# Agribusiness Agenda 2015

**Volume 1**
Growing value

# Sowing a crop of young agriculturalists at Mount Albert Grammar School.

## New Zealand's primary sector is critical to our nation's prosperity and ambitions.

To achieve the Government's Growth Target Agenda, more New Zealanders need to choose farming as a career. The ASB Farm project at Mt Albert Grammar School (MAGS) is taking up that challenge.

The ASB Farm was established in 1932, and has been used continuously since then by MAGS for agricultural education. In 2013 ASB assured the long-term future of the farm with a long term lease agreement for another 99 years, with an nominal annual rent of one dollar.

Support from KPMG, Fonterra, Landcorp, Te Tumu Paeroa, Plant & Food, NZX Agri, MAGS Foundation and ASB has funded the ASB Farm at MAGS business case which is available on request.

## Restoring the link between town and country.

In the past, everyone in New Zealand felt some connection with farming, either through family ties or simple geographic proximity. The rural and urban population was split equally, and farming was the main source of the country's wealth. But in the last few decades the urban population has overtaken the rural population, we've seen multi-generation urban families evolve, and there has been significant increases in immigration.

This growing divide between town and country creates political and policy challenges. At a more practical level, it also means fewer young people now think about farming as a career.

ASB's ambition is to slow that trend, by helping the ASB Farm at MAGS become a world-class teaching facility and experience centre. Together with MAGS, we'll help educate young people and their communities about the primary sector, the opportunities it holds for them, and the value it creates for our economic and environmental sustainability.

The ASB Farm at MAGS is located in the heart of Auckland, and will demonstrate the innovation, science and environmental best practices used on farms across New Zealand. It will also be the driver for substantially increasing the number of MAGS students studying agriculture from 160.

For more information on ASB Farm at MAGS, including a video of the farm in action with MAGS students, see www.asb.co.nz/asbfarm.

# FOREWORD

This is the third foreword I've written for KPMG's Agribusiness Agenda and it's no surprise to me that once again biosecurity is rated as the number one concern of industry.

I've always said that biosecurity is my number one priority as Minister and the last 12 months have reinforced that. The highlight is Budget 2015 with $27 million in new funding for biosecurity, which will mean more dogs, x-ray machines and resources.

The introduction of a specific international passenger border levy to fund these services is a fair and responsible way of dealing with increasing traveller movements. I'm pleased to see this has been warmly received by primary industry groups.

The importance of biosecurity has been reinforced to New Zealanders by the incursion of Queensland Fruit Fly into the Auckland suburb of Grey Lynn earlier this year. The Ministry for Primary Industries has done a great job of detecting and treating what is a small, isolated population.

Earlier this year I announced Biosecurity 2025 which will update and replace the founding document of New Zealand's biosecurity system, the 2003 Biosecurity Strategy. I look forward to broad input into this from stakeholders, iwi and the wider public.

This year's KPMG Agribusiness Agenda highlights a number of other important priorities for the Government, such as expanding trade access, supporting irrigation, and 'social licence' to operate.

Both domestic and international markets are demanding greater environmental sustainability of us. I'm confident that farmers and growers are up to the challenge, given the major strides we've made in recent years with initiatives like fencing off waterways and riparian plantings.

Attracting more people into the primary sector is another key challenge ahead. We know that we need an additional 50,000 jobs by 2025, and therefore the 20% increase in tuition fee subsidies for agriculture students at tertiary level in Budget 2015 is a very positive step forward.

The Agenda also highlights the volatility of commodity prices over the last year, which reinforces the need to keep adding value to what we produce.

This is why the Government is investing heavily in supporting innovation through the Primary Growth Partnership, which is already delivering exciting results. It will be a major tool in achieving our goal of doubling the value of primary exports by 2025.

I welcome this year's Agribusiness Agenda which is always essential reading for anyone interested in the primary sector.

**Hon. Nathan Guy**
Minister for Primary Industries
New Zealand

# TAKING CONTROL OF CORPORATE CULTURE FOR A HIGH-VALUE FUTURE

Image: Blaine Harrington, The NZ Story

We often overlook the global success that is the New Zealand primary sector. The industry produces high quality products that consistently secure price premiums based on the perceptions many consumers have of New Zealand as a pristine, sustainable producer of food, fibre and timber products. Equally, competitors around the world look towards New Zealand producers for clues as to how to create and maintain an innovative, market-led agricultural system that can prosper in a low-subsidy environment.

## THE FUTURE PROGNOSIS FOR THE PRIMARY SECTOR

The long-term prospects for agricultural producers have been well documented in recent years. As the global population grows and wealth increases in emerging economies, the world will demand significantly more food, fibre and timber to support the more individualised lifestyles that people will adopt. This means the medium to long-term, macro picture for New Zealand's primary sector remains undeniably good; we have the opportunity to offer the right products, in the right place at the right time. Realising the potential relies on selecting the best opportunities to pursue. Those opportunities are the ones that will maximise the value we are able to generate from what we produce.

During the conversations and Roundtables in preparation for this year's *Agenda*, we sensed a slight change of outlook within the industry. Leaders had less confidence, compared to recent years, in the industry's ability to fully capitalise on its potential.

Given dairy's role as a bellwether, not only for the primary sector but for the wider New Zealand economy, the scale of the decline in milk prices in the current year has been significant. It has shaken the belief that many held that there had been a step change in commodity prices driven by the insatiable demand for product from consumers in emerging markets. The decline in milk prices has all been about increasing supply, as exporters have looked to increase their production; and Governments in importing countries have focused on enhancing the productivity of their domestic dairy sectors.

**The key learning from the milk price decline is that the primary sector in New Zealand has no exclusive right to sell its products in any market at a premium; to create value we need to understand the steps in the supply chain in detail and be taking proactive steps to manage how product flows through the chain to meet the needs of the ultimate consumers.**

Competitors around the world are tracking the same market trends as our producers. They are running the same data analysis to identify the opportunities to generate market value, and are innovating at speed to differentiate their products in crowded marketplaces. Many have learnt about the culture necessary to operate in a competitive market environment from studying the New Zealand system, and are now putting those learnings into play to become highly effective competitors in export markets.

Increasing competition makes now the right time to think deeply about how the primary sector positions itself to compete and win in the markets of the future. This is made all the more urgent as there are real concerns over whether the industry is actually realising enough value from our current production. This value is critical to generate the income required to invest in the innovation, market positioning and talent needed to compete in these increasingly competitive markets.

There are real concerns around the world being able to produce enough to feed itself over the next 20-30 years. Given New Zealand will never be able to produce enough to feed the world, and our producers will find it increasingly difficult to satisfy the volume requirements of large companies, our organisations must find other ways to maintain relevance in their markets.

This presents major challenges to our producers, to the processors and exporters and to the wider community. If we fail to maintain the strong market positions that have been developed over the last 30 years, the sector's ability to generate wealth will come under increasing pressure. This will ultimately impact the ability of the country to pay for the community services we rely on as a developed nation.

## IT'S TIME FOR A CONVERSATION ABOUT THE FUTURE

A conversation about maintaining relevance into the future is not an easy one to have, particularly when nothing is really broken and there is no burning platform to focus the discussion. The industry continues to make a significant contribution to the economic wellbeing of the country; albeit there are signs of stress emerging. These include growing fears about the sector's environmental impact, animal welfare concerns, challenges supporting vibrant rural communities, and concerns about foreign ownership of assets.

A conversation about the future is not one we cannot afford to defer for much longer. As we discussed in the last volume of the *KPMG Agribusiness Agenda*, titled "Evolving our Global Future", the world is changing in many different ways at an unprecedented speed. We only need to speculate on how the 50 billion connected devices that are expected to form the 'Internet of Things' by 2025, will impact our lives to realise change will be significant. Companies need to be ready to respond to the speed at which new products are created and business models disrupted, the way our communities will fragment, or the challenges climate change and resource depletion will present.

The world we will live in will look very different in 10 years, and will be unrecognisable in many respects by 2050.

It is against this background that a number of contributors expressed real concern about whether industry players are doing enough to future-proof their businesses. They questioned whether organisations are actively building a culture that will enable them to maintain relevance, and continue to create and capture value into the future. Taking time to step away from the day-to-day operational challenges of an organisation and think deeply about the future is a low priority for many business leaders. The planning horizons for too many businesses are too short; extending maybe one or two seasons at the most.

**We should be worried about the lack of a big vision for the future of the primary sector; particularly as our future role in the global food system is likely to evolve rapidly, driven by changes in demand and supply.**

It was noticeable during our Roundtable discussions that for many leaders, the issue of an industry vision and strategy was again on the agenda. There were many reasons raised for developing such a vision, not least to provide a framework for a much bigger conversation with the wider community. It was highlighted that many people in New Zealand today would not understand what is meant by the term 'primary industries'. This makes it difficult to talk to them about the career opportunities available in the industry, their expectations around the sector's social licence to operate, or their perspectives on the use of new technologies in producing food.

Without some simple and engaging communication that explains what the primary sector does, how it does it, and how the community benefits; there is little prospect of making progress on the key issues for the industry.

It was also argued that without an engaging vision for the industry, it is challenging to ensure consistency of policies and initiatives across Government (both national and local) to enable the industry to deliver greater value to the wider economy. The most often-cited example of this lack of consistency is our approach to utilising water (where the Central Government's desire to make progress is not being translated into practical actions by local authorities in many communities). A vision framework defines a common language for the industry, making it easier for companies to establish if a potential partner is on the same page when exploring opportunities to collaborate.

**A vision can make it easier to attract both talented people and foresighted long-term investors to the industry, providing both the intellectual capability and financial capacity to help fuel the sector's future.**

The past year has demonstrated that volatility is a constant bedfellow in the primary sector. If we continue to ride the markets, we will enjoy huge peaks and but also suffer the hangovers that undoubtedly follow. How can we ensure the future will be different; more aspirational and more certain? This can only happen if we focus on controlling those factors we have the capability to control.

## TAKING CONTROL OF THE FUTURE

This *Agenda* is all about growing a more valuable future for the industry and for New Zealand.

We believe strongly that the single most important variable that any organisation can choose to control is its organisational culture. Culture defines whether an organisation will be successful at creating and capturing value. The right culture means that leaders lead, the hard decisions get made, and investment is directed to areas that will have the greatest impact on establishing long-term prosperity. Organisations that have taken control of their future have a clear vision of where they are heading, and understand the strategy they will follow to get there.

Taking control of organisational culture is not easy. It can be uncomfortable, expensive and even career-limiting for some executives; but if we simply keep doing the same old stuff, this can eventually only lead to irrelevance.

The industry needs to face up to what its future will look like, if we fail to change and persist with the status quo. A vision enables that 'reality' to be contrasted with another perspective of what the future could look like if more organisations choose to evolve and aspire to adopting the elements of the high-value enterprise culture we describe in this *Agenda*.

To me, it is critical that we paint a picture of what the future could look like for New Zealand and for the primary industry. It has the potential to disrupt traditional thinking, spark excitement, overwhelm naysayers and be a catalyst for change.

**We have a great industry, one that is respected around the world as a leader. Articulating a value-based vision for how we retain our leadership position into the future is a relatively small act. Yet it may well be the single most important action we need to take control of our future, and deliver great things that fuel a more prosperous future for all New Zealanders.**

**Ian Proudfoot**
Global Head of Agribusiness
KPMG New Zealand, Report Author

**"I AM PASSIONATE ABOUT OUR ROLE WITH THE PRIMARY SECTOR AS IT IS HELPING TO SHAPE THE ACTIONS TO CREATE A MORE PROSPEROUS FUTURE FOR ALL NEW ZEALANDERS, TODAY AND THOSE TO COME IN THE FUTURE."**

**Ian Proudfoot** is the Global Head of Agribusiness for KPMG and an Audit Partner based in Auckland. He provides services to clients in a range of sectors including viticulture, horticulture, pastoral agriculture and agricultural support services. He has led KPMG New Zealand's strategic agribusiness initiative since it was launched in 2009, authoring each edition of the *KPMG Agribusiness Agenda* and editing the weekly Field Notes publication. In 2013, he was asked to establish and lead a global network of KPMG professionals working with clients in the agribusiness sector worldwide. Ian is a regular presenter and commentator on sector issues both in New Zealand and internationally.

# THE YEAR IN REVIEW

## **JUN.** 2014

MPI research shows the industry needs nearly **50,000 additional skilled workers by 2025** to achieve the export double

A **forestry safety** report identifies lack of consistency in training and failure to follow standards as root causes for the sector's high death rate

Major apple sector company **Scales Corporation announces plans to IPO** its stock on the NZX, ultimately achieving a value of $224 million

Stock and wool group **Elders Rural Holdings returns to 100% NZ ownership** when acquired by Ashburton-based Carr Group

## **JUL.** 2014

A **proposal to re-implement a wool levy** to fund industry good research activities is announced (but ultimately voted down by farmers)

The **decline in dairy prices accelerates**, placing pressure on Fonterra's 2014/15 forecast milk price of $7 kgms

Fonterra announces alliance with Abbott to develop a **$342 million dairy farm hub in China**, the co-op's third farm hub in China

The Government allocates $107 million to **build science teaching and research facilities at Lincoln**, conditional on collaboration with Lincoln Hub partners

## **AUG.** 2014

The forestry sector calls for a **'wood first' policy for Government procurement**, saying it would support $1.2 billion of investment in the sector

A **NZ egg producer is sentenced to home detention** for falsely claiming more than 2.4 million cage-produced eggs were free range

Analysis by the NZ Flower Growers' Association indicates **the floraculture sector is rapidly losing growers**, with many that remain approaching retirement

**Fonterra announce $1 billion of investments**, including a 20 percent stake in Chinese-based Beingmate Baby and Child, plus two new milk powder facilities

## **DEC.** 2014

**Tatua celebrates its 100th anniversary,** with future plans to commission facilities to make it the world's largest dairy hydrolysates producer

**Pipfruit NZ signs a Government Industry Agreement** to co-manage biosecurity with MPI, joining Kiwifruit Vine Health and NZ Pork

Fonterra cuts its forecast milk price to $4.70 per kgms, and **introduces MyMilk**, a new entity to source milk from non-shareholding farmers

**Silver Fern Farms announces it will seek $100 million** in new equity in 2015; to repay debt, upgrade plant and pursue its value added strategy

## **JAN.** 2015

Dry weather in Canterbury and Otago **forces irrigation schemes to review the amount of water** they can make available to farmers in the regions

At least **four farmers are believed to have committed suicide** over the holiday period, as the stress builds following cuts in forecast milk prices

**MPI proposes an increase in fees** of between 12-20 percent, to reflect the true costs of biosecurity and food safety services

**Two new PGP investments are announced**: deer industry initiative Passion2Profit, and premium lamb programme, High Health for New Wealth

## **FEB.** 2015

**A fruit fly cluster discovered in Grey Lynn** in Auckland triggers a major incursion response from MPI that is expected to last for the remainder of 2015

Ministers **reject a proposal to develop the hemp industry in NZ**, despite support from Food Standards Australia New Zealand

The Workplace Relations and Safety Minister, Michael Woodhouse, welcomes **the launch of the Safer Farms Programme** led by Worksafe NZ and the ACC

The **Sheep Dairying sector holds its first conference in NZ**, highlighting its growth potential from lower environmental footprint and value add products

## Agri-News headlines from around the globe.

**Access Field Notes weekly at: fieldnotes.co.nz**

### SEPT. 2014

A video of a **Zespri marketing event**, a water fight held in Shanghai, attracts more than 25 million social media hits in China

**Dairy Goat Co-operative opens a new $70 million dryer** to support growth in its specialised goat milk nutritional formula business

In the lead-up to the election, the National Government suggests it would spend $100 million **acquiring and retiring farmland along important waterways**

Balle Brothers launch Chip off the Old Block, a **new range of potato chips** made exclusively from potatoes grown on Balle farms

### OCT. 2014

The PGP-supported Precision Seafood Handling Technology, which allows **live fish to be landed and exported**, takes top honours at the NZ Innovator Awards

Australasia's biggest sawmiller announces plans to start building **a $120 million mill in Rotorua**, and calls on NZ to develop more wood-friendly policies

Eleven post-harvest operators issue a letter **opposing the $885 million kiwifruit claim** against the Government over the 2010 PSA incursion

A proposal is revived to **merge NZ's two remaining scouring businesses** (Cavalier Wool Holdings and NZ Wool Services) to create production efficiencies


### NOV. 2014

**A FTA with South Korea** is announced at the G20 meeting in Brisbane, delivering progressively reduced tariffs on most exports but not milk powder

Australian Supermarket chain **Woolworths acquires a Marlborough vineyard** to secure supply and strengthen relationships with growers in the region

**Westland Milk Products announce investment** of $102 million in a new milk dryer and $40 million in a UHT milk plant

The latest round of **graduates complete the Escalator leadership programme** run by the Agri Women's Development Trust, taking the total to 53 graduates

### MAR. 2015

Meat Industry Excellence **proposes a 'Fonterra style' structure for the red meat industry**, which would require re-structuring of existing processing footprint

The forest industry **establishes the Forest Safety Council** to centralise the industry's various safety improvement initiatives

**Free trade talks resume with India** for the first time in nearly two years, following a visit to India by the Minister for Primary Industries

NZ Police announce **an eco-terrorism threat to contaminate NZ-produced infant milk formulas** unless the country stops using 1080 by 31 March

### APR. 2015

The Government announces legislation to **provide the wine industry with geographical indication protection**, a move welcomed by NZ Winegrowers

Sanford announces plans to **close its Christchurch mussel processing plant**, citing the impact of high ocean temperatures on the growth of farmed mussels

The Minister of Primary Industries **announces the Biosecurity 2025 project** to update and replace the current biosecurity protection strategy from 2003

The Rural Health Alliance and Telecom Users Associations join forces to face the issue of **poor broadband coverage** in rural areas


### MAY. 2015

The Government announces a **new levy for travellers to fund biosecurity** activities at the border

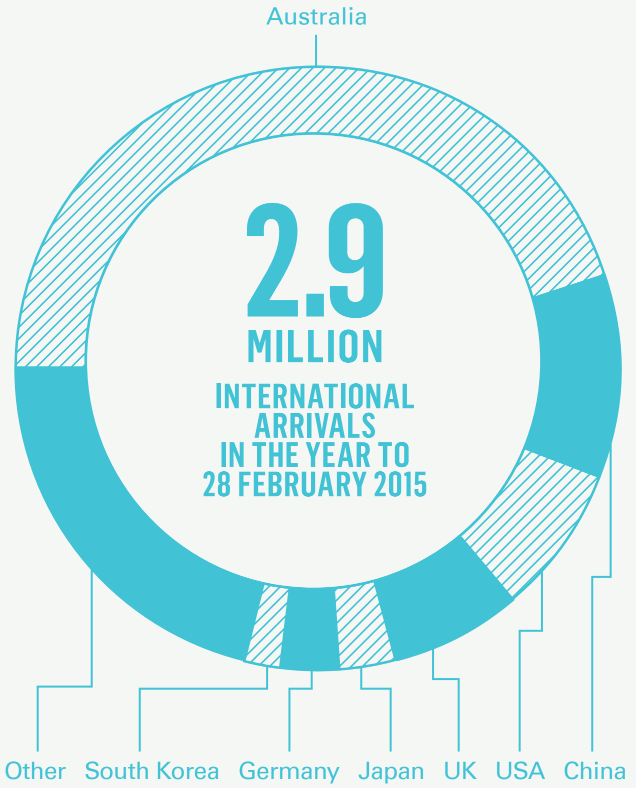
Reserve Bank of NZ identify the **dairy sector as a risk to the stability of the economy** given high indebtedness and reduced incomes

