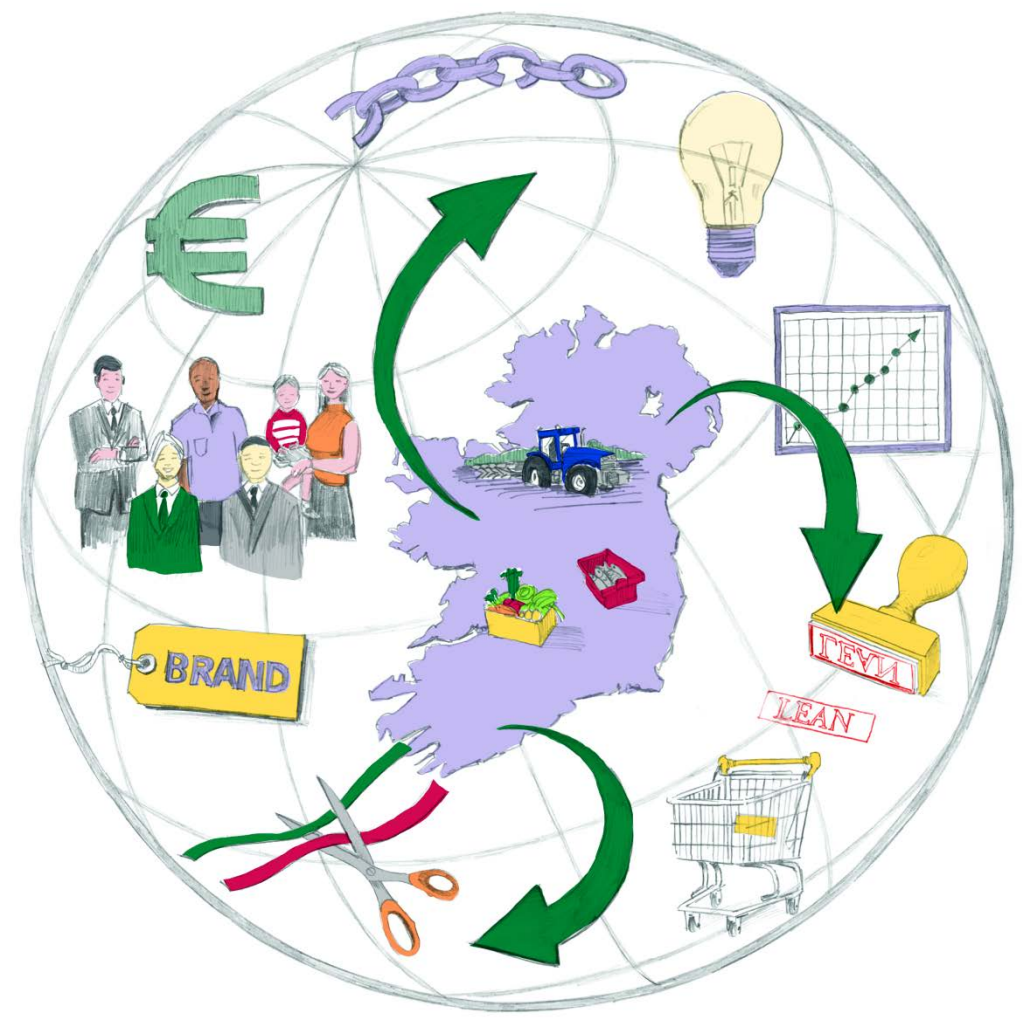


# Food 4.0

## The dynamics of supply & demand

2012





# Contents

	Page
<b>Executive summary</b>	3
<b>The dynamics of the global food sector</b>	5
Global population explosion	6
The global market place	7
<b>The dynamics of demand</b>	11
Consumer trends	12
The decision to invest in a brand	18
<b>The dynamics of supply</b>	20
The supply chain dynamic	21
Prices on the rise	25
Productivity	28
Creating a culture of smart innovation	31
Access to capital – a competitive advantage?	34
Red tape and green tape	36
<b>Our Food and Beverage team</b>	37
<b>About Grant Thornton</b>	38
Sources	39



## Executive summary

**Business decisions for growth are rarely black and white. Dynamic organisations in the food and beverage sector (F&B) know they need to apply both reason and instinct to decision-making.**

The world is in a state of constant change. Global population is forecast to grow by almost 30% to reach 9 billion by 2050. Consumers are eating a more varied diet, and greater quantities of food. This presents the sector with the twin challenges of significantly increasing food production, while managing concerns about the agricultural footprint on the environment.

**Consumer insights are key.** Understanding how core purchasing decisions are shaped by relative prices, incomes, age, preferences and technology will be the ‘new normal’ in which clever data capture and analysis will be as important as the manufacturing process of the product itself.

At Grant Thornton, we believe the Irish F&B sector is at an inflection point. 85% of Irish F&B output is exported, with many of our export markets experiencing austerity. Competition, therefore, for share of wallet is intensifying. Today’s consumers are:

- eating a more varied diet;
- increasingly more frugal and cost-conscious;

- living longer, with a rise in a more fitter, more active older segment;
- interested in value, convenience, health and wellness and provenance; and
- using technology to change how, when and where they shop.

The Irish F&B sector has experienced extremely impressive export growth, from €7.1 billion in 2009 to €8.9 billion in 2011. Given such a stellar performance, how appropriate is it to begin a debate on the need for change?

There are many fundamental changes occurring in the global food supply dynamic particularly in relation to commodity prices, regulation and access to funding. Productivity improvements and technology led innovation are changing the production dynamic across all sectors.

This changing dynamic is causing many businesses, countries and international organisations to reflect on how food is sustainably produced, to secure supply to meet the needs of tomorrow’s consumer. There is however no simple or single answer to the global challenges of feeding the world’s expanding population, doubling food production and creating a secure and sustainable supply chain.

Through conversation, joined up thinking and working together, Ireland has a unique opportunity with its rich natural resources and deep knowledge base to be a global leader in sustainable food production.

At Grant Thornton, we believe the definition of sustainability goes beyond the “greenness” of food production, to include the equally important need to share the financial reward for effort and risk across all participants in the sector. Achieving sustainability will involve fundamental changes in productivity, smart innovation, pricing transparency, co-operation and alignment across the Irish food supply chain.



**Ciara Jackson**  
**Director, Head of Food and Beverage**  
**Grant Thornton**



# The dynamics of the global food sector



Global population explosion



The global market place

# Global population explosion



## Key questions

- how will the world feed 9 billion people by 2050?
- will agricultural land be used more productively and sustainably in order to double agricultural output and feed the world?
- how can food waste levels - estimated to be 30% of the world's food output - be reduced?
- how many of the world's population will become vegetarians?
- is it time to start thinking about climate change and food scarcity as one issue?

The global population is increasing, recently tipping the 7 billion mark. The need to double agricultural output by 2050 to feed a projected world population of 9 billion is likely to be one of the great challenges of our time. Unlike the past, demand must be met on a planet where little new land is available for farming, water supplies are tightening, temperatures are rising, weather is becoming more erratic and the food system is showing serious signs of instability.

The burgeoning middle class in emerging and growth markets, coupled with corresponding income rises, has led to increased food demand, particularly in China and India, creating a dietary shift away from cereals to meats and vegetables. Volatility in food prices has corresponded with growing concerns about the prospects of feeding the world's population. Sudden, large and most particularly unexpected food price increases have made it difficult for households to adjust, eroding consumers' purchasing power, reducing calorie intake and pushing many below the poverty line.

“We can look at the world population in three groups. We have a 1/3 of the population that are food insecure, we've got a 1/3 that are basically ok, and a 1/3 that are probably dealing with obesity. From a nutritional perspective, each one is absolutely important to address, but the approaches we have to take and the issues that we have to struggle with are rather distinct.”

**Bob Jolly, Professor Emeritus**  
Iowa State University of Science & Technology

## Waste

Approximately 30% of the world's food production is wasted, with the global amount of food lost or wasted each year equal to more than half the world's annual cereals crop. Western populations waste nearly as much food each year (222 million tonnes) as is produced in sub-Saharan Africa (230 million tonnes).

## Food for eating

Today, approximately half of the world's corn and 90% of the soybean crop are used to feed livestock. Millions of acres of arable land used to grow animal feed leaves less land available to grow the wide variety of staple crops, vegetables and fruits necessary for a balanced diet.

**Reason...2 billion more mouths to feed**



**Instinct...look beyond the apparent**



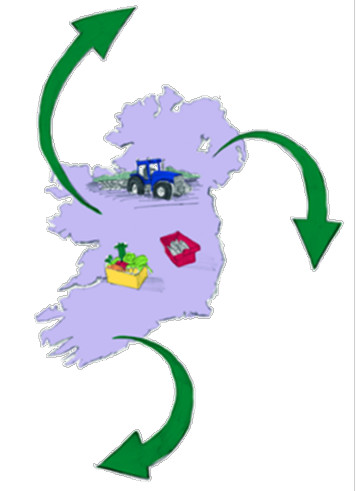
## The global market place

### Key questions

- how will exports be financed?
- have you carried out preliminary market research on the country or region you are considering exporting to?
- does your product fit with local cultures, tastes, lifestyle choices and price expectations?
- can your company retain its competitive edge overseas?
- is your business scalable?
- is your company's organisational structure aligned to meet export challenges?
- will you get paid?
- have you identified secure supply and distribution channels?
- is your product patented/trademarked? What is the strength of the Intellectual Property (IP) regime and the regulatory environment in your export country of choice?

### Exports

The value of Irish F&B exports increased by 12% (or €1 billion) in 2011, to reach an all-time high of €8.85 billion. The sector employs in the region of 230,000 (120,000 directly on farms, 60,000 in food processing and 50,000 in ancillary and support services) people. 1 in 8 jobs in Ireland are linked to the F&B industry. The sector accounts for 2/3's of exports by indigenous businesses in Ireland, and unlike the Foreign Direct Investment sector, which is primarily foreign-owned, its success has a significant economic multiplier effect in creating jobs due to it being a major purchaser of local raw materials and services - €7.9 billion spent purchasing Irish goods and services in 2011. Every extra €100 of food output is putting €60 at minimum back into the Irish economy. These very deep linkages to the rest of the



economy mean the F&B sector's success is a truly Irish one, with its ambitious export growth targets of €12 billion by 2020 expected to create 30,000 new jobs domestically.

Ireland's F&B industry has approximately 600 food and beverage companies throughout the country that export 85% of food and seafood to more than 160 countries worldwide. In 2011, the value of food and drink exports grew two and a half times faster than exports from the economy in general and accounted for 10% of exports and 8% of GDP.

### The importance of growing underlying volume and understanding the impact of price changes

'A rising tide raises all boats'. While growth is always welcome, in 2011 it is estimated that 25% of export growth was driven by volume. Three quarters of growth in 2011 was down to price growth, which was due to a combination of factors – some within our control, most arguably were not.

An interesting comparison can be made to the "on trade" in the licensed industry where the volume of consumption did not rise for most of the last decade. This material change in the business dynamic was masked by price inflation. However when consumer behaviour changed from 2008 onwards impacting both price and volumes, the sector was dealt a blow that it is still struggling to recover from five years later.

In our experience any discussion of top-line growth must also consider the rise in input costs and the ability to turn top line growth into hard cash.

The old adage “Turnover for vanity, profits for sanity but cash is king” is relevant when trying to understand our international performance. Working capital to fund growth is also crucial.

