THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

Champions Trophy
Case Competition 2011

Case 1: Piako Gourmet Yoghurt

12 February 2011

Case prepared by Ms. Ashley Cornall under the supervision of Mr. Sunny Gu. This case has been prepared solely for The Champions Trophy Case Competition. All data in this case has been obtained from publically available sources and Piako Gourmet Yoghurt. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

PIAKO GOURMET YOGHURT
95% fat free and gluten free
www.piakoyoghurt.co.nz
Phone: 09 574 5869

Warren Wallstreet

From: Warren Wallstreet
Sent: Saturday, 12 February 2011 7:52
To: * Piako Project Teams
CC: David Dollar; Benjamin Banker; John Jobs; Peter Partner
Subject: Piako Strategy Presentation

Team,

Our final client awaits.

Piako Gourmet Yoghurt is a uniquely New Zealand company. Since November 2008, they have produced, marketed and distributed artisan yoghurt that is 100% natural, 95% fat free and gluten free.

After experiencing gourmet yoghurt in Brisbane, founder Shaun Jacka decided to introduce the concept to New Zealand. 350kg of yoghurt later – imported from Queensland, Australia and sold at the local Takapuna markets – he and partner Hamish Pye purchased a 604m2 factory in Auckland. Fast forward to 2011, and they have risen from market booths to upmarket food stores and a selection of supermarkets – Piako products grace the shelves of 114 New Zealand locations. This rapid growth was a factor in their success in 2010's University of Auckland Business School Entrepreneurs' Challenge, winning Piako $300,000 in funding.

Where will that money go? Rest assured, Piako shows no signs of wanting to slow down. In New Zealand, the goal is to see Piako products stocked in 90% of the nation's supermarkets. But the majority of Piako's attention is focused on capturing the UK market under the name Little Melton Gourmet Yoghurt.

"Small businesses", says Jacka, "have different priorities and different problems than big businesses." Some of those priorities and problems include how to scale production to meet demand, how to reach more distribution channels (without alienating customers or reducing the product's exclusivity or price point), and what to do with the company's ownership structure as the business expands. The bottom line? "Growing without any money. And maintaining our identity."

Shaun and the board have asked for a ten minute presentation on your analysis and strategic recommendations for the company. This will be followed by a ten minute question and answer session. Information gathered by our research team is attached to this email.

Regards,
Warren Wallstreet,
President
SYG Consulting Group

Company Outline

Current Strategy[1]

New Zealand Strategy

Goal	To see Piako products distributed in 90% of NZ supermarkets			
Key Issues	Small stores owner operated & Piako products must be individually sold to owners.	High chilled freight costs may cause Piako to have little or no margin on shipping small orders.	Increased competition, particularly for shelf space.	Capacity: Upon reaching this goal, would be producing 20-25 tonne per week; currently producing 8-10
Current Solution	Offering smaller batches to stores, e.g. 6 instead of 18 units, to appeal to smaller regional stores.	Distribution deal with Fonterra[2] to gain foothold into Progressive stores. Fonterra will distribute the product, and take over marketing and merchandising. Guarantees five times the 2010 volume over the next five years.		Relationships with merchandisers in Wellington, Christchurch and Auckland to fight for shelf-space.
Performance	Currently at 20%, the deal with Fonterra will kick in part-way through 2011.			

United Kingdom Strategy

Goal	Start small, but steadily expand in a manner similar to initial NZ expansion.		
Current Solution	In talks with Sainsbury's and Waitrose for distribution. Waitrose (a high-end supermarket) with 4% of the total market at 280 stores, so small on a UK scale but would make the venture instantly profitable	Marketing: Word of mouth, e.g. through attendance at food festivals. Have engaged a PR firm as part of a requirement to relationship with Waitrose but plan to engage in minimal paid marketing.	Rebranding as Little Melton Gourmet Yoghurt, to be seen as a small, local producer with a connection to the area.
Key Issues	Capacity: The UK factory can cope with a contract with Waitrose but would struggle with much more.		
Performance	Aimed to be on the shelves by Christmas 2010, but weather problems prevented this. Factory will be running by February, in time for next		

[1] Interview with case company, press articles
[2] See page 12 for more information on Fonterra

Supermarket intake in March 2011.

Product Line[3]

		Flavours	Retail price[4]	Percentage of Sales
Gourmet Yoghurt		Natural, Passionfruit, Mango, Mixed Berry, Lemon Curd, Coffee & Walnut	$6 for Natural 500g, $6.50 for flavoured 500g	90%
Gourmet Frozen Yoghurt		Passionfruit, Lemon Curd, Lime Zest	$9.90 for 750ml	6%
Piako & Pure Delish Good to Go Yoghurt and Muesli combination		Passionfruit yoghurt and fruit & nut muesli	$4.90 for 150g single serving	4%

Production Costs:

Estimated cost of raw materials for production of 500g of yoghurt is $2 (NB: excludes labour and distribution costs). Depending on the distribution outlet, this will be sold to retailers for $4-$4.50.