Synlait Milk announces a **milk powder product high in melatonin** to enhance sleep produced from cows milk collected at night

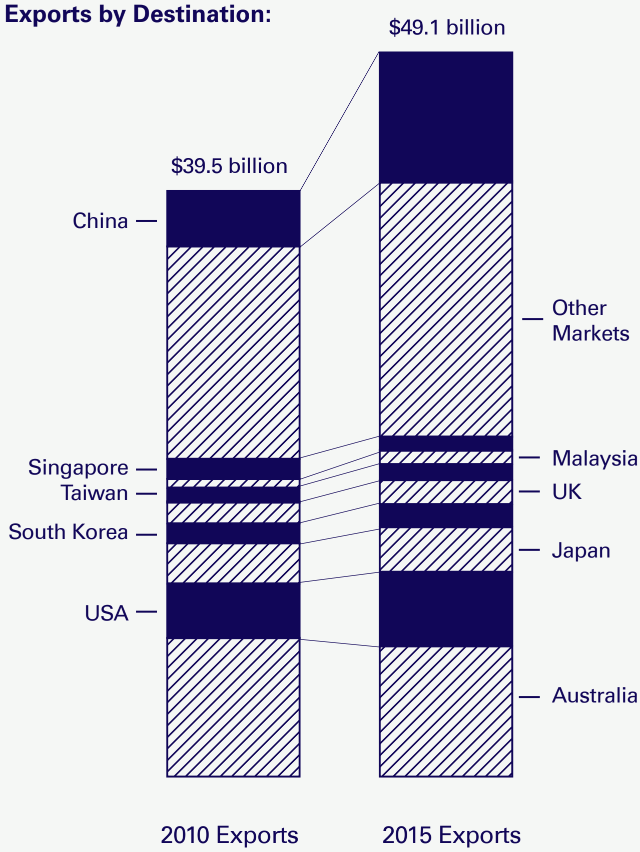
A public consultation is launched on **NZ's Greenhouse Gas emission target** in advance of the global summit in Paris on the issue

# NEW ZEALAND'S PLACE IN THE WORLD

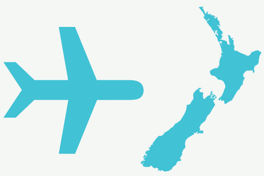
## Overseas visitor arrivals: Our customers in our shop window




## New Zealand Merchandise Exports by Destination:

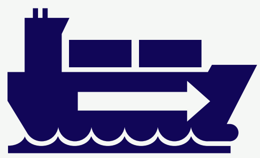



**FASTEST GROWING MARKETS FOR VISITORS TO NEW ZEALAND:**
**TAIWAN: 29.7%**
**INDIA: 24.6% CHINA: 21.3%**



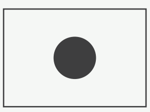
Source: Statistics NZ: Overseas Visitor Arrivals March 2015

**NEW ZEALAND MERCHANDISE EXPORTS TO CHINA HAVE MORE THAN DOUBLED IN 5 YEARS, MAKING CHINA OUR LARGEST TRADING PARTNER**

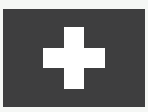


Source: Statistics NZ: Exports By Destination March 2015

## Top Country Brands:

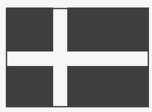


**#1 Japan**

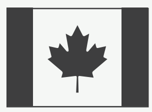


**#2 Switzerland**

**#3 Germany**



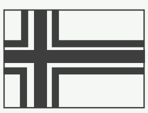
**#4 Sweden**



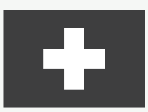
**#5 Canada**

Source: Country Brand Index 2014-15; Future Brand

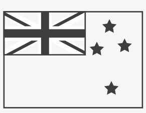
## Top Prosperous Countries (Legatum Index):



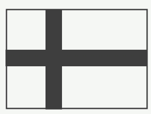
**#1 Norway**



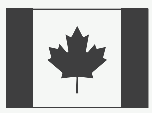
**#2 Switzerland**



**#3 New Zealand**



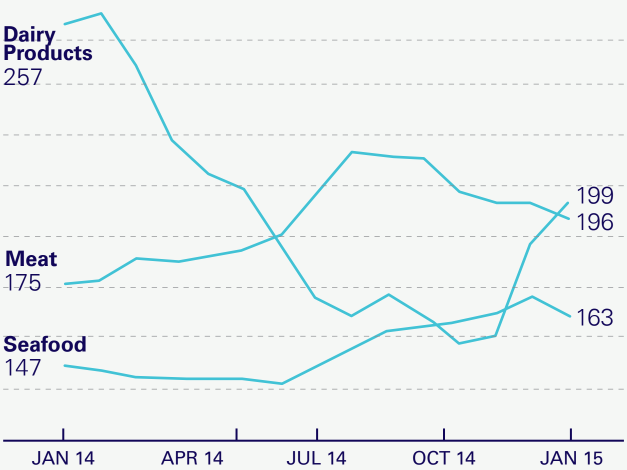
**#4 Denmark**



**#5 Canada**

Source: Legatum Institute Prosperity Index 2014

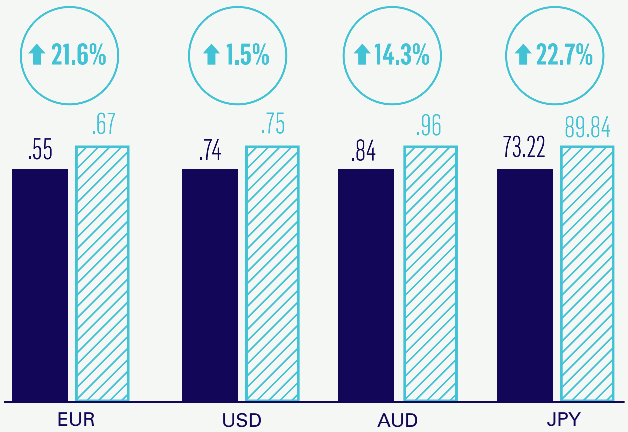
## ANZ commodity price index (NZD) – historical series and component indices




Source: ANZ Bank: Commodity Price Index (NZD) to March 2015

## Average of Interbank bid and offer rates from 1 January 2005 to 21 April 2015

■ = Ten year average rate (2005 to 2014)
▨ = 2015 Average rate (to April)




Source: Oanda.com – Average of Interbak bid and offer rates from 1 January 2005 to 21 April 2015, KPMG Analysis

## New Zealand's competitiveness assessment for 2014/15

| | 2014/15 RANK (OUT OF 144) | 2013/14 RANK (OUT OF 148) |
|---|---|---|
| Institutions | 1 | 2 |
| Infrastructure | 29 | 27 |
| Macroeconomic environment | 25 | 43 |
| Health and primary education | 4 | 5 |
| Higher education and training | 9 | 9 |
| Goods market efficiency | 6 | 9 |
| Labour market efficiency | 6 | 8 |
| Financial market development | 3 | 4 |
| Technological readiness | 23 | 24 |
| Market size | 62 | 62 |
| Business sophistication | 24 | 26 |
| Innovation | 23 | 26 |
| **OVERALL** | **17** | **18** |

**MACROECONOMIC ENVIRONMENT MOVED UP FROM RANK 43 TO RANK 25**

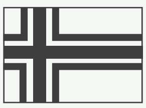
Source: World Economic Forum: Global Competitiveness Report 2014/15

## Regional gross domestic product, GDP per capita:

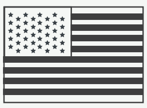
| | SHARE OF NATIONAL GDP | GDP PER CAPITA |
|---|---|---|
| Auckland | 35.3% | 53,759 |
| Wellington | 13.2% | 62,021 |
| Christchurch | 13.1% | 53,054 |
| Waikato | 9.0% | 48,098 |
| Bay of Plenty | 5.2% | 42,213 |
| Otago | 4.3% | 46,684 |
| Taranaki | 4.0% | 80,297 |
| Manawatu-anganui | 4.0% | 39,442 |
| Hawkes Bay | 2.8% | 40,091 |
| Northland | 2.5% | 34,825 |
| Southland | 2.4% | 57,135 |
| Tasman / Nelson | 1.8% | 42,695 |
| Marlborough | 1.0% | 51,051 |
| West Coast | 0.7% | 52,306 |
| Gisborne | 0.7% | 34,602 |

**$230 BILLION TOTAL NEW ZEALAND GDP (2014)**

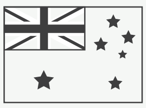
Source: Statistics New Zealand



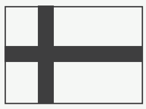
**#6 Norway**



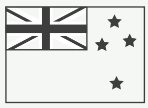
**#7 United States**



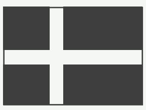
**#8 Australia**



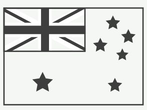
**#9 Denmark**



**#11 New Zealand**



**#6 Sweden**



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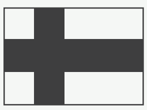

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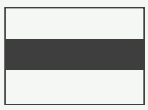
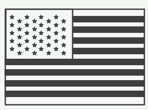


**#9 Netherlands**



**#10 United States**

# OUR EVER CHANGING WORLD

In the year leading up to the removal of the European Union milk quotas on 1 April, Irish farmers exceeded their quota by 5 percent and are expecting a fine of EUR80 million as a consequence

The European Parliament has approved a deal which will allow member states to decide whether they want to plant genetically modified crops, enabling some countries to accelerate adoption

Jamie Oliver has launched a campaign to encourage consumers to buy misshapen but perfectly edible produce. Asda is offering the new ‘Beautiful on the Inside’ range at a 30 percent discount

A research report indicated that a 1.3˚C increase in water temperature in Northern European seas has seen the fish varieties change with subtropical fish being found in waters around Britain

Chinese farmers have been throwing out milk and killing their cows due to low demand; leaving the Government to encourage local companies to buy domestic product to develop a stronger industry

The Presidents of China and the US announced a series of bilateral agreements, including a joint commitment to cut greenhouse gas emissions

Bucking global trends, the rural population in England is expected to grow by half a million people over the next 10 years reinvigorating communities and creating new rural businesses

Boeing and South African Airlines are working towards the first flight powered by biofuel made from tobacco plants, building on a trial conducted using green diesel made from waste cooking oils and animal fats

The Australian Federal Government reduced the threshold for review of foreign agricultural land buys by the Foreign Investment Review Board from A$248 million to A$15 million for investors from certain countries

Plant and Food Research have shared the genome sequence of the kiwifruit and PSA Bacterium online in the hope that crowd knowledge will help with the control of the PSA incursion

New requirements for Country of Origin labels in Australia were introduced in response to a Hepatitis-A outbreak from frozen berries that had been imported from China

Coca Cola announced that it was launching milk products across the US, through jv partner Fairlife Dairies. Fairlife promotes milk with higher protein and calcium and lower lactose than traditional milk

Venture capital interest in the food and agri sector grew rapidly in 2014, with investment up 54 percent to USD486 million; focused on precision agriculture, indoor farming, food safety, alternative foods and farm robots

McDonalds has announced that it will cease to use chicken in their US restaurants from suppliers that utilise antibiotics used in human medicine

The Partnership for a Healthy America is leading a programme using celebrities and social media to add the marketing pixie dust to fruit and vegetables to make them as irresistible to consumers as processed foods

Businesses are supporting the urgent implementation of two programmes to fund water infrastructure and improve ground water management in California, which has been gripped by severe drought for four years

The US Government has proposed implementation of a system that tracks every fish and crustacean shipped into the country in an effort to clamp down on illegal fishing black market

A venture capital fund that funded Facebook, Founders Fund, has committed to invest in legal cannabis start-ups in the US on a belief that the industry will grow massively over the next decade

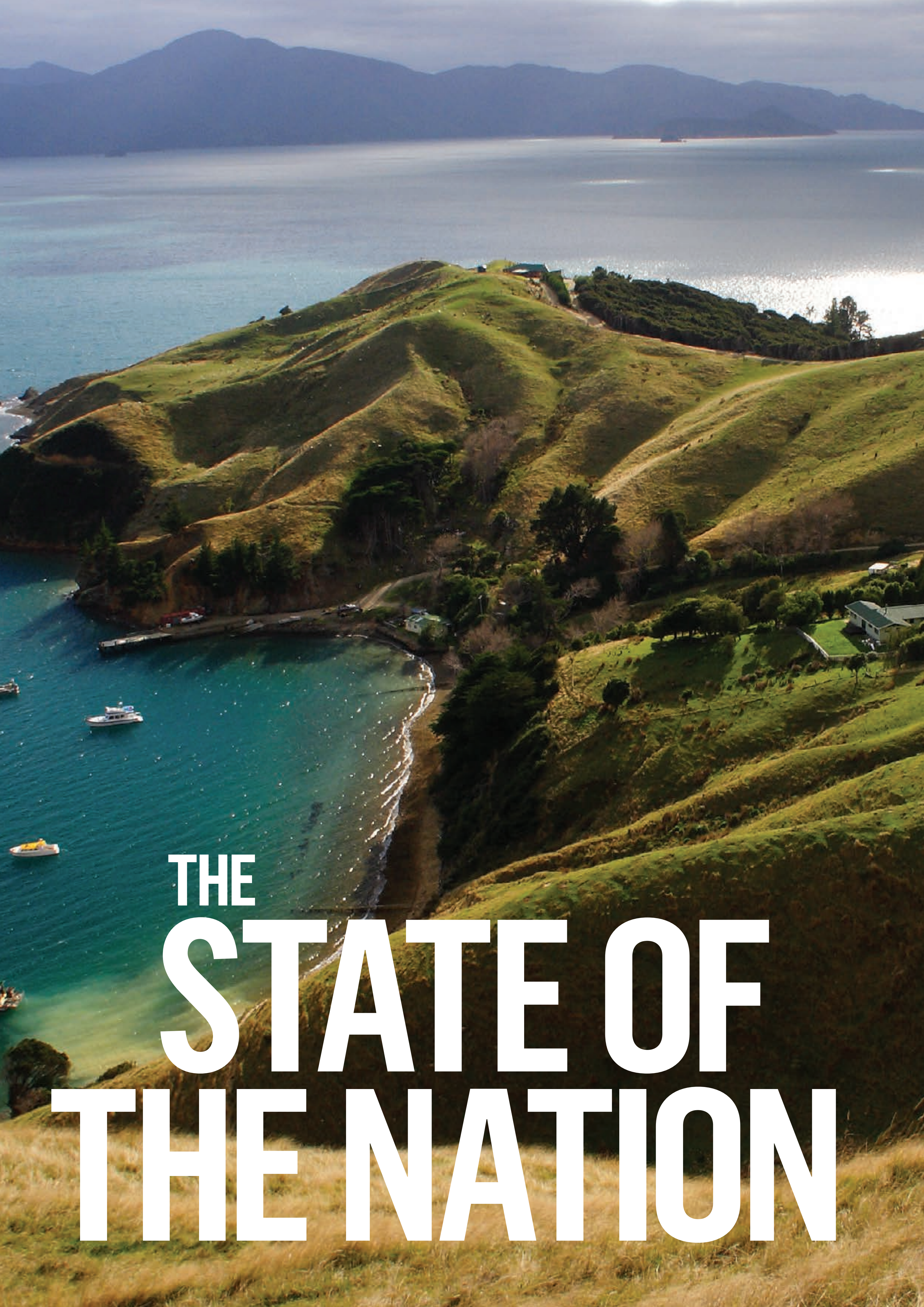
The USDA has given approval for two new varieties of genetically modified apples which have been created to avoid browning when cut or sliced, with the first apples expected to reach the market in 2016

To read more about our Evolving Future refer to *Agribusiness Agenda 2014 Volume 2*

Download free at: **kpmg.com/nz/agribusiness**

# THE 14 MEGATRENDS EVOLVING OUR GLOBAL FUTURE

- NEW WELLNESS MODELS
- MEETING ENERGY NEEDS
- INTEGRATED URBAN LIVING
- TARGETED EDUCATION
- 21ST CENTURY CONSUMER
- DIFFUSED INNOVATION
- THE AGEING GENERATION
- REALISING VALUE IN DATA
- GEOPOLITICAL INSTABILITIES
- CLIMATE CHANGING
- ECONOMIC REBALANCING
- FACING RESOURCE SCARCITY
- GOVERNMENT 3.0
- EMERGING SOCIAL ENTERPRISE



# THE STATE OF THE NATION

For each year's *Agenda*, we survey industry leaders to gauge the priority they attach to a range of strategic issues facing New Zealand's primary sector as well as hosting 13 Roundtables and having one-on-one conversations with some sector leaders.

This year, we sought views on 44 different issues – which included some new or emerging themes. These included: food integrity, food waste, synthetic and alternative proteins, ecosystem regeneration, and building strong rural communities.

The following pages reflect on the survey results and views industry leaders have expressed on various themes during our Roundtable conversations.

**For the third year running, ensuring a world-class biosecurity system has been rated as the number one priority by leaders.**

An interesting development is the increased priority attached to delivering high speed rural broadband, which has risen four places to second equal, along with food safety. Another notable shift in the Top 10 is the increased priority on developing future leaders. Other issues have declined in priority compared to 2014; these include securing high quality trade agreements, and investment in water storage and irrigation infrastructure.

**We had 104 responses to the survey. Respondents were asked to rank a series of industry priorities on a scale of 1 to 10, with 1 being an issue of no priority at all and 10 being an urgent priority requiring immediate action.**

## HERE ARE THE TOP 10...

01 World-class biosecurity

02 EQUAL Deliver high speed broadband

Food safety strategic importance

04 Deliver market signals to producers

05 Sign high quality trade agreements

06 Developing future leaders

07 Invest in irrigation / water storage

08 Delivering R&D incentives

09 Innovate with our customers

10 Create New Zealand provenance brands

If you wish to view the full survey questions and results, this document can be accessed on **kpmg.com/nz/agri-priorities2015**

2015 PRIORITY RANK:

01

REMAINS RANK 1

ENSURING WORLD-CLASS BIOSECURITY

**ACTUAL SCORES 2015** / 2014:

9.58 / 9.55

2015 PRIORITY RANK:

19

GIA COLLABORATION / COST SHARING

**ACTUAL SCORES 2015** / 2014:

7.31 / 7.75

# Biosecurity: looking for robust, commercial solutions

- **As global connectivity increases, it is ever-easier for disease (be that human, plant or animal) to be transmitted across borders. This is placing increasing demands on our biosecurity systems.**
- **Events during the year again highlighted the risks – and costs – that incursions pose to our economy. This led to the Government announcing plans to update the 2003 Biosecurity Strategy and increase funding in 2015 budget.**

Despite biosecurity being the number one priority identified in our survey, there was little discussion on the topic during the Roundtables. The need to maintain world-class bio-protection systems is seen by most as a given. Not surprisingly, the issue attracted most discussion in Auckland (given the current fruit fly response), as well as Tauranga, and Nelson. The view was expressed that it was more by luck than good management that we do not experience more incursions than we do. It was noted, however, that the identification of the fruit fly demonstrated our protection systems were working as intended.

