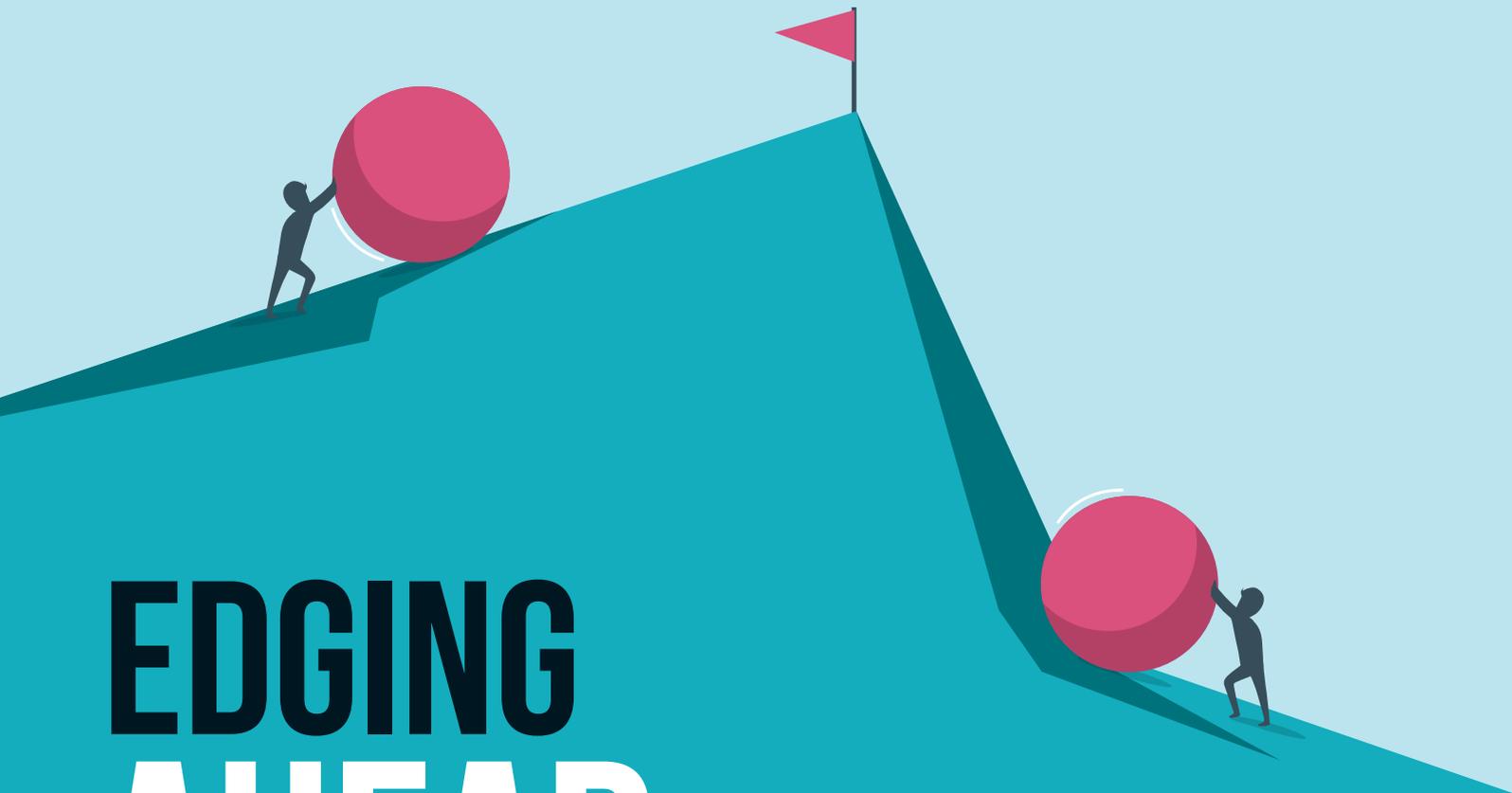


AGRI BUSINESS

SUMMER 2019

AN IRISH FARMERS JOURNAL REPORT IN ASSOCIATION WITH KPMG



EDGING AHEAD

Getting the competitive
advantage in agriculture

KPMG

IRISH
FARMERS
JOURNAL

IRISH
BEGINNINGS

GLOBAL
OPPORTUNITIES



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FOREWORD



**EWIN
LOWRY**

Agribusiness editor,
Irish Farmers Journal

During the industrial revolution, organisations depended on the advantage of owning tools other manufacturers didn't have access to in order to stay ahead of the pack. That was the age of scarcity. Today, we live in the age of plenty and most businesses have access to the same tools. That should put everyone on a level playing field.

However, that is not the case for agriculture, which is now more globalised than ever. In a globalised industry, geography plays an important role in determining how competitive a country is. Be that in terms of its ability to grow high-quality, lush green grass that can be converted into high-quality protein products such as meat and dairy or access to a large local market. However, where you are on a map of the world can only take an industry so far.

While we do have natural competitive advantages, when it comes to regulatory compliance and access to technology, the playing field is far from level. In a globalised sector, when farmers do not have access to the tools of farmers in other regions, it forces the industry beyond the farm gate to become even more innovative to stay competitive.

In this, the seventh Irish Farmers Journal/KPMG *Agribusiness* report we look at how competitive Irish agribusinesses are in a global context. The *Irish Farmers Journal* is again delighted to partner with KPMG in producing the agribusiness survey and report.

In the following sections, we present the results of our analysis, outline what Irish agribusinesses can do to compete and draw some conclusions as to the implications for all those involved in the sector. We hope you enjoy reading it.



**DAVID
MEAGHER**

Partner-in-charge for
agribusiness, KPMG

Agribusiness is a global industry. The performance of Irish agribusiness is influenced by many factors, both domestic and international.

In this, our seventh annual Irish Farmers Journal/KPMG *Agribusiness* report, our focus is on competitiveness, and specifically how Ireland measures up against our global competitors.

As you will see in the various articles in the report, we score well in certain respects, and not so well in others. Collectively, we need to address the areas of concern, and drive change in order to ensure that Irish agribusinesses can compete strongly in global markets.

A key theme of the report is disruption, and there is a growing sense – articulated by my New Zealand-based colleague, Ian Proudfoot – that agribusiness is on the cusp of significant change. While farmers, agribusinesses and the agri community generally may have been slower to absorb the technological advances of recent years than, say, the retail industry, there is no doubt that significant change is coming, and that it will have profound effects. Change will bring disruption, and it is critical for the future of the Irish agribusiness industry that we remain aware of – and indeed are at the forefront of – the resulting changes.

I hope you will find that this report gives a real sense of where Irish agribusiness stands in comparison to our international peers, a sense of the changes that are happening in our industry, and, most importantly, where we need to focus our collective resources to drive change and improvement.

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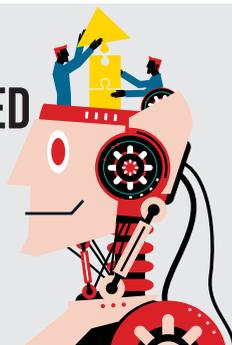
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**MAGIC
INGREDIENTS**
INNOVATIVE KILKENNY
INGREDIENTS COMPANY

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RIISING TO THE challenge

Industry leaders play a key role in creating a dynamic and challenging environment to drive competitiveness



EOIN
LOWRY

Agribusiness editor,
Irish Farmers Journal

NATIONS
SUCCEED IN
PARTICULAR
INDUSTRIES
BECAUSE
THEIR HOME
ENVIRONMENT
IS THE MOST
FORWARD-
LOOKING,
DYNAMIC AND
CHALLENGING

Michael Porter, the renowned economist and Harvard professor, maintains that a nation's prosperity is created, not inherited. He also asserts that its prosperity does not grow out of a country's natural endowments, its labour pool, its interest rates, or its currency's value. He believes a nation's competitiveness depends on the capacity of its industry to innovate and upgrade.

He states that companies gain advantage against the world's best competitors because of pressure and challenge. They benefit from having strong domestic rivals, aggressive home-based suppliers, and demanding local customers.

In a world of increasingly global competition, particularly in the agriculture sector, it would appear that nations themselves have become more and not less important.

Porter believes competitive advantage is created and sustained through a highly localised process. Differences in national values, culture, economic structures, institutions and histories all contribute to competitive success.

DYNAMIC

But no nation can be competitive in every industry. Ultimately, Porter believes that nations succeed in particular industries because their home environment is the most forward-looking, dynamic and challenging.

Many economists believe labour costs, interest rates, exchange rates, and economies of scale are the strongest determinants of competitiveness. However, more recently there is an increasing belief that competitiveness is driven by government policy that targets protection, import promotion and subsidies. The results of this year's *Irish Farmers Journal*/KPMG survey would agree with this theory.

Companies are pressing for more government support for their particular sectors. From an agribusi-

ness point of view, the words of the day are merger, alliance, strategic partnerships, collaboration and supranational globalisation. Companies must also relentlessly drive to improve productivity in existing industries by raising product quality, adding desirable features, improving product technology, or boosting production efficiency.

Porter concludes that companies can only achieve competitive advantage through acts of innovation in the broadest sense. This includes adapting new technologies and new ways of doing things. Innovation can be manifested in a new product design, a new production process, a new marketing approach, or a new way of conducting training.

So, in conclusion, it is really only the businesses involved in the sector (whether they are co-ops or privately owned companies) that can achieve and sustain competitive advantage. They must also recognise that innovation grows out of pressure and challenge.

LEADERSHIP

This brings us to leadership. Today's competitive realities demand strong leadership. It takes leadership to create a dynamic, challenging environment. Leaders believe in change and they energise people in their organisations to innovate continuously. But perhaps more importantly leaders recognise the need for pressure and challenge.

What this translates into, is that leaders of the industry in Ireland – the CEOs and chairs of our agribusinesses – need to be prepared to sacrifice the easy life for difficulty and, ultimately, sustained competitive advantage. Farmers play an important role as leaders in our co-ops. They too can be leaders, pushing and calling for change – not just once, but continuously.

That must be the goal. Survival is not enough. This is the way the industry can together achieve international competitiveness.

We're passionate *about taste and nutrition*



Kerry Taste

Great flavours start with a passion for authentic taste. At Kerry, we understand taste. For almost 30 years we've been developing flavours and technologies that enhance consumer experience and deliver on the promises we make to our customers.



Kerry Innovation

Innovation is intrinsically linked to every part of our business. Backed by world leading research and technologies at Kerry, our chefs collaborate with our RD&A teams to create new possibilities in food and beverage for our customers.



Kerry Sustainability

At Kerry Group, sustainability is at the heart of our business. Through our unique capabilities we will play a positive role in transforming the health and sustainability of consumer diets and create long-term value for all stakeholders.

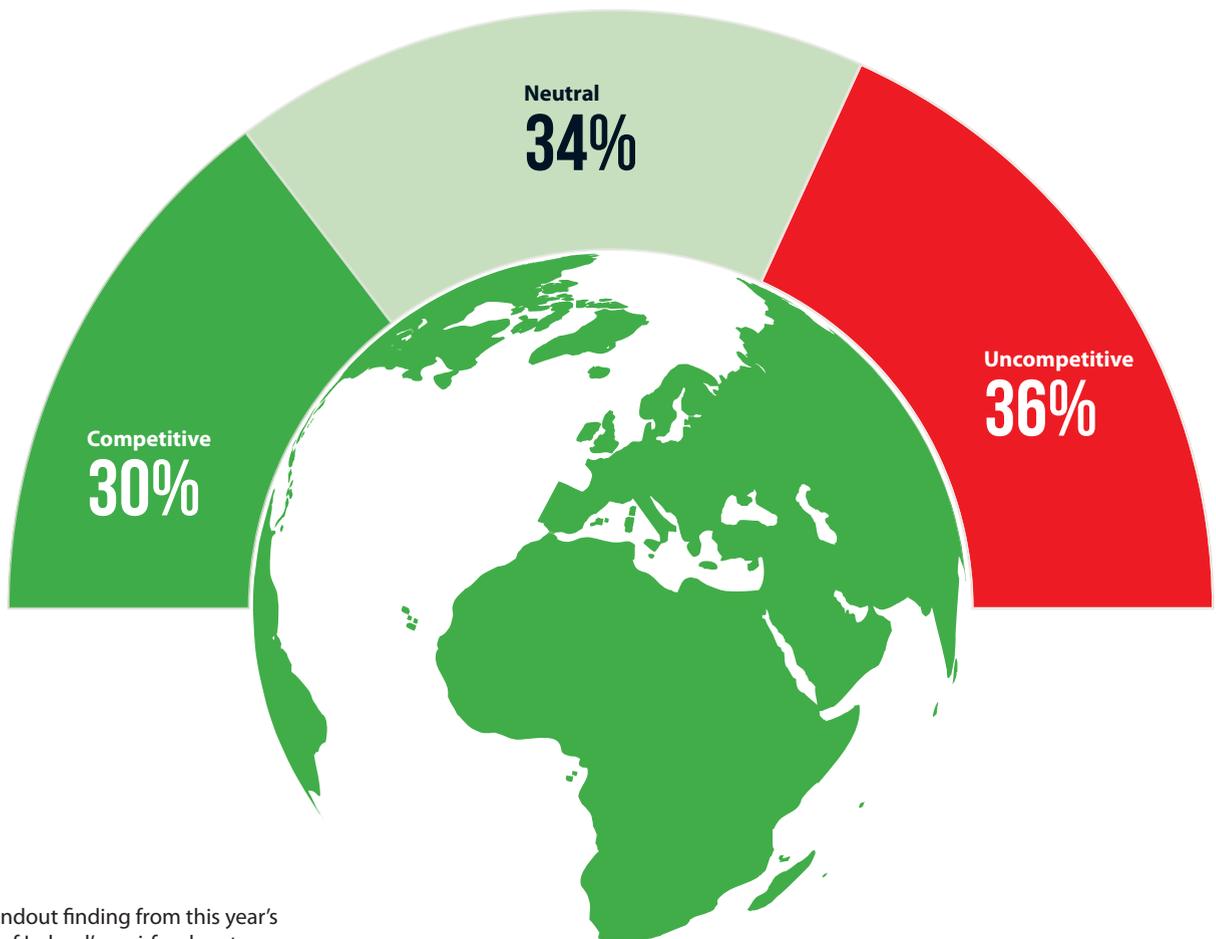


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MORE THAN A THIRD OF IRISH AGRIBUSINESSES FEEL THEY ARE UNCOMPETITIVE

A survey of business leaders across Ireland's agri-food sector shows that more than a third of agribusinesses feel they are uncompetitive in international markets, writes **Lorcan Allen**.

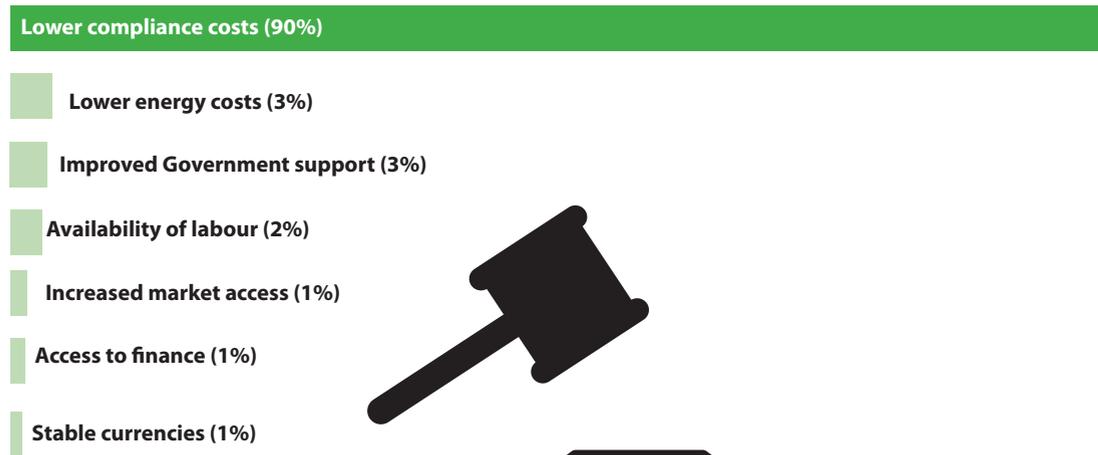


The standout finding from this year's survey of Ireland's agri-food sector, which was commissioned by the *Irish Farmers Journal* and KPMG in early 2019, was that more than one-third (36%) of Irish agribusiness leaders feel their business is uncompetitive in the international marketplace. This is a concerning finding given that Ireland exports €13bn of food and drink every year, with 90% of Ireland's beef and dairy production destined for export markets.

**HOW COMPETITIVE DO YOU
THINK YOUR BUSINESS IS IN THE
INTERNATIONAL EXPORT MARKET?**

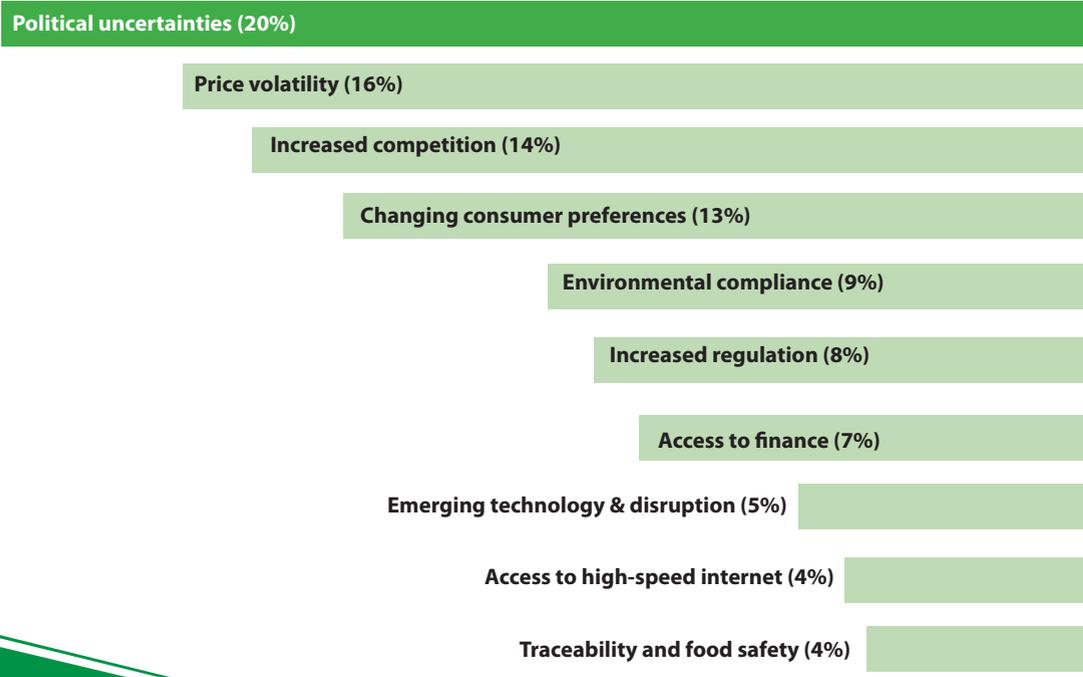


• HOW COULD YOUR BUSINESS BE MORE COMPETITIVE?



90% of companies surveyed identified red tape and the cost of regulatory compliance as the number one reason for being uncompetitive compared to international rivals. Interestingly, issues such as energy costs, Government support and currency volatility were found to be much less of a drag on business competitiveness.

• WHAT ARE THE CHALLENGES FACING YOUR BUSINESS?

