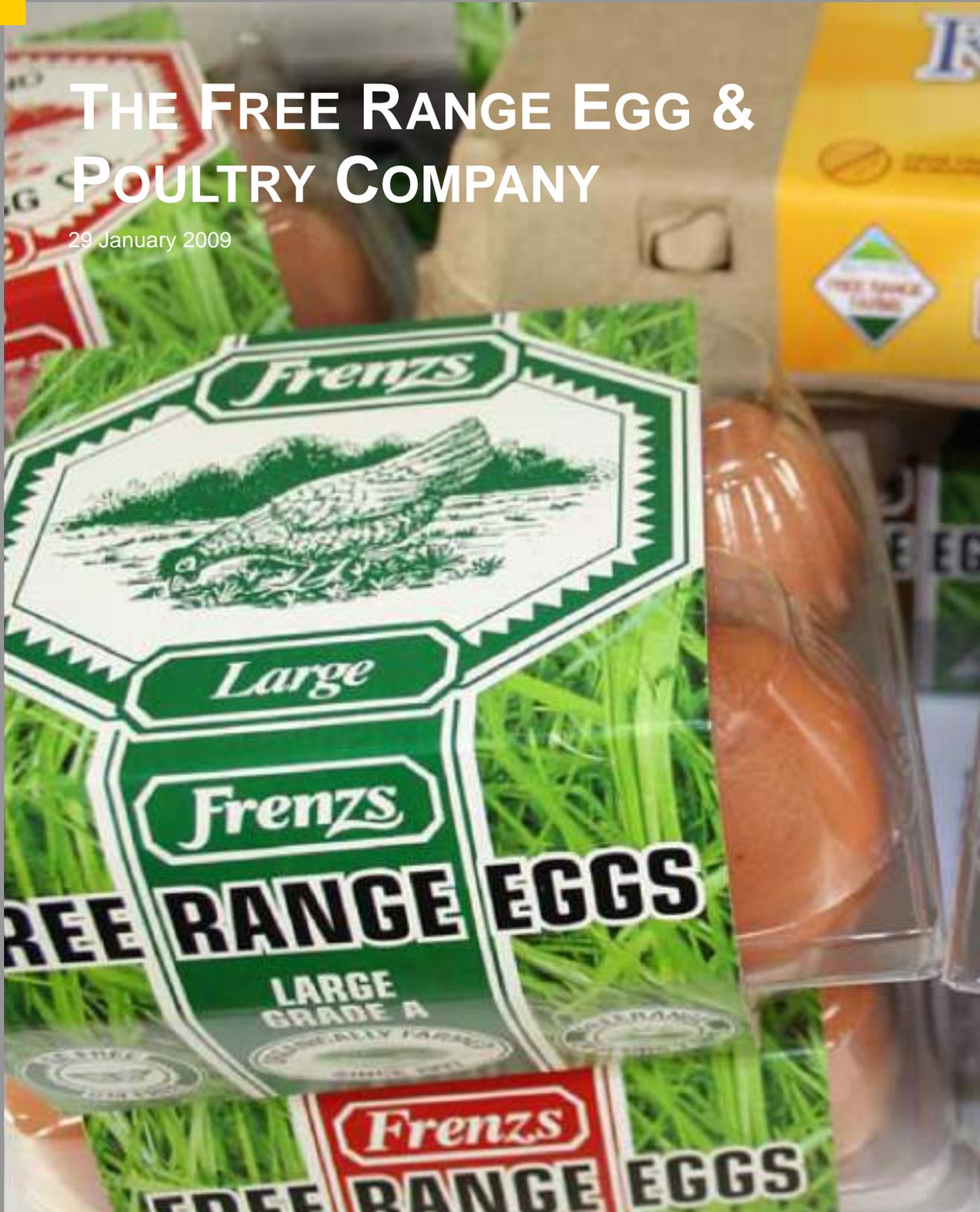




THE FREE RANGE EGG & POULTRY COMPANY

29 January 2009



Case prepared by Miss Pratibha Seethepalli, under the supervision of Mr. Sunny Gu and Mr. Brendon Potter, Director of Student Development, The University of Auckland Business School. This case has been prepared solely for the Champions Trophy Case Competition. All data in this case has been obtained from publicly available sources and The Free Range Egg & Poultry Company. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Portions Copyright © 2009 The University of Auckland Business School. All rights reserved.



John Jobs

From: John Jobs
Sent: Thursday, 29 January 2009 8:31
To: *The Free Range Egg & Poultry Company Project Teams
CC: David Dollar; Benjamin Banker; Peter Partner; Warren Wallstreet
Subject: The Free Range Egg & Poultry Company Strategy Presentation

Team,

Our second client, the Free Range Egg & Poultry Company (the Free Range Egg Company), is New Zealand's leading and biggest organic free range egg company. The company was formed in 1989 after eight years of practical research to meet the growing demand for a reliable, wholesome alternative to the mass produced battery egg. The Free Range Egg Company is New Zealand's first and only exporter of free range eggs. Overseas markets include the United States of America and Hong Kong.

FRENZ Free Range Eggs are a genuine natural product farmed outside in all weather conditions and are subject to seasonal variations occasionally affecting supply. Only quality eggs are produced using sound farming techniques, a sincere concern for animal welfare and total quality control methods. The company has 20 poultry farmers supplying them with free-range organic eggs. The standards are high and consumers are prepared to pay a premium for the eggs.

The Free Range Egg Company's revenues for FY08 were NZ\$6 million and the company has plans to increase this figure to NZ\$24 million in the next five years. The current sales mix is 80% eggs, 3% chicken meat and 17% feed.

Graeme Carrie, CEO, has asked you to analyse the company, and provide recommendations on the strategic level. In particular you should focus on whether this revenue target is feasible and consider the best way to achieve it.

You will have ten minutes to present to Graeme and the board, which will be followed by a ten-minute question and answer session to clarify any issues. Information gathered by our research team is attached to this e-mail.

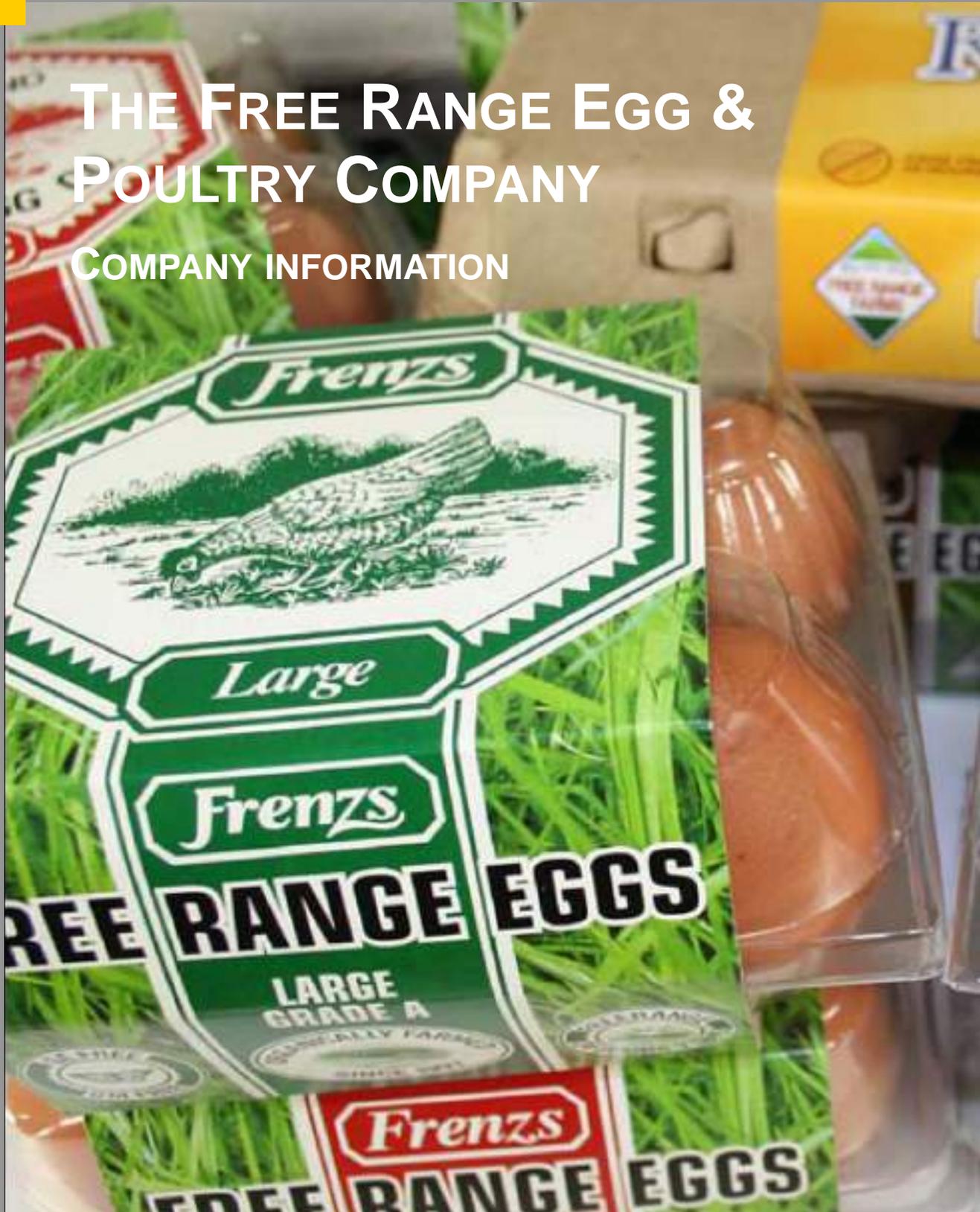
Regards,

John Jobs,
Senior Vice President
SYG Consulting Group



THE FREE RANGE EGG & POULTRY COMPANY

COMPANY INFORMATION



Note: NZD\$1 = USD\$0.54 = AUD\$0.81 as at January 2009



The Free Range Egg Company

At the Free Range Egg Company, farming and eating organic free range eggs is considered a matter of good taste – figuratively and literally!

