

Fonterra current
organizational
restructuring
marketing essay



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This Report has been designed to identify the Fonterra current organizational restructuring which could be applied to help the organisation to take advantage of strategic opportunities in the global market.

The first part of industrial environment deals with the firm's relation with consumers, suppliers and the competitors operating environment and to develop strategies the firm most favorably in relation to competition and influence industry structure in order to enhance industry attractiveness.

(Robert M. Grant, 7th edition, p12 & p. 64)

The Second part of environment covers Fonterra's stated mission, vision, targets, strategies, goals, objectives and values, structure and the systems.

The suitability of these strategies to the operating firm environment are then evaluated and the change of strategy development is recommended. (Robert et. al, p. 12)

The report also indulges with the micro and macro environmental, present structure and evolution of Fonterra, key strategic issues. It also contain SWOT analysis and other factors faced by Fonterra.

Overview

Fonterra at glance

Fonterra is a dairy company, which was formed in October 2001, and since than it has an excelled and enlarged the milk processing and at present became the fourth largest dairy company in the world. The annual turnover of Fonterra's is NZ\$16 billion, with a milk production in of 14. 76 billion litres in New Zealand. They have built very powerful relation with the other dairy

companies globally and hence partnerships extent the world. Fonterra
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believes in the interest of people so that they can increase their global market. (Fonterra Co-operative Group, 2010)

Fonterra is the global massive dairy exporter with 11, 000 farmers which also act as a shareholder of the company. With its 15, 600 employees which help to supply milk and process milk into the dairy products. 95% of dairy products are made in New Zealand are exported to virtually 140 countries in world. Main hubs of Fonterra are located in Auckland, Melbourne, Chicago, Singapore, Amsterdam, Tokyo, Shangai and Sao Paulo. All the sales and marketing is operate and managed by this principal hubs. 14. 76 billion litres of milk is collected every year. (Fonterra Co-operative group, 2011)

Fonterra's strategy is to " lead in dairy."

The management team of Fonterra is as following

Theo Spearing's - Chief Executive Officer

Jonathan Mason - Chief Financial Officer

Maury Leyland - Group General Manager Strategy

Paul Campbell - Group General Manager Mergers and Acquisitions

Ian Palliser - Group Optimisation and Supply Chain

Todd Muller - Managing Director Co-Operative Affairs

Gary Romano - Managing director New Zealand Milk

John Doumani - Managing Director Fonterra Australia

Mark Wilson - Managing Director ASEAN/Middle East/North Africa

Kelvin Wickham - Managing Director China/India

Alex Turnbull - Managing Director Latin America

Sarah Kennedy - Managing director Fonterra Nutrition

Chris Caldwell - Managing director (people, culture & services)

Following are product list which Fonterra create: cheese, yoghurts, cultured foods, butter, liquid, powdered milks.

Following below are brand list under Fonterra:

ANCHOR, ANLENE, ANMUM, FRESH ' N FRUITY, MAINLAND, CAPITY, BROWNES, SOPROLE, WESTERN STAR, PERFECT ITALIANO, TIP TOP AND CHESDALE. (Fonterra Co-operative group, 2010)

1. 2 Reports Structure and Objectives

The report targeted at bringing out the main objectives the vision and developing a strategic plan for company. The Report has been conceptualized to determine the current organizational structure could be implementing to help Fonterra to take strategic opportunities advantage in the global market.

Specifically, uttering the dependency on consumer markets and apprehending knowledge as a means to go after value added growth and development through Fonterra's alliance and brands.

Strategically Fundamentals

2. 1 The Industry Strategically Environment

Dairy for years have been the key industry in New Zealand. The maiden of dairy company begin in 1871 at Otago. By 1920, 85% of dairy plants were owned by individual or co-operatives and there were about 600 processing factories. By 1930s the number dip to almost 500 co-operatives but after World War 2 there was a lot change in these dairy factories in terms of transportation, technologies and working systems which bought a change in the system of working and then the dairy co-operatives started unite with the other manufacturing companies or plants and since then it became stronger and lesser in number.