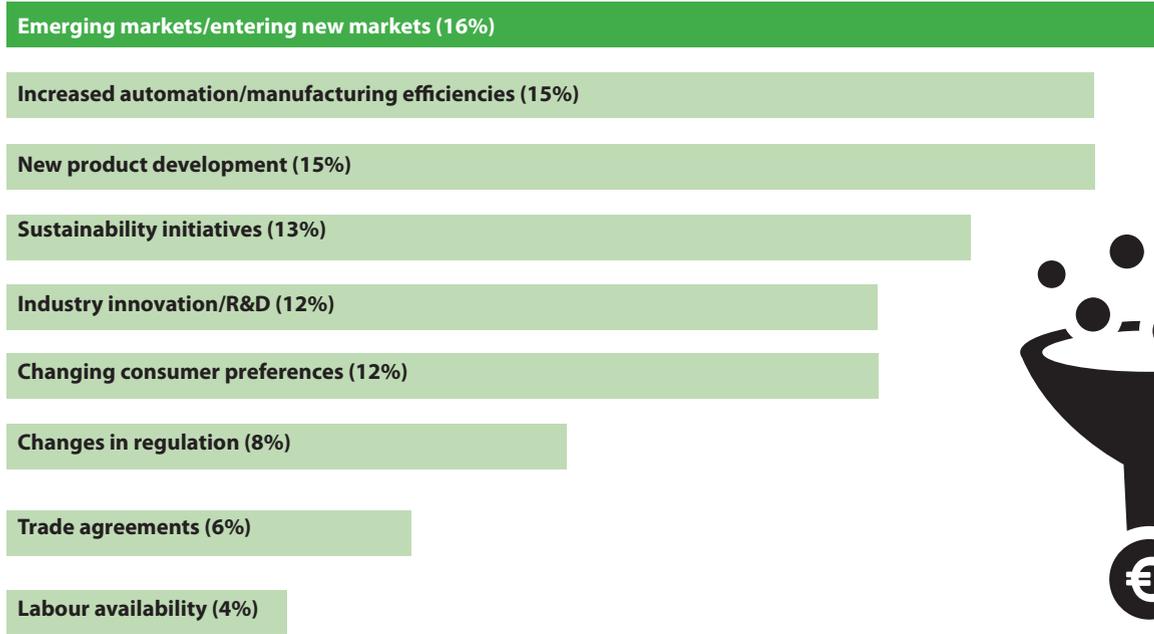


20% of respondents identified political uncertainty as the biggest challenge facing their business. Brexit continues to weigh heavily on Irish exporters and is forcing business leaders to defer decisions on investments and capital projects.

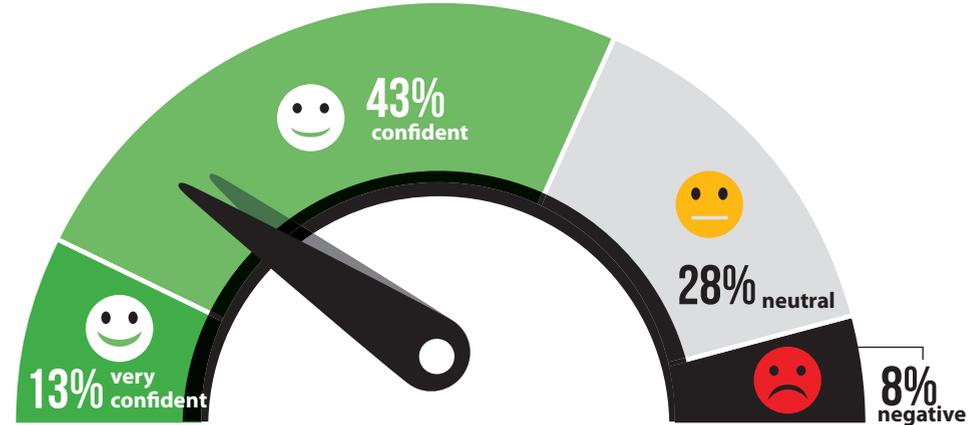


AGRI BUSINESS SURVEY

WHAT ARE THE OPPORTUNITIES FOR YOUR BUSINESS?

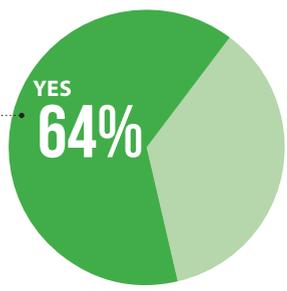


HOW CONFIDENT ARE YOU ABOUT THE PROSPECTS FOR YOUR BUSINESS IN THE NEXT 12 MONTHS?



Despite the uncertainty of Brexit, the outlook among business leaders remains confident. Forty-three per cent of respondents described their business outlook for 2019 as confident, while a further 13% described their outlook as very confident. Twenty-eight per cent of respondents say their outlook is neutral, while just 8% of companies have a negative outlook for 2019.

ARE YOU PLANNING TO INVEST IN YOUR BUSINESS NEXT YEAR?



64% of respondents plan to invest in their business next year

IF SO, WHAT DO YOU PLAN TO INVEST IN?



The overall confidence of Ireland's agribusiness sector is reflected in figures which show that almost two-thirds (64%) of company CEOs are planning a capital investment in their business in 2019. Over a fifth (21%) of respondents will invest in capital projects, while a further 17% say they will invest in additional staff. Just over 15% of respondents are planning to invest in operational efficiencies, while only 7% of Irish agri-food companies are planning to invest in R&D in 2019.

Future Growth Loan Scheme

How do I apply for the scheme?



Complete the Eligibility Form at www.sbc.gov.ie and return to the SBCI by email/post



The SBCI will assess the application and determine if you are eligible/not eligible



Eligible applicants will be provided with an Eligibility Reference Number



Provide the Eligibility Reference Number - along with your updated Business Plan for loans of €250,000 or more - to your preferred finance provider when completing the loan application form



The SBCI is currently finalising its FGLS partners. More info will be published on www.sbc.gov.ie as soon as they are available



Who can apply?

The scheme is available to:

1. SMEs (including farmers) and Small Midcaps
2. Applicants that meet the scheme criteria



Key features of the Scheme

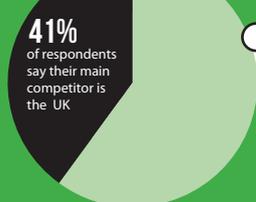
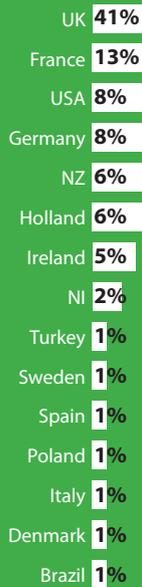
- €100,000 up to €3 million for eligible applicants
- €50,000 up to €3 million for eligible applicants in the Primary Agriculture sector
- Initial max loan interest rate of 4.5% for loans up to €249,999 and 3.5% for loans equal or greater than €250,000. Variable interest rates are subject to change
- Term ranging from 8 years to 10 years
- Loans unsecured up to €500,000
- Optional interest-only repayments provided at the start of the loans



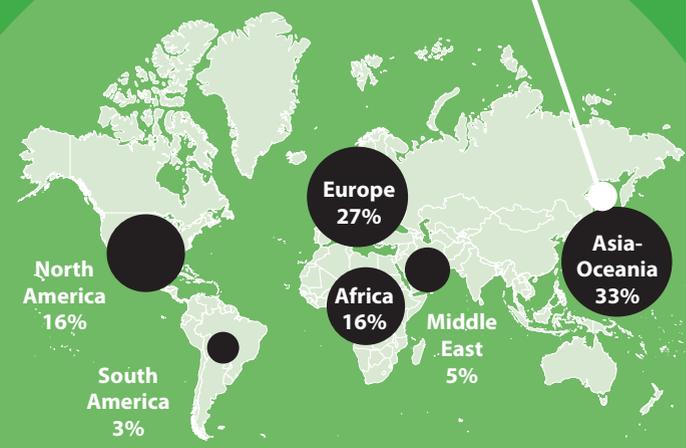
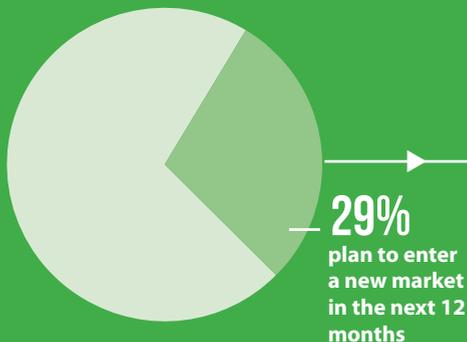
Loans can be used for

Long-term investment in tangible or intangible assets

WHERE IS YOUR MAIN COMPETITOR BASED?



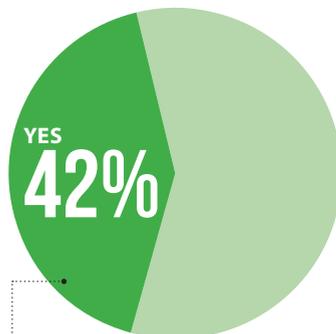
WILL YOU ENTER A NEW MARKET IN THE NEXT 12 MONTHS AND, IF SO, WHAT MARKETS ARE YOU TARGETING?



Less than a third (29%) of Irish agribusiness companies are planning to enter a new market in 2019. Of the companies that are looking to expand into new markets, they are mostly targeting new markets in Asia (33%) and continental Europe (27%).

Interestingly, almost half of these companies (42%) say they will be tailoring their product offering to meet consumer tastes in these new markets.

ARE YOU TAILORING YOUR PRODUCT OFFERING FOR NEW MARKETS?



of respondents plan to tailor their product offering for new markets

METHODOLOGY

The research for the survey was conducted by KPMG and was based on a representative sample of agribusinesses in Ireland.

The survey, which consisted of 15 questions across a range of agribusiness-related topics, was sent to the senior management of a wide cross-section of businesses with the sector.

The survey was made available to respondents electronically.

We would like to thank all the respondents for taking the time to complete the agribusiness survey and we hope you find our results informative and insightful. We welcome any feedback and suggestions that you feel could improve our 2020 *Agribusiness* survey.

edge IRELAND'S



Ireland will never be a low-cost manufacturing economy. Therefore, companies must focus on R&D and operational efficiencies to compete successfully, writes **Lorcan Allen**

In this year's *Agribusiness* report, produced by the *Irish Farmers Journal* in conjunction with KPMG, we examine the competitiveness of Ireland's agribusiness sector in comparison to some of our biggest rivals in world markets.

Although Ireland is a high-cost economy, Irish businesses continue to find new ways of innovating and adding value that allow them to compete successfully in international markets. Wages and other operational costs for Irish businesses are comparatively higher than for most of our international competitors.

Yet efficient tax policies, an extremely productive workforce and a focus on adding value allows Irish agribusinesses to compete with lower-cost rivals in global exports markets.

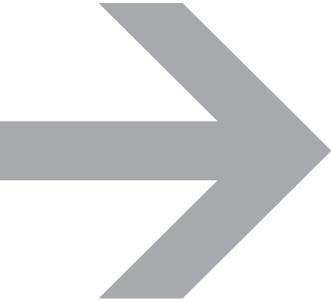
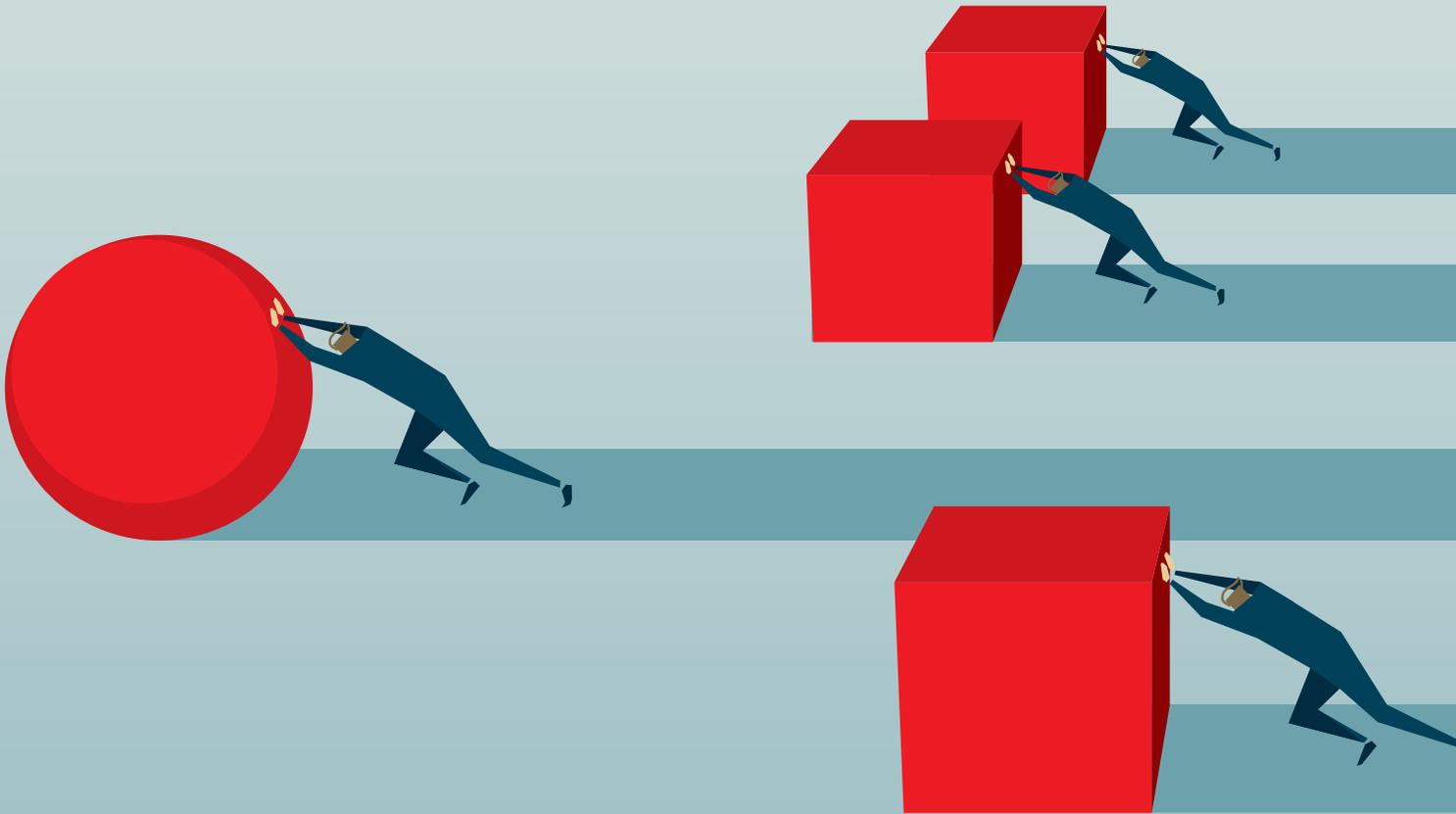
In this year's *Agribusiness* report, we also take an in-depth look at the logistics and transport sector and how it plays a key role in maintaining Ireland's competitiveness. Since the Brexit vote in 2016, Ireland's agri-food sector has been encouraged to diversify its reliance away from the UK market and to open new sales markets on continental Europe and further afield.

For this diversification strategy to succeed, a strong logistics network of road, rail and sea transport is essential. As an island nation, it's no surprise that over 90% of Ireland's international trade is done via its sea ports. We profile the two largest ports in the country and learn what development plans they have in the pipeline over the coming decade.

This year's report also includes a number of company case studies



AGRI BUSINESS INTRODUCTION



where new entrants to a market successfully disrupted established competitors. Irish agribusinesses looking to open new markets in Europe and Asia may be daunted by the scale of established rivals. Yet, history has shown that global giants can be toppled with the right strategy.

A case study of Aldi, the German discounter, shows how a clever strategy to expose the weaknesses in the business model of an established competitor can pay huge dividends. We also examine how companies such as Coca Cola and the A2 Milk Company are competing successfully in global dairy markets by marketing new innovations to disrupt establish rivals.

In the meat sector, we look at how Kepak has rapidly adapted to new consumer trends in food and is winning more business than ever in export markets. We also look at how a startup business in Kilkenny is primed to take advantage of the exploding trend for plant-based foods.

And finally, we profile two Irish agribusinesses that are adapting their product range to win new sales in export markets in continental Europe. Aiming to diversify from the UK is one thing, but having the right product that allows your business to compete successfully is crucial.

Given the reliance of export markets for Ireland's agri-food sector, Irish agribusinesses must always strive to be ultra-efficient and focused on added value. Ireland will never be a country for low-cost manufacturing, meaning Irish agribusinesses must seek to add value in order to protect margins and compete successfully in global markets against lower-cost rivals.

On top of this, a continued focus on R&D and new product development is essential if Ireland's agribusiness sector is to deliver sustainable returns to Irish farmers for their raw materials, be it meat, milk or grain.

GIVEN THE RELIANCE OF EXPORT MARKETS FOR IRELAND'S AGRI-FOOD SECTOR, IRISH AGRIBUSINESSES MUST ALWAYS STRIVE TO BE ULTRA-EFFICIENT AND FOCUSED ON ADDED VALUE

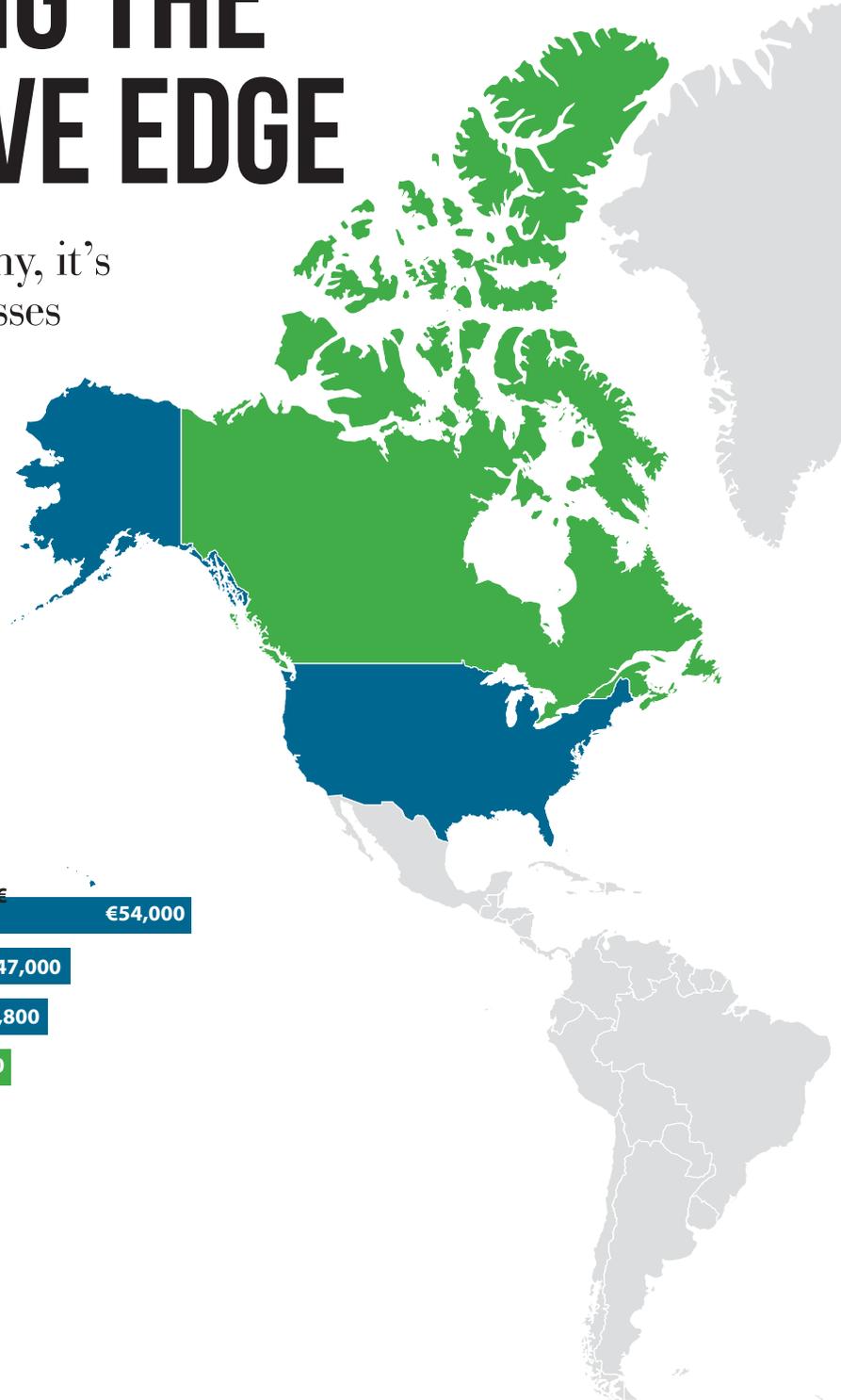
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GLOBAL COMPETITION

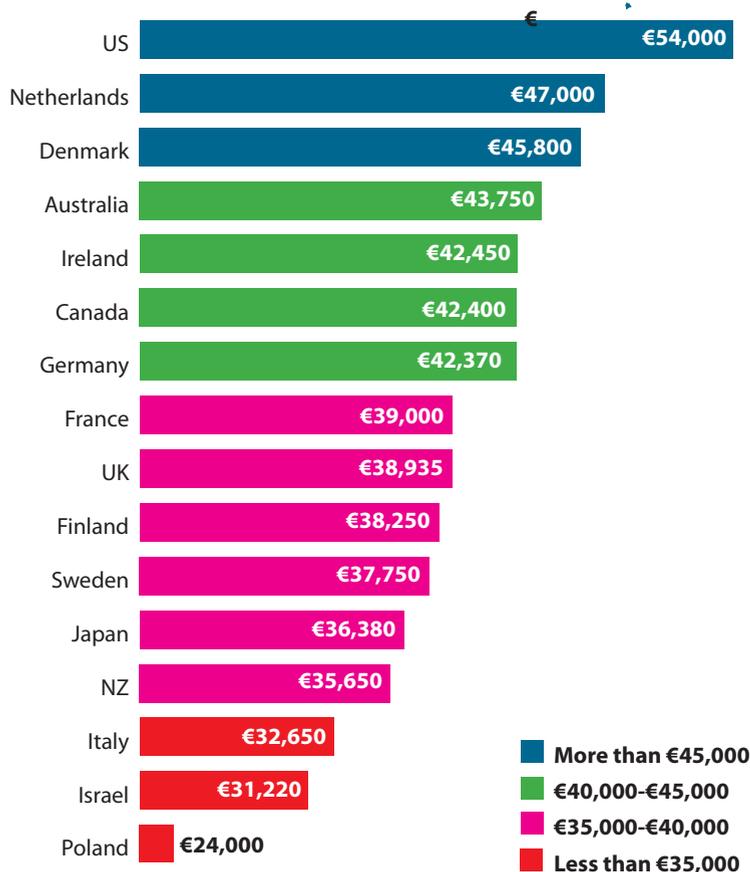
Ireland has a small, open economy that is highly exposed to the shifting winds of global trade. At a time when global trade tensions are at their highest in decades, maintaining our competitive edge is essential for Irish businesses to succeed.