Back in 1989, good friends Graeme Carrie and Rob Darby had a vision to make free range eggs available to everyone in New Zealand.

While on a business trip to Los Angeles, Graeme commented on the lack of colour and flavour of the American battery egg. Next time he visited his friends in the States he took them some “real eggs” from his son Glen’s seven hen flock free ranging in their family back garden. As they say – the rest is history.

He combined his significant experience in exporting and marketing with Rob’s extensive free range poultry farming knowledge and before they knew it they were on their way to becoming market leaders.

The demand grew quickly for their organic and free range eggs with no antibiotics, pesticides, herbicides, beak or toe trimming, or artificial growth stimulants.

Millions of eggs have been exported, some finding their way to Beverley Hills, California, satisfying the tastes of movie stars and the rich and famous!

The company is New Zealand’s leading and biggest organic free range egg company and the only one meeting the strict USDA health standards.

The Free Range Egg Company’s eggs encapsulate the best of our country’s natural goodness, combining superior taste with maximum health benefits and unrivalled quality. It’s just as nature intended and we all benefit – healthy birds, healthy eggs, healthy people!



Why Choose Us? A Dozen Reasons

Farmers around New Zealand choose to become part of the Free Range Egg Company for the same reasons that consumers buy their eggs – it’s all about quality and a philosophy.

1. Industry Leaders

The company is New Zealand’s leading and biggest organic free range egg company, it was the first and only one to start exporting, and it is the only one meeting the strict USDA health standards.

2. Award Winning

Awards include Organic Exporter of the Year, Air NZ Export Excellence Award, Trade & Development Board Export Commendation, TVNZ Marketing Award, and NZ Trade & Export Award finalists (twice).

3. Free Range & Animal Welfare

The hens are ranged naturally in small stress-free flocks – no more than 350 hens per acre compared to up to 100,000 birds confined in a typical battery shed. There is no cruel beak, toe or wing clipping and the hens truly are free to do what comes naturally, whenever and how ever they wish.

4. Organically Farmed

The farmers use traditional certified organic farming methods of rotational grazing on unsprayed pasture, utilizing nature’s sunlight as a natural “antibiotic.” The hens are naturally healthy with no need for pesticides, herbicides, antibiotics or artificial growth stimulants.

5. Sustainability

Being sustainable is about meeting the needs of today, without adversely impacting on the needs of tomorrow. The company sees this as an incredibly important responsibility and strives to be as sustainable as possible in all aspects of its business – from farming methods to packaging. It is in fact, what the ‘S’ in the Frenzs brand stands for!

6. Packaging

All packaging is made from recyclable material and made locally as much as possible.



7. Perfect Conditions

Most farmland in New Zealand is suitable for free ranging hens and our country has an ideal climate with its temperate, subtropical weather, high sunshine hours, clean ocean-fed airstreams and unpolluted regular rainfall.

8. Quality

Independent lab tests show the company's eggs have 70% more vitamin B12 than standard eggs. The eggs have naturally strong brown shells, golden tasty yolks and firm, high quality protein albumen.

9. Exclusive Feed

A special, exclusive, natural feed has been developed for the hens using organically certified grains.

10. Reliability & Experience

The company has been producing 100% genuine free-range eggs since 1989 with consistent quality. It has air freighted more than 20 million eggs directly to California since 1991.

11. Certified

All the farms are audited by Agriquality NZ.

12. Safety

New Zealand's location in the South Pacific, lends itself to isolation from serious strains of poultry diseases. Regular flock inspections, feed testing by Agriquality NZ and the company's unique egg cleaning and sanitising line assures continuous safety.

A Growing Business

A continually increasing number of farmers around the country are choosing to join the Free Range Egg Company network. Across the country, flocks of happy and healthy free range hens are producing thousands of big, beautiful eggs each day.

Approximately 25% of these eggs leave our shores three times a week and are air freighted to California, Texas and Hong Kong. Demand is continuing to grow for the organic, free range and avian disease-free eggs that overseas suppliers can not produce.

The Free Range Egg Company has seen significant growth since its beginning back in 1989 and it is now a market leader. It has literally gone from a backyard operation to producing millions of dozens of eggs each year for the local and export markets.

It was the first company to export free range eggs to the USA from New Zealand and the company's reliable quality and dependable service has resulted in more than 20 million eggs being air freighted since 1991.

The company's eggs are available nationwide and they distribute to Woolworths, Foodtown, Countdown and selected New World supermarkets as well as cafes, restaurants, hotels and bakeries.

The Free Range Egg Company is committed to expanding it's markets using a wide range of promotional activities. Domestically it uses merchandising teams for instore promoting and internationally the company works with New Zealand Trade and Enterprise.

The company has recently been approved by the Better By Design Council to develop its design profile.

A Healthy Industry

In recent years, there has been an increase in the demand for organic and free range products by a public that is becoming more aware of both the health and moral implications of eating factory farmed products.

While organic and free range products may cost the consumer more, many are willing to pay for improved conditions on the farm, fewer impurities, a higher nutritional content and reduced health risks.

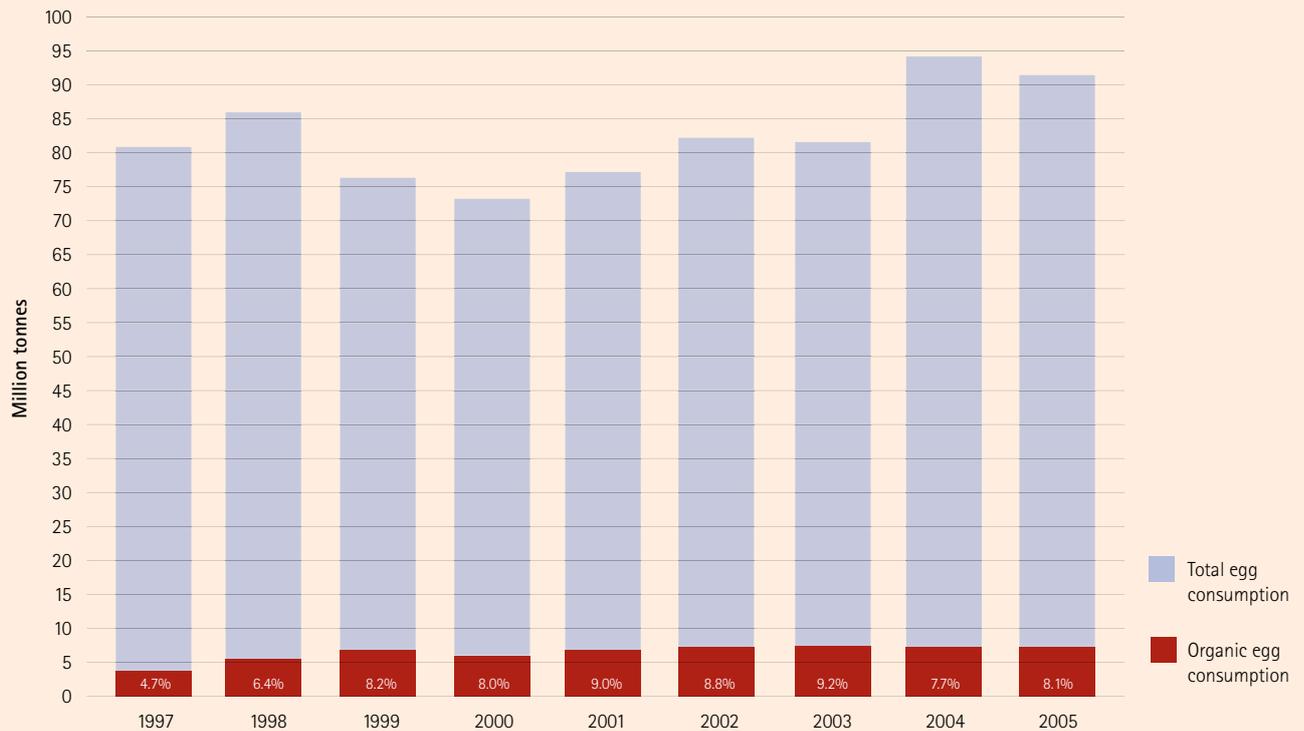
In New Zealand, a growing number of hotels, cafes and sports teams insist on only Frenzs eggs and order directly from the company. All Black and NZRFU nutritionist Glenn Kearney considers the eggs to be "superior" to anything he has tasted.

