

IN THE AUSTRALIAN COMPETITION TRIBUNAL

of 2013

MURRAY GOULBURN CO-OPERATIVE CO LIMITED

**RE: PROPOSED ACQUISITION OF WARRNAMBOOL CHEESE
AND BUTTER FACTORY COMPANY HOLDINGS LIMITED**

Certificate identifying annexure

This is the annexure marked RAP40 now produced and shown to Robert Arthur Poole at the time of signing his statement on 28 November 2013.

Annexure RAP40
**IBIS World report titled 'Dairy Produce Wholesaling
in Australia', July 2013**

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The cows come home: Improving conditions for farmers will boost revenue

IBISWorld Industry Report F3603 Dairy Produce Wholesaling in Australia

July 2013

Ryan Lin

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About this Industry

Industry Definition

This industry consists of businesses that primarily wholesale dairy products. Dairy products include milk, cheese, cream, butter, yoghurt, powdered milk, dairy desserts and ice cream. This industry is made up of three different types of

wholesalers: manufacturing companies that wholesale direct to clients, wholesalers that are the intermediary between manufacturers and retailers (merchant retailers), and wholesalers that are integrated downstream into retail.

Main Activities

The primary activities of this industry are

Butter wholesaling
 Cheese wholesaling
 Cream wholesaling
 Dairy products wholesaling
 Ice cream wholesaling
 Milk wholesaling (except canned)
 Yoghurt wholesaling

The major products and services in this industry are

Cheese
 Milk
 Skim-milk powder
 Whole-milk powder

Similar Industries

A0160 Dairy Cattle Farming in Australia

Companies in this industry farm dairy cattle.

C1131 Milk and Cream Processing in Australia

Operators in this industry are engaged in milk and cream processing.

C1132 Ice Cream Manufacturing in Australia

Manufacturers in this industry are engaged in ice cream manufacturing.

C1133c Butter and Dairy Product Manufacturing in Australia

Businesses in this industry are engaged in dairy product manufacturing that is not elsewhere classified.

Additional Resources

For additional information on this industry

www.daff.gov.au/abares

Australian Bureau of Agricultural and Resource Economics and Sciences

www.abs.gov.au

Australian Bureau of Statistics

www.austrade.gov.au

Australian Trade Commission

www.dairyaustralia.com.au

Dairy Australia

Industry at a Glance

Dairy Produce Wholesaling in 2013-14

Key Statistics Snapshot

Revenue

\$6.3bn

Annual Growth 09-14

4.8%

Annual Growth 14-19

1.2%

Profit

\$126.5m

Wages

\$108.3m

Businesses

968

Market Share

Lion Pty Ltd **21.0%**

Murray Goulburn
Co-operative Co
Limited **14.5%**

Fonterra Co-
operative Group
Limited **10.2%**

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Revenue vs. employment growth

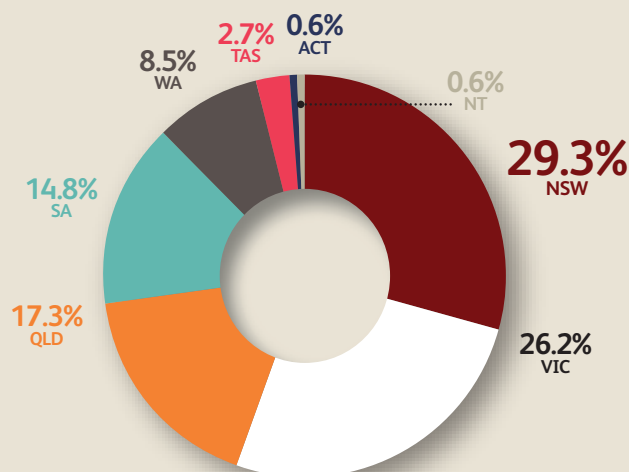


Real household disposable income



SOURCE: WWW.IBISWORLD.COM.AU

Establishments



SOURCE: WWW.IBISWORLD.COM.AU

Key External Drivers

Cheese, butter and
yoghurt consumption
Real household
disposable income
Milk consumption
Demand from
supermarkets and
grocery stores

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Industry Structure

Life Cycle Stage	Mature	Regulation Level	Light
Revenue Volatility	Medium	Technology Change	Medium
Capital Intensity	High	Barriers to Entry	Medium
Industry Assistance	Low	Industry Globalisation	Medium
Concentration Level	Medium	Competition Level	Medium

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 30

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

The Dairy Produce Wholesaling industry has benefited from increases in world dairy prices over the past five years, but has been adversely affected by a fall in industry production. Declines in milk production have occurred because of drought conditions, and dairy production in Australia and New Zealand has subsequently decreased. The industry's performance has also been constrained by the effect of wholesale bypass, and strong increases in oil prices have affected profitability. Industry revenue is projected to increase at an annualised 4.8% over the five years through 2013-14. This includes a forecast increase of 1.0% in 2013-14, to total \$6.3 billion.

The increasing market power of supermarkets over the past five years has led to the rise of wholesale bypass, with large retailers buying directly from the manufacturer. The increasing instances of wholesale bypass has also driven the increased consolidation and vertical integration of dairy product manufacturers. As large supermarket chains such as Woolworths and Coles grow in market power, they are increasingly able to bargain with industry wholesalers and manufacturers. Integration into both manufacturing and

distribution has allowed dairy operators to fight back against supermarket giants.

The future of the industry will be contingent on a variety of downstream demand conditions, and the changing landscape of commodity prices. Domestic dairy product prices are forecast to stabilise as the economic recovery becomes more pronounced. Dairy producers are likely to reduce the culling rate of herds as farm returns improve. Milk production in Australia is forecast to grow at a strong rate per annum over the next five years, assuming a return to average seasonal conditions. The introduction of new technology will increase the efficiency of the industry. For instance, the industry may benefit from further introduction of radio frequency identification (RFID) technology to make existing supply chain processes more efficient. The industry will also face increased competition from supermarkets pushing their private label dairy products, particularly as they have the size and clout to bargain for cheaper wholesale prices or bypass wholesalers altogether. Over the five years through 2018-19, IBISWorld forecasts that industry revenue will increase by an annualised 1.2% to reach \$6.7 billion.

Key External Drivers

Cheese, butter and yoghurt consumption

Health perceptions about dairy products affect the industry. Health organisations together with dairy institutions such as Dairy Australia, frequently promote the health benefits of dairy produce as part of a daily diet. In particular, they recommend three serves of dairy daily to provide the recommended intake of calcium. Dairy consumption is a good source of calcium for strengthening bones in children and can also help prevent the onset of osteoporosis, particularly in women. Most dairy manufacturers now produce a range of low-fat milk, yoghurt and cheese to appeal to diet-conscious consumers. Consumption of cheese, butter and yoghurt is expected

to increase in 2013-14.

Real household disposable income

Levels of real household disposable income influence the Dairy Produce Wholesaling industry. With higher levels of disposable income, consumers may demand a greater variety of dairy produce. Although milk is considered a staple product, purchases of other dairy produce such as cheese, yoghurt and ice cream are positively correlated with increases in household disposable income. IBISWorld forecasts that real household disposable income growth will remain strong in 2013-14. This will increase retail demand and subsequently wholesale demand, providing the industry with an opportunity.

Industry Performance

Key External Drivers continued

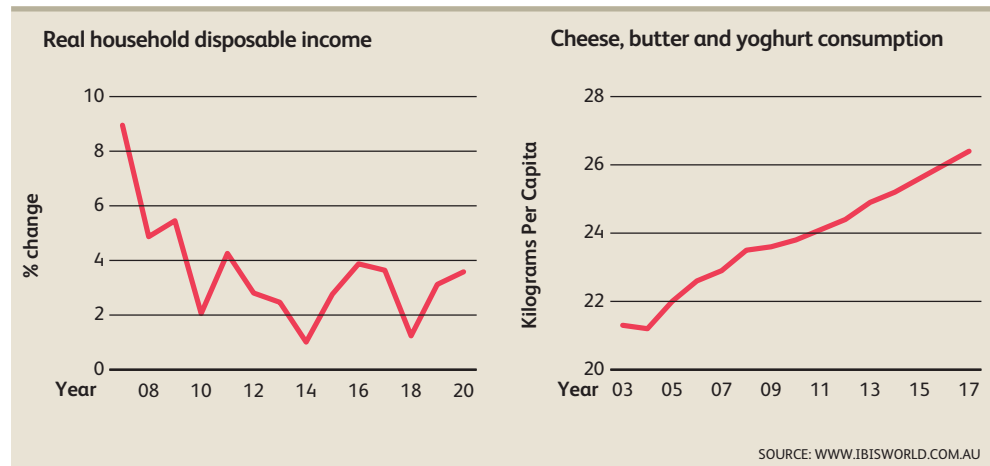
Demand from supermarkets and grocery stores

As the market power of major supermarkets increase, there is an increasing trend of supermarkets directly sourcing from manufacturers. To a small degree, this has eliminated the need for traditional wholesalers. There is now a need to improve performance by combining manufacturing and distribution channels, which generate economies of scale. Demand from supermarkets and grocery stores is

expected to increase in 2013-14, threatening the industry.

Milk consumption

The nutritional properties of dairy products are a significant factor in consumers' purchasing habits. In particular, there has been a growing trend towards nutritious diets and this trend is expected to grow in the foreseeable future, increasing the importance of nutrition in dairy products. Milk consumption is projected to increase slightly in 2013-14.



Current Performance

Unprecedented volatility in the international dairy market, combined with the onset of the global financial crisis, has had a significant effect on the fortunes of the industry. The industry has also had to contend with an increasingly health-conscious marketplace, changing dietary trends, rising input prices and increasing import penetration. Increased competition from supermarkets and grocery stores has also posed a threat to industry growth, as wholesale bypass behaviour has become more common.

