

# A snapshot of Queensland's specialist dairy manufacturing industry



March–September 2008



Queensland Government



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**Queensland Primary Industries and Fisheries**

**Department of Employment,  
Economic Development and Innovation**

On 26 March 2009, the Department of Primary Industries and Fisheries and the Department of Tourism, Regional Development and Industry were amalgamated with other government departments to form the Department of Employment, Economic Development and Innovation.

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Note that the information contained in this report is based on that provided by the respondents interviewed. It does not represent the views of the Department of Employment, Economic Development and Innovation.

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## Objective

The objectives of this project were to:

- identify the issues facing the specialist dairy manufacturers in Queensland
- strengthen relationships between the Queensland Government and specialist dairy manufacturing enterprises.

Specialist manufacturers are defined as manufacturers of cheese, yoghurt, ice cream and fresh milk and cream. These manufacturers obtain their milk supply from their own farms or from external suppliers. Specialist manufacturers are categorised as those with less than 100 employees, but in most cases they have less than 10 employees.

## Industry profile

Over recent decades, Queensland has primarily been a milk, cream and cheddar cheese manufacturing state. Specialist dairy products such as white and blue cheeses, washed rind and Swiss cheese styles were not manufactured in Queensland and the state did not have a range of non-bovine milk products apart from goat milk products. Queensland now has approximately 40 specialist dairy manufacturing enterprises, the majority of which have commenced operations since 1998.

With the emergence of the specialist dairy industry, Queensland is now producing a wide range of products from cow, goat, sheep and buffalo milks destined for the high-end retail and tourist markets. These high-value products meet the needs of growing niche markets across the gourmet and specialty foods sector. However, the specialist dairy industry in Queensland appears to be experiencing difficulty in competing with other established Australian and international specialist dairy brands.

The specialist dairy manufacturers can be divided into four main categories based on products manufactured.

These categories are:

- soft and hard cheeses
- yoghurt
- ice cream
- milk and cream.

There are several manufacturers with products that cross over two or three of these categories. There are also manufacturers of organic products in each category as well as buffalo, goat and sheep milk products.

Manufacturers are concentrated in South East Queensland, predominantly in Brisbane, Gold Coast hinterland, Sunshine Coast hinterland, Mary Valley region and South Burnett, and in North Queensland's Atherton Tableland. Isolated manufacturers are also located in the Granite Belt, the Lockyer region, Toowoomba, and Wide Bay region.

Manufacturers use several methods to sell products, including engaging specialist retailers, farmers' markets, self-distribution direct to retailers and farmhouse door sales.

## Background

Over the past two decades there has been significant rationalisation and restructuring in Queensland's milk processing and manufactured dairy product sector. The key drivers of the dairy industry's restructuring have been supply chain amalgamation and integration of cooperative processors into national food corporations, the deregulation of the market milk sector, severe climatic conditions, unsustainable narrow farm gate margins and, until 2008, absence of stronger market signals. Changes in the retail sector are ongoing, with major retailers taking a greater share of the retail market through their own generic branding and the use of national tenders for product supply.

Considerable adjustment has occurred in milk processing in Queensland and the pressure of competition has led to further rationalisation. As a result, Queensland's dairy industry is now divided into two key sectors based on size: the large national processors who dominate milk processing and supply; and small specialist manufacturers of high-value products.

In order to identify issues restricting the growth of the industry and to identify opportunities for development, two Queensland government departments—Department of Tourism, Regional Development and Industry (DTRDI) and Department of Primary Industries and Fisheries (DPI&F)—initiated a study of the specialist dairy manufacturers in Queensland in 2008. The Queensland Government sought the input and direction of peak dairy industry bodies, the Dairy Industry Association of Australia (DIAA), the Queensland Dairyfarmers' Organisation (QDO), Dairy Australia and the Australian Specialist Cheesemakers' Association (ASCA).

While the purpose of the study was not to investigate the commodity milk and cheese sector of the dairy industry, access to milk and cream for the specialist dairy industry is affected by the situation occurring in the broader industry. In this respect, with the growing population and the declines in milk production in Queensland over recent years, the risk of a milk deficit in Queensland had been realised.

