



AGRIBUSINESS

# Field Notes

Weekly news update from the KPMG Agribusiness network



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Agenda 2020**

**05 November 2020** – This week's headlines



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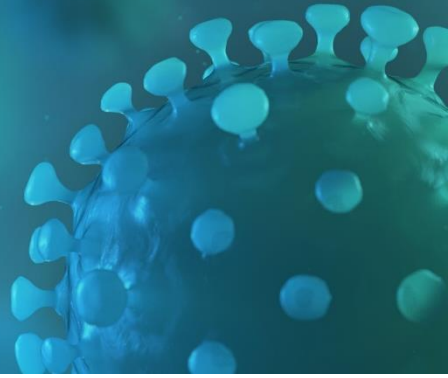
**[Townies paying \\$110 an hour to cuddle cows \[29 October, Stuff\]](#)**

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## Adapting to the New Normal

It is now almost six months since we released the Now Normal Future, a perspective on the future of the global system as the world emerges from Covid-19. In hindsight we should have subtitled the report 'Food and fibre in a world adapting to Covid-19' given it has become clearer we will be living with the virus for the foreseeable future, particularly as Europe heads into a winter of second wave lockdowns and, as Angela Merkel noted the other day, a bearable Christmas at best.

Consequently, many of the signals of disruption we had detected in March and April are likely to become more embedded into our food systems than we had originally expected. This means the food system of today is going to evolve further and faster than we had originally expected. The change in markets makes change in how we do business more urgent than ever. Despite having had a head start on getting some semblance of normality, I see little evidence of dramatic pivots having been made in product offering, channel strategy or pricing approach to equip our companies with the tools to thrive in the coming months.

It is from around now in early November we will really start to miss the impact of tourists flooding into the country for the summer season. My calculation suggests that on average in November 2019 we had over 12,000 visitors across the border every day who spent around \$45 million dollars in the country during their visit. I'm writing this piece on 4 November,

which means there is already \$180 million of export earnings from tourism earned last year that

we are not earning this year. This means the value we create from our food and fibre products is more important than ever to ensure the economic hole we are getting no deeper.

The signals coming back from markets suggest things are getting tougher for exporters. The food service channels that many of our premium products pass through to restaurants, hotels and other hospitality outlets (such as cruise ships) remain fundamentally disrupted and new lockdowns and restrictions on dining will only slow their recovery. Thankfully, the government recently announced an extension in the International Air Freight Capacity scheme, which will extend subsidies for air freighting through to March, something that is critical with the borders closed and key periods for capturing value for fresh, seasonal produce over Christmas and the Lunar New Year to come.

Without the extension of this scheme, exporters were looking at up to six-fold increases in air freight rates for the coming season making many businesses uneconomic. Now there is some certainty around getting product into market, it is critical exporters think innovatively about how they align their products to the specific needs of the consumers that they are targeting. Looking widely for tactics being deployed across the global economy provides hints at the types of pivots organisations could be thinking about deploying.

The pandemic has been an accelerator of innovation meaning there is no shortage of good ideas that can be adapted and leveraged to the specific market circumstances an organisation faces:

— Digitalisation has been core to many consumer innovations, whether it is the creation of a direct to consumer sales platform or the establishment of exclusive buying clubs the core factor has been a need to get closer to the consumer to enable offerings to be more responsive to consumer need.

— As part of digitalising a consumer experience some organisations have been seeking to reposition a product sale as a service using subscription models. Moving from a one-off transaction to a continuing relationship has helped organisations provide consumers with confidence around product safety, reliability of supply and created the opportunity to diversify the range of products supplied.

— Other organisations have been rethinking their product through the lens of improved health and have been highlighting not only verified health benefits of their products but the impacts that they can have on the ambient health wellness of the consumers lifestyle (the positive impacts a product has on wellness in comparison to alternatives).

— We have also seen an acceleration in personalized farming models, with food being grown specifically for consumers who subscribe for an animal or plot and receive the crop that it produces, providing confidence over quality and provenance.