The New Zealand egg industry is estimated to be worth in excess of \$150 million and free range eggs are now taking a 15% share of this market – strong growth considering it was 0% twenty years ago!

The really good news is that eggs are no longer being criticised by the medical authorities and are now being commended as an excellent source of protein and a recommended health food. Recent research lists eggs as one of the best health foods available and points to eggs containing high levels of choline – a proven brain food!

Research has shown that pasture raised hens produce eggs rich in omega 3, vitamin A, E and the sun vitamin D, essential minerals iron, phosphorous, zinc and selenium antioxidants. Free range eggs are a natural healthy food for all the family.

Egg Consumption



*Sourced from the Danish Statbank

Exports – Asia

The Free Range Egg Company's eggs now occupy a strong position in the high end of the Hong Kong marketplace.

The sales have grown steadily since the company began selling them four years ago. Initially, there was little appreciation in Hong Kong of the value of organic products but a combination of the quality of the eggs and the continuing concern over the spread of avian flu has meant more customers have been drawn to them.

"They are the market leader here in Hong Kong for organic eggs. We see the trend towards organics growing and believe that there will be strong and continuing growth in not only Hong Kong but also the rest of Asia."

- *Carmel Sharp, General Manager, NZ Quality Products Ltd*

Exports – USA

The Free Range Egg Company has been exporting eggs to North American-West Coast markets for over 15 years. It has sold over 20 million eggs to date and the eggs are considered a consumer driven niche product.

The company has successfully positioned itself at the top-of-the-shelf, best available egg in leading natural food stores, as well as retaining a strong presence in several Asian supermarket chains in Southern California.

In 2006, it began to enter into the Texas market via the Central Market stores, a new territory for the company. Soon it plans to venture across the country to the East Coast and it will expand into specialty stores in the New York / New Jersey - Metropolitan areas.

"We look forward to increased supplies to expand the USA market significantly through existing outlets and new states. I look forward to continued success with the entire Free Range Egg Company family."

- *Laura Cross, Director, Frenzs North America*

Commonly Asked Questions From Farmers

How much land do I need for one shed?

Allow 3.5 to 4 acres of suitable land (ensuring you can drive a tractor over it). This would fit one shed and there are approximately 1,200 birds per shed.

How many sheds do I need to make a full-time job off this venture?

Four sheds equates to approximately a 42-hour week.

Can I make do with existing sheds on my property?

Yes you can, if they have enough land around them and are adaptable.

How long do the birds lay for?

The birds begin laying eggs at 17 weeks and lay for up to 84 weeks of age.

Do you guarantee to take all our eggs?

Yes, we enter a five-year renewable agreement to do so.

Do I need to get resource consent?

Not all local councils require you to get consent. If they do, we can help you with the process.

Where do the birds go when they have finished laying?

We collect end-of-lay birds from you and rebate you with the market rate.

Farmer Profiles

1. LYNNE & EDDIE COATES, NORTHLAND

Twelve years ago, when Eddie and Lynne Coates first looked into becoming free range egg farmers, it was brand new territory and it seemed an impossible venture.

Back in those days, they struggled to even find information about how to start, let alone getting support from key people such as bank managers.

The Northland couple's dream had to be shelved for ten years until they met Rob Darby from the Free Range Egg Company.

"We met Rob through friends... We call him 'Big Egg' now because he knows so much about it, but he's the man who started it all for us," says Eddie (59).

"Until then we hadn't found anyone who could help us – none of the egg companies would talk to us and no-one could show us how it was done," he said.

But their dream quickly became a reality once Rob was on board – their Kaiwaka farm now has two sheds (2,400 birds) and the third shed is on

it's way to being completed meaning they will have 3,600 free range hens roaming over 12 acres very soon.

"It definitely keeps us out of mischief," said Eddie who also works in the local township at a clothing manufacturer and also raises deer and heifers on his 50 acres of land.

"I work six to eight hours in town each day, but I probably spend about half an hour before work collecting eggs, my wife then collects a few more about 8.30am and then when I get home I collect a few more."

For Lynne and Eddie it's all about finding a balance between work, lifestyle and income.

"It's not a fast buck – you have to work at it – but it's a lifestyle and a way of making a living too."

Once the third shed is up and running, Eddie is hoping to finish working in town and to be fully employed on the farm.

"It's a big commitment but it's nice because I can share it with my wife who can be as involved as she likes and the grandchildren enjoy it too."

Eddie grew up knowing about chickens – his mother had 120 leghorn hens. He also worked on a battery farm so had seen how they put profits before animal welfare and egg quality. He was determined that if he ever worked with hens again, it would be as a free range farmer.

With Rob's system, no antibiotics, pesticides, herbicides, beak or toe trimming, or artificial growth stimulants are needed, and the result is healthy, happy hens and wholesome eggs.

Under the guidance of Rob, setting up the farm was not particularly difficult says Eddie who did a lot of the work himself such as the fencing and finishing touches on the sheds.

"We also put the second shed off for a while until we were ready for it... it doesn't have to all be done at once which is nice when you're starting something new."

It was also all about learning as they went, having unwavering support

from the company, and confidence in the Frenzs brand that had shown consistent growth over the years.

"We've picked up things as we've gone along and we chat lots to other farmers in the area too, but the company support has been really invaluable.

"They've gone out of their way for us like passing on the feed and netting to us at cost, and helping us to set up contacts with shed suppliers so that a group of local farmers can get good prices," he said.

"They are totally committed to the industry and are obviously guys who want to make my business, the Free Range Egg Company and the industry grow."

Eddie and Lynne have been so taken with their free range egg farming they've inspired quite a few of their friends to get into it too.

"You have to really want to do it, be totally committed and like chooks, but it's a great lifestyle and a way to make a living too – we can highly recommend it!"

2. BERT & REBECCA BORGER, NORTHLAND

Getting into the free range egg business is all about family for Bert and Rebecca Borger.

Not only does it give them work and family balance, but by entering into the business with Rebecca's parents, they could afford a bigger piece of land for better future returns on their investment.

"We definitely have no regrets – it's worked well for us," says Bert (39) who now has six sheds, and 7,500 birds ranging over 30 acres in Paparua, two hours North of Auckland.

"When we bought it four years ago, it was just a bare block of land... a run-off from another farm really, but perfect for what we wanted to do," he said.

Through family connections, the young couple were aware of the company, their leading market brand Frenzs, and their systems.

"It stacked up – it was a good way to make a living and we didn't need millions of dollars to make a start," said Bert.

Bert also always wanted to get into farming, but had to be able to ethically justify what he was doing.

"Being free range and organic, this type of farming suited us perfectly – it's the way of the future."

As for the lifestyle and family balance, it works well – Bert is home for a second breakfast with the kids (3 and 4) at 9am, joins them for lunch at midday and can juggle his days around important events such as birthday parties.

Other farmers in the area are impressed with what the Borgers are doing and many are choosing to follow suit.

"Some of them have more than ten acres of land, but not enough to make a full time job off it farming livestock. When they look at this option, nothing else cuts it as well."

Bert stresses the importance of the economics of the business and its long term viability: "It was important we chose a winner in the marketplace and we believe Frenzs are that."

Even though it's a big commitment – seven days a week – it works well for the Borger family. The egg farm is now one of the biggest in the company's network, and a very viable business.

The Team

The Free Range Egg Company is based in Pukekohe, just South of Auckland. This is the location of the main office as well as the production warehouse where everything from cleaning, sorting, packaging and despatching takes place.

Graeme Carrie and Rob Darby are the founders and directors of the company.

Graeme Carrie, CEO, Co-Director

Graeme has 40-years experience in management, marketing and exporting. He also has a BSc and a diploma in Business Management.

"The New Zealand Free Range Egg Company has now got the experience and maturity to take advantage of the growing opportunities in free range markets both locally and internationally."

Rob Darby, Co-Director, Farm & Production Manager

Rob is a farm owner with 30-years experience in the development and application of free range farming.

"If you love animals and the natural environment, you'll love free range farming!"

Glen Carrie, National Sales & Marketing Manager

As the eldest son of Graeme and Claire Carrie, Glen has grown up with the Free Range Egg Company and knows it inside and out!

"It is encouraging to see an increasing number of customers looking beyond the price ticket. They have discovered by paying a little extra they get a whole lot more. This is definitely the case with our eggs. The customers enjoy superior taste and nutrition along with a meaningful investment in sustainability and animal welfare."

Products and Markets

The Free Range Egg Company's four product lines are outlined below.

