

The National Dairy Council

Annual Conference and AGM

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Speech by Senator FEARGAL QUINN:

"Why it's More Important Than Ever to Listen to the Customer"

Location: Clarion Hotel, Dublin IFSC

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"Why it's More Important Than Ever to Listen to the Customer"

Introduction

I am delighted to be asked here today to address *The National Dairy Council* Annual Conference for 2010.

I am asked to speak all around the world but I am really glad that I have been invited here to talk about the vital, home-grown, Irish dairy industry.

The dairy industry is of massive importance to our economy. According to *The National Dairy Council*, the domestic Irish dairy market is valued at €1 billion, and the foreign market is an additional €2.36 billion, or 27% of our entire food and drink exports. This supports 22,000 farmers, who produce more than five billion litres of milk annually.

I want to commend the work of *The National Dairy Council* in driving a sustainable dairy industry in Ireland and in educating consumers on the role of dairy in their lifestyles.

It is of course a challenging time at the moment for all those in the industry, so coming together to have a discussion such as the one taking place today is one of the things that is most needed.

Listening to the Customer and Changing Markets

The Irish customer's attitude has changed radically since the financial crisis hit. During the boom years in Ireland, so many were willing to pay more for a designer watch or handbag because of the status it carried. Now, many customers are foremostly looking for value for money. I know the dairy industry is facing similar challenges as many consumers have tended to trade down to save money while the volatility in milk prices which has forced farmers to maintain downward pressure on costs.

There are massive challenges for the dairy industry but there are many encouraging signs. Analysts say that the medium-term outlook for milk price is positive with most predicting a recovery arising increased world demand.

'Innovation' is the buzzword in Irish politics at the moment. The word is usually associated with high-tech ventures but can we not invest in a similar way in dairy?

Irish fresh produce (and that includes dairy) has massive possibilities for expansion. It is amazing to consider that Ireland is only the 24th largest milk producer in the world and the 17th largest beef producer.

On the other hand, a country like New Zealand is the 8th largest milk producer and its co-operative *Fonterra* is the world's largest dairy company which had a market share of around 2.7% of world production two years ago.

Glanbia was the 20th largest dairy company, with a market share of 0.4%. New Zealand is not even as large as Ireland. Why can Irish producers like *Dairygold*, *Kerry* and *Glanbia* not be the biggest in the world? Why is a country like New Zealand much more successful than Ireland?

I have always maintained that a good leader should be an excellent "listener". He can acquire much information and do the right thing by listening. There is a wonderful Irish saying which I think sums up what the Irish dairy industry must do, especially in these turbulent times: "*Éist le fuaim na habhann agus gheobhaidh tú bradán*"; listen to the sound of the river and you will catch a salmon." Business consultants, *Mazars*, have highlighted how New Zealand is listening and taking advantage of markets all over the world.

They said that New Zealand's success has been founded in its innovative approach to new markets, of course in Asia, but also in many existing markets. The shift caused by growing wealth to dairy and meat products has been well documented.

The report found that "The food industry in New Zealand developed specific measures and worked with external partners to develop new technologies and new products. They created specific products for specific markets and created best practice dairy markets in Asia. Look at the fact that despite New Zealand being 12,000 miles away from European markets, they have been very successful in exporting their agricultural produce to the EU.

The Irish food industry has to look more and more to export markets despite the challenges of increased competition and rising logistical costs. It can achieve this by moving more and more to developing premium products and developing the 'specific' model – as I have mentioned, *specific products for specific tastes* in specific markets i.e. listening to the customer.

Look at the situation in countries like France and Belgium. I am surprised at how little fresh milk or cream is on offer on the shop shelves. Instead, they seem content with UHT or other long-life milk. Is that because that is all that is on offer? I looked up some figures and was amazed to find that UHT milk accounts for over 95% of milk consumption in Spain, France and Belgium. I suppose there is the transport argument but surely quality, fresh Irish dairy produce has much, much more of a role to play in these markets just on our doorstep? Perhaps more discussion is needed as to how Irish dairy can break into these markets.

Also look at the milk bars that are sprouting up all over Asia and even in Germany. In one Japanese Milk bar, for €3.50, you can drink a small glass of un-homogenised milk from a traditional Japanese farm or try other dairy snacks. It is

an interesting development to see how highly milk is coming to be valued in certain countries and the Irish dairy industry has to promote their product as the best in the world in these types of emerging businesses.

One also has to bear in mind the startling figures from The United Nations Food and Agriculture Organisation which has stated global food production will have to increase by a massive 70% to provide for an additional 2.3 billion people by 2050.

Research and innovation will be crucial to do this. Look at the fact that the Swiss company *Nestlé* - the world's biggest food company - has 5,000 people directly involved in R&D and has 28 research centres across the world. Ireland is, of course, severely lagging behind in this regard.

I am very glad that *Bord Bia* has taken on this message is urging Irish food manufacturers to take risks and experiment in product development by utilising the kind of "regional centres of competition" that helped make Silicon Valley in California the hub of global software development.