Over the last two years to the end of 2008, during periods of the year when production is lowest, processors have needed to bring milk supplies from interstate to meet the requirements of the southern Queensland domestic market.

This has created considerable competition between processors for milk supply across southern Queensland and northern New South Wales. Some processors had offered additional price, contract and supply incentives. Over the six months to the end of August 2008, this equated to increases ranging from approximately 25 to 30%, to a per annum average per litre price of 60 to 65 cents per litre. In this environment, specialist manufacturers had difficulty in competing with large processors for the limited milk supply. Events of late 2008 and early 2009 demonstrate how sensitive the industry is to market fluctuations.

However, since the beginning of 2009, the Queensland dairy industry has experienced the first growth in milk production for some years. The production figure for February was 5.4% higher than for the same month in 2008.

The growth in milk sales for Queensland continues to lead the eastern seaboard states with the year-to-date to January 2009 figures at 2.3%, compared with a national average of 1.8%.

In May 2009, milk was sent from Queensland to New South Wales but the supply in Queensland may again fall below demand at different times of the year depending on seasonal conditions and growth in demand in the state.

Some concern currently exists in the northern dairy industry as to the potential flow-on effects of the global financial crisis and the sharp reduction in trade, export prices and prices to farmers in the southern regions, which are export oriented.

## **Project methodology**

The study consisted of interviews conducted from May to September 2008 with 35 specialist manufacturers, high-end food distributors, two high-end retailers, peak bodies and organisations that could provide input into the development of the specialist dairy manufacture industry. Visits to manufacturers were made in the Brisbane, Moreton, Darling Downs, Wide Bay Burnett and Far North Queensland regions. Additional information was obtained through contact with manufacturers, wholesalers, distributors and retailers.

Notes were taken during each meeting and a report written that was returned to the manufacturer for clarification. During the visits to manufacturers information was obtained in the following categories:

- general information—including company structure, date of establishment, management and ownership, weak and strong points of the business, issues that needed to be addressed, membership of industry bodies
- business information—including turnover, sales expectations, staff numbers, qualifications of staff
- business development issues—including estimated growth rate, future investment, growth plans, joint ventures
- research and development, training undertaken, product development, and their sources
- marketing development—including customer demographics, distribution channels, marketing strategies used
- gauging interest in the manufacturer being part of any future actions that may be generated from this report.

To ensure that the broader view of the industry was obtained, interviews were held with high-end food distributors and specialty food outlets where specialist manufacturers are likely to sell their produce. These interviews produced useful information about the culture, quality, branding and labelling of Queensland specialist dairy products. Customer relationship issues were also raised.

The dairy industry peak bodies consulted as part of this project were the Australian Specialist Cheesemakers' Association, Dairy Industry Association of Australia, Queensland Dairyfarmers' Organisation, the National Centre for Dairy Education Australia, and Dairy Australia. There is no single body with the capability to assist the broader manufacturers with all issues. There may also be some overlap between areas of assistance. There was a high level of willingness and ability among these bodies to assist the manufacturing industry.



## Industry overview

It has not been possible to calculate the value of the industry using information obtained from specialist manufacturers during the interviews because many declined to provide this information. Australian Bureau of Statistics (ABS) and Australian Bureau of Agricultural and Resource Economics (ABARE) do not collect statistical information from specialist manufacturers and the industry has not formed an industry organisation.

Based on the employment information provided, the industry employs about 200 full-time workers, as well as additional part-time and casual workers who are directly employed.

There is likely to be a significant multiplier effect created by the specialist dairy industry in regional economies through increased tourism and employment.

The volumes of milk processed and staff employed by specialist processors across Queensland is small compared with the large milk processors. Exact figures need to be determined but approximately 2% of Queensland's farm milk production (approximately 10 million litres) goes into high-value dairy products. However, the value of the specialist products is comparatively high when the returns they provide are considered.

Table 1 lists the average returns for a litre of milk at both the manufacturer and retail level for gourmet milk, gourmet yoghurt, gourmet ice cream and cheese.

