

Business Plan 2011

Dairy Management Board
June 2011



COMMERCE AND EMPLOYMENT
A STATES OF GUERNSEY GOVERNMENT DEPARTMENT

GUERNSEY DAIRY 2011 BUSINESS PLAN

COMMENT FROM GUERNSEY DAIRY MANAGEMENT BOARD CHAIRMAN

As predicted in my 2010 comment, the Dairy's 2010 surplus of £405,000 was significantly lower (by some 30%) compared with that achieved in 2009. This decrease occurred despite an increase in turnover of £137,000.

Increases in packaging costs were considerably above RPI and energy costs rose by 13% during the year. The uplift of ½ p per litre (net) on the gate price of milk, being the only increase during the previous 20 months, came into effect on 3 October 2010. Under these circumstances Andrew Tabel and his team are once again to be congratulated for delivering a positive financial return, albeit, at a reduced level.

A further and substantial decrease in the Dairy's operating surplus is forecast for 2011 unless a greater increase in the gate price of milk is achieved as a result of this year's milk price review process. A reduction in the operating surplus will jeopardise the essential infrastructure programme which the Board seeks to finance as far as possible by cash generation i.e. save to spend, in a similar manner to other States Undertakings such as Guernsey Electricity and Guernsey Water.

Major infrastructure improvements during the year have seen the replacement of the No1 milk packaging machine and the installation of a new butter packer at a total cost exceeding £500,000. With the introduction of new, more efficient plant and the application of revised HACCP procedures, milk losses in the production process have been reduced for the third year running, generating a further £5,000 in savings.

As in 2009 supplies of raw farm milk were maintained at sustainable levels throughout the winter period and at no time was there a threat of the need to import from other jurisdictions. Negotiations are currently ongoing with the Guernsey Farmers Association concerning changes to quota profiles and quality of supply. The outcome of these negotiations will be revised and improved 'rules of supply' contracts between the Dairy and individual farmers.

Although the 2010 Milk Price Review recommended that the Dairy should work with the Guernsey Milk Retailers Association (GMRA) to provide a record of the volume of milk sales into shops and into non-shop areas, the Dairy has been unable to progress this work because GMRA representatives on the Dairy/GMRA liaison group did not feel

that it was appropriate to recommend to their members that commercially sensitive information should be provided ahead of the States debate and any resulting resolutions arising from the Dairy Industry Review. The recommendation of the Milk Price Review Panel for the Dairy to negotiate in-store promotions directly with supermarkets received a similar response from GMRA representatives, and currently remains un-actioned.

It is pleasing to note that the appointment of Foodlink-CI Ltd, with a brief to explore opportunities for new markets and enhance sales, is starting to show results. 2010 produced a £137,000 (13%) increase in sales turnover of milk products, including uplifts of 27% in the sale of butter and 57% in cheese.

I am also pleased with the results that LR&D has been able to achieve in establishing and enhancing brand awareness. Anecdotal feedback from the Dairy's communication sources, including 'hits' on the reconstructed and recently re-launched website www.guernseydairy.com, have been positive. A series of articles in the local GBG magazine linked to the use of Guernsey Dairy products in recipes by well known local chefs, together with a feature about Guernsey butter in the UK distributed in-house Waitrose magazine are examples of how brand awareness is being promoted both locally and in the UK.

The Dairy has been actively involved making representation to the Dairy Industry Review Panel throughout the year and in the process discussing issues with its primary partners, the farmers, and the distributors. It was therefore particularly pleasing to be able to make a joint official submission together with our industry partners from farming and distribution to the Industry Review Panel's initial draft report.

Doubtless there are challenging times ahead for the Guernsey Dairy and changes as a result of the States debate and resolutions on the Industry Review are likely. However, I am confident that with Andrew Tabel's leadership qualities and passion for the business; the skills and experience within the Dairy workforce; and the expertise and wisdom of board members and their advisers, the Guernsey Dairy is well-placed to accommodate and build on whatever decisions flow from the States of Deliberation's resolutions derived from the Independent Dairy industry Review.

Alan Child
Chairman

THE DAIRY MANAGEMENT BOARD MEMBERS

Chairman	- Alan Child
Non-States Member	- Simon Keys
Non-States Member	- Steve Hogg
Commerce & Employment	- Deputy Robert Sillars
Commerce & Employment	- Deputy Martin Storey
Ex officio	- Andrew Tabel (Dairy General Manager)
Ex officio	- Richard Nash (Director of Client Services)

Note:

The Board's Financial Management Service is provided by Martyn Smith (Director of Finance and Resources for the Commerce and Employment Department)

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Executive Summary

1. The Dairy aims to provide a modern processing unit for the local dairy industry, that supplies a range of high quality dairy products for local and export markets. It seeks to satisfy the local demand for processed fresh Guernsey milk and to operate in a commercial manner within the context of government intervention designed to maintain Guernsey's traditional countryside.
2. The Dairy is committed to building on current activities to ensure good communications with all of its stakeholders. This will include a twice yearly "In-Council" meeting and regular operational dialogue.
3. The Dairy intends to work with GFA members prepared to produce raw milk over and above their quota allowance in order to mitigate the need for raw milk imports and the threat of processed milk imports by others due to the Dairy being unable to supply local market needs.
4. The Dairy's product range will be reviewed (including the market testing of new products) and the fully absorbed manufacturing costs of each product will be accurately determined. A coherent commercially viable product, and price structure within a premium range, will be proposed.
5. The Dairy will focus on sales and their enhancement.
6. The Dairy seeks to reverse the trend in recent years of a drop in sales of Dairy retail products in the local market. The Dairy will work closely with milk distributors to investigate sales incentives for retail products, promotions, and marketing. Sales performance will be monitored and the Dairy will consider optimising its strategy for sales in the light of these investigations.
7. Export sales of butter remain important to the Dairy and support will be given to the sales contract with Waitrose in the light of the resurgence of interest in our retail butter in 2009/10.
8. Guernsey Dairy will continue to work with a specialist dairy industry QA consultancy, to ensure that the Dairy achieves quality standards in line with the UK industry and that efficiencies are maximised, shelf life is increased, and products are of the highest quality within the production process.
9. There was a lack of investment in facilities and equipment between 2002 and 2008. A comprehensive Investment Plan has been devised, and is now being implemented.

10. Significant operational improvements have been made through revised working practices leading to the reduction of milk losses in the business. The Dairy will continue to look for operational cost savings and will consider amongst other things reducing the length of the effective working week taking into consideration the result of the product review. A review of the management and administration structure of the Dairy will be conducted to determine the most efficient staffing model required to sustain the Dairy's needs.
11. At all times, Dairy staffing will be maintained at a level that ensures a hygienic and safe working environment is maintained.
12. The Dairy will make a submission to the Milk Price Review Panel, which aims to provide an Annual Business Outcome showing a profit in the region of 5% of turnover.

A. INTRODUCTION

Statement of Purpose

- **To provide a modern processing unit for the local dairy industry, that supplies a range of high quality dairy products for local and export markets.**
- **To satisfy the local demand for processed fresh Guernsey milk at an acceptable price to the consumer**
- **To operate commercially within the context of government intervention designed to maintain Guernsey's traditional countryside.**

Overview

Guernsey Dairy performs a vital milk processing and marketing role, operating at the interface between the raw milk producers (Guernsey's dairy farmers) and the people of Guernsey, as customers. The Milk and Milk Products (Guernsey) Law 1955 (much amended) instituted what is effectively a States monopoly over the supply of liquid milk on the Island. The prevention of imports in this way has acted as a key factor in protecting the Island's dairy farming industry and preserving the unique nature of the Guernsey countryside.

Operational Context

Guernsey Dairy aims to manufacture, market and sell commercially viable, high quality and high value dairy produce, operating an effective and efficient raw milk processing facility to UK national standards of hygiene and safety.

Whilst the Dairy's terms of reference include operating as commercially as possible and challenging accepted practice, the following restraints to operational efficiency currently apply:

- Island milk production is controlled (and effectively capped at 8.1 million litres per year) through the Dairy Supply Contract and quota system.
- All raw milk produced (to agreed quality standards) must be purchased from the suppliers regardless of the Dairy's need.
- Raw milk is purchased, and processed milk is sold at prices set by others.
- Until 2015, area monopoly licences apply to the distribution of all processed milk and doorstep deliveries of dairy products.
- The remuneration and conditions of service directives for all public sector employees apply to Dairy staff. The Dairy Management Board has no control over the pay or employment conditions of its own workforce.

Principal Activities

The principal activities of the Guernsey Dairy are:

- Collecting raw milk from farms
- Processing raw milk to produce milk, cream, butter, cheese, and ice cream for retail and catering sale.
- Operating agreed systems to pay farmers for milk collected
- Supplying milk and other dairy products to customers
- Ensuring that all milk collection and production activities are carried out in accordance with best practice and UK accepted food hygiene and safety standards
- Ensuring that developments in the UK food and drink industry are closely monitored and beneficial methods appropriate to the Guernsey Dairy are adopted.

B STAKEHOLDER RELATIONSHIPS

Guernsey Farmers Association (GFA)

Key to the future success of the Guernsey Dairy Industry is the relationship between the GFA as a representative body, of the Island dairy farmers, and the Guernsey Dairy. Meetings are now held on a regular basis with the aim of involving GFA members in a partnership approach to the development of the local dairy industry.

Activity

Regular meetings continue to be held between Dairy management and GFA representatives to work together to: -

- **improve the quantity and quality of the raw milk produced from the Guernsey breed of cattle**
- **obtain a good match between the Dairy's requirement for raw milk (demand curve) and the supply pattern throughout the year, and**
- **explore ways of improving the efficiency of the industry and the operation of the Dairy, to the benefit of all stakeholders and customers.**

(Notes of the meetings are circulated to participants and to members of the Dairy Management Board for information)

When

Monthly

Who

Chairman, General Manager and Quality Assurance Manager

Guernsey Milk Retailers Association (GMRA)

Until 2015 licensed milk distributors are guaranteed a territory based monopoly over the distribution of all Guernsey Dairy retail packaged milk and for the doorstep sales of Guernsey Dairy retail products. It is therefore important for the Dairy to work with the GMRA to maximise these sales.

Dairy senior management will continue to meet GMRA representatives regularly to discuss operational matters associated with supply and distribution issues.

