTrade platform for the auction of internationally-traded commodity dairy products. This platform is now used by many international milk producers including DairyAmerica, Murray Goulburn and Arla.

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International Presence

Fonterra is not only New Zealand's largest business, it is also the single largest contributor to the New Zealand economy. Most importantly, 90% of Fonterra's annual dairy production is exported, generating NZ\$19 billion annually for the New Zealand economy, representing 25% of New Zealand's merchandise exports. Their key international markets are Latin America; Asia, Africa and the Middle-East; and Australia. Fonterra has established overseas investments and partnerships for distribution, processing and supply to increase its global presence and capacity. One of the key partnerships is Dairy Partners America, a joint venture with Nestlé, producing ingredients and consumer products for Latin America.

Challenges Faced by Fonterra

Fonterra faces many challenges throughout its international operations and production, a few are highlighted below:

- How to continue to expand its branded businesses internationally, competing with some of the largest FMCG producers?
 - Managing the potential conflicts between farmers who want the highest milk payout and public unitholders who want profits and dividends.
 - How to ensure milk supply is secured and exposure to weather conditions such as droughts is managed?
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References & Further Reading

You can find out more about the Fonterra story in a short video: www.fonterra.com/global/en/about/our+story

You can also have a look at the following resources:

- [Fonterra](#) company website
 - [Prospectus](#) and investment strategy for NZX listing
 - [Market Watch](#) – Fonterra serves up creamy returns
 - [Coriolis Research](#) – Fonterra: options going forward
 - [ERNAC](#) – The New Zealand dairy co-operative's adaption to changing market conditions
 - [GlobalDairyTrade](#) website
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