The calculations in the table are based on the following information.

- A farm gate milk price of \$0.60c per litre.
- Yoghurt with a 100% yield (excluding additives) and with a retail price of \$9 per litre.
- Ice cream with 50% overrun (that is, aeration of 1 litre of ice cream mix makes 1.5 litres of ice cream) and a 1 litre tub with a retail level of \$12.
- Camembert cheese with a yield where 8 litres of milk produces 1 kilogram of cheese, which equates to 8 x 125 Camembert cheeses. The Camembert sells at retail level for \$40 per kilogram.

Product	Dollar value received by manufacturer	Value added to 1 litre of farm gate milk by manufacturer	Dollar value at retail level	Value added to 1 litre of farm gate milk by retailer
Gourmet milk	\$2 per litre	3.3×	\$3	5×
Gourmet yoghurt	\$6 per kg	10×	\$9	15×
Gourmet ice cream	\$8 per litre	20×	\$12	30×
Soft cheese	\$20 per kg	4.2×	\$40	8.4×

Table 1. The approximate value added to gourmet dairy products at manufacturer and retail level.

Per capita consumption of milk and dairy products in Queensland has grown in recent years. Australia currently consumes approximately 20% of its milk production as drinking milk while in Queensland approximately 90% is consumed as drinking milk. This equates to Queensland consuming 534 million litres of drinking milk (worth \$223 million at farm gate price) and 50 million litres of milk (worth \$23 million at farm gate price) into value-added dairy products.

## Demand analysis

Reliable information on the demand for specialist dairy products in Queensland and Australia is very difficult to obtain. However, a survey of the Australian specialist cheese sector conducted by Dairy Australia for the Australian Specialist Cheesemakers' Association (ASCA) from July 2005 to June 2007, gives an indication of the growth in production of Australian specialist cheese and the premium prices paid for Australian specialist cheese over the average price of all non-specialist cheeses sold in supermarkets.

According to ASCA's report, the price premium ranged from \$8.30 to \$10 per kilogram and averaged \$8.75 per kilogram. This premium increased to more than \$10 per kilogram during the Christmas period.

This premium can result from a number of factors, including the style of cheese, the maturation period, the package size and type, and, of course, the strength of some individual brands that alone command price premiums. The data reinforces the observation that consumers are willing to pay premium prices for premium product.

There is evidence that Queensland's specialist dairy enterprises are increasingly producing premium products that are being recognised in specialist dairy competitions.

For example, the champion cheese of the 2008 Brisbane Cheese Awards was a Swiss style cheese produced by Fromart on the Sunshine Coast. Witch's Chase from Mt Tamborine and Gallo Dairyland from Atherton also won gold medals for their entries in the 2008 Brisbane awards. In contrast, only Kingaroy Cheese won a medal in the 2007 Brisbane awards. Vannella Cheese from Cairns won awards at the 2008 Australian Specialist Cheesemakers' Association Cheese Show in Melbourne and the 2007 Show in Sydney. In recognition of the quality of Queensland's specialist dairy products, DTRDI has included these enterprises in the Wine and Food Map of Queensland.

In addition to success in these competitions, several of the suppliers interviewed for the study reported an increase in demand for Queensland specialist dairy products, which they attribute to the increasing reliability of product quality. This is consistent with the views of high-end distributors who advise that there is likely to be a significant increase in demand for niche, high quality and differentiated foods driven by the rising population in South East Queensland.

Few of the manufacturers interviewed are exporting at this stage. Unfortunately, a significant number of Queensland specialist dairy enterprises may not be maximising their potential to meet these opportunities. The cost of establishing an export accredited facility is prohibitive for specialist manufacturers, especially when their export markets have not been established. Because some enterprises also struggle with economies of scale, export and wholesale opportunities are not options they can consider at this stage.

Many manufacturers interviewed do not have the expertise and capacity to undertake the level of marketing of their products required to access new markets or to introduce mechanisms to improve product quality. Some enterprises advised the study that their production was at capacity for their existing plant and that they cannot keep pace with the demand for their products.