Health Features

Shaun Jacka claims the quality of the product is higher than competitors either in New Zealand or the United Kingdom:

> *"There are a few things we do in the process that are quite secret that allow us to keep a pretty clean nutritional panel and still get that texture and thickness... a few little intellectual property things."*

All of Piako's products are free from preservatives and artificial ingredients, and contain acidophilus, bifidus and casei culture strains.

[3]Interview with case company, press articles, products available for sale on Urban Harvest (online gourmet food retailer)
[4]www.urbanharvest.co.nz

Brand & Marketing[5]

> *"We've differentiated with the brand, in that [our competition] are trying to project what we actually are: a genuine family company, you know, a couple of guys whose parents were both dairy farmers, Mum's in next door… there's four families here working out of eighteen people. A lot of that stuff can't be replicated by bigger companies, and… a lot of consumers do identify with it. And that's generated a lot of goodwill, and a lot of loyalty. The goal for us is to get as big as we possibly can while still projecting that image. That no-one's ever worn a shirt and tie to work, and we run around in jandals."*
>
> - Shaun Jacka

While the current perception of Piako as a locally run, small family business has earned a significant amount of consumer support, Jacka is concerned that this image may not withstand future expansion. In particular, the goal to reach 90% of New Zealand supermarkets risks the brand losing its exclusive, small-business feel. While Jacka is prepared to acknowledge that the company may no longer retain its actual identity as a family business, he is concerned that it should be continue to be perceived as such.

However, while Piako have realised the importance of marketing to position the brand in the coming years, Jacka is hesitant to engage in paid marketing services. The brand is currently reliant on free advertising – maintaining both a Twitter and Facebook profile, and with multiple marketing graduates working at the company, the services of a PR company have not yet been required. The rapid success of the company has inspired national media to run multiple stories on Piako, assisting in generating word of mouth.

Distribution[6]

40% of sales through supermarkets; 20% of NZ supermarkets stock Piako. Distribution in some Four Square and New World, but no penetration yet into Progressive stores[7].

60% of sales through speciality stores, e.g. delis, or gourmet food retailers, e.g. Nosh and Farro. Piako have a particularly strong relationship with these small producers – often those who stock Piako's product will not stock any competitor's product.

Location		**Number of Stockists**
North Island	Auckland	40
	Northland	5
	South of Auckland	6
	Waiheke Island	2
	Waikato/Bay of Plenty/Thames Valley	25
	Hawkes Bay/Gisborne	10
	Wellington	7
	Palmerston North/Wanganui/New Plymouth	9
South Island		10

[5]Interview with case company
[6]Interview with case company, http://www.piakoyoghurt.co.nz/stockists/
[7]See Industry Outline for information on New Zealand supermarkets

Capacity[8]

The Auckland factory is currently producing between 8 and 10 tonne per week. Pushed to capacity, it could produce 30-40 tonne per week. The UK factory has been set up on the same model as its New Zealand counterpart, and should be able to achieve a similar output. However, as the proposed Waitrose distribution deal would require similar volumes as the entire New Zealand operation, any further demand in the United Kingdom would be in danger of exceeding capacity.[9]

> *"We haven't even finished building the factory and we're thinking we might not have enough capacity. It's relatively easy to fix that, but you've got to shut the factory down, and I can't afford to have three days of non-production. The boys will have to work for three weeks to get the buffer stock there, and then it means you're not on the shelves; you might miss an order. It's a nightmare."*
>
> -Shaun Jacka

Human Resources

Ownership Structure

A question for Piako is what to do with the ownership structure as the company expands. While it remains small, the owner-operator structure provides strategic speed. For example,

> *"with [Piako's] yoghurt and muesli cups, from thinking about them to getting them on the market was a three-week process for us. And that was only because it took us quite a while to get the stickers printed."*
>
> - Shaun Jacka

But Piako is looking toward an exit strategy in the coming years, aiming to recover capital family members have invested.

Employees

Relationship with Queensland Yoghurt Company

New Zealand	United Kingdom
Office Staff: 6	Manager: 1
Yoghurt Makers: 2	Office manager: 1
Driver: 1	Production Manager: 1
Operational Staff: 9	

Piako has a close relationship with the Queensland Yoghurt Company. QYC provided Piako with the initial batch of yoghurt, along with the recipe currently used by Piako in their yoghurt production. QYC hold a 15% stake in Piako, and on each kilogram of yoghurt sold receive 30 cents in royalties.

QYC hold a 51% stake in a company based in the United States, leaving Piako free in its relationship with QYC to expand into Asia or Europe

[8]Interview with case company
[9]If maintaining the same volume sold per store as in New Zealand, the Waitrose arrangement would require production of approx. 22 t per week.

Financial Performance

	Part Financial Year Jan '09-Mar'09	Financial Year Apr'09-Mar'10	Financial Year Apr'10-Mar'11[10]
Revenue (000s NZD)		1,500	3,500 – 4,000
EBITDA (000s NZD)	-173	210	650
Output volume (Per week, tonnes)	1	5	8-10

Market share[11]

In the gourmet yoghurt market in New Zealand, Piako would be ranked equal first, and ranked fourth (with 15% share) in terms of supermarket sales.

