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TOMORROW IS TODAY: THE FUTURE OF WORLD DAIRY MARKETS

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ABSTRACT

"Tomorrow is Today: The Future of World Dairy Markets" can actually be summed up neatly in just two words - "change" and "opportunity". This is because for anyone involved in the dairy industry in the 1990s - producer, supplier, manufacturer, distributor, marketer, policy-maker - this will be an era of change, and **change always presents opportunity**. An overview of some of the changes Kraft General Foods expects is given.

1 INTRODUCTION

I will start by explaining "who" Kraft General Foods is, **why** we anticipate change, and **why** Kraft General Foods views change as an opportunity and not a threat.

Kraft General Foods was formed in 1989 by the merger of two long-established food companies - Kraft and General Foods to which was added Jacobs Suchard about 1 year later. Kraft General Foods is part of Philip Morris Companies. Today Kraft General Foods is the largest food company in North America. In the US we purchase more than $5 billion each year in agricultural commodities.

In US grocery stores close to 10 cents of every retail grocery dollar is spent on our products - products like Kraft cheeses, Miracle Whip salad dressing, Jell-O gelatin and Jell-O pudding, Post cereal and Maxwell House coffee products. In fact, after McDonald's, Kraft is the second most widely recognized food brand name in the US.

In Europe, our established brand names include Kroenung, Maxwell House and Gevalia coffees, Toblerone and Milka chocolate, Miracoli dinners, Philadelphia Brand cream cheese, a whole range of Kraft products, and an important range of national brands. Around the world, Kraft General Foods sells products in more than 140 countries.

But how is the status of Kraft General Foods related to you and to my topic, "Tomorrow is Today: The Future of World Dairy Markets" ?

Well, our experience, since Kraft's founder J.L. Kraft began selling cheese from a horsedrawn carriage on the streets of Chicago in 1903, has been that the history of dairy markets is one of constant **change**. Success in the past has come from effectively responding to changes in market conditions and in consumer needs. So at Kraft General Foods we believe that as the dairy industry around the world looks to the future, the industry must understand that the "constant" tomorrow is like the "constant" today. And the "constant" today was true yesterday.

The "constant" is change.

We believe that to meet the future head-on all of us must view changes as opportunities and be prepared to respond. Of course that leads to the question "But what changes **exactly** can we expect ?" Unfortunately, there is no answer. But my sense is that whatever we can imagine, is close to reality somewhere in the world. When I read of the advances made in medical science, or hear of the possibility of turning straw into food, or stand next to a jumbo jet, surely anything is possible.

As we all know, it is impossible to accurately forecast exactly what will happen just today. So we certainly cannot predict what specific changes will occur in global dairy markets over the course of years.

Nevertheless, I am prepared to suggest **four general areas** that we can all expect to see changes in during the 1990s:

- consumer demand for dairy products;
- dairy marketing and distribution channels;
- dairy processing techniques; and
- milk production methods.

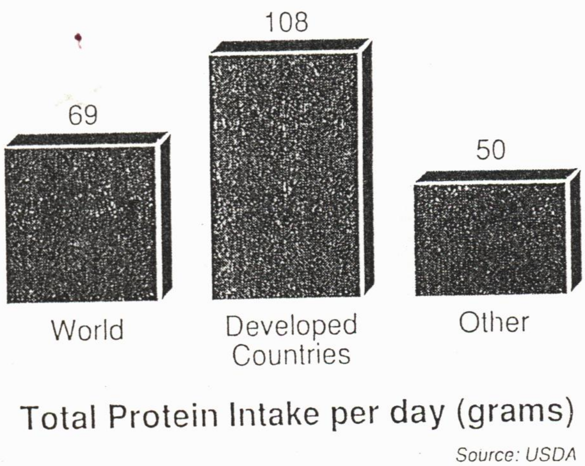


Figure 1: Protein intake around the world.

