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HD **Lion seeks growth as product range slashed**

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THE boss of Lion's dairy and drinks division is banking on iced coffee and gourmet cheese to drive the company's expansion into Asia as he cuts hundreds of products from underperforming product categories.

Peter West, who joined the company in January, noted that sales of iced coffee such as Lion's Dare and Farmers Union brands now outpace cola sales in the Australian convenience store market, but said even more growth was available by targeting Asian consumers — either with UHT products that could be shipped from Australia or by partnering with Asian manufacturers.

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Mr West said he planned to almost halve the company's product range as he sought to refocus on faster-growing parts of the market.

"We make over 1000 items in the business today — in my sixth week here we deleted 20 per cent of the items we make, and there's another 20 per cent on notice," he said.

Mr West said the business drew 80 per cent of revenue from just 200 different products, while many of the remainder moved so slowly that they often spoiled before they could be sold.

Mr West said Japanese parent company Kirin was committed to the business, which was created via the acquisitions of National Foods and Dairy Farmers in 2007 and 2008 respectively — a combined $3.9 billion expenditure that former Lion chief Rob Murray described as "frankly suicidal" prior to stepping down in 2012.

"Kirin are very supportive, very enthusiastic, and very impatient ... but they see a business that over time will add value to the entire group," Mr West said.

The company was also determined to hang on to its 10 per cent stake in Victorian dairy processor Warrnambool Cheese and Butter, which prevented Canadian dairy giant Saputo's $400 million-plus takeover of WCB from reaching full ownership.

Mr West said that by preventing a full change of control at WCB, Lion had preserved cheese supply contracts with WCB for the Coon and Cracker Barrel brands that would otherwise have been cancelled under change-of-control clauses.

"These are contracts that can't be replaced easily, so we needed to protect the ongoing supply." However "everyday" cheese brands were not a strategic focus for the company, which was also moving away from private label milk following the loss of supply contracts to Coles and Woolworths, and unlike WCB would not be pursuing the booming export market for powdered milk.

While those categories did provide scale that allowed for economic production, Mr West said Lion would dedicate increasing levels of resources to faster-growing and higher-margin areas such as specialty cheese, yoghurt and dairy-based drinks, which were seeing increasing demand in both the domestic and offshore markets.

"I'd rather face into a future without private label and cut my volumes and overheads than holding on to private label where I don't make money," he said.

Export sales are currently less than 5 per cent of Lion's revenue, but Mr West said 80 per cent of demand growth for packaged groceries was coming from emerging markets.

"We're not trying to set lofty targets at the moment, but we'll be pushing our best and most differentiated brands into the export market, and we're talking to partners in Indonesia and **China**.''JOHN DURIE P28

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