



Food & Drink Summit

Pathways for Growth

Building Ireland's largest indigenous industry

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Introduction

Ireland's food and drink industry faces significant short-term challenges related to cost competitiveness and depressed global demand, as well as longer term (and possibly more serious) challenges related to the perceived diminished future for the sector in Ireland's economy. Yet Ireland has a critical (and increasingly scarce) natural resource base, international reputation as a trusted supplier, proximity to a large premium market with a single currency, and global consumer awareness that is much larger than the country's land mass might suggest. The purpose of this paper is to describe how Ireland might turn its natural advantages into high-value exports. Ideas presented here will be fed into the AgriVision 2020 Strategy Group report.



Background and Methodology

WE COMBINED THESE INDUSTRY INSIGHTS WITH OUR KNOWLEDGE OF GLOBAL SUPPLY AND DEMAND, INDUSTRY AND CONSUMER TRENDS, AND BEST PRACTICES OF TOP FIRMS TO PRODUCE THE RECOMMENDATIONS CONTAINED IN THIS PAPER.

Bord Bia engaged us to conduct a high-level assessment of export opportunities for the Irish food and drink industry. The premise was that a “fresh set of eyes” might provide a new perspective on pathways for growth over the next three to five years. To understand the current situation, we conducted 60-90 minute interviews (either in person or by phone) with 16 industry leaders and collected survey responses from 29 small and medium-sized firms. Rather than focusing on specific company situations and challenges related to short-term competitiveness (which we do not address), we asked respondents to put themselves in the position of CEO of Ireland Food and Drink Plc. We also engaged the 25 Fellows in the Bord Bia Marketing Fellowship Program in a scenario planning exercise. A summary of our observations from the interviews, survey responses, and student interactions is presented in [Appendix 1](#).

We combined these industry insights with our knowledge of global supply and demand, industry and consumer trends, and best practices of top firms to produce the recommendations contained in this paper. Our experience is grounded in Harvard Business School's 50-plus year involvement in the field (the term “agribusiness” and the concept of a consumer-led agricultural supply chain were developed by HBS Professor Ray Goldberg in the late 1950s and 1960s) and the School's commitment to the case method. Over the last five years we have developed and taught more than 50 “field” case studies covering every part of the chain from farmer to retailer, all manner of firms from large to small spread across six continents, many different commodity systems, and a range of critical issues including biotechnology, food security, land and water availability, retailer consolidation, consumer demand for organics and locally produced foods, and the intersection of food with health and nutrition. [Appendix 2](#) summarizes three agribusiness case studies that are particularly relevant to this project, [Appendix 3](#) describes the strategies of two similar countries, and [Appendix 4](#) contains a summary of global supply and demand and our comments on the state of agribusiness management in 2010.

The Irish Food and Drink Industry

Ireland has an enviable agricultural situation that almost every other country would kill for. It has abundant fertile land, lots of water, and miles of coastline all situated in close proximity to a collection of 400 million affluent people. It is one of Europe's largest dairy and beef exporters, and home to several world-class firms and hundreds of food artisans. All this comes at a time when the global demand for food is projected to increase by 70% over the next 40 years.

So why aren't we celebrating? One answer is that due to no fault of its own (foreign exchange, world recession) there is a temporary blip in performance. But there **are** bigger underlying issues. These issues are no different, and no worse, than in many other countries, but that doesn't mean to say they can't be fixed.

The challenges that we heard can be grouped into three main categories:

1. Fragmentation: Ireland has an inefficient production system. It has small farmers who lack the scale, capital, and/or readiness to adopt better technology. Processors are also small compared to top global food companies. Supply chain members act as adversaries rather than partners. Lack of trust between industry players is pervasive. (See **Appendix 5** for Irish supply chains for beef, dairy, and seafood.)

2. Lack of consumer orientation: Most Irish food exports are sold as commodities or on a business-to-business basis (as food ingredients or for private labels), but either way Irish firms have little contact with the end consumer in foreign markets. There are few customer-facing managers with the power to move the industry, or even a non-trivial portion of it, in the right direction.

3. Low confidence in the future: Firms aren't investing in Ireland (and some are de-investing). The brightest talent doesn't come to work for food companies (although there are exceptions). Management has a "tried that before" attitude about new ideas. This extends to policy and decision makers, whose attention is on "sexier" industries. No one has stepped forward to articulate and champion a vision of Ireland as a player to be reckoned with in the world food market.

Aspects of the Solution

High margin
export strategy

Global brands

Effective forward-
looking leaders

Climate that
encourages
innovation

Vision for
the future



The issues are complex and there are no quick fixes. It is hard to make suggestions that make everyone better off and no one worse. Yet a rising tide can raise all boats. Let us agree on the kind of solution we should be looking for.

Given its lack of scale and cost disadvantages, Ireland is not going to win the commodity game. It must have a **high margin export strategy**. High margins occur because of scarcity: scarce supplies, controlled brands, unique products. They can also arise from solving problems for business customers: one-stop shopping, labor savings, on-time reliable delivery.

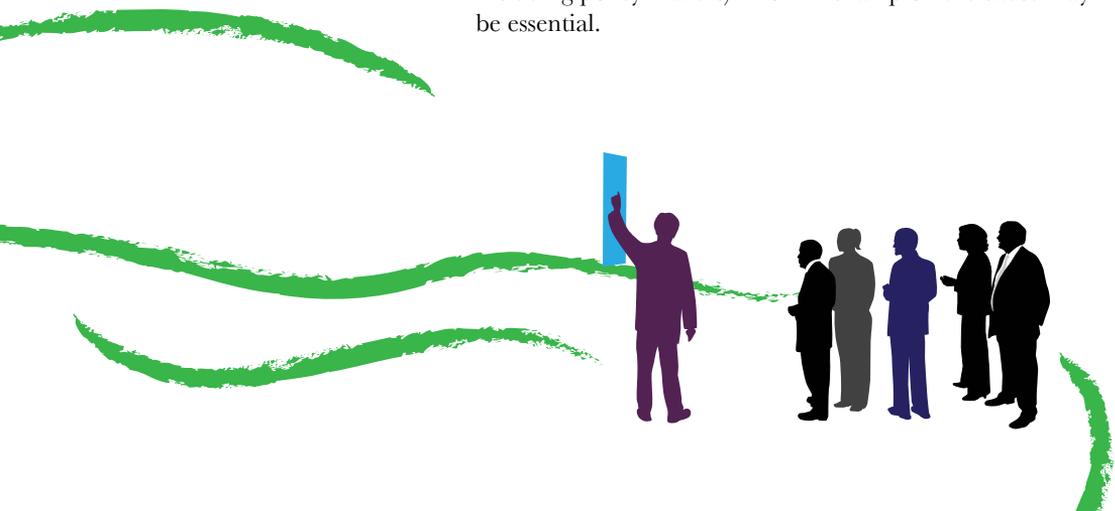
High margins in the food business usually come from innovative products and/or strong brands. It will be difficult for Irish firms to win the branding game individually. Guinness does well but it has taken them 250 years to achieve this. Small firms cannot spend the money needed to be **global brands** unless they have unique advantages. If Irish food firms are bought by the Nestlé's of this world they will remain purely production arms fighting for margin scraps.