Shell Eggs

The Egg Producers Federation of New Zealand (EPF) represents the interests of the commercial egg producers. Over 100 companies are registered with the EPF. Membership is mandatory under the Commodity Levies (Eggs) Order 2005. Any person or organisation that purchases 100 or more day-old layer chicks automatically becomes a member of the EPF. The chick levy is payable at point of purchase from the hatchery, and is only payable on chicks up to five days of age. The levy is currently set at NZ\$0.35 per day-old layer chick. This cost is included in the purchase price.

The EPF promotes research and development, generic promotion of eggs, technical training, collection and circulation of technical information and statistics as well as providing general public relations and representation on industry working parties.

New Zealand's estimated 3.0 million laying hens produced around 75 million dozen eggs in 2006. Caged birds supply 90% of the New Zealand market, barn-raised³ birds 5-6% and free-range birds 4-5%. Mainland Poultry has over half the market. Major "battery farm" companies supply 85% of the New Zealand market, also supplying some barn eggs and free range eggs.

The Free Range Egg Company has no intensive (battery) farms, allowing the market claim "no batteries included". In New Zealand, AC Nielsen, the world's leading marketing information company, reports the Free Range Egg Company has 25-30% of the free-range and 40% of the organic egg market. Offshore the company actively promotes the New Zealand reputation for quality and food safety.

Geographic isolation offers protection from many serious strains of poultry diseases. Regular flock inspections and egg testing to high MAF, FDA and USDA standards assures continuous safety. Another Free Range Egg Company brand statement is "Best Egg on the Shelf" in both domestic and export markets.

In California eggs are sold via distributors to specialty retail stores (Nijiya, AJ's, Andronico's, Whole Foods etc). The Free Range Egg Company has now sold over 20 million eggs to the USA, but is still considered an underdog in the US\$200m Californian market. Opportunities exist in Texas (Central Markets), Arizona (AJ's), and other stores in the North West but expansion has been hobbled by supply and the exchange rate. In 2007, 12% and 14% of the Free Range Egg Company's total egg sales were to the US and Hong Kong respectively.

The company's three main egg brands are FRENZ⁴, Freckels and Rolling Hills. FRENZ is the most complete and top-of-the-range brand. In New Zealand, FRENZ eggs are usually sold in supermarkets. In export markets, FRENZ is the only brand that is used. The Freckels brand is positioned as a mid-range brand and is sold at grocers and other small food stores.

New Zealand competitors in the free range market

1. Eco Egg Company

The Eco Egg company was founded in 1993 by its Managing Director Mike Schellkes and today is a major marketer of free range, organic and barn eggs in New Zealand and beyond. Overseas markets include Hong Kong and Singapore.

A network of small scale, free range and organic egg producers work efficiently together as a cooperative and today supply the New Zealand market with genuine free range and certified organic eggs of excellent taste and quality at competitive prices.

³ A barn is a building housing layer hens without cages, on a single level, and without access to an outdoor area

⁴ Sometimes referred to as Frenzs for registration purposes

The company sells EcoEgg® free range eggs and BioEgg® organic eggs to a large number of supermarkets and selected restaurants in the North and South Islands of New Zealand and overseas markets. Other products are Barney's Barn Eggs® and Animal Welfare Food Eggs®.

2. Glenpark Free Range Gourmet Eggs

Glenpark free range farm is the largest free range farm in New Zealand, located in East Otago in the South Island. Glenpark has now become the biggest selling free range brand in New Zealand selling close to 8 million eggs in the past year. Not only are Glenpark free range eggs sold in supermarkets and selected retail stores but they are becoming more and more popular in cafes and restaurants.

Glenpark was one of the first farms in New Zealand to have a registered Risk Management Programme (RMP). This means Glenpark follows the Code of Recommendations and the Minimum Standards for the Welfare of Layer Hens as required by the Animal Products Act 1999. The RMP must control all hazards and risk factors so that shell eggs are fit for consumption. Once registered, the RMP becomes a legally binding document; compliance ensures that the producer is operating within the law and within the industry agreed standards. MAF representatives audit the RMP independently on an annual basis.

Glenpark free range eggs are sold in packs ranging from mixed half dozen to free range trays in 15 dozen outers. The eggs come in three sizes; medium, large and jumbo.

Meat Birds

The Free Range Egg Company sells free range chicken meat in small quantities under the Rolling Hills brand. The market opportunity for domestic and export sales of a properly branded meat product may emerge following international trends but more study and preparation is required. Farmers normally raise "meat birds" or "layer birds" not both. The option to breed a slower-growing "table" bird for chicken meat depends on whether lower mortality rates and whole-of-life productivity can be proven cost-effective to farmers.

Egg Products

Eggs in liquefied or powdered form last longer (about 3 months) - buffering supply/demand spikes. Sale of shell eggs is core to the FRENZ image, but there is growing demand for egg products from food service channels, natural food outlets and restaurants as yolk or albumen (egg white) or blended. Other options are organic hollandaise sauce, mayonnaise, and powder. New processing plant markets will need careful introduction to maintain the premium needed for sustainable free-range and organic egg product. The cost of production is approximately the same as that for regular eggs but the advantage of liquid egg products is that broken eggs can be used.

Hundreds of thousands of metric tonnes of egg products are produced yearly with the majority coming from mass produced battery eggs. The market represents an excellent growth opportunity for the Free Range Egg Company. Organic egg products are expected to penetrate the market where health or hygiene problems currently exist. These egg products will also be sold under the FRENZ brand.

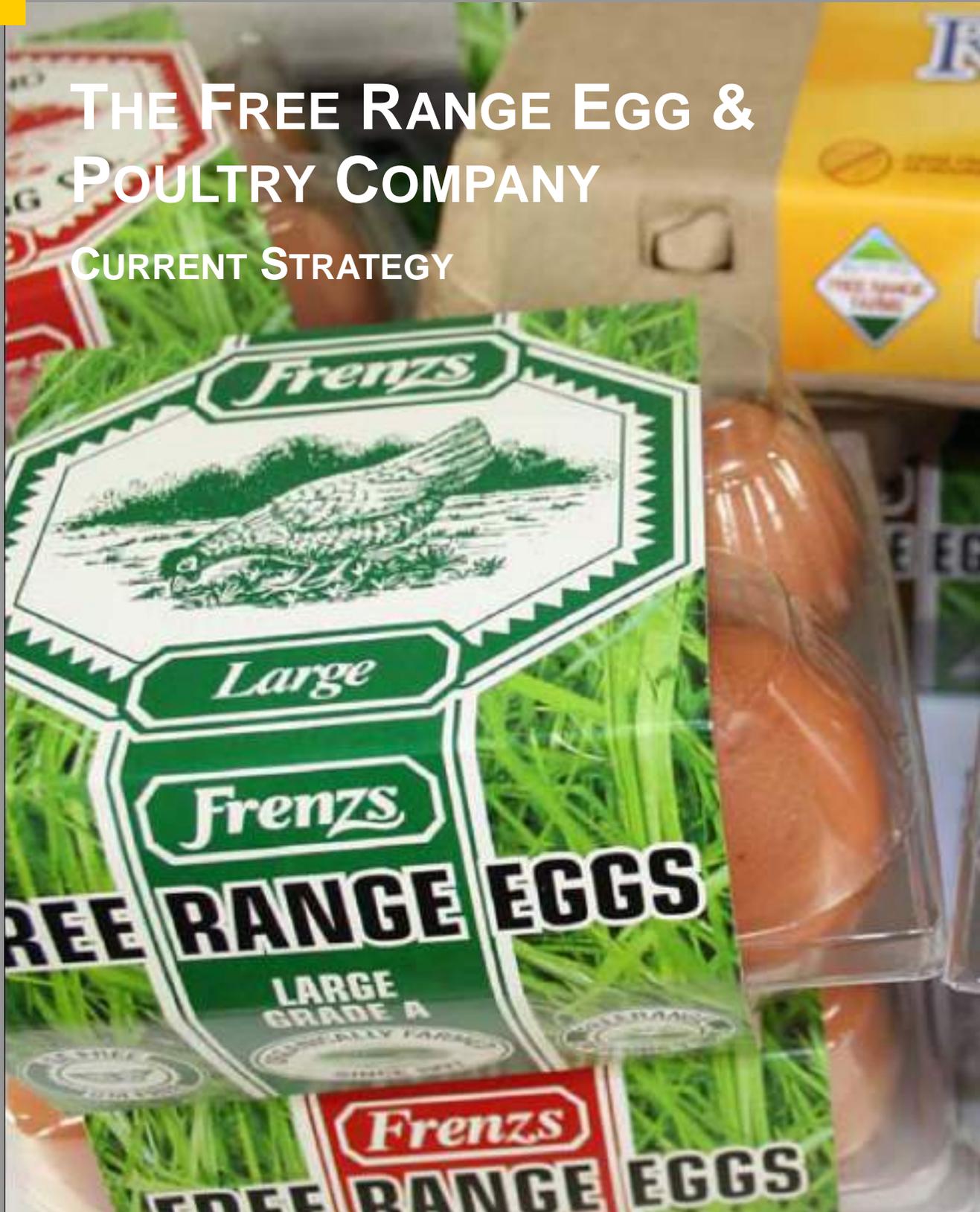
Organic Feed

The supply of feed using the Free Range Egg Company's own organic grain offers a key advantage within cost limits but reliability of supply is paramount. The company aims to secure control of the milling to ensure constancy of quality and timely supply.