Table 1 shows the breakdown of exports by main product type

**Table 1** Irish food and drink exports

	2011 €m	2010 €m	2009 €m
Dairy products & ingredients	2,665	2,273	1,960
Beef	1,805	1,573	1,397
Prepared foods	1,540	1,375	1,296
Beverages	1,220	1,152	1,060
Pigmeat	395	336	289
Seafood	420	371	315
Edible horticulture & cereals	210	193	198
Poultry	210	203	183
Sheepmeat	180	163	164
Live animals	205	245	213
<b>Total food and drinks</b>	<b>8,850</b>	<b>7,884</b>	<b>7,075</b>

Source: Central Statistics Office

While the UK remains the primary destination for Irish F&B exports (41%), followed closely by the rest of the EU (34%), what’s really interesting are the growth expectations looking East. An increased focus is being placed on emerging markets by both government and industry.

## Population explosion – harvesting the export opportunity

“By 2030, the world will need 50% more food, 30% more water and 50% more energy to meet the lifestyle aspirations that consumers in the developing world aspire to. Rapid economic development and the urbanisation of populations mean consumers in the developing world are demanding the kind of protein-based diets - involving dairy and meat - that we take for granted in Europe.”

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**Simon Coveney T.D., Minister for Agriculture, Food and the Marine**

Recent trade missions to China are opening up doors for the Irish dairy sector. The announcement by Kerry Group to enter into a partnership agreement with Beingmate of China for the supply of Irish dairy ingredients for infant nutrition applications in China is indicative of the level of opportunity.

The dairy sector is also seizing opportunities in Africa:

- Glenisk have just announced a partnership with Gorta to develop a dairy processing plant in Kenya’s Rift Valley.
- the Irish Dairy Board has commissioned a new dairy packaging plant for its Kerrygold brand in Algeria.

“The Indian growth trajectory, coupled with the more globalised tastes of the domestic population, has seen an explosion of foreign brands in India. While chains such as Nature’s Basket are known for their niche product range, even mid-price supermarkets have begun to stock international cuisines from pastas to blue cheese and beyond. In addition, there are a number of related areas such as dairy derivatives and agri-technology where opportunities are constantly emerging.”

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**Antra Bhargava, Ireland Asia Group**  
**Grant Thornton**

Irish companies, and companies based in Ireland, are constantly demonstrating both strategic vision and export capability:

#### Invest for success

Irish Distillers Pernod Ricard invests €100 million in Middleton Distillery, Co. Cork

William Grant & Sons announces a €35 million investment in Tullamore Dew that will bring whiskey production back to the town for the first time since 1954

Kerry Group plc to create global technology innovation centre in Kildare employing 900 staff

Investment of dairy processors post-2015

#### Creating avenues of opportunities

UCD signs memorandum of understanding with a leading Chinese producer – Dairy United

Renewed optimism for Irish beef in the US, with the re-opening of its market

Protein in emerging markets – pork driving Chinese inflation – CPI (Consumer Pork Index)

#### Inspiring success stories

Jim Beam acquired Cooley Distillery for €73 million

Cully and Sully acquired by global organic food group – Hains Celestial

Irish whiskey recorded double digit growth in the US, and recently surpassed single-malt Scotch in US sales volume; Ireland produces 50% of all global cream liqueur

Rosderra meats – Asia sales account for 20% of revenues, strategically positioned to grow in China - co-operation with Giant Yurun Group in Nanjing, China

Connolly Red Mills secured first licence to import horse feed into China

The Jelly Bean Factory exports 97% of its products to over 55 countries

Virginia Foods is a leader in the Irish health and wellness drive – developing and supplying health foods and gluten-free bakery mixes to the retail sector in Ireland, UK, Germany and Portugal

Silver Pail Dairy supplying ice-cream cakes to the Middle Eastern market

Flahavan's exports to continental Europe, the Middle East, US and India

Silverhill Foods exports to all European countries, the Middle East, Far East and China supplying retailers, wholesalers, as well as top-end restaurants

Largo Foods, with an office in Shanghai, ships 7-8 containers of crisps to China each week

Sustainability, food safety and marketing initiatives, such as Bord Bia's Origin Green project, are expected to further differentiate Ireland's food abroad. To be truly opportunistic around the world's food insecurity and sustainability challenges, a new joined-up way of thinking throughout the supply chain, and marketing and promotion of Irish agri-food produce is the way to leverage the export opportunity.

*“We've taken something that is a basic commodity product and we've upped the standard. If you're going to go out there on the world stage and you're going to compete with a commodity product then forget it-you're going to get eaten up. You've got to up your game and up your quality.”*

**Richard Cullen, Joint Managing Director  
The Jelly Bean Factory**

#### Human capital

Successful export businesses continue to re-orientate their skillsets and talents to drive trade and international sales. Export focused programmes at both government and industry level encourage graduates, staff, and management to think globally when making business decisions and developing business models and forecasts. F&B businesses will increasingly invest in building up management skills in strategic export business planning, export sales planning and market research. Human capital has never been more important as decisions made at early stages of exporting and internationalisation will be vital to breaking into new markets.

Skillsets which support an organisation's export strategy include:

- foreign language proficiency and cultural awareness;
- international marketing;
- global and international management;
- international sales;
- logistics and distribution;
- customer service/support;
- design and development; and
- international accounting, legal and taxation.

### The mergers and acquisitions (M&A) landscape

The continued Eurozone crisis and slowdown of emerging markets has led to a fall globally in M&A deals of 16% for the year-to-date. Transactions in the Irish food sector have followed this downward trend. The Grant Thornton International Business Review 2011 found that 36% of Irish companies intended growing their business via an acquisition over the next three years, the same as in 2010.

Furthermore, Grant Thornton's 'Where is the Smart Money going in Food & Beverage?' identified that both large corporate acquirers and private equity houses see the food sector as extremely investable. Mergermarket have reported that levels of due diligence have increased by 20% year on year for 2012. This combination of factors strongly suggests that there is pent-up demand within the market.

**Table 2** Transactions in the market - Food/Food services H1 2012

Acquirer	Country	Target	Country	€m	Date
Greencore Group	Ireland	H.C. Schau & Sons Inc.	US	14	Jun
BWG Foods	Ireland	Morris Brothers Ltd.	Ireland	N/D	May
The Hain Celestial Group	US	Cully & Sully Ltd.	Ireland	N/D	May
Dawn Meats Group	Ireland	West Devon Meat Ltd.	UK	N/D	Apr
Greencore Group	Ireland	Marketfare	US	27	Apr
Total Produce Plc	Ireland	Frankort & Koning (50% stake)	Netherlands	20	Mar
Keystone Foods LLC	US	Walsh Family Foods Ltd.	Ireland	N/D	Feb
Kepak Group	Ireland	Eatwell (UK) Ltd.	UK	n/a	Jan
Monaghan Middlebrook Mushrooms	Ireland	Walkro International	Netherlands	N/D	Jan
Beam Inc	US	Cooley Distillery Plc	Ireland	73	Jan

N/D non-disclosed

Source: Mergermarket 2012

Despite the slowdown in deal volume, there has been a lot of activity taking place:

- following the success of Greencore Group's acquisition of the British company Uniq, they acquired H.C. Schau & Sons and Marketfare, both US-based companies. Having established a foothold in the US in 2008, such a strategic move will no doubt assist Greencore Group in expanding operations in the States.
- Glanbia plc acquired Californian-based Aseptic Solutions for €50 million in July 2012, which was funded through existing debt.
- the Irish Dairy Board sold its Belgian cheese packaging business to Dutch dairy co-operative Royal Friesland Campina, although no deal price was disclosed.
- Kerry Group plc has been very active during Q3 2012, with a number of bolt-on acquisitions in India, Australia, Argentina and the US.
- in July 2012, the Irish Dairy Board acquired The Cheese Warehouse, a UK-based cheese ingredients company.

Whilst the majority of deals in the food services sector have involved an overseas acquirer or target, there has also been some consolidation within the Irish market in the past year.

- in late 2011, Boyne Valley purchased the Irish division of Premier Foods for €41.4 million. This strategic acquisition added household brands such as Gateaux cakes, Erin Soups, Chivers Jams and McDonnell's to Boyne Valley's extensive portfolio.
- in May 2012, BWG purchased Donegal-based Morris Brothers for an undisclosed sum. The acquisition will allow BWG to expand wholesale operations in the west and north-west of the country, as well as strengthening the overall buying power of the group.

**Reason...** take your products to new markets



**Instinct...** invest now for the long-term

# The dynamics of demand



Consumer trends



The decision to invest in a brand

## Consumer trends



Successful companies know their customers by capturing market intelligence, crafting persuasive arguments, tracking and anticipating changing consumer needs and preferences, and engineering the right value proposition for the right consumer segment.

### Key questions

- how has the recession impacted consumer spending patterns?
- is there a need for innovation and new product development to be more focused on the needs of different generations?
- do you use market research on the latest demographic, social and economic trends to inform your business strategy?
- how will the expanding populations of emerging markets impact your business?

“Understanding how core purchasing decisions are shaped by relative prices, incomes, age, preferences and technology will be the ‘new normal’ in which clever data capture and analysis will be as important as the manufacturing process of the product itself.”

**Ciara Jackson, Head of Food & Beverage**  
**Grant Thornton**

With the advent of e-commerce and m-technology, F&B companies will have to adapt their marketing strategy both physically (e.g. in-store promotions, traditional

advertising mediums) and online if they are going to continue to trade through short-term challenges to grow profitably and sustainably in the long-term.

### Consumer demographics

Across Western society, an ageing population combined with low fertility rates is creating significant challenges and opportunities in the marketplace. This demographic shift will require entirely new approaches on the part of both policy makers and F&B business leaders. Western governments will have to tackle societal issues (e.g. rising healthcare expenses and older-age dependency ratio), while F&B business leaders will need to be opportunistic when devising new product strategies that cater to this lucrative demographic (e.g. develop new health and wellness products). By 2060 it is expected that 30% of EU citizens will be aged 65 or over.