Irish food companies need to have **effective forward-looking leaders**. The market for excellent managers is a global one, across countries and industries. The food industry won't attract the best minds unless and until it can promise a credible career path with prospects. Long term the industry needs entrepreneurs to develop the innovative products of the future, line managers to execute the current products, and marketing and sales personnel with first-hand experience in the countries they are selling to.

WHILE A PAPER LIKE THIS CAN HELP, A CHARISMATIC LEADER (OR GROUP OF LEADERS INCLUDING POLICY MAKERS) WHO WILL CHAMPION THE CAUSE MAY BE ESSENTIAL.

There must be a **climate that encourages innovation**. Large companies are not always the best source of breakthrough innovations. These come from scientists, from entrepreneurs who are willing to experiment, and from smaller regional companies who are inventive around the needs of their local markets.

Finally we should all agree that Ireland needs a **vision of the future** to re-invigorate passion in the sector. While a paper like this can help, a charismatic leader (or group of leaders including policy makers) who will champion the cause may be essential.



The Fundamentals

In short we need to encourage cooperation not competition, innovation leading to differentiation, and brands built around customer feedback, all under an umbrella strategy that everyone can agree on.

Here are the necessary steps.

Co-opetition¹ not competition:

Ireland is a small player in the world food market. Many companies have sales that far exceed all of Ireland's food exports. The largest retailers now source globally. Irish companies must achieve the considerable advantages of scale in order to compete.

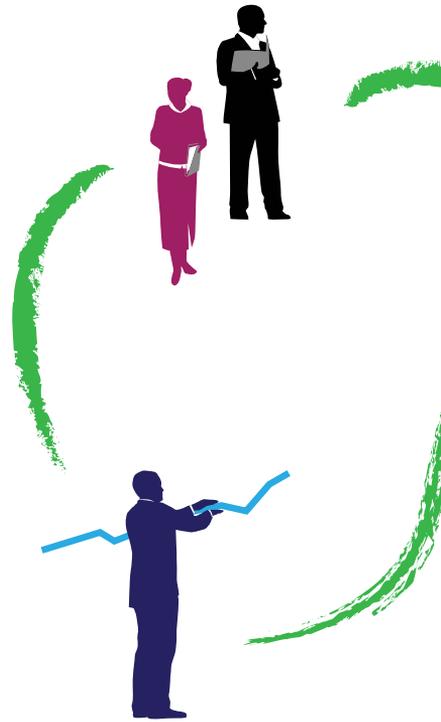
In order to have a presence and sustain margins in global export markets, Irish firms need to work together as partners, not as competitors. At an auction it would be crazy for two members of the same family to bid against each other for a work of art. Two divisions of a large company wouldn't compete against each other for a retailer's business. Two Irish beef chains working against one another to win export business is a lose-lose proposition. The future is not firms competing with one another, but rather value chains competing with one another (e.g., beef versus chicken, dairy versus soft drinks).

Examples of "co-opetition" in the food industry exist both within and across value chains. European food retailers joined together to create EurepGAP, resulting in a single certification scheme and one agency to audit farms instead of each retailer having to conduct their own inspections. Outside of Boston, a group of medium-sized fruit and vegetable growers formed "Red Tomato" (a non-profit organization) so they could work together to supply larger retailers rather than losing the business to large California producers. Red Tomato combines small lots into full truckloads and farmers pitch in for one another to fill orders if one has a shortfall. In the US beef industry case study described in Appendix 1, two members of the supply chain worked together to satisfy the quality needs of a single large customer – leading to significant improvements in quality, consistency, and efficiency and leading to a branded retail beef business with enhanced margins.

What does working together mean? A single food chain, like beef, or dairy, or seafood, or any other category should work together as if it were one company in export markets. Two kinds of internal competition must stop. One is competition between members of any particular value chain. This type of competition focuses all attention on costs and prevents investments in quality improvements or new product development. The other is competition between value chains for exports. This type of competition erodes profits. The benefits of cooperating are higher and more consistent quality, improved efficiency through better coordination, joint problem solving to satisfy customer needs, speed to market, and ultimately a higher margin on a bigger pie. Using such a strategy, can Ireland produce better tasting grass-fed beef than Argentina, or natural functional dairy products?

¹Co-opetition is a business strategy where firms compete in some areas and cooperate in others. Cooperation can include members of a supply chain working together to improve quality and/or reduce costs, or firms working together to supply a large customer. The principles and practices are fully articulated in the 1996 book, Co-opetition, by Harvard and Yale business professors Adam Brandenburger and Barry Nalebuff.

Besides cooperation within and between value chains, there is another kind of cooperation that should be encouraged – cooperation across sectors within the Irish economy. There are natural links between agriculture, food, and tourism, and increasingly between food, pharmaceuticals, and health. Many Italian farmers boost their incomes by hosting visitors who happily pay to “experience nature” (and help with farm chores), while Dutch farmers work with the healthcare system to provide convalescent care. New Zealand is extending its highly effective “100% Pure New Zealand” tourism campaign to food products. Functional foods, many based on dairy products, that deliver health benefits are one of the fastest growing supermarket categories even during a time of economic stress. Collaboration between Ireland’s dairy industry and pharmaceutical sector could lead to new product opportunities that would benefit each side.



Innovation leading to differentiation:

Selling goods for a higher price requires firms to deliver higher value to the end user. Customer needs and tastes change over time, and the available solutions to meet those needs change over time. To stay ahead of the curve, companies need to constantly assess whether their products deliver a value to the customer that is superior to competition. Too often, managers believe that strong sales in the past guarantee success in the future. This ignores the reality that thousands of competitors are trying to take your business away every day. There are only two defenses to this attack – innovation and branding (branding follows).

Innovation comes from two sources: new ideas based on science, and new ideas based on solving customer problems. Small companies cannot afford the necessary investment in R&D to produce the science, and large companies tend to be blind to new ideas. Ireland must encourage a climate of risk taking and experimentation in product development. Think Silicon Valley. Our colleague Mike Porter has written of the advantages of regional centers of competition: the knowledge base of a region accelerates as a greater concentration of people become a part of industry, success breeds success. Irish business schools and interested managers and investors can play a significant role in getting this started.

The Fundamentals

Branding and the customer feedback loop:

A brand is an established reputation with a customer. It is an asset in three ways: customers are willing to pay more for a brand compared to an unidentified product, customers are more willing to stick with their favourite brands even in the face of innovative products from competitors, and customers are more willing to try innovative products from a favoured brand. Too few Irish companies benefit from branding in export markets, in part because of the lack of scale to invest in advertising campaigns, but more importantly because they have no contact with the end consumer. Irish beef is sold through 70 retailers in 30 countries. The 30+ Irish beef processors can't afford to do consumer surveys in each country and if they could, the size of each niche for an individual firm would be too small to warrant investments in new product development or marketing.