Activity

Regular meetings will continue be held between Dairy management and the GMRA representatives to explore ways of working together to: -

- **maximise the sales of milk and dairy products in Guernsey**
- **explore ways of improving the service to local customers and**
- **discuss operational issues associated with demand, supply and delivery.**

(Notes of the meetings will be circulated to participants and to members of the Dairy Management Board for information)

When

Monthly

Who

Chairman, General Manager, Quality Assurance Manager and Sales and Marketing Advisor

Trade Counter Customers

There are currently 18 customers who hold a Trade Account with the Guernsey Dairy. Collectively their turnover in 2010 (£218,599) represented approximately 3.44 % of the Dairy's annual turnover.

Trade account customers currently have access to the following milk products produced by the Guernsey Dairy:

- Catering butter (salted and unsalted)
- Catering cream (whipping and double)
- The full range of ice-cream (catering and retail)

There are also (subject to conditions) bulk discounts for catering cream and butter that are available to all Dairy customers. The thresholds are currently:

- Catering salted butter – minimum order of 500kgs
- Catering unsalted butter – minimum order quantity of 250kgs
- Catering cream – minimum order quantity of 100 litres per week (across the entire range)

Activity

The trade counter scheme will be kept under review with the aim of maximising Guernsey Dairy's local market share of dairy product sales.

The particular focus in 2011 will be –

- **product availability**
- **ordering schedules and units of sale/discount thresholds as the Dairy moves to become more of a wholesaler and less of a retailer**
- **increasing the awareness and use of locally produced dairy products**

When

Continuous

Who

General Manager

Retail Trade and Commercial Customers

The Dairy has a distribution system based around the individual businesses that are the Islands "milk distributors". Feedback from commercial customers has long been that they would be better able to support and stock local GD products if they could speak directly to the Dairy to discuss matters such as promotions and POS.

Responding to that the Dairy has retained a Sales and Marketing Adviser on a part-time temporary contract to develop these links and build sales through improved communication and promotion across all GD products.

Activity

See Sales and Marketing Plan (section D) approved by the DMB (24 March '11)

When

Throughout 2011

Who

General Manager and Sales and Marketing Adviser

C RAW MILK SUPPLY PLAN

Volume

As in 2010, a key issue for the Dairy (See Fig 1 "Raw Milk intake 2006-2011"), is the seasonal variation of raw milk supply throughout the year. Whilst this is to a degree unavoidable, of particular concern have been the periods of low production in the winter. The Dairy Farm quota arrangements have not given sufficient incentive to date to avoid the need to import raw milk to make up for seasonal under production in some years. The Dairy has discussed this at length with the GFA and is pleased to note that production held up in the winter of 2010-2011 very well. Changes were made to raw milk pricing in January to March 2011 raising the "B" price to the "A" price level. The Dairy will review the matter and may well re-instate this arrangement for further trialing in the winter 2011/2012. The Dairy is also working with the Department on a review of details of the milk quota system to further incentivise winter production.

Activity

Review the experience of a raised "B" price with the GFA and consider changes to the monthly milk quota profile (with the Commerce and Employment Department) to enable raw milk production to match the islands demand for liquid milk. Consultation on any further changes will take place with the Industry.

When

Ongoing throughout 2011

Who

Chairman, General Manager, Representatives from Commerce and Employment

Raw Milk Quality

The quality of the raw milk produced on the island remains high but general improvement will be required in order to reach the levels afforded to some processors of premium branded fresh milk in the UK. This will have the added advantage of possibly extending the code life on milk and cream, and as a consequence, operational procedures at the Dairy being reviewed. This will form the basis in the changes to the 'Rules of Supply' negotiated between the Guernsey Dairy and the GFA and introduced over a predetermined period of time.

Bacterial quality and antibiotic contamination of raw milk are issues that affect the Dairy, potentially raising costs, jeopardising product shelf life, and threatening continuity of local supply.

However, the volumes of milk lost due to contamination by antibiotics are relatively low, losses over the last 5 years being as follows:-

- 9,920 litres in 2007
- 14,792 litres in 2008
- 13,488 litres in 2009
- 4,878 litres in 2010
- 4,136 litres (to date in 2011)

When contamination is identified in the Dairy's milk tanker during pre-acceptance tests the volume lost is greater, as it is not only the offending farm's milk that is contaminated, but also milk from the other farms making up that collection round.

The Dairy has consulted extensively with the GFA over amended "Rules of Supply" to address the challenges faced.

Activity

The Dairy will work with the GFA to finalise the amended rules of supply and implement them during the latter part of 2011/early 2012

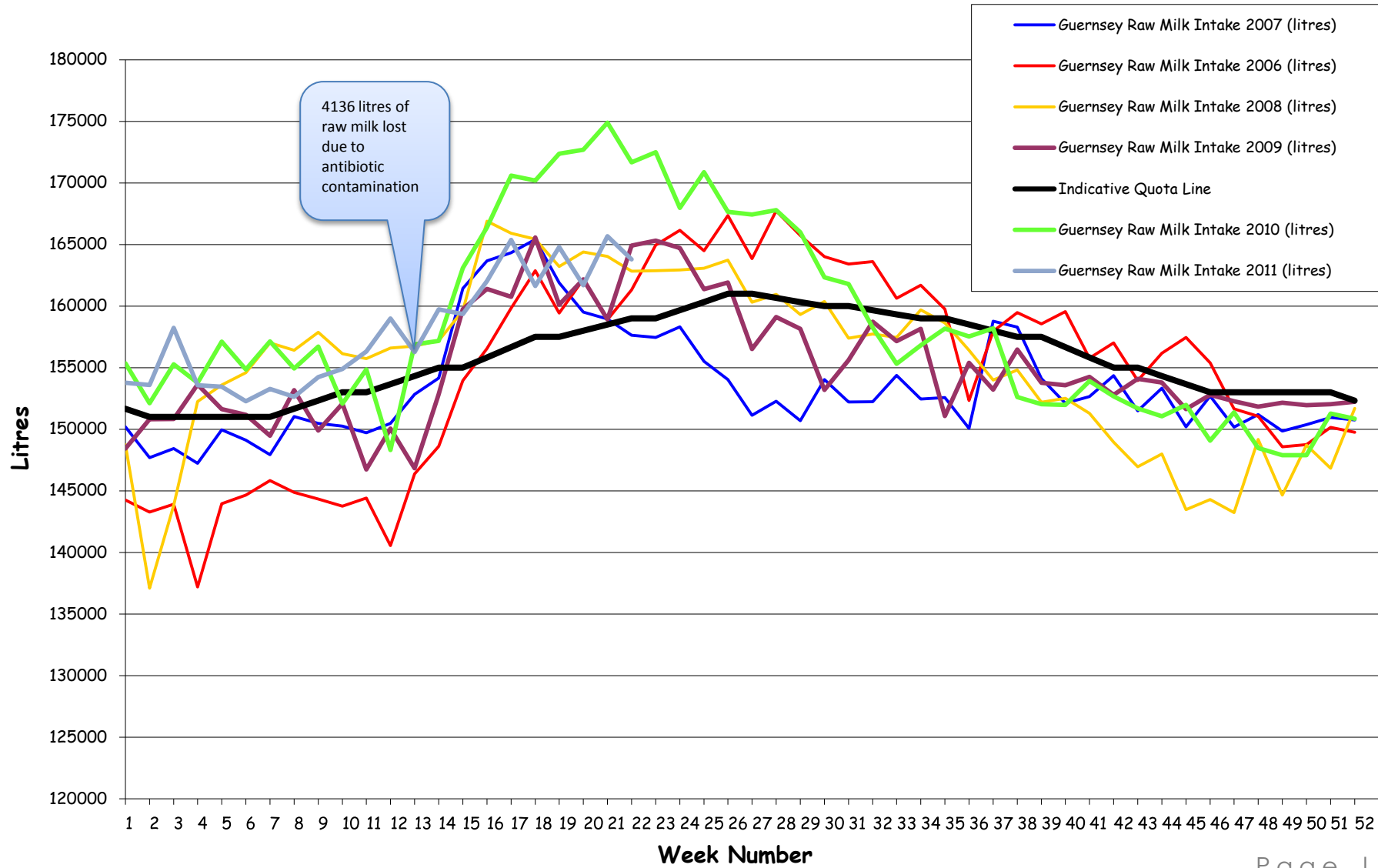
When

Ongoing throughout 2011

Who

Chairman, General Manager and Quality Assurance Manager

Fig. 1 - Weekly Raw Milk Intake (2006 - 2011)



D PRODUCTS, QUALITY, SALES, & MARKETING PLAN

Milk

Liquid milk sales continue to account for some 81.11% of annual turnover by value, and the total volume of liquid milk sold has remained reasonably static over the last 10 years. In line with the long-term trend, skimmed milk litre sales continue to increase and there has been an overall reduction in half-litre sales as the consumer appreciates the difference in price when buying a half-litre carton of milk as opposed to a full litre. The price is biased to reflect the higher operational costs of producing, packing and handling half-litre cartons.

Activity

- 1. Milk sales in 2011 are expected to reflect those of recent years with a continuing trend towards lower fat products and a slow decline in liquid milk sales. The Dairy will monitor the commercial expediency of continuing to manufacture a half-litre full-cream product and alternative approaches to production processing to reduce its costs, whilst maintaining acceptable use-by dates.**

When

Ongoing throughout 2011

Who

General Manager, QA Manager, Production Manager and Sales and Marketing consultant

Activity

- 2. Obtain revenue from the sale of advertising space on the milk cartons**

When

Ongoing throughout 2011

Who

Chairman, General Manager and Sales and Marketing Adviser

Activity

- 3. In the absence of advertising revenue from the sale of advertising space on the milk cartons investigate the feasibility of cross-advertising with other island businesses for mutual benefit**

When

Ongoing throughout 2011

Who

Chairman, General Manager and Sales and Marketing Adviser

Cream

Year on year, catering cream sales decreased in volume by 3.48% (2,858 litres) with retail cream sales showing a marginal increase of 0.60% (240 litres). Overall, cream sales reflect a decrease of 2.15% (2,617 litres) across this sector of the business.

Activity

- 1. The Dairy will continue to work with the GMRA and trade counter customers to market the benefits of locally produced Guernsey Dairy cream in order to gain an increased share of local market cream sales.**
- 2. Targeted promotional activities to be supported using the assistance of the Sales and Marketing advisor in conjunction with major retail outlets on the island.**
- 3. Work to continue with the catering section of the CoFE on the training of young chefs in the use of real (Guernsey cream rather than cream substitutes).**

When

Ongoing throughout the year

Who

General Manager, Sales and Marketing Advisor along with GMRA Representatives.