In spite of this, in the five years through 2013-14, industry revenue is expected to increase by an annualised 4.8% to total \$6.3 billion. This includes forecast growth of 1.0% in 2013-14. The strength of the industry in the face of economic turbulence has been largely due to favourable factors for upstream production industries. This has allowed wholesalers greater access to dairy produce at reasonable costs, especially at a time when consumer demand conditions have picked up amid increasing income levels and confidence.

Industry Performance

Dairy prices

Global dairy prices are expected to grow in the five years through 2013-14. This is predominantly due to the collapse of foreign demand in 2008-09, driven by anaemic economic conditions and the ensuing debt crisis. The resurgence in prices over the past five years has been credited to increasing demand for dairy goods from developing markets in Asia, South America and the Middle East. The volatility of production conditions, such as weather and fodder prices, in key dairy manufacturing nations has also pushed up world prices. In addition, prices continue to be influenced by the European debt crisis, especially the effects on consumer spending in Greece, Italy and the United Kingdom. Demand in Europe will have significant implications for world dairy prices, as it

represents a major market. Even a small surplus in the region will mean a redistribution of supplies to other parts of the world. In addition, the extent to which the events in Europe affect spending in the United States and Asia has the potential to influence global demand for dairy products.

In contrast, domestic dairy prices have fallen over the five years through 2013-14. Domestic prices have fallen from their peak in the earlier periods during 2007-08 and 2008-09 as dairy farmers experience favourable grazing conditions for dairy cattle. With dairy production ramping up, wholesalers have increased access to a large range of dairy products. The ensuing demand for dairy goods as part of the Australian diet has resulted in boost in wholesalers' revenue earning capabilities.

Competition

An important trend affecting the industry has been that of retailers bypassing wholesalers and purchasing directly from the manufacturer. This has increased competition, particularly for smaller, less-efficient specialist dairy product wholesalers. Effective wholesale bypass has been aided by the increased consolidation and vertical integration of dairy product manufacturers. In addition, dairy product wholesalers have faced increased competition from larger general wholesalers. However, smaller wholesalers play an important role in supplying food-service establishments and smaller retailers, and in supplying niche products, which have higher search costs. Wholesale bypass reduces revenue

and profitability for the industry.

While external sources of competition are significant, the industry exhibits a lower level of internal competition. Competition between industry wholesalers is mainly focused within enterprises of similar size. Smaller locally based operators tend to compete against other similar operators, while large integrated dairy wholesalers compete against each other for lucrative supply contracts. As a result, there has been room for new players to join the industry, with enterprise and employment numbers increasing slightly over the past five years. Despite this, average industry wages have fallen slightly as profitability has been on the decline.

Changing consumption trends

Dairy consumption trends have changed slightly over the past five years. The per capita consumption of milk has generally remained constant over the period. However, there has been a continual shift away from whole milk towards low fat varieties. As a result, wholesale demand for fat-protein modified milk has also increased significantly.

While the market for fluid milk appears to be saturated, with static growth in drinking milk consumed per capita, there appears to be growth opportunities in the wholesale trade for new, higher value-added dairy products. These include modified dairy goods, flavoured milks, new flavoured ice creams, yoghurt snacks, specialty cheese and dairy desserts. These

Industry Performance

Changing consumption trends continued

higher value goods have provided the Dairy Product Wholesaling industry with a new avenue of growth over the past five years. As a result, industry wholesalers have enjoyed a slight boost to profitability, especially as they can slightly boost margins for these popular high value, value-added products. The popularity of these products has been driven by the overall increase in health consciousness and awareness of healthy

dietary requirements.

An important change for wholesalers has been the acceleration of milk sales through the supermarket channel, both through wholesale operations and direct wholesale bypass supply. This is predominantly due to the increased frequency of supermarket visits by consumers, with many shoppers going to supermarkets for the convenience of a one-stop-shop.

Industry Outlook

The industry's prospects are determined by retail demand and the consumption of dairy products. Such factors are affected by disposable income levels, changing dietary trends, competition from substitutes and product innovation. Industry revenue will be dependent on the extent of wholesale bypass and

competition from general line grocery wholesalers. IBISWorld expects that industry revenue will increase by an annualised 1.2% over the five years through 2018-19, to total \$6.7 billion. The industry is expected to grow 1.6% in 2014-15, but will continue to face pressures from external sources of competition.

Higher milk production

Domestic prices for dairy products are projected to moderate over the next five years, in line with forecast stability in world dairy prices. World prices are forecast to remain firm due to strong global demand, increasing costs of milk production, resource constraints in many countries and low world stock levels. Growth in dairy demand is predominantly expected to be driven by population growth and recovering economic conditions. Most Asian economies have a significantly lower per-capita consumption than Western developed nations. Key markets in China and East Asia, especially with the growth of the Asian middle-class is expected to be one of the greatest demand drivers in coming years.

As weather and climatic conditions return to normal, milk production is anticipated to increase in Australia over the coming five years, boosting production in upstream dairy manufacturing industries. Milk production is forecast to grow as dairy herds are cultivated and milk yields increase. Favourable conditions will aid

Favourable weather conditions will help to boost milk production over the next five years

the development of dairy herds, with cow numbers forecast to increase at a strong annual rate. Favourable dairy trends for farmers are expected to be in line with increased profitability, higher prices, lower feed costs and increased efficiency through consolidation and investment in technology and equipment. Milk yields per cow are expected to increase through the ongoing improvements in farm management practices, and research into dairy herd, pasture and fodder advancements. Sustained favourable weather and climatic conditions will also support these trends.

Domestic demand for dairy products will continue to depend on disposable income growth, population growth and consumer preferences. Australia's population is forecast to grow at a rate of

Industry Performance

Higher milk production continued

1.3% per annum over the next five years, which will support some volume growth. It is expected that consumers will continue to be strongly concerned about health and nutritional claims and demand functional dairy products, such as those with probiotics or increased calcium and organic varieties.

IBISWorld expects that small and medium-size wholesalers will continue to focus on serving the dairy needs of the hospitality, food-service industries and

small-scale retailers. Competition between large, vertically integrated manufacturer-wholesalers, which are able to deliver on a national basis, is also expected to increase. Wholesale bypass will negatively affect industry revenue as Coles and Woolworths fight for sales of dairy products. Supermarket competition will be one of the main forces restricting wholesalers, with supermarkets aiming to push down wholesale prices or circumvent wholesalers altogether.

Industry growth concerns

Over the five years through 2018-19, IBISWorld expects rationalisation to occur as less profitable businesses exit the industry. Consolidation is also expected due to the drive for economies of scale and some excess manufacturing capacity. There is likely to be increased ownership by multinationals and continued globalisation of food manufacturing. As a result, IBISWorld expects that the industry will become increasingly fragmented, with larger players dominating lucrative supply contracts and holding the majority of the market, while smaller players still exist to cater for less profitable wholesale operations for smaller establishments. Despite the overall

growth of the industry, it is expected that larger industry players will absorb most of the benefits.

The introduction of new technology is likely to increase the efficiency of the industry. For instance, the industry may benefit from the further implementation of RFID technology. RFID technology is being introduced to make existing supply chain processes more efficient. Products are tagged with chips that announce their identity when hit with a non-line-of-sight electromagnetic field. This assists with forecasting demand and managing inventory levels. Profitability will be negatively affected by a forecast moderate increase in oil prices over the period.