SHARPENING THE COMPETITIVE EDGE

As an open-market economy, it's crucial for Irish agribusinesses to be efficient in order to compete successfully against international competitors, writes **Lorcan Allen**

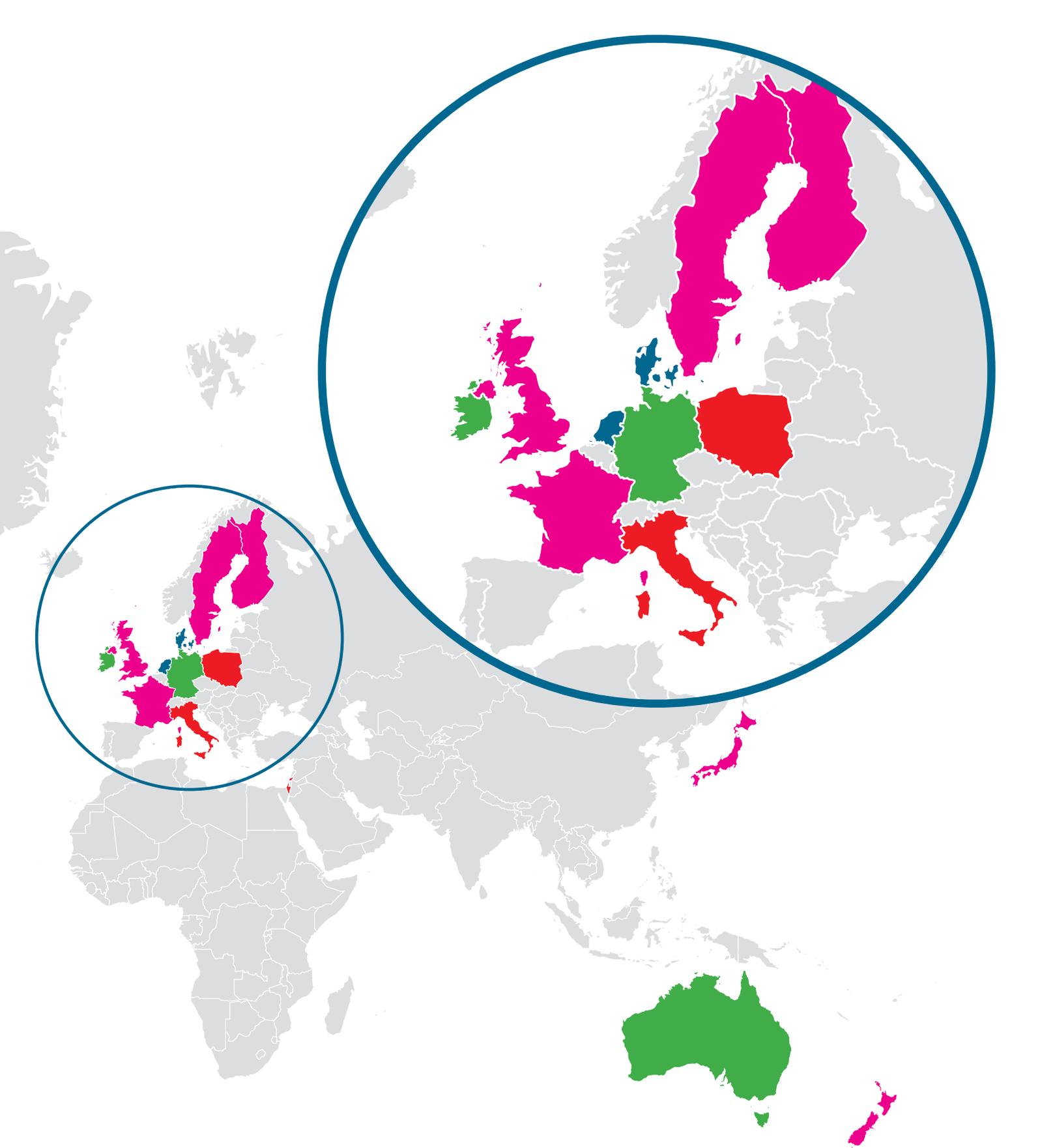


AVERAGE WAGES IN 2017 (US\$)



WAGES

Data from the OECD shows average wages in Ireland in 2017 to be just under €42,500 per annum. This is behind average wages in the US, the Netherlands and Denmark, but ahead of average wages in countries such as Germany, the UK, France, New Zealand and Israel.



Ireland is an open-market economy, meaning businesses operating in this country must be able to compete on the global stage. Rising trade tensions, geopolitical fallouts and currency fluctuations are challenges out of the control of all businesses, but ones that can have a massive impact on the bottom line.

Faced with this reality, Irish businesses have to be lean and efficient to compete successfully in global markets. This is even more so the case for Irish

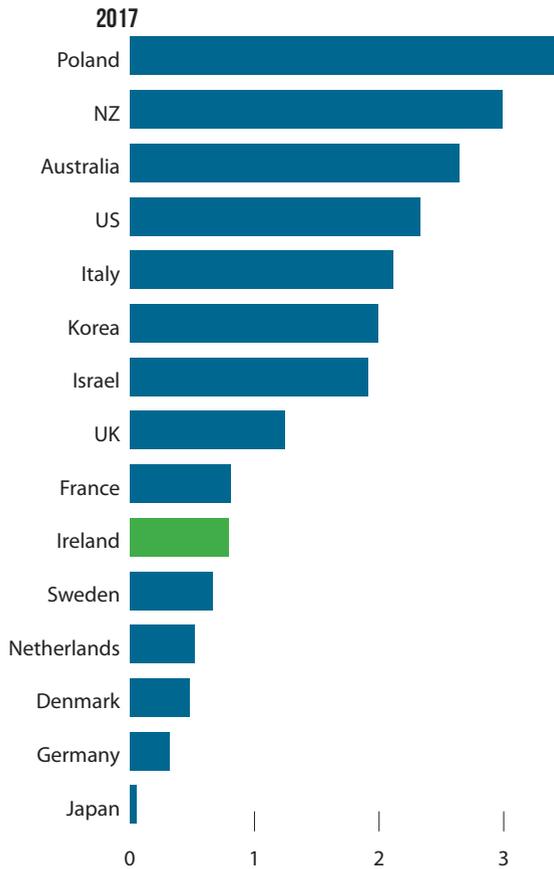
agribusinesses, with the majority of food produced in this country destined for international markets.

In 2018, Ireland exported €13bn of food and drink to more than 180 markets around the world.

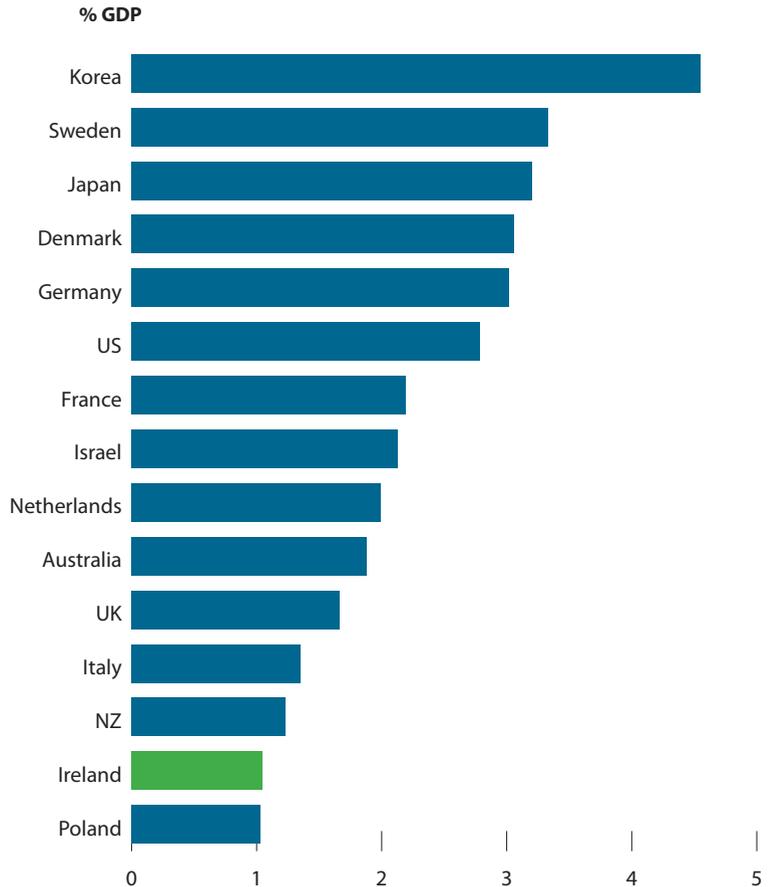
Irish beef and dairy companies, which export 90% of their production, must be able to compete with international competitors that are often operating from countries with a much lower cost base or weaker regulatory standards than in the EU.

GLOBAL COMPETITION

LONG-TERM INTEREST RATES (%)



SPEND ON R&D (EXCLUDING TECH)



INTEREST RATES

As a member of the eurozone, Ireland's long-term interest rates are comparatively low at 1% thanks to the almost 0% interest rates set by the European Central Bank (ECB). In New Zealand, Australia and Poland, longer-term interest rates are treble this and range from 2.6% to 3.4%.

R&D SPEND

R&D spending in South Korea equated to almost 4.6% of the country's GDP, while R&D spending in Sweden and Denmark is above 3% of GDP every year. By contrast, the annual spend on R&D work in Ireland was slightly over 1% of GDP in 2017. This means Ireland's spend on R&D is only slightly ahead of Poland as a percentage of GDP and far behind R&D spending in rival countries such as the Netherlands, France and Germany.

WHERE IRELAND RANKS IN THE OECD

5TH
Venture capital investment

18TH
R&D spending

3RD
Corporation tax rate

1ST
Percentage of population that avails of third-level education

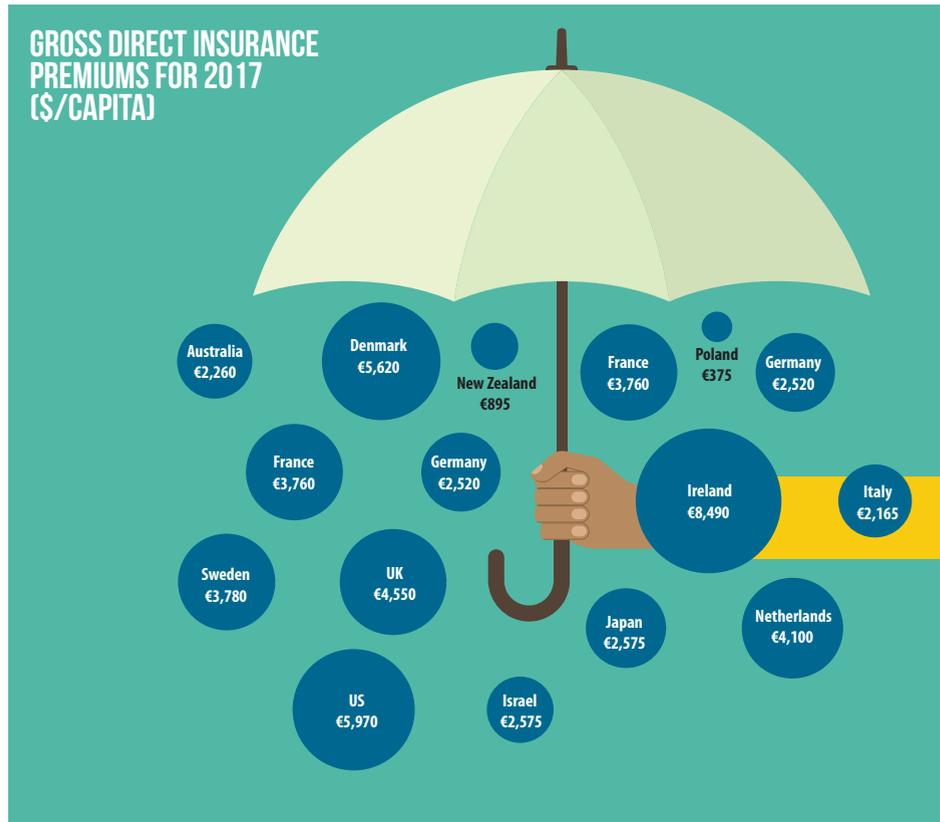
7TH
Ease of doing business

33RD
Government investment

27TH
Infrastructure quality

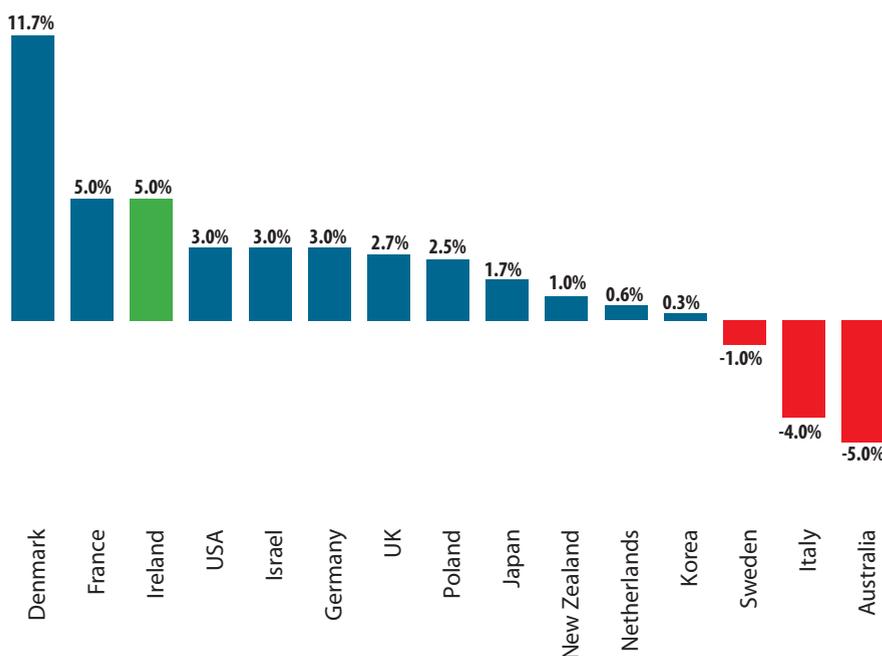
INSURANCE

Ireland has by far the highest insurance premiums among OECD countries. Gross direct insurance premiums, which represent the average insurance spend by individuals and businesses in the country, averaged more than \$9,500 per capita in 2017.



VALUE-ADDED IN AGRICULTURE

(% growth)

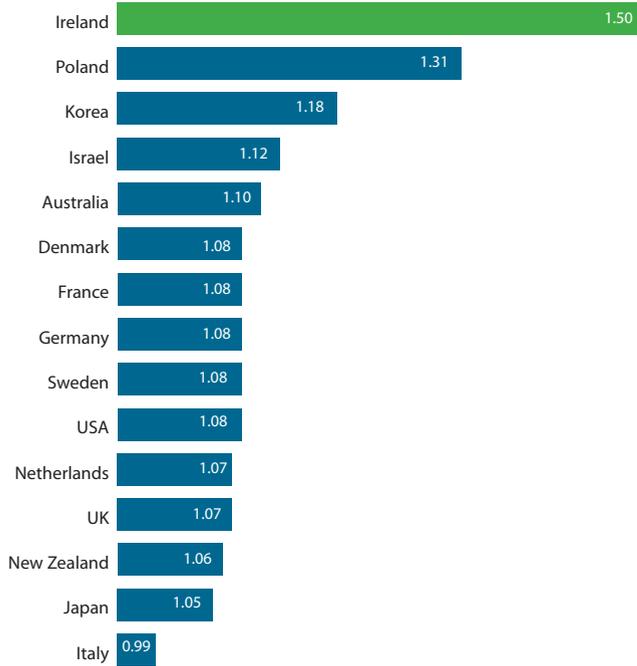


VALUE-ADDED

Interestingly, Ireland ranks quite highly for growth in value-added activity in the country's agri-food sector. In 2017, value-added growth in Ireland's agri-food sector was just over 5%. This is only behind Denmark, which achieved value-added growth of 12%, and equal with France. Australia, Italy and Sweden all saw negative value-added growth in 2017.

LABOUR PRODUCTIVITY INDEX

GDP per hours worked

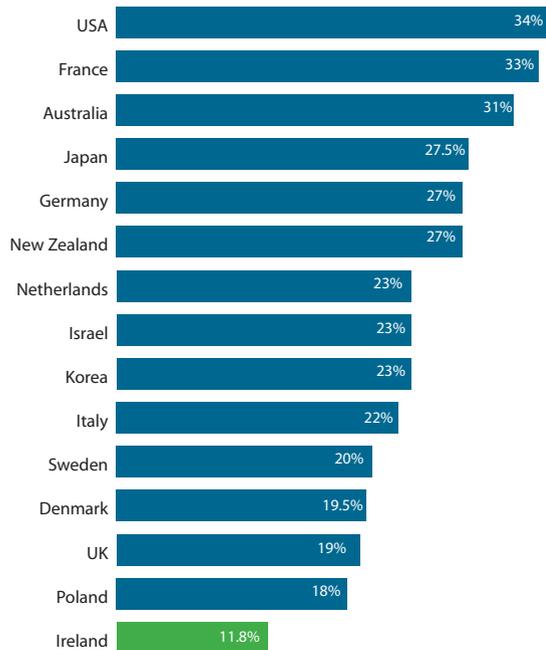


COMMENT

Ireland's labour force ranks the highest of selected OECD countries in terms of labour productivity, which is the amount of GDP created for every hour worked. The Irish labour force ranks ahead of Israel, Germany, the Netherlands and even the US in terms of productivity. Ireland might be a high-wage economy, but employers are getting a return on their investment in highly skilled employees judging by these figures.