By the end of 1990s, the four major dairy companies:

The Waikato (New Zealand Dairy Group)

The Taranaki (Kiwi Co-operative Dairies)

Westland Milk Products

Tatua Co-operative Dairy Company

With the merger of the two biggest companies, New Zealand Dairy Group and Kiwi Co-operative Dairies, Fonterra was come into market along with the New Zealand Dairy Board. Fonterra works on four sales path which all together sells some around 2. 3 million MT of product. The channels are as below:-

Fonterra Global Trade - This is world's prime online trading pathway through which NZ\$1 billion goods were supplied. It included with many dairy commodities like butter, milk, cheese and powder to reach in the markets of Middle East, Asia, America, Africa and Oceania.

Fonterra Ingredients - this is a specialized channel made for providing the dairy ingredients to manufacturers of four major countries which are US, Korea, China and Western Europe.

Fonterra Brands - The top brands of Fonterra like Tip Top and Anchor fulfil the needs of consumers in around 40 countries in the world.

Fonterra Foodservices - Supply dairy ingredients to major customers of fast food chains, hotels, airline catering and restaurants.

SWOT Analysis

Strength:

High quality milk and fast production

A calculated business model.

Strong world-wide reach.

Established relationships with customers.

Strong market position

Strong consumer positions in many markets.

Fanlike product portfolio.

Efficient and developed farms.(Fonterra Co-operative Group, 2012)

Weakness:

Leadership variability affecting the structure of the organizations.

New board member.

Largest markets are underrepresented in strategic Association of Professionals (Apex)

Business structure relating to redemption risk, farmer choice, and capital for growth. (Keith Woodford, 2008)

Opportunities:

Investing in underdeveloped countries which are experiencing rapid growth globally.(Country wide and Fonterra co-operative Group, 2012)

More demand as compared to supply.

India and China alone can have demand for about 50% growth in next 10 years so market is expanding.

Demand for almost 100 billion litres by 2020.

Awareness of good quality product in many countries.

Threats:

Global demand exceeds the supply

New Zealand's market restrictions structure and relative low cost may attract the new entrants in the market.

Threats from the increasing global competitors.

Few organizations can rival the diverse skills found in the business.(Kate Askew, 2012)

Flying global

Fonterra manufacture the products and distribute and sell ready to use goods all around the world, by which the brand gives a local touch and knowledge. Fonterra aim a close relation with the customers demand and there changes in lifestyles, taste, eating and needs which vary from one market to other market. For example the taste and preference of Asian customers might not be the same as of African and American customers. Hence to meet the customer needs there is a group of local teams knowing the local consumers preferences and habits. (Fonterra Co-operative Group, 2010)

The new or existing suppliers of Fonterra :

Growth Supply Contract - Fonterra provides an opportunity to new supplier to come in and take part in production of goods in organisation which help Fonterra in increase in the milk production by new entrants and existing contracts suppliers.

Deposit for new supply – The new suppliers don't need to give their deposit 3 months before in Fonterra a new supplier can start by 100% of shares purchased.

Owning shares – A new suppliers can grow their share capital by growing the supply with sharemilker and can hold their own shares.

Maximizing the earnings of the supplier – Here at Fonterra a supplier can earn a more profit than its standard payment on supply of milk.

Conditions for new land – There is an open relation with Fonterra area manager to discuss upon new dairy land.

2.2 The Firm Environment

Vision, Strategies, Structure and Goal Mission:

Fonterra's vision is "to be the natural source of dairy nutrition for everybody, everywhere, every day".

Fonterra strategy is to spread out in large numbers throughout global, aiming high-value areas of dairy products demand and targeting to achieve it quickly.

Fonterra targets to create substantial and long-term relationship with the partners and hold the undertaking from the lowermost level of the organization. (Fonterra cooperative Group, 2010)

The strategy of Fonterra is to upgrade the production and bring more and more esteem by focusing much on new markets, and the new products

which can meet the consumer wants for dairy requirements. It should be firm and have a heavy look at the strengths, social and economic changes for increasing demand or needs for the dairy products.

