

**Australian Industry Group  
Annual National Forum 2005: 'Rethinking Business'  
Session Three: 'Rethinking Business – Asia Pacific'  
Manufacturing  
Trevor O'Hoy  
President & CEO, Foster's Group Limited  
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**KERRY O'BRIEN:** Our next speaker also brings a great deal to this forum today as a leading global manufacturer in a highly competitive industry based in Australia. Trevor O'Hoy became President and CEO of the powerful Foster's Group last year after 28 years in the company. He came to the top job after a stint as managing director of Carlton and United Beverages, the Australian-based brewing and multibeverage division of Foster's. His first year at the top has been eventful to say the least, including the takeover of Southcorp, which added some of Australia's great wine brands to an already impressive portfolio. Would you welcome Trevor O'Hoy.

**TREVOR O'HOY:** Thank you very much, Kerry. Good morning, ladies and gentlemen. Before I start, I can't speak on behalf of chocolate but I do know alcohol in moderation is good for you. It's a scientific fact that two glasses per day is positive for your health; four is neutral so those who want to drink go up to four; and six is exceptional for us.

I am very pleased to be here today speaking on behalf of Foster's Group and the topic: rethinking manufacturing. As it happens, we have been doing a lot of rethinking within Foster's about the way we go to market and how we

manufacture and in the last 12 months have been putting in some very significant operational and innovative changes.

We have acquired Southcorp during the year for \$3.7 billion, adding another 20 million cases of premium wine and over \$1 billion of revenue to our very strong portfolio that exists today. That catapults us to number one in premium wine in the world today, measured at \$5 a bottle and above. I am guessing not many people here drink quite down that low, but at \$5 and above we are number one and the only Australian company in the consumer products category that are number one in the world. Along the way we are beginning to rebuild our business models and capture synergies between the wine businesses that we have acquired and the multi-alcohol beverage companies as well, to capitalise on the strengths of the mass that we now have - in terms of the strengths of the portfolio, and in terms of the strength of the flexibility.

Our major operating companies are now based on markets, based on customers and consumers, rather than the old way of aligning to product categories and production centres. This is also linked to a transformation of our organisational culture, one where we were inverting the old production driven paradigm and putting at the core of our business in everything we do our customers and consumers -- so much so that everything we do today is either consumer led or customer driven. More on that in a moment, but first let me give you a snapshot of where the group is today.

The statistics on the screen have been taken from our last year's results. Unfortunately I can't wind forward two weeks to give you the '05 results.

You will have to wait for that, but they are bigger, I can tell you. Foster's today has a market capitalisation of about \$11 billion and is among the top 20 listed Australian companies. In beer we are the 17th largest in the world today, with Foster's being number one in the city of London, number two in UK overall and the only non-European beer in the top 10. In North America we are about the sixth largest importer of beer.

In wine, with the acquisition of Southcorp, we have now become the number one leading premium wine company. While buying new assets has been the highest profile within our group over the last 12 months, we have also cleaned up a lot of non-core assets, selling our residential land business, Lensworth, during the year for nearly \$900 million and a number of other businesses that were non-core to our strategic capabilities.

Critical to everything that we do, wherever we are, whatever we do has been 'first choice'. We know that consumers have choices; we know customers have choices, there are a multitude of suppliers; we know investors have choices; and we know employees have choices. So what we are about is being first choice wherever we are and wherever we operate. It's those four stakeholders that are absolutely critical to the way we go forward.

In terms of this consumer-led customer driven philosophy, our vision is to be the leading premium alcohol beverage company in the world – we are clearly leading the way here in Australia, we are clearly leading the way in premium wine, but we have a long way to go across all beverages. That's what brings us to do the work to be the best in the world. To achieve this we give priority to our consumers, and part of my job is keeping abreast of their

changing habits and following them around to various venues late at night. So it's particularly tough.

As you all know, today our consumers are seeking and exploring different activities and different objectives. Sadly when I first joined, a drinker would have been a VB drinker, born a VB drinker, died a VB drinker. Today, they change their drink depending on the occasion, who they are with, what they are celebrating and the venue. So our job has become particularly more difficult. Added to that, our consumer is becoming more multicultural whether that be in physical travel or whether it be electronically. Increasingly, they are looking for global brands.

And on top of that they are becoming more promiscuous and experimental in terms of products. So they have a suite of products, not just one brand and one product. Our task is as simple as satisfying more consumers in more venues on more occasions than our competitors. That's as simple and as complex as our task is.

