AGRI BUSINESS

SUMMER 2017

AN IRISH FARMERS JOURNAL REPORT IN ASSOCIATION WITH KPMG

AGRICULTURAL THINKING

Inside the minds of global agri leaders

KPMG

IRISH FARMERS JOURNAL

AGRI BUSINESS

FOREWORD

Eoin Lowry

Agribusiness editor, Irish Farmers Journal

Faced with the threat of Brexit and a more protectionist trading environment globally, agribusiness needs to be on top of the factors that are shaping our world now more than ever. Climate change, a rapidly changing consumer, and food and water security are all becoming more important.

In our fifth year of the *Irish Farmers Journal*/KPMG Agribusiness report, we interview a selection of agribusiness leaders to gain their insights into business, along with what they see as the key opportunities and biggest challenges facing the sector.

From global plcs to family-run businesses, this year's report outlines the strategies and visions of global agri leaders and the challenges and opportunities that lie ahead for their respective businesses, for farmers and the industry as a whole. A key finding is that the consumer is changing and wants to know more about where their food is coming from, while also making more responsible choices. The challenge (or opportunity) for agribusinesses is to deliver this against a backdrop of climate change regulations, carbon footprint and caring for the environment.

We are delighted to partner with KPMG again this year, which combines its expertise along with its global network with the insights and analysis from the agribusiness team at the *Irish Farmers Journal*.

The overall aim of this publication is to challenge industry influencers to drive change for the improvement of the agri-food sector including farmers' productivity and their long-term sustainability, with food quality and human health to the fore.

David Meagher

Partner-in-charge for Agribusiness, KPMG

Our survey highlights both the optimism about the future and a realisation that there will be significant effort involved in innovation, developing personnel, sourcing finance and above all meeting the needs of customers – if organisations are to win. This is the second year we broadened the survey from Ireland to around the globe, and I thank my KPMG colleagues around our global network for their help in meeting with key agribusinesses in their countries.

Many of the themes coming through from the survey are reflected in the interviews in our report.

The interviewees speak of changes – changes that they have made in order to ensure that their organisations prospered in the past and the changes that they see as necessary to ensure that their organisations continue to adapt, grow and be successful.

So what are the lessons for Irish agribusiness and for the Irish agri-food sector? That we are in the time of unprecedented change is clear – Brexit is likely to have a once-in-a lifetime effect on the industry. It is critical therefore that we, the participants in the industry, do what we can to ensure success.

We must challenge the Government and the Government must challenge itself – to create the right environment for Irish agribusiness. Changes to support business must be made and made without delay.

But governments don't develop new products, create new product systems and win new customers. The onus is on our agribusinesses – large and small – to embrace change and find new ways to win.

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At the heart of business in Ireland

AGRI BUSINESS

INTRODUCTION

IRISH AGRI-FOOD INDUSTRY NEEDS TO LEVERAGE ITS SUSTAINABLE REPUTATION

Justin McCarthy
Editor and chief executive, Irish Farmers Journal

Year after year, Ireland is ranked among the highest in the world for its ability to attract foreign direct investment (FDI). In the food sector, one company with a footprint in Ireland for a long time is the French dairy giant Danone, which has facilities in Cork and Wexford.

For years, many of the world's other large food and ingredients companies were reluctant to do business in Ireland as they viewed our island as a "Danone play". However, after a number of high-profile food scandals around the world over the last decade and the development of the Origin Green sustainability programme, many companies have adapted their strategies and now see Ireland as a must in terms of sourcing safe and traceable food and ingredients.

Today, multinational food companies and brands such as Nestlé, McDonald's, Burger King, Subway and Mead Johnson are all sourcing food and ingredients from Ireland.

The sustainability and "green image" of Ireland's food system is aligned to the values of these companies, which seek to protect the reputation of their brands at all costs.

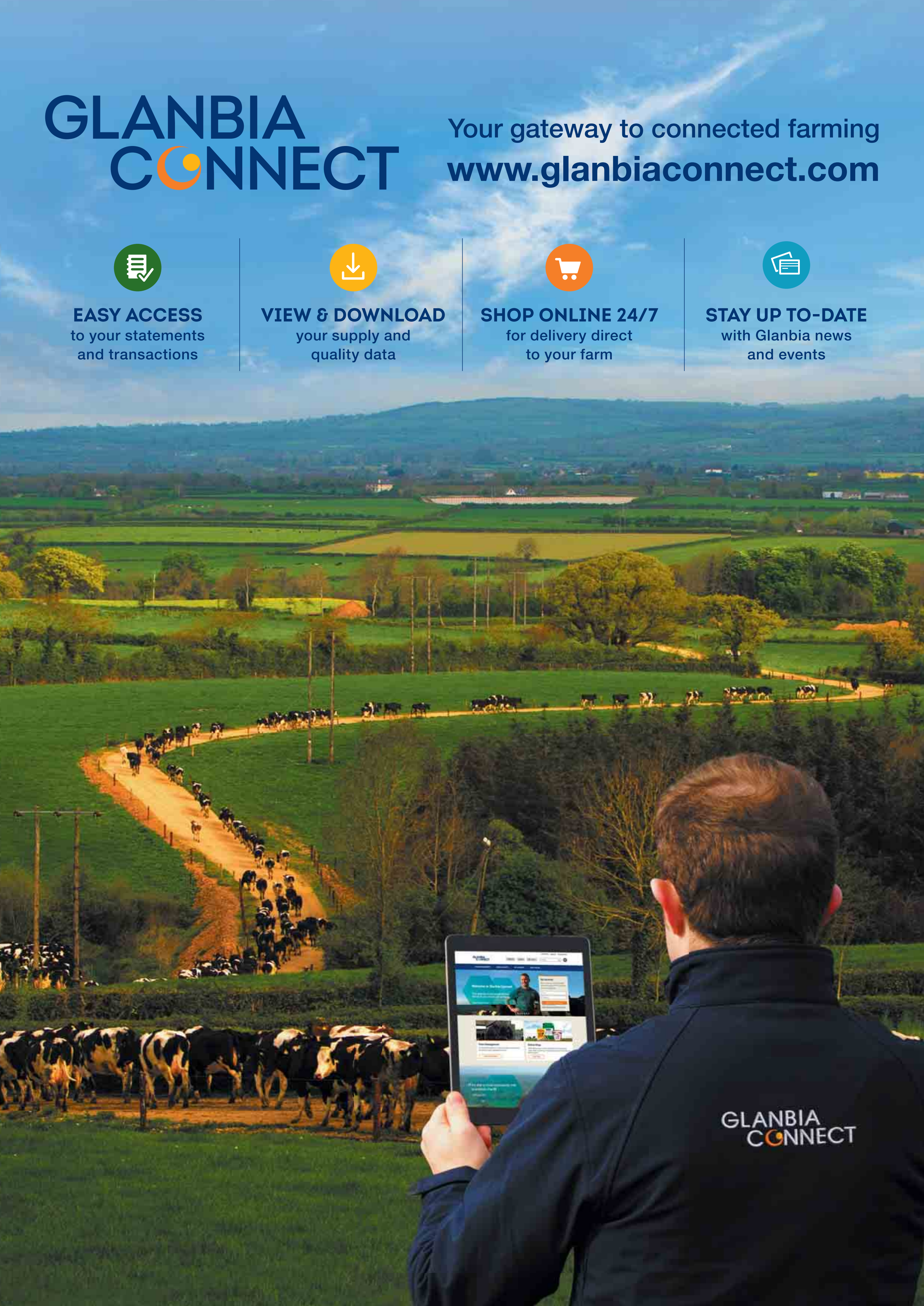
Earlier this year, we saw another meat scandal erupt in Brazil that left the country's reputation as a global food supplier in a difficult place. For Brazilian beef farmers, the alleged corruption in the country's beef processing industry that led to the revelations from Operation Weak Flesh was a major disappointment and emphasised the importance of a transparent supply chain from farm to fork.

For Ireland, the Brazilian meat scandal reinforces the importance of reputation. The agri-food industry in this country, from farmgate to processing level, has carried out a lot of important work over the last decade to develop Ireland's image on the global stage as a source of high-quality and traceable food and ingredients.

The proof of this is in our food and drink exports, which have seen seven years of consecutive growth to reach €11bn last year. However, while export growth is positive, the challenge for Irish farmers and agribusinesses is how we can move further up the chain to capture more value.

With significant challenges as a result of the UK leaving the European Union in the years ahead, Ireland's agri-food industry needs more than ever to leverage its sustainable reputation to move further up the value chain.

With the Common Agricultural Policy (CAP) under review, coupled with a smaller EU budget thanks to the UK leaving the single market, it puts more emphasis on the industry to deliver improved returns for the economic sustainability of the primary producer.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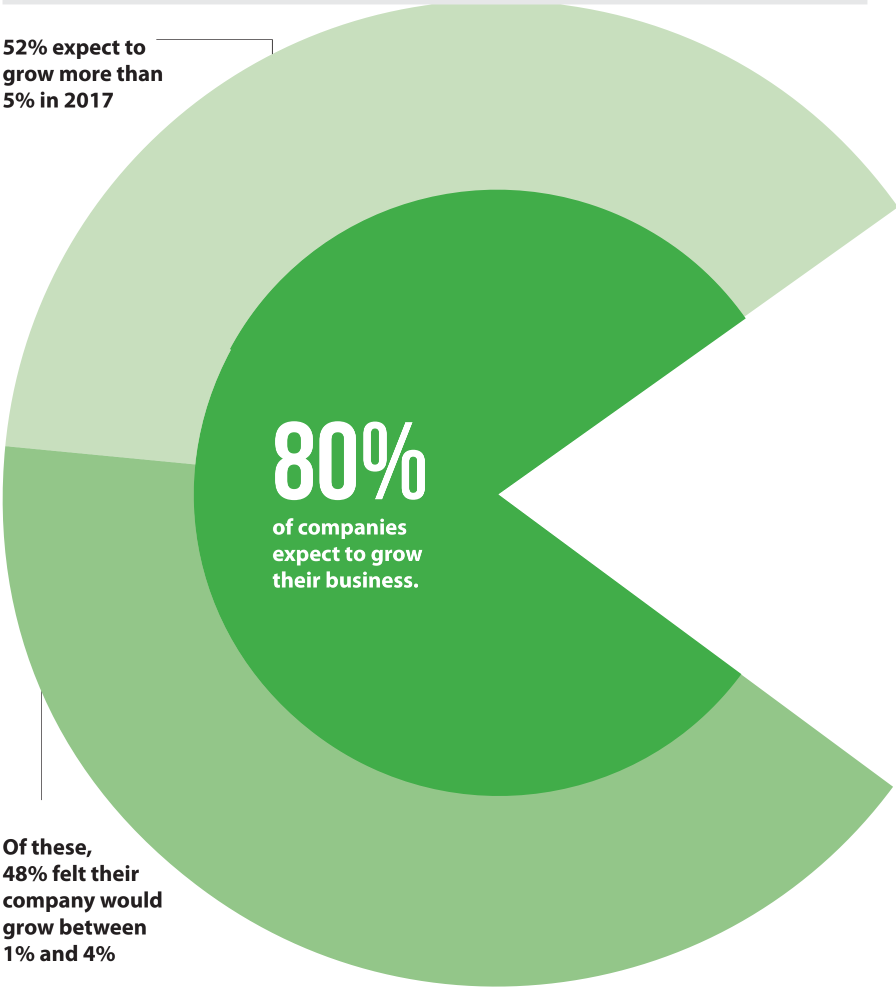
CONFIDENT MOOD AMONG GLOBAL AGRIBUSINESSES

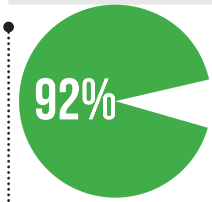
The 2017 AgriBusiness report marks the fifth year where the Irish Farmers Journal and KPMG have conducted a survey of agribusiness leaders in a bid to gauge the mood of the sector. Given the geo-political unrest of the last 12 months, the results are more pertinent than ever.

52% expect to grow more than 5% in 2017

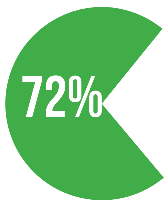


Of these, 48% felt their company would grow between 1% and 4%

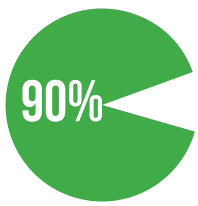
Comment: while global agribusinesses are confident, fewer expect to grow in 2017. However a greater share expect to grow at a higher rate. In the 2016 survey 91% of companies expected to grow with 29% saying they would grow by more than 5%. Similarly, a higher percentage (92%) believed the agri sector would grow this year (85% in 2016).



of companies expect growth in the global economy



of companies expect growth in their local economies



of companies expect growth in the agribusiness sector, of which 52% expect growth of over 3%

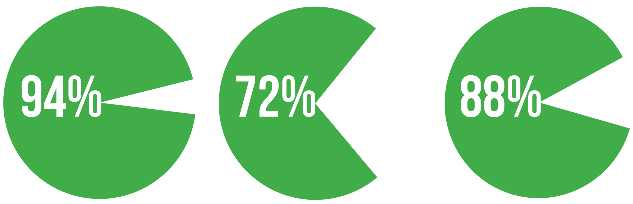
WHAT WILL DRIVE YOUR BUSINESS GROWTH IN THE FUTURE?

1 Innovation
2 Expanding existing markets
3 Expanding into new markets
4 Increase in consumer demand
5 Mergers and acquisitions
6 Government regulation
7 Emerging markets
8 Sustainability initiatives

Comment: Globally, innovation was seen as the most important factor in driving future business growth, having moved up from third place last year, displacing expansion into new markets from pole position. However, regionally, companies identified contrasting factors. For example Russian companies saw the sanctions which banned western food products as key to driving growth, while UK companies cited post-Brexit policies as a key factor. Brazilian companies identified investment in infrastructure as key driver while commodity businesses believed a rise in world commodity prices would drive growth.

SUSTAINABILITY

How important is sustainability?



of companies feel sustainability is important to their business

believe sustainability is important to consumers

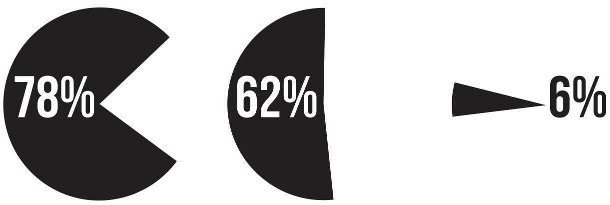
believe sustainability is important to communities

Comment: While the majority of companies surveyed believe sustainability is important to their business, consumers and the community, the main reason for driving sustainability is to add value and improve their brand and reputation. Farm efficiency gains were identified by one respondent as its main driver of the sustainability agenda.

Why is sustainability important to your business?

1 To add value (20%)
2 Brand and reputation enhancement (18%)
3 Reduce costs (16%)
4. Corporate and Social responsibility (16%)
5 Revenue growth (12%)
6 Regulation (6%)
7 Competition (4%)
8 Pressure from customers (4%)

INNOVATION



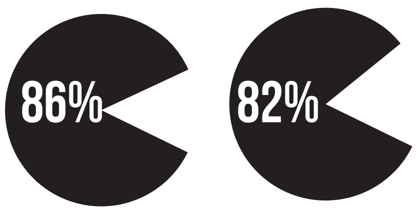
believed research and development was important to their business

plan to invest less than 1% of turnover on innovation in 2017

plan to invest more than 8% of turnover on innovation in 2017

Comment: While the majority of companies surveyed believed R&D to be important, just over half of those surveyed plan to invest less than 1% of turnover on innovation. 42% of companies are focusing their R&D spend on production and process improvements, while 29% plan to invest in new product development. The greatest challenges to driving innovation were identified as people, corporate culture and a lack of ownership of the full value chain.

INVESTMENT



plan to invest in the growth of their business in the next 12-18 months (82% in 2016)

of companies surveyed are happy with their ability to access finance

Comment: The majority of businesses are confident and investing to grow with an increased share of investment planned for capital projects compared with 2016 (63%). The share of companies investing most heavily in research and development investment has fallen from 9% to 4%.

COMPETITIVENESS

What is important to your country's competitive advantage:

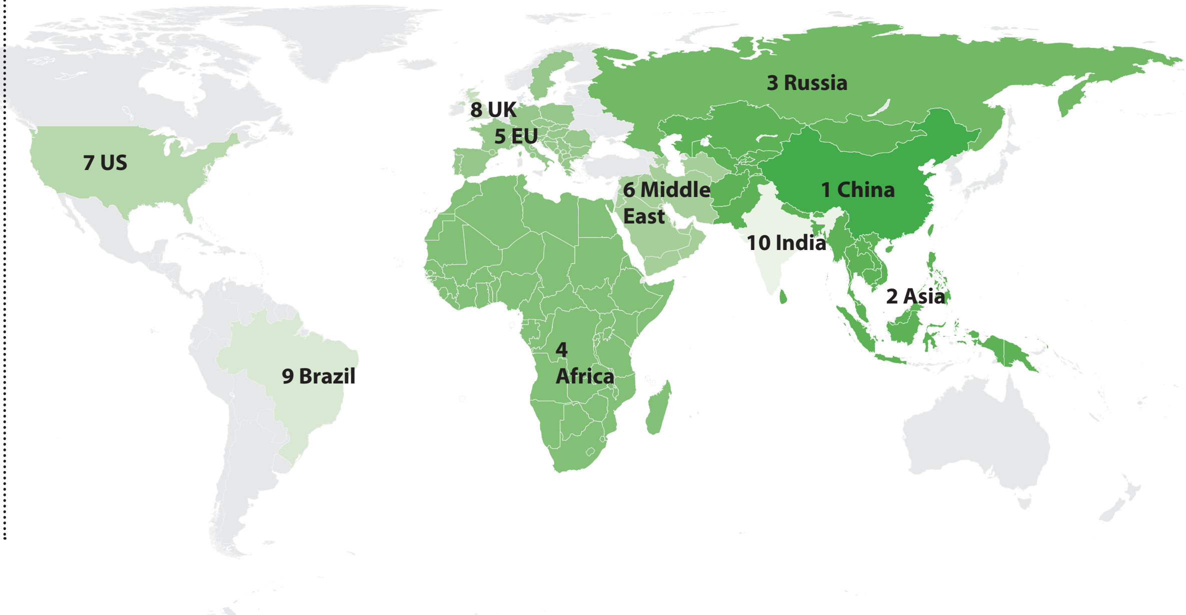
1 Access to export markets (38%)
2 Reputation of country (16%)
3 Access to finance (16%)
4 Government support (14%)

24%
of companies surveyed believe scale is the most important competitive advantage

24%
of companies surveyed believe reputation and brand strength are also important competitive advantages

Comment:
Most companies regarded access to export markets as the key area that, if addressed by Government, would benefit their business. However, they also asked for governments to look at completing more international trade agreements, reducing insurance costs caused by the claims culture and reducing energy regulator imposed costs.

