



# Meaningful connectivity:

## The co-operative glue

By Kris Nygren, 17 October 2003

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- A two year journey to the start line
  - Secure access to every last farmer
  - Rationale: promise of improved connectivity
  - Broad brush v.s. broadband
  - Putting it in context

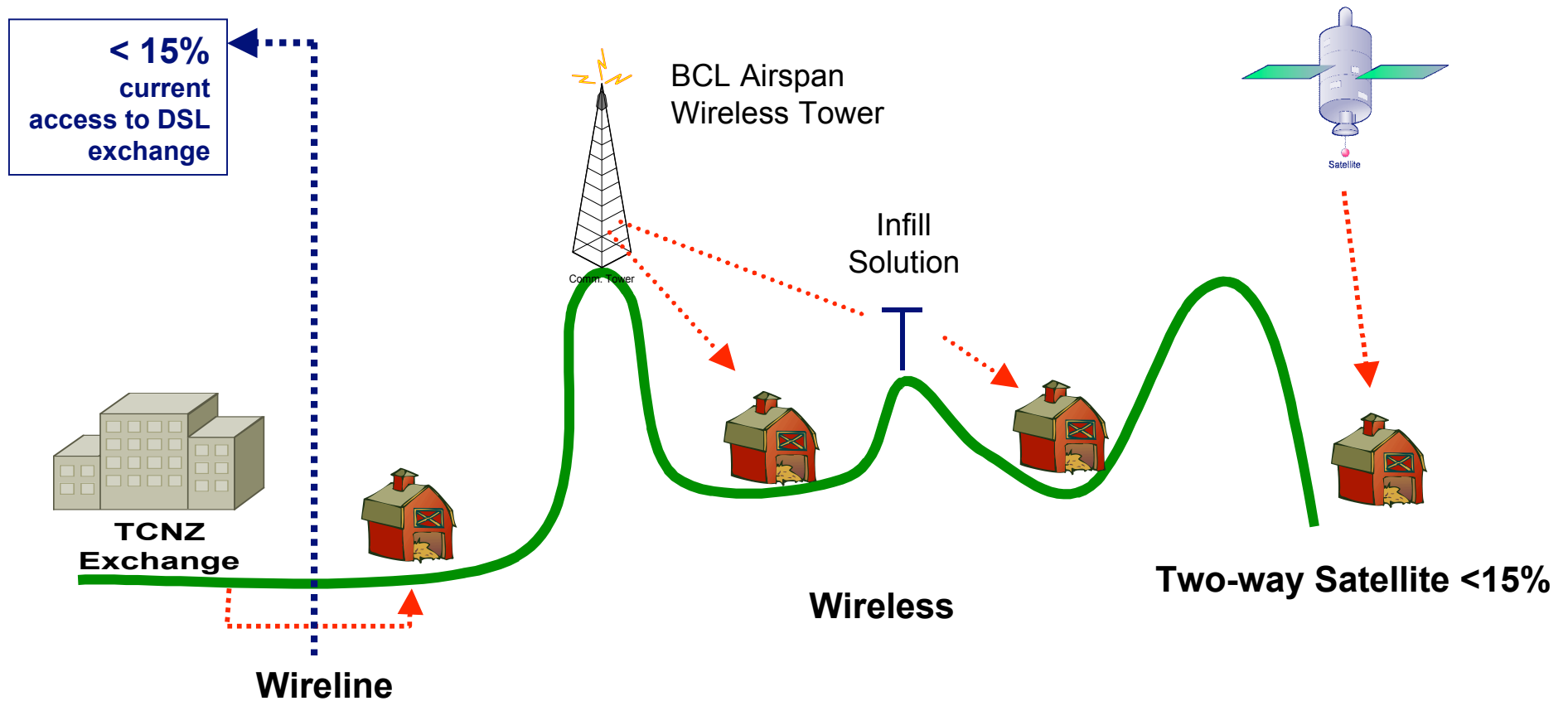
# A two year journey to the start line

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- On November 1 Fonterra will launch a network roll-out in a shared risk partnership with Telecom, enabling:
  - Access to meaningful (read: vastly improved) connectivity for 100% of Fonterra farmers within 18 months, including:
    - Secure nationwide access to Fonterra, other farmers and the Internet
    - Specifically selected value add components, including end-to-end service
    - ‘As good as urban’ pricing

# Secure access to every last Fonterra farmer

...in whichever way is financially defensible



# Secure access to every last Fonterra farmer

...building in end-to-end service provision

The diagram illustrates the end-to-end service provision for Fonterra farmers. It shows a physical antenna on a roof (Access Services) connected to a network (Gateway Services) that provides access to the Fonterra website (Internet Services). The website screenshot shows the Fonterra homepage with various navigation options and a table of production data.

