



# **BUILDING COMPETITIVE ADVANTAGE THROUGH UPSTREAM**

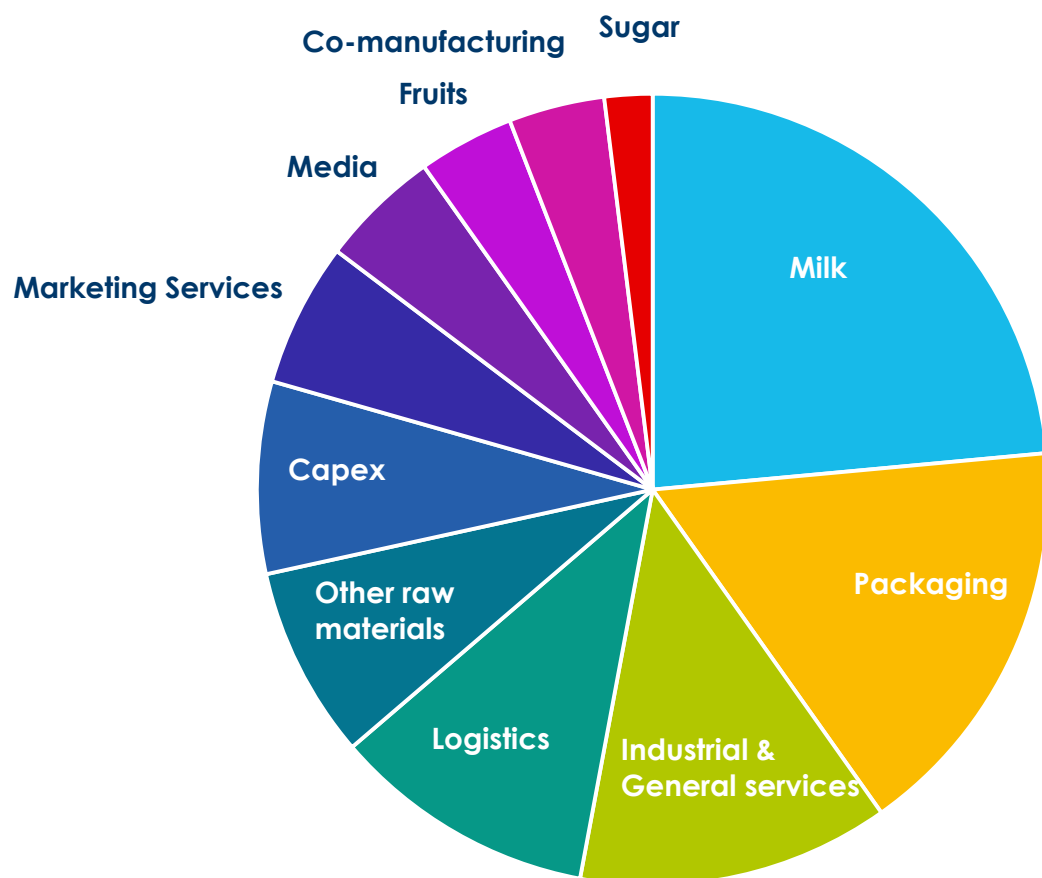
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# BUILDING COMPETITIVE ADVANTAGE THROUGH UPSTREAM

- + Sourcing landscape for Danone: what is at stake ?**
- + Milk focus**
- + Beyond milk**
- + Conclusions**

# SOURCING LANDSCAPE FOR DANONE

**€15 Bn spend**



## Milk:

- + 7.5 billion liters of milk / year, 1,600,000 cows, 120,000 farmers, 5 million ha...
- + 15% of our milk volumes are sourced from subsistence farms (below 10 cows)  
~50% from family farms (10-100 cows)  
~35% from industrial farms (above 100 cows)
- + 70 billion liters of water / 70 million tons CO<sub>2</sub>
- + Over 500,000 people depending on milk foot print
- + Main environmental and social footprint of Danone