EFFECTIVE CORPORATE TAX RATE

% of profit

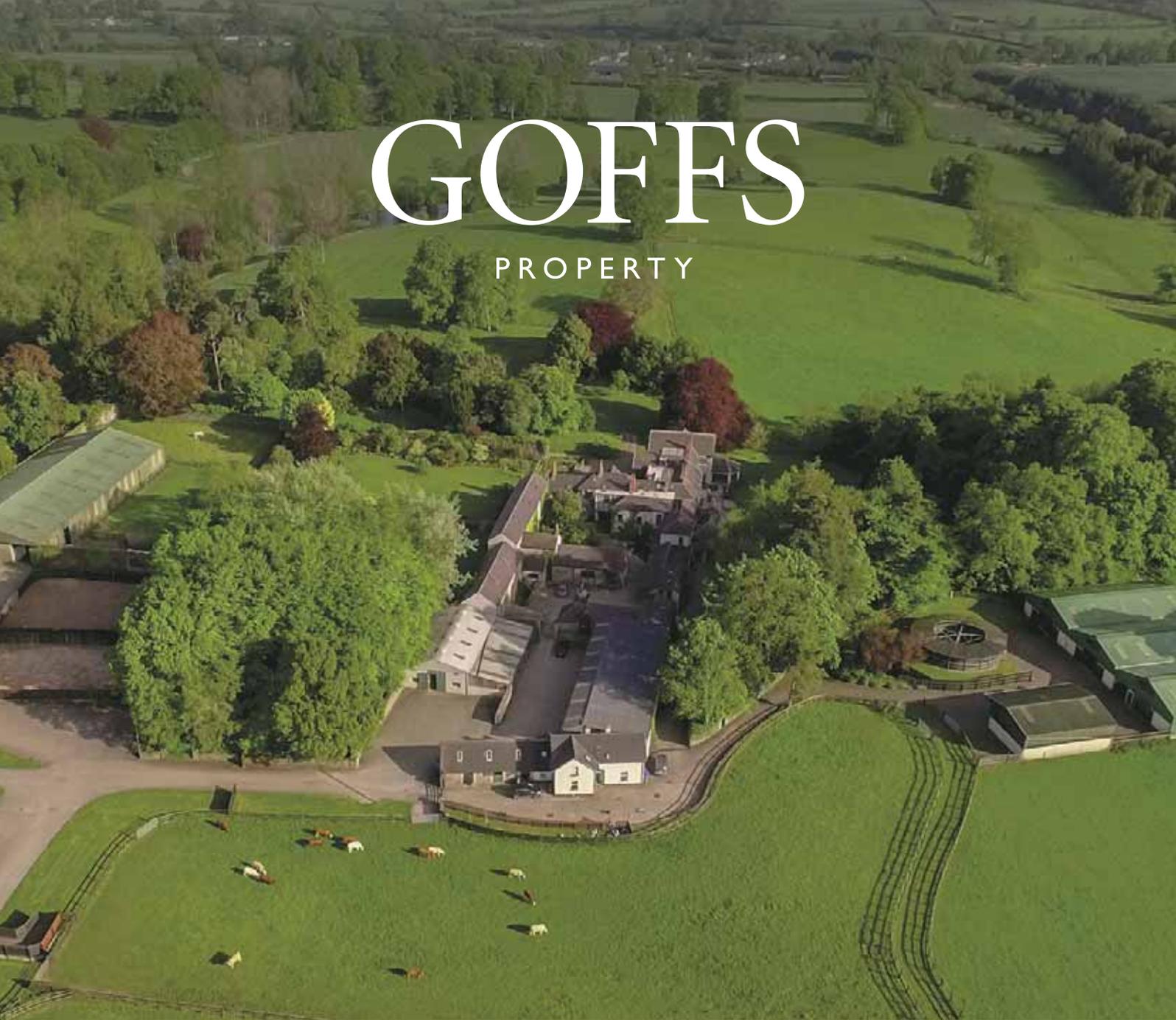


COMMENT

Alongside this, Ireland's corporate tax rate for businesses is among the most competitive in the world at 12.5%. The effective corporate tax rate in Ireland, which is the average rate at which pre-tax profits are taxed accounting for grants and state assistance, is 11.8%. This is far more competitive than the effective corporate tax rate in countries such as the US (34%), Germany (27%), France (33%), the Netherlands (23%), New Zealand (27%) and the UK (19%).

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AGRI
BUSINESS

GLOBAL COMPETITION

BLACK

Mag



New Zealand players performing the haka, led by captain Kieran Read.
 Sportsfile



Ian Proudfoot, global head of agribusiness at KPMG, examines the success of the All Blacks in competing internationally and asks what the food industry can learn from them

The All Blacks set the bar for skills, consistency and results that others teams aspire to reach in international rugby. As the World Cup draws closer later this year, the tension in New Zealand builds and every conversation seems to include a rugby analogy.

Discussions on the competitiveness of New Zealand's agri-food sector also get a rugby overlay and I have recently been challenged on what needs to be done for the sector to become the All Blacks of global agri-food. The supplier of products that sets quality and innovation benchmarks others aspire to, winning in the markets in which we choose to compete.

The fact that this challenge is raised indicates that the leaders of the New Zealand agri-food sector recognise we do not compete in global markets with the consistency of the All Blacks. Despite having lived in New Zealand for over 20 years, I have not been able to bring myself to support them, but I recognise key elements of their system that has sustained competitive advantage. There are learnings in this for all businesses.

Failures at the 1995, 1999, 2003 and 2007 World Cups were analysed by pundits and the population to the nth degree but in each case the root cause came back to individuals not being clear on what to do when the competitive pressure really came on at the business end of the tournament. There was no system everybody could rely on. People were not clear on their role. This meant the results did not reflect the sum of the parts of the team because they were not really operating as a team but as a group of individuals wearing the same kit.

After 2007, the All Blacks clearly defined their system and this has laid the foundations for their decade of success. As a small food-producing nation, many organisations compete in a scattergun way, reacting to opportunities that walk through the door, as any sale is better than no sale. As a consequence, they end up trading away value because they lack cohesive plans and systems they can rely on.

KIWIFRUIT

Zespri, the global kiwifruit exporter, was established to systematise the kiwifruit sector's approach to global markets and has reaped the benefits. Having made a rapid recovery from a major biosecurity incursion, Zespri has subsequently grown into a business that delivers NZ\$3bn (€1.8bn) of Zespri quality fruit sourced from multiple countries to customers around the world 365 days a year at a consistently higher price point than any competing product.

Another attribute of the All Blacks' improved competitiveness has been their approach to leadership. It was highlighted in the World Cup failures that there was over reliance on a Jonah Lomu or a Richie McCaw type figure to deliver for the team as a whole, so they changed the hierarchy within their camp to introduce more leaders. More people with the ability to make decisions in response to changing circumstances, to hold people to account for their actions and to build their leadership pipeline.

Leadership depth is constantly highlighted as a constraint on industry competitiveness. During the sunset years, when New Zealand was going to ride the knowledge wave away from traditional productive industries into digital and creative exports, current and future leaders



were actively encouraged to pursue careers outside the sector. This created a leadership void that is still constraining industry growth.

The disruption facing the global food sector creates a platform to attract talent. Young people want to change the world. There is no better sector of the global economy to make a real impact on poverty and inequality than the agri-food sector. In New Zealand, we have developed an agribusiness programme that is being rolled out to senior school students to attract them to the industry.

The agri-food industry and government have partnered in Te Hono, an executive development initiative which collaborates with Stanford University to expose leaders to cutting-edge thinking and to enhance leadership capability across the sector and improve competitiveness.

PSYCHE

Twenty years on, the All Blacks' capitulation to France in the 1999 World Cup semi-final is still a deep scar on New Zealand's sporting psyche. The lack of mental and physical resilience was not what New Zealanders expect from their flagship team. The All Blacks have since focused on developing the mental resilience needed to trust the system when everything seems to be going wrong.

This resilience crystallises itself in an absolute belief that there is always a way to win, which has become a hallmark of the All Blacks' success in the last decade (with maybe a couple of exceptions in Chicago and Dublin in recent years).

When New Zealand's agri-food businesses succeed globally, they demonstrate resilience to overcome the challenges of doing business internationally from the bottom of the South Pacific. Overcoming trade restrictions, tariffs and non-tariff barriers, as well as language, currency, cultural and consumer challenges, tests the resilience of any organisation as it takes significant time and money to develop valuable export markets.

One organisation that clearly understands this and has had the fortitude to play the long game is The New Zealand Merino Company. It has invested in building long-term relationships between farmers and brand owners, such as Icebreaker and Allbirds, which deliver consistent value to all regardless of whether it is a good or bad year in commodity markets.

Winning in the world from a small country like New Zealand is hard as we lack the scale needed to be relevant to most people. I have often felt if New Zealand fell off the map and stopped supplying food to the world, apart from a short-term blip in dairy prices (which I guess would correct in six to 12 months as other countries increased supply), most people would not notice.

The All Blacks succeed on a world stage by collaborating with partners, both locally and globally, that support them in being relevant to the global sports market. By working with Adidas, AIG, Air New Zealand and ASB Bank, among others, they collaborate with companies that have common values and aligned goals.

COLLABORATION

The effectiveness of collaboration across the New Zealand agri-food sector is a regular talking point. We are good at talking about collaboration. We need to be better at actually collaborating to bring the capital, access, brands or technology that makes us relevant in global markets.

Collaborating means placing reliance on a partner and taking on the risk that they may not deliver on their side of the bargain. It means giving up some control to benefit from the sum of the parts. To date, many New Zealand businesses have

WE ARE GOOD AT TALKING ABOUT COLLABORATION. WE NEED TO BE BETTER AT ACTUALLY COLLABORATING TO BRING THE CAPITAL, ACCESS, BRANDS OR TECHNOLOGY THAT MAKES US RELEVANT IN GLOBAL MARKETS

been unwilling to take this leap. We are, however, seeing inherently collaborative businesses evolve.

A good example is Miro, a limited partnership structure which has attracted investment from many Maori organisations, with the objective of establishing a globally relevant berry business based on unique plant varieties and an ability to find a valuable use for underutilised land.

Meticulous planning goes into every test the All Blacks play. From the logistics of training through to developing the game plan, everything is analysed and the opportunities to gain that extra 1% or 2% that can be the difference between winning and losing, particularly when competing overseas, are identified and captured. Being clear on where you can win and exploiting these opportunities are as relevant to agri-food businesses competing internationally as they are to the All Blacks.

As a small producer of food and fibre, we do not have the capacity to win in every market so it is critical we select the market niches where we have a competitive advantage that gives us a position to win. The increased awareness of this has become more apparent in recent years with businesses becoming more sophisticated in targeting the best opportunities.

A good example is Spring Sheep Dairy, a sheep milking venture, which developed its go-to-market strategy based on a detailed understanding of the most valuable niches available to it. This has resulted in the business changing the products it sells and the markets it targets to capture more value from the milk it produces.

Competing in global markets is hard, just as winning consistently in elite sport is hard. New Zealanders take great pride in the success of the All Blacks but probably don't recognise our success in global food and fibre markets to the same extent.

There are many successes the country should celebrate, most notably the more than tripling of exports to China over the last decade. Success in international markets doesn't just happen. It takes sustained effort and investment.

The exciting thing is our successes have been achieved despite the many opportunities we have to improve. I regularly challenge the industry to aspire to grow our NZ\$42bn (€25bn) of agri-food exports to NZ\$100bn (€59bn) in the coming decade and to capitalise on the disruption of the global food system.

2

LOGISTICS & TRANSPORT

Over 90% of Ireland's international trade moves through our sea ports. Investing in new infrastructure to keep Ireland's ports highly efficient is critical to maintaining competitiveness in a global market, especially in light of a changing trade relationship with the UK.



EASTERN PROMISE WILL TURN INTO A NIGHTMARE WITHOUT COLLABORATION

Irish exporters need to collaborate more on shipping to far-off markets, writes **Lorcan Allen**

Over recent years, much has been made of the phenomenal growth in Irish dairy exports to China. In less than a decade, China has risen to become the second most important export market for Irish dairy ahead of traditional export markets such as Germany, the Netherlands and the US.

For 2018, Irish dairy exports to China, including Hong Kong and Taiwan, stood at €559m. In volume terms, more than 97,000t of Irish dairy products were shipped to China last year, which is a phenomenal increase of almost 22,000t, or 30%, on 2017 exports.



90%

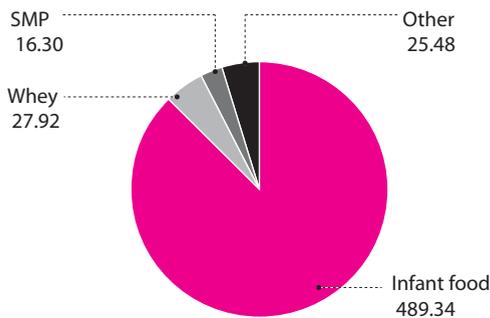
of Irish exports to China in 2018 were infant formula

.....

The UK is the only market to which Ireland exports more dairy, roughly €1.03bn worth in 2018 or approximately 190,000t. Yet China is fast closing the gap and will likely move ahead of the UK as Ireland's number one dairy export market in the coming decade, particularly as the industry continues to diversify away from the UK due to Brexit.

On the face of it, these numbers paint an impressive picture of Ireland's dairy industry eking out a major foothold in the world's largest dairy market, with huge volumes of product being shipped to China every year.

IRISH DAIRY EXPORTS TO CHINA IN 2018 (€m)



MAJORITY

However, the reality is that the vast majority of these exports to China are in the form of high-value baby formula, which is controlled by the multinational infant formula companies in Ireland including Abbott, Nestlé Wyeth and Danone.

Roughly €490m, or almost 90%, of Irish exports to China in 2018 were infant formula. After this, whey powder is the next highest export, totalling just €28m, or 5% of the total. Ireland also exports €16m of skimmed milk powder (SMP), €12m worth of milk and cream and €3m worth of whole milk powder (WMP). Exports of butter came to €1.8m last year, while cheese exports stood at €2.6m.

Even in volume terms, infant formula accounts for 60%, or 58,000t, of the 97,000t of Irish dairy shipped to China last year. Whey powder exports totalled 18,000t, while SMP exports came to 9,500t. Butter exports totalled 368t, while cheese exports totalled just over 600t.

This means the amount of dairy being shipped directly to China by Ireland's farmer-owned co-ops is much smaller at just over 39,000t (valued at €70m) between every product category. While this sort of volume is significant, China is a far-off market in terms of shipping and transport.

For maximum efficiency, Irish co-ops should work together on transport and shipping in order to bring down costs. Yet the opposite is the case. According to Declan Sinnott, managing director of Rhenus Logistics Ireland, Irish dairy co-ops need to collaborate much more on logistics if they are to succeed in far-off markets.

COMPETITORS

Speaking to the *Irish Farmers Journal*, Sinnott said many Irish dairy companies are trying to reach markets in Asia, the Middle East and Africa but won't collaborate on shipping because they perceive each other as competitors.

"The size of a container is constant and the distance to a market is constant. Irish dairy companies need to collaborate more on filling containers to cost-effectively reach markets and then they can compete with each other on the ground over marketing the product," he said.

"Aggregating demand with your perceived competitors will bring down your costs. Yet Irish dairy companies won't collaborate on shipping their product even though it's in their best interests," added Sinnott.



Irish dairy companies need to collaborate more on filling containers to cost-effectively

BREXIT LOGISTICS: UK LANDBRIDGE OR DIRECT TO THE CONTINENT

Since the vote in June 2016, the sustained weakness in sterling has been the most obvious symptom of Brexit. Irish exporters have struggled to compete in the UK market with sterling hovering around £0.90 against the euro for much of the past two years.

Currency movements aside, Irish exporters understand that Brexit will ultimately mean structural changes to supply chains and logistics routes that we never imagined just a few years ago. For companies exporting to the UK market, Brexit is likely to mean a new regulatory framework in terms of customs and compliance standards. While it's not yet clear what this new regulatory environment will look like, Irish exporters will simply have to adapt to their new reality when it arrives.

However, for Irish companies exporting to Europe via the UK landbridge, there are alternative options worth exploring. Shipping goods to Europe via the UK is likely to become a much more cumbersome process after Brexit as transit times could be slower and customs paperwork will be required for any new border posts between Dublin and Calais.

To avoid these disruptions, freight forwarders are encouraging Irish exporters to look at new direct routes to continental Europe and bypass the UK altogether. "If you're an exporter to the UK then you're just going to have to deal with whatever regulatory framework is in place after Brexit. But if you're exporting to the continent then it's important to know there's lots of routes to get to Europe by bypassing the UK," said Rhenus Logistics Ireland managing director Declan Sinnott.

"There are several alternative routes to the UK landbridge. Exporters can ship goods from Cork direct to Santander in Spain, Waterford to Rotterdam in the Netherlands, or from Dublin to either Rotterdam or Zeebrugge in Belgium," he added.

Depending on a company's location in Ireland and the day of shipping, direct sailings to Europe can be just as quick as transiting goods via the UK. Typically, goods shipped direct to Europe will arrive within the two-day window that is now standard for goods transported via the UK landbridge. In a worst-case scenario, direct shipping to continental Europe will add one extra day to transit times.

However, Sinnott argues that Irish exporters can reach new agreements with customers to agree on new key performance indicators (KPIs) for delivery times. If the new KPIs are agreed as three working days, Irish exporters will have no problem moving product to customers in Europe on time. In any case, the standard two-day transit time may not be the case after Brexit, depending on the new regulatory framework implemented by the UK government.

"Let Brexit be Brexit. But for Irish exporters with customers in Europe, it's important to know you can also sail around the Brexit problem. From a commercial perspective it even costs less to ship direct to Europe," says Sinnott.

While it may currently be cheaper to ship direct to Europe, freight costs are going to rise in line with the increased demand from Irish exporters looking to bypass the UK altogether.

DUBLIN PORT

WELCOME TO BREXITLAND

Lorcan Allen looks at the work being done at Dublin Port in preparation for Brexit

The date is 17 January 2017 and it's a chilly Tuesday morning in London. The British cabinet and assorted media have assembled at Lancaster House, an old 18th century mansion in the West End, and expectation is in the air.

UK prime minister Theresa May is about to deliver a speech which will outline her vision for the UK's future relationship with the European Union. The prime minister would finally make clear what "Brexit means Brexit" actually meant.

In her Lancaster House speech, Mrs May laid down her roadmap for Brexit, stating it was her intention to take the UK out of the European single market and the EU-wide customs union. May said it was also her intention to invoke Article 50 of the treaty of the European Union by the end of March 2017, thereby setting in motion a two-year countdown for the UK to negotiate its exit from the EU.

As Mrs May finished her speech in Lon-

don, Dublin Port CEO Eamonn O'Reilly looked out his office window across Dublin Bay and knew things were about to change. It was time to get to work at Ireland's largest port.

"After the Lancaster House speech, we decided to take the UK at its word that it was leaving the customs union and the single market of the EU, which would mean we were going to need physical infrastructure to check goods and people entering Ireland from the UK," says O'Reilly.

"We needed to work on the basis that they were leaving both the customs union and the single market. We just couldn't wait around for political agreement and a deal to be reached," he adds.



Dublin Port CEO
Eamonn O'Reilly.

Pictures: Philip Doyle



Workers putting the finishing touches to the newly built primary inspection post at Dublin Port.



The newly built primary inspection post at Dublin Port.

Theresa May held to her word and triggered Article 50 at the end of March 2017. The countdown was on and Dublin Port had exactly two years to build the necessary infrastructure to deal with the regulatory changes Brexit would bring.

ENORMOUS

For those who have never been, Dublin Port is enormous. Set on 260ha (643 acres) near the East Wall part of the city, some 38m tonnes of cargo moved in and out of Dublin Port in 2018, which is the fourth consecutive year of record cargo volumes through the port.

As O'Reilly points out, Dublin Port isn't the largest port in Europe, but it's certainly one of the busiest. Just over 1.8m passengers land at the port via ferries and cruise ships every year, many of whom are coming from the UK. The port is also a critical entry point for animal feed imports such as soya and maize.

A number of the major Irish grain traders, including R&H Hall, Cefetra and Arkady Feeds, have facilities at the port. In 2018, some 2.4m tonnes of bulk solid commodities such as animal feed and cereals were imported via Dublin, which was up almost 20% on the previous year due to the fodder crisis in the late winter/early spring, as well as the

€30M

invested to date in new border inspection posts

38M TONNES

of cargo moved in and out of Dublin Port in 2018



We just won't know if this infrastructure is enough until the new trading regime starts. The only thing we know is that goods will move more slowly through Dublin Port than they have up to now

summer drought conditions that followed.

Adjacent to the R&H Hall grain terminal at the port stands an old Odlums flour mill – a relic of a time gone by when flour milling was a significant industry in this country. Today, the mill stands silent having long been decommissioned. The facility has recently been acquired by Dublin Port Company and will likely be demolished in the years ahead.

Just as Ireland's economy has evolved over the last 30 years, so too has Dublin Port adapted to meet the needs of the country's importers and exporters. However, 2019 will see one of the biggest changes made at Dublin Port in decades as it seeks to adapt to a new trading regime between Ireland and our largest trade partner, the UK.

INFRASTRUCTURE

By 1 April 2019, when the *Irish Farmers Journal* paid a visit to Dublin Port, the work on the new border infrastructure was virtually complete. A small team of men were pouring paint to mark out new laneways and road markings to direct traffic through the new customs post but everything else was in place. The infrastructure had to be ready for 28 March, the day before the UK had originally planned to leave the UK, says O'Reilly.

"After Brexit, if you're coming on a ferry out of Holyhead or Liverpool with Irish Ferries or Stena Line, whether you're a passenger or a haulier, you will have to transit through this new border inspection area," says O'Reilly. "This will be the first point of contact passengers or hauliers will have with the Irish State."

In the two years since the Lancaster House speech, Dublin Port has spent €30m building these



new border and customs controls as well as acquiring some assets on the port for future plans. A 3ha yard has also been given over to the Department of Agriculture where sanitary and phytosanitary (SPS) checks will be carried by officials from the Department of Agriculture on all food and animal byproducts after Brexit.

Some of the cargo going in for SPS checks will also be subject to a physical examination and will have to go to another warehouse on the port where the container will be opened and product may be taken out and tested.