— Another idea that some organisations are adopting is socializing their product test labs so that consumers are asked to vote on potential product innovations (flavour combinations, design styling, embedded attributes). A vote often comes with a small financial commitment which also buys a priority place in the line for that product should it receive enough support to be produced. As one company noted, the

number of consumers prepared to spend cold, hard cash on a product that does not exist is a powerful indicator of its viability.

Overriding all of this, however, is that consumers always notice the price and in the current economic environment this is truer now than ever. As my colleague, Andrew Watene, has highlighted in some of his recent blogs getting pricing right is often the biggest driver of value capture. To that end, we are seeing organisations introduce sympathetic pricing that offers discounts to reflect the current circumstances of existing, loyal customers to retain their loyalty. While others are introducing variable pricing models with price linked to movements in relevant datasets (a good example being a Brazilian brewer which is varying its price based on the weekly level of deforestation in the Amazon, less trees felled, the cheaper the beer is) to reward actions that benefit the whole community.

The overriding message from all of this is that the pandemic and its disruption is here to stay. What has worked in the past may not deliver the success that we as a country need in the future, so now is the time to get the fundamentals like pricing right but also to pivot market and channel strategies to meet the new realities that we face.

## **Ian Proudfoot**

Global Head of Agribusiness  
KPMG Auckland



## Agribusiness

[Farmlands \\$7m profit a 'credible result' in face of Covid-19, chief executive says](#) [30 October, Stuff]

Rural supplies and services co-operative Farmlands has reported a \$7 million net profit for the year to June 30, down from \$8.4m the previous year. Farmlands chief executive Peter Reidie said in face of the covid-19 disruptions and the challenging farming conditions including droughts and flooding, the profit result was "credible" and reflected strong support and Kiwi ingenuity. The co-operative decided not to return a bonus rebate to members this year in order to preserve cash, Farmlands chairman Rob Hewett said.

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## Agribusiness Education

[Top student off to co-op](#) [28 October, Rural News]

William Robertson received the Massey University's top achiever in agriculture award for 2020. Having completed a Bachelor of Agri Commerce majoring in international agribusiness, Mr Robertson is off to join Fonterra Co-operative Group and to continue his passion for the dairy industry.

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## Agri-Tech

[Business accelerator opportunity for agtech and food tech start-ups](#) [30 October, The Country]

Sprout Accelerator will offer development opportunities for 8 to 10 start-ups creating innovative solutions in the food supply chain. The accelerator will offer \$75,000 worth of business coaching, mentoring, network access, underground events and summits held around New Zealand. Companies at the seed stage with less than \$1 million in revenue will be considered for investment by Sprout.



## Alternative Proteins

[Scientist says fly larvae could be new protein source](#) [29 October, The Country]

Recent [research](#) suggests the larvae of a waste-eating fly could become a new alternative protein source for humans, for its nutritional benefits and for environmental considerations. University of Queensland's professor Louw Hoffman said black soldier fly's larvae was a high-quality protein and contained all the nutrients humans need for health, but Western consumers' acceptance of insects as food is the biggest barrier preventing the use of fly proteins in our food supply.

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## Arable

[\\$2.5m peer project for arable industry](#) [30 October, Farmers Weekly]

Growers Leading Change is a new peerwise knowledge exchange programme, with the aim to lift sustainable farming practices and to boost efficiency and profitability for New Zealand cropping farmers. The \$2.5 million programme is jointly funded by the Ministry for Primary Industry's Sustainable Food & Fibre Futures fund and the Foundation for Arable Research.



## Biotechnology

[Gene editing for climate change](#) [02 November, Farmers Weekly]

New Zealand scientists are working on gene editing cows to help them better cope with climate change. AgResearch senior scientist Dr Goetz Laible and his team have successfully used CRISPR gene editing to create cows with grey patches rather than black, to reduce their heat absorption. AgResearch is now working on incorporating changes known from tropical cattle that have been associated with heat tolerance into the gene editing, says Dr Laible.