Expenses

For FY11, estimated general & admin expenses would sit at 15% of revenue, wages at 30%, and sales at 5%.

Debt, Cash and Assets

Piako holds $236,000 in debt, with approximately $75,000 cash in bank. Cash flows remain a problem for the foreseeable future, but the company is unwilling to relinquish equity, with Jacka stating: "I could probably get a million dollars funding in the door tomorrow, but how much do I have to give away for it?"

Company estimates of assets sits at approximately $600,000.

[10]Estimated by case company at 17/01/11, will depend on activity for remaining three months of the year.
[11]Fonterra research, case company.

Industry Overview

Industry Outline (NZ)

Market Size:[12]

Yoghurt and Sour Milk Drinks[1]

2005	2006	2007	2008	2009	2010
123.0	136.2	145.6	160.2	175.6	189.4

In NZ$ mn retail value

Frozen Desserts[1]

2005	2006	2007	2008	2009	2010
21.5	23.5	25.7	28.1	29.1	30.1

In NZ$ mn retail value

New Zealand Distribution[13]

	Progressive Enterprises	Foodstuffs	Independent Specialty Stores
Who are they?	Countdown, Foodtown and Woolworths – 158 stores total	New World (132 stores), Four Square (282 stores), and Pak n Save (45 stores)	Farro (2 stores), Nosh (5 stores), The Barrow, Ripe etc
Benefits	Product can be distributed through distribution centres, reducing freight costs. Decision-making is centralised. Extensive reach throughout the country.	Product can be distributed through centralised distribution centres.	Strong loyalty to brands if relationships are built. 'Decision-making stores': can particularly influence foodlovers' purchases
Negatives	Much larger buyer power, and tendency to discount product through promotions.	Owner-operators make decisions as to what to stock, so each supermarket must be convinced to stock product individually.	Comparatively few stores, and typically concentrated in urban areas. Reach to rural regions is poor.

[12]Datamonitor
[13]Casewriter, Datamonitor

Competition[14]

Brand		Flavours	Price
Puhoi Valley (Ranked 1st in supermarket sales in NZ)		Owned by Goodman Fielder, an Australasian listed food producer. Puhoi mainly produce cheese. Production facilities based in Puhoi Valley (40 minutes south of Auckland). Yoghurt range: 3 flavoured, 1 natural.	$4.55 per 450g tub of yoghurt
The Collective Dairy (Ranked 2nd in supermarket sales in NZ)		Produce gourmet yoghurt, soft cheeses and haloumi cheese. Their yoghurt range has 10 flavours, is 95% fat free, "probiotic, vegetarian, gluten free, preservative free and handmade". Extensive distribution network, especially in supermarkets.	$5.50 per 500g tub of yoghurt
Kapiti (Ranked 3rd in supermarket sales in NZ)		Owned by Fonterra Brands, manufacturer and distributor of packaged dairy goods. Kapiti produce a wide range of cheese and premium ice-cream. Gourmet yoghurt range introduced in Nov 2010, contains 4 flavours.	$5.49 per 450g tub of yoghurt

[14] Datamonitor, company websites, casewriter, prices from Pak n Save Supermarket

Fonterra Co-Operative Group Limited – Corporate Summary[15]

A co-operative owned by over 11,000 New Zealand dairy farmers, Fonterra controls 30% of the world's dairy exports. It formed in 2001 with the merger between New Zealand's two largest dairy co-operatives – New Zealand Dairy Group and Kiwi Cooperative Dairies – and has since become New Zealand's largest company with revenues exceeding NZ$16 billion.

Fonterra effectively holds a monopoly over the New Zealand domestic and export dairy industry. Two small co-operatives – Tautua and Westland – remain independent, but with 2009 revenues of NZ$191 million and NZ$364 million respectively, they are dwarfed by Fonterra. Fonterra's shareholders provide in excess of 14 billion litres of milk annually, 94.8% of all milk solids from dairy farms.

Fonterra exports 95% of its New Zealand production as its core business. Its two largest businesses are New Zealand Milk Products, the world's leading supplier of dairy ingredients, and Fonterra Brands, marketing milk and cultured and solid dairy products to retail and foodservice customers. In 2009, Fonterra Brands held 13% market share of the packaged food industry in New Zealand, operating key brands such as Anchor, Bega, Fresh 'n' Fruity, Kapiti, Mainland, Primo, Maid, Cadbury's icecream, and Tip Top.