Butter

Total butter sales show continued growth, up by 15.72 % in 2010 compared with the same period in 2009. This was primarily achieved by promotional activity in the first quarter of 2010, which enabled the business to sell some of its stock brought forward from 2009.

Butter exported to Waitrose and sold in the Guernsey Dairy's own branded wrap continued to show improvement and was re-listed in the small/medium Waitrose stores across the UK in the latter part of 2009. This is a

lucrative and valuable export market for the business which raises the profile of the Guernsey Dairy as a producer of premium quality, high value niche market dairy produce. The Dairy will again support and build on its relationship with Waitrose Ltd. throughout 2011.

Activity

The Dairy will offer and run targeted price promotions to increase sales working with its distribution network and commercial customers both locally and in the export sector of the market.

- 1. Guernsey Dairy will continue to work with Waitrose to ensure continuation of the existing supply contract.**

When

Ongoing throughout the year

Who

General Manager and Sales and Marketing Advisor

Activity

- 2. Continue to work with DEFRA to establish some form of accreditation relating to the initial PDO application for Guernsey Dairy butter – possibly a PGI (protected Geographical Indication) if the island is refused a PDO.**

When

December 2011

Who

QAM (with consultancy advice from FICS and SOG Agricultural Advisor)

Activity

- 3. Ensure the correct positioning of Guernsey Dairy butter (local and export) by evaluating each sector of the market to enable the business to benefit from the high value premium branding associated with its products.**

When

December 2011

Who

General Manager, Sales and Marketing Advisor

Ice cream

As a result of retail ice cream sales falling by 24.25% in 2008 compared with the previous year the existing sole distribution rights arrangement was terminated in 2009 and the product made available on the Trade Counter and thus available to all and any customer of the Guernsey Dairy with the appropriate form of refrigerated storage/transport.

Ice-cream sales by volume show a marginal increase of 0.48% (489 litres) in 2010 compared to 2009 however, 2010 saw some changes to the product listing i.e. flavours available ex-stock, and gate price increases across the catering range of flavours. This helped to re-establish the margins (against the FAMC's) and align the prices against competitors' products on a like for like basis. 2010 also saw the introduction of new 2-litre packaging and labelling which better reflected the quality of the contents in the retail sector of the market.

Continuity of supply in the 110 ml range was interrupted due to a servo-motor drive failure that rendered the packaging equipment inoperable for an extended period of time whilst the bespoke motor was repaired. Sales of this product line fell by 32.76% (547 litres) in 2010 compared to 2009 as a consequence.

Catering ice-cream sales fell by 5.59% (3,584 litres) but retail sales showed strong growth, 51.64% (11,420 litres) year on year, brought about by increased sales and marketing activity which included:

1. Streamline/improve ordering arrangements for shops
2. Impulse purchase fridges in selected outlets
3. Point of sale displays
4. Proactive contacts with local wholesalers
5. In-store sampling
6. Review of packaging and pack sizes (catering and retail)

Activity

- 1. Continue to work with prospective partners to raise the profile of Guernsey Dairy ice-cream at key sites across the island.**

When

Throughout 2011

Who

General Manager and Sales and Marketing Advisor

Activity

- 2. Introduce a range of premium 'scooping' flavours for key sites across the island.**

When

Throughout 2011

Who

General Manager and Sales and Marketing Advisor

Activity

- 3. Investigate and evaluate the retail sector of the 2 litre ice-cream market with a view to repositioning the RSP against competitor's products – subject to DMB approval.**

When

March 2011

Who

General Manager and Sales and Marketing Advisor

Activity

- 4. Develop a bespoke Herm Vanilla recipe and investigate the feasibility of supplying Herm with the premium scooping range of flavours for the 2011 season.**

When

May 2011

Who

General Manager

Activity

- 5. Investigate the feasibility of introducing a one-litre ice-cream range either in conjunction with, or as alternative to, the current two-litre range.**

When

December 2011

Who

General Manager and Sales and Marketing Advisor,

Cheese

Frie d'Or, the first soft cheese to be developed by the Guernsey Dairy, was launched in 2008 in partnership with Meadow Court Farm who assisted with

the initial marketing and promotion. Smoked cheese was also re-introduced after an absence of 3 years (in both retail and catering sizes). There has been a continuation of small batches of specialist "flavoured" cheeses targeted for release at specific times of the year i.e. Christmas and the seasonal Farmers markets, but these account for a marginal percentage of total sales.

With "working milk losses" still being effectively managed (2010 saw a reduction of 6.07% or 22,784 litres compared to the previous year) and with strong raw milk production from the island's dairy farmers, excess milk i.e. that which is considered to be above and beyond what is required for liquid milk and projected cheese sales, continues to be available. Overall, cheese production in 2010 exceeded 2009 levels by 60.50% or 20,214 kg's.

Competition in this sector of the market remains fierce, with major brand leaders engaging in ongoing promotional activity throughout the year. The Guernsey Dairy countered this by running several 'blanket' promotions in 2010 across both product ranges i.e. catering and retail. Despite this, some cheese was exported to the UK due to it nearing its maximum maturation point and the inherent risk of 'spoiling'. Additional cheese was sold to a local Food Service provider for grating giving the Dairy a slightly better return on its initial investment as opposed to exporting it to the UK.

Overall cheese sales in 2010 saw an increase of 75.96% (16,547 Kg's) compared to the previous year with catering block sales (due to exports and local cheese grating sales) being the biggest contributor (49.01% or 11,104kg's).

Retail sales struggled by comparison showing a decline of 15.04% (2,684 kg's) against the previous year.

Activity

1. The Guernsey Dairy will continue to work with the GMRA, trade counter customers, and retail outlets to market Guernsey Dairy cheeses. Specifically the Dairy will:-

- **Improve point of sale and general awareness**
- **Review the retail packaging design**
- **Improve the presence of GD cheeses on deli-counters**
- **Develop and promote, at a modest level, the Dairy's range of flavoured speciality cheeses**
- **Undertake in-store sampling**
- **Support the sampling and use of GD cheeses at high profile local events**

The Guernsey Dairy will also promote Guernsey Dairy cheeses by attending events such as "The taste of Guernsey" and cheese and wine tasting events organised by local wine merchants.

When

Ongoing throughout the year

Who

General Manager, Sales and Marketing Adviser, Cheese production team

Activity

- 2. Investigate the feasibility of introducing an artisan cheese e.g. waxed coated, to compliment the Dairy's existing product range**

When

December 2011

Who

Sales and Marketing Adviser, third party consultation and Production Manager

Activity

- 3. Conduct a feasibility study of the cost/benefit in continuing the production of Frie d'Or cheese and the price-point it retails for in the local market place taking into consideration the FAMC's**

When

December 2011

Who

General Manager, Sales and Marketing Adviser, Production Manager

Local Market Sales

The sale of Guernsey Dairy products into the local retail market produces the highest net worth of sales in the business. Marketing will therefore concentrate on gaining a higher percentage of the available local dairy market.

Activity

Establish what percentage of the market share the Guernsey Dairy has in each sector of the market.

When

Ongoing throughout 2011

Who

General Manager and Sales and Marketing Adviser (with input from the GMRA and major Retail Outlets)

Export Sales

The Dairy's main export over recent years has been Butter to Waitrose (Fig. 2). This is an ideal market for the Guernsey Dairy as the supply and demand relationship is in balance.

Cheese also has potential for exports but the market is extremely competitive for an undifferentiated product. Guernsey Cheddar is a traditional; farmhouse type cheddar cheese and as such is not considered to be a conventional artisan style. Finding a high value niche market along with a satisfactory route to market is essential, but continues to be elusive.

Activity

- 1. Marketing opportunities for one-off export sales of excess butter - stocks will be actively investigated as and when product becomes available.**
- 2. Opportunities for export markets for cheese will continue to be investigated.**

When

Ongoing

Who

General Manager and Sales and Marketing Advisor

Product Pricing

The FAMC project is complete, but will be continuously monitored and updated throughout the course of the year.

Activity

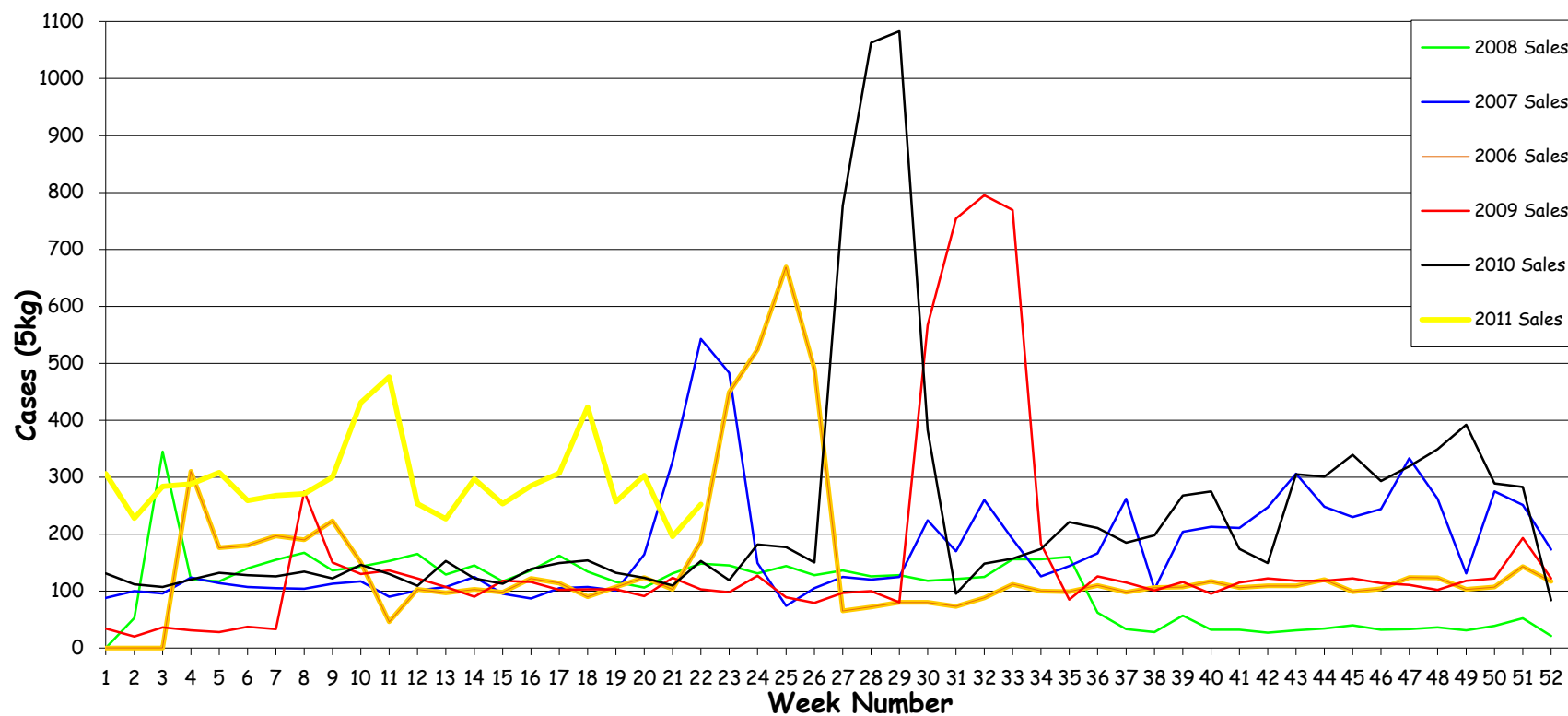
The FAMC of Guernsey Dairy products will be regularly monitored and price changes to products will be implemented (subject to DMB approval) taking into account variations in FLHP, packaging/labour costs and prices of competitive products in the same sector of the market.