Under co-opetition Irish companies could share brands. The advantages include lower costs (one marketing team seeking to understand consumer taste preferences and other purchase motivators, one advertising campaign, etc.), greater market power against sophisticated retailers, and ultimately consumer recognition and “pull.” Margins for branded food products can be double those for commodities. Why not one brand name for Irish dairy (an extension of Kerrygold?), for grass-fed Irish beef (in New York City grass-fed beef sells for \$26 a pound, more than three times conventional beef), for Irish seafood, for Irish confectionary and so on? Or even an umbrella name for all Irish products.

Creation of a brand requires three things: a product (or group of products) produced to a consistent level of quality, a differentiated product of superior value to a segment of the market, and investment in a memorable name. Under co-opetition, (high) quality standards would have to be agreed on, product superiority would need to be closely monitored with consumers, and some investment would need to be made. Fortunately the adjective “Irish” already has many positive connotations.

TOO FEW IRISH COMPANIES BENEFIT FROM BRANDING IN EXPORT MARKETS. IN PART BECAUSE OF THE LACK OF SCALE TO INVEST IN ADVERTISING CAMPAIGNS, BUT MORE IMPORTANTLY BECAUSE THEY HAVE NO CONTACT WITH THE END CONSUMER.

A Vision of the Future

We can certainly imagine that in 20 years time Ireland will be the most efficient, most highly innovative food and drink country in the world. It can get there. But how to get started? Ireland needs successful brands, but its companies, by and large are too small. It needs to innovate but it has a limited number of entrepreneurs. It needs to be efficient but its production base is too fragmented. Here is one vision of what the future could look like.

Our vision, which we call “Come See Us”, has a number of components:

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1. A set of specific goals to be achieved by 2016.

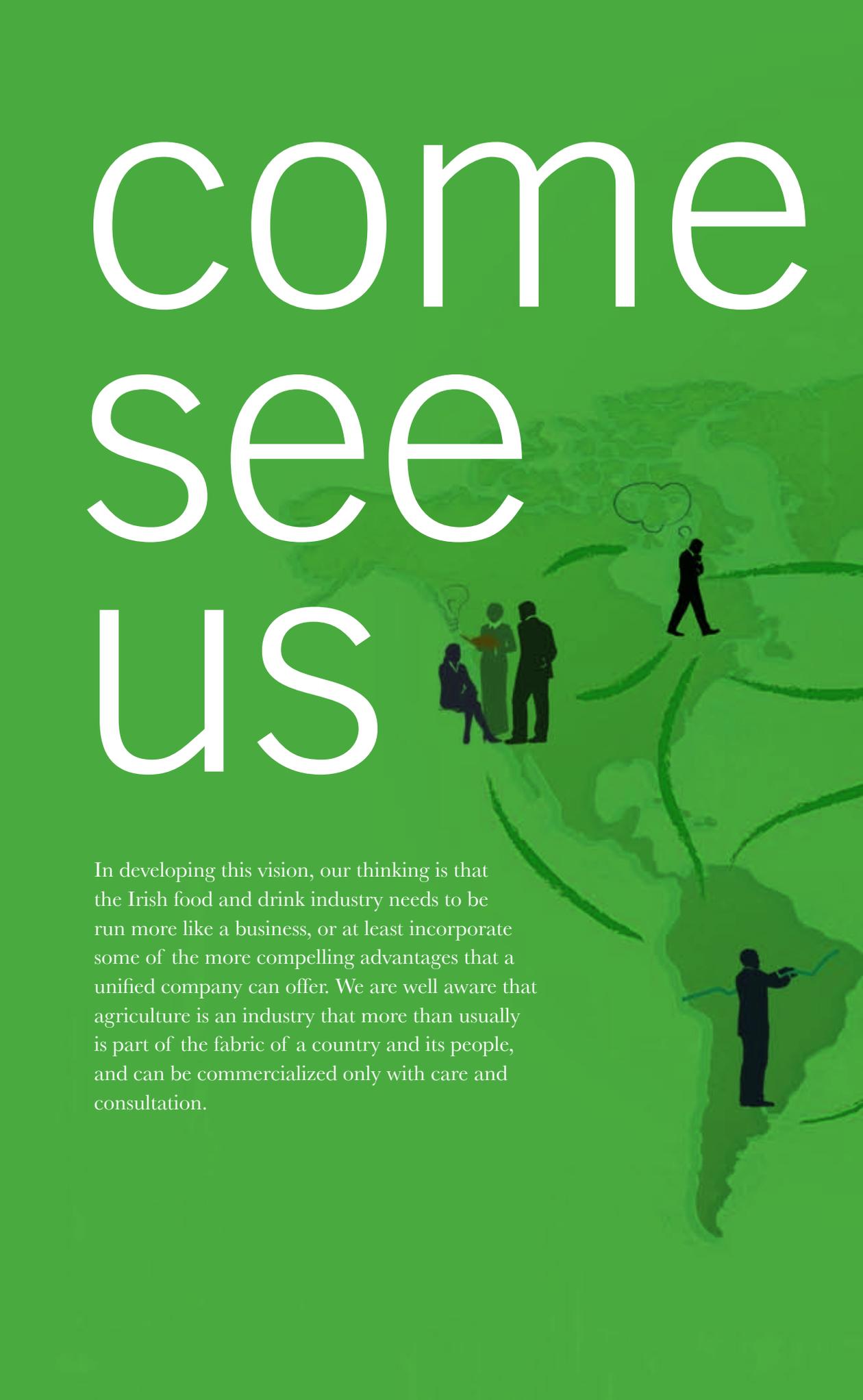
 2. The creation of an umbrella national brand for food and drink.

 3. Co-opetition rather than competition to create and satisfy the export market.

 4. A climate of entrepreneurship.



come see us

The background is a solid green color. Overlaid on this is a faint, light green world map. Several black silhouettes of business professionals are scattered across the map. One person is walking in the upper right quadrant. A group of three people is gathered in the center, with one person holding a document and a lightbulb icon above them. Another person is standing in the lower right quadrant, holding a large sheet of paper or a map.

In developing this vision, our thinking is that the Irish food and drink industry needs to be run more like a business, or at least incorporate some of the more compelling advantages that a unified company can offer. We are well aware that agriculture is an industry that more than usually is part of the fabric of a country and its people, and can be commercialized only with care and consultation.



“Come See Us”

The affluent world is demanding locally grown, non-polluting, traceable, transparent food. It rebels against “multinationals” who they think are adulterating the food we eat. Yet, of course, it wants that food at an affordable price.



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WE CAN SAY THAT
IT IS OPEN FOR
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Ireland is at an enviable starting point in the race to produce exactly the type of food that a growing number of consumers are demanding. It is universally associated with the color green and its land evokes natural. Along with being low cost, its grass-based production system wins points for sustainability and enhanced nutrition. Its people are viewed as friendly and open. It is small (not “multinational”). It is close to Europe (and cheaply close: think Ryanair). By its proximity and its friendliness we can say that it is **open for inspection**. Its competitors for the “green” market cannot deliver on that promise. New Zealand, which otherwise would be comparable, is too far away for most. Argentina is too far away, and too big.

