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GLOBE
VIEWS ON REGIONAL AFFAIRS, BUSINESS AND CULTURE

AGRIBUSINESS

GOT?

milk



Dairy consumption is on the rise, with health-conscious milk lovers beginning to seek out the cream of the crop. But UHT may be with us for a while yet

Text and photography by Sofie Lisby



Haven't you heard? PT Greenfields' milking parlour works overtime to accommodate the farm's 2,850 dairy cows that are milked in groups of 200 three times per day.

AT the end of a long, potholed road halfway up Gunung Kawi mountain in East Java lies PT Greenfields dairy farm. The farm is home to more than 6,000 imported Holstein Freisian cows, a modern milking parlour and a state-of-the-art processing facility that treats about 70 tonnes of raw milk every day. Besides supplying the local Indonesian market with single-pasteurised milk, ultra high



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temperature (UHT) milk, whipping cream and a range of other dairy products, Greenfields exports its products to Singapore, Malaysia, Hong Kong and the Philippines. It's quite the logistical feat, considering the relatively remote location of the farm, but in today's Southeast Asia, milk is big business.

Dairy consumption in Southeast Asia is on the rise. According to *Dairy – Milk for the Asean-6 Tigers*, a report from 2013 by Rabobank on dairy consumption in Indonesia, Thailand, Malaysia, Singapore, the Philippines and Vietnam, regional dairy consumption will outpace the rest of the world – second only to China – by 2020. The report also estimates that by 2020, the Asean-6 countries, excluding Singapore, will consume three billion litres more milk annually than they did in 2012.

"The Asean-6 countries will exhibit annual growth rates in dairy consumption that are well above the world average," said Michael Harvey, senior analyst, food and agribusiness research and advisory at Rabobank International and author of the report. "Within the Asean region, the fastest rates of growth are expected in Indonesia and Vietnam."

While increasing, the region's per capita dairy consumption is still low in comparison to the rest of the world and that leaves huge potential for growth. The current yearly consumption rates across the region vary greatly and are dwarfed by those in Japan, the US and Europe (see graphic below).

Although dairy markets in Asean-6 differ, they also share some characteristics that support strong growth in dairy consumption. These markets are all experiencing rapid urbanisation, which enables dairy producers to reach more consumers. Technological advancements improve distribution networks and the spread of convenience stores



White out: one minute after leaving the cow, the milk is cooled to 4°C before being transported to the processing plant

means fresh milk and milk products are readily available.

"The long-term drivers of dairy consumption are fairly consistent across the Asean economies," said Harvey. "Bustling consumer markets underpin demand for dairy products. Consumers are urbanising, and have growing disposable incomes, which means [greater] demand for dairy. Not only that, but consumers have a greater appreciation for the benefits of consuming dairy products."

Rising income levels combined with young and expanding populations in most of the Asean-6 countries supports

a growing number of middle-income consumers who are increasingly aware of the importance of a healthy lifestyle. Government programmes promoting the benefits of dairy consumption are also present in all of the Asean-6 countries and children are introduced to dairy at an early age through school initiatives.

Another big driver of dairy demand is the increasing presence in the region of Western fast food and coffee chains, according to Jan Vistisen, head of marketing and sales at AustAsia Food, the Singapore-based sales, marketing and distribution arm of PT Greenfields.



Per capita dairy consumption per year





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Thick and fast: PT Greenfields is welcoming an additional 1,200 Holsteins here this year

"Coffee chains such as Starbucks and Coffee Bean & Tea Leaf spend as much money on milk as they do on coffee, and the quantities of fresh milk they consume are enormous," he said. "Similarly, burger and pizza chains have great demand for cheese products."

However, secondary consumption accounts for only part of dairy's growth - direct consumer demand is also increasing. "Over the past three years, we have seen a general increase in sales of more than 10% for all dairy products including chilled and shelf-stable UHT milk," said Mui-Kok Kah Wei, director of purchasing and merchandising at NTUC FairPrice, the largest grocery retailer in Singapore. "Greater awareness of the benefits of drinking milk is one probable reason for the increase in dairy consumption."

It is not just the volumes that are increasing, however. Buying patterns are also changing. "Apart from rapid growth, we are seeing the emergence of

"We are seeing the emergence of a more sophisticated dairy consumer across many Asean economies"

Michael Harvey, Rabobank International

a more sophisticated dairy consumer across many Asean economies," Harvey said. "Consumers are not just looking for a protein source. They want quality, convenience and value for money when making purchases of dairy products."

One of the ways in which buying patterns change is in the move from recombined or reconstituted milk, which is mixed from milk powder and fat, to fresh milk. "Consumers likely move up the value chain," said Harvey. "A lot of

the milk that has been sold in Southeast Asia in recent decades has been imported, recombined milk, but as income levels rise and the demand for quality increases, people commonly move to UHT-style milk and even move on to fresh milk."

UHT is not disappearing from the shelves anytime soon, however. According to Wei, NTUC FairPrice has seen demand for both fresh milk and UHT milk increase year on year, with UHT milk seeing a faster rate of growth in the past year. She says the retailer has also noticed a trend of customers seeking out both UHT and fresh organic milk, as well as cow's milk alternatives such as rice milk, grain milk, almond milk, soy milk, goat's milk and lactose-free milk.

"It's going to take many more years before there is no more UHT in Asia," said Vistisen. "It's looked at as a staple food but I think the growth and excitement in the business is going to be in the fresh milk segment. UHT will have stable or slow growth moving forward but fresh milk will grow much faster. Once people are used to buying fresh milk they are more likely to buy other fresh milk products such as cheese and yoghurt, so we see a lot of potential in the fresh milk segment."

While demand is surging, supply is lagging and although domestic dairy production has increased in most Southeast Asian countries in recent years, the region still faces some unique challenges to effective dairy production.

"Many economies in Asean have local production but there are some structural challenges that create a deficit that needs to be filled by imports," said Harvey. "While the challenges will vary from country to country and region to region, some of the common issues we're seeing include a lack of access to high quality feed and productive land, issues with operations and animal husbandry, as well as shortages of capital to invest into the farm sector."

PT Greenfields has overcome many of these challenges. The farm will be increasing its number of cows to 8,000 by the end of the year and a new farm, complete with a processing facility, is in the works on the other side of the



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So fresh: between 40% and 45% of the fresh milk produced at PT Greenfields is sold locally in Indonesia. The rest is shipped to Singapore, Malaysia, Hong Kong and the Philippines.

mountain. When completed at the end of next year, the new facility will house another 8,000 cows. Combined, the two farms will produce more than 70 million litres of raw milk per year.

“We take the long-term view on the demand for milk and dairy production in Southeast Asia,” said Vistisen. “Dairy consumption in Indonesia, Singapore, Malaysia and the Philippines is projected to

increase 6-8% per year going forward, but these countries won’t be able to produce enough additional milk to meet demand. So if you’re a large milk producer and processor, this is where you want to be.” ■