# MILK FACTS

+ WW Milk production of  $\approx$  620 million tons

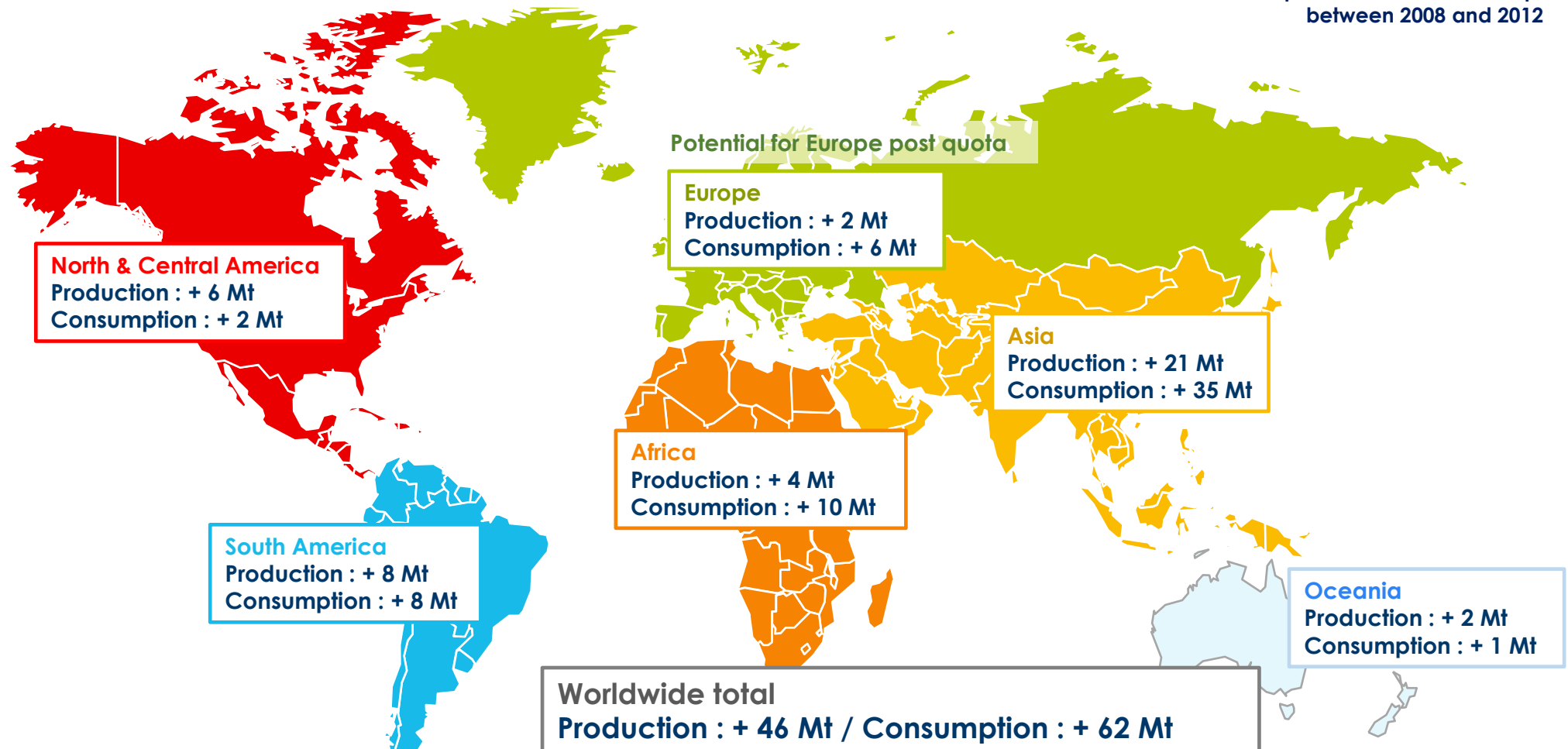
+ Biggest producing regions

Top 10 Countries	% WW production	% Consumption	Export/Import
EU	23%	21%	2%
United States	15%	13%	2%
India	9%	9%	0%
China	6%	8%	-2%
Russia	5%	6%	-1%
Brazil	5%	5%	0%
New Zealand	3%	1%	2%
Argentina	2%	2%	0%
Ukraine	2%	2%	0%
Mexico	2%	3%	-1%
Top 10 Countries	72%	69.5%	