Concerns surrounding biosecurity weaknesses were similar to those of previous years. These include the 'holes' in our border inspection protocols; the unrestricted importation of high risk products (such as PKE) into the country; and concerns about the practical implications of Government Industry Agreements (particularly over cost allocations between partners). It was suggested the cost of the current fruit fly response was likely to be many times the incremental cost to fund full border screening. Increasing global connectivity makes it critical to continuously reassess the most robust, cost effective solutions for New Zealand.

The Minister has announced the Biosecurity 2025 Project (which is a comprehensive review of the 2003 Biosecurity Strategy). This announcement was made after we had completed most of the Roundtables, so it was not raised by contributors.

However this strategy review will provide a prime opportunity to bring some fresh, collaborative thinking to biosecurity. We hope to see greater focus being placed on managing risks before they reach New Zealand. As one leader noted, it is only with better foresight that we will prevent ourselves becoming irretrievably stuck at some point in the future.

## AGENDA ACTION

**Prevention is many times cheaper than cure.** We need collective investment in a Global Pest and Disease Monitoring System; so emerging risks are identified early, and preventative strategies implemented pre-border and on-shore.

2015 PRIORITY RANK:

# 02

EQUAL

DELIVER HIGH SPEED BROADBAND

**ACTUAL SCORES 2015 / 2014:**

8.60 / 8.26

2015 PRIORITY RANK:

# 15

NEW PRIORITY

INFRASTRUCTURE FOR STRONG RURAL COMMUNITIES

**ACTUAL SCORE 2015:**

7.71

2015 PRIORITY RANK:

# 22

INCREASING RURAL / URBAN UNDERSTANDING

**ACTUAL SCORES 2015 / 2014:**

7.18 / 7.67

# Building strong, connected rural communities

- **We expect New Zealand agricultural businesses to deliver value from 21st-Century markets – yet we're only providing them with 20th-Century communication services.**
- **Fast connectivity in rural areas not only supports economic growth. It enhances healthcare delivery, overcomes isolation, and enables the unemployed to develop skills and become productive.**

Given the discussion on the ability of broadband to transform rural communities during the Roundtables, it was not surprising the issue rose up the priority ranking in this year's survey. It was regularly noted that improving rural connectivity has the potential to drive improved economic, social and environmental outcomes in many ways; interactions with new and existing customers, using data to support decision-making and environmental compliance, enhancing the accessibility to core community services and attracting talented people to move into rural areas.

In an ideal world, the wider benefits associated with delivering the same connection speeds to rural and urban areas (including higher tax revenues, lower health and welfare costs and enhanced environmental outcomes) would be secured by developing the infrastructure as a public good asset. It will never be economic to build these assets on the basis of a commercial business case. The reality is that productivity gains will not be maximised and rural communities will continue to be disproportionately represented in lower reaches of socio-economic statistics without some enlightened thinking around the public benefits of strong, connected rural communities.

There was a consistent view that this is an area where greater intervention is needed from national and local Government to overcome a fundamental market failure and secure greater public benefits than are currently being delivered from current Rural Broadband initiatives.

Now is the time for creative thinking on this issue, before the Government commits the additional $150 million it pledged for follow-on rural broadband investment. It is time for urbanites to stop defining rural broadband needs as being different to their own; and for rural communities to secure the service they need to build businesses and a prosperous future.

## AGENDA ACTION

**Thinking creatively about connectivity.** The rural sector must seek out social enterprise and Public Private Partnership (PPP) models that enable a world-class, community-owned rural UFB network. This will secure a technology dividend for our communities into the future.

2015 PRIORITY RANK:

# 02

EQUAL

REMAINS RANK #2

FOOD SAFETY STRATEGIC IMPORTANCE

**ACTUAL SCORES 2015 / 2014:**

8.60 / 8.64

2015 PRIORITY RANK:

# 21

NEW PRIORITY

GLOBAL DIALOGUE ON FOOD INTEGRITY

**ACTUAL SCORE 2015:**

7.19

2015 PRIORITY RANK:

# 24

EQUAL

NEW PRIORITY

DEVELOPING NZ WIDE INTEGRITY MARK SYSTEM

**ACTUAL SCORE 2015:**

7.03

# Defending our food

› **When it comes to food safety, New Zealand cannot afford an average performance. Our economic prosperity relies on the trust we earn from being ahead of our competitors.**

› **Premium consumers are increasingly focused on the link between illness and residues and chemicals in their food; making it critical we fully understand what we are selling.**

The word mentioned most often when food safety came up in our conversations – trust. Lacking a large domestic market, we rely on the ability to export the food we produce. To continue to do this successfully, it is critical that consumers can trust the integrity of our food.

Several leaders discussed the need to more actively defend our food than we have historically. This encompasses activities across the value chain – from improving farm security, through mitigating the risk of counterfeiting by using chemical fingerprint technologies, to imposing tighter standards on producers to control our destiny. The Chinese Government's move to regulate infant formula importers was highlighted as a response to a light-handed regulatory framework in place in New Zealand. This framework clearly did not meet the needs of our consumers.

The Chinese requirements mean some regulatory control of a critical sector of our economy has been ceded. We cannot afford to let this happen again. We have historically benefited from strong consumer perceptions over the safety and integrity of our food, which has helped deliver a price premium for some products. This reputation has taken a number of knocks in recent years, but must be protected by setting standards that position our bar above that of our competitors. As we noted in last year's *Agenda*, our food safety systems must continue to represent a strategic advantage for New Zealand.

The 1080 scare came up regularly in the Roundtable discussions. The consensus was that it was appropriately handled to protect our national interest. It was noted that consumers are increasingly focusing on the residues and chemicals in their food, and how these link to illness. The scare reinforced the need to focus closely on the nutrition and safety we deliver to consumers, and ensure that all exposures along the value chain are identified and managed appropriately.

## AGENDA ACTION

**We must be proactive in setting food safety standards:** our safety protocols must be regularly reviewed to retain global leadership, delivering a competitive advantage to our companies and preserving consumer trust.

2015 PRIORITY RANK:

06

DEVELOPING FUTURE LEADERS

**ACTUAL SCORES 2015 / 2014:**

8.26 / 8.01

2015 PRIORITY RANK:

13

INCENTIVISING STUDENTS INTO AGRI CAREERS

**ACTUAL SCORES 2015 / 2014:**

7.76 / 7.46

# Deepening the talent pool

› **The primary sector needs people from a diverse range of backgrounds. It needs app developers and consumer experience experts, as much as scientists and farm labourers.**

› **There is no silver bullet to attracting people into a primary sector career given the low profile the industry has in schools and the historic perceptions of those that influence career choices.**

It is a year since MPI released its report highlighting the pressing need for people in the primary sector. It is not surprising the issue has moved back up the Agenda's priority list, given the picture painted by the report. To support the industry's 2025 growth ambitions, it will require 50,000 additional people over and above normal replacement levels.

The recurring theme of our discussions was that the issue is too big for any single organisation to address individually. There is an urgent need for a well-designed, carefully messaged, and widely communicated pan-industry career awareness initiative. It must explain what the primary sector is, what it produces, who it sells to and what it contributes to New Zealand. It must be clear that the industry offers a huge diversity of career options; jobs that require many different skill sets, with ambition and a desire to succeed as the only common attributes.

Any strategy must lift the engagement with schools and universities, particularly in urban areas. Young urban people currently receive limited insight into the primary sector and are presented with few obvious pathways into careers. Sector leaders need to get into schools and tell students their career stories; companies need to support teachers to incorporate primary sector themes into the curriculum. School camps need to become farm stay experiences, and urban farms developed to enable every kid to build industry awareness.

Having attracted talented people, though, it is critical that promises are delivered on. Leaders expressed concern about the effectiveness of many training programmes, noting that some providers should be incentivised on delivering people equipped to do a job rather than their throughput. Conditions of employment need to be competitive; pay needs to match the market, the workplace must be safe, technology is not a nice-to-have, career paths should be defined and contributions respected. The "my way or the highway" approach to employee management no longer cuts it, business leaders need to nurture the potential of their people.

## AGENDA ACTION

**The industry needs a strategy capable of attracting 50,000 additional people by 2025.** Organisations must form a broad coalition and work collaboratively to attract the talent it needed to deliver premium food, fibre and timber to the world.




Image above and right: Chris Williams, The NZ Story

2015 PRIORITY RANK:

09

INNOVATE WITH CUSTOMERS

**ACTUAL SCORES 2015 / 2014:**

8.05 / 8.08

2015 PRIORITY RANK:

17

EMBED RESOURCES IN EXPORT MARKETS

**ACTUAL SCORES 2015 / 2014:**

7.47/ 7.37

2015 PRIORITY RANK:

20

NEW PRIORITY

FOOD SOLUTIONS FOR DOMINANT DEMOGRAPHICS

**ACTUAL SCORE 2015:**

7.20

# Getting intimate with our consumers

- **Although New Zealand producers rarely sell directly to the end consumer, it is still critically important to understand their needs and the solutions they seek. Most companies currently underinvest in this activity.**
- **Value is created by getting closer to these consumers, by having people on the ground to interact with them. This should be a bottom line investment for every exporter.**

As discussed in Volume 2 of last year's *Agenda*, global markets are becoming increasingly segmented by factors such as age, gender, religion, health, ethnicity, wealth and technology. This creates complexity, but it also creates many niche market opportunities with potential to deliver significant premiums to companies prepared to take the time to identify and cultivate these markets.

Choosing to service a market on a remote basis by flying a person in every now and then, makes it difficult to gain a comprehensive picture of the consumer segments that offer the greatest potential. Many New Zealand companies consequently focus their efforts on supplying the 'average consumer'. While this average customer may have existed in the 1950s, they are fast becoming an anachronism. Instead, it is the carefully identified niche customer that will deliver a premium for the products we produce.

As we explore later in this *Agenda*, building deep, intimate relationships with consumers and utilising this intelligence is critical to capturing and repatriating a greater share of the value available in any supply chain. The importance of this issue was highlighted in our survey results. Among the Top 10 priorities were: providing market signals back through the value chain; innovating in partnership with customers; and creating brands that tell our provenance stories.

Companies also need to recognise that obtaining deep insight and building intimate relationships comes at significant cost. This makes it important to focus efforts on market segments that offer the greatest potential. We need to be prepared to put ourselves in our consumer's shoes and use the product as they do to really understand the experience being delivered; this delivers the highest quality insights to enhance the solutions delivered to consumers. Justifying large intangible investment in a cost driven industry is challenging, but companies can't afford not to understand their consumers.

## AGENDA ACTION

**We can only deliver what the consumer wants when we know what they want.** Companies can generate valuable consumer insight by placing resources in key markets. There is also a role for Government to maintain offshore landing platforms to support companies entering new markets.

# Growing more from less

Last year, we highlighted the challenges facing an industry that operates in a fishbowl. The sector is under close and constant scrutiny from the media, politicians, councils and environmental groups. It was clear during the Roundtable discussions that there is increasing pressure on the sector to create wealth while using fewer resources. The reality of this is starting to bite; increasing the need to improve all aspects of production systems. Or, in other words, to grow more using less.

2015 PRIORITY RANK:

07

INVEST IN IRRIGATION / WATER STORAGE

**ACTUAL SCORES 2015 / 2014:**

8.22 / 8.52

## Water

**› Water storage is New Zealand's greatest economic multiplier, and can also be a driver to regenerate rural communities. Yet progress on water infrastructure seems to be stuck in red (and green) tape.**

Our *Agendas* over the last five years have highlighted the importance of capturing New Zealand's fresh water potential; many Roundtables again addressed the issue. The past year has seen some progress, with a number of schemes moving from the drawing board into construction. However the Canterbury drought has highlighted the need to turbo-charge the pace of development.

Water availability can break the link to the grass curve, creating opportunities to grow value by changing supply patterns. Water can enable farmers to leverage higher-value land uses. Water delivers community amenity, creates employment and enhances environmental outcomes. Yet we seem to be stuck somewhere between conservation and progress; and communities are struggling to reach consensus on how they view their future.

Industry leaders remain concerned about regulatory uncertainty, given local Government's role in consenting projects. There is a desire to see central Government oversight being used to accelerate development. The regulatory overlay applied to rural water is different to that applied to urban supply; if Auckland businesses were unable to source the water they need, for example, it would be a national issue. The same priority is not applied to rural water; yet given its economic impact, it should be.

2015 PRIORITY RANK:

16

CODIFY PRODUCTION STANDARDS

**ACTUAL SCORES 2015 / 2014:**

7.54/ 7.72

## License to operate

**› Social license to operate must be an all-encompassing issue for the industry. The license to operate is no longer a given – it must be earned every day.**

The wider community has expectations as to how the industry will utilise natural resources, such as land and water. These expectations are not static – they evolve in response to views expressed by the media, environmental groups and on social networks. Despite the investment companies are making to improve environmental sustainability, the gap between expectation and reality does not appear to be closing.

At the heart of the social license issue is a core question: are primary sector activities considered legitimate industries with a right to exist by the community?

We cannot assume the answers is 'yes', given the difficulties experienced by sectors such as aquaculture in obtaining consents for growth. The community's view is rarely shaped by the average man on the street, but by vocal groups of activists with specific issue agendas that become the proxy for the community's voice.

Consequently the 'community's' patience is running out, and their political representatives are introducing regulations limiting the sector's ability to operate. These rules could put a fatal hole into the export-double aspirations, unless a consensus framework is reached that balances economic and societal use of natural resources. The sector needs to understand the true perspectives of the community, and engage them in discussing New Zealand's future. This is key to ensuring the limits imposed are workable.

2015 PRIORITY RANK:

12

PRESERVING OUR CLEAN / GREEN ENVIRONMENT

ACTUAL SCORES 2015 / 2014:

7.83 / 7.66

## Keeping pace with environmental thinking

**› New Zealand companies need to think deeply about what the world will look like in a carbon-attuned environment. It is time to do more than the bare minimum.**

Serious questions have been raised whether New Zealand's perspectives on the environment and sustainability are keeping pace with other countries. European Union (EU) regulations have embedded a strong environmental focus into the European primary sector, yet many New Zealand companies still don't appear to understand the magnitude of the environmental issues we will face in the future. They remain comfortable doing the bare minimum.

The reality is that many companies are not moving fast enough to prepare themselves for the challenges of a lower carbon economy. Policy settings must support organisations that take a lead in transforming their business models to prepare for a lower carbon future. It was highlighted, for instance, that a long-term perspective on carbon pricing could transform the forestry sector; by unlocking significant investment in processing and establishing new export markets.

During the Roundtables, many examples were given of the investments being made by organisations to enhance their business sustainability. However these positive stories struggle to gain exposure as the media focuses on the failures that continue to occur. As a consequence, the disconnect between performance and perception continues to increase. The onus falls on the industry to ensure its stories are told in a balanced way.

2015 PRIORITY RANK:

26

ARTICULATING A COLLECTIVE INDUSTRY VISION

ACTUAL SCORES 2015 / 2014:

7.02 / 7.32

## Maximising the value of natural resources

**› Activities that have delivered success historically are not necessarily the best strategies to secure future success. Now is the time for a conversation on how land is used in the future.**

Our natural environment – the soil, land, water, sea and air – are the most important assets the country has. The food, fibre and timber that we are able to produce from these assets make them strategically important on a global scale. We do not always recognise this and consequently settle for using land 'the way it's always been done', rather than thinking more carefully about its peak use from both an economic and environmental perspective.

Some land use decisions currently being made make very little sense, regardless of which lens they are viewed through. One example raised in the Roundtables is the urbanisation of premium soils in Pukekohe and Lincoln, which is curtailing the potential of the horticulture sector to grow wealth and create employment. There was also much discussion on how land is being used across Canterbury. The nutrient allocation processes currently underway will have fundamental long-term impacts on land values, and ultimately the productive activity the land can sustain.

The time appears right for a comprehensive conversation around land use. The Canterbury Development Corporation recently completed a report exploring the potential use of land in Canterbury in 30 years time. This identified sheep milking, pea isolate and pharmaceutical plants as potential high-value future land uses[2].

Markets are evolving, environmental pressure is increasing, climates are fluctuating, and pest and disease risks are changing. Recognising that what we produce may need to evolve is critical to planning our future land use, and avoiding wholesale value destruction.

### AGENDA ACTION

**The sector needs to operate within the expectations of the wider community.** Companies should initiate an industry / community polling programme, to gain a much more granular understanding of the perceptions New Zealanders have of the primary sector.

2 Canterbury Development Corporation / The Agribusiness Corporation; Potential for diversification of rural production in Canterbury; January 2015

2015 PRIORITY RANK:

24 EQUAL

NEW PRIORITY

MANDATING MINIMUM H&S PRACTICES

ACTUAL SCORE 2015

7.03

# Building a resilient, healthy business culture


- **The growing compliance burden has highlighted many businesses lack the knowledge and relationships they need to manage their way through the regulatory environment.**
- **Health and Safety has been reduced to 'helmets and high-viz vests'; rather than encouraging development of a positive business culture with wellness at its core.**

The impending changes to health and safety legislation are expected to take effect in September 2015. The personal responsibilities that these impose on industry leaders saw the issue raised in many Roundtables. With the perceived loss of self-responsibility they are experiencing, the overwhelming frustration amongst farming people was apparent. This is driven not only by Health and Safety legislation; but also by tightening environmental, animal welfare and labour regulation.

Nobody can dispute that businesses need to up their game in these compliance areas. The regulations are a response to the high workplace death and injury rates across the economy, workers being taken advantage of, and identified environmental degradation. Concern was expressed, however, that the regulatory response has swung too far. It is imposing cost without delivering real outcomes and, in the most extreme cases, endangering the ability of families to live and work on their farm properties.

The common theme from the discussions was the need for regulators to look beyond a one-size-fits-all, checklist approach to compliance and encourage businesses to get to the root causes of their issues. It was suggested that poor health outcomes are at the core of many issues. If people are unwell (physically or mentally) they are less able to respond to the unexpected, more likely to be fatigued and, consequently, accidents happen. There was a consistent message that a focus on health and wellness must be at the core of compliant, resilient businesses and communities.

There is little doubt that life will get more difficult for primary sector businesses as a result of the imposition of limits. Those that approach these challenges by aspiring to create a positive workplace culture will attract and retain the best people, and benefit from this across their business. The primary sector has been late to recognise the link that culture has to business success. Correcting this is urgent, as customers demand assurance on compliance across the supply chain.

