

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.

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“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.

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.

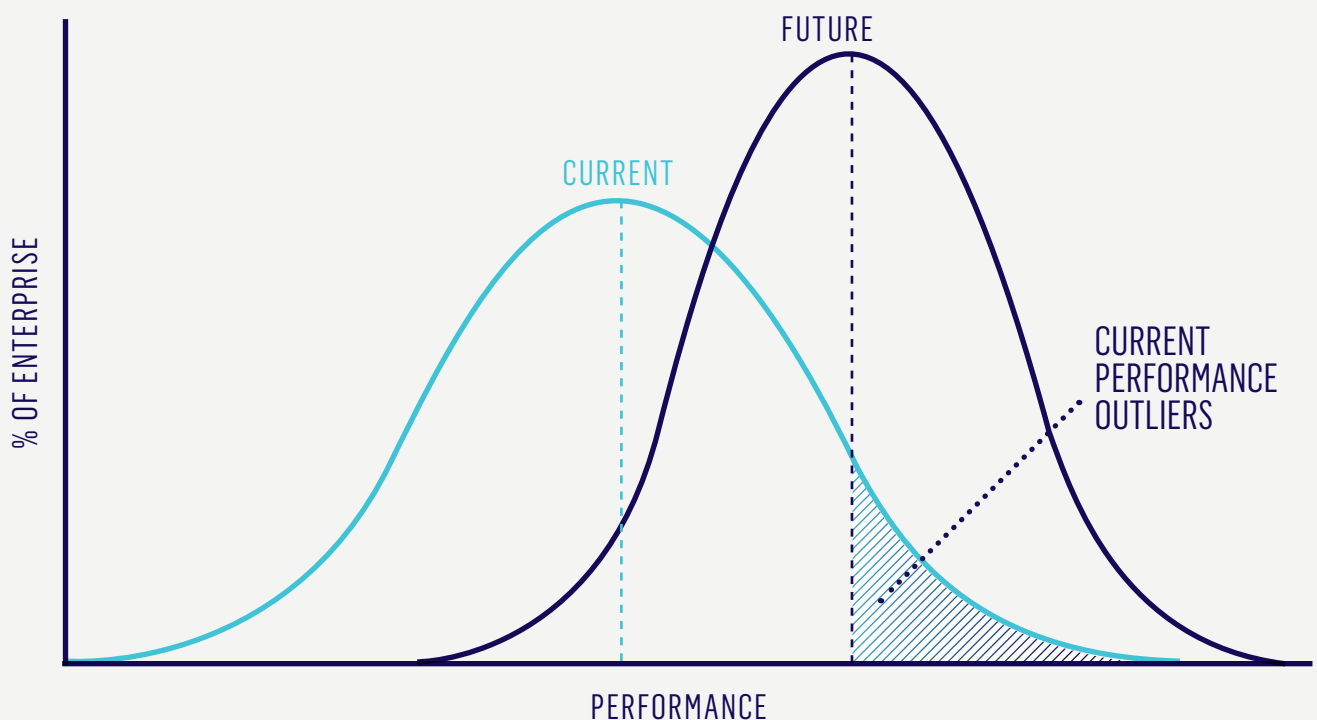
This is a huge challenge, but by no means impossible. Value-adding enterprises thrive on knowledge, and tend to be very open to sharing their knowledge with other organisations. It is critical that our current high-performance outliers are prepared to collaborate with industry peers (the Te Hono Bootcamp 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.

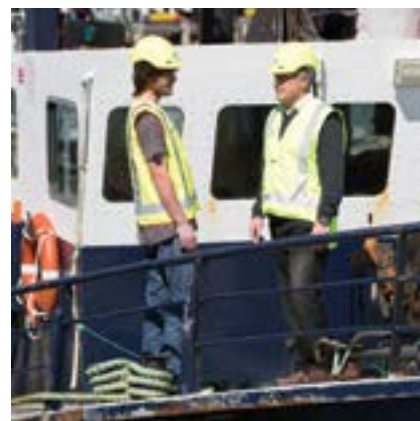
Importantly, the new culture involves a fundamental shift of mindset from resource extraction, to focusing on the consumer end market.

"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 GPG 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."

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