When

Ongoing

Who

Chairman, General Manager and Chief Engineer

Fig. 2 - Waitrose Butter Sales 2006-2011

Quality Management Systems Review

The Guernsey Dairy was audited by Environmental Health Department in April 2011 and retained the appropriate EU food manufacturing standard accreditation.

Waitrose, prior to setting up shop in Guernsey, audited the business as a supplier of milk and milk-products (19 January '11) – which was successfully completed. It was suggested that the business obtain some formal third party accreditation to ensure compliance is maintained and as a way to further enhance our relationship, both on the island and in the UK. The proposed scheme already endorsed by Waitrose and used by many of their existing UK Suppliers is the Small And Local Supplier Accreditation (SALSA) scheme.

The annual audit by the Soil Association to enable the Guernsey Dairy to be licensed to process and pack Organic milk was successfully completed on 02 June 2011.

Activity

- 1. Guernsey Dairy's food industry advisor, Food Industry Consultancy Services Ltd (FICS), will continue to train the Guernsey Dairy HACCP team to Level 2 (HACCP for manufacturing) and the QA Manager as team leader to Level 3 (HACCP for manufacturing).**

When

Ongoing - completion November 2011

Who

Quality Assurance Manager (with consultancy advice from FICS)

Activity

- 2. Product and process training for the laboratory staff in milk and milk-products is complete, but is the subject of continued evaluation, (audit and review) as part of the Dairy's Quality Management System.**

When

Ongoing throughout 2011

Who

Quality Assurance Manager (with consultancy advice from FICS)

Activity

- 3. Guernsey Dairy will continue to work with FICS to ensure that the Dairy achieves quality standards in line with the UK industry and that efficiencies are maximised, shelf life is continually monitored,**

and products are of the highest quality within the manufacturing and production processes.

When

Annual trends will be monitored and reviewed quarterly

Who

Quality Assurance Manager (with consultancy advice from FICS)

Activity

- 4. Review the current Laboratory microbiological testing procedures and establish whether they still fulfil the needs of the business or whether alternative and more responsive testing methods are available.**

When

Completed September 2010 but is the subject of continuous review and auditing principles throughout 2011

Who

Quality Assurance Manager (with consultancy advice from FICS)

Activity

- 5. Complete and introduce the Small And Local Supplier Accreditation (SALSA) scheme supported and accepted by Waitrose Ltd. but managed by an independent third party.**

When

Completion early 2012

Who

Quality Assurance Manager (with consultancy advice from FICS)

E BUSINESS AND OPERATIONS PLAN

Business Outcomes

The trading accounts for the year ended 31 December 2010 together with the 2011 Probable Outturn are attached as Appendix 1. See also Appendix 2 for sales projections

Activity

The Dairy will make a submission to the Milk Price Review Panel, which aims to provide an Annual Business outcome showing an operating surplus in the region of 5% of turnover.

When

June 2011

Who

Chairman, DMB Members, General Manager, Financial Service Provider (C&E)

Activity

As part of the MPRP submission, the Dairy will request that it is given the financial resources to enable it to adopt the most efficient financial model of funding infrastructure investment from savings, in a similar manner permitted by other States Trading Boards i.e. save to spend.

When

June 2011

Who

Chairman, DMB Members, General Manager, Financial Service Provider (C&E)

Operational Review

Significant operational improvements were made during 2009/10 through revised working practices leading to the reduction of milk losses in the business. Although work will continue to reduce losses even further it is likely that any additional savings in this area will be small compared with those already achieved. Further operational savings may be achievable through reducing the effective working week and reviewing production schedules and product range.

The Guernsey Dairy is conscious of the independent review of the dairy industry commissioned by the Policy Council, which is currently in progress. No major initiatives will be launched by the Guernsey Dairy until the review's findings are known and have been formally considered.

Activity

1. Continue to supply information to the Dairy Industry Review Panel

When

Continuous throughout 2011 as part of the consultation process

Who

Chairman, General Manager

Activity

2. Review current ordering schedules and units of sale for all milk and milk-products

When

Ongoing throughout 2011

Who

Chairman, General Manager and Sales and Marketing Adviser

Activity

3. Establish clearly defined guidelines regarding the importation and use of UHT milk in the island under existing legislation

When

May 2011

Who

Chairman, General Manager, Representatives from Commerce and Employment

Management and Administration Structure Review

The current establishment of the Guernsey Dairy is shown in Appendix 4.

Activity

The human resources needed to provide an efficient commercial operation, including succession planning for key roles, will be determined when the outcomes of the product and operational reviews are known. At this

time a review of the management and administration structure of the Dairy will be conducted to analyse the most efficient staffing model required to sustain the Dairy's needs. Meanwhile, dairy staffing will be maintained at a level commensurate with providing a hygienic and safe working environment.

When

Following consideration of the findings of the Policy Council Industry Review and implementation of the product and operational review recommendations (see above).

Who

Chairman, General Manager and Staff representatives

Business Continuity & Security Review

Three threats to business continuity exist which are difficult to plan for, namely - the importation of processed milk into the Island uncontrolled by the Dairy; the inability of the local dairy farming community to supply sufficient raw milk over a sustained period of time, and the inability of the Guernsey Dairy to function because of some unforeseen catastrophic incident.

Activity

The Dairy will identify and monitor the known and most likely of threats to business continuity and endeavour to plan accordingly

When

Ongoing throughout 2011

Who

Chairman, General Manager, Chief Engineer, Quality Assurance Manager (with consultancy support from FICS)

F CAPITAL INVESTMENT PLAN

A shortage of funding generated from a negative operating surplus and uncertainties over future finances resulted in a lack of investment in facilities and equipment between 2002 and 2008. Having thoroughly reviewed the needs of the business a comprehensive Capital Investment Plan (attached as Appendix 3) has been developed. Improved financial performance largely, but not exclusively due to improved gate prices for milk since 2008 has greatly assisted the Dairy in establishing a capital investment fund based on its trading activities and supported by a "save to spend" policy.

Two large pieces of dairy equipment were ordered in early 2010 with the milk packaging machine (£365,000) arriving in the island in early December. The butter packer (£190,000) appeared on site in September but on arrival was found to have sustained extensive damage in transit and was subsequently returned to the Supplier without ever being off-loaded. This caused a delay of several months and installation commenced in May 2011.

Several smaller projects were also completed along with routine remedial repairs/maintenance work being carried out to the fabric of the building. During the course of 2011, small scale capital investment is planned with the replacement/repair of several key areas around the facility as the deterioration of systems and services installed during the 1989/1990 refurbishment show signs of degenerative wear and tear and have the added effect of threatening an interruption to the processing of milk e.g. chilled water/ice-bank, MCC2 Electrical control panel. Other items such as the Laboratory refurbishment (which is long overdue) and minor upgrades to the Dairy's SCADA system (which will give the business more control over processing and CIP systems) will ensure that the business moves forward at a steady pace and engages in "industry standard practices".

A revised CAPEX figure of £494,000 has been put in place for 2011 with a further £798,000 scheduled for 2012.

Activity

The rolling Capital Investment Plan will be implemented as indicated over the coming years and will be determined by a system of prioritisation whilst taking into consideration available funding on a "save to spend" policy.

When

Continuous throughout 2011 (see plan details)

Who

Chairman, General Manager and Chief Engineer

Appendix 1 - Dairy Trading Account 2010 and Probable Outturn 2011

Dairy Revenue account**For the year ended 31 December 2010**

	2010		2009	
	£	£	£	£
Sales				
Liquid milk		5,177,090		5,161,426
By-products		1,164,800		1,027,426
Sundry income		<u>36,375</u>		<u>52,066</u>
Total sales		6,378,265		6,240,918
Cost of sales				
Opening product stock	258,978		197,209	
Opening packaging stock	<u>145,338</u>	404,316	<u>145,299</u>	342,508
Production wages	747,770		709,995	
Milk	3,065,740		2,956,560	
Milk wastage	136,889		142,165	
By-product ingredients	36,060		28,503	
Packaging materials	523,504		496,791	
Carriage inwards	15,121		12,209	
Offshore processing and freight	34,015		30,460	
Sundries	<u>111</u>	4,559,210	<u>(12)</u>	4,376,671
Closing product stock	(273,061)		(258,978)	
Closing packaging stock	<u>(168,734)</u>	(441,795)	<u>(145,338)</u>	(404,316)
Total cost of sales		<u>4,521,731</u>		<u>4,314,863</u>
Gross surplus		1,856,534		1,926,055
Administration expenses		<u>(1,455,830)</u>		<u>(1,355,500)</u>
Operating surplus for the year		400,704		570,555
Interest receivable		3,992		5,931
Gain on sale of fixed asset		<u>60</u>		<u>3,800</u>
Retained surplus for the year		<u>£ 404,756</u>		<u>£ 580,286</u>

All material activities derive from continuing operations.