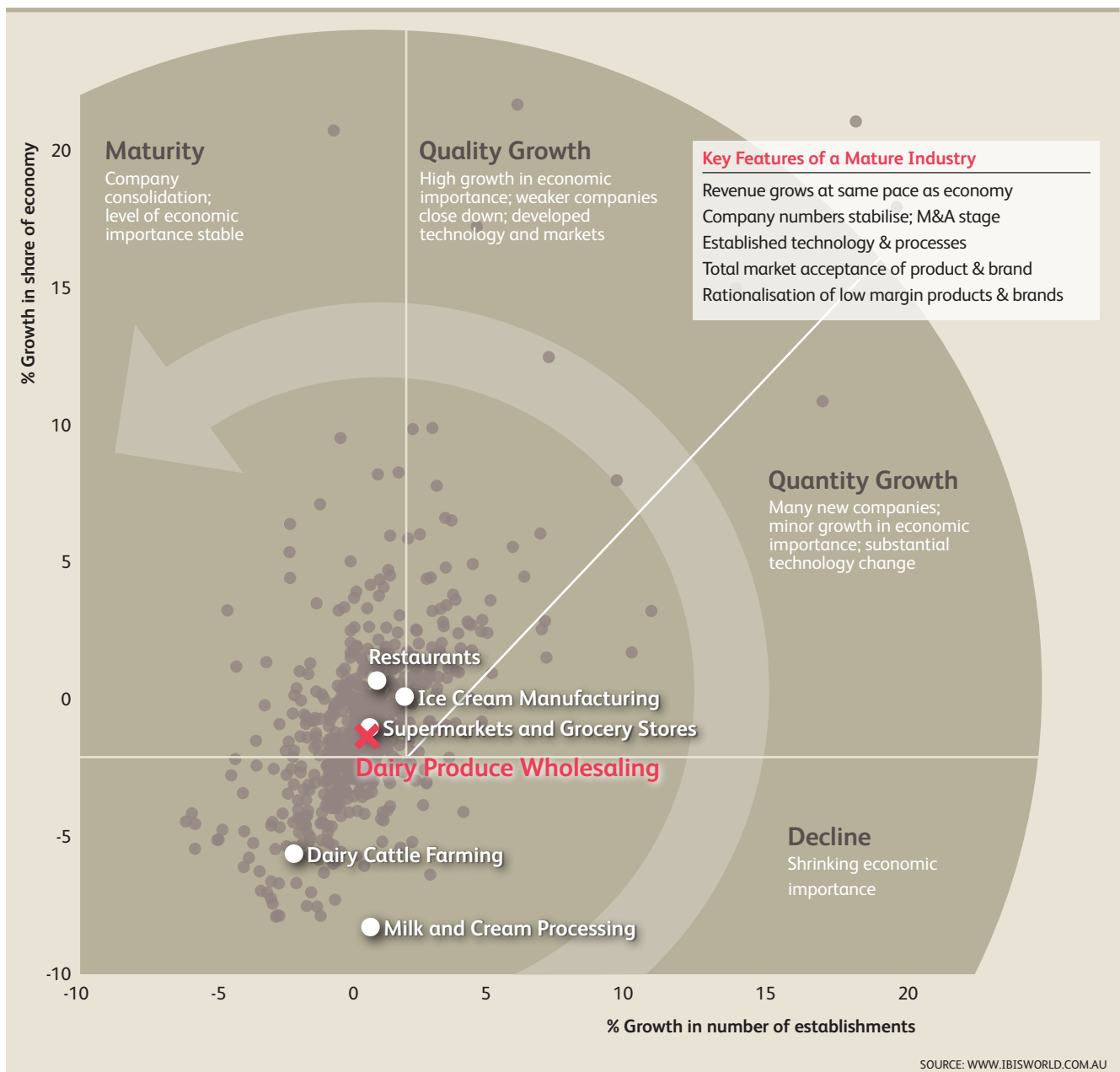
Industry Performance

Life Cycle Stage

There has been a moderate level of technological change in the industry

Major restructuring of the dairy sector has caused some consolidation activity in the industry

Industry value added will increase at a slower rate than Australian GDP



Industry Performance

Industry Life Cycle

This industry
is **Mature**

The Dairy Produce Wholesaling industry is estimated to be in the mature phase of its life cycle. This also reflects mature life cycle stages for the manufacturing industries of the products the industry wholesales. Industry value added is estimated to increase by an annualised 1.1% in the ten years through 2018-19. Over the same period, real GDP is forecast to grow by 2.5%. This indicates a mature and stagnating industry, one that is growing at a slower pace compared to the Australian economy. Given a high level of saturation, it is imperative for upstream manufacturers to introduce new products in the marketplace, to stimulate sales growth and differentiate themselves from their competitors. This has particularly been

the case in the flavoured milk and yoghurt segments, with a number of product introductions, and innovative packaging and marketing initiatives implemented each year.

Drinking milk appears to be making a comeback after years of decline, aided by growth in flavoured milk. Yoghurt consumption has been a relatively strong growth area in the manufactured dairy products. Growth in per capita consumption has also been aided by product development over the past five years. New products include new flavours, functional (added vitamin and nutrition) products such as low fat yoghurts and organic products. There is some opportunity for further marginal growth with continued product development.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

G4111	Supermarkets and Grocery Stores in Australia This industry demands a variety of wholesale dairy produce for resale at the retail level, including milk, cheese, cream, butter, dairy spreads, yoghurt, soy milk, dairy desserts and ice cream.
H4511a	Restaurants in Australia Cafes and restaurants require a variety of wholesale dairy produce either as ingredients for their meals, such as milk, cheese and cream, or for resale at the retail level, such as flavoured milks.
H4511b	Cafes and Coffee Shops in Australia Cafes and restaurants require a variety of wholesale dairy produce either as ingredients for their meals, such as milk, cheese and cream, or for resale at the retail level, such as flavoured milks.
H4512	Fast Food Services in Australia These retailers require a variety of wholesale dairy produce either as ingredients in takeaway food, such as cheese and butter, or for resale as retail products, such as flavoured milk and ice creams.
H4513	Catering Services in Australia Companies in this industry require a variety of wholesale dairy produce as ingredients for their catering food, including milk, cheese, cream and butter.
H4520	Pubs, Taverns and Bars in Australia Operators in this industry require a variety of wholesale dairy produce as ingredients in the preparation of meals, such as milk, cheese, cream and ice cream.
I4901	International Airlines in Australia This industry demands a variety of wholesale dairy produce as ingredients for their in-flight snacks and meals, including mini-sachets of milk and cheese.
I4902	Domestic Airlines in Australia This industry demands a variety of wholesale dairy produce as ingredients for their in-flight snacks and meals including mini sachets of milk and cheese.
Q8401	General Hospitals in Australia Hospitals require a variety of wholesale dairy produce for the preparation of meals, including milk, cheese, cream, butter and ice cream.

KEY SELLING INDUSTRIES

C1131	Milk and Cream Processing in Australia Processors supply drinking milk, flavoured milk, UHT milk, soy milk and cream.
C1132	Ice Cream Manufacturing in Australia This industry supplies ice cream and dairy desserts.
C1133c	Butter and Dairy Product Manufacturing in Australia Manufacturers in this industry supply cheese and yoghurt.

Products & Services

The Dairy Produce Wholesaling industry wholesales the entire range of dairy products manufactured in Australia. The contributions of the various product segments to industry revenue does not reflect their level of consumption within Australia due to factors such as competitive pressures and international trade markets.

Cheese

Cheese is the largest product segment in the industry. Dairy Australia classifies Australian cheese production under five different varieties: cheddar and cheddar types, semi-hard and stretch cheese such as mozzarella, fresh types such as goat cheese and feta, hard-grating types including parmesan, and eye cheese and

Products & Markets

Products & Services continued

mould-ripened cheeses like blue vein and brie. The cheddar segment declined slightly over the past five years due to the increase in specialty cheeses on the market. The increase in demand for specialty cheeses reflects increased food sophistication among consumers, and increased availability. While cheese consumption is expected to fall slightly, the total value of cheeses is expected to remain steady.

Milk powder

Milk powder is recombined into liquid milk products, particularly where fresh milk supplies are not available. It is also used in confectionery and milk chocolates, processed meats, ready-to-cook meals, baby foods, ice cream, yoghurt, health foods, beverages and reduced-fat milks. Industrial grade powder is used for animal fodder. Within this product segment, milk powder is separated into skim-milk powder and whole-milk powder, collectively accounting for 32.0% of industry revenue. It is likely that the large contribution of milk powder to industry revenue comes as a result of its long life and ease of transport. Small industry players can easily wholesale milk powders without the need for refrigeration units or other sophisticated storage equipment.

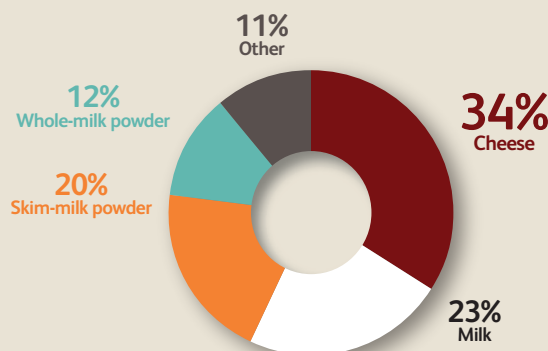
Milk

The drinking milk segment includes white milk and flavoured milk. Within

white milk, there are a variety of products including full fat, low fat, organic, vitamin- or fibre-enriched, A2 (rich in A2 protein) and home-brand or private-label milk. The share of organic milk is increasing due to concerns about health among consumers. Flavoured milk sales have been boosted by strong advertising and product enhancements, such as the addition of caffeine. Despite being the most consumed dairy product, milk makes up less than a quarter of industry revenue for dairy produce wholesalers. This is expected to be a result of the increasing market powers of supermarket giants Coles and Woolworths, which often circumvent wholesale operations to deal directly with milk processors.

Other product segments include yoghurts, ice cream, butter and other dairy spreads. Together, these products account for 11.0% of industry revenue. Yoghurt has been the fastest-growing category, as product innovation and desire for health and convenience has stimulated demand. Yoghurt product innovation has occurred in the areas of packaging, flavour and the addition of probiotic cultures, as well as in the development of low-fat and organic varieties, drinking yoghurt and yoghurt snacks. The revenue share of butter and other dairy spreads has been negatively affected by the growth of sales in other non-dairy table spread products, which appeal to consumer health consciousness.

Products and services segmentation (2013-14)



Total \$6.3bn

SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

Demand Determinants

Demand for the industry depends on consumer demand for dairy products, the demand for wholesaling services, and manufacturing demand for dairy products. Key determinants of consumer demand for dairy products include a wide-ranging number of factors:

Price

The demand for milk also depends on the price of dairy products and in relation to their substitutes, particularly in retail markets. Milk is relatively price inelastic as there are few substitutes and milk is a staple food item. However, the demand for dairy products such as yoghurt and flavoured milk are more responsive to price changes, as they are more discretionary and have more substitutes. Liquid milk competes with a range of beverages including soft drink, cordial and fruit juice. Soymilk is also considered a viable alternative but its market share is very small by comparison. Yoghurt competes with other health snack foods including muesli bars and low fat biscuits. Similarly, jam spreads may be a substitute for cheese slices. The increase in dairy product prices over the past five years will have negatively affected demand for this industry's products. The price of Australian dairy products in export markets is affected by exchange rates.

Marketing and promotion

Marketing and promotion are also important for maintaining and increasing demand for this industry's products,

particularly in retail markets. Brand promotion is particularly important in competition against private-label products. In recent years, the dairy industry has been promoting the nutritional value of dairy products in providing a source of calcium and other nutrients and its assistance in preventing diseases such as osteoporosis.

Some products wholesaled by this industry are affected by seasonality as well. For instance, ice cream is seasonal, with higher demand levels in the hot summer weather. Manufacturers are trying to stimulate demand for ice cream in winter through premium and indulgence ice cream varieties though, which is boosting demand for ice cream in winter from dairy wholesalers too.