## AGENDA ACTION

**Business owners need the insights and support to build a resilient workplace culture.** These initiatives such as mentoring, and practical advice on-farm, need to be amplified to help business owners meet the growing legislative requirements.

2015 PRIORITY RANK:

04

DELIVER MARKET SIGNALS TO PRODUCERS

**ACTUAL SCORES 2015** / 2014:

8.38 / 8.41

# The future of the dairy sector

- **The extent of the downturn in milk returns for the 2014/2015 season was not expected; and has sharpened the focus on the progress the dairy industry has made in adding value to milk produced in New Zealand.**
- **With more processors for farmers to supply, the increasing competition for milk is raising questions about the future structure of the industry and the necessary regulatory framework.**

Conversations about the dairy industry's future have changed dramatically in the last year. The belief that prices had moved to a new plain, driven by insatiable Chinese demand, has gone. Supply has outgrown our ability to add value to milk, resulting in more produce being sold through commodity channels. The relevance of the New Zealand milk pool to global supply is declining, as countries grow domestic supply and export competitors increase production.

The domestic picture is also changing, as highlighted by the number of Roundtables that speculated on the share of milk Fonterra will be collecting in five or 10 years' time. The barriers to entry are lowering, particularly for well-capitalised international companies; and the ability to offer a package that can attract farmers away from their co-operative shareholding appears to be increasing.

Many scenarios were suggested, but few had Fonterra retaining more than 70 percent of total supply, and most had between 15 and 20 companies picking up milk within the next 10 years. As a result, overcapacity in dairy processing was raised as a real risk to the industry for the first time; particularly given expectations that demand for liquid products will outpace powders into the future.

Concerns were also expressed about the ability of New Zealand milk to retain a reputation premium in market. The involvement of Fonterra in a number of milk pools around the world, together the greater involvement of international traders in the NZ pool was highlighted as a risk. People noted the experience of the Australian wheat sector that lost its reputation premium as traders became more involved in the industry and began selling Australian wheat as 'Grade 1 wheat any origin.' This would be a real concern if the same happened to New Zealand milk.

The fact these issues are being openly discussed is probably the most telling thing in itself. The innovation the industry has introduced is extensive, but there are concerns about the availability of capital to invest in technology and markets to retain our market position. It is recognised that the regulatory environment that requires Fonterra to be all things to all people presents practical and strategic challenges to the co-operative; and will have to change if their market share reduces. The biggest challenge for the industry is how it can more effectively add value to our growing milk supply, as we explore later in this *Agenda*.

2015 PRIORITY RANK:

43

RESTRICTING FOREIGN LAND INVESTMENT

ACTUAL SCORES 2015 / 2014:

4.71 / 4.24

# Identifying long-term capital solutions

› **While there are almost unlimited market opportunities available to primary sector businesses; unlocking them requires capital solutions that meet the varying needs of the company, investor and market.**

› **Innovative investment structures will enable companies to develop deeper, longer term and more strategic market positions than we have historically built with customers.**

Discussion during the Roundtables was focused on the impact of restricting foreign direct investment into the New Zealand primary sector. The issue again received a low priority rating in our survey, despite the political controversy it provokes. The majority of industry leaders believe an aligned offshore investor can help unlock the inherent potential of the primary sector. Foreign capital can support innovation, fund processing assets, underwrite infrastructure investment and introduce in-market opportunities.

The capital required to control the full global value chain is beyond the resources of most New Zealand companies. As a result, strategic decisions are needed to target investment and select business partners. The ability to capture value increases with investments that are closer to the ultimate consumer; although the cost and risk of these investments is proportionately higher.

Seeking out the right investor is critical to realising long-term benefits for all stakeholders, including the community. This presents challenges for many New Zealand companies, as they lack the scale and sophistication that many investors look for. It was noted that the large financial investors that seek larger investments (particularly North American and European funds) are creating asset portfolios on the back of the global bulk protein story; and consequently place less value on New Zealand's premium position.

A truly aligned investor recognises the inherent value in the New Zealand brand, and the potential this has to attract affluent consumers around the world. An aligned international partner can unlock additional value, such as their ability to leverage domestic relationships to enhance market access and ease border complexity. Working with the right in-market partners enables better decisions on further processing investments, logistics and supply chain, distribution arrangements and consumer branding; allowing more value to be captured in New Zealand.

Accessing growth capital is not a one-size-fits-all endeavour, as the goals and aspirations of each party will drive the right structure. There is no shortage of sources of capital but selecting the investor that best suits a business's culture and aspirations is critical to realising long-term potential.

## AGENDA ACTION

**Support companies to better analyse and attract well-aligned investors.** Establishing a platform to share positive and negative experiences of inbound investment would assist in more investments creating value.



Image above: Joseph Kelly, The NZ Story

2015 PRIORITY RANK:

08 ↑

DELIVERING R&D INCENTIVES

ACTUAL SCORES 2015 / 2014:

8.06 / 8.06

2015 PRIORITY RANK:

09 ↓

INNOVATE WITH CUSTOMERS

ACTUAL SCORES 2015 / 2014:

8.05 / 8.08

2015 PRIORITY RANK:

34 ↓

INITITATING GM FIELD TRIALS

ACTUAL SCORES 2015 / 2014:

6.55 / 6.35

# An entrepreneurial, transformational innovation system

- **The Government continues to pay the majority of the primary sector's R&D bill; but is currently renewing its long-term science investment strategy.**
- **Retaining key talent by providing opportunities to undertake their frontier research within the constraints of our innovation system is challenging many organisations.**

New Zealand's innovation capability is a priority issue for many leaders we talked to. Concerns were expressed over whether there is the capability in the system to deliver the innovation required to compete globally. Issues include: the structure of the state controlled innovation system, the competitive funding mechanisms, the lack of corporate profitability to fund investment, challenges attracting and retaining key people, and underinvestment in transformational, intergenerational science.

The primary sector receives a significant proportion of the Government's total science investment. It comes through multiple channels; including Crown Research Institutes, universities, national science challenges, Primary Growth Partnerships, Sustainable Farming Fund grants and other grants such as Callaghan Innovation. There is limited oversight to ensure that investment supports broader industry goals. With most funding subject to a competitive process, investment is directed towards commercial projects rather than higher risk innovation that has the potential to be transformational to the future.

It is apparent that the system is not fundamentally broken; the dairy sector consistently outperforms the economy in productivity improvement through a constant flow of practical innovation. The kiwifruit sector has recovered faster from PSA because of long-term investment in developing cultivars. These sectors have been able to fund innovation to deliver these outcomes. However it was noted that for many other sectors, R&D investment is often 'a nice to have'; as they lack the profitability to do anything other than survive year to year and rely on Government support.

Future success relies on ensuring our science system is able to support a high-value add industry. We need an innovation system that collaborates and shares risk; an entrepreneurial-led network focused on delivering solutions to our consumer's problems today and into the future. The science sector must be globally connected to the markets we sell into, through commercial and science partners. Importantly, we need to be selective about the innovation we invest in. If it does not directly deliver a market advantage or differentiate our exports, we need to be more agile at identifying and adopting international IP, rather than investing heavily to solve a problem ourselves.

## AGENDA ACTION

**The role of innovation and science is to differentiate our products in the global marketplace.** The science system needs to be integrated and largely funded by our exporters, and challenged with solving the critical problems facing our consumers.

# GROWING VALUE

How many times have we heard sentiments like "everything will be fine if we can add value to our product", or "we just need to reposition ourselves on the value chain", or "we just need to be able to sell to our customers at a higher price".

**These are the kind of stock-standard, throwaway comments made during many discussions about the primary sector. They're easy to say; yet achieving transformation and consistently capturing incremental value is anything but easy.**

Having heard the challenge put to the industry on so many occasions, we have spent a lot of time thinking about the many dimensions involved in adding value to our food, fibre and timber. Our thinking has centred on the question: if achieving the holy grail of improved returns is as easy as many people suggest, why are there not more companies rushing to adopt added value strategies? This thinking was crystallised in an analysis completed by Simon Hunter of KPMG for the Te Hono Movement alumni reunion in February this year (the new name for the NZ primary sector bootcamps at Stanford University). This analysis described the DNA of primary sector companies that are consistently capturing more of the value their products are creating across the supply chain.

This work highlighted some fundamental problems. Firstly, many of those calling on the industry to add greater value to its production have little or no understanding of the practicalities and difficulties associated with sustainably capturing a greater share of the value chain. It also highlighted that too many people believe value is created by simply putting a brand on a product. They fail to consider the investment required to understand the consumer, the market and the product; and the changes that need to be made to an organisation's structure and culture to deliver the experience the brand promises.

We felt there was a great opportunity to use the Roundtables and conversations that shape the *KPMG Agribusiness Agenda* as a way of expanding the conversation on creating and capturing value. Specifically, we sought views from more primary sectors leaders on: what they consider value add to be, what needs to be done to capture more value, and the constraints facing organisations looking to increase their capability in this area.

The resulting discussions were insightful and provided a wide mix of perspectives on the concept of value. We explore these through the commentary and case studies in the following pages of this *Agenda*.

However, these pages offer no silver bullet for companies looking to capture greater value from their markets, as there are no shortcuts to investing the necessary time and money to bring their strategy to life. A value added strategy is never risk-free. It therefore requires a culture that encourages people to innovate, supports them when they fail, and demonstrates resilience and focus when times are difficult.

Every company has the potential to embark on a journey to realise greater value from its products. The goal of creating a high-value primary sector is not a pipe dream. It is truly achievable if more companies are prepared to adopt a can-do mindset, and view the world from the market back rather than the farm forward.

# What do we mean by adding value?

How do we define what value actually means? The views shared during the Roundtables highlighted a range of perspectives. Some measure it by the ability to deliver cash profits; to others it means consistently delivering a return over the commodity price. Another definition is building a business that can be passed on to the next generation.

**"The biggest value we create is turning sunlight, water and soil into food, fibre and timber! We add the most value by adding the least external inputs into the system."**

The dictionary tells us that the word 'value' is used in many ways. It can refer to the importance, worth or usefulness of something; the material or monetary worth of an item; the worth of an item compared to the price paid; as well as the principles and judgements made around what is most important in life. Depending on where an organisation sits along the supply chain, the perception of value and how it is defined.

For farmers and growers, for example, using their land and water to grow more produce can create more value for them. For a distribution business, adding value is often centred on selling products for a higher price after their services, processing or branding has been applied.

There was one comment made during a Roundtable that really captured the essence of the value conversation:

**"People don't understand value add…they fail to recognise that it is about growing the gross margin generated from your business. Margin delivers the ability to invest and make profits."**

Regardless of whether a business is looking for immediate profits, a sustainable market premium or intergenerational confidence; generating adequate financial returns are key to meeting these aspirations. Margin, and ultimately profit, are arrived at after costs are deducted from revenue. To grow margin requires companies to adopt strategies that either increase revenue or reduce costs.

During our conversations, it was clear that for many contributors, the default thinking around value creation centres on strategies aimed at growing the revenue their business generates. Our analysis suggests that the majority of revenue strategies are linked to one or more of four key value levers: commodity price movements, volume growth, premium price increases, and downstream value capture.

As the graphic demonstrates, the annualised growth in value of primary sector exports over the period 2002 to 2014 was 4.5 percent per annum. The majority of the growth can be explained through commodity price movements and volume growth, suggesting little progress has been made in realising incremental value driven by the attributes of our products, customer relationships, innovation and branding.

As we discussed in the previous volume of the Agenda, food commodity prices have fallen more often than they have increased over the last Century. Continuing to rely on commodities to drive value growth has downside risk. This increases the need to focus on revenue initiatives that enable organisations to take greater control of the other three levers and the value we add to production.

A number of leaders talked about the strategies their organisations are adopting to build a value-creating enterprise centred on operational excellence. It was apparent that the business models these entities are adopting are based on significant investment – into production technologies and Business Intelligence systems – to support operational excellence. They have the dual goal of reducing both the cost of production and the cost to serve their customers. Yet it was acknowledged that automation and operational excellence is not enough, on its own, to consistently capture greater value. Companies still need to be competitive when it comes to increasing customer intimacy, and delivering product innovation, to grow the revenues they are able to generate.

**The most appropriate place to start a conversation about value is with the people you ultimately expect to consume the product.**

How do you build a platform that will consistently create and capture value? Firstly, the product offered is designed from a detailed understanding of the consumer, and is a perfect fit for their current needs. Then, through unceasing insight and innovation, the product is continually evolved to satisfy consumer requirements as their lifestyle changes. Capturing this value relies on competency in many areas; but the most important include product innovation, operational excellence, and the ability to build deep customer relationships. It requires world-class capability in at least one of these areas. It also requires an organisational culture that is prepared to back a long-term strategy to capture greater value; perhaps the greatest issue for many companies in the sector.

## REVENUE GROWTH HAS BEEN DOMINATED BY COMMODITY PRICES AND VOLUME SHIFTS

**COMMODITY PRICE MOVEMENTS**
Globally determined prices

**VOLUME GROWTH**
Increased productivity

**PREMIUM PRICE INCREASES**
Increased payment for specific value attributes – brings value upstream

**DOWNSTREAM VALUE CAPTURE**
Value add conversion or control of wholesale / retail activity closer to consumer

### TREND 2002-2014 (CAGR pa%) ($NZD)

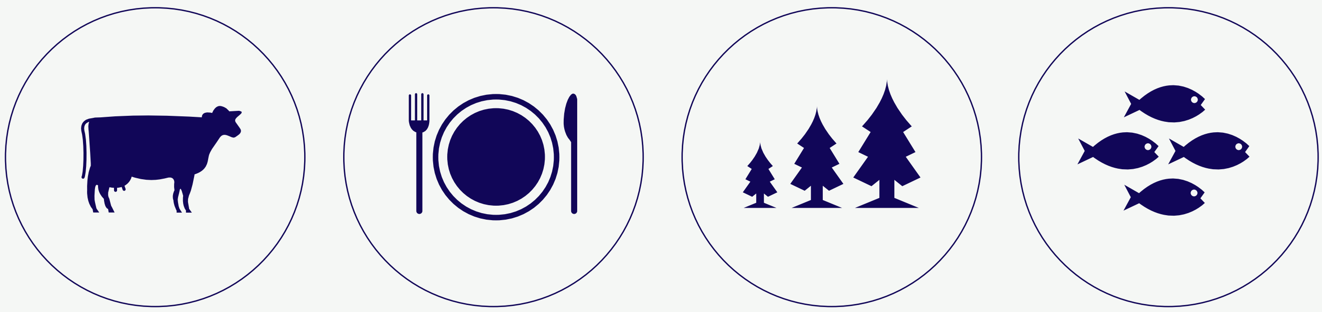
| | |
|---|---|
| DAIRY | ↑ 5.5% |
| SHEEP & BEEF | ↑ 2.0% |
| HORTICULTURE | ↑ 1.4% |
| SEAFOOD | ↓ 0.3% |
| FORESTRY PRODUCTS | ↓ 0.9% |

| | |
|---|---|
| FOOD & BEVERAGE | ↑ 3.1% |
| FORESTRY | ↑ 2.5% |
| PASTORAL & DAIRY | ↑ 2.2% |
| SEAFOOD | ↓ 1.3% |

## INDUSTRY VALUE GROWTH. CAGR INCREASE IN EXPORTS

# 2002-2014 = 4.5% PA

| PASTORAL & DAIRY | FOOD & BEVERAGE | FORESTRY | SEAFOOD |
|---|---|---|---|
| ↑ 5.7% | ↑ 3.4% | ↑ 2.2% | ↑ 0.4% |



Source: Commodity Price Movements: ANZ Bank: Commodity Price Index (NZD) from April 2002 to March 2014
Volume and Value Export Statistics: Statistics NZ extracted from infoshare April 2014

# Easier said than done

The challenge to add value to primary sector production is consistently being thrown out by analysts, politicians, activists and the media. The reality is that if it was easy to add value, our primary sector businesses would be doing it to a much greater extent than the analysis suggests is currently being done.

Why are so many businesses struggling with capturing a greater share of the value their products create between production and their ultimate consumption. Many constraints were identified during our conversations, with some of the common issues including:

### TAKING A 'ONE-SIZE-FITS-ALL' APPROACH

Too many organisations struggle to evolve their go-to-market approach to reflect the cultural, economic, political and social nuances in each market. Instead they simply apply strategies they are comfortable with and that have delivered success previously. Successful companies, by comparison, are taking a more sophisticated approach to international business. They recognise the need to create a network of microbusinesses, bound by common culture, values and purpose, but with flexibility for local leaders to tailor their approaches to meet the specific needs of consumers in their markets.

### AN UNWILLINGNESS TO COMMIT TO THE INTANGIBLE

The point is often made that New Zealand's primary sector remains far more comfortable investing in tangible assets – the bricks and stainless steel of processing plants – and land, rather than the intangible investments that have a more direct connection to creating and capturing value. Generally speaking, our companies appear to be conservative when it comes to risk. They are uncomfortable committing to potentially transformational innovation, recruiting people in a country ahead of market entry, collecting deep consumer insights, and adopting design-based methodologies. Successful businesses, on the other hand, are investing a significant proportion of revenue to prepare for what they believe their future will look like.

### CONFUSION BETWEEN COMMODITY AND VALUE ADD

The inherent inconsistency between producing and selling a commodity product and a value added product was raised during many conversations. This raises challenges when running both commodity and value add businesses under the same roof. The dominant culture in the organisation is likely to prevail, with either a premium or cost-efficiency strategy dominating decision-making and resource allocation. Clearly, businesses focused on delivering premium solutions that are highly tailored to a customer have extra complexity when compared to commodity players focused on efficiency and cost out. The reality is that many organisations have to operate in both segments; and need an organisational culture that supports both businesses in creating value.

### CONFUSION OVER THE REALITY OF VALUE ADD

Too many attempts to add value are little more than flights of fancy rather than being the foundation of a sustainably profitable business. The basic premise of a value add business is often overlooked; namely, the additional costs incurred in creating premium product should not exceed the incremental revenue the product can earn. Sustainable value add products are not created in five minutes – they come from long-term strategies, and deliver success only when a customer will pay more for the attributes presented. Putting a Manuka honey in a branded jar is unlikely to be a sustainable value add strategy; but creating nutraceutical and pharmaceutical products from honey could be. Nor is it necessarily about greater processing. Doing nothing to a fish but delivering it live, for example, can be a better value add strategy than processing the fish into crumbed fish fillets.

### LACKING THE SCALE TO BE RELEVANT

A challenge many New Zealand companies face when going offshore is fulfilling large orders from customers who expect their suppliers to deliver in full and on time. It is very difficult for a small company to build a deep relationship without having the scale to satisfy demand and gain sole supplier relationships. That is why many settle for being a cog in a wider supply chain, with their price being the key determinant of their relevance at any time. One response is commercial collaboration. A good example is the AVANZA collaboration in the avocado sector, where three companies are collaborating to build a valuable export market in Japan. Value can be realised by having sufficient scale to fulfil a customer's needs, as this creates a platform for wider conversations on opportunities to grow relevance to the customer.