[15]Datamonitor, Fonterra Annual Report, Casewriter

Industry Outline (UK)

Note: 1 NZD = 0.4839 GBP[16]

United Kingdom - Market Size[17]

Yoghurt and Sour Milk Drinks[1]

2005	2006	2007	2008	2009	2010
1362.2	1375.1	1393.9	1477.8	1571.3	1660.6

In NZ$ mn retail value

Frozen Desserts

2005	2006	2007	2008	2009	2010
203.2	207.7	217.6	227.0	236.1	243.7

In NZ$ mn retail value

Distribution information[18]

Supermarket	Notes	Market share	Approx. store no.
Tesco	Extremely high buyer power, but considered the strongest and most visible British food retail brand.	30.7%	2500
Sainsbury's	Overtaken Asda for 2nd ranking since Christmas 2010. Expansion in 2010 into convenience stores (335 at end of 09/10 financial year).	16.6%	870
Asda	Owned by Wal-Mart. Focus on promotions, and primarily features hypermarkets and supermarkets rather than small-format stores.	16.5%	400
Morrisons	Focus on grocery retailing with a limited non-food selection. Out-of town locations and qualified staff in butchery, bakery and deli sections create impression of 'stores within a store'.	11.7%	400
The Co-operative Group	Consumer's co-operative group, concentrated in small stores in local communities. Supporter of fairtrade products.	7.9%	3,300
Waitrose	Focuses on quality of food and quality and service. Popular with middle class families. Branches mainly located in South East England and the London area.	4.0%	230
Marks and Spencer	Retails clothing and food under names 'Marks and Spencer' and 'Simply Food'. Traditionally only sold private label goods but introduced 250 popular UK brands in 2008.		700

[16]National Bank, at 26 Jan

[17]Datamonitor

[18]Datamonitor

Industry Overview – International

Market Size

Yoghurt/Sour Milk Drinks (in $USD millions)[19]

	2005	2006	2007	2008	2009	2010
World	47856.3	51376.4	59300.8	66336.8	65730.7	69878.2
Asia Pacific	10995.6	11613	12650	14098.6	15313.4	16460.3
Australasia	645.2	665.6	787.5	850.8	872.3	1071.6
Eastern Europe	3972.1	4656.4	6166.9	7245.4	6374.6	6853.3
Latin America	4545.6	4872.1	5889.7	6976.2	6941.6	8119
Middle East & Africa	2855.3	3166.6	3614	4136.2	4464.1	4882
North America	5841.1	6505.2	7320.2	8033.6	8432.5	9093.5
Western Europe	19001.4	19887.5	22872.6	24995.8	23332.4	23398.5

Frozen Desserts (in $USD millions)

	2005	2006	2007	2008	2009	2010
World	3321.3	3493.1	3897.4	4275.9	4200.4	4345.1
Asia Pacific	599.2	656.2	746.7	912.9	956.6	1022.9
Australasia	86.4	93.3	108.2	111.5	108.2	128.5
Eastern Europe	21.7	23.4	26.1	30.8	27.8	28.5
Latin America	60	65.4	77.6	87.8	85.1	94.3
Middle East & Africa	22.4	23.1	24	23.3	23.8	25.1
North America	924	969.2	1046.2	1096.4	1100.7	1139.7
Western Europe	1607.6	1662.5	1868.5	2013.1	1989.1	1906.1

[19] 1 USD = 1.2999 NZD as at 26 Jan 2011

Category Watch: Successful dairy expansion must look to markets with low private label penetration[20]

There are a multitude of factors to consider for dairy brand manufacturers intending to expand into new markets, and, without question, the level of private label penetration is one of them. The push towards private label was already strong in many geographies before the onset of the economic downturn, which is making matters even more precarious in the current climate.

Euromonitor International data shows that on a global level in 2007, 17% of dairy product value sales were accounted for by private label. There are, of course, significant variations between regions and at country level. In Asia-Pacific, private label penetration in dairy was below 1%, compared with 38% in North America and 24% in Western Europe. Even in organic dairy, previously the domain of small branded suppliers, global private label share makes up 20%, and a whopping 30% in Western Europe.

Milk brands need a USP to stay afloat

Due to its commodity status, milk is particularly prone to private label dominance. Private label claims 27% of global milk value sales, and in some countries, like Switzerland, Germany and the UK, it is an eye-watering 70%.

Brand manufacturers are by no means taking this lying down. Many are coming up with innovative strategies to stem the private label tide. In Spain, for example, the three key players, Leche Pascual SA, Puleva SA and Corporación Alimentaria Peñasanta SA (CAPSA), which command a combined milk market value share of 50%, are highly active in launching functional UHT milks (98% of milk sold in Spain is UHT).

Their products are mostly positioned as aiding brain development and heart health, as well as targeting specific age and life stage groups (such as children, teenagers and nursing mothers), making Spain the leading market in terms of functional milk innovation (16% of milk sold in Spain is functional). This hardcore innovation strategy has served these players well in keeping ahead of private label, which claims a value share of around 24%, a fairly moderate percentage compared to other Western European markets.

In the UK, where private label has a share of 70%, Arla Foods Amba is the market leader in milk with an 18% value share. For value growth, Arla relies heavily on the strength of its Cravendale brand. While the Arla brand lost two percentage points in value share between 2004 and 2007 (from 16% down to 14%), Cravendale managed to double its share to 4% between 2003 and 2007.