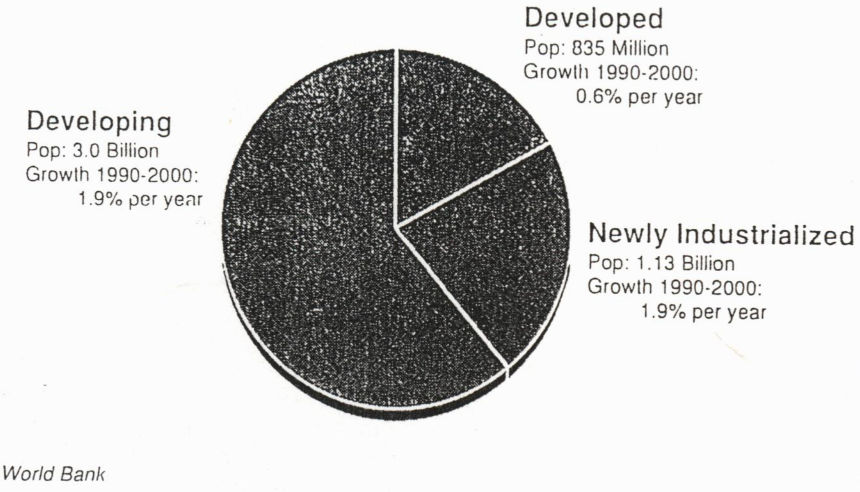


Figure 2: World population, 1990.

2 CHANGES IN DEMAND

Here I will look at two categories of demand where we should see continued change. The first category is **demand level**. In other words, the volume of dairy products that people consume in various countries or regions. The other demand category is **type** of demand. In other words, what kinds of dairy products people want or need in various countries or regions.

For comparison let us take a look around the globe (Figure 1). At present, worldwide, the average protein intake per person, per day, is 69 g. However, this varies significantly by country and culture. Average protein intake in North America, Europe and Japan is about 108 g a day. But in parts of South America, most of Africa and much of Asia, it is about 50 g a day. So a tremendous opportunity for increased demand lies in South America, and much of Africa and Asia where 3.7 billion people live. They represent more than half of the world's population (Figure 2).

To help visualize the demand potential here is a rough but interesting calculation to consider. If you assume half of total protein intake in these regions is from dairy, and if you envisage an increase of only 10% in demand for dairy products, that would mean a consumption increase of about 8 billion pounds each year, that is, 20 million pounds a day (Figure 3).

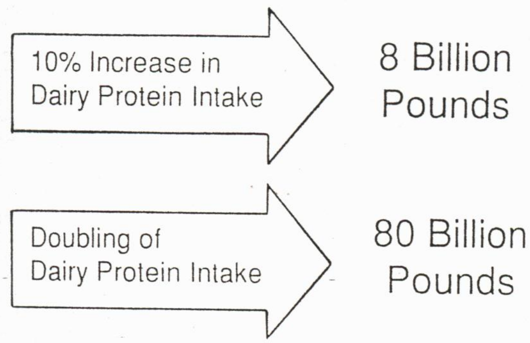


Figure 3: Demand potential.

Now let us consider potential changes in what I called "types" of demand. Around the world, population growth rates have been declining over the last decade, and in the industrialized and more affluent nations of the US and Europe, for example, population growth has declined to the degree that populations as a whole are growing older. The result is a changing consumer base means different consumer needs, so dairy product demand patterns are changing.

But there are other factors affecting the types of dairy products consumers seeks - lifestyle changes, for example. In the US recent consumer trends have included an increase in the number of people eating in restaurants. Currently, about 50% of all food consumed in the US is consumed away from home, and except for a period last year - during the US recession - sales to restaurants and food service outlets have been growing more than 5% each year. The **change** is clearly where consumers eat. The opportunity for the dairy industry in the US is to recognize the trend and respond to the needs of potential dairy consumers who eat out, and the needs of restaurant owners who serve them.