THE FREE RANGE EGG & POULTRY COMPANY

CURRENT STRATEGY



Note: NZD\$1 = USD\$0.54 = AUD\$0.81 as at January 2009



The Free Range Egg Company's vision is to be "The first choice in free range poultry products from a sustainable and profitable farm network." An enduring motto has been "First be best, then be first". The medium term goal is a well organised, structured and self-sustaining business able to render strong returns to external investors.

The core brand FRENZ was devised for the USA, selling New Zealand's clean green image and pioneered free range eggs commercially in New Zealand and the US West Coast. Its brand profile is differentiated by multiple markers - free range; no batteries, organically farmed; GE free; no beak trimming; and export certified. Market entry to Japan and Australia is currently prohibited.

For 10 years the company was market driven with public relations and good stories. The next 10 years were process-focused in order to develop capability, organic poultry farming methods, feed and chickens. Keeping profits modest, most development has been funded internally and sustained by the Directors' belief in the "free range" philosophy - refusing to compromise a real free range system.

Pricing

The pricing policy will be to continue to increase the premium obtainable over battery or barn raised eggs as supported by increased brand investment, improved merchandising and planned packaging innovations. Prices were recently increased by 7% across the board in New Zealand and by 10% in export markets. The full effect will reflect in the Free Range Egg Company's revenue in June 2008.



Marketing Plan

The short term marketing plan is to focus on growth through domestic sales by further penetration through the number one customer Progressive Enterprises⁵. Development of the relationship with Foodstuffs⁶ group which currently supplies 50% of the New Zealand free range market is also important.

Growth from exports will continue by penetration of existing USA and Hong Kong outlets plus new market regions where opportunities exist.

⁵ Holds approximately 42% of the New Zealand grocery market and operates the Foodtown, Woolworths and Countdown supermarket banner groups

⁶ New Zealand's biggest grocery distributor operating under the Pak'nSave and New World banners

The company has also benefited from an external audit by PriceWaterhouse Coopers and several subsequent planning discussions with them. This was part of a New Zealand Trade and Enterprise (NZTE) initiative called “Better by Design⁷”. The key outcomes and agreed focus areas related to efficiencies in branding and production.

Specific projects that have been and are being sponsored dollar for dollar by NZTE are:

- **Brand Strategy, Graphic Design and Structural Design:** Need for a great brand story including graphic and structural design. Development of the value proposition to farmers plus requirements for improving the packaging and production processes
- **Franchise Package:** Develop a package to attract new farmers and strengthen discipline of existing farmers agreement
- **Packaging Design:** Packaging design needs to take into account the impact on the grading and packaging process and full supply chain influence (e.g. at air freight and supermarket levels)
- **Product Design for new products:** Development of new products in the liquefied eggs family
- **Process design:** Redesign or upgrade egg processing facilities

Longer term growth in both local and offshore markets will come from developments in R&D and Better by Design programmes into value added egg products.

Domestic: Penetration and added markets will be achieved by the new sales force and merchandising team which the company has built up over the last two years for this purpose.

Export: Export will continue with market skimming of niches where FRENZ can obtain entry and margins can be realised. The company wants to focus on markets with strong currencies and target populations that value the benefits of free range eggs. New markets in development are the UK, Dubai and Japan but new potential markets are not limited to these. It is expected that shell eggs will be used to penetrate the market but growth lies in the expansion of the egg products market.

Summary of Planned Sales to 2012/13

Sales by Product Category for year ended 31 March (NZ\$000)	FY07A	FY08A	FY09F	FY10F	FY11F	FY12F	FY13F
New Zealand supermarkets (FRENZ)	2,858	2,710	3,544	4,374	6,959	9,536	11,848
Grocers and small food stores (Freckels)	216	196	208	450	618	744	819
Restaurants and bars	323	353	518	727	1,078	1,430	1,746
USA (FRENZ)	466	430	548	755	875	1,185	1,245
Hong Kong + Other Export (FRENZ)		509	606	960	1,254	1,400	1,800
Total Egg Sales	3,863	4,198	5,425	7,266	10,784	14,296	17,457
Chickens ⁸ (collected at end of lay)	369	500	425	546	811	1,075	1,313
Chicken Meat (Rolling Hills)	131	161	268	397	752	1,140	1,830
Grain & Feed	957	993	1,272	1,586	2,354	3,120	3,810
Total Sales p.a.	5,319	5,852	7,390	9,795	14,701	19,631	24,410
<i>% Growth p.a.</i>		10.0%	23.7%	32.6%	50.1%	33.5%	24.3%

Sales from egg products sold in the New Zealand market were NZ\$50,000 in FY08.

⁷ Helps New Zealand companies increase their international competitiveness by integrating design principles right across their business

⁸ Generally used in organic chicken stock and other food products

Organisational Changes

Several organizational actions are occurring following a recent independent audit.

Senior Leadership

Graeme Carrie plans to reduce back to the part-time role within the next few years. Graeme will gradually reduce his executive role as appropriate and focus on control of the export activities and public relations. There will be a controlled transition and induction of a replacement in the general management role.

Company Performance Reviews

The KPIs for each functional area are to be reviewed – New Zealand Sales, Export Sales, Production, Farming, Accounts, Distribution, Quality, Safety, Marketing. Each area will have three or four measures to maintain an environment of continual improvement. Publicly visual measures are employed wherever possible. FRENZ may participate in a Lean Manufacturing (cost reduction) programme in association with New Zealand Trade and Enterprise or pursue this avenue independently.

The company believes that *“If you don’t measure it you can’t fix it.”*

Internal Data Collection

Added to the standard accounting data, the company is now collecting other data related to:

- Farming performance – husbandry (rodent control, cleaning, de-worming, bird weights etc); egg numbers; mortality; feed conversion rates
- Production, grading and packaging – reject or wastage rates; eggs per hour; input and output numbers
- Supply forecasting – projection of quantities by size based on recent weighted averages; knowledge of flock/shed quantities; age of flocks
- Demand forecasting – use of averages and standing order projections to predict demand and develop decision tools for on-floor order satisfaction (avoid micro-management intervention)
- Product costing control – to make informed decisions on pricing, packaging formats, sizes to pulp

Process and Flow

The Directors are not experts at process or paperwork and better use can be made of their skills and time. The next staff addition will be to improve the measuring of the business systems to measure and smooth the process flow. A part-time cost accountant or young agricultural diplomate or graduate on a 6 month contract is being recruited.

Complaints and Quality Control

The audit clearly showed this as an area for improvement and/or lost opportunity for improvement. Marketing already now replies immediately to the customer but now a tougher and systematised approach to corrective action is being instituted.

Human Resources

Certain existing basic practices need improvement:

- a simple job description for each employee
- an annual performance appraisal
- an annual pay review
- a commitment to support any appropriate training or up-skilling requested

People Structure

In addition to Graeme Carrie and Rob Darby who are the directors and equal owners of the company, key employees include Fay Goodwin in Operations and Kim Sherrin in Operations.

The Free Range Egg Company plans to invest in additional people to facilitate the planned growth over 5 years as follows:

People Plan - Summary	End 2008	Plan	Plan	Plan	Plan	Plan
Years ended March	FY08	FY09	FY10	FY11	FY12	FY13
<u>Direct Staff (including Fay)</u>	9	11	12	15	18	21
<u>Indirect Staff (Management excluding Fay)</u>						
General Manager	Graeme	Graeme	1	1	1	1
Export Sales			Graeme	Graeme	1	1
Farming	Rob	Rob	Rob	Rob	Rob	Rob
Production/Packaging			1	1	1	1
Sales /Marketing	Glen	1	1	1	1	1
Sales/Marketing Assistant	Dee	1	1.5	2	2	2
Accounts	Kim	1	1.5	2	2	2
Accounts assistant	Debbie	1	1	1	1	1
<u>New Roles:</u>						
Agricultural Operations assistant		1	1	1	1	1
Quality Control/Testing			1	1	1	1
Administration/Contracts				1	1	1
Finance					1	1
Subtotal management	6	7.5	11	13	14	14
Total Full-Time Employees (FTEs)	15	18.5	23	28	32	35
	5,972	7,390	9,795	14,701	19,631	24,410
% Change	12.30%	23.70%	32.60%	50.10%	33.50%	24.30%
Sales (NZ\$000s) per FTE	398	399	426	525	613	697
% Change		0.33%	6.61%	23.29%	16.84%	13.69%

Efficiency of Production and Processes

Short Term Cost Reduction Programme for 2008

The short term actions (majority effective by September 08) to improve processes and operating costs summarised from the other more detailed action plans are:

Plan	Planned cost reduction (NZ\$000)
Export freight costs – negotiations underway with Air New Zealand and BAX ⁹	20
Packaging – rationalisation; fewer SKUs	60
Feed control and food composition	300

Milling Facility

The company has been reluctant to engage in milling of its own organic feed due to the risk of venturing outside the core expertise area and acquiring further assets. However feed is a major cost and quality component and backwards integration to control this area is attractive.