WHERE ARE THE OPPORTUNITIES FOR GROWTH



What are the key external challenges facing your business in the next three years?

Low commodity prices (30%)
Price volatility (28%)
Evolving political landscape including Brexit (22%)

What are the key challenges within your business in the next three years?

Access to finance and working capital (32%)
Recruiting and retaining key employees (32%)
Ability to innovate (24%)

REGULATION

60%
of companies feel that further regulation would hinder the sector.

34%
believe that it would grow the sector. Of these, 41% believe export rebates would be the most beneficial.

74%
of agribusinesses believe more consumers prefer to buy locally produced foods than in the past. This was 63% in 2016.

CONSUMERS

50%
of agribusinesses do not believe further regulation is needed

74%
of agribusinesses agree freer trade is needed between regions

Biggest challenges facing agribusiness in the next decade:
1 Price volatility
2 Trade agreements
3 Food safety
4 New technology
5 Changing consumers

Comment: The two biggest challenges facing those agribusinesses in the next 10 years have remained unchanged compared to last year. Food safety has risen from 6th place to third, possibly in light of recent food scandals.

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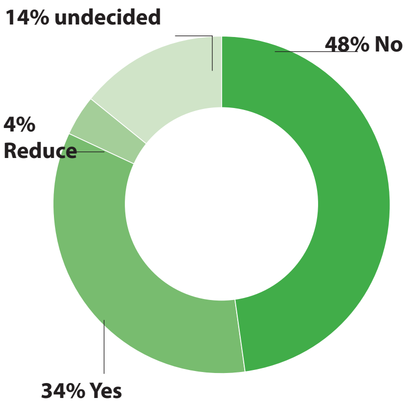
Do you plan to grow your workforce in the next year?



Comment: With 52% of those surveyed planning to just maintain or decrease their workforce, it is interesting to see that 42% of these cite the implementation of cost efficiency programmes as the main reason for not expanding their workforce.

Of the 34% planning to grow their workforce, 40% of the jobs are expected to be in production, with 26% in sales and marketing.

42% **of those who are not planning to increase their workforce cite the implementation of cost efficiency programmes as the main reason for not expanding their workforce**

METHODOLOGY

The research for the survey was conducted by a combined team from the Irish Farmers Journal and KPMG and was based on a representative sample of large agribusinesses from around the world. The survey, which consisted of a broad range of questions across agribusiness related topics, was completed by senior management of selected agribusinesses around the world. The agribusiness activities reflected a cross section of the sector including, dairy, beef, lamb, poultry, pig meat, sugar, ethanol, feed, cereals and food manufacturing.

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.

Countries that participated:

- Australia
- Brazil
- Canada
- France
- Germany
- Ireland
- Italy
- Nigeria
- Northern Ireland
- Russia
- South Africa
- UK
- Ukraine
- US

Prepare For Brexit

Kick-start your planning for Brexit

Early planning and preparation are critical factors in a company's ability to respond to the challenges of Brexit.

The Enterprise Ireland Brexit SME Scorecard is a free tool for Irish exporters to the UK - designed to help you assess your readiness and begin the planning process.

Use our Brexit SME Scorecard at
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ENTERPRISE IRELAND

SECTION ONE
DEVELOPING A RETURN FOR SUSTAINABLY PRODUCED FOOD

Over the last decade, one word has come to define the debate around agriculture in the modern world – sustainability. The emergence and continued prominence of this word in the lexicon of policymakers, agribusiness leaders and even farmers themselves is due to the effect that agriculture is seen to have on our planet's environment, while at the same time recognising the need to feed 9bn people by 2050. However, the word itself has become so overused that its true meaning doesn't resonate with either producers or consumers of food.

There can be no doubt that modern consumers, particularly those in developed countries, are much more discerning in their choices when buying food as they have greater awareness of the effect food production can have on the environment. This increasingly sustainability-conscious consumer has already been identified as an opportunity for Ireland's agri-food industry. Ireland is seen as one of the most trusted and safe sources of food and ingredients globally.

The challenge arises in that, fundamentally, the vast majority of consumers still buy their food on price point because they have weekly budgets and bills to pay. While many food companies, particularly those with brands and images to protect, have embraced the sustainability message and become very good at marketing it to consumers, the reality is that returns funneling back to primary producers are more slender than ever.

So how does the agri-food industry want to reward primary producers for farming sustainably? Right now, the farmer sustainably producing meat, milk or grain is getting the same commodity market price as the farmer who is not. Surely, there must be some differentiation here as sustainability has to start with economic sustainability. If not, the model will undoubtedly fail.

In Ireland, the Origin Green sustainability programme was groundbreaking at the time but to remain ahead of our competitors its now needs to evolve. As we have seen this year in Brazil, the food supply chain is only as strong as its weakest link. Are we confident in the integrity of our food supply chain?

More and more, Ireland's communication of the integrity and traceability of its food production system needs to take a data driven and scientific approach. The question remains will consumers ever be willing to pay for healthier and more sustainably produced food. Food production has developed into a globalised supply chain and the competitiveness of selling into global markets means that these premiums are difficult to achieve. But as a small island with an export dependency, Ireland's competitive advantage may well be to premiumise its food through highlighting its sustainability credentials.

SUSTAINABLE DIETS

Thia Hennessy, professor and head of food business and development at University College Cork, outlines the opportunity for Ireland against a backdrop of a flawed global food system

To keep pace with the world's population, which has grown almost threefold in the last 50 years, agricultural output has increased substantially. This has been achieved by both an expansion in the land area farmed and an intensification of existing farms. The negative effect of intensive agriculture on the environment is well debated. Almost a quarter of the world's greenhouse gas emissions, a key contributor to global warming, arise from agriculture. Seventy per cent of human water consumption is used in food production. Shifting land into commercial agriculture has contributed to a loss of biodiversity and to deforestation, while the overuse of fertilisers has negatively affected soil health. Intensive livestock agriculture is often portrayed with a negative animal welfare image and is associated with the growth in antimicrobial resistance.

But food supply must grow further. It is estimated that the number of calories produced globally must increase by 69% by 2050. Simultaneously, climate change is likely to make growing conditions more difficult and volatile and the regions of the world where food can be produced economically is likely to decline. The competition for land with biofuel production is also likely to increase.

In addition to these supply side problems, there are also consumption problems predicated mostly on access. The FAO estimates that the world can now supply every person with 2,700 calories per day, yet over one-third of the world's population are calorie-deficient, while a further one-third are overweight or obese and up to one-third of the edible part of food is lost or wasted.

So the food system may be flawed but people must eat, so what must change?

Sustainable diets

Consumers are becoming more aware of their food consumption, its health effects and its effect on the environment and on animal welfare standards. A sustainable diet seeks to optimise health and nutritional considerations, affordability, cultural acceptability, as well as the wider environmental impact of the diet. Many of the food attri-

butes that sustainability-conscious consumers seek are embodied in Irish food production and, as such, the move to more sustainable diets may represent a major opportunity for Ireland's food industry.

Access to food that is consistently affordable is a key element of a sustainable food system. High and volatile food prices are a major concern globally. And although the typical EU consumer spends less than 10% of his/her disposable income on food, food poverty still exists in the developed world, with one in 10 adults in Britain suffering moderate levels of food insecurity in 2014, according to the UN. With one of the lowest-cost agricultural sectors in Europe, Ireland is well placed to supply the world with affordable food. Teagasc has shown that Ireland is the lowest-cost producer of dairy products in the EU, although our beef industry is totally uncompetitive.

Food that is produced with a low environmental impact is another key feature of a sustainable food system. Research conducted by the European Commission showed that Ireland has the lowest carbon footprint for milk production in Europe and the fifth lowest for beef. Our climate means that we have a low water footprint for food production, with most of the water used in production being "green", that is rainfall water rather than water abstracted from rivers. The UN placed Ireland as a top performer with a zero stress rating for water. Notwithstanding our strong environmental performance, our distance to market may prove challenging if consumers begin to favour local produce and short supply chains. China is now our second-largest market for dairy exports and, with the uncertainties surrounding Brexit looming, there seems to be increased interest in developing markets further afield rather than close to home.

While red meat consumption was associated with a high carbon footprint, the study found that the total quantity of food consumed was a more important factor.

Research conducted by the Oxford Martin School found that widespread adoption of a vegan diet would reduce emissions by 70% and many consumers are opting to have a meat-free day in order to reduce their carbon footprint. This is a worrying trend for Ireland, with most of our agriculture based around livestock. However, a sustainable diet takes a broader view than focusing on eliminating just one foodstuff. A sustainable diet is one that is both nutritious and culturally acceptable, that is appealing to local preferences and traditions which may well include meat consumption. Research conducted by UCC and Teagasc examined the carbon footprint of the diet of Irish adults. While red meat consumption was associated with a high carbon footprint, the study found that the total quantity of food consumed was a more important factor, as were the quantities of processed meat, carbonated beverages, savoury snacks and alcohol.

Food that is produced to ethical standards is a key aspect of the sustainable food system. These refer to providing a fair standard of living for farmers, power sharing across the supply chain and adequate welfare standards for animals. Farming in Ireland is still predominately small-scale and family operated in stark contrast to the Big Ag corporations of the US.

Furthermore, with the strong presence of agricultural co-operatives in some sectors in Ireland, there is a greater degree of power sharing than in other countries. On animal welfare, a Eurobarometer analysis showed that 60% of Europeans would pay more for products produced under higher welfare standards. The natural livestock, relatively low-input and low-output production system operated in Ireland where cows are out at grass for extended periods is valued by many consumers across the world and is rare, as over 80% of the world's milk comes from cows that are housed.

China's 2008 melamine scandal and the more recent horsemeat scandal in 2013 have focused consumers' minds on integrity and trust within the supply chain. Food fraud is defined as the deliberate adulteration or mislabelling of food for economic gain. Research has shown that volatile food prices and long supply chains are associated with higher rates of food fraud, putting Ireland at particular risk given our commodity-based product mix and our long supply chains. The reputational damage caused by a food fraud incident can be irreversible. While Ireland has a clean, safe reputation for food production, it is imperative that our food companies invest in risk management and fraud detection systems to ensure that the highest standards are maintained across the food system.

CARBON LEAKAGE

Carbon leakage arises when food production reduces in one country to meet climate change targets but increases in another country that has less stringent targets. If the country that increases production is less carbon efficient, ie produces more carbon per calorie of food, then globally emissions have increased and we are worse off.

KPMG IRISH FARMERS JOURNAL

HOW CAN WE BEST SUPPORT A SUSTAINABLE FOOD SYSTEM?

It is clear that Ireland's food industry embodies many of the characteristics demanded by the discerning food consumer.

In the first instance, it is important that international consumers are aware of our story and our green credentials. And in this regard Bord Bia, through its Origin Green programme, is doing an excellent job.

The sustainability programme which extends beyond the farmgate and right through the food supply chain is based on independent scientific evidence about Ireland's sustainability performance.

In addition to marketing, it is imperative that we have Government policies that will continue to support our sustainable food system. Many farmers, especially in the beef sector, continue to operate in difficult economic conditions and rely on direct payments to support their extensive production system.

The future of the Common Agricultural Policy will be crucial in this regard. In addition to producing food, farmers provide many public goods such as the protection, promotion and maintenance of landscapes, biodiversity, historical production methods, animal welfare standards and make an economic and social contribution to rural communities, as well as supplying an affordable supply of food to the highest production standards without genetically modified organisms or growth promoters. This is the cornerstone of the European model of agriculture but without the direct payment support system many farmers could not remain in business.

Governments should pursue an international climate-change policy that promotes carbon-efficient diets. The current approach to tackling climate change is to impose national limits on greenhouse gas emissions which gives rise to concerns about carbon leakage.

Countries with a carbon-efficient agricultural sector should be allowed to increase production.

Appropriate labelling and poli-

The current approach to tackling climate change is to impose national limits on greenhouse gas emissions which gives rise to concerns about carbon leakage

cies should allow consumers to choose carbon-efficient food stuffs.

Finally, governments should continue to engage in stringent regulation of our food sector and should also engage in consumer education.

Food consumption is a changing landscape. Our eating behaviour is strongly affected by social context and key influencers. In this era of "alternative facts" and social media "experts", it is important that consumers have access to unbiased information about the safety of their food.

INVESTING IN A TIME OF GLOBAL CHANGE

Stephen Nolan, CEO, Sustainable Nation Ireland, explains that investors in the future may only be interested in backing sustainable companies

At the end of 2016, nations from across the globe met in Marrakech for the annual climate summit. Countries confirmed the commitment made a year earlier in Paris to limit global warming to 2°C and pursue efforts to go further to 1.5°C.

The European Union continues to play a key role in this shift. Last December, it named a 20-strong committee from across the financial community charged with helping to hardwire sustainability into EU financial policy.

The committee's work will have relevance to the EU's capital markets union plan, an ambitious initiative that aims to more effectively link the capital of savers with sustainable infrastructure projects. The committee is expected to come up with an interim report by this summer.

December also saw a deadline for countries to put into legislation an EU directive requiring large companies to report environmental, social and governance (ESG) information or explain to investors why they have failed to do so. Companies will be required to produce the reports in 2018, covering the 2017 financial year. Ireland will transpose this directive into law this May. Irish-located companies that will fall under this new legislation include Kerry Group plc, Glanbia plc, Greencore Group plc and Origin Enterprises plc.

A recent example of ESG performance linked to a firm's financing saw Philips agree a unique deal with a consortium of international banks that links their sustainability performance to the interest rate attached to a €1bn loan.

Philips have agreed to have their current sustainability efforts assessed by an independent provider of ESG ratings, which will be used as a benchmark for future improvements. This year-on-year approach will determine how much interest is to be paid on the revolving credit facility. Greater achievements will be met with a lower rate. Alternatively, interest on the loan will increase should Philips go backwards in its sustainability efforts.

In Ireland, capital market participants are also increasingly considering ESG factors in their investment decisions. They recognise that this not only affects a company's reputation, operational risks and costs, but can enhance efficiency and productivity

leading to growth in shareholder value.

In February, Ireland became the first country in the world to introduce legislation banning fossil fuel investment for state-sponsored investments. If enacted, the Ireland Strategic Investment Fund will fully divest from fossil fuels by 2020.

> **There are risks for emissions-intensive companies because governments may bring in legislation that penalises them as they push towards the 2°C target**

Another major development at the end of 2016 was the release of a long-awaited report by the Taskforce on Climate-related Financial Disclosures. It recommended that all companies disclose, as part of their financial reporting, the potential effects of climate change on their business.

The report has gravitas. The taskforce is chaired by billionaire Michael Bloomberg and involves big-hitters from across the global financial community. It was assembled by the Financial Stability Board, which was set up by the G20 in the wake of the financial crisis and is chaired by Bank of England governor Mark Carney.

Although the report is preliminary, its release was a landmark moment because it puts climate change firmly on the boardroom agenda for both investors and the companies they invest in.

By saying that climate risks should be disclosed in financial statements, the taskforce is telling investors that they should be thinking about whether a company's business model is in line with limiting global warming to 2°C, because this could prove to be material to the company's future. In other words, there are risks for emissions-intensive companies because governments may bring in legislation that penalises them as they push towards the 2°C target.

So, the capital stack is shifting. Not being sustainable is deemed risky. Institutional investors and banks are increasingly embracing the sustainability agenda.

Companies that bury their heads in the sand when it comes to these issues may find that the capital markets are closed to them, or their cost of borrowing rises, because they are more of a risk.

LONG-TERM VISION

Caroline Pope, director of sustainability, KPMG, says that businesses must have leadership and vision to create a story that is long-term in focus

The European Directive on non-financial reporting was passed in December 2014 and is due for implementation in Ireland next month, having been delayed since December 2016. Although vague in detail, the directive is clear on one point in particular – non-financial reporting and disclosure of long-term business value is becoming a fundamental element of corporate governance. This, along with increasing investor scrutiny on the topic, indicates an immediate need for businesses to integrate non-financial information into everyday business planning and disclosures.

For too long, sustainability has operated in isolation, detached from business strategy and too often considered a business cost rather than a business opportunity. Now, sustainability is increasingly being considered part of business strategy and relates directly to non-financial indicators driving business returns. For example: how can a business increase revenue without an engaged and talented workforce, satisfied customers, efficient use of natural resources and a continuous spend on innovation?

How can a business decrease its cost of capital without evidence of valuable patents, strong ethical integrity, environmental compliance, a social licence to operate, customer loyalty or retention of skilled staff?

What we're discussing here is not non-financial reporting, it is pre-financial reporting, ie how do you measure, monitor and manage the aspects of your business that allow you to achieve financial success?

How to measure performance

Capital markets rely on relevant information presented clearly and accurately, so the clarity and usefulness of reporting and communications have an important role in ensuring that the markets function efficiently and help to support a healthy economy.

Financial reporting plays a central role in this communication, but it cannot present a complete picture of business performance and prospects on its own. Capital providers need to be able to assess the underlying health of the business, its potential

800M

PEOPLE ARE HUNGRY

FROM A SUPPLY PERSPECTIVE, TO MEET 2030 FOOD DEMAND WOULD REQUIRE BETWEEN 175M AND 220M HECTARES OF ADDITIONAL CROPLAND

LONG-TERM FOCUS

The operating environment is evolving faster than ever before and without clear presentation of non-financial drivers and success factors to address some of the evolving risks to businesses (large or small) – capital allocation and performance can suffer. Effective narrative reporting helps to shift investor focus from short-term earnings to long-term shareholder value creation.