Fonterra calls it as the three vs.:

Volume

Value

Velocity. (Theo Spierings, 2012)

Fonterra here is not only working for profit motive the indulge in work related to this vision and sustainable dairy business the look forward to society and ensure there responsibility towards their employees, partners and as well as their customers. They focus on products which ensure that the customers are safe and healthy and minimise the environmental damage by creating new and healthy products.(Fonterra Co-operative Group, 2010) The Fonterra currently working on more than 100 projects where they have new strength and policies to accomplish its goals. It includes:

A thrilling move on the speedily growing well recognized markets of China, ASEAN and Latin America where Fonterra now has a solid influence.

It Trust the New Zealand capital return is from milk business.

A high volume of export of milk products to the different parts of world.

Increasing size of higher worth consumer branded products and out-of-home nutrition.

A firm emphasis on gathering the advanced nutrition wants of mothers and babies, as well as elderly populations maintained by targeted innovation in such areas as well as out-of-home nutrition. (Fonterra Co-operative Group, 2010)

Fonterra's seven strategic paths:

Enhance New Zealand milk

Shape and produce beyond our consumer's position.

Carry on food service potentials.

Cultivate our place in mobility.

Advance selected chief positions in paediatrics and nurturing.

Selectively spend in milk pools

Placement of business and organization to empower strategy. (Fonterra Co-operative Group Ltd, 2012)

Fonterra's aiming on the next generation demand of dairy products and according to survey it is expected that the demand of dairy products by 2019 will be some around in different parts of worlds will be as below:

India (highest) - 45 million MT

China - 36 million MT

rest of Asia - 19 million MT

Latin America - 18 million MT

Middle East/North Africa - 13 million MT.

With the omission of the trade-sheltered market of India, Fonterra has unshakable positions in each of these markets. Fonterra's policy is to build strong customer partnerships with top companies in the food and nutrition trades to become their merchant of choice, and to continue to build its trademarks in such growing markets. With maximum international clients wanting the assurance of a year-round, world-wide stock, Fonterra is gradually supplementing New Zealand-obtained milk with external supply, to deliver supporting to the growth of new consumer dairy goods. In 2010/11, Fonterra obtained 22 billion litres of milk globally, including 20 per cent of Australia's production and 24 per cent of Chile's, both the nations where Fonterra has healthy recognised consumer trademark operations. In Latin America it obtained 2.6 billion litres of milk with its co-operative schemes with Nestlé. New Zealand alone milk assortment was 15.4 billion litres, alone share about 89 per cent of nation's milk production. Development in global finding will stay with Fonterra targeting to mature its own milk production skills within key develop bazaars. China and India can be taken as the new targeted markets.

Fonterra always had been extra ordinary nutrition of dairy. For years, its farmers work very hard to give worthy milk to its customer all around the globe. They have their past experience from back generation and, taking care of this tradition which tossed New Zealand in front of whole world in dairy industry. (Fonterra Co-operative Group, 2010)

3 Environmental Scan

3.1 Macro environmental scan

The demand of milk by worldwide consumers is expected more than 100 billion litters by 2020, as there is monetary growth and huge population in markets which is definitely pushing the overall demand; however New Zealand is just contributing 5 billion litres of total milk supply by that time. The increasing demand is the sign to Fonterra to increase its production so that they can cover up the world demand as a leading dairy exporter. It is noticed that the demand milk is more especially by young and the elderly which are receiving more urgent and specific. (Theo Spierings, 2012)

PESTEL Analysis: (Oxford University press, 2007)

Political: political issue matters a lot in any business scenario where all restriction about the trademarks, bio-diversity, quotas arguments and labelling action in dairy.

Economic: Variations in foreign currency, growth in demand rather than supply worldwide, production of goods and milk prices. Continue merging of suppliers and customers are the economic factors which has to be keep in mind

Social: Rapid increase in needs of consumer markets, demand in healthy and nutritive dairy milk and products. Traditional difference with regard to the demand of milk. Growth in nutrition and bio markets.