Supply Considerations

The Free Range Egg Company needs more eggs supplied to meet its future sales goals and also higher quality farmers to ensure the security of the supply chain. In addition any concerted and cooperative action to lift the profitability of its contracted and supporting farmers helps to ensure a robust supply chain.

The company has embarked on a novel approach of treating its supporting farmers as franchisees - not as sellers of eggs or brand holders but at the beginning of the supply chain. This aids quality control and takes the relationship to a more advanced level.

The farmers already buy the starter stock (16 week old chicks) from a company controlled rearing source and purchase feed that is milled using a controlled supply of organic grain. Improving captancy of the company's supply chain will not only help improve reliability and quality of supply but is now also supplementing the company's income streams and profitability.

The company developed a comprehensive package to attract new and guide existing farmers to grow egg quantity, farming quality, and profitability of farmers and the company. This now includes a promotional booklet with endorsements from current farmers, some detailed costing examples and an interactive financial spreadsheet tool which potential farmers can use as part of a presentation to accountants or investors.

The next steps are to prepare:

1. A detailed manual for farm operations, feed, disease, illness, mortality reduction, egg quality, and other aspects of husbandry specifically for free range farming
2. A manual for administration, control, performance goals, showing existing practice plus goals
3. Contracts with preferred suppliers –e.g. Bargain Barns for the building of sheds

Existing farmers already enter a legal contract with the Free Range Egg Company but this plan intends to extend the relationship with each farmer from one of a contracted supplier to a franchised participant in the development of new and improved egg production using collaboratively proven free range farming techniques.

R&D Programme

The Free Range Egg Company has pioneered free range and organic poultry farming in New Zealand and the exporting of free range eggs by following an active R&D programme. The company intends to expand this programme as a key initiative to achieving our growth strategy by continuing working with the Foundation

⁹ International logistics solutions provider

for Research, Science and Technology¹⁰ to develop key projects for the future. These are confidential but include work on a new egg product range, sustainable farming and global distribution. The company owns one farm that is used for control purposes in R&D projects.

Capital Expenditure

To enable a five fold increase in sales over five years requires an ambitious increase in the physical facilities and processing plant.

A detailed report was commissioned from the consultancy of Business Flow Ltd which examined volumes, current sales mix and existing facilities. The report recommended the appropriate plant required and the associated investment costs.

A summary of the capital investment planned for the company (not the franchised farmers) is given below:

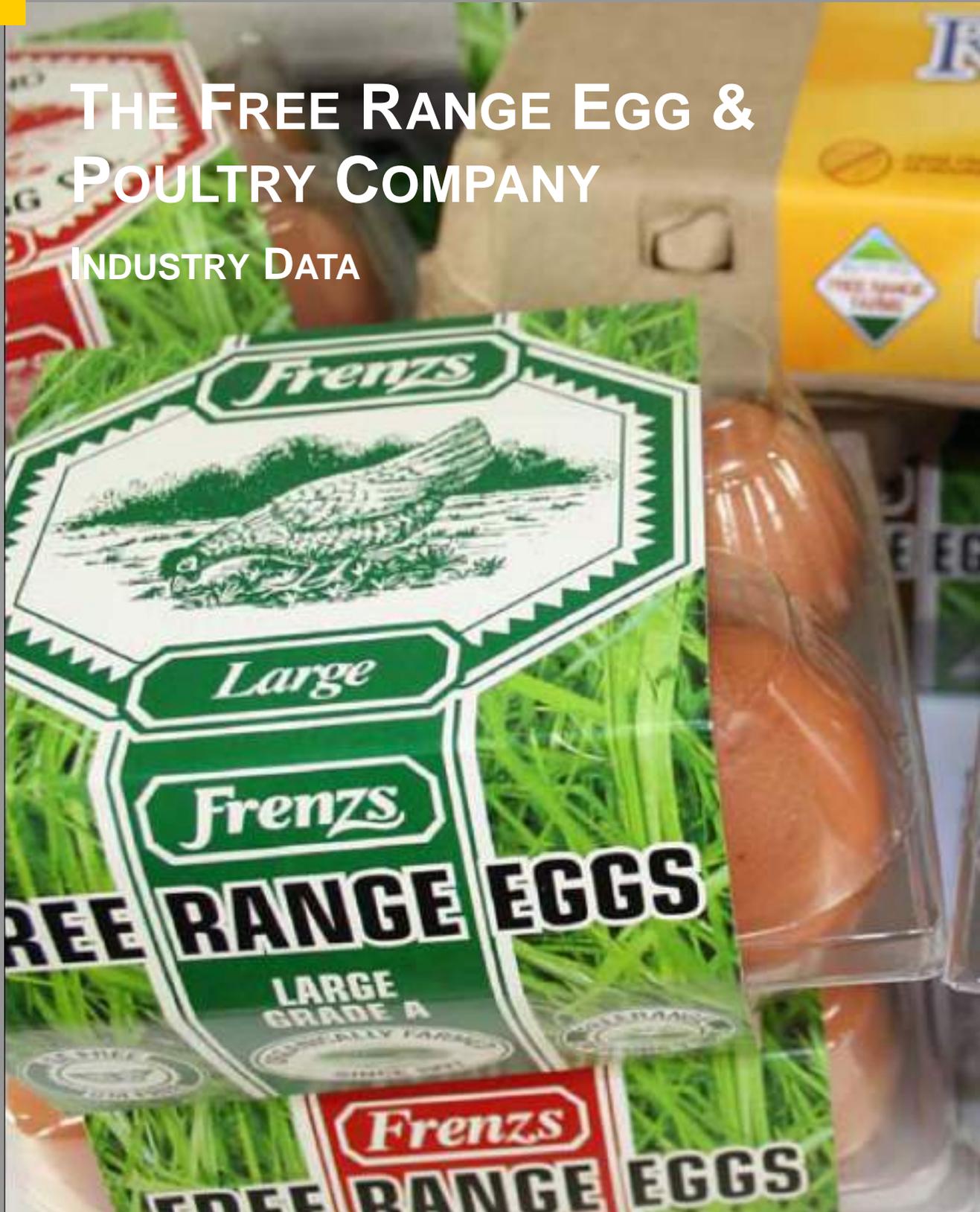
Units	NOW	Plan	Plan	Plan	Forecast	Forecast
Years ended March	FY08	FY09	F10	FY11	FY12	FY13
Flocks/Sheds - Units	35	43	57	84	112	137
		23%	33%	47%	33%	22%
Farms - Units	18	20	25	29	31	36
NZ\$000						
<u>Capital Expenditure Items</u>						
Organic Grain Mill		100				
Egg Washer		120				
Grader			100			
Added Freezer capacity			75			
Extra Delivery Vehicle			25			
ForkHoist		40				
Floor lift			30			
Model Sustainable Farm				100	100	
<u>Total</u>		260	230	100	100	

¹⁰ A Government organisation investing in Research & Development on behalf of the New Zealand taxpayer



THE FREE RANGE EGG & POULTRY COMPANY

INDUSTRY DATA



Global Egg Consumption Data (Country)

Country	Total Volume ('000 tonnes)			CAGR (%)	No. of Eggs (millions)	No. of Eggs per capita
	2005	2006	2007	2002-2007	2007	2007
China	23711.8	25677.2	27642.3	4	460,705	350
Japan	2480.9	2514.8	2536.5	0.3	42,275	332
Taiwan	411.5	417.3	422.7	1.8	7,045	307
Hong Kong, China	127.4	128.9	130.4	1.2	2,173	302
Czech Republic	182.2	179.9	182.8	0.9	3,047	297
Mexico	1870.3	1913.2	1926	1.9	32,100	295
France	991.4	996.9	999.4	0.9	16,657	272
Bulgaria	107.4	115.1	119.3	4.8	1,988	262
Hungary	151.6	152.9	154.6	0.5	2,577	257
USA	4515.5	4500.2	4585.7	0.8	76,428	253
Denmark	76.3	75.8	76.6	0	1,277	235
Romania	263.9	281.9	291.8	3.9	4,863	225
Russia	1851.8	1843.2	1853.4	0.4	30,890	217
Belgium	133	134.3	136.3	1.4	2,272	215
Italy	700.3	705.9	743.3	1.2	12,388	210
Sweden	113	113.8	114.7	0.9	1,912	210
Germany	1039.5	1033.8	1024.8	-1.2	17,080	207
Spain	555.2	537.9	547.2	-0.1	9,120	205
Canada	389.4	397.4	405.5	2	6,758	205
Slovakia	65.4	64.8	64.8	-1.7	1,080	200
Poland	445.4	449	450.8	1.9	7,513	197
United Kingdom	661	671.5	690.4	2.1	11,507	190
Portugal	116.6	118.8	120.7	2.3	2,012	190
Austria	96.2	93.4	92.7	-2.1	1,545	185
South Korea	507.8	516.2	524.3	1.8	8,738	183
Switzerland	78.2	79.2	80.4	1.7	1,340	178
Malaysia	266.5	278.5	286.9	0.8	4,782	177
Ukraine	449.2	455.2	458.5	0.9	7,642	167
Thailand	582.5	606.4	607.5	-0.1	10,125	160
New Zealand	38	38.5	38.7	0.5	645	158
Norway	41.7	41.2	40.8	-1.1	680	145
Finland	44.4	43.8	43.2	-0.9	720	137
Singapore	35.9	36.4	36.8	1.3	613	135
Greece	91.9	90.6	89.9	-1.7	1,498	133
Argentina	283.8	291.7	301	2.6	5,017	130
Netherlands	123.1	124.9	126.7	0.9	2,112	128
Australia	148.9	151.6	153.4	0.3	2,557	125
Israel	54.5	53.2	52.5	-2.9	875	122
Colombia	325.8	331.9	337.9	1.9	5,632	120
Morocco	215.8	220.1	224.1	2.1	3,735	115