# MILK PRODUCTION IS GROWING RELATIVELY SLOWLY, MILK CONSUMPTION IS GROWING FASTER

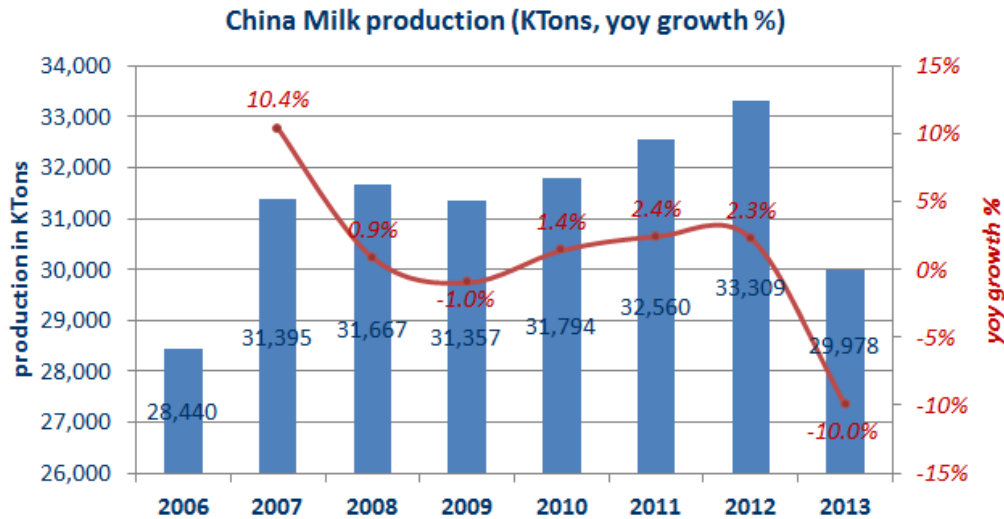
Asia is growing fast while Europe and North America are stagnating

Cow's milk production and consumption evolution  
between 2008 and 2012



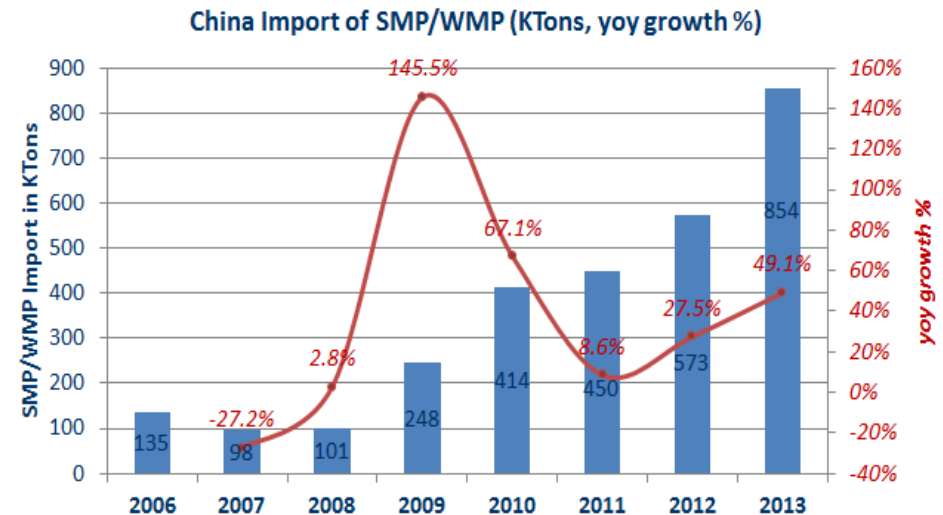
Mt : million of tons  
Source : CNIEL, IFCN, Euromonitor