In our vision, Ireland (companies, farmers and farmer groups, government, agencies, universities...) adopts a strategy of developing a world-class agricultural industry by 2016. It gears up to deliver on the promise “Come See Us: We Are Open for Inspection”. The message to the customer – whether a consumer, retailer, or food company – is that it has nothing to hide and indeed a lot to share: a community that has a long history and artisan culture of fine foods. If customers/consumers are concerned about how their food is grown and where it is grown they can come and see. This has the added advantage of being consistent with what the tourism industry wants.

The reason for waiting until 2016 is that it is a mistake to make a promise that isn’t true. You first make sure the product (Irish food and drink exports) meets the claim and only then proclaim it. The period before 2016 will be spent gearing up for the “opening” ceremony (think Olympics) which could be scheduled for St. Patrick’s Day. The launch will be supported by festivals celebrating Irish food, drink, and culture in major cities around the globe.

IN PREPARATION
FOR LIVING UP
TO THE CLAIM OF
BEING OPEN FOR
INSPECTION, FOOD
AND AGRICULTURE
COMPANIES MUST
TAKE TO HEART
THE NEED FOR
SUSTAINABILITY AND
TRANSPARENCY IN
FOOD PRODUCTION.

In preparation for living up to the claim of being open for inspection, food and agriculture companies must take to heart the need for sustainability and transparency in food production. The government invests in research to validate the environmental and nutritional benefits of grass-fed production, as well as in research to define the critical consumer aspects of sustainability and to support sustainability improvements such as reducing total GHG emissions from the agriculture and food sectors. Investments are made to ensure that all Irish food is 100% traceable so that a customer can, at least in principle, find out where her meal was grown and go see the very farm. This is the brand promise: **we are natural and we can prove it.**

²Today these consumers are mainly in Europe but the trend is spreading in the U.S., Canada, and other mature markets. In the future, we expect middle- and upper-income consumers in China, India, Brazil, etc. to demand (and be willing to pay a premium for) these products.

“Come See Us”

The new quality standards depend on a combination of current best practice standards (e.g., GlobalGAP, HACCP, BRC) and the results of a marketing research effort to determine, in cooperation with leading businesses and farmer groups, exactly what the “Come See Us” promise should entail. A new central government food agency is set up to act quickly to communicate, regulate, and implement the new national standards. The new standards are more than just “input” standards (how the food is made) but also include “output” measures that check that products are better than competition for a large enough portion of the marketplace. That is, the products sold under the new brand must be of high quality in both the technical and consumption senses. Put another way, food products that are attractive only because they are cheaper than competition but without any quality advantages may certainly be exported, but not under the new brand.

Farms and food and drink companies that satisfy these standards are allowed to carry the “Come See Us” brand mark, even if before 2016. Irish prepared foods, such as frozen pizzas or sandwiches, containing “Come See Us” ingredients also can use the mark (think “Intel Inside” or the Nutrasweet “swirl”). After the launch date in 2016, these companies benefit from a sustained marketing campaign to promote the new Irish food and drink brand. Companies find it advantageous to cooperate, sometimes even merging, in order to make the investments necessary to meet the new (exacting) standards. Retail customers who want to carry “Come See Us” products demand that they be supplied by integrated value chains that can handle large orders in a timely and reliable way. Instead of fighting each other to meet the demands of commodity pricing, companies that have earned the new mark work together to meet the new demand. Irish companies are not only open for inspection to consumers, but also to those domestic competitors with whom they are partnering on exports.

To encourage entrepreneurship food specific “innovation greenhouse” facilities are standardized across the country to facilitate entrepreneurial ideas. Larger companies support start-ups by providing help with strategy, logistics, and routes to market. The Irish government publicly celebrates the successes of entrepreneurs and their investors. The new single food agency simplifies the bureaucracy that can sometimes impede and frustrate innovation.

Irish business schools expand their MBA and other programs to include students financed in part by the food industry. There are more courses on the food system. Executives in the food industry sponsor these students and offer themselves as guest lecturers during these courses. Students are encouraged to complete internships and gain international experience early in their careers. Executive development programs are established for middle and senior managers. Farmer training on agronomic techniques and management skills is ramped up and “best practice” groups emerge.

The new flourishing Irish food and drink industry succeeds because it is structured differently than at present. Companies in the main industry sectors cooperate with one another to become technologically advanced while, as needed, living up to the “Come See Us” promise. While scale is essential for the larger export businesses, a combination of niche companies with strong local products and the entrepreneurially led start-ups help fuel the innovation that will provide the export engines of 2020.

**The spirit of the
“Come See Us”
vision is that the
Irish food and drink
industry will work
as one to achieve
export growth.**

Companies will be:

1. Open for inspection

2. Benchmarked against the best in the world

3. Partners in innovation, and encouraging entrepreneurship

4. Ambassadors for Ireland, and Ireland Inc.

Specific Initiatives

The vision we painted above is just that, a vision. It cannot be achieved by snapping our fingers, or voting to approve it. Here are some specific steps that are perfectly feasible that could be agreed upon today.

1. Systematically conduct consumer testing on all participating Irish exports: do they taste better, are they more appealing than competition, and if so, in which consumer segments? (e.g, “Label Rouge”)

2. For each value chain, ask how it would be run more effectively if owned by one company. What improvements could be made in communication, logistics, product development? Then get the chain members together to figure out how to achieve those synergies. Effective profit sharing of the increased margins that would result is one way. Transparency and trust are the only ways to make this work.

3. To reduce export competition between value chains in the same food category, either create a joint marketing initiative or find a different brand positioning for each. One of these solutions must be implemented, most likely the first.

4. Perform a branding study to find out what aspects of Irish agriculture are the most appealing, or would be the most appealing to customers and consumers.

5. Set up and standardize “innovation greenhouses” for innovation in food. Each would be one facility with all three of the following: scientists working on food products, nutraceuticals, technology, etc.; market researchers studying trends in consumer eating habits but more importantly having data on what consumers actually like to eat; and workspace for entrepreneurially minded individuals to rub shoulders with said scientists, market researchers, but also business leaders and investors who have an interest in encouraging this mix of people to work together.

6. Perform an audit of all of Irish agriculture against objective standards related to sustainability etc.

7. Expand the Bord Bia Marketing Fellowship Program to include more companies and more students. Develop a comprehensive training and management development program ranging from farmers to industry leaders.

The Prize for Working Together

A problem shared is a problem solved. If Ireland can agree on a strategy for reinvigorating the sector, that alone will make the industry attractive, will get people talking, will lead to innovation, will lead to success. While the monetary pay-off is impossible to predict, we expect exports to increase (in both volume and value) and margins to improve as food and drink companies deliver higher quality, value-added products based on customer and consumer requirements. The increase in scale and profitability will allow food and drink firms to (re)invest in research, new product development, capital improvements including mechanization that increases production efficiency, training of both managers and factory workers (who will need additional skills to operate the new equipment), and marketing.