Businesses must also have the leadership and vision to create a story that is long term in focus and responds to some of the mega-trends affecting operating environments at the moment. The ability to incorporate innovation, partnerships and resource efficient solutions is vital to the success of the agricultural sector.

for growth, and the long-term sustainability of its earnings.

This current imbalance of information can lead to short-termism. Current-year earnings may be valued more highly than longer-term business prospects, simply because the value created is more visible. As a result, businesses that are investing in their long-term prospects may find it difficult to compete for capital with those that are instead prioritising short-term earnings.

Addressing this will require something greater than merely tweaking financial reporting standards. Instead, the answer lies in the presentation of a broader range of business-focused information that addresses the operational performance of the company, allowing investors to form their own assessments of business prospects.

Why is this important?

Today, we stand at a crossroads. After a turbulent year characterised by major political shifts and economic instability it is clearer than ever that our current global system is not working.

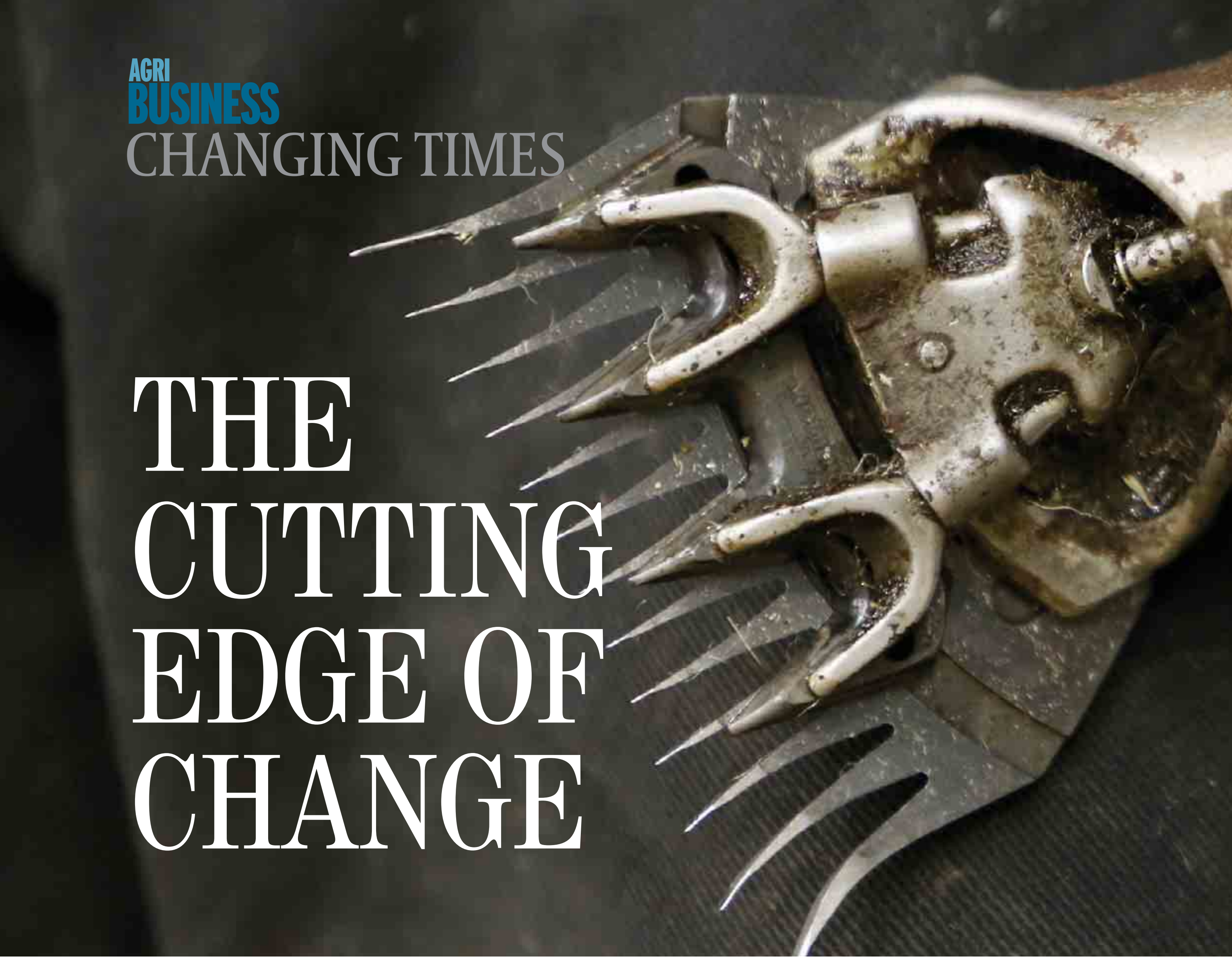
In the period to 2030, the food system is faced with a number of challenges related to innovation, demand, supply and regulation. A step change in innovation is needed to meet future demand, given that growth rates in agricultural yields have been declining and are currently below world population growth, and crop yields already approaching theoretical maximums in developed countries.

In terms of demand, over 800 million people are hungry, and over two billion suffer from micro-nutrient deficiencies.

From a supply perspective, to meet 2030 food, feed and fuel demand would require between 175m and 220m hectares of additional cropland. Over half of remaining land in the world is subject to both infrastructure and political risks.

From a business perspective, financial returns in agricultural sector are already low (5%) – if negative externalities are taken account of, they become negative (-10%).

From a regulatory perspective, there is increasing pressure to deal with the obesity effect (which has a social cost of US$2 trillion currently and is rising rapidly) and pricing of natural resource inputs (eg water and energy).



THE CUTTING EDGE OF CHANGE

2017 is set to be a marker year in the history of the global agri-food sector, writes **Ian Proudfoot**, global head of agribusiness for KPMG

The pace of disruption continues to accelerate. Each day, KPMG's global agri-food foresight team identifies new products, experiences, technologies and business models, some of which are introducing game changers that will transform the ways we eat, work and live. Not all have such significant potential, but they build on what has gone before, tailoring existing products to better meet specific consumer needs through integrating new features, functions or experiences. We are at the start of a period we will eventually come to know as the global agrarian revolution.

This may sound dramatic but given the way that technology is developing, it should not be surprising. The fourth industrial revolution is being fuelled by the fusion of digital, biological and physical technologies. Combining plants, animals and soil with farm equipment and the farmer's knowledge of their land and intuition has always been the recipe for growth in the agriculture sector. It is consequently no surprise that the sector is facing disruption as innovators and entrepreneurs challenge the way things have been done for decades, exploring how technology can be applied to growing products in new and different ways. Examples include how farms are evolving, through changes in farming systems to new types of food being grown, processed, distributed and consumed in different ways. When I talk to groups of farmers, after the initial shocked silence (a period, I assume, when they are weighing up whether I am mad or not, having talked about insects, cultured foods, vapourised meals and the application of virtual reality on their farm among other things), the first questions usually revolve around how and when do I change my farm to be part of this emerging world.

> **“The global agrarian evolution means farmers must challenge the legacies their families have left to them**

When is easy. Yesterday was too late in my view, meaning the sooner they start exploring the opportunities that disruption presents the less they will be behind faster adopters.

The how is a much bigger question and there are no easy answers.

My initial response is that it usually depends on the value chain (or chains) that a farm business is already connected to and the alternatives that are available to be accessed in the short term. A dairy farmer in New Zealand has limited flexibility to shift value chains in the short term whereas a sheep or beef farmer has more easily accessible options available.

While the realities of contracts and physical infrastructure may constrain the ability to change

Globally, around 97% of carpets are made from synthetic fibres and the market for coarse wool has largely evaporated

in the short term, they should not constrain bold longer term thinking and ambition. I encourage my audiences to wake up the next morning, look in the mirror and challenge themselves over why they farm and the long-term aspirations they hold for their business. When you understand where you are heading and why you are going there, identifying the relevant disruptions to be investigated and engaged with becomes clearer and the actions that need to be taken more obvious.

I have no doubts that this is much easier said than done. Fundamentally changing a farming system, to grow a new product, place reliance on agronomy advice provided by an algorithm or engage directly with the ultimate consumer of your food or fibre is hard.

For many farmers, their systems reflect a gradual evolution of the farming practices adopted by their parents and grandparents meaning the radical changes we expect from the global agrarian revolution will require farmers to challenge the legacy their families have provided to them. This emotional connection to the status quo has to be dealt with before you can start to think about the practicalities of change, such as cost, regulation, access to markets and biosecurity among other factors.

As a result, many farmers are choosing to stick to what they know, on a comfortable belief that as food producers there will always be a market for their products in a world that needs more food. While customers may be able to be found, revolutions like cultured meat and plant-based milks, mean the demand for and desirability of traditional foods may shift radically and prices will ultimately reflect this.

NEW ZEALAND'S WOOL INDUSTRY

The gradual evolution of farming practices is best illustrated by the story of New Zealand's coarse wool industry. Forty years ago, it was the most significant export category but it has been in a steady and constant decline for decades as farmers chose to ignore the elephant in the room; the emergence of synthetic fibres, like nylon, that could be used instead of wool to make carpets.

The farmers believed that nobody would buy these products in preference to a wool carpet. Globally, around 97% of carpets are made from synthetic fibres and the market for coarse wool has largely evaporated despite its superior properties.

Overlooking the risk of fundamental disruption is unwise, particularly when the products being developed to substitute traditional production are not synthetic, like nylon, but "clean"; they reduce the environmental footprint of food, use less scarce water, eliminate animal welfare issues, are produced safely and can deliver tailored health benefits. These are significant advantages for many consumers.

The biggest constraint on change is the status quo. The greatest driver of change is a farmer who understands why they are farming and has a vision of what they are seeking to achieve from their business. It is these farmers who are prepared to stand out who will show the path to a more prosperous future. They will set the standards that others will, ultimately, aspire to and have to meet to retain their licence to operate.

Pioneers

It is these pioneers who will continuously challenge themselves to build deeper relationships with the ultimate consumers of the products that they grow. They will recognise the importance of engaging with the wider community to share what they are doing to meet the community's expectations.

They will seek new technologies that enable them to produce more while reducing their effect on their land and water. They will pioneer new varieties, new crops and new business models to capture more of the value they grow. They will never be satisfied that their business has been optimised and will be seeking to maximise performance within the confines of the land and the community.

These change agents are not born to lead. They are not elected or co-opted. They will self-select. They will not see disruption as an impediment but an opportunity. They will not mind being the "lone nut" dancing on the side of a hill because their conviction that they are doing the right things means they believe followers will join them. They will ultimately accelerate the movement that transforms the global agri-food system into one which will efficiently feed nine billion people by 2050 – the food they want to eat within the sustainable boundaries of the planet, while securing prosperity for themselves and their communities.

SECTION TWO
INSIDE THE MINDS OF GLOBAL AGRI-LEADERS

What is it that great leaders do differently? What sets successful companies apart? In the following pages, we profile 11 highly successful organisations that span the agri-food sector, understand how they are different and what makes each of them stand out.

Having interviewed and spent time with some of the industry's top leaders, there are specific attributes that differentiate high-performing CEOs and their businesses. Exceptional companies, it turns out, come in all shapes and sizes.

Leaders who seek to discover new opportunities are fearless when embarking upon new projects. Those who continually test different methods to get the formula right are some of the most successful.

The best companies focus on the opportunities that challenge the status quo. For example, Lidl has disrupted the grocery channel and how people buy their food.

Origin Enterprises is combining science, technology and practical farming in a holistic way to improve the productivity of farms.

The leading companies take on projects that stretch their capabilities. Glanbia continues to move further downstream from its dairy processing roots, while Devenish has a vision beyond its core that benefits the consumer.

However, at a time when so many companies are starved for growth, senior leaders require a different worldview. And every leader we spoke to said it was all about the people. Creating a culture within the company that engages the people and fosters ambition inspires employees and those around them to be far more productive.

It is said that culture eats strategy for breakfast. While strategy changes as it is often driven by the customer, culture is much harder to change as it is driven by the people in a company. Like a fingerprint, every company has a culture. You can't touch it but you definitely feel it.

When it comes to strategy, however, efficiency and productivity, while important, are very different. In today's business environment the benefits from improving efficiency appear to have petered out and leaders must bring a productivity mindset to their business.

Finally, the uncertainty created from the Brexit vote and the new US administration makes it difficult for any company to stay focused. But being strategic in this environment means not wasting a crisis by having an instinctual feel for the change that may surface around your business and seizing the opportunity to adapt.

SUGAR BEET TO SUSHI

With close to half of its food-to-go products changing every year, Greencore is no stranger to adapting. From sugar beet to sushi, transforming is part of Greencore's heritage. **Eoin Lowry** reports

Formed following the privatisation of Irish Sugar in 1991, Greencore used the cash-cow sugar business to diversify into the UK convenience food sector in 2001. Five years later, it had exited the sugar and agribusiness sector entirely, taking advantage of the EU sugar restructuring scheme and receiving €127m in compensation.

That was 2006. A decade on and Greencore has transformed into the UK's largest sandwich manufacturer. Buy a

Fresh food supply chains, such as the distribution of sushi, work much better in concentrated geographies, according to Greencore CEO Patrick Coveney (left).

sandwich in the UK today and there is a good chance it was made in a Greencore factory, given that it has a 60% share of the UK market.

A key game changer was the acquisition of Uniq (formerly the dairy and foods business Unigate), which took Greencore's market share at the time from about 20% to 35%. Since then, it grew organically and last year it bought The Sandwich Factory from Cranswick, which added another 5% share.

Who would have thought something as simple as a sandwich could build into a business worth €1.9bn today? The overall sandwich market in the UK grew by 7% to around £8bn last year. The grocery channel, of which Greencore has a 60% share, had sales of about £2bn. Greencore is actively trying to grow the grocery channel as a share of the overall market. It is working with customers such as M&S by investing with them in online and delivery.

Entering the US

In parallel, Greencore has been building a convenience food business in the US. Greencore first entered the US market in 2008 when it acquired Home Made Brand Foods for $44m. Greencore set out with ambitious plans for the US, eyeing a target to double the business every year. But like many companies entering the US market, performance of the group's first acquisition was not as expected. It had challenges around channel focus and asset quality. But this did not deter management and, as Greencore chief executive Patrick Coveney explains, the view was that prepared food-to-go manufacturing in the US was a high-growth market worth chasing.

Between 2010 and 2013, it bolted on a series of smaller acquisitions, bringing the total investment to approximately $110m. By 2014, after acquiring two key customers that provided the necessary momentum and confidence to deepen its presence in the US, it moved to expand capacity by almost 70%, adding a further investment of $100m.

This included greenfield expansion at Rhode Island and capacity expansion at its existing facilities, which delivered a change in direction. Greencore moved into frozen manufacturing for the first time, complementing its existing fresh food-to-go manufacturing capacities. Last year, Greencore grew revenues by 11% to almost £1.5bn and profits (operating) by a similar 11% to £102m. Margins also expanded to just shy of 7%. But after eight years in the US market, it accounted for only 15% of sales last year. But all that looks set to change.

Peacock acquisition

When Greencore's chief executive Patrick Coveney worked in the US for McKinsey in 1999 to 2000, he remembers the view was that fresh prepared food was going to be the next big phenomenon there. He says: "I am still hearing that today, almost 20 years later." He concedes the US has been "a difficult market to crack".

Up to now, Coveney says the US strategy has been to focus on sandwiches and food-to-go products, similar to the UK. However, there was one key difference. In the UK, it sold to retailers under own-label brands such as M&S, Asda, Sainsbury's and Morrisons, whereas in the US, it focused on selling to coffee shops such as Starbucks and convenience stores such as 7-Eleven.

He says that just because it's an English-speaking market, it doesn't mean there is a lot of cultural overlap. For example, he says in the UK about 50% of food is sold under own-label, but it is significantly less in the US.

"A further challenge is persuading Americans, who have a strong deli culture, to buy pre-made sandwiches," according to Coveney, adding that "US consumers eat more hot sandwiches, so a lot of what we make is actually frozen, whereas in the UK frozen might be seen as more downmarket and less healthy." He explains that this is largely down to US consumers typically having bigger storage space at home, less frequent shopping trips and longer supply

chains due to the geographic distance. He also adds "the negative perceptions around frozen mean that the outlier is not the US but the UK".

Typically, the shelf life for the products Greencore manufactures or assembles, such as sandwiches, salads and sushi, is between two and three days. He says that fresh food supply chains work much better in concentrated geographies. He explains: "In the UK, a single facility can manufacture a fresh sandwich and ship to any customer store overnight. To do the same in the US would need at least 25 or more facilities."

The migration of consumer trends between the two geographies both ways is very slow according to Coveney. Therefore, over the past eight years, Greencore has learned the differences in terms of how grocery chains, grocery stores and grocery supply chains operate and observed the differences in consumer food preferences and purchase shopping behaviour.

He says it was a combination of those factors which led Greencore to buy Peacock Foods for $747m last November, a deal that will quadruple its sales in the US.

He says: "We've had a vision to build a growing, large-scale convenience food business in America to complement our strong business in the UK. Peacock is a really good fit against that strategy." Peacock manufactures frozen sandwiches, snack meals and salads. In contrast to its retail customers in the UK, Peacock's principal customers are large consumer-packaged goods (CPG) brand owners, such as Kraft Heinz, Dole, and Tyson Foods.

GREENCORE PRODUCES **140M** SUPERMARKET OWN-LABEL READY MEALS PER YEAR AT **30** MANUFACTURING SITES IN THE UK, US AND IRELAND

Car assembly

The Peacock acquisition gives Greencore 14 US manufacturing sites. He says: "Once a factory, which is akin to a well-invested hospital in food safety terms, is built, this is a capital-light assembly business." But while it might be capital-light, it is labour-intensive. Inclusive of Peacock, Greencore now has close to 18,000 employees. And with labour right at the top of the political agenda both in the UK and US, it won't make Coveney's job any easier. After all "our business does better when economies do better and when people are spending money," he says.

Much of the food industry depends on immigrants, whether this is in meat-packing halls or farms. Coveney believes it would be impossible for the food industry to operate from primary agriculture, manufacturing, assembly, distribution, retailing and food service without immigrants. He believes pressure on wages will affect retailers, convenience stores and food service outlets much more than it will affect Greencore.