# CHINA MILK PRODUCTION & IMPORT SINCE 2006

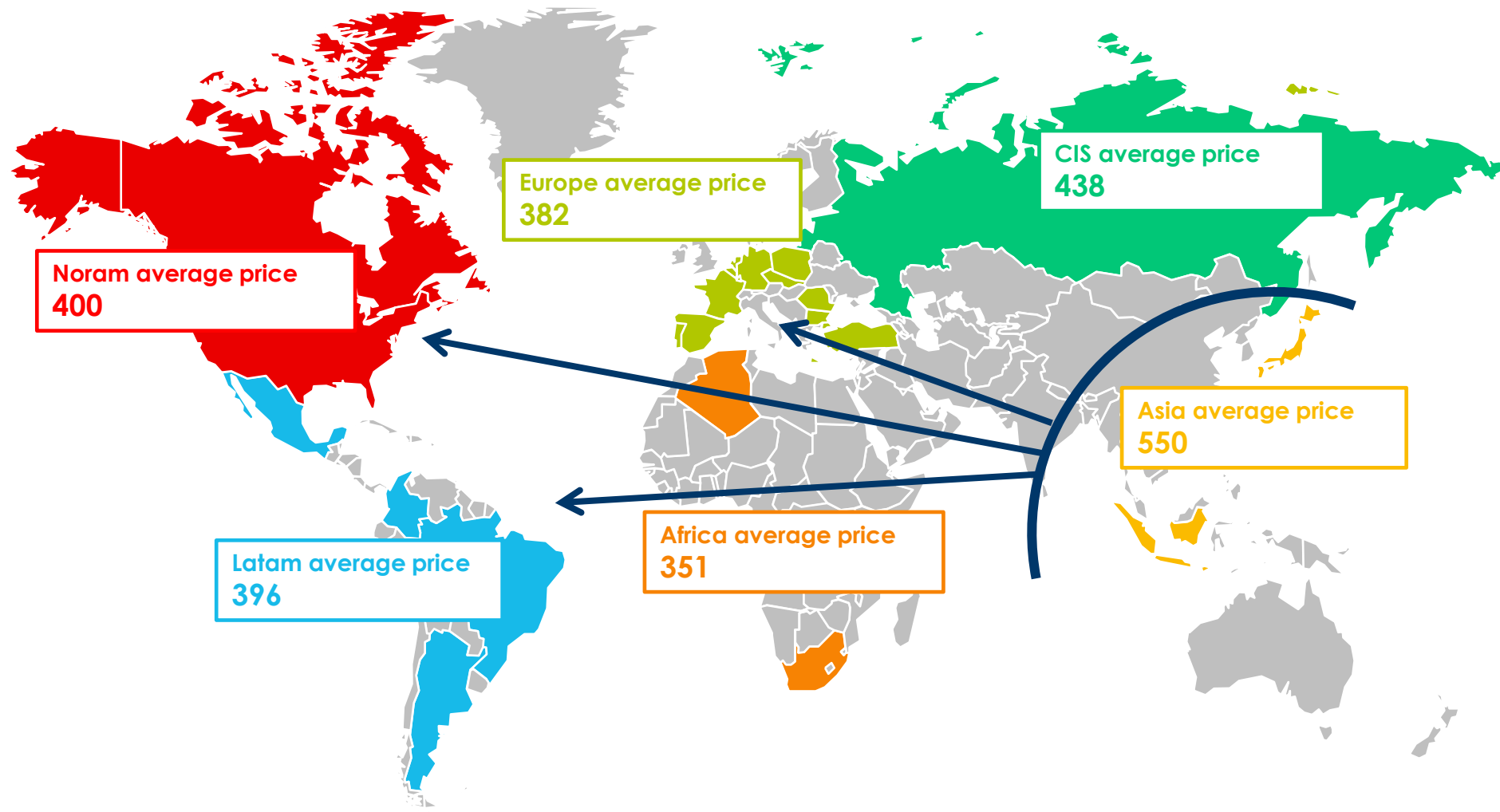


- + **Very strong Import increase since 2007**  
(from 4% to 30% of total Milk production)
- + **Record Import uplift in 2013**  
from Milk production drop and continuous Dairy demand increase

- + **Milk production crisis since '07/'08**  
following melanine crisis
- + **Record Milk production drop in 2013**  
(mainly from S2'13)