Distribution networks

Key determinants of wholesale services supplied by this industry include supply chain integration and supply contracts. Wholesale bypass is decreasing demand for dairy produce wholesaling services. The drivers of wholesale bypass, which is happening elsewhere in the food supply chain, are improvements in efficiency and profitability by removing 'middlemen'; increased control over product quality; and creation of a 'paddock-to-plate' approach, which taps into consumers' needs for food safety and quality. Supply contracts can be important in stimulating demand for dairy products. For instance, contracts to provide dairy products at schools and hospitals.

Major Markets

Major downstream markets for the Dairy Produce Wholesaling industry have primarily focused on dairy for direct consumption. However, other downstream markets have arisen, with wholesalers today dealing more often with food manufacturers and the food service industry.

According to Dairy Australia, the biggest domestic market for wholesale dairy produce is still the supermarkets, predominantly Coles and Woolworths. Smaller customers include smaller

retailers such as convenience stores, milk bars and delicatessens, and the food manufacturing and food service sectors. The food service sector includes restaurants, motels, clubs, hospitals, airlines and shipping lines.

Supermarkets

Industry wholesalers deliver directly to the major supermarkets, or to their wholesale distribution centres. In 2013-14, supermarkets still remain the largest

Products & Markets

Major Markets continued

market segment, generating more than 65.0% of industry revenue. IBISWorld expects that this has fallen over the past five years, especially as supermarket giants continue to bargain with wholesalers or deal directly with dairy manufacturers. It is likely that this market segment will continue to shrink as wholesalers lose out in bargaining with large supermarkets, and wholesale bypass continues.

Food service industry

The share of wholesaled dairy produce going to the food service sector has been increasing, largely at the expense of the supermarket segment. Participants of the food service industry include major fast food franchise outlets such as Pizza Hut, Domino's and McDonalds, as well as small independent restaurants. The increase in sales to the food service sector reflects consumer trends towards eating out. It also demonstrates the growing demand for convenience as a result of consumers' increasingly busy lifestyles and longer working hours.

Food manufacturers

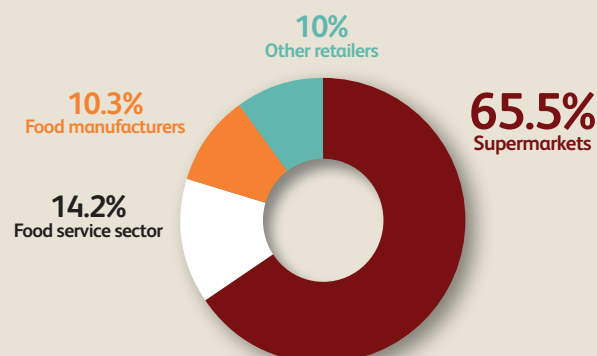
Dairy produce wholesalers may also supply bulk quantities to industrial food

producers. This segment has been increasing as a proportion of the overall industry due to the increasing sophistication of consumer food products, and the growth in dairy exports. Food manufacturers have demanded wholesale dairy goods as an input to manufacturing products to sell to key export markets. IBISWorld projects that this market segment will grow in proportion to the rest of the industry, especially as large dairy manufacturers begin to source more products for input in order to cater to the burgeoning export markets.

Other retailers

This market segment includes convenience stores, milk bars and small grocery stores, and collectively accounts for approximately 10.0% of industry revenue. This market segment is predominantly served by small and medium-size wholesalers that service smaller geographical areas. Demand from this market segment is expected to be relatively stable over the coming years, especially as there is a lower level of competition between the wholesale operations of large wholesalers and small wholesalers.

Major market segmentation (2013-14)



Total \$6.3bn

SOURCE: WWW.IBISWORLD.COM.AU

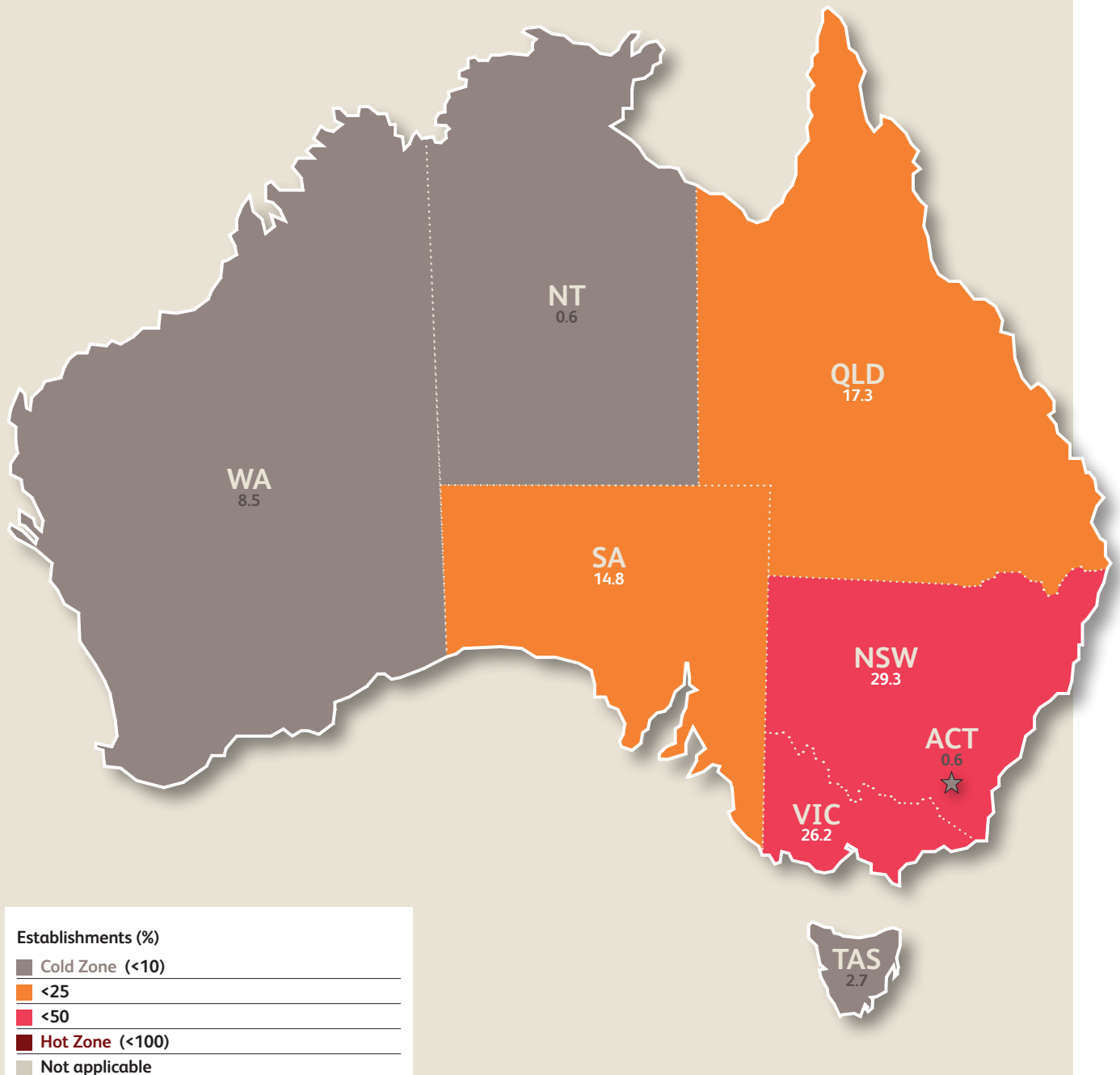
Products & Markets

International Trade

The value of dairy exports and imports are accounted for at the manufacturing level, and thus not part of this industry.

Products & Markets

Business Locations 2013-14



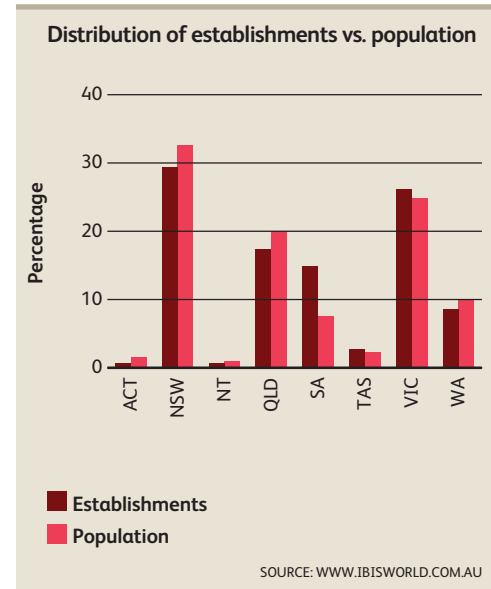
Products & Markets

Business Locations

The Dairy Produce Wholesaling industry is largely concentrated in New South Wales and Victoria, which respectively account for 29.3% and 26.2% of industry establishments. Queensland accounts for a further 17.3% of establishments.

The de-regulation of the dairy sector in 2000 and the improvements in national distribution networks have meant that wholesale markets can be geographically distinct from production locations. This explains why Victoria accounts for nearly 66% of production but only 26.2% of wholesale establishments as dairy production is located in areas with favourable climatic conditions and wholesale establishments are located in areas of strong final demand.

More than 70.0% of milk production in Victoria and Tasmania is exported and the returns from these exports affect domestic competition. Australia imports a substantial amount of dairy products and world dairy prices have a significant influence on



domestic prices. The value of the milk resources in Victoria and Tasmania have a strong influence on the milk prices that are paid in other regions of the dairy sector.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalisation

Market Share Concentration

Level
Concentration in this industry is **Medium**

IBISWorld estimates that the four largest players in the Dairy Produce Wholesaling industry will account for 40.0% of market share, indicating a medium level of industry concentration.