In addition, a vigorous food and agricultural sector can pay off for Ireland in more ways than just increased exports. Companies that do not directly benefit from an Ireland umbrella brand (if developed) will benefit from an overall uplifting of the industry inside of Ireland (broad adoption of technology and best practices, improvement of human capital) and in dealing with international customers. As firms increase scale and lower costs, domestic food prices may come down and quality go up.

A PROBLEM SHARED IS A PROBLEM SOLVED. IF IRELAND CAN AGREE ON A STRATEGY FOR REINVIGORATING THE SECTOR, THAT ALONE WILL MAKE THE INDUSTRY ATTRACTIVE, WILL GET PEOPLE TALKING, WILL LEAD TO INNOVATION, WILL LEAD TO SUCCESS.

Other improvements from adoption include more efficient use of government investment in the sector (government-sponsored research is aligned with industry needs and commercially focused; marketing and promotion are targeted at high potential markets around a consumer-based message). At the farm level, improved profitability and training allows adoption of better (labor-saving) technology and increases the return to human capital. Farms of the future will be run by highly trained managers who understand that they face sophisticated global competition. Agri-tourism opportunities provide an additional (and potentially less volatile) boost to farm incomes and introduce a new set of marketable skills.

Finally, a vigorous domestic food and drink sector is important to every nation going forward in this increasingly uncertain world. And for Ireland a vigorous farm and seafood sector is part of the Irish ideal, part of the fabric of its history and way of life.

Will It Work?

The vision of a nation working together as one may seem rather idealistic. Why not just lower the corporate tax rate and let a thousand flowers bloom? Free markets don't always find the right overall market solution. The corrective action is through leadership that articulates a coordinated strategy for getting to a new and better solution. In corporations, the most able people rise to the top and direct the actions of the others. In a nation, the question is how to achieve the right balance between central coordination (at its extreme, communism) and perfectly individualistic competition (think India, where it is nearly impossible to make improvements in agriculture because of a culture of individualism). We are suggesting that Ireland would do better if it acted more in concert. On the global stage it is a relatively small country. Were it to be a single food company, it would not be among the top ten food companies by sales in the world. Domestic consumers (and the Competition Authority) may think consumers are better off with a myriad of small companies because it should keep domestic prices low. But that is short sighted if the companies are so shackled by their size that they cannot compete in world markets, thus bringing the benefits of scale and efficiency to all production.

WE ARE
SUGGESTING THAT
IRELAND WOULD DO
BETTER IF IT ACTED
MORE IN CONCERT.

It might be that the particular brand positioning we have proposed needs discussion, debate, argument, and refinement. The 2016 date may be too soon or too far away. But there is evidence that the kind of plan we propose is a good one. Success in the Irish drinks business has been created from both merger on the one hand (two examples being Irish Distillers in the 60's and 70's and Cooley in the 80's and 90's) and an identifiably Irish product (such as whiskey) on the other. The beef industry is attempting to increase profitability by reducing overcapacity and to implement a pricing system that pays for quality rather than quantity. The dairy industry is pushing high standards, discussing how to share processing facilities, and cooperating over their export business. All of these are evidence that the food and drink industry is capable of solving its own problems over time. But there's no harm in giving it a push.

The Risk of Doing Nothing

The natural tendency when faced with a hard problem is to keep searching for the perfect answer by commissioning yet another study or establishing another task force. This “analysis paralysis” leads to inertia and months and years go by. Sometimes this is okay because the situation will fix itself as macroeconomic conditions improve. However, opportunities to build a differentiated position and grab new customers will also go by. For the Irish food and drink sector, the risk of doing nothing is greater than a continued erosion of export sales. Today the domestic market is under attack as powerful international retailers – concerned more about price than provenance – bring in more and more non-Irish products to fill their shelves. As sales of Irish products decline, it is possible that a tipping point will be reached where Irish firms are no longer competitive in their home market. This could lead to a collapse of local production and manufacturing.

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Appendix 1

Observations about the Irish Food and Drink Industry

1. “Brand Ireland”: Perceived opportunity for umbrella food brand based on cultural attributes, cutting across sectors

- a. Positioning must be credible, enduring, and based on consumer research
- b. Sustainability: What does it mean for Ireland? Is it a moving target?
 - i. *According to Bord Bia research and confirmed by industry, customers (retailers, businesses) say they still want it, but based on cost savings rather than “ethical/environmental” elements of last few years.*

2. Leveraging across sectors: Opportunities to link F&D and tourism; fashion, pharma and food

- a. A “Guinness Storehouse” for food to attract visitors (particularly parents with young children)
- b. Agri-tourism: Working farms add a hospitality component, such as conducting tours (think California wineries) or taking in overnight guests. Increases farm incomes and allows farming families to develop new skills.
 - i. *Develop an “agri-trail” for each part of the country*
- c. Outside of Ireland, Irish pub concept is appealing and brings food and drink together with music, dance, character of country
- d. International festivals on St. Patrick's Day to promote all things Irish, not just drinks
- e. Cross-overs between agriculture and pharmaceutical industry, using plants or animals to manufacture drugs or to naturally produce functional foods

3. Human Capital: How can food & drink get the stars?

- a. Managerial capability: raw material, training, experience – today not top notch.
- b. Hurt by competition from more attractive sectors (financial services and ICT). But are those days over?
- c. Must “sell” career opportunities in F&D as exciting, “your chance to change the world”
- d. Need to demonstrate to companies the value of investing in training, management development

4. Innovation: Bringing the “smart economy” to F&D

- a. Is there tension between positioning Ireland as an innovator (which implies technology) and “green”? Is “creativity” a better term?
- b. Where in chain to invest? Investment in basic research/new product development v. downstream investments in packaging (strong differentiator with consumers but not important for B to B sales?) or efficient supply chain initiatives such as ICT and lean manufacturing.
 - i. *Last big product breakthrough: Bailey's Irish Cream in 1974!*
- c. Need continuous reinvention of products (lacking)
- d. R&D investment low in Ireland (firms and country are small)
- e. Funding too many projects to make a difference. Need for fewer, larger projects/investments focused on commercial opportunities to achieve critical mass
- f. Dairy best model
- g. Explore clusters: Firms located close together can share best practices
- h. Apply “smart economy” lessons from ICT, pharmaceuticals, electronics

5. Entrepreneurship:

- a. Culture is not one of entrepreneurship. Job loss equates to failure (in food although not in ICT)
- b. Entrepreneurs tend to sell their businesses once they get large rather than keeping them and growing them. They go for the cash pay-out
- c. A few “serial entrepreneurs” exist, but new entrants are rare.
- d. How can we attract non-food entrepreneurs to the food business?
- e. Entrepreneurs could start with artisan products and expand to national/international markets

6. Markets:

- a. Domestic market: A solid base, or a sinking ship?
 - i. *Domestic sales are under threat due to change in the euro/ Sterling exchange rate. Imports are now cheaper, displacing Irish products on Irish retail shelves. Led by multinational retailers, who are promoting price rather than provenance to appeal to price-sensitive Irish consumers.*
 - ii. *A diminished domestic market (or one controlled by non-Irish retailers) makes it more difficult for Irish food companies (both large and small) to introduce new products. No local test market equals big risk when exporting.*
 - iii. *At the extreme, a reduction in domestic market size could lead to a collapse of the domestic food industry (if it falls below critical scale).*
- b. Export markets: Need to diversify and focus resources
 - i. *UK historically the largest export market. Same language, similar tastes, lots of travel back and forth. But exposed to exchange rate fluctuations, which impact prices and costs (labor especially).*