Another change in the US market that affects the dairy industry has been Americans' growing taste for what are referred to as ethnic foods. Currently, the first and second most popular foreign foods in the US are Italian and Mexican. The change is away from what Americans call a "meat and potatoes diet". The opportunity for the dairy industry has been tremendous. The demand for pizza, alone, has doubled the US consumption of mozzarella cheese in the past 10 years.

Finally, in the US, America's concerns about fat and cholesterol have changed diets and, therefore, demand. At Kraft General Foods we believe this trend will continue and even grow, which is why we became the first major food company in the US to introduce fat-free cheeses into the market. We continue to see a two-fold opportunity. It is an opportunity for our own company and an opportunity for the dairy industry as a whole.

As partners, we need to educate the public about the nutritional aspects of **all dairy products** while at the same time providing reduced-fat and fat-free dairy products to the health-conscious segment that desires them.

In Europe, consumption trends also show some interesting patterns of change (Table 1). First, in general, overall per capita consumption is not growing, and it has declined by half a percent since 1985. In a no-growth market, changes in age and lifestyle have presented the greatest opportunity. For instance, fresh cheese represents one of the fastest growing segments in many European countries. Fresh cheese is the most dynamic sector in France, which still has the largest per capita consumption of cheese at 23 kg (about 50 pounds) per person each year. However, the demand for fresh cheese has grown the most in Germany, Italy, Belgium, Spain, Denmark and the United Kingdom.

Table 1: Dairy Consumption in Europe: Change 1980-1990

	% Change			
	Butter	Cheese	Yogurt	Milk
Denmark	-2.2	+3.6	+5.3	-7.7
France	-1.0	+2.2	+5.5	-3.6
W. Germany	+2.0	+2.7	+6.1	-0.2
Italy	+0.9	+2.3	+2.4	+2.8
Spain	+1.8	+4.0	+9.4	0.0
UK	-4.4	+3.4	+7.2	-1.5

Source: Europmonitor.

In a country like Denmark, where yogurt is a traditional dairy product, consumption remains high. Nevertheless, it is declining. However, consumer trends make yogurt a growth market in other countries. This is true in the UK, where per capita consumption is still very low; and Germany, where fruit flavors and low-fat natural varieties are driving the market; and several countries where yogurt drinks are becoming increasingly popular.

Of course, no overview of dairy demand in Europe would be complete without a look at liquid milk sales. Though milk sales have generally been flat or declining in many European countries, demand for UHT milk has increased in southern Europe. In Spain, UHT milk now accounts for 60% of the market, and Portugal has one of the fastest growth rates for UHT milk.

Crossing the globe for a look at trends in Japan and Asia, there is another view of change and opportunity in dairy markets (Table 2). More Asian diets include dairy products. Ice cream consumption is growing. The increased demand for Italian-style food has increased demand for traditional Italian cheeses, and the growth of fast food establishments has provided a new outlet and demand for dairy products. Asian consumer diets are changing, and that represents dairy opportunities.

Table 2: Dairy Consumption in Asia: Change 1980-1990

	% Change		
	Butter	Cheese	Yogurt
China	+8.0	0.0	+5.4
Japan	+1.7	-2.0	-3.4
Singapore		+5.4	+49.7
Malaysia	-16.6		+10.7
Philippines	+4.6		+38.3

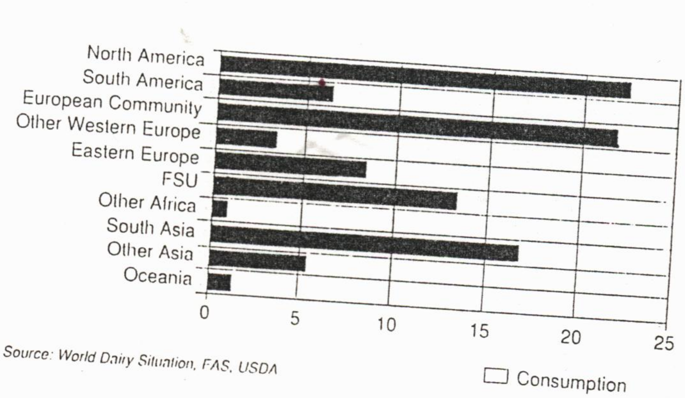
3 DAIRY MARKETING AND DISTRIBUTION CHANNELS

It is a fact that even in well-established markets, traditional methods of distribution are being challenged. In the US, for instance, we have long relied on traditional grocery stores and supermarkets as our primary points of distribution to consumers. But in the past few years we have seen the growth of what we call Alternate Channels.