**"Reversing an inability to capture value is not a quick or easy change for most organisations as the challenges they face cut to the core of their organisational culture and current business direction."**

Addressing these issues requires organisations to do things differently. If they simply continue business as usual, the primary sector will fail to capitalise on the opportunities to secure a greater share of the value its products are creating around the globe. Current governors and managers of a business may not have the vision or skills required to lead the change their organisation requires, forcing them to face up to some difficult personal choices.

**The frustrating thing for the primary sector is that all the wise advice it receives telling it to add more value to its production is basically correct.**

Even if those giving out the well-meaning advice have no real understanding of the practical challenges of shifting the value equation, the industry has no choice but to adopt strategies that provide it greater control over its future profitability and prosperity.

# Value does not reside evenly along the chain

Another concern raised during the Roundtables was that too many companies are complacent about their current role in the value chain, and thus limit their potential to create and capture value.

Analysis by KPMG suggests that the potential value to be realised from a value chain grows exponentially the closer you get to the ultimate consumer of the product. It is often the retailer – who closely controls the relationship with the end consumer – that captures the lion's share of value.

Many New Zealand companies focus on production and processing activities, which sit at the lower value end of the chain. We estimate that the average value returned to the producer's gate lies between 10 and 30 percent of the final retail value of the product produced, with the return for many key sectors lying towards the lower end of this range. The obvious question is why companies continue to invest heavily in processing assets – when it is increasingly apparent that realising significant value requires bold investments that enable companies to get closer to their ultimate consumers.

One theme that came up during a number of conversations is that New Zealand organisations are comfortable with producing and selling products to a distributor or agent, but are significantly less at ease with a role that involves truly marketing their products directly to consumers. There were many reasons floated as to why this unease seems inherent across much of the primary sector. One explanation is that New Zealand's co-operative structures have traditionally been focused on funding and developing processing capacity. There is also a perceived lack of understanding of what is required to market products effectively in our rapidly changing world; and a sense of comfort from leaving a third party to deal with the complexities of handling customers.

The reality is that the global Fast Moving Consumer Goods (FMCG) brand owners are coming under increasing margin pressure from the retailers.

Their response is to look for ways that they can more closely integrate their supply chain to ensure that they maintain the share of value that they capture. Globally, we are seeing examples were retailers are looking to develop direct relationships with farmers and growers, again in an attempt to capture a greater share of the available value in the supply chain. As one contributor noted:

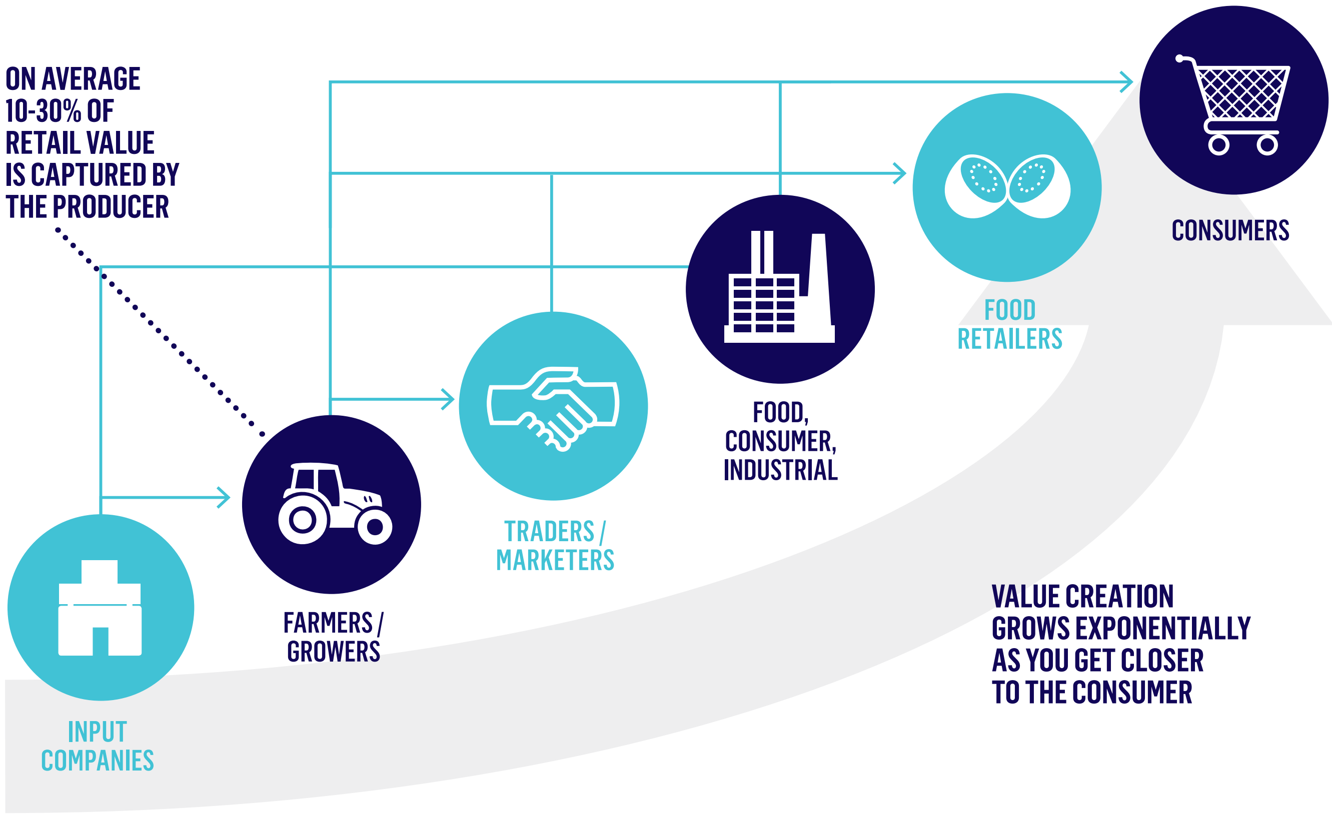
**"In the future, a nation of only farmers will be a very poor country. We need to be clear that the value we grow is only captured by extending ourselves into the market."**

The Roundtable discussions clearly illustrated that there is no one single model of engaging with a value chain that will work for every sector, or every organisation in that sector.

Each value chain has its own complexities – depending on the participating organisations, their global reach and the balance of power between the participants. Chains are often volatile, as participants respond to shifts in demand / supply balance and compete for influence (given influence ultimately equates to greater value capture).

**Capturing a greater share of value is difficult, particularly if you are relatively small player in a global market.**

If we aspire to doubling exports by 2025, the primary industry needs to commit to more substantive participation along the value chain. This will exponentially increase the opportunities for New Zealand to capture more of the value our products generate.



# SPINNING OUT THE VALUE

Ever since they set out to transform New Zealand's merino sheep industry 20 years ago, the growers behind New Zealand Merino have never been afraid to push the boundaries.

Driven by a resolve to lift merino out of the commodity basket, NZM is a grower and management-owned integrated sales, marketing, and innovation company that's turned the industry on its head.

As CEO John Brakenridge explains, the original vision came from the growers themselves:

"Twenty years ago, the product was just being dumped on the commodity market, sold at a discount to Australia, and it really was a declining industry. The growers knew they had a product that was undervalued and unrecognised."

So they said, let's employ people who are prepared to challenge the status quo and apply disruptive thinking."

Enter CEO John Brakenridge and an executive team of blue-ocean thinkers. These days, the organisation employs people across a diverse spectrum of roles – environmental and textile scientists, digital media experts, and a value-chain designer to assess the life-cycle of competitors' garments.

The entrepreneurial mindset has certainly paid off; with NZM now responsible for about 75 percent market share. One of the key advantages of ditching the commodity model has been gaining control over fluctuating prices.

"The big thing that destroys markets is volatility," says Brakenridge. "Dealing with that is a critical part of our model."

NZM growers supply wool under contract to one or more brand partners, according to clear specifications at a fixed price – generally one to three years in advance.

And while NZM growers are virtually guaranteed to stay in the money – Brakenridge says it's the certainty that's more valuable than price.

"Once you know what your price is, you can concentrate on your productivity gains, you can talk to your bank…you can do all those things."

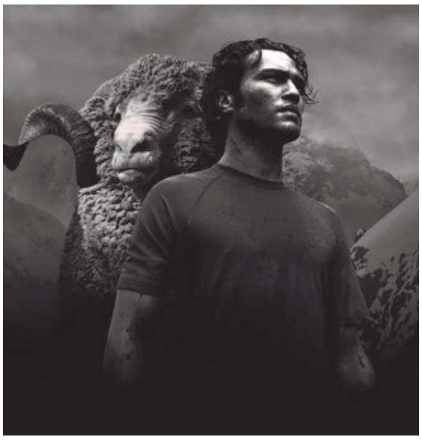
The partnerships are historically solid. NZM has now done "hundreds of millions of dollars in contracts, with hardly a single default, either from the market or grower side."

"I think the difference for growers is that it's not some faceless contract…it's a relationship with, for example, Jeremy Moon and Icebreaker. They're talking to each other, they know what the dynamics are, and where their product is going."

So what's next for NZM, the organisation that's always pushing the boundaries?

Don't be surprised if you see the brand literally 'pop up' around the world. Brakenridge would love to see progressive New Zealand companies band together to establish offshore 'Centres of Excellence', based in key micro-markets that influence the wider region (e.g. San Francisco is a leader in the US).

"The kind of place where people could bring their customers, run focus groups and testing, provide insights to the likes of NZTE or MPI; maybe even sell some product. It's these kind of business-led initiatives that are going to help our New Zealand provenance story."



## ON USING 'DESIGN THINKING':

**Turning a market on its head is not for the faint-hearted. Challenging the establishment requires 'design thinking, disruptive play, and phenomenal tenacity'.**

Once upon a time, there existed a Wool Board, a bunch of traders, and an R&D division at Lincoln. They all worked in silos, happy with the status quo. Then along came the growers from NZM.

"We were basically the antithesis of that infrastructure," says John Brakenridge.

"They put up barriers between growers and end markets – and our job was to break those barriers down. We're driven by the creation of value chains, and linking growers through to end market."

When asked if there's anything NZM would have done differently, his response is: "No, I don't think so. Because when you apply design thinking, it enables you to prototype ideas, validate them, gain insights, and then amplify it when you've got some confidence. So it's not as if we're going to do a big launch and then say, gee, I guess we got that wrong…"

## ON TELLING THE NEW ZEALAND STORY:

**When it comes to creating a global New Zealand brand, who should be telling the story?**

According to John Brakenridge, the answer is simple.

The likes of Icebreaker, for instance, is taking 'brand New Zealand' to the world. Similarly, Brakenridge is excited by deals currently in the works with major British and Italian designers. Big-brand ethical platforms, such as the Sustainable Apparel Coalition, are drumming up demand for NZM's premium ZQ Merino fibre.

According to the Brakenridge theory, an endorsement from superstar designers will drive global customers to equate New Zealand product with ethical animal welfare standards, quality, safety, and high-end fashion.

"We need to have more Icebreaker equivalents, and high-profile global brands, telling our stories. Ultimately that's what will brand New Zealand in the minds of our consumers…not a generic Government campaign."

"WE'RE DRIVEN BY THE CREATION OF VALUE CHAINS, AND LINKING GROWERS THROUGH TO END MARKET."

# Is a brand needed to capture value?

When the conversation turns to creating and capturing value, many people immediately gravitate towards the need to brand a product. There is no doubt that a brand that resonates with consumers has the potential to build customer loyalty and support a price premium by defining the experience a consumer can expect to receive (with Apple being the leading global example today).

It was apparent during our conversations, however, there are mixed opinions on the role branding should play in capturing value from primary sector production.

The global brand consultancy, Interbrand, suggest the role of a brand has evolved markedly over the last 30 years. Initially brands identified and differentiated a product in a crowded marketplace and told a story to the consumer. Today, brands have become integrally linked to the customer's perception of a company or enterprise. With the growth of online, they have increasingly come to define the differentiated experiences a customer can expect to receive when they engage with a business. Interbrand predict that as the world becomes more connected and 'the internet of things' is realised, the role of brands will again evolve. They will deliver truly personalised and curated experiences to each individual consumer, who will find themselves at the centre of their own MEcosystem[1].

1 Interbrand; Best Global Brands 2014: The Four Ages of Branding; 2014 www.bestglobalbrands.com

As one leader noted in our Roundtables:

**"The industry has no choice but to get on the road towards branded products and have guts to stick it out. It is a long road; getting started requires a leap of faith".**

As Interbrand's analysis demonstrates, branding a product is more than simply designing a logo and printing it on the packaging. Yet for many in the primary sector, this is the extent of their brand investment. While strong brands still provide identification and differentiation in a market place, they must now do so much more – and the investment and effort required to support a brand is greater than ever before. A valuable brand is authentic, rich in innovation, and able to consistently deliver an experience that the consumer cannot source elsewhere in the world.

There are already businesses in the primary sector that are doing branding really well, and this was recognised in many of the conversations. Zespri were held up as a role model for primary sector branding, having achieved something very few organisations globally have done; earning permission to bring branded kiwifruit into the largely unbranded fruit retail segment. This has been achieved by bringing FMCG disciplines around consistent supply, product quality and brand investment (at both the distributor and consumer level) to the fruit segment. Importantly, the price premium delivered by its brand strategy enables Zespri to do so much more. It allows the group to maintain the supply chain necessary to assure the consumer experience, deliver year-round supply, and invest in the research needed to support the sector long-term. It also enables Zespri to deliver a premium to growers at their orchard gate.

Zespri is not the only great brand story coming out the primary sector. We have many hundreds of wineries exporting their own branded wine, while leveraging the 'Pure Discovery' industry umbrella that engages consumers as they explore the wines of Marlborough, Hawkes Bay, Central Otago and our other wine-producing regions. Our Roundtable discussions also highlighted the success that Comvita and Silver Fern Farms are having in developing branded consumer propositions backed by innovation. It was also noted that we rarely talk about well-recognised New Zealand dairy brands, with the notable exception being the media's excitement over the scramble for Lewis Road Creamery's chocolate milk. As one leader noted:

**"It is hard for many in the industry to comprehend that value is not always linked to hard assets but can come from investing in brands. Creating intangible value requires us to become more effective at articulating what are products are and what they stand for".**

The message from our conversations was clear. Although it is recognised that a well-designed brand strategy can assist a company in capturing more value from its production (and potentially grow the total value in a sector for all participants in the value chain), it is not the only way to create value. It is too expensive and complex to be the default value creation strategy, given the challenges of doing branding properly. Not least among these challenges, the costs of gaining the necessary brand exposure are significant in today's highly segmented media market.

It was also noted that building a brand is a long-term commitment. Companies need to be prepared to continuously invest in the brand, year after year, to build intangible value; and the primary sector faces a number of impediments to this investment. Seasonal supply makes it difficult for many New Zealand companies to deliver a consistent supply, and thus secure year-round retail space. There is the challenge of getting retailers to accept branded products in predominately unbranded areas of their stores (often the meat, fish and fruit and vegetable sectors). Lastly, many of the sector's products are sold as ingredients, rather than products requiring consumer-facing branding.

The scale of the required investment was also held up as a challenge for many companies, particularly those under pressure to maximise the return to suppliers. It was suggested that a company focused on developing a brand strategy needs to be prepared to invest around 15 percent of annual revenue on enhancing their brand and customer experience. For many, this would make them uncompetitive in their bid to secure supply.

To achieve cut-through in a crowded market requires bold, attention-grabbing initiatives; which creates a further issue for our generally conservative New Zealand companies. Similarly, companies may be inexperienced at branding effectively in offshore markets; which requires a sophisticated approach to adjust to the local cultural mores.

Fortunately, there are opportunities for companies to adopt a branded strategy by leveraging the existing brands footprint of in-market partners. Joint venturing with or licensing a partner to use their existing brands on a New Zealand-sourced innovation provides the opportunity to share in a branded price premium – without the cost of creating a new brand in a market. It also plays to the strength of many companies that are capable of developing strong business-to-business relationships, but have limited experience of business-to-consumer relationships in offshore markets.

**"Even when sharing the brand position of a partner, a company can't drop the ball on key product attributes important to a consumer, these remain critical to realising the value created from the supply chain".**

# WHAT'S IN A NAME?

KONO
Pure taste of New Zealand

With a story that's rich in culture and meaning, Kono is a New Zealand food and beverage brand that's resonating with global customers.

Kono NZ LP is a premium food and beverage company that employs up to 600 plus staff, farms over 500 hectares of land and sea, and exports to more than 25 countries. It is a limited partnership formed by Wakatū Inc, a land-owning company and Māori Incorporation with around 4,000 shareholders in the top of the South Island.

With a focus on producing high quality wine, fruit and seafood products; the organisation is structured into three divisions with shared marketing and business services: Kono Horticulture, Kono Foods and Kono Beverages (which includes Tohu Wines, the first Māori-owned wine company).

Wakatū's general counsel, Kerensa Johnston, explains the meaning behind the name:

"The kono is a basket made from flax. They are used when there is a festivity or celebration of some sort, and only the best quality food is put into the kono. So kono as a brand represents a basket of high-quality foods that we're offering the world. It's also connected to our traditional values like hospitality or *manaakitanga*."

Clearly, these are not the kind of brands whipped up in a slick presentation by an ad agency.

"There's a lot of thought, sometimes years, that goes behind the exercise," says Kerensa.

"We always get the advice and approval of our kaumātua, so we don't use any words or brands that don't make it through that screening process."

According to Don Everitt, Kono CEO, the Māori identity of the brand provides a strong point of difference in the market.

"It's amazing the comments we get from people who really respond to the story. Particularly in markets like China, where they share some of the same family and cultural values as Māori; and there's a similar outlook on life, with that long-term intergenerational philosophy."

Kiwa Oysters, a more recent addition to the Kono NZ LP brand stable, is another example. In Māori oral tradition, 'kiwa' is one of several male divine guardians of the ocean. The word represents links to the Pacific Ocean, and the genealogy of an oyster.

The Māori traditions of story-telling also give Kono NZ LP an advantage – given the hallmark of an outstanding brand is the ability to capture the hearts and minds of consumers.

"A brand name by itself is just a name. It's not until you actually start telling stories about it and getting the message out. These stories are authentic; they are stories only we can tell.

## ON THE JOURNEY FROM FARM GATE TO PLATE:

**It's future is sharply focused on the modern global consumer.**

As Kerensa Johnston explains:

"The challenge for most Māori land-owners is that we've traditionally been farmers; we haven't known what to do with the product once it got past the farm gate. Over the past 10 years, the Board has had a strategy of evolving from that farming mentality to an export-lead approach. Now we're taking it a step further with the consumer focus."

CEO Don Everitt says Kono NZ LP strives to intimately understand each consumer market – and build the value proposition themselves, "rather than putting it into the hands of third parties".

"Even if we don't sell directly to those consumers, we need to understand them in the markets they live and breathe and shop. We'd much prefer to collaborate with distributors and retailers on this – so we can go to market and deliver something to consumers they want to buy, and pay a good price for.

"It's going the next step from just being a simple exporter, to actually being an operator within a market."