Europe at best is expected to face a sustained period of low growth, austerity and lack of unity. Many economists believe that it will face a lost decade or two similar to that which occurred in Japan in the 1980’s and 1990’s. If this is the case, F&B companies need to maximise their resources effectively and target consumer segments with the most disposable income and the highest possible growth margins. For F&B companies that are already stretched, there is little choice but to adapt their product offerings in this difficult trading environment to the right consumer segment: **getting it right is the only option available.**

Inter-generational trends in Ireland

<p><b>'Kerrygold' generation</b></p> <p>1950s-1960s</p>	<p><b>'Smash' generation</b></p> <p>1970-1980s</p>	<p><b>'Marathon bar' generation</b></p> <p>1980-1990s</p>	<p><b>'Red Bull' generation</b></p> <p>2000-present</p>
<p><b>Facts</b></p> <ul style="list-style-type: none"> <li>• 10.1% of the population is between the ages of 55-64</li> <li>• 11.7% of the population are 65+</li> <li>• 87% increase in people aged 50+ expected from 2006-2021</li> <li>• +55s are more likely to purchase private label brands than branded goods</li> <li>• +65 on average spend 31.7% of their income on food and drink compared to 27.3% of people under 65.</li> </ul> <p><b>Trends</b></p> <ul style="list-style-type: none"> <li>• working later for both economic and emotive reasons</li> <li>• want to remain young, embrace technology at a faster rate than previous generations</li> <li>• seek health and wellness products, increased demand for qualities like vitality, energy, nurture to be instilled in food, drink and personal care</li> <li>• many households have now become inter-generational with grandparents doing the grocery shopping.</li> </ul> <p><b>Insights for F&amp;B companies</b></p> <ul style="list-style-type: none"> <li>• wealthier, living longer, more disposable income and time to spend it</li> <li>• rise in inter-generational households, seeing grandparents involved in controlling the grocery purse strings</li> <li>• increased demand for health and wellness products, - functional, value added products – willing to pay premium price.</li> </ul>	<p><b>Facts</b></p> <ul style="list-style-type: none"> <li>• 15.1% of the population is between the ages of 35-44</li> <li>• 12.6% of the population is between the ages of 45-54</li> <li>• established careerists, in general with a wife/husband, children and a house</li> <li>• many in negative equity, spending a greater proportion of income on housing related costs, than on food and drink.</li> </ul> <p><b>Trends</b></p> <ul style="list-style-type: none"> <li>• dual careerists given rise to inter-generational households</li> <li>• consumers in this demographic have less discretionary expenditure than ever before. They are more frugal and controlling of their purchases, buying own-labels and branded products where appropriate</li> <li>• they are 'cash and time poor' and appreciate value and convenience above all other factors when making purchasing decisions.</li> </ul> <p><b>Insights for F&amp;B companies</b></p> <ul style="list-style-type: none"> <li>• highly leveraged, incomes declining, taxes increasing</li> <li>• 'cash and time poor' – haven't time to shop or cook regularly</li> <li>• potential growth opportunity in convenience retailing and 'food on the go,' ready meals</li> <li>• simplification of shopping process on the rise through, e-commerce, m-technology.</li> </ul>	<p><b>Facts</b></p> <ul style="list-style-type: none"> <li>• 16.5% of the population is between the ages of 25-34. Growth in this age grouping has slowed.</li> <li>• this age cohort has experienced the largest decline in unemployment year-on-year (Q2 2011-Q2 2012): 20-24 (a decrease of 11.3%/13,500), 25-34 (a decrease of 3.5%/18,400)</li> <li>• 440,000 over 18s live at home with their parents, 138,000 are students and 91,000 are over 30.</li> </ul> <p><b>Trends</b></p> <ul style="list-style-type: none"> <li>• significant employment opportunities have been limited since reaching working age, many still in university, emigrated, unemployed, or still living at home with parents</li> <li>• cutting back on 'going out,' restaurants to having nights in, takeaways, etc.</li> <li>• technology savvy, instant access generation, likely to be influenced by social media, use e-commerce.</li> </ul> <p><b>Insights for F&amp;B companies</b></p> <ul style="list-style-type: none"> <li>• low income levels, still likely to be living at home; although not heavily indebted</li> <li>• less likely to part with hard-earned cash as impulsively as in the past</li> <li>• need for differentiated value propositions targeting this demographic.</li> </ul>	<p><b>Facts</b></p> <ul style="list-style-type: none"> <li>• Ireland is experiencing a baby-boom</li> <li>• since 2006, the number of children aged 0-14 has risen by over 115,000 and now accounts for over 21% of the population</li> <li>• strongest population growth rate in EU over coming decades, with a 46.5% increase expected by 2060</li> <li>• by 2060 Ireland is forecast to have the lowest percentage of over 65s, and the highest child and working age population.</li> </ul> <p><b>Trends</b></p> <ul style="list-style-type: none"> <li>• parents likely to purchase branded goods when shopping for children</li> <li>• brought up with internet, embrace technology – smartphones using m-technology and social media</li> <li>• reared on discount culture and peer-reviews</li> <li>• savvier than other generations in purchasing decisions.</li> </ul> <p><b>Insights for F&amp;B companies</b></p> <ul style="list-style-type: none"> <li>• consumers tend to stick to brands they purchase from an early age. Opportunities for early brand loyalty/equity</li> <li>• purchasing decisions influenced by unlimited data available at the click of a mouse, or touch of a phone – opportunities for social media campaigns.</li> </ul>



## Current consumer trends

### Perception of 'value'

The perception of 'value' has changed amongst Irish consumers. As a result of the recession, as well as the increasing strength of private label brands, consumers have been content to trade down to lower-priced offers, often store economy ranges, safe in the knowledge that they can find high-quality produce at the value-end of the market.

Consumers still expect quality even when trading down. They are much more savvy and aware, and seek value, even in premium products and ranges. According to a 2010 UK survey commissioned by MyVoucherCodes, this trend has been evident among middle-class consumers, with lower-class consumers adhering to brand loyalty more regularly over the last number of years.

Responding to this consumer sentiment, some of Ireland's finest restaurants have introduced value offerings. Their focus remains on using high quality ingredients, cooked and presented to the highest standard, at what consumers perceive as a 'good value' price point.

### Health and wellness

Health and wellness remains a key driver of growth in the Irish and global F&B sector. There has been a rapid growth in demand for nutritional F&B products ranging from 'one of your five a day', to more functional ingredients that reduce the risk of a number of health-related issues including diabetes, heart disease and obesity. Increasingly changing nutritional guidelines are leading to a re-engineering of reduced salt, fat and sugar products in the marketplace.

**Ageing population** – the demand for products that provide real discernible health benefits is on the rise. Longer working lives and a strong interest in maintaining a healthy active lifestyle is leading to the creation of more products tailored to the specific needs and wants of these consumers. Over 55s are willing to spend their money on age defence products and energy supplements, and will expect these products to be advertised in a modern and inclusive way.

**Obesity** – Ireland has the second highest obesity rates in Europe: the cost of diet-related illness was estimated at €4 billion a year.

**Feeling healthy** – consumers in the 30-50 age group have less time at home, and are constantly 'on the go'. The stresses and strains of work-life balance present an opportunity for the food industry. Consumers in this cohort want to feel more alert and active with their precious time, seeking healthy products for lunch or when they are 'on the go'. They want flavourful solutions which compensate for lower levels of salt, fat and/or sugar.

### Convenience

Consumers want high quality healthy food, which is also convenient. There's no doubt that everyone is feeling the 'pinch'. This means consumers are no longer 'cash rich, time poor' but are mainly 'cash poor, time poor'. The recent strong profit announcement by Greencore Group, and the value placed by many large F&B companies in acquiring convenience bolt-on-acquisitions, demonstrates the value of the convenience food category in the current economic climate.

### Using technology to shop

M-technology and e-commerce are growing apace, with shopping increasingly done through clicks (e.g. computers, tablets, smartphones) rather than bricks (e.g. traditional retailing). Food producers are creating apps around product launches, and creating quick response (QR) codes that provide information on the provenance of their products, the carbon miles used to get the product from farm to supermarket, how fresh the product is and the story behind the farm the product originated at.

The multiples are pioneering a number of multi-channel offers online:

- **virtual shopping walls** - In subways in South Korea, Tesco consumers can scan the products they want on virtual aisles. At Gatwick Airport tired travellers can use their smartphones to scan QR codes next to the product images on walls, enabling the delivery of products to their homes, often by the time they return home from the airport.



- **m-commerce** - On smartphones, customers can download grocery apps. It allows them to add to their shopping lists and select items at any time. It automatically synchronises with their online shopping basket, allowing them to check-out from any connected device.
- **interactive 3D shopping** - Tesco interactive 3D shopping via smart 3DTVs is an interactive 3D e-commerce store that shoppers can walk through and make purchases from a smart TV. The program uses greater bandwidth, HTML5 and new technology, such as 3D TVs and motion-sensor technology, on devices including the Kinect for Microsoft Xbox.
- **click and collect service** – Customers order online and collect at the supermarket from a special docking/loading area.
- **home-delivery** – Customers order online and get groceries delivered to their door.

The rapid growth of mobile commerce and online shopping is creating an additional sales channel for suppliers. Known as crowd-shopping, sites such as Groupon, provide a new means to sell directly to customers at a discounted price, enabling suppliers to capture market data on customers. In the future, online sales channels may provide an alternative to the traditional supplier-retailer sales model.

“On Facebook, as in real life, people are very passionate about food, so updates about food are really popular – where people are eating, what they're eating, what they're cooking! This is a real opportunity for food businesses.”

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Felicity McCarthy, EMEA SMB Customer Marketing Manager  
Facebook

## Provenance

Consumers are increasingly demanding to know where their food comes from. They want to buy Irish, and are increasingly interested in the story behind the food. France and Italy have over 230 Protected Designations of Origin (PDO) and Protected Geographical Indication (PGI), significantly reinforcing their image as unique culinary destinations. Ireland currently has four products with PDO or PGI status and a further two applications pending.

**Table 3** PDO and PDI status for Irish produce

Product	Element	Date	Status
Imokilly Regato	PDO	5 October 1999	Registered
Waterford Blaa/Blaa	PGI	5 March 2012	Pending
Connemara Hill Lamb; Uain Sléibhe	PGI	16 February 2007	Registered
Timoleague Brown Pudding	PGI	7 November 2000	Registered
Clare Island Salmon	PGI	5 October 1999	Registered
Irish Salmon	PGI	9 October 2012	Pre-pending (consultation stage)

A Grant Thornton report, '**Food: the secret ingredient to Irish tourism and export growth**', identified that 92% of Good Food Ireland Approved Providers have increased the amount they spend on Irish produce over the last 3 years. More than 90% of those surveyed believe that local Irish food is a strong economic driver for their business. These statistics are a strong indicator that food has a strategic role to play in driving tourism and economic growth.

### Case study – McDonald's

**The McDonald's case study demonstrates that being able to adapt to changes in consumer demand preferences creates sustainable success.** In order to stay ahead of rivals, McDonald's real unique selling point down through the years has been its ability to tap into consumers' latent demand for fast-food by learning and evolving to consumers increasingly sophisticated needs.

McDonald's, since its foundation in 1940, has been able to adapt and innovate, coming up with fresh products and services to address the needs of a diverse consumer market, as shaped by demographic, economic and local factors around the world.

#### How has McDonald's sustained success?

##### Simple answer: put customers at the core of McDonald's business strategy

- Q.** How does McDonald's react to growing concerns over health issues from both government and customers, without diluting its core brand?
- A.** Healthy, convenient eating.
- Q.** How does McDonald's adapt to the youth of today's demand for a fresher more contemporary, technology driven environment to eat in?
- A.** Enhance the eating experience; refurbish the layout of each store; install Wi-Fi and internet hotspots.
- Q.** How does McDonald's reduce the image that they are a symbol of US imperialism and corporate/multinational greed?
- A.** Highlight the jobs McDonald's are creating in the local community, the farmers that supply to them, the ancillary industries that depend on them, the career opportunities for ambitious, determined staff, their ability to grow in a recession and support the local economy and McDonald's corporate social responsibility initiatives.
- Q.** How does McDonald's cater their menu to different cultures, ethnicities and demographics?
- A.** Give the customers what they want – veggie burger in India/first vegetarian restaurant in India; French McBaguette – burger served on the traditional baguette, part of a broader effort to add more locally inspired items to its menu. McDonald's adjusts its ingredients for religious beliefs - halal beef patties in Malaysia; kosher beef, potatoes, buns and milkshake mix in restaurants in Israel.