To manage the volume of checks required after Brexit, the Irish Government has sought to hire 800 new staff across various roles in the different arms of the State, including Revenue, Customs and the Department of Agriculture. In total, almost 3% of the land at Dublin Port has been given over to the Irish Government for inspection space for Revenue, Customs, the Department of Agriculture and the Department of Health post-Brexit.

IMPORTS

The scale of the task facing the Irish State in

“We enjoyed a remarkable period from 1992 where products coming from the UK simply flowed off the ferries and out the gate of Dublin Port to the M50



checking every unit of cargo imported from the UK is daunting. In 2018, a total of 1.4m cargo units (roll-on/roll-off trucks and load-on/load-off containers) were imported through Dublin Port.

Of this, more than 60%, or 850,000 units, came from the UK. Every day, 16 ferries land at Dublin Port from the UK – eight from Liverpool-Heysham and another eight from Holyhead. Every single one of the 850,000 cargo units coming off these ships will need to be checked and often physically inspected after Brexit.

Due to the nature of just-in-time supply chains, much of the 850,000 cargo units coming into Dublin Port from the UK contain food, which is destined for distribution centres and supermarket shelves around Ireland.

Food products or any goods of animal origin will have to undergo SPS checks by officials from the Department of Agriculture, meaning food supply chains are particularly exposed after Brexit.

“We enjoyed a remarkable period from 1992 [cre-



ABOVE: Grain being imported through Dublin Port. **BELOW:** The old Odlums flour mill at Dublin Port.

ation of the single market] where products coming from the UK simply flowed off the ferries and out the gate of Dublin Port to the M50. All of that changes once Brexit happens,” laments the Dublin Port chief.

Away from the soap opera in the House of Commons, with all the in-fighting and posturing, this is the great sadness of Brexit. After hundreds of years of war and bad blood between our two countries, the EU’s single market brought Ireland and the UK closer than ever before.

Our countries met as equals around the table of the European Council in Brussels and trade flourished between both islands. Most important of all, the EU single market was critical to developing a precious peace on the island of Ireland after the 1998 Good Friday Agreement. It allowed goods and people to move freely north and south and a true all-island economy prospered.

BORDERS

Instead of building on this close relationship, Ireland now finds itself building border controls at its ports ahead of the UK’s exit from the EU. Brexit has brought nothing but uncertainty for Irish businesses trying to plan ahead.

However, what is absolutely certain from Brexit is that trade between our two islands is going to move a lot slower in the future and at a higher cost.

Worryingly, O’Reilly says he can’t even be sure if the €30m invested to date in these brand new border inspection posts will be enough capacity to handle the volume of cargo that will have to be checked.

“We just won’t know if it’s enough until the new trading regime starts,” says O’Reilly. “The only thing we know is that goods will move more slowly through Dublin Port than they have up to now.”

Since the Brexit vote in 2016, the most obvious impact on businesses in the agri-food sector of the UK’s decision to leave the EU has been the weakness in sterling. However, currency markets go up and down all the time.

Once the UK finally agrees a deal and begins its transition period to leave the EU, the changes coming at places like Dublin Port are where Ireland’s agri-food sector will start to feel a new and more permanent impact from Brexit.

Ultimately, Brexit will cost time and money for Irish food exporters, which will only have a negative effect on the sector’s competitiveness.

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SHIP SHAPE

Foynes Port in Limerick will play a crucial role in rebalancing Ireland's port infrastructure, writes **Lorcan Allen**

You need three things to make a port successful. Firstly, the port must have deep waters in order to accommodate the largest vessels. The bigger the ships that can dock at your port, the greater the business volume the port will attract. Secondly, the port must have good jetty infrastructure to load and unload cargo as efficiently as possible. In shipping, the fewer movements you have to make with cargo the better. And finally, a successful port needs space, and lots of it. A strategic location or deep-water estuary is all well and good, but unless the port has a large bank of land adjacent to the water for companies using the port to store goods and cargo, it will not be a success.

For this reason, securing a 38ha (94ac) block of land next to the Port of Foynes last year was crucial for the strategic development of the port, says Pat Keating, CEO of Shannon-Foynes Port Company. These lands brought the total land bank at the Port of

Foynes to almost 200ha (495 acres) and will be a key component in the future development of Shannon-Foynes Port Company.

Interestingly, Keating believes Shannon-Foynes will be a member of a very small club – an Irish winner from Brexit. The increasing shift in economic power and GDP to the east of Ireland has been a challenge for Shannon-Foynes for many years, with higher cargo and trade volumes moving through ports on the Irish Sea such as Dublin and Cork.

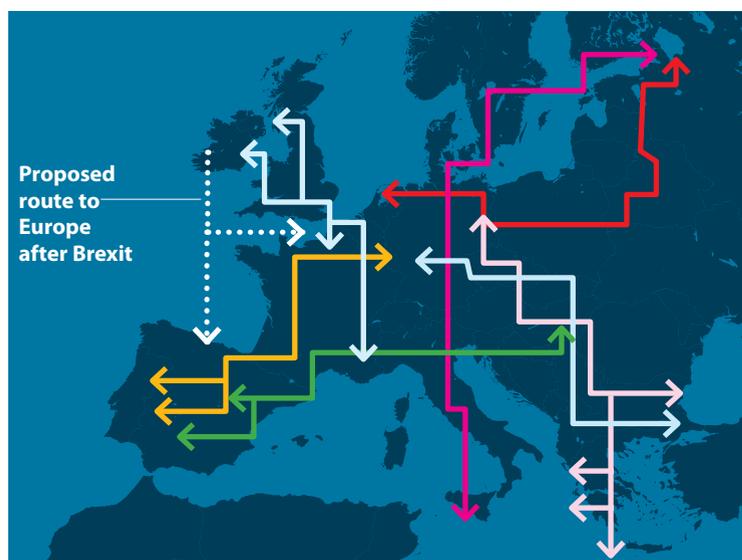
CORRIDORS

In 2014, the European Commission published a new, comprehensive framework for the future development of transport networks between EU member states. Known as the Trans-European Transport Network, or Ten-T for short, this new policy framework set out an action plan to develop a network of 10 core transport corridors throughout Europe between 2014 and 2020.

Under the Ten-T plan, key locations were identified along these corridors and would be prioritised for development and investment grants by the EU for upgrading or developing new rail, road and port



THE EU'S TEN-T TRANSPORT CORRIDORS



infrastructure.

The Ten-T corridor that includes Ireland is known as the North Sea-Mediterranean corridor, which would link Ireland to a network of transport infrastructure in the UK, Belgium, the Netherlands, France, Luxemburg and Germany.

The European Commission estimated the cost of developing the infrastructure required for the Ten-T transport corridors to be €700bn, which will come from a mix of private and public investment.

Tellingly, Shannon-Foynes was not selected as a key location in Ireland as part of the North Sea-Mediterranean corridor. Instead, ports at Dublin, Cork and Belfast on the island of Ireland were given priority status.

However, the UK's vote to leave the EU has forced the European Commission to look at realigning the North Sea-Mediterranean corridor. Once the UK formally leaves the EU, it will no longer be a part of the corridor, meaning new routes will be needed to avoid the UK landbridge.

Under the proposed realignment, Shannon-Foynes will now be included in the North Sea-Mediterranean corridor linking with ports at Le Havre and Calais in France and Bilbao in Spain (see map).

EXPANSION

For Pat Keating, this development means Shannon-Foynes can safely target major expansion over the coming years and seek to future-proof the port with new investment. Right now, Shannon-Foynes is Ireland's largest bulk port for non-container freight, with roughly 11m tonnes transiting through the port last year. The aim is to grow this volume to 20m tonnes a year by 2040.

To achieve this growth, Keating has produced an ambitious development strategy for the port over the coming decades. This development strategy includes plans for significant capital investment in expanding capacity at a number of jetties at Foynes Port, as well as improving the road and rail connectivity to the port.

At the Port of Foynes, Keating is planning a €75m investment to develop a new deepwater berth for larger vessels. The company plans to redevelop a disused oil terminal on Foynes Island that has an existing jetty into a commercial deepwater berth facility, which will be able to accommodate huge capacity Panamax vessels.

Foynes Island is a near 100ha block of land sitting in the middle of the Shannon estuary that is currently not in use but is zoned as a strategic development location by Kerry, Limerick and Clare county councils.

According to Keating, Shannon-Foynes is looking to develop this site in a joint venture arrangement with a private company. If developed, the site would add up to 6m tonnes in capacity to Foynes port and help to attract some of the largest vessels at sea to Ireland.

CONSTRUCTION

Part of this development will require the infill of the berth behind the existing jetty on Foynes Island as well as the construction of a new bridge to connect Foynes Island to the mainland.

Another key part of this plan will be building the backup infrastructure around Foynes port to improve its connectivity to Ireland's road and rail network. Up to the early 1990s, Foynes was serviced by a rail line that ran into Limerick city and could connect with



the rest of the Irish rail network.

Keating has already spent €1.8m on a consultation report to assess the potential of restarting the rail line from Foynes. This report put the cost of reinstating the rail line at €34m, which would include the construction of a rail hub on the port and a brand new rail line to connect to Foynes Island.

On top of this, Keating wants to see the road infrastructure connecting Foynes to the rest of the country significantly upgraded. Right now, the port is served via the N69 road, which connects to the M7 motorway over 30km away at Limerick city.

While the port is not a huge distance from the motorway by any stretch, Keating says the lack of a direct connection to the motorway has put off freight forwarders from doing business through Foynes up to now.

However, as part of the Government's Project Ireland 2040 development plan, a €300m upgrade of the road network to Foynes is likely in the coming years. The M20/M21 road is likely to get the green light, which will bypass towns like Adare and Rathkeale, while also connecting up to Foynes.

These investments are only likely to come in the medium to longer term. In the short term, Shannon-Foynes is currently going through the procurement process for a €26m investment to expand the capacity and space at the existing jetties at Foynes Port and develop a new port business park on the recently acquired 38ha site.

The company plans to infill some of the water behind its existing east jetty, which will create a lot more set-down space on the jetty. This will improve freedom of movement for trucks at the port and result in faster turnaround times.

The investment will also connect both the east and west jetties at Foynes into one large jetty that will be 860 metres long. This will allow the port to have up to three 60,000t vessels docked and unloading at any one time.

FUTURE CONNECTIVITY

Having almost been discounted by the European



Pat Keating (right), CEO of Shannon-Foynes Port Company, speaking to Patrick O'Donovan, Minister of State at the Department of Finance

Commission in 2014 when it first published its Ten-T corridors, Shannon-Foynes Port Company now finds itself as a key strategic hub for Ireland after Brexit.

Under Pat Keating, the port has ambitious plans to grow and expand its infrastructure and capacity to meet the needs of Irish businesses and logistics companies. Dublin Port is heaving with the volumes flowing through it every year. As such, developing and upgrading Shannon-Foynes makes strategic sense for Ireland, not only because of Brexit but also to rebalance the connectivity network of the country.

With 90% of Ireland's trade (import and export) done by sea, efficient and modern port infrastructure will always be critical for Irish businesses and it plays a key role in maintaining the competitiveness of our exporters.

At the same time, the uncertainty from Brexit means the future reliability of using the UK land-bridge to get to continental Europe is unclear. Ports such as Foynes need continued investment and development to offer more direct access to increasingly important EU markets.

WHAT IS SHANNON-FOYNES PORT?

Shannon-Foynes Port Company is a commercial semi-state body that generated €15m in turnover last year and generates profits in the region of €5m per annum. Headed by CEO Pat Keating, it operates six separate terminals along the Shannon estuary, which stretches from Limerick city all the way out to the mouth of the river at the Atlantic Ocean.

The six terminals operated along the estuary by Shannon-Foynes Port Company include:

1. The port at Limerick city dock.
2. The fuel import terminal at Shannon airport.
3. A jetty at Tarbert, Co Kerry.
4. A jetty at Moneypoint power station, Co Clare.
5. Port of Foynes, Co Limerick.
6. A jetty at Aughinish Island, Co Limerick.

Last year, 11m tonnes of cargo passed through Shannon-Foynes between the various terminals. The bulk of that volume passes through the Port of Foynes and the Aughinish site. At Limerick city

port, although a smaller facility, cargo volumes are around 750,000t per annum. A lot of this volume is down to exports by indigenous Irish companies such as Irish Cement as well as animal feed importers such as Roche's Feeds in Limerick city.

ALUMINIUM

At the Aughinish site, the Russian company Rusal imports Bauxite (a sedimentary rock) from west Africa, which it processes into alumina. It's not well known, but the Rusal facility at Aughinish supplies Europe with between 15% and 20% of its total aluminium needs.

At the Port of Foynes, the majority of cargo traded through the port is bulk product such as animal feed, fertiliser and oil. Foynes is also used to import much of the large-scale components used to build wind turbines in Ireland.

Shannon-Foynes Port Company also operates the jetty at Moneypoint, where coal is imported to power the ESB powerstation located there. The company also operates the jetty at Shannon airport, where jet fuel is imported by sea to fuel planes at the airport.

In the 10 years since 2009, the combined capital expenditure along the estuary by Shannon-Foynes Port Company and the private companies that use its six terminals is close to €0.5bn. The economic impact of all port related activity is estimated at €1.9bn per annum to the region.

3 INNOVATING TO COMPETE

Innovation is the ability to see change as an opportunity – not a threat. The pace of change in the global food industry right now is unprecedented. Food companies need to embrace innovation to compete into the future.

GET THE **SKINNY** ON GERMAN INGENUITY



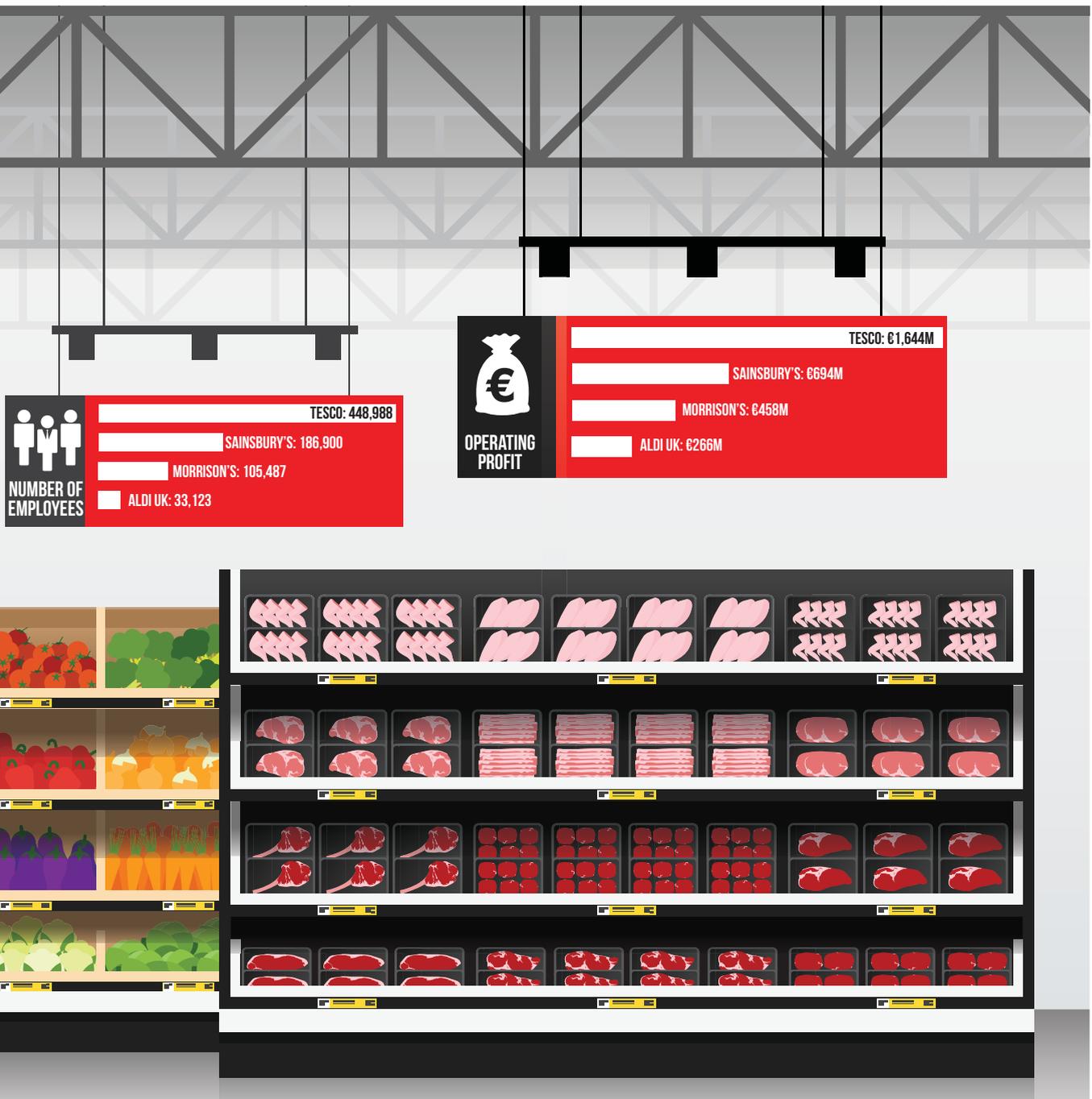
€	WAGE BILL
TESCO	€7.23M
SAINSBURY'S	€3.13M
MORRISON'S	€1.94M
ALDI UK	€847M



Competing successfully in a new market against established rivals is all about choosing the right strategy and hitting competitors where it hurts most, writes **Lorcan Allen**

For many Irish food exporters, stepping into new markets can be as daunting as it is exciting. Most times when entering a new export market, companies will be aware they are stepping into the territory of established rivals, be they domestic players or international giants. Since the Brexit vote in 2016, Bord Bia has developed a list of priority export markets, which will be targeted as major growth markets for Irish meat and dairy exports in the coming years. This is part of Bord Bia's strategy to try and reduce the country's dependence on the UK market for food exports post-Brexit. Most of these priority markets are located in Asia, including countries such as Indonesia, Malaysia, Japan, South Korea and China.

The rapidly expanding middle classes in coun-



tries such as China, Indonesia and Vietnam, coupled with the massive food import requirement for Japan and South Korea, means there are undoubtedly opportunities in Asia for Irish food and drink. On top of this, food and drink exports coming from Europe are seen as the pinnacle in terms of quality and consumers in these markets aspire to these products as their incomes grow.

COMPETITION

However, from recent trade missions led by Bord Bia, it is clear that Irish exporters will face stiff competition from long-established suppliers to these markets. For example, in countries such as Indonesia and Malaysia, Irish dairy exporters will find themselves competing directly with global dairy giants such as New Zealand's Fonterra and Friesland Campina from the Netherlands, which both control very large

market shares in each market.

Likewise, Irish meat exporters looking to do business in Japan and Korea will find themselves going head to head with US and Australian meat exporters. US exporters, in particular, have become increasingly aggressive in export markets over recent years.

Inevitably, Irish companies will need to compete on price if they are to win business, which can be difficult when going up against long-established players with real scale such as Fonterra. However, this is not to say disrupting an established player is impossible. What's required is some different thinking and a clever strategy.

One of the best examples of a new entrant cleverly disrupting long-established market leaders is the German discounter Aldi. In a little over two decades, Aldi went from zero to eking out an 8% share of the £190bn (€220bn) UK grocery market and caused

INNOVATING TO COMPETE

massive disruption along the way. Today, Aldi is the fifth largest retailer in the UK and continues to post double-digit sales growth, which is the envy of the established big four supermarkets (Tesco, Sainsbury's, Asda and Morrison's).

DISRUPTER

Aldi's journey to become the great disrupter of the UK grocery market is a lesson for all Irish food exporters in strategic thinking and knowing your competitive advantage. When the German discounter first entered the UK market, it noticed one very important characteristic of the UK – it is a high-wage economy.

As such, labour is a major operating cost for big players such as Tesco and Sainsbury's, which employ hundreds of thousands of employees between them. In contrast, discounters such as Aldi and Lidl employ much smaller numbers of staff because their business models are built around stocking a very narrow range of products and there are no in-store bakeries, meat counters or delis that need to be manned.

As a result, labour costs for Aldi are much smaller than at established supermarkets. The German discounter recognised very early on that its lean workforce was a major competitive advantage against the bloated operating model of the established supermarkets.

To drive this labour cost advantage home, Aldi has adopted an unusual tactic. The discounter makes a lot of noise that it pays its staff higher wages than other supermarkets.

LIVING WAGE

In Ireland, Aldi currently pays new staff at least €11.90 per hour, or the so-called "living wage". This is considerably higher than the minimum wage rate in Ireland, which is set at €9.80 per hour since January 2019.