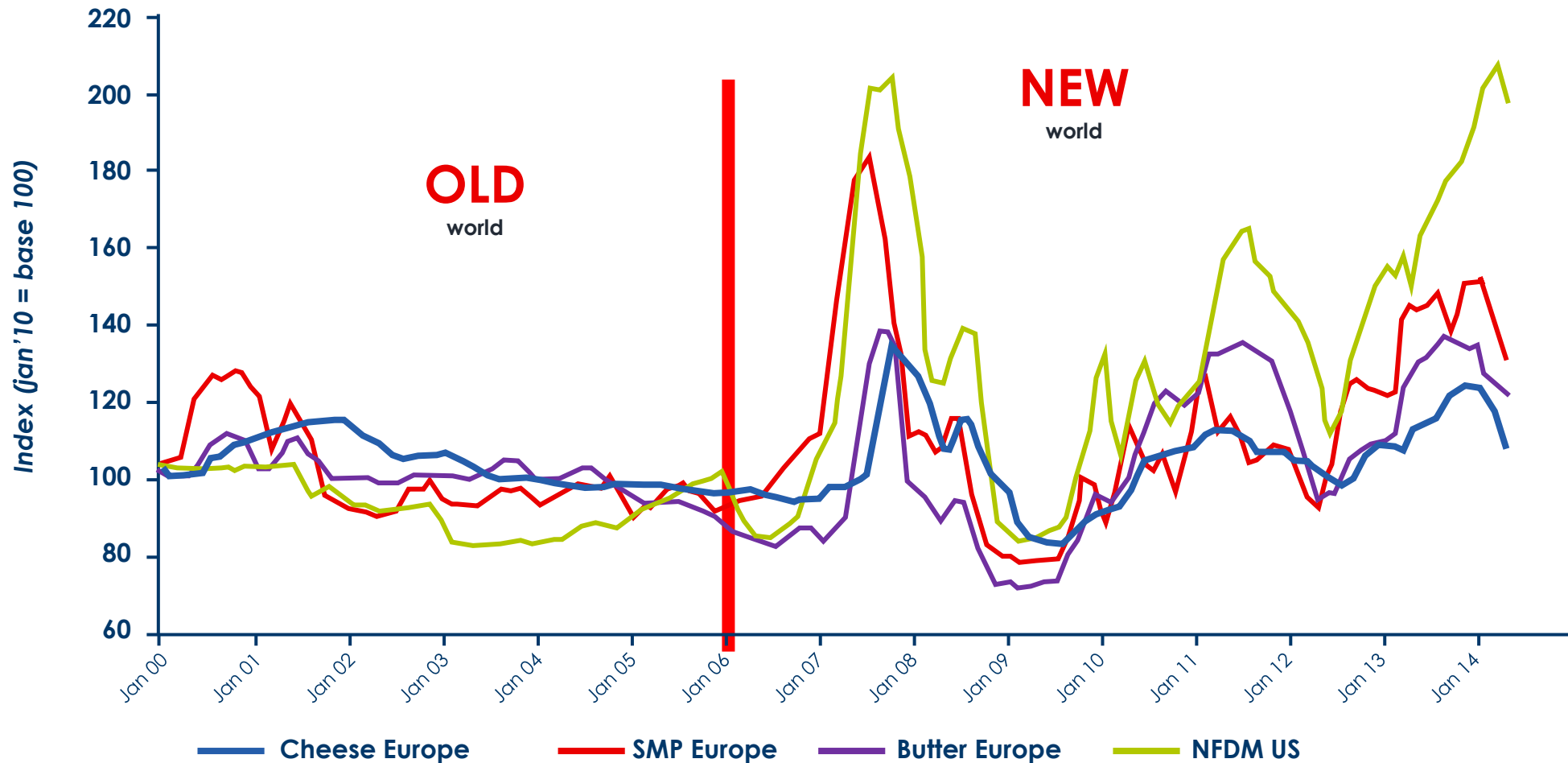


# MILK PRICE BY COUNTRY / REGION (DANONE FARMGATE)



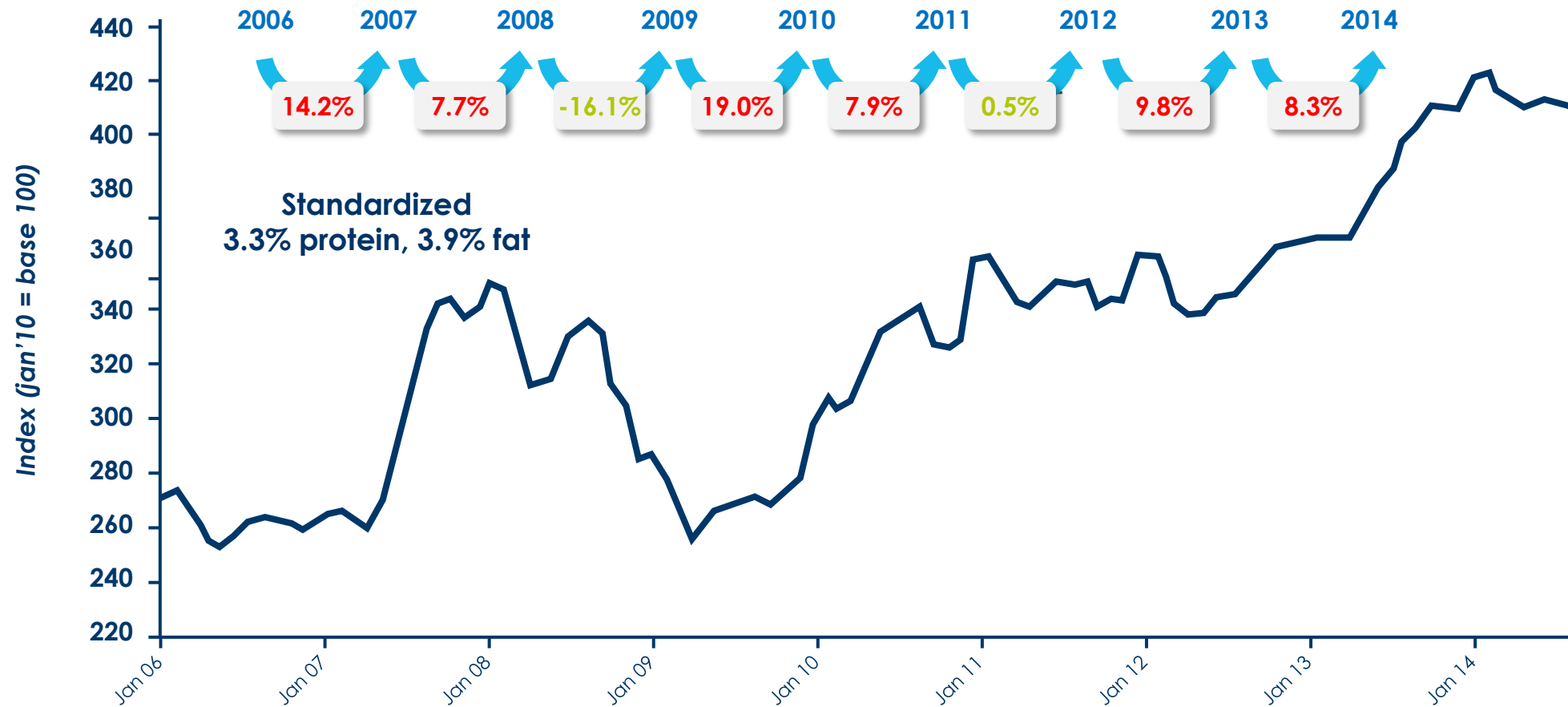
# MORE AND MORE VOLATILITY IN DAIRY COMMODITIES PRICES

## Dairy commodities price evolution since 2000



# 2 YEARS IN A ROW OF HIGH MILK PRICE INFLATION : ≈10%

## Danone Farmgate price (€/ton)





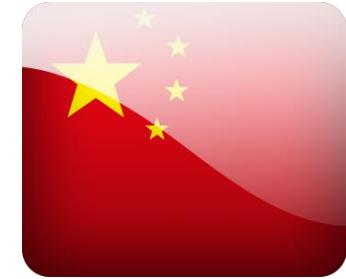
# MILK FACTS

- + **Market volatility increasing yoy swings up to 10-15%**
- + **Driven by global demand dynamics despite being a “local” market**
- + **Increasing impact of Asian demand, notably China having pushed up prices**

# MACRO TRENDS

## + China consumption per capita lagging western world

- ▶ Expected to increase faster than ability to produce in China
- ▶ Chinese demand for milk components will be a KEY driver of WW balance and pricing



## + Globalization of main actors in milk



## + End of quota in 2015 in Europe

- ▶ Will allow faster growth potential but uncertain as to how quickly the supply will grow – attention boom and bust



# SUMMARY OF MARKET OUTLOOK

## + Milk prices inflationary in the mid term

- ▶ Short term volatility will remain due to low WW stocks, and difficulty to synchronize milk production to immediately match demand