Some specialist manufacturers that produce a wide range of specialty cheeses and yoghurt advised that their companies are in the process of significantly expanding production, while others are considering options for expansion. However, several manufacturers advised that they are unable to expand because of insufficient capital or inability to access quality milk and cream and in the case of organic producers, certified organic milk, cream and other ingredients.

A detailed situation analysis of the industry, including demand analysis, could identify opportunities for the industry to expand.

## **Issues and challenges**

The discussions with the specialist manufacturers, distributors and peak bodies have highlighted a number of issues that are currently facing the industry. Some of these issues are listed below.

### **Supply of raw materials**

- Milk quality is a very important element in ensuring the quality of dairy products. Some specialist manufacturers reported that lack of reliable supplies of milk and cream with higher fat content of acceptable quality and sufficient quantity is a concern.
- A company with national logistical and management capability suggested that this could be redressed by the development of alliances between specialist manufacturers to allow greater power in purchasing, supplying and sourcing milk and cream interstate. Sharing excess and shortages across the industry could also assist.
- A company with national logistical and management capability suggested that a large organisation could broker alliances or contracts for milk supply with large processors on behalf of groups of manufacturers.
- Organic producers reported that certified organic ingredients such as milk, cream, fruit and sugar are difficult to obtain.
- All specialist milk manufacturers interviewed advised that they would like to increase farm milk production but they needed to find ways to efficiently utilise milk in periods of excess production.

### **Technical skills development**

- Most manufacturers reported that access to suitable technical training was difficult to obtain. Technical training was required by these manufacturers from basic through to advanced levels.
- Several successful manufacturers advised that attracting skilled staff from interstate and overseas could enable improvements in technical capability and ultimately product quality across the industry. Enterprises have used '457' visas to attract skilled employees including qualified technical staff from overseas.
- Specialist manufacturers advised that generally they rely on their own skills and abilities to solve quality problems and develop new products.
- Distributors advised that cheese should be a reliable product with consistency across different batches.

- One distributor discussed the need for Queensland manufacturers to develop complexity of flavour in their products through cheese making techniques and quality of milk rather than through the addition of cream.

## **Quality issues**

- A significant issue for the industry identified by distributors and retailers was the variability in quality and consistency of the products manufactured by Queensland manufacturers and the need to commit to ongoing quality improvement. Leading distributors consider that improvements in quality and consistency of products can be achieved in part through education and training.
- Distributors advised that, in general, specialist manufacturers lack awareness that their products need to be of consistently high quality if they are going to be able to access and retain high-end markets.
- Distributors advised that specialist manufacturers need to benchmark their products against the best interstate and imported products. High-end distributors are aware of these standards and are capable of educating manufacturers. Manufacturers would gain an understanding of quality by attending courses and master classes as often as possible to help them assess their products objectively.
- A distributor advised that consumers attending farmers' markets are often not as discerning as chefs and providores and therefore sales at farmers' markets are not always a reliable guide to the quality of a product.
- Access to ongoing technical training in specialist dairy product manufacturing and paying good staff above-award wages are important aspects in ensuring quality is maintained.
- Some specialist manufacturers advised that quality systems compliance is a major cost to their businesses. The study also found that some specialist manufacturers lack detailed knowledge of the requirements specified by the regulatory bodies and lacked the ability to adapt quality systems to their individual business operations.
- The study found that some manufacturers situated in ecologically sensitive environments were unaware of alternative, environmentally sustainable production methods that could minimise impact to the environment.

## **Branding labelling and packaging**

- Distributors advised that there is a lack of recognition of specialist manufacturers and their products by consumers interstate and internationally. Brand recognition could be improved by improving quality, branding labelling and packaging of specialist dairy products to make them more distinctive and suitable for gourmet markets.
- A retailer suggested that manufacturers identify their products as Queensland made because consumers increasingly want to buy local produce.
- A high-end retailer suggested that consumers respond well to promotional material that tells a local 'story' about a product and promotes a region.
- Business names and associated packaging and labelling of individual product lines should be strong and stylish.
- A retailer suggested that the naming of a product can be a critical factor in its commercial success; therefore, Queensland manufacturers should ensure individual products are named simply.