UK consumers have a strong predilection for fresh milk and they shun UHT. The major drawback of fresh milk, of course, is its limited shelf life, and this is where Cravendale plugs a gap. It is produced using microfiltration technology, which affords the product a shelf life of between two and three times longer than conventionally processed fresh (ie pasteurised) milk. The worn out old mantra of innovation being the brand manufacturers' primary weapon against the private label tsunami is certainly borne out in the milk sector.

Brands need to stick to higher value categories

Cheese also has fairly high private label penetration, but less so than milk. Globally, private label cheese accounted for 16% of value sales in 2007. In the US, it was 28% and in Western Europe 20%. Branded yoghurts have an even less troubled time with a global private label value share of 8%. Unfortunately, this does not mean that brand manufacturers can just sit back and relax – even hard discounters like Aldi are churning out private label yoghurts, which are not only sporting probiotic benefits, but also contain fancy functional ingredients like the heart-healthy amino acid L-carnitine.

Germany's Oetker-Gruppe, which has held a 0.2% share of the Western European spoonable yoghurt market for the past four years and which is in the process of establishing itself as a key European player in dairy-based desserts, has always been adamant that it had no interest whatsoever in competing in "mass-market" dairy (like the milk sector), and it has also steadfastly held on to its principle of not supplying products for the private label market. Instead, the company is focusing on high-value premium-minded categories with its Onken and Dr Oetker brands, and with considerable success.

[20] Datamonitor - May 2009

Emmi boldly goes ... to many places where private label already rules!

In April 2009 Swiss dairy company Emmi Group, which leads its home dairy market with a value share of 8%, announced that it was looking to branch out abroad in an effort to pull through the economic downturn unscathed. Furthermore, the Swiss dairy market is highly saturated, and its two leading retailers, Migros and Co-op, run the country's grocery retail scene to the virtual exclusion of everybody else. Consequently, private label accounts for one third of Switzerland's dairy value sales, which limits any grand growth aspirations Emmi might like to enjoy in its domestic market, recession or no recession.

Thus, it makes sense for Emmi to look further afield, and the company has stated that the markets which it considers to have the greatest growth potential are the UK, Germany, Italy, Austria, the US and also the Latin American region. Emmi has already upped its acquisition activities in some of these countries, for example by taking full ownership of US specialist cheese manufacturer Roth Kāse USA in January 2009.

From a private label competition point of view, Emmi is going to have quite a battle on its hands. As already discussed, Germany, the UK and the US are pretty much dominated by private label, and the same is true for Austria, where private label has a 30% value share of the dairy market. Italy, on the other hand, offers a somewhat brighter picture with a private label share of just 8%.

Italy has a relatively fragmented retail market, and its consumers harbour a traditional mistrust of retailer-owned brands, particularly with regard to quality, which Italians perceive to be poor in private label products. Italian consumers are prepared to pay a premium price for regional and high-quality cheeses, but do not show the same propensity to do so for standard cheese. The key for Emmi is to leverage its premium credentials by pushing its products' authentic "Swissness". The emphasis should be on provenance and specific regional origins, instead of getting drawn into the aggressive price-cutting tactics employed to an increasing degree by other manufacturers present in the Italian market, and which can only really benefit – directly or indirectly – the proliferation of private label.

Latin America is also a promising area for Emmi's expansion strategy, and certainly offers much more growth potential than most of its other selected markets. On a regional level, private label penetration in dairy in Latin America was below 2% in 2007, and not even the more advanced consumer markets of Brazil, Argentina and Mexico managed to get beyond this threshold.

Emmi might also want to consider Eastern Europe, where private label share is at a paltry 3%, and where consumers are more than eager to get their hands on high-quality foreign cheese offerings, especially if they are conveniently and attractively packaged.

Is yoghurt in Asia-Pacific a passing fad or here to stay?[21]

Drinking and eating habits in Asia-Pacific are changing, with consumers moving towards healthier drinks and foods. Yoghurt has benefited from this trend and in 2010 has gained a stronger presence in Asia-Pacific in both the retail and foodservice channels.

Total yoghurt retail value sales (including drinking, spoonable and frozen yoghurt) reached US$14 billion in Asia-Pacific in 2009, up 37% on 2004. Yoghurt is positioned as a healthy product. Its main claims are that it strengthens bones, aids digestion and promotes weight management. Yoghurt has gained a stronger foothold in Asia-Pacific as it benefits from a health-conscious and ageing population. As female consumers grow older, bowel movement becomes more irregular and probiotic yoghurt is believed to help regulate this. Elderly consumers are being specifically targeted. In Japan, for example, sales of probiotic yoghurt are growing among ageing female consumers, whilst in Vietnam, Vinamilk Ginger Yoghurt was launched in December 2009, promoted as being able to help maintain healthy and beautiful skin. Vinamilk Ginger Yoghurt contains vitamins, minerals and lactic acid, which helps to build skin cells and moisturise the skin from within.

The most popular format is drinking yoghurt. This is due to the strong position of Yakult, the leading drinking yoghurt brand in Asia-Pacific in 2008 with a 20% value share. Yakult has been able to maintain its leading position thanks to a widespread distribution network in every country and its healthy positioning as a pro/prebiotic drink. Yakult expanded geographically into countries like Vietnam and India in 2007 and 2008, respectively.