**Balance sheet
at 31 December 2010**

	2010 £	2009 £
Tangible fixed assets	1,538,804	1,568,242
Current assets		
Stocks	506,854	465,313
Debtors and prepayments	1,274,271	964,075
Balances held with the States Treasury	332,935	533,485
Bank deposits	628,973	374,352
Cash in hand	<u>124</u>	<u>111</u>
	2,743,157	2,337,336
Creditors: amounts falling due within one year	<u>(477,035)</u>	<u>(505,408)</u>
Net current assets	<u>2,266,122</u>	<u>1,831,928</u>
Total net assets	<u>£3,804,926</u>	<u>£3,400,170</u>
Reserves	<u>£3,804,926</u>	<u>£3,400,170</u>

**Cash flow statement
for the year ended 31 December 2009**

	2010 £	2009 £
Net cash inflow from operating activities	188,710	554,982
Returns on investments and servicing of finance		
Interest received	3,992	5,931
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(131,247)	(277,849)
Receipts from sales of tangible fixed assets	60	3,800
Increase in cash	<u>£ 61,515</u>	<u>£ 286,864</u>

Capital Expenditure

	2010	2009
	£	£
Plant & Machinery		
1.5 Kw Stainless Steel Pump	-	2,089
2.5 Kw Stainless Steel Pump	-	2,186
Hot Foil Printer (Butter Packaging)	-	3,085
Cold Room Store Shelving	-	1,664
C.I.P. Delivery Pump	-	3,872
Frequency Inverter	-	4,312
3 x Frequency Inverters for C.I.P. Pumps	-	2,400
Pasteuriser Raw Milk Pumps	-	2,695
Compressor Air Dryer	-	2,159
Air Compressor	-	13,732
Refrigeration/Compressor Units for Cold Stores 2, 3 & 4	-	36,580
Display Freezer Unit	-	1,365
Domino A200+ High Performance Inkjet Coder	-	9,200
Cold Store 7 (Butter)	-	27,831
Fan Convector Heaters for Heated Carton Store	2,769	-
Hot Water Calorifier	1,920	-
PS70 Filling Manifold	842	-
Refrigeration Equipment Unit for Cold Store 5	6,925	-
Refrigeration Equipment for Cheese Maturation Room	6,925	-
Milk Collection Systems	4,742	-
Milk Tanker Data Capture System	22,489	-
C.I.P. Up Grade to Cream Tank Controls	14,635	-
Buildings		
Workshop Wiring	-	5,178
Laboratory Storeroom Refurbishment	1,584	834
Aluminium Doors	2,022	-
Guttering & Fascias	22,923	-
Tanker Office Refurbishment	2,694	-
Loading Bay Refurbishment	6,212	-
Resurface Floor in Cold Store 5	6,170	873
Motor Vehicles		
2 x Road Tankers	-	126,969
Forklift Truck	45	15,890
Isuzu Rodeo Denver 4x4 Pickup Truck	17,264	-
Other Office Equipment (F&F)		
File Server	-	4,256
Photocopier	-	4,366
5 x Personal Computers	-	2,195
Server Software	-	1,930
HP Laserjet Printer	-	568
Safety Cabinet	-	1,620
HP Compaq 8000 Elite PC + Work Station	1,616	-
Upgrade to SCADA System Software	9,470	-
Total Capital expenditure	<u>£131,247</u>	<u>£277,849</u>

Probable Outturn 2011

INCOME	£	£
Sales of Milk and By-Products		
By-products	1,165,000	
Liquid milk	<u>5,238,400</u>	
		6,403,400
Sundry income		20,000
		<u>6,423,400</u>
Other Income		
Bank interest		6,000
		<u>6,429,400</u>
TOTAL INCOME		6,429,400
EXPENDITURE		
Cost of Sales - Direct		
Opening stocks (products and other costs of sales)	441,795	
Carriage inwards	15,600	
Ingredients	37,100	
Milk	3,120,600	
Milk Wastage	151,500	
Offshore processing and freight	35,000	
Packaging materials	460,000	
Production wages	790,000	
Closing stocks (products and other costs of sales)	(441,795)	
	<u>4,609,800</u>	
Expenses		
Advertising and promotion	53,600	
Carriage outwards	8,600	
Cleaning materials	64,200	
Depreciation	190,000	
Fuel, light, power and water	276,000	
General administration costs	30,600	
Laboratory materials and equipment	80,700	
Motor vehicle expenses	24,300	
Other expenses	48,300	
Professional fees	92,900	
Repairs, maintenance and insurance		
Plant and machinery	90,000	
Site and buildings	38,000	
Rates	400	
Salaries and wages	528,500	
Staff training and recruitment	2,400	
	<u>1,528,500</u>	
TOTAL EXPENDITURE		6,138,300
SURPLUS FOR THE FINANCIAL YEAR		<u>£291,100</u>

Appendix 2 - Projected Sales 2011 (by volume)

Appendix 2 - Projected Sales 2011 (by volume)						
Product Line		Sales weeks 1-52				Percentage Difference
		2010	2010	2011	2011	
		Actual Unit Sales	Literage/weight	Projected Sales	Literage/weight	
Low Fat ½ Litre	Units	493,488	246,744	470,000	235,000	-4.76%
Low Fat Litre	Units	4,183,227	4,183,227	4,100,000	4,100,000	-1.99%
Low Fat Pergal	Units	18,408	250,349	19,500	265,200	5.93%
Full Cream ½ Litre	Units	140,452	70,226	135,000	67,500	-3.88%
Full Cream Litre	Units	638,354	638,354	610,000	610,000	-4.44%
Organic Low Fat ½ Litre	Units	79,742	39,871	75,000	37,500	-5.95%
Full Cream Pergal	Units	1,063	14,457	1,000	13,600	-5.93%
Skimmed ½ Litre	Units	199,535	99,768	190,000	95,000	-4.78%
Skimmed Litre	Units	1,037,593	1,037,593	1,100,000	1,100,000	6.01%
Projected 2011 Total Milk Sales (litres)	Litres		6,580,588		6,523,800	-0.86%
Double Cream 142ml	Units	63,384	9,001	65,000	9,230	2.55%
Double Cream 284ml	Units	88,720	25,196	90,000	25,560	1.44%
Whipping Cream 142ml	Units	15,112	2,146	16,000	2,272	5.88%
Extra Thick Cream 284ml	Units	12,829	3,643	13,500	3,834	5.23%
Total Retail Cream Sales (litres)	Litres		39,986		40,896	2.27%
Whipping Cream ½ Pot	Units	1,974	2,242	1,900	2,158	-3.75%
Whipping Cream Pot	Units	3,577	8,127	3,400	7,725	-4.95%
Double Cream ½ Pot	Units	2,767	3,143	2,650	3,010	-4.23%
Double Cream Pot	Units	4,028	9,152	4,000	9,088	-0.70%
Bulk Discounted Double Cream ½ Pot	Units	3,054	3,469	3,750	4,260	22.79%
Bulk Discounted Double Cream Pot	Units	10,212	23,202	10,500	23,856	2.82%
Bulk Discounted Whipping Cream ½ Pot	Units	2,310	2,624	2,000	2,272	-13.42%
Bulk Discounted Whipping Cream Pot	Units	12,033	27,339	10,000	22,720	-16.90%
Total Catering Cream Sales (litres)	Litres		79,298		75,090	-5.31%
Projected 2011 Total Cream Sales (catering + retail) (litres)	Litres		119,285		115,986	-2.77%
Butter Portions (x200)	Units	5,274	7,384	6,000	8,400	13.77%
Salted Butter (250g)	Units	269,276	67,319	450,000	112,500	67.11%
Unsalted Butter (250g)	Units	62,540	15,635	75,000	18,750	19.92%
Bulk Butter (10kg) Salted	Units	110	1,100	125	1,250	13.64%
Bulk Butter (10kg) Unsalted	Units	285	2,850	250	2,500	-12.28%
Catering Salted Butter 250g (<499kg)	Units	51,171	12,793	5,000	1,250	-90.23%
Catering Unsalted Butter 250g (<249 kg)	Units	31,566	7,892	2,500	625	-92.08%
Discounted Catering Salted Butter 250g (>500 kg)	Units	121,230	30,308	0	0	-100.00%
Discounted Catering Unsalted Butter 250g (>250 kg)	Units	11,965	2,991	0	0	-100.00%
Bulk Butter (25kg) Salted	Units	614	15,350	500	12,500	-18.57%
Bulk Butter (25kg) Unsalted	Units	2	50	0	0	-100.00%
Export Sales (20 x 250g cases)	Units	11,994	59,970	25,000	125,000	108.44%
Projected 2011 Total Butter Sales (kg's)	KG's		223,641		282,775	26.44%
Mild Cheddar Block (kg)	Units	17,099	17,099	20,000	20,000	16.97%
Mature Cheddar Block (kg)	Units	3,307	3,307	3,500	3,500	5.84%
Extra Mature Cheddar Block (kg)	Units	1,980	1,980	2,000	2,000	1.01%
Smoked Cheddar Block (kg)	Units	781	781	1,500	1,500	92.06%
Frie d'Or 200g	Units	2,787	557	2,500	500	-10.30%
Mild Cheddar 240g	Units	28,806	6,913	32,000	7,680	11.09%
Mature Cheddar 240g	Units	22,884	5,492	23,000	5,520	0.51%
Smoked Cheddar 240g	Units	2,319	557	2,500	600	7.81%
Extra Mature 240g	Units	6,846	1,643	5,500	1,320	-19.66%
Projected 2011 Total Cheese Sales (kg's)	KG's		38,330		42,620	11.19%
Fresh Cream	110	4,417	486	4,500	495	1.88%
Strawberry and Cream	110	3,384	372	4,000	440	18.20%
Chocolate	110	1,180	130	2,500	275	111.86%
Honeycomb	110	1,230	135	2,500	275	103.25%
Total sales (units)	Litres	10,211	1,123	13,500	1,485	32.21%
Vanilla	2 litre	6,318	12,636	7,000	14,000	10.79%
Strawberry	2 litre	1,621	3,242	2,000	4,000	23.38%
Chocolate	2 litre	1,951	3,902	2,350	4,700	20.45%
Toffee	2 litre	1,034	2,068	1,250	2,500	20.89%
Coconut	2 litre	981	1,962	1,000	2,000	1.94%
Coffee	2 litre	1,143	2,286	1,250	2,500	9.36%
Mint Choc Chip	2 litre	2,423	4,846	2,750	5,500	13.50%
Rum and Raisin	2 litre	1,297	2,594	1,500	3,000	15.65%
Total sales (units)	Litres	16,768	33,536	19,100	38,200	13.91%
Vanilla	4 litre	9,488	37,952	9,000	36,000	-5.14%
Strawberry	4 litre	2,805	11,220	3,000	12,000	6.95%
Chocolate	4 litre	2,686	10,744	2,750	11,000	2.38%
Mint Choc Chip	4 litre	142	568	150	600	5.63%
Total sales (units)	Units	15,121	60,484	14,900	59,600	-1.46%
Herm Vanilla	10 litre	20	200	100	1,000	400.00%
Herm Vanilla	5 litre	162	1,620	250	1,250	100.00%
Vanilla	10 litre	272	2,720	100	1,000	-63.24%
Strawberry	10 litre	80	800	50	500	-37.50%
Chocolate	10 litre	110	1,100	50	500	-54.55%
Total sales (units)	Units	462	4,620	200	2,000	-56.71%
Projected 2011 Total Ice-cream sales (litres)	KG's		99,763		101,285	1.53%
Guernsey Raw Intake	Litres		8,241,963		8,150,000	-1.12%
Working Losses	Litres		352,728		335,000	-5.03%