In terms of the journey into multibeverage, which is a relatively new experience here and around the world -- indeed, product companies tend to be one product, either beer, wine or spirits. We have changed the model here in Australia to be the leading multibeverage company. There are very few companies that do it. So it brings with it some complexity in terms of supply chain, information technology and whatever else.

Today, I am proud to say that Foster's Australia speaks for about 55 per cent of the Australian beer market, more than one in two; it has some 12 per cent

of bottled spirits; 98 per cent of the cider market; about 10 per cent of ready-to-drinks; and on top of that, depending on price points, up to 40 per cent of the Australian wine business. When you add all that up, that means one in every two drinks of alcohol in this country has a Foster's label on it. In dollar terms, 35 cents either retail or wholesale spent on alcohol is paid into a Foster's bank account. This is the critical part to our business as we go forward. What drives our globalisation, both beer and wine, is that we have a locked-up fortress Australian business. That's what will continue to allow us to grow as we go forward.

The breadth, depth and brand equity of our portfolio I have just outlined enables us to provide an offering across all categories and to every segment. It's now only natural for us to integrate the front end of the CUB and Beringer Blass business and over time Southcorp. So we actually have a three-way integration process going on at the moment. But all of that integration will be based on customer and consumer needs, all based on a one-stop shop for our customers and consumers.

Critical to our success is an unparalleled distribution and customer network. In Australia we call on 25,000 customers out of about 40,000 every day, two or three times a week. We have come a very long way from our original conservative Victorian brewing roots to be one that is the number one nationally with an unrivalled must-stock multibeverage offering-- an offering that is distributed across the country and indeed internationally. Our multibeverage distribution system delivers beer, premium wines, spirits in bottles and spirits in mixed form. This is absolutely unique as a model in global terms.

Our scale, our customer contact, our portfolio breadth provide a fantastic opportunity for us to understand consumers and all drinking occasions and to deliver new products to market faster than our competitors. In the past year we have increased our investment in marketing and innovation with innovative new products such as SAS, bubbly, half-mile creek, early harvest, pure blond -- all being introduced over the last 12-month period and the innovation will continue. It will continue not only in products, but it will continue in processes, because in the end innovation is the only continuing or sustainable competitive edge.

In terms of our wine business, through Foster's Australia and Foster's Wine Estates we have created the number one premium wine business in the world today. Wine is an agribusiness. Our approach is to manage it from a consumer perspective, not necessarily from a producer or winemaking perspective. In actual fact, in rethinking our model our ultimate aim is to actually run out of grapes, absolute sacrilege in running a wine company looking backwards. But we are setting the business to run out of grapes so that we use the spot market wherever that be around the world to actually buy grapes rather than sell them. It's a concept that is taking some time to obviously get through our production driven culture. Also at the forefront of our wine making is to outsource the growing of grapes, outsource the crushing and outsource the production -- again, something that is sacrilege to the traditional ways of making wine but again one that will give us a point of difference and a sustainable edge.

Our aim is to coordinate, and not centralise, and to allow opportunities to

diversify -- creativity and innovation, again being driven by consumers and what they want on all their drinking occasions.

Finally, our third arm is the Foster's international beer business. Something like 105 million cases of Foster's are sold around the world, the same quantity of beer that we sell in this country -- all of it outsourced, all of it with long-term licensed partners, a natural virtual business. It is a way of extending the value of our company to other markets via brand equity.

Foster's is certainly living in a theme of 'rethinking manufacturing'. Central to that is the changes that we are driving at the moment in a singular focus on our customers and our consumers. It's an absolute key focus to our success as we go forward in increasingly complex markets and product categories. This will transform Foster's to another level again. The heart of our objective in terms of our business is brand equity. Brand equity or what we call brand Australia, which we rightfully own in both the beer and wine categories.

In conclusion, I would like to show you a little bit of how we build brand equity with our latest ad. And again in rethinking manufacturing, we have been rethinking marketing. This ad I am about to show you has had some 1.3 million hits in four weeks. It's not on television -- or it has been launched last week -- but it has had 1.3 million hits through a viral Internet-based campaign. This is our way of the world as we go forward. I would like to thank you for listening today.

**KERRY O'BRIEN:** You obviously believe in leaving us laughing, Trevor.

I know that promiscuity and wine have been known to go together in the past but I was interested to hear that your customers are becoming more promiscuous. Also on the two glasses a day, how big are the glasses?

**TREVOR O'HOY:** As big as you like.