Dairy in Global Foodservice

Strategic Summary -
dynamics, segmentation & prioritisation

Prepared for IDF World Dairy Summit

23rd November 2004

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Agenda

- **Global Foodservice Market**
  - by region
  - in France, The Netherlands, Argentina, Poland, Ireland & Canada
  - by channel
  - by role of dairy
- **Foodservice Dynamics & Opportunities**
  - industry, distribution, consumer dynamics
  - trends to 2008
  - market environment to 2008
- **Dairy Dynamics & Segmentation in Foodservice**
  - criticality of foodservice dynamics to dairy
  - dairy opportunity in markets under review
  - market opportunity segmentation by channel
- **Strategic Prioritisation**
  - Defend- products and customers
  - Develop- products and customers
  - Grow- products and customers

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Global Foodservice Market

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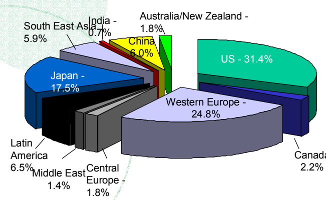
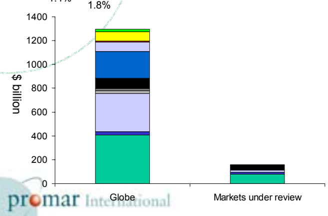
Global foodservice market by region





- Total value: $1,297 billion
  - US $407.8 billion
  - Western Europe $321 billion
  - Japan $227.4 billion
- Leading three markets account for 73.7% of total with 13.1% of the population. Developing foodservice markets are worth $288.9 billion - 53% of which is spent in China and South East Asia
- Markets under review are worth $156 billion in total, or 12.0% of global foodservice:

France	$78.1 billion
Netherlands	$19.3 billion
Argentina	$15.0 billion
Poland	$4.1 billion
Ireland	$4.2 billion
Canada	$35.5 billion

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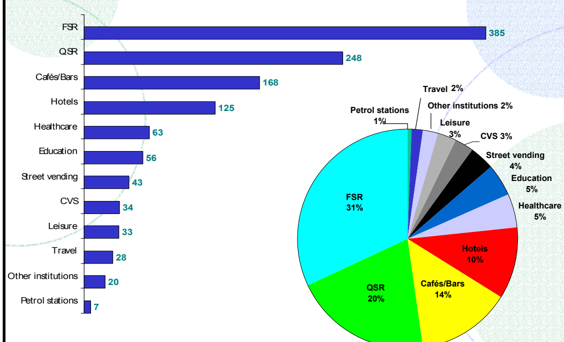
Global foodservice market by channel



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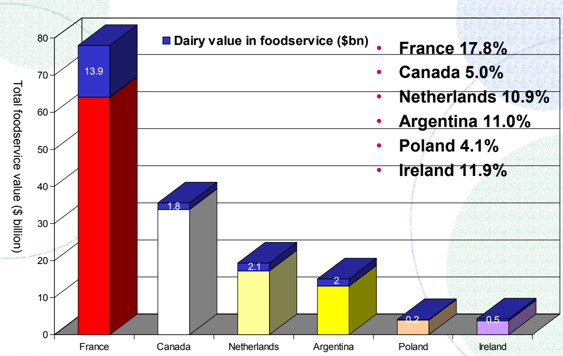
Dairy products in the foodservice market



- **France 17.8%**
- **Canada 5.0%**
- **Netherlands 10.9%**
- **Argentina 11.0%**
- **Poland 4.1%**
- **Ireland 11.9%**

Sources: Promar International, USDA, Gira, Dairy Farmers of Canada, Foodservice Information Group, Sinéad O'Connell, Przemyslaw Ratajczak, Nowcosci Gastronomiczne, Central Statistic Offices, SanCor Cooperativas Unidas

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Foodservice Dynamics & Opportunities

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Industry drivers for change

INDUSTRY DEMANDS
- Bespoke product development
- Convenience
- Kitchen deskilling
- Traceability
- Just-in-time delivery
- Supply chain re-engineering

IMPACT
- Relationship management → Operator
- Product/convenience → Manufacturer
- Distribution → Logistics supplier

- Coalescing marketplace concentrates purchasing power in fewer hands and leads to more direct, bespoke relationships between manufacturers and operators
- Operators seeking margin are willing to pay extra for more added value, convenience products that reduce need for cooking skills and, hence, labour costs
- Increasingly, operators-manufacturers seek to leverage brand power generated in retail by placing products front-of-house

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Distribution drivers for change

DISTRIBUTION FACTORS
- Increased competition
- Direct operator-manufacturer relationships
- Own label growth
- Growth in wholesaler role

IMPACT
- Consolidation → Manufacturer
- Product variety/price → Operator
- Purchasing/logistics → Logistics supplier

