

Guernsey Dairy Business Plan

2021



This business plan provides strategic direction for our management, staff and the Guernsey Dairy Board (DMB). It will act as a guide in setting policy and operational priorities that are aimed at making the business more focused and efficient.

This plan will be updated annually to reflect progress and capture new challenges and opportunities for our business and for the wider economy.

Why we are here

The principal reason for the Guernsey Dairy (the Dairy) is to act as an enabler to Guernsey's dairy industry and, in doing so, support the conservation of our unique rural environment, enhance biodiversity and uphold the genetic integrity of the Guernsey breed. The processing of milk at the States owned Dairy and the sale of liquid milk and milk-products is the financial mechanism that facilitates the continuation of the dairy farming industry designed to maintain Guernsey's traditional countryside.

Political, Strategic and Operational Context

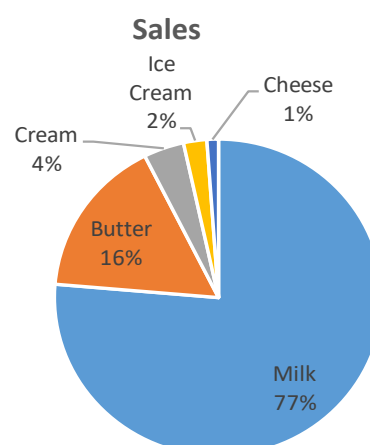
The Committee *for the* Environment & Infrastructure (CfE&I) is responsible for setting the policy in relation to agriculture and the wider dairy industry. Milk production remains the most important farm enterprise in Guernsey, of the 15,250 verges of agricultural land, dairy farmers use some 8,000 verges. There are currently 13 farms on the Island with approximately 1,450 milking cows producing c. 8 million litres of liquid milk per annum.

The STSB has operational responsibility for the Dairy, including ensuring it operates as efficiently as possible in the best long-term interests of islanders. In particular, as a sole supplier, to satisfy the local demand for processed fresh Guernsey milk at an acceptable price to the consumer.

Products and Services

The Dairy sells approximately 6 million litres of milk which are consumed by over 60,000 people who regularly enjoy the benefits of drinking fresh locally produced liquid milk. Milk is the core function of the business with sales accounting for 77% of annual revenue; however, this is declining due to the popularity of plant-based milks amongst other contributing factors.

As well as supplying the island with fresh liquid milk, the Dairy produces a range of milk products. Milk product sales make a small contribution with varying degrees of profitability; however, they support the Dairy's overall financial performance by utilising the surplus milk and cream



from milk production in times of over-supply. It should be noted, however, that without the corresponding sale of liquid milk, milk derived products do not make a positive gross margin as only the cream (5%) is used.

Who benefits from the Dairy's operation?

The island as a whole. Guernsey is divided into more than 3,000 small fields of Celtic design. These remain largely unchanged and continue to contribute to the unique characteristics of the island as well as its biodiversity which are enhanced by farmers working to harmonised biodiversity plans.

A contribution to the local economy is made by purchasing fresh Guernsey milk, each litre purchased helps to preserve the Guernsey countryside, its traditional farming heritage and protect the iconic Guernsey cattle breed.

A recent Guernsey Dairy survey, December 2019, confirmed that: 83% of people feel strongly or very strongly that Guernsey milk should continue to be produced by the island. 85% agree that the quality of Guernsey Dairy milk is excellent. 81% agree that supporting the Guernsey Dairy industry is essential to the maintenance of the Guernsey Dairy cattle breed.

Current Challenges facing the Guernsey Dairy

There are some important challenges facing the Guernsey Dairy currently that this business plan aims to address in the medium term.

The current tensions can be distilled as follows:

- The dairy is obliged to take all suitable milk produced by local farmers all as expressed within individual farm agreements specifying volumes and prices. This equates to approximately 7,800,000 litres.
- The farmers themselves need these levels of income to survive as sustainable businesses and deliver the community benefits as outlined in this document.
- The dairy currently requires approximately 7,000,000 litres to meet its requirements however liquid milk sales have declined consistently over the last ten years.
- The dairy can only make trading surpluses if the liquid milk component is sold at full value to consumers.
- The price of liquid milk charged to consumers cannot be lifted significantly without affecting sales volumes.