## Dairy

[Lewis Road Creamery putting New Zealand on the world dairy map](#) [30 October, Stuff]

Recently bought by dairy farm investment fund Southern Pastures, Lewis Road Creamery will continue to build a premium brand image of New Zealand dairy around the world. Sales were boosted by increased lockdown baking during Covid-19 and consumer's growing health consciousness, said the company's general manager Nicola O'Rourke. Lewis Road Creamery will use social media to market the brand and push exports to the high-value markets including the US, Australia and China.

[Fonterra strikes deal with Fortune 500 company Land O' Lakes to sell dairy products US-wide](#) [28 October, Stuff]

Fonterra Co-operative Group has entered a distribution deal with Land O' Lakes to sell its dairy products throughout the US, beginning on November 01 for the initial period of five years. Land O' Lakes is a farmer-owned agriculture co-operative with nearly 100 years of history and it is a Fortune 500 company. Fonterra will now have access to the strong, well-established distribution network and the deal will help to scale up the customer base, Fonterra global director of food service Paul Harvey.

[Who are the most emissions efficient milk producers in the world?](#) [02 November, Stuff]

New Zealand's sustainable farming practices and world-leading ability to make quality, highly nutritious milk makes the country the most emissions efficient milk producer in the world, according to DairyNZ chief executive Dr Tim Mackle. Kiwi dairy farmers have transitioned to increasingly sustainable practices with the Farm Environment Plans, which improve water quality and further reduce emissions. DairyNZ's new campaign Rise & Shine will tell the story of what makes Kiwi dairy unique and showcase our commitment to further improve sustainability of the sector.

[Labour shortages inflate PKE spot prices](#) [30 October, Farmers Weekly]

The palm kernel (PKE) prices are inflated by covid-19 related labour shortage in Malaysia and Indonesia, currently at \$347 per tonne on the New Zealand spot market, up from \$262/t back in July. Federated Farmers dairy vice-chair Ben Moore is surprised by the rapid price increases and suggested to buy on contract around this uncertain time. A lot of silage was made and maize planted over the past month, which is expected to plug any feed deficits in the coming months and dilute the costs of any extra feed needed.

[Fonterra makes environmental progress but underperforms in gender and ethnic diversity](#)

[03 November, Stuff]

Fonterra Co-operative Group's 2020 sustainability report showed improvements in three key environmental metrics, but also highlighted its underperformance in addressing gender and ethnic diversity issues as well as sourcing palm oil from credible organisations. While Fonterra aims to achieve 50% of female representation in senior leadership by 2022, it has not changed from 2018 at 29%. The aim of ethnic representation in senior leadership is 20% but it has dropped from 9% in 2019 to the current 8%.

## [Wool's worth nothing, how about sheep milk?](#)

[03 November, Rural News]

Having added four independent suppliers from Waikato, sheep milk company Maui Milk aims to have 60 milking farms in five years to meet the growing demand. Maui Milk is a joint venture between the Chinese company Shanghai Bewell and the Waituhi Kuratau Trust. The company offers farmers a payout of \$17/kgMS.

## [Covid heralds new food order](#) [03 November, Rural News]

Covid-19 has triggered new trends in the food sector and Fonterra Co-operative group is responding by focusing its food strategy on innovation and fostering relationships with industrial kitchen operators to maintain its foothold in the food service sector. Fonterra's global director of foodservice Paul Harvey says covid has significantly disrupted the food service industry, but there are some signs of recovery with China food service resurging.



## Farmers & Producers

### [RWNZ awards category winners](#) [29 October, Farmers Weekly]

Rural Women New Zealand (RWNZ) has announced seven category winners for its 2020 business awards, ranging from Creative Arts, Emerging Business and Innovation etc. "The awards provide an opportunity to celebrate and showcase excellence in business and innovation by rural women," RWNZ national president Fiona Gower said.



## Food Security

### [Ultra-processed food makes up half of Kiwi kids diet - study](#) [02 November, News Hub]

Processed foods such as bread and muesli bars are the basis of most kiwi kids' diets, a study involving 800 children over 10 years revealed. University of Otago Researcher Louise Fangupo says the nutrient content of the food, rather than the processing, is the key matter to be considered as ultra-processed food are typically high in sugar, unhealthy fats and salt.

