Meaningful connectivity:
The co-operative glue

By Kris Nygren, 17 October 2003
• 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

• 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
Rationale: promise of improved connectivity

- 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

• 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

...removing a real impediment

70% of Fonterra farmers experience connection problems

- Slow connection: 53%
- Getting disconnected: 25%
- Slow downloads: 12%
- Other: 8%
- Busy signal: 6%
- Problem getting connection: 6%
- Tick on phone lines: 1%
Rationale: promise of improved connectivity

...emphatically supported by the co-operative owners

Shareholder attitude to Fonterra initiative

- Strongly agree: 30%
- Slightly agree: 28%
- Neither/don't know: 29%
- Slightly disagree: 8%
- Strongly disagree: 5%
Broad brush v.s. broadband

- 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

• 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

• 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
End