In the UK, Aldi pays a minimum hourly rate of €9.10, which is higher than the UK minimum wage of £8.21 per hour. For all London-based employees, the discounter pays at least £10.55 per hour. Unsurprisingly, these moves are much publicised as UK and Irish media have latched on to a feel-good story for the average worker.

As a result, established supermarkets have come under pressure to match these pay levels and wages have been driven up right across the grocery retail sector. It may seem like a counterintuitive strategy from Aldi, but a higher wage bill hurts the profit margins of the bigger supermarkets much more than it does the lean, mean German discounter.

The numbers of employees working at Lidl and Aldi in the UK are dwarfed by the numbers employed by the established UK supermarkets. Combined, Tesco, Sainsbury's and Morrisons employed close to 750,000 people in 2018 and have a combined wage bill of £12.3bn (€14.2bn).

The combined operating profits of Tesco, Sainsbury's and Morrisons is £2.8bn (€3.2bn), meaning even a slight increase in hourly pay rates will drive up total labour costs for the established supermarkets, which will in turn eat into operating profit margins.

In contrast, Aldi employs fewer than 34,000 people in the UK and has a much smaller wage bill of £847m (€980m). Importantly, however, Aldi's wage bill is a smaller multiple of its operating profits, meaning it has far more room to increase pay rates than its established competitors.

CASE STUDY: TESCO V ALDI

An excellent illustration of the damage Aldi has inflicted on established rivals in the UK can be seen in the performance of Tesco, the UK's largest retailer with a 27% market share today.

In 2011, Tesco was thriving. The company had annual sales in its core UK market of £45bn and operating profits of £2.5bn. Impressively, the supermarket giant boasted a profit margin above 6%. Tesco's annual wage bill for its 492,000 odd employees stood at £6.8bn (€7.8bn), meaning it paid an average wage of just over £13,700 per annum, between part-time and full-time staff (Table 2).

However, things were about to change. With the UK in the midst of a recession like the rest of the world, squeezed UK shoppers began to switch more and more to discounters such as Aldi and Lidl to keep a lid on their weekly shopping bill.

Unwilling at first, Tesco eventually relented and began to cut prices on products to match the discounter prices. This meant eating into profit margins. However, greater challenges were still to come.

It was at this time that Aldi began to make its move to drive up labour costs against its competitors by publicising the higher wages it could offer. Tesco and others were forced to respond to these changes also.

MARGINS

By 2016, the landscape of UK grocery retail had changed dramatically for Tesco. Profit margins for the supermarket giant had narrowed considerably to 1.7% as operating costs spiralled and market share fell.

Despite cutting employee numbers by 10,000 from 2011 to just over 482,000 in 2016, Tesco's wage bill actually increased by £300m in the same period to £7bn (€8.1bn). Suddenly, the supermarket found itself paying an average wage closer to £14,500 per annum.

By 2018, Tesco's wage bill had swelled even further to £7.2bn (€8.4bn) despite reducing its employee head count by a further 33,000 people. The group's average wage has now climbed above £16,100 per annum as a result.

At the same time, Tesco announced in its 2018 annual report that it was bringing in a 10.5% increase to hourly pay rates over a two-year period for its UK employees, which could drive Tesco's labour costs as high as £8bn (€9.3bn).

To try and offset higher wage levels, Tesco has continued to cut employee numbers. As recently as January this year, Tesco announced it was closing the fresh food counters at up to 100 of its UK stores, which could see a further 9,000 jobs cut.



COMMENT

Aldi's success in the UK market serves as an important lesson for Irish exporters seeking to compete in new markets. Established players can be disrupted with the correct strategy and knowing the competitive advantages of your business.

In just over a decade, Aldi has massively disrupted the UK grocery market and managed to inflict a lot of pain on established rivals such as Tesco, Sainsbury's and Morrisons. The days of fat profit margins for UK retailers look to be consigned to the past as a result of Aldi's clever targeting of the huge numbers of employees at the established supermarkets, which has proven a major weakness.

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RETHINKING THE COW



All cows' milk is not created equal and an innovative New Zealand dairy company is building a business of scale from a different type of cow, writes Eoin Lowry

In 2000, while studying at Cambridge University, Dr Corran McLachlan learned that different cows naturally produce milk with different protein structures and that proteins in milk affect people differently.

He learned that ordinary cows produce milk with different protein types, called A1 and A2 and that the A2 protein is digested differently than A1. Research over the years has since found that many people who have digestive discomfort when drinking ordinary cows' milk find A2 milk easier on digestion.

He then discovered there was a safe and simple way to identify cows that produced milk that was naturally A1-protein-free. Originally all cows produced milk containing only A2 protein. Genetic variation resulted in mixed herds with two types of proteins (A1 and A2).

From there the A2 Milk Company was born. Dr McLachlan, the scientist who had conducted the early research on the A2 protein, and Howard Paterson, a wealthy New Zealand entrepreneur and farmer, founded the company in 2000.

Most cows' milk brands today contain a mix of both A1 and A2 proteins. All A2 milk products come from cows that have been selected to naturally produce only A2 protein and no A1. A2 milk looks like milk, tastes like milk, is completely natural and nutritionally dense just like ordinary cows' milk and is suitable for people of all ages. The one big difference is in the type of cow.

The company works closely with farmers to select and certify cows that naturally produce A1 protein-free milk. These identified cows are segregated into their own herds and milked separately. The milk from these herds is kept separate and isolated throughout the supply chain. Subsequent quality assurance checks are carried out to ensure the supply remains A1 protein free.

Last year, a clinical trial conducted in China involving 600 adults with self-reported lactose intolerance found consumption of milk containing the A2 protein reduced acute gastrointestinal symptoms. The study was consistent with a previous pilot study published in 2016. A pilot study carried out under the New Zealand government's high-value nutrition programme is now complete and being submitted for

INNOVATING TO COMPETE



publication. Further, a clinical study in China among pre-school children examining digestive benefits of A1-protein-free milk has been completed and submitted for publication. The company continues to support additional science and research and development programmes to enhance its overall brand proposition.

HUGE GROWTH

The A2 Milk Company has achieved huge growth over the last 18 years but it took until 2011 to make a profit. Today the company is the second most valuable company on the New Zealand stock exchange. Over the past two years alone, its market value has rocketed from NZ\$2bn (€1.2bn) to NZ\$11bn (€7.2bn).

Over the last three years it has seen compound annual growth of 81% in revenue and 349% in profits (EBITDA). Shares in the company are up 25% in the past year. Year-on-year, A2 Milk Company grew revenues 68% from NZ\$549m (€322m) to NZ\$922m (€540m) while net income improved 115% from NZ\$90m (€59) to NZ\$196m (€115m). Last year it grew sales in the US and UK markets combined by 54% to NZ\$32.4m (€19m). In China it grew sales by a whopping 163% to NZ\$233.6m (€137m). Meanwhile, it grew sales in its main markets of Australia and New Zealand by 49% to NZ\$656.6m (€385m). Operating margins are an impressive 33%. The A2 Milk Company has a strong balance sheet and has consistently grown its cash reserves over the last four years to total NZ\$341m (€200m).

GROWTH STRATEGY

The growth strategy has three priorities: building a branded portfolio of dairy-based nutritional products based on the A1-protein-free proposition; investing in attractive markets where it believes it can build competitive brand strength; and deepening its knowledge and A2 protein expertise.

Last year, the company's investment in marketing and R&D increased by NZ\$32.3m (€19m) and a further NZ\$2.2m (€1.3m) was capitalised for patents and trademarks.

STRATEGIC PARTNERSHIPS

With a view to enhancing its supply chain and broader international market development, the company announced it was partnering with Fonterra last year. The deal will enable the A2 Milk Company, over time, to diversify its milk sourcing, processing and manufacturing to meet growing demand for its products. It says it does not affect its relationship with Synlait, which processed the milk up to now.

The initial scope of the relationship incorporated an exclusive powder agreement under which Fonterra will manufacture A1-protein-free products in Australia for certain priority markets in southeast Asia and the Middle East. It also gave an exclusive



The A2 Milk Company is building a genuine international brand.

licence to Fonterra for the production, distribution, sale and marketing of A2 Milk-branded liquid milk in New Zealand. For the A2 Milk Company it afforded the opportunity to leverage Fonterra's sales and distribution capabilities in key markets. According to Fonterra, the partnership would "fast-track market growth" by combining Fonterra's sales and distribution expertise with the a2 Milk Company's brand strength.

The first signs of competition from a major international company in the A1-protein-free category appeared in March 2018 when Nestlé entered the category. The A2 Milk Company says there has been no apparent impact on sales.

Although the A2 Milk Company said at the time that this was "a very strong endorsement" of the A2 proposition and that competition would help "build the category", the company's share price fell 10% within two days. Up to now, the A2 Milk Company has had first mover advantage and been lucky enough to enjoy a lucrative market in A2 infant formula in China. Nestlé is a large player with very deep pockets. It is possible that Nestlé's entry serves to grow the A2 dairy market. However, it is equally possible that without patent protection, A1-free becomes commoditised to the point that its unique proposition is eroded.

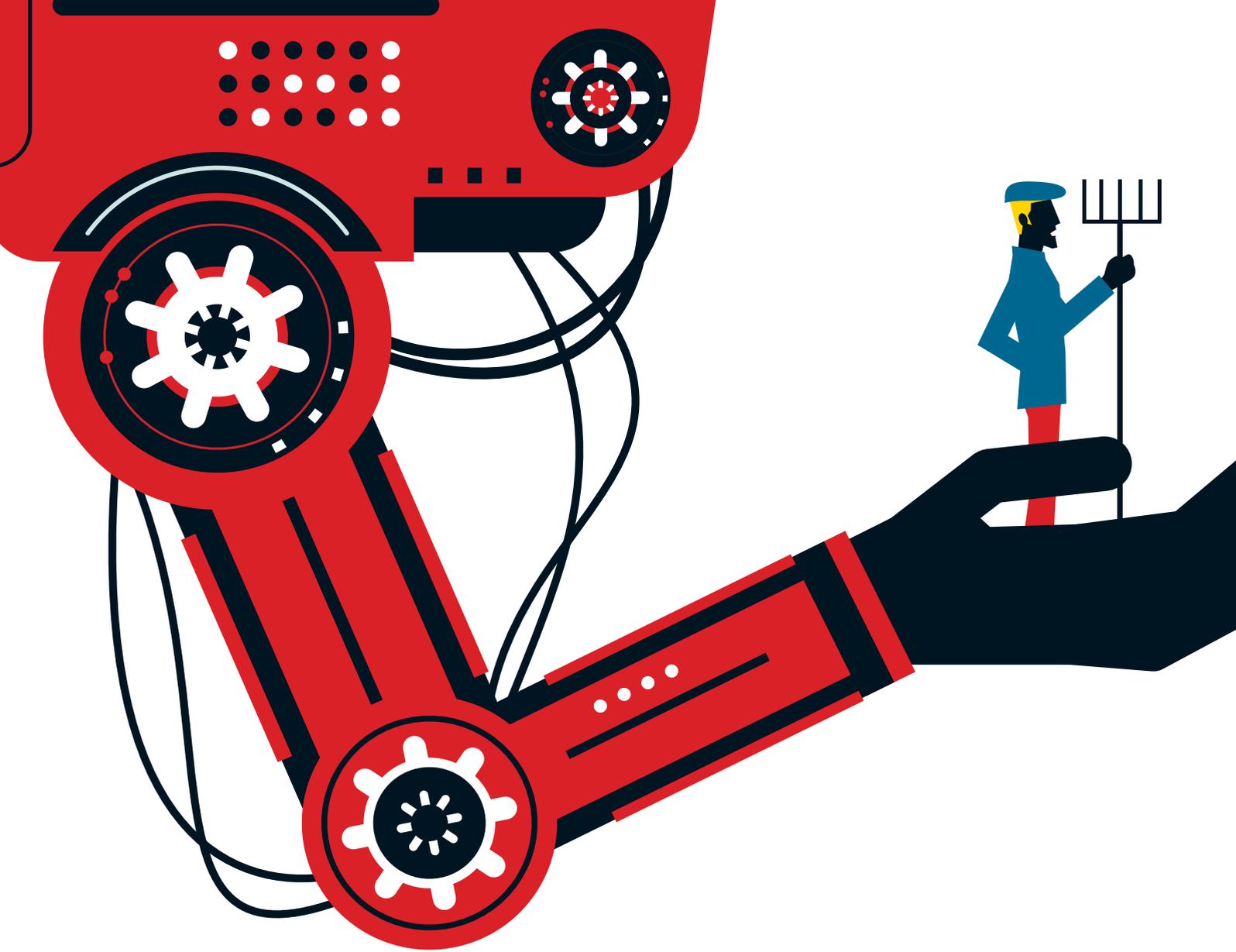
COMMENT

Instead of showing family farms or cows happily grazing outside on lush pastures, A2 Milk Company's advertisements showed happy customers and emphasised digestive comfort with slogans such as "Feel the difference", "Love milk again" and "Better than milk". The company also had science behind its products. It was uniquely different and the slogans made an emotional rather than a rational connection to the product.

The company has also proven that there is real international potential across multiple geographies and products. It is building a genuine international brand and its growing strength is impressive. Physical distribution has reached scale in both China and the US which should support the planned increased investment in these critical markets.

4 ADAPTING TO NEW TRENDS

Urbanisation, technology and longer working hours are rapidly changing consumer habits, especially where and when we eat. While these changing trends are causing disruption for some, many food companies have spotted new opportunities to add value.



**WE NEED TO BE
SMART ABOUT
TECHNOLOGY**

Chris Brown of KPMG's global strategy group outlines some of the risks and opportunities which technology investments present for Irish agribusiness



In a recently published research paper by KPMG titled *Tectonic Shifts*, the group looked at the potential effects of a range of new technologies on the agribusiness sector and explored possible responses.

Among the key lessons for Ireland is the need to be patient and not to fall into the trap of chasing the hype. Agribusiness remains a highly localised sector. Solutions which work for harvesting in the American Great Plains do not necessarily transfer well to Waterford, Kildare or Carlow.

Similarly, investing in productivity-enhancing technologies only to reduce price will not produce long-term benefits for producers or processors. Experience also indicates that many of the latest innovations and inventions are doomed to failure.

In some cases, this will be due to flaws in the new technology itself, while in others it will be because the companies behind them don't have the scale or resources to develop them properly. It wouldn't be the first time that inferior technologies have outlived better solutions due to superior resources.

While early adopters of new technologies can sometimes gain first-mover advantage over market rivals, the associated risk is high, and this is probably best left to the large global players who can afford to take such risks.

For many Irish producers and processors, the best strategy is probably to keep a close watching brief on what is happening outside of Ireland and make incremental investments as and when a technology begins to prove its return on investment.

There is also the question of which kinds of technologies to invest in. The group of technologies explored in the *Tectonic Shifts* report can be broadly categorised as industry 4.0 technologies, and includes robotics, internet of things (IoT) sensors, artificial intelligence (AI) and data analysis.

All of these technologies are already in use to a limited extent in Irish agribusiness, with Teagasc, for example, leading research and pilot projects to assess how best they can be employed.

Each of these technologies has undoubted potential, particularly when combined, but the question for Irish agribusiness is where they can be deployed to best effect in this country. The answer is to look first to our existing strengths and establish how available technologies can be used to build on them and enhance existing market positions.

Naturally, technologies which deliver clear productivity improvements cannot be ignored, but the key innovations for Irish agribusiness will be those that can be utilised, directly or indirectly, to enhance brand Ireland's premium market positioning and reputation for clean, green, high quality food.

BLOCKCHAIN

The first and most obvious of these is blockchain. The unchangeable nature of blockchain records makes the technology a strong candidate for supply chain management and monitoring. Combined with IoT sensors, blockchain technology can be used not only to track movements but the precise storage conditions of shipments.

It also has the potential to maintain a complete register of ingredients, their points of origin, and their complete history through the production and processing chain.

At a time when increasingly affluent consumers are demanding ever-higher standards of food, not just in terms of product quality but also in relation to production methods, animal welfare, and environmental impact, blockchain could be a game-changer for Irish beef and dairy producers.

What better way to capitalise on the grass-fed production practices employed in this country or build on Origin Green initiatives than through a supply chain technology such as blockchain that delivers 100% traceability?

Ultimately, blockchain could enable the personalisation of a brand story and its provenance right down to the individual farms, or at least specific milk pool regions in the case of dairy.

**IF YOU CAN PUT A
MAN ON THE MOON
YOU CAN BUILD A
MACHINE TO PICK A
STRAWBERRY**



ADAPTING TO NEW TRENDS

Consumers will be able to scan the label on Irish made cheese with their phone and see information, images or video of a grass-fed dairy farm in the relevant milk pool. While this mightn't appeal to all customers, tech-enabled brand storytelling is already increasingly popular across many of Ireland's most important export markets.

Blockchain will require the integration of a number of different technologies. It requires the existence of a critical mass of IoT sensors and supporting controls along the value chain to provide the necessary and reliable input data. While some of the IoT capability may already be growing, the missing piece is the coordinated deployment across multiple companies in a value chain. In the view of KPMG, the application of this technology is still five to 10 years away.

IOT AND DATA ANALYTICS AT FARM LEVEL

We're already seeing the use of soil and water quality information supplied by Teagasc being utilised to assist precision agriculture. New data analytics technologies can guide farmers in the application of fertilisers in terms of timing, quantities, and geography. This can lower input costs for farmers while also improving the environmental efficiency of the farm. The same will apply to planting and grassland management strategies.

Some fears have been expressed that these new technologies will replace the expertise of farmers, reducing them to the position of landowner-overseers. This is not a situation we see coming to pass in Ireland, however.

It is our belief that technology will augment rather than replace the intuition and know-how of farmers. Farming is not like other industries as no two farms are exactly the same. The differences between individual farms grow more pronounced from region to region and country to country.

While some production systems may lend themselves to automation more than others, this is less the case for Ireland's mostly grass-based system for dairy and livestock production. Another area where AI and data analytics is coming into play is genomics. Great strides have been made in this area in recent years and this is likely to accelerate.

New technologies will enable better selection for particular traits, which improves the overall environmental performance and efficiency of beef production in Ireland. These gains may be incremental but over time may make a significant difference to the greenhouse gas emissions of the Irish beef herd.

ROBOTICS AND AUTOMATION

Automation is set to play an increasingly important role at both processor and farm level. Robotic milking has already gained a foothold in the dairy sector, while many other routine farmyard tasks are being increasingly automated.

In addition, the use of automated or robotic harvesting machinery has the potential to significantly lower the costs of production of certain crops, thereby enhancing competitiveness.

Many of these technologies are in their infancy and remain expensive or unproven. However, if you can put a man on the moon you can build a machine to pick a strawberry. It is only a matter of time before these technologies become sufficiently advanced and costs come down enough to bring them within reach of Irish farmers.

In an economy approaching full employment where skilled farm labour is difficult to find, automation will become increasingly essential for many modern farmers.

At the processing level, the impact of new technologies varies. The use of IoT to monitor and control dairy and beverage production processes has the potential to enhance quality, reduce costs in terms of energy usage and improve production cycles by predicting points of failure in advance and enable timely interventions. The same technology will apply to products such as grains, breads and processed foods.

On the other hand, the complexity and variation in the carcass sizes for beef and pork will make it tougher for robotics to be employed widely in those processing plants for the moment at least. Advances in sensor, machine vision, machine learning and AI technologies mean we are likely to see this change but it will take a decade or so.

While the main impact of robotics and automation may be cost reduction, its ability to enhance quality and improve environmental performance through reductions in energy and water consumption should not be underestimated.

COMMENT

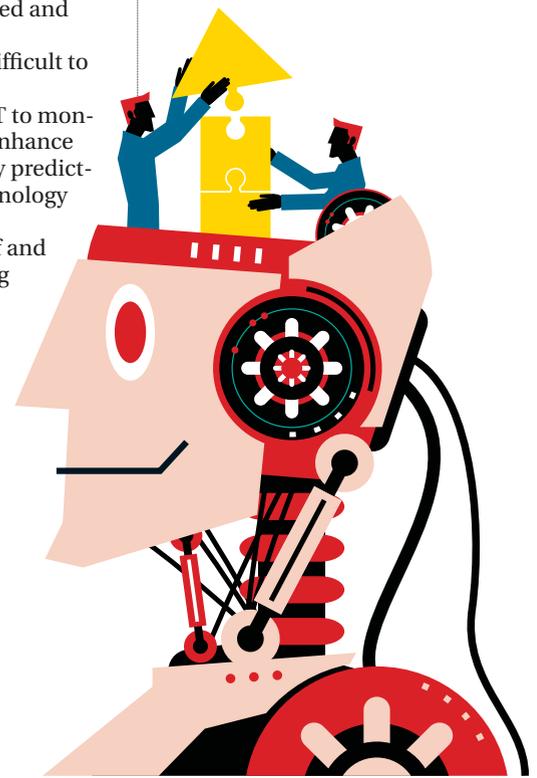
The question for Irish agribusinesses is how best to take advantage of these technologies and avoid being negatively affected by their disruptive effects, especially as larger, international peers make earlier investments.