Local manufacturers enter the fray

Local manufacturers are also jumping on the bandwagon. Bright Food (Group) Co Ltd has launched several new products in China, such as Changyou pro/prebiotic drinking yoghurt and Bright Herbal Yoghurt, to compete with global companies like Danone. Changyou managed to gain a 5% value share of pro/prebiotic drinking yoghurt in China in 2008. On the other hand, Fraser & Neave Ltd, a well-established soft drinks company, expanded its business into yoghurt in Singapore in 2007. Fraser & Neave Ltd launched Alive spoonable yoghurt in Singapore and expanded this into other countries such as Malaysia in 2008. Alive has a unique positioning in that it links the yoghurt to lifestyle, with variants such as Revive, Balance, Energise and Nurture. Alive has yet to gain a significant share in spoonable yoghurt in Singapore and Malaysia as it is difficult for consumers to relate the brand to the different lifestyle positionings.

Yoghurt bars expand into foodservice and horeca

Another example of the success of yoghurt is the increasing number of outlets and kiosks selling frozen yoghurt across Asia-Pacific. For example, Red Mango and Sour Sally are two yoghurt foodservice chains in South Korea and Indonesia, respectively. Red Mango is a frozen yoghurt foodservice chain that was established in South Korea in 2002, and which has subsequently gained more of a presence in the country, increasing its number of outlets from 12 in 2003 to 46 in 2009. Since 2006, however, the number of outlets has been declining as Red Mango has faced intense competition from other foodservice operators, which have also added yoghurt to their menus. Foodservice brands like Dunkin' Donuts launched a variety of soft-serve yoghurts with fruit toppings in 2007 to meet rising consumer demand for healthier products. Rather than focusing on South Korea, Red Mango has expanded more aggressively globally, opening its first stores in Singapore and the Philippines in 2008 and Indonesia in 2009. To sustain consumer interest, Red Mango continually launches seasonal yoghurt flavours. For example, Red Mango launched Pumpkin Spice, a pumpkin and cinnamon-flavoured yoghurt with less than 100 calories, which was available between October and December 2009.

Several new yoghurt bar concepts have been launched in Asia-Pacific. South Korea saw the opening of the first Yo café in 2008. Yo café offers a wide variety of food and drinks made from yoghurt, including ice cream, cakes and smoothies. Singapore saw the launch of a self-serve yoghurt bar, Yigloo. Yigloo offers six different yoghurt flavours and free toppings, where consumers can pile on as much topping as they like. Euromonitor International believes that these new concepts will help to revitalise consumer interest in yoghurt in Asia-Pacific.

Will yoghurt be able to sustain this position?

Retail sales of drinking, spoonable and frozen yoghurt are expected to grow by 49% to 2014 as consumers continue to opt

[21] Euromonitor – May 2010

for healthier desserts and drinks. Manufacturers will have to launch innovative products to maintain consumer interest, particularly in the area of functional products. Pro/prebiotic and yoghurts containing calcium and collagen are expected to perform well. Yoghurt chains in the consumer foodservice channel will face intense competition from the ready availability of shop-bought products. Yoghurt chains such as Red Mango and Sour Sally will have to launch innovative new concepts and products if they are to maintain consumer interest. They will also need to fight off competition from ice cream fast food chains, which also offer low-fat varieties such as gelato, frozen yoghurt and sorbets.

In the long term, it is possible that yoghurt may cross over into pet food. Australia saw the development of the world's first yoghurt pet food for dogs. Yoghurt Plus, a dry dog food that has a blend of pro/prebiotic, lactose-free yoghurt, was launched in Australia in 2009. Subsequent launches of yoghurt as a treat for pets may be seen in the near future.

Selected Press Articles

Boost for Gourmet Yoghurt

Nicola Boyes

20 November 2010

Waikato Times

WAIKTI

A couple of Ngatea entrepreneurs have received a $300,000 boost for their gourmet yoghurt business and hope to stock the shelves of Harrods, London, by Christmas.

Hamish Pye and Shaun Jacka and their company Piako Gourmet Yoghurt were one of three winners in the University of Auckland Business School Entrepreneurs' Challenge.

The challenge offered $1 million in funding for entrepreneurs and the company was one of three winners.

Mr Jacka has recently returned from the United Kingdom where the business is setting up a manufacturing base in Norwich.

"This is a huge boost for us. Being a growing business, cashflow isn't always the easiest. This means we can get ahead and achieve what we want in the UK," Mr Jacka said.

He said construction of the factory was under way and it was still hoped they would be manufacturing yoghurt in time for the Christmas market in the UK.

Most recently Piako have been working with Fonterra on a national distribution deal in which Fonterra would distribute their yoghurt through supermarkets around New Zealand.

"We're still working through the details with Fonterra. We need to get up to their standards for it all to go ahead.

"They're helping us do that and hopefully we will be at that standard in about a month."

Piako was born after Mr Jacka discovered gourmet yoghurt in Brisbane and learned New Zealand had no similar offering.