Peacock internationalises Greencore, moving the US on to an equal footing with the UK in terms of revenues. He believes that the US business will surpass the UK business in the next year. "We bought a business that was both growing strongly (15% in 2015) and had a pipeline of growth locked in. The trend where big brand owners will outsource more manufacturing will continue. The brands own the innovation, the customer relationships and the shelf space, but not the manufacturing. That's the core of the Peacock capability.

COVENEY ON...

BREXIT

Greencore buys about £700m of raw material and packaging in the UK. Of that, up to £150m comes from Irish businesses (located in the UK and Ireland). About 50% of the cost of goods is raw materials, 20% is direct labour, 20% is indirect labour and overheads, leaving just under 10% as an operating margin.

He says Brexit brings inflation and it is forecasting a 3% to 5% inflation in raw material and packaging costs this year, driven by the exchange rate. But he believes Greencore will be relatively advantaged by inflation. He says all of Greencore's manufacturing is located in market: "100% of the product Greencore sells in the UK is made in the UK and around 80% of the ingredients it uses are sourced in the UK."

He adds "Exporting isn't a feature of Greencore. The short shelf life of Greencore's products dictates proximity to where the product is consumed." He explains you cannot manufacture a fresh sandwich in France or Holland and ship to the UK.

He says that if you look at how the Irish food industry has internationalised, while there are some exceptions, they haven't done it on the back of central manufacturing hubs that ship everywhere. "The strategy of the other large food plcs such as Kerry Group, Glanbia and Aryzta has been to locate in markets, manufacture locally and sell locally," says Coveney. He believes with Brexit, if Irish companies want to be in the UK market they might have to look at manufacturing in the UK.

TRACEABILITY

He says that since the horsemeat scandal, retailers have become very involved in ingredient sourcing. "If you take beef, for example each retail customer is aligned to a different beef processor. Therefore, a Greencore lasagne will draw on the beef processor reflective of those relationships."

OUR FOOD HERITAGE

"Ireland still has a strong emotional connection to farming that distinguishes us from many other countries." He believes this actually matters internationally because we have a feel for the food supply chain and a passion for it that is relevant all around the world.

TRUMP

"The set of policies that will be rolled out are likely to be more pro-business than many think. Investments in infrastructure and increased economic activity would be good for business. But we will need to have access to people."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A NEW GLANBIA TAKING SHAPE

Siobhan Talbot, group managing director with Glanbia, outlines her plans to restructure Glanbia to **Eoin Lowry**

Siobhan Talbot, Glanbia's group managing director, has just finished a countrywide series of meetings with farmer shareholders to explain the reasons behind restructuring Glanbia's Irish operations.

The proposal will see the plc sell 60% of its ownership in its consumer foods and agribusiness to the co-op and create a new joint venture called Glanbia Ireland. The co-op, which has a €1.8bn shareholding in the plc, will sell 3% of its shares valued at around €112m to fund the deal. The co-op also wants to return €100m to farmer shareholders by selling down a further 2% of its plc shareholding.

While it appears straightforward, in her 25th year with the group, Talbot is more than familiar with the hurdles involved having witnessed the initial failed restructuring of the dairy processing business back in 2009. This restructuring eventually succeeded through the establishment of the joint venture, Glanbia Ingredients Ireland, in 2012.

Five years on, with the company now under her leadership, Talbot wants to make sure that this time round it goes much smoother. Leaving nothing to chance, she has been present at almost every farmer meeting to explain the deal.

Fundamentally, she believes this is a good deal for farmers, claiming that "farmers will have a majority ownership, through their co-op, of the business that is most aligned to that of their farm". She says this is important given the ambition of the Glanbia supply base, which has indicated its wish to expand a further 30% between now and 2020. This will cement Glanbia Ireland as the largest dairy processor in the country, processing 2.4bn litres of milk expanding to over 3bn litres in three years' time.

With almost four years under her belt as head of the Glanbia group, this looks set to be Talbot's biggest challenge to date. If successful, it will endorse her

leadership with farmer shareholders, firmly put her stamp on the business and lead to the development of the future strategy of the group.

That's not to say she has been idle since taking over as group managing director in November 2013. At the time, Glanbia had a turnover of €3.5bn and had earnings (profits) of €245m. Its ingredients business was by far the largest part of the group, accounting for a third of the business (34%) and almost half (41%) of profits.

But over the last four years, through a combination of organic growth and a hefty acquisitions programme, Glanbia has seen €100m added to profits (up 43%) and its share price double. Increasingly, less of the profits have been coming directly from its milk pool.

Performance nutrition has been by far the biggest driver, accounting for 70% of the growth.

After first entering the segment almost 10 years ago, when it bought Optimum Nutrition, Glanbia has bolted on a stable of brands including BSN, Isopure, Nutramino, Thinkthin and most recently Amazing Grass and Body & Fit.

GLANBIA HAS SEEN A 43% INCREASE IN ITS PROFITS SINCE 2013, WITH PERFORMANCE NUTRITION ACCOUNTING FOR 70% OF ITS GROWTH

At a total cost of just over €1bn, these acquisitions have made Glanbia the world's largest holder of performance nutrition brands. It now commands 12% to 13% of the global branded sports nutrition market, which is estimated to be worth €11bn. This division now contributes €1bn in annual revenues, has margins in excess of 16% and accounts for almost half (46%) of the profits that Glanbia now makes.

Although it has been overshadowed by the performance nutrition division, Glanbia's ingredients business has also been performing, albeit at a slower rate. While Glanbia has been acquiring performance nutrition businesses, it has been quietly investing significant capital in its ingredients business and is currently restructuring this division.

Siobhan Talbot, Glanbia group managing director.

Primary processing through joint ventures

If you look at the evolution of the plc, a lot of primary dairy processing is now conducted through joint ventures such as Southwest Cheese in the US, and its planned cheese and whey joint venture in Michigan with three dairy co-ops. The establishment of Glanbia Ireland sits within this strategy and provides further clarity to shareholders on the Glanbia model.

Processing around 4bn litres of milk in the US, Glanbia is the largest American-style cheddar cheese producer and accounts for almost 25% of US cheese output. And of course this provides access to whey, the by-product of cheese production, which offers Glanbia a key competitive advantage over its performance nutrition competitors.

A commodity, subject to the vagaries of global markets, it provides a hedge where Glanbia can sell whey ingredients direct to its performance nutrition business and capture two parts of the value along the supply chain – ingredients and brands.

Capturing this extra value along the supply chain has allowed Glanbia plc's largest shareholder, Glanbia Co-op, to cushion its farmer members when dairy and grain commodity markets are low.

The growth in the plc's profits and market capitalisation to €5bn today, has allowed the co-op to leverage a healthy dividend stream and a rising asset value to support its farmers in ways no other co-op can match.

From a combination of dividends and share spin-outs, the co-op has returned €780m to its 14,800 farmer members since 2012. In the last two years alone, Glanbia Co-op has distributed €115m in milk and grain price supports.

Talbot understands that the situation for Glanbia's supply base is toughest when markets are poor and that, justifiably, co-ops need to support their members when market levels are below expectations.

She argues that the Glanbia model offers this support to farmers through the development of innovative products, such as its GAP and Milkflex schemes, along with the scale and efficiency at processing level through commercially run businesses.

One additional strength of the Glanbia model has been its financial ability to build the processing capacity necessary in response to its farmers doubling milk production from 1.6bn to 3bn litres by 2020.

In the lead-up to the lifting of dairy quotas, Glanbia Ingredients Ireland, its milk processing joint venture with the co-op, invested a total of €300m building the Belview facility along with readying its existing sites to process the extra milk.

But just two years post-quotas and with a surge of milk continuing to come from its supply base, GII has announced plans to further invest between €250m and €300m in additional capacity expansion.

Keeping the growth going

If the Glanbia Ireland deal goes ahead, it will achieve three things. Firstly, it provides farmers with the necessary capacity to process their milk into the future. Secondly, it gives majority ownership to farmers of a business most aligned to theirs. And, finally, it provides clarity to the plc shareholders around the Glanbia business model.

However, the constant challenge for Talbot will be continuing the growth of Glanbia. Over the last seven years, the business has enjoyed consecutive double-digit annual growth. And, in 2017, it has set a target of 7% to 10% annual growth, which Talbot is confident that Glanbia can deliver.

She says it's all about where you choose to play and then about how you win. Glanbia is playing into some fundamentally positive trends in nutrition such as health and wellbeing, active lifestyles and convenience, according to Talbot.

While Glanbia's core capability is in dairy, it is building increasing capability in non-dairy. She says this was one of the reasons in buying the Amazing Grass business last year, which moves Glanbia into the plant protein space. Glanbia also made its first moves into selling direct to consumers when it bought Body & Fit last year, an online retail business.

The acquisition of Body & Fit is a new direction for Glanbia as online retailing is the furthest downstream it's moved from its core. It's hard to imagine Glanbia, as a manufacturer of whey proteins, envisaged going so far down this route when it first set foot into the performance nutrition market almost a decade ago.

However, Talbot doesn't believe the Body & Fit deal is the start of Glanbia moving further downstream. She says it's more about capturing a greater amount of the value chain and bringing more consumers into contact with Glanbia brands.

What's clear is that the sports nutrition market is evolving. Originally protein supplements developed on the back streets of America with a cult-like following. As health and fitness become more important to regular consumers, performance nutrition products have become more mainstream. For Glanbia, while the original strength consumer of whey protein is still important, the company's recent acquisitions reflect the growing prominence of the lifestyle consumer category.

> "As health and fitness become more important to regular consumers, performance nutrition products have become more mainstream

Rooted in rural Ireland

So as farmers decide on the future shape of Glanbia, which if approved will see Glanbia plc moving further from the farmgate than ever before, Talbot doesn't see Glanbia leaving Kilkenny, saying the company's roots are firmly based in rural Ireland.

After her recent farmer meetings, she says she enjoys engaging with farmer shareholders who are very passionate, and rightly emotional about how this business is connecting with their business.

But aside from farmers being Glanbia's largest shareholder, she also has to manage the expectations of an investor base spread across London, Frankfurt and New York who are about value creation. She concludes that the farmer DNA in the company in no way hostages its ambition, saying that farmers are as ambitious as anybody else.

TARA'S MOVING WITH THE TIMES

Tara McCarthy discusses the strategy for Irish food exports against the headwinds of Trump, Brexit and a slowing Chinese economy. **Eoin Lowry** reports

The world order is changing. The economic power is moving east and south, where China is now the world's second largest economy. In fact, four of the top 10 economies in the world are in Asia and South America.

This is driven by an expanding middle class. It is expected that almost 3bn new Asian middle-class consumers will account for over 40% of middle-class consumption by 2030.

Coupled to this, by mid-century, two thirds of the world's population will live in cities, compared with just over half today. Meanwhile, the number of households in the world's major cities is expected to grow 2.3 times faster than the cities themselves as more people choose to live on their own or in smaller family units.

These underlying factors of population, middle-class growth and urbanisation will continue to underpin the expansion in the global demand for food. This is the backdrop to the world in which the Irish agri-food sector, which exports almost 90% of everything it produces, is operating in. It is no accident that Ireland is the largest net exporter of beef in the northern hemisphere and the fifth largest in the world.

Therefore, the future success of the Irish agri-food sector and the livelihoods of Ireland's producers lies with these exports.

Buoyed by the lifting of dairy quotas and the broadening of access for beef, the industry has an opportunity to exploit the potential in export markets.

However, Ireland's agri-food industry is faced with significant challenges. The UK remains our largest market by a distance and even though the population growth is forecast to be the highest in Europe, Brexit poses a huge challenge to Ireland and looks set to limit the potential opportunity for Irish food and drink exports.

Thankfully, Ireland's export markets have become more diversified over recent years, highlighting the industry's expertise in developing international markets, which is a major strength.

However, Irish exports remain vulnerable to currency fluctuations with some 70% of exports going to markets outside of the eurozone. This was particularly evident over the past 12 months where we have seen swings of up to 20% in the sterling-euro exchange rate. The underlying weakness and volatility of sterling has negatively affected the competitiveness of Irish exports and wiped €570m off the value of exports last year.

This is the backdrop to which Tara McCarthy comes in as the new CEO of Bord Bia, the state agency whose purpose is to promote sales of Irish food and horticulture abroad and in Ireland.

She takes over at a time when Irish agri-food exports reached a record €11bn – 41% more than six years ago and the seventh successive year of growth. The challenge facing McCarthy will be delivering on the strategy where the industry

GROWTH

To maintain and even grow Ireland's food and drink exports in the years to come, it is clear to see that the Government and Bord Bia need to ensure Irish agribusinesses can defend their positions, extend their market reach and look for opportunities through market diversification. This way, export growth can better deliver for farmers, agribusiness and the economy. In doing so, current and future challenges will have to be overcome. However, Bord Bia appears to be confident and composed to achieve this, even in the eye of a storm.

70%

OF EXPORTS GOING TO MARKETS OUTSIDE OF THE EUROZONE

€570M

WIPED OFF THE VALUE OF EXPORTS LAST YEAR DUE TO STERLING

called out its ambition for a step change. In 2015, the industry set a target under Food Wise 2025 that €8bn could be added to exports over 10 years. She believes this strategy is as relevant today as it was pre-Brexit.

"People can get distracted with the target of €19bn, but to me it's about identifying the road blocks along with the opportunities and how we can work these through with Government, industry and the rest of the semi-state structure to achieve that target," says McCarthy.

The growing importance of international markets

One of the notable features of the record exports in 2016 was the effect of market diversification in the year in which the UK decided to leave the European Union. As trade with the UK fell by 8%, triggered by the challenged exchange rates, uncertainty arising from Brexit and increased competitive pressures, exports to international markets increased by 13% to reach €3.5bn. Exports to the US and China, which account for 50% of all international exports, grew by a combined €400m in 2016. Exports to China alone surged 35% ahead of 2015 to reach €845m.

Some 80% of total export growth in 2016 was recorded in trade to international markets, where higher demand, improved market positioning and relatively steady exchange rates helped to improve the competitive position of Irish exports.

In fact, since 2010, international markets have accounted for half of the growth in total exports, which reflects the industry's ability to identify and develop new business opportunities. Irish food and drink exports to China have increased six-fold in six years, while exports to North America and the rest of Asia have doubled in the same period.

Sustainable exports

While US president Donald Trump is less concerned about environmental and sustainability issues, McCarthy says that "from a customer's perspective, sustainability has never been more important".

The Origin Green programme, which has been in place for five years, was pioneering at the time, and placed Ireland to the fore in terms of a countrywide approach to sustainability. However, the world has moved on and other countries have developed their own programmes. McCarthy realises the programme now needs to evolve.

"This is about how you run your business and who you choose to do business with," she says, adding that companies such as McDonald's, Tesco and Nestlé are making commitments around sustainability which affect their procurement strategies.

She acknowledges that farmers don't often see or feel the benefits of the additional paperwork and inspections. She is clear: "If we want to be the supplier of last resort, feeding the bottom of the market, then we don't need any scheme. We just take any price that is going and sell the commodity. However, if we want to position ourselves as a sustainable premium food supplier to any potential customer, we need the systems to prove that. It allows us sell the product."

She is also aware of the need for economic sustainability. "The farmer is our story and if they are not making money, there is no industry. There is no one losing sight of how important farmers are. If farming isn't seen as a viable career, talent leaves, and it becomes unsustainable." She adds that attracting people to be good farmers is as important as attracting people to be good marketers.

In the context of the recent food scare in Brazil, McCarthy says you can never be too smug about someone else having a food scare. "All you can do is ensure there is a respect for the quality assurance scheme. There must be no incentive to do the wrong thing. We are not checking to bring someone down. We are checking to protect the whole industry."

In terms of Brexit, she says the actions of Bord Bia will be simple: to defend Ireland's position in the UK, to look at the continental EU market while also building Ireland's international market base. McCarthy says trade missions are key to this.

KERRY MADE

Since its inception in the Kingdom County in 1972, Kerry Group has been one of the greatest success stories in Irish corporate history, defined by its quality leadership. **Eoin Lowry** and **Lorcan Allen** report

On a Tuesday morning in late February, the Taoiseach Enda Kenny entered Government Buildings on Kildare St with media expectation at fever pitch. Kenny's leadership position as the head of the Irish Government had become increasingly untenable in the eyes of the media, political commentators and even those within his own political party.

His would-be successors were carefully positioning themselves for what many believed would be a fiercely contested and potentially divisive leadership battle. While this saga was playing out on the national airwaves, a much quieter albeit purposeful transitioning of leadership was taking place less than five minutes' drive away in the comforts of Dublin's Intercontinental Hotel. Facing a cluster of business journalists, Kerry Group chief executive Stan McCarthy confirmed his intention to retire in September this year and formally introduced chief executive designate Edmond Scanlon, the heir apparent to be the next leader of Ireland's only true multinational food and ingredients business.

For a company with the global scale of Kerry Group, it is remarkable that the four men appointed to lead the business over its 45-year history to date are all lifetime devotees to the Kerry cause. Three of the four hail from Co Kerry, the rural Irish county in the southwest of the island where the next parish is said to be America.

The company's ability to continually foster homegrown talent and develop graduates with the skills necessary to lead an international organisation of Kerry's stature is nothing short of extraordinary.

Defining leadership

When we think back on the history of Kerry Group and its phenomenal growth over recent decades, Denis Brosnan always comes to mind as the driving force that shaped the company into what it is today.