## ON CHOOSING THE RIGHT PARTNERS:

**Kono NZ LP has four traditional Māori values that underpin everything they do – including choosing the partners they want to work with.**

The four values are *rangatiratanga* (integrity), *kaitiakitanga* (custodians), *manaakitanga* (hospitality), and *whanaungatanga* (relationships).

The latter value has particular relevance with choosing distributors, importers and retailers.

"We have a real values filtering system here; we are only doing business with people that share our sense of values," says Don Everitt.

"We give a lot of thought to what kind of business they are. For instance, what is their reputation for how they treat suppliers, do they act ethically, what are their environmental credentials…"

Once a partner is chosen, the concept of whanaungatanga means the relationship will be nurtured and strengthened. Kerensa cites the example of an American CEO, whose company has been buying Tohu wine for 12 years, and who regularly visits New Zealand.

"Over that time we've become friends as well as business partners. It's important that you like the people you do business with."

**"THESE STORIES ARE AUTHENTIC; THEY ARE STORIES ONLY WE CAN TELL."**

# Brand New Zealand:
## The power of collective investment

Some industry leaders questioned whether their investment would be better directed into strengthening the global positioning and reputation of the New Zealand brand, rather than building their own brand.

New Zealand's "Clean, Green, 100% Pure, Middle Earth" positioning has been developed over time through a combination of Peter Jackson's movies and Tourism NZ campaigns. There is a strong feeling that this often contributes as much, if not more, than any specific company branding to creating value.

In the Roundtables, leaders questioned whether the New Zealand premium will be sustainable in the long run. Without greater investment to protect the integrity of the brand, value could be destroyed if a weak link fails to do the right thing on a single, well-publicised occasion. If there are no rules around use of the 'Brand New Zealand', companies can gain a free ride and take shortcuts that are not available if they were left to live or die by their own company reputation. This puts the whole industry at risk. As one leader put it:

**"The industry can't let apathy destroy our national reputation. There must be rules that apply to companies wishing to promote their products as Made in New Zealand."**

Even more critically, customers will not continue to pay for a great story indefinitely unless it is backed by verifiable attributes; particularly if competitors do invest in verifying the integrity of their products. It is imperative that each industry sector takes the lead in identifying the key attributes consumers' value about the New Zealand story, and work out how they can assure customers they consistently meet these expectations. This will undoubtedly result in companies having to incur additional costs to deliver the necessary assurance, but that is simply the price of ensuring New Zealand product will continue to hold a premium market position.

Given the value perceived to exist in Brand New Zealand, it raises the obvious question: should there be more active investment in a programme of generic marketing? Generic programmes are used by countries and regions around the world to position themselves as Centres of Excellence in specific sectors. The current New Zealand story programme provides many of the materials to support generic promotion activities but companies and sectors are being encouraged to use the material in a tailored way within their own programmes. Concerns were also expressed about the value generic campaigns create given they often have to focus on the lowest common denominator as promising any more can mean the delivered experience falls short of the undertakings given.

**It is noticeable that New Zealand has not taken a pavilion at Expo 2015 in Milan which is focused on global agri-food excellence, something that may have been able to be seed funded by a generic brand campaign.**

There may be other, more substantial opportunities to bring greater depth to the New Zealand brand story. New Zealand has unique species with rich indigenous stories that are largely unprotected. Historically we have not secured geographical protection for native flora and fauna, and now face competitors growing the products offshore or passing off similar products. Manuka honey was an example highlighted in our discussions. Before we bring other unique New Zealand products to global markets (horopito peppers, for instance, or weta insects) an industry / Government coalition should take worldwide trademark protection of the names to secure their value for New Zealand. Investment could then be made in the science to verify the unique attributes of the species, knowing that our companies will be able to capture the value created.

Another key way companies can add greater depth to Brand New Zealand is the steps that they take to collaborate, particularly around how they approach the market. Leaders who attend many of the major trade shows around the world noted New Zealand companies too often attend these shows individually. Companies from other countries collaborate to amplify the impact of their individual investments behind a national brand. While there is some collaboration happening in certain sectors (wine and seafood, were noted as examples), it was suggested that other sectors could do more to work together in approaching the market. That would allow them to leverage available resources, including the New Zealand story, for greater impact. Such initiatives rely on trust between companies which has been limited in the past, however with initiatives such as The Te Hono Movement trust is being built increasing the likelihood of more collaborative actions.

There are strong associations in the minds of many consumers between New Zealand and natural products. This makes it even more critical that the industry is careful and collaborative when addressing game-changing issues like genetic technologies, and the emerging generation of manufactured and synthetic proteins. The strategic choices to be made around these issues should not only be focused on short-term financial impacts, but how to best enhance New Zealand's brand as a sustainable, innovative and premium producer. This comment succinctly sums up the issue:

**"We need to face the reality that people will not be willing to pay for a good story indefinitely, as others will catch up. We need technology and smart people to ensure we stay ahead."**

# Influencing value creation

Added value can take many forms. Value can be added through the way technology is utilised, the supply chain structured, or the partners that a company chooses to work with.

The key for an organisation looking to add value is that their point of difference – the unique proposition that they present to their customer – must move the market markedly in their favour. Without this shift, any value premium able to be captured will be short-lived as competitors quickly identify, replicate and commoditise the value proposition.

During the Roundtables, it became apparent there are many strategies and approaches that organisations are pursuing to increase their influence in the value chain. These include...

## ENGAGING WITH RIGHT PEOPLE

Having the 'right people in the right roles' is continuously highlighted as a key contributor to value creation. With markets changing so quickly, the skills an organisation requires are becoming increasingly specialised. This puts the onus on leaders to identify their evolving capability requirements and create the culture to attract these people. Creating sustainable value means having a team of people who are able to look at the same opportunity through an array of different lenses (we will return to this later in the *Agenda*). Our current leaders need to invest time in mentoring and developing the next generation of leaders; to grow people with the confidence to push beyond the boundaries that have traditionally confined our ambition.

Image above: Chris WIlliams, The NZ Story

## THE EXPERIENCE CAN BE AS IMPORTANT AS THE PRODUCT

The virtue of having an innovative product solution does not guarantee that a company will capture greater value from the market. If the customer service experience supporting a product is overlooked, as is too-often the case; this ultimately impacts what a customer is prepared to pay. Getting the experience right means everything from the initial contact, through the marketing, innovation and fulfilment phases; to how financial matters are handled and feedback sought. If a team is integrated and consistently easy to interact with, there's a greater chance the customer will be prepared to pay a premium for the product.

## BUILDING A 'FAST FAIL' INNOVATION MINDSET

As we outlined in the previous *Agenda*, the lifecycle of innovative products is constantly being compressed. Customers will only be prepared to pay a premium for a product until the launch of the next big thing – which they know is just around the corner. An organisation looking to sustainably capture value must commit to an innovation strategy that enables them to retain a technological edge over competitors. Speed becomes of the essence – companies must be prepared to prototype innovation, learn from failure, and evolve in response to feedback. The R&D department that focuses on delivering perfection before launch will simply be left in the wake of fast innovators.

Image above: Chris WIlliams, The NZ Story

## HOLISTIC APPROACH TO PRODUCTION

High-value producers place great focus on the strategies to monetise *all* components of production. The concept of a by-product does not exist in their vocabulary; where others see waste, they see revenue streams. A great example is the Norwegian Salmon sector that now realises more than half its revenue from edible oils sold for use in dietary supplements and health foods. New Zealand Merino has adopted a diversification strategy, illustrating a whole of system mindset in bringing complementary meat and leather products to the market. It may not always be obvious, but with a bit of disruptive, holistic thinking there are many opportunities to extract more value from the produce we already grow.

## OPTIMISING SUPPLY CHAIN LOGISTICS

There's no point investing heavily in producing a world-beating product if you can't deliver it to your consumer in peak condition when they want it. While we don't subscribe to the tyranny of distance argument, there is no question that New Zealand's physical location gives rise to practical logistical challenges. Engineering a supply chain that aligns speed, cost and the available market price is more important for our companies than many of our competitors. This means we need to be creative in how we handle products. One example is the processes used by the lobster industry to cool lobsters down so they can be shipped alive and in peak condition to secure a premium price point.

**"Nobody will pay to go and listen to an out-of-tune orchestra. The same is true with business; the orchestra must play as one, delivering a holistic value proposition to the customer."**

## FLYING INTO A MARKET IN FORMATION

For many New Zealand companies, who are forced to go offshore at an early stage in their development due to our lack of domestic market, international markets can be treacherous and incredibly confusing. This makes it crucial to identify the right partners to collaborate with before entering a market, so that the company retains greater control of its destiny. The view was expressed that many companies would benefit from flying in formation together into markets rather than going solo. Examples given included the 'Family of 12' wineries, and the PCNZ collaborative facility that has been established in Shanghai by a number of complimentary primary sector companies. These initiatives enable companies to share risk, learn together and present customers with a wider offering than they can present individually.

## ENTRENCHING A GLOBAL CULTURE

As noted earlier, industry leaders recognise we need to place a higher priority on building intimate relationships with consumers. Historically, ENZA and the Dairy Board have built New Zealand businesses in foreign countries by sending expat executives offshore. Few companies today invest to the same extent in growing leaders with instinctive global consciousness; because of cost and the wide benefits employing local staff can bring. You can only solve a customer's problem by having people that deeply understand your customers and their lifestyles. We need companies that act in markets as if they are local, while preserving the core Kiwi culture and values in the business. This comes from employing local people in market and providing them the chance to second into the business in NZ, to build a tailored, global culture that delivers effectively to consumers.

## PRODUCT ONLY BECOMES VALUABLE WHEN IT REACHES A CONSUMER

While we have many free trade agreements, enhanced market access remains one of the biggest drivers of value add for the primary sector. Our companies continue to pay over $300 million in tariffs annually, face anti-competitive photosanitary restrictions at the border, and have no ability to get premium products such as chilled meat across key borders, like China. Reducing the value loss caused by market access restrictions is critical, and requires a more strategic approach to trade negotiations than has been adopted historically. The focus needs to shift from gaining basic market access, to focusing on how our companies can use their technology and insights to deliver solutions to a country and its consumers. This shifts the market access conversation to one about mutual value, but requires companies to take a more active role in supporting the Government in the negotiation process.

**"Fundamentally, we need people within the New Zealand primary sector's global footprint with the widest possible vision of the industry and its potential in international markets."**

“We need to challenge the perceptions we hold of our place in the value chain: we supply food and fibre to the top 5 percent of income earners. Applying our brains makes a woolly jumper high performance merino active wear.”

## CONTROLLING THE ONLINE RETAIL EXPERIENCE

The key path to the consumers of our products has historically been through retailers, who have tightly controlled the experience delivered to their customers. In many cases the retailers have, for their own commercial reasons, minimised the link between the product and its origin. Technology can turn this on its head. Our companies can create new direct links to consumers via e-commerce channels. Technology can tell a product story authentically, provide verified data on the product’s integrity, maintain a dialogue with consumers, and deliver a fulfilment engine to rapidly supply product anywhere in the world. An integrated technology platform can deliver a cohesive customer experience, enabling a New Zealand company to be the direct, local food producer to the world.


## REPOSITIONING COMMODITY THINKING

The widespread view of New Zealand’s primary sector is that it predominantly produces vast quantities of commodity product, with limited focus on higher value products. It was suggested that if the industry is serious about growing and capturing more value, we should drop the word commodity from our national lexicon, and start to re-set our thinking. Focusing on the integrity, safety and innovation that underlies all our primary production – and presenting these volume products to the market as solutions from New Zealand – has the potential to change the value a potential consumer can see in the product. It is the first step in shifting away from the commodity-only tag.

## FINDING THE SILVER LINING IN COMPLIANCE

As discussed earlier, there’s little doubt that the primary sector’s operations will become more tightly constrained by regulatory limits and compliance requirements. These rules will bring incremental cost and place additional demands on people’s time. The challenge for organisations is to think creatively about how compliance requirements can be leveraged to generate value. How can they be utilised to add integrity and authenticity to a brand position? How can they support strategies to recruit high performing people and encourage innovation? Unlocking this potential depends on the mindset of an organisation as it approaches regulation. Those that look for the silver lining to the storm clouds are far more likely to find value than those who sit under an umbrella to try and ride out the storm. One example would be tweaking the Quota Management System (QMS) to make it clearly independent and apolitical, and thus provide greater assurance to customers that it is maintaining a sustainable fishery.

**"Collaborative thinking is rapidly permeating the Māori sector; organisations recognise the critical role partnering plays in ensuring the right knowledge and capability is available to capture value for their people."**

## ALIGNING THE PRE FARM GATE SUPPLY CHAIN

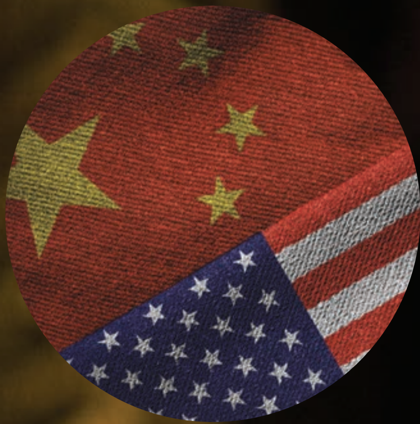
Much of the discussion around value centres on the market, which is not surprising given value is only realised by a consumer purchase. However we can't ignore that the value chain journey – turning soil, water and sunlight into food, fibre and timber – starts inside the farm gate. It is therefore important that our farmers, growers and fisherman have a deeper understanding of where their produce is ultimately used, and the value it creates. While it would be ideal if every person in the industry had the opportunity to visit their end customers, the practical challenges of this are obvious. The next best thing is for the consumer-facing organisations to clearly articulate the consumer story to producers. This will help ensure our on-farm practices are clearly aligned to the culture and beliefs of our consumers; be that in how animals are housed, the way labour is managed and kept safe, or the extent to which chemicals and antibiotics are employed.

## ENVISIONING THE FUTURE

We live in a world where the average lifespan of an innovation shortens by the day, where technology will enable us to do things in five to seven years' time that today live in the minds of the science fiction writers. For businesses, disruption to value chains will be the new normal, making foresight and flexibility core capabilities organisations need embedded into their culture. With the new next best thing arriving sooner than ever before, the organisations that are able to spot the game changers and rapidly crack how these should be incorporated into their business model create opportunities capture value. This will require constant vigilance to be aware of emerging technologies, clarity of vision to work out how they enhance their customer experience and commercial skills to gain rapid access the necessary IP. Value will accrue to those that are most agile and hold a clear vision of the proposition that will meet the needs of their consumers.

## MEANINGFUL TOURIST EXPERIENCE

New Zealand received more than 2.9 million international visitors in the year to February 2015. While this is great for the tourism sector, can it also be relevant to creating more value in the primary sector? At best, most visitors have limited direct contact with the industry while they are here. However, they will eat great food, maybe visit a winery or two, potentially take a fishing charter or attend a farm show. If you think about those 2.9 million visitors through a different lens, there is a huge opportunity for the primary sector to connect in more meaningful ways while these people are in our shop window. Many visitors are our high-value consumers. Through collaboration with tourism operators, there is potential to ensure they get more high-quality industry experiences during their visit. Ultimately, we want them to buy more of our product, and become enthusiastic brand ambassadors for New Zealand.



## LEVERAGING MĀORI PERSPECTIVES

It was noted in a number of conversations that Māori organisations have a significant advantage when thinking about value. While leaders of Māori businesses recognise the need to generate cash – to support initiatives that enhance the economic and social wellbeing of their people – their key focus is on building multi-generational businesses that not only contribute today, but will do so for generations to come. This long-term approach to investment is resonating with potential partners, particularly from offshore, who are looking at enduring solutions to major challenges they face, including food security. Combining this with the authentic stories that Māori are able to tell about the provenance of their products, and capital from committed partners, is positioning Māori organisations to capture a greater value on an ongoing basis.

## STRATEGICALLY POSITIONING FURTHER PROCESSING

As noted earlier, one of the biggest challenges to adding value is ensuring the costs incurred in further processing do not exceed the additional revenue the processed product can generate. There are many strategies for further processing that can generate and capture more value in New Zealand, even if the processing is done offshore. Some companies invest in processing assets in lower-cost countries, which helps make the profitability of a processed product look better. Often these business cases are enhanced by the potential to reduce tariff costs by producing higher value products behind a tariff barrier. Partnering with a company in a market to undertake processing also has the potential to create value, as their market knowledge and connectivity can ensure the right products are produced and distributed. Any strategy must be built on intimate customer knowledge, as further processing will only add value if the resulting products are more valuable to consumers.

## RIGHT-SIZING OUR MARKET EXPECTATIONS

A major constraint for many companies is their lack of ability to supply in volume, particularly in significant markets like China and the US. One solution is to develop collaborative marketing schemes that enable them to pool supply with their peers and meet the demand needs of larger customers. The key to creating value, whether acting alone or collaboratively, is being very selective about which opportunities are pursued through careful market analysis. We hear of too many companies having a strategy to target China, rather than the more realistic goal of initially building a viable business in a single city or province. In a world were value resides in niches – defined by age, ethnicity, religion, gender, wealth, education and many other factors – value can be destroyed rather than created by trying to be all things to all people.

**"We create value by doing many small things to differentiate our products that customers are prepared to pay for. We target right-sized markets and are nimble to respond to opportunities that arise."**

# PUTTING A KIWI COMPANY TO THE TEST


From its parochial beginnings, Tru-Test Group has transformed itself into a truly global business with four large offshore hubs – and the ability to service customers across 130 countries.

The company was originally founded in 1964, by a visionary Waikato dairy farmer who invented the first proportional sampling milk meters. Over the years, it has grown to include a range of other products and services; including animal weighing and electronic identification, dairy automation, milk cooling and tanks, and electric fencing.

As CEO Greg Muir explains, the global strategy has emerged in recent years:

"Historically, we had been a New Zealand business that exported to the world. A couple of years ago we made the conscious decision that we wanted to be a New Zealand-headquartered business that operates with a number of regional hubs."

Those four hubs include Australia/NZ (which services Australasia and Asia), Latin America (serviced from a subsidiary in Brazil), the US (from a subsidiary in Texas), and Europe. The ultimate aim is to be manufacturing in all those hubs.

"Our high-tech manufacturing will still happen in New Zealand, but the more easily replicable manufacturing will occur in the other three hubs as well. Any other markets in the world we'll service through a wholesaler-dealer arrangement out of New Zealand."

So who owns the culture? Is it a Kiwi business, or a Brazilian one? As Greg explains, it's all about finding a balance.

"You can look at it as a matrix. Down one side of the axis, there's no doubt that New Zealand grass-based farming is aspirational globally…and we're promoting everything that's great about New Zealand farming, and the tools we use."

He gives the example of their Japanese-based distributor who is "an evangelist for New Zealand grass-based farming systems."

"He's come to every Fieldays for the past 15 years…his whole business is built around educating farmers on how to run a grass-based farming system that mimics our New Zealand systems."

Down the other axis, there's a strong determination to make each regional business authentic in its own market.

"There's a strong effort to have local people running those businesses. We run the business in the local language – in fact we work in about 18-20 languages. We want our people in Brazil or the US to feel as if they own their operating culture."