He was living in Brisbane, working in freight forwarding and sales.

Mr Pye had been toying with the idea of making cheese from milk produced on the family farm at Ngatea and worked at New Zealand Post.

Apart from growing up on farms, neither had food-based backgrounds. Mr Jacka presented the concept of a gourmet yoghurt to Mr Pye and they imported 350 kilograms of gourmet yoghurt from the Queensland Yoghurt Company and took it to the Takapuna market.

"The product flew off the stand so we thought let's jump in and do this," Mr Pye said.

The Queensland Yoghurt Company, based in Noosa, helped with the equipment required to make the thick, Greek-style yoghurt and a basis for a recipe.

The pair found a vacant 604 square-metre factory in Auckland and started scouring Trade Me and scrap metal yards for equipment.

Their production line is now well established but Mr Pye said they would have to scale up the operation to satisfy their Fonterra deal.

"We were a bit of a mess four months ago and they have come in and shown us what we need to do," Mr Jacka said.

Kiwi innovators share $1m funding boost

Helen Twose

19 November 2010

New Zealand Herald

Auckland Business School award enables NZ firms to fast-track expansion plans

One million dollars in growth funding is to be shared between three winners of the University of Auckland Business School Entrepreneurs' Challenge.

Biological software company Biomatters, environmentally friendly pesticide producer Greentide and gourmet yoghurt maker Piako have had their expansion plans turbo-charged with the funding and mentoring package.

The winners were announced last night.

Now in its second year, the fund was established with a $3 million donation from expatriate businessman Charles Bidwill.

Bidwill, who was associated with Ceramco, Bendon, Baycorp and Steel & Tube in the 1980s and 1990s, helped establish the Entrepreneurs' Challenge with the aim of creating an entrepreneurial culture.

Chairman of the Entrepreneurs' Challenge investment Brian Hannan said all 10 of the finalists would have met the criteria that Bidwill had in mind when he set up the competition.

In the final stage of the Dragons' Den-style competition the companies were tested by a seven-member investment committee and the business school's due diligence partners, including AJ Park, Ernst & Young and Simpson Grierson.

"We do a lot of very objective, highly skilled due diligence. The discipline is to look at these companies as if you were looking to buy them yourself,'' said Hannan.

"We look for the clarity of purpose, commitment and robustness to succeed with a very strong measure of innovation and something that conceptually can really mean something to New Zealand.''

Both Biomatters and Piako Yoghurt intend to use the three-year loan and support to boost overseas expansion plans.

Biomatters will be focusing on the US market where it has signed several high-profile deals for its biological research software and is in the process of opening two offices.

Gourmet yoghurt makers Piako is in the final stages of establishing a British manufacturing base with a goal of having its creamy fruit-flavoured yoghurt on the shelves of upmarket department store Harrods by Christmas.

[...]

Developing a business will "always cost you double what you think" – Piako Gourmet Yoghurt

Peter Kerr

November 17 2010

www.sticknz.net

Though there are inherent speed advantages in being small, being under-resourced is a large challenge says Piako Gourmet Yoghurt general manager, Shaun Jacka.

"It's always good to have more money available. Things will always cost double what you think it will to set up," says the head of an Auckland-based team that begun making the company's premium yoghurt based on a Queensland recipe two years ago.

The Auckland University School of Business Entrepreneurs' Challenge finalist says he's learned a number of lessons in the company's short history.

"Your relationship with your bank manager is key," he says. Jacka was never that comfortable working with his original bank manager, having acquired him and the bank through his family's history with it.

Being in debt to the bank, "day to day the relationship was dysfunctional," he says. "Only now that we've got a bit of a positive balance sheet can we look at another bank taking us on."

A decision to expand into Britain, producing the yoghurt in a recently purchased factory, has also meant that Piako's missed a few opportunities back in New Zealand.

The decision to create and make a frozen yoghurt "spent ages in development." Piako took five months to perfect the recipe, which is even more labour intensive than making its thick, creamy indulgent original.

"We've now got it spot on, perfect," Jacka says. "It's enhanced our reputation, and is value-added for our loyal customers."

This initially has been through delicatessens, with a slowly growing supermarket market.

"It keeps the delis onboard, and the frozen yoghurt is a point of difference," he says. "It also helps keep them from answering our competitors' phone calls."

Superior yoghurt creates new sector and basis of Piako's business

Peter Kerr

November 12 2010

www.sticknz.net

When Shaun Jacka and his wife Kathryn came back to New Zealand from Australia three years ago, wondering what business opportunity to pursue, one thing they really missed was their favourite Queensland yoghurt. "There was nothing like if over here," he says. "We convinced the Australians to let us have a crack at it."

The result is Piako Gourmet Yoghurt, a thick, indulgent-tasting treat pitched at the specialty and premium end of the market, which has the Auckland-based company as one of 10 finalists in the Entrepeneurs' Challenge run by Auckland University's School of Business.