They have also emphasized the point about listening to the customer. They say that Irish exporters should be encouraged to collaborate rather than compete while focusing on innovation leading to differentiated market positions and brand building based around customer feedback as a means to capturing greater market value. Listening is not an activity you can delegate - no matter who you are.

The report believes that propelling 'brand Ireland' further into the limelight with the possibility of brand sharing, as branded products can earn double the margins of commodities. Ireland has the most amazing plus-points when it comes to dairy (e.g. landscape, history, quality), yet I am not sure that we are making the most of these assets.

The fact is that the Irish dairy industry produces over 60% of its output in the form of "base" type products (e.g. butter, powder and bulk cheese) and has still has very few internationally branded products. Thus there is massive potential to expand.

However, to me it seems that a move to a single consolidated dairy player would be a logical step and bring major benefit to the Irish dairy industry. In Holland, Sweden and Germany, milk production is dominated by a major co-op and this of course, will be a major topic of discussion at the conference today.

Innovation at Home

There are some really bright ideas coming from Irish dairy farmers. Brid and Roger Fahy from New Quay have brought the idea of 'direct selling' using milk vending machines to Ireland. They first saw the concept work on the continent some years ago, where milk dispensers are common at farmers' markets.

The Fahys maintain the big plus of the Italian-made Latteria milk dispenser is that it makes selling milk direct to the consumer very simple. The Fahys pasteurize the milk at home and transport it to their dispenser, preferably at a local shop. Consumers will bring their own containers, insert coins and leave with fresh milk. They believe consumers are ready and willing to buy milk direct from the farmer and can see the benefits of this new approach that supports local producers, reduces their carbon footprint, uses less packaging and provides fresh whole milk. It is also amazing to think that apart from dispensing milk, the machine keeps the milk cool, monitors temperature and will even send a text to the farmer when the milk is running low and provides a full printout of amounts dispensed.

Of course the biggest challenge will be explaining the new way of buying milk to the consumer and really driving home the benefits. Educating the customer is nothing new. In 1960, when I opened the first *Superquinn* in Dundalk, my father came down to see the shop a few hours after it opened and as he was walking up Clanbrassil Street, he saw people with our baskets in their hands. He said to them he didn't think they were meant to take them out of the shop and people were genuinely amazed they had to leave them at the door.

Changing a culture is never easy, but I am glad to see that there are those who are really trying. But as with everything else in the customer-driven approach, you should take the attitude "Why not?" to new ideas rather than concentrating your energy on rejecting them.

Health and Dairy

Speaking on consumer concerns, I am somewhat dismayed by the negative publicity that milk and dairy so often gets. Milk and other dairy products are nutritious foods which, in the right quantities, contribute to good nutrition and consequently that supports good health.

More and more research is being published that shows a positive influence of dairy on the prevention of risk of disease and a positive influence of dairy on health. I think it is also easily forgotten that only about one per cent of the population is allergic to dairy.

I am more inclined to listen to those like the public health specialist, Professor Patrick Wall of UCD, who has said agri-food products such as milk and meat were being 'vilified' and 'demonised' yet these were actually *staples* in the food pyramid. The point has been made that if we encourage people to have a glass of milk than a can of Coke, people would have a lot less health problems.

The fact is that the bad publicity surrounding dairy may be having a big effect on the country's health. I was amazed to hear from *The Osteoporosis Society of Ireland*, that the statistic for women suffering from osteoporosis has shifted from one in three to one in two women who are affected by brittle bones in just a short period of time.

Take also the situation in the United States where over 10 million people aged over 50 are suffering from osteoporosis. "High protein" has been number one description found on the packaging of healthy product launches targeting senior consumers there in the past number of years. More consumers are now aware of the relationship between protein intake and muscle mass, which can aid walking and reduce pain and fatigue.

Why can't Irish dairy products compete better with these artificial products? The ageing population is massively expanding - In Ireland, the number of people aged 65 and over is projected to rise from about 700,000 to 1.89 million by 2041, an staggering increase of 169 per cent. Furthermore, the number of people aged 75 and over will reach almost one million by 2041, three times the number living now. The dairy industry, with its high calcium and protein content is in the ideal position to tap into this rapidly growing market.

Successful products will be those that can boost the immune system over time, as well as offer quicker fixes. The dairy industry, like any business, will have to adapt – and it is. There was a new report carried out by Georgetown University in Washington DC and funded by the *Actimel* makers, the dairy giant, *Danone*. It claimed that children who drank a yoghurt drink every day were 20% less likely to suffer from common infections. (*I have heard from one of the senior figures at Danone who said that 'who would have believed years ago that we would be selling yoghurts that help someone to go to the toilet!'*)

I was very glad to hear that the European Union recently approved a three-year campaign to promote nutritional benefits of dairy consumption and I believe this will be ably handled by *The National Dairy Council*.