The dairy sector has undergone a major restructure in response to deregulation of milk prices, reduced government assistance to the dairy industry and increased exposure to both domestic and international market forces. As a result, dairy farms have generally become larger and more efficient, with the merger of several large dairy cooperatives and manufacturing companies, such as the takeover of National Foods by San Miguel.

Further rationalisation within the industry is expected over the next few years. For example, in late 2010, Murray Goulburn made a \$48 million takeover

bid for Warrnambool Cheese Butter (WCB), which was subsequently rejected by the company. This followed a 15% acquisition of WCB by its rival, Bega Cheese in November 2010, which was valued at \$22.6 million. Acquisitions such as this are expected to continue into the future, as dairy processors seek to vertically integrate their operations and benefit from the operational efficiencies therein.

The industry is likely to become more concentrated over time as the multinational food corporations continue to invest in brand awareness and marketing to increase market share at the expense of smaller players. In addition, growth through acquisitions due to the increasing pressure from giant retailers to take over market share would augment the level of concentration.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Guaranteed supply of key inputs

Access to, or contracts with, reliable manufacturers helps maintain a consistent level of supply of dairy produce for wholesaling. In this industry, the major players are actually also the manufacturers.

Having an extensive distribution/ collection network

An effective distribution network can increase the competitiveness of wholesalers by capitalising on economies of scale and reducing the costs of produce.

Ability to control stock on hand

Effective stock control management can help minimise stock spoilage and waste through the timely delivery of products.

Having an integrated operation

Efficient warehouse and distribution systems increase competitiveness by reducing the costs of wholesale produce.

Having contacts within key markets

Established links with a number of retail outlets give wholesalers a reliable and consistent level of demand for their products.

Market research and understanding

Marketing of differentiated products, such as different types of cheese or new forms of packaging, can stimulate demand for dairy produce at a retail level, which will flow through to increased demand at a wholesale level.

Cost Structure Benchmarks

Cost structures vary widely among industry players, depending on their size, scale of production, ease of access to production inputs, level of technology and capital investment. Typically, the larger the manufacturer, the lower per unit cost of production tends to be. Over the past five years, the average size of an

establishment has been increasing due to industry consolidation, largely driven by the major players such as Lion, Parmalat and Fonterra.

Profitability

Profit will account for an estimated 2.0% of industry revenue. Profit margins have been

Competitive Landscape

Cost Structure Benchmarks continued

falling over the past five years, reflective of demand conditions for the industry's products and overall economic conditions. The increasing incidence of wholesale bypass has also squeezed industry profitability. However, returning favourable production conditions for dairy farmers and manufacturers have allowed wholesalers greater access to dairy products, especially newer high-value varieties. This will provide some opportunity for profit to grow in coming years.

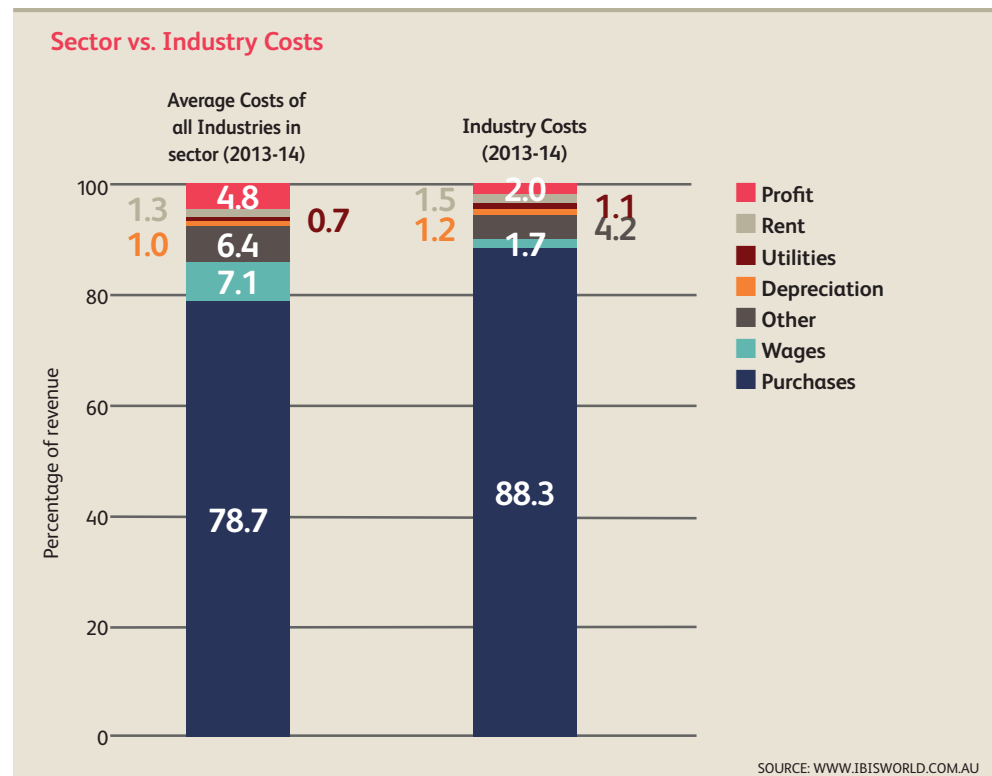
Purchases

Purchases are expected to constitute the largest percentage of industry costs at approximately 88.3% of revenue. This refers to the cost of goods purchased from relevant upstream manufacturers for sale to supermarkets and the food service industry. This typically consists of milk and milk derivatives.

Wages

Labour costs represent the second biggest expense for wholesalers. Wages are expected to account for 1.7% of revenue and total \$108.3 million in 2013-14. Over the past five years, increasing use of automated warehousing and inventory management systems have made a significant contribution in reducing labour dependence. However, manual participation is still required for basic duties such as taking orders, loading and unloading, driving etc.

Other costs that can significantly affect the industry include overhead expenses such as logistics and distribution advertising, depreciation, interest rates, research and development costs and utility costs. Collectively, IBISWorld expects that these costs will represent approximately 6.4% of total industry revenue.



Competitive Landscape

Basis of Competition

Level & Trend
Competition in
this industry is
Medium and the
trend is **Increasing**

The Dairy Produce Wholesaling industry is expected to exhibit medium levels competition. Industry players are more exposed to direct competition by enterprises of similar size. The major players in this industry are both producers and wholesalers of dairy produce with nationwide production and distribution networks. Production has started to shift to regions where the greatest comparative advantage exists, such as inland areas with irrigation and ample land. This has been important for major players to be able to maintain their grip on larger lucrative wholesale contracts.

Price

Retailers want to pay the lowest possible price for a given product or brand in order to maximise their profit. As a result, price is a major source of competition between wholesalers. Distributors that can negotiate exclusive distribution rights can limit supply of that product and preserve margins. Wholesale customers have many different places to purchase the same products, which keep prices low. There is now intense price competition between the major dairy wholesalers in the price of milk. At the manufacturing level, each company is trying to implement measures to become a lower cost

producer of milk, which flows through to the wholesale price.

Branding and product range

Selling the output of well-known manufacturers and displaying their company logo will often do the selling for a wholesaler when customers want a particular product. Since retailers and consumers alike identify with particular brands and manufacturers, they gradually develop a habit of choosing one particular brand. Hence, aggressive marketing by both manufacturer and wholesaling agent is a key to getting initial sales. Wholesalers rely on manufacturers to do their part with respect to generating consumer demand for their products, which then drives order growth for wholesalers. These wholesalers use direct selling techniques to compete for sales and have to compete with each other to win exclusive distributorships for the popular brands.

Having an extensive product range is an advantage for any wholesaler because it gives the customer a one-stop place for supply. Large retailers will tend to favour large wholesalers because they can provide the logistics support across multiple locations. If a wholesaler is lacking in that capacity, the retailer or manufacturer will vertically integrate that function into their operations.

Barriers to Entry

Level & Trend
Barriers to Entry
in this industry are
Medium and **Steady**

This industry is subject to medium level entry barriers, with the largest barrier to entry being the cost of establishing warehousing and distribution systems. The major capital cost to enter this segment of the market is the purchase of refrigerated vans and refrigerated storage facilities to transport the dairy produce. This is essential due to the perishable nature of most dairy products. A new entrant will also need to invest in an electronic inventory system and computerised tracking software.

The dominance of the major players, Dairy Farmers, Fonterra, Nestle, Parmalat and Murray Goulburn Co-

Barriers to Entry checklist

Barriers to Entry checklist	Level
Competition	Medium
Concentration	Medium
Life Cycle Stage	Mature
Capital Intensity	High
Technology Change	Medium
Regulation & Policy	Light
Industry Assistance	Low

SOURCE: WWW.IBISWORLD.COM.AU

operative, may also prove to be a barrier to entry. These major players have existing upstream linkages with suppliers (they are in fact the manufacturer and

Competitive Landscape

Barriers to Entry continued

supplier) and downstream linkages with buyers (these major players often have supply contracts with major retail outlets). New entrants would be best suited to supply niche markets with specialty goods in a concentrated

geographic area.

Vertically integrated businesses have the advantage of economies of scale and secure product supplies. New entrants will be at a natural disadvantage to existing businesses.

