

WHAT IS HAPPENING IN THE GLOBAL DAIRY DEMAND CHAIN?

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In my presentation at the World Guernsey Dairy Conference on July 5th, I talked about a number of things that are changing the nature of global dairy markets. These included the fact that dairy production at a global level has already doubled over the last 30 years. We will need to do this again in the future if we are to feed 9 billion consumers in the world within a generation.

I also discussed the impacts of long term trends in international prices for oil, cereals, fertilisers and the fact that much of the world will see significant impacts on their ability to produce food from climate change.

The UK, will not be affected as badly as parts of Africa, Asia and Latin America, and so will probably escape the worst excesses of this, and so will still be a fundamentally good place to farm and produce food.

These constraints to production, along with booming demand in the emerging markets and a significant increase in wealth around the world in the mid to long term will all contribute to what organisations such as FAO and USDA are predicting to be a sustained period of high commodity prices. This has impacts on both farmers and consumers.

At the point of sale, global retailers needs get bigger if they are to match the scale and buying powers of the leading retailer in the world – Walmart – already 3 times bigger than the nearest challengers, Carrefour and Tesco. Success in the US market is critical to achieving this. Market niches such as organic, GM free, local, “free from”, low carbon etc. will remain niche in their nature and learning to deal and work with NGO type organisations, even if uncomfortable at times will become essential. Learning to communicate with consumers using social media is the way forwards and a technique whereby that even small producers and processors can build a presence in the market.

I tried to conclude by setting out why I think it is a good time to be a dairy farmer, while not ignoring the challenges that are faced such as high feed prices, variable weather conditions and so on, which would be naive and short sighted. There are considerable grounds for optimism however, and these include a combination of the following:

- there will be 9 billion consumers in the world – up from the current level of 7 billion
- they will be wealthier than before in all parts of the world
- global demand will be up for dairy products, especially in Asia and Africa
- there will be new market opportunities – at both local and global levels (it is important to note that most dairy products are not exported, only c. 50 billion litres out of a total of some c. 650 million litres produced)
- UK and EU markets are still fundamentally attractive, despite ongoing concerns over the macro economy, especially in Southern Europe
- chain competition between major retailers and foodservice companies will drive improvements across the board
- there will be opportunities for farming and processing in the what are known as the N – 11 countries (such as Thailand, South Africa, Turkey, Bangladesh, Indonesia, Mexico etc) not just

the BRICs (Brazil, Russia, India and China)

- there are huge opportunities to innovate and investing in sustainability measures can bring profit too in the form of reduced input usage and technology will change everything – on the farm, in the factory and in the distribution chain – and this will include genetics, including the use of genomics
- better skills in marketing are essential and not being over reliant on trade distortions to create markets and there is a need to think about “demand” not just supply of dairy products per se

Finally, I had a few comments on the future prospects for the Guernsey breed per se – as one of my colleagues called it, “my favourite cow”. The Guernsey breed is clearly suitable for niche product ranges and benefits from favourable island imagery. It is a distinct looking animal, good for cross breeding, with good legs and feet, but with reduced numbers of female registrations (now down to 5,000 per annum) there are clear dangers of inbreeding and the threat of a minority breed becoming a rare breed. 5,000 registrations to put this in context is the size of one new major farm investments in the likes of India, China, Russia etc.

A2 milk is a clear market opportunity and part of the “free from” trend - an attractive market, but neither do you have it all to yourself - Alpro dominate with soy and rice milk in the UK with sales of over US\$100 million per annum. The Guernsey breed could be the “real cows milk and no lactose” and there are opportunities to provide “free from” ingredients, but which needs segregated processing, and a strategy of “all eggs in one basket” is a dangerous position to be in.

Yet this is a market estimated at US\$ 8 billion globally and growing at 9% per annum. The US accounts for c. 70% of the global market, with the UK market alone worth c. US\$ 400 million, and with a growth rate of c. 15% per annum. Key success factors include excellent skills and high levels of competence in marketing, branding and NPD.

The reality is that the international herd size for the Guernsey breed is too small for huge R & D efforts and the answer is to market products better. This takes time, effort and money. National associations need to work together to find a solution and be prepared to think laterally about what can be done and look for inspiration elsewhere – such as Pink Lady® apples, Waygu beef (high in Omega 3 and 6) and make sure that as a breed, you do not get trapped in the “last chance saloon”.

In terms of what can happen in the future – there are clear options. These include:

Do nothing and see the ongoing trends continue, or.....

...develop a plan, work together, but not just talk about it - and not least work to the phrase “start small, think big, act fast”. There is always an answer. Even if sometimes they are sometimes often difficult. What must not happen is that the threats become a reality. This is really now is up to the World Guernsey Cattle Federation, if this happens, or not.

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