Your may have heard of Sam Walton, the founder of the company that is now America's largest mass merchandiser Walmart. While he was alive, he was part of a movement that created a whole new store format called Club Stores - that blurred the distinction between wholesale and retail. The Club Store format offers value-conscious US consumers fast-selling, brand name goods, in large sizes, at discounted or every-day low prices. Because total food consumption is not expanding in the US, Club Stores have taken sales away from traditional retail stores. The result has been a change in the places consumers shop, the prices they expect to pay, and the sizes and configurations of packaging that they look for.

A change can also be seen for example in the UK where the traditional doorstep delivery system is being increasingly challenged by the growing volume of fresh milk sold through supermarkets.

For the dairy industry the opportunity is in logistics and distribution. The opportunity is to find the best ways to provide the right products and packages in these new distribution outlets.



Source: World Dairy Situation, FAS, USDA

Figure 4: World milk consumption, 1991 (by region as a percent of total).

There are also opportunities to sell more dairy products through better logistics and distribution in other parts of the world. In many parts of Asia, as well as South and Central America, countries have low dairy consumption rates but fast-growing populations, which makes these markets especially attractive for the dairy industry (Figure 4). However, distribution channels are not well-established, and packaging and presentation needs vary from the United States or Europe. The primary challenge is to develop high quality products and distribution channels that are suited to these high-potential markets.

4 DAIRY PROCESSING TECHNOLOGIES

The third area of change and opportunity for the dairy industry, or change and challenge, is in dairy processing technologies. The perishability and bulkiness of liquid milk has long constrained the manufacturing configuration for dairy products. Plants that convert raw milk to dairy products are typically located very close to the milk supply, and hauling distances limit the size and efficiencies of these plants.

One opportunity is to use technologies that move some processing to the farm. These would be technologies like ultrafiltration that will eliminate the bulkiness of milk so that manufacturing bounds become regional, not just local. Of course, inherent in such technologies would be a need to make changes to existing plant configurations and control systems.

The critical elements in making these changes would be flexibility, low product variability and low cost. These are issues that have already arisen as consumer demands have changed, that is, as consumer lifestyles have changed so have their product and packaging needs.

Markets have grown increasingly segmented, and new segments have new and distinct product and package requirements.

So to meet these and other changing needs, manufacturing facilities will increasingly move from the old methods of
- formulate
- mix
- process
- package...
  - to one of carefully engineered facilities that involve continuous, not batch, methodology
  - to multiproduct rather than single-product production
  - and to "mega-plants" rather than single or regional plants.

Each of these logistical changes represents an opportunity to meet changing needs of consumers faster and better (Figure 5).

5 MILK PRODUCTION METHODS

Today, most of the world's milk is produced by independent, family farm operations, and despite growing concerns about the future of family farms, we at Kraft General Foods believe that these farms will continue to be the source of the majority of milk output. Whether it is a 1000-cow operation in New Zealand or 10 000-head operation in the western United States, family farms tend to be very efficient units, and the advent of improved feeding and genetic gains continue to offer the potential of increased productivity in the future.