The most important piece of advice is not to get caught in the technology trap. Investing in a technology without being absolutely clear on how it can add value to your business can lead to expensive mistakes.

Given the early stage of development of many of the technologies outlined in this article, the best strategic approach for Irish farmers and processors is to keep up to date on developments.

Given the scale of almost all Irish agri-enterprises, it is clear that close collaboration will be required if the potential benefits offered by the new technologies are to be maximised. Larger processors in particular should ensure they are up to date on relevant technological developments but should wait until technologies with clear benefits for cutting costs and adding value become affordable before making the investment case.

In short, whatever your scale or enthusiasm for technology, ensure you can deliver real returns on investment in the short to medium term.





EVEN BETTER THAN THE REAL THING?

Coca-Cola's milk partnership bucks a decades-long consumption trend away from milk. **Eoin Lowry** examines the how it has been done



ADAPTING TO NEW TRENDS

For many years now, milk consumption has been declining in a lot of countries around the world. For example, in the US it has declined about 1% per year for the past 70 years. In 1945, Americans consumed an average of 156 litres each year. By last year, per-capita consumption had dwindled to 72 litres. Meanwhile, across western Europe, milk consumption has declined 5% in the last five years.

Even in Ireland, which drinks the most milk per head of population of anywhere in the world (121 litres per head per annum), milk consumption is also declining. In 2017, some 580m litres of milk was consumed in liquid form and this was down 9m litres on the prior year.

There are many reasons cited for the decline in consumption ranging from the rise of milk alternatives to a lack of innovation. However, one of the main reasons for the decline is the fact that a large number of consumers have stopped eating breakfast cereals regularly. Some 25% of liquid milk consumption is through breakfast cereals.

This is a mature market, where innovation has been slow, leading to a race to the floor on milk prices in the supermarket aisles. In the UK, spending on milk has fallen in real terms faster than total spending on food and drink since the mid-1990s.

So why did Coca-Cola decide to enter the liquid milk market back in 2014? The answer is that it saw growth potential in the market and it wanted to exercise its marketing arm and felt it could come up with a way to add value to the mature market. It also was looking at its own stable of products where sales were flat at the time and eyeing future potential growth for its own business.

But it didn't see the potential in marketing standardised litres of milk – it wanted to shake up the world of milk. It had watched the rise of milk alternatives, a category that has grown by almost 60% in volume terms in the last five years and how standard milk had lost out to this growth.

Coca-Cola initially laid the groundwork for its move into milk when it inked a partnership in 2014 with Select Milk Producers to form Fairlife. In what might appear as madness in the context of the Irish liquid milk market, Coca-Cola believed there was huge potential in going to market with a new kind of milk that would cost twice the price of regular milk.

THE HISTORY

Fairlife began when a vet named Mike McCloskey and his wife, Sue, started a farm with 300 cows and called it Fair Oaks Farm. They went on to grow their herd to 5,000 head over time. Then in 1994, they started a co-operative called Select Milk Producers Inc (now the sixth-largest cooperative in the US) and created their own brand of premium milk called Fairlife. Select Milk Producers now has almost 100 family-owned dairies supplying it.



80%

volume growth of Fair Life brand last year

\$330M

Sales in 2017, with the 2018 figure expected to reach \$420m

A pivotal point in the Fair Oaks story occurred when sediment appeared in the well that supplied water to the McCloskey cows. The cows stopped drinking water and they had to install a filtration system to keep the cows drinking and producing the same high-quality milk.

That's when they had the idea to try filtering the milk. This allowed them to single out the components of milk and then add them back in at different levels to create a specialised product. Fairlife milk was born. Fairlife milk contains 50% more protein, 30% more calcium and half the sugar of ordinary milk. It takes 1.5 litres of regular milk to make 1 litre of Fairlife milk (because of the filtration process). The milk is filtered into its five components (water, butterfat, protein, vitamins and minerals, and lactose) and then recombined in different proportions. This is the same filtration process used to create skim milk.

The company focuses beyond the product also to



COMMENT

Despite the downward trend in liquid milk it is important to remember that it is still a \$25bn business in the US. In Ireland, in a very small market, it is a half billion euro business and uses some 0.6bn litres of milk per annum. It is also worth noting that milk is still purchased by 95% of American households over the course of a year.

It is notable that innovation in dairy is being led by companies from outside the category. Milk is the perfect candidate to innovate because it starts as a superfood before you add anything.

Fairlife gave Coca-Cola access to this \$25bn milk category in the US where it had no representation up to that point.

Coca-Cola was one of those to realise the opportunity for dairy to steal market share from carbonated drinks under fire over sugar content. It is also winning back share from "alternative milks" such as almond or soya drinks.

Globally, the dairy industry has not been listening to what consumers want. The beverage sector, juice and water companies have started to add protein sources and ingredients to their products. Milk already has them naturally. But dairy has done very little to educate consumers on the benefits of milk.

The time for innovation is now, given decreasing milk consumption and diverse consumer needs, and the competition in the alternative beverage space. Innovation, transparency and clever marketing are all ingredients for building consumer trust and a brand. The fact that consumers are paying almost double the average price per litre for Fairlife indicates that this can be achieved. The category is ripe to be reinvigorated. And it can be done by simply just concentrating on milk's natural goodness.

include animal welfare, smart and responsible farming, and sustainable agriculture. This all forms part of the brand and communication to the consumer through marketing and creative packaging.

SUCCESS

Sales of the specialty milk have soared since Coca-Cola introduced Fairlife. The brand has had three years of double-digit growth since it launched nationwide in the US. It also posted 80% volume growth last year, outpacing the \$6bn value-added dairy category, which grew 5%. In fact, Fairlife has grown faster than the plant-based milk alternative category for the past three years. As for results, Fairlife had sales of \$143m in 2015, \$240m in 2016 and \$333m in 2017. And at the end of 2018, Fairlife was well on its way to becoming a \$420m US milk brand, tripling its launch value. Coke aims to turn the beverage into a billion-dollar brand.

To meet the increased demand for its products, Fairlife is expanding rapidly. It plans to expand its plants in Texas and Michigan, along with building a new plant in Arizona this year. After proving successful in the US, Fairlife has also announced its first international expansion with a plan to build a €75m new production facility in Ontario, Canada. Fairlife is also taking a hard look at setting up a plant which would use Irish milk from the southwest of Ireland.

COCO-COLA EXPLORING OPTIONS FOR DAIRY PLANT IN IRELAND

Senior executives in Coca-Cola have held a number of meetings in Ireland in recent months to learn about the Irish dairy industry with the aim of setting up a liquid milk plant in Ireland. Coca-Cola has visited Teagasc Moorepark in Cork and the Dairy Processing Technology Centre (DPTC) at the University of Limerick to get a better understanding of the R&D work ongoing in the Irish dairy sector. It is not clear yet if it plans to buy milk direct from Irish farmers. To date, Coca-Cola has not brought its Fairlife brand to consumers in Europe.



Coke aims to turn the beverage into a billion-dollar brand

ADAPTING TO NEW TRENDS



ADDING VALUE FOR SIZZLING SUCCESS

Traditionally, the meat sector has been one of the most brutally competitive sectors to survive in. Yet, Irish meat company Kepak has found a new model to differentiate itself, writes Lorcan Allen

In March last year, members of the Restaurant Association of Ireland (RAI) gathered in the plush surroundings of Adare Manor in Co Limerick to issue a plea for help. The restaurant industry was facing an unprecedented crisis due to a massive shortage of trained chefs in Ireland. According to Adrian Cummins, chief executive of RAI, Ireland's restaurant sector is battling an acute shortage of trained kitchen staff right now that's estimated between 7,000 and 8,000 chefs. And the shortage is only growing in size.

Every year, an additional 5,000 chefs are required by the restaurant industry, yet training colleges are only turning out 1,800 new chefs every 12 months. This means the shortfall is widening by more than 3,000 chefs per annum.

In the UK, the situation is even starker, with chef shortages estimated to be between 20,000 and 25,000. Yet, as a result of this skills crisis in the restaurant sector, opportunities have opened for others. Food companies further back the chain are taking advantage of the acute shortages in trained chefs to add value to their businesses in new ways.

Leading the charge in this regard is Kepak, the meat processor based in Clonee, Co Meath. For more than a decade, Kepak has invested heavily in its value-added capability and can now offer customers a much wider array of products.

Moving further up the chain from processing traditional cold cuts of beef, pork or chicken, Kepak now finds itself cooking, seasoning and adding sauces to more and more of its meat sup-

ply before shipping to customers.

COOKED MEAT

Blathnaid Ni Fhatharta, marketing director at Kepak's foodservice division, says the company is now doing a lot of the work preparing meat that would have traditionally been done by a chef in the kitchen.

"Take our pulled meat range, for example. We've already butchered the meat, slow-cooked it for five to six hours and then seasoned and sauced it," says Ni Fhatharta. "Our customer only has to reheat the product, which allows them to concentrate on the presentation of the dish. The customer can focus on the addition of other ingredients and how they build and layer up that meat product," she adds.

Kepak's foodservice division has an array of blue-chip customers that it sells direct to including Burger King in Ireland and the UK, French fast-food outlet Quick, TGI Fridays and Jollibee, a burger chain first established in the Philippines that now has 1,200 outlets globally.

The company also supplies the Restaurant Group – a London-listed plc that owns branded restaurant chains such as Wagamama, Frank & Benny's, Chiquitos and Joe's Kitchen.

For these customers, Kepak typically supplies uncooked burgers and meat products where the cooking is done in the restaurant. However, for a growing number of indirect customers such as Henderson's foodservice in the UK, Kepak is supplying a range of cooked meat products that help to alleviate the chef shortage.

ADAPTING TO NEW TRENDS



From Kepak's perspective, slow-cooking and preparing meat on behalf of customers allows the company to move the product up the value chain in terms of margin and pricing. Kepak's approach to pre-cooking and preparing meat for customers is creating value for the company. Importantly, the process also takes a cost out of the business model of its customers through less waste and less labour.

The growing chef shortage in Ireland, the UK and across Europe means more and more restaurants and foodservice operators are looking to companies such as Kepak for solutions like this.

"We're adding more capability all the time but playing in this space is not new for us," says Ni Fhatharta. "What is new is the labour shortage our customers are facing. On top of this, food safety legislation is a lot stricter, so a lot of operators only want to handle a fully cooked product," she says.

FOODSERVICE GROWTH

Kepak's foodservice division now accounts for more than a third of the group's overall turnover of €1.5bn. The division continues to grow alongside the growth in the wider foodservice market, which is defined as "out-of-home eating". Foodservice operators range from traditional restaurants, hotels and pubs to fast-food outlets, casual dining, coffee shops and commercial catering.

In Ireland, the foodservice market is valued at €8.2bn, which is significant and not far behind Ireland's €10.5bn grocery retail market. In the UK, the foodservice market is valued at £90bn (€105bn), while in the rest of Europe, foodservice sales are more than €500bn per annum.

Any market this size is going to be extremely competitive. While Kepak admits it will never be the cheapest supplier to the foodservice market, its focus on cooking and seasoning meat prod-

Kepak's meat factory in Clonee.

BELOW:
Blathnaid Ni Fhatharta, marketing director at Kepak's foodservice division.

ucts allows it to compete successfully with lower-cost operators.

Traditionally, the foodservice market was closely linked to economic conditions as consumers tend to eat out more in good times. However, changing lifestyles means the foodservice market has become more complex than just straight economics.

"Consumers are working longer hours and aren't at home to prepare dinner. On top of this, young people are not treating themselves as much in terms of buying consumer goods," says Ni Fhatharta.

"Instead, young people are treating themselves from an experience perspective. They're spending their money on eating out because they see it as an experience. Eating out is no longer just functional. It's more of a lifestyle choice," she adds.

In the US, which has the world's most developed foodservice market valued at €530bn in 2018, consumers now spend more money eating out of home than they do on food eaten at home. For every \$1 spent on food in the US, more than half is now spent out of home. Europe is not quite at this level yet but it's getting very close.

The UK is the closest market in this regard with just under 50p out of every £1 spent on food going to a product bought in a foodservice outlet. Ireland is also fast approaching parity with close to 50c in every €1 spent on food now used to buy food from a foodservice operator.

EXPLOSION

The consumer shift to eating out more as a lifestyle choice is only exacerbating the skills shortage for chefs and plays into Kepak's strategy. Within the foodservice category, Ni Fhatharta says the fast casual and food-to-go segment of the market have exploded in the last five years.

Operators in the fast casual segment are separate from traditional



fast-food outlets or chains. Instead, they are outlets that are limited service but are generally more upscale with food that is priced €8 or higher per person. Examples of these kind of operators in Ireland include Boojum burritos, Mao Thai takeaways or the numerous gourmet burger restaurants that have popped up in recent years.

The food-to-go segment includes deli counters in supermarkets and convenience stores or any food sold at forecourt operators such as Circle K or Apple-green.

The food-to-go and fast casual segments of the foodservice sector are growing at 5% to 7% per annum in Ireland, which is more than double the growth in traditional grocery retail. As a result, supermarkets and convenience stores in Ireland have placed a lot of emphasis on these channels because they are delivering sales growth.

“The Irish food-to-go market is seen as the best in class across Europe,” says Ni Fhatharta. “You will see a lot of UK and European retailers conducting food safaris around Ireland to visit Irish retailers to see what they’re doing in this space and how they’re doing it.”

“It’s not so long ago that you never would have been able to get hot food at a petrol station in Ireland. But now, these channels are seen by consumers as go-to places for a hot meat sandwich or a burger,” she adds.

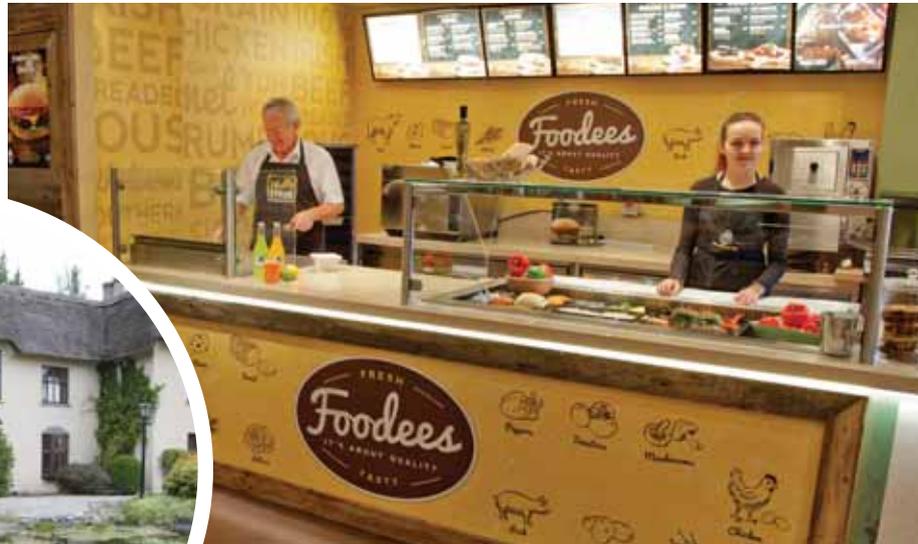
Even in the UK, where Brexit and a weak sterling has weighed on consumer spending, Kepak are still seeing strong growth in the fast casual and food-to-go segments of the market as consumers treat themselves out of home. This growth is supported by the wider change in society where the traditional meals of breakfast, lunch and dinner have been replaced by consumers snacking six to eight times a day.

TIME POOR

Another big driver of the food-to-go trend is time-poor consumers. The average shopper spends less than five minutes in a convenience store today, meaning speed of service is critical. Consumers are demanding food to be served to them quicker all the time. Again, all of this plays into Kepak’s cooked meats strategy.

“The growth in our cooked and prepared meats business is a combination of factors,” says Ni Fhatharta. “It’s a shortage of labour, it’s food safety regulations and it’s consumer demand for the food to be served out to them quicker. It’s a kind of cook slow and serve fast mentality. We do all that cooking and prepping, which allows the operator to prepare the product as fast as they can for the consumer,” she says.

While consumer trends in food are changing faster than ever, it’s clear that the shift towards foodservice as the larger sales channel over retail is steadily gaining momentum. Ireland, the UK and the



Kepak HQ in Clonee and (above right) Kepak’s centre of excellence for foodservice at Blanchardstown.

“ Young people are treating themselves from an experience perspective. They’re spending their money on eating out because they see it as an experience. Eating out is no longer just functional. It’s more of a lifestyle choice

rest of Europe are only headed the same direction as the US market, where consumers spend more money eating out of home than they do on groceries.

Kepak has positioned itself brilliantly to take advantage of this trend. On top of this, the shortage of chefs and the cook slow-serve fast trend has allowed Kepak to add value and margin to its meat products in a way like never before.

The company now finds itself working in partnership with its customers to develop new solutions and products that will allow its foodservice partners keep pace with the latest consumer trends.

For customers such as Burger King, Kepak has opened a dedicated burger lab at its Ballybay site, which is focused on new product development and innovation. Kepak has also established a foodservice centre of excellence at its Blanchardstown office to allow foodservice customers of all sizes come into an interactive setting where they can experience and taste new concepts, menu designs and product innovations.

Both the burger lab in Ballybay and the foodservice centre of excellence in Blanchardstown have allowed Kepak to collaborate much closer with their key customers, says Ni Fhatharta. Importantly, this partnership approach to developing new innovations almost makes Kepak indispensable to its important customers as well as allowing it to capture more value in the process.

The meat sector has always been ferociously competitive. Yet Kepak has found a way to service new sales channels and customer needs to differentiate itself in a tough sector and compete for higher-margin business with customers in Ireland, Europe, the US and further afield.

ADAPTING TO NEW TRENDS

The FLEX FACTOR

The unprecedented pace of change presents new opportunities for innovative food producers to compete with global giants, writes **Lorcan Allen**

By their very nature, consumer trends evolve and shift all the time. For the food industry, differentiating what's a short-term fad versus a long-term mega-trend can be the difference between success and failure.

Over recent years, the vegan movements in Ireland, the UK and further afield have become increasingly noisy and are running attention-seeking campaigns targeted directly at animal farming. This new phenomenon has left many farmers and food businesses scratching their heads and asking themselves if veganism is an actual threat that's here to stay or just a passing fad.

A recent study carried out by YouGov, the UK-based market research and data analytics firm, found that just 1% of the UK population identifies as vegan, which is to say consumers that do not eat meat,



It's the flexitarians that are driving demand

dairy, eggs or any product from an animal. The study found that the vast majority of vegans in the UK to be women aged from 18 to 34.

The study also found that 3% of the UK population identify as vegetarian, while another 3% describe themselves as pescitarian, which means they eat fish but not meat or poultry. Almost three-quarters of the UK population (73%) are meat eaters, according to the study.

However, perhaps the most interesting finding of the YouGov study is that some 14% of the UK population – twice as many as pescatarians, vegetarians and vegans combined – identify as flexitarians, which

MEAT & DAIRY DEMAND STILL RISING

Hearing that flexitarianism is a growing trend may be anathema to Irish livestock farmers but it's important to look at the bigger picture. The consumer trend to reduce meat intake is very much a rich-world phenomenon in countries such as the US and Europe where per capita meat and dairy consumption is extremely high.

In emerging markets across Asia, the Middle East and Africa, meat and dairy consumption is only starting to rise. As economies get wealthier, the level of meat and dairy consumption rises accord-

ingly. The billions of consumers in these emerging markets are coming from such a low base in terms of their consumption of meat and dairy products that even a modest rise in per-capita consumption will lead to enormous extra demand for traditional meat and dairy.

According to the OECD, global consumption of fresh dairy products will grow by 2.1% per annum over the next decade, while consumption of processed dairy products is poised to grow by 1.7% per annum in the next 10 years.

The OECD also forecast that global meat consumption will rise 15% over the next decade to more than 365,000t of carcase weight



means that they mainly follow a vegetarian diet but occasionally eat meat.

FLEXITARIANISM

Veganism is not the mega consumer trend the noisy animal welfare movement would have you believe. But flexitarianism almost certainly is.

In the study, YouGov found that more than a quarter (26%) of UK meat eaters said they plan to reduce their level of meat consumption in the next year, with health concerns the primary reason provided. Over 40% of respondents also identified animal welfare concerns as a reason for reducing meat intake.



