Publication: Financial Times (Online)

Date: 15 June 2014

URL: http://www.ft.com/intl/cms/s/0/a26e6508-f21d-11e3-9015-00144feabdc0.html?siteedition=intl#axzz34iUShMif

Page: 1 of 4

FINANCIAL TIMES

June 15, 2014 7:41 am

Indonesian dairy seeks to emerge from shadows of larger producers

By Ben Bland in Malang, East Java Author alerts

Indonesia's best known exports to Hong Kong and Singapore have long been its lowly paid maids. But now, with backing from commodity group Cargill's investment fund, one Indonesian dairy company is pushing to ensure that southeast Asia's biggest economy is better known for its high-quality milk and Mozzarella cheese.

More video

AustAsia, which is one-third owned by Cargill's Black River Asset Management and two-thirds owned by Indonesian tycoon Handojo Santosa, is boosting exports of its Greenfields milk with more than half of its annual sales of 27m litres going to overseas markets like Singapore and Hong Kong. This output is expected to double by the end of next year.

Publication: **Financial Times (Online)**

Date: **15 June 2014**

URL: **http://www.ft.com/intl/cms/s/0/a26e6508-f21d-11e3-9015-00144feabdc0.html?siteedition=intl#axzz34iUShMif**

Eager to exploit the opportunities afforded by Asia's growing appetite for dairy products, AustAsia is investing tens of millions of dollars to expand in China and more than double its farm in Indonesia to 16,000 cows, making it the country's biggest.

This sets it apart from Indonesia's fragmented dairy industry, where 90 per cent of the more than 400,000 dairy cows are owned by smallholders with just a few animals each.

Running its own farms, AustAsia says, gives it an advantage over other Asian dairies with longer, more convoluted supply chains – buying raw milk from multiple small farmers or importing it as powder from Australia, New Zealand or further afield.

Jan Vistisen, AustAsia's head of sales and marketing, says that the company no longer tries to hide its origins now that the brand is established in Indonesia and several key export markets, and sales are accelerating rapidly.

"Three years ago, we didn't have the confidence that people would buy our product if we said it was from Indonesia," he says at the company's farm, up the slopes of Mount Kawi, near the city of Malang in East Java. "Now we're growing very fast and we don't have enough supply. With our expansion plans in Indonesia and China we can put our products into most of Asia."

The 27m litres of milk that AustAsia will produce this year has a retail value of around $65m. Sales will more than double by the end of next year, alongside production.

AustAsia has burnished its credentials with customers by securing distribution deals with Starbucks, which uses its milk in Singapore and Indonesia, and other coffee shop chains that demand traceability and reliability.

It is also moving into branded milk sales in China, where it has been supplying raw milk to major processors such as Nestlé and Mengniu after it exited its joint venture with the latter in 2007.

Publication: **Financial Times (Online)**

Date: **15 June 2014**

URL: **http://www.ft.com/intl/cms/s/0/a26e6508-f21d-11e3-9015-00144feabdc0.html?siteedition=intl#axzz34iUShMif**

Investment restrictions have limited the company's ability to produce its own branded milk in China, but AustAsia is increasing its raw milk production from 250m litres per year to 350m litres by the end of next year. As it seeks to boost margins, it will soon start selling Greenfields-branded milk to coffee shops through a deal with a local processing company.

In doing so, the company is seeking to tap into fast-growing demand for premium milk products from a middle class in emerging Asia that is increasingly concerned about quality and traceability after a series of major health scandals.

The majority of milk consumed in mostly hot and humid Asian countries is long-life ultra-heat treated or made from imported milk powder.

But demand for more expensive fresh milk, as produced by Greenfields, is growing despite its shorter shelf life.

"As consumers become more comfortable with dairy products, they will look to consume more fresh as opposed to recombined milk and there's a growing preference for this in southeast Asia," says Michael Harvey, a dairy industry analyst at Rabobank in Australia.

AustAsia's core focus remains on Indonesia where it makes around 45 per cent of its sales and where the demand for dairy and other consumer products is increasing quickly as incomes rise. Singapore and Hong Kong each account for 20 per cent of sales, with the rest coming from Brunei, Malaysia and the Philippines.

Sales of dairy products in Indonesia reached $2.7bn last year, according to Euromonitor, a market research company. Although demand for milk is growing at around 7 per cent annually, Indonesians only drink around 15 litres per capita per year at present, according to Mr Vistisen. That is far below the Philippines, at 22 litres, and China, Singapore and Thailand, where consumption ranges from 30-35 litres.

The flipside of growth opportunities is competition, with large global dairy producers like Nestlé, Fonterra and Friesland Campina going up against local incumbents like Indofood and Ultrajaya. According to Euromonitor, Friesland was on top with 21 per cent of Indonesia's dairy market, followed by Nestlé with 19 per cent and Fonterra lower down with 6 per cent. Of the local groups, Indofood controlled 14.5 per cent of the market, and Ultrajaya had 8 per cent.

Publication: Financial Times (Online)

Date: 15 June 2014

URL: http://www.ft.com/intl/cms/s/0/a26e6508-f21d-11e3-9015-00144feabdc0.html?siteedition=intl#axzz34iUShMif

Ultrajaya, the only listed Indonesian dairy company, saw its gross profit margin fall to 29 per cent from 32 per cent last year because of pricing pressure and the depreciating currency pushing up the cost of imported milk and materials.

But Greenfields is trying to stay above the fray by fighting for premium consumers, selling one litre of fresh milk for Rp29,000 ($2.50), at least 50 per cent more than its main rivals.

Having established the Greenfields brand and embarked on a plan to expand its Indonesian production from 27m to 65m litres a year, AustAsia is widening its product range, launching a Ricotta cheese, to add to its existing Mozzarella line, and a mocaccino-flavoured milk drink.

The aim is to boost profit margins through developing higher value products but, with 10 litres of milk used to make each kilogramme of cheese, the move entails risks.

Italian connoisseurs will be sceptical, but Mr Vistisen says that the cheeses "match the best products from Europe" and that proximity to the fast-growing market in Asia is a big advantage.

"We're your Asian dairy next door. You don't have to fly the cheese in from Italy, and that's very compelling," he adds.