Earlier in the report we identified four key trends affecting F&B companies in Ireland and globally. If we apply the trends to McDonald's, it is evident that their current business model touches upon each of these trends as follows:

#### 1. Health and wellness

- salad range
- introducing fruit and halving the amount of french fries in the Happy Meal
- healthy drinks, healthier snacks
- support healthy initiatives (such as encouraging children to take up sports)
- responsible marketing for children
- reduced sugar content in buns

#### 2. Value

- Euro saver - price conscious strategy
- value for time and value of experience
- children's play areas
- happy meal with toys for children

#### 3. Convenience

- convenience - fast foods
- fast queues, quick service
- drive-through services
- convenience through experience – free Wi-Fi
- late night openings
- breakfast menu
- establishing contactless payment for credit cards
- McCafé

#### 4. Provenance

- sustainability - carbon footprint
- all of McDonald's beef sold in Ireland is Irish and Bord Bia certified
- the company promotes local awareness, and local provenance – Farmer Liam Delaney

Source: Grant Thornton analysis 2012

**Shopping trends – the emergence of premium/private label**

Food as a proportion of total household spend has been on a downward trend for 30 years. The results of the latest Household Budget Survey (HBS) 2009-2010 reflect a worrying trend for the F&B industry in Ireland: many households are saddled with a multitude of household expenses which are limiting the percentage of income they can spend on food, alcohol, restaurants and hotels; all parts of the food value chain in Ireland. Consumers are searching for cheaper prices as their income levels reduce – becoming more frugal and fastidious with their purchasing decisions. The average Irish consumer’s disposable income has reduced significantly:

- €21,000 at the end of 2011;
- €3,370 less than in 2008; and
- €1,150 less than 2010.

Despite food price inflation, shoppers are managing their shopping budgets by trading down to private labels (especially for staple food items), shopping around, shopping to a budget and planning in advance. 4 out of 5 shoppers now believe it is imperative that they shop around in order to achieve the best value. This has become main-stream with promotion chasers continuing to erode brand loyalty.

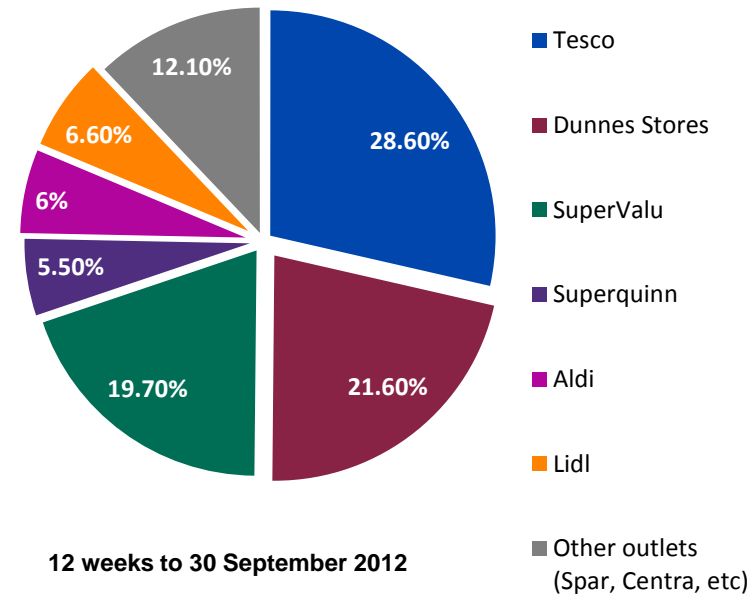
Consumers, as a result, are making more shopping trips, but their average spend per trip has reduced by 3.7%.

**The winners of this drive for value have been own-label retailer products.** More than 30% of what consumers put in their supermarket basket is now own-brand rather than more established names. According to Kantar, retailers own-label sales increased 1.9% in the 12 weeks ending 8 July, with retailers with a strong price message – Aldi, Tesco and Lidl - continuing to gain market share

Retailers have introduced a tiered marketing strategy around private labels with generic retail brands falling into either store economy range, middle-of-the-road private labels or high quality/premium own-brands. Premium private label ranges/products, such as Simply Better (Dunnes), Tesco Finest and Specially Selected (Aldi),

are really starting to carve out their niche as a sub-segment of the private label category.

**Figure 1 Market share total Irish grocery sector**



Source: Kantar Worldpanel 2012

“The stuff that we are interested to know is what our customers are thinking. The other thing is looking the customer in the eye and having the conversation with them and you really know what they’re saying then and that’s a really important part of it.”

**Cullen Allen, Managing Director, Cully & Sully**

Reason...I know my product  
+  
Instinct...customer insights are key

## The decision to invest in a brand



“If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks, and I would fare better than you.”

**John Stuart, Chairman of Quaker (c. 1900)**

The traditional value of a brand is well-established. Brands influence consumer choices to purchase one product over another, create a perception of quality, drive loyalty and instant recognisability, and in some cases are representative of a particular lifestyle choice.

### Private - v - branded labels

Private labels are increasingly penetrating the grocery retail sector in Ireland, and are claiming a greater share of store shelf space and consumer baskets. What were once considered cheap and poor quality products, often attributed negatively to an individual's lifestyle or job, are now in over thirty per cent of our shopping baskets on a weekly basis.

As a means of dealing with the dual challenges of recession and food price inflation, shoppers coping strategies have involved purchasing on promotion and switching to private label. Consumers trading down, coinciding with retailers de-stocking some third party lines while investing in the further development of their own brand, has led to a dramatic shift in own-labels fortunes.

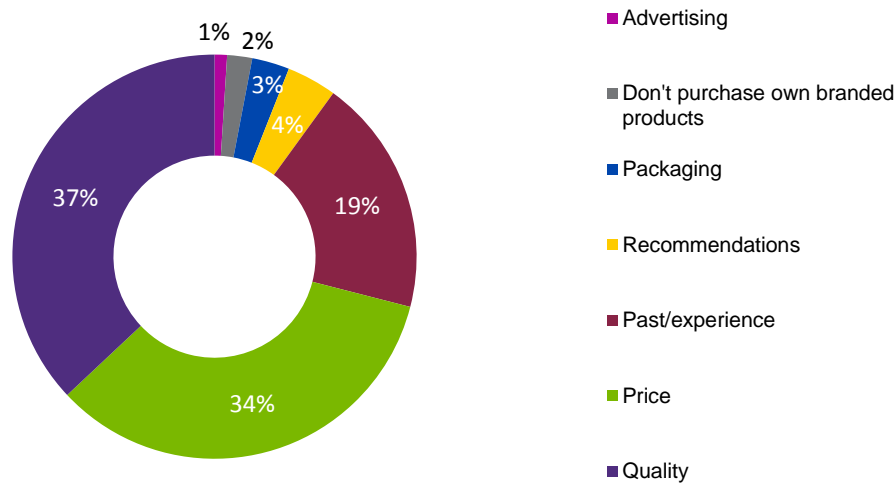
Sales of private-label/own-brand products are worth an estimated €3 billion in Ireland, with many of the lines produced by well-known manufacturers and sold under supermarket labels. In fact, many manufacturers are choosing to supply private-label products which has given rise to a number of specialist private labellers across the F&B value chain.

Since 2001 own-brand market share in Ireland has grown from 16% of the grocery trade to between 33-35% at present, with that figure projected to reach 40% by 2015. The average Irish shopper was expected to spend €1,827 on own-branded products in 2011.

From a producer perspective, there is the delicate balancing act when considering producing an own-label brand, which may cannibalise the market for a branded product. Conversely, the private label market is potentially attractive. Most multiples and discounters have highly developed channels for exporting; being guaranteed a space on a multiple's shelves in existing and new 'high' growth markets may be too difficult to resist. The choice of producing a private-label or branded product or both, needs considerable market research, considering factors such as trends in the sector, consumer demographics, exporting potential and the value and quality (perceived or otherwise) of the product.

As Figure 2 illustrates, 71% of a consumer’s decision to purchase a private-label product is driven by a combination of price and quality.

**Figure 2** Influencing factors when purchasing own brand products

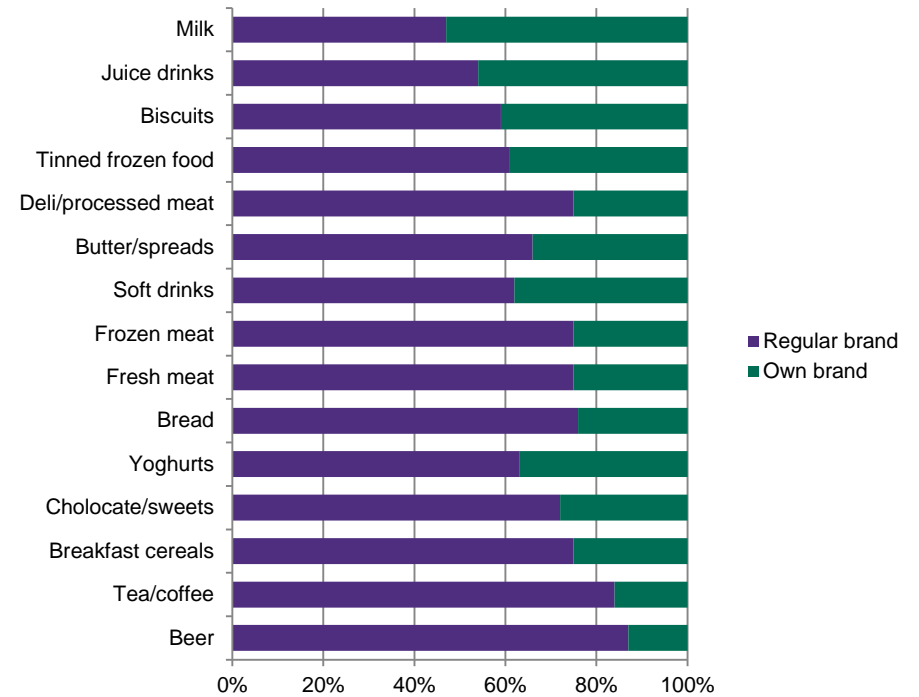


Source: National Consumer Agency 2011

### Brand loyalty

According to the National Consumer Agency (NCA), 89% of Irish consumers purchase branded beer, 84% branded tea and 70% branded soft drinks. On the flip-side 56% of those surveyed buy own-branded milk. The Mintel Report on Food and Drink Brand Dynamics – Ireland noted that consumers place more value in beer brands presented as being Irish, believing that locally-produced goods are worth paying more for.

**Figure 3** Own brand versus regular brand preferences (November 2011)



Source: National Consumer Agency (NCA), 2011

"If all Coca Cola's assets were destroyed overnight , whoever owned the Coca Cola name could walk into a bank the next day morning and get a loan to rebuild everything."

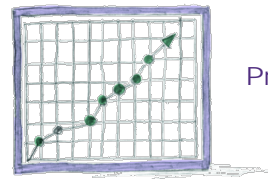
**Carlton Curtis, Vice President, Coca Cola**

Reason...brand has a value  
+  
Instinct...potential for private label

# The dynamics of supply



The supply chain dynamic



Prices on the rise



Productivity



Creating a culture of smart innovation



Access to capital – a competitive advantage



Red tape and green tape

# The supply chain dynamic



## Key questions

- are all players along the supply chain working together or are they operating in a vacuum?
- how are both the public and private sectors facilitating increased interaction across the supply chain?
- are state resources being invested in planning for and managing food price volatility and the knock on effect it has on all players in the supply chain?
- is Ireland's supply chain only as strong as its weakest link?