1. *Irish beef industry developed differently, driven by supply much greater than domestic demand. Before EU, large subsidized sales to Russia, Middle East. This business shifted to European customers as EU deficit opened up.*
- ii. *Europe is close with the same currency, but is not homogeneous. Individually small markets (Texas is larger than France), 27 different countries with almost as many languages, different tastes, different packaging and labeling requirements, different retail buying groups in each country, and a growing consumer sentiment towards “buying local.”*
- iii. *Asia is potentially attractive due to large number of consumers and rising incomes. However, they may not have heard of Ireland and other much larger competitors (Brazil, Argentina, Australia/New Zealand) are very focused on getting this business.*
- iv. *US has a natural affinity for Ireland, as well as a shared language*
 1. *Irish Dairy Board’s US distribution business could be platform for more Irish products?*
 2. *Irish beef faces import restrictions*
- v. *International marketing capabilities limited*
 1. *Success stories of launching Irish-owned brands in continental EU markets are few.*
- vi. **Need to concentrate marketing efforts on a few well-chosen markets to “move the needle”**

Appendix 2

Relevant Agribusiness Case Studies

Case Study 1: Friona and the American Beef Industry

The US has around 800,000 cattle-raising farms, with an average herd size under 50. The breeds are different, the feed is different, and the production cycle is ad hoc. There is no traceability as the cattle move through the system to the slaughterhouse. The beef that reaches the consumer's plate is unidentifiable with respect to origin or production methods. It is graded as to quality only, if at all, by a visual post-slaughter inspection. The farmers have no incentive to improve their methods, because the system only pays them by the live weight poundage. McDonald's initiated and provided seed money for a fully traceable and transparent partnership between a feedlot (Friona) and a packer (Cargill) to try and exercise quality control on the whole production method. The entire chain was studied and practices that resulted in quality losses were identified at each step (findings showed that one-third of losses occurred on the farm, one-third at the feedlot, and one-third at the packer). Because cattle are tagged and tracked individually throughout (feed, weight, medicines, final yield, and quality assessed at both the slaughterhouse and through store and consumer audits), a farmer can invest in herd improvements and be paid on the exact value of the meat produced at slaughter, and ideally, at retail. Imagine a system whereby a consumer who enjoyed a particular cut of meat, could order it next time, just as she could a bottle of wine!

Most agricultural supply chains are like this one: they are based on early 20th century technology and logistics. Members of the chain don't trust each other. They fight viciously for their share of a small margin rather than working together to produce a better product or to reduce system cost. They resist change because there is no central authority (namely "for-profit business") or market mechanism to force change. Only the promise of a company the size of McDonald's to buy if the change was made forced the experiment described above.

Case Study 2: Ponsse

Ponsse is a forestry machinery manufacturer located deep inside Finland. To get there you fly to Helsinki and then drive three hours into the countryside. Ponsse's CEO spent 200 days per year on the road meeting customers and developing contacts around the world. When he was at headquarters he would invite a team from a key customer to spend a couple of days with him, touring the manufacturing plant, watching product demonstrations, and, most importantly, spending several hours with him in the company sauna. In those sessions the CEO learned a lot about his customers' problems and a lot about their satisfaction and critiques of his company's products. The next morning the CEO would meet with his R&D, sales, and manufacturing teams to discuss how to improve the customer's current issues, and how to improve the design of products to help future customers. The company's sales and margins soared under that CEO. This is a night and day comparison with the beef industry we just described. There is someone paying attention to customers, and there is a direct **feedback loop** back to production and R&D.

Why don't more companies implement such a process? The usual difficulty is that the person with knowledge of the customer has no direct ability to influence production or R&D. When there is no vertical integration, communication and incentives are muddled. In a free market situation where there may be multiple suppliers to multiple customers, no one company may wish to take the risk of investing in a new product. Or the suppliers are each too small to undertake the requisite investment. The fact of the matter however is that to maintain a high margin business one must innovate. The most important input to innovation is paying close attention to customer needs **and then doing something about it.**

Case Study 3: Nestlé

In the small country of Switzerland we find the largest food company in the world, the \$100 billion giant Nestlé. Over 100 years Nestlé has perfected the art of selling branded foods to millions of loyal customers the world over. Moreover, they do so in a way that provides very high, very stable and fast growing profits to their shareholders, while providing jobs and prosperity to Switzerland. How do they do it? With a small domestic market they have been selling in other countries almost from the start. Their traditional model, perfected over a century, is to have some core brands in major food categories (milk, ice cream, chocolate, coffee, water) but to adapt products to local tastes and sell them through semi-autonomous country managers – all who are inculcated in the Nestlé culture. Much of the food product sold in a region is grown and processed in the country it is sold in. Nestlé rarely exports food from a cheap country to an expensive country. They develop the supply chain from farm to factory in each region that they sell in. They have a strict method of quality control called 60/40: in a blind taste test their products must taste better than a competitor's product to at least 60% of the people who take the test. And if one of their products fails this test? The brand manager has a year to reformulate the product or it is sold. Nestlé will not waste its time selling products that it cannot sell for a premium.

How does Nestlé find new products to sell? It does have its own R&D labs but these are mostly aimed at the reformulation problem – how to make existing products taste better. They add products to their stable by finding highly successful but regional products and buying the company. The acquired products are then reformulated for a global marketplace, stamped with the Nestlé brand, and distributed globally.

So here is Nestlé's strategy in a nutshell. Identify successful local products, buy them, distribute them globally, and then when they become mature (they become commodities because tastes change or copycats like private labels emerge), sell them off.

Appendix 3

What have similar countries done?

New Zealand

This island nation is a leading exporter of pasture-fed dairy and meat, as well as horticulture products, wine, and seafood. Food and beverage exports have trebled in the last 17 years, from €3.7 billion in 1990 to €11.3 billion in 2008. Although Europe and the US were its historical markets, looking ahead the country expects more growth opportunities in Asia given the region's expanding populations and incomes and New Zealand's geographic proximity.

Dairy accounts for more than half of total exports, driven by Fonterra Cooperative Group – New Zealand's largest company – that uses a global sourcing strategy to achieve year-round supply. Yet at the same time that Fonterra is building dairy plants in China, Chinese investors have bought four New Zealand dairy farms and are negotiating for 24 others (for a total investment of over \$1.1 billion) in order to make infant formula and long shelf-life product for the Chinese market.

Horticulture, which exported €1.2 billion in 2008, published a unified industry strategy in June 2009 with the stated objective to double the size of the sector by 2020. Key elements of the strategy include investing in science and innovation (breeding differentiated value-added products – which could be patented – and developing advanced production and processing technology); branding (leveraging the “natural” position of the country and linking horticulture products more closely with the “100% Pure New Zealand” tourism campaign; surprisingly, New Zealand attracted 2.4 million tourists in 2009); workforce development (improving training for farmers and industry leaders); and scale (developing a “market basket” approach to achieve the necessary volume for efficiency).