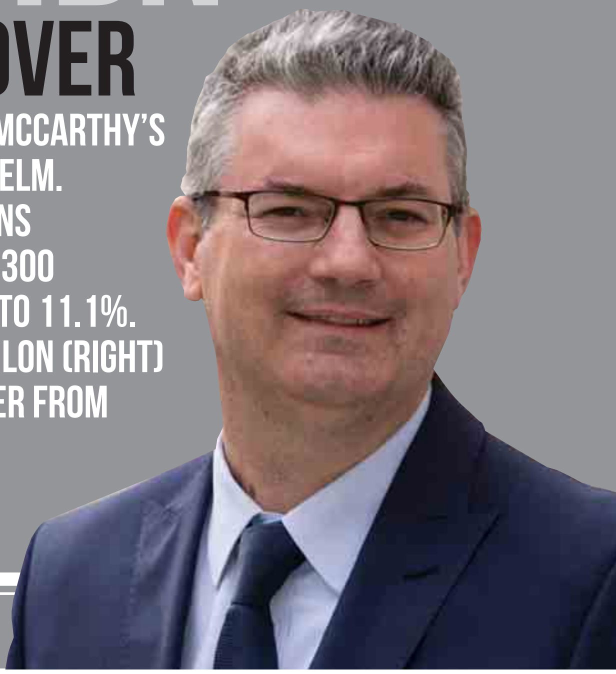
Brosnan began life as Kerry Group's first chief executive working out of a rented caravan in a muddy field in Listowel in 1972. Back then, the business was known as North Kerry Milk Products and Brosnan's task was to build a milk processing plant for Kerry's dairy farmers. In its first year, the company achieved sales of £1m, with profits of £100,000.

By the time he handed over the reins to Hugh Friel almost 30 years later, Brosnan had transformed Kerry Group into an empire valued at more than €2.5bn, with annual profits

Stan McCarthy.

€6.1BN TURNOVER

DURING STAN MCCARTHY'S TIME AT THE HELM. PROFIT MARGINS EXPANDED BY 300 BASIS POINTS TO 11.1%. EDMOND SCANLON (RIGHT) WILL TAKE OVER FROM MCCARTHY AS LEADER OF KERRY GROUP



exceeding €260m on the back of €3bn in sales.

Brosnan started his career with Kerry in a race against time to oversee the construction of a milk processing plant in time for the 1972 milking season and finished it leading a company with over 100 manufacturing plants located across four continents. The Kilflynn native is widely recognised as one of Ireland's greatest ever businessmen with the strategic vision to turn a simple dairy processing company into a global leader in the specialised ingredients sector that was spending almost €60m per annum on research and development (R&D) by the time he left.

While Brosnan's achievements at Kerry Group cast a long shadow, his greatest legacy may be the single-minded determination to succeed which he imbued within the company's corporate culture. Throughout all his years as leader of Kerry Group, Brosnan was laying the foundations for success for those that would follow.

The hard yards achieved in those early years for Kerry Group undoubtedly underpin the achievements of Brosnan's successors who have accomplished as much and maybe even more than he did during his 30-year tenure.

The Friel years

Born in Donegal, Hugh Friel is the only man from outside Kerry Group's home county to lead the business in its 45-year history. However, Friel was there from the beginning and sat alongside Brosnan in that same rented caravan in Listowel. He was the company's financial controller for 30 years before taking over from Brosnan as chief executive in 2002.

Friel is often viewed as the chief executive who put the brakes on Kerry Group during his tenure and consolidated the business after the rapid growth, expansion and transformation under Brosnan. However, when we look back today, it is clear that some of the most important acquisitions in Kerry's history were made under Friel's stewardship, such as the $440m deal for Quest Food Ingredients. Under Friel's watch from 2002 to 2007, Kerry Group shelled out a cumulative €1.6bn on acquisitions, which helped build the business even further. Friel was also responsible for overseeing Kerry's entrance into China for the first time, a market that is likely to become increasingly important in the years ahead.

When he announced his retirement in 2006 and passed the reins over to Stan McCarthy, Friel had added €1.8bn to the topline in Kerry Group bringing turnover to €4.8bn. The company's sales footprint in Europe had increased by €1bn, while sales in the US market had grown by over €500m to reach €1.3bn. Friel had also grown earnings (EBITDA) by over 50% to €500m to leave Kerry Group with a market value of more than

€3.8bn on the day he exited the company.

His departure made way for a man who had made his name in the Americas division of the company and had big ideas for the future of the business in that region.

Dominating in the next parish

Stan McCarthy joined Kerry's graduate recruitment programme in 1976 and initially worked in the company's finance department. For the best part of the next decade, McCarthy developed his understanding of the business until 1984 when he was appointed financial controller of Kerry Group's business in the US. McCarthy's time in the US over the next 23 years would define him.

In 1988, Kerry Group made a transformative acquisition when it struck a $130m deal for Beatreme Food Ingredients, the top speciality food and spray-dried ingredients supplier in the US at the time. The Beatreme deal was huge for Kerry Group as it opened up new markets across the world and provided the foundations for the business to grow into a global powerhouse.

McCarthy was at the heart of this deal and was appointed vice president of materials management and purchasing of the new business. By 1996, McCarthy was President of Kerry America and spearheading the company's growth in both North and South America.

When Hugh Friel announced his intention to retire in 2007, McCarthy was the clear successor for the position given his deep experience in the Americas. While the company had made significant progress in the region over the years, McCarthy would go on to build the Americas region into the backbone of the company's annual financial performance.

When he took over as chief executive in 2008, the Americas region was delivering €1.3bn in turnover, which accounted for about 27% of Kerry's sales. Almost a decade later, the Americas business now accounts for 42% of Kerry's overall business after sales doubled to €2.6bn.

McCarthy announced his decision to retire in September 2017 and he will leave the business in a much stronger position than he found it. With the share price above €80 this week, Kerry Group has a market valuation of more than €14bn and will pay out close to €100m in dividends to shareholders this year. During his time at the helm, Kerry Group's turnover has grown to €6.1bn, while profit margins have been expanded 300 basis points to 11.1% last year.

The company's dedicated focus on science and research has grown even stronger under McCarthy's tenure with €260m spent on R&D in 2016. Since 2008, McCarthy has presided over €2.3bn in acquisition spending, with close to €1bn of this spend coming in 2015 alone.

When appointed chief executive of Kerry Group, McCarthy was given a mandate to grow Kerry's business in the Americas and he certainly delivered on that. Like Brosnan and Friel before him, McCarthy's style has been understated, strategic, driven but also disciplined. The corporate culture in Kerry Group is globally ambitious and its leaders are always outward looking.

> **Kerry Group's ability to continually foster homegrown talent to lead an international organisation of Kerry's stature is extraordinary**

Vanilla, which is the world's most used flavouring, has soared in price due to tight supplies and increasing global demand.

NEW BLOOD

And so the baton will pass to the next generation later this year when Edmond Scanlon, a 43-year-old from Brosna, Co Kerry, takes charge of Kerry Group for the first time.

Just like all three of his predecessors, Scanlon is another "lifer" in Kerry Group having joined the company as a graduate in 1996. In his early years with the group, Scanlon worked in commercial financial management for the consumer foods business before transferring over to Kerry's dairy ingredients business based out of Listowel in 1999.

He relocated to the US in 2004 and took on executive management roles in supply chain operations, mergers and acquisitions, as well as leading Kerry's pharma business. In 2012, he made a key move to Shanghai to lead Kerry's operations in China. After just two years in charge of Kerry's China operations, Scanlon was appointed chief executive of Kerry Group's Asia-Pacific division, a position he has held since.

After being announced as chief executive designate in February, Scanlon told investors in London he was "honoured and privileged" to be appointed as Kerry Group's new leader.

The legacy of success left by his predecessors will not be lost on Scanlon, but the Kerry native will know he has a chance to make his own mark on the corporate history of this company as the man chosen to lead Kerry Group's march into Asia. His appointment is extremely strategic as Kerry Group eyes up expansion in Asia the same way it did in the Americas almost 10 years ago when Stan McCarthy was appointed to lead the company.

Scanlon is as much a product of Kerry Group as any ingredient or flavour. Since he first joined the company over 20 years ago, Scanlon has been continually moulded by the corporate culture within Kerry Group to think with the sort of strategic and global mindset that will ensure the future growth of the business in the years ahead.

Given the scale of what it has achieved around the world to date, Kerry Group has always been a company that has set an example for other Irish businesses, be they food companies or not. Perhaps the clearest example of this leadership was back in February at the Intercontinental Hotel.

Asked what the Irish dairy industry needs to do to succeed post-milk quotas, McCarthy, who just moments earlier had introduced a successor 20 years his junior, said the industry needed "a generational change and a new way of thinking." Perhaps a Kerry way of thinking.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IRISH FARMERS JOURNAL

YOU ARE WHAT YOU EAT

Owen Brennan, chair of Devenish, tells **Eoin Lowry** how feeding animals to produce superior healthier foods could revolutionise human nutrition and health

Health is a huge outlay in any government's budget, explains Owen Brennan, chair of Devenish, adding that "almost entirely all of that spend is on cure". He suggests that perhaps it is time to redirect that spend to prevention. He says that perhaps it's also time to consider food not as a commodity but as a conveyor of nutrients which are vital for health, its promotion and the prevention of disease.

Now living in Meath, the Carlow native and graduate of agricultural science at UCD applies the principles of science to his work and his vision of what Devenish does.

His idea centres on the theory that a business such as Devenish could deliver a 50% reduction in the heart attack and stroke rate in Ireland. He says this could have a huge impact on Government expenditure and indeed on human health.

For a businessman who runs what has become the largest independently owned manufacturer of premix, creep and speciality feed products in the UK, his knowledge on omega-3s, human health and fortified chicken is impressive. He speaks at length about the ability of food to promote good health, and that prevention is always better than cure. His passion for good food is infectious. He says health and nutrition are not in separate bunkers but are linked, with no distinction of where one begins and the other ends.

He explains that omega-3s are polyunsaturated fatty acids, which, as a key part of a balanced diet, help to maintain normal heart, brain and vision function.

Research undertaken in 2013 showed that people with the highest levels of omega-3 had a 40% reduction in cardiovascular-related deaths compared with people with the lowest levels.

He says this gives an idea of the many conditions that could be substantially improved if the prevention could be delivered through a different focus on food. He says this is one example where Devenish is engaged in as a company.

Each year, the company spends more than £30m on innovation products. A huge outlay, by any company's standards. He regards it as an investment and a foundation for the business both locally and in international markets.

The company's commitment to research and innovation is backed up by six research facilities, where it works with universities including Queen's University Belfast, UCD, Harper Adams and the research institute AFBI.

The privately owned company, which provides feed for pigs, poultry, cattle, sheep and horses, as well as pets, has expanded rapidly in the last 20 years, growing from a turnover of £5m with 23 staff to a turnover in excess of £150m and 300 staff. While Devenish headquarters and R&D centres of innovation are strongly rooted in Northern Ireland, it has a global presence. It now has six manufacturing sites across the UK, Ireland and US, as well as offices in Dubai, Uganda, Mexico and India and is exporting to over 25 countries worldwide.

The focus of Brennan's vision for Devenish is based on the simple concept of the provision of a properly balanced nutrient supply to livestock, which in turn provides a properly balanced nutrient supply to people for the benefit of human health. In other words, feeding animals to produce superior healthier foods for the consumers of agricultural products.

Commoditised food

He says that the food sector is dominated by a food commodity outlook. He quotes Warren Buffet's definition of what commodity really means: "In a commodity market, the cheapest price will always prevail in the longer term." When something is exclusively focused on price, it is generally fair to say you will always pay for what you get. But he questions if you will always get what you pay for?

He says that current human diets on a population-wide basis are not balanced in their nutrient supply.

A huge reason for this is the short-term and often shortsighted and almost singular focus on price, according to Brennan.

He believes that the short-term saving in terms of the direct cost of the food item has long-term consequences which far outweigh any potential saving on the cost of the food item. This is even before the human cost of the health consequence which arises is taken into consideration.

He points to the opportunity for an industry that can produce better-quality food, as there are almost three billion people worldwide who are malnourished. This figure includes approximately 700 to 800 million people who are undernourished and close to two billion who are clinically obese or overweight globally.

He says: "It is not commonly understood that a person who is overweight at a clinical level is actually just as malnourished as a person who is underweight."

Today, food production has to meet exacting standards in issues such as quality, safety, sustainability, environmental impact, animal health and welfare according to Brennan.

40%

REDUCTION IN CARDIOVASCULAR-RELATED DEATHS IN PEOPLE CONSUMING THE HIGHEST LEVELS OF OMEGA-3

DEVENISH IDEA AIMS TO DELIVER A **50%** REDUCTION IN THE HEART ATTACK AND STROKE RATE IN IRELAND

Owen Brennan, chair of Devenish.

He says that these standards have to be met and eventually surpassed in a context of increasing competitiveness, global trade, economic and political pressures.

He adds that the main thrust of their innovation programme "is to come up with ways of helping our customers be successful, by enhancing their productivity and profitability while meeting their customer requirements".

This focus led to the development of the world's first naturally enriched omega-3 chicken. Working in partnership with upmarket UK supermarket retailer Waitrose and its chicken supplier Moy Park, Devenish developed the innovative food product.

Working in partnership with UK supermarket retailer Waitrose and its chicken supplier Moy Park, Devenish developed the world's first naturally enriched omega-3 chicken.

The project came about as a result of concerns within the medical community that consumers were not including enough sources of omega-3 in their diets, particularly children, who often do not like oily fish. To help improve intake, the idea was conceived of developing a more popular protein containing a source of omega-3.

He says that what's exciting is that it is improving the nutritional content of something which customers already consume frequently as part of their diets.

The chicken is enriched by feeding the birds on a diet containing an algae which is naturally rich in omega-3. The taste and appearance of the chicken is the same as birds reared on a conventional diet.

No doubt getting the supplement from chicken, which is the UK's most popular meat, as part of a normal diet could provide enormous health advantages. Even Patrick Wall, Professor of Public Health at University College Dublin, has stated that he believes this is going to revolutionise nutrition.

SUSTAINABILITY INITIATIVE

FROM SOIL TO SOCIETY

In 2014, it emerged that Owen Brennan was the new owner of Dowth Hall, a 420-acre estate on the River Boyne between Slane and Drogheda. He has big plans for Dowth that go beyond restoring the 7,000ft^2 Georgian mansion. The lands at Dowth, which lie in the heart of the UNESCO World Heritage Site of Brú na Bóinne, are steeped in heritage.

Devenish's sustainability initiative, called From soil to society, focuses on this unique heritage that the 6,000 years of farming has etched into the lands around Dowth. He says that perhaps these are the timescales we need to envisage when we are developing solutions for the future of farming and human health.

As a result, Devenish has partnered with the School of Archaeology in UCD for a unique research project that combines archaeology and agri-technology.

Using imaging technology to survey the surface of the land for archaeological purposes, the same data set was then used, in partnership with Teagasc, to accurately quantify the amount of carbon sequestered by growth in the woods and hedges each year, offsetting some of the greenhouse-gas emissions from livestock. This whole-farm calculation is a world first and paves the way for more effective policies to fight climate change.

Owen says that the Irish landscape is one of the best in the world and it continues to inspire Devenish today. And given that we need to produce more from less, he believes we need to consider the environment as a profit centre rather than a cost centre. He says we must improve human and animal health, soil and plant health, water quality and climate change in order to develop sustainable operating models for the future of farming, food and consumer health.

BITING INTO A SUSTAINABLE BIG MAC

Keith Kenny, vice-president of sustainability at McDonald's, tells **Eoin Lowry** why the company wants to buy sustainably produced beef

In November 2010, the who's who of the global beef industry gathered in Denver, Colorado, to form the Global Roundtable for Sustainable Beef. McDonald's was there along with Walmart, JBS, Cargill, the World Wildlife Fund and around 350 others including farmers, ranchers, processors, wholesalers, retailers, restaurateurs, academics and government officials. They had one aim – to determine if there was any common ground on which to define "sustainable beef".

It's widely agreed that beef has a sustainability problem. According to the FAO, livestock production accounts for 14.5% of greenhouse gas emissions (GHG). Of that, beef's environmental effect dwarfs that of other meats such as chicken and pork, accounting for 41% of the livestock sector's GHG emissions. Red meat requires 28 times more land, 11 times more water and produces five times more climate-warming emissions than pork or chicken.

But one of the biggest contributors to the emissions is not entirely the cattle's fault. Close to half of beef's environmental impact comes from the arable crops grown (cereals, soya and maize corn) and fed to cows.

A big issue for the Big Mac

McDonald's is the world's largest restaurant chain, with 34,500 restaurants worldwide where it feeds 69m people every day. The company has built its brand around the success of its iconic Big Mac, of which McDonald's sells over 75 every second. A Big Mac is at the tail end of one of the world's more complex supply chains.

McDonald's doesn't buy beef directly from ranchers or slaughterhouses. McDonald's first direct contact with meat comes when it buys finished frozen burger patties from approximately 20 processors around the world.

In between are the cattle and dairy farmers, the feedlots, the ranchers, the processors, the wholesales and the distributors. In fact, its beef may change hands four or five times from farm to finished frozen burgers.

For McDonald's, to purchase verifiable and sustainable beef, it would require that every link of the

supply chain is covered.

McDonald's is the largest purchaser of Irish beef, purchasing 40,000t per annum. If it were a country, it would be the fourth largest buyer of Irish beef after the UK, France and Italy. Globally, it is one of the largest buyers of beef and purchases approximately 2.5% of all beef from the EU alone.

Why does McDonald's want sustainable beef?

Keith Kenny, vice-president of sustainability at McDonald's, says that "the food industry is one of the most scrutinised industries in today's world". He explains that never before has the customer placed such an emphasis on where food comes from. So how is it going to feed a growing population with an ever increasing appetite, in particular for protein, and is the current food supply chain sustainable? He says that the lure of menu items and visually appealing products has been somewhat diminished by consumers' demand for promises in regards to animal welfare improvements and environmental stewardship.

Beef is at the heart of the McDonald's brand, having five $1bn beef brands, and it has been identified as a growth platform for McDonald's.

> **If McDonald's was a country it would be the fourth largest buyer of Irish beef after the UK, France and Italy**

But Kenny points out that "beef also represents about 28% of the company's carbon footprint". This is the big challenge, he adds, and "the company knew to satisfy its future appetite for beef, it needed to be more sustainable and needed to change how it sourced its beef". Its vision was to buy 100% verifiable, sustainable beef in the future. However, it understood that this was going to take time.

But when a multinational food giant like McDonald's identifies sustainability as a key part of its brand, the industry starts to listen.

According to Kenny, it became clear to McDonald's that sustainable beef was going to be unique in different markets around the world due to the fact that beef production, and its associated impacts, vary greatly between countries.

Members of the Global Roundtable for Sustainable Beef eventually agreed that sustainability centred on environmentally friendly production with the idea of working the land more efficiently and producing more with less while ensuring economic viability. It even published a set of principles and criteria for defining sustainable beef production.