Technological: Day to day change in technology affecting the production of products and to upgrade the quality and the quantity in production line one

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must be aware of the new innovative technology coming up in the market, the new technology helps the company to bringing down the production cost because here in process the indirect heating and cooling system is required for each other, need of technology for fewer trucks which are required to transport the same quantity of milk.

Environmental factors: Frequent variations in New Zealand climate have a countless influence on the atmosphere, as the necessity for goods fluctuate from time to time, dropping influence of worldwide greenhouse gases as it will recover the superiority of New Zealand's environment. They have actual and safe organisation of farm performs that guards the environment from the pollution.

Legal: Legal challenges from society and government is required to continue the organisation structure and so that the organisation must not have any problem in future here the Fonterra legal structure stands for the legal rights on the farms of the people and the dairy factories workers and their wages.

Its Fonterra duty to train and educate the farmers about the products so that they get some knowledge about the products and also suggest way to help them out in how to improve the overall quality of these products, water and also how can they reduce the consumption of energy in farms. They must be aware about the time limit they have a conferring the rules and regulations. Company requires concentrating at future projects to enlarge its relative in terms of business so that they could provide a much better service to their stake holders and earn a higher value in return. Fonterra has made a lot in nations like Asia, Africa, Middle east, Australia, America, New Zealand but

they should goal at revenue cushion above the regular return of the income, which is main in periods when there are products at cheap prices. There are two likely outcomes in future where the demand can be divided into two that are, universally the general demand for the dairy products is assumed to grow by 1. 2% whereas the yearly rise in dairy is estimated to be 4%. Every year there is a growth in demand for dairy goods by 2. 7 %, where as in a period on 10 years' time the demand is calculated to be 147 billion litres. Level of opposition has enlarged at very high level even though the Fonterra has kept their global reach; this is Fonterra's biggest asset as they can see that routines, taste and preferences are dissimilar from place to place. To encounter the specific demands of the consumers the local team is selected to deal with state of the customer as they will come to local demand.

3. 2 Micro Environmental Scan

From the beginning of Fonterra since 2001 they had a maximum share that's in excess of 95% of all New Zealand milk goods but somehow it dip to 90% in 2008-2009, with additional fall is still predictable.(Keithwoodford, 2008)

Anyhow it is examined that the supply been increased by some percentage in recent years. And what has been found in the market that the new entrants giving a tough competition to Fonterra and that can be risk for them in near future than it was in past. It is a true that at current structure they make easy for new entrants to take part in dairy farmer dealers by caring a high worth share on the fair value share which is really not connected to the add value to the element of the milk price. (Keith Woodford, 2008)As the renovation risk is tall of their shares, Fonterra should have an possible

business structure that will help them in meeting their advance strategy and <https://assignbuster.com/fonterra-current-organizational-restructuring-marketing-essay/>

also help in dipping their recovery risk of the shares as they can properly allot returns to the dealers or farmers. To meet these business strategies and all legal procedures, the goals and objectives Fonterra must give importance on actual risk management. They should uphold the balance between the board and other management staff and must have a strong relation with the all customers and stakeholders. There should be an Official strategy development plans which brings extensive procedure and happy dividends - giving more planned viewpoint, for locating priorities and creation of key decisions. Consumers demand for the goods keeps on fluctuating; numerous consumers demand much more improved quality at similar price. These fluctuations in demand show that, the Fonterra can imagine that in upcoming period their customers will demand healthier quality at similar price. The new consumers demand for those goods or services which never been formed before, and old consumers demand for the new amenities or product features. This makes a tensed condition as we want to make effort on both existing and fresh consumers. Whatever may be the choice, it's hard to achieve this state which can rise at any time. (Bain & Company, 2005)In dairy industry the company deals with the perishable products which is hard to transport from one place to other and make it fresh as it is and also economically at a long distance. Also, it pacts with very high trade hurdles on dairy products so to deal with this there must be some strategy so that the overall profit for the company increases and upsurge the effectiveness in the working. (Gehlhar M. J, 2009). Fonterra must use the research and development team to evaluate more economic, healthy and quality product so that which must be naturally and ecologically consistent.