## + Farming: to evolve from traditional artisan approach to a clear professional milk producer

- ▶ Needs investment, training, business planning
- ▶ Farmers looking to grow (especially Europe)



## + Opportunity to create a new milk sourcing model



# OPPORTUNITY TO TRANSFORM OUR SOURCING BASE

Secure access  
to milk

Quality and food safety

Ensure cost  
competitiveness

Bring greater predictability  
for all actors in the value  
chain

- 
- + **Common growth agenda**
  - + **Move to a cost performance model**

# EXAMPLE OF DANONE EGYPT

## Secure milk supply through 2 distinct routes

### + Milk collection centers – small farmers 2-3 cows

#### Improve Livelihood



#### Job Creation & Women Empowerment



#### Model Sustainability



#### Improve Quality & Traceability



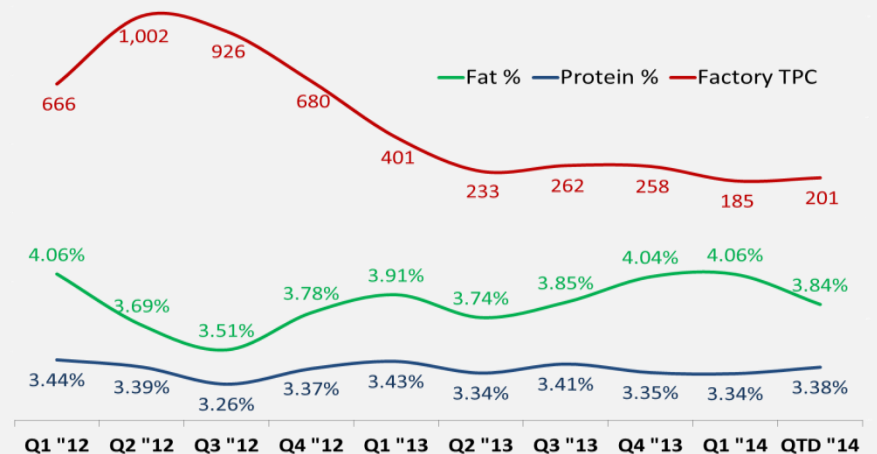
### + Build own Farm capabilities - DanFarm

#### Key Figures

- Location: **Nubaraya** (150 km from Cairo)
- Operation start: **July 2011** (imported heifers NL)
- Milk parlor capacity: **3,000 cows**
- 2,490 milking cows**
- Total herd: **4765 animals**
- 120 employees**



#### Quality



# EXAMPLE OF NORTH AMERICA

## + Key facts Dannon US:

- Growth of +10% in the past 5 years
- Product mix: milk needs increase by +15% in 5 years
- Milk price volatility impact P&L by -25 million \$ YoY