Sustainability and Dairy

Customer preferences have radically altered since I first got into the grocery business. I was able to see very clearly how interest in healthy food has widened and deepened. People grew very eager to know where the food they buy came from; in some cases right down to the farm the animal they are buying was raised. They wanted to know what ingredients are in their food, which makes it vital that manufacturers give them all the information they want to know on their packaging.

The launch of *The National Dairy Council* trade mark last year – “*Farmed in the Republic of Ireland*” – brings much needed clarity to consumers in the South about where their milk has been both farmed and processed. The trade mark is now on hundreds of packs of milk and cream packaging, including both branded and private label produce farmed and processed in the Republic.

The consumer is now demanding sustainable practices which include the dairy industry. As a grocer, I know that consumers want to be sure that the food they buy and consume is not only safe, healthy, nutritious and affordable, but that it also meets the highest levels of environmental sustainability.

In the current recession, our industry has focused on maintaining low prices for consumers. Regardless of how long this recession lasts, though, the need for the food business to focus on sustainably sourced food in addition to value will not go away.

In my opinion, the key factors that will increasingly shape the food industry of the future to make it more sustainable will be more organic produce, more local food, less beef and greater efficiency in distribution.

On the business side, retailers and consumer product makers are seeing a commercial benefit to promoting organic food, as environmentally conscious consumers increasingly choose organic products.

I read of Gerry and Mary Kelly from Mullingar who bottle their own *Moon Shine Dairy* milk was awarded first prize at the 2009 National Organic Awards. The Kellys decided on organic certification over 10 years ago as a way of adding value so that they could continue farming. They say that it wouldn't make sense for every dairy farmer to start bottling milk. However, it may make sense for farmers to consider how they can work with their local dairies to 'add value'.

Some Irish farmers are now also now moving to producing more diverse products such as buttermilk, ice cream, clotted cream and many other dairy-based foods.

We need to explore ways as to raise the perception of Irish food, both at home and abroad, to reflect its fantastic quality.

Bio-fuels

There really seems to be so many new ideas that could be taken up by the dairy industry. I have been amazed to see that alternative energy researchers in Greece have come up with fuel cells which are powered by a by-product of cheese - or at least whey. So, just one small cheese facility could need to dispose of as much as 4,000 tonnes of whey in a single year, says and fuel cells could help, and not just in the cheese-making industry. Breweries, pig farms, food-processing plants and even sewage works could gain from the technology.

Look also at the example of “*Gull Force 10*” which is a bio-ethanol is produced by *Fonterra* from the fermentation of whey, a by-product of New Zealand's dairy industry. Other countries have been using similar fuels for many years now. Can Ireland look at investing in such production?

These are all very encouraging developments for the Irish dairy industry. The dairy industry has a critical role to play in adapting to sustainable policies for the benefit of our environment. We must balance our competitiveness with environmental sustainability - a challenge that I think we are up to.

The Common Agricultural Policy

It has been said that there is a sense among those in the industry that Irish dairy is entering a critical time due to two major factors - increased competition as markets open up, and the planned removal of milk quotas in 2015. Ireland must prepare now and will hopefully be in a strong position to get more of the global market. Research and Development and modern business planning have to be implemented now and also get the much-needed support from the government.

On the Common Agricultural Policy post-2013, I must say that I am somewhat critical of those who speak about food and agriculture without mentioning the consumer. Perhaps there is more of a bias towards the interests of farmers, rather than necessarily thinking of consumers.

The EU Agriculture Commissioner (Dacian Ciolos) has indicated that he wants to move towards more local production and quality produce. His big idea is to ensure that CAP mechanisms help small farmers to sell directly to local shoppers, thus bypassing the big supermarket chains. He also wants more precise labelling to encourage consumers to buy more local produce. These would be welcome developments.

Conclusion

I have made it my lifetime's work to build a business on the principle that the most important thing is to bring your customers back to you, again and again – what I call the 'Boomerang Principle'.

The quality of Irish dairy brings people back but that one of the things that strike you most forcibly is how quickly customers change. Look for instance at people's health concerns with dairy products.

Today's customer is not yesterday's customer. Still less is yesterday's customer the customer of tomorrow. One of the biggest challenges that face all businesses, whether they are big or small, is that of keeping up with your customers as they career along the road to change.

As I have mentioned, the demand from customers for healthier, more sustainable, and more diverse dairy products seems to be never-ending. Markets, too, are rapidly changing not only in Asia but even in our neighbouring European countries.

The ancient Greek philosopher Heraclitus once said '*You never step in the same river twice*', by which he meant that though the river went on being called by the same name, the actual water at any given moment was totally new. I believe something the same can be said about customers today; their tastes and preferences are changing so fast that in a real sense we hardly ever serve the same customer twice.

One thing will remain certain: the person who stays in the ivory tower of his factory or business premises, and turns his back on getting close to the customer will fail to reap the benefits of changes in customer preferences.

As always, the customer is king and deserves all the respect that's appropriate to that station.

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