- Large operators working more closely with fewer suppliers are either developing internal distribution networks or working with large wholesalers
- Operators seeking margin increasingly willing to use own label products back-of-house developed by major wholesaler players in co-operation with manufacturers
- Consolidating wholesale markets lead to major wholesalers taking on role incorporating supply chain logistics, specialist wholesalers ejected from market

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Consumer drivers for change

CONSUMER DEMANDS
- Experience
- Convenience
- Cost-value equilibrium
- Variety
- Freshness/quality assurance
- Availability

IMPACT
- Outlet format/location → Operator
- Product/price → Manufacturer
- Distribution → Logistics supplier

- Entire foodservice market becoming more consumer-centric. Though manufacturers and producers remain removed from the consumer they will be expected to understand consumer trends in order to shape more effective offerings to powerful operators
- Consumers looking for more defined concepts from operators and less constrained by channel for different experiences
- Knock-on impact for manufacturers and producers is to fit in with the experience generated by the operator a process aided by closer, deeper relationships between manufacturers, wholesalers and operators

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Key foodservice trends to 2008

- Market size to increase by $298 billion - a 23% rise at a compound annual growth rate of 4.22%
- Core markets of the US, western Europe and Japan to maintain leading position with little shift in value share
- Of the remaining markets, China will show the greatest proportional increase in value to $124 billion
- Channels will, on the whole, maintain share of global market, though this hides shifting spend in individual regions
- Organisation of foodservice will increase across the globe and channels as developing markets experience consolidation

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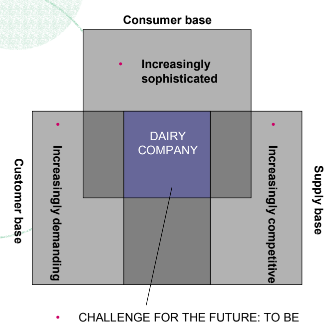
Market environment to 2008



- Suppliers will have to deliver a broader range of products appropriate to an increasingly fragmented spectrum of eating occasions.
- These eating occasions will be related to consumer demand for food and drink at all times of the day and night, in social, individual and communal situations.
- To serve this consumer base, operators will be more focused, less accepting of inefficiency, and working more closely with fewer suppliers.

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Dairy Dynamics & Segmentation in Foodservice

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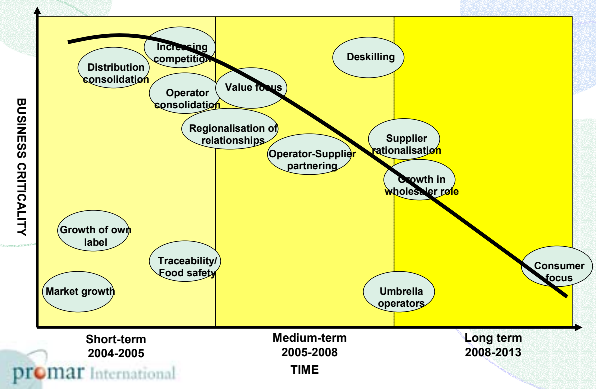
Criticality of market dynamics for dairy sector



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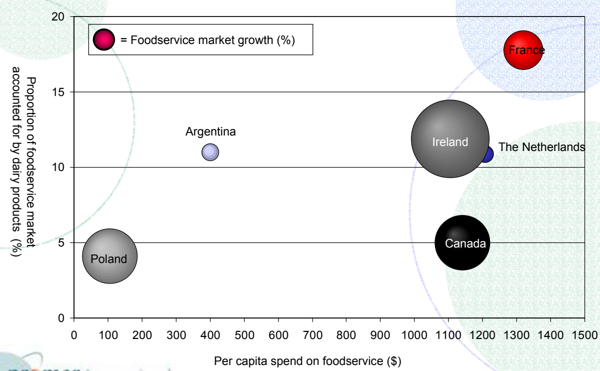
Dairy opportunity in the foodservice market



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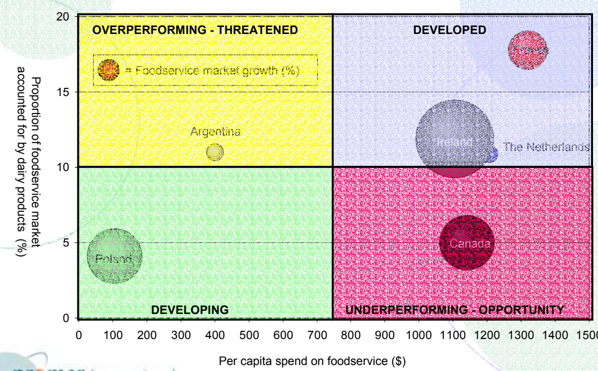