Keith Kenny, vice-president of sustainability at McDonald's.

Sustainability for McDonald's

As Kenny points out, McDonald's was determined that sustainable beef was the way forward. But what exactly did sustainable beef mean? It decided to develop a set of principles which outlined five key improvements to reach its end-goal of sourcing a portion of its beef from sustainable suppliers in its top 10 markets by the end of 2020. It still does not define what that portion will be. This is understandable given the supply chain is made up of many diverse parts.

However, it is making progress. McDonald's started buying sustainable beef last year through a pilot programme in Canada, according to Kenny. He says a key part of what McDonald's brings to the table is that it has very strong relationships with its suppliers, many of whom it has been dealing with for 30 to 40 years. He insists this should allow it to make significant progress towards reaching its goal.

Sustainability principles at McDonald's centre on managing natural resources to enhance the health of the environment. This also takes into account the people and communities most affected by beef production and recognises the impact on the culture and health of a community. Animal health and welfare is another key principle. Working to ensure the safety and quality of beef served is the fourth area while encouraging innovation to optimise production, reduce waste and add economic benefits is the final key element of sustainability at McDonald's.

While aspirational and ambitious, McDonald's realises it cannot fly the flag of sustainability for the sole benefit of itself. It has also set out to show that its goal of beef sustainability is more profitable for the producer as well as the retailer.

Does this mean that McDonald's will pay a premium for sustainable beef? Kenny says McDonald's are willing to invest in sustainable beef and have already demonstrated this by funding projects, such as flagship farms. He believes that sustainability will become a pre-requisite, a standard of doing business, similar to safety or quality standards. He does not see it as a premium or a niche, but more a programme with mass market appeal.

He says that, fundamentally, the key goal is to show that sustainable beef practices are simply more profitable. He explains, if a farmer is more efficient, inputs are going to be less and therefore more money can be earned from the same cost. The company is funding research as well as monitoring its flagship farms to demonstrate this.

Flagship farms

The flagship farms do two things. Firstly, they provide the consumer with an image of where exactly McDonald's beef comes from. More importantly, they are monitored to demonstrate excellent practice in at least one area of sustainability, while also operating to generally high standards in all other areas.

Ireland has three flagship farms, two beef farms and one dairy farm. Flagship farmer Ray Dempsey, who farms at Coolderry, Co Offaly, says in a promotional video that "a farmer is a caretaker of the land and hopefully we (as farmers) can pass it on to the next generation in a better condition than which we got it. We have to look at the environment and how we can fit those aspects into our farming business." He goes on to speak of the environmental measures that he has taken on his farm before concluding: "If I don't look after my animals then they won't look after me."

Kenny sums it up saying this represents everything that McDonald's idea of sustainability stands for. He says that by engaging with local farmers, we can make an impact on efficiencies through improved feed conversions which drive profitability and reduce the carbon footprint.

It works in turn with Bord Bia on its Origin Green programme, the voluntary sustainability programme, adopted by Ireland, which calls for food companies to develop individual sustainability plans that set out clear targets in areas such as emissions, energy, waste, water and biodiversity.

He says, at the time, this was a great leadership position taken by Bord Bia and the Irish Government, adding, "the fact Origin Green covers the entire industry in Ireland is quite simply incredible". He says it gives Ireland scale, and with its frequent audit cycle means that every farm is audited every 18 months. "This gives us independent verification and confidence in the Irish supply chain," according to Kenny. However, he adds that while it was innovative at the time, it will need more than an incremental improvement and now requires a step change to remain relevant and ahead of the competition into the future.

McDonald's has undoubtedly put in place a detailed roadmap to reach the ultimate goal of sustainability, but to reach the level at which it can label a Happy Meal as fully sustainable will require a substantial period of time and management. The company has promised by the end of 2020 to source beef from sustainable suppliers in its top 10 markets (which includes Ireland) and this will make up over 85% of its overall beef intake. It appears, however, for now, that the 100% sustainability goal for McDonald's beef products will not be reached for at least a decade more.

What's interesting with McDonald's is rather than forcing its sustainability concept on a business and sector, it took it from a business view – how sustainability can make a business a superior performer. It wants to make businesses and farmers more profitable while being more responsible and aligned to its core values. This, it believes, will improve the sustainability of the entire chain.

CRUNCHING THE NUMBERS

69 MILLION
People are fed by McDonald's daily

75
Big Macs are sold every second across the world

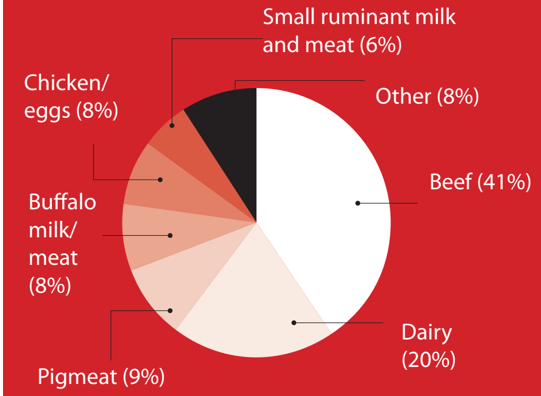
40,000
Tonnes of Irish beef purchased annually

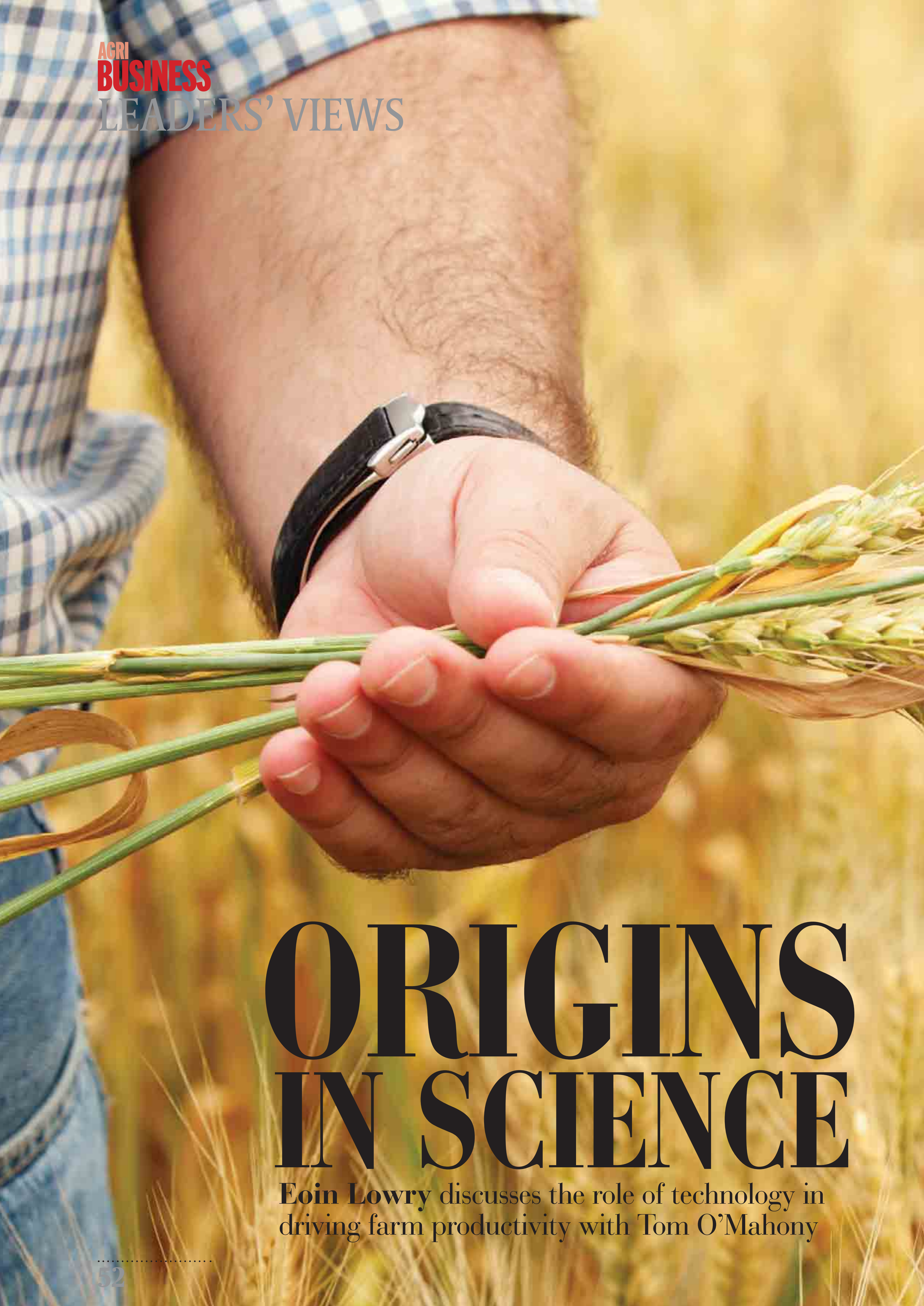
2.5%
Of Europe's beef is purchased by McDonald's

14.5%
Of greenhouse gas emissions come from livestock production

34,500
McDonald's restaurants in the world today

McDonald's estimated carbon footprint





ORIGINS IN SCIENCE

Eoin Lowry discusses the role of technology in driving farm productivity with Tom O'Mahony

In September 2015, Beal Farm on the Northumberland coast in the UK broke the world wheat record by growing 16.52t/ha, displacing the previous record of 15.6t/ha held by a New Zealand farmer for more than five years.

Pushing the world wheat record yield up by not far short of a tonne per hectare is all the more remarkable in that it was achieved with a strictly commercial agronomy programme involving barely two-thirds the amount of nitrogen fertiliser used in the previous record.

Total input costs of under £46/t underline the financial success of the crop, even at feed wheat values of little more than £100/t.

The crop was part of the Agrii Best of British Wheat 15t Challenge and Origin's Agrii team provided the agronomy throughout the crop's growing season.

Integrated agronomy services is the cornerstone of Origin's business model and accounts for 60% of profits. At its core is research, innovation and technology and knowledge transfer. Tom O'Mahony, CEO, believes that the localised nature of the offering is a key strength of the model.

As an agricultural science graduate from UCD, O'Mahony believes the combination of science and practical farming expertise is key to enabling growers to optimise productivity. He says we need to expand the role of the agronomist beyond crop protection to take on a more holistic role in the process of growing a crop. He says today's farmer is much more professional. This is driven by greater scale, increasing regulations and greater risk from increased volatility.

That means becoming involved earlier in the planning stages and advising on soil fertility, rotations, seed selection and establishment techniques.

Growing crops is becoming more complex, driven by an increased prevalence of diseases and grass-based weeds, coupled with increasing pressure on crop protection products as certain strains of weeds and diseases become resistant to current available chemistry. Increased EU environmental regulations are also removing many active ingredients, such as neonicotinoids, from the market.

In the UK alone, Origin employs 280 or 30% of all practicing agronomists. It has a three-step approach to integrated agronomy. Firstly, it invests in local research centres and has five technology centres, which have more than 59,000 trial units. There are then 28 demonstration farms which localise and put the R&D into practice. It uses this information to prescribe input programmes based on yield and quality targets. The agronomists then advise on the timing of applications to achieve maximum results and, through its integrated seed, fertiliser and crop protection businesses, it supplies the inputs.

Origin has 42,000 farmer customers who collectively farm 11.8m ha across the UK, Ireland, Poland, Romania and Ukraine. The agronomy covers the establishment, prescription formulation and application, cultivation systems, soil health, field inspections, varietal selection, nutrition and decision support systems, along with the supply of seed, crop protection products and fertilisers.

He believes farming is on the cusp of change due to a"progressive reduction in supports over the medium- to long-term, along with labour shortages, that will drive structural change at farm level as more land is farmed by fewer decision-makers". He adds that this will likely accelerate in a post-Brexit environment.

O'Mahony also believes that data is going to play a much greater role in agronomy, which will become more customised in the future. This was one of the key reasons why Origin entered into a new research collaboration with UCD last year and followed this by acquiring Resterra, an agri-based software and digital agronomy business, in March this year. This is a new strategic direction for Origin, which provides a separate revenue model to work alongside its current distribution and agronomy business.

New research collaboration

The Origin and UCD research collaboration is a €17.6m investment co-funded 50:50 by Science Foundation Ireland and Origin. The five-year development programme will leverage UCD's expertise in data science and Origin's agronomic data, collected from trial plots and on-farm.

The programme will see 71 people over five years build digital models to assist agronomists and farmers with localised decision support, incorporating real-time data with the aim of maximising crop performance. Origin also bolstered its in-house science capability with the appointment of Professor Jimmy Burke as head of research and knowledge transfer. This move, along with the UCD partnership, will deepen Origin's capability and access to science and technology.

Customised agronomy

This will be driven by data. Currently, vast amounts of data are collected daily from trial plots and weather stations. He says this takes the guesswork out of many decisions for the agronomist, allowing them to better manage risk. He says Origin doesn't need to own the data, but rather be able to plug into the farmer's data. In exchange, farmers, agronomists and the industry benefits.

He says the farmer will see a greater return in a far more prescriptive advisory model. Inputs will be more targeted, with a greater level of predictability. For example, it may be possible to target specific problems such as blackgrass.

The technology is already here to geo-reference each field, layer in satellite imagery and other data such as biomass indices to determine yields.

"We are going to see the merging of conventional agronomy, crop science and prescriptive data analytics," according to O'Mahony. He believes this will radically transform how information is transferred to growers on a field-by-field level. It will be a technical prescriptive model, which will focus on productivity returns through the development of automated knowledge transfer capabilities at field level. "It means that Origin will become more service-orientated," he added. Resterra will add digital technology capabilities, with a particular emphasis on expanding the group's data-driven crop management solutions for the benefit of existing and potential new farmer customers and agronomists.

Tom O'Mahony speaking with Eoin Lowry at the Origin offices in Citywest.

Eastern expansion

Last year, Origin created a footprint in the Romanian integrated agronomy market through the acquisition of two agri supply and service companies. This is its third country investment in eastern European agriculture and follows previous investments in Poland and Ukraine. With yields of less than 50% of the EU average, input spends lower than the EU average and EU subsidies set to increase above the current level of €150/ha, he says the opportunity exists to increase input spend and enhance yield.

Even though eastern European agriculture is characterised by small, subsistence holdings, he says that there is an emerging, large-scale commercial segment. O'Mahony says Ukrainian grain farmers are generating good returns, thanks to the competitive advantages of scale and a weak currency.

Farms are consolidating in the region. For example, in 2005, Poland had 2.5m farm units. Today,

it has 1.5m, with 31% of the farms larger than 50ha. Similarly, Romania had 4.1m farm units in 2005 and, today, it has 3.8m units, with 52% of farms over 50ha.

The future

Origin puts agronomy at the centre of the business and is pushing the boundaries of a research-based agronomy services business. Integrated agronomy services now accounts for 59% of revenues and 60% of profits. Today, Ireland and the UK account for about two-thirds of the business, with central and eastern Europe accounting for the other third.

In the future, central and eastern Europe will play a much bigger component of that. Changing structures look set to bring consolidation opportunities. Origin's strategy to grow market share through acquisition rather than organically is prudent and less disruptive to the market.

Agriculture is changing fast and the combination of Origin's agronomic expertise, along with Resterra's technology and the UCD partnership, opens the opportunity to deliver powerful tools to support on-farm decision-making and drive yield and productivity for farmers. With ambitions to expand, build on its core and develop new markets, Origin looks to be on target.

INSIDE VIEW

ON BREXIT

"The uncertainty that Brexit brings is enormous," according to O'Mahony. He said while the weaker sterling helped cushion output prices for the UK farmer over the past year, there will most likely be a progressive reduction in supports in the future. However, he adds that opportunities will come from the structural changes that will have to take place across agriculture. One probable outcome will be a concentration of agricultural production on larger-scale farms to offset the income and cashflow challenges arising from lower subsidy supports, as well as to achieve greater efficiencies in the fixed cost base. O'Mahony believes that farm business models will change and that farmers will continue to maximise yields through increased reliance on external expertise and technical support. He says that Origin is well placed in the opportunities that Brexit may bring. He says Origin is fully committed to the UK, and has shown this by its two recent investments.

ON GMOS

He says that until the consumer is convinced of its merits, genetically modified crops are unlikely to get traction in the near term in the EU. He says there are no incidents that shows GM poses a health risk to people. His biggest fear is that European agriculture is going to become increasingly disadvantaged.

ON GRAIN

Grain exports from South American countries are really benefitting from currency weakness, which is making them very competitive. The UK is continuing to plant, but this will be a game of scale and efficiency into the future. He says farmers need to be efficient enough to ride through the volatile times.

He says the one common feature across all the regions is how farmers increase the value of the land.