There are other sound business reasons for tailoring to the local market.

"For example, we've got a big electric fence business in the US that deals with a different set of customers than we do in New Zealand. They are predominantly lifestyle farmers – so we needed to think about how our products fitted to that market; whether it's adapting the product design, or things like information and packaging."

"That's often a balance; we're not high-volume producers, so making fundamental differences to the equipment can be quite expensive. So it's about balancing what works for the region with what's good for the company overall."



## ON FINDING THE TOOLS TO INNOVATE:

**Tru-Test CEO Greg Muir says innovation is "probably the hardest single thing that organisations like ours have to do."**

To take some pain out of the process, the company has put a conscious effort into embedding Lean principles into its innovation pipeline.

"For example, at the start of our factory we have about 15-20 big whiteboards where each of the product managers capture new ideas. We then have weekly stand-up meetings around those ideas boards. We try not to overcomplicate things. We assess everything on the basis of 'is it real, is it worth it, and can we win?'"

Another example, called Voice of the Customer, is implemented in all Tru-Test's markets around the world.

"We send multidisciplinary teams into the field, where they spend an hour or two with a farmer, just sitting around the kitchen table talking about challenges they face and discussing ideas. It's amazing the sort of insights you get from this free-form conversation."

The insights are fed back into the Ideas to Market whiteboard forum, to help inform the product managers on key features and benefits they should be building into their products.

## ON HAVING A KEY STRATEGIC ANCHOR:

**Everyone at Tru-Test is clear on the 'why' they come to work. The company's simple mission is to "provide the tools that will help farmers produce the high-quality protein the world needs."**

Having locked down the 'why,' CEO Greg Muir and his team are continuing to work on the 'how'.

"We've spent a lot of time on this over the past 24 months. We now have a framework for what we do, and how we're going to do it; as well as a five-year strategy."

Muir has recently been inspired by *Playing to Win*, a book written by AG Lafley, the legendary CEO of Proctor & Gamble.

"It's essentially the P&G strategy play book. There are two elements – where are we going to play? and then how are we going to win?"

Muir believes New Zealand companies are generally weak on strategy.

"An annual business plan is not a strategy. I'm not saying we're brilliant at it either…but we've started to become more strategic. I think if you ask any organisation those two questions above, and they couldn't answer within a few minutes, then you've got a problem."

**"IT'S ABOUT BALANCING WHAT WORKS FOR THE REGION WITH WHAT'S GOOD FOR THE COMPANY OVERALL."**

# The DNA of a value creation

From preparing this *Agenda*, we know the majority of industry leaders recognise there are many strategies that can enable their organisations to capture a greater share of value from their markets. Many are implementing many of them. However, as our analysis of value creation by the primary sector demonstrated, many organisations are having limited levels of success. Ultimately, the majority of growth in export value can still be accounted for through commodity price movements and volume growth.

Recent work undertaken by Simon Hunter, of KPMG's Performance Consulting business, is particularly illuminating. It highlights that companies showing consistent success in capturing significant value have a series of common nodes (or nucleotides to be biologically correct) in their enterprise DNA.

Although the emphasis and weighting differs on a case-by-case basis, it is clear that every node is present in every organisation. An enterprise that is missing one or more of these key DNA traits will find it incredibly difficult, if not impossible, to consistently capture a greater share of the value from its products.

01 PIVOTAL LEADERS

02 AMBITION AND ATTITUDE

03 STRATEGIC ANCHOR

04 INVESTMENT AND RESOURCE ALLOCATION

05 CUSTOMER INTIMACY

06 CAPABLE PEOPLE

07 DEPLOYMENT DISCIPLINE

# 01

## PIVOTAL LEADERS

**"Leaders are appointed to lead. Directors, management and the wider team are looking for a CEO that is prepared to set the strategy, make the necessary decisions and lead the business into the future."**

Organisations that create value have pivotal leaders. In some cases they have been in their role since day one, while others have been recruited to reinvigorate the business. They bring strong commercial and financial skills; but more importantly, they bring enthusiasm, passion and vision to the business. By their actions, they define the organisation's culture.

A pivotal leader sets the rhythm of an enterprise. Through consistent intensity, restlessness and relentless focus they drive the business to greater achievements. There are strong relationships between the leader and their board; the leader can rely on the board's support when key decisions have to be made. In return, they deliver on the plans that have been collectively set for the company.

Leadership transitions are carefully planned, ensuring any changes are done in a careful way that protects the cultural legacy of the company. When new leaders are introduced, they fit into the culture of the organisation while adding their own unique dimension to the culture.

# 02

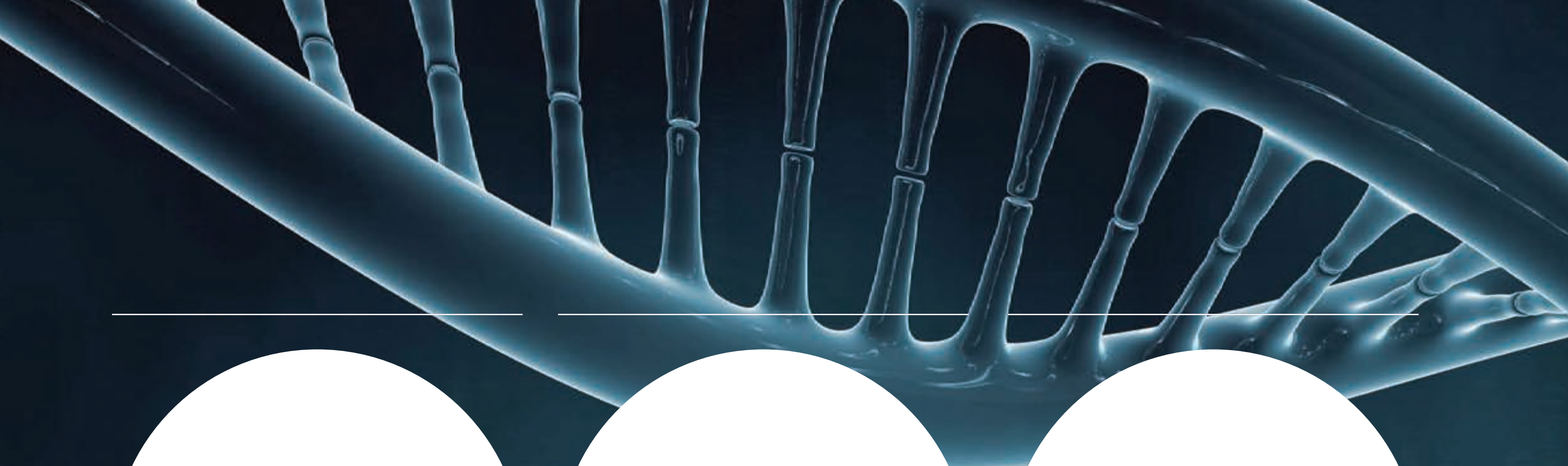
## AMBITION AND ATTITUDE

**"More companies need to step up to shaping their own future and the markets that they will compete in. Organisations with an ambition to be the best do not follow the market, they set the future direction of the market."**

A high-value enterprise does not have an arrogant culture; but there is no shortage of confidence in the organisation. They have a very clear goal of being rated among the best in the world in their industry, and a plan on how to get there. They expect to earn the right to supply the world's best customers.

They also recognise they do not have all the answers themselves. They actively seek to learn – from anywhere and everywhere they can find nuggets of insight and knowledge – to help them achieve their goal.

These organisations have long-term ambitions; they are seeking to create an extraordinary legacy for future generations. They recognise that creating prosperity does not only benefit their immediate stakeholders, but has a wider benefit for all New Zealanders.



03

## STRATEGIC ANCHOR

**"We need a long-term vision to change to our thinking around our role in the global food system. We need to be prepared to think differently about every part of the business to deliver on our goal."**

At the core of every high-value enterprise we have analysed is a clearly articulated, distinctive strategic focus or idea that is central to the organisation's purpose. Once clearly articulated, this focus does not change over time; although it does evolve to reflect environmental changes, such as consumer behaviour.

The strategic anchor is never compromised; whether it's in the face of the global financial crisis, food safety scares, or growing concerns around terrorism. These organisations understand what they stand for, and what they are seeking to achieve; and the entire organisation is connected to this central strategic anchor. Team members are able to clearly articulate why they come to work, and how their roles and responsibilities support the organisation to deliver on its purpose.

04

## INVESTMENT AND RESOURCE ALLOCATION

**"High-value companies are unlikely to take a low cost, low investment approach to critical areas of their business; they recognise that low cost does not equate to the high performance capabilities the organisation needs."**

Our analysis showed that high-value enterprises understand that consistently high levels of investment are required to support the growth of a world-class company. Whether investing in people, innovation, customer insights, production assets, M&A or brand positioning; they have the deep understanding of their priorities. They invest strategically into those initiatives that will deliver the greatest step forward in delivering on their strategic anchor.

These organisations invest significantly greater percentages of their revenue into securing their long-term future than most, particularly into innovation. Having the mandate to make long-term investments in the future of the organisation ultimately drives superior returns from the business; and enables the company to maintain high levels of investment into the future.

High-value organisations are also ruthless in cutting investment that is not delivering the expected returns. They are prepared to recognise failure and cut the investment before it becomes a bigger problem.

05

## CUSTOMER INTIMACY

**"We need to be in markets, not just to sell but to deliver technical support, manage the customer experience, collect data and understand the culture. In-market people are major contributors to creating and capturing value."**

A recurring theme throughout this *Agenda* is the need to build intimate relationships with consumers; understanding their lifestyles and how they use our products. It is not surprising that this is something our high-value enterprises place significant focus on.

They willingly make the necessary investments – not only to gain a deep understanding of their customers, but also an ability to engage with the customer through all stages of the product lifecycle. This includes product development and design, order execution and fulfilment, and service and support.

For these enterprises, in-market representation is about more than just having sales representatives in the market. They are looking to understand the emotional drivers of their customers, explore solutions to their problems, and collaborate with them on product design. Their investment is significant and the results can take years to be delivered; but the rewards come from continuously connecting everything they do to delivering the products and experiences their customers need.

## 06

### CAPABLE PEOPLE

**"The primary sector needs to be able to attract people that can build and lead businesses; that are prepared to take risks and are prepared to reposition the industry in the eyes of customers and the community."**

When it comes to people, high-value companies are close adherents to the principles that Jim Collins describes in the book *Good to Great*. The organisations are focused on ensuring that they always have "the right people on their bus" and those people are sitting the right seats. Great care is taken in selecting people to join the organisation; with high performance being a given, the differentiator becomes cultural fit and alignment.

The clear articulation of ambition and purpose means everybody in the organisation is connected and motivated by the purpose. They are expected to utilise their creativity to solve problems that are preventing the business from achieving its goals. The organisations recognise this requires investment, by exposing their people to world-class thinking and relevant development programmes.

The team is accountable for the culture within the organisation, with the inherent expectation that they will leave it stronger than they found it. In turn, the culture is considered to protect the enterprise and secure its future; the organisation is stronger than any one of its parts.

## 07

### DEPLOYMENT DISCIPLINE

**"Focus is incredibly powerful!"**

Once all the other six elements are in place, a final attribute was obvious in high-value enterprises: a single-minded focus on deployment. The companies recognised that having assembled all the pieces of their jigsaw, the only way they come together is focusing relentlessly on execution at speed.

These companies are committed to delivering on their core mission; they are not easily distracted by sideshows and non-core activities that can seduce the less focused executive.

That does not mean they do not innovate; they are consistently bringing new innovation into their core business, but do this using a prototyping mindset where speed is recognised as critical. If something is not working, they deploy the fast-fail model, and the valuable lessons learned are incorporated into an alternative solution.

**Reviewing these attributes, many of the words used to describe high-value enterprises are not necessarily viewed as positive traits; ruthless, one-eyed, relentless, intense. However there is strong recognition within these organisations of the role of culture, the need to connect emotionally with people and the need to innovate makes them amongst the most collaborative businesses in the sector. The ambitions of these companies are only achieved when they exceed the expectations of their customers. Each has a unique culture that is based on empowering people to consistently solve their customers' problems, each and every day.**

# Committing to becoming a high-value enterprise

If New Zealand's primary sector is going to deliver on the export double aspiration, we need more companies that are prepared to adopt the DNA of a high-value enterprise.

It is apparent from our analysis and discussions that high-value enterprises are not created by chance; they grow from a set of conscious decisions to do things a particular way. Some of the usual strategies for growing value, such as investing in a brand, did not feature as a key DNA node in our analysis.

One of the key messages from the 2014 Te Hono Bootcamp at Stanford University was that embedding excellence into an organisation is a cultural issue. Culture cannot be imposed on people through town hall meetings, PowerPoint presentations, and pronouncements from the throne (or the 'air war approach').

Changing culture is a ground war – requiring leaders to work closely with their teams to demonstrate the desired culture, celebrating milestones achieved on the path to success, being open and honest about failings, and holding each other to account. This takes time, often a long time, and requires investment to equip people with the skills and tools that they need to have an impact. Most critically, any cultural changes require clear communication channels and these must start from the top of the organisation.

It was intentional that 'pivotal leaders' was the first DNA node we described. Without this kind of leader, the chances of successfully linking the other DNA attributes are remote at best.

The first question for an organisation that wants to start a journey towards creating an enterprise culture that can capture greater value should be: does our current leader have the skills to lead the business through a change programme? If the answer is no, then the organisation is unlikely to be able to move its performance along the bell curve with its current leader; and the first action of its transition programme should be to recruit a leader that can shift culture.

Changing leadership is unlikely to be the only difficult decision to be made as the company transforms. It was very clear from our discussions that creating and maintaining the right kind of culture requires hard graft over a sustained period of time.

If New Zealand is to maximise the value of the food, fibre and timber we produce, we need more companies prepared to take the journey to become high-value enterprises. As the chart illustrates, this will shift the whole performance bell curve to the right; squeezing out the tail of poor performing businesses (as the returns they are able to pay will mean that they are unable to secure supply), and lifting the absolute numbers of high performing businesses.



Image above: Chris Williams, The NZ Story

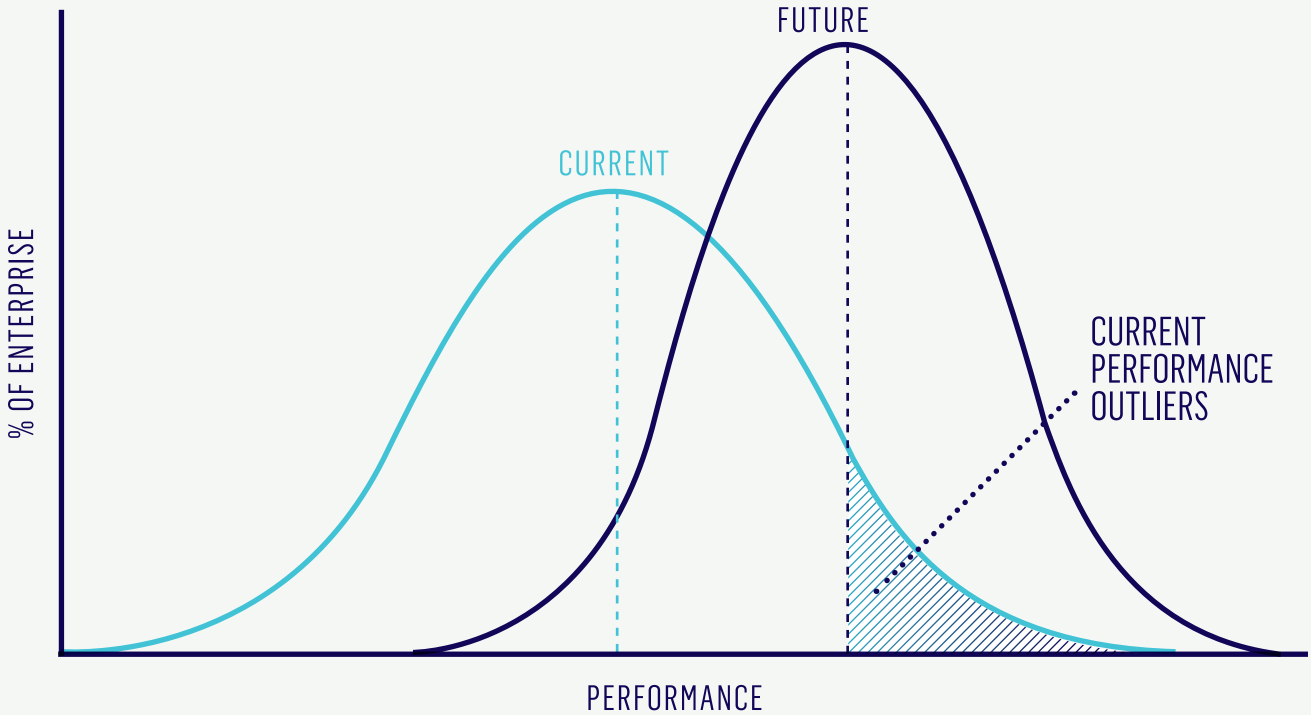
This is a huge challenge, but by no means impossible. Value-adding enterprises thrive on knowledge, and tend to be very open to sharing their knowledge with other organisations. It is critical that our current high-performance outliers are prepared to collaborate with industry peers (the Te Hono Bootcamp and the SMASH market shaping Consortium at Auckland University Business School are good examples of collaborative learning environments). Even more importantly, companies that seek to become high-value businesses must be prepared to listen and learn.

There is also a role for Government in shifting the curve, and encouraging more organisations to move more quickly to becoming high-value enterprises.

Given Government's role in funding innovation across the primary sector, it can influence the behaviour of companies through the expectations it places on companies in return for the grants it provides. Using the DNA nodes of a high-value enterprise as part of the evaluation criteria for the potential recipients would be a step in the right direction. This would ensure support is directed to those organisations with the greatest likelihood of successfully creating and capturing greater value for the wider benefit of the New Zealand economy.

**"We need to create more powerhouses of the primary sector; this needs leaders that can lead and build value chains. We need organisations that can see the world through a sufficiently ambitious lens."**

## SHIFTING THE INDUSTRY'S PERFORMANCE



# TURNING THE CULTURAL TIDE

SANFORD LIMITED
SUSTAINABLE SEAFOOD

Sanford's CEO has no small plans for the company he joined 18 months ago. He simply states that he wants to lead "the best seafood company in the world."

Volker Kuntzsch, who took over the helm in December 2013, began instilling a cultural change throughout the company from day one. His first priority was to get the top 30 executives together at an off-site meeting…and simply get them talking.

"Previously, the company was hampered by divisional structures – there was a customer-facing side, and an operational side – but there was very little communication between the two," says Kuntzsch.

"What I really wanted was to bring people together and start talking to each other. It's so important to understand other people's responsibilities and the challenges they face. Soon after, I heard a third party saying: 'there's a change happening at Sanford; there's a more collaborative spirit…'."

Another key milestone from that meeting was to set a vision for the company. They eventually settled on the most simple: to become the best seafood company in the world. While there's a big element of aspiration to the goal, Volker believes it is "not an unrealistic target."