Industry Globalisation

Level & Trend
Globalisation in this industry is **Medium** and the trend is **Increasing**

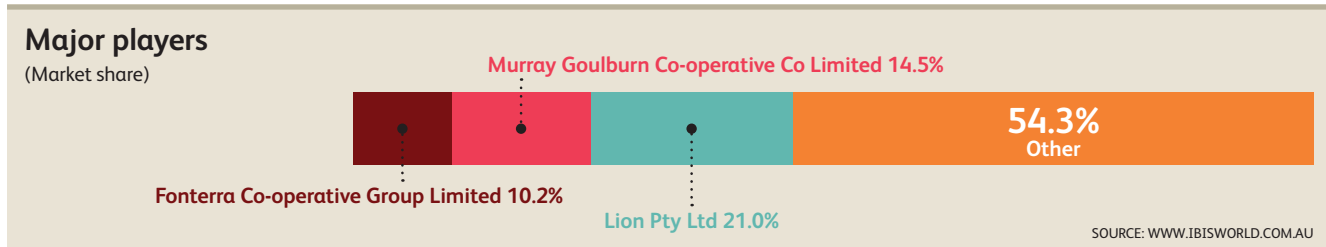
The Dairy Produce Wholesaling industry has a medium level of globalisation that is expected to increase over the coming years as the intense competition and new international players' entrance enforce incumbents to seek partnerships with global powers. While the industry does not account for international trade, many of the industry's major players are global subsidiaries of the international companies like Parmalat Australia, which is a subsidiary of Parmalat Finanziaria SpA, an Italian based global dairy company and Nestle Australia, which is a

The level of globalisation is expected to increase with the entry of new international players

subsidiary of Swiss global food giant Nestle S.A. Of the three major players, Fonterra is a global New Zealand dairy giant, whereas Dairy Farmers Group and Murray Goulburn Co-operative Co Ltd are locally owned companies.

Major Companies

Lion Pty Ltd | Murray Goulburn Co-operative Co Limited
Fonterra Co-operative Group Limited | Other Companies



Player Performance

Lion Pty Ltd
Market share: 21.0 %
Industry Brand Names
Pura
Dairy Farmers
Big M
Yoplait
Coon Cheese
Vitasoy

Lion Pty Ltd (formerly Lion Nathan National Foods) is a wholly owned subsidiary of Japanese giant Kirin Holdings Company Limited, a conglomerate with interests in alcohol, soft drinks, pharmaceuticals and health and functional foods. Lion entered the Australian dairy industry through the acquisition of National Foods from the San Miguel Corporation for an estimated \$2.8 billion in 2007. National Foods Ltd was established in 1991 through the amalgamation of several dairy and food-related businesses, including the Allowrie Farmers Union, Cheetham Salt, Glad Consumer Products and Sunburst Regency Foods.

Lion further entrenched its presence in the Australian dairy industry through National Food's acquisition of Dairy Farmers in 2008. The Dairy Farmers Group was a wholly owned Australian dairy cooperative with operations in New South Wales, Queensland, Victoria and South Australia. Dairy Farmers produces a range of dairy products, including milk (brands include Dairy Farmers and Farmers Best), flavoured milk (Oak, Moove and Dare), cheese (Coon, Mil Lel and Cracker Barrel) and yoghurt (Ski and Danone – the company has the Ski licence until 2012). Over 90.0% of sales revenue is generated through domestic markets. It is the market leader in whole-milk production and everyday yoghurt, and the number three manufacturer of flavoured milk.

Today, National Foods is one of the market leaders in the manufacture and wholesale of dairy products in Australia. The company produces a range of full cream, modified, flavoured and UHT milk under a variety of brands including

Lion Pty Ltd – industry segment performance*

Year	Revenue (\$ million)	(% change)
2009	936.8	N/C
2010	914.6	-2.4
2011	1,204.8	31.7
2012	1,109.8	-7.9
2013	1,290.3	16.3

*Estimate

SOURCE: IBISWORLD

Pura, Dairy Farmers, Farmers Union, Moove, Dare, Big M and Masters. National Foods accounts for over 50.0% of the flavoured milk segment. It also produces a range of yoghurt, dairy desserts, fromage frais and cream under the brands Yoplait (under licence), Fruche, Yogo, Thick and Creamy and Divine Classic. The company also produces some private-label brands, which it wholesales to its retail clients.

Financial performance

In the years since the company entered the Australian dairy sector, Lion's revenue has more than doubled. This is predominantly due to its aggressive acquisitions and fast-paced expansion into a number of food industries. Additionally, given its high level of vertical integration, the company has benefited from being able to protect itself from dramatic volatilities in commodity prices by locking in contracts and prices in advance. However, overall company profitability has been volatile over the past five years, exacerbated by aggressive supermarket competition and financial

Major Companies

Player Performance continued

pressures from its expansionary tactics.

With regard to industry segment revenue, Lion is expected to have expanded its wholesale operations in leaps and bounds following its acquisition of Dairy Farmers in 2008. Wholesale revenue from dairy products is expected to have more than doubled, far outpacing overall industry growth. This

outperformance compared to the overall industry is expected to be due to the continual vertical integration of the company on top of its strategic acquisitions. IBISWorld forecasts that revenue growth will slow dramatically in coming years as the company focuses on consolidation, growing economies of scale and increasing profit margins.

Lion Pty Ltd – financial performance

Year*	Revenue (\$ billion)	(% change)	EBIT (\$ million)	(% change)
2008**	2.41	11.6	-490.7	N/C
2009**	4.32	79.3	579.0	N/C
2010	4.00	-7.4	-417.3	N/C
2011	5.16	29.0	-683.6	-63.8
2012	5.07	-1.7	107.9	N/C

*Year end September **Year end December

SOURCE: ANNUAL REPORT AND IBISWORLD

Player Performance

Murray Goulburn
Co-operative Co
Limited

Market share: 14.5%

Industry Brand Names

Devondale

Liddells

Cobram Premium Cheese

Murray Goulburn Co-operative Co Limited is one of Australia's largest cooperative dairy companies that manufactures and wholesales dairy products. The company obtains milk from more than 3,000 dairy farmer suppliers and is responsible for about 36.0% of Australia's milk production. It operates eight manufacturing sites in Victoria and 26 trading stores. It is also Australia's largest exporter of processed foods, with over half of sales revenue coming from exports.

Murray Goulburn distributes its products to domestic and international consumers. It has a large integrated logistics centre with a capacity of 130,000 tonnes, and a global distribution centre and frozen distribution centre located close to the Port of Melbourne. The company uses an in-house information system that is capable of rapid modification to meet consumer requirements. An important achievement in the company's distribution operations has been the implementation in 2007-08 of a new integrated logistics system that

Murray Goulburn Co-operative Co Limited – industry segment performance*

Year	Revenue (\$ million)	(% change)
2007-08	936.2	N/C
2008-09	869.8	-7.1
2009-10	764.1	-12.2
2010-11	827.4	8.3
2011-12	858.9	3.8
2012-13	890.5	3.7

*Estimate

SOURCE: IBISWORLD

tracks and monitors fleet movements.

The company is one of the primary suppliers of dairy products to Australian supermarkets through the development of a combined supply chain program. Stronger links between the company and Australian supermarkets through this supply chain system are expected to reduce costs and improve on-shelf

Major Companies

Player Performance continued

reliability. Aside from its strong focus in international markets, the company has continued to undertake major capital investments in its logistics centre to meet increased domestic demand. The ongoing development of a high-density storage system is expected to improve utilisation, productivity and working conditions, as well as reduce turnaround times and inventory damage.

Financial performance

In the five years through 2012-13, the fate of company revenue has been closely tied to the company's strong focus on export markets. As a result, company revenue has experienced a relatively high degree of volatility. IBISWorld anticipates that close to half of Murray Goulburn's revenue is

attributable to its exporting business, with approximately a third of exports going to Asian markets. This high concentration in Asian markets has been caused by economic turmoil throughout many key international dairy markets such as the US and the UK.

In terms of industry segment revenue, domestic wholesale activity is projected to decline over the five years through 2012-13 at an annualised rate of 1.0%. This result lags behind the industry as a whole and is likely to be due to the focus of market expansion into Asia. However, it is expected that Murray-Goulburn will re-focus on efforts on expansion of its domestic markets, especially as the Australian dollar depreciates in value, making exports cheaper for foreign markets.

Murray Goulburn Co-operative Co Limited – financial performance

Year	Revenue (\$ billion)	(% change)	EBIT (\$ million)	(% change)
2007-08	2.64	N/C	131.9	N/C
2008-09	2.45	-7.2	2.1	-98.4
2009-10	2.17	-11.4	46.3	2,104.8
2010-11	2.29	5.5	59.2	27.9
2011-12	2.37	3.5	34.9	-41.0

SOURCE: ANNUAL REPORT AND IBISWORLD

Player Performance

Fonterra Co-operative Group Limited
Market share: 10.2%

Fonterra Co-operative Group was formed in October 2001 and is owned by about 11,000 dairy farmers in New Zealand. The group is the largest exporter of dairy products in the world and is responsible for one-third of global dairy trade. The group has three core businesses including Fonterra ingredients, Fonterra consumer products and Fonterra foodservices. The parent entity owns Fonterra Australia Pty Ltd, the Australian operations of the group, which came about as Fonterra Co-operative Group acquired a number of Australian dairy companies, including Bonlac Foods Ltd, Peter & Brownes, Bonland Dairies and Murrumbidgee

Dairy Products. Its Australian operations include ice cream production and milk supply and manufacturing.

Fonterra has 11 processing sites in Australia and collects 21.0% of Australia's milk. It manufactures and distributes milk, yoghurt, cheese, butter and ice cream under brands such as Bega, Mainland, Western Star, Brownes, Perfect Italiano and Cadbury. In 2007, the company purchased Norco Milks' sales, marketing and distribution centres. In 2008, Fonterra bought Nestle Australia's yoghurt and dairy dessert business for an undisclosed sum. The purchase included a factory in Victoria

Major Companies

Player Performance continued

and the rights to make and sell Nestle's brands for the next 28 years, including Ski yoghurt from 2012 (after Dairy Farmers' licence expires).

Financial performance

In the five years through 2012-13, company revenue for the Australia and New Zealand segment is expected to be highly volatile. The trading environment in Australia has been affected by falling consumer spending resulting in lower prices, particularly in the cheese and yoghurt categories. The company sold its dairy business in Western Australia in 2011-12, resulting in total volumes falling by 4.0% over the period. Aggressive supermarket competition and the loss of lucrative private label contracts put pressure on the company's bottom line and profitability over the five-year period.