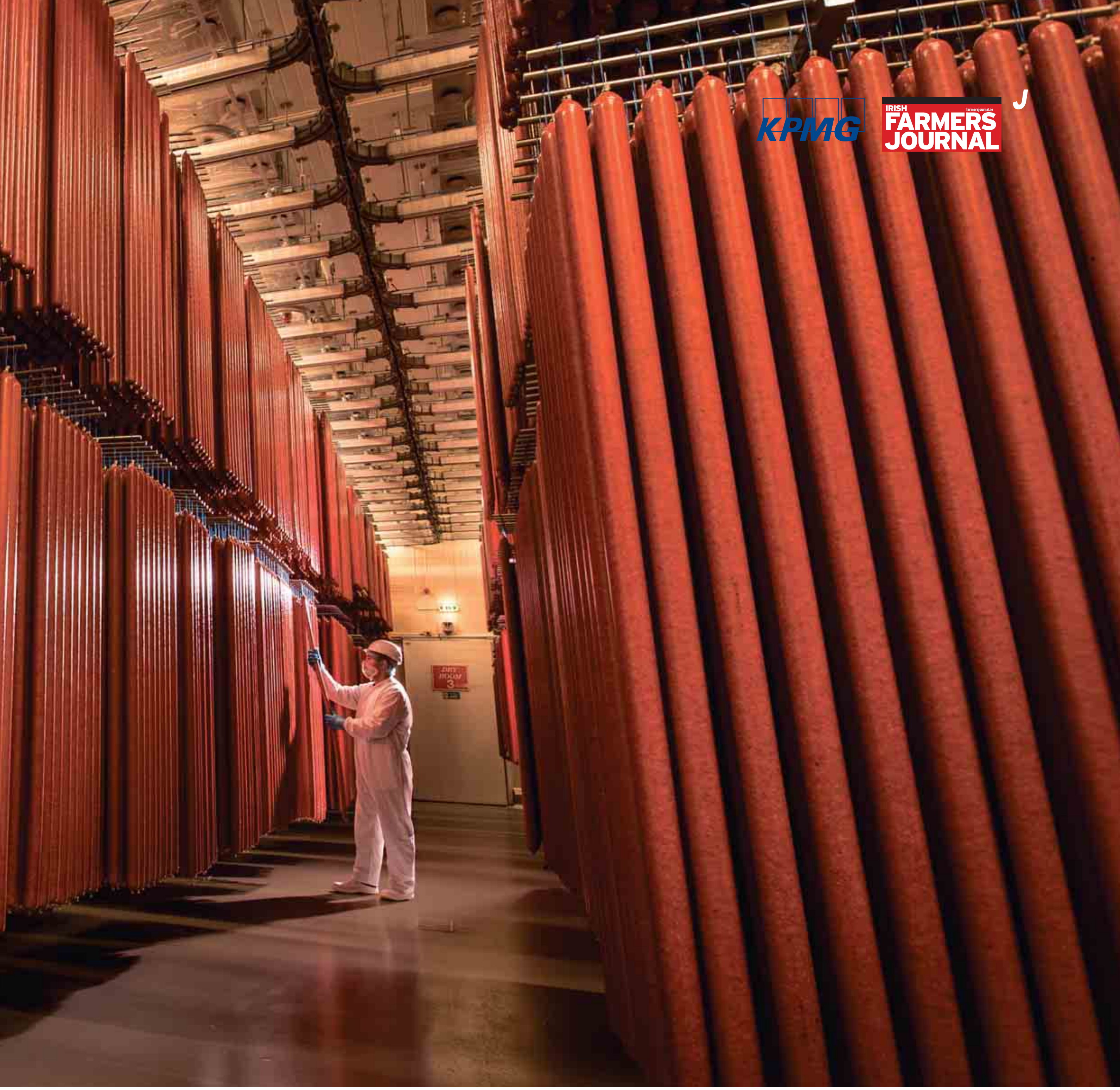
He says that when land is valued, at times, at less than €1,000/acre, the only way it can be done is by productivity gains.

DAWN OF A NEW ERA

Eoin Lowry meets Larry Murrin to discuss building a prepared consumer foods business

The year 1985 began with US president Ronald Reagan being sworn in for a second term. It was also the year when British prime minister Margaret Thatcher and Taoiseach Garret FitzGerald signed the Anglo-Irish Agreement. Underlying problems in the Irish economy became more pronounced. Unemployment rates touched off 20%, the public sector accounted for a third of the total workforce, budget deficits and public debt increased. Middle-income workers were taxed at 60% of their marginal income. And as the effect of emigration took hold, the population of Ireland was actually falling.

It was also the year that Larry Murrin, who had been running a small cooked meats company, met three businessmen – Peter and John Queally and Dan Browne of Dawn Meats – who backed Murrin's busi-



ness idea, setting up Dawn Farm Foods in 1985.

"We were a 12-person startup with a 4,000ft² warehouse and a small cooked meat plant from which we intended to sell deli cooked meats to Irish supermarkets," explains Murrin.

He says "it was a very crowded space, but because we offered a higher level of customer service, we were successful". Within five years, the business was turning over €5m, and even though it had garnered a fair share of the Irish market, Murrin and his team wanted more.

He explains: "The Irish market wasn't really that big and rather quickly we realised if we wanted to grow we needed to export." Thirty years ago, Ireland didn't have a reputation for exporting food. It was mainly an exporter of primary produce such as meat, dairy and live cattle.

"A cursory look at the UK at the time told me that there were hundreds of companies just like us in the UK, so it was going to be a tough hard road selling deli meats to the British retail trade," he says.

But consumer trends were beginning to change and a variety of foods started appearing on supermarket shelves.

"We could see an opportunity if that trend was to continue. Brands were going to need companies to deal with the challenge of customising ingredients that made manufacturing of their products easier," explains Murrin.

This allowed Nestlé and the then Northern Foods to outsource aspects of their manufacturing process, leaving them to focus their efforts on assembly, innovation and marketing.

He says they used their capabilities in meat to craft customised solutions for brand-holders that they could incorporate into ready meals, recipe dishes, sandwiches, pizza and snacks. Perhaps surprising today, but pre-sliced cooked meats hadn't really been born in 1985. One of the big breakthroughs came in 1988 when Pizza Hut UK chose Dawn Farm Foods as one of its suppliers of pizza toppings. Within two years, it was the chain's sole supplier of pizza toppings in the UK and, two years later, it was Pizza Hut's sole supplier of pizza toppings in Europe.

Murrin says: "This was a catalytic moment for the business. Having one of the big branded players endorse a small company from Ireland had a ripple effect for others in the market."

Employing 700 people in Naas and a further 400 on its Northampton site in the UK, today Dawn Farm Foods is the largest cooked meat ingredients company in the world outside of North America. It does not do any slaughtering and its cooked beef, pork, bacon, chicken and turkey form part of someone else's finished products that end up in more than 40 countries around the world. It is estimated that up to 50m people per week eat a product that has an ingredient from Dawn Farm Foods. It produces 500 different stock-keeping units (SKUs) every week and more than 90% of everything is exported with just under a third going to the UK.

The majority of meat is sourced locally, but there are not enough specific cuts in Ireland, so the balance comes from Europe. Food service is becoming a larger part of the business, growing from 20% of sales 20 years ago to accounting for more than half of the business today. Murrin believes this is a trend that will continue.

Innovation

Dawn Farm Foods does not make a single product the same way today as it was making 10 years ago, such is the scale of product churn. He says: "Research and innovation have always been at the heart of our approach and we are committed to maintaining this winning formula." It employs 30 people in research and development and is investing a further €25m in research over a five-year period, which will see the creation of 150 jobs. Dawn Farm Foods recently joined with Enterprise Ireland and University College Dublin to launch a new innovation partnership to enhance food quality and safety. Murrin says: "Our customers want reassurance that the food being served to them is produced in a sustainable way with absolute certainty about safety, traceability and animal health and welfare practices. They want clear evidence of high-quality, lightly processed nutritious ingredients."

Building relationships

He believes an emphasis on developing long-term relationships with customers has been key to the company's continued success. "We are a business-to-business operation. Our success has been based on having long-term relationships with our customers and working together to anticipate and meet the key trends in the competitive markets they serve," he says.

For example, earlier this year, Dawn Farm Foods signed an €850m contract with Subway, which will see it supply over 4,000 Subway restaurants in over 30 countries across Europe over the next seven years. This continues a long relationship between Subway and Dawn Farms, which started in 1993. He says that partnering with companies like Subway or Pizza Hut translates into significant additional export opportunities for Dawn Farms. "If a Pizza Hut or Subway wants to enter a new market, they have to bring a qualified supply chain with them," according to Murrin, adding "we can create that safe and secure food chain for them that protects their brand integrity".

Dawn Farm Foods is a key supplier of pizza toppings to chains such as Pizza Hut.

But he also says there comes a time where they will need local solutions. He says: "Food service brands that have gone into foreign markets with local supply chain solutions don't usually work." He believes brands that have been successful in new markets are the ones that have opened up with trusted, reliable supply chain partnerships that they already work with.

"We don't go out and buy growth through acquisition, it's more to add capability to support continuing relationships with major customers. The further out from Ireland and the deeper into central European markets you go, there is a need to have manufacturing presence in those markets," says Murrin.

"We are absolutely in growth mode," he adds,

noting that Dawn Farms will have “a significant manufacturing presence in mainland Europe within two years”. But it won’t ignore the UK and expects to expand its manufacturing presence there over the next two years also. He says: “We expect to grow our market share in the UK over the next five years – Brexit or no Brexit.”

Challenges

Murrin believes the industry is in danger of sinking in a sea of uncertainty given the events of the last 12 months. “The biggest challenge is to balance product issues with supply chain issues against a backdrop of massive uncertainty that Brexit and other geopolitical challenges are bringing,” he says. From an industry position, the prepared consumer foods sector and the agri-food sector’s position is reasonably clear. He says it needs delivery channels that work and can recognise the cost factors for all businesses. He says Brexit has significantly limited the entrepreneur’s appetite for risk and without SMEs having the appropriate environment to break through in scale, the community of bigger companies is going to stagnate.

DAWN FARMS EMPLOYS

700

PEOPLE IN NAAS AND A FURTHER 400 IN THE UK

90%

OF WHAT IT PRODUCES IS EXPORTED

FOOD SERVICE ACCOUNTS FOR HALF OF THE BUSINESS

INSIDE VIEW

GOVERNMENT SUPPORTS

“The Government must recognise the importance of maintaining a cap on business costs. After all, Government creates policy - business and enterprise creates jobs. We need the UK to be as important in five years’ time as it is today. We also need to be good friends of the UK in the years ahead and we need to create the circumstances that give Ireland or the EU the most friction-free shot at developing a trade agreement.”

INNOVATION HUBS

“We already have meat and dairy innovation hubs, but there is nothing for the more complex prepared consumer foods sector, which has a total activity value of €4bn per year, employs 22,000 people directly and accounts for 40% of the direct jobs in food manufacturing.”

CHINA

“We see an absolute ocean of opportunities in Britain, Europe, the Middle East and Africa. That’s not to say we will rule out possibility in China, but it just doesn’t make sense to fly across 650m consumers to get into a bigger market when we actually understand the consumers that we are flying across.”

SUSTAINABILITY

“Ten years ago, sustainability wasn’t even in the top five things that a customer talked about. Today, it is in the top three. They want to understand how we are bringing sustainable solutions to them and what the effect is, not just on our community in Naas, but on the wider community. They want to deliver transparency to their customers, it’s that simple.”

FUNDING AND SCALING

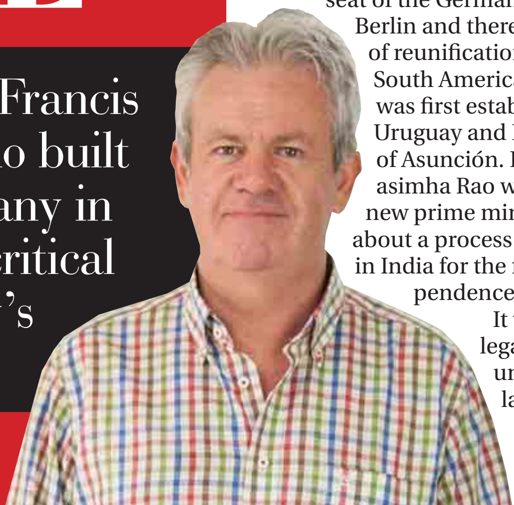
“Funding for the agri-food sector is a huge issue. Part of the Government’s response to the challenge of Brexit needs to be the creation of and access to long-term, low-cost finance for the entire Irish agri-food sector. If we don’t watch the environment in which we are asking SMEs and our agri sector to grow through in the next five to seven years, then we will stunt its growth significantly.”

BATTLING BREXIT

“With tariffs applied, the net cost of food going into the UK’s supply chain is ultimately going to rise. The majority of food manufacturing businesses, however, operate on single-digit net margins, so to even talk about absorbing tariffs of the magnitude that are being circulated is not an option. We cannot pass the UK by. We have got to find a means to remain a key supply chain partner to the UK.”

ZAMBEEF PATH OF CHANGE

Lorcan Allen speaks to Francis Grogan, the Irishman who built an integrated food company in Zambia that it is now a critical part of the entire country's food security



In 1991 the world was changing. The US army was busy launching its Desert Storm combat operations in Iraq and Kuwait as the Gulf War escalated. It was the year when countries such as Ukraine, Belarus, Georgia, Kazakhstan, Estonia and Latvia all emerged to claim independence one by one. By the end of the year, the Soviet Union ceased to exist, as Boris Yeltsin became the first democratically elected president of Russia.

The wave of nationalism sweeping across eastern Europe saw Croatia and Slovenia declare independence from Yugoslavia, ultimately leading to its collapse. The German parliament voted to move the seat of the German capital back to the city of Berlin and thereby completed the process of reunification started a year earlier. In South America, the Mercasur trading bloc was first established, as Argentina, Brazil, Uruguay and Paraguay signed the treaty of Asunción. In India, the ambitious Narasimha Rao was elected as the country's new prime minister and immediately set about a process of economic liberalisation in India for the first time since its independence.

It was the year when the last legal threads of apartheid were unwound from South African law after Nelson Mandela

was released from prison less than 12 months earlier. 1991 also saw Tim Berners-Lee create the world's first website, at the same time as Starbucks opened the doors of its very first coffee outlet in Seattle.

But 1991 was also the year when Limerick native Francis Grogan, at the age of 30, touched down in the Zambian capital of Lusaka for the very first time. And just like the change that was happening in the rest of the world, Zambia was about to experience a major upheaval that would set the country on a new path of economic change. Little did he know it at the time, but it was also going to take the young Francis Grogan down a road he is still travelling to this day.

Landslide change

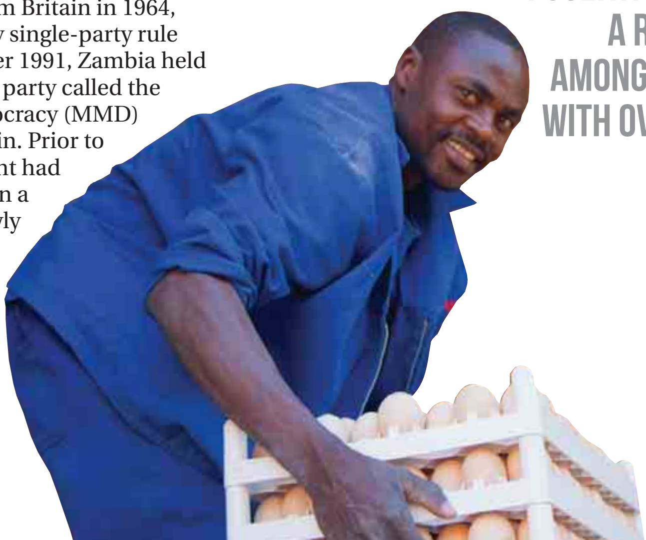
After gaining independence from Britain in 1964, the people of Zambia knew only single-party rule for 27 years. However, in October 1991, Zambia held its first free elections and a new party called the Movement for Multiparty Democracy (MMD) swept to power in a landslide win. Prior to this, the single-party government had controlled virtually everything in a socialist-style state. But the newly elected government embraced free trade for the first time and begun the process of liberalising the Zambian economy.

"Back when I came to Zambia in 1991, the one-party state was removed in a landslide election by the MMD. This new

$220M

ANNUAL TURNOVER

ZAMBEEF HAS OPERATIONS TODAY IN GRAIN, DAIRY, BEEF, PORK AND POULTRY PROCESSING, AS WELL AS A RETAIL FOOTPRINT SPREAD AMONG MORE THAN 170 STORES, WITH OVER 30 OF THESE LOCATED IN NIGERIA AND GHANA



Above: Over the years Zambeef has helped to formalise the retail trade in Zambia. Right: Francis Grogan at one of the company's three beef feedlots.

government embraced free markets and free trade and abandoned the socialist approach of the previous government," says Grogan, who found himself in Zambia after applying for a job he read in an Irish newspaper.

"The government owned absolutely everything. They owned all the meat factories, the supermarkets, the bus companies, the railways, farms, flour mills and bakeries. Everything was owned and run by the government and, as a result, it was highly inefficient and run down due to lack of investment."

Unsurprisingly, the decision by Zambia's newly elected government in 1991 to liberalise the economy and begin the process of selling off these state assets led to huge structural changes in Zambia. The biggest shock to Zambia's economy was the privatisation of the country's mining sector, which was by far the biggest employer. Grogan says the country was very poor at this time, with thousands losing their jobs.

"The government made some brave decisions when it abolished exchange controls and sold off a whole pile of state-owned enterprises," he says. But it was from this programme of economic liberalisation that Grogan made his first break in Zambia when he, along with his business partner Carl Irwin, grabbed an opportunity to lease a small abattoir and processing plant, as well as opening retail outlets around the capital city of Lusaka."We opened butcheries all over Lusaka, delivering the meat in old landrovers. We formalised what was previously a highly informal business where meat was sold in unhygienic, open air markets," says Grogan.

From this relatively small start in retailing, Irwin and Grogan would build a business known as Zambeef with an annual turnover of $220m. The vertically integrated company has operations today in grain handling, dairy, beef, pork and poultry processing, as well as a retail footprint spread among more than 170 stores, with over 30 of these located in Nigeria and Ghana.

"By 1995 we had 10 retail outlets. The same year, South African retail giant Shoprite acquired seven newly privatised former government supermarkets in Zambia and we got the franchise to run their meat markets or butchery counters," he adds. Since then, Shoprite has expanded its chain in Zambia to 30 supermarkets with another 30 located in Nigeria and Ghana. The retailer has continued its partnership with Zambeef throughout this expansion phase helping the company to broaden its footprint on the African continent.

Food export hub

What's clear from speaking to Grogan is that Zambia is a country with massive agricultural potential. With a population of just 15m people, the country is more than able to produce enough food to feed itself. It even exports a little to its neighbours.

But Grogan is much more ambitious than this. He sees Zambia with the potential to develop into a food production hub for southern Africa and export to all of its neighbouring countries (hence why it is often referred to as the mini-Brazil of Africa).

However, the majority of food imported by Zambia's neighbouring countries is currently coming from places like South America and the Black Sea. Argentina, in particular, is a major exporter of soya beans, wheat, beef and chicken into the region.

"We see enormous opportunity here. Zambia has only 15m people, but surrounding us are 350m people. Zambia is self-sufficient in food, but a lot of the countries around us are not," says Grogan.