They must attract the attention of young consumers as they are life-long
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consumers. (Gehlhar, M. J, 2009) They should change on their abilities as they can make much more revenues on the goods and services relatively than just being an exclusive manufacturer. Fonterra can also uphold their management if they can distinguish their product structures that from the competitors. To stand as a top in the market it wants labelling power and product innovation. (Gehlhar, M. J, 2009). Number of increase competence and efficiency of corporate structure (Fonterra Co-operative Group, 2012)

Valuation

With an analysis of macro and micro scan of environment there are several of problems which have come forward. Fonterra have managed to bring some transformations in their working for higher value markets and tried to sustain with the similar strategies of maintaining low cost leadership and increased volume however Fonterra's capability to uphold the spot is at danger and its business structure restricts its capacity. Following are some of the problems which need to modify with critical thinking and innovative strategy.

There is clear outcome that present structure of the Fonterra is not acceptable. As per its capital structure it's compulsory that its 75 per cent of shareholder approves any proposal but as per the scan it appears to be very less because his shareholders or farmers currently constantly discarding the proposal offer. The shareholders are definitely not accepting the approval because they need to be assured that the final outcome should be positive. (Allio, M. K, 2005)

Around the globe there is arise in fit, appropriate and environmentally friendly manufactured foods products and as a result mass production has replaced mass customization. So for getting the opportunities in overall environment for those branded manufactured foods

Fonterra should be capable for changing current strategies and apply new and innovative strategy for completing the challenge in the global market. Even though they are capable of segregating their item for consumptions, Fonterra must have some distinct competences for taking in physical input which can be used in food business so that they come up with different products of competitors.

Fonterra should also focus on consumer marketing, product and process innovation so that they Fonterra can get a competitive advantage by differentiating his food products which holds exceptional quality which is different from competitors.

According to the science and biology, the production of dairy organization is not limited only on the farm but there is production of manufactured food products as well. The guidance from biotechnology can help Fonterra to adjust the workings by means of technology or natural resources.

(Datamonitor, 2008)

To come up with a different product line, Fonterra should take the help of health and nutrition team which targets at particular health improvement. Data monitor (2008) further pointed out that it is essential that the team is well trained to get target at consumer health all around the world, such as:

dermatology, gastrointestinal health, infant nutrition, immune health, sports
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health, therapeutics, bone health and animal health. Fonterra's emphasis on creating of product will undeniably benefit and increase the demand in food products. (Datamonitor, 2008)

Fonterra is responsible for promoting all food products by advertising about product features in order to control the market. Bart and Bontis (2003) suggested that the direction is required for consumers to make them loyal towards food product.

In the ever changing business environment erratic circumstances arise; Fonterra may plan an appropriate strategy for these situations, since the irregular characters. When businesses fragment at spectacular speed or when conventions can overnight be both unbridle or cripple marketplace applicants or when the value and accessibility of critical contributions may vary wildly - So the strategy development of Fonterra be for situations of uncertainty.(David Calfee, 2006)

Successful strategies integrate multiple situations for Fonterra which creates a series of feasible strategic options; flexible enough to make alterations in unpredictable situations. (VeitEtzold, Ted Buswick, 2008)

Innovation in the product occur at each stage of business, for example in 80s the Walkman with a cassette player came and replaced Discman and mp3 player soon but now what we can see in market is only iPod which has captured more than 90% of market. And it is highly likely that the iPod will be banished too one day by yet other product. So the firm should continuously have another policy or approach. So demand can modified with the time so Fonterra must be elastic in getting those demand within the time
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bracket. (VeitEzold, Ted Buswick, 2008). Still, if satisfactory variations are not ready, or if ready but it's not adequate to avoid the risk of fiscal risks, it must use the monetarist policy as a substitute option for taking care for those risks - scheduled carefully and always taking note in mind the characteristic problems of that approach. (Tristan Nguyen, 2011)