In terms of the Dairy Produce Wholesaling industry, Fonterra has been growing consistently. Over the five years through 2012-13, industry segment revenue is expected to grow at

Fonterra Co-operative Group Limited – industry segment performance*

Year	Revenue (\$ million)	(% change)
2007-08	506.5	N/C
2008-09	538.4	6.3
2009-10	569.2	5.7
2010-11	600.4	5.5
2011-12	611.0	1.8
2012-13	627.3	2.7

*Estimate

SOURCE: IBISWORLD

an annualised 4.4%, slightly underperforming the overall industry but still outperforming many competitors of similar size. This is largely due to the consistent wholesale operations by the industry, especially as the company's manufacturing in Australia slows down.

Fonterra Co-operative Group Limited (ANZ segment) – financial performance

Year	Revenue (\$ billion)	(% change)	EBIT (\$ million)	(% change)
2007-08	3.30	N/C	203	N/C
2008-09	3.79	14.8	247	21.7
2009-10	3.80	0.3	303	22.7
2010-11	4.36	14.7	252	-16.8
2011-12	3.85	-11.7	195	-22.6

SOURCE: ANNUAL REPORT AND IBISWORLD

Other Companies

Large, highly integrated dairy product manufacturers and processors dominate the Dairy Produce Wholesaling industry. Wholesale operations by these large players are often hard to distinguish due to their large-scale dairy manufacturing operations. However, wholesale operations are a means to further enhance

economies of scale and develop their distribution channels, especially as large supermarket chains continue to gain market power. Despite the dominance of the industry by dairy giants, the majority of the industry enterprises are small- to medium-sized businesses that operate smaller wholesale businesses.

Major Companies

Other Companies continued

Parmalat Australia Ltd:

Estimated market share: 4.0 %

Parmalat Australia Ltd is a wholly owned subsidiary of Parmalat Finanziaria SpA, an Italy-based global dairy company. In 1998, Parmalat Australia entered the liquid milk market via the acquisition of Pauls Limited for \$437.0 million. The company operates plants at South Brisbane, Nambour and Rockhampton in Queensland, and at Rowville and Bendigo in Victoria. Parmalat intakes 431 million litres of raw milk: 268 million litres from 287 farmer suppliers in Queensland and Northern New South Wales and 216 million litres from 163 suppliers in Victoria. The company also has a plant in Darwin that processes fresh milk.

In May 2009, Parmalat acquired some of National Foods' fresh milk operations for an estimated \$70.0 million in cash. The assets include the Lidcombe and Clarence Gardens plants, and licences to market brands and distribution networks in New South Wales, South Australia and

the Australian Capital Territory. In the five years through 2012-13, company revenue is expected to show moderate growth.

Nestle Australia Ltd

Estimated market share: 2.0 %

Nestle Australia Ltd is a wholly owned subsidiary of Nestle SA of Switzerland, the world's largest food company. Nestle Australia participates in the milk powder and malted milk powder segment of the industry through its Nesquik and Milo brands, and through its Sunshine milk powder products. Nestle is also involved in the manufacture of infant milk formulas. IBISWorld's estimate for the company's share of the Dairy Produce Wholesaling industry is based on the shares of the powdered beverage segment and milk segment out of the company's total sales. Nestle Australia also used to participate in the ice cream and yoghurt segments, but in 2008, the company sold these to Fonterra for an undisclosed sum.

Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

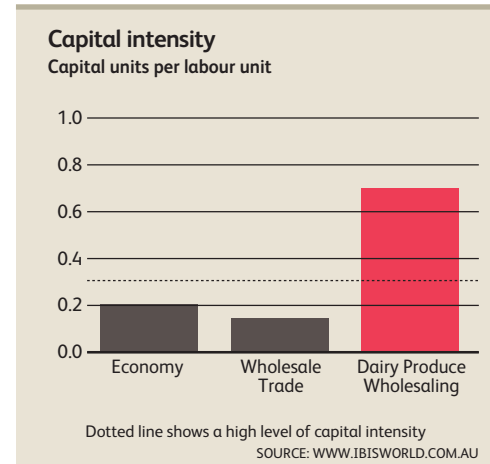
Capital Intensity

Level

The level of capital intensity is **High**

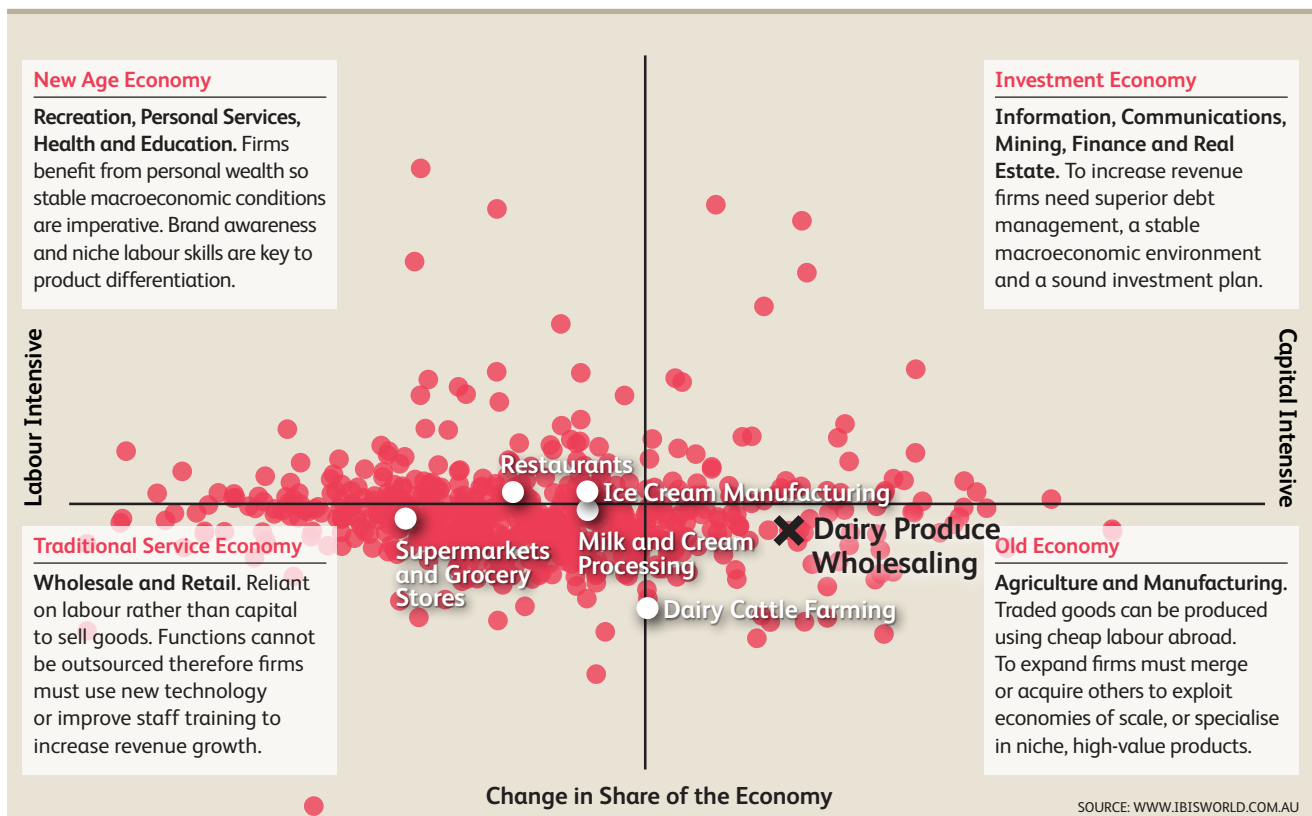
IBISWorld expects that the Dairy Produce Wholesaling industry exhibits a high level of capital intensity. For every dollar paid in wages, \$0.71 is allocated towards capital investment. This significantly low level of labour expense is predominantly due to the scale of manufacturing operations of many of the major players and the volatile costs of dairy products. Manufacturing costs for many major players have been integrated into the costs of wholesale operations, with the main areas of capital expenditure including cooling and refrigeration equipment, storage facilities, delivery vehicles and the introduction of computerised warehousing systems.

The wholesale industry has historically been labour intensive due to the clerical nature of processing orders and organising deliveries. However, wages now account for only 1.7% of industry



revenue, and this figure can be expected to decrease with the imminent introduction of computerised ordering and inventory tracking. However, a minimum level of manual labour will always be required to check orders and drive delivery vehicles.

Tools of the Trade: Growth Strategies for Success



Operating Conditions

Technology & Systems

Level
The level of
Technology Change
is **Medium**

Generally, there has been a steady rate of technological developments within the wholesale division, which have mainly concentrated on the computerised automation of inventory control. Computers allow inventory to be stored on a national or international basis, requiring fewer regional distribution centres and allowing transportation that is more efficient. Computerised warehousing includes a number of systems to monitor and sort goods. A fully automated inventory system includes functions for recording

inventories, picking products, assessing customer credit ratings, general invoices and addressing labels.

Distributors in the food service sector often implement a Global Trade Item Number (GTIN) developed by the GS1 (Global Standards One), a non-profit international association that develops and maintains global supply chain logistics. GTINs and bar codes permit organisations to order, track, trace, deliver and pay for goods across the supply chain. The systems reduce labour costs and increase returns on investment.