## Ireland's F&B supply chain

The logic of an integrated supply chain equation is simple. The reality is different. Fragmentation causes challenges for all links in the chain, reducing both individual and collective profitability:

- **Farm level** - farmers need to create a margin from farming. Rising feed costs are hurting, and in some cases, crippling profits at farm level. There is a lack of profitability at farm level. The age profile of farmers continues to rise with over 50% of farmers aged 55 and over. There has been a reduction in farm numbers. The increase in age and lack of new entrants means the number of farms and knowledge level of farmers is forecast to reduce significantly.
- **Processors/Manufacturers** - processors and manufacturers need certainty around supply and price in order to efficiently utilise their capacity and run their

businesses. Margins are under pressure and are being squeezed at both ends (upstream - reduced volumes and price pressure from primary producers, downstream - price pressure from the multiples).

- **Retailers** - margins are being challenged. Austerity pressures are causing reduced levels of consumer spend, making it difficult for retailers to push price increases on to the consumer. Food security and availability of supply is a major concern. Some multiples have integrated further upstream overseas taking ownerships of farms.
- **Consumers** - Food consumption is a necessity not a choice. Consumer disposable income levels are under severe pressure. Their inability to absorb price increases is placing heavy demands on a supply chain that is already under pressure.

## Effort invested + risk taken = fair reward

Where a supply chain is fragmented, pain is experienced by all links in the chain. The pain is more severe at certain points along the chain. An integrated, aligned and resilient supply chain offers greater certainty and reward where:

- there are collaborative relationships in place at all stages of the value chain;
- a deep understanding of each other's needs;
- efficiencies generated;
- costs taken out; and
- ultimately volume and profit creation.



Commodity price volatility is challenging traditional supply chain planning. In the global food sector, some companies are establishing supply chain ‘war rooms’ to make fast decisions across functions. Populated by key individuals from production, procurement, logistics and sales – and furnished with the latest data on purchasing, production, orders and deliveries – these teams meet weekly or even daily to devise near-term operational plans.

#### Case study – the US pig processing industry

**A supply chain has a simple choice - either invite or defeat inefficiency.** In the 1970s and 1980s the overwhelming majority of pigs were produced and marketed by independent producers on open or ‘spot’ markets in the US. Dominated by many small operations as part of traditional farms, producers relied on marketing contracts to provide a specified quantity and quality of pigs to a buyer at a specified price.

Since the early 1990s the industry changed rapidly. Pig production has now become highly concentrated on large operations, dealing more with the production and management of the pigs across several different sites – **the integrator approach**. An integrator provides pigs, feeds and other services to the producer/grower. The producer/grower then manages the pigs at their farms until the animals are ready for market or transfer to other farms. The integrator model has transformed the pig industry model in the US:

- the activity of a fragmented supply-chain was coordinated, maximizing resources efficiently;
- payment types were written into a contract;
- incentives were offered to promote better efficiency and productivity;
- total productivity was raised by on average by 20-23% and by as much as 50% for some inputs;
- business risk was transferred across the supply chain (integrators provided feed, breeding stock, veterinary care);

- farmers were able to focus on what they do best, house and manage the pigs during one or more production phases;
- more open dialogue took place between all parties, facilitating the exchange of information between integrators and farmers; and
- an integrated/aligned supply chain was created, where stakeholders were working together to achieve a shared goal.

We understand the process of supply chain alignment is iterative and takes time to get right. It is also ever-changing in respect to the business trading environment of today and tomorrow. The change in the model in the US was brought about by a threat to the system, which was an adapt or die moment. We believe it is important that the Irish position and future is discussed in advance of the crystallisation of the many threats to the sector, as this will give the industry and its participants the greatest chance of success in devising new and sustainable operating models.

We understand this issue is not germane to Ireland, but affects many economies globally. If Ireland manages to align and reward their participants in the sector it will gain a first mover advantage and increase our chances of long term success.

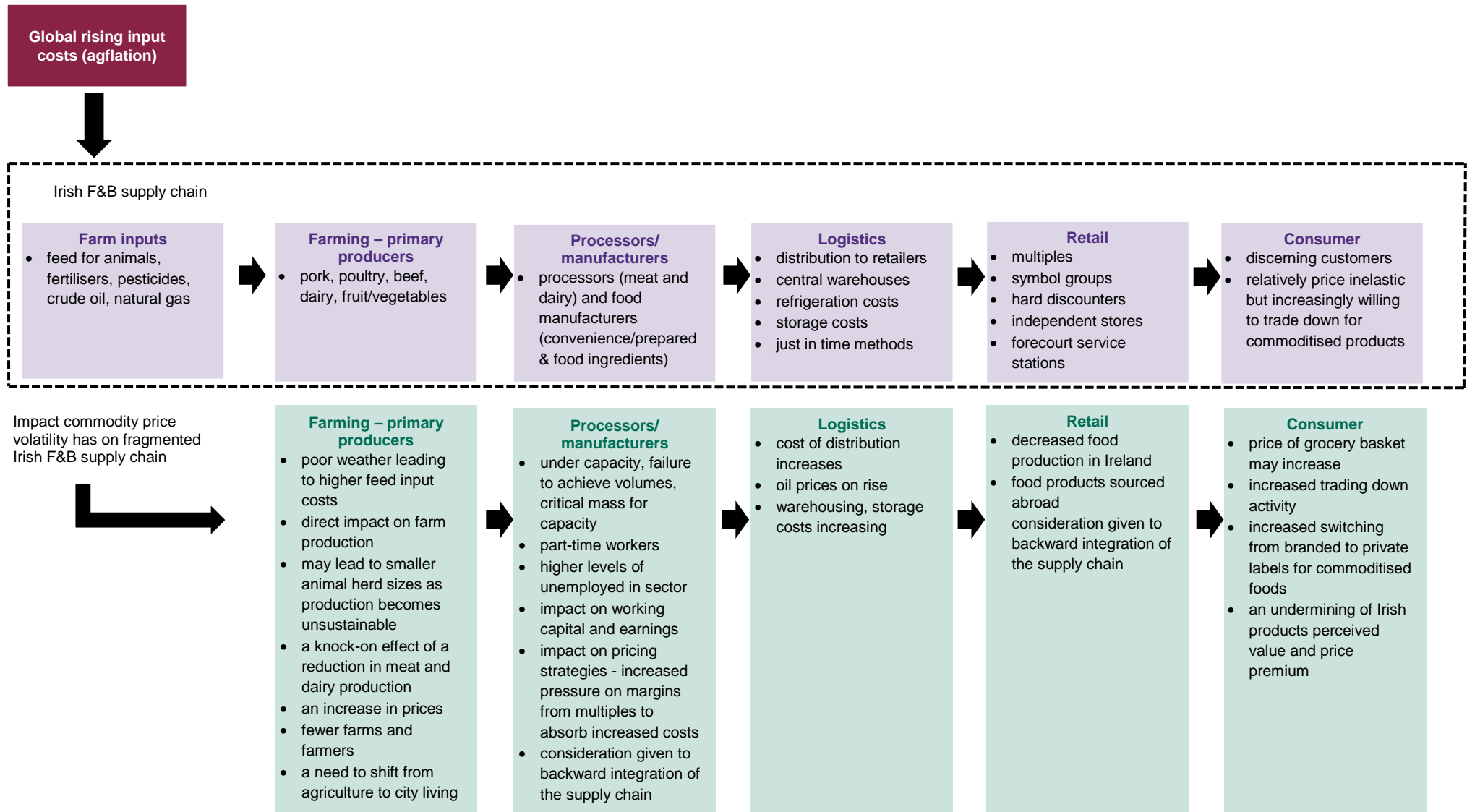
Alignment is critically important in an environment where the ratio of price growth to volume growth is three to one and rising input costs are soaking up a significant proportion of top line growth.

We have set out in Figure 4 overleaf how the impact of rising input costs or inflation permeates all links in the supply chain.



Figure 4 Impact of agflation on Ireland's fragmented supply chain

Source: Grant Thornton analysis 2012



### Supply chain opportunity: EU milk quotas ending in 2015

In 2015 the European milk quota system, which has capped the amount of milk European farmers have been permitted to produce since 1984, will be abolished. Ireland is particularly well-placed to capitalise on the change, as its grass-based method of production allows it to produce milk cheaper than most competitors.

The ending of the milk quota provides Irish dairy farmers and their co-ops with substantial opportunities to grow their industry to achieve real scale and efficiency, and to become world class leaders in dairy production, innovation and trade.

### What plans have Ireland's major processors got in place to capitalise on the opportunity?

**Kerry Group plc** - Kerry Group plc recently announced that it is to enter into partnership agreement with Beingmate of China, for the supply of Irish dairy ingredients for infant nutrition in China. The investment positions Kerry Group plc to expand operations to China for high-value functional milk ingredients. Stan McCarthy, CEO of Kerry Group plc, recently stated that the Group was in a position to handle increased volumes of milk with the abolition of quotas in 2015. Through the acquisition of Newmarket Co-op (in 2010), and its own existing facilities, the Group is expected to be able to handle a 20% increase in milk volumes.

**Glanbia plc** - Recently Glanbia plc announced a joint-venture with its co-operative society in respect of its dairy processing business of Dairy Ingredients Ireland. It is a 40/60 joint venture, with the co-operative taking majority control. There is a strong strategic logic for the creation of the joint venture for both parties as it facilitates a focus on the expansion of dairy processing in Ireland in advance of EU milk quota abolition in 2015. This also allows the Plc to focus on growing its international business.

**Irish Dairy Board (IDB)** - The IDB is preparing to take advantage of the ending of the milk quota in 2015 by expanding rapidly into Africa. In 2011, it opened up a new facility in Algeria to service north of the Sahara and is currently launching their new premium brand Kerrygold butter onto the Russian market. In October 2011 the IDB

opened its Adams Food Ingredients (AFI) plant in Leek, Staffordshire, UK. The state-of-the-art facility was built to convert high quality milk from Ireland into high quality dairy ingredients.

**Dairygold** - Dairygold will spend €120 million developing a world class dairy processing facility in Cork. The redeveloping of its existing location in Mallow will lead to the creation of 100 direct and indirect jobs and will see output return to 450 tonnes of milk powder per day, the same levels as its peak in 1990.

**Lakelands** - Members are projecting output increases of 35-55% in the post-quota era. Lakelands is partnering on a new infant formula product with Chinese dairy company Yili and the Irish Dairy Board. In 2010, Lakelands closed their Lough Egish site, but did not decommission it. That site is expected to be a safety net for increased output, with an additional €8-10 million investment in a new drier projected to handle a further 50% increase in milk supply.

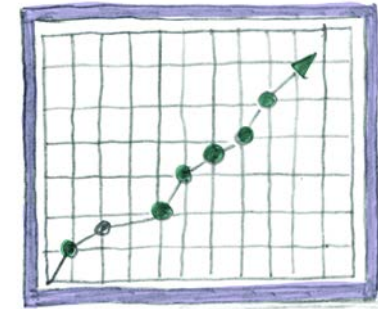
**Connacht Gold** - the recent acquisition of Donegal Creameries milk and retail stores, collaborative relations with other co-ops, including Glanbia plc, and an openness to discussion with other processors about further collaboration, is expected to help Connacht Gold achieve a 10-15% increase post-quota.

**Reason...** rising costs threaten my business

+

**Instinct...** farm to fork must work together

## Prices on the rise



### Key questions

- is agflation here to stay or are we experiencing a price bubble?
- is there a national strategy to deal with rising agricultural commodity prices and volatility in the long-term?
- agflation – what will it cost your business?
- what solutions are you implementing to mitigate the impact of agflation?
- how is your business impacted if fuel costs continue to rise?