Global Egg Consumption Data (Region)

Region	Total Volume ('000 tonnes)			CAGR (%)	No. of Eggs (millions)	No. of Eggs per capita
	2005	2006	2007	2002-2007	2007	2007
North America	4905	4897.6	4991.1	0.9	83,185	248
Eastern Europe	3939.4	3974.7	4026.7	1.2	67,112	202
Western Europe	5370.1	5365.8	5431.1	0.2	90,518	190
Asia Pacific	33541.8	35840.2	38033.4	3.4	633,890	170
Latin America	4681.8	4780.1	4860.7	1.9	81,012	142
Australasia	186.9	190	192.1	0.3	3,202	130
Middle East and Africa	2667.3	2731.4	2756.1	2.5	45,935	40
World	55292.4	57780	60291.3	2.5	1,004,855	152

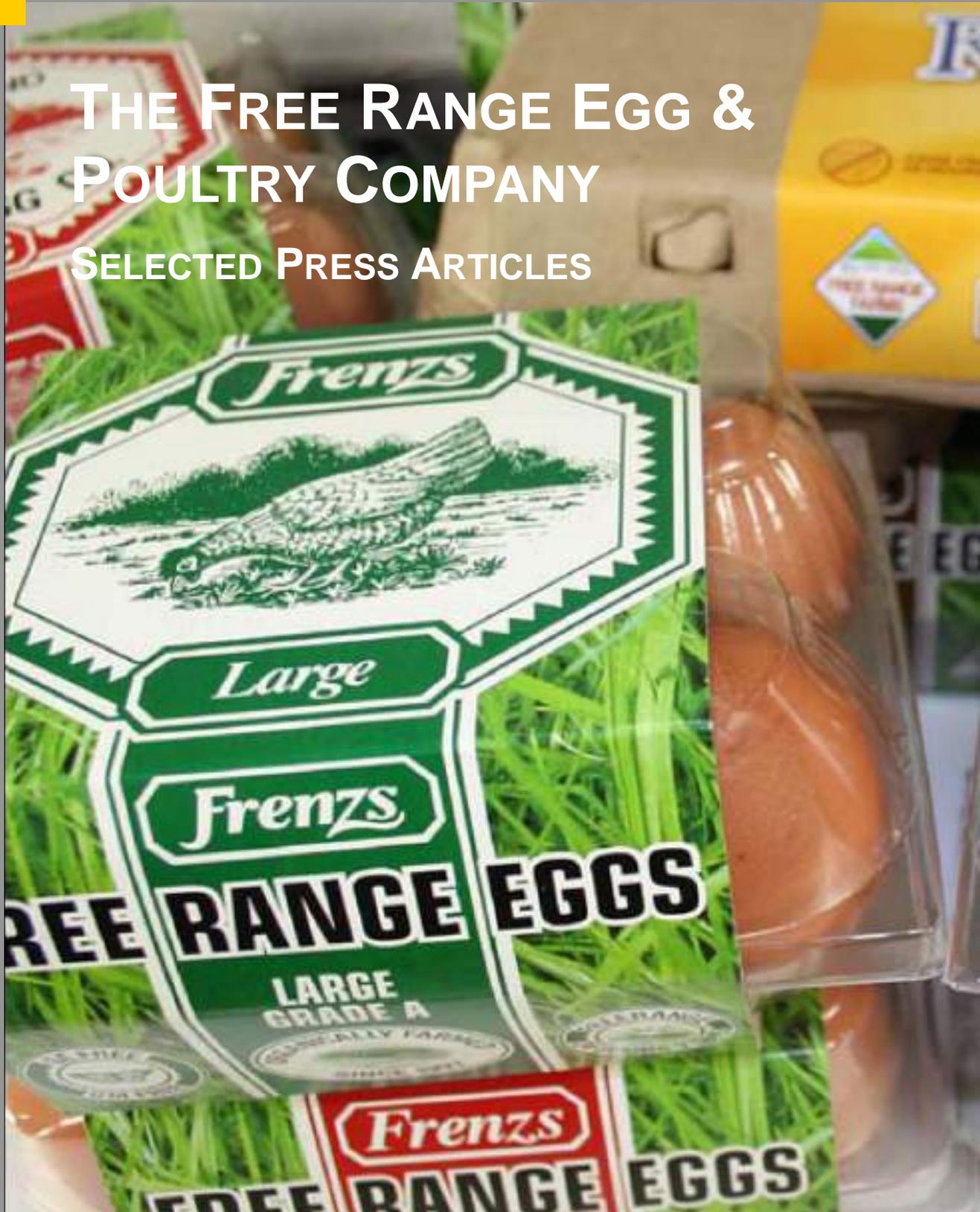
Note: Average weight of an egg is 0.06kg

Source: Datamonitor



THE FREE RANGE EGG & POULTRY COMPANY

SELECTED PRESS ARTICLES



Free-range eggs crack the market

DENIS GREGORY

28/09/2008 1:00:01 AM

EVEN though free-range eggs are selling for more than four times the price of conventionally farmed product, consumption has increased to about 45 million dozen a year.

They now make up 22 per cent of total sales, even though they cost as much as \$9.50 a dozen. Battery hen eggs sell for as little as \$2.50 a dozen.

Customers believe they are more nutritious, healthier and better tasting than eggs from hens kept in cages, but the Australian Egg Corporation says its research shows there is no difference between the two varieties.

The corporation said people also bought free-range eggs out of concern for the welfare of caged hens. But a corporation spokeswoman said battery farmed birds had better protection from disease and predators.

The RSPCA says consumers should "say no" to cage eggs because battery hens are confined in cages, restricting space to exercise or to carry out natural behaviours such as wing flapping, dust bathing and foraging.

The ACT Government is phasing out buying cage-farmed eggs for its agencies, which include hospitals and school canteens.

Free range farmers argue that consumers are happy to pay more in the knowledge the eggs have come from contented hens that range freely during daylight hours.

But Egg Corporation spokeswoman Jacqueline Baptista said that, rather than being nutritionally superior, free-range eggs simply offered consumers another choice.

"Our extensive research has shown there is no significant difference in nutrition or taste between both types of eggs," she said. "We are firm in our belief that it is animal husbandry that determines welfare rather than the production methods farmers used."

Secretary of the Free Range Egg Producers Association, Wendy Pepper, said free range eggs tasted better.

"You break a cage egg in a dish and a free-range egg and look at the difference in the colour of the yolks.

"Free-range hens are out in the field, in the grass, eating natural feed while the others are fed artificial food."

<http://straightfurrow.farmonline.co.nz/news/metro/national/general/freerange-eggs-crack-the-market/1284506.aspx>

SURPRISE FINDING ON BATTERY HENS

Lois WATSON

246 words

21 September 2008

Sunday Star-Times

English

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CONTROVERSIAL NEW government research is tipped to reveal that caged hens are generally healthier than their free-range cousins.

The research by government agency AsureQuality comes at a time of heightened consumer awareness about the poultry industry and growing demand for free-range eggs, which sell for almost double the price of battery eggs.

AsureQuality has compared the condition of layer hens on dozens of egg-producing farms across the country.

The survey results are not due to be released until November, but industry sources told the Sunday Star-Times that early findings show that battery-farmed birds are generally healthier because the controlled conditions prevent the spread of disease. This was despite both groups receiving the same level of care.

An AsureQuality spokeswoman confirmed it had been working on a research project commissioned by the Ministry of Agriculture and Forestry and Biosecurity New Zealand but said no "scientifically robust" data was available yet.

Michael Brooks, head of the Egg Producers Federation, said that although members of his organisation had taken part, the research was independent so as to provide the National Animal Welfare Advisory Committee with impartial data.

The advisory committee, an independent body set up to advise the agriculture minister on animal welfare matters, is due to review the 2005 Animal Welfare (Layer Hen) Code of Welfare.

Brooks said he would not be surprised if the data did show less mortality and disease among battery-farmed hens.