CAPITAL EXPENDITURE SUMMARY						
Year	Capital Exp £	Existing asset depn py (estimate)	Depn from new assets	Total Depn £		
2009	£379,210	180000	£ 22,612	£ 202,612		
2010	£645,000	170000	£ 89,736	£ 259,736		
2011	£494,250	160000	£ 153,399	£ 313,399		
2012	£798,800	150000	£ 204,794	£ 354,794		
2013	£749,500	140000	£ 275,349	£ 415,349		
2014	£363,000	130000	£ 314,512	£ 444,512		
2015	£150,000		£ 295,825	£ 295,825		
	£3,429,760			£1,060,402		
Category Summary						
	Laboratory equipment	Motor vehicles	Office equipment	Plant and machinery	Site, roads and buildings	
2009	£1,530	£120,000	£15,730	£192,450	£49,500	£379,210
2010	£0	£0	£1,500	£561,000	£58,000	£620,500
2011	£0	£72,000	£58,050	£218,700	£145,500	£494,250
2012	£0	£0	£11,500	£407,800	£379,500	£798,800
2013	£5,000	£0	£0	£450,000	£294,500	£749,500
2014	£50,000	£0	£0	£173,000	£140,000	£363,000
2015	£0	£0	£0	£150,000	£0	£150,000
	£56,530	£192,000	£86,780	£2,002,950	£1,067,000	

Appendix 3

Proposed Capex - 08 June 2011													
2009				Expenditure by Category									
Priority Status	Unique Capex Project Code	Status	Project / Asset description	Category for budget	Est. Cost	Month of purchase	Useful Life (yrs)	Residual Value	Laboratory equipment	Motor vehicles	Office equip.	Plant & machinery	Site, roads and buildings
		Complete	Butter date coder	Plant and machinery	£2,500	Jan	5	£0	0	0	0	2500	0
		Complete	Spare inverter for Separator	Plant and machinery	£5,000	Jan	3	£0	0	0	0	5000	0
		Complete	Refurbishment of Eng. Workshop (Phase 1)	Site, roads and buildings	£12,000	April	10	£0	0	0	0	0	12000
		Complete	Tanker Chassis (1)	Motor vehicles	£30,000	April	5	£0	0	30000	0	0	0
		Complete	Tanker Chassis (2)	Motor vehicles	£30,000	April	5	£0	0	30000	0	0	0
		Complete	Replacement of Condensor Unit (CS1)	Plant and machinery	£5,000	May	8	£0	0	0	0	5000	0
		Complete	Check Office Refurbishment	Site, roads and buildings	£5,000	May	10	£0	0	0	0	0	5000
		Complete	Improved racking and storage facilities (2)	Site, roads and buildings	£5,000	June	10	£0	0	0	0	0	5000
		Complete	Pasteuriser raw milk pump replacement	Plant and machinery	£4,000	Jan	5	£0	0	0	0	4000	0
		Complete	Delivery pumps CIP	Plant and machinery	£3,850	April	5	£0	0	0	0	3850	0
		Complete	Inverters for delivery pumps	Plant and machinery	£800	August	5	£0	0	0	0	800	0
		Complete	Milk Tanker Vessel (1)	Motor vehicles	£30,000	July	15	£0	0	30000	0	0	0
		Complete	New PC (Chief Engineer)	Office equipment	£900	September	3	£0	0	0	900	0	0
		Complete	Milk Tanker Vessel (2)	Motor vehicles	£30,000	November	15	£0	0	30000	0	0	0
	(1-10)	Complete	Butter Packer (40% deposit)	Plant and machinery	£78,800	September	10	£0	0	0	0	78800	0
		Complete	Photocopier	Office equipment	£4,250	November	3	£0	0	0	4250	0	0
		Complete	Replacement of condensor unit in CS 2	Plant and machinery	£17,500	October	5	£0	0	0	0	17500	0
		Complete	Replacement of condensor unit in CS 3	Plant and machinery	£7,500	November	5	£0	0	0	0	7500	0
		Complete	Replacement of condensor unit in CS 4	Plant and machinery	£10,000	November	5	£0	0	0	0	10000	0
		Complete	Replacement Air Compressor	Plant and machinery	£14,000	November	5	£0	0	0	0	14000	0
		Complete	Replacement Air Dryer (Compressor)	Plant and machinery	£2,500	November	5	£0	0	0	0	2500	0
		Complete	New PC's * 2 (PS)	Office equipment	£1,200	December	3	£0	0	0	1200	0	0
		Complete	New PC's * 2 (PM & Utility Desk)	Office equipment	£1,800	December	3	£0	0	0	1800	0	0
		Complete	Replacement Forklift Truck	Plant and machinery	£16,500	December	5	£0	0	0	0	16500	0
		Complete	Convert existing store into new Cold Store	Site, roads and buildings	£27,500	November	15	£0	0	0	0	0	27500
		Complete	Milk Crates	Plant and machinery	£12,500	October	5	£0	0	0	0	12500	0
		Complete	Replacement of the Dairy's file servers (1)	Office equipment	£5,000	November	5	£0	0	0	5000	0	0
		Complete	Software for the servers	Office equipment	£2,000	December	3	£0	0	0	2000	0	0
		Complete	Cream Ink Jet Coder	Plant and machinery	£12,000	December	5	£0	0	0	0	12000	0
		Complete	Printer for Check Office	Office equipment	£580	December	3	£0	0	0	580	0	0
		Complete	Lab Chemical Storage	Laboratory equipment	£1,530	December	10	£0	1530	0	0	0	0
			CAPEX		£379,210			£0	£1,530	£120,000	£15,730	£192,450	£49,500

Appendix 3

2010				Expenditure by Category									
Priority Status	Unique Capex Project Code	Status	Project / Asset description	Category for budget	Est. Cost	Month of purchase	Useful Life (yrs)	Residual Value	Laboratory equipment	Motor vehicles	Office equip.	Plant & machinery	Site, roads and buildings
		Complete	Ice-cream crates	Plant and machinery	£7,500	Jan	5	£0	0	0	0	7500	0
		Complete	Dairy Van (small)	Motor vehicles	£17,000	Jan	5	£0	0	17000	0	0	0
		Complete	Tanker Office refurbishment	Site, roads and buildings	£3,000	Jan	10	£0	0	0	0	0	3000
3	3-10	Complete	Replacement of condensor unit in CS 5	Site, roads and buildings	£7,500	May	5	£0	0	0	0	0	7500
4	5-10	Complete	Replacement of condensor unit in cheese maturation room	Site, roads and buildings	£7,500	May	5	£0	0	0	0	0	7500
2=	6-10	Complete	Replacement Milk Packaging machine (50%)	Plant and machinery	£175,000	May	10	£0	0	0	0	175000	0
		Complete	Replacement Admin block door & Tanker Office	Site, roads and buildings	£3,000	February	10	£0	0	0	0	0	3000
	7-10	Complete	Heated Carton Store--Heating System Upgrade	Plant and machinery	£3,500	February	5	£0	0	0	0	3500	0
1=	1-10	Complete	Butter Packer (40% 'intermediate payment')	Plant and machinery	£98,500	June	10	£0	0	0	0	98500	0
8	8-10	Complete	Incoming Raw Milk Meter-Printer	Plant and machinery	£5,000	June	5	£0	0	0	0	5000	0
7	9-10	Complete	Replace floor in CS 5 (H & S concerns)	Site, roads and buildings	£8,000	May	20	£0	0	0	0	0	8000
	11-10	Complete	Replacement Fascia and Guttering	Site, roads and buildings	£22,500	March	15	£0	0	0	0	0	22500
5	12-10	Complete	CIP System Delivery Flowmeter	Plant and machinery	£5,000	April	5	£0	0	0	0	5000	0
13	13-10	Complete	Repairs to Dairy yard (Loading Bay and drainage ref. RA)	Site, roads and buildings	£6,500	May	10	£0	0	0	0	0	6500
	14-10	Complete	No.2 PS70 Filler Pneumatics	Plant and machinery	£4,000	April	5	£0	0	0	0	4000	0
6=	19-10(A)	Complete	Improvements to existing CIP system (valve & pump replacement etc.) P1 SCADA.	Plant and machinery	£8,000	July	5	£0	0	0	0	8000	0
17	17	Complete	Dairy hot water calorifier	Plant and machinery	£2,000	August	5	£0	0	0	0	2000	0
9	16-10	Complete	Road Tankers Data-capture system	Plant and machinery	£20,000	June	5	£0	0	0	0	20000	0
2=	18-10	Complete	Downline Handling (milk packaging)-Carton Conveyors (1)	Plant and machinery	£50,000	October	5	£0	0	0	0	50000	0
6=	19-10(B)	Complete	Improvements to existing CIP system (valve & pump replacement etc.) P2.	Plant and machinery	£15,000	October	5	£0	0	0	0	15000	0
2=	6-10	Complete	Replacement Milk Packaging machine (50%)	Plant and machinery	£175,000	November	10	£0	0	0	0	175000	0
18	22-10	Complete	Replacement PC's (QAM & GM)	Office equipment	£1,500	November	3	£0	0	0	1500	0	0
			CAPEX		£645,000			£0	£0	£0	£1,500	£561,000	£58,000