26%

of UK meat eaters said they plan to reduce their level of meat consumption in the next year



The YouGov study paints a picture where the flexitarian diet will only become increasingly prevalent among UK consumers who are looking to cut down the amount of meat they eat due to health concerns. Ask any employee in Kerry Group, a company right at the coal face in terms of the changing trends in the food industry, flexitarianism is a mega-trend and one that's here to stay.

In an interview with the *Irish Farmers Journal* last year, Kerry Group chief executive Edmond Scanlon described the pace of change going on in the food industry right now as "unprecedented".

"The food industry is switching back to being consumer-focused. In Kerry, we don't see vegans as the big disrupter group. It's actually the group we call flexitarians that are driving demand. These are people that may not want to eat meat every day," said Scanlon.

Recognising this consumer shift, almost all of the biggest food companies right across the world are looking to develop new, plant-based products in order to protect their brands and avoid disruption.

RESEARCH

According to Kerry Group's own research, 42% of all new food products developed in 2018 by the global food industry for the health nutrition category were plant-based. In recent years we've seen huge investments made by global food businesses to establish a presence in the plant-based, alternative protein market.

In 2016, Danone paid €10bn to acquire White-wave Foods and its portfolio of dairy-free drinks, while Tyson Foods, the largest meat company in the US, has invested in startup companies that make synthetic meat-like products from plants.

Just last month, the world's largest food company, Nestlé, made its move into the meat-free category when it launched its own plant-based burger to target consumer markets in Europe and the US.

There was a time when the big food companies such as Nestlé, Pepsico, Danone, Coca Cola and Kraft would wait patiently and watch consumer trends develop fully over time before making their move into new categories.

However, the unprecedented pace of change in the food industry as described by Edmond Scanlon, along with the fear of disruption and consumer backlash against established brands, means big food companies are being forced to react faster than ever to new consumer trends.

Twenty years ago, who would've predicted that Coca Cola would own a milk brand or that Tesco would sell a plant-based steak alongside traditional fresh meat cuts? Yet here we are.

equivalent (cwe) as average meat consumption per capita rises to 35.4kg.

Global beef consumption is forecast to rise 15% to 78,500t cwe, while global sheepmeat consumption will jump more than 20% in the next decade to just under 17,500t cwe. Pork and poultry consumption will rise 11% and 18% respectively over the coming decade, according to the OECD.

Nearly all of this consumption growth for meat and dairy will come from emerging markets. So while flexitarianism is on the rise in Europe and the US, farmers must remember their produce will be

needed elsewhere to fill demand in new markets around the world.

At the same time, there are farmers who will see the rise of flexitarianism for what it is: an opportunity. Although consumption habits change, consumer must still eat to survive. If there is a growing trend towards a more plant-based diet in rich countries, then new food products and innovations will be needed to satisfy this growing demand.

For the farmer or food company that can think differently and be agile in their business, huge opportunities will present themselves in the years ahead.

CASE STUDY

MAGIC INGREDIENTS

A growing demand for plant-based foods is creating opportunities to supply ingredients to food companies. **Lorcan Allen** meets Pat Fitzgerald to learn how he's capitalising on this trend

Every now and then, Pat Fitzgerald still wakes in the early hours with a cold sweat on his brow, panicking that he has cows to be milked. On these nights, which have grown rarer over the years, the Kilkenny man must gather his senses and convince himself one more time ... there are no cows in the yard outside anymore.

Up to 2006, Fitzgerald had milked 40 cows at his family farm in Stoneyford, Co Kilkenny, and kept another 120 beef cattle. His siblings had gone off to pursue careers in the city but Fitzgerald had stayed at home to take on the family farm.

Since getting out of dairy and beef in the mid-2000s, Fitzgerald has concentrated on his plant nursery business, which he first established on the home farm in the 1990s. Today, Fitzgerald Nurseries has two sites in Kilkenny (including the original family farm), and a micro-propagation laboratory in Enniscorthy, Co Wexford. The company exports 98% of the ornamental plants it grows to 28 markets all around the world, including the US, Japan, South Korea and Australia.

Yet despite the success of this nursery business, Fitzgerald has spent the last decade diversifying into a new sector entirely where he sees enormous opportunity – plant-based ingredients. A born innovator, Pat Fitzgerald established a separate company called Beotanics to specialise in the breeding and growing of alternative crops such as sweet potato, yacon, oca and wasabi.

ALTERNATIVE CROPS

"Sweet potato is where my interest in alternative crops came from," says Fitzgerald. "Beotanics is the first company ever to commercially produce a sweet



Patrick Fitzgerald is the managing director of Beotanics Ltd in Oldtown, Co Kilkenny.

by Philip Doyle

potato variety that can grow in Northern Europe. There's now farmers growing our sweet potato variety in the UK, Sweden, Belgium, France, the Netherlands and Portugal."

Over the last decade, Beotanics has invested heavily in R&D to develop new varieties of these alternative crops. It has developed five new varieties of sweet potato that can be grown in Europe and is now rolling out these varieties to growers on the continent.

At present, the EU imports 75% of its sweet potato needs from the US, which is about 350,000t every year. Curiously, sweet potato is not actually a potato at all but is a root vegetable similar to a carrot.



To breed the new varieties of sweet potato to suit the climate of northern Europe, Fitzgerald spent a lot of time in Baton Rouge, Louisiana, working closely with Louisiana State University (LSU).

"There's more than 50 years of research and data on sweet potato breeding at LSU and I was able to tap into that," says Fitzgerald.

"While it's mostly grown in North Carolina today, the sweet potato was historically developed in Louisiana. The Louisiana sweet potato is still a famous variety in the US," he adds.

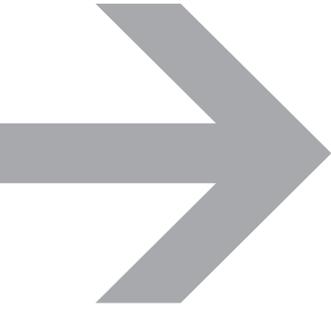
The five new varieties of sweet potato that Beotronics has developed for Northern Europe are already showing a lot of promise, says Fitzgerald.

"Our new variety of sweet potato is achieving higher yields of 25% to 50% above what growers typically achieve in the US. In the Netherlands and Belgium, farmers are reporting yields of 60t/ha to 80t/ha and even higher yields in France. On O'Shea's farm in Carlow, the yields are ranging from 55t/ha and 80t/ha. The typical yield in Europe is 30t/ha for regular potato crops," he says.

In total, almost 2,000 acres (800ha) of Beotronics sweet potato will be grown this year on farms across Northern Europe. The crop is planted much like cabbage in April and must be harvested by early September in Northern Europe, as the crop doesn't like when ground temperatures drop below 10°C.



ADAPTING TO NEW TRENDS



NICHE

But why go to the bother and expense of breeding new varieties of a niche crop like sweet potato? The margins from selling vegetables and other produce are thin, while sales volumes would be much less than could be achieved with crops such as potatoes, carrots or onions.

Instead of traditional sales channels, Fitzgerald is looking at a bigger picture where he sees a fast-growing global trend for plant-based food. Rather than sell his sweet potato varieties to supermarkets or wholesalers, the Kilkenny man is targeting major food companies looking for suitable ingredients for new plant-based products.

“Plant-based food is a mega-trend in the food industry right now and food companies are having a big problem getting stable, sustainably produced plant-based ingredients for their new products,” says Fitzgerald.

“I’m growing these alternative crops and processing them down into high-value, powdered ingredients that can be used by companies for a range of applications. These ingredients can be used as flavourings or colourants in food and beverages, or as a coating on tablets by pharma companies.

“Today, most food colouring is made from black carrot and beetroot. However, my new variety of purple sweet potato is a more stable ingredient than black carrot in the manufacturing process. The opportunities for Beotanics are to innovate and replace,” he adds.

Seeing this gap in the market, to supply high-value, powdered ingredients made from plants to large food and drinks companies, has pushed Fitzgerald and the team in Beotanics to look at other alternative crops.

“Our work on sweet potato moved us on to other alternative crops that the food industry is looking at. Yacon is a tuber variety similar to a potato that originates in Peru. We’re developing varieties of yacon that can be grown in Europe with the aim of supplying it as a powdered ingredient to food industry customers,” says Fitzgerald.

According to Fitzgerald, yacon can be processed down to extract fructooligosaccharides (FOS), which can be used by food processors as a natural sweetener and a replacement to sugar. Beotanics is working right now with Enterprise Ireland and Teagasc Moorepark to trial the processing of the crop and the extraction process.

On top of this, Fitzgerald is the first grower in Ireland to commercially grow wasabi, the Japanese horseradish plant that’s notoriously tricky to produce due to its disease-prone nature.

“Wasabi is very niche but it can be used for wasa-



Pat Fitzgerald’s plant nursery in Stoneyford, Co Kilkenny.

bi coatings and seasonings in a whole range of food products. It’s also used in cosmetics,” says Fitzgerald.

“What I’m looking to do by processing these alternative crops is deliver plant-based solutions for companies in the food industry. I’m targeting companies looking to develop plant-based food products that are low-carb and high-protein. These will be the plant ingredients they need.”

TIMING

The timing for Beotanics would appear to be perfect, as more and more companies within the food



After 10 years of investment in R&D and plant breeding, we're now starting to see a return on investment

THE FUTURE

Working almost like a mad scientist in his Kilkenny nursery over the last decade, Pat Fitzgerald has developed a range of niche crops that could potentially offer huge returns in the years ahead. The Beotanics business looks perfectly poised to meet the growing demand for plant-based ingredients being created by the flexitarian trend in Europe and North America.

Fitzgerald has taken all the risks to bring this business to where it is today and has invested heavily in R&D to create an innovative range of products. At the same time, demand is clearly growing for plant-based ingredients in the food processing industry.

With a captive supply of these ingredients, Beotanics will now find itself moving into a new phase where scaling its supply to meet the needs of large food processors will be essential. The company is certainly one to watch over the coming years.



a plant science laboratory, a plant quarantine area and a specialised R&D greenhouse. However, Fitzgerald feels the business is now on the verge of commercial success.

"We spend over €200,000 every year on R&D, which is a very high percentage of our balance sheet. But after 10 years of investment in R&D and plant breeding, we're now starting to see a return on investment," he says.

In the last year, the company has started putting out feelers to potential customers in Ireland and further afield. Fitzgerald says his range of plant-based ingredients haven't got traction to date in Ireland but customers in Europe are already interested.

"We're in a two-way dialogue with some very large companies in Europe about these products. Continental customers have been very quick to react to our ingredient range because we can grow these products in Europe and work within the existing supply chains of the companies," says Fitzgerald.

"If food companies want to process the plants into powders themselves then we're happy to let them do that either. What we're selling is the IP of these ingredients," he adds.

CHR Hansen, a Danish bioscience company with over a €1bn in sales last year, is already engaged with Beotanics around its purple sweet potato variety. Hansen develops natural solutions for the food, pharmaceutical and agricultural industries, including specialised ingredients, food cultures, enzymes, probiotics and natural colours for everything from food to drinks and sweets, and even animal feed.

When you've got the attention of a company like that, you know you're on the right track, says Fitzgerald.



industry seek to develop plant-based offerings for the flexitarian consumer. Added to this, Fitzgerald says there is no other company in Ireland doing what Beotanics is doing and very few anywhere in Europe that he can see.

The company's new crop varieties are protected under intellectual property (IP) and it would take competitors years to develop their own varieties. To get to this point, Fitzgerald has invested heavily in his Beotanics business.

Just last month, the company announced a €1m investment to build a new research and development (R&D) centre in Stoneyford, which will include

ADAPT OR DIE

Lorcan Allen profiles three Irish agri-food companies that have successfully adapted their products to win business in new markets

In all of the analysis in the lead up to the Brexit vote in 2016, Ireland's agri-food sector was repeatedly highlighted as the most exposed sector, particularly if the trading relationship between the UK and EU reverted to WTO rules. The UK accounts for €4.5bn, or 37%, of Ireland's total food and drink exports, which stood at €13bn last year. Some sectors are more exposed than others, with over half of all Irish beef, pork, cheese and mushroom exports destined for the UK market.

Because of its proximity, similar culture for food and drink, and shared language, the UK has long been the most attractive and straightforward export market for Irish food exporters to focus on.

COOLHULL FARM

However, on 24 June 2016, the world awoke to the news that the UK had voted to leave the EU, realising the worst fears of business leaders in Ireland's agri-food sector. In the aftermath of the Brexit vote, stock markets tumbled, the value of sterling collapsed and Barry Murphy, managing director of Wexford company Coolhull Farm, knew he had a problem on his hands.

Like most food companies up and down the island of Ireland, Coolhull found itself very exposed to the UK market, where the company sold a whole range of desserts such as ice cream, cheesecake, mousses, pastries and cakes made using milk from the Murphy family farm.

In 2016, all of Coolhull's export business was destined solely for customers in the UK market. Murphy set to work diversifying export sales to safeguard the family business from the risks of Brexit.

"When Brexit came along, the UK was our only export market," says Murphy. "But we pushed our-



Coolhull Farm managing director Barry Murphy, left, and his father Tomás Murphy at the Family farm in Wexford. Coolhull's exposure to the UK market has reduced to 20% of total sales.

Ger Lawlor
Photography

elves to look at new markets and started attending trade shows like Anuga and Internorga in Germany. For the last two years we've been selling into Europe and now have sales into new markets like Germany, Sweden, Finland, the Netherlands, Belgium, Luxembourg, Denmark and Croatia.

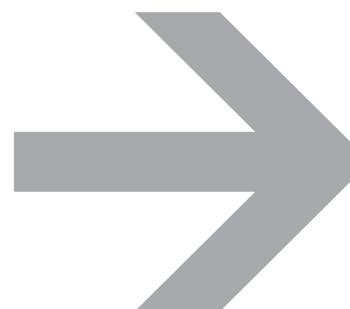
"We never would have gone near these EU markets if it wasn't for Brexit. Volumes are only starting but we're establishing a footprint," he adds.

Heading into 2019, Coolhull's exposure to the UK market has reduced to 20% of total sales and this will only continue to shrink as the company sends greater volumes into continental markets.

The company has doubled down on new product development because consumer tastes in continental Europe are typically very different than the original products Coolhull developed for the Irish and UK market.



Coolhull found itself very exposed to the UK market, where the company sold a whole range of desserts such as ice cream, cheesecake, mousses. \ Ger Lawor Photography



ADAPTING TO NEW TRENDS

OAKPARK FOODS

It's a similar story at Tipperary pork processor Oakpark Foods. David Brett, managing director of the company, says the UK was always a comfortable, high-value export market to do business in. Brexit has changed all that.

"We dipped our toe into exporting to the UK for the first time in 2008 when we did some promotional listings with Lidl UK. It started out small-scale but a decade on and we now have a full listing with all of Lidl's stores in the UK. We also have nationwide contracts with Morrison's and Iceland," says Brett.

For Oakpark, which generated sales of €35m last year, exports now represent 40% of the total business, with most export sales going to the UK. As a result of the Brexit vote, the company now finds itself where it was with the UK market 10 years ago and is dipping its toe into new export markets in Europe in a bid to diversify.

"Through our connections with Lidl, we're developing new sales markets in Europe," says Brett. "We're at the stage with Lidl in Europe where we were with Lidl UK 10 years ago. Every second week we have an order going out to Europe to test what works in different markets. It may take a couple of years, but if we can get a full listing in one or two markets out of this it would be fantastic."

CHALLENGES

However, breaking into new markets is not straightforward. According to Brett, the biggest challenge the business now faces is trying to adapt Oakpark's product range to the tastes of European consumers.

"The rasher is a staple of the British and Irish diet. But they're not frying up rashers in Paris," he says. "We're going to spend about €1m over the next three years on R&D and new product development to adapt our products to the EU consumer."

Oakpark has its own R&D team in-house that work with Enterprise Ireland on designing new products, as well as new packaging to extend shelf life. Pork products such as streaky bacon and lardons are the types of product that Oakpark is starting to manufacture on a larger scale to win over more European customers.

The company has recently acquired and retrofitted a second processing facility in Clonmel, which is now up and running producing product for the EU market.

David Brett, managing director of Oakpark Foods. \ Donal O'Leary



Liam Queally, managing director of Irish Dog Foods.



IN 2016, THE UK MARKET ACCOUNTED FOR 80% OF OVERALL SALES IN THIS BUSINESS. TODAY IT ACCOUNTS FOR LESS THAN 15% OF SALES

IRISH DOG FOODS

Another example of market diversification is Irish Dog Foods, the Kildare-based pet foods company owned by the Queally family. According to Irish Dog Foods managing director Liam Queally, Brexit forced a complete rethink of the company's export strategy.

"After the Brexit vote, we turned the business on its head and started focusing on other markets," says Queally. "We started looking at Europe initially and then turned to the US market. In 2016, the UK market accounted for 80% of overall sales in this business. Today it accounts for less than 15% of sales."

While the UK market now accounts for a smaller share of exports, Queally says sales to UK customers have actually grown over the last two years. The big difference has been the increase in product being shipped to key markets such as Germany and the US.

To achieve this rapid diversification, Irish Dog Foods has invested heavily in developing new products for the attractive US market by focusing on the 'humanisation' of pet food.

Queally says the most successful products over recent years has been the company's superfood range of pet foods that are made with kale, spinach, carrots or sweet potato. The company is playing into the clean, green image of Ireland with its customers in the US.

SILVER LINING

Since 24 June 2016, the Irish food industry has known that Brexit would be bad for business with the potential for many food companies that are extremely exposed to the UK to be seriously damaged.

However, if there has been a silver lining to Brexit for the Irish food industry, it is that it has forced many Irish food companies into new markets in Europe or further afield. Most Irish food companies begin exporting to the UK market because it is our nearest neighbour, we have a shared language and our food culture is very similar.

As a result, food companies never had to bother looking too far outside the UK for export business when such an attractive and high-value market was on their doorstep.

However, Brexit has pushed many Irish food companies just like Coolhull, Oakpark and Irish Dog Foods out of their comfort zone to seek out new opportunities beyond the UK in a bid to diversify their sales. To win business in new markets in Europe, the US or Asia, companies will often have to tweak or alter their product range for different consumer tastes, overcome a language barrier or even bring new expertise into the business.

And while this can be a challenge, it will ultimately stand to the Irish food industry in the long run and harden the resilience of food companies. As Coolhull, Oakpark and Irish Dog Foods will attest, there is more than enough opportunity out there to de-risk from the UK. Firms just need to seek it out.

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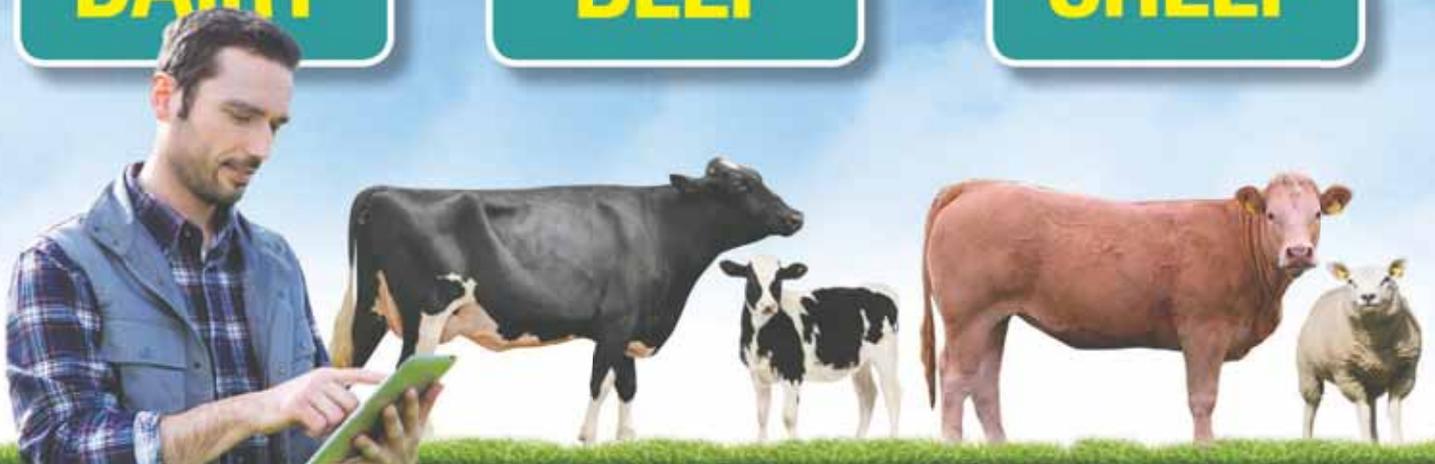


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