EGGS-POSED: ETHICAL DILEMMA

Catherine WOULFE

760 words

13 January 2008

Sunday Star-Times

English

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Demand for free-range eggs raises a supply problem, writes Catherine Woulfe.

ONE NEW Zealand supermarket is already swinging away from battery eggs and others say they will follow if customers demand it - but there may not be enough free-range or organic eggs available.

Five huge UK supermarket chains last week promised to ban or phase out battery eggs. Two more are reducing the shelf space given to the cheaper, less ethically produced eggs and are under pressure to ban them. The turnaround is due to a massive consumer backlash sparked by a campaign by superstar chef Jamie Oliver.

Battery eggs are laid by hens kept in plastic or wire cages, in huge sheds. Where artificial lighting means the hens lay an egg almost every day.

Rules introduced in New Zealand two weeks ago mean each hen must have at least 500cm² of cage space.

The SPCA says overseas research shows by the time they are slaughtered at 18 months old, many battery hens have skin and feather problems and broken bones, due to lack of exercise and the calcium lost through laying so many eggs.

A 2002 Colmar Brunton survey showed 79% of New Zealanders thought battery cages unacceptable, and wanted them banned. In 2006, Parliament's Regulations Review Committee found the rules for battery systems were in breach of the Animal Welfare Act 1999.

But it is unlikely that our supermarkets will ban battery eggs soon - there are not enough free-range and organic producers to fill demand. A ban would mean fewer eggs on shelves, and a price hike.

Battery eggs are the cheapest on sale, at about \$3.60 per dozen. Barn eggs usually cost about \$2 more per dozen, and free-range another \$1 on top of that. Organic eggs are selling for more than \$11 a dozen at Woolworths' online store.

But Mark Baker, retail sales and performance manager for Foodstuffs - which includes New World, Pak'n Save and Four Square - expects some of the UK's backlash to trickle down to New Zealand customers.

"Ultimately, if consumers feel strongly enough about the issue, then they will make this known to us and we will listen to ensure we continue to deliver against their expectations."

The egg section at Victoria Park New World, serving the wealthy central Auckland suburbs of Ponsonby and Herne Bay, has already been overhauled. After surveying customers the supermarket pushed its battery hen eggs to the bottom shelves - and describes them as caged eggs. Now, free-range and organic eggs make up more than two-thirds of eggs sold. At other Foodstuffs supermarkets, only about one in five eggs sold is free-range, despite increasing consumer distaste for battery farming.

A spokeswoman for Progressive Enterprises, which owns Foodtown and Woolworths supermarkets, said the company was too busy to respond to questions.

An Egg Producers Federation spokesman, who did not want to be named, has not noticed any consumer backlash, although our rules around battery systems are similar to those in the UK, and are in line with International Egg Commission standards.

He says it will be up to individual operators to decide how they respond to market signals, but the issue of price will be important, as eggs are a cheap form of protein.

Top chefs here say free-range and organic eggs taste better and are more ethical. Award-winning Wellington chef Martin Bosley shuns battery eggs and chicken, and wants supermarkets to do the same.

"I think we've seen a move towards (free range) now. I think people are becoming more and more aware of it . . . (Supermarkets) have to bow to the pressure at some stage."

Annabelle White, Sunday magazine's food detective, says free-range and organic eggs are an entirely different experience to battery eggs. "They taste of the earth; there's a lovely sort of distinctive flavour to them." SHELLING OUT PRICES

* Signature Range, one dozen eggs, size 7, at Foodtown online on Friday.

Caged \$3.49; Barn \$5.09; Free range \$6.19.

One dozen large organic free-range Frenz eggs (two six packs) from Foodtown online on Friday: \$11.18

FACTS

* In 2005 we ate an average 222 eggs each; 90% came from battery hens.

* Other systems are barns, where hens are kept inside, and free range, where the hens are kept in barns but can also get to an outside area. Organic eggs are always free range.

* Supermarkets supply 40% of eggs consumed here.

* 89.5% of all eggs produced are laid in battery systems.

SO YOU THOUGHT YOUR EXPENSIVE FREE-RANGE EGGS CAME FROM A HAPPY HEN LIKE THIS? THINK AGAIN.

Catherine WOULFE

1006 words

30 September 2007

Sunday Star-Times

English

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* Many 'free-range' hens will never see the great outdoors, or are de-beaked.

* Insiders call for laws to stop unscrupulous farmers 'cheating' ethical shoppers. SHOPPERS PAYING almost double the normal price for free-range eggs may be wasting their money if they think they are choosing the most ethical and nutritious option.

Many eggs sold as "free-range" are laid by hens that never get outside to peck at fresh grass and insects, and may even have clipped beaks, say industry insiders and animal welfare experts.

Despite calls by eggs producers, the government has failed to set legal standards for how much outside space a free-range hen must have, the size of flocks and the provision of grassy paddocks, instead relying on a largely voluntary welfare code.

Even the Egg Producers Federation (EPF), the body which acts in the interests of egg farmers, has warned the Ministry of Agriculture and Fisheries that the lack of rules around free-range could lead "less scrupulous producers to reduce the amount of range available", and implied that this could lead to "a loss of consumer trust".

SPCA chief executive Robyn McDonald said many free-range hens are in barns all their lives, eating only grain.

"Consumers are being cheated if they think every (free-range) egg is equal - they certainly aren't going to get the beneficial flavours and colour of yolk from the big flocks."

McDonald said many big producers keep thousands of birds in one barn, with just a tiny exit at one end, and aggressive birds tend to "guard" the door.

At a farm seen by the Sunday Star-Times, the outside area appeared to be bare dirt, with no trees or other shelter to allay the birds' instinctive fear of hawks.

McDonald said those hens lay eggs that taste exactly like barn-laid eggs, because they are eating the same food. But they sell for almost double the price of battery-cage eggs (see graphic).

MAF spokesman Helen Keyes confirmed the ministry does not check free-range farms, but said animal welfare and food safety in chicken farms are audited by the NZ Food Safety Authority.

But that is unlikely to help, experts say, because farms usually do meet the few rules that are in place for "free-range". The point is that those conditions are not what consumers expect.

Under current law, free-range farmers are also allowed to top up their flocks with hens that have spent their life in battery cages, and free-range chicks are bought from battery producers.

Animal welfare campaigner Dr Michael Morris said feather-pecking, cannibalism and disease outbreaks are the biggest welfare problems on free-range farms. He said faced with crowded conditions, some farmers clip the birds' beaks to stop them hurting one another.

Even the 30% of free-range farmers who hold RNZSPCA accreditation - which means their farms are audited and meet SPCA standards - are allowed to clip their hens' beaks.

Graeme Carrie, co-director of a large organic free-range egg company, FRENZ, said standards are so slack that he and business partner Rob Darby wrote their own "10 commandments" when they went into business in 1989.

Although their farms now also meet the much tighter standards that cover organic eggs, they are still waiting for official free-range standards to be set.

Carrie said consumers "see nice little pictures of birds on farms and birds sitting on nests looking very happy. Some of those birds are certainly not enjoying the conditions that are inferred". Consumers buying those eggs miss out on the nutritional benefits of "real" free-range eggs, he said. FRENZ farmers are not allowed to clip beaks, as it prevents birds from pecking grass.

"The biggest benefit to a free-range egg is that it comes from a hen that can eat grass," said Carrie. "That's where the good stuff comes from."

Rob Darby said: "We've been battling with the Egg Producers Federation for ages on this."

Michael Brooks, executive director of the EPF, said the body "lobbied very hard" when the new welfare code was written, to get a minimum of 11m² of outside space made mandatory for each free-range bird.

But the current code says there are too many variables to consider and it is not possible to set a minimum space requirement.

Brooks said any consumer concerns should be put to the Commerce Commission. He said the EPF will not support any commercial egg farmer found in breach of any legislation.

Auckland Animal Action spokesman Jasmine Gray said some free-range farmers are trying to exploit the market. "They'll cut corners wherever they can, and make themselves appear to be as green and animal-friendly as possible."

McDonald said consumers should buy organic free-range eggs from small, specialised shops - and if they are buying from supermarkets, look for the RNZSPCA stamp of approval.

However, experts who spoke to the Star-Times emphasised that even in the absence of clear definitions of "free-range", buying such eggs is still ethically preferable to buying eggs produced by battery hens.

WHAT DOES FREE-RANGE MEAN?

* There are no legal standards covering how much outside space each free-range hen must have, how big the flocks can be, the size or number of barn doors, the provision of grassy paddocks and shelter such as trees or shrubs, or whether free-range hens can be bought directly from battery farms. All these standards are instead "recommended" in the Animal Welfare (Layer Hens) Code of Welfare 2005.

* In 2004 the Egg Producers Federation submitted that if the code did not specify a minimum outdoor range, "less scrupulous producers" might reduce the amount of range available, with a possible "loss of consumer trust and reduction of sales". The code recommends an outside stocking density of 11m² per bird, but there is no compulsion on farmers to meet that standard.