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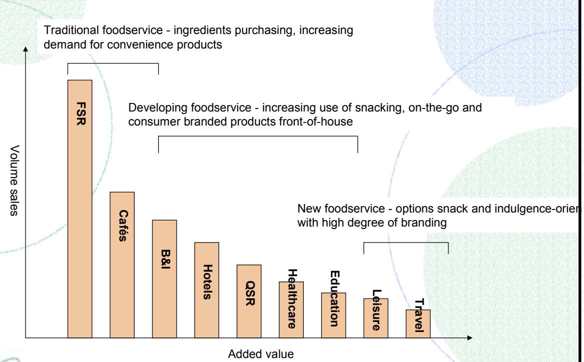
Dairy role by channel



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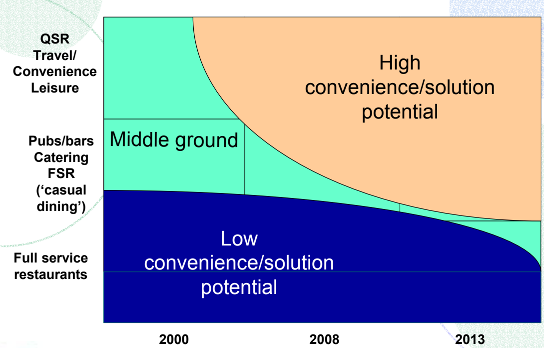
Optimising product/service mix



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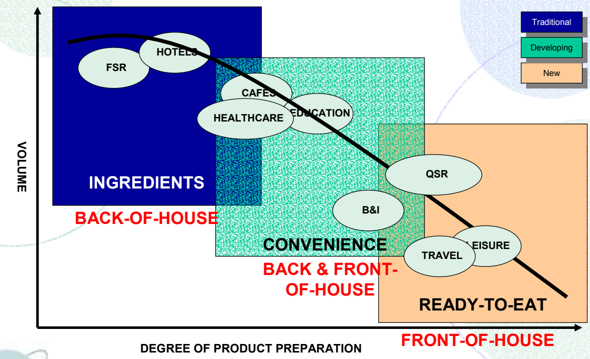
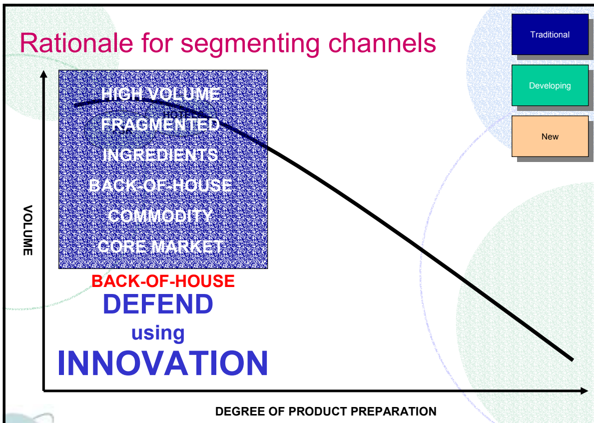
Strategic Prioritisation

Segmenting channels into marketing categories



Rationale for segmenting channels



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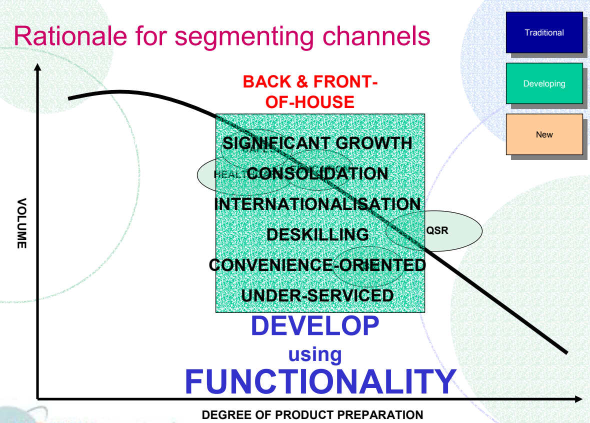

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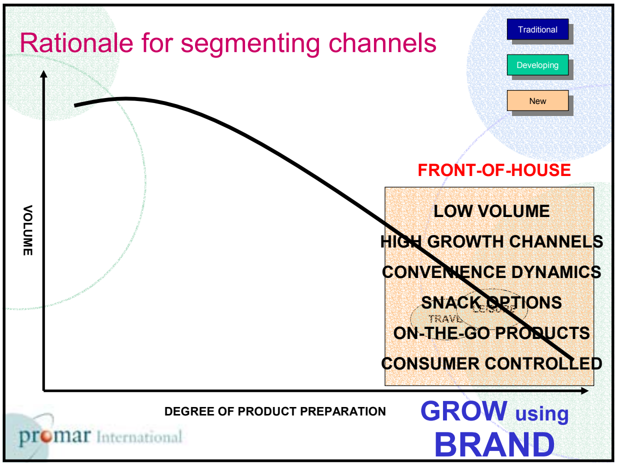

Successful dairy sectors in foodservice

- Strong leadership
- Clear market messages prevail
- Think about end use, not technical spec
- United in front of customers
- Transparent
- Benchmark against the competition
- Invest
- Avoid “me too”
- Use of joint ventures and strategic alliances