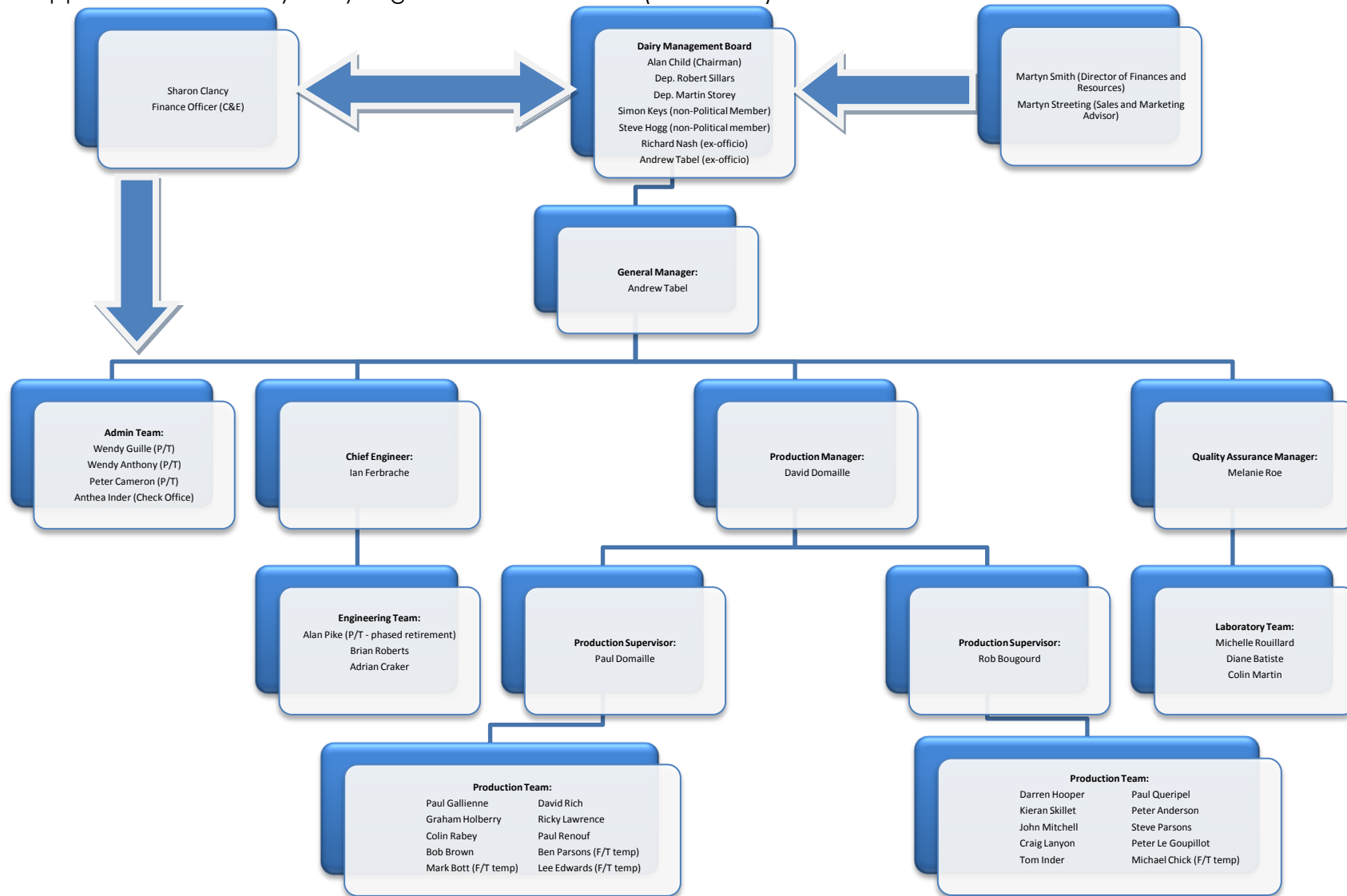
Appendix 3

2011									Expenditure by Category				
Priority Status	Unique Capex Project Code	Status	Project / Asset description	Category for budget	Est. Cost	Month of purchase	Useful Life (yrs)	Residual Value	Laboratory equipment	Motor vehicles	Office equip.	Plant & machinery	Site, roads and buildings
1	1-11	On order	Replacement of Tanker 28 (Chassis)	Motor vehicles	£37,000	July	5	£0	0	37000	0	0	0
2	2-11	Completed	CIP Pipe-work replacement (Phase 1)	Plant and machinery	£3,500	February	15	£0	0	0	0	3500	0
3=	3-11=	On order	MCC2 Electrical Control Panel (Phase 1 - initial survey)	Plant and machinery	£6,500	June	20	£0	0	0	0	6500	0
	21-10	On order	Repairs and upgrade to ice-bank system (Phase 1)	Plant and machinery	£15,200	June	5	£0	0	0	0	15200	0
	21-10	On order	Repairs and upgrade to ice-bank system (Phase 2)	Plant and machinery	£22,800	July	5	£0	0	0	0	22800	0
	29-11	WIP	Replacement Churn Washer	Plant and machinery	£24,500	July	10	£0	0	0	0	24500	0
6	6-11	WIP	Seperator and Pasteuriser controls onto SCADA (Phase 1 - Review)	Plant and machinery	£1,000	June	10	£0	0	0	0	1000	0
6	6-11		Seperator and Pasteuriser controls onto SCADA (Phase 2)	Plant and machinery	£34,000	October	10	£0	0	0	0	34000	0
7	6-11		Seperator and Pasteuriser controls onto SCADA (Phase 3)	Plant and machinery	£15,000	November	10	£0	0	0	0	15000	0
8	6-11		Seperator and Pasteuriser controls onto SCADA (Phase 4)	Plant and machinery	£35,000	TBC	10	£0	0	0	0	35000	0
8	8-11	Completed	Butter brine injection pump	Plant and machinery	£3,500	March	10	£0	0	0	0	3500	0
9	25-11	Completed	Emergency repairs to tarmac in yard	Site, roads and buildings	£1,500	June	5	£0	0	0	0	0	1500
	1-10	WIP	Butter Packer (10% 'final payment')	Plant and machinery	£31,700	June	10	£0	0	0	0	31700	0
11	26-11	Completed	Replacement Safe (Admin Office)	Office equipment	£550	April	5	£0	0	0	550	0	0
12	12-11		Exterior painting of structural steelwork	Site, roads and buildings	£22,000	September	5	£0	0	0	0	0	22000
13	13-11		Refurbishment of Eng. Workshop (phase 2)	Site, roads and buildings	£12,000	December	10	£0	0	0	0	0	12000
14	14-11		Exterior Dairy painting (general)	Site, roads and buildings	£10,000	September	5	£0	0	0	0	0	10000
15	15-11		Repairs to FMT 2	Plant and machinery	£3,000	October	10	£0	0	0	0	3000	0
23=	23-11	WIP	Cheese store racking (25% deposit with order)	Site, roads and buildings	£6,250	May	10	£0	0	0	0	0	6250
3=	3-11=		MCC2 Electrical Control Panel (Phase 2 electrical installation)	Plant and machinery	£18,000	October	20	£0	0	0	0	18000	0
17	17-11	WIP	Lab refurbishment	Site, roads and buildings	£50,000	September	10	£0	0	0	0	0	50000
18	18-11	On order	Replacement of Tanker 28 (storage vessel) incl. metering system.	Motor vehicles	£35,000	August	10	£0	0	35000	0	0	0
23=	23-11	WIP	Cheese store racking (75% on completion)	Site, roads and buildings	£18,750	August	10	£0	0	0	0	0	18750
	27-11		Sage Updates	Office equipment	£7,500	June	5	£0	0	0	7500	0	0
20	20-11		MRP Software	Office equipment	£50,000	December	10	£0	0	0	50000	0	0
21	21-11		Butter - cream metering pump	Plant and machinery	£5,000	October	5	£0	0	0	0	5000	0
23	28-11		Upgrade Dairy/Site Security (Alarms etc.)	Site, roads and buildings	£25,000	November	10	£0	0	0	0	0	25000
			CAPEX		£494,250			£0	£0	£72,000	£58,050	£218,700	£145,500

Appendix 3

2015							Expenditure by Category						
Priority Status	Unique Capex Project Code	Status	Project / Asset description	Category for budget	Est. Cost	Month of purchase	Useful Life (yrs)	Residual Value	Laboratory equipment	Motor vehicles	Office equip.	Plant & machinery	Site, roads and buildings
			Replace steam boilers	Plant and machinery	£150,000	January		£0	0	0	0	150000	0
								£0	0	0	0	0	0
								£0	0	0	0	0	0
								£0	0	0	0	0	0
								£0	0	0	0	0	0
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								£0	0	0	0	0	0
			CAPEX		£150,000			£0	£0	£0	£0	£150,000	£0

Appendix 4 - Guernsey Dairy Organisational Structure (June 2011)



Appendix 5 – Dairy Business Plan 2011 Summary of Activities

[Number of planned activities in each area is shown in brackets]

Stakeholder Communication Plan (5)

Raw Milk Supply Plan (3)

Products, Quality, Sales & Marketing Plan (25)

Area: Guernsey Dairy Brand (5)

Area: Product Sales & Marketing (8)

Area: Trade Counter (1)

Area: Local Market Retail Sales (2)

Area: Export Sales (2)

Area: Product Pricing and Range Review (1)

Area: Quality Management Systems Review (6)

Business and Operations Plan (7)

Capital Investment Plan (1)

Plan	Plan Area	Purpose/Outcome Sought	Activity	When	Who
B: Stakeholder Communication Plan	<u>Stakeholder Communications</u>	Improve the quantity and quality of raw milk supplies	<i>Regular meetings with GFA representatives</i>	Monthly	Chairman, General Manager, Sales and Marketing Advisor
		Improve the efficiency of the industry	<i>Regular meetings with GFA representatives</i>	Throughout 2011	Consultant & Quality Assurance Manager Chairman, General Manager
		Maximise sales of milk and milk-products	<i>Regular meetings with the GMRA</i>	Monthly	General Manager, Sales and Marketing Advisor & Quality Assurance Manager
		Improve customer service/discuss operational procedures	<i>Regular meetings with the GMRA</i>	Monthly	General Manager, Sales and Marketing Advisor & Quality Assurance Manager
		Improve the communication channels between the Guernsey Dairy and its Retail Trade/Commercial customers	<i>Continuous programme of meetings with stakeholders</i>	Throughout 2011	Chairman, General Manager & Sales and Marketing Advisor
C: Raw Product Supply Plan	<u>Raw Milk Supply</u>	Reduce the need for the importation of raw milk and the threat of importation of processed milk by others (because the Dairy is short of milk to maintain product for liquid milk sales)	<i>Regular meetings with GFA representatives</i>	Throughout 2011	Chairman & General Manager, SoG Agricultural Advisor