However, we will see changes in terms of the structure of dairy markets due to changing government farm and trade policies. In some cases, farm

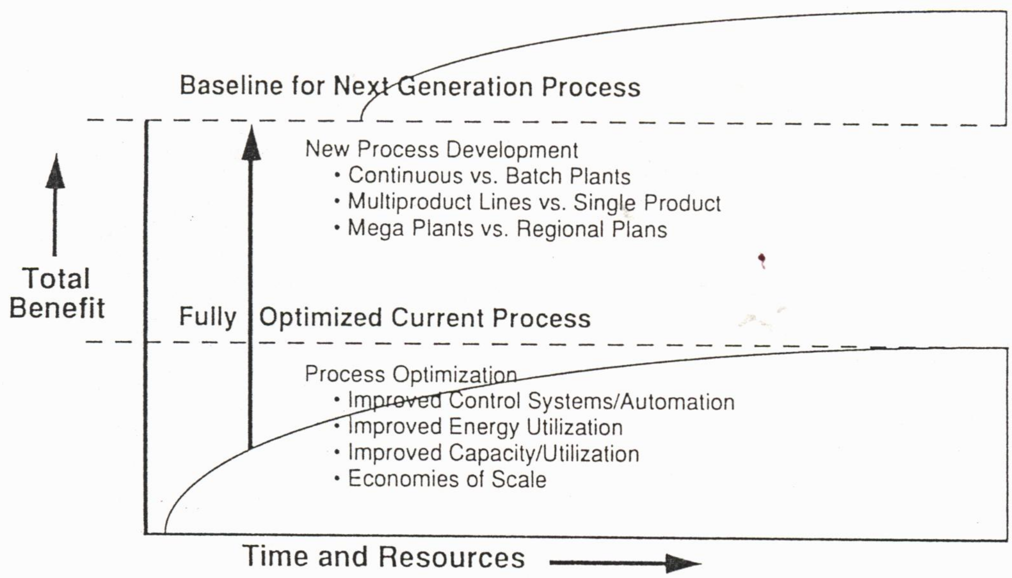


Figure 5: Processing.

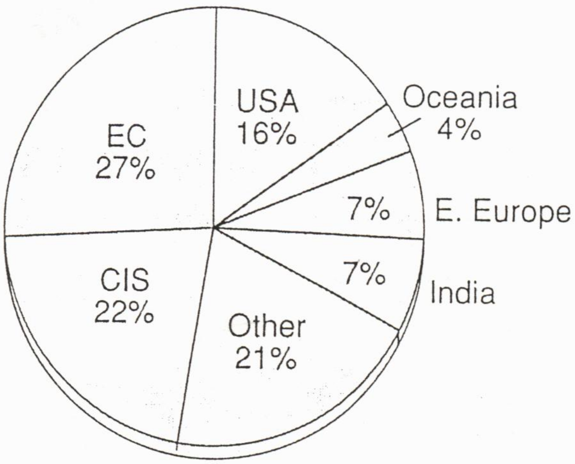


Figure 6: World milk production.

owners will see an opportunity in specialization. In other cases, integration will be the key in particular regions (Figure 6). The consequence is that there should be opportunities for New Zealand and Ireland with their pasture-based industries, and there should be opportunities for intensive-feeding-based operations like those in the Western US or regions of France and Germany.

Looked at another way, any government policy changes under the auspices of GATT, the North American Free Trade Agreement, and Europe 1992 will affect the way individual farms approach production because policy changes affect the nature of competition. But in Australia, New Zealand, the US, Europe, New Mexico, and anywhere else, the producers and marketers who best respond to these policy changes will be those who prosper. The key is to maximize the opportunities inherent in change.

6 CONCLUDING REMARKS

I would like to sum up by saying that I recognize that I have just scratched the surface, which is partly true because the issues related to "Economics, Marketing and Management" in the dairy industry are big, even when confined to only one country - they are enormous when your take the entire globe into account.

The Kraft General Foods' perspective is that change is inevitable, and change leads naturally to opportunity.

In the dairy industry, our opportunity is to continually improve the way we meet consumer needs with quality dairy products. Of course, change is never easy. Anticipating it, responding to it, and managing it is disruptive. But as the Greek, Thucydides, said more than 2000 years ago... "But the bravest are surely those who have the clearest vision of what is before them - glory and danger alike - and yet notwithstanding {they} go out and meet it."