Revenue Volatility

Level
The level of
Volatility is **Medium**

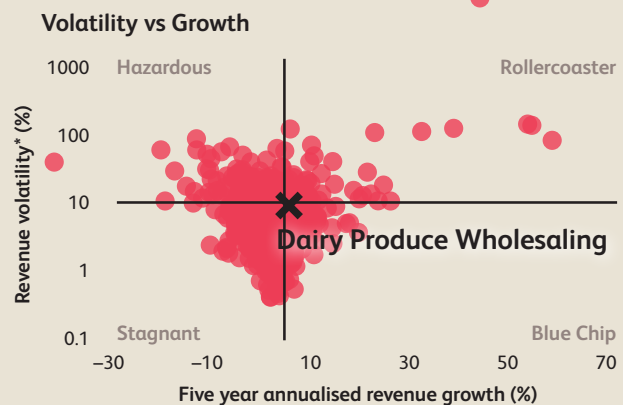
The Dairy Product Wholesaling industry is expected to exhibit moderate levels of revenue volatility. Industry volatility is a function of fluctuations in the cost of raw materials, energy and oil prices, weather conditions, household incomes and changes in downstream demand conditions.

Over the past five years, prices of raw

milk have been subject to dramatic fluctuations that have affected production costs. However, IBISWorld expects that the majority of revenue volatility would be captured at the manufacturing level. This is because commodities like raw milk represent primary inputs in the production process and any changes in their price affect production costs.

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilised capacity if demand suddenly falls, or capacity constraints if it rises quickly.



SOURCE: WWW.IBISWORLD.COM.AU

Operating Conditions

Regulation & Policy

Level & Trend
The level of
Regulation is
Light and the
trend is **Steady**

IBISWorld expects that the Dairy Produce Wholesaling industry exhibits a low level of direct regulation. The majority of the regulation for the overall dairy industry lies at the manufacturing level. The most crucial piece of regulatory change was the deregulation of the dairy industry on 1 July 2000, the most significant change being the removal of price regulations on milk sold for consumption. The deregulation stimulated price competition, which forced down milk prices. Although this was good for consumers, it lowered farmers' cash incomes and temporarily decreased the total revenue of the Dairy Produce Wholesaling industry. Processors are now free to sell milk on a

national basis, rather than being restricted to smaller state markets.

Today, the only direct government involvement in the industry is in relation to food standards and food-safety assurance systems. The standards involved in the manufacture and trade of foods including dairy produce are enforced by the Australia New Zealand Food Standards Code. The Food Standards Code describes appropriate labelling requirements and provides specific definitions of products, details the composition of products and permitted ingredients, and outlines the approved processing methods. These standards are applicable to all manufactured dairy products.

Industry Assistance

Level & Trend
The level of Industry
Assistance is **Low**
and the trend
is **Increasing**

The Dairy Produce Wholesaling industry receives low levels of industry assistance. The wholesale business receives less direct assistance from the Federal Government than its upstream manufacturing industries. This is because the costs involved in the manufacturing of dairy products is highly volatile due to economic and seasonal factors, government subsidies

are largely utilised to provide a buffer against production shocks. Financial assistance is provided by State and Federal Governments during draught times due to the necessity of dairy manufacturing and the consumption of dairy goods in the Australian economy. As a result, the Dairy Produce Wholesaling industry receives a high level of indirect industry assistance.

Key Statistics

Industry Data

	Revenue (\$m)	Industry Value Added (\$m)	Establishments	Enterprises	Employment	Exports	Imports	Wages (\$m)	Domestic Demand
2004-05	5,388.5	323.3	1,462	914	2,916	--	--	110.4	N/A
2005-06	5,063.4	324.0	1,501	938	2,858	--	--	105.2	N/A
2006-07	4,440.5	266.4	1,402	904	2,801	--	--	99.3	N/A
2007-08	5,261.4	289.3	1,486	936	2,745	--	--	103.5	N/A
2008-09	5,014.9	273.3	1,428	925	2,680	--	--	102.7	N/A
2009-10	5,392.1	278.9	1,466	936	2,706	--	--	106.7	N/A
2010-11	5,982.9	278.7	1,486	944	2,741	--	--	104.0	N/A
2011-12	6,081.8	279.8	1,509	951	2,738	--	--	105.5	N/A
2012-13	6,261.3	289.1	1,522	959	2,784	--	--	108.7	N/A
2013-14	6,326.7	287.3	1,535	968	2,805	--	--	108.3	N/A
2014-15	6,425.6	290.5	1,556	975	2,818	--	--	110.5	N/A
2015-16	6,520.0	293.1	1,562	977	2,824	--	--	113.8	N/A
2016-17	6,600.0	295.0	1,571	982	2,859	--	--	114.8	N/A
2017-18	6,686.0	300.0	1,579	980	2,881	--	--	117.1	N/A
2018-19	6,715.0	306.4	1,586	976	2,907	--	--	120.0	N/A
Sector Rank	22/43	35/43	22/43	23/43	36/43	N/A	N/A	39/43	N/A
Economy Rank	162/620	480/620	272/620	259/619	483/620	N/A	N/A	529/620	N/A

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2005-06	-6.0	0.2	2.7	2.6	-2.0	N/A	N/A	-4.7	N/A
2006-07	-12.3	-17.8	-6.6	-3.6	-2.0	N/A	N/A	-5.6	N/A
2007-08	18.5	8.6	6.0	3.5	-2.0	N/A	N/A	4.2	N/A
2008-09	-4.7	-5.5	-3.9	-1.2	-2.4	N/A	N/A	-0.8	N/A
2009-10	7.5	2.0	2.7	1.2	1.0	N/A	N/A	3.9	N/A
2010-11	11.0	-0.1	1.4	0.9	1.3	N/A	N/A	-2.5	N/A
2011-12	1.7	0.4	1.5	0.7	-0.1	N/A	N/A	1.4	N/A
2012-13	3.0	3.3	0.9	0.8	1.7	N/A	N/A	3.0	N/A
2013-14	1.0	-0.6	0.9	0.9	0.8	N/A	N/A	-0.4	N/A
2014-15	1.6	1.1	1.4	0.7	0.5	N/A	N/A	2.0	N/A
2015-16	1.5	0.9	0.4	0.2	0.2	N/A	N/A	3.0	N/A
2016-17	1.2	0.6	0.6	0.5	1.2	N/A	N/A	0.9	N/A
2017-18	1.3	1.7	0.5	-0.2	0.8	N/A	N/A	2.0	N/A
2018-19	0.4	2.1	0.4	-0.4	0.9	N/A	N/A	2.5	N/A
Sector Rank	28/43	35/43	9/43	8/43	18/43	N/A	N/A	29/43	N/A
Economy Rank	463/620	495/620	275/620	238/619	346/620	N/A	N/A	490/620	N/A

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee (\$'000)	Wages/Revenue (%)	Employees per Est.	Average Wage (\$)	Share of the Economy (%)
2004-05	6.00	N/A	N/A	1,847.91	2.05	1.99	37,860.08	0.03
2005-06	6.40	N/A	N/A	1,771.66	2.08	1.90	36,808.96	0.03
2006-07	6.00	N/A	N/A	1,585.33	2.24	2.00	35,451.62	0.02
2007-08	5.50	N/A	N/A	1,916.72	1.97	1.85	37,704.92	0.02
2008-09	5.45	N/A	N/A	1,871.23	2.05	1.88	38,320.90	0.02
2009-10	5.17	N/A	N/A	1,992.65	1.98	1.85	39,430.89	0.02
2010-11	4.66	N/A	N/A	2,182.74	1.74	1.84	37,942.36	0.02
2011-12	4.60	N/A	N/A	2,221.26	1.73	1.81	38,531.78	0.02
2012-13	4.62	N/A	N/A	2,249.03	1.74	1.83	39,044.54	0.02
2013-14	4.54	N/A	N/A	2,255.51	1.71	1.83	38,609.63	0.02
2014-15	4.52	N/A	N/A	2,280.20	1.72	1.81	39,212.21	0.02
2015-16	4.50	N/A	N/A	2,308.78	1.75	1.81	40,297.45	0.02
2016-17	4.47	N/A	N/A	2,308.50	1.74	1.82	40,153.90	0.02
2017-18	4.49	N/A	N/A	2,320.72	1.75	1.82	40,645.61	0.02
2018-19	4.56	N/A	N/A	2,309.94	1.79	1.83	41,279.67	0.02
Sector Rank	43/43	N/A	N/A	6/43	42/43	39/43	40/43	35/43
Economy Rank	617/620	N/A	N/A	24/620	615/620	556/620	509/620	480/620

Figures are inflation-adjusted 2014 dollars. Rank refers to 2014 data.

SOURCE: WWW.IBISWORLD.COM.AU

Jargon & Glossary

Industry Jargon

EAN INTERNATIONAL UNIFORM CODE COUNCIL A global, multi-industry system of identification and communication for products, services, assets and locations.

PROBIOTIC Dietary supplements of live microorganisms that are thought to be healthy for the host organism.

RADIO FREQUENCY IDENTIFICATION (RFID) A tag that is applied to a product or animal for the purpose of tracking and identification using radio waves.

VERTICAL INTEGRATION The degree of vertical integration is the extent to which a firm owns its upstream suppliers and its downstream buyers. Wholesale activities are commonly owned by manufacturers or retailers.

WHOLESALE BYPASS The process by which manufacturers bypass wholesalers in order to establish direct relationships with retailers such as supermarkets.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than \$0.333 of capital to \$1 of labour; medium is \$0.125 to \$0.333 of capital to \$1 of labour; low is less than \$0.125 of capital for every \$1 of labour.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the Australian Bureau of Statistics' implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by Australian companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in Australia.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than $\pm 20\%$; high volatility is $\pm 10\%$ to $\pm 20\%$; moderate volatility is $\pm 3\%$ to $\pm 10\%$; and low volatility is less than $\pm 3\%$.

WAGES The gross total wages and salaries of all employees in the industry. Benefits and on-costs are included in this figure.

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