- Distributors suggested that manufacturers invest in graphic design labelling and packaging expertise as it will pay off in sales in the long run.
- Distributors advise that there are two sectors in the premium market: restaurants and food service; and high-end delicatessens. The two sectors require the same logos but different packaging and labelling. Generally, restaurants will not pay for elaborate packaging. High quality cheese products targeting delicatessens should be foil-wrapped, but not cling-wrapped or vacuum-packed as foil creates a sense that the product is an authentic gourmet product not a cheaper commodity line.
- For example, some Victorian cheeses are mass produced, but the foil packaging creates the sense that they are authentic hand-made products.
- One distributor advised that silver foil wrapping is hard to see in a display cabinet and coloured wax or coloured foil wrapping is more eye catching.
- A retailer suggested that random weighted cheese gives the impression that a product has been hand-made.
- A retailer advised that bar-coding of product is now important in the gourmet market.

## **Business management and marketing issues**

- A long-term industry participant suggested that more efficient use of existing capital, maximising under-utilised plant and equipment, and conducting efficiency audits for plant and equipment could increase profitability.
- Some distributors suggested that manufacturers could take greater advantage of opportunities in food and wine tourism and community events as a means to build local markets and greater sustainability for their enterprises.
- A retailer advised that even if a manufacturer sells through a distributor it is important to establish personal contact with retailers selling their products and to keep in regular contact. The retailer made the point that his business sells 10 000 products and a personal relationship with the manufacturer encourages him to keep the product in his stores and to keep promoting it.
- Specialist seminars targeted at manufacturers could highlight the opportunities that exist within the industry by promoting success stories. This could occur in conjunction with the Brisbane Cheese Awards or similar events. There is no single body that is currently coordinating specialist manufacturers in Queensland.
- A distributor advised that Queensland's food and wine show is an excellent place to introduce a new brand or product to the public.
- Most specialist manufacturers interviewed for the study do not have or do not follow documented marketing and business plans.
- Distributors advised that some manufacturers are skilled in production aspects of their businesses but lack business acumen, marketing skills and knowledge of the structure of the industry.
- Distributors advise that product variety will not guarantee profitability. Small manufacturers generally do not have the resources to change market perceptions or to educate consumers to accept an unknown variety of product and therefore it is safer for manufacturers to produce well-accepted varieties. When starting out, manufacturers should aim to develop product excellence with a small number of products rather than developing too many.
- There was general agreement among manufacturers that good local signage is important in promoting farm door sales.

- Some manufacturers located in tourist areas and reliant on farm door sales reported difficulties in arranging signage for their businesses on state-controlled roads.

## **Market opportunities**

- Distributors consider market opportunities exist for blue vein and mature cheddar cheeses, buffalo milk products and new blends of mixed milk products.

## **Cooperation**

- A distributor advised that Queensland wine industry promotions could be a cooperative model for the specialist dairy industry.
- Cooperative transport arrangements from North Queensland to southern distributors could reduce transport costs for participating enterprises.

## **Strengthening the industry**

A sustainable specialist dairy industry will increase its contribution to the Queensland economy and strengthen the economies of regions in which enterprises are located. The specialist dairy industry could increase its profitability and sustainability by:

- increasing volumes of specialist dairy products manufactured
- increasing the level of value-adding to farm milk production
- working to improve recognition of Queensland specialist dairy brands nationally and internationally
- improving the technical, business and marketing skills of specialist dairy manufacturers
- developing a culture of continuous improvement in quality by benchmarking against Australia's and international best products
- becoming involved in local efforts to foster the growth of food and wine tourism in Queensland's regions
- developing interstate and export markets for specialist dairy products
- developing industry networks and a culture of collaboration.

## **The first steps**

**Queensland Primary Industries and Fisheries is currently exploring options for delivery of training in Queensland through the National Centre for Dairy Education Australia and the Queensland Rural Industry Training Council.**