"Kiwis tend to be pretty humble. I think I've got the advantage of coming from the outside, and knowing what other people think about this country. We do bring a lot of credibility to the table. We're already among the top 10 by a number of measures; including diversity, sustainability, provenance and traceability."

The CEO is also proud of the company's latest annual report – which is all about telling the new Sanford story. There's been positive feedback from various quarters.

"The best comment I've had so far was a colleague tell me: 'I think this was the first time my wife has ever read the annual report. Now she understands what we're actually doing…'."

One of the key platforms of the future brand story is that Sanford is a food company – not just a fishing company. He talks about the 'emotional' aspect of this, and encourages his team to think about their Sanford-prepared products being consumed by people halfway across the world.

Importantly, the new culture involves a fundamental shift of mindset from resource extraction, to focusing on the consumer end market.

"In the future, we are going to think deeply about what our customers want, and not just come to them with raw material."

Or to borrow Steve Job's famous philosophy:

"In the end, we can only create value by delivering our customers with something they never knew they wanted…"


## ON OPERATING IN A FISHBOWL:

**The commercial fishing sector comes under public scrutiny more than most industries. 'Bring it on' says the new Sanford CEO.**

Originally trained as a scientist, Volker Kuntzsch is all about transparency and sharing of knowledge.

"If you look at who's talking about the commercial fishing industry in New Zealand, it's either the journalists, or the environmental NGOs or the recreational fishing sector. We never really say much… or at least we didn't use to."

That's all changed now. Sanford welcomes media to come on board their vessels to see how their fishing is being done. They plan to build a centre for education at the Auckland Fish Market, complete with streamed live footage of a trawler at sea.

"No-one expects us to be perfect. But let's be out there and open about it. As long as you don't talk about it, it always feels like you're hiding something."

Volker Kuntzsch paints his ideal scenario in the future: "where if Sanford says it's not a problem to put a salmon farm in the Marlborough Sounds… people will say, well if Sanford says that, then it makes sense. That's the kind of credibility we want to build."

## ON INNOVATING TO ADD VALUE:

**For the new Sanford, innovation means more than finding new ways to cut up fish.**

The company is now focused more on transformational ideas with potential to patent the IP.

Or as Volker Kuntzsch points out: "It's much more valuable to try to find a way of extracting oil from the mussel, rather than finding a better way to cook the mussel."

Other strategies include whole-of-fish utilisation ("to make sure we use every bit of that fish for further added value"), finding offshore markets for species that are not eaten in New Zealand, or delivering fresh or even live fish to the other side of the world, using the award winning Precision Seafood Harvesting PGP technologies.

He stresses the need to find the right balance between creating very high-value products, aimed at the top end of the market, and "the inevitable degree" of commodity product still required.

"New Zealand has the ability to build a magnificent brand in seafood, focusing on niche high-end products. We shouldn't be embarrassed, however, to sell those commodity products to anybody. We don't want the New Zealand brand to become arrogant… we want to care about people from all walks of life."

**"WE ARE GOING TO THINK DEEPLY ABOUT WHAT OUR CUSTOMERS WANT, AND NOT JUST COME TO THEM WITH RAW MATERIAL."**

# Sector perspectives

During the Roundtable conversations, there were perspectives offered on the ability of different sectors to capture and create value for their products. In all cases, it was recognised that each sector has made progress on this front. However, it was clear that more could be done; given the right mindset, policy settings and focus.

## DAIRY

Conversations around how the structure of the dairy sector may evolve also reflected on whether it has enhanced its ability to capture more value in recent years. The perception was that the industry has made progress in creating added-value products, with most processing companies making investments (particularly in infant and growing up nutritional into products), and committing to having people in market to build stronger relationships with customers.

It was noted that the primary focus of the dairy industry over the last 10 years has been production growth. So even with the value add investments that have been made, this means the proportion of product being converted into specific value add product is now lower than it was 10 years ago. It is wrong to assume, however, that the remainder of our dairy production is being turned into basic commodity products. We have some of the most sophisticated dairy ingredient processing capability in the world, and our ingredient and foodservice solutions are globally sought-after.

Over the last decade, the dairy sector has made a huge investment in processing assets to handle the growth in milk production, with most of this going into drying technologies. The challenge now is to ensure the industry is sufficiently nimble to respond to changes in customer requirements, as their lifestyles and diet evolves.

As we noted in the last volume of the *Agenda*, we expect to see greater demand for alternative dairy products in the future. These include liquid products (particularly in convenience formats for urban dwellers to consume on the go); specific nutrition solutions for groups such as the elderly; highly individualised, tailored foods (potentially being printed on demand by vending machines); and nutraceuticals. While these create opportunities for the dairy sector; the challenge is having the clarity of vision to spot emerging opportunities and the flexibility to respond.

## RED MEAT

Unlike previous years, the amount of discussion on the future of the sheep and beef sector was fairly muted during this year's Roundtable discussions. Despite the fact the Meat Industry Excellence group had released their Pathways report only weeks before, this created little discussion. However it was noted that the report was focused towards the issue of overcapacity, particularly between the two major co-operatives in the sector, and failed to recognise the innovation being seen in processing and marketing activities across the wider industry.

If there was a theme relating to the red meat sector during this year's conversations, it was more focused on the investments being made in the sector to introduce innovation. It was highlighted how companies are investing in supply chain technologies to create value from operational excellence. Companies are using technology to introduce greater complexity and customer tailoring into their product offering, and consequently differentiating themselves in the market and generating a premium.

It was also noted there are some good examples in the sector of companies creating branded consumer experiences, utilising innovation in genetics and packaging linked with authentic stories. Both First Light and Silver Fern Farms were highlighted regularly in conversations. It was suggested that the optimal position for the red meat sector should be as a boutique provider of high quality, hormone-free, free range, grass-fed beef and lamb. This is an authentic story that centres on attributes with appeal to premium consumers, and leverages traits already inherent in most of New Zealand's production.

Discussions around the deer sector highlighted the ongoing challenges to fully realise the potential of a high quality product. Despite our supply curve aligning nicely to the demand curve in the key Northern European markets, and growing demand for velvet by-product in Asian markets, the industry continues to deliver insufficient returns to attract investment and provide the sector with scale to capitalise on its potential. On the upside, the sector is focused on working collaboratively through a PGP project aimed at improving value capture and making the industry more sustainable.

## PIPFRUIT

The industry has had a challenging decade, with many growers struggling to consistently return profits. Exporters have struggled to differentiate their products when presenting them to consumers; many of the companies are selling the same varieties at the same time, which has resulted in price often being the only point of differentiation for the customer. However, during our conversations it was noted that confidence is building on the back of improved returns, export consolidation and new innovation across the sector.

While the industry will never return to a single-desk seller model, it was suggested that the days of having more than 80 exporters competing for the same customer dollars are now behind us. The expectation is that the industry will shift towards having five or six major exporters with some niche players (often having their own proprietary varieties to present to customers) enabling the sales conversation to focus on a range of factors beyond price. These are encouraging signs that greater value will be created.

The sector has also recognised that its core customer base has changed. Less product is being exported to Europe and North America, to capture the growth opportunities in emerging Asian markets. Companies in the sector, together with Pipfruit NZ, have invested in gaining a deeper understanding of their new consumers and securing the necessary market access.

These learnings are informing initiatives throughout the supply chain; all designed to lift the value participants are able to capture. One of the most obvious is the long-term investment being made in new apple varieties to meet the taste and size profile preferred in Asia (in particular large sweet apples); however, the timeframes to full commercial supply can be up eight years. It is encouraging to see the sector focused on growing the right quality product to meet consumer need, and supplying it through an effective, integrated supply chain.

## VITICULTURE

Previous *Agendas* have consistently highlighted New Zealand's wine industry as being highly effective in capturing value, given the high price points New Zealand wines attract around the world. This has been achieved through producers collaborating in market when appropriate, verifying the sustainability of production systems, authentic branding, and consistently high quality product.

With high retail price points and demand growing faster than supply (even with last season's bumper vintage), the industry is at a critical point in its development. This presents opportunities for wine companies to make short-term profits by over-cropping their vineyards, increasing the quantity produced but impacting the quality of the wine. This was flagged as a particular risk currently, as a number of investors have taken on significant debt to fund their vineyard purchases, and need to work their assets hard to make them pay.

The reality is consumers will recognise a lower quality product, and the price they are prepared to pay will fall. This will impact the premium perception of all New Zealand wine and, over time, will lower the retail prices the whole industry achieves.

It is critical that the wine sector takes steps to protect its reputation for quality and innovation. For instance, the recently announced Government initiative to provide geographical indication protection for Marlborough wines is an important step in achieving this. In the long run, the whole industry benefits from maintaining a high quality product and a premium price point. (As one industry leader pointed out, land values in the Champagne region of France now exceed EUR1 million per hectare given the value generated by the appellation regulations).

## AQUACULTURE

The aquaculture sector released an ambitious plan for its future a number of years ago. This was based on sustainably lifting production of our existing farmed species, introducing new species, and ultimately growing revenue to $1 billion. The strategy relied on the community accepting that small areas of coastline would need to be set aside for farming purposes, so that the industry could make the necessary investments.

To date, however, there has been little progress in unlocking additional water space, growing production or introducing new species. The uncertainty surrounding the regulatory environment is a significant impediment to further investment in the sector, as there is no confidence that the community accepts the industry has a right to exist. This is raising real concerns as to whether existing farming consents will be easily renewable when many of them expire in the middle of the next decade.

With an inability to grow volume to the extent desired, the industry has been forced to think widely about the opportunities available to grow value from existing production. Looking overseas, there are opportunities for significant value to be extracted from by-products, such as edible oils, for use in health and nutritional products.

It was also highlighted that the industry must sharpen its focus on the markets it currently supplies.

While there have been a number of false starts around collaboration in the sector in recent years, organisations should recognise there are some non-competitive areas where value can be captured by working together. Examples might include initiatives to promote the health benefits of seafood, or the sharing of processing facilities.

## FORESTRY

It was apparent from our conversations that the forestry sector has had a tough year. Customers in its primary log market, China, stopped buying as demand dropped away. As prices fell, this reduced harvesting, slowed re-planting (with some harvested land being converted to other uses, including dairy), and has ultimately damaged confidence in the sector. The industry has seen deforestation in recent years, a serious issue, as a reduction in the certainty of wood supply in the future reduces the likelihood of organisations making transformational investments into the sector.

There is huge potential to add value to wood – and to do so in such a way as to improve the greenhouse gas footprint of the primary sector. An innovative forestry sector creates an opportunity for New Zealand to take a lead in the global bio-economy, creating value from low-carbon products. With the research work currently being done, there are opportunities for every component of a tree to be used to create value added products.

The industry already creates significant value; it takes a 30 cent seedling and turns it into a log that can sell for hundreds of dollars. However as industry leaders point out, much greater value could be created if the policy settings were right. The industry has called for a 'wood first' policy for Government procurement, which would require a wood option to be costed for all Government-funded buildings. It also highlighted the importance of having a carbon price that appropriately reflects the externalities associated with greenhouse gases.

With favourable policy settings, the potential for the forestry sector to create and capture value is immense. It could also support the environmental component of the licence to operate for the wider primary sector. There are significant opportunities to add value to logs through engineered wood solutions, which can be facilitated by changes to the Building Code, and could create export markets. There is technology available to change the hardness of wood, enabling our radiata production to become more a valuable hardwood product.

# Agenda points

## 01

**Recognising the role of culture in creating value.** Organisations should be prepared to honestly challenge themselves as to whether their culture incorporates all the DNA nodes of high value enterprises. For some, this will require an independent view.

## 02

**Defining the purpose, and setting the strategic anchor.** Value-creating organisations are not formed overnight. Significant work is required to define what an organisation stands for, and then lead the team to buy into the vision. An industry vision would support organisations in defining their purpose and setting their future direction.

## 03

**Re-engineering investment perceptions.** Shifting up the value chain requires coordinated investment in intangible capability (e.g. talent, innovation, customer intimacy and brand experiences). This challenges companies to view investment through different lens; and creates a need for appraisal models that support their culture shift.

## 04

**Committing to a commodity-free future.** Changing the wider perceptions of our products will assist in positioning the sector for a higher value future. Companies should remove the term 'commodity' from their lexicon; and instead highlight the integrity, safety and innovation that underline New Zealand-made solutions.

## 05

**Integrating design principles across the business.** Organisations will need to substantially redesign elements of their business to capture greater value. This may involve structural change to effectively handle premium and solution products or deliver better customer experiences. Lifting capability to incorporate design thinking principles into analysis and problem-solving within the business is critical to addressing these issues quickly.

## 06

**Protecting the integrity of brand New Zealand.** The perceptions of New Zealand contribute significantly to our international reputation for safe, sustainable food products. Protecting our national brand should be priority. Appropriate production standards need to be established and enforced, and technology solutions introduced to assure consumers of product integrity.

## 07

**Exploring collaborative opportunities.** To unlock scale and market potential, companies must recognise there are opportunities that are better approached with an aligned partner. This may be another NZ company, an international partner or a capital provider. Furthermore, creating forums that enable trust to develop between people, such as the Te Hono Movement, are critical to a collaborative future.

## 08

**Walking in our customers' shoes for knowledge and insight.** It is appropriate to conclude this *Agenda* by reinforcing the absolute need for companies to truly understand their customers. Investing in understanding their customers' needs, and experiencing how they use their products, will enable them to develop deep insights to guide the future direction of their business.

## KPMG Agribusiness Agenda in numbers

**6TH** YEAR OF THE AGENDA

**9** REPORTS PRODUCED

**98** ROUNDTABLE PARTICIPANTS ACROSS NEW ZEALAND


**104** SURVEY RESPONDENTS

**20** ONE-ON-ONE CONVERSATIONS

**155** CONTRIBUTORS

**15** CASE STUDIES

**1** OF OUR CONTRIBUTIONS TO FUELLING NEW ZEALANDS PROSPERITY

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**Ross Buckley**
Executive Chairman
KPMG New Zealand

I am passionate about New Zealand's agribusiness sector because it has a significant impact on our nations prosperity which will improve the health, wealth and well-being of all New Zealanders.

**Simon Hunter**
Principal, Advisory
KPMG Auckland

Agriculture is integral to our way of life. We are fiercely appreciative of our land and the opportunities it offers for growth, for business and, most of all, for our future generations.

**Glen Keany**
Partner, Audit
KPMG Tauranga

I am passionate about New Zealand's prosperity because the success of the BOP region is heavily reliant on the agribusiness and port sectors, and by providing robust audits we are supporting these businesses to thrive, future-proofing for a successful and vibrant region.

**Angela Thomas**
Director, Private Enterprise
KPMG Tauranga

I'm passionate about New Zealand's Prosperity because unleashing the potential of our Private Enterprise sector, from Agribusinesses in the community to supporting industries and exporters, is significant to New Zealand's future prosperity – at every level of our society.

**Julia Jones**
Farm Enterprise Specialist
KPMG Hamilton

I am passionate about New Zealand's prosperity because future generations deserve the right to have the amazing opportunities I have been privileged to experience.

**Roger Wilson**
Partner, Private Enterprise
KPMG Hamilton

We can create better futures for those fortunate enough to live in this fantastic country. Our abundance of clean water, safe food and fresh air will and support a healthier and wealthier society.

**Hamish McDonald**
Partner, Private Enterprise
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I'm passionate about New Zealand's Prosperity because helping our Farming and Private Enterprise clients realise their potential helps ensure New Zealand's future.

**Murray Dunn**
Partner, Audit
KPMG Hamilton

I'm passionate about New Zealand's Prosperity because it will provide opportunities that will enable our children to have the choice to live in our great country.

**Justine Fitzmaurice**
Manager, Advisory
KPMG Wellington

I am passionate about New Zealand's prosperity because fuelling our prosperity will empower all New Zealanders to achieve their goals.

**Pete Taylor**
Partner, Audit
KPMG Christchurch

As an economy we are sufficiently small that an individual (or group of individuals) can make a difference, however, are unique that we offer products and services that world demands and is willing to pay a premium for.

**Brent Love**
Director, Farm Enterprise
KPMG Timaru

I am passionate about the New Zealand's prosperity in which NZ agriculture is a big part of the very fabric that this nation's prosperity stems from.

# HELPING THE SECTOR PROSPER

**New Zealand can and should be achieving more with the talent, knowledge, natural resources and market reputation the generations before us have built.**

We love agribusiness, and take great pride in how our roles as independent advisors, thought leaders, strategists and, in some cases, farm owners helps fuel prosperity for our great country.

FUELLING PROSPERITY

Fostering pathways to prosperity for our clients, communities and the country is something KPMG is deeply committed to. Our team of specialist Agribusiness advisors are passionate about the sector. The contribution we make with the professional advice we give and the success we create for our wide range of agribusiness clients is what drives us to do what we do.

We would like to thank our many clients for the opportunities they give us to help them overcome their challenges and contribute to their successes at home and around the world. Being proudly New Zealand owned, the investment KPMG makes in producing thought leadership for the industry, and our sponsorship initiatives across the agribusiness and food sectors, is our way of saying thank you to our clients for their business. We really appreciate it.

KPMG's Agribusiness team can help you improve the efficiency and profitability of your business through our wide range of advisory services. Our national and international, cross functional agribusiness professionals focus solely on understanding the issues faced by agribusiness companies and developing tailored solutions to meet these challenges.

**KPMG Farm Enterprise**

We continue to enhance our ability to assist New Zealand's most productive sector to grow its prosperity, this is demonstrated by evolving our Farm Enterprise service offering to meet the evolving needs of farming businesses. The KPMG Farm Enterprise teams in both the North and South Island are driven by Brent Love and Julia Jones, our Farm Enterprise Specialists, who are passionate about working with ambitious businesses to enable them to prosper. They do this by bringing the full extent of KPMG's resources, together with their extensive experience, inside the farm gate.

Our mobile Farm Enterprise team enable us to do business with you wherever you are in the country and we continue our commitment to grow our footprint across New Zealand. After the success of opening the Timaru office over a year ago we continue to look for further opportunities to grow our footprint in the regions.

KPMG brings together over 950 staff across six offices to serve clients throughout New Zealand. Whether it be in the office, down at the milking shed, around the homestead kitchen table or the boardrooms of our processing and world-renowned export companies; wherever the difficult business decisions are being made, we feel right at home.

**KPMG can help you with:**

- Availability and structure of equity and debt
- Acquisition and transaction support to encourage growth in local and overseas markets
- Mentoring and support for growing your business
- Negotiating financing arrangements
- Volatility in earnings due to exchange rates and commodity prices
- Addressing customs and quota issues and maximising the benefit of FTAs
- Issues arising from environmental regulations, carbon trading and food miles
- Obtaining R&D funding to support innovation in genetics, seed technology and nutrition
- Enhancing business performance by doing more for less
- Financial reporting to support farming for profit
- Valuation of brands on a local and international basis
- Advice on control and governance structures for all sizes of business
- Succession planning and future proofing your business strategy
- Assisting businesses to successfully navigate China
- Collecting, analysing and interpreting data

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