### [New plant health laboratory to boost Pacific food security](#) [02 November, RNZ]

The Pacific Community has launched a plant health laboratory in Fiji to develop controls for emerging biosecurity threats such as pests and diseases. The SPC deputy director-general, Audrey Aumua, said the new laboratory would provide biological solutions to help Pacific farmers and lead to safer food production.



## Food Innovation

### [Wanaka entrepreneur Chanelle O'Sullivan launches mead drinks business despite Covid](#) [30 October, Stuff]

Wanaka entrepreneur Chanelle O'Sullivan has launched a mead brewing start-up, Borage + Bee Meadery, selling a lightly alcoholic sparkling honey-based drink. The product is packaged in aluminium can with a watercolour artwork designed by Wanaka artist Sophie Melville, which has attracted potential international buyers from China, Dubai and Australia etc. despite the covid-19 disruptions.



## Horticulture

### [Zespri welcomes new vessel MV Kowhai to its shipping fleet](#) [30 October, The Country]

Three new specialised reefer vessels will boost the New Zealand kiwifruit industry. The first vessel, MV Kowhai, started loading 4219 tonnes of Zespri Kiwifruit at Port of Tauranga on October 30th. Zespri's chief global supply officer Alastair Hulbert said safely and quickly transporting fruit to market is critical and he acknowledged the service provided by Fresh Carriers had been a significant element of the industry's success.

### [Worker shortage 'a dire situation' for horticulture sector](#) [03 November, The Country]

The labour shortage due to covid-19 travel restrictions is putting the horticulture industry in a 'dire situation' and many apple growers are making a 'tough decision' to sacrifice some of their low-value crops, says New Zealand Apples and Pears chief executive Allan Pollard. The sector normally expected up to 70,000 workers on working holiday visas to be available but only 10,000 workers remained. Several horticulture groups have collectively presented the concern to the Government and called for solutions to address the labour shortage.



## International

### [Townies paying \\$110 an hour to cuddle cows](#) [29 October, Stuff]

Cow cuddling for stress relief is trending around the globe and a bovine bonding session may cost up to \$110 an hour. The cow cuddling is similar to equine therapy, and it involves brushing, patting and chatting to the animals. Started in the paddocks of The Netherlands, the wellness trend has spread to several countries.

### [Riding the next wave of alternative protein](#) [12 October, Food Navigator]

Fish and seafood substitutes are poised for growth following the rapid rise of meat alternatives in the food industry. With great opportunities, plant-based fish and seafood also present complex challenges, such as their appearance, nutritional content and taste.

### [Do consumers want personalized beverages?](#) [02 November, Food Navigator]

Personalized nutrition can have good market potential, as covid-19 highlighted the increasing health concerns of consumers. A survey by FMCG Gurus shows that 63% of global consumers are interested in customized beverage products to meet their individual needs, but only 35% of respondents think there are such products currently available on the market. It was also indicated that juice is the beverage type that consumers would like to see personalized the most, followed by high protein drinks, yoghurt drinks and bottled water.

### [Tesco kicks off drone deliveries in Ireland](#) [27 October, Food Navigator]

Supermarket chain Tesco has partnered with Irish start-up Manna to launch its first grocery home shopping drone deliveries. Consumers can order drone deliveries through a dedicated Tesco website, track their orders in real-time and receive the purchase within one hour. "It's clear that drone delivery provides a faster, cleaner, safer, cheaper and higher quality alternative to road-based delivery," said Manna's chief executive Bobby Healy.



## Red Meat

### [What makes high-performing sheep and beef farmers tick](#) [03 November, The Country]

A new research project surveyed 22 of New Zealand's highest-performing sheep and beef farmers to identify the critical characteristics for their success, which includes consistency of execution, attention to detail, measuring and recording performance, and addressing environmental challenges through quality assurance programmes.