Shift sourcing model from market base to cost performance base

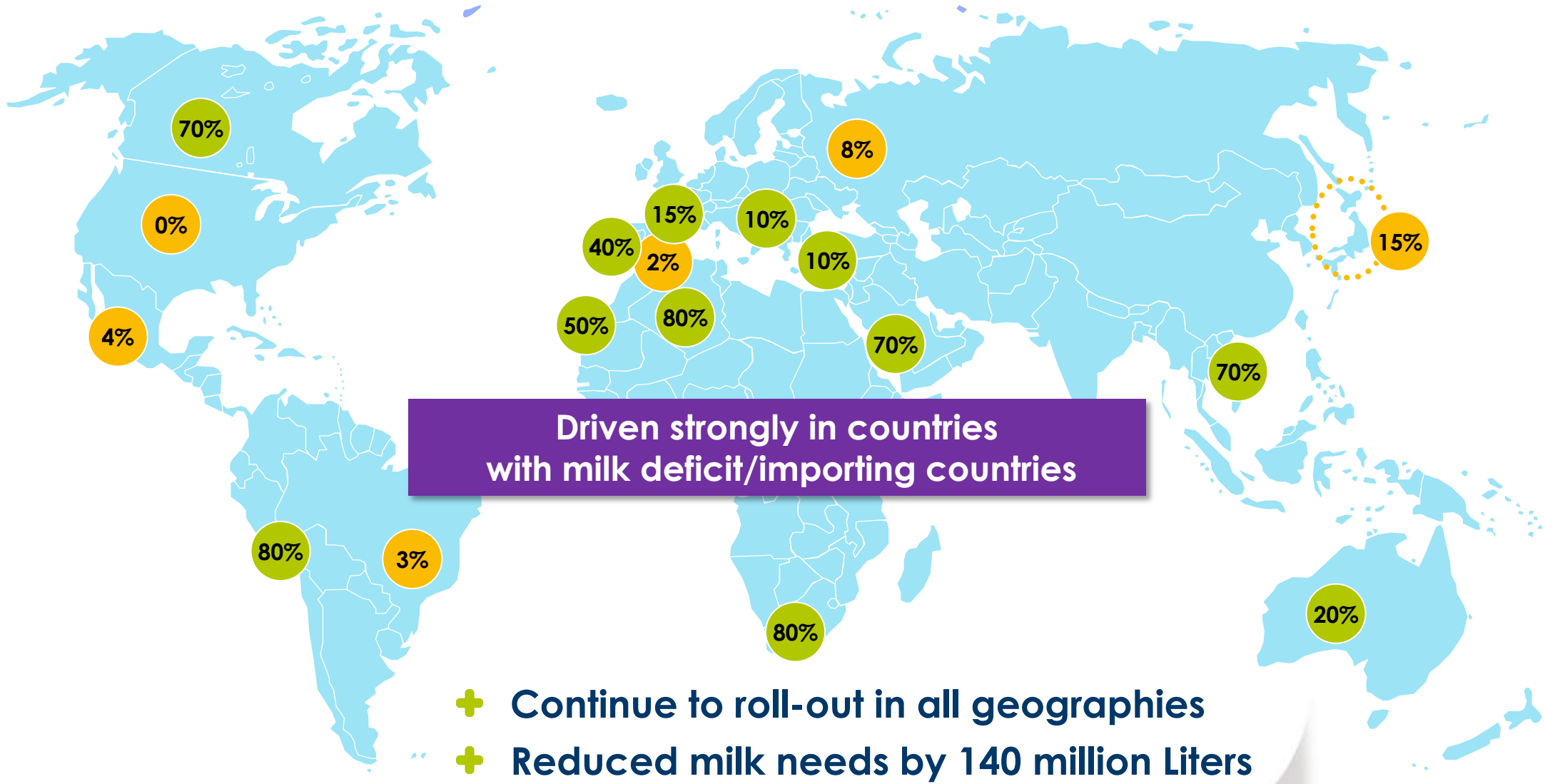
## + 1 pilot farm: move to pricing based on the real cost of producing milk → Cost performance model

- Enable to hedge on some feed components eg corn
- Enable to improve performance: feed & yield

## + More predictability, less volatility

## + 20% of US milk already in this type of model

# REDUCE OUR DEPENDENCY ON MILK PLATINUM DEPLOYED IN 20% OF WW VOLUMES



# HOW TO LEVERAGE THE SIZE OF THE GROUP FOR WW SOURCING BEYOND MILK...

Category
Milk
Packaging
Industrial & General services
Logistics
Other raw materials
Capex
Marketing services
Media
Fruits
Co-Manufacturing
Sugar



# WHAT IS DANTRADE ?

## + Sourcing Company

ORGANISATION

PROCESSES

SYSTEMS

RESOURCES & SKILLS



To leverage Group WW size

To secure sourcing

To build sustainable  
competitive advantage

# DANTRADE BENEFITS?

01

Leverage size & increase competitiveness

- + Simplification
  - + Standardisation
  - + Harmonisation
- both for Direct & Indirect



02

Efficient upstream buying

- + 2<sup>nd</sup> Tier: resin, fruits, spare parts, animal feed, heifers



03

Reduce volatility & secure access to key materials

- + MI & MRM
- + Systems to hedge
- + Invest / co-invest building capabilities

04

Develop innovation projects to create uniqueness

- + Innovation technologies
- + Co-develop
- + Make sourcing sustainable and unique

# CONCLUSION

**+ Upstream: opportunity to build competitive advantage along**

**Secure growth / access key materials**

**Sustainable inside: environmental and social connexion to consumers**

**Competitive solution pooling - leveraging our ww size**