Jacka says the yoghurt is more labour intensive to make than other types, with a different type of setting process designed to be more "artisan". It is also made in comparatively small two tonne batches, and the company's ramping up of production involves making more batches rather than bigger ones.

He established the business in November 2008 and used wider family finances as well as bank backing, which was literally just before the global financial crisis hit – a week later and he would've missed out!

An initial challenge was sourcing milk, which while better raw for the yoghurt process, Piako had to learn to use in a pre-pasteurised form. Learning and processing issues meant the first six batches of yoghurt were written off, as his team experimented to adjust for differences between Queensland and New Zealand milk.

As well as sourcing the milk from Fonterra, Piako has used the co-operative's expertise to help bring its production facility up to a world class standard for dairy products. Fonterra has also assisted with some of the company's marketing, providing market information and sales channels Jacka says.

"They've partnered with us because we're the first movers in this segment, they like us and we make a good product."

And while they may've been first, Piako now has some competition at the top end of the market, "though they're not as good as us," Jacka says.

Among the unique aspects of its yoghurt and marketing is a clear plastic tub, with just a logo on it. "We're letting the product display itself, and people can see the fruit through it," he says. "We put all the nutritional information on the lid." The fruit marbling effect throughout the yoghurt looks great visually Jacka says, compared to other yoghurts which often have its fruit component on the top or bottom.

Piako's initial marketing push was to target specialty food outlets such as delicatessens, including Moore Wilson, Nosh and Farro. Although the company's plan was to only now begin supplying supermarkets, such has been the demand from that sector that Piako has been providing product on a case by case basis.

Jacka's initial thinking was that if Piako supplied supermarkets from the get-go, it would be too easy to lose shelf space, or be pushed out all together by competitors with more financial muscle.

"We could've been mightily exposed," he says. Today 30% of Piako's production is sold through supermarkets, with the gourmet food suppliers continuing to promote and push its yoghurt to "foodies".

The company is also tapping into Fonterra's distribution channels, as "they have the best chilled distribution in the country," he says. "It's tested, temperature controlled, audited. Our product quality hassles are removed."

Protection of Piako's intellectual property is problematic, as there are only a few different processes compared to less fancy yoghurt. "We haven't patented anything, because then you let the world know how to do it," Jacka says.

"We've found a market by being first mover at the high end, and have built brand loyalty." In addition, having partnered so well with smaller outlets, yoghurt-producers who might be direct competitors are often told to "p…. off."

Piako's expansion plans include a recently purchased (at least a deposit made) of a factory site in Britain, with the intention to begin producing before Christmas. The company's Australian partners are already expanding in the U.S.A market.

Jacka has a number of exit strategies for Britain, "but we need to get to a certain level of production first."

If Piako wins one of the prizes in the Entrepreneurs' Challenge, though Jacka insists it will win, the capital input will be used to offset the deposit already made on the UK factory. "The money would only spend a day in a New Zealand bank account," he says.

Harrods goal for Kiwi yoghurt maker

Helen Twose

Wednesday Oct 6, 2010

New Zealand Herald

By Christmas Day, British department store Harrods will have pots of Piako Gourmet Yoghurt on the shelf.

That is the vision of Piako co-founder Shaun Jacka, who is in Britain setting up operations.

He has told his young British-based sales manager his potential shareholding rewards will decrease if he fails to achieve this goal.

Piako, which began production early last year, is a finalist in the University of Auckland Business School Entrepreneurs' Challenge.

Come finals night in November, Jacka hopes to grab a share of $1 million in business funding and mentoring to boost the expansion plans.

Piako yoghurt developed out of Jacka's love of the creamy, gourmet product available in Brisbane, where he was working.

He saw an opportunity to bring the yoghurt to the New Zealand market and approached the Australian producers with a proposal to set up an operation here.

Jacka was joined by childhood friend Hamish Pye as head yoghurt-maker, with the Piako name inspired by the Hauraki Plains area they hail from.

The relationship with the Australian producers remains strong.

As well as passing on the family yoghurt recipe under licence and taking a stake in Piako, Queensland brothers Paul and Grant Mathewson were able to supply the first samples used to test the New Zealand market.

That support was invaluable when a problem with the supply of unpasteurised milk wrote off the first six-tonne batch of yoghurt made at the company's Mt Wellington premises.

"It nearly broke us. Everyone was dipping into their pockets. My wife was still in Aussie sending money over," said Jacka.

The business was profitable and could be a nice little earner if left to grow organically, he said.

"Of course that is not what I've got in mind."

Growth plans involve a two-pronged approach - expansion in New Zealand and plans for Britain and beyond.

At the moment, 12 per cent of supermarkets and a range of specialty food stores stock Piako yoghurt.

Jacka wants to increase that share to 90 per cent, in part through a deal with Fonterra Brands to provide the necessary supply chain and distribution.

Market research has confirmed a gap in the British market for gourmet yoghurt, but Jacka said it was also a market that liked to support its own.

So Piako will be ditching its New Zealand name and story and reinventing itself as Little Melton Gourmet Yoghurt, the likely location of its British operations.

Look for it on the shelves of Harrods come December.