## Research & Development

[Sea pest destined for culinary treatment](#) [03 November, Farmers Weekly]

AgResearch's Dr Linda Samuelsson and her team intend to extract value from the pest seaweed *Undaria pinnatifida* as alternative protein, with a view to matching scientific discovery with consumer preferences. *Undaria pinnatifida* is a prolific pest that chokes out native seaweed species, it is known as the "gorse of the sea" that has rapidly spread on the east coast of New Zealand.

[Low methane sheep a reality](#) [03 November, Rural News]

A breeding value for methane emissions was launched in November 2019, marking New Zealand the first in the world able to breed low methane-emitting sheep. The 10-year research programme confirmed that methane emissions were heritable, allowing the breeding value for the trait incorporated onto Sheep Improvement Limited database (now nProve) last year. "We are seeing more lean growth, carcass yield and wool production in the low methane sheep without any negative trade-offs," said the lead scientist Dr Suzanne Rowe from AgResearch.



## Water

[More guidelines on freshwater policy coming](#) [29 October, Farmers Weekly]

The Government is reviewing specific aspects of its Essential Freshwater policy which was introduced two months ago. The Ministry for the Environment (MfE) revealed in a webinar this week that officials are determining how to apply the rule limiting stock crossing an individual waterway to twice a month.

[ClearTech delivers massive water savings for farm](#) [30 October, Rural News]

A Ravensdown ClearTech effluent treatment system at the Lincoln University Dairy Farm (LUDF) has saved over 600,000 litres of freshwater in its first month of operation, and it shows a potential to save billions of litres of freshwater annually if used across the New Zealand dairy industry. LUDF farm manager Peter Hancox confirmed the efficiency of the system and noted its costs of set-up and maintenance are relatively modest. The ClearTech system collects and treats farm dairy effluent to be recycled, and also increases effluent pond storage capacity.



## Trade & Exports

[Southeast Asian markets beckon dairy exporters](#) [03 November, Rural News]

A report by Rabobank predicts a surge in the dairy exports to the Southeast Asian markets over the next decade, creating future opportunities for New Zealand milk processors. RaboResearch analyst Michael Harvey said a growing milk deficit in Southeast Asia was likely to drive the dairy export growth. "The large populations, combined with increasing urbanisation, a growing middle class with purchasing power and continued development of integrated supply chains will all support dairy consumption growth across the region," he said.



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## Organisations referenced in this week's Field Notes include

AgResearch  
Borage + Bee Meadery  
DairyNZ  
Farmlands  
Federated Farmers  
FMCG Gurus  
Fonterra Co-operative Group  
Foundation for Arable Research  
Fresh Carriers  
Land O' Lakes  
Lewis Road Creamery  
Lincoln University Dairy Farm  
Manna  
Massey University  
Maui Milk  
Ministry for Primary Industry  
Ministry for the Environment  
New Zealand Apples and Pears  
Rabobank  
RaboResearch  
Red Meat Profit Partnership  
Rural Women New Zealand  
Shanghai Bewell  
Southern Pastures  
SPC  
Sprout Accelerator  
Tesco  
UMR Research  
University of Otago  
University of Queensland  
Waituhi Kuratau Trust  
Zespri

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## Contact Us

Auckland/Audit

**Ian Proudfoot**

09 367 5882

iproudfoot@kpmg.co.nz

Auckland/Agri-Food

**Jack Keeyes**

09 363 3502

jkeeyes@kpmg.co.nz

Auckland/Agri-Food

**Andrew Watene**

09 367 5969

awatene@kpmg.co.nz

Hamilton/Private Enterprise

**Hamish McDonald**

07 858 6519

hamishmcdonald@kpmg.co.nz

Consultant – South Island

**Genevieve Steven**

03 307 0761

gsteven@kpmg.co.nz

Farm Enterprise – South Island

**Brent Love**

03 683 1871

blove@kpmg.co.nz

Wellington/Management Consulting

**Justine Fitzmaurice**

04 816 4845

jfitzmaurice@kpmg.co.nz

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