To resolve these tensions the dairy should:

Arrest the decline of local liquid milk sales whilst seeking new sales opportunities.

- Work on a marketing strategy to focus on feel-good PR and/or advertising campaigns to promote and support new approaches to adding value to milk and milk-derived products. Improve messaging about the dairy industry; improved public health, promoting community vitality, sustainability, food miles, conservation and centre of excellence of the breed. Develop campaigns that are more appealing and relevant to younger consumers.
- Maximise the value of the current packaging by using it for Dairy marketing messages
- Develop a greater understanding of the relationship between milk prices and demand through customer research
- Understand customer preferences by conducting market research, this will help to inform the strategy for the future of the range of products and potential changes to the current product positioning and packaging.
- All farms to be RSPCA Farm Assured compliant by mid-2021. As of early 2021, 11 of 13 farms are now RSPCA compliant.
- Work with CfE&I to establish a transition to LEAF scheme (linking environment and farming)
- Agree a transitional period in establishing island herds to 100% A2/A2 status
- Improve engagement with our direct customers i.e. retail outlets and trade account holders
- Continue to encourage support and understanding of the dairy industry through education, farm and dairy tours, and school visits.

The Guernsey Dairy survey highlighted that 77% agree that supporting the dairy industry is essential to the maintenance of the island's traditional, and familiar, rural landscape, but only 18% agree that Guernsey Dairy does enough to promote the understanding of Guernsey's farming heritage and the Guernsey dairy cattle breed (49% disagree).

Reduce the amount of liquid milk received from farmers whilst recognising the sustainability of farm businesses.

- Deliver a strategy with farmers to reduce raw milk production by aligning supply with demand over a number of years whilst maintaining continuity of supply to meet local demand.
- Develop a mechanism for the reallocation of contract literage to farmers after either an exit from the industry or a desire to reduce their contract literage. This mechanism should also include the possibility of a farmer wishing to grow and develop their business.

Remodel the operations at the dairy to become more commercially successful and provide the opportunity of paying the farmers more per litre without raising the cost of milk to the consumer.

- Keep the product range under review.
- Establish ways to reduce the effects of 'residual waste' by finding alternative uses and markets for surplus milk, cheese whey and / or 'fatless' milk.
- Increase the profitability of the export market by increasing prices to reflect the costs of freight, storage costs and account management.
- Continue to investigate the potential for spreadable butter
- Continue to make changes to increase the profitability of milk derived products.
- Continue to work on efficiency targets in particular
 - energy consumption
 - water usage
 - material and resource planning
 - transport optimisation
- Aim to achieve savings on some large areas of spend such a packaging and contractor spend
- Share knowledge and resources from around the Trading Group
- Invest in new equipment if it generates 'quick win' revenue savings e.g. a reduction of downtime, less wastage. Any investment in equipment must be compatible and transferable with the future Guernsey Dairy project. Apply a capital prioritisation process to target resources into appropriate tasks and to prioritise effort and expenditure into key areas of investment that will produce maximum gain and benefit to the business. Establish the best terms for short to medium term funding with the States of Guernsey
- Progress the Dairy's Outline Business Case for either a new-build Dairy or extensive reinvestment of the existing facilities.

Outcomes

- The Board aims to achieve cost savings or efficiency benefits of £125k before the end of 2021 in order to provide continuity of supply, a safe facility and to pay back short-term funding that has been secured for urgent capital items.
- The Board aims to reduce the annual supply of raw milk by 10% while maintaining a financially sustainable dairy farming industry.
- The Board aims to develop a marketing strategy document that sets out a plan to arrest the decline in consumption of cow's milk and reposition the Dairy's products as high value, healthy and sustaining both heritage and biodiversity messages.
- The Board will develop a full business case for the newly built or refurbished Dairy which can be operational by 2024.