The world of agriculture has significantly changed over the past three decades. Not so long ago, productivity growth was so strong that production increases exceeded growth in demand and afforded a rapidly growing population more and better food at declining real prices. The great green revolution meant technical advances in improving yields and economies of scale reduced the cost of producing commodities - trending downward at about 1-2% per year. At that time the world population was considerably smaller than today, and emerging markets were less developed.

Today the global food system has reached a tipping point. Agri-commodity prices have trebled in the last 10 years and the ability of the system to adjust production to meet growing demand has structurally altered. As a result, the continuation of higher and more volatile prices, combined with increased food scarcity, is said to become the 'new normal' over the next 40 years.

**Is the era of cheap food coming to an end?** Challenging growing conditions (drought and flooding) in major cereal-producing countries this summer, the US Governments continued mandate to use corn crop to produce ethanol, and crude oil prices reaching record highs are exacerbating demand and leading to another wave of rising food prices. Around the turn of 2011/2012 the global population increased to 7 billion, signalling increased concerns over food insecurity.

In Ireland, the wet summer has put farmers under increased pressure, with incomes affected by damaged yields and fodder suppliers, while they struggle to absorb the soaring costs of animal feed. As farming is becoming more unsustainable, especially at small farm level, some farmers are slaughtering or selling their stock. The UK producers face a similar challenge, with the mass slaughtering of animals expected to lead to soaring prices of up to 15%, once the temporary increase of meat supply slows down. Grain price increases on international markets are expected to see the price of poultry, meat and dairy products soar in the months ahead with retailers coming under intense pressure from suppliers to pass prices onto consumers.

### Feeling the pressure

- due to a rise in grain prices, Diageo plc have recently announced a price rise, which is expected to add 5c to the price of a pint; and
- as part of their recent results announcement, Arysta expect price rises to continue to challenge their business.

Higher food commodity prices and food price inflation (agflation) are fast becoming a fact of life in the day-to-day operations of most F&B businesses. Multiple supply and demand factors have had a role in the price volatility that has prevailed over the last decade. Table 4 provides a breakdown of these factors:

**Table 4 Drivers of world food prices**

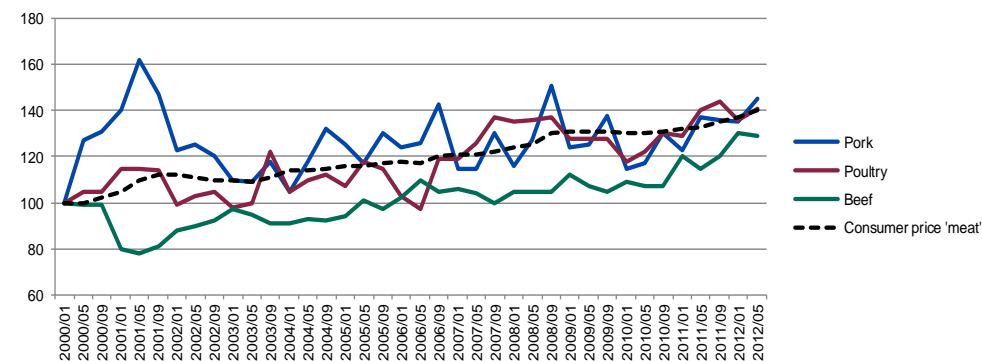
Demand side drivers	
Dependent on:	
<b>Long-term changes in demand</b> <ul style="list-style-type: none"> <li>• global population increases</li> <li>• income rises in emerging markets (growth of middle classes)</li> <li>• change in consumption patterns of middle classes in emerging markets (from grain to meat-based diets)</li> <li>• biofuel/ethanol policies (corn harvest diverted to energy)</li> </ul>	<b>Short-term changes in demand</b> <ul style="list-style-type: none"> <li>• oil price volatility</li> <li>• exchange rate volatility</li> <li>• financial speculation</li> <li>• food reserves (stock-to-use ratio)</li> <li>• precautionary hoarding – food piling</li> </ul>
Supply side drivers	
Dependent on:	
<b>Long-term changes in supply</b> <ul style="list-style-type: none"> <li>• decrease in arable land available globally</li> <li>• long-term yield decreasing (reduction in technology advancements, conversion of arable land to cities, shift in population from agrarian to city living)</li> <li>• biofuel/ethanol mandates and its increasingly link to energy prices (corn/grain harvest becoming irreversibly pegged to oil prices)</li> </ul>	<b>Short-term changes in supply</b> <ul style="list-style-type: none"> <li>• adverse weather conditions (drought and floods)</li> <li>• increase agricultural output dependency on more volatile/variable production regions (e. g. Eastern Europe – less stable yields due to natural conditions, technology and management practice, government support)</li> <li>• trade policy responses (e.g. export bans &amp; sharp tactical reductions in import tariffs)</li> </ul>

Source: Grant Thornton analysis 2012

The next number of years is expected to be characterised by food price spikes such as those witnessed from 2008 to date. The strategies that F&B companies employ to deal with commodity price volatility may be the difference between business failure, and trading through the short-term for long-term gain.

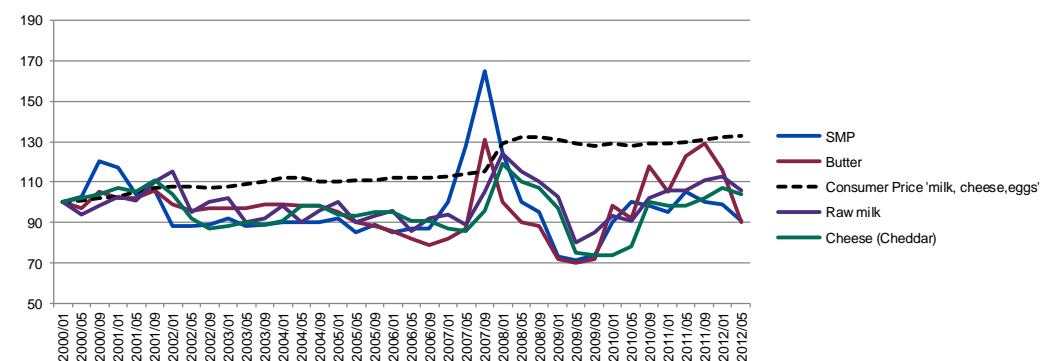
## The commodity price scorecard

**Figure 5 Meat – EU agricultural market and consumer price developments (Jan 2000 - Jun 2012, Jan 2000 =100)**



Source: European Commission (EC) – Commodity Price Data, June 2012

**Figure 6 Dairy – EU agricultural market and consumer price developments (Jan 2000 - May 2012, Jan 2000 = 100)**




Source: European Commission (EC) – Commodity Price Data, June 2012

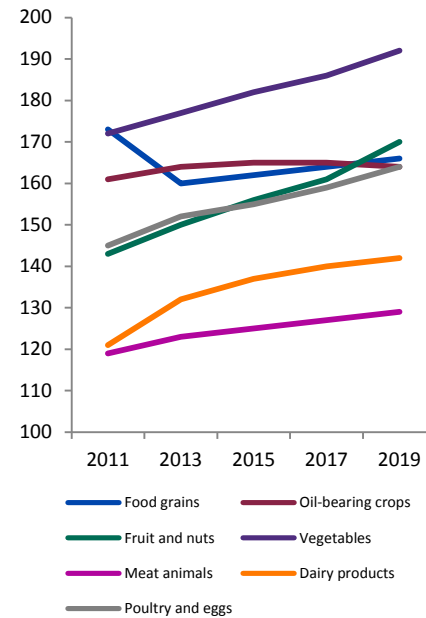
These are the facts - Are you prepared?

- US farmers experiencing worst drought in 50 years
- Irish farmers experiencing wettest summer in 50 years
- corn yields ↓ 12% in US
- grain yields ↓ 10% in Ireland
- FAO cereal prices ↑ 17% (last three months)
- global cattle prices estimated to increase 6.6%
- 2% fall off in pig rearing may lead to 10-20% increase to consumers
- beer prices have risen 4% in the last year
- black tea prices up 41% globally since January 2012
- table wine up 10% globally

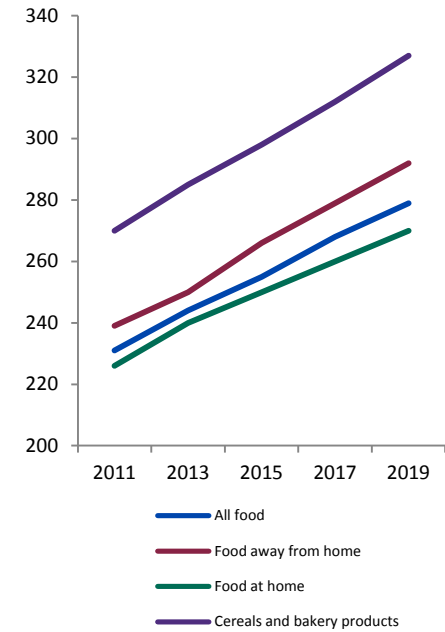
Projected farm price and consumer food price indices from 2011-2019



**Figure 7** Projected farm price indices (1990-1992=100)



**Figure 8** Consumer food price indices (1982-1984=100)



Source: United States Department of Agriculture, AT. Kearney Analysis

**Reason...costs should be cut**  
 +  
**Instinct...so could the lifeblood**

# Productivity

## Key questions

- how is productivity being measured in your business? Are you measuring what matters?
- how important is technology as an enabler of productivity?
- do you benchmark productivity against rival competitors or international best practices?
- what can you learn from successful productivity initiatives in other sectors?
- do you identify opportunities to automate, eliminate, simplify, streamline or integrate?

To create a sustainable and profitable business model, the F&B sector needs to continue to focus on productivity. This will unlock the potential for the sector to improve its international competitiveness, scale and cost efficiency.

At Grant Thornton, we believe that F&B companies need to be built for speed and agility, designed to serve the rapidly changing needs of consumer demographics and capitalise on export opportunities. Productivity improvements are designed to make the day-to-day business activities faster, easier, simpler and cheaper, so that strategic business decisions are underpinned by robust operating systems and processes.

Lean techniques focus on delighting the customer; maximising the elements that add value to your product; minimising or eliminating the factors that don't, and ultimately creating operational excellence throughout an organisation.



Lean originated in the manufacturing arena and has since spread across the full gamut of the value chain from sales through logistics, manufacturing, purchasing, administration, product design and development. Eliminating waste works to ensure that a supply chain runs smoothly by avoiding the following:

- **overproduction** - producing too much or too little, resulting in poor flow of information or goods and surplus inventory
- **defects** - frequent errors in paperwork, product quality problems, or poor delivery performance
- **unnecessary inventory** - surplus storage and delay of information or products resulting in excessive costs and poor customer service
- **inappropriate processing** - going about work processes using the wrong set of tools, procedures or systems, often when a simpler approach may be more effective
- **excessive transportation** - excessive movement of people, information or goods wastes, time, effort and cost
- **waiting** - long periods of inactivity for employees, information, or goods resulting in poor flow and long lead times
- **unnecessary motions** - poor workplace organisation resulting in duplication of work, excess staff, under-utilisation of staff and a poor corporate culture fit.

## What can the F&B sector learn from other sectors?

### Case study – Nightline

Nightline is the largest privately owned express courier delivery service in Ireland. As well as operating as an international courier, Nightline also offers logistics and warehousing services.