The Netherlands

This small country (less than half the land of Ireland with four times the population) is one of the world's three largest exporters of dairy, meat, and horticulture products (including cut flowers and flower bulbs). Its agricultural export balance in 2007 was over €20 billion with 80% of exports going to Europe. However, in 2010 it faces challenges around its intensive animal production model and use of glasshouses, as well as the high number of farmers exiting farming.

Although the sector is economically important, there is no long-term strategy for agriculture in the Netherlands. A Dutch colleague writes: “At present, the debate on the future of agriculture is leading to emotional and political outcries. There seems to be no real sense of urgency, nor a clear idea where we should invest in. We are much more pre-occupied with questions of where to cut back on budgets.” One idea being championed is “metropolitan agriculture,” based on an idea that the urbanized environment offers innovative opportunities for the sustainable development of the sector (e.g., agroparks located near major cities that shorten the distance between producers and consumers; farmers providing care for the sick as well as for crops; by-products of urban living (i.e., waste) feeding into the energy supply chain for agriculture). Another idea is based on developments from new technology, including genomics, nano- and micro- technology, and ICT.

Appendix 4

Background and Global Agribusiness

Supply and Demand

Agriculture is one of the great success stories of the 20th century. Food production has risen dramatically to keep pace with the growing population as a result of mechanization and advances in fertilizers, pesticides, and seed quality. The stunning capability of the agriculture system to supply food to cities with tens of millions of inhabitants on a daily basis should stagger the mind. But these advances have come at a cost. Worldwide, more and more (forest) land is being taken over for growing food. Water is becoming harder and harder to come by in the places where it is needed. Pollution of various types (nitrogen run off, sewage, carbon emissions) is a growing concern, all to a backdrop of global warming.

There is no doubt that the world still has enough land and water to feed the world's growing population. If the global population does reach a peak of about 9 billion sometime before the middle of this century, and absent some catastrophe, production can still rise to meet demand. The problem is that the available land and water is not where it is needed. India and China each have less arable land than the United States (US). Their production methods are still largely primitive and labor intensive. They are stuck between two perils: they need to modernize to meet greater demand for food both from a still growing population and because of the rising income levels of their middle class; at the same time, mechanization would lead to mass unemployment and a flight to the cities. In addition India has a tradition of land rights that stand in the way of land consolidation. Farms in Asia average less than two acres.

Globally there is plenty of fertile land, and plenty of water, but much of it is in South America and sub-Saharan Africa. Their problems are different: the lack of infrastructure (roads, canals, nearby ports) cripples any attempt to supply anything but mass produced, long-lived commodities.

The events of two years ago when the price spike of world commodities sent many nations into panic about whether their people could be fed has elevated the importance of national food policy and in particular having a strategy for national self sufficiency. Many countries are buying/leasing land in other nations as a means of securing their future food supplies.

While much of the world's poor is concerned about having enough to eat, the affluent have entirely different concerns. They are worried about purity, about food safety, about nutrition. While Europe has been concerned about these

matters for some time, they are now gaining a foothold in the US, especially around organic production, and a desire for "locally grown." There is a national obsession with the obesity problem and an interest in food as a component of a national health solution, as well as hope for "functional" foods that support longevity and quality of life for aging baby boomers.

All over the world agriculturally based countries and food and drinks companies are gearing up to meet the needs of a growing middle class. By 2030 some 5 billion people – nearly two-thirds of world population compared to less than one-quarter today– could fall into this group. Almost all of these new middle class consumers will live in Asia. When households become middle class, they eat differently. Their consumption of meat and dairy products increases, and they demand recognized brands that are safe and available year round.

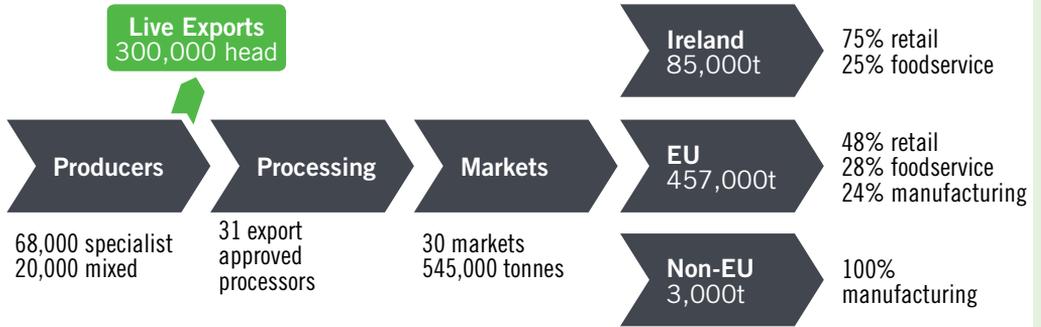
Agribusiness Management

Another success of the 20th century has been the professionalization of management. At the beginning of the 20th century nearly all businesses were family owned, and small. At the end of the century the majority of companies (by sales) were run by professionals: people who had been trained in the emerging "science" of business administration. Behemoths like Walmart, General Electric, Tesco, and Microsoft can exist only because of sophisticated management. The leaders of these companies are every bit as well trained as the leading brain surgeons or aeronautical engineers.

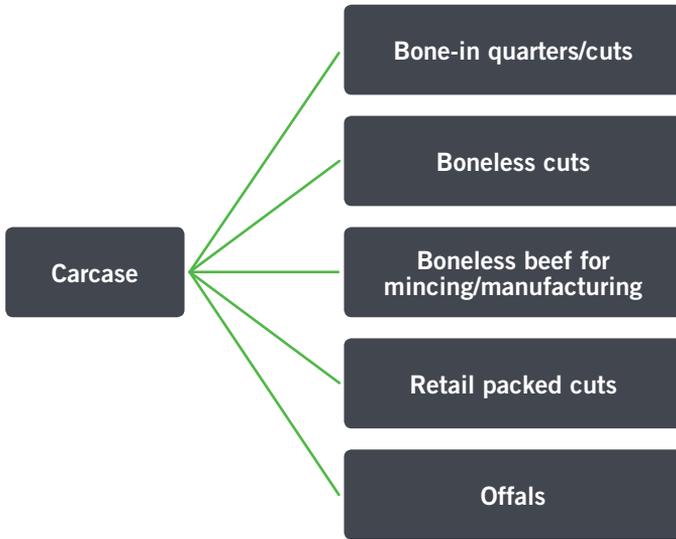
Agriculture, for all of its productivity gains, has still a long way to go before it could be considered "professionally run." Large parts of the production system, even in the Western world, consist of small family farms, run by owners who learned their profession from their fathers. Consolidation and professionalization have been rapid in the retail sector and to some degree in the branded food sector and somewhat in the processed foods sector. The nearer one gets to the farm, the less consolidated and the lower the managerial perspective. This fact has a ready explanation: so long as farmers can earn a satisfactory living they tend to stay as they are. Farmers have a traditionally strong political influence that could be explained at one time by their sheer numbers, but now because of their leverage on a key aspect of human survival: food. In most countries farming has been a heavily subsidized and protected industry, where efficient markets may not operate.