"It's ridiculous in this day and age that they are still importing vast quantities of wheat from the

BUILDING ZAMBEEF

Although starting out in retail, Grogan and Irwin kept branching out into new areas as opportunities arose. They quickly realised that many of the primary food processors in the country were struggling, as they had no real route to market through supermarkets or foodservice like you might see in a developed country. In Zambia in the early 1990s, the food market was dominated by informal trading, with street merchants selling one or two chickens, for example.

This lack of route to market gave Grogan and Irwin the opportunity to acquire or construct beef abattoirs in cattle producing areas of Zambia in the early years of the business. This gave the business a processing footprint along with a route to market through their retail business, which was ever-growing.

"In Africa, the trading was very traditional. But we managed to formalise it and actually started supplying the informal side of the market too. We became the biggest meat slaughterer in the country and we were selling a lot of beef and chicken to the informal sector. So we've integrated ourselves very well into the local market in Zambia," says Grogan.

Over the years, more and more opportunities arose for Zambeef and it spread its wings into everything from oilseed processing to dairy to poultry production. Today, the company processes about 100,000 head of cattle, 100,000 pigs and over 11m chickens per year. Zambeef also takes in close to 7.5m litres of milk annually for processing into milk powders, spreads, cheeses and yoghurt.

The business has one of the largest cropping operations in Africa, with 50,000 acres planted annually in maize, wheat and soya bean. The raw material from these crops is used to produce the 170,000t of animal feed Zambeef sells annually. However, it has not all been plain sailing, according to Grogan.

"We've been in the trenches here in Zambia for 25 years and that's a long time. It's very different from being in the trenches in Dublin, London or Chicago or wherever you are," he says.

"I found it extremely primitive when we first arrived here, but now we've brought the standards right up. If you went into one of our shops now they have standards as high as any country in western Europe. We brought first-world standards to retailing in Zambia."

Black Sea and soya beans and chicken from South America. We've got the soils, the climate, the raw resources to become a food production hub for this region," he adds.

Water security

When you think of agriculture in Africa, the lack of water often springs to mind as the greatest challenge. The opposite is the case in Zambia, with over 40% of the water in sub-Saharan Africa located there.

Not only is the country well-supplied with surface water from the many tributaries flowing into the Zambezi river, but Grogan says there is a lot of water in the ground. The biggest challenge for the country is building the infrastructure to access the water and redistribute it for farming needs.

There are hydroelectric dams built along the surface rivers in Zambia for harvesting water and electricity generation, but Grogan believes the number of dams could be increased 1,000% to harvest all of that water properly.

"There's so much of that water that just washes down the Zambezi river and flows out into the Indian Ocean 2,000km away," he says. However, while the water is there, building the infrastructure to maximise its potential is the difficulty.

"The Zambezi and Kafue rivers are massive rivers. However, you have to get power into them and you have to get roads there," says Grogan. "It's not just a matter of starting up your tractor to begin planting crops. You have to have massive infrastructure and it's very expensive. But the opportunity to grow food is there and the opportunity to export that food is there."

At present, Zambeef is operating irrigation systems on about 20,000 acres of land between three large farms. The irrigation system allows the group to double-crop every year on this land, with a winter wheat crop usually followed by soya bean in their hot summer period.

Grogan says the grass-legume alternation from wheat to soya means you could farm with this sort of rotation almost indefinitely given Zambia's climate.

ZAMBEEF PRODUCES OVER **20%** OF ZAMBIA'S WHEAT AND **25%** OF ITS SOYA

Importance to the country's food security

Zambeef has become such a major player in the agriculture sector of Zambia that it is now a critical part of the entire country's food security. The company produces over 20% of Zambia's wheat, 25% of its soya and accounts for about a third of its poultry production, as well as being the country's largest pork and beef processor.

With more than 6,000 full-time staff, Grogan says the company is also the largest employer in Zambia outside the mining sector and the government. As such, the success of the company is almost intertwined with the success of Zambia as a country.

This growing importance in the economy of Zambia was one of the main reasons that Grogan and his team decided to float Zambeef on the stock market.

"We listed on the stock market in Lusaka in 2003 and then we listed on the AIM stock exchange in London in 2011. The reason for floating the company was down to a combination of things," says Grogan.

"By 2003, Zambeef was becoming a very large and very visible company. We went on the Lusaka stock exchange and the NAPSA government pension scheme is now a very large shareholder in the company. It personalised the business and brought us enormous goodwill in Zambia," he adds. Today, Zambeef is recognised as one of the country's flagship companies, reflecting the importance of the business to Zambia's food security.

Outside of the state and the mining industry, Zambeef is the largest employer in Zambia with over 6,000 staff.

HURDLING BARRIERS AT ORNUA

Kevin Lane outlines the challenges and opportunities ahead for the dairy industry to **Eoin Lowry**

Ornua CEO Kevin Lane. One of the biggest challenges facing Lane is finding a home for the 50% expected growth in milk output from Irish dairy farmers.

Today, it's easy to forget how difficult it was to access markets and export food as a small island on the periphery of Europe before accessing the European Union. Back then, Ireland was regarded by most of the global community as an almost insignificant island, still struggling to find its place in the world more than five decades after gaining independence from the UK.

When Ireland became a member of the EEC in 1973, it paved the way for Kerrygold butter to gain access to the highly lucrative German consumer. Today it is the number one butter brand sold in Germany.

Undoubtedly the free market access provided by the European single market has facilitated the success of the Kerrygold brand. For those agribusinesses concerned about trade barriers arising from Brexit, the Kerrygold story also illustrates how to overcome the challenges of barriers to trade.

Despite quotas and tariffs on imports into the US, it has become the number one imported brand in the US. It is now set to become Ireland's first billion-dollar food brand.

Increasing awareness of the nutritional benefits of choosing butter from grass-fed cows has allowed Kerrygold to benefit from resurgence in butter sales.

When *Time Magazine* published a front cover in 2014 exhorting its readers to "eat butter", it set a clear message in stating that butter is back. It reinforced the trend among consumers that margarine was seen as less healthy and that consumers wanted natural, healthy and authentic foods.

This trend played right into Kerrygold's message, which hasn't changed since it was first launched in 1962. While the original aim of the Kerrygold brand was to get beyond the commodity butter market and achieve a higher price, it has taught us much more about how to successfully brand and market an Irish food product.

Ornua has been consistent in all its years. Rather than promoting the provenance, Ornua strategy has been to promote the brand and its image of pure natural taste. The Irishness of Kerrygold is secondary in its message to consumers.

Today's consumer values honesty, integrity and authenticity. Kerrygold plays to these values. With its distinctive yellow colour, coming from the milk of grass-fed cows along with its unique taste, it doesn't try to fit in and consumers are willing to pay a premium for it.

The Kerrygold brand is only part of the Ornua story today. It now is a €2.5bn turnover business, exports 60% of Ireland's milk to more than 110 countries and has 15 subsidiaries worldwide.

When Kevin Lane became CEO in 2009, the business had sales of €1.8bn and earnings of €56m

and margins of 3%. By 2021, his ambition is to grow revenues in the business to €3bn while delivering a margin of 3%.

Today, the branded side of the business, Ornua Foods, accounts for 55% of group turnover. However, Lane expects further growth to come from its brands and in particular through extension of the Kerrygold brand.

He says that he wants to move Kerrygold from being a butter brand to a dairy brand by introducing new product formats and moving it out of the deli aisles and into the dairy aisles. Currently the Kerrygold products sit in specialised areas of supermarkets, away from the chilled dairy cabinets.

He says this was one of the main reasons behind investing in processing butter in Ireland. Last year, Ornua invested €37m in a state-of-the-art butter facility in Mitchelstown.

One of the biggest challenges facing Lane is finding a home for the 50% expected growth in milk output from Irish dairy farmers. As Ireland's largest dairy exporter, Ornua handles 60% of Irish milk. The plan is to grow its markets in the years ahead with two main aims – marketing the extra product as well as adding extra value to it.

Ornua's drive to secure new high-value outlets for Irish dairy products has seen the business make significant investments in the US, Germany, the UK, Saudi Arabia, and Spain in recent years.

The US is Ornua's fastest-growing market where volumes in its consumer foods division grew a massive 39% in 2015. Last year, it had sales in the US of $200m, with a target to grow this to $250m. When combined with a growing US food ingredients division, Ornua's US dairy operations will soon become a $0.5bn business. It plans to double the brand to 30,000t of butter in the next five to seven years. This will take the equivalent of about 0.6m litres of Irish milk or 10% of the milk pool.

Germany is Kerrygold's largest market.

39%

GROWTH IN ORNUA'S CONSUMER FOODS DIVISION IN 2015

Given the importance of the US to Ornua, the protectionist noises coming from President Donald Trump have to be a concern to Lane. He said right now Trump remains a watching brief and damages the potential for exports. He says we don't yet know if the US will reduce the quota, or increase levies or penalties.

Closer to home, Lane is also grappling with the uncertainty created by Brexit. He says it means extra cost in terms of doing business in that market, which accounts for over 30% of Ornua's sales. He sees cheese as the highest risk, where 60% of Irish production ends up in the UK market. He adds that it has doubled its cheese sales to the US over the last two years. He is also concerned about an emerging buy-British mentality in the UK.

At a time when Ornua is being supplied with more milk than ever before, much of its success in the future may be determined by forces outside its control. In the years ahead, Lane may have to navigate this business when trade with US and UK is more difficult, coupled with weak dairy markets driven by oversupply and subdued demand.

What's clear is that openness of trade is as relevant today for Ornua as it was back in 1973.

DISRUPTING THE SUPERMARKET AISLE

After 17 years in Ireland, Lidl continues to grow from strength to strength. John Paul Scally discusses the German discounter's future strategy with **Eoin Lowry**

When Lidl arrived in Ireland with its unfamiliar brands and unusual food range 17 years ago, shopping at the German discounter was a bit of a shameful secret. It was seen as somewhat downmarket, for those with lower incomes on a tight budget and, as the Celtic Tiger roared, shoppers flocked to the traditional supermarkets wooed by their upmarket offerings and prices to match.

But that was set to change. When the recession came in 2008, people realised that the traditional supermarkets were milking it and that there was much better value in the aisles of the discounters. This set off turning the grocery sector upside down.

Mercedes and BMWs are a common sight in the car parks at Lidl these days as the discount supermarket brand has flipped the perception of cheap products to focus on providing good-quality products at reasonable prices.

> "Through fierce discounting and a highly efficient operating model, Lidl has left the big retailers reeling

And there is a change happening inside its stores as well. While Lidl has stayed true to its discount model, its store formats are starting to evolve. In what it calls ''concept stores'', Lidl is now placing a greater emphasis on fresh products, moving the fruit and vegetable closer to the entrance and introducing in-store bakeries along with an improved fresh meats presentation.

These are all key points of differentiation, says John Paul Scally, the 35-year-old son of a Westmeath dairy farmer and managing director of Lidl Ireland. An industrial engineer, Scally joined the company in 2003 and spent time working in various functions in Ireland and France.

Through a combination of fierce discounting and a highly efficient operating model, Lidl has left the big supermarkets reeling. While the market leaders have been focusing on cutting costs and lowering prices to play catch-up, the secret of Lidl's success, according to Scally, is simple: "We have been improv-

ing quality, building up from a low-cost base."

Being cheaper than the competition is not enough to build customer loyalty and ensure longevity. In order to change perceptions of Lidl among the public, the brand had to change the public's underlying belief of "what value is". Instead of focusing on cutting costs and lowering prices, it has been improving quality, building up from a low-cost base.

By successfully finding the balance between quality and cost, Lidl has grown consistently in the last 17 years and carved out a market share of more than 11%. Scally says Lidl now appeals to all and is relevant to all. There is no such thing as a Lidl customer. This perhaps is shown by its latest marketing campaign called Lidl Trolley Cam, where real shoppers are recorded as they do their weekly shop. It emphasises the point that in the post-recession era, shopping in Lidl has become a badge of honour rather than a source of middle-class shame.

The challenge now is to continue the growth and win over even more customers. He has ambitious plans to add a further 50 stores to its current 150 at the rate of four to five each year.

He says to do this the supermarket needs to deliver on much more than price. This has been one of the big reasons it is ramping up its focus on quality and in-store experience with wider aisles, improved displays and increased fresh produce.

In identifying where it will open its next store, Lidl looks at a minimum population requirement to select the town. It then looks for an easy-access site with space for parking. Scally says the company does not worry about whether the town is already serviced by some of the traditional retailers, as Lidl is confident in its business model.

The Lidl model

"We like to think of ourselves as the Ryanair of grocery," says Scally (pictured), as he walks me around the new headquarters in Tallaght. "We are a discount retailer that cuts out the frills and focus on every part of the supply chain to drive efficiency to give customers the best value."

Compared with the traditional retailers, which can carry up to 15,000 products, Lidl carries as few as 1,700 items in its stores. This means higher stock turnovers, less waste and fresher produce for shoppers.

With all suppliers shipping to its distribution centres, and daily orders coming from each store, Lidl operates a just-in-time operating model that keeps store warehouses small and reduces the stock carried by the entire organisation.

There is even a no-frills approach to displaying product. There is no unpacking of boxes at Lidl. The product arrives on the shelves in its original delivery cartons and the customer takes the product directly

from the carton, thus doing the unpacking. Staffing is minimal, so that a profit can still be made even though the prices are low.

And this is the Lidl model through 10,000 stores in 27 countries. Every part of the process is precisely designed to deliver the highest-quality products at the lowest possible price and the most efficient shopping experience possible, according to Scally. He says that, at first, Lidl just copied and pasted its business model abroad, but nowadays it adjusts the model to the country and the local cultures.

In February, Lidl announced that it was expanding into the US with plans for up to 100 stores on the country's east coast. This will be its first move across the Atlantic, which has seen many rivals fail and retreat.

When it comes to differentiation, all signs point to one area in the supermarket: fresh food. Scally says Lidl is seeing a rise in fresh food sales in the last number of years. He says it is focusing on offering fresher, locally sourced and even organic produce. He says it also builds a full supply chain that ensures speed of

fresh food from farms to store in record time. But fresh produce is generally lower margin. He says that because there are fewer products in store, it keeps costs lower. Scally says that when Lidl first opened, it was 30% cheaper than the rest of the market and that the perception was that if it was cheap it couldn't be good. He claims that, today, the trust in the quality has built up and the company only buys the best of Irish. He says that with so few product lines, it means "our buyers have to be better". For example, instead of carrying five or six brands of jam, Lidl carries one. "Our buyer needs to select a jam that has mass appeal, high-quality ingredients and tastes great. This goes for any product Lidl carries".

There is no unpacking of boxes at Lidl. The product arrives on the shelves in its original delivery cartons and the customer takes the product directly from the carton, thus doing the unpacking.

Own-label products

Own-brand supermarket products are proving increasingly popular with shoppers. Scally says that own-label products now make up almost 70% of the Irish grocery market (by volume). Up to 90% of Lidl's offering is own-label, which allows it to be more competitive. He says the own-label route especially benefits smaller food producers as it opens up a larger sales market in volume terms. In many cases, he says that the quality of an own brand can actually be higher as the manufacturer wants to ensure it succeeds.

Lidl's success does not mean it has been easy. The discounters themselves have created increased price pressures in an already-thin margin business. Today's shoppers are not loyal to any single supermarket. One of the toughest challenges Scally faces is converting casual shoppers into loyal customers. While the low prices have helped make it the leader in customer advocacy, customers are demanding more in quality and service. His challenge is to create a differentiated proposition – beyond price – that will truly earn them customer loyalty.

FUTURE PLANS

Doubling Irish food exports

Lidl has over 200 Irish food suppliers. In 2015, it bought €539m worth of Irish food produce. It exported €153m in 2015, around 1.4% of Irish food and beverage exports. This continues to increase, with a target to double food exports to €300m by 2019.

In 2012, Lidl launched its premium Irish Hereford range of steaks and mince after the Irish Hereford Breeders Society got together with Lidl, Slaney Foods and Liffey Meats. It quickly became Ireland's fastest-growing meat brand. Along the way, the range was expanded to include products such as burgers and diced beef. Such was the demand for the product, which is aged for 14 days on the bone and a further 14 days for extra maturity, that it caught the attention of Lidl Europe. The project started slaughtering 20 animals per week and is now slaughtering 400 per week. Scally believes there is a huge opportunity for Irish beef exports as more and more consumers will be overseas. He says in the context of Brexit this is very important. Lidl exported €21m worth of beef to 12 countries around Europe including the UK, Spain, Finland, Denmark, Czech Republic and Germany.

Slaney Foods pays its Hereford farmers a 15c/kg bonus for all carcases grading from O minus upwards, and for up to fat score 4 plus. The Slaney Foods bonus is available to Hereford bullocks and heifers up to 36 months old, provided they are not a 2 or a 5 in fat, or a P in conformation. To qualify, animals must be between 250kg and 400kg dead weight and quality assured.

Giving new businesses a start

Kick Start is designed to help young Irish suppliers grow and develop their products and business skills. Successful suppliers will also have the opportunity to supply Lidl with a guaranteed volume of product. The programme, which is run by Lidl with support from Bord Bia, aims to foster, encourage and develop Irish suppliers.

SCALLY ON

ONLINE

"I am not in any rush to enter online retail. There is still huge potential in traditional formats and to continue to improve the in-store experience."

CHANGING CONSUMER

"We are seeing an increase in the frequency of visits to our stores which is against the European trend. Irish people are conscious of food waste, are shopping more often, which is driving fresh consumption."

CUSTOMER LOYALTY

"Loyalty is built through products, quality, service and value – not by loyalty cards."

Farmers who are certified members of the Bord Bia Quality Assurance programme and who participate in a farm sustainability survey as part of their audit, are the essential first link in Origin Green.

For David Johnson, it’s a no-brainer. As part of Origin Green, he has joined the many Irish farmers who are recognising that improved sustainability practices are good for business too. The only national sustainability programme in the world, Origin Green’s system of measuring and feedback helps Irish farmers to identify steps to increase efficiencies. Sustainable farming and efficient farming go hand in hand and also help preserve farms and land for future generations.

To find out how you are part of Origin Green and how it benefits your farm enterprise, visit bordbia.ie/farmers

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an initiative by Bord Bia Irish Food Board

Our beef is
100% Irish
with nothing
added but a pinch
of salt and pepper.

The End

For more good stories visit McDonalds.ie/goodstories