The trend for online shopping has fundamentally changed the parcel delivery business. Nightline had to either adapt to this trend, and fundamentally change their business model, or run the risk of becoming the Polaroid of the courier business.

In a relatively short time frame, Nightline evolved from being a B2B business in terms of delivering consumer goods to high street outlets, to becoming a B2C operator, delivering consumer goods bought online to individual residences. To do this, they have had to re-engineer the business to provide services that are relevant to online retail, and also convenient to consumers who are buying online. How did they do this?

Parcel Motel is a self-service automated parcel delivery terminal, located at convenience stores and petrol stations. A Parcel Motel is a machine with 80 compartments, which can hold up to 80 individual deliveries at a time. The capital cost of a terminal is the same cost as buying and manning a delivery van. The productivity of a van is in the region of 80 deliveries a day, which is the same as the capacity of the Parcel Motel. The difference is Nightline goes to one point with 80 parcels. Consumers come and pick up at a time that is convenient for them.

Final mile delivery describes the cost of the last mile of bringing the parcel from the delivery depot to the door.

“So the difference really is the difference in cost, and you don’t have to be an expert in the parcel delivery business to understand this. It means that we can bring down the cost of final mile delivery for online delivery retailers, who can in turn offer lower costs to consumers.”

---

**John Tuohy, Chief Executive  
Nightline**

### Enablers of productivity

What is next for the food sector? Technology driven productivity has fundamentally changed the business model in other sectors. Examples include:

- online booking for air travel has fundamentally re-engineered the sector. Southwest Airlines and Ryanair were the innovators and have been imitated by many more. Many travel agencies have suffered, however niche players remain.
- retailers have evolved from a model of receiving deliveries to every store, to a central distribution model, which has brought huge efficiencies and economies of scale to the process. This change has been enabled and supported by technology.
- the Financial Times now sells more digital copies than print copies. They charge for content, while most papers are free online – why? The product is so good and content so high, it’s a niche product where the target market is well-defined.
- in 1950, the US dairy herd of 22m cows produced an average yield of 2.4 tonnes. In 2010, the herd had shrunk to 9m cows – but total production was 50% higher.



### Irish dairy sector – productivity opportunity?

In Ireland, dairy arguably holds the most potential in the whole agri-food sector. The value of dairy exports is estimated to have increased by 17% to exceed €2.66 billion in 2011.

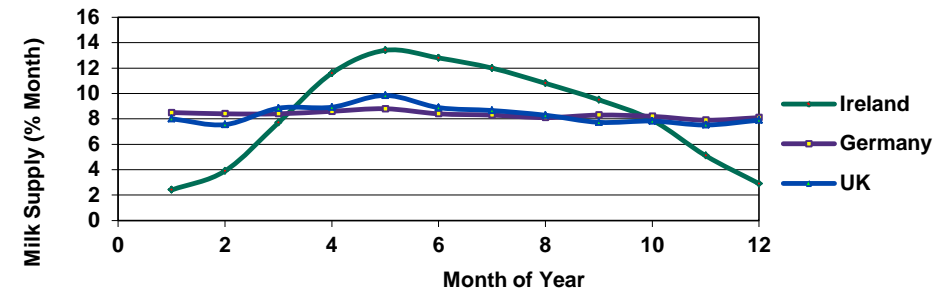
The traditional view is that seasonality has always been an issue and there is very little that can be done about it. Looking towards competing in the post-quota era, it is necessary to concentrate on the mechanics of managing milk flows, and ensure that the industry can put in place processing facilities to handle additional milk. This is a clear route to deliver both competitive advantage and profitability.

Consider Figure 9. In countries such as the UK and Germany milk supply is constant all year. In Ireland, supply peaks across the summer months and is in sharp decline in winter. **What is so different about the milk processing industry north and south of the border that drives such a level of variation?** Vincent Gilhawley, CEO of Town of Monaghan Co-Op is well-positioned to answer this question as he has suppliers both north and south of the border.

“This is a result of both tradition and established practices. Until 1995, the Northern Ireland Milk Marketing Board was responsible for the purchasing and marketing of all milk produced in Northern Ireland. The Board had adopted a pool milk principle whereby all producers received the same price, irrespective of the actual market outlet for their milk. This pricing system saw higher cost winter milk production cross-subsidised from grass-based production. This helped establish a favourable seasonality profile and, when the Milk Marketing Board was finally abolished, dairy farmers continued to produce to this pattern.”

Vincent Gilhawley, CEO  
Town of Monaghan Co-Op

Figure 9 Comparison of milk supply in Germany, the UK and Ireland



Source: Irish Dairy Board

Studies show that reducing our peak to trough ratio fractionally would increase overall annual plant efficiency and utilisation from 59% to 66%. This would effectively allow Ireland to process 10% more milk through existing processing assets.

The current seasonality profile encourages a continued focus on keeping with the status quo and commodity profile. If the industry is to maximise a return on current R&D investment, real meaningful change is needed around seasonality, with the existing ways of doing things ‘the way they have always been done’ being properly examined with real seasonality alternatives implemented to improve productivity going forward.

Future success in the sector will be centred on robust systems and processes that enable food companies to place forward-looking strategic bets, leveraging data and advanced analytics to drive decision-making. While most of these practices seem straightforward and are already in place at many F&B companies, ‘winners’ will deploy lean initiatives throughout the organisation with greater consistency and magnitude.

Reason...productivity matters

+

Instinct...always look to improve



# Creating a culture of smart innovation

## Key questions

- do you develop 'me too' products or do you produce differentiated products with a unique selling point?
- is innovation an integrated part of your corporate strategy?
- how do you fund innovation? Are you claiming all relevant grants and research and development tax credits?
- how can your company create a culture of smart innovation?
- are your competitors better at innovating? Why?

At Grant Thornton, when we are talking to business leaders today, the consensus is that the notion that long-term competitive advantage is sustainable has reduced. Adaptability can mean the difference between success and failure.

“Success is now based on creating a flow of temporary advantages, and F&B businesses must continuously innovate to survive, differentiate and grow.”

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**Jim Menzies, International Food and Beverage Leader  
Grant Thornton Canada**



Creating a culture of smart innovation helps F&B businesses anticipate new trends, access new markets and technologies, invest with speed and scale where possible, and manage risk, cultural and demographic diversity at a whole new level.

In order to develop scale, share risks, and fund transformative innovative projects, the fusion of science, public and private sector resources will become more commonplace. Initiatives that can develop, control and apply major new technologies are those that will succeed in the future. We believe successful innovation will be realised more and more through collaborative relations between state agencies, universities and industry.

## Case study – Food for Health Ireland

Food for Health Ireland is a collaboration of state agencies, industry and universities, who are working together to transform Irish milk from a basic commodity to a functional food (beyond basic nutrition promoting health or reducing the risk of certain diseases). With the ending of the milk quota in 2015, milk supply is forecasted to increase by 50%. The groundwork is being laid to profitably capitalise on this opportunity.

**Table 5** Business level innovation strategies

Innovation strategy	Consumer focus	Market drivers	Examples
<b>Formulations</b>	Health and wellness	<ul style="list-style-type: none"> <li>public and government pressure</li> <li>older citizens – healthy ageing, increased demand for functional foods</li> <li>fitness – probiotics</li> <li>backlash against processed foods</li> <li>demand for transparency, authenticity and greater nutritional value</li> </ul>	<ul style="list-style-type: none"> <li>Actimel</li> <li>wheatgrass drinks</li> <li>herbal and green tea</li> <li>'mental' balance chocolate</li> <li>Vigo chewing gum (Japanese) – boosts concentration</li> </ul>
	Organic, natural, artisan	<ul style="list-style-type: none"> <li>local provenance</li> <li>personalisation – the story behind the food</li> <li>natural healthy alternatives</li> <li>free from foods</li> <li>locally produced and sourced</li> <li>focus on freshness</li> <li>fair trade, ethical concerns</li> </ul>	<ul style="list-style-type: none"> <li>Ballymaloe Country Relish - secret 'recipe'</li> <li>Fairtrade Maltesers</li> <li>gluten free bread and pasta</li> <li>sugar free juices</li> <li>Pure Brazen stock cubes</li> </ul>
	Convenience	<ul style="list-style-type: none"> <li>trading down</li> <li>staying in solutions</li> <li>time-conscious consumers</li> <li>free time at a premium, mobility and healthy choices</li> <li>pure 'indulgence' convenience – to healthy 'family' foods</li> <li>fine dining - value</li> </ul>	<ul style="list-style-type: none"> <li>premium ready meals – Cully &amp; Sully</li> <li>multiple courses, 'stay in Saturday', Marks &amp; Spencer dine in for 2</li> <li>meal kits – Old El Paso fajitas</li> <li>Domino's – gourmet pizza range</li> </ul>
	On the go	<ul style="list-style-type: none"> <li>time poor consumers</li> <li>work-life stress</li> <li>energy boost during day</li> <li>snacking</li> </ul>	<ul style="list-style-type: none"> <li>Paddy O'Granolas bars</li> <li>Kelloggs Nutrigrain</li> <li>Flahavan's Quick Oats</li> <li>prepared fruit portion packs</li> </ul>
	New flavours	<ul style="list-style-type: none"> <li>demand for bolder tastes and higher flavour profiles</li> <li>personalisation</li> <li>customisation</li> </ul>	<ul style="list-style-type: none"> <li>The Jelly Bean Company – chocolate covered jelly beans</li> <li>Walkers Sensations</li> <li>Lindt – chilli chocolate</li> </ul>
<b>Packaging</b>	Transparency	<ul style="list-style-type: none"> <li>government health label requirements</li> <li>traceability, sustainability</li> <li>carbon footprint</li> </ul>	<ul style="list-style-type: none"> <li>Tesco's new packaging to keep fruit and vegetables fresher longer</li> <li>Heinz eco-friendly plant bottling packaging</li> </ul>
	Retailer friendly packaging	<ul style="list-style-type: none"> <li>growth of private labels</li> <li>segmentation of private label – considered higher quality – premium</li> </ul>	<ul style="list-style-type: none"> <li>co-branding packaging</li> </ul>
	Artisan packaging – branding	<ul style="list-style-type: none"> <li>demand for local</li> </ul>	<ul style="list-style-type: none"> <li>packaging emphasising their roots</li> <li>Killowen Yoghurts jam jar style</li> </ul>
	Health benefits	<ul style="list-style-type: none"> <li>older age demographics</li> </ul>	<ul style="list-style-type: none"> <li>easier to open packaging (Heinz fridge pack beans)</li> </ul>
<b>Positioning</b>	M – technology	<ul style="list-style-type: none"> <li>social media driven</li> <li>online community circles</li> </ul>	<ul style="list-style-type: none"> <li>social media (Mr Tayto, Yorkie 'for Boys')</li> </ul>

What can the F&B sector learn from other sectors?

Information Communication Technology (ICT) sector – case study

The exponential growth of the global ICT sector in recent years has led to the creation of a number of firms that are capable of adapting to an environment that is in a constant state of flux. New competitors entering the arena, new disruptive technologies upsetting existing business models and the evolution of a world of ‘clicks’ rather than ‘bricks’ has created the need for change. The premise of customer loyalty is based around a unique customer experience and excellent software, rather than traditional bricks and mortar. This demonstrates the complexity of an industry driven by innovation.