	<u>Raw Milk Quality</u>	Stimulate/increase raw milk availability for product production throughout the year to match the islands demands for fresh liquid milk	<i>Review the effect the removal of the "B" price had on milk production Jan-March 2011</i>	Ongoing 2011	Chairman & General Manager
		Improve raw milk quality	<i>Working with the GFA and C&E to finalise, introduce and monitor the revised "Rules of Supply"</i>	Ongoing 2011	Chairman, General Manager & Quality Assurance Manager
D: Products, Quality, Sales and Marketing Plan	<u>Guernsey Dairy Brand</u>	Continue to promote the Guernsey Dairy brand as a high quality, high value product range	<i>Promotion of GD products through the existing distribution channels, local trade & media, in-store sampling, bespoke dairy events e.g. cheese sampling, Taste of Guernsey, corporate events etc.</i>	Ongoing throughout 2011	Chairman, General Manager, Sales and Marketing Consultant
		Increase revenue from the sale of advertising space	<i>Consult and liaise with The Partnership Advertising Agency</i>	Ongoing throughout 2011	Chairman, General Manager
		Investigate the feasibility of cross-advertising on milk cartons with other mediums i.e. pro-rata, in the absence of a fee-paying customer	<i>Consult and liaise with other local advertising agencies</i>	December 2011	Chairman, General Manager, Sales and Marketing Advisor
		Continue to work with the catering section of the CoFE to promote the use of GD products at a grass roots level	<i>Liaise with industry lecturers and chefs</i>	December 2011	Chairman, General Manager, Sales and Marketing Advisor
		Raise the profile of GD ice-cream across the island	<i>Identify and establish key scooping sites and business partners</i>	May 2011	Chairman, General Manager, Sales and Marketing Advisor

<u>Product, Sales and Marketing</u>	Develop and introduce a premium scooping range of flavours and identify key-sites for retail	<i>R&D and trial new flavours/recipes</i>	June 2011	General Manager, Sales and Marketing Advisor
	Establish a new bespoke Herm Vanilla recipe	<i>R&D and trial new vanilla recipes and consider feedback from the customer</i>	May 2011	General Manager, Production Manager, QAM
	Stimulate market awareness and improved brand visibility on ice-cream	<i>Retail ice cream POS to be procured and distributed across the islands leading retail outlets/scooping sites</i>	Ongoing throughout 2011	General Manager, Sales and Marketing Advisor
	Stimulate market awareness and improved brand visibility on cheese	<i>Local marketing focus with GMRA and trade counter customers (and promotion with wine merchants) for Guernsey Dairy cheeses. Additional POS and "advertorial" features</i>	Ongoing throughout 2011	General Manager, Sales and Marketing Advisor
	PDO or PGI recognition for Guernsey Butter	<i>Evaluate the Dairy's PDO application submitted to DEFRA in 2010 for its butter and see if an alternative e.g. a PGI, may win more favour</i>	Spring 2012	QAM with consultancy advice from FICS and the SoG Agricultural Advisor
	Production efficiency & cost control	<i>Review continuation of full cream milk ½ litre packs</i>	December 2011	General Manager, Production Manager with DMB approval
	<i>Review the continuation of all Dairy milk-products against the return on the investment whilst taking into consideration the</i>	December 2011	General Manager, Production Manager with DMB approval	

		<i>FAMC's of each product and their contribution to turnover</i>		
	Increased share of local market cream sales	<i>Marketing initiative with the GMRA and trade counter customers for Dairy cream</i>	Ongoing throughout the year	General Manager Sales & Marketing Advisor
	Increased share of local butter sales	<i>Marketing & promotional initiatives with the GMRA and trade counter customers for GD butter</i>	Ongoing throughout the year (dependant on supply etc.)	General Manager, Sales & Marketing Advisor
<u>Trade Counter</u>	Maximise Guernsey Dairy's local market share of dairy product sales	<i>Review trade counter scheme:-</i> <ul style="list-style-type: none"> • <i>Bulk discount thresholds</i> • <i>Product availability</i> • <i>Ordering schedules and units of sale</i> • <i>Awareness of locally produced dairy products</i> 	Ongoing 2011	Chairman, General Manager
<u>Local Market Retail Sales</u>	Increase the Dairy's market share of local sales of Guernsey Dairy products	<i>Marketing initiatives with the Dairy's distribution partners and close monitoring of sales patterns (sales incentives may be considered)</i>	Ongoing throughout 2011	Chairman, General Manager, Sales & Marketing Advisor
	Establish sales data for each product and market sector	Establish what percentage of the market share the Guernsey Dairy has in each sector of the market	Ongoing throughout 2011	Chairman, General Manager, Sales & Marketing Advisor

<u>Export Sales</u>	Continuation of the existing butter export contract	<i>Continue to work with Waitrose to support exports</i>	Ongoing throughout the year	General Manager
	Investigate opportunities to sell butter on the export market i.e. one-off consignments	<i>Continue to work with existing customers ensuring that the best return on Dairy's investment is achieved</i>	As and when excess product becomes available	General Manager & Sales & Marketing Advisor
<u>Product Price and Range Review</u>	Continual review of the Dairy's product range leading to a commercially viable product and pricing structure	<i>Continual review and update of all FAMC's for each product line and advising the DMB of any recommendations.</i>	Ongoing throughout 2011	Non-States Member, General Manager, Chief Engineer
<u>Quality management systems review</u>	Maintenance of quality plan	<i>Train the Guernsey Dairy HACCP team to Level 2 HACCP for manufacturing and the QA Manager, as team leader, to Level 3 HACCP for manufacturing</i>	Ongoing throughout 2011	Quality Assurance Manager (with consultancy advice from FICS)
	Maintenance of quality plan	<i>Product & process training for Laboratory staff on ice-cream e.g. testing protocols etc.</i>	December 2011	Quality Assurance Manager (with consultancy advice from FICS)
	Efficiencies are maximised, shelf life is monitored, and all products are of the highest quality	<i>Continue to work to ensure that the Dairy achieves quality standards in line with those for the UK industry</i>	Ongoing throughout 2011	Quality Assurance Manager (with consultancy advice from FICS)
	Cleaning and disinfection procedures	<i>Review and audit the manual cleaning & disinfection procedures</i>	December 2011	Quality Assurance Manager (with consultancy advice from FICS)

		Audit Microbiological testing procedures	Audit Microbiological testing procedures put in place in 2010	Ongoing throughout 2011	Quality Assurance Manager (with consultancy advice from FICS)
		To provide our customers (particularly export) with a formally recognised quality assurance accreditation	<i>Introduce the Small And Local Supplier Accreditation (SALSA) scheme recognised by Waitrose Ltd.</i>	Spring 2012	Quality Assurance Manager (with consultancy advice from FICS)
E: Business and Operations Plan	<u>Business outcomes</u>	Operational cost savings	<i>The Dairy will make a submission to the Milk Price Review Panel aiming to provide an Annual Business Outcome showing a profit in the region of 5% of turnover</i>	June 2011	Chairman, Non-States Member, General Manager, Financial Service Provider
		Seek to define the operational limitations within the remit of the current Milk Law and subsequent Ordinances	<i>Establish clearly defined guidelines regarding the importation of milk and the subsequent retail/distribution</i>	October 2011	Chairman, General Manager
	<u>Operational Review</u>	An efficient staffing model to sustain the Dairy's needs	<i>Partnership review of Dairy operations including the effective length of the working day/week and the feasibility of outsourcing some production processes</i>	Following completion of the Independent Dairy Industry Review and the final outcome from the States debate	Chairman, General Manager & Union representative (with consultancy support)
		Supply information to the Policy Council Dairy Industry Review Panel	As requested – throughout 2011	Ongoing 2011	Chairman, General Manager, DMB

	To establish a more efficient and effective way of managing stock and transactions on customer accounts	<i>A review of the current units of sale for all milk and milk products along with any associated discount thresholds</i>	December 2011	Chairman DMB, General Manager & Sales and Marketing Advisor
<u>Management and Administration Structure Review</u> (the current staffing and structure of the Guernsey Dairy)	Efficient operation and controlled costs	<i>Review of the management and administration structure of the Dairy</i>	Following product and operational reviews, the DIR and outcome of the subsequent States debate	General Manager & Staff representative (with consultancy support)
<u>Business Continuity & Security Plan</u>	Plan to deal with the most important/damaging threats to Dairy supply to customers	<i>The Dairy will continue to review its continuity and resilience plan and endeavour to cover the most likely of events based on a balance of probabilities</i>	Throughout 2011	Chairman, General Manager, Chief Engineer, Quality Assurance Manager (with consultancy support)
Capital Investment Plan	Continue to correct the lack of investment since 2002 and ensure the Dairy is properly equipped to collect, process, test & pack food in line with EHD directives and applicable legislation	<i>Implement agreed capital investment plan (see Appendix 4) subject to funds becoming available based on a save to spend philosophy</i>	Continuous throughout 2011 (see plan details)	DMB Non States Member, General Manager, Chief Engineer

Appendix 6 – Guernsey Dairy Management Board 2011/12 Sales and Marketing Consultancy Proposal

Job Profile and Purpose

To plan, implement and review strategies to help the Guernsey Dairy increase sales and the profitability from its trading activities. This will include maintaining, reinforcing and formulating policies to strengthen the brand in all sectors of the market.

Areas of Activity and Responsibilities

To implement and manage marketing procedures and processes.

Monitor European, UK, Guernsey and Jersey Markets and advise on industry trends relating to dairy products.

Make recommendations to the DMB on the pricing structure and margins for Guernsey Dairy products by carrying out pricing strategies, surveys and buying habits of customers etc.

Identify sales opportunities and prospects (liaising with Jersey Dairy and other manufacturers where appropriate).

Advise, organise, and manage a promotional programme throughout a 12-month period determining the target audience and specifying overall objectives. Review and report to the DMB on the trading activity from promotional initiatives and monitor ongoing sales.

Liaise with key account holders on a regular basis either through phone calls, e-mail/mail shots or personal visits, ensuring adequate product stock listing and placement against agreed objectives and build/maintain an effective client/customer relationship.

Follow and analyse marketing trends and read data on consumers taste and buying behaviour and relay this back to the DMB.

Targets

Increase local sales of cheese, ice-cream, and cream by 10% (over 2010 levels) whilst maintaining a positive contribution to the turnover of the business.

Obtain a profitable export market for cheese.

Increase the Dairy's market share for milk and milk-products whilst maintaining their contribution to the business.

Increase the Dairy's market share for milk and milk-products whilst maintaining their contribution to the business.

Duration

18 months (commencing 01 April 2011)

Consultant

Foodlink CI Ltd