Appendix 5

Supply Chain for Beef



Irish Beef Product Streams



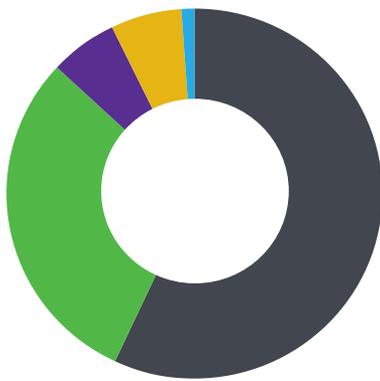
Supply Chain for Dairy



Irish Dairy Product Streams

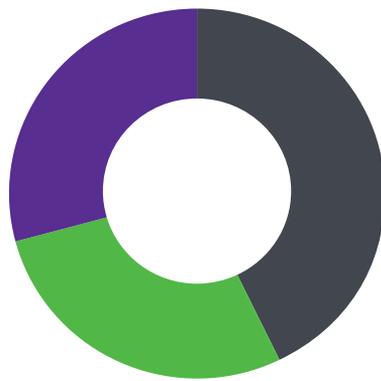
Liquid Milk

Whole Milk Utilisation 5,163 ('000 Tonnes)



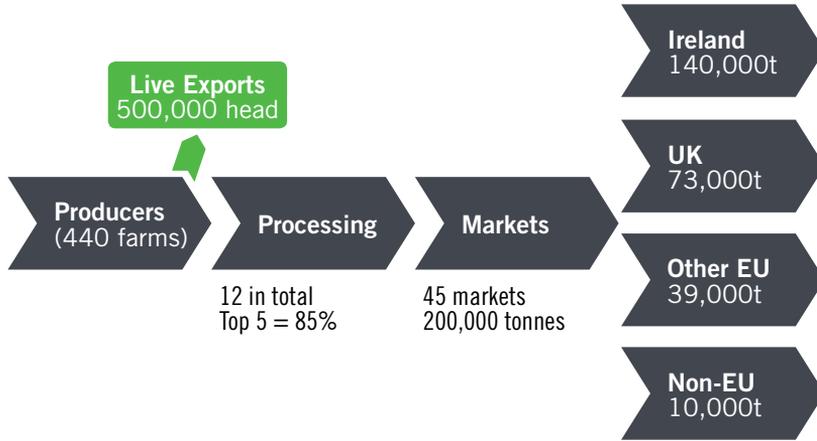
- Butter 57%
- Cheese 30%
- WMP 6%
- Other 6%
- Chocolate Crumb 1%

Skim Milk Utilisation 3,070 ('000 Tonnes)

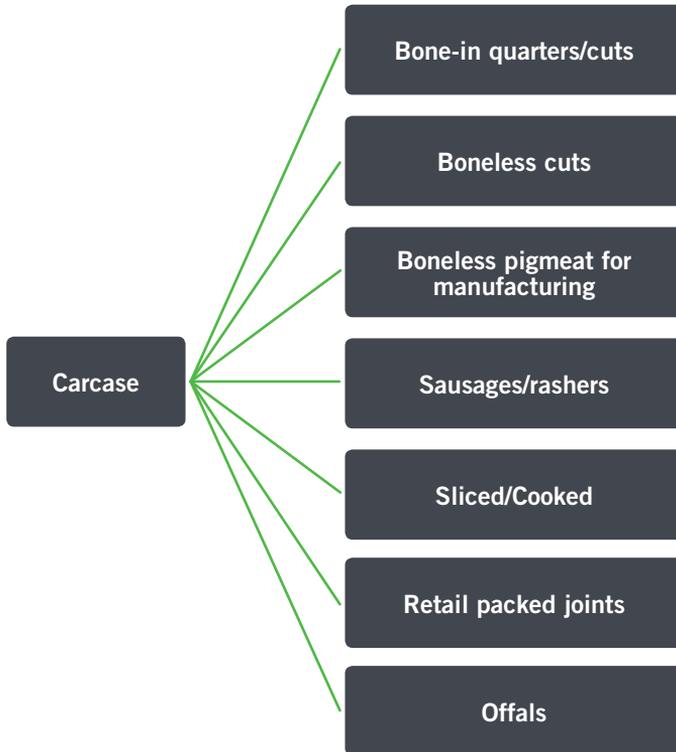


- Proteins 43%
- SMP/BMP 28%
- Other 29%

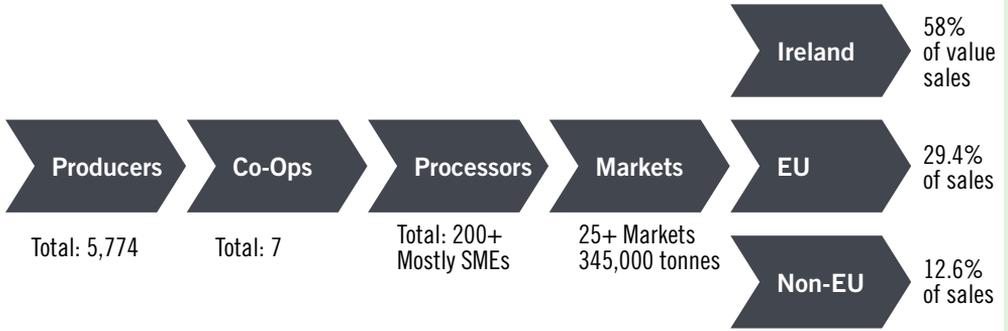
Supply Chain for Pigmeat



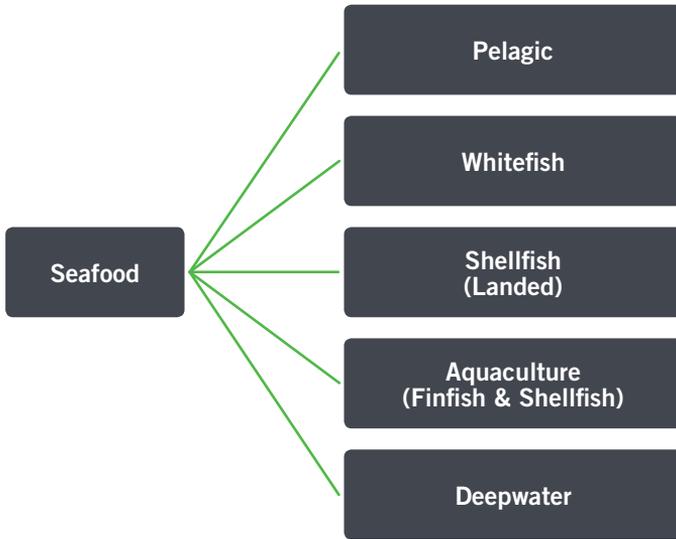
Irish Pigmeat Streams



Supply Chain for Irish Seafood



Irish Seafood Product Streams



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