The F&B sector is increasingly moving in this direction where the only constant is change. This has been driven mainly by the growth of e-commerce, the constant need for new technologies, new products and flavours, currency fluctuations, and the growth of discerning consumers demanding more for less, with relatively low switching costs and declining resources. Table 6 examines innovation practices at some of the world’s leading ICT companies.

**Table 6** Leading ICT companies

Company	Turnover billions	Employees	% of turnover spent on R&D	% of employees dedicated to R&D
Microsoft	€58.6	94,000	13.3%	38.3%
Google	€29.3	32,467	13.7%	35.9%
Baidu	€1.8	16,082	9.2%	39.7%
Tencent	€3.5	17,446	11.7%	>50%
Huawei	€24.7	140,000	11.6%	44.2%
Lenovo	€22.2	27,000	1.5%	11%

\* converted to euros at market exchange rate on annual reports year ends

Source: Grant Thornton analysis 2012

What do these leading edge technology companies have in common?

- each company is weathering the recession, witnessing resilient growth, and investing in the future through innovation and research and development;
- has an appropriate capital structure in place;
- started small - garage, bungalows, one bedroom flats;
- had periods of failure before success;
- bounced back through inspirational leadership and talented employees;
- are instinctive marketers with an intuitive understanding of what the customer wants, of design, of product and of marketing;
- target different consumer demographics with focused innovation;
- have a core philosophy driven by research and development/innovation;
- improved on existing technologies relentlessly to capture global market share; and
- an aim to create an experience (not just a product).

Two global leaders’ views:

“Innovation has nothing to do with how many R&D dollars you have...it's not about money. It's about the people you have, how you're led, and how much you get it.”

**Steve Jobs, Co-founder  
Apple Inc.**

“When you’ve got only single-digit market share - and you’re competing with the big boys - you either differentiate or die.”

**Michael Dell, Founder & Chief Executive  
Dell Inc.**

Reason...margins under pressure  
+  
Instinct...added value differentiates

## Access to capital – a competitive advantage?



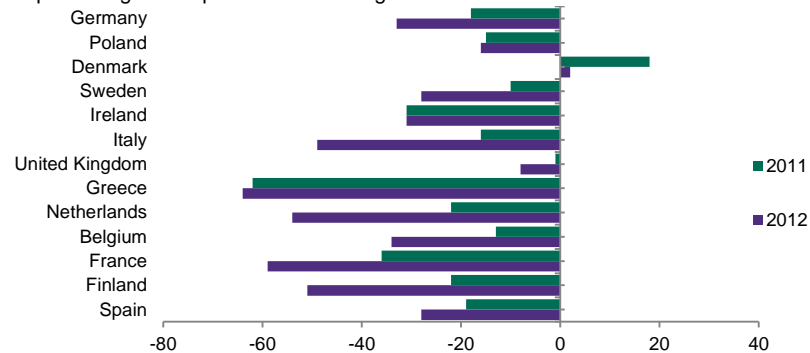
### Key questions

- is your current funding structure appropriate for your business?
- how well do you understand the levers of working capital in your business?
- is your capital structure supported by a dynamic and evolving business plan?

Without doubt, access to capital is a challenge for many businesses in the F&B sector. In a relatively short period of time, we have moved from a period of low regulation and a plentiful supply of cash, to an era of high regulation and limited availability of capital.

**Figure 10** Global access to finance (2012-v-2011)

Balance percentage of respondents indicating access to finance to be more or less accessible



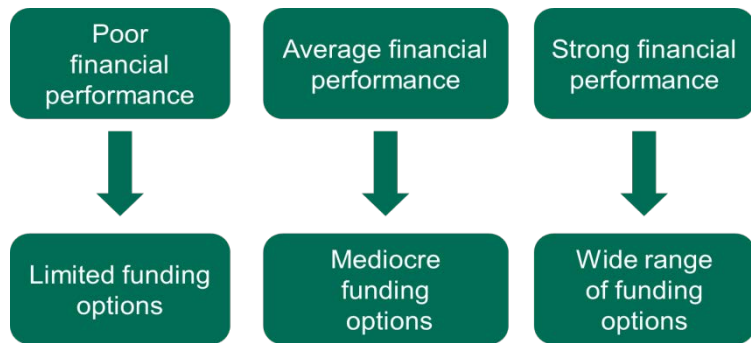
Source: Grant Thornton International Business Report (IBR Q2 2012)

According to the 2012 Grant Thornton International Business Report (IBR), business leaders continue to perceive access to finance as one of their key challenges to growth. In Ireland, businesses are pessimistic about their potential to access finance over the next 12 months. The challenge to secure capital is not uniquely an Irish one. Some of our European counterparts see access to finance as a far bigger hurdle than here in Ireland.

Sourcing finance is essentially a creditor-debtor relationship that needs to be worked out with an understanding of mutual dependency. Looking at the world through the eyes of the lender, the European Central Bank's latest Euro Area bank lending survey reports that a net tightening of banks' credit standards on loans to enterprises remained stable in the second quarter of 2012, with short-term loans subject to reduced credit standards.

While high regulation and limited availability of capital are here to stay, by understanding a bank's business model and the competitive landscape in which it operates, F&B companies can develop a value proposition (business plan) that will ensure the best opportunity of securing capital.

## Average breeds average



Financial performance drives availability of funding. Managing working capital tightly is critical to demonstrate financial stability and ultimately to generate as much free cash flow as possible for 2 key reasons:

- 1 controlling your own cash means you are less reliant on external sources, and places you in control; and
- 2 stable and strong cash flow improves your potential to access capital. Smart businesses are sourcing capital from a range of sources, including:
  - invoice discounting;
  - stocking and supply chain finance;
  - angel investor;
  - private equity funding;
  - subsidies and grants; and
  - group funding/'crowd funding'.

“We have not one dollar of outside capital in our business.....since we don't have to worry about outside investors.....we can focus our attention on the things that really matter.....it's been the fundamental philosophy – just reinvest, reinvest, reinvest....profit for us is the ticket to freedom, the ticket to do things.”

---

**Dr. Pearse Lyons, Founder and President**  
Alltech

## What are investors looking for?

Most businesses need to raise capital externally. At Grant Thornton our experience is that businesses who win the war for capital have the following traits in common:

- a strong leadership team;
- tight working capital management;
- an ability to adapt quickly to changing circumstances;
- a dynamic and evolving business plan in place; and
- a deep understanding of underlying financial performance.

“Management of financial performance is increasingly becoming a key differentiator for businesses as they try to attract funding. Critically, balance sheet performance is becoming as important as operating performance.”

---

**Patrick Burke, Partner**  
Grant Thornton

Jon Griffin, Partner, iCapital, shares his views, from the perspective of an external investor. He believes criteria for investment are as follows:

- the opportunity is sustainable and can grow;
- solves a problem, process or standard which a specific industry can utilise;
- has the ability to internationalise and scale;
- clear pathway to profitability, supported by a strong business plan;
- management team have the focus and ability to bring the next stage forward;
- clear notice for next funding round; and
- sound valuation in place.

**Reason...**it's difficult finding finance

+

**Instinct...**take different steps to grow

## Red tape and green tape



Regulation of business, whether the tape is red or green, is here to stay. Businesses face a simple choice – complain about it and allow it to suffocate progress, or recognise that it's inevitable and leverage it to their advantage. Table 7 highlights some of the key areas of regulation impacting F&B businesses.

**Table 7** Current and expected regulations projected to affect Irish F&B companies

Proposed changes	Critical questions to consider
CAP reform	<ul style="list-style-type: none"> <li>• how prepared are we for Common Agricultural Policy (CAP) reforms?</li> <li>• can Irish farmers push through meaningful changes that will protect them going forward? Can Pillar one (Single Farm Payments) and Pillar two (Rural Development payments) be rolled over? Or should farmers factor into place a contingency plan if only a small number of concessions are made?</li> <li>• how can Irish farmers adapt new technologies/innovation to a reduction in direct payments and proposed greening measures? Could this be done at state, industry and local level?</li> </ul>
Fat tax/sugar tax	<ul style="list-style-type: none"> <li>• obesity is a major problem; fat taxes are being introduced throughout the world: is it likely to occur in Ireland?</li> <li>• should your business anticipate this, creating new flavours and tastes, that are healthier, anticipating increased taxes on fat and sugar across a number of countries?</li> <li>• how can your business use this as an opportunity? Reducing the dependence on some expensive raw materials – sugar, cocoa, etc., securing their supply chain?</li> <li>• can your business afford to wait for change? Or should it take the initiative and develop new sugar free, reduced fat products?</li> </ul>
Carbon emissions	<ul style="list-style-type: none"> <li>• has your business complete transparency across its value chain – from farm to fork?</li> <li>• is it inevitable that carbon reduction requirements will become stricter?</li> <li>• are you prepared? Will you reduce carbon emissions below the current regulatory level?</li> <li>• should you innovate, investing in new technology that reduce carbon emissions on the environment and ultimately costs to your business?</li> </ul>
Labelling and packaging	<ul style="list-style-type: none"> <li>• labelling of foodstuffs is a constant struggle for food producers. There is confusion on both the manufacturer and the consumer's part as to what is the standard definition of particular terms that are commonly seen on food products including; What is natural? What is artisan? Homemade? Hand-cooked? Farm-fresh?</li> <li>• when will regulation be introduced to clear up the misuse of these terms?</li> </ul>
Clinical trials	<ul style="list-style-type: none"> <li>• do you follow the strictest food safety steps when developing a new product?</li> <li>• have you taken into account requirements internationally, with various cultures (e.g. meat) when carrying out trials?</li> <li>• are you considering applying to the European Food Safety Authority (EFSA) for a health claim to support your product?</li> <li>• does the low level of successful EFSA applications deter you?</li> </ul>

**Reason...**regulation is a burden

+

**Instinct...**turn it to your advantage

## Our Food and Beverage team



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## About Grant Thornton

### Grant Thornton Ireland

Grant Thornton provides assurance, tax and specialist advice to businesses to help them grow. Grant Thornton has significant experience in the food and beverage sector from the farm gate through to processing and retail. Our experience means that we can readily identify the critical issues affecting your business and then quickly provide specific solutions. The firm comprises over 400 partners and staff operating from offices in Dublin, Limerick, Kildare and Galway.

### Our global network

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to solve complex issues for privately owned, publicly listed and public sector clients.

We have over 100 member firms around the world providing assurance, tax and advisory services to privately held businesses and public interest entities. Globally we have more than 2,600 partners and 31,000 staff providing clients with distinctive, high quality and personalised service.

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# Sources

This report was compiled using both primary and secondary data. Desk research was compiled primarily through databases of news, macro-economic and demographic trends and reports, industry insights and analysis across the F&B sector, as well as cross-sectoral reviews and case studies.

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Primary research was carried out by conducting a number of one-to-one interviews with Irish and international business leaders primarily in the food and beverage sector. We are extremely appreciative of those who have taken the time to contribute to this report. Interviews were carried out with executives from a diverse range of organisations including:

- John Touhy, Chief Executive, Nightline
- Richard Cullen, Joint Managing Director, Aran Candy
- Felicity McCarthy, EMEA SMB Customer Marketing Manager, Facebook
- Jon Griffin - Partner, iCapital
- Bob Jolly - Professor Emeritus Iowa State University
- Vincent Gilhawley, CEO, Town of Monaghan Co-op
- Tara McCarthy and Mary Morrissey, Bord Bia
- Grant Thornton Ireland representatives
- Grant Thornton International representatives

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