Farm No	Date	Litres	Solids %	Solids kg	MTD Solids kg	MTD Target Solids kg	MTD Diff
30103	26/9	7,206	NA	NA	11,809	*10,620	1,269

\* Indicates that there is no target entered for this farm. Previous season figures are used instead.  
NA - Results not yet available on Fencepost.

## Rationale: promise of improved connectivity

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- 17,000 farmer suppliers from Far North to edge of Bluff:
  - Ultimate goal: remove barriers of distance and legacy
  - Costly communication and interaction: \$\$\$m of 'hard copy' communications
- Despite frustrations of rural connectivity: Fonterra farmers high-end users of Internet:
  - 60% of Fonterra farmers access milk data on Fencepost.com at least every other day

## Rationale: promise of improved connectivity

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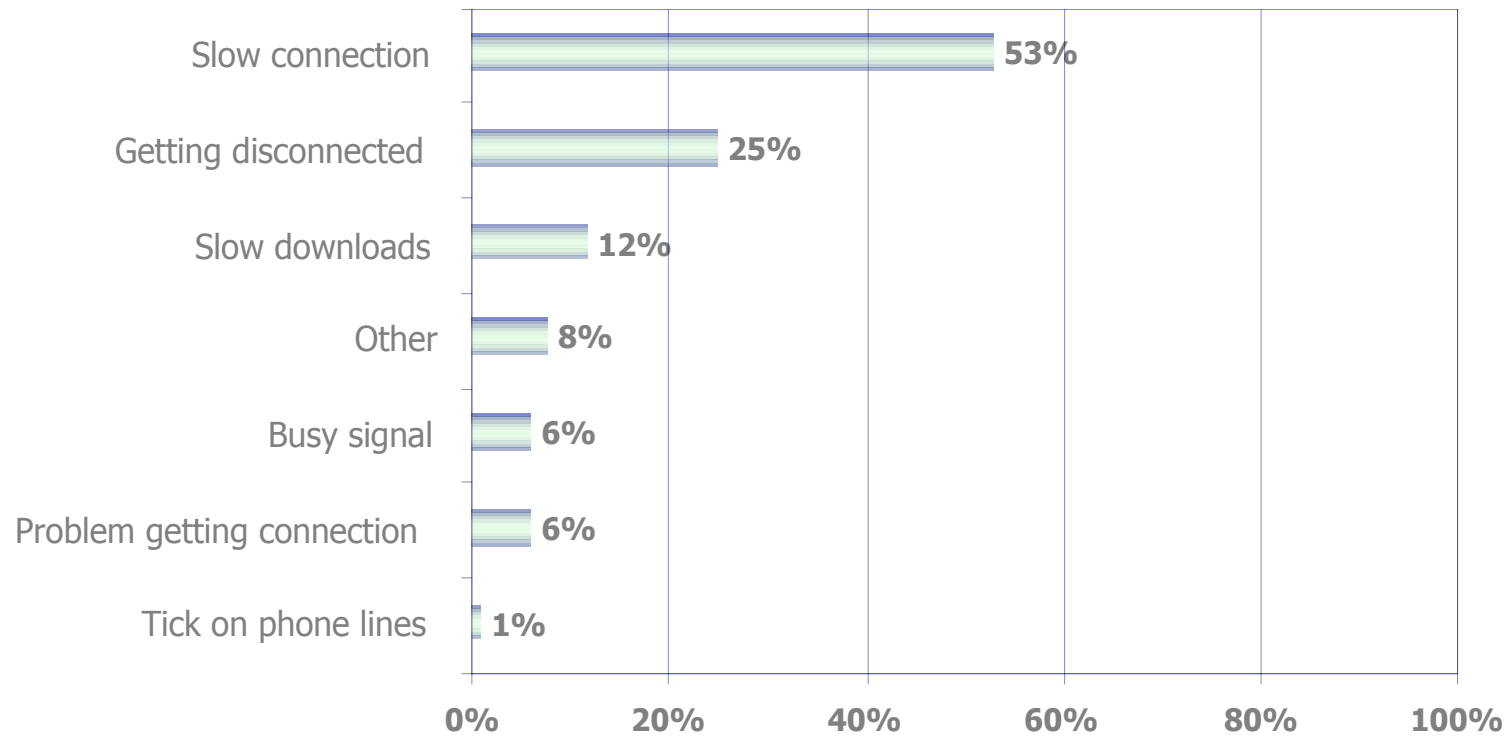
- Poor rural infrastructure impediment to knowledge transfer, new technology development:
  - Typical rural dial-up connection: 20-25 Kbps
    - Opportunity to reduce 'waiting time' by 80% or more
  - Opportunity for an application step change: 'unleash Fencepost.com'
- Incremental productivity improvements can make an enormous difference:
  - Every 1% production increase ~ \$50m
  - Move from 'hard copy mail drops' to 'real time interaction'