Together, we have the challenge of meeting changing consumer needs around the world and spreading the word that quality dairy products provide taste, nutrition, convenience and variety.

ENVIRONMENTAL ISSUES IN DAIRY PACKAGING: HOW THE GERMAN EXPERIENCE CAN BE APPLIED IN OTHER COUNTRIES

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ABSTRACT

Environmental problems are growing in Germany and the world at large, and packaging is becoming a refuse disposal problem. However, in Germany and a few other countries the problems are reduced by efforts to dispense with, reduce or reuse packaging. It is clear that agriculture, the dairy industry, and the food trade cannot dispense with packaging. The "Green Dot" campaign in Germany is meant to introduce gradually a suitable packaging recycling system.

1 INTRODUCTION

I should like to outline the whole complex of problems associated with the topic of packaging and the environment by reference to the banana.

The banana is already provided with packaging by nature. The contents are protected, and the degree of ripeness is indicated by varying shades of colour on the outside of the skin, ranging from green and yellow, through brown, to black. Perhaps I should say: "indicated on the packaging", or "declared". The packaging is hygienic, and because of its special shape - or should I say "design" (now it is becoming clear why the banana is crooked!)? - the banana enjoys a unique position on the market. I do not know of any imitations.

So much for packaging, now for the environment. With proper disposal of the packaging, there is no recognizable refuse disposal problem with composting. Unfortunately people do not dispose of the "packaging" in a "proper way" and the banana packaging - or should I say banana skin ? - becomes a threat, for example, accidents caused by slipping on a banana skin, even including bone fractures.

We can therefore state even now that, on the one hand, packaging has its advantages but, on the other hand, it has its dangers which can be averted only through proper disposal. What does not occur to me in connection with the banana is the demand often made to dispense with packaging and the refuse associated with it. However, this is something to which I shall return later.

2 REPLIES TO A QUESTIONNAIRE

First, the replies of a questionnaire sent out on the topic of the environmental issue in dairy packaging will be outlined briefly.

In the last 2 years, discussion of the environment has increased throughout the civilized world. Indeed, as the results of the investigation indicate, this discussion has greatly increased. Discussions relating to the environment turn very quickly to the question of packaging. Almost one half of those questioned attach very great importance to it, and specific measures have also been introduced in more than half of the nations. But legislative obligations regarding dairy packaging do not yet exist in as clear a form as, for example, in Germany. These obligations exist only in five countries. The increased use of disposable bottles by dairies or pressure by the trade on the industry to reduce packaging material can, however, be seen even here. The general assessment of what has been achieved is clearly one of partial success. The judgment that it has been a flop comes in second place, and only two replies speak of a great success. The main problems cited as regards packaging disposal are the lack of legislative obligations, and technical problems relating to collection, separation, use and storage. This is due in part to local conditions, but apathy also plays a part which results in a low return rate for glass and paper.

Whether they be with or without recycling, and use disposable or reusable products, all-disposal systems in the dairy industry are being forced everywhere. But scarcely anybody sees the possibility of delivering milk or yoghurt loose, that is, without packaging. I have been surprised by the widespread view that in the future only minor changes are to be expected in the field of packaging. Perhaps this is linked with the fact that, worldwide, only a certain amount of readiness can be expected of people to come to grips in the future with the problem of packaging disposal.

To sum up, environmental problems are growing in Germany and the world at large. Packaging is becoming a refuse disposal problem. In Germany and a few other countries, however, the problems are reduced by efforts to dispense with, reduce or reuse packaging.

3 DISPENSING WITH PACKAGING

In the food field and especially with dairy products, packaging can hardly be dispensed with, apart perhaps from a few kinds of hard cheese. But even here there are problems with dispensing with packaging, which brings me to my first statement: **packaging is necessary for dairy products**.

(1) For hygienic reasons, packaging is necessary for the protection of the product against contamina-