IS Strategy at NZMILK

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EXECUTIVE SUMMARY

NZmilk is a small, fresh milk supplier that is contemplating using IS to a greater extent to become more competitive. Following deregulation of the industry in 1997, supermarkets and home delivery contractors could purchase milk from wherever they chose, rather than a required local manufacturer. This had opened up both competition and expansion opportunities within the industry. NZmilk recognised that they would have to fight hard to retain and increase their share of the market. They had already lost some of their local market to competitors coming in from outside their region, but had also gained a contract to supply Woolworths supermarkets outside their traditional market area. Improvements to production facilities and distribution systems were in place, but NZmilk knew that a fresh look at how they interacted with their customers would be needed. Their general manager was convinced that information systems had a greater role to play at NZmilk beyond just the accounting and order processing that was presently undertaken. A new direction in using information systems to support NZmilk's rapid growth and new strategy was needed, but he was unsure of which way to proceed.

BACKGROUND

Whangarei Milk Company was formed as a private company in 1946 to supply home delivery milk in the growing town of Whangarei. In 1990, the company changed its name to NZmilk, and became a fully owned subsidiary of Northland Milk Products, an established, progressive dairy cooperative operating in the Northland region of New Zealand. This relationship with Northland Milk had brought benefits in terms of a guaranteed supply of whole milk. Previously, a number of dairy farms were directly contracted to supply NZmilk 365 days of the year, so NZmilk had to make use of all the milk provided each day from these suppliers. Now NZmilk could request the volume of milk it required by obtaining a milk tanker delivery from Northland's major processing factory (during most of the year) on relatively short notice.

Another advantage of the association with Northland Milk Products had been the ability to call on their resources when needed, particularly in the managerial, technical and financial areas. The parent company required NZmilk to submit monthly reports on their operations, and any major initiatives required approval from the Directors of Northland Milk Products.

By 2000, NZmilk had become the fourth largest supplier of fresh white milk in New Zealand, with annual sales of $25 million. Milk had always been the heart of their business, but they had recently increased their product range to include fruit drinks and fruit juices, and were considering developing other food products to add to their product range.

NZmilk occupied a modern plant on the outskirts of Whangarei, in one of the fastest growing regions of New Zealand. It employed 80 people, plus a distribution system involving an additional 36 vendors. These vendors were self-employed contractors who delivered on a daily basis to supermarkets, convenience outlets, and homes.

SETTING THE STAGE

Up until 1997, the home delivery of milk had been tightly regulated. Licensed local processors set the retail price of milk but were compelled to provide a home delivery service regardless of economics. Each home delivery milk processor had sole rights to a district. For NZmilk, this effectively meant no competitor could supply milk into the Whangarei region. Any firm could compete outside their restricted territories with other products like flavoured milk and yogurt. However, fresh milk was still the major product sold.

Although the fresh white milk industry in New Zealand was worth about $400 million per year, milk consumption was slowly falling and losing market share to other beverages. Sales of flavoured milk were helping to slow the decline. New Zealand's largest dairy company, New Zealand Dairy Group (NZDG), with revenues of $2 billion, was mainly focussed on the export of powdered milk, butter, cheese and other manufactured milk products, but also had a dominant market share of the pre-deregulation fresh white milk market in New Zealand's North Island, where about 80% of the New Zealand population of 3.5 million lived. NZDG's stated strategy was to become the low-cost leader in both the NZ domestic market as well as for the export products.

Deregulation was forced on the industry by the government, rather than the industry choosing deregulation. Many milk companies initially resisted deregulation, but some, like NZmilk, saw deregulation as a business opportunity and a way for the company to grow. After deregulation, milk companies began to supply their products into competitor's previously protected regions. Supermarkets were one target for additional sales outlets, but convenience outlets and home delivery drops in remote regions were less attractive, as more complex warehousing and distribution systems were required.

The move into markets outside their region had been anticipated when NZmilk changed its name, and was further reflected with the introduction of "NZ Fresh" as the Company's major brand.

Pricing was another area that had changed. Prior to deregulation, pricing was controlled to the extent that prices in supermarkets had to be within three cents of the price of home-delivered milk from vendors. Deregulation removed such controls. At times, competitors had cut prices of milk, particularly during the spring and summer when milk was plentiful. This meant that pricing policies had to be flexible and able to respond to competitive pressures in the marketplace, particularly in supermarkets.

Home delivery vendors had seen further erosion of their sales to homes. Prior to deregulation, supermarkets supplied less than 10% of fresh white milk, with the balance through home delivery and convenience outlets. The supermarkets' share had risen considerably since deregulation. Various initiatives were taken to protect home delivery systems. For example in Nelson, most home delivery vendors had purchased hand-held computers so they could respond easily to changes in price and demand. Elsewhere, NZ Dairy Group had begun rationalising its distribution system by reducing the number of route contractors and amalgamating various supply companies.

While supermarkets now had the advantage of a number of suppliers eager to sell them fresh white milk at competitive prices, they were not solely interested in stocking the lowest priced product. Reliability of supply, product quality (freshness), ease of ordering and obtaining product quantities

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