# Rationale: promise of improved connectivity

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...removing a real impediment

70% of Fonterra farmers experience connection problems



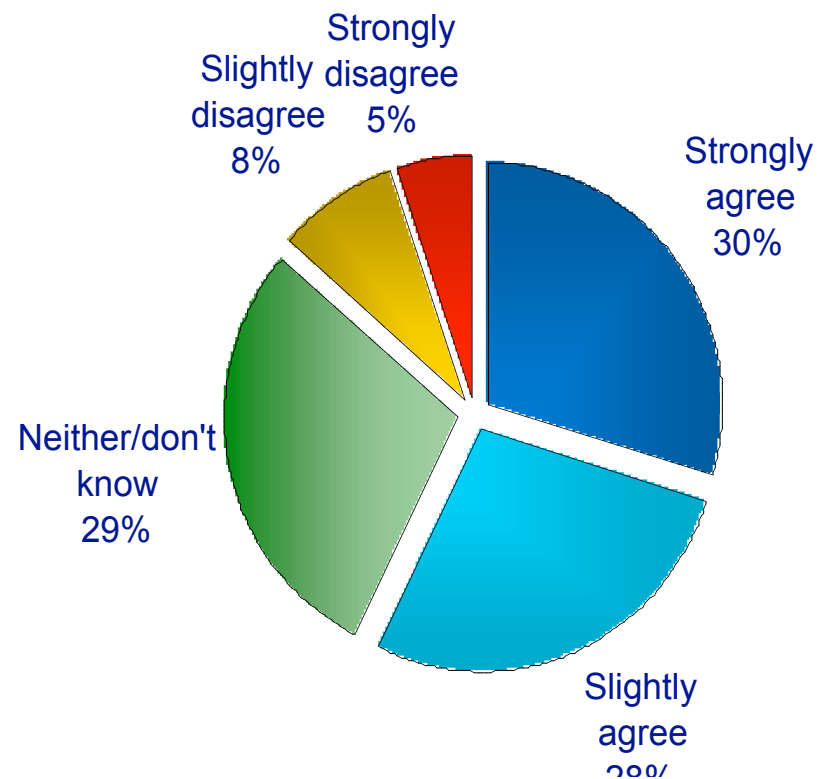


# Rationale: promise of improved connectivity

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...emphatically supported by the co-operative owners

Shareholder attitude to Fonterra initiative



# Broad brush v.s. broadband

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- 256 kbps - aiming too low?
- Co-operative principle: 100% or not at all
- Unpalatable economics: no commercial justification?
  - Neither critical mass nor sufficient density in New Zealand?
  - ...then diminishing returns with incremental rural coverage

# Broad brush v.s. broadband

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- Marketable rural connectivity or break-neck-speed broadband?
  - Just staying connected is a good start
  - 200 Kb/s is typically a 800% improvement!  
*...and use the phone at the same time*
- Add the right 'accessories'
  - Security, virus protection
  - Freeing up phone, free calling
  - End-to-end service
- Enable valuable and useful applications!

# Putting it in context

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- Fonterra's initiative adds momentum...but is only one piece of the puzzle
- Fonterra in the business of milk - not telecommunications
  - Don't add complexity
  - Minimise all risks
  - Co-operative principle and maximum leverage = meaningful connectivity for 100% of farmers nationwide
- Unbundling the local loop:
  - Would currently directly impact less than 15% of Fonterra's supplier base
  - ... but may have a positive